

# China Policy

## Small RRR cut shows PBOC's modest easing stance

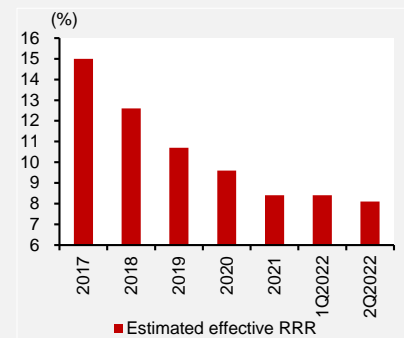
The RRR cut is smaller than expected, indicating the modest easing path in China's monetary policy amid the US Fed's policy tightening. We see limited room for additional RRR cuts and low possibility of LPR reduction in near term. The PBOC will use more structural policies to boost credit supply and lower financing costs especially for targeted sectors. Loan contract rates have downside room as credit supply increases while credit demand remains weak. The stock market has priced in the RRR cut and structural policies. The epidemic and Covid-zero policy dynamics is another important factor for the economy and market in future. We believe Shanghai may have seen its peak of Covid-19 new cases and the condition should significantly improve from this week. This may support a rebounding of related stocks in consumer service sectors in the short term. China will carefully study the lessons learned from the epidemic in Shanghai and review its Covid-zero policy, which should provide important implications for the market in 2Q22.

- The RRR cut is smaller than expected.** The PBOC announced to cut the RRR by 0.25ppt for most banks and by 0.5ppt for city & rural small banks. The central bank said the policy move would increase the liquidity supply by RMB530bn and lower banks' funding costs by RMB6.5bn. The weighted average RRR for banks would decline from 8.4% to 8.1% after the reduction.
- PBOC indicates modest easing path with limited room for additional RRR & LPR cuts.** The smaller-than-expected RRR cut indicates the PBOC is reluctant to launch strong monetary easing. In the official announcement, the central bank said liquidity condition is already at a reasonably ample level, indicating limited room for RRR cut in future. The PBOC said it would focus on inflation dynamics to maintain domestic price stability as well as on advanced economies' monetary policy tightening to seek the internal-external balance. This indicates the central bank's concern about inflation uncertainty and US Fed's policy tightening, lowering the possibility of LPR cut in near term.
- PBOC would use structural policies to boost credit supply and lower financing costs for targeted sectors.** Firstly, large banks with high provision ratios are encouraged to lower their provision ratios to raise lending capacity and offset the effect of possible shrinkage of NIMS on banks' dividend payout to the government. Secondly, the central bank will guide banks to enhance credit support to service sectors, SMEs and individual business severely affected by the epidemic. Thirdly, the central bank will use special low-cost refinancing facilities to stimulate banks' credit supply to small business, agricultural development and carbon reduction & energy saving projects. The central bank will launch another two special low-cost refinancing mechanisms to boost loan supply to high-technology enterprises and elderly care service business.
- Loan contract rates have downside pressure due to credit supply-demand dynamics and the policy factor.** Due to easing credit supply and weak credit demand, loan contract rates face downside pressure. The PBOC said new mortgage rates dropped by 20-60bps in over 100 cities from March. The central bank has encouraged banks especially small and medium banks to lower their deposit rates. Banks that lower their deposit rates will have their

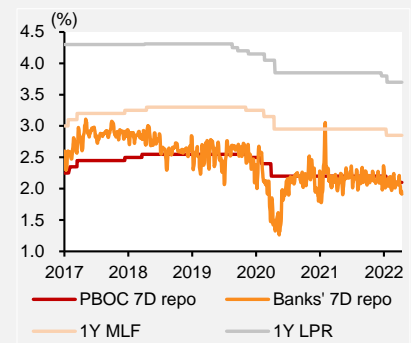
**Bingnan YE, Ph.D**

(852) 3761 8967

yebingnan@cmbi.com.hk



Source: Wind, CMBIGM



Source: Wind, CMBIGM

scores boosted when the PBOC does its quarterly macro prudential assessment. This may pave the way for possible reduction in loan contract rates in future.

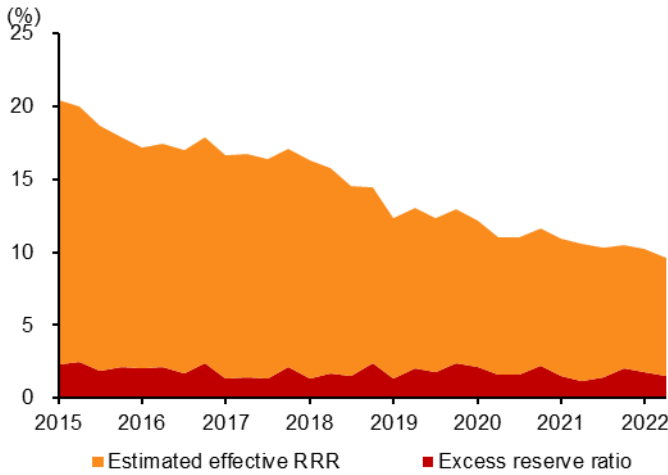
- **The market has already priced in the RRR cut & structural policy easing.** The state council mentioned reductions of RRR and large banks' provision ratios at its meeting last Wednesday. The stock market has already priced in the structural easing policies. A share market rallied strongly last Wednesday and Thursday and retreated in Friday as the RRR cut was below expectations. Energy, real estate, consumption staples and financials outperformed in A share market, while materials, energy, consumer discretionary, industrials and property & construction outperformed in the HK stock market.
- **The epidemic and Covid-zero policy dynamics should be another important factor for the economy and market in future.** We believe Shanghai may have already seen its peak of new Covid-19 cases and the condition would significantly improve from this week. This may support a rebounding of related stocks in consumer service sectors in the short term. The Chinese policymakers will carefully study the lessons learned from the epidemic in Shanghai and review its Covid-zero policy, which should provide important implications for the market in 2Q22. Due to the rapid spread of Omicron virus, the risk of epidemic resurgence in some regions will not disappear. The dynamics of the virus control policy will be the key to influence economic prospect and stock market performance in the short term.

**Figure 1: RRR Cuts From 2021**

Date	Effective date	RRR change	WA RRR	Incremental liquidity
4/15/2022	4/25/2022	0.25ppt for most banks and 0.5ppt for regional banks	8.1%	Rmb530bn
12/6/2021	12/15/2021	0.5ppt for almost all banks	8.4%	Rmb1.2trn
7/9/2021	7/15/2021	0.5ppt for almost all banks	8.9%	Rmb1trn
4/3/2021	4/15/2021 & 5/15/2021	1ppt for regional banks	9.4%	Rmb400bn

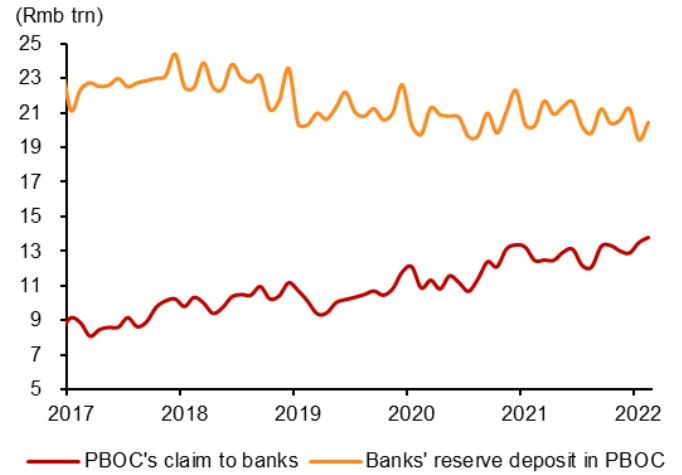
Source: Wind, CMBIGM

**Figure 2: Banks' Effective RRR & Excess Reserve Ratio**



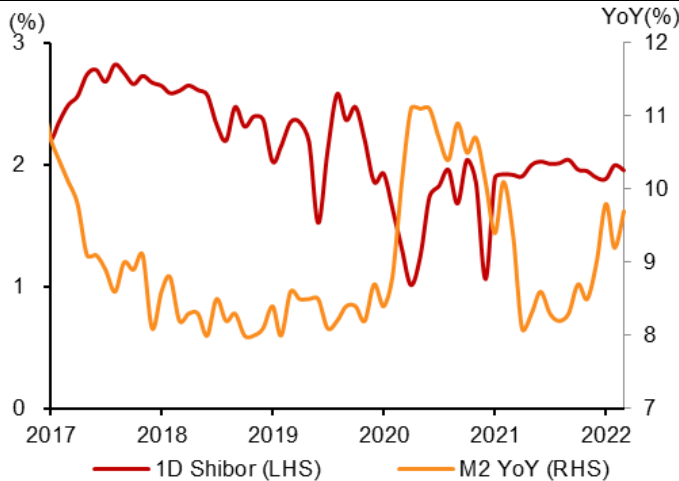
Source: Wind, CMBIGM

**Figure 3: PBOC's Claim to Banks & Banks' Reserve**



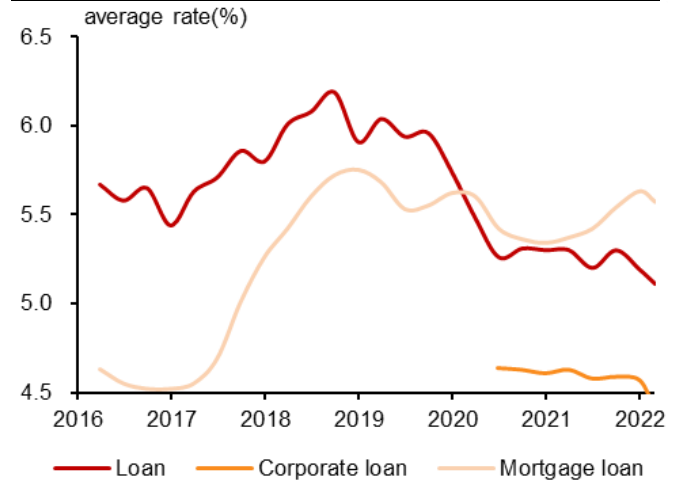
Source: Wind, CMBIGM

**Figure 4: Liquidity Condition & M2 Supply Growth**



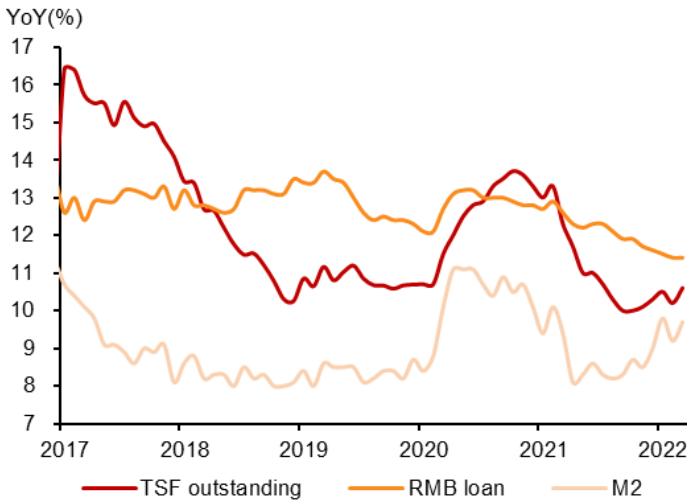
Source: MoF, CMBIGM

**Figure 5: Outstanding Loan Rates**



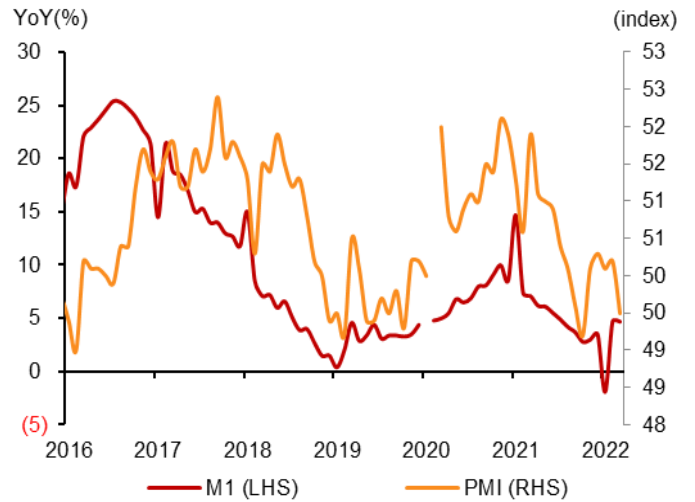
Source: MoF, CMBIGM

**Figure 6: Growth of Credit & M2 Supply**



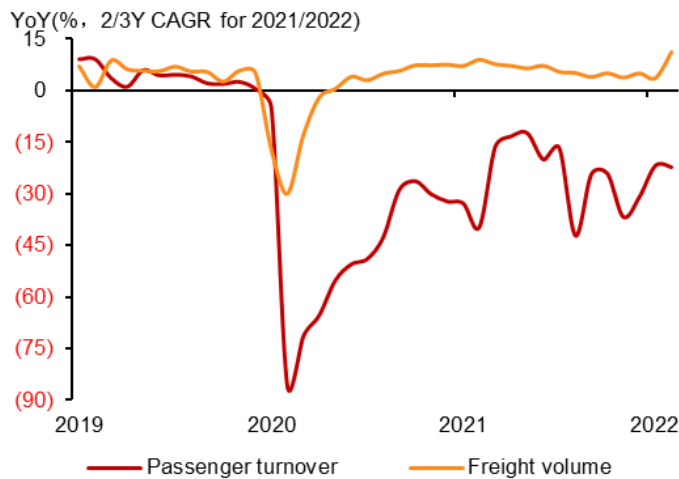
Source: Wind, CMBIGM

**Figure 7: Leading Indicators for Business Cycle**



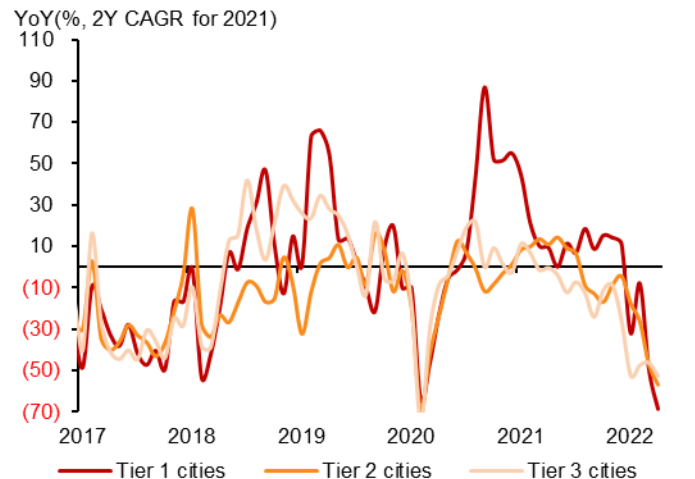
Source: Wind, CMBIGM

**Figure 8: Growth of Passenger & Freight Volume**



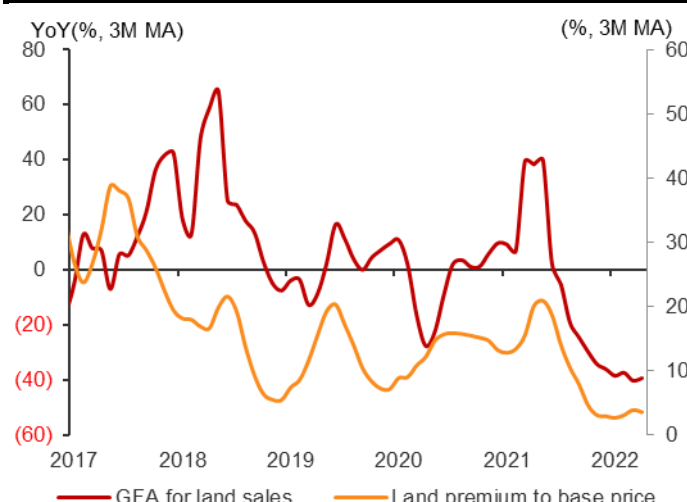
Source: Wind, CMBIGM

**Figure 9: Growth of Housing Sales by Cities**



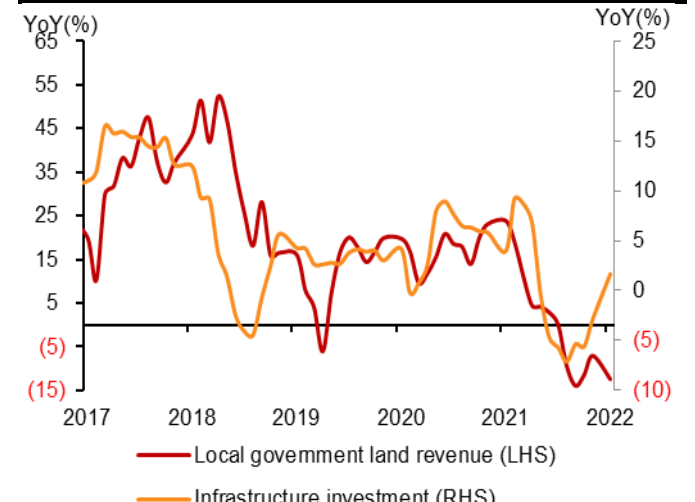
Source: Wind, CMBIGM

**Figure 10: Land Sales**



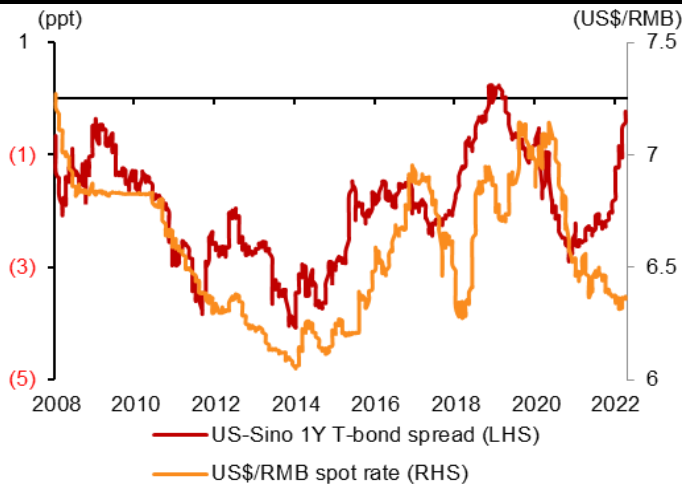
Source: Wind, CMBIGM

**Figure 11: Land Income & Infrastructure Investment**



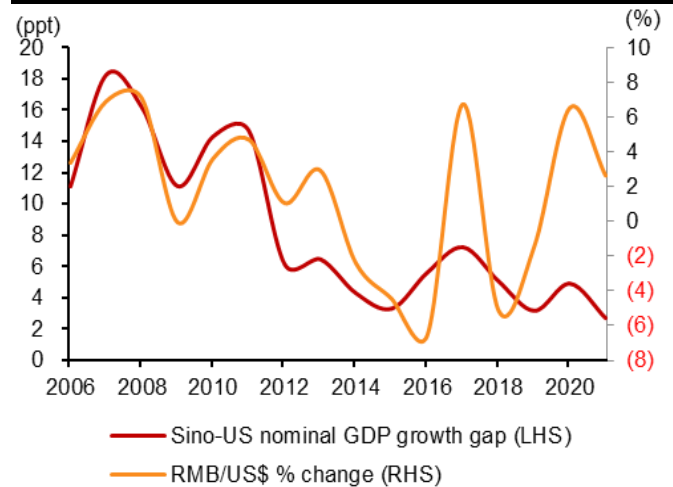
Source: Wind, CMBIGM

**Figure 12: US\$/RMB Rates and Interest Spreads**



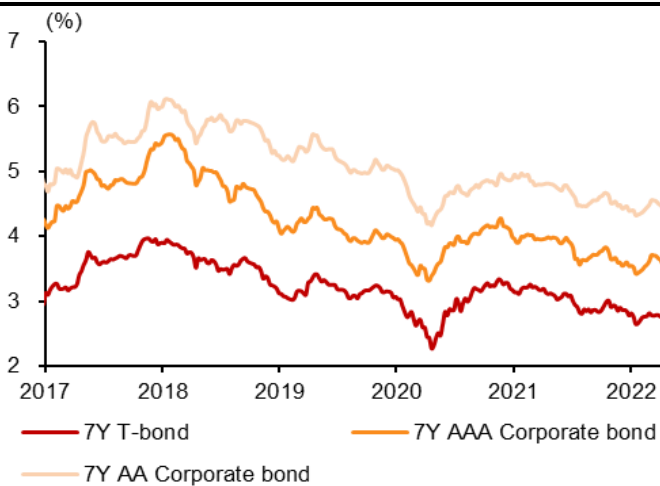
Source: Wind, CMBIGM

**Figure 13: Growth Divergence Drives RMB/US\$**



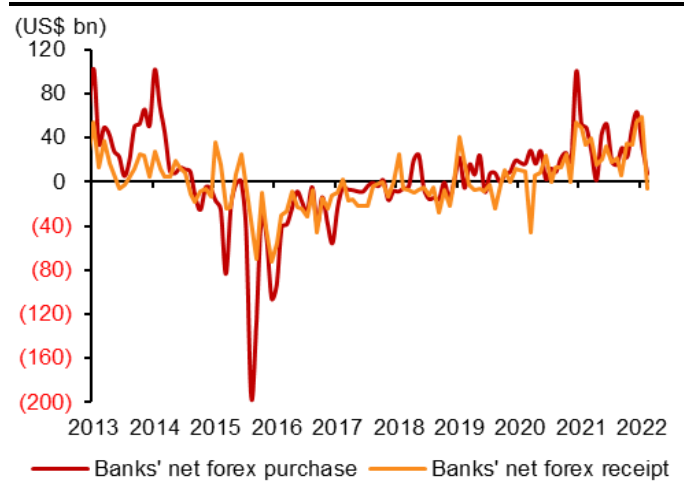
Source: Wind, CMBIGM

**Figure 14: China's Bond Rates**



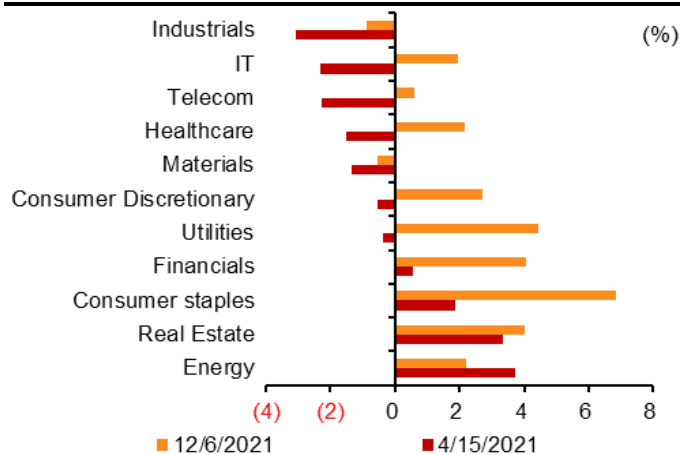
Source: Wind, CMBIGM

**Figure 15: Forex Flows into China**



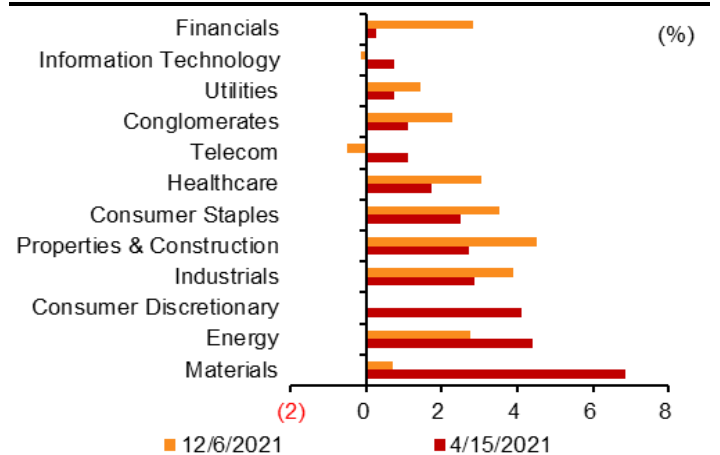
Source: Wind, CMBIGM

**Figure 16: A Share 5D Performance during RRR Cuts**



Source: Wind, CMBIGM

**Figure 17: HK Stock 5D Performance during RRR Cuts**



Source: Wind, CMBIGM

# Disclosures & Disclaimers

## Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

## CMBIGM Ratings

**BUY** : Stock with potential return of over 15% over next 12 months  
**HOLD** : Stock with potential return of +15% to -10% over next 12 months  
**SELL** : Stock with potential loss of over 10% over next 12 months  
**NOT RATED** : Stock is not rated by CMBIGM

**OUTPERFORM** : Industry expected to outperform the relevant broad market benchmark over next 12 months  
**MARKET-PERFORM** : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months  
**UNDERPERFORM** : Industry expected to underperform the relevant broad market benchmark over next 12 months

## CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

**CMB International Global Markets Limited ("CMBIGM") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)**

## Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIGM does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIGM recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIGM nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM may issue other publications having information and/or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIGM may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIGM does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIGM may have a conflict of interest that could affect the objectivity of this report and CMBIGM will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIGM.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIGM.

For recipients of this document in the United States

CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.