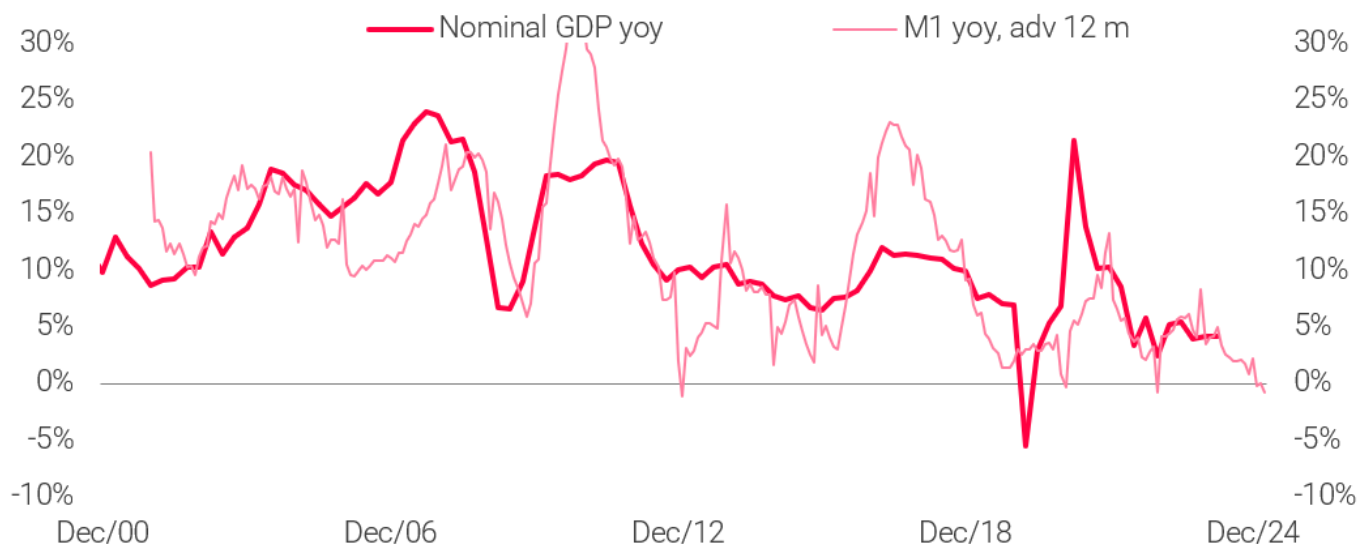


# PROPERTY STIMULUS - IS CHINA BACK?

Rory Green

Beijing has unveiled its strongest post-COVID property stimulus to date. We think the measures are insufficient to put a floor under home sales. However, they are highly significant and provide the strongest evidence yet (for those who needed it, [not us at TSL](#)) that Xi Jinping still cares about growth. Moreover, the revealed policy preference and the stimulus measures themselves further reduce cyclical downside risks.

## Nominal growth heading towards zero



Sources: CEIC, TS Lombard.

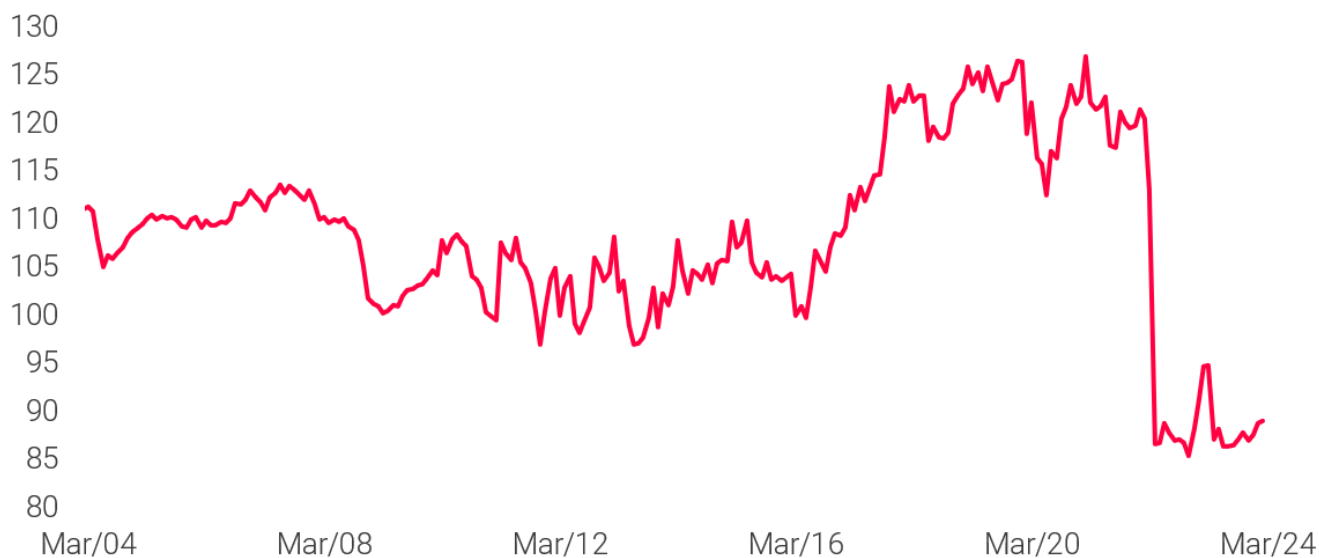
Since November last year, we have [consistently maintained an above-consensus forecast for stimulus](#). Beijing followed through with smaller scale easing measures earlier this year, an ambitious GDP target, and now coordinated action on property. The scale of funding announced falls short of our full-year estimate, and we expect further easing this quarter and in H2/24. ([See here for details.](#))

The PBoC will provide an RMB 300 billion relending scheme for SOEs purchasing unsold homes. Purchased properties must be converted into subsidized or social housing. As expected, stimulus measures consistent with “common prosperity” are being approved. The plan is positive and addresses three market issues: 1) absorbing excess inventory, 2) providing liquidity for developers, and 3) provision of affordable housing.

The program faces a number of barriers to implementation. Funding is the biggest issue; roughly RMB 1 trn more is needed to make a dent in the stock of unsold homes and improve secondary market pricing. The subsidized loan rate of 1.75% is below or close to the rental yield, meaning cash-strapped local governments will struggle to pay for

and implement the scheme. Banks will also continue to hesitate in lending to risky property projects. It is not enough to save the sector.

## Consumer confidence up from covid lows



Sources: TS Lombard, NBS.

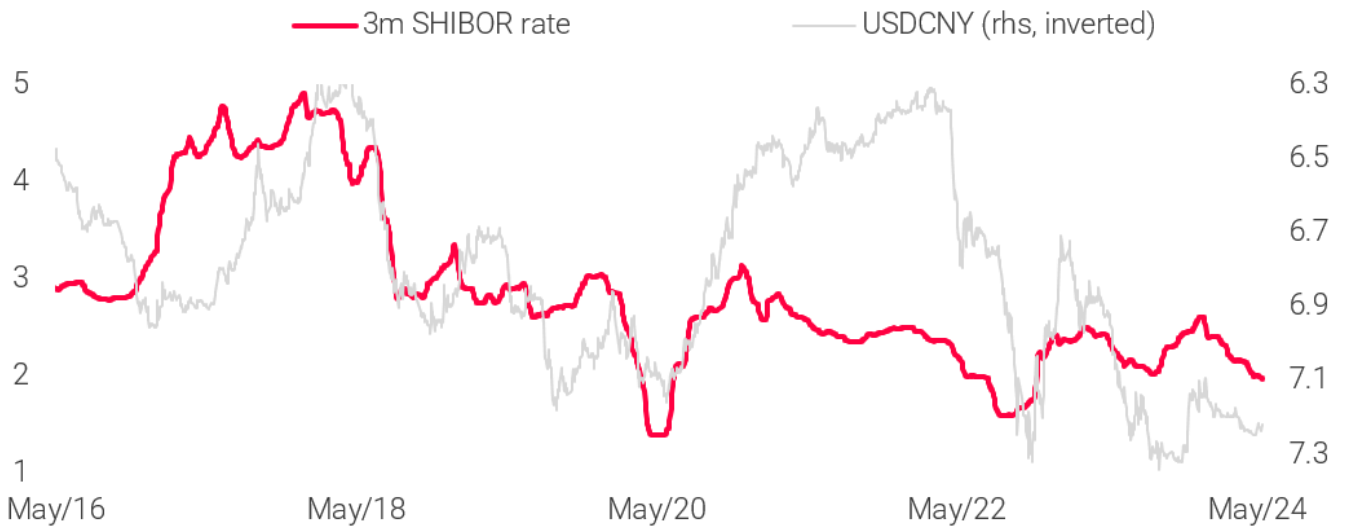
Improved confidence in growth and Party management will support money multipliers, adding to the gradual rise in sentiment over the past six months. However, households will hold off on new home purchases until a bottom is clear. More broadly, leading indicators point to a softer activity patch ahead, with M1 indicating nominal growth could approach 1-2% yoy. Stimulus then removes downside risk and signals a guarantee of future government support (Beijing clearly wants a growth floor), but until larger easing arrives, growth acceleration is still some way off.

For equities, the new explicit policy support, combined with valuations, excess savings, and positioning, means the rally has further to run. Some caution is still warranted given US election risks in H2/24, weak underlying activity, and the speed of the relief rally.

The move is positive for growth and therefore RMB supportive. However, we maintain our long USD/CNY position as rate differentials are likely to remain wide, capital outflows increase, and as US election risk (Trump tariffs) intensifies.

For bonds, we think this sets up bull steepening with the long end stable to rising on improving confidence and higher supply, while a temporarily stronger RMB means Beijing can cut rates at the short end.

## Painfully higher rates required to reverse RMB weakness



Sources: Bloomberg, TS Lombard.

## Disclaimer

This report has been issued by TSL Research Group Limited in conjunction with its subsidiaries Lombard Street Research Limited, Lombard Street Research Financial Services Limited, and Trusted Sources UK Limited (together "TSL Research Group"). This report is intended to be viewed by clients of the TSL Research Group only. The contents of this report, either in whole or in part, shall not be reproduced, stored in a data retrieval system or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise without written permission of TSL Research Group.

The information and opinions expressed in this report have been compiled from publicly available sources believed to be reliable but are not intended to be treated as advice or relied upon as fact. Neither TSL Research Group, nor any of its directors, employees or agents accepts liability for and, to the maximum extent permitted by applicable law, shall not be responsible for any loss or damage arising from the use of this report including as a result of decisions made or actions taken in reliance upon or in connection with the information contained in this report. TSL Research Group does not warrant or represent that this report is accurate, complete, or reliable and does not provide any assurance whatsoever in relation to the information contained in this report. Any opinions, forecasts or estimates herein constitute a judgement as at the date of this report based on the information available.

There can be no assurance that future results or events will be consistent with any such opinions, forecasts, or estimates. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied is made regarding future performance. This information is subject to change without notice, its accuracy is not guaranteed, it may be incomplete or condensed and it may not contain all material information concerning the company and its subsidiaries. The value of any securities or financial instruments or types of securities or financial instruments mentioned in this report can fall as well as rise. Foreign currency denominated securities and financial instruments are subject to fluctuations in exchange rates that may have a positive or adverse effect on the value, price or income of such securities or financial instruments. This is a generic research report and as such does not have regard to the specific instrument objectives, financial situation, and the particular needs of a client. Clients should seek independent financial advice regarding the appropriateness of investing in any of the types of financial instrument or investment strategies discussed in this report.

By reading this report you accept [TS Lombard's terms and conditions](#).

Registered Office: John Carpenter House, John Carpenter Street, London, England, EC4Y 0AN. Registered in England No. 10232483