

Chinese banks cut long term loan prime rate aggressively

Banks in China cut the 1Y loan prime rate by 5bp but cut by 15bp on the 5Y rate. This signals banks are supporting mortgage borrowers



We think residential construction activity in China will contract in 2022

15bp cut in loan prime rate

It was surprising that banks only cut the 1Y loan prime rate by 5bp this month. It could be that banks chose to leave rate-cut room for long term loans, and instead, cut 15bp from the 5Y loan prime rate.

Further 5Y rate cut possible

Most home mortgages are linked to the 5Y loan prime rate. So this rate cut is obviously to reduce the burden on borrowers.

At the same time, some local governments have started to lend to property developers to continue the construction of uncompleted homes. The two measures together should reduce the concern of existing home mortgage borrowers.

We expect there will be at least one more 5Y loan prime rate cut in 2022.

When the market sees progress in the construction of uncompleted projects, we may see an improvement in home buying sentiment and home prices should stabilise. Potential home buyers might then consider buying homes for their first purchase or upgrades for existing homeowners.

We may start to see signs of this improvement from 4Q2022 to 1Q2023.