

April 6, 2020

Economic Acumen

Commentary by CEBI Research Team

In Brief

- The PBOC announced a cut of reserve requirement ratio (RRR) for small banks by 100 basis points (bps) in two phases. The latest RRR cut was the third one in 2020 and RMB 400 billion potential credits will be released into the economy to reduce the real cost of financing.
- The PBOC reduces the excess deposit reserve interest rate of financial institutions from 0.72% to 0.35%, with the aim to boost the efficiency for banks' usage of funds and better serve small and medium-sized enterprises (SMEs).
- The amplifying health and economic risks surrounding China's economy embrace growth uncertainties that threaten financial stability. The PBOC's latest countercyclical monetary policy will inject trillions of liquidity into the financial system to spur bank lending and lower borrowing costs for enterprises, thus alleviating the downside risks and cultivating a stable monetary and financial environment for China's economy.

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The PBOC unleashing 400bn to cushion the blow of coronavirus on China

With the spread of novel coronavirus taking the toll on China's economy, the People's Bank of China (PBOC) announced a cut of reserve requirement ratio (RRR) for small banks by 100 basis points (bps) in two phases, the first effective as of 15 April and the second as of 15 May. China has around 4,000 small and mid-sized banks with the cut reducing their RRR to 6%. The latest RRR cut was the third one in 2020 and RMB 400 billion potential credits will be released into the economy to reduce the real cost of financing. In addition, the PBOC reduces the excess deposit reserve interest rate of financial institutions from 0.72% to 0.35%, effective on 7 April. The cut in the deposit rate at the PBOC was the first time since 2008, with the aim to boost the efficiency for banks' usage of funds and better serve small and medium-sized enterprises (SMEs). In general, the coronavirus epidemic causes a steep and widespread productivity growth slowdown as well as contraction of economic activities in global economy. The amplifying health and economic risks surrounding China's economy embrace growth uncertainties that threaten financial stability. Substantial economic shocks put China's economy embedded into significant slowdown, adding urgency for the implementation of more macroeconomic measures to rekindle growth momentum. The PBOC's latest countercyclical monetary policy will inject trillions of liquidity into the financial system to spur bank lending and lower borrowing costs for enterprises, thus alleviating the downside risks and cultivating a stable monetary and financial environment for China's economy.

The latest cut in RRR and excess deposit reserve interest rate signaling the PBOC's intention to handle economic shocks. In the face of containing the spread of coronavirus, China has imposed tough measures to prohibit the movement of people, consumption, production and trading activities. Temporary suspension of economic activities has a devastating impact on economic growth. The latest RRR cut is expected to inject liquidity into around 4,000 small and medium-sized lenders including rural cooperatives, rural commercial

banks and city commercial banks operating only within provincial administrative areas, adding sources of stable financing for the country's SMEs. In addition, the latest cut in excess deposit reserve interest rate will push banks to enhance their efficiency of capital usage and help them better serve the real economy, especially SMEs. In sum, the move made by the PBOC will provide long-term capital for the economy, thus strengthening financial stability and consolidating the momentum of economic recovery.

More RRR cuts and targeted lending facilities to come.

Widespread factory closures and travel restrictions have resulted in substantial contraction of economic activities during Jan-Feb. Although China has seen slowdown in infected cases of coronavirus in March and the resumption of work rates has ticked gradually higher recently, underlying economic problems persist, namely the inability of workers in rural areas to return to their jobs in cities and a slower recovery in consumer demand. In order to avoid sharp deterioration of economic activities and huge increase in job losses, the PBOC will continue to maintain adequate liquidity in the banking system to support economic growth. The latest in RRR and excess deposit reserve interest rate will bolster lending to small businesses and lower the market risk premium. Given the mounting pressure to expand liquidity, we are of the view that the PBOC will pursue injection of liquidity in the economy through different monetary tools in coming months. RRR cut will be deployed as the principal tool to release long-term capital and strengthen the growth momentum of real economy while the PBOC will roll out a mix of targeted lending facilities including loan prime rate (LPR), repo, standing lending facility (SLF), short-term liquidity operation (SLO), mid-term lending facility (MLF), and pledged supplementary lending (PSL), central bank bills swap(CBS) to accommodate capital demand in 2020. However, we believe the PBOC will not slash the benchmark deposit rate as it will reduce the real interest rate amid the elevated inflation, thus having impacts on savers.

The latest RRR cut strengthening credit support for SMEs. The China's SMEs are mostly involving in external trading activities that face huge operating difficulties amid the coronavirus pandemic rampaging the U.S. and Europe. Quarantines carry a cost with severe economic and market dislocation, thus disrupting supply chains and operation of enterprises along with shrinking consumer expenditures. The lockdown and increased social distancing result in a sharp drop of export orders for Chinese products. In sum, the latest RRR cut is aimed at credit-fueled SMEs-driven stimulus with which the PBOC removes unreasonable barriers and restrictions to enhance lending support for SMEs.

China economic indicators

	2016	2017	2018	1Q2019	2Q2019	3Q2019	4Q2019	2019
Real GDP (YoY%)	6.7	6.8	6.6	6.4	6.2	6.0	6.0	6.1
PMI								
Manufacturing (%)	51.4	51.6	49.4	49.7	49.6	49.7	49.9	50.2
Non-Manufacturing (%)	54.5	55.5	53.2	54.6	54.3	53.7	53.6	53.5
Exports (RMB YoY %)	(1.9)	10.8	7.1	6.7	5.6	3.9	4.0	5.0
Imports (RMB YoY %)	0.6	18.7	12.9	0.3	2.8	(2.5)	5.4	1.6
Trade Balance (RMB/bn)	3352.3	2852.5	2330.3	506.8	700.7	812.4	895.1	2915.0
Exports (USD YoY %)	(7.7)	7.9	9.9	1.4	(1.0)	(0.3)	1.8	0.5
Imports (USD YoY %)	(5.5)	15.9	15.8	(4.1)	(3.7)	(6.2)	3.2	(2.7)
Trade Balance (USD/bn)	510.7	422.5	351.8	72.9	103.9	117.7	127.4	421.9
CPI (YoY %)	2.0	1.6	2.1	1.8	2.6	2.9	4.3	2.9
PPI (YoY %)	(1.4)	6.3	3.5	0.2	0.5	(0.8)	(1.2)	(0.3)
FAI (YTD/ YOY %)	8.1	7.2	5.9	6.3	5.8	5.4	5.4	5.4
Real Estate Investment (YTD YoY %)	6.9	7.0	9.5	11.8	10.9	10.5	9.9	9.9
Industrial Production (YoY %)	6.0	6.6	6.2	6.5	5.6	5.0	5.9	5.7
Retail Sales (YoY%)	10.4	10.2	9.0	8.3	8.6	7.6	7.8	8.0
New Lending (RMB/bn)	14113.6	12174.9	16173.6	5809.1	3863.4	3955.6	3189.4	16817.5
M2 (YoY %)	11.3	8.1	8.1	8.6	8.5	8.4	8.7	8.7
Aggregate Financing (RMB bn)	17802.2	26153.6	22492.0	8605.9	6007.7	5997.0	4964.7	25575.2

	Mar 19	Apr 19	May 19	Jun 19	July 19	Aug 19	Sept 19	Oct 19	Nov 19	Dec 19	Jan 20	Feb 20	Mar 20
Real GDP (YoY%)	6.4	-	-	6.2	-	-	6.0	-	-	6.0	-	-	-
PMI													
- Manufacturing %	50.5	50.1	49.4	49.4	49.7	49.5	49.8	49.3	50.2	50.2	50.0	35.7	52.0
- Non-manufacturing%	54.8	54.3	54.3	54.2	53.7	53.8	53.7	52.8	54.4	53.5	54.1	29.6	52.3
Exports (RMB YoY %)	21.0	3.2	7.7	5.9	10.4	2.6	(0.7)	2.1	1.1	9.0	-	(15.9)	-
Imports (RMB YoY %)	(1.4)	10.8	(2.2)	0.2	1.1	(2.5)	(5.9)	(3.3)	3.0	17.7	-	(2.4)	-
Trade Balance (RMB/bn)	213.3	88.6	276.5	335.6	303.7	238.1	270.6	299.4	266.4	329.3	-	(42.6)	-
Export (USD YoY %)	14.0	(2.7)	1.1	(1.5)	3.4	(1.0)	(3.2)	(0.8)	(1.3)	7.9	-	(17.2)	-
Import (USD YoY %)	(7.2)	4.5	(8.2)	(6.8)	(4.9)	(5.5)	(8.2)	(6.2)	0.8	16.5	-	(4.0)	-
Trade Balance (USD/bn)	31.5	13.1	41.3	49.6	44.1	34.6	39.0	42.6	37.6	47.2	-	(7.1)	-
CPI (YoY %)	2.3	2.5	2.7	2.7	2.8	2.8	3.0	3.8	4.5	4.5	5.4	5.2	-
PPI (YoY %)	0.4	0.9	0.6	0.0	(0.3)	(0.8)	(1.2)	(1.6)	(1.4)	(0.5)	0.1	(0.4)	-
FAI (YTD/ YOY %)	6.3	6.1	5.6	5.8	5.7	5.5	5.4	5.2	5.2	5.4	-	(24.5)	-
Real Estate Investment (YTD/ YoY %)	11.8	11.9	11.2	10.9	10.6	10.5	10.5	10.3	10.2	9.9	-	(16.3)	-
Industrial Production (YoY %)	8.5	5.4	5.0	6.3	4.8	4.4	5.8	4.7	6.2	6.9	-	(13.5)	-
Retail Sales (YoY%)	8.7	7.2	8.6	9.8	7.6	7.5	7.8	7.2	8.0	8.0	-	(20.5)	-
New Lending (RMB/bn)	1694.3	1016.0	1183.7	1663.6	1055.8	1208.9	1691.0	661.3	1388.1	1140	3340.0	905.7	-
M2 (YoY %)	8.6	8.5	8.5	8.5	8.1	8.2	8.4	8.4	8.2	8.7	8.4	8.8	-
Aggregate Financing (RMB bn)	2960.2	1671.0	1712.4	2624.3	1287.2	2195.6	2514.2	868.0	1993.7	2103.0	5067.4	855.4	-
Urban Unemployment Rate (%)	5.2	5.0	5.0	5.1	5.3	5.2	5.2	5.1	5.1	5.2	-	6.2	-
Urban Unemployment Rate in 31 major cities (%)	5.1	5.0	5.0	5.0	5.2	5.2	5.2	5.1	5.1	5.2	-	5.7	-

World Economic/Financial Indicators

Global Indices			
Index	Closing Price	P/E	One Week chg(%)
U.S.			
DJIA	21,052.53	14.78	(2.70)
S&P 500	2,488.65	16.37	(2.08)
NASDAQ	7,373.08	46.29	(1.72)
EUR			
FTSE 100	5,415.50	15.47	(1.72)
DAX	9,525.77	16.50	(1.11)
CAC40S	4,154.58	15.13	(4.53)
STOXX EUR 600	309.06	14.70	(0.59)
Asia			
HSI	23,236.11	9.44	(1.06)
HSCEI	9,491.10	7.51	(0.15)
CSI300	3,713.22	13.32	0.09
SSE Composite	2,763.99	13.03	(0.30)
SZSE Composite	1,689.57	35.58	(0.22)
NIKKEI 225	17,820.19	15.77	(8.09)
KOSPI	1,725.44	16.49	0.45
TWSE	9,663.63	18.88	0.20
S&P/ASX 200	5,067.48	15.60	4.65
MSCI Index			
MSCI WORLD	1,776.86	15.61	(2.75)
MSCI DEVELOPED	425.35	15.00	(2.58)
MSCI EMERGING	831.72	11.72	(1.28)
MSCI US	2,364.36	16.85	(2.33)
MSCI UK	1,545.21	15.84	(1.79)
MSCI France	119.91	14.96	(4.59)
MSCI Germany	110.01	15.53	(1.08)
MSCI China	75.35	12.45	(0.38)
MSCI Hong Kong	12,483.31	12.30	0.81
MSCI Japan	805.31	12.80	(8.67)

** As of 03/04/2020 closing for all markets

Global Commodities			
	Unit	Price	One Week chg(%)
Energy			
NYMEX WTI	USD/bbl	28.34	31.75
ICE Brent Oil	USD/bbl	34.11	36.82
NYMEX Natural	USD/MMBtu	1.62	(0.80)
Basic Metals			
LME Aluminum	USD/MT	1,448.10	(4.48)
CMX Copper	USD/lb.	219.25	0.94
LME Steel Rebar	USD/MT	378.00	2.72
LME Lead Cash	USD/MT	1,642.00	(3.04)
Precious Metals			
CMX Gold	USD/T. oz	1,620.81	(0.45)
Gold Futures	USD/T. oz	1,645.70	(0.51)
CMX Silver	USD/T. oz	14.39	(0.55)
NYMEX Platinum	USD/T. oz	725.13	(2.64)
Agricultural			
CBOT Corn	USD/bu	330.75	(4.41)
CBOT Wheat	USD/bu	549.25	(3.85)
NYB-ICE Sugar	USD/lb.	10.31	(7.12)
CBOT Soybeans	USD/bu.	854.25	(3.09)

All data sources: Bloomberg

Money market		
	Yield (%)	One Week chg(%)
US Fed Fund Rate	0.25	0.00
US Prime Rate	3.25	0.00
US Discount Window	0.25	0.00
ECB Rate (Refinancing)	0.00	0.00
BOJ Policy Rate	(0.10)	0.00
US Treasury (1 Mth)	0.02	0.12
US Treasury (1 Yr)	0.13	0.04
US Treasury (5 Yr)	0.38	(0.01)
US Treasury (10 Yr)	0.59	(0.08)
US Treasury (30 Yr)	1.21	(0.05)
1-Month LIBOR	0.99	0.001
3 Month LIBOR	1.39	(0.06)
Japan 1-Yr Gov. Bond	(0.12)	0.06
Japan 10-Yr Gov. Bond	(0.01)	(0.03)
German 1-Yr Gov. Bond	(0.64)	0.06
German 10-Yr Gov. Bond	(0.44)	0.03
China Benchmark Interest	4.35	0.00
China 1-Yr Gov. Bond	1.63	(0.09)
China 5-Yr Gov. Bond	2.25	(0.08)
China 10-Yr Gov. Bond	2.56	(0.05)
O/N SHIBOR	1.00	(0.10)
1-mth SHIBOR	1.74	(0.12)
HK Base rate	1.01	(0.55)
O/N HIBOR	1.01	(0.55)
1-mth HIBOR	1.85	(0.17)
O/N CNH HIBOR	1.10	(0.22)
1-mth CNH HIBOR	1.91	(0.30)
Corporate Bonds (Moody's)		
Aaa	2.64	(0.43)
Baa	4.55	(0.32)

Currency market		
	Spot Rate	One Week chg(%)
US Dollar Index	100.58	2.25
Euro/USD	1.0801	(3.05)
GBP/USD	1.2269	(1.53)
AUD/USD	0.5997	(2.77)
USD/CAD	1.4205	1.57
USD/JPY	108.55	0.57
USD/CHF	0.9773	2.69
USD/CNY Midpoint	7.1104	0.96
USD/CNY	7.0913	(0.07)
	7.1707	0.57
12-mth Spot pr.	7.1707	0.35
USD/CNH	7.1111	0.32
USD/HKD	7.7525	0.01
CNY/HKD	1.0933	0.07
CNH/HKD	1.0900	(0.33)
USD/KRW	1,231.35	1.67
USD/TWD	30.272	(0.04)
USD/SGD	1.4393	0.88
USD/INR	76.173	0.13

Disclosures

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