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Special Coverage: China’s MoF signals more fiscal support, but no big bang yet

Key takeaways

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- On 12 October, China’s Finance Ministry (MoF) unveiled a package of incremental fiscal stimulus but provided limited details of the comprehensive fiscal expansion plan. The lack of stimulus details fell short of lofty market expectations of a big-bang fiscal stimulus bonanza.

- Finance Minister Lan Fo’an revealed the plan to raise the local government debt limit by a large amount in a one-off effort. Other measures included accelerated deployment of RMB2.3trn of unused SLGBs issuance quota in 2024, RMB400bn additional local government bonds issuance quota for 2024, issuance of SCGBs for bank recapitalisation and greater support for vulnerable groups like students.

- We remain neutral on mainland Chinese and Hong Kong equities as we look for concrete evidence of a forceful fiscal stimulus plan. We favour internet stocks due to their steep valuation discounts to their global peers, healthy earnings outlook and reduced regulatory risk premium. We also like quality Chinese SOEs paying high dividends, and consumer brands that benefit from the new consumption related policy stimulus. In Hong Kong, we favour undervalued high dividend stocks in the insurance and telecom sectors, as well as select oversold property developers with strong balance sheets.

What happened?

- China’s Finance Ministry (MoF) unveiled a package of incremental fiscal stimulus to supplement the monetary, property and capital market support measures announced on 24 September. However, it fell short of lofty market expectations of a big-bang fiscal stimulus bonanza and remains uncertain whether the full details will be available when the next State Council executive meeting and National People’s Congress (NPC) Standing Committee meeting take place in late October.

- Key takeaways from the MoF’s press conference include:

1) **Significant capacity of the central government to raise debt and fiscal deficit** – China’s Finance Minister Lan Fo’an emphasised the central government’s significant capacity to increase leverage and revealed the MoF’s plan to raise the local government debt limit by a relatively large amount in a one-off effort, which was described as the “most forceful” in recent years.

2) **Proceeds of SLGBs can be used to buy undeveloped lands and unsold homes** – For the first time, local governments will be allowed to use the proceeds raised by issuance of special local government bonds (SLGBs) to buy undeveloped lands and unsold homes for redevelopment into subsidised housing.

3) **Accelerated deployment of RMB2.3trn of unused SLGBs issuance quota in 2024** – This comprises proceeds of issued bonds that are not yet used, plus bonds that haven’t been issued but are within the 2024 issuance quota.

4) **RMB400bn additional local government bonds issuance quota for 2024** – This will be done through the unspent bond issuance quotas accumulated from previous years. This additional funding is offered to make up for the significant revenue shortfalls of local governments this year.

5) **Issuance of SCGBs for bank recapitalisation** – Special central government bonds (SCGBs) will be issued to fund capital injection for recapitalisation of the six largest state-owned commercial banks. This will strengthen their core Tier-1 capital and lending power to support the economic recovery.

6) **More decisive fiscal reform** – A series of fiscal reform measures will be launched in the next two years to improve the budget system, perfect the fiscal transfer payment system and establish a mature government debt management system.

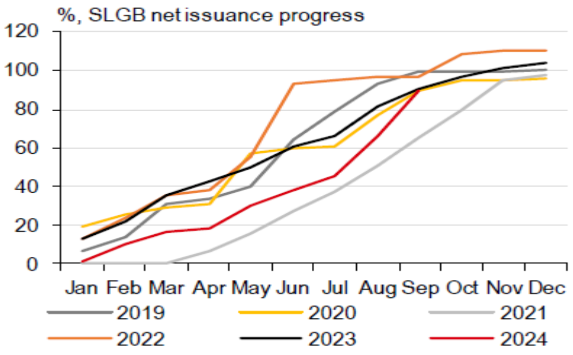
7) **Greater support for vulnerable groups** – The MoF guided for greater fiscal spending for low-income families and students, with the aim of boosting household consumption. Further to the slight increases in minimum levels for pensions and medical subsidies, the MoF announced the increase in transfer payment to support students on the back of the rising youth unemployment rate.

- Missing details of key stimulus plans could be due to pending approvals of the fiscal deficit and debt quotas by the State Council and NPC Standing Committee. Markets will closely watch out for the agendas and policy announcements at these key meetings in late October.

Investment implications

- We remain neutral on mainland Chinese and Hong Kong equities as we look for a forceful fiscal stimulus plan that would provide a comprehensive local government debt resolution and more significant central government debt financing to reverse the property market downturn. However, the support policies announced so far should help reduce downside risk in growth in coming months and deliver the full-year GDP growth of 4.9% this year.
- Mainland Chinese and Hong Kong stocks remain under-owned by global investors. The valuations of MSCI China (11.8x) and HSI (10.2x) continue to stay below their 5-year averages and represent a steep discount to the 12-month forward P/E of S&P 500 (21.9x) and MSCI World (19.7x).

Acceleration of government bonds issuance will do the heavy lifting in providing extra fiscal stimulus



Source: Bloomberg, HSBC Global Private Banking and Wealth as at 13 October 2024. Past performance is not an indicator of future performance.

- We prefer internet companies with 1) more robust earnings outlook; 2) bigger valuation discounts to their historical valuations during the reopening rally in 2023; and 3) solid financial positions with the ability to lift total shareholder returns through share buybacks and higher dividends.
- We continue to favour quality Chinese SOEs paying high dividends. Those with their H-shares trading at an attractive discount to their A-shares could see better Southbound flows support. We also prefer consumer brands that are better positioned to benefit from the new consumption related policy stimulus. We prefer to stay selective in mainland Chinese property companies and banks.
- In Hong Kong, we favour undervalued high dividend stocks in the insurance and telecom sectors, as well as select oversold property developers with strong balance sheets. The equity market should benefit from the expected Fed rate cuts in the coming months, which should help lower funding costs in the Hong Kong economy and the domestic property market.
- Within the A-share market, we prefer a balance of defensive high-quality SOEs with attractive dividend yields in light of the low yield environment onshore, and high-end manufacturers with global competitiveness. We also position selectively in resilient consumer stocks, including services, and consumer goods that can potentially benefit from enlarged fiscal support for household consumption.

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