# China's central bank chief highlights financial sector risk

Two policy implications of Zhou's article imply tighter liquidity in the interbank market pushing interest rates higher in the period ahead


Source: istock

In his latest article on the People's Bank of China (PBoC) website central bank governor, Zhou Xiaochuan has highlighted financial sector risks and the need to avoid systemic risks actively. Mr Zhou pointed out risks of non-payments in banks and bond markets, in wealth management products maturity mismatch and implicit guarantee, and in online-platform sales.

Zhou's article means two things for us. First, the PBoC policy will continue to be geared toward financial deleverage, which confirms our view that RRR cut for inclusive finance is not a monetary loosening policy. Second, the PBoC will tighten or formalise regulations on fintech areas, which have benefited from very a loose regulatory environment.

## The People's Bank of China's weekly liquidity management via open market operations


Source: ING, Bloomberg

The two policy implications imply tighter liquidity in the interbank market, and in wealth management products' underlying debt, pushing interest rates higher. We expect this to spread from short end of the interbank curve to the longer-end of the sovereign curve. However, with an eye on avoiding risks, we expect the PBoC to smooth out any sudden spike in interest rates. Therefore, we do not expect any spikes in short-term interbank rates in December 2017.