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Flash Note: Markets Digest China's Stimulus: Can These Measures Drive Sustained Share Market Growth?

What where the measures announced?

- In the filed of the Interest rates.

    1. PBOC will cut banks' reserve requirement ratio (RRR) by 50 bp to lowest level since at least 2018 in near future. This is said will unleash CNY1T liquidity (~USD130bn). Another reduction in RRR is expected before year-end.
    2. PBOC will lower 7D reverse repo rate by 20 bp to 1.5% (from 1.7%), a move aimed at preserving stability of banks' interest margins. This is the first time reductions in RRR and Reverse Repo were revealed on same day.
    3. PBOC to cut to rates on existing mortgage rates by 0.5pp and minimum downpayment ratio on second home purchases will be lowered to 15% from 25%. A move that underscores Beijing's urgency to shore up beleaguered property sector.

- In the field of asset purchase program.

    1. Central bank will accelerate re-lending program for state-owned firms to acquire unsold **housing**, providing 100% of the principal of bank loans for such purchases, up from 60%.

    2. Beijing is considering stock stability fund to inject CNY800B (~USD110bn) to prop up **stock market**, throughout a swap facility of CNY500B aimed at helping securities firms, funds and insurance companies tap PBOC liquidity to buy stocks, and also creating re-lending facility of CNY300B to support listed companies and major shareholders for share buybacks and increasing their stock holdings. **Status of this measure: Pending**. Authorities are studying the plan but did not elaborate any details.

    3. CSRC Chairman says regulator will support state fund Central Huijin Investment in stock purchases and expand investment scope. **Status of this measure: Pending**

    4. CSRC will release measures to promote M&A and reorganizations. **Status of this measure: Pending**

- In the field of banking sector.

    1. China to recapitalize six major commercial banks by increasing core tier 1 capital at its six major commercial banks for first time since 2008 in bid to strengthen

banking industry that is grappling with record low margins, declining profits and rising bad debt. Lenders need to enhance capital to strengthen operation capabilities. **Status of this measure: Pending**. I have not been able to determine the size of the injection. What we know is that Capital will be injected to different banks in phases and with different policies without giving more details.

- Other relevant information.

    1. China opposes Biden administration's proposal targeting Chinese software and hardware in connected vehicles: Spokesperson from China's foreign ministry said US move is discriminatory and in violation of WTO regulations while urging Washington to stop suppressing other countries in the name of national security. He added that China will firmly defend its lawful rights and interests

Will the measures provide impetus for continued share market gains? Our assessment.

The surprise in these measures essentially stems from the interest rate cuts, which we believe may have some positive impact, but more likely in terms of fixing the real estate crisis rather than boosting confidence.

Regarding the measures related to the asset purchase program aimed at bolstering the stock market, we frankly consider that the figures being discussed (~USD 110bn) seem insufficient to visibly move a market where just the SSE index alone has a capitalization of ~USD 7trn. What is being put on the table amounts to 1.5% of the market capitalization. Moreover, these asset purchase programs would be executed through swaps or re-lending facilities, and we are not convinced that this approach will have the same clear impact as a direct APP program could achieve. Additionally, this measure is still pending further elaboration and details. The same goes for the announcement of measures to facilitate M&A activity. There are no details or clarity in this regard.

Similarly, the announcement of banking recapitalization through an increase in Core Tier 1 Capital lacks specifics on figures or a timeline.

In summary, aside from the interest rate cuts, most of the measures remain declarations of intent, and we suspect the proposed volumes are insufficient to trigger a significant increase in external capital inflows. I fear that any potential rebound in the Chinese stock market would only be driven by domestic investors, which would suggest a limited recovery, at best.