Stronger Policies Aim to Boost Domestic Demand

China update

In August, the Chinese equity market experienced a series of fluctuations, largely driven by weaker quarterly earnings reports from many companies. Additionally, the opening of closed-end funds for redemption triggered localised liquidity events. In terms of sectors, petrochemicals and coal showed relative resilience, whereas national defence, agriculture, beauty, construction materials, and steel faced the most adjustments. Nevertheless, some sectors still exhibited overall growth and marginal improvements in quarterly performance, such as agriculture, telecommunications, electronics, insurance, wind power, chemical materials, and industrial metals.

- **The MSCI China Index closed down by 0.3%, while the MSCI China All Shares and MSCI China A Onshore Indices rose by 1.1% and 0.3%, respectively.**
- **On the macroeconomic front, export growth remained robust, and summer holiday travel was particularly active. Cross-regional travel in July and August increased by 3.7% year-on-year.**
- **Automobile sales also showed a slight improvement, with the daily average retail sales of passenger cars in August achieving a positive year-on-year growth rate of 5%, compared to a 3.1% decline in July.**

Acceleration of policy measures

On the policy front, since August, China has accelerated the implementation of a series of measures aimed at expanding domestic demand. The Ministry of Commerce and the State Council issued detailed policies regarding the trade-in of old vehicles, promoting high-quality service consumption and advancing a comprehensive green transformation. Cities like Nanjing and Xiamen introduced expanded housing trade-in policies. These allow homeowners to 'trade in' pre-owned residential properties as part-payment for a newer property. The scheme primarily involves government-designated agencies or real estate companies purchasing and replacing existing properties, often with subsidies, to assist homeowners in selling their old homes and upgrading to new houses. For the first time these are now also permitting trades between different cities.

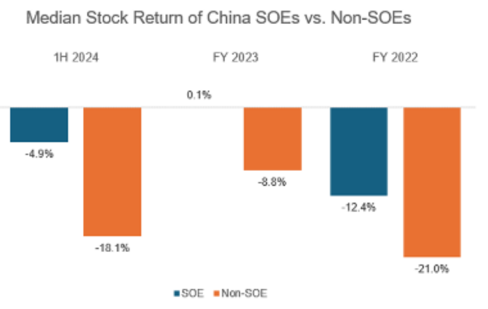
On 30 August, the Ministry of Finance released its mid-year fiscal policy implementation report, outlining plans to coordinate the use of various fiscal and tax policy tools to intensify efforts in promoting large-scale equipment upgrades and trade-ins for consumer goods.

These actions align with broader reforms proposed at the Third Plenum Session, which we mentioned in last month’s update, including urbanisation, land, fiscal and tax systems, technological innovation, and high-level opening-up. The subsequent July Politburo meeting reaffirmed the 5% GDP growth target for 2024 and emphasised the need for stronger policies to boost domestic demand.

Summer cross-regional holiday travel increased by 3.7% year-on-year in July and August.

The daily average retail sales of passenger cars achieved a year-on-year growth rate of 5%.

SOEs outperformed in the first half of the year



Source: Bloomberg, MSCI, Hang Seng, Company Website and Alliance Bernstein.

SOE outperformance and government support

The trend of SOEs outperforming has continued into the first half of this year, as illustrated by the chart above. Both the government and affiliated entities have actively worked to support their share prices since the start of last year.

This sustained performance shows the government's commitment to stabilising key industries and hopes to maintain investor confidence in state-backed companies. However, most fundamental active managers tend to avoid a large subset of these companies due to poor governance, and because they are not run to maximise shareholder value.

China’s equity market experienced fluctuations in the month however, resilient sectors and new policy measures provided a glimmer of optimism.