# GLOBAL MARKETS RESEARCH

## Greater China — Week in Review

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## Highlights: RRR cut first

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During my business trip to Hong Kong and Shenzhen last week, I observed a noticeable shift in sentiment among clients and friends compared to six months ago. If I were to encapsulate their mood in one word, it would be "confusion." This stems from the stark contrast between the central government's increasing emphasis on the real estate sector in its official statements and the persistent weakness in the market.

There is a growing consensus that the current easing measures for real estate are inadequate. The key question troubling many is whether the delay in more robust policies is because the government is preparing a major intervention, or if it reflects "laying flat（躺平）" mood at the local level. As time passes, the realization is setting in that a significant policy move may not materialize. This growing sense of uncertainty seems to be the primary driver of market confusion at the moment.

China's 30-year government bond yield briefly dipped below 2.30% last week as markets continued to anticipate a repricing of the CNY 38 trillion mortgage rate. Former PBoC Governor Yi Gang, in a speech in Shanghai last week, highlighted that China should prioritize addressing deflationary pressures, with a key focus on turning the GDP deflator positive in the coming quarters. Achieving this will likely require more proactive fiscal measures alongside prudent monetary policy to support growth.

Echoing this sentiment, the PBoC stated in its latest press conference that there remains room for adjustments to the reserve requirement ratio (RRR), given that the average RRR for financial institutions hovers around 7%.

Government bond issuance in August accelerated, a trend expected to continue steadily. Additionally, a significant volume of Medium-Term Lending Facility (MLF) loans are due to mature in the coming months, with the timing of operations shifted to the 25th of each month, potentially increasing mid-month liquidity pressures. To alleviate these pressures and align monetary policy with fiscal efforts, a RRR cut may be employed to release additional liquidity.

On the topic of interest rates, the PBoC acknowledged the limitations for further reductions in deposit and lending rates, citing the flow of bank deposits into asset management products and the narrowing of banks' net interest margins. These constraints may limit the likelihood of an imminent rate cut. However, the central bank emphasized that future interest rate decisions will be data-dependent, focusing on the progress of economic recovery and China's specific macroeconomic challenges. Unlike former Governor Yi Gang, the PBoC official did not explicitly mention concerns over deflationary pressures.

Looking ahead, following the anticipated first Fed rate cut in September, there may be room for China to lower the RRR as a measure to support growth. Nonetheless, the timing of an interest rate cut could be postponed depending on economic growth developments. Should the Chinese economy slow further, we believe that Q4 could present a window for additional interest rate cuts.

China's foreign exchange reserves increased by US$31.8 billion in August, reaching US$3.29 trillion. This rise was largely attributed to valuation effects, with the U.S. dollar weakening and bond prices increasing. Meanwhile, China's gold reserves have remained unchanged at 72.8 million ounces for four consecutive months.

Looking ahead this week, market attention will focus on China's August economic data, starting with the release of CPI and PPI figures on Monday. The acceleration of government bond issuance in August is expected to support growth in aggregate social financing and infrastructure investment, which may help counterbalance the still sluggish real estate investment sector.

| Key events | |
|---|---|
| **Facts** | **OCBC Opinions** |
| ▪ China's central hosted its press conference last week. | ▪ The PBoC stated in its latest press conference that there remains room for adjustments to the reserve requirement ratio (RRR), given that the average RRR for financial institutions hovers around 7%. Government bond issuance in August accelerated, a trend expected to continue steadily. Additionally, a significant volume of Medium-Term Lending Facility (MLF) loans are due to mature in the coming months, with the timing of operations shifted to the 25th of each month, potentially increasing mid-month liquidity pressures. To alleviate these pressures and align monetary policy with fiscal efforts, a RRR cut may be employed to release additional liquidity.<br>▪ On the topic of interest rates, the PBoC acknowledged the limitations for further reductions in deposit and lending rates, citing the flow of bank deposits into asset management products and the narrowing of banks' net interest margins. These constraints may limit the likelihood of an imminent rate cut. However, the central bank emphasized that future interest rate decisions will be data-dependent, focusing on the progress of economic recovery and China's specific macroeconomic challenges. Unlike former Governor Yi Gang, the PBoC official did not explicitly mention concerns over deflationary pressures.<br>▪ Looking ahead, following the anticipated first Fed rate cut in September, there may be room for China to lower the RRR as a measure to support growth. Nonetheless, the timing of an interest rate cut could be postponed depending on economic growth developments. Should the Chinese economy slow further, we believe that Q4 could present a window for additional interest rate cuts. |

| Key Economic News | |
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