Research Report on the Chinese Trade Market Growth

This report focuses on analyzing the impact of the monetary and fiscal policies implemented after September 25 on the Chinese market.

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Catalog

1 Policy Background and Content

On September 24, financial regulatory authorities announced a series of policies aimed at supporting stable economic growth, including reductions in the reserve requirement ratio (RRR) and interest rates, along with financial support for the real estate sector. Effective from September 27, 2024, the People's Bank of China decided to lower the RRR by 0.5 percentage points (excluding financial institutions already implementing a 5% RRR). Following this adjustment, the weighted average RRR for financial institutions is approximately 6.6%. The interest rate on open market reverse repurchase operations was reduced by 0.2 percentage points, and the medium-term lending facility (MLF) rate was lowered from 2.3% to 2%. Additionally, the mortgage rate adjustment for existing loans benefits 50 million households, reducing annual interest expenses by approximately 150 billion yuan. Meanwhile, two tools supporting capital market development have been introduced: the policies on stock repurchase and a special re-lending facility for shareholding increases have been officially launched.

	New measures
Monetary policies	**Reserve requirement ratio (RRR) cut by 50bps** (vs expectations for 25bps), with room for **more significant rate cuts**
	7-day reverse repo cut by 20bps to 1.5% (vs expectations for 10 bps), and likely another 20bps in November
Fiscal policies	The Politburo highlighted the urgency to ensure: **1) necessary fiscal expenditure,** and 2) issuance and proceeds utilization of **ultra-long Chinese Government Bonds (CGB) and special Local Government Bonds (LGB)** The Politburo stressed the importance of supporting people's livelihoods, including **employment and consumption**, launching a one-off direct cash allowance to those in extreme poverty
Housing policies	PBOC to provide **up to 100% of the principal of bank loans for local governments to purchase unsold housing** (up from 60% when the program announced in May) **Downpayment ratio for second home purchase lowered to 15%** (from 25%) Stated clear target to "**stop the decline of the housing market** and achieve a stabilization"
	Existing mortgage rate cut by ~50bps
Stock market	**RMB 500bn swap facilities** allowing qualified securities firms, funds, and insurance companies to borrow directly from the PBOC to buy stocks **RMB 300bn relending facilities** with interest rate at 1.75% to listed companies for share repurchase

picture from：https://privatebank.jpmorgan.com/apac/en/insights/markets-and-investing/is-this-time-different-in-china

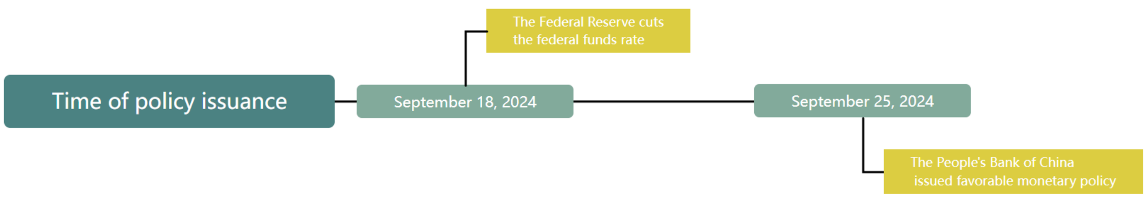
2. Prediction and Evaluation of A-shares and Chinese Concept Stocks from Wall Street

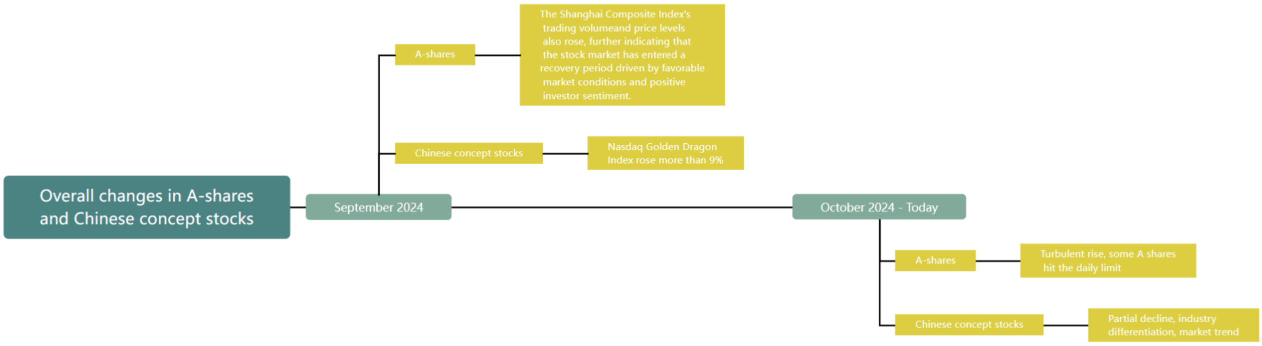
Recently, China's stock market has risen due to growth in the service sector and government stimulus measures. In October, the Caixin Services PMI saw a significant increase, marking the largest monthly gain in nearly two years, while the Non-Manufacturing PMI returned to expansion territory. Financial and software sectors, such as Citic Securities and East Money, performed exceptionally well. Supported by government stimulus policies, real estate stocks like Vanke A and Greenland Holdings also surged. Analysts expect this positive momentum to continue, though the pace may slow down. The government's proactive measures have boosted market optimism, and these are expected to continue providing support in the coming months.

Premier Li Qiang recently reiterated China’s goal of achieving approximately 5% economic growth and expressed confidence in the domestic economic outlook at the China International Import Expo. Earlier, China introduced its largest fiscal and monetary policy stimulus since the pandemic. Although the Ministry of Finance meeting did not disclose specific details of new fiscal support, the market holds high expectations for the upcoming National People’s Congress, hoping for further stimulus policies. Economists predict that policy measures will be gradual to mitigate economic risks and promote growth.

Chinese concept stocks have also benefited, with popular stocks rising significantly in the U.S. market that evening. The Nasdaq Golden Dragon China Index rose over 9%, marking its largest single-day gain since 2022, with a 9.13% increase. Recently, Chinese stocks in the U.S. market have shown notable gains, drawing attention. Wall Street investment banks maintain an optimistic view of the Chinese capital market, with Goldman Sachs and Morgan Stanley issuing positive reports. Goldman Sachs pointed out that trading volume has surged, and investment positions are historically low, suggesting an accumulation of buying power. Morgan Stanley believes that the People's Bank of China’s monetary policies will further support the real estate market, potentially boosting home sales and easing inventory pressures. These factors collectively have fueled the popularity of Chinese concept stocks and the capital market.

However, starting in October, some Chinese concept stocks saw a pullback, with sectoral divergence. Tech stocks such as Baidu and Alibaba faced downward pressure due to regulatory and performance challenges, while the new energy and electric vehicle sectors maintained a strong upward trend. Companies like XPeng Motors rose against the trend, reflecting investors' confidence in the new energy industry. The performance of Chinese concept stocks highlights market concerns and expectations. Moving forward, investors should focus on corporate fundamentals and industry outlooks, calmly responding to market fluctuations and seeking opportunities amid global economic changes.





It is normal for the market to undergo adjustments following a substantial rally, as investors tend to take profits, leading to market divergence. Additionally, the policy support and economic improvements have already been partially reflected in stock prices. The cyclical fluctuations in the A-share market, such as the pattern of rising in years ending in "4" or "9," demonstrate the recurrence of historical trends. In the future, if there is significant policy or economic data support, the market may experience a more sustained upward wave. Political shifts in the United States have a limited long-term impact on the prices of Chinese assets; the key lies in resolving domestic economic issues. Internal policy implementation and easing of external pressures are expected to stabilize corporate earnings next year, with economic growth potentially recovering from negative to around zero levels.

J.P. Morgan has explored what makes this phase in the Chinese market different, noting that while the short-term turnaround and positive changes brought by policies are certain, whether these measures can provide sustained economic stimulus remains to be seen. They advise investors to focus on positioning strategies—those who are significantly overweight in investments can take this opportunity to reduce allocations, while those with little to no exposure to the Chinese market can seize the chance to increase holdings in a tactical rebound.

3 Chinese Real Estate Market

Experts point out that a large portion of the current stimulus plan will likely be directed toward addressing the real estate crisis, which is central to the current economic challenges. The real estate sector is crucial for economic recovery; the market downturn has led to reduced land revenue, forcing the government to cut spending and thereby slowing economic growth. Goldman Sachs estimates that local government financing platform debt amounts to approximately 60 trillion RMB, with an annual government revenue gap of 2.3 trillion RMB.

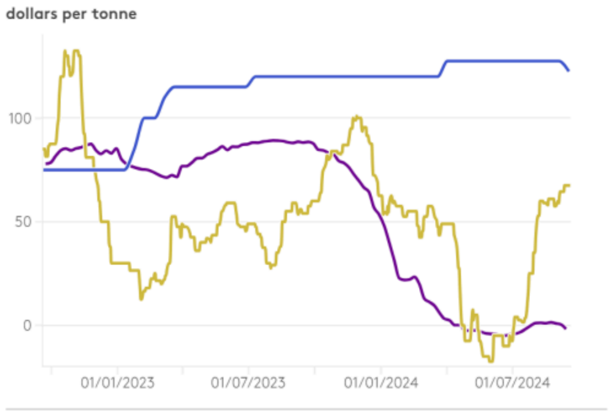
Recently, a series of stimulus measures introduced by the Chinese government has driven the recovery of the stock and real estate markets, attracting the attention of potential homebuyers. During the National Day holiday, property viewings and sales in major cities such as Beijing, Shanghai, Shenzhen, and Guangzhou surged significantly. Some cities also lowered down payment ratios and mortgage rates accordingly. Data show that new home sales in cities like Beijing increased year-over-year, with new home sales in Shenzhen growing sixfold during the holiday period, and Guangzhou lifting purchase restrictions. However, despite the easing of policies, buyers remain cautious, with many households uncertain about future income expectations. Analysts note that while the policies have spurred homebuying demand, weak consumer sentiment and high housing prices still limit the long-term recovery of the real estate market.

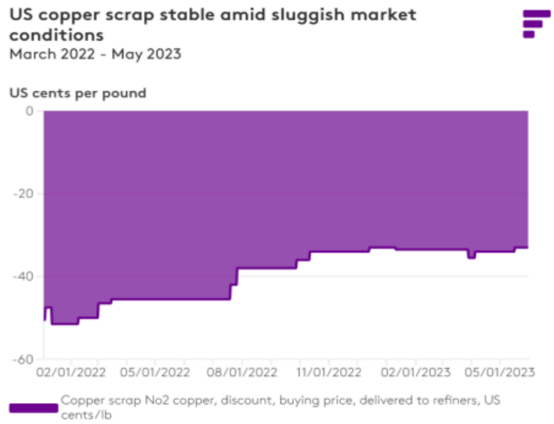
Price Change Chart for New Residential Buildings in China

picture from：https://www.wind.com.cn/

4 Comparison of Domestic and International Commodity Price Changes

4.1 Copper





The yellow line represents Shanghai
The purple line represents the Asia-Pacific region
The blue line represents Rotterdam.
Picture from: https://www.fastmarkets.com/

We can see significant fluctuations from early 2023 to mid-to-late 2024. Goldman Sachs recently reported, "This year's copper market is expected to be in the tightest supply since 2021." The global economy showed weak recovery at the beginning of the year, especially with China's slowed economic growth, leading to a decrease in copper demand and putting pressure on prices. Since September, a series of policy adjustments began, with the Federal Reserve initiating an interest rate cut cycle, while domestically, counter-cyclical measures were intensified, including proactive monetary and fiscal policies to boost market confidence and drive copper prices upward. In terms of supply and demand, mid-year saw tight copper concentrate supply and declining inventories, supporting copper price increases. Overall, in 2024, the copper price trend in Shanghai has shown an initial dip followed by a rebound, influenced by multiple factors including macroeconomic conditions, policy adjustments, and supply-demand dynamics.

Shanghai Copper Main Continuous

picture from：https://quote.eastmoney.com/qihuo/cum.html?jump_to_web=true

Historical Price Trend Chart of Copper Index

picture from：https://data.eastmoney.com/cjsj/hyzs_EMI00135902.html

4.2 Crude Oil

picture from: https://tradingeconomics.com/commodity/crude-oil

As a fundamental energy source, crude oil prices reflect the demand in manufacturing, transportation, and overall economic activity. We find that international crude oil prices are highly volatile, and fluctuations in crude oil prices directly impact China's manufacturing and transportation costs, thereby influencing overall economic performance. Increased volatility can introduce cost pressures.

4.3 Steel

picture from: https://tradingeconomics.com/commodity/crude-oil

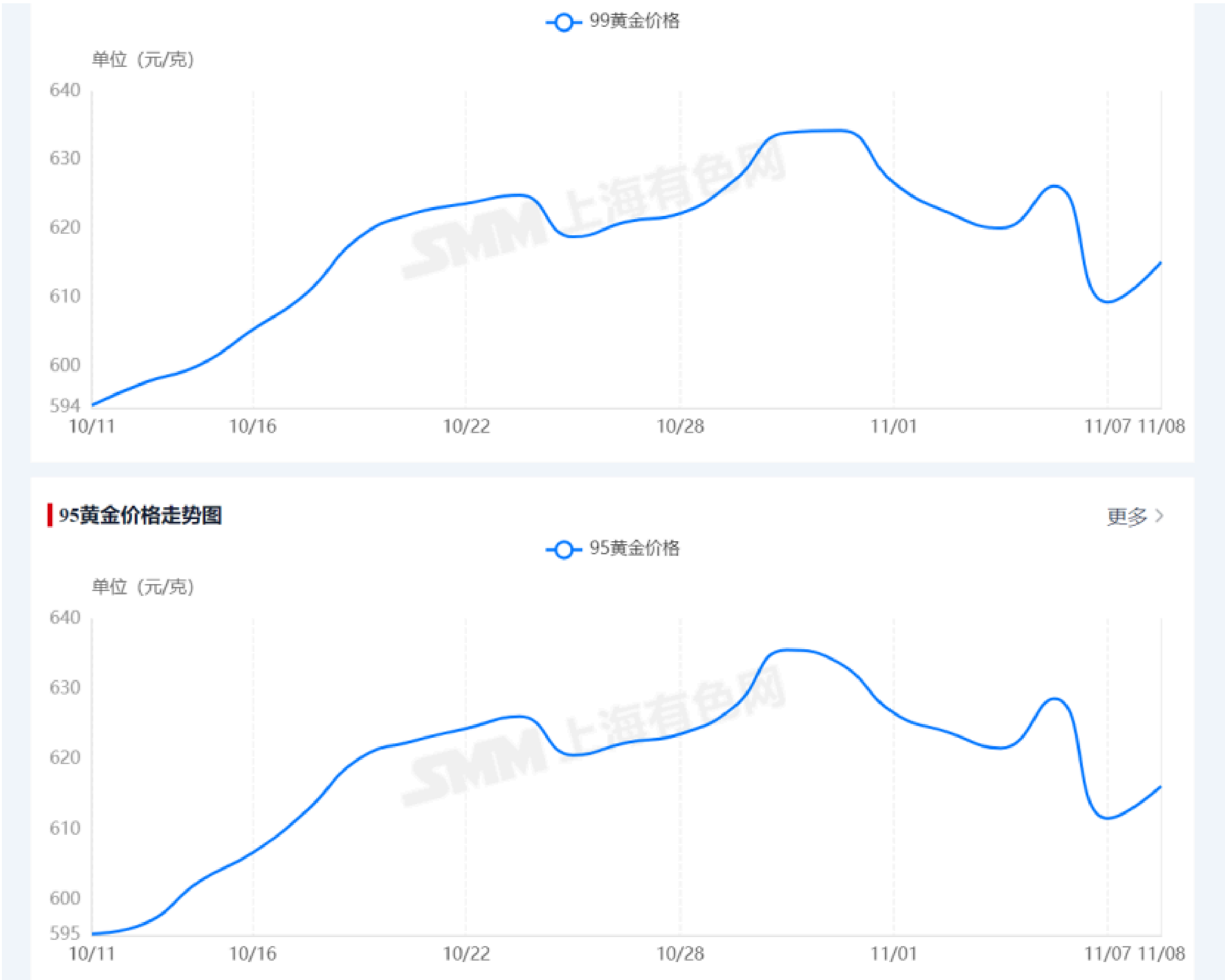
Steel demand primarily comes from construction and infrastructure, and significant price fluctuations often indicate a decrease in the construction and related industries, potentially suggesting weaker continuity in economic activity. However, the warming trend observed in September 2024 is largely related to a series of fiscal policies implemented by the Federal Reserve.

4.4 Goad

picture from: https://tradingeconomics.com/commodity/crude-oil

As a representative safe-haven asset, gold prices tend to rise when economic uncertainty increases. The upward fluctuations in international gold prices, to some extent, reflect significant uncertainty in the economic environment.

95 Gold and 99 Gold Price Trends



picture from：https://hq.smm.cn/h5/gold-price-chart

From October 11 to November 8, the prices of 99-gold and 95-gold showed an overall upward trend, steadily rising from mid-October to the end of the month, increasing from around 600 RMB/gram to about 630 RMB/gram. This reflects increased market demand for gold or heightened risk aversion sentiment. At the beginning of November, gold prices experienced a pullback but remained high overall, showing some volatility during this period. This trend indicates shifts in market sentiment, reflecting investors' cautious attitude amid macroeconomic uncertainty.

5 Conclusion

The recent adjustments in monetary and fiscal policies have had a significant short-term impact on the market, particularly reflected in stock market and commodity prices. After the policy announcements, A-shares and Chinese concept stocks experienced an upswing, while the real estate market saw an increase in property viewings and transaction volumes driven by policy stimulus. However, market sentiment remains cautious, with investors adopting a wait-and-see attitude toward the long-term effects of these policies. In the commodities sector, prices for raw materials such as copper and steel have rebounded, reflecting increased market confidence in economic recovery. In contrast, fluctuations in oil and gold prices highlight the uncertainties in the global economic environment, with gold's rise indicating stronger safe-haven demand. Overall, the policies have provided a positive boost to the market in the short term, but the potential for sustained recovery will depend on the continuity of these policies and changes in the global economic landscape.

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