

China gets set for a pivotal month of data and policy announcements

February was a quiet month in terms of economic data releases as the main activity data was not released due to the Lunar New Year, but policy support continued to be rolled out. March will feature the Two Sessions and the key economic data releases for the first two months of the year



The People's Bank of China was more cautious than expected in 2025, with only one major easing move in May

Limited data in February showed a continuation of recent trends

The limited data released in February showed low inflation, moderate credit growth, and some silver linings for consumption in China.

January CPI inflation data sparked discussion of deflation again, as headline CPI fell to the lowest level since 2009 at -0.8% year-on-year, dragged down by a record low in food inflation. Considering the more favourable base effects for February's data as well as the high-frequency data already available, we see a high likelihood that January's data could mark the low point for year-on-year inflation in the current cycle.

January's credit data slightly beat market expectations, with both aggregate financing (RMB 6.5tn) and new RMB loans (RMB 4.84tn) experiencing the typical start-of-year seasonal spike. Despite this, M2 growth fell to a 26-month low of 8.7% YoY. It is worth noting that January's data did not reflect the 50bp RRR cut, which came into effect on 5 February. Efforts to increase credit supply have been somewhat hampered by limited high-quality borrowers.

Reports on Lunar New Year travel activity showed encouraging signs in the travel and tourism categories. Tourism recovered to beat pre-pandemic levels, with domestic trips and spending over the holiday period up 19% and 8%, respectively, from 2019. Rail travel was also up 36% from 2019. Data illustrated that although volume rose sharply, per-trip spending was down as travellers tightened their purse strings.

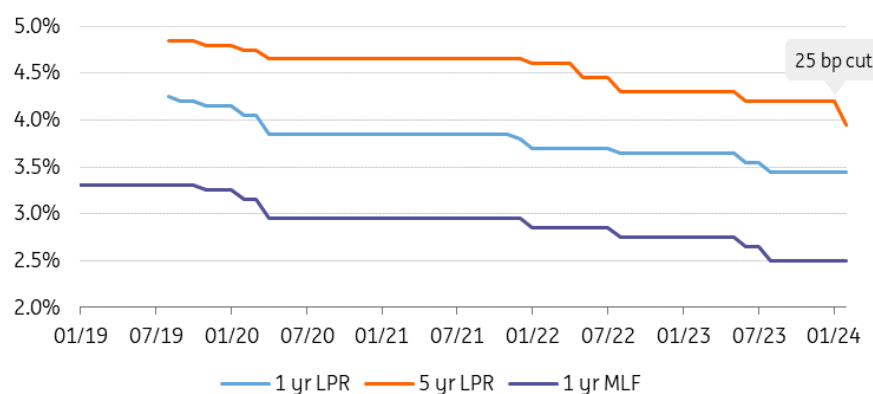
The upcoming combined January-February activity data will be more useful in gauging the overall economic momentum at the start of the year.

PBoC surprised markets with a 25bp cut to five-year LPR, further easing ahead

The People's Bank of China (PBoC) kept the benchmark one-year LPR unchanged in February as expected, but surprised markets with a 25bp cut to the five-year LPR. This cut was the first time the PBoC has ever cut the five-year rate without moving the one-year rate, and it was also the largest cut to the five-year rate since switching to the new mechanism in 2019. The five-year rate is tied to the mortgage rate, and could be aimed at facilitating a housing market recovery.

While inflation certainly gives the PBoC plenty of room to consider more policy easing, if resistance to depreciation in the renminbi remains in place (early signs coming out of the Lunar New Year indicate this is the case), this will limit the PBoC's room for policy easing before there is a broader global environment of rate cuts. As a result, we expect PBoC easing to be limited to one 10bp rate cut and possibly another RRR cut in the first half of this year.

PBOC key interest rates



PBOC, ING

March to set the tone for 2024

Restoring confidence is the key imperative in the near term, as emphasised by Premier Li Qiang in a State Council meeting on 18 February. Market stabilisation measures remained an important

focus.

The Two Sessions will start on 4-5 March when we expect the 2024 growth target to be set at “around 5%” again, and the fiscal deficit target to be raised to 3.5% or higher to reflect a more proactive fiscal policy stance. The meetings will likely provide an update on top-level policy priorities.

We will also get the first look at the combined January-February economic activity data (FAI, retail sales, industrial production, and trade), and we expect this to show that momentum was soft at the start of the year.

Author

Lynn Song

Chief Economist, Greater China

lynn.song@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.