Manulife Investment Management

Investment Note

9 Aug 2024

Mainland China's Third Plenum 2024 concluded with structural reforms in key areas such as technology innovation and self-sufficiency. In the days following the meeting, the Chinese government introduced some concrete measures, including a programme of equipment renewals and consumer goods trade-ins, cuts to the key short-term policy and mortgage reference rates, as well as a lowering of medium-term funding costs.

The Greater China Equities Team believes that mainland China is focusing not only on long-term structural reform but also on short-term economic targets. The series of fiscal and monetary announcements, along with greater subsidies and infrastructure spending, should support a faster recovery in domestic demand.

Hong Kong/Mainland China market update

Mainland China's Third Plenum (15 July to 18 July 2024) concluded in Beijing with five key areas of structural reforms highlighted:

1) **Promoting technology innovation and self-sufficiency:** The digital economy, supply-chain resilience and security, and technology innovations.

2) **Improving the macro government mechanism:** Strengthening macro policy coordination and highlighting the importance of risk management across the property market and small-and-medium financial institutions.

3) **Pursuing urban-rural integrated development and social welfare:** Narrowing disparities between the two for their development.

4) **Opening up the private economy:** Promoting trade and investment**.**

5) **Deepening the reform of fiscal, taxation and financial systems:** Ensuring sustainable funding for local governments.

In response to the policy direction set by the Third Plenum, the National Development and Reform Commission (NDRC) and the Ministry of Finance (MoF) announced a programme of (1) equipment renewals and (2) consumer goods trade-ins on 25 July 2024.

More specifically, around RMB300 billion of ultra-long special treasury bonds will be allocated by the end of August to fund eligible investment and consumptions in the major areas below:

- **Home appliance and passenger/commercial vehicles (RMB150 billion):**

    - Targeted products include TVs, fridges, washing machines, air-conditioners, water heaters, stoves and computers. For home appliances, products with an energy efficiency level 2 or above can enjoy subsidies of up to 15% of the average selling price (ASP). Products with energy efficiency level 1 can enjoy up to 20% of ASP subsidies.

    - For consumers who give up (1) internal combustion engine personal vehicles (ICE PVs) with National Emission Standards III or below or (2) passenger electric vehicles (EVs) registered on/before April 2018 can enjoy higher subsidies. i.e., raised to RMB15,000 from RMB7,000 when purchasing new ICE PVs with an engine size of 2.0L or below and to RMB20,000 from RMB10,000 earlier for purchasing new passenger EVs.

- **Large-scale equipment (RMB148 billion + RMB20 billion additional interest-rate subsidies)**

  - Now encompasses energy and electric-powered old elevators and the upgrade of commercial vessels. Support for small and medium-sized enterprises' (SMEs') equipment renewal. Interest-rate subsidies ranging from 1% to 1.5% for equipment-renewal-related loans (two years).

The Third Plenum also found echo in the monetary front. The People's Bank of China (PBOC) unexpectedly cut the seven-day reverse repo rate by 10 basis points to 1.7%, which was followed by a 10-basis point cut to the one-year loan prime rate (LPR) to 3.35% and the five-year LPR to 3.85%. On 22 July 2024, the central bank also announced a reduction in the collateral requirement for its medium-term lending facility (MLF) to increase the scale of tradable bonds.

Central government plays a more significant role

It is clear that mainland China is not only focusing on long-term structural reform but also on short-term economic targets. In the near term, mainland China strives to (1) achieve its 2024 GDP growth target and (2) support domestic demand.

After the 2024 Third Plenum, it is evident that mainland China has stepped up its concrete measures by announcing details of various programmes and initiatives, which is encouraging.

Furthermore, the central government is playing a more significant role in the above programmes, i.e., 85-90% of the total home appliance and passenger vehicle financing will come from the central government versus 100% of the funding for large-scale equipment.

Looking at the historical rounds of home appliance subsidies, e.g., the **Go Rural** programme (Dec 2007–Jan 2013), the **Trade-In** programme (June 2009–Dec 2011), **Energy Subsidies I** (June 2009–June 2011) and **Energy Subsidies II** (June 2012–May 2013), saw total support of around RMB150 billion and generated around RMB1.5 trillion of sales in five and a half years. Given that smart appliance penetration in mainland China remains low, we believe there's further room to grow.

Our views

The series of concerted fiscal and monetary announcements and a greater magnitude of subsidies and infrastructure expenditure should support a faster domestic-demand recovery. In our view, the newly announced policies are positive for the (1) home appliance, (2) auto and (3) industrial sectors.

Furthermore, the new rate-based monetary framework enables the PBOC to use the 7-day repo as its main policy rate, which will be used to guide other rates, such as the MLF, etc. The old framework used to look at various variables that could affect loan growth and policy rates. Hence, the new framework is more streamlined, directly focusing on market-driven factors and supply and demand.

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