

China's PBoC kept one interest rate unchanged but there is another one coming

China's central bank, the PBoC, kept the 1Y Medium-Term Lending Facility (1Y MLF) interest rate unchanged today. We don't have to hold our breath for long until Feb 20th when the Loan Prime Rate will be announced.



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

PBoC did not cut the 1Y MLF

Even though the PBoC told us that it would be "proactive" with its monetary policy, it kept the 1Y Medium-Term Lending Facility (MLF) unchanged today at 2.85%. Some believe that this was because the central bank still needs time to see the impact of last month's cuts to gauge the timing of further cuts.

Watch out for the LPR on 20th

However, this is probably not the end of the rate-cutting story. The 1Y and 5Y Loan Prime Rates will

be announced on Feb 20th. Though these interest rates are a function of the MLF, we have also seen that these rates can change when the MLF was flat.

As such, we cannot conclude right now that the PBoC will stop easing in February. We need to wait until Feb 20th, which we believe could result in a 5 bp cut from 3.7% and 4.6% for the 1Y and 5Y LPR, respectively.

Further easing of monetary policy is important as there are more bond defaults coming, and we expect that the PBoC really needs to act proactively to alleviate extra downward pressure on GDP growth.