China Markets Newsletter

October 2023

September marked another month of the Chinese state attempting to reinvigorate the country's economy, with a raft of supportive policies being introduced for the benefit of both corporates and consumers. However, it was also another sluggish month for markets with the country's biggest equity exchanges posting losses over this period. The Shenzhen Component Index fell -2.96% over the month, as of 28 September. Similarly, the Shanghai Stock Exchange Composite Index fell -0.30%. [1]

The market falls reflect the ongoing theme of disappointing domestic Chinese consumption, which has led to deflation. The country's consumer price index (CPI) fell to -0.3% in July, year-on-year, forcing Chinese authorities to proactively tackle this deflationary pressure. Some of China's deflationary pressure did ease in September, when it was revealed that in August there was a 0.1% year-on-year increase in CPI. However, this was below Reuters' median expectation of a 0.2% increase. China's producer price index (PPI) deflation also narrowed, from -4.4% in July to -3% in August. The recent fall was in line with expectations but, as the 11th consecutive monthly fall, continues to reflect weak consumer demand.

In a bid to arrest this softness, the People's Bank of China (PBOC) moved in September to support the weakening yuan by cutting the forex reserve ratio from 6% to 4%. The central bank is also ramping up support for the currency by setting a stronger-than-expected daily reference rate to encourage state banks to sell dollars and tighten offshore yuan liquidity. At the end of the month the PBOC held its Q3 meeting in Beijing, with the central bank using the occasion to recommit to "precise and forceful" support for the economy. This could include further measures being pursued, as PBOC advisor Liu Shijin made a case for structural reform ahead of the meeting. In a speech on September 24, Liu advocated policies that would encourage entrepreneurship as well as prioritising demand-side reforms over supply-side measures. It remains to be seen if the PBOC will pursue significant reforms in its support of the Chinese economy.

[1] Source: SMDAM, 2023

China's stalling property market was again a focus of concern in September, though there were positive signs. Towards the end of the month, it was revealed that weekly new home sales were up 49%, possibly reflecting the charm offensive Chinese authorities have been on to encourage more people to buy property. Various measures have been introduced throughout the year, but September saw several further policies rolled out. At the start of September, the PBOC published revised refinancing guidance in a bid to help borrowers access lower mortgage rates. Many major cities also scrapped housing purchase restrictions (HPRs) to make it easier for people to buy property, and one of Beijing's more sought-after districts scrapped price limits for second homes. State support was also provided for developers, with banks authorised – and encouraged – to use special loans to finance urban village renovation, according to experts familiar with the sector. Property tax changes were notable in their absence from the latest legislative programme, which was released in September, signalling authorities' caution over how such changes could negatively impact both the real estate industry and the economy.

State support went further than China's troubled property sector, with equity markets becoming a focus of the authorities. September's market statistics revealed that global funds were continuing to shun the Chinese mainland, with RMB23bn being pulled from onshore stocks, following a record RMB90bn of redemptions in August. The authorities are increasing their efforts to make China an attractive hub for international investors, with several policies being introduced to strengthen the country's markets from a regulatory perspective. These included regulations designed to encourage companies to pay more dividends, new rules to punish large shareholder selloffs and greater oversight of the activities of quants and short sellers. They also reportedly have plans to ease the restrictions on foreign-owned stakes in Chinese companies, which are currently limited to 30%, in a bid to lure back global funds.

China made two other positive international overtures during the month. First, the Shanghai Stock Exchange signed an MoU with the stock exchange of Saudi Arabia – the former's 57th MoU with an offshore institution. And second, China and the US formed two new working groups tasked with tackling economic and financial issues. In a development that may comfort investors concerned about Sino-US geopolitical tensions, the groups will meet regularly and report to both US Treasury Secretary Janet Yellen and Chinese Vice Premier He Lifeng. These developments follow a speech by Premier Xi Jinping at the beginning of the month reconfirming that China would continue to open its markets, but on its own terms.

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