

China Policy

RRR cut is a gift from new cabinet

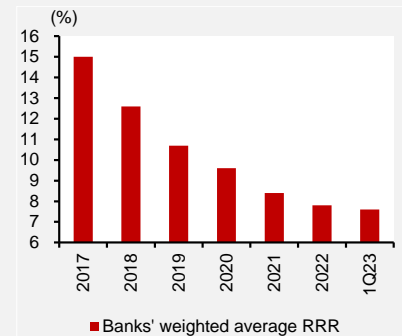
The RRR cut indicates PBOC's easing bias for liquidity and credit policy. The recent failure of few small banks in the US should remind global central banks how fragile the banking system is to the confidence shock. China's money market rates have increased noticeably in the past three months, mainly due to higher liquidity demand after the rebounding of credit supply and economic activity. However, it may undermine new leaders' commitment to growth vowed last December at the Central Economic Working Conference, as it has eroded investors' confidence about China's policy support and recovery prospect. The RRR cut is very timely as it shows new cabinet's strong commitment to growth. Looking forward, overseas recession risk may continue to rise while China's GDP growth should remain below the potential growth with limited reflation risk. China has to maintain accommodative liquidity and credit policy to boost domestic demand. We expect the PBOC may cut the RRR by additional 0.25ppt within this year. The central bank will maintain easing credit policy to boost credit supply to manufacturing, service businesses and SMEs.

- The policy move indicates PBOC's easing bias for liquidity and credit policy.** The PBOC said the RRR cut was aimed at maintaining reasonable and sufficient liquidity supply to support reasonable economic growth. As liquidity demand has rebounded along with new credit supply and economic activity, money market rates have increased noticeably in the past three months. Banks' 7D repo rates and 3M Shibor respectively rose from 1.7% and 1.75% in early November last year to 2.1% and 2.5% last week. The housing market recovered better than expected after the CNY holiday as some investors started to worry about possible changes in the PBOC's attitude. However, the RRR cut sends a clear signal that the PBOC will maintain accommodative liquidity and credit policy in the short term to boost the growth.
- The policy move is a signal from the new cabinet for its strong commitment to the economic growth.** The RRR cut was announced three days after the first executive meeting of the new cabinet. At the press conference after the NPC annual session on 13 March, Premier Li Qiang pledged to use the packages of macro policies, demand buoyancy measures, reform & innovation policies and risk relief measures to boost economic growth amid global economic uncertainty. The policymakers have to rebuild the credibility of their policies, which was eroded last year. We believe the RRR cut is a signal from the new cabinet for its strong commitment to the growth this year.
- We expect additional RRR cut by 0.25ppt this year.** The recent failure of few US small banks also reminds the PBOC how fragile the banking system is to the confidence shock. The banking system has a multiple-layer liquidity distribution as fragility lurks in the dark place and could cause systematic risks if the confidence of depositors or investors deteriorates. China's money market rates and bond rates have increased noticeably after the announcement of economic reopening in early November, which brought a shock to banks' WMPs and hurt investor confidence. A further increase of money market rates could threaten China's shaky recovery as overseas recession risk continues to rise. China's GDP growth remains below the potential growth, as the reflation pressure is very low. Therefore, the PBOC

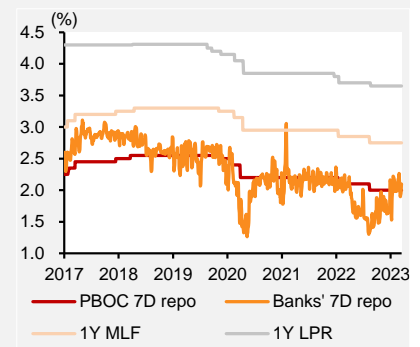
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Source: Wind, CMBIGM



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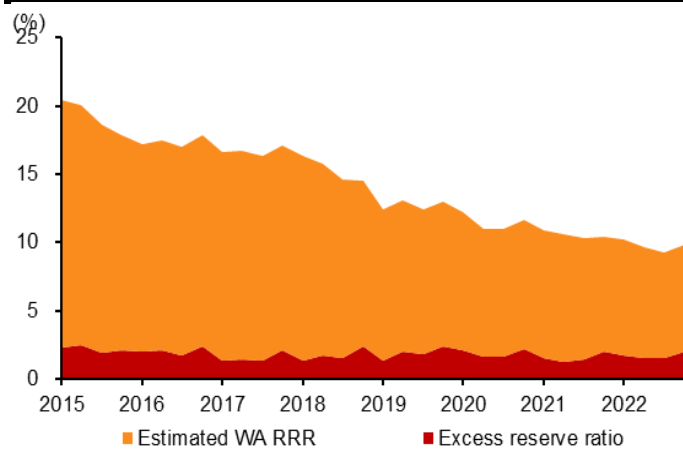
has to maintain accommodative liquidity and credit policy to support the growth. We expect the PBOC may launch additional RRR cut by 0.25ppt in the remaining months this year. The central bank will maintain easing credit policy to boost credit supply to manufacturing, service businesses and SMEs.

Figure 1: RRR Cuts From 2021

Date	Effective date	RRR change	WA RRR	Incremental liquidity
2023/3/17	2023/3/27	0.25ppt for most banks	7.6%	Rmb500bn
2022/11/25	2022/12/5	0.25ppt for most banks	7.8%	Rmb500bn
2022/4/15	2022/4/25	0.25ppt for most banks and 0.5ppt for regional banks	8.1%	Rmb530bn
2021/12/6	2021/12/15	0.5ppt for almost all banks	8.4%	Rmb1.2trn
2021/7/9	2021/7/15	0.5ppt for almost all banks	8.9%	Rmb1trn
2021/4/3	4/15/2021 & 5/15/2021	1ppt for regional banks	9.4%	Rmb400bn

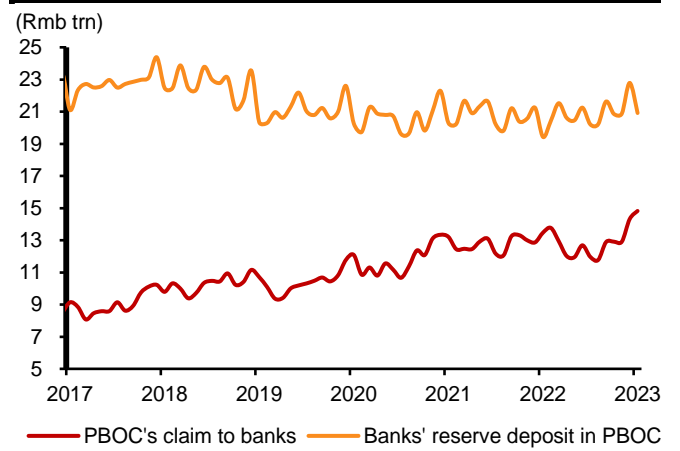
Source: Wind, CMBIGM

Figure 2: Banks' Effective RRR & Excess Reserve Ratio



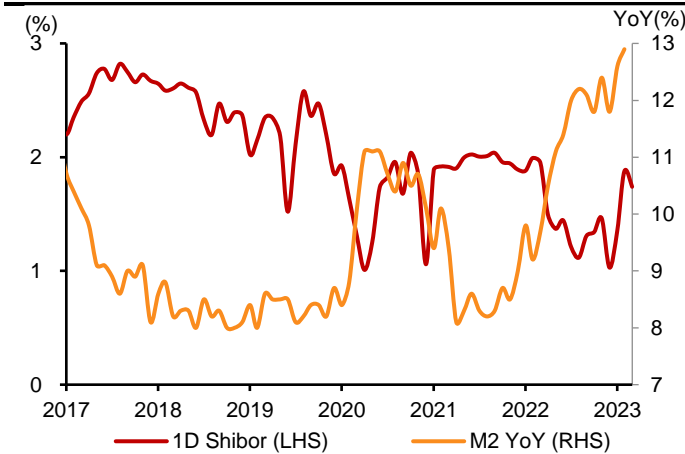
Source: Wind, CMBIGM

Figure 3: PBOC's Claim to Banks



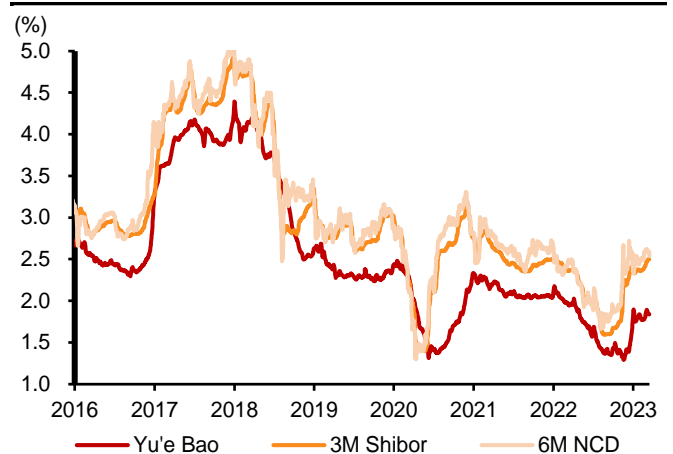
Source: Wind, CMBIGM

Figure 4: 1D Shibor & M2 Supply Growth



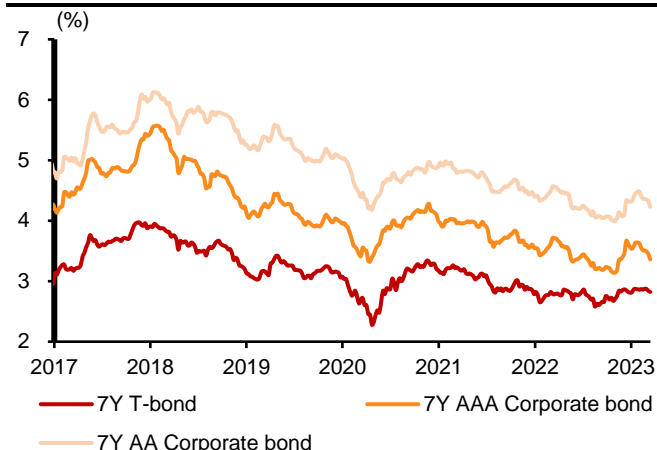
Source: Wind, CMBIGM

Figure 5: Money Market Rates



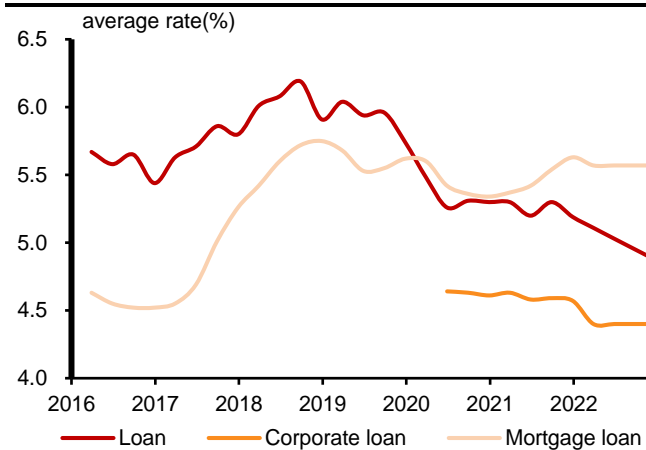
Source: Wind, CMBIGM

Figure 6: China's Bond Market Rates



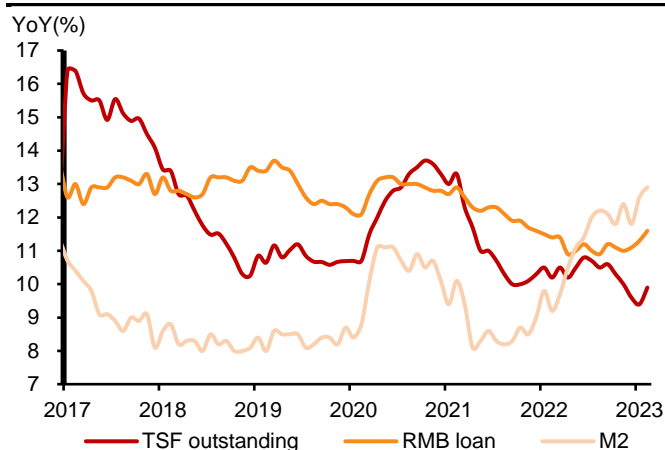
Source: Wind, CMBIGM

Figure 7: China's Loan Rates



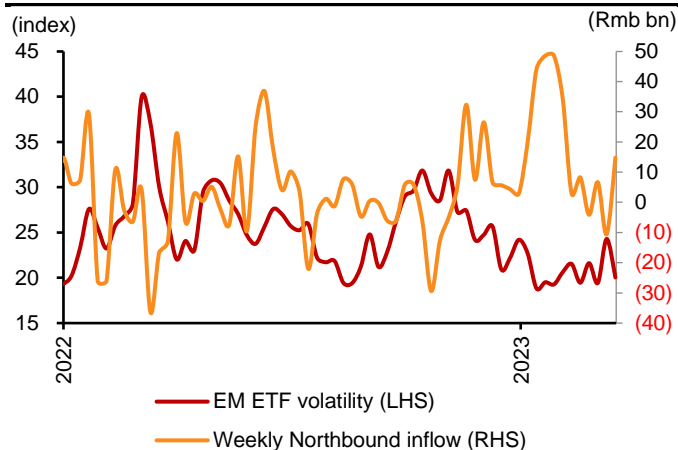
Source: Wind, CMBIGM

Figure 8: Credit & M2 Supply Growth



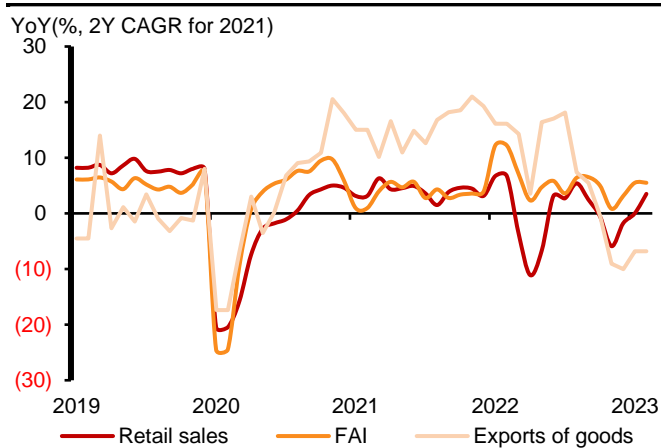
Source: Wind, CMBIGM

Figure 9: EM Volatility & Weekly Northbound Inflow



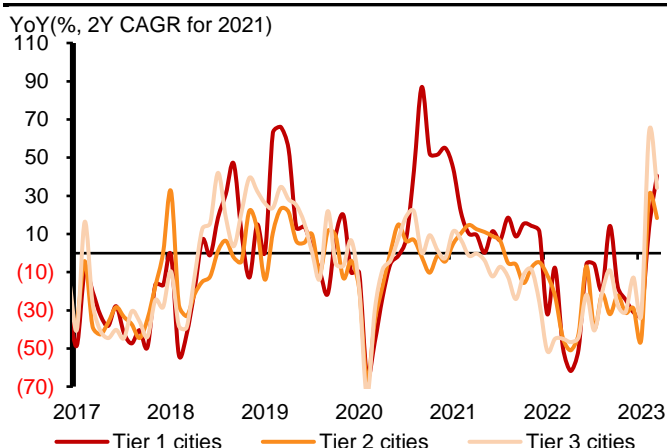
Source: Wind, CMBIGM

Figure 10: Retail Sales, FAI, and Exports



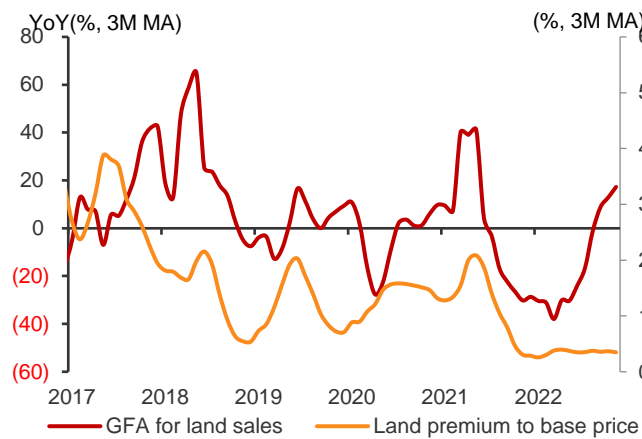
Source: Wind, CMBIGM

Figure 11: Housing Sales by City



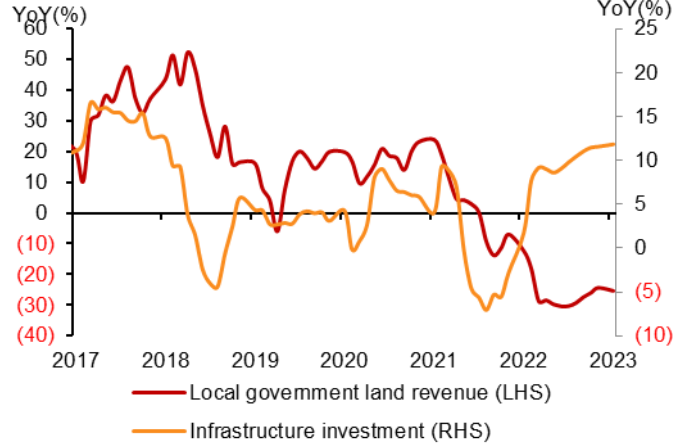
Source: Wind, CMBIGM

Figure 12: China's Land Sales



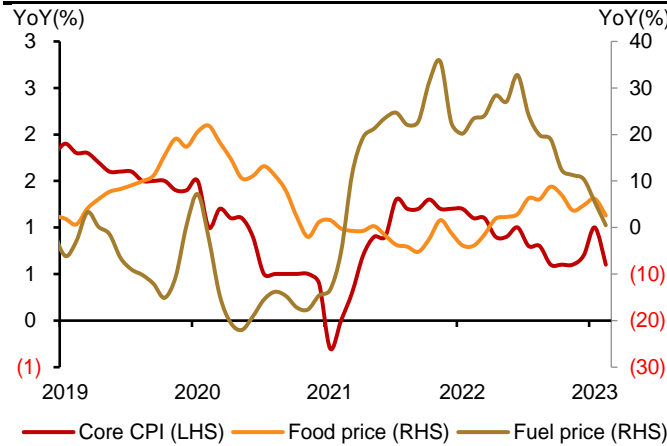
Source: Wind, CMBIGM

Figure 13: Land Revenue & Infrastructure Investment



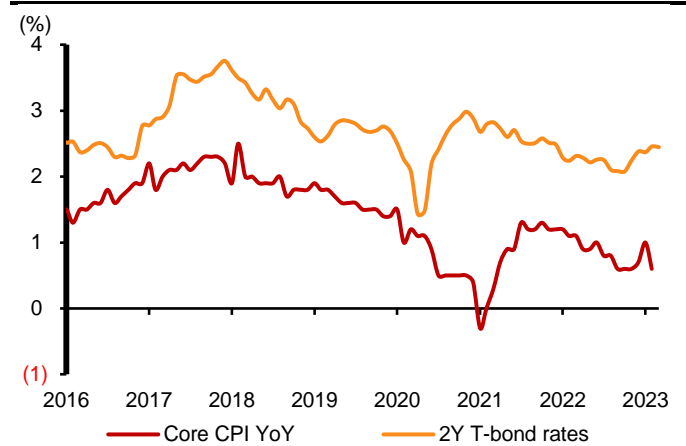
Source: Wind, CMBIGM

Figure 14: China's Inflation



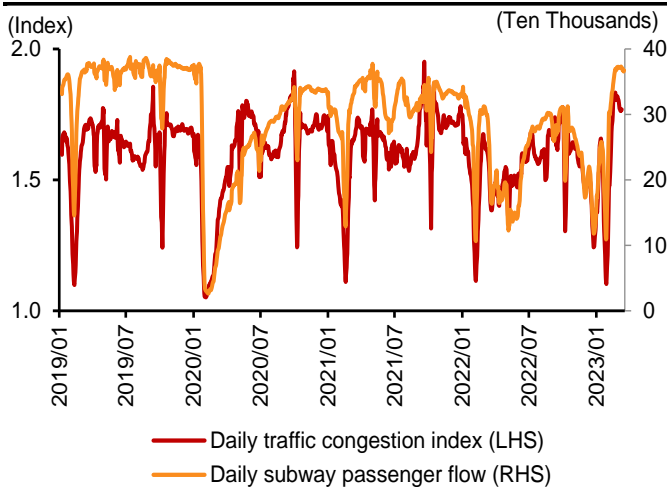
Source: Wind, CMBIGM

Figure 15: Core CPI Growth & T-bond Rates



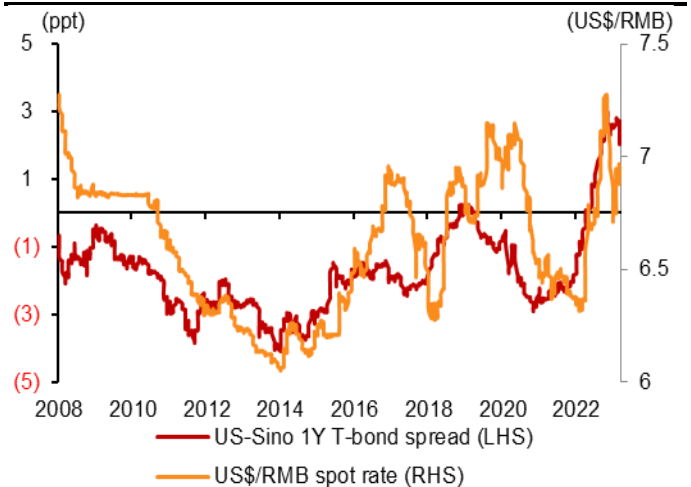
Source: Wind, CMBIGM

Figure 16: Mobility Indicators in Tier-1 Cities



Source: Wind, CMBIGM

Figure 17: USD/RMB Exchange Rates



Source: Wind, CMBIGM

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