China: PBoC leaves 1Y MLF unchanged - suggesting 1Q23 GDP won't be too bad

China's central bank, the PBoC, kept the 1Y Medium-term Lending Facility rate unchanged at 2.75% today. This is an important signal that the first quarter GDP report due on Tuesday will not be too soft. But we do not expect it to be particularly strong either

Leading members of the People's Bank of China, including Governor, Yi Gang (waving)

PBoC on hold hints that GDP report will be in line with expectations

China's central bank, the PBoC, kept the 1Y Medium-term Lending Facility (MLF) rate unchanged at 2.75% at today's decision. Liquidity injections from the 1Y MLF were only CNY170bn, which was smaller than the market consensus of CNY220bn though higher than the maturity amount of CNY150bn. The two actions signal that the PBoC is not particularly worried about the recovery of the Chinese economy.

This should provide some relief to the market which will now expect the GDP report for 1Q23 to be in line with expectations. The consensus view is for GDP growth of 4.0%YoY (ING f 3.8%YoY).

What to expect from future PBoC action?

If the GDP report in 1Q23 comes in close to market expectations then the speed of the economic recovery is on track. A more moderate pace of growth in the first quarter is logical given that this marks the beginning of the recovery. There should be a more rapid recovery in 2Q23 as consumer spending picks up pace, and as infrastructure investment and construction activity from real estate developers finishing their existing projects also recover.

Consequently, we expect the PBoC to keep interest rates unchanged. It is unlikely that the central bank will hike when the economy has still not fully recovered. And rate cuts are still possible if the recovery runs slower than required. This is a risk that we cannot ignore as external demand is still weakening and affecting China's international trade. The weaker trade position puts pressure on the labour market in the export-related manufacturing sector. If trade weakness begins to weigh more heavily on the domestic economy then the PBoC will likely first increase liquidity to the lower interest rates in the money markets. We would expect a cut of 10bp if the economy falls off the recovery track.

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