FOR PROFESSIONAL INVESTORS – 15 November 2023

Chi Flash

BEIJING MULLS AGGRESSIVE EASING AS 'PAIN POINT' HITS

It's amazing that the amount of news that happens in the world every day

always just exactly fits the newspaper.

Jerry Seinfeld

The media reported yesterday (14 November) that the PBoC was mulling to inject at least RMB1 trillion to fund three major property and infrastructure projects in big cities through its pledged supplementary lending (PSL)[1] and special loan facilities. If confirmed, this would vindicate my argument earlier that an 'economic pain point' might have been reached and prompted Beijing into more assertive easing than it had been doing to boost economic growth.

Note that this reported move comes on top of the recently announced RMB1 trillion special CBG issuance for funding public investment for the rest of this year, further underscoring my view that Beijing would need to up the ante of policy easing to arrest the weakening GDP growth momentum.

Possibly a turning point

These new policy moves may mark the turning point for China's asset markets, which have been depressed by weak confidence and insufficient policy easing. The key problem for the property market, which accounts for at least 25% of GDP and is the biggest confidence destroyer in the system, is a negative price expectation.

If this new liquidity move helps ease developers' financing problem so that they could pay off suppliers' arrears and complete stalled property projects, it could reduce mortgage and corporate NPL risks, improve public confidence, and hence, the economic and asset market outlook.

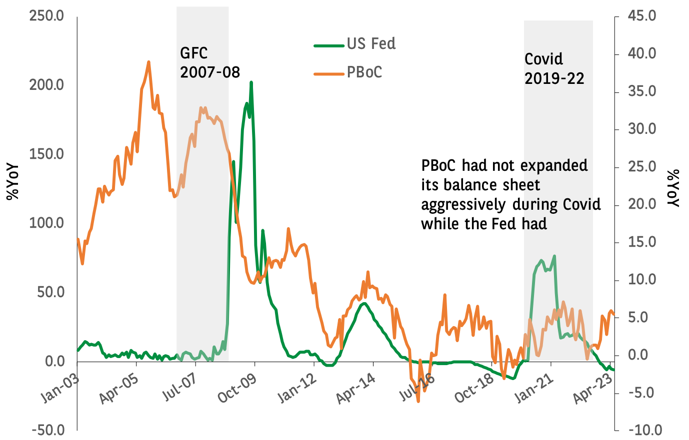
[1] The PBoC created the PSL facility in 2014 to provide low-cost financing to policy banks to support government subsidy schemes for infrastructure projects and the shanty town renovation project. It has since become a liquidity management tool for the PBoC.

Policy leeway

Some observers have argued that China's huge debt burden had limited Beijing's options to deal with the economic problems. This view is myopic, as I have argued repeatedly with evidence that China's debt is a manageable problem and is not a constraint on Beijing's macroeconomic policy. The slow growth is by Beijing's policy design as the leadership quits the old debt-fuelled supply-expansion growth model, thus refuses to go back to the old playbook of massive reflation and is willing to tolerate slower growth rates.

If push comes to shove, which seems to be the situation now, the PBoC has ample leeway to ease policy by monetising debt to fund fiscal spending.[2] This is because throughout the pandemic, the PBoC had not expanded its balance sheet aggressively to pump-prime the economy, despite all its talks about policy easing, while its developed market counterparts engaged in quantitative easing through massive central bank balance sheet expansion (Exhibit 1).

Exhibit 1
Central bank balance sheet growth



sources: CEIC, BNP Paribas Asset Management 10 Nov 2023

Emerging signs of assertive easing

The PBoC's net liquidity injection through all its lending facilities, including open market operations, has risen sharply recently (Exhibit 2), pushing the real policy rate below its long-term average (Exhibit 3).

[2] However, this is not the same as QE, as some 'expert' in the market has repeatedly said, irresponsibly, in my view. China's interest rates have not hit the zero bound. So, any debt monetisation is simply liquidity easing at this stage.

Exhibit 2

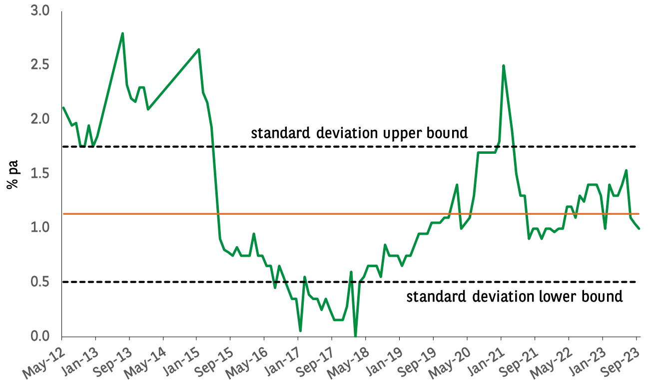
PBoC total net liquidity injection*

* net injection via lending facilities and open market operations, 3-mth moving average

sources: CEIC, BNP Paribas Asset Management 17 Oct 2023

Exhibit 3

China real policy rate*



* 7-day reverse repo rate - core CPI inflation

sources: CEIC, BNP Paribas Asset Management 18 Oct 2023

Before you jump for joy

Firstly, we need to see the newly reported RMB1 trillion liquidity injection confirmed for implementation.

Secondly, Beijing needs to sustain its assertive easing in the coming months to repair confidence and convince the markets that China's outlook is improving. If it does, there is a fair chance for a sustained rebound in Chinese growth and stocks in 2024. If not, we could see Chinese growth stuck in low gears, causing chronic weakness in China's asset prices.

Keep your fingers crossed.

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