

PBoC's focused policy to limit market chaos

The PBoC, China's central bank, cut the 7D reverse repo rate, injected liquidity, and provided additional liquidity and interest rate cut support for Wuhan. Monetary policy is more focused than usual. So too are the fiscal policies.



PBoC is easing, but is it broad-based or targeted?

China's central bank, the PBoC cut the 7-Day reverse repo from 2.5% to 2.4%, a move that is 5bps bigger than usual (usually only a 5bp move each time). At the same time, their liquidity injection looks large at 1.2 trillion yuan on 3rd February, though there was also around 1.05 trillion yuan maturing on the same day.

The PBoC also cut interest rates for corporations in Wuhan.

But so far, there is no RRR cut.

This time is different - focused measures are the key

Monetary policy stimulus on this occasion is a combination of broad-based easing and targeted, very focused easing policy. This is quite different from the previously only broad-based stimulus

measures.

We believe that the central bank would like to calm the market with enough liquidity injections so that short-term interest rates will not shoot up, which could create market chaos. But we also believe that the central bank does not want to over-react by easing monetary policy too much.

We also view today's actions as indicating that the central bank is concerned about market interest rates rising if the economy is not operating normally under the coronavirus, which would explain them pre-emptively cutting interest rates by a bigger than usual step.

The indication from no RRR cuts is also important. It reveals that the central bank does not want to send the message to the market that it is going to flood it with liquidity taking interest rates down to a very low level.

More support from fiscal side

The PBoC has done its part to limit market chaos, the Chinese government is expected to do its part to limit the spread of the coronavirus.

We expect that more fiscal stimulus will also be very focused. The government will spend money on rapidly [building more hospitals](#). They will not just stop at building a couple, they will build many more hospitals and beds.

At the same time imports of medical equipment from around the world can be exempted from import duties and consumption tax.

There are a lot of uncertainties

How long the virus will last is the key threshold for gauging the situation. From the experience of SARS, when there are no more new confirmed cases, the market can u-turn quickly. Indeed, a slowdown in the numbers of new cases could be enough.

But until then, we expect retail, catering, mass transport, and inbound and outbound tourism to be affected. The manufacturing sector could also be hard hit if some workers choose not to return from their home towns back to their factories (as once they leave they can't go back when there is coronavirus). Global supply chains could also be affected.

There are many uncertainties. But one that is clear is that China's GDP in 1Q20 will slow. Our forecast is that GDP in 1Q will go down from 6%YoY to 5.6%YoY.