China: PBoC stayed put and will stay that way for a while

The central bank of China, PBoC, stayed put today. We expect there will be no broad-based easing for the rest of the year.

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

PBoC did not cut Loan Prime Rates

The PBoC did not cut the 1Y and 5Y Loan Prime Rates today, which stay at 3.85% and 4.65%, respectively.

This is consistent with the earlier comment by the central bank that monetary policy will be more flexible and more specific to give liquidity to corporates that are really in need of funding to survive the damage stemming from Covid-19.

Monetary policy will stay flat for the rest of 2020

We expect monetary policy on interest rates, including the 7D reverse repo, 1Y Medium Lending Facility, and the 1Y and 5Y Loan Prime Rate, to remain the same for the rest of 2020 as China's Covid-19 infection cases have been stabilised. We also expect there will be no broad-based RRR cut, but there could be targeted RRR cut or targeted re-lending for SMEs and the agricultural sector.

In the meantime, if liquidity tightens, the central bank will fine-tune it via daily open market operations.

No impact on USDCNY

We don't think this will have any impact on the USDCNY exchange rate as the market largely expects the PBoC to hold fire on rates unless Covid-19 cases in China become widespread again, which is unlikely given its strict social distancing measures.

Our forecast for the USDCNY by the end of the year is 6.97, though this could be revised lower given the dollar's recent weakness.