Economic Watch

China | Here comes China's Draghi moment

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The recent jumbo size stimulus package: is Chinese QE coming?

The global markets are paying close attention to Chinese authorities' jumbo size monetary stimulus package which was announced on this Tuesday after a series of lacklustre economic activities data in the past months which made the "5% growth target" difficult to achieve. The market unilaterally believes the monetary stimulus package has been the most aggressive one in the past years since the beginning of the pandemic time.

Following the monetary stimulus jumbo package on Tuesday last week, the authorities in the Politburo meeting which was held yesterday also promulgated a series of comprehensive stimulus plan beyond the above-stated monetary stimulus package, which focused on the fiscal expansion, real estate stimulus and other policy support on consumption, etc.

After Tuesday's announcement, China's Shanghai and Shenzhen stock index, together with Hang Seng Index in Hong Kong in which most of the composite stocks are related to Chinese corporates surged to historical high, and both kept the pace of daily increase by more than 3% on average, and the technology share even rallied more than 7% on daily basis, reflecting a very significantly positive market reactions on the jumbo size comprehensive stimulus plan, as most market participants believe the recent stimulus package is equivalent to the RMB 4 trillion stimulus in 2008-2009 Global Financial Crisis, or even is intrinsically Chinese-style QE.

In this report, we first of all introduce the details of what these stimulus measures are, and then we analyse its impact on financial markets and real economy. Our basic conclusion here is that we agree the stock market carnival will last for a while due to the new stock market stimulus measures which equivalent to the central bank using its own balance sheet to inject liquidity into stock markets, but the transmission from the stimulus package to the real economy takes time and requires careful implementation of these measures to rebuild the market sentiments and to reverse real estate crash.

The details of the stimulus package

The Tuesday's monetary stimulus package announced by the PBoC's governor Pan Gongsheng in the media conference include the following elements:

(i) The PBoC will cut the RRR by 50 bps, releasing RMB 1 trillion of long-term liquidity to the market. In the rest of the year, the PBoC will adopt data-dependent approach to cut RRR again by 25 to 50 bps.

(ii) The PBoC will also cut 7-day repo by 20 bps from 1.7% to 1.5%, guiding banks' lending rate and deposit rate decline.

(iii) To cut the rate for the existed residential mortgage by 50 bps expected.

(iv) To cut the down payment for second house purchase to 15% from 25%.

(v) The government announced RMB800 billion of liquidity support for the stock market, with a RMB500 billion swap facility for brokers and funds and a RMB300 billion refinancing facility for companies and shareholders for stock buybacks.

(vi) The PBoC also cut the Medium-lending facility rate (MLF) by 30 bps, from previously 2.3% to 2%.

The main takeaways of the recent Politburo meeting

Following the Tuesday's announcement of aggressive monetary stimulus, the authorities also further elaborated the comprehensive stimulus plan beyond monetary easing in the recently held Politburo meeting. The main take-aways of the Politburo meeting include:

(1) Fiscal policy: the meeting emphasised the counter-cyclical adjustment role of fiscal policy, and focuses particularly on the role of fiscal easing on stimulating consumption. Although we do not think China will conduct the direct money injection to households like what US and EU did during pandemic time, we indeed expect China will continue to push forward Chinese-style fiscal easing by issuing central government bond in a larger scale, not only to stimulate infrastructure but also to swap part of the local government debt to ease local government's burden.

(2) The meeting also very clearly requires the housing price stabilisation and to stop the previous one-way dipping. Unlike the previous easing measures on housing which focused more on "quantity", this time focuses more on "price".

(3) Consumption stimulus: unlike the previous Politburo or other high-level meetings of CCP that emphasised more on supply-side: high-end manufacturing, green economy and technology advancement, this Politburo is focusing more on consumption stimulus. No matter it is stock market and housing stabilisation, or employment protection, POE support policies etc, the ultimate goal is to stimulate consumption by increasing income expectations, wealth effect and employment rate etc.

Our comments of the recent jumbo size stimulus package

However, when we comment the above jumbo size monetary stimulus package together with stimulus measures in Politburo, we have to first of all identify the impact to the stock market and the real economy, as the stock market might not necessarily be the real time reflections of the real economic activities.

On stock market, indeed, the (v) measures on stimulating stock market by issuing RMB 500 billion swap facilities for securities, mutual funds and insurance firms to make their stock assets as the collateral to swap the high-liquidity assets from the central bank such as government bond or notes; and by issuing RMB 300 billion special re-lending tool to lead commercial banks to lend to listed companies' shareholders to re-purchase or increase the holding of their stocks, are definitely equivalent to the PBOC using the central bank's own balance sheet to inject liquidity into the stock market, which makes it not difficult to understand the recent rallies of A-share and HSI. We believe the stock market carnival will last for a while as China's stock market has already been at the historical low evaluation after 2021's regulatory storms and housing market crash.

On the comment of the stimulus package's impact on the real economy, we believe that the main issue of lacklustre growth outlook in China is due to weak market sentiments of households and enterprises, it indeed needs a large-scale comprehensive stimulus or policy support including not only monetary policy, fiscal policy, housing stimulus, employment support to reverse the market expectations. That means, the transmission mechanism from lower policy rates to real economy might not be as fast or effective as the market anticipates. And it takes time to implement all these measures to rebuild market sentiments, to recover households and enterprises' balance sheets and to reverse the real estate crash. We'd better view it as a gradual process.

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