Policy initiatives and sector rebounds

China update

In November, the Chinese equity market showed significant volatility, with a pattern of early gains followed by a pullback. Small-cap stocks continued to outperform large-cap stocks. The MSCI China, MSCI China A Onshore and MSCI China All Share Indices declined by 4.5%, 1.5%, and 3.3%, respectively. Although the market was down overall, there were some positive sectors including banks, other financials and telecommunications.

- **The MSCI China, MSCI China A Onshore and MSCI China All Share Indices declined by 4.5%, 1.5%, and 3.3%, respectively.**
- **A significant CNY 10 trillion debt swap plan to alleviate local government debt was approved, aiming to redirect focus towards economic growth.**
- **The monthly property transaction volume in first-tier cities in November surpassed the peak recorded in March 2023.**

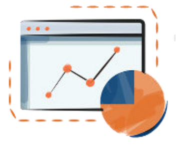
Supported by pro-growth policies, key economic indicators maintained a recovery trend. The manufacturing PMI edged up from 50.1% in October to 50.3% in November, surpassing Bloomberg's consensus estimate of 50.2%. The continuous push from domestic pro-growth policies drove a sustained improvement in domestic demand, which had been evident since September. Both the production and new order indices continued to rise, with the production index and new order index increasing by 0.4% and 0.8%, respectively, from October to reach 52.4% and 50.8% in November. Additionally, the new export order index saw its first uptick since August, possibly reflecting a "rush to export" effect in anticipation of tariff changes. This was reflected in a 9.1% month-on-month increase in the Shanghai Export Containerised Freight Index (SCFI) since November, with notable price increases on Southeast Asia and Mediterranean shipping routes.

On the policy front, China introduced measures in November to ease local debt and support the property market. A CNY 6 trillion quota was established for local government special bonds to refinance hidden debt. Additionally, tax relief policies for property transactions were announced, including higher deed tax discount thresholds, a lower pre-collection rate for land value-added tax, and exemptions for residential properties with limited value-added gains.

The real estate market also maintained its recovery momentum. The number of new home sales increased on both a year-on-year and month-on-month basis across all cities. Similarly, second-hand home sales saw year-on-year growth across all cities. Notably, the monthly transaction volume in first-tier cities surpassed the peak recorded in March 2023.

Further details on local government debt relief measures

The current policy focus has been primarily on addressing local government debt and challenges in the property market.



Smaller-cap stocks outperformed, driven by retail investor activity.

A CNY 10 trillion debt swap plan was approved in a move to alleviate local government debt and bolster economic growth.

The property sector experienced a significant increase in transaction volumes.

Government subsidies boosted vehicle sales and home appliance purchases.

At the National People's Congress Standing Committee (NPCSC) meeting in early November, the approval of a CNY 10 trillion debt swap plan for local governments was a significant development. As mentioned, this initiative involves an increase of CNY 6 trillion over the next three years coupled with the reallocation of CNY 4 trillion from local government bonds. This move aims to transfer around CNY 14 trillion in local government debt to central government, allowing local authorities to redirect efforts towards fostering economic growth.

A closer look at the property market rebound

Targeted support measures are yielding positive outcomes in specific sectors. Notably, the property sector has experienced a significant increase in transaction volumes. New housing transactions in 60 cities and second-hand housing transactions in 26 cities rebounded from declines of -27.1% and -4.2% in September to -4.2% and 8.1% in October, respectively. Particularly noteworthy is the resurgence in second-hand home transactions in first-tier cities, which surged by 71% year-on-year, compared to a modest 2% growth in September.

Boosting consumer spending

In terms of consumption, the government's trade-in subsidy programme has proven highly effective in boosting consumer spending. In the third quarter of 2024, approximately one million additional vehicles were purchased due to these initiatives. Sales of home appliances soared by 39% year-on-year in October, a significant acceleration from the 21% growth seen in September. Additionally, several major cities have issued consumption vouchers redeemable at restaurants, hotels, and movie theatres. These measures mark the initial stages of a consumption recovery, with expectations for expansion across more sectors and regions.

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