

Hang Seng went up by 15% in 1 week – What changed?

Well, China has gone all guns blazing – from Policy to Purchase.

Recently, a slew of measures has been announced by PBoC, which has **kick-started a reflation in asset prices** with Hang Seng rallying nearly 15% in less than a week.

Consumption	
Measures	Impact
1. Ministry of Finance plans to issue 1 trillion yuan (\$142 billion) of special sovereign debt primarily to stimulate consumption.	<ul style="list-style-type: none"> - Will be used to increase subsidies for trade-in and renewal of consumer goods. - Upgrading large-scale business equipment. - <i>Will provide a monthly allowance of \$114 per child to all households with two or more children, excluding the first child.</i>
2. Authorities encouraged local governments to boost milk consumption by issuing consumption vouchers, offering subsidies, loan renewals & extensions to dairy farmers	<ul style="list-style-type: none"> - Dairy consumption booster.
State Council is also stressing on accelerating the development of the modern vocational education	
Cash handouts worth \$22 bn announced to people in extreme poverty	

- While **we remain bullish on China's consumption story** – the *Chinese consumer stocks were available at single digit PE multiples with strong brand value, high dividend yield & healthy cash flows*; the entire consumption of China was deeply impacted by collapse of their property market & the resultant negative wealth effect.
- With growing Chinese economy and rising disposable income, we believe the following measures will stabilize property market, which will improve consumer sentiment.

Property	
Measures	Impact
1. 50 bps cut in outstanding mortgage rate	<ul style="list-style-type: none"> - would save households \$21 bn a year in interest expenses
2. lowering minimum down payments on all types of homes to 15% from 25%	<ul style="list-style-type: none"> - more disposable income in the hands of people
3. Raising the financing ratio from 60% to 100% for \$43 billion housing inventory digestion scheme	<ul style="list-style-type: none"> - Will accelerate the process of cutting home inventory and encourage banks to facilitate land transactions
4. Shanghai, Shenzhen reported to lift key remaining home purchase restrictions in coming weeks	<ul style="list-style-type: none"> - changes will allow non-local residents to buy homes in the cities

- Opening the Floodgate of liquidity to support capital market: Measures taken to stimulate participation & boost valuations.

Capital Market	
Measures	Impact
1. Swap facilities – Security companies, MFs and insurers can pledge their bonds, stocks, ETFs at PBOC (<i>Similar to TARP program in US in 2009, post the subprime crisis</i>)	- First tranche of \$71 billion can only be invested in stock market.
2. Stock repurchase financing – PBOC will provide liquidity 100% to commercial banks which they can utilize to lend to listed companies for stock repurchase.	- First tranche will be \$43 billion. This will incentivize companies to increase buybacks.
3. CSRC approved securities exchanges to increase margin requirements for short selling to 100% from 80% and for private funds it is increased to 120% from 100%.	- Market stabilization measure.
4. Under Mutual Fund Reforms, regulators specified that the management fee and custodian fee of newly registered active equity and equity hybrid funds shall not exceed 1.2% and 0.2% respectively	
5. Long-term net value losses companies should disclose their valuation improvement plans	
6. CSRC has released the "Opinions on Deepening the Market Reform of M&A of Listed Companies".	- Support for M&As.
<p>➤ <i>Further measures have also been announced to make listed companies more accountable for shareholders value creation.</i></p> <p>➤ <i>Additional stabilization fund of \$71 billion is under study.</i></p>	

Banking	
Measures	Impact
<i>All these policy measures set to improve liquidity in the system</i>	
1. PBOC has announced a 50-bps cut in banks' RRR and, for the first time, provided forward guidance that RRR could be cut by another 25 - 50 bps in the remainder year	- RRR cut is expected to provide 1 trillion yuan (\$142 billion) in long term liquidity to the financial market, boosting overall money supply & ensuring sufficient market liquidity
2. China is considering injecting up to \$142 billion into large state-owned banks to enhance their ability to provide more financing for economic development	- This would be the first time since the 2008 global financial crisis that the Chinese government injects capital into large banks
3. PBOC's 7-day reverse repo rate will be cut from 1.7% to 1.5% & Medium-Term Lending Facility rate slashed by 30 bps	