

China surprises by not cutting rates

China made no changes to its benchmark rate, surprising many. Questions are being asked as to whether it will end the Reserve Requirement Ratio cut cycle in 4Q19



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

China skipped interest rate cut

The Peoples Bank of China surprised the markets by not cutting the Loan Prime Rate, the LPR, its new benchmark. The 1Y loan prime rate stays at 4.2% and the 5Y at 4.85%. The PBoC last cut rates in September. The question now is whether China believes it's unnecessary to reduce interest rates given better than expected September data, or whether it wants to keep the interest rate cut 'bullet' for the future in case trade tensions escalate further.

No change in the Loan Prime Rate has not cheered up the market; USDCNY was fairly stable around 7.07 level, indicating it's not seen as particularly positive.

What about RRR cuts in 4Q19?

We will have a clearer answer from the central bank in 4Q19 as we expect that the PBoC will cut RRR by 0.5 percentage point even if there is a "phase one deal" released in November.

The Chinese economy has suffered from a long trade war (since March 2018), and the cumulative damage has been increasingly obvious when you look at the data. For example, smartphone

production was down on a yearly basis in September.

An RRR cut is therefore expected to put downward pressure on interest rates. This will help both the public sector to finance infrastructure projects and the private sector to reduce interest costs.