China cuts stamp duty on stock trades and rolls out property measures to boost sentiment

August 28, 2023

David Chao
Global Market Strategist,
Asia Pacific (ex-Japan)

Chris Liu
Senior Portfolio Manager,
China A-shares

Chinese markets have been under pressure over the past few weeks as economic data missed consensus expectations, prompting investors to call for greater stimulus measures to right-size the economic growth and the markets.

In response, policymakers have recently announced a raft of supportive measures to support the domestic stock and property market. The onshore CSI index opened up today +5%,[1] raised Chinese government bond (CGB) yields and strengthened the RMB.

Recent capital market measures:

- The Ministry of Finance have recently lowered the stamp duty tax for stock trades to boost domestic market sentiment.
- There have been five stamp duty tax cuts since 1997, and every time, the China A market has had strong performance on the day of the announcement.
- In 2008, CSI 300 was almost limit-up on the stamp duty cut announcement.
- In 2022, the total amount of stamp duty tax was 275.9 bn RMB, accounting for 1.66% of total tax revenue[2]; after the stamp duty tax cut from 10 bps to 5 bps, the total trading cost saving could be around 138 bn RMB, which is quite significant for China A share investors.
- On a sector level, financial brokers are obviously the biggest beneficiary from the stamp duty tax cut since lowering the stamp duty tax could help encourage higher frequency of trading from individual investors.
- The implication of the stamp duty tax cut is much bigger than just some trading cost savings for investors, it sent signals to the market that the top management pays great attention to China stock market. In order to revitalize the investment sentiment, there could be further policy supports to the market if needed in the future.
- Besides the stamp duty tax cuts, there were a few more supportive measures announced such as lowering IPO pace, relaxing the margin financing requirement, and more stringent regulation on major shareholder selling. These measures help improve market liquidity and lowering stock supply, which are positive for the overall supply-demand situation in the China A share market.
- In future, there could be more supporting measures if needed such as extending trading hours, expanding mutual fund investment scope, bank wealth management product (WMP) buying stocks, etc.

Recent property market measures:

- The Ministry of Housing and PBOC have recently issued a circular to scrap the "no mortgage record" rule that determines the status for first-time home buyers.[3]
- This easing measure targets homebuyers looking to "upgrade" their existing homes without having to pay a high stamp duty again and could be a marginal boost for the property markets in tier 1 and 2 cities.
- While these stamp duty property easing measures are welcomed, policymakers have kept other property restrictions on home transactions and land supply firmly intact.

Outlook

While there hasn't been a "bazooka" stimulus announced and it's still too early to tell whether these measures may prove to be sufficient to turn around the capital markets, we believe that it's important to recognize that policymakers have significantly stepped up their efforts and more substantive stimulus measures are likely to be rolled out soon.

The biggest threat to the Chinese economy right now lies in the floundering property market. While the mortgage easing measure is welcomed, the overall impact could be limited.

More relaxation of land supply and home transactions could be helpful and more financial support is needed to rescue troubled developers and their unfinished units. Only then, can household confidence in the property market gain surer ground.

We continue to watch out for future fiscal stimulus measures, specifically, efforts to support the real economy particularly on the infrastructure investment and household consumption side.

China cuts stamp duty on stock trades and rolls out property measures to boost sentiment

August 28, 2023

Reference:
1. Source: Bloomberg, as of August 28, 2023
2. Source: State Taxation Administration, August 27, 2023
3. Source: The Ministry of Housing, as of August 25, 2023