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Stay Calm Amid Market Volatility: Evaluating the Impact of China's Stimulus Announcements

After years of relatively muted performance, the Hong Kong and China stock markets saw a significant bounce starting on 24 September 2024. This resurgence was triggered by the announcement of new monetary policy measures by the People's Bank of China (PBOC). Additionally, on 26 September the central government held a Politburo economic meeting in which it made high-level announcements of fiscal policy support aiming to reaccelerate the economy by boosting consumption and the housing market. While the National Development and Reform Commission (NDRC) press conference on 8 October disappointed investors with its lack of incremental details on the stimulus and triggered huge profit-taking in the stock market, the Ministry of Finance on 12 October outlined the direction of fiscal policies in the future, which we believe would help stabilize the economy in the near term.

In addition to the policy rate cut and lowering of the downpayment ratio, on 24 September the PBOC announced two significant measures: 1) a new swap facility providing nonbank financial institutions access to at least CNY500 billion to buy equities from the market, with the potential for further funding; and 2) a CNY300 billion special relending program allowing listed companies and major shareholders to borrow from commercial banks for share repurchases and stake increases. These measures may lead investors to perceive that the PBOC is keen to drive up the stock market.

However, we will monitor the impact of the latest monetary policies on the economy, as previous efforts to reduce interest rates and lower downpayment requirements over the past three years have not yielded the expected results. A larger-scale fiscal stimulus may be necessary. In our view, the key to addressing issues in the real economy lies in the details of the fiscal policies – their scale, content, and actual implementation.

While the specifics of the fiscal policies have yet to be announced, the market reacted very positively to the broader 26 September announcement. The fact that the Politburo economic meeting was held in September for the first time (it was previously always in October), combined with the PBOC's announced monetary policies, suggests that China's top leadership is urgently seeking to boost the economy and the stock market. Both A-share and H-share markets responded positively. Given the underweight in the China equity market, investing showed significant momentum. We also observed substantial volume from onshore A-share investors, followed by international investors.

Expectations were high for a CNY2 trillion stimulus package and later rose to CNY5 trillion and then CNY10 trillion, to be announced at the NDRC conference on 8 October. However, officials did not provide much information about the scale of the package, leading investors to take profits from an already hyped-up H-share market. The Hang Seng Index had increased by 27% since the PBOC's initial announcement on 24 September.

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Simultaneously, the A-share market reopened after the one-week Golden Week holiday in China. Many investors took profits from the H-share market and switched to the A-share market, with the CSI 300 Index up 5.9% on 8 October, with significant turnover.

On 12 October, the Ministry of Finance held another press conference to further explain the aim and direction of the fiscal stimulus, highlighting a few areas: 1) to provide one-off bond quotas with a large scale to swap local governments' "hidden debt"; 2) to allow local government special bonds to be used to purchase unsold properties and undeveloped land banks, which was forbidden in the past; 3) to inject capital into major state-owned banks by issuing government bonds; and 4) that the central government is exploring further increasing the budget deficit and leverage to support the economy.

Although the scale and details of this package will only be announced after the National People's Congress approves the budget, we believe the new measures announced by the Finance Ministry could help stabilize the economy in the near term. Nevertheless, a number of remaining structural economic challenges can only be solved by a higher level of economic reforms in the long run.

The future of the market rally largely depends on the size and further details of fiscal policy moves, which have yet to be announced. The next checkpoint will be the National People's Congress meeting, slated for later in October. Despite the broader market volatility, our focus remains on identifying investment opportunities through a bottom-up approach, targeting companies with structural growth drivers and strong competitive moats.

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