

# China Policy

## China needs interest rate cut to boost demand

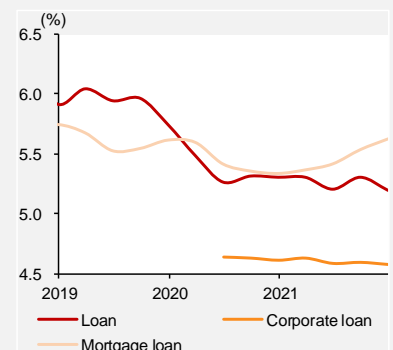
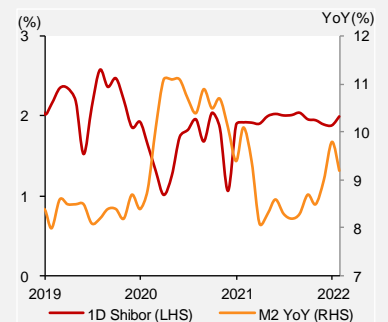
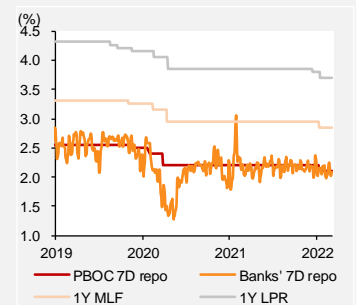
China's new credit sharply declined in February due to weak housing & capex demand. The odds of interest rate cut is rising as China has to stabilize real estate market to achieve the difficult target of GDP growth at 5.5% this year. But the PBOC seems reluctant to launch aggressive rate cuts. We expect a moderate rate cut with policy easing signal should partially boost market sentiment.

- New credit sharply declined due to weak housing & capex demand.** Total social financing dropped 31% in February after rising 19% in January. The holiday factor could not explain the whole story. More important factor was the weak demand for housing, durables and capital expenditure in the real sector. New medium & long (M&L) term loans to households turned negative for first time in February as banks received more repayment than making new loans. New M&L loans to enterprises dropped 54.1% YoY in February as enterprises' capex demand remained weak. Therefore, the YoY growth of outstanding social financing and M2 supply respectively slowed from 10.5% and 9.8% in January to 10.2% and 9.2% in February.
- The odds of interest rate cut in March-April is rising.** There are three reasons for a possible cut in LPRs in March-April. First, housing demand was much weaker than expected, further increasing developers' cash flow pressure. If housing market cannot stabilize, it is very difficult to achieve the 5.5% GDP growth target. Second, renminbi exchange rates were stronger than expected, despite a shrinkage of Sino-US interest rate spread. Export growth should slow amid a high base last year and a recession risk in Europe. Third, market sentiment was very bad as the Russia-Ukraine war and decoupling threat from the US caused severe confidence shock.
- The PBOC seems reluctant to launch significant rate cuts.** The property market stress calls for significant interest cuts. But the PBOC seems reluctant to do so for four reasons. First, after aggressive credit loosening & housing price inflation in 2H2015-2016, the top leader criticized the policy and China has shifted the policy philosophy from demand stimulus to supply-side restructuring in recent years. Rate cut is considered as a signal for massive stimulus. Second, the PBOC is still worried about the Sino-US interest rate spread amid a divergence of two countries' monetary policies. The central bank is not sure renminbi has become a safe-haven currency. Thirdly, the PBOC also pays attention to banks' net interest margin as deposit rates are hard to decline due to severe competition. Last, officials have different views on the effectiveness of rate cuts versus alternative policy tools like credit policy window guidance & structural loosening.
- A possible moderate cut with policy easing signal should partially boost market sentiment in 2Q22.** A possible moderate cut of interest rates would send a policy easing signal and be positive to the market sentiment. We believe China's monetary policy still has some room for further loosening. The central bank should be more decisive in policy easing and stabilize the economy as soon as possible before the Fed sharply raises its interest rates. In fact, economic fundamental is more important than interest rate spread or net interest margin for financial market stability.

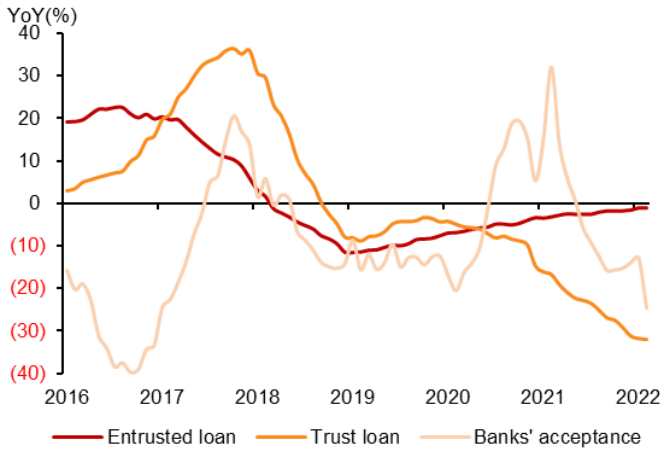
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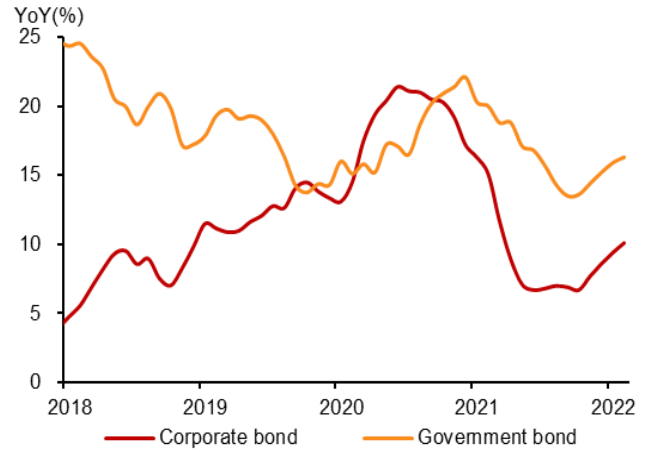


**Figure 1: Growth of Outstanding OBS Financing**



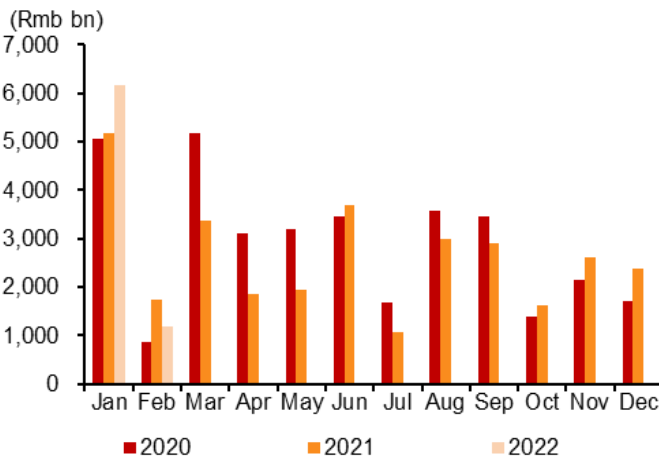
Source: Wind, CMBIGM

**Figure 2: Growth of Outstanding Bond Financing**



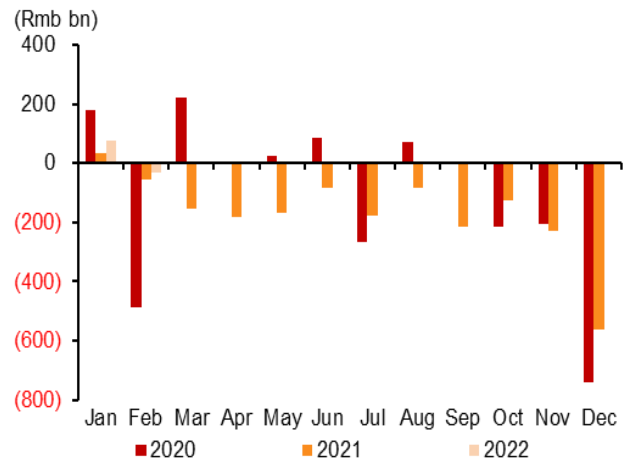
Source: Wind, CMBIGM

**Figure 3: Total Social Financing**



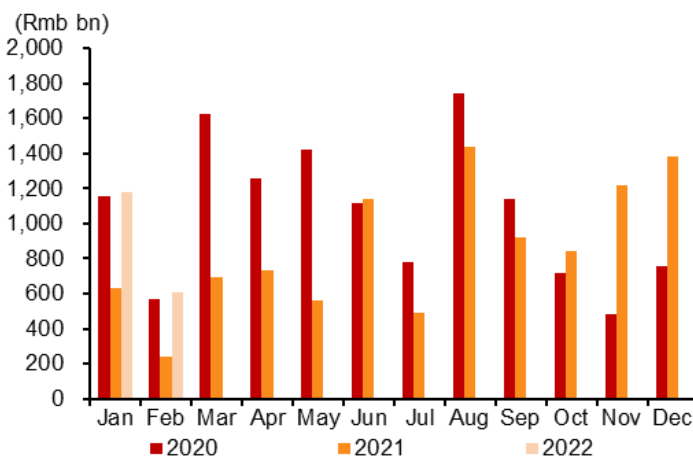
Source: MoF, CMBIGM

**Figure 4: OBS Financing**



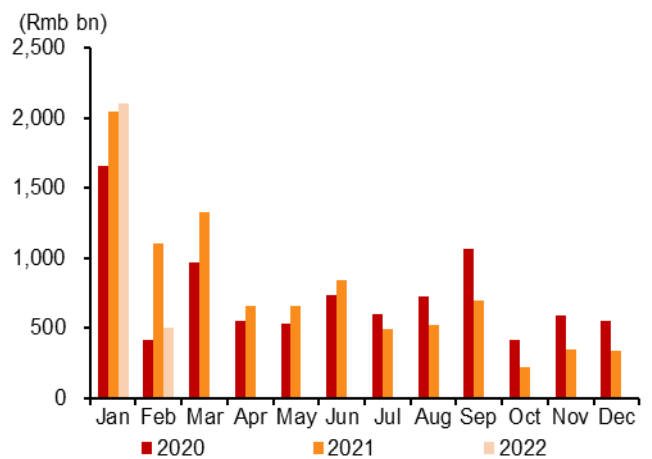
Source: MoF, CMBIGM

**Figure 5: Bond Financing**



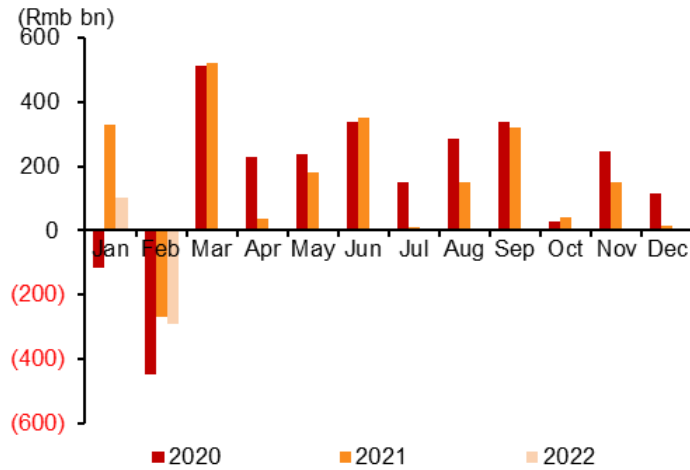
Source: Wind, CMBIGM

**Figure 6: New M&L Term Loans to Enterprises**



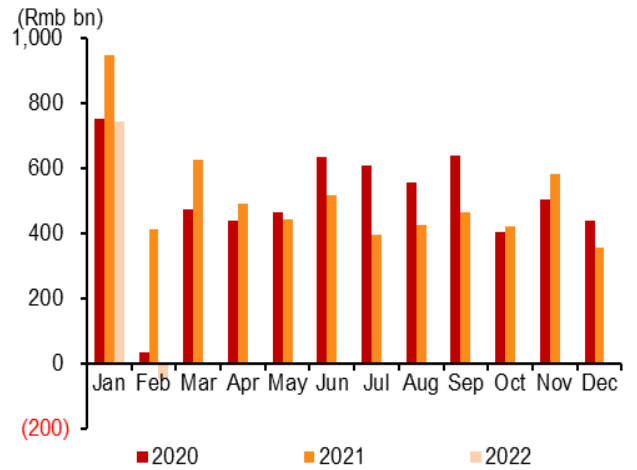
Source: Wind, CMBIGM

**Figure 7: New Short Term Loans to Households**



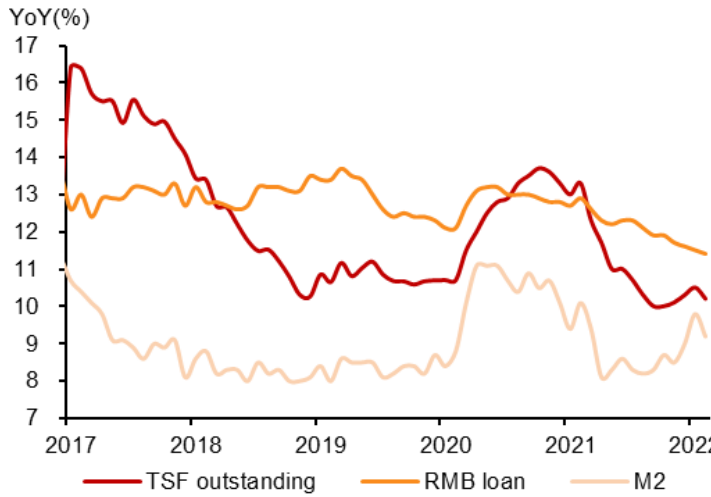
Source: Wind, CMBIGM

**Figure 8: New M&L Term Loans to Households**



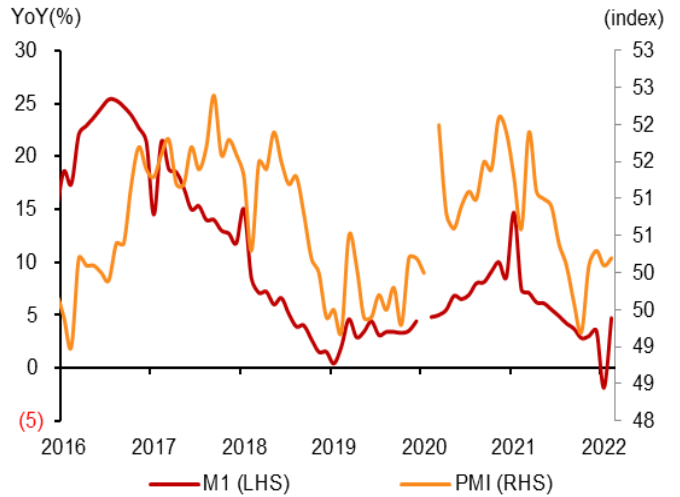
Source: Wind, CMBIGM

**Figure 9: Growth of Credit & Money Supply**



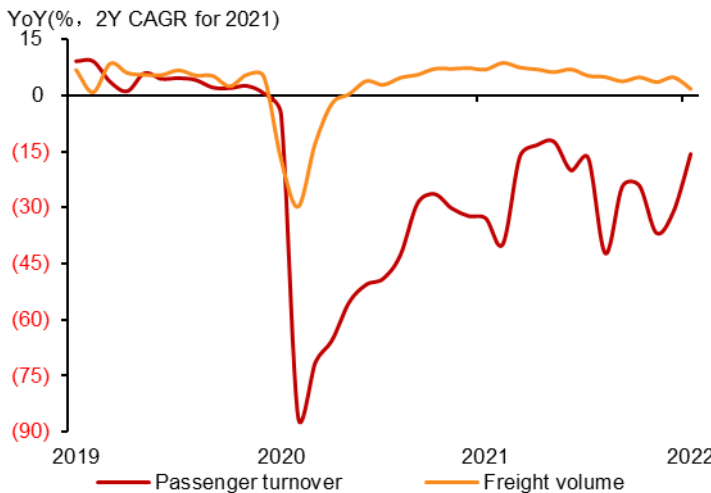
Source: Wind, CMBIGM

**Figure 10: M1 Growth and Manufacturing PMI**



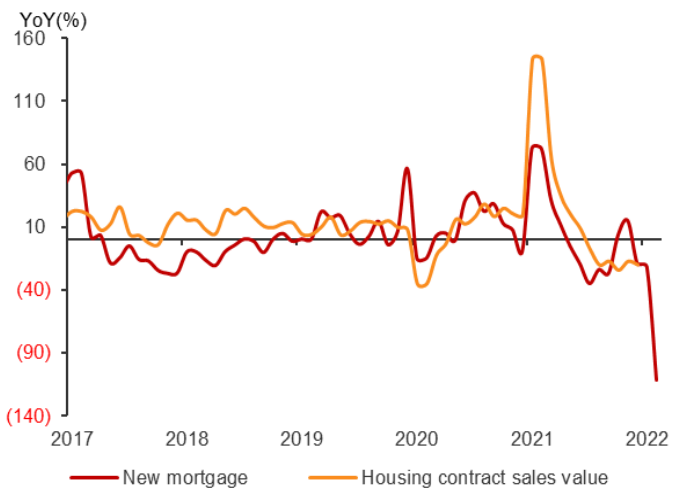
Source: Wind, CMBIGM

**Figure 11: Growth of Passenger & Freight Volume**



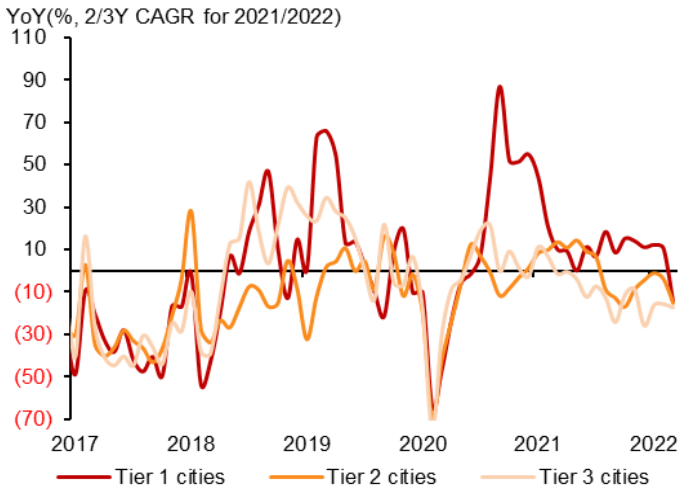
Source: Wind, CMBIGM

**Figure 12: Growth of New Mortgage & Housing Sales**



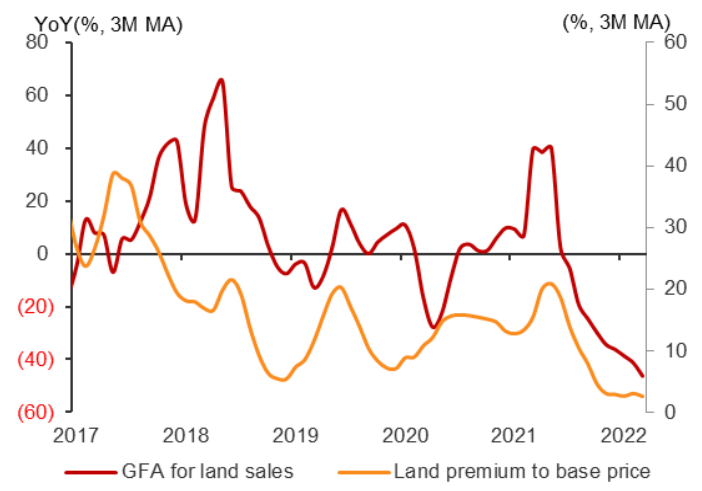
Source: Wind, CMBIGM

**Figure 13: Growth of Housing Sales by Cities**



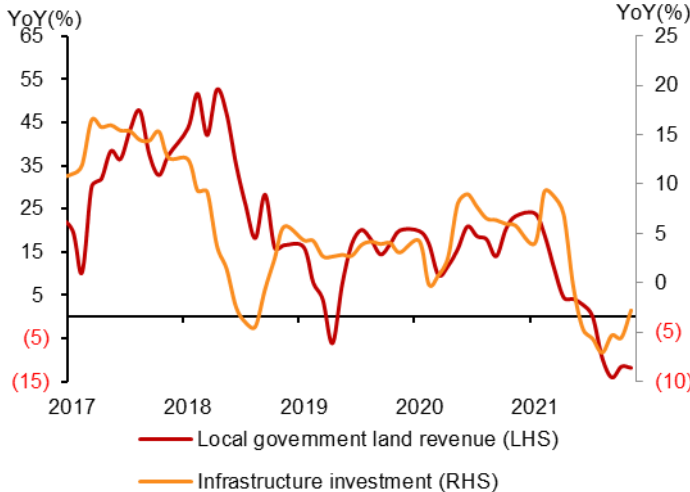
Source: Wind, CMBIGM

**Figure 14: Growth of Land Sales**



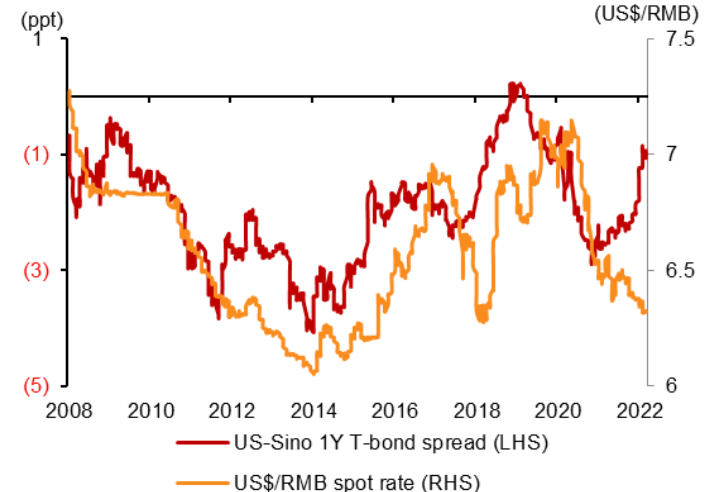
Source: Wind, CMBIGM

**Figure 15: Land Revenue & Infrastructure Investment**



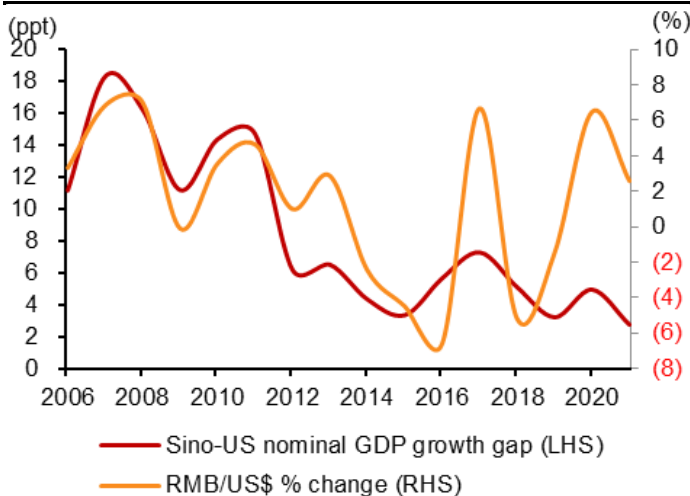
Source: Wind, CMBIGM

**Figure 16: US-Sino Interest Spreads**



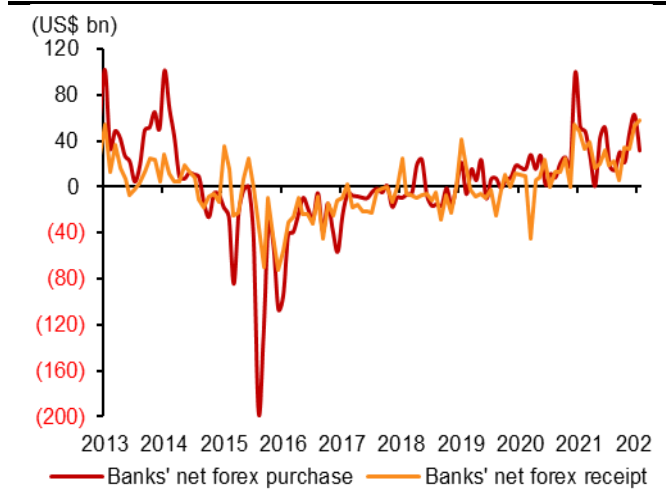
Source: Wind, CMBIGM

**Figure 17: Sino-US Growth Gap & RMB/US\$ Change**



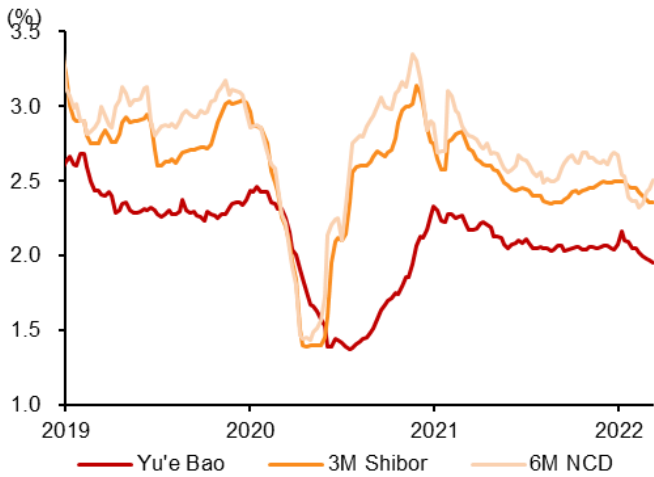
Source: Wind, CMBIGM

**Figure 18: Net Forex Inflow**



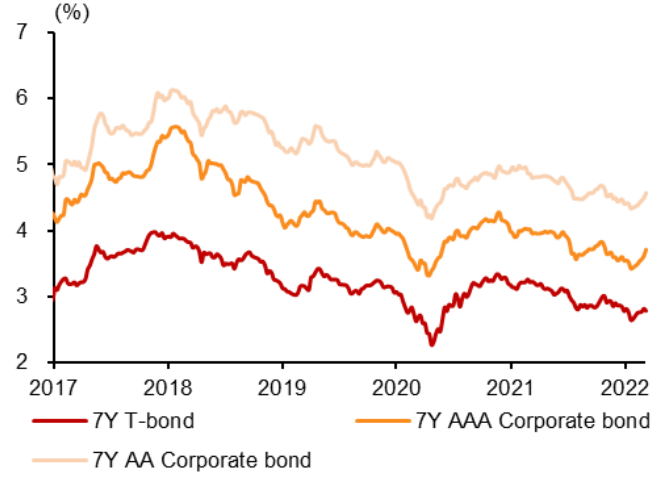
Source: Wind, CMBIGM

**Figure 19: Money Market Funding Cost**



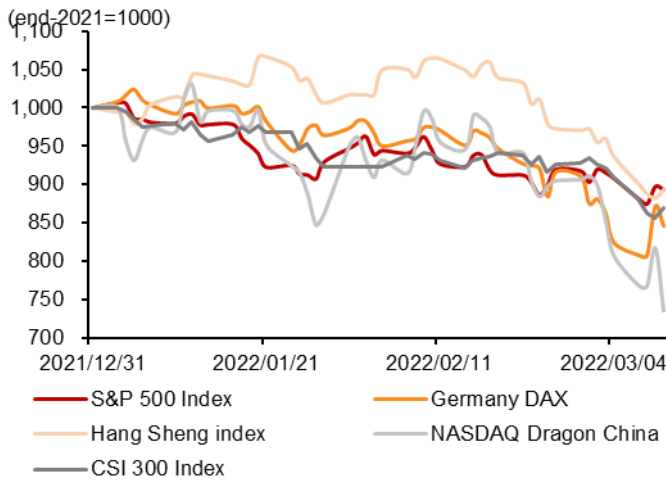
Source: Wind, CMBIGM

**Figure 20: Bond Market Rates**



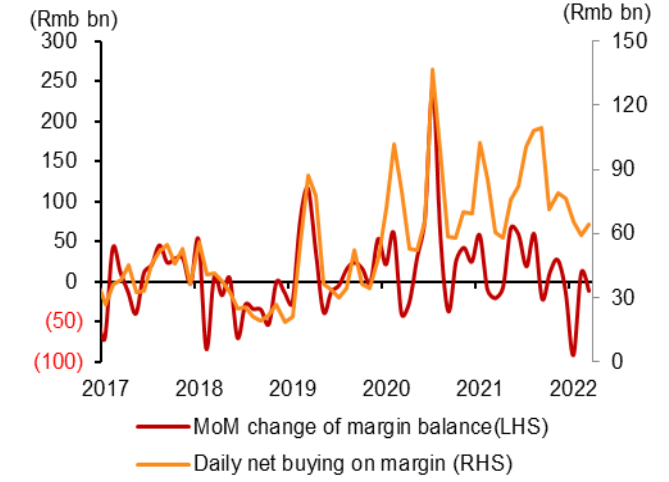
Source: Wind, CMBIGM

**Figure 21: Stock Market Performance**



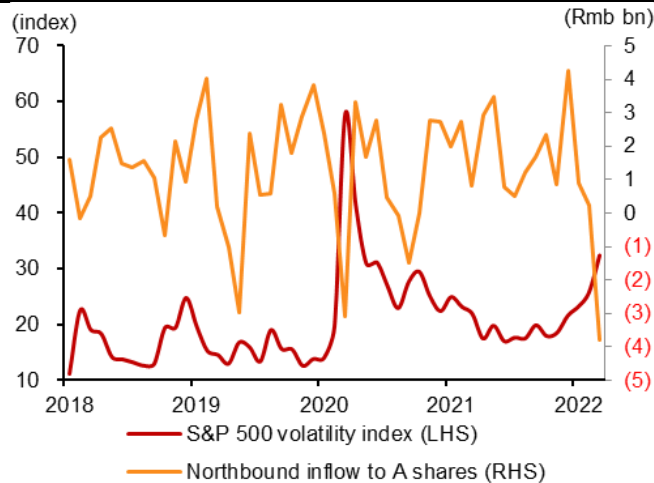
Source: Wind, CMBIGM

**Figure 22: Margin Trading in A Share Market**



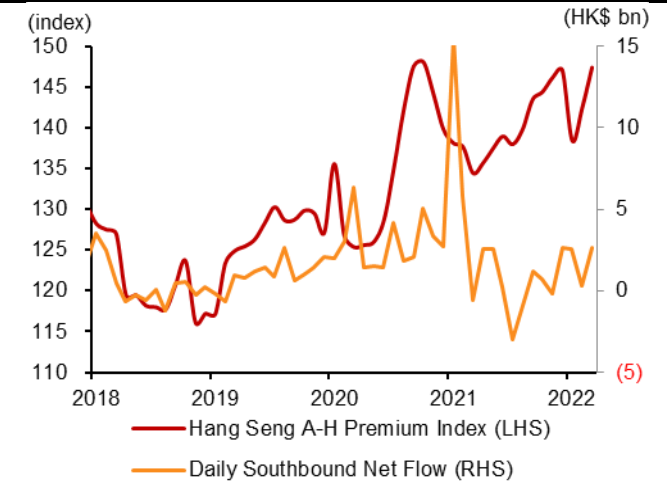
Source: Wind, CMBIGM

**Figure 23: Stock Market Performance**



Source: Wind, CMBIGM

**Figure 24: Margin Trading in A Share Market**



Source: Wind, CMBIGM

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