《Market Flash》

China: PBoC Easing Credit Conditions

To Support Growth As Trade Risks Mount

China Banking and Insurance Regulatory Commission (CBIRC) Chairman Guo Shuqing held a seminar for banks on Tuesday (17 July). In the issued statement, the CBIRC said that large and medium banks need to take the lead to increase loans supply in order to significantly reduce lending rates to the small and micro enterprises. The statement emphasized the contributions and importance of private and small and micro enterprises to the economy and that more support should be rendered to them, urging the banks to proactively provide support to troubled enterprises which have good potential while highlighting more difficult and expensive funding costs.

It was also reported that the PBoC is planning to grant additional MLF (medium-term lending facility) to Chinese commercial banks to encourage bank loans and investment in lower-rated corporate debt. This is likely targeted at addressing concerns that banks are shunning lower grade credit as risk appetite weakens in the current environment though this is likely only able to benefit viable companies.

The CBIRC statement is in line with PBoC Governor Yi Gang's earlier pledge to deepen financial services to small and micro enterprises but moves are read as a shift of the PBoC's "prudent and neutral" policy stance to an easier bias given the depreciation in the CNY and the three RRR cuts YTD against the backdrop of widening credit spreads and higher growth risks. We see this as the PBoC easing selected credit conditions rather than a change in its monetary policy.

Given the expectation of softer economic outlook ahead and greater uncertainty from the trade fallout (see our Macro Note China: Steady Growth In 1H But More Cautious Outlook Ahead), we think the prospect for a rate increase has been greatly reduced. We no longer expect the PBoC to hike the 1-year lending rate this year but also do not foresee PBoC cutting interest rates in current environment of higher global interest rates. We reiterate our call for the PBoC to lower the reserve requirement ratio (RRR) further in the remainder of 2018 to support targeted segments of the economy.

The PBoC has so far cut the reserve requirement ratio (RRR) three times this year, the latest of which came into effect on 5 July, just ahead of the first US tariff implementation. The 50 bps RRR cut in July was targeted to support qualified debt-to-equity swap programs and help financing of small businesses while the 100 bps cut in April was partly aimed at the repayment of medium-term lending facility (MLF) loans from the PBoC.

As we have flagged earlier, there is still plenty of room for PBoC to lower RRR further, since at 15.5%, it is still well above the record low of 6%, last seen in 2003. This is also expected to boost market confidence should the trade tensions escalate further.

For CBIRC statement, please follow the link:
http://www.cbrc.gov.cn/chinese/newShouDoc/61063D490CC144BCB3C007DEDFF8AD8B.html

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