COMMERZBANK

Economic Research

Economic Briefing

China – PBoC's big stimulus

24 September 2024

Tommy Wu

Table of contents

Today's policy package by the PBoC is probably the broadest in a while, ranging from interest rate cuts to supporting the property sector and the stock market. Monetary measures could help buy time for Chinese policymakers to resolve the deep-seated structural problems. But ultimately, these problems can only be resolved by the government doing the right policies and reforms.

A mix of measures

The PBoC announced a policy mix to support the economy, rescue the property market, and shore up the stock market.

Countercyclical measures

1. The 7-day reverse repo rate, which is now the main policy rate, will be cut by 20 basis points (bp) to 1.5%. This will lead to the medium-term lending facility (MLF) rate to be cut by 30bp to 2%. The two cuts will likely to be announced tomorrow (25 September). This will further lead to a cut in banks' loan prime rates (LPRs) and deposit rates by 20-25 bp.
2. The reserve requirement ratios (RRRs) for large- and medium-sized banks were cut by 50 basis points to 9.5% and 6.5% respectively. The RRR for small banks was kept unchanged at 5%, which is considered as a floor by the PBoC. The RRR cut will release CNY1 trillion (USD 142 billion) in liquidity. It is possible that RRRs could be cut by another 25-50bp by year-end.

Property support measures

1. Interest rates on outstanding mortgage loans will be lowered by around 50bp on average. Mortgage rate cuts so far this year have benefited new homeowners but not the existing ones. Existing mortgages carried an average interest rate of about 4% as of August, compared with a record low of 3.2% on first home new mortgages and 3.5% for second home new mortgages, according to some private estimates. The minimum mortgage down-payment ratio on second home purchases will also be lowered from 25% to 15% which is the same as the ratio on first home purchases.
2. The PBoC will improve the existing CNY300 billion re-lending program for state-owned enterprises (SOEs) to acquire unsold property inventories. It will now provide 100% of the principal of bank loans for such purchases, up from 60% announced in May. Previously, for a CNY100 million loan from a bank to a SOE, for example, CNY60

million would come from the PBoC and CNY40 million would come from the bank itself. After the change, the entire loan can be funded by the PBoC. The re-lending rate is at 1.75% for funds from the PBoC to banks making such loans to SOEs.

Stock stabilization fund

1. The PBoC will set up a swap facility of CNY500 billion allowing securities firms, funds, and insurance companies to tap liquidity from the central bank to purchase equities.
2. It will also set up a specialized re-lending facility of CNY300 billion for listed companies and major shareholders to buy back shares and raise holdings. The re-lending rate is at 1.75%, and banks would lend to customers at 2.25% for such loans.

Rate cuts could boost short-term confidence

On the counter-cyclical measures announced today, the 20bp cut on the 7-day reverse repo rate is considered as a bigger step than usual, given that most of the cuts in the past were 10bp. Also, while the 50bp cut in RRR is consistent with previous moves, the forward guidance of another 25-50bp cut by year-end is rare, suggesting that the policymakers are trying to improve their communications for more effective policy implementation.

Property measures could see mixed results

On the property measures, cutting rates on outstanding mortgages will help ease households' mortgage burden and the hope is that it may stimulate consumption to some extent.

However, the improvement on the re-lending facility for SOEs to purchase housing inventories may not produce the wanted impact. The program was first introduced in May, in which the PBoC would provide loans at a preferential rate of 1.75% to banks that lend to SOEs backed by local governments. However, of more than 200 cities that are called for by the central government to buy unsold homes, only 29 cities have announced concrete plans to take part in the program. Also, according to the PBoC, banks have only taken up CNY12 billion of the CNY300 billion quota as of June.

There are two major problems with this program. First, the rental yields on public housing is generally low (at around 1.5% according to private estimates), compared to the current funding cost at around or below 2% for local government bonds and at 1.75% for the PBoC re-lending program. This means that SOEs have to rely on potential capital gains from the houses in order to achieve any hope for positive returns in the future. This means it is very likely that the SOEs will bid to buy unsold homes from property developers at deep discounts, i.e. half price or lower. Many, if not most, developers are unwilling to sell at such low prices unless they are in deep distress. This is indeed the case today. Therefore, it is unclear how this program will help clear housing inventories, as SOEs would be unwilling to bear such investment risk. Perhaps the PBoC will eventually have to lower the re-lending rate to the extent that the housing conversion could be profitable for the SOEs.

Stock stabilization fund could prop up the markets in the short term

Chinese stock markets have been on a downtrend since 2021 and underperforming global markets. This is largely due to the weak economic fundamentals of the Chinese economy, as reflected by the prolonged deflationary pressure, for instance. This is why the PBoC wants to support the stock market to boost confidence, to put a floor on the decline in household wealth (via their stock holdings), and to incentivize stock listings. However, this move is more about buying time for Chinese policymakers to fix the structural problems in the economy.

As a side note, unlike the Bank of Japan (BoJ) which purchases equities through exchange-traded funds (ETFs) and shows them on its balance sheet, the PBoC's stock fund is making loans to state-owned and private financial institutions to purchase equities. This means that the increase in equity holdings is on the institutions' balance sheet, and they will enjoy any gains and bear any losses.

Analysts

Tommy Wu
Senior Economist
+65 6311 0166
tommy.wu@commerzbank.com

In accordance with ESMA MAR requirements this report was completed 24/9/2024 11:31 CEST and disseminated 24/9/2024 11:31 CEST.

This document has been created and published by the Group Research department (GM-R) within the Group Management division of Commerzbank AG, Frankfurt/Main or Commerzbank's non-US branch offices mentioned in the document.

Please note that the author(s) certify that (a) the views expressed in this report accurately reflect their personal view about the subject securities and issuers; and (b) no part of their compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or views expressed by them contained in this document.

It has not been determined in advance whether and in what intervals this document will be updated. Unless otherwise stated current prices refer to the most recent trading day's closing price or spread which may fluctuate.

Conflicts of interest

Disclosures of potential conflicts of interest relating to Commerzbank AG, its affiliates, subsidiaries (together "Commerzbank") and its relevant employees with respect to the issuers, financial instruments and/or securities forming the subject of this document valid as of the end of the month prior to publication of this document*:

Please refer to the following link for disclosures on companies included in compendium reports or disclosures on any company covered by Commerzbank analysts: **https://commerzbank.bluematrix.com/sellside/Disclosures.action***

*Updating this information may take up to ten days after month end.

Disclaimer

This document is for information purposes only and has been prepared for recipients who, like professional clients according to MiFID II, have the experience, knowledge and expertise to understand information related to the financial markets. The document does not take into account specific circumstances of any recipient and the information contained herein does not constitute the provision of investment advice. It is not intended to be and should not be construed as a recommendation, offer or solicitation to acquire, or dispose of, any of the financial instruments and/or securities mentioned in this document and will not form the basis or a part of any contract or commitment whatsoever. Investors should seek independent professional advice and draw their own conclusions regarding suitability of any transaction including the economic benefits, risks, legal, regulatory, credit, accounting and tax implications.

The information in this document is based on public data obtained from sources believed by Commerzbank to be reliable and in good faith, but no representations, guarantees or warranties are made by Commerzbank with regard to accuracy, completeness or suitability of the data. Commerzbank has not performed any independent review or due diligence of publicly available information regarding an unaffiliated reference asset or index. The opinions and estimates contained herein reflect the current judgement of the author(s) on the date of this document and are subject to change without notice. The opinions do not necessarily correspond to the opinions of Commerzbank. Commerzbank does not have an obligation to update, modify or amend this document or to otherwise notify a reader thereof in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate.

In order to address potential conflicts of interest Commerzbank's Research department operates independently of other business units of the bank. This is achieved by way of physical and administrative information barriers and separate reporting lines as well as by written internal policies and procedures.

This communication may contain trading ideas where Commerzbank may trade in such financial instruments with customers or other counterparties. Any prices provided herein (other than those that are identified as being historical) are indicative only, and do not represent firm quotes as to either size or price. The past performance of financial instruments is not indicative of future results. No assurance can be given that any financial instrument or issuer described herein would yield favourable investment results. Any forecasts or price targets shown for companies and/or securities discussed in this document may not be achieved due to multiple risk factors including without limitation market volatility, sector volatility, corporate actions, the unavailability of complete and accurate information and/or the subsequent transpiration that underlying assumptions made by Commerzbank or by other sources relied upon in the document were inapposite.

Commerzbank and or its affiliates may act as a market maker in the instrument(s) and or its derivative that has been mentioned in our research reports. Employees of Commerzbank and or its affiliates may provide written or oral commentary, including trading strategies, to our clients and business units that may be contrary to the opinions conveyed in this research report. Commerzbank may perform or seek to perform investment banking services for issuers mentioned in research reports.

Neither Commerzbank nor any of its respective directors, officers or employees accepts any responsibility or liability whatsoever for any expense, loss or damages arising out of or in any way connected with the use of all or any part of this document.

Commerzbank may provide hyperlinks to websites of entities mentioned in this document, however the inclusion of a link does not imply that Commerzbank endorses, recommends or approves any material on the linked page or accessible from it. Commerzbank does not accept responsibility whatsoever for any such material, nor for any consequences of its use.

This document is for the use of the addressees only and may not be reproduced, redistributed or passed on to any other person or published, in whole or in part, for any purpose, without the prior, written consent of Commerzbank. The manner of distributing this document may be restricted by law or regulation in certain countries, including the United States. Persons into whose possession this document may come are required to inform themselves about and to observe such restrictions. By accepting this document, a recipient hereof agrees to be bound by the foregoing limitations.

Additional notes to readers in the following countries:

Germany: Commerzbank AG is registered in the Commercial Register at Amtsgericht Frankfurt under the number HRB 32000. Commerzbank AG is supervised by both the German regulator, Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin), Graurheindorfer Strasse 108, 53117 Bonn, Marie-Curie-Strasse 24-28, 60439 Frankfurt am Main and the European Central Bank, Sonnemannstrasse 20, 60314 Frankfurt am Main, Germany.

United Kingdom: This document is not for distribution to retail customers and has been issued or approved for issue in the United Kingdom by Commerzbank AG, London Branch, which is authorised and regulated by Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin) and the European Central Bank. Authorised by the Prudential Regulation Authority. Subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of our regulation by the Prudential Regulation Authority are available from us on request.

United States: This research report was prepared by Commerzbank AG, a company authorized to engage in securities activities in Germany and the European Economic Area (EEA). Commerzbank AG is not a U.S. registered broker-dealer and is therefore not subject to U.S. rules regarding the preparation of research and associated rules pertaining to research analysts. This document is not for distribution to retail customers. Any distribution of this research report to U.S. investors is intended for “major U.S. institutional investors” in reliance on the exemption from registration provided by Rule 15a-6(a)(2) of the U.S. Securities Exchange Act of 1934, as amended (the “Exchange Act”). Any U.S. recipient of this research report seeking to effect transactions to buy or sell securities, or related financial instruments based upon the information provided in this research report, may only do so through a Financial Industry Regulatory Authority (FINRA) registered broker-dealer. Commerz Markets LLC (CMLLC) is a U.S. registered broker-dealer and wholly owned subsidiary of Commerzbank AG. Commerzbank AG is a registered derivatives swap dealer with the Commodity Futures Trading Commission (CFTC), in accordance with the Dodd-Frank Wall Street Reform and Consumer Protection Act. U.S. Person(s) and related Dodd-Frank relevant investors seeking to effect transactions in non-security based swaps based upon the information provided in this research report, may only do so through a CFTC registered swap dealer.

Canada: The information contained herein is not, and under no circumstances is to be construed as, a prospectus, an advertisement, a public offering, an offer to sell securities described herein, solicitation of an offer to buy securities described herein, in Canada or any province or territory thereof. Any offer or sale of the securities described herein in Canada will be made only under an exemption from the requirements to file a prospectus with the relevant Canadian securities regulators and only by a dealer properly registered under applicable securities laws or, alternatively, pursuant to an exemption from the dealer registration requirement in the relevant province or territory of Canada in which such offer or sale is made. Under no circumstances is the information contained herein to be construed as investment advice in any province or territory of Canada and is not tailored to the needs of the recipient. In Canada, the information contained herein is intended solely for distribution to Permitted Clients (as such term is defined in National Instrument 31-103) with whom Commerzbank AG and/or Commerz Markets LLC deals pursuant to the international dealer exemption. The information contained herein is not permitted to reference securities of an issuer incorporated, formed or created under the laws of Canada or a province or territory of Canada, as Commerzbank AG and Commerz Markets LLC operates under the international dealer exemption pursuant to National Instrument 31-103. No securities commission or similar regulatory authority in Canada has reviewed or in any way passed upon these materials, the information contained herein or the merits of the securities described herein and any representation to the contrary is an offence.

European Economic Area: Where this document has been produced by a legal entity outside of the EEA, the document has been re-issued by Commerzbank AG, London Branch for distribution into the EEA. Commerzbank AG, London Branch is authorised and regulated by Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin) and the European Central Bank. Authorised by the Prudential Regulation Authority. Subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of our regulation by the Prudential Regulation Authority are available from us on request.

Switzerland: Neither this research report nor the information contained herein should be regarded as personal recommendations for transactions in financial instruments within the meaning of the Financial Services Act.

Singapore: This document is furnished in Singapore by Commerzbank AG, Singapore branch. It may only be received in Singapore by an institutional investor, an accredited investor or an expert investor as respectively defined in section 4A of the Securities and Futures Act, Chapter 289 of Singapore (“SFA”) pursuant to section 274 or section 275 (as applicable) of the SFA. Nothing in this document constitutes accounting, legal, regulatory, tax, financial or other advice and/or recommendations to the recipient of this communication. Further, the communication/information provided herein does not constitute a “financial advisory service” within the meaning of the Financial Advisers Act, Chapter 110 of Singapore (“FAA”) and therefore, the regulatory requirements and duties that may be owed to a client pursuant to or in connection with the FAA are not applicable to the recipient in connection with this communication. Recipients are advised to seek independent advice from their own professional advisers about the information contained discussed herein.

Japan: This information and its distribution do not constitute and should not be construed as a "solicitation" under the Financial Instrument Exchange Act (FIEA) of Japan. This information may be distributed from Commerzbank international branches outside Japan solely to "professional investors" as defined in Section 2(31) of the FIEA and Section 23 of the Cabinet Ordinance Regarding Definition of Section 2 of the FIEA. Please note that Commerzbank AG, Tokyo Branch has not participated in its preparation.

Any instruments referred in this report cannot be introduced by the Branch. You should contact the Corporate Clients division of Commerzbank AG for inquiries on availability of such instruments.

Australia: Commerzbank AG does not hold an Australian financial services licence. This document is being distributed in Australia to wholesale customers pursuant to an Australian financial services licence exemption for Commerzbank AG under Class Order 04/1313. Commerzbank AG is regulated by Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin) under the laws of Germany which differ from Australian laws.

People's Republic of China (PRC): This document is furnished by Commerzbank AG and is only intended for eligible entities in the PRC. No-one else may rely on any information contained within this document. The products and services in this document only apply to entities in the PRC where such products and services are permitted to be provided by PRC laws and regulations. For any person who receives this document, the information in this document shall neither be regarded as promotion or solicitation of the business nor accounting, legal, regulatory, tax, financial or other advice and/or recommendations to the recipient of this communication, and the recipient is advised to seek independent advice from its own professional advisers about the information contained herein and shall understand and abide by PRC laws and regulations while conducting any related transactions.

Commerzbank Offices

Frankfurt	**London**	**New York**	**Singapore**
Commerzbank AG	Commerzbank AG	Commerz Markets LLC	Commerzbank AG
DLZ - Gebäude 2, Händlerhaus	PO BOX 52715	225 Liberty Street, 32nd floor,	128 Beach Road
Mainzer Landstraße 153	30 Gresham Street	New York,	#17-01 Guoco Midtown
60327 Frankfurt	London, EC2P 2XY	NY 10281-1050	Singapore 189773
Tel: + 49 69 136 21200	Tel: + 44 207 623 8000	Tel: + 1 212 703 4000	Tel: +65 631 10000