Greater China — Week in Review

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Highlights: Is this time different?

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The significant risk rally in China last week was initially sparked by the joint press conference held by the country's top financial regulators on September 24th. For detailed insights on the press conference, please refer to our report, Reversing the Downward Spiral. When the rally showed signs of fatigue on September 25th, the September Politburo meeting on the 26th injected a fresh excitement to market sentiment.

Chinese stocks experienced their best week since 2008, fuelled by waves of stimulus, with the CSI300 index surging 15.7%. As a result of the robust equity market, China's bond market saw a sell-off, with the 10-year and 30-year government bond yields rising by 12.8bps and 19.8bps, respectively, pushing the 10-year yield close to 2.2%.

Despite this sharp rise of the yields, the bond yield trajectory was somewhat volatile last week. Yields initially fell on Wednesday, only to surge on Thursday following the release of the Politburo meeting statement. The takeaway from this meeting signals that this time could be different.

We see three reasons why this time could be different. Firstly, there is the clear shift of policy priority. The Politburo typically focuses on economic issues during its April, July, and December meetings, which set the economic agenda for the second quarter, second half of the year, and the following year, respectively. Although 11 Politburo meetings have taken place in September since 2013, this marks the first time the September session has been centered around economic discussions.

The message from this year's Politburo meeting conveyed a heightened sense of urgency to achieve the annual growth target, particularly as third-quarter GDP growth seems to be struggling to rebound from the second quarter's 4.7%.

The shift in China's economic development goals from "unswervingly achieving" to "striving to achieve," alongside the unusual September Politburo meeting focused on economic matters, underscores a renewed emphasis on making stronger efforts to meet this year's targets.

Secondly, what has excited markets even more is China's recognition of the interconnectedness between capital markets and economic recovery. Beyond launching two new tools to support the equity market, PBoC Governor Pan Gongsheng took it a step further by stating that the central bank could increase the quota for these new tools if necessary. This "whatever it takes" approach is seen as a powerful signal of commitment.

Thirdly, this latest package of policy measures does introduce several initiatives aimed at addressing some of root causes of the downward spiral. If these tools succeed in reviving investor sentiment and reigniting animal spirits, they could deliver a positive medium-term impact on the economy. A rebound in equity market activity and confidence could stimulate growth, lead to higher bond yields, a stronger yuan, and help repair the negative wealth effect.

In terms of the property market, there appears to be a subtle shift in the government's stance from the politburo meeting, now prioritizing the "stabilization and recovery of the real estate market." Both supply and demand-side measures are expected to be reinforced. On the supply side, the expansion of "whitelist" loan issuances and efforts to activate idle land are likely. On the demand side, adjustments to purchase restrictions and reductions in mortgage rates for existing homes are anticipated.

Following the Politburo meeting, key Tier 1 cities such as Shanghai and Shenzhen further loosened their purchase restrictions, with Guangzhou becoming the first Tier 1 city to fully eliminate all restriction measures.

In addition to reducing existing mortgage rates, the PBoC introduced a new pricing mechanism to optimize mortgage rates. The changes include two key adjustments. First, borrowers and lenders can now renegotiate the spread added to the loan prime rate (LPR) in their mortgage contracts. Second, the one-year minimum period for rate resets will be removed.

The remaining issues will need to be tackled through fiscal and political measures. So far, concerns from the corporate sector remain unresolved. Therefore, market may shift their attention to the fiscal policies. Reuters reported last week that China plans to issue CNY2 trn special bond to support consumption and help local governments tackle their debt problems.

The sustainability of the current market rally will hinge on improvements in economic fundamentals, which in turn depend on fiscal policies beyond the scope of monetary interventions.

Hang Seng Index jumped to the highest level since August 2023, as market welcomed the set of policy combo unveiled by the Chinese government to support growth and market sentiment. Separately, Hong Kong Dollar liquidity stays tight ahead of quarter-end, with front-end HIBORs fixed materially higher over the past week.

Hong Kong’s housing prices and rents continued to show diverging trend. The residential property price index fell by 1.7% MoM in August, to the lowest level since September 2016, while rental index rose for the sixth consecutive month, by 1.1% MoM. In the first eight months this year, the housing price index fell cumulatively by 6.2%, whereas the rental index increased by 6.2%. Trading activities cooled further in August, falling to 3654 cases, as buyers preferred to stay on sideline close to the September FOMC meeting.

We expect to see some stabilisation in the housing market, given the prime rate cut and easing of financial conditions. However, more forceful rebound of prices will require help from banks to loosen their mortgage scrutiny, while the world economy continues on the soft-landing path.

Merchandise exports and imports in Hong Kong grew slower, by 6.4% YoY and 7.9% YoY respectively in August (13.1% YoY and 9.9% YoY respectively in July). During the period, trade deficit rebounded to HKD33.1bn, from that of HKD21.8bn in July.

In the first eight months this year, total merchandise exports and imports increased by 11.5% YoY and 8.0% YoY respectively. In the remainder of 2024, growth of merchandise exports is likely to slow further, given the higher base last year and softening external demand.

Key events	
Facts	**OCBC Opinions**
▪ In terms of the property market, there appears to be a subtle shift in the government's stance from the politburo meeting, now prioritizing the "stabilization and recovery of the real estate market."	▪ Both supply and demand-side measures are expected to be reinforced. On the supply side, the expansion of "whitelist" loan issuances and efforts to activate idle land are likely. On the demand side, adjustments to purchase restrictions and reductions in mortgage rates for existing homes are anticipated. ▪ Following the Politburo meeting, key Tier 1 cities such as Shanghai and Shenzhen further loosened their purchase restrictions, with Guangzhou becoming the first Tier 1 city to fully eliminate all restriction measures. ▪ In addition to reducing existing mortgage rates, the PBoC introduced a new pricing mechanism to optimize mortgage rates. The changes include two key adjustments. First, borrowers and lenders can now renegotiate the spread added to the loan prime rate (LPR) in their mortgage contracts. Second, the one-year minimum period for rate resets will be removed. Starting November 1, 2024, when the interest rate on floating-rate housing loans deviates significantly from newly issued commercial loan rates, borrowers can negotiate with banks to replace their existing floating-rate loans with new ones. The newly agreed interest rate margin will reflect market supply and demand, as well as the borrower's risk profile.

Key Economic News	
Facts	**OCBC Opinions**
▪ Hong Kong: Housing prices and rents continued to show diverging trend. The residential property price index fell by 1.7% MoM in August, to the lowest level since September 2016, while rental index rose for the sixth consecutive month, by 1.1% MoM. In the first eight months this year, the housing price index fell cumulatively by 6.2%, whereas the rental index increased by 6.2%.	▪ Analyze by flat size, the mass-market and medium-sized properties (Class A, B and C; below saleable area of 100 square meter) and large-sized properties (Class D and E; saleable area of 100 square meter or above) fell by 1.7% MoM and 1.3% MoM respectively in August. As for rental index, they went up by 1.2% MoM and 0.3% MoM respectively. ▪ Trading activities cooled further in August, falling to 3654 cases, as buyers preferred to stay on sideline close to the September FOMC meeting. ▪ We expect to see some stabilisation in the housing market, given the prime rate cut and easing of financial conditions. However, more forceful rebound of prices will require help from banks to loosen their mortgage scrutiny, while the world economy continues on the soft-landing path.
▪ Hong Kong: Merchandise exports and imports grew slower, by 6.4% YoY and 7.9% YoY respectively in August (13.1% YoY and 9.9% YoY respectively in July). During the period, trade deficit rebounded to HK$33.1 billion, from that of HK$21.8 billion in July.	▪ Within the total, exports to mainland China and US continued to grow, albeit in a slower pace of 12.9% YoY and 2.8% YoY respectively. With the exceptions of Taiwan (11.8% YoY) and Vietnam (+27.0% YoY), exports to other major trading partners mostly fell. ▪ In the first eight months this year, total merchandise exports and imports increased by 11.5% YoY and 8.0% YoY respectively. In the remainder of 2024, growth of merchandise exports is likely to slow further, given the higher base last year and softening external demand.

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