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FX CHINA

China: PBoC is ready to ease further

The People's Bank of China has decided to ease monetary policy further. This time it is to be focused on smaller firms affected by Covid-19



Source: Shutterstock

Focused monetary policy easing, part 2

Apart from implementing the special re-lending program of CNY 300 billion announced earlier, the central bank is going to encourage financial institutions to support measures to help smaller firms affected by Covid-19. This will include extending loan repayment dates, provide special credit facilities to affected industries' private enterprises and smaller firms, as well as reduce the interest burden on these companies if necessary.

Burden will be shifted to banks

The objective is to prevent a domino effect of a broken liquidity chain. Though the expected monetary easing is still very focused on helping companies to surf the tide of Covid-19, there is increasingly more of a burden on banks. Extending repayments and providing extra credits means that there will be extra capital pressure on banks. Liquidity is not an issue yet as we expect PBoC can manage liquidity through open market operations or targeted reserve requirement ratio cuts.

We expect the PBoC will cut the RRR from 12.5% to 12.0% for targeted use of the liquidity. We believe that only some banks can enjoy these targeted cuts or only loans that match a set of requirements to provide critical funding to companies that are eligible for these targeted RRR cuts. We estimate that these measures could release around CNY400 billion of liquidity. This is in contrast to a broad-based RRR cut that could release liquidity of around CNY1000 billion.

The yuan has already strengthened, reflecting market expectations on more easing from the government. We expect the yuan to be stable around 7.03 per dollar when the policy will be announced later.

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