23 SEPTEMBER 2024

Beijing's gift to the market ahead of National Day holiday?

Key messages:

The PBoC Governor Pan announced a new round of monetary stimulus today. Although it is not a bazooka, the coordinated moves by the regulators, the simultaneous and large magnitude of rate and RRR cuts, the unusual guidance of further easing and the new monetary policy tools to support stock markets surprised the market to the upside amid the already weak sentiment and low expectations from investors.

The stimulus measures show Beijing's clear intentions to achieve 5% growth target this year. Also, from investors' point of view, Beijing is supportive to stock markets.

Key measures:

• Policy Rates: a 20bp 7-day reverse repo rate cut; a 30bp MLF rate cut, 20-25bp LPR cut, guide similar cuts to deposit rate to stabilize banks' net interest margin.

• RRR: a 50bp cut; hinted at another 25-50bp cut by end-2024.

• Banks: add core tier-1 capital to 6 major banks.

• Property market: lower outstanding mortgage rates by an average of 50bp; lower downpayment ratio; increase relending support to accelerate inventory reduction.

• Stock market: a RMB 500bn swap facility for insurance companies, funds and securities brokers to tap PBoC funding with qualified collateral to buy stocks; guide banks to provide loans for listed companies for share buybacks.

What are the market implications?

The Fed's big first rate cut and recent strengthening of the RMB have given room for the PBoC to do this bigger-than-expected monetary easing. The PBoC's dovish tone and more proactive monetary measures are supportive to liquidity and positive for the Hong Kong and China stock markets. We expect southbound eligible stocks in Hong Kong and the Mainland onshore ETFs to be the key beneficiaries.

The RRR cut will inject RMB 1 trillion into the banking system. The monetary injection will also lower banks' cost of funds, which in turn will encourage banks to lend to the real economy rather than buying bonds.
As securities firms are allowed to tap liquidity from the PBoC, this is structurally positive as tech and innovative companies which have difficulty borrowing from banks can now benefit from the improving market liquidity.

The regulators also signal more policies to promote long-term fund inflows and streamline M&A procedure in the near term.

Valuations of the Hang Seng Index with forward PE at 8.7x (vs 5-year average 10.9x) and the CSI 300 at 11.7x (vs 5-year average 13.8x) are still very depressed. The Fed's rate cutting cycle will also improve global liquidity, and together with a weakening USD, will benefit Asian equities, including Hong Kong and China stocks.

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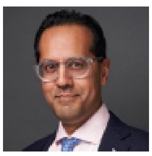

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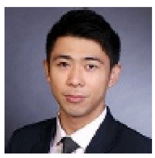
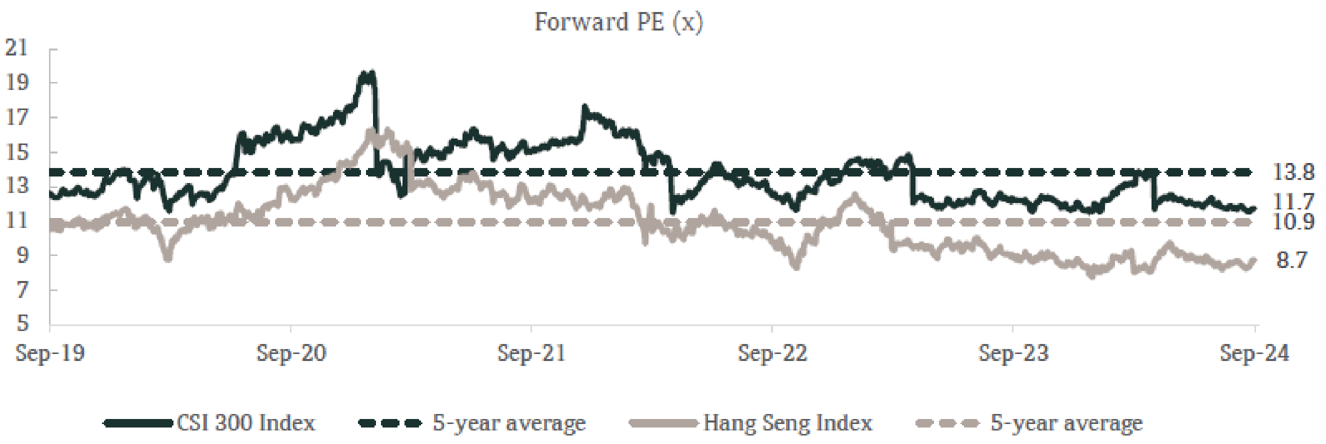


More aggressive fiscal policies are still needed

The mortgage rate cut is estimated to save households' annual interest expense of RMB 150bn. If one third is translated into consumption, this will be about 0.05% of GDP, which is still very small. Hence, more measures to stimulate consumption are still needed to sustain economic growth.

The announcement of monetary stimulus today raises market expectations of new fiscal policies soon to be declared to revive domestic demand of the real economy, which is also the key for a more sustained equity market rally.

HANG SENG INDEX AND CSI 300 INDEX'S VALUATIONS ARE STILL BELOW THEIR 5-YEAR AVERAGE



Source: Bloomberg, BNP Paribas (WM), as of 24 Sep 2024.

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