

China Policy

New package of supportive policies to boost confidence

In response to the recent slump of the stock market, the State Council (China's cabinet) signaled to launch a new package of supportive policies to boost investor confidence. The PBOC announced to cut RRR by 50bps and indicated a possible moderate cut in LPRs in February. The central bank would further lower new mortgage rates for first-home buyers. Meanwhile, the SOE regulator said it would guide listed SOEs to increase dividend payout and stock buybacks to boost their market cap while the securities regulator vowed to enhance investor protection and support listed companies to increase dividend payout, stock buybacks and asset injection or restructuring in future. The new package of policies may moderately boost investor confidence in the short term. To defy a deflation in both the real economy and asset prices, however, we believe China needs more aggressive policy moves including sharp mortgage rate cuts, large fiscal transfers to households and market-oriented structural reforms. But there is currently no indication that the policymakers will do so.

- Moderate monetary policy easing.** The PBOC governor Pan Gongsheng announced yesterday to cut the RRR by 50bps, the largest reduction since April 2022 when the Shanghai shutdown stubbornly hindered China's economy. The larger RRR cut which would increase liquidity supply by RMB1trn, signaled continuous monetary policy loosening ahead. He also announced to lower the interest rates of rediscount for loans to the agricultural sector and small businesses by 25bps. In response to the market concern of deflation risk, Pan said current inflation was below the target and the central bank would seek a mild reflation in future. He indicated that the US Fed's tightening cycle and Chinese banks' NIM condition limited the downside room for policy rates in China. However, he expected the restraints would alleviate this year as the Fed may start to cut rates and the Chinese banks are encouraged to further lower deposit rates. As banks had already lowered deposit rates moderately in the past two months, the PBOC governor implied a possible moderate cut in LPRs in February. Pan also indicated plans to further lower the floor of mortgage rates for first-home buyers in future. Considering the magnitude of deposit rate cuts in the past two months, we expect the PBOC may lower LPRs by 10-20bps in February. In face of a deflation in both the real economy and asset prices, the central bank needs to aggressively cut LPRs especially mortgage rates to boost aggregate demand, in our view. However, the magnitude of policy rate cuts is likely to remain moderate this year as the policymakers have the fear of floating on exchange rates and care about banks' NIMs with a reluctance to substantially lower deposit rates.
- Enhancement of market value management by SOEs.** China's SOE regulator said it is to include market cap into the management KPIs for listed SOEs in future. The regulator encouraged listed SOEs to increased dividend payout and stock buybacks to boost market confidence. The SOEs with stable earnings and abundant cash may consider increasing dividend payment in future.

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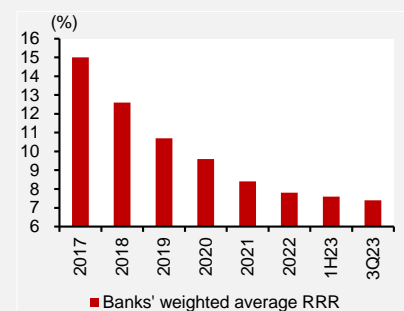
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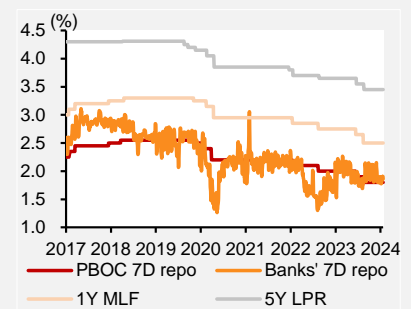
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Source: Wind, CMBIGM



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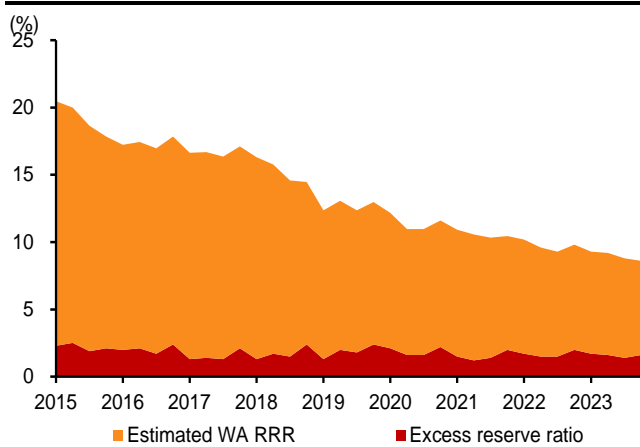
- **Enhancement of investor protection by the securities regulator.** The CSRC official vowed to strengthen investor protection and encourage listed companies to increase dividend payout and stock buybacks. The regulator also encouraged listed companies to improve profitability and market cap by asset injection, restructuring and M&As.

Figure 1: RRR Cuts From 2021

Date	Effective date	RRR change	WA RRR	Incremental liquidity
1/24/2024	2/5/2024	0.5ppt for most banks	7%	Rmb1trn
9/14/2023	9/15/2023	0.25ppt for most banks	7.4%	Rmb500bn
3/17/2023	3/27/2023	0.25ppt for most banks	7.6%	Rmb500bn
11/25/2022	12/5/2022	0.25ppt for most banks	7.8%	Rmb500bn
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

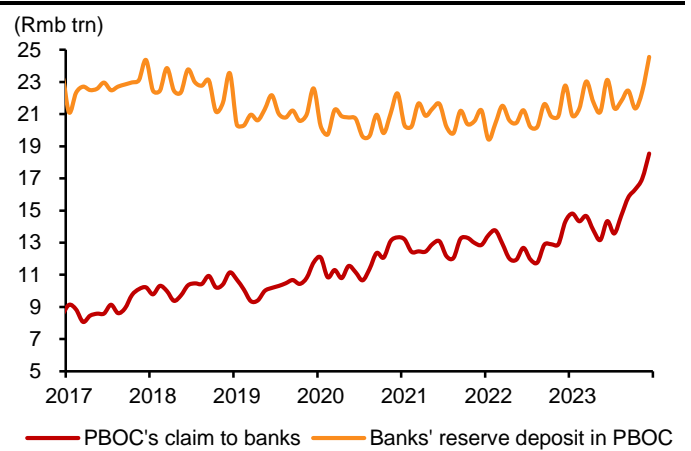
Source: Wind, CMBIGM

Figure 2: Effective RRR & Excess Reserve Ratio



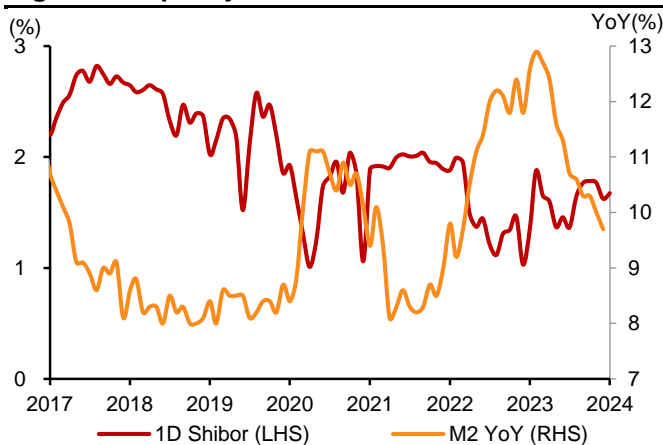
Source: Wind, CMBIGM

Figure 3: PBOC Claims to Banks



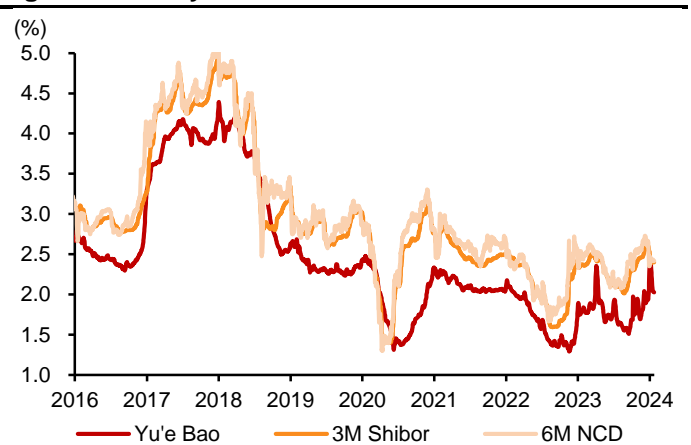
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Figure 4: Liquidity Condition & M2 Growth



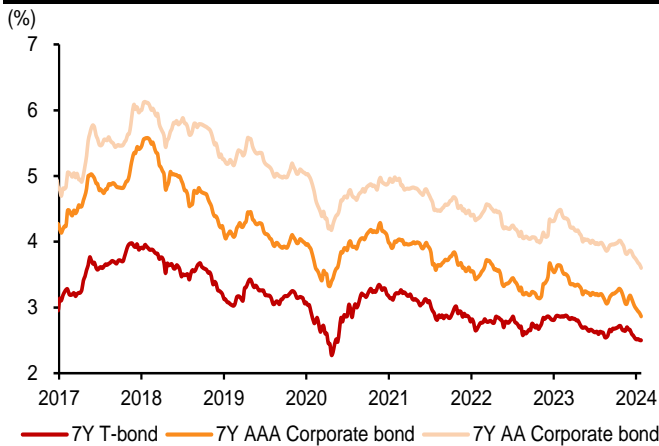
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Figure 5: Money Market Rates



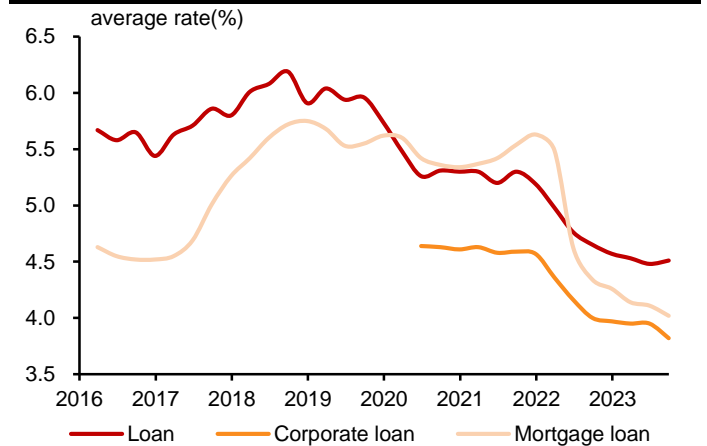
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Figure 6: Bond Yield Rates



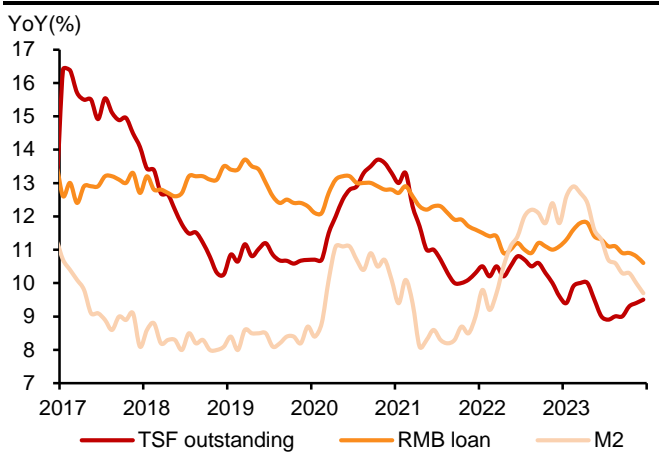
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Figure 7: Average Outstanding Loan Rates



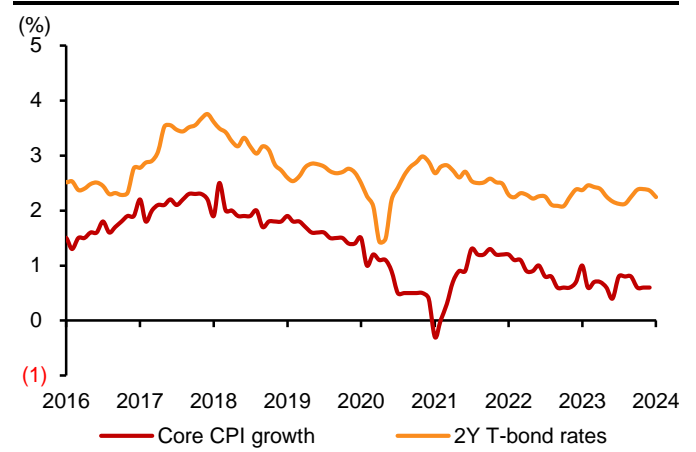
Source: Wind, CMBIGM

Figure 8: Credit Growth



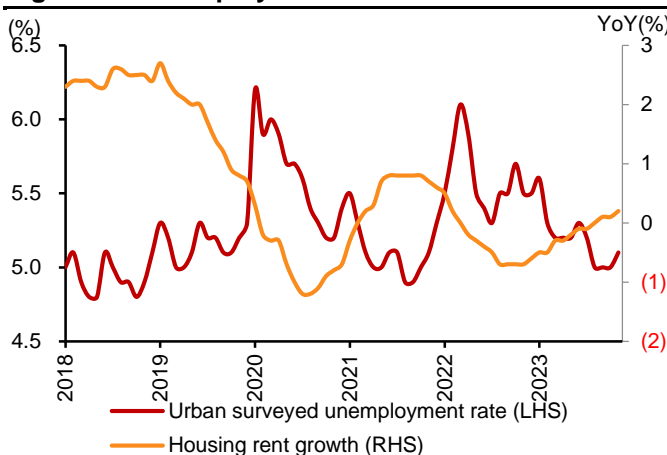
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Figure 9: Core CPI Growth & T-bond Rates



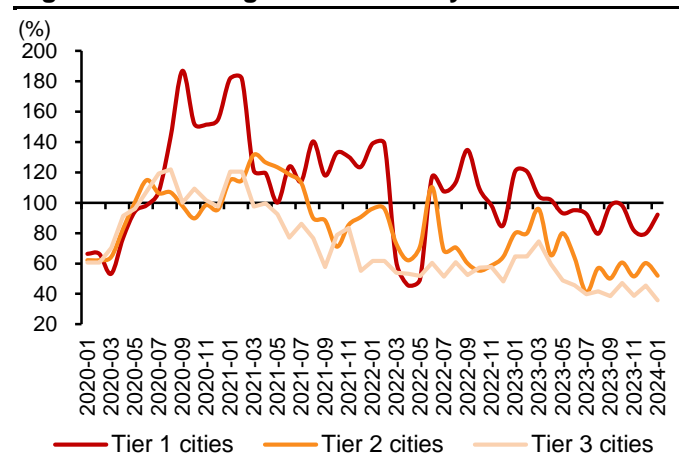
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Figure 10: Unemployment & House Rent Growth



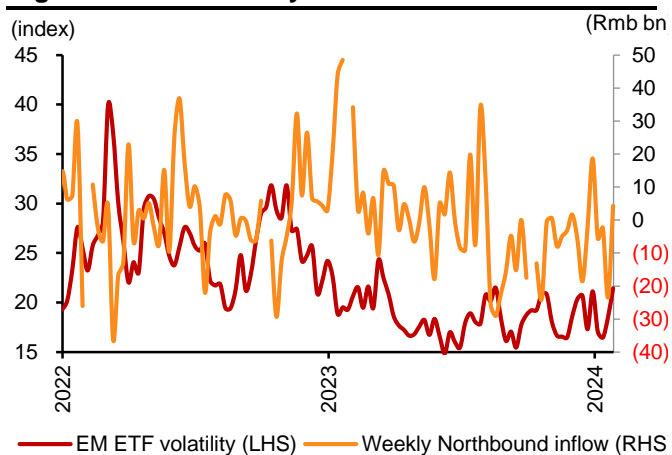
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Figure 11: Housing Sales Recovery Ratio to 2019



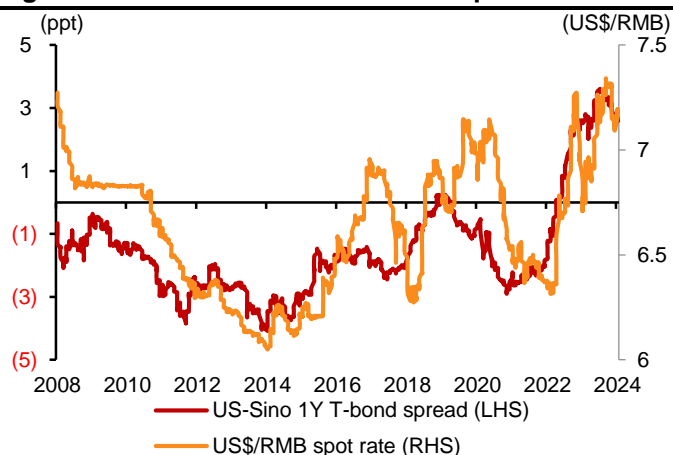
Source: Wind, CMBIGM

Figure 12: EM Volatility & North Fund Flow



Source: Wind, CMBIGM

Figure 13: US/RMB Rates & Interest Spreads



Source: Wind, CMBIGM

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