RISCURA

Property Sector Rescue

China update

Chinese equity markets dipped in June, with sector rotations continuing at a relatively fast pace and trading volume experiencing a slight decline. Real estate transactions showed a mild year-on-year (YoY) recovery following the release of a mid-May real estate policy package. From 1 to 29 June, the YoY growth rate of new home transactions in 60 cities and second-hand home transactions in 26 cities improved to -24.7% and +14.4%, respectively, from -37.5% and -4.7% in the previous month.

- **Chinese equity markets experienced a fluctuating downward trend in June, with the MSCI China, MSCI China All Shares, and MSCI China A Onshore Indices all falling between 1.8 and 3.6%.**
- **The best-performing sectors were telecommunications, electronics, and public utilities.**
- **The YoY growth rate of second-hand home transactions in first-tier cities increased significantly from +10.7% in May to +39.2%.**

In terms of other economic activities, the manufacturing Purchasing Managers Index (PMI) recorded 49.5 in June, reflecting a very slight contraction but remaining unchanged from the previous month and broadly meeting market expectations. Production and new order indices slightly declined by 0.2% and 0.1%, respectively, suggesting slowdowns on both the supply and demand sides. The new export orders index remained at 48.3, showing no change from the previous month and indicating stabilised overseas demand.

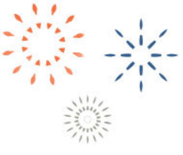
Despite the overall slowdown in manufacturing activity, there were bright spots in new growth areas. The PMIs for equipment and high-tech manufacturing were 51.0 and 52.3, respectively, showing increases of 0.3% and 1.6% month-on-month, highlighting strong performances in these new growth sectors.

Beijing's property stabilisation efforts

Since March, expectations had been growing that Beijing would take steps to stabilise the property sector. On 17 May, the Chinese government introduced a new round of housing support measures aimed at addressing both demand and supply issues. To boost housing demand, purchasing requirements were further relaxed, leading to immediate cuts in mortgage rates and downpayment requirements in over 10 provinces, including first-tier cities.

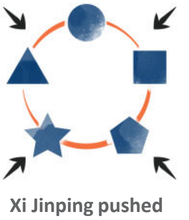
Additionally, China's central bank pledged RMB 300 billion yuan (USD 42 billion) to 21 banks to facilitate lending to local state-owned enterprises for the purchase of unsold properties. These properties would then be transformed into social housing for the underprivileged. Although the initial funding fell short of the estimated excess inventory value, the move boosted general sentiment as Beijing signaled its commitment to serving as a last resort in stabilising the real estate sector.

New property sector measures gave housing demand a boost, lowering mortgage rates.



Government's commitment lifted investor confidence and signalled Beijing's readiness to intervene when needed.

The focus on real estate policy evolved from purely economic to a broader political agenda.



Xi Jinping pushed reforms for modernisation, technological innovation, and urban integration.

Notably, the nature of the task shifted from purely economic to political. The State Council even released a statement emphasizing that "real estate development affects the interest of the public," marking a significant departure from the tone and stance adopted in previous years to rein in property developers.

Xi Jinping encourages comprehensive reforms

Midway during the month, General Secretary Xi Jinping underscored at the fifth meeting of the Comprehensive Deepening Reform Committee the government's continued commitment to improving the modern enterprise system with Chinese characteristics and fostering an open environment for scientific and technological innovation with global competitiveness – essentially a continuation of current strategic economic objectives.

We believe that Chinese equities remain very attractively valued and that their performance will be driven by China’s economic recovery and corporate earnings growth.

To boost housing demand, purchasing requirements were further relaxed, leading to immediate cuts in mortgage rates and downpayment ratios in over 10 provinces, including first-tier cities.