China: incremental policy support to property, tech, and "six networks"

- **Chinese policymakers announced incremental policy measures on 29 September to stabilise growth. The measures include a nationwide 1% fiscal subsidy for new home buyers, 25bp PSL rate cut, and RMB700bn of new quota for targeted monetary policy tools to support tech, infrastructure, and private economy.**

- **These new measures come largely in line with market expectations that China would continue introducing targeted and incremental policy measures to stabilize growth. We think there could be additional local government bond issuance quota increase under the debt ceiling for the remainder of 2026.**

- **With those policy easing measures likely showing a positive impact with a time lag, alongside more favourable base effects and normalising weather, China's growth could show some signs of stabilisation in the coming months, though without a major rebound.**

- **The bull run narrative in CGBs remains intact, though has been at a faster pace than we expected. Should subsequent incremental policies remain primarily focused on the supply side with targeted structural support but no large-scale demand-side stimulus to accelerate fiscal spending, we expect the potential disruption to bond supply expectations to be mild, and likely insufficient to reverse the current flattening trend in the onshore bond market.**

The PBoC and MoF on 29 September announced new policy supports to targeted sectors including property, technology and infrastructure. This is a follow up to the State Council meeting on 28 September, which pledged to intensify counter-cyclical adjustment of macro policies to achieve macro targets in 2026.

PBoC's PSL rate cut and targeted credit expansion

The new PBoC easing measures include:

- **Pledged Supplementary Lending (PSL) easing**: cutting the 1-year PSL rate by 25 bp to 1.5% from 1.75%, and expanding the PSL usage to include "six networks" infrastructure.
- **Relending for tech innovation and upgrading**: quota increased by RMB200bn to RMB1.4trn, with relending ratio to cover 100% of targeted loans from 60%.
- **Relending for agriculture and small business**: quota increased by RMB500bn to RMB4.85trn, with RMB300bn set for private enterprises.

The PSL was initially set up for PBoC lending to policy banks to support shanty town renovation and later expanded to support targeted infrastructure. Accelerating construction of "six networks" has been identified by policymakers as key to stabilize investment after the notable data weakness since Q2. The support via PSL expansion with a lower rate (at a similar level to the current 5Y policy bank bond yield at around 1.50%) could be helpful though we would closely monitor the pace of PSL expansion to better gauge the macro impact, given the lack of material PSL increase in recent years. For instance, the outstanding size of PSL increased by RMB350bn in a single month in December 2023, following the call for expanding PSL support to "Three Major Projects" (affordable housing, the development of "dual use" public infrastructure and urban renewal projects) announced in H223.

As for the lending, this is a new round of quota increases since January this year. In our view, this shows show continued targeted credit supports to technology



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upgrade and private business which would be in line with China's development plan to drive high-quality growth as well as to support employment.

Modest interest subsidies to mortgage borrowers

Furthermore, China will start to offer nationwide subsidies on mortgage interest payments for first-time home buyers, starting from 1 October. Eligible homes must be 120 square metres or smaller and worth RMB1.5mn or less. Those eligible home buyers can receive subsidies of 1% for five years on up to RMB1mn of mortgage principal, implying mortgage interest payment savings of up to RMB50K per buyer.

This is likely targeting primarily lower tier cities. We think the policy support would likely be quite marginal as housing demand remains poor in those cities with continued price declines and weak expectations. Nonetheless, we would watch whether this will bring any imminent boost to property viewing during the upcoming one-week long National Day holiday.

Targeted easing in line with expectation and likely continue

In our view, these new measures come largely in line with market expectations that China would continue introducing targeted and incremental policy measures to stabilize growth following the July Politburo meeting. In the past three years, China has also introduced policy easing packages in September/October as downward growth pressures rose. That said, the policy magnitude and its boost to growth have become smaller. In the near term, we think there could be additional local government bond issuance quota increase under the debt ceiling for the remainder of 2026 (with capacity of around RMB600bn, vs the increase of RMB500bn in 2025 announced in September 2025), as guided by the State Council meeting on 28 September. There could also be some measured supports to employment and consumption.

As for monetary policy, we maintain the view of no broad easing such as a policy rate cut this year, given the more hawkish turn of other major central banks and rising global yields, though selected rate cuts and interest subsidies remain as additional policy options. The constructive tone from the recently concluded Trump–Xi meeting would help contain the pressures on Chinese policymakers to pursue aggressive easing in the near term. However, in the event of external demand uncertainty or a major shock, we think the Chinese policymakers still have room to ease further.

Likely continued bull run and curve flattening in rates

The reactions of China FX and rates to the policy headlines has been relatively mild, so far, given limited policy surprises and the lack of green shoots in growth heading into Q4. There have been targeted supports to the property sector, incentives to drive better supply of consumption in both goods and services, and tech spending following the July Politburo meeting, but major demand stimulus remains absent. We do think that these policy easing measures will have a positive impact, though with a time lag. Alongside more favourable base effects and normalising weather, China's growth could show some signs of stabilisation in the coming months, though without a major rebound. We maintain our growth forecast of 4.5% in 2026 with H2 growth at around 4.4%.

For the China bond market, the bull run narrative remains intact, though at a faster pace than we expected, with the 30Y CGB yield dipping below 2.1%. We believe the key considerations remain (1) whether any new stimulus measures could help accelerate China's fiscal spending from its current de facto fiscal tightening, and (2) whether the private sector can leverage up again given the current low real yield environment. If subsequent incremental policies remain primarily focused on the supply side with targeted structural support but no large-scale demand-side stimulus to accelerate fiscal spending, we expect the potential disruption to bond supply expectations to be mild, and likely insufficient to reverse the current flattening trend in the onshore bond market. Given the lack of fundamental catalysts and low expectations of broad monetary policy easing, we believe the 10Y CGB yield will continue to trade in a tight range of 1.60–1.70% for the rest of the year.

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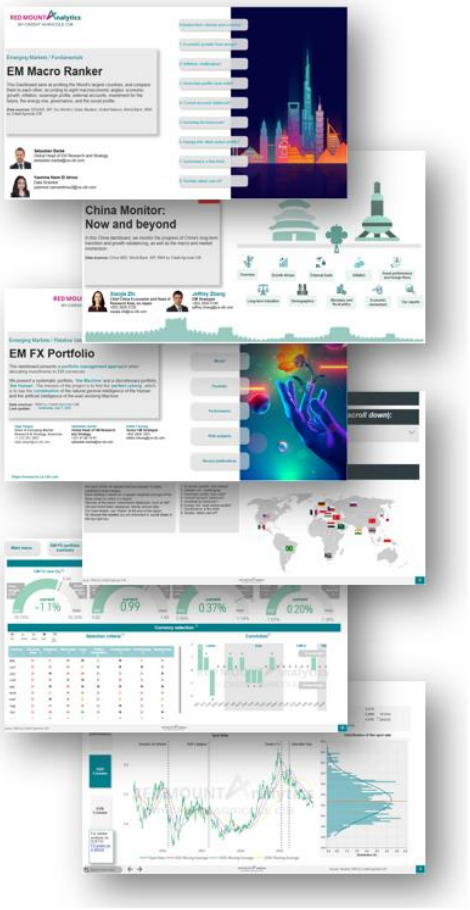
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