

October 8, 2018

Economic Acumen

Commentary by CEBI Research Team

In Brief

- With the aim to boost the stable development of the real economy, optimize the liquidity structure of commercial banks and financial markets, lower financing costs, and support small businesses, private enterprise and innovation, the PBOC announced a cut of 100bp in the required reserve ratio (RRR), effective October 15, 2018.
- This is the fourth RRR cut in 2018, reducing the RRR for big banks to 14.5 percent and for smaller banks to 12.5 percent. A net RMB 750 billion potential credits will be injected in the economy with which the cut releases around RMB 1.2 trillion in liquidity with RMB 450 billion of that to offset the maturing medium-term lending facility (MLF) loans.
- Overall, the latest RRR cut along with the previous three RRR cuts in 2018 which unleashed trillions of liquidity in the market, help strengthen growth momentum of China's economy.

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The PBOC's fourth RRR cut in 2018

With the aim to boost the stable development of the real economy, optimize the liquidity structure of commercial banks and financial markets, lower financing costs, and support small businesses, private enterprise and innovation, the People's Bank of China (PBOC) announced a cut of 100bp in the required reserve ratio (RRR), effective October 15, 2018. This is the fourth RRR cut in 2018, reducing the RRR for big banks to 14.5 percent and for smaller banks to 12.5 percent. A net RMB 750 billion potential credits will be injected in the economy with which the cut releases around RMB 1.2 trillion in liquidity with RMB 450 billion of that to offset the maturing medium-term lending facility (MLF) loans. A prudent and neutral monetary stance of the PBOC remains unchanged, thus cultivating an appropriate monetary and financial environment for China's economy. Overall, the escalating trade tensions between the U.S. and China, the U.S. monetary tightening and depreciation of emerging market (EM) currencies are expected to exert pressure on China's economic outlook. The latest RRR cut along with the previous three RRR cuts in 2018 which unleashed trillions of liquidity in the market, help strengthen growth momentum of China's economy.

The latest RRR cut signaling the PBOC's intention to handle external shocks. Amid the pessimistic market sentiment driven by the US-China trade disputes, U.S rate hikes and currency depreciation across emerging market (EM) economies, China's economic indicators showed a decelerating trend in varying degrees when entering 2H2018. The latest RRR cut reflects the PBOC's intention to step up liquidity support across financial system as China's economy is facing a potential drag from external headwinds. In general, the PBOC targets to maintain stable growth of monetary credit and social financing scale. It is tactful in monetary policy to handle economic fluctuations with which a stable and neutral monetary policy is to be fine-tuned in line with economic conditions, along with China's structural reforms. The latest release of RMB 750 billion liquidity will provide long-term capital for the

economy, thus strengthening financial stability and consolidating the momentum of stable and sound economic growth.

One more RRR cut in 2018. The PBOC reiterated its stance of ensuring adequate liquidity in the banking system to support economic growth. The latest RRR cut will increase lending momentum and lower the market risk premium. Given the stable trend of inflation and the mounting pressure to expand liquidity, the PBOC will take a neutral and prudent approach to pursue injection of liquidity in the economy through different monetary tools. We forecast the PBOC would lower RRR again before the end of 2018 and RRR cut will be deployed as the principal tool to strengthen the growth momentum of real economy in 4Q2018 and 2019.

Renminbi remaining volatile with large-scale depreciation of renminbi unlikely. Since 1Q2018, renminbi has depreciated around 10 percent against the U.S. dollar, already reflecting the impact of trade war on China's economy. As China policymakers step up efforts to fine-tune both monetary and fiscal policies to strengthen momentum of growth in economic activities, China's economy is rebalancing to attain more stable economic expansion. In addition to PBOC's stance of maintaining a "prudent and neutral" monetary policy, we forecast that renminbi is unlikely to see further drastic depreciation despite fluctuations.

RRR cut boosting infrastructure investment. With the escalating trade tensions with the U.S. to put downward pressure on China's growth momentum, China policymakers are likely to shift their focus to conduct more growth-boosting measures, including more investment in infrastructures. The latest RRR cut will support credit-fueled infrastructure-driven stimulus. In general, investment in urban infrastructures and railways remains as one of the major growth drivers of China's economy which will stimulate growth of fixed asset investment (FAI).

China Economic Indicators

	2014	2015	2016	2017	1Q2018	2Q2018	1H2018
Real GDP (YoY%)	7.3	6.9	6.7	6.9	6.8	6.7	6.8
PMI Manufacturing (%)	50.1	49.7	51.4	51.6	51.5	51.5	51.5
PMI Non-Manufacturing (%)	54.1	54.4	54.5	55.5	54.6	54.9	55.0
Exports (RMB YoY %)	4.9	(1.8)	(1.9)	10.8	7.1	2.9	4.8
Imports (RMB YoY %)	(0.6)	(13.2)	0.6	18.7	12.0	11.1	11.5
Trade Balance (RMB/bn)	2352.6	3686.5	3352.3	2871.6	306.4	584.7	891.1
Exports (USD YoY %)	6.0	(2.9)	(7.7)	7.9	13.7	11.8	12.7
Imports (USD YoY %)	0.4	(14.1)	(5.5)	15.9	19.3	20.5	19.9
Trade Balance (USD/bn)	383.1	593.9	510.7	422.5	45.4	92.7	138.1
CPI (YoY %)	2.0	1.4	2.0	1.6	2.2	1.8	2.0
PPI (YoY %)	(1.9)	(5.2)	(1.4)	6.3	3.1	4.1	3.9
FAI (YTD/ YOY %)	15.7	10.0	8.1	7.2	7.5	6.0	6.0
Real Estate Investment (YTD YoY %)	10.5	1.0	6.9	7.0	10.4	9.7	9.7
Industrial Production (YoY %)	8.3	6.1	6.0	6.6	6.8	6.8	6.7
Retail Sales (YoY%)	12.0	10.7	10.4	10.2	9.8	9.0	9.4
New Lending (RMB/bn)	9781.3	11719.9	12645.9	13523.1	4859.3	3510.0	8369.3
M2 (YoY %)	12.2	13.3	11.3	8.2	8.2	8.0	8.0
Aggregate Financing (RMB bn)	16457.1	15408.6	17802.2	19443.0	5760.5	3931.2	9691.7

	Aug 17	Sep 17	Oct 17	Nov 17	Dec 17	Jan 17	Feb 18	Mar 18	Apr 18	May 18	Jun 18	July18	Aug 18
Real GDP (YoY%)	-	6.8	-	-	6.8	-	-	6.8	-	-	6.7	-	-
PMI – Manufacturing %	51.7	52.4	51.6	51.8	51.6	51.3	50.3	51.5	51.4	51.9	51.5	51.2	51.3
PMI- Non-manufacturing%	53.4	55.4	54.3	54.8	55.5	55.3	54.4	54.6	54.8	54.9	55.0	54.0	54.2
Exports (RMB YoY %)	8.9	5.5	9.5	7.4	16.3	5.5	35.2	(10.1)	3.0	2.7	3.0	6.0	7.9
Imports (RMB YoY %)	19.6	15.8	15.4	0.9	22.9	30.8	(0.1)	6.1	11.9	15.6	6.0	20.9	18.8
Trade Balance (RMB/bn)	277.9	189.6	248.2	255.4	362.0	124.1	215.7	(33.5)	173.0	150.8	260.9	176.9	179.8
Export (USD YoY %)	4.9	7.9	6.3	11.5	10.9	10.6	43.5	(3.0)	12.1	12.1	11.2	12.2	9.8
Import (USD YoY %)	13.4	18.9	17.1	17.6	4.5	37.4	6.5	14.6	21.8	26.0	14.1	27.3	20.0
Trade Balance (USD/bn)	40.7	28.0	37.2	39.0	54.7	18.6	32.3	(5.6)	27.2	24.0	41.5	28.1	27.9
CPI (YoY %)	1.8	1.6	1.9	1.7	1.8	1.5	2.9	2.1	1.8	1.8	1.9	2.1	2.3
PPI (YoY %)	6.3	6.9	6.9	5.8	4.9	4.3	3.7	3.1	3.4	4.1	4.7	4.6	4.1
FAI (YTD/ YOY %)	7.8	7.5	7.3	7.2	7.2	-	7.9	7.5	7.0	6.1	6.0	5.5	5.3
Real Estate Investment (YTD/ YoY %)	7.9	8.1	7.8	7.5	7.0	-	9.9	10.4	10.3	10.2	9.7	10.2	10.1
Industrial Production (YoY %)	6.0	6.6	6.2	6.1	6.2	-	7.2	6.0	7.0	6.8	6.0	6.0	6.1
Retail Sales (YoY%)	10.1	10.3	10.0	10.2	9.4	-	9.7	10.1	9.4	8.5	9.0	8.8	9.0
New Lending (RMB/bn)	1090.0	1270.0	663.2	1120.0	584.4	2900.0	839.3	1120.0	1180.0	1150.0	1840.0	1450.0	1280.0
M2 (YoY %)	8.9	9.2	8.8	9.1	8.2	8.6	8.8	8.2	8.3	8.3	8.0	8.5	8.2
Aggregate Financing (RMB bn)	1489.5	1833.5	1035.7	1619.6	1139.8	3073.3	1176.6	1510.6	1691.4	847.7	1392.2	1041.5	1520.0
Urban Unemployment Rate (%)	-	-	-	-	-	5.0	5.0	5.1	4.9	4.8	4.8	5.1	5.0
Urban Unemployment Rate in 31 major cities (%)	-	-	-	-	-	4.8	4.9	4.9	4.7	4.7	4.7	5.0	4.9

World Economic/Financial Indicators

Global Indices			
Index	Closing Price	P/E	One Week chg(%)
U.S.			
DJIA	26,447.05	18.77	-0.04
S&P 500	2,885.57	20.87	-0.97
NASDAQ	7,788.45	47.14	-3.21
EUR			
FTSE 100	7,318.54	16.34	-2.55
DAX	12,111.90	14.25	-2.60
CAC40S	5,359.36	17.11	-2.44
STOXX EUR 600	376.41	16.99	-1.77
Asia			
HSI	26,202.57	10.14	-5.71
HSCEI	10,393.29	7.89	-5.67
CSI300	3,290.90	12.74	-3.51
SSE Composite	2,716.51	13.26	-2.90
SZSE Composite	1,386.28	22.97	-4.07
NIKKEI 225	23,783.72	17.33	-1.39
KOSPI	2,253.83	10.91	-3.81
TWSE	10,455.93	13.70	-5.39
S&P/ASX 200	6,100.31	17.02	-1.17
MSCI Index			
MSCI WORLD	2,151.42	18.46	-1.49
MSCI DEVELOPED	514.69	17.46	-1.82
MSCI EMERGING	1,000.76	12.05	-4.50
MSCI US	2,746.26	21.16	-1.06
MSCI UK	2,119.11	16.64	-2.53
MSCI France	155.37	17.36	-2.31
MSCI Germany	147.15	14.82	-2.56
MSCI China	75.63	12.04	-5.18
MSCI Hong Kong	14,341.31	9.80	-4.50
MSCI Japan	1,068.88	14.06	-1.22

* As of 8/10/2018 closing for Asian markets, previous date for other markets.

Global Commodities			
	Unit	Price	One Week chg(%)
Energy			
NYMEX WTI	USD/bbl	73.39	-2.55
ICE Brent Oil	USD/bbl	82.87	-2.48
NYMEX NatGas	USD/MMBtu	3.19	3.14
Basic Metals			
LME Alum.Cash	USD/MT	2,127.50	3.88
CMX Cop.Active	USD/lb.	274.30	-1.60
LME Steel Rebar	USD/MT	502.00	-0.40
LME Lead Cash	USD/MT	1,977.00	-2.26
Precious Metals			
CMX Gold	USD/KRW	1,194.10	0.65
Gold Futures	USD/KRW	1,197.70	0.51
CMX Silverbn	USD/KRW	14.41	-1.02
NYMEX Platinum	USD/T. oz	816.49	0.62
Agri, Products			
CBOT Corn	USD/bu	365.75	0.00
CBOT Wheat	USD/bu	518.50	1.77
NYB-ICE Sugar	USD/lb.	12.81	10.34
CBOT Soybeans	USD/bu.	866.25	0.96

Money market		
	Yield (%)	One Week chg(%)
US Fed Fund Rate	2.25	0.00
US Prime Rate	5.25	0.00
US Discount Window	2.75	0.00
ECB Rate (Refinancing)	0.00	0.00
BOJ Policy Rate	-0.10	0.00
US Treasury (1 Mth)	2.15	0.03
US Treasury (1 Yr)	2.61	0.03
US Treasury (5 Yr)	3.07	0.11
US Treasury (10 Yr)	3.23	0.15
US Treasury (30 Yr)	3.40	0.17
1-Month LIBOR	2.28	0.02
3 Month LIBOR	2.41	0.01
Japan 1-Yr Gov. Bond	-0.13	-0.01
Japan 10-Yr Gov. Bond	0.16	0.02
German 1-Yr Gov. Bond	-0.61	0.00
German 10-Yr Gov. Bond	0.55	0.08
China Benchmark Interest	4.35	0.00
China 1-Yr Gov. Bond	2.97	-0.02
China 5-Yr Gov. Bond	3.44	-0.07
China 10-Yr Gov. Bond	3.63	-0.07
O/N SHIBOR	2.54	-0.01
1-mth SHIBOR	2.78	0.01
HK Base rate	2.50	0.00
O/N HIBOR	1.25	-2.64
1-mth HIBOR	1.77	-0.46
O/N CNH HIBOR	1.74	-0.73
1-mth CNH HIBOR	6.34	2.15
Corporate Bonds (Moody's)		
Aaa	4.11	0.13
Baa	5.03	0.14

Currency market		
	Spot Rate	One Week chg(%)
US Dollar Index	95.95	0.68
Euro/USD	1.15	-1.12
GBP/USD	1.31	0.14
AUD/USD	0.71	-2.37
USD/CAD	1.30	1.70
USD/JPY	113.38	-0.54
USD/CHF	0.99	1.00
USD/CNY Midpoint	6.90	0.88
USD/CNY	6.92	0.98
USD/CNY NDF		
12-mth Spot pr.	7.05	1.04
USD/CNH	6.93	0.75
USD/HKD	7.83	0.00
CNY/HKD	1.13	-0.77
CNH/HKD	1.13	-0.75
USD/KRW	1,132.70	2.11
USD/TWD	30.93	1.26
USD/SGD	1.39	1.16
USD/INR	74.08	2.20

All data sources: Bloomberg, CEBI, NBS

Disclosures

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