

China: a pause from the PBoC

The PBoC did not cut interest rates this month. This is despite deleting the description of a prudent monetary policy stance, which created a market consensus that it was going to ease aggressively. Has the PBoC changed its policy trend as the economy has begun to recover?



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PBoC's pause creates some doubts

China's central bank, the PBoC, did not cut any policy interest rates or reserve requirement ratios (RRR) in May. Open market operations so far for this month have been for a net withdrawal of liquidity.

This has created some doubt over whether the central bank has changed course now that the economy has begun to recover.

Has the PBoC changed stance?

We believe that the PBoC has not changed its rate-cutting trend.

1. There is a risk of more shutdowns of SMEs in China, especially factories, which need help from not only fiscal measures but also preferential monetary policies.
2. The timing is somehow embarrassing for the PBoC if it wants to change its monetary policy

stance to a tighter one. The Two Sessions will start this week. It is possible that the PBoC has to wait for the approval of the government work report, which will include the monetary policy stance for the rest of 2020, before it can act further.

3. The monetary policy stance in the last monetary policy report deleted the strong wording of “no aggressive liquidity injection”. This should imply a more aggressive policy stance rather than changing to tighter monetary policy.

Our expectation on monetary policy

As such, we expect the PBoC could ease during the Two Sessions when the government work report is approved. This should include an interest rate cut and a RRR cut of 0.5 to 1.0 percentage point.