

## China signals targeted RRR cut

This could be a surprise for markets at a time when other major central banks are talking about rate hikes and the taper timetable. The Chinese government announcement on a possible RRR cut will likely only be targeted at SMEs.



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### Chinese government's decision on monetary policy

The government held a regular meeting and decided to cut the targeted reserve requirement ratio (RRR) for small and medium enterprises (SMEs) when necessary, it also didn't rule out other monetary policy tools to help SMEs.

We believe that such a cut will come soon.

The cost pressures of SMEs mostly comes from high commodity prices, although the Chinese government has already acted to reduce commodity prices using both market-based and administrative measures.

### Possible impact

There are a number of impacts from a possible targeted RRR cut:

1. Weaker CNY against USD as the targeted RRR cut is in contrast to Fed talk of taper and rate hike timing. This could be reflected in today's market moves.
2. This policy could be temporary when announced and possibly reported together with a timeframe or conditions.
3. SMEs in China should be able to get more loans from banks at lower interest rates after the targeted RRR cut is announced. But banks' credit policy for SMEs is not expected to be relaxed.
4. Some SMEs might be less willing to go for micro-loans offered by fintech platforms, which were the usual channel SMEs got financing from due to their more relaxed credit policy compared to banks for SMEs even though they charge higher interest rates.
5. A cut of targeted RRR for SMEs only lowers the cost to banks if they lend to SMEs. That means not all SMEs can get loans from banks even if there is a targeted RRR cut. Some SMEs would continue to operate in difficult conditions.
6. Overall, SMEs survival rate could increase moderately, and this could help stabilise jobs and economic growth/

We may revise our GDP forecast after the announcement of the policy.

On USDCNY, we have revised our forecast to 6.55 for the end of 3Q21 and to 6.45 for the end of 4Q21.

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