

China Policy

China launches new relief & pro-growth policies

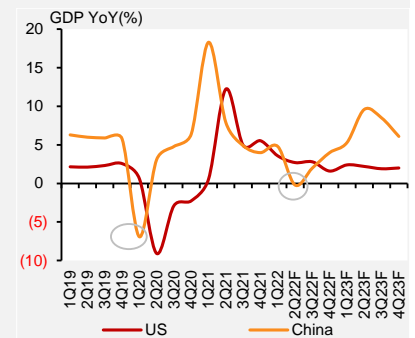
The cabinet meeting signaled further policy support to SMEs, individual business & difficult service sectors key for employment stability as well as to real estate, autos and infrastructure construction key for GDP growth. The policy signal is positive for market sentiment especially for stocks in consumer staples, real estate, autos and infrastructure construction. Currently, there are seven mixed factors to influence Chinese stocks: cheap valuation, downward pressure in earnings revision, Covid-zero policy, economic policy easing, US inflation & Fed tightening dynamics, Russia-Ukraine war & Sino-US conflict and possibility of financial crisis in some emerging markets.

- **VAT credit refund to benefit more sectors.** The cabinet extends value added tax (VAT) credit refund to more sectors with additional refund totaling RMB140bn. This will raise total tax cut & refund amount from RMB2.5tn to RMB2.64tn in 2022. The VAT credit refund is equivalent to providing an interest-free loan to enterprises and could improve their cash flow. Enterprises with large amount of input tax credit will benefit the most.
- **Social insurance cost relief for SMEs, individual business and targeted sectors.** The cabinet allows SMEs, individual business and certain difficult sectors (catering, retail trade, tourism service, transportation service, etc.) to postpone the payment of social insurance premiums until the end of this year. The deferred payment is expected to amount to RMB320bn this year. This policy will alleviate pressure for SMEs, individual business and related sectors as the epidemic and lockdowns have hurt them most and their survival is key for employment stability.
- **Special financing support to SMEs & individual business.** The state council calls for banks to double the special inclusive lending to micro business. Meanwhile, banks are required to allow SMEs, individual business, truck owners and households in financial distress to defer their principal and interest repayments this year under the loan contracts. For the truck loans made by the central state-owned truck companies, the principal & interest repayment will also be deferred for half a year and banks should provide financing support to related truck companies. China uses its banking system to relieve financial pressure for SMEs & individual business as they absorb over 80% of workers in the country.
- **Policies to restore supply chains.** The cabinet vows to restart factory and business and facilitate free flow of goods as soon as possible. The government promises to increase domestic and international passenger flights in an orderly manner. These policies will benefit the industries with supply chains disrupted by the lockdowns and air transportation service sector. But these policies are in conflict with the Covid-zero policy and the actual effects still need further observation.
- **Stimulus on auto, real estate and infrastructure construction to boost demand.** The state council guaranteed to reduce the vehicle purchase tax types of autos by RMB60bn or 17% of total vehicle purchase tax in 2021. The cabinet continues to support local governments to boost first-time and upgrading home purchase. The government also plans to start new projects

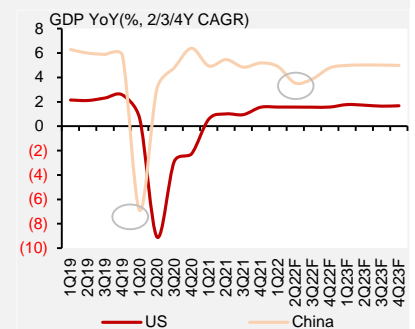
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Source: Wind, CMBIGM



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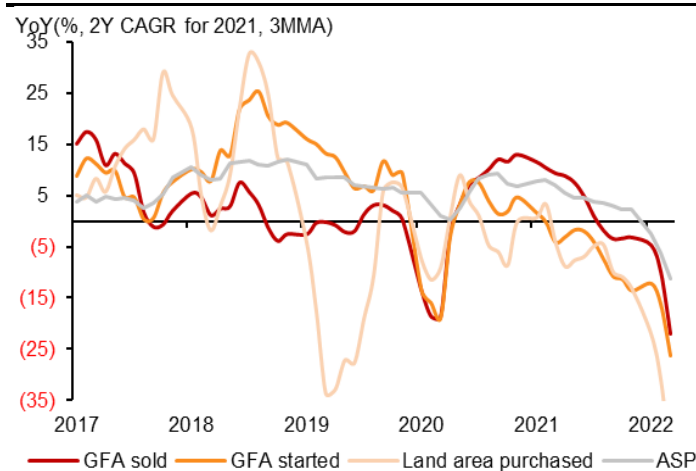
in irrigation, transportation, old neighborhoods and underground integrated pipe gallery with more long-term credit support from banks.

- **Priority to increase energy supply & investment.** The cabinet attaches great importance to the security of energy supply. The central government requires local governments to take responsibility for increasing coal output and plans to start some new projects in energy production and supply. Since the Ukraine crisis, the Chinese government has paid more attention to the security of energy supply. In the short term, China will increase coal output. In the medium to long term, China will increase its investment in new energy production and supply.
- **Enhancement of social security network & welfare for the unemployed and low-income individuals.** The cabinet promises to provide more support to the unemployed and people in need. The government proposes to initiate a mechanism linking social assistance and security benefit with inflation level in the country. This policy shows the central government focuses on helping people in need in order to keep social stability and meet their basic consumption needs.
- **Positive for market sentiment especially for stocks in consumer staples, property, autos and infrastructure construction.** The cabinet meeting signaled further policy support to SMEs, individual business & difficult service sectors key for employment stability as well as to real estate, autos and infrastructure construction key for GDP growth. The policy signal is positive for market sentiment especially for stocks in consumer staples, real estate, autos and infrastructure construction.
- **Seven key factors to influence Chinese stocks.**
 - 1) **Valuation is cheap** as Bloomberg best PE of Hang Seng index, SH-SZ 300 index and S&P 500 index are currently at their 20%, 40% and 60% quantile values in the past 15-25 years.
 - 2) **Earnings face downward revisions, which is being priced in.** China economy is in the trough, but resumption takes time. 2Q-3Q earnings face downward revisions as the factor is being priced in.
 - 3) **Covid-zero policy** may remain before the 20th Party Congress meeting (in late October or early November) as the policymaker is concerned about the risk of health crisis due to the fragile health system without potent vaccines. The policy lowers investors' expectations about a strong V-shape recovery in China. But there will be some moderate adjustments like shorter quarantine or lockdown period.
 - 4) **China may further ease economic policies** including monetary policy, fiscal policy, property policy and regulatory policy towards internet platform companies. To some extent, these policies may boost investor sentiment in the market.
 - 5) **US inflation remains high as the Fed's tightening continues.** It may continue to restrain investors' risk appetite for stocks.
 - 6) **Russia-Ukraine war and Sino-US conflict** may continue to increase supply chain pressure, stagflation risk and risk aversion sentiment.
 - 7) **Some emerging markets may see rising possibility of financial stress or crisis** with Fed tightening, China slowdown, Russia-Ukraine war and Sino-US conflict.

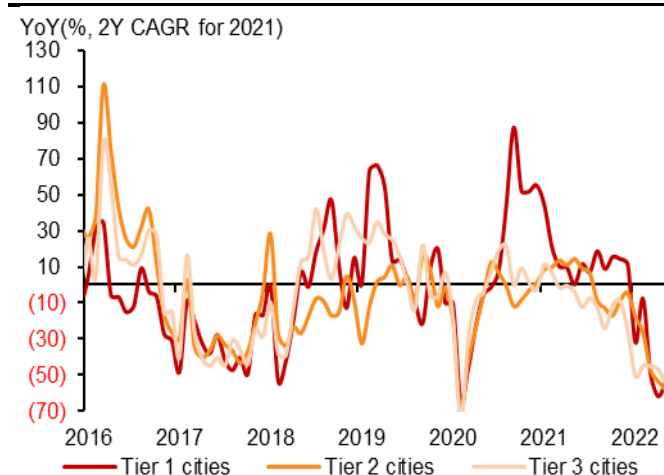
Figure 1: China's economic indicators

YoY(%)	2019	2020	2021	1Q21	2Q21	3Q21	4Q21	1Q22	Apr 2022	2020-2021
VAIO	5.7	2.8	9.6	24.5	9.0	4.9	3.9	6.5	(2.9)	6.1
-Mining	5.0	0.5	5.3	10.1	2.4	2.1	6.5	10.7	9.5	2.9
-Manufacturing	6.0	3.4	9.8	27.3	9.3	4.7	3.1	6.2	(4.6)	6.6
-Public utility	7.0	2.0	11.4	15.9	11.0	9.7	9.8	6.1	1.5	6.6
Delivery value for exports	1.3	(0.3)	17.7	30.4	16.3	14.2	13.2	14.4	(1.9)	8.3
Service Output	6.9	0.0	13.1	29.2	13.9	5.9	3.3	2.5	(6.1)	6.3
Urban FAI (YTD)	5.4	2.9	4.9	25.6	7.5	(0.4)	(0.9)	9.3	6.8	3.9
-Property development	9.9	7.0	4.4	25.6	9.8	(0.6)	(7.8)	0.7	(2.7)	5.7
-Manufacturing	3.1	(2.2)	13.5	29.8	14.9	8.8	10.6	15.6	12.2	5.4
-Infrastructure	3.3	3.4	0.2	26.8	(0.4)	(7.1)	(2.8)	10.5	8.3	1.8
Retail sales	8.0	(3.9)	12.5	33.9	14.1	5.1	3.5	3.3	(11.1)	4.0
Exports of goods	0.5	3.6	29.9	48.8	30.6	24.2	23.1	15.8	3.9	16.0
Imports of goods	(2.7)	(0.6)	30.1	29.4	44.5	25.9	23.7	9.6	0.0	13.7

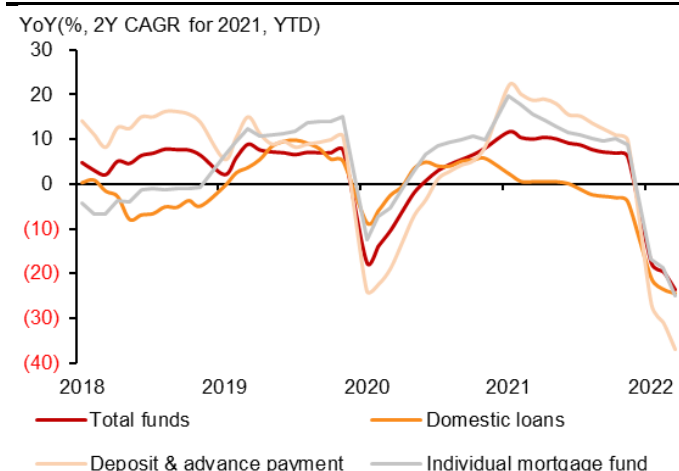
Source: Wind, CMBIGM

Figure 2: Property market indicators

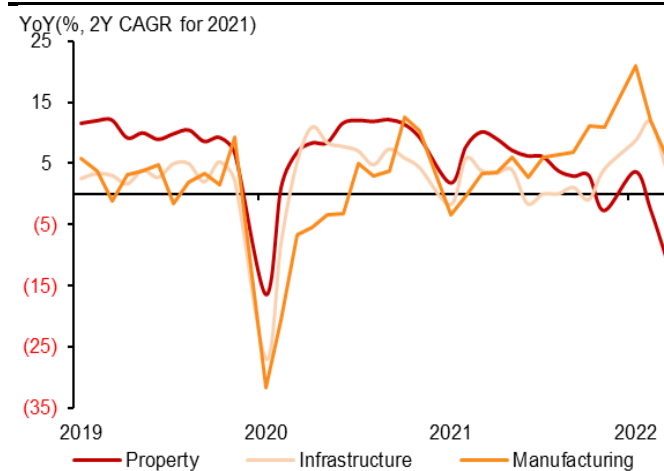
Source: WIND, CMBIGM

Figure 3: Housing sales by Cities

Source: WIND, CMBIGM

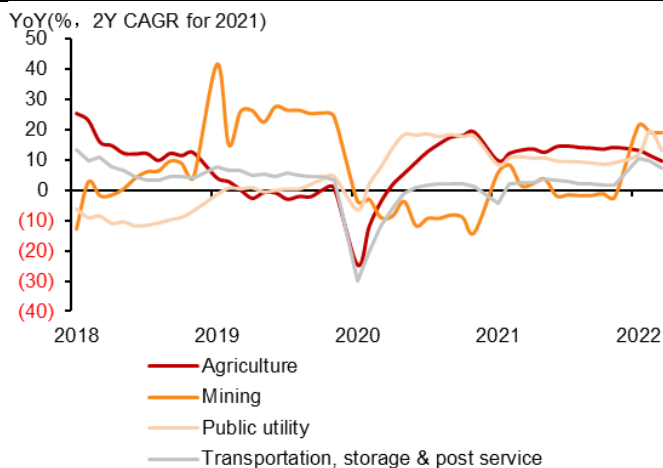
Figure 4: Funding source for property investment

Source: WIND, CMBIGM

Figure 5: FAI by sector

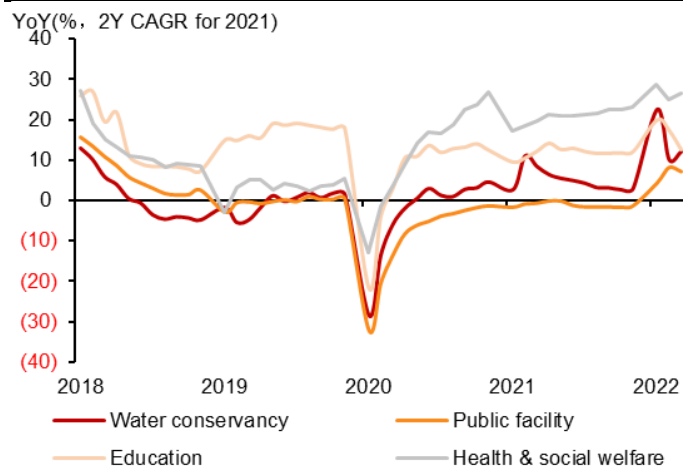
Source: WIND, CMBIGM

Figure 6: FAI in agriculture & infrastructure sectors



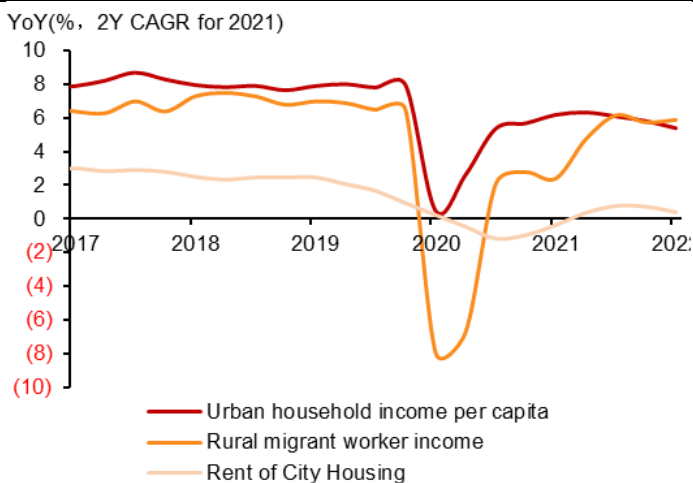
Source: WIND, CMBIGM

Figure 7: FAI in infrastructure & social service



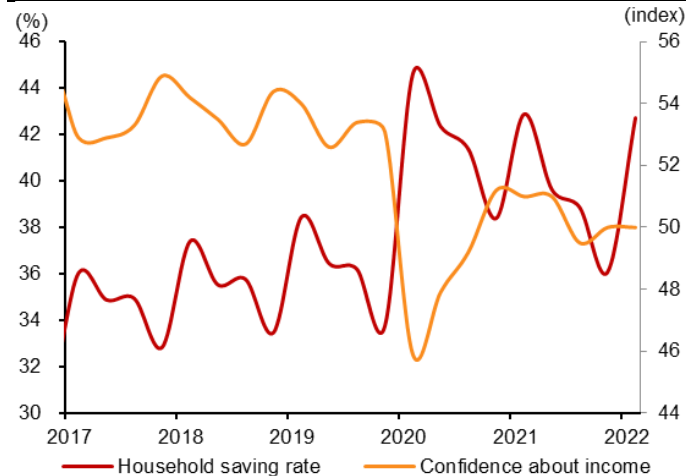
Source: WIND, CMBIGM

Figure 8: Household income & rent for housing



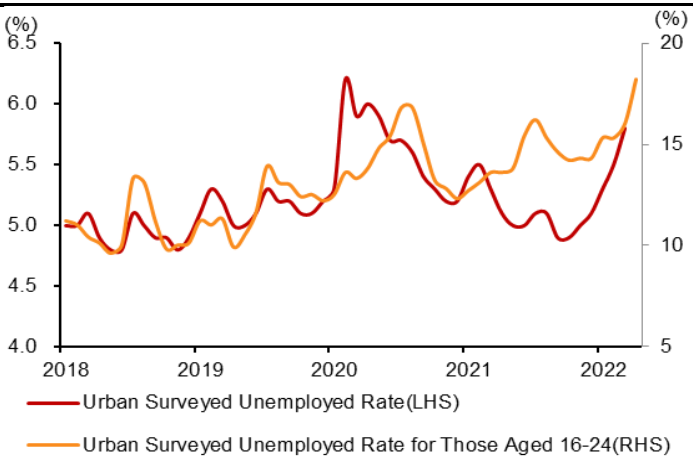
Source: WIND, CMBGM

Figure 9: Consumer confidence



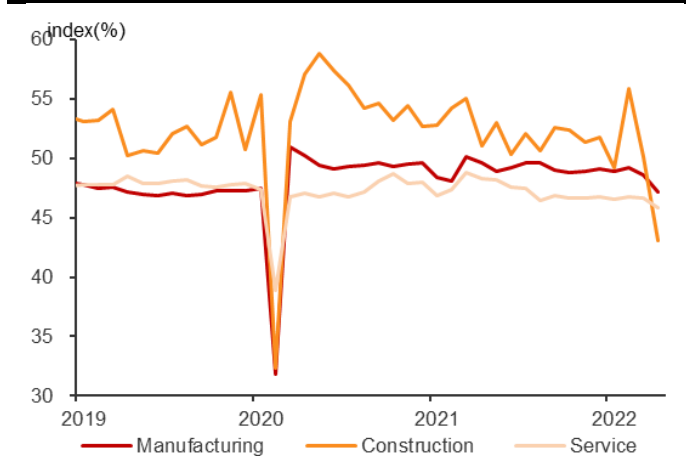
Source: WIND, CMBGM

Figure 10: Urban surveyed unemployment rates



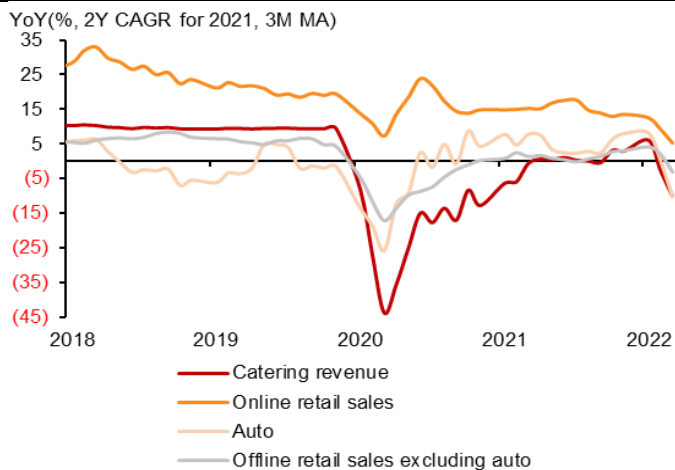
Source: WIND, CMBGM

Figure 11: Employment Index



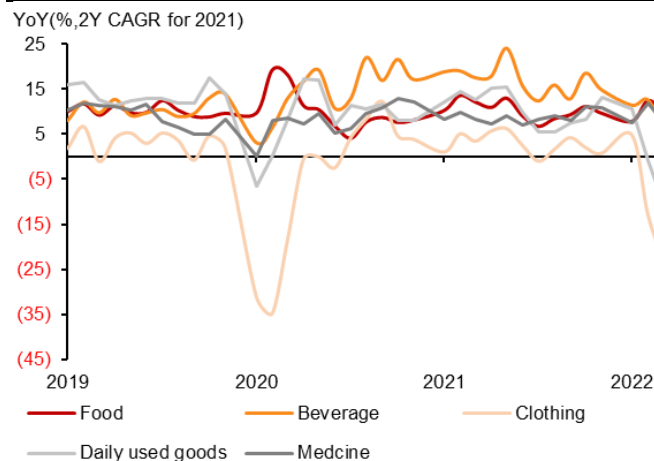
Source: WIND, CMBGM

Figure 12: Retail sales



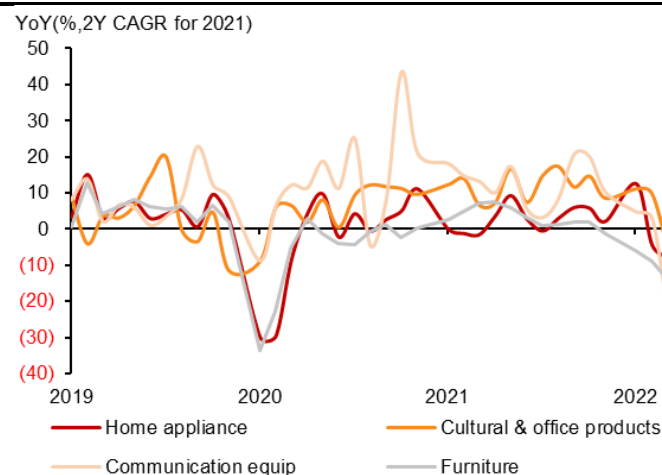
Source: WIND, CMBGM

Figure 13: Retail sales of staples & garments



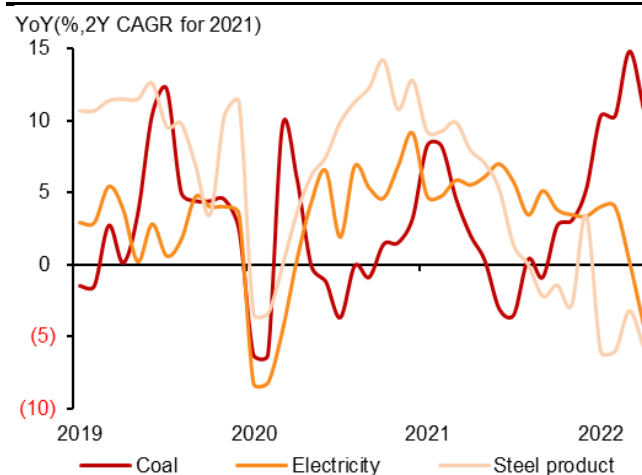
Source: WIND, CMBGM

Figure 14: Retail sales of some durables



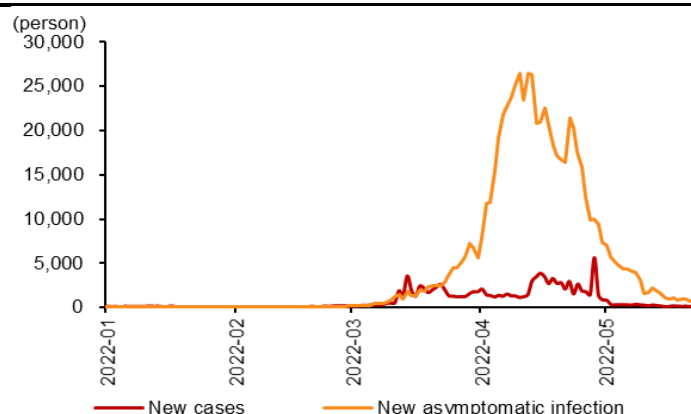
Source: WIND, CMBGM

Figure 15: Production of energy & steel product



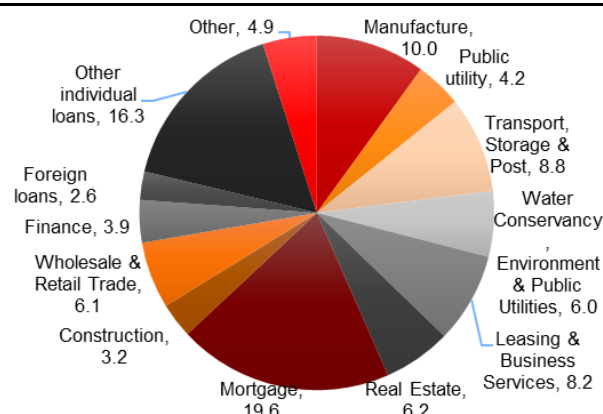
Source: WIND, CMBGM

Figure 16: Number of New Covid-19 Cases in China

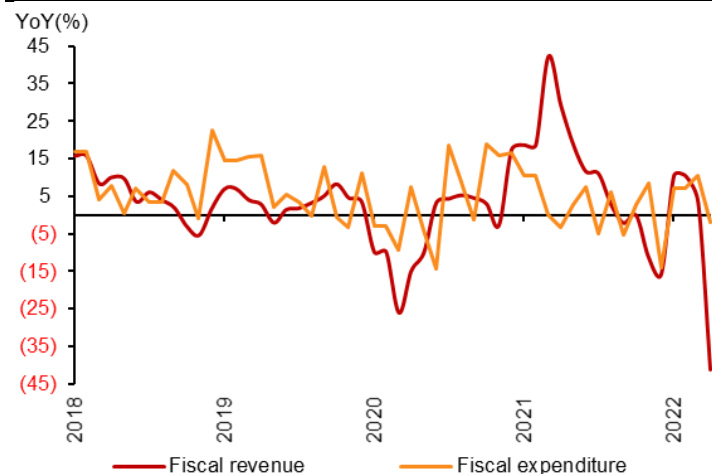


Source: WIND, CMBGM

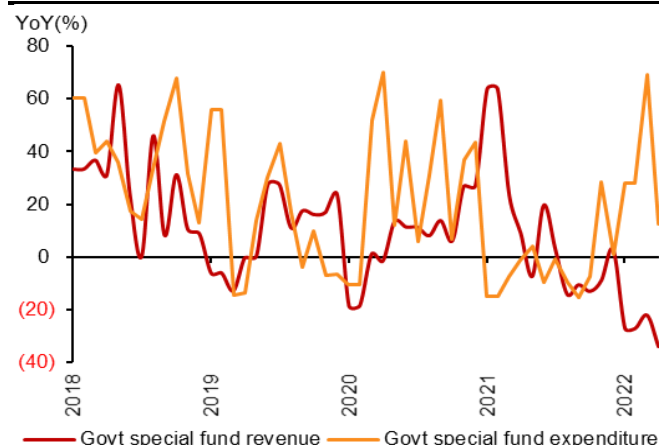
Figure 17: Sector Structure of Loans at End-2019 (%)



Source: WIND, CMBGM

Figure 18: Fiscal Revenue & Expenditure

Source: Wind, CMBIGM

Figure 19: Government Special Fund Revenue & Expenditure

Source: Wind, CMBIGM

Figure 20: Stock Index PE Ratios & Their quantile levels in the past 15-20 years

(X)	Hang Seng index	CSI 300 index	Chinext index	S&P 500 index	NASDAQ index	Nikkei 225 index	DAX index	CAC index	FTSE 100 index
Min	7.6	7.9	17.9	10.0	13.1	9.7	7.8	7.1	5.6
20% quantile	10.7	11.1	27.4	14.9	19.4	15.9	11.4	11.6	10.6
30% quantile	11.0	12.1	29.9	15.6	21.0	16.7	12.1	12.7	11.5
50% quantile	12.1	13.5	34.4	17.0	23.3	18.4	13.1	13.9	12.8
65% quantile	12.9	14.9	37.8	18.0	25.5	19.7	13.6	14.7	13.7
80% quantile	14.1	17.0	45.2	20.8	28.3	22.6	14.2	15.4	14.9
Current value	10.5	12.8	31.5	17.2	23.8	14.9	11.6	11.2	10.3

Source: Wind, CMBIGM

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