



PANTHEONTM
MACROECONOMICS

INDEPENDENT • INCISIVE • ILLUMINATING

MONETARY CONDITIONS ARE TIGHT...

...THE PBOC IS SWITCHING TO AN EASIER STANCE

...BUT THE BOJ FACES A DILEMMA

ASIA WEBINAR, 27 JUNE 2018

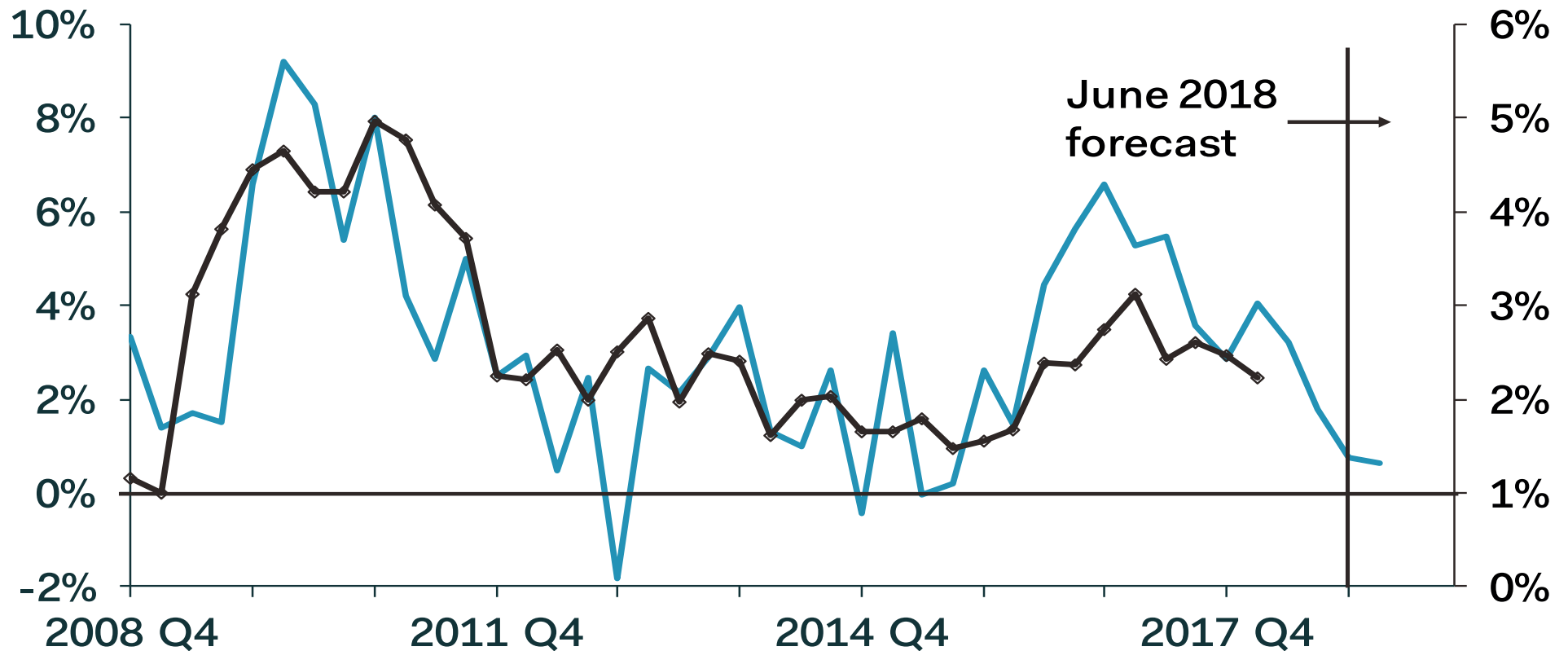
DATA AS AT JUNE 26 | FREYA BEAMISH, CHIEF ASIA ECONOMIST

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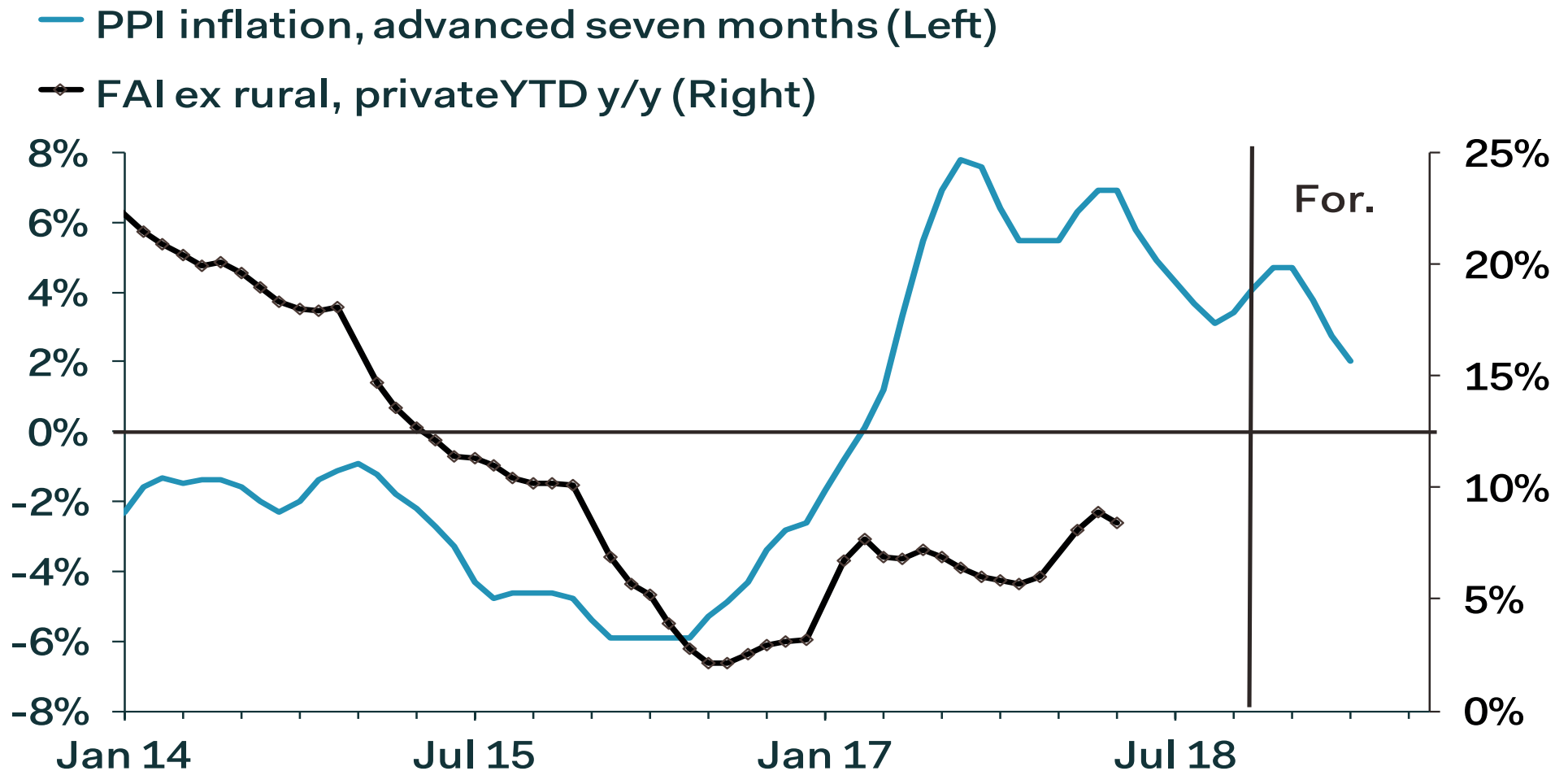
1. LIQUIDITY CONDITIONS TIGHTENED SHARPLY IN THE LAST 18 MONTHS

— M1, SA, q/q, advanced by 3 quarters (Left)

— Nominal GDP q/q, 2017 data subject to revisions, Pantheon SA (Right)



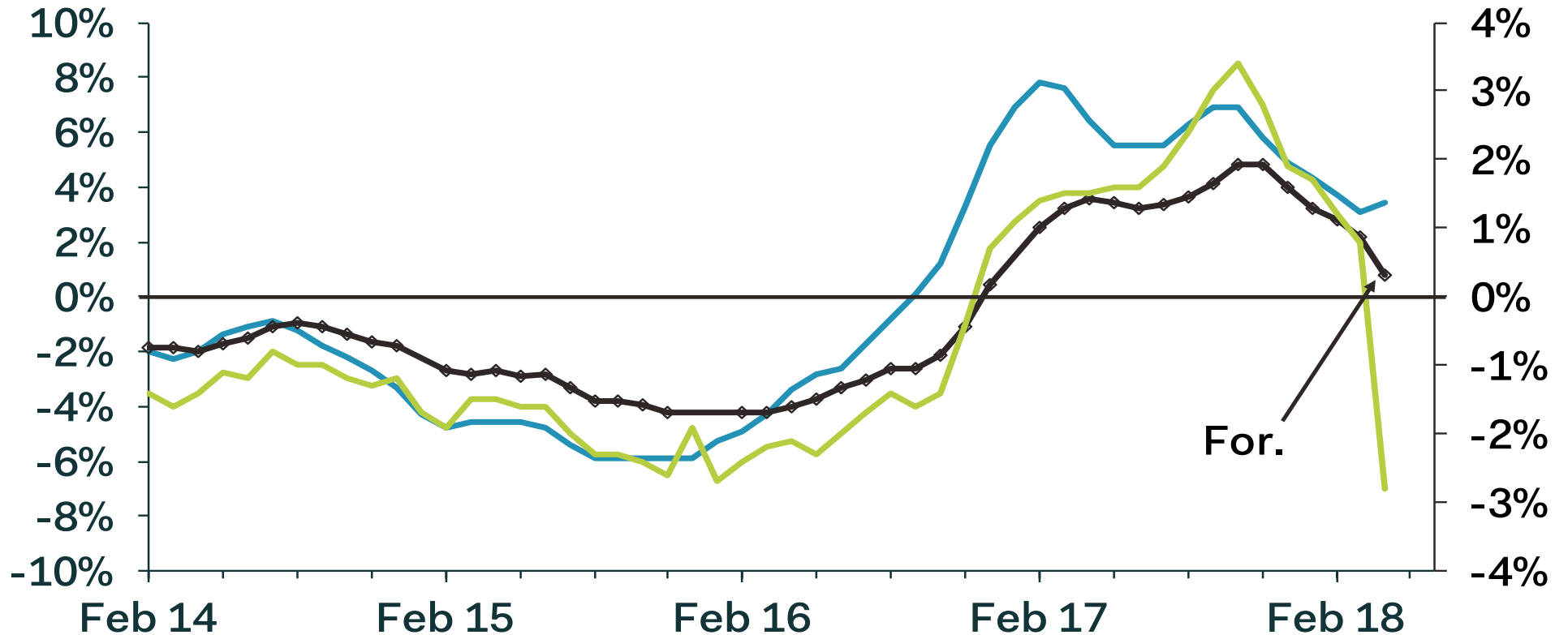
2. PPI INFLATION WILL TREND DOWN AGAIN AFTER A TEMPORARY LIFT, WITH FAI GROWTH EBBING





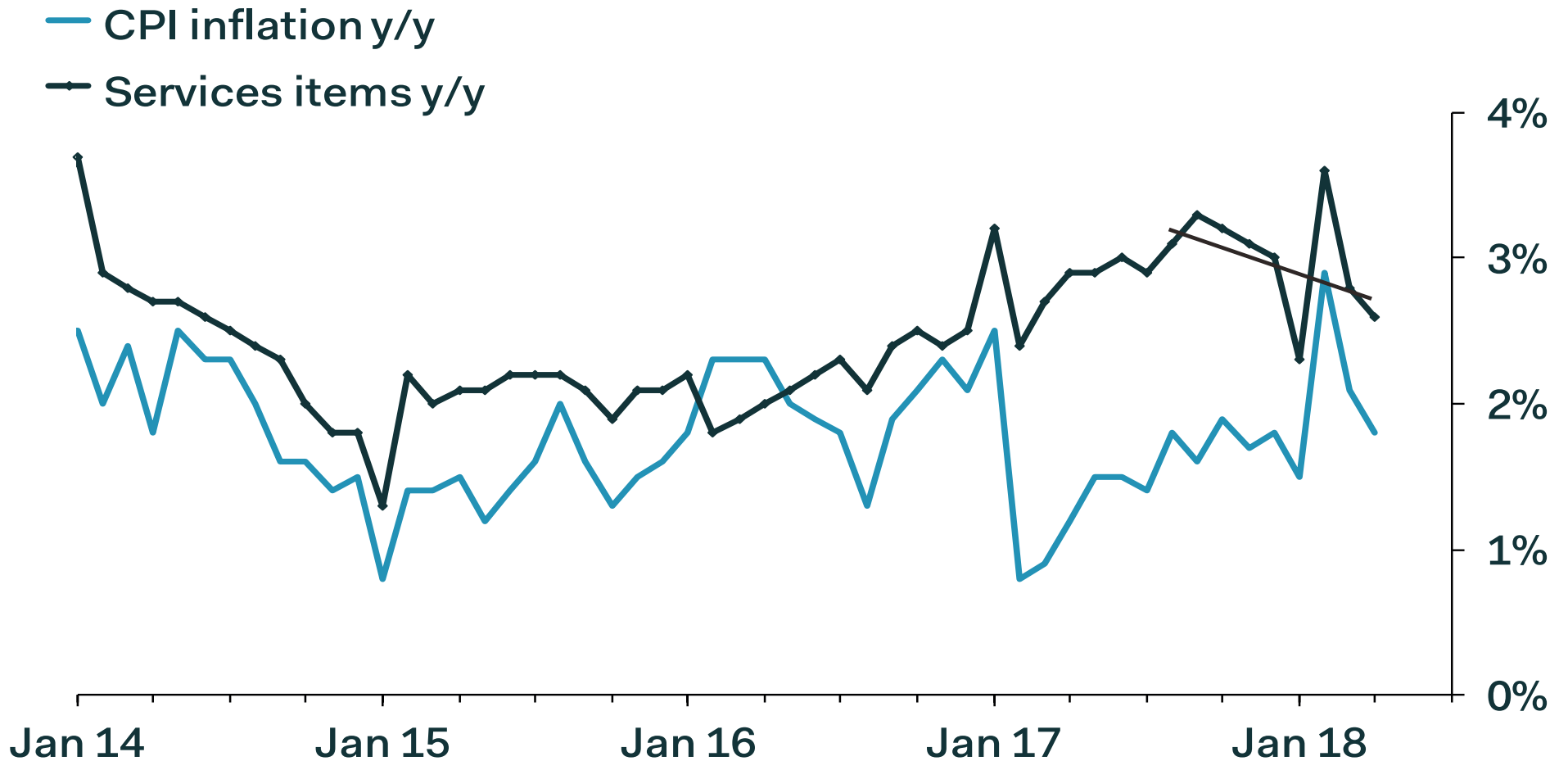
3. UNDERLYING INFLATION HAS CONTINUED TO SLOW

- PPI inflation, official (Left)
- Manufacturing goods, excluding processing, Mar. forecast (Right)
- Electrical machinery and equipment (Right)



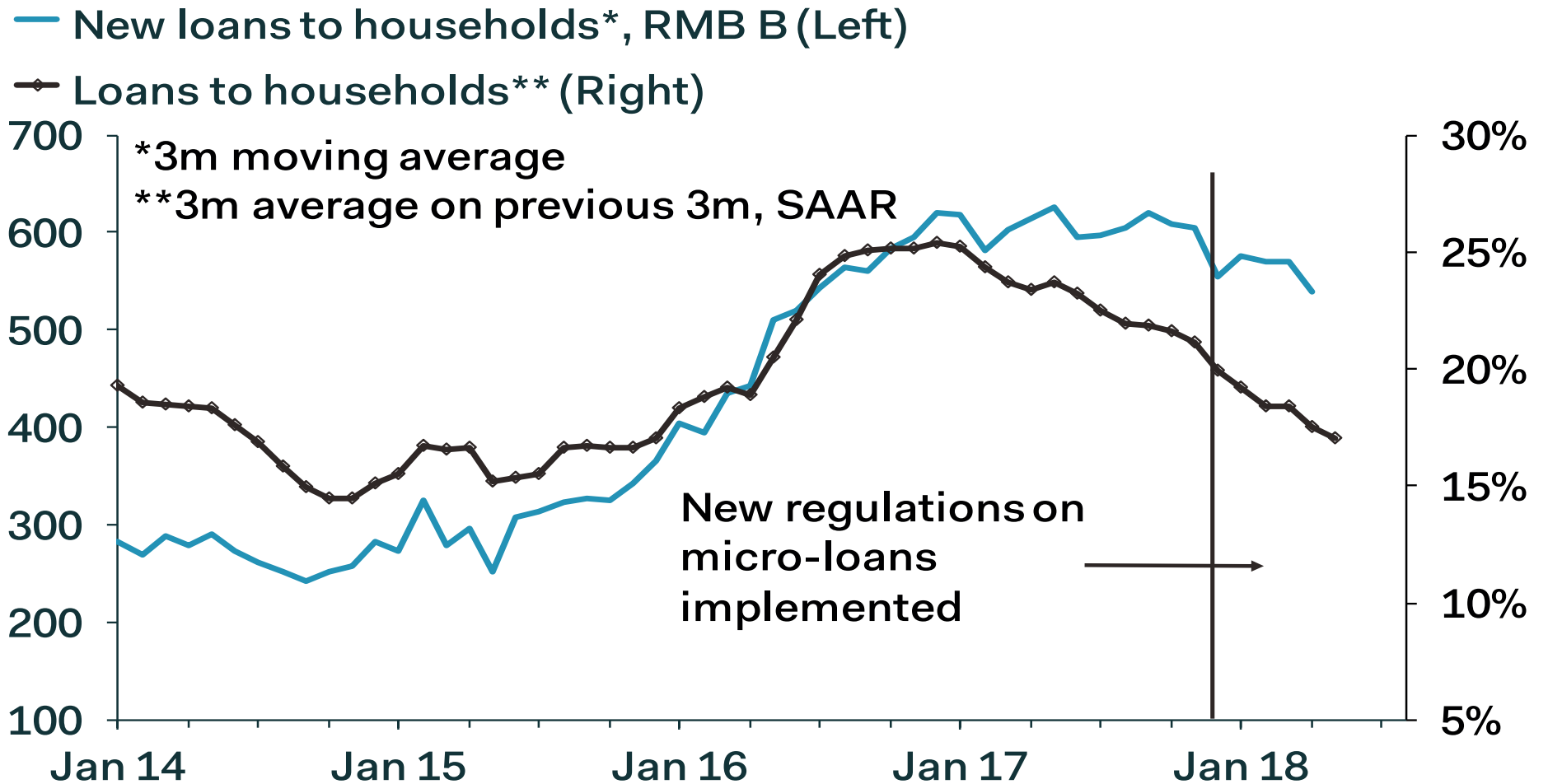


4. SERVICES INFLATION SEEMS NOW TO BE ON A DOWNTREND





5. HOUSEHOLD BORROWING GROWTH HAS BEEN HIT BY REGULATION...

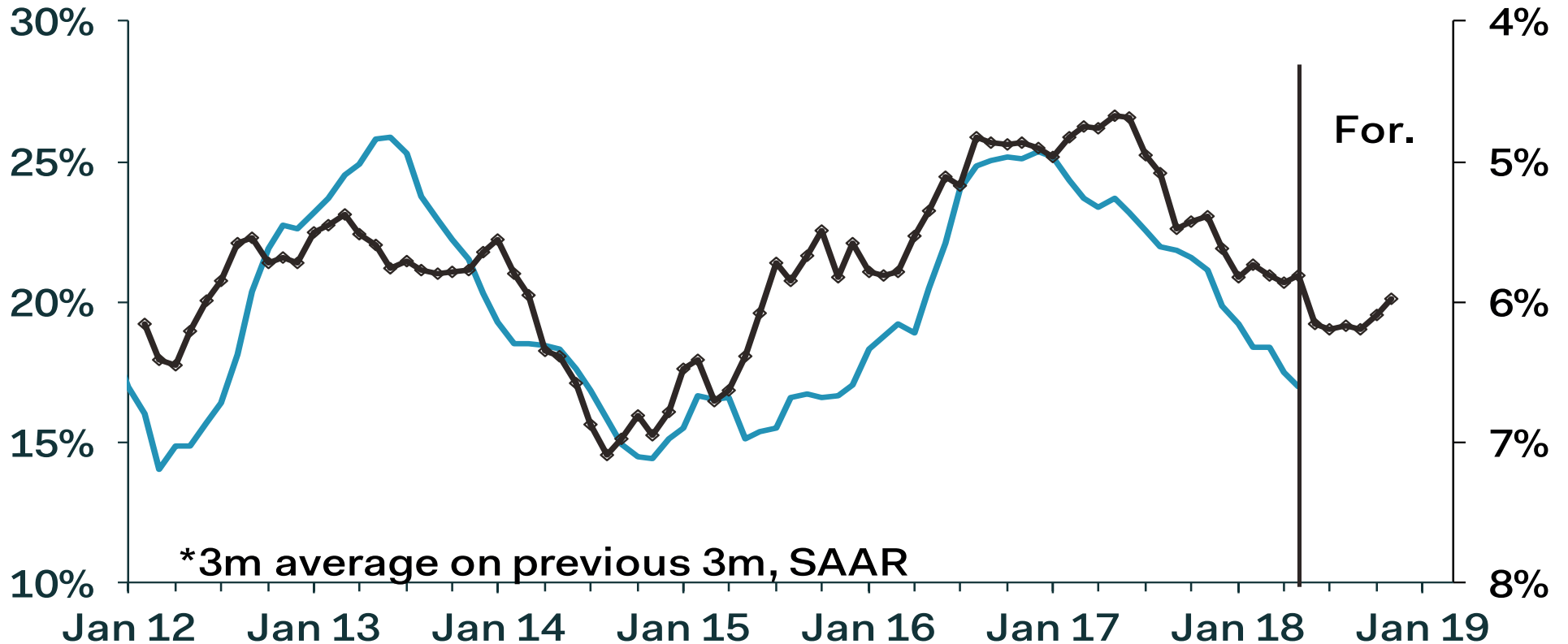




6. ...AND THE LAGGED EFFECT OF RISING RATES

— Household debt* (Left)

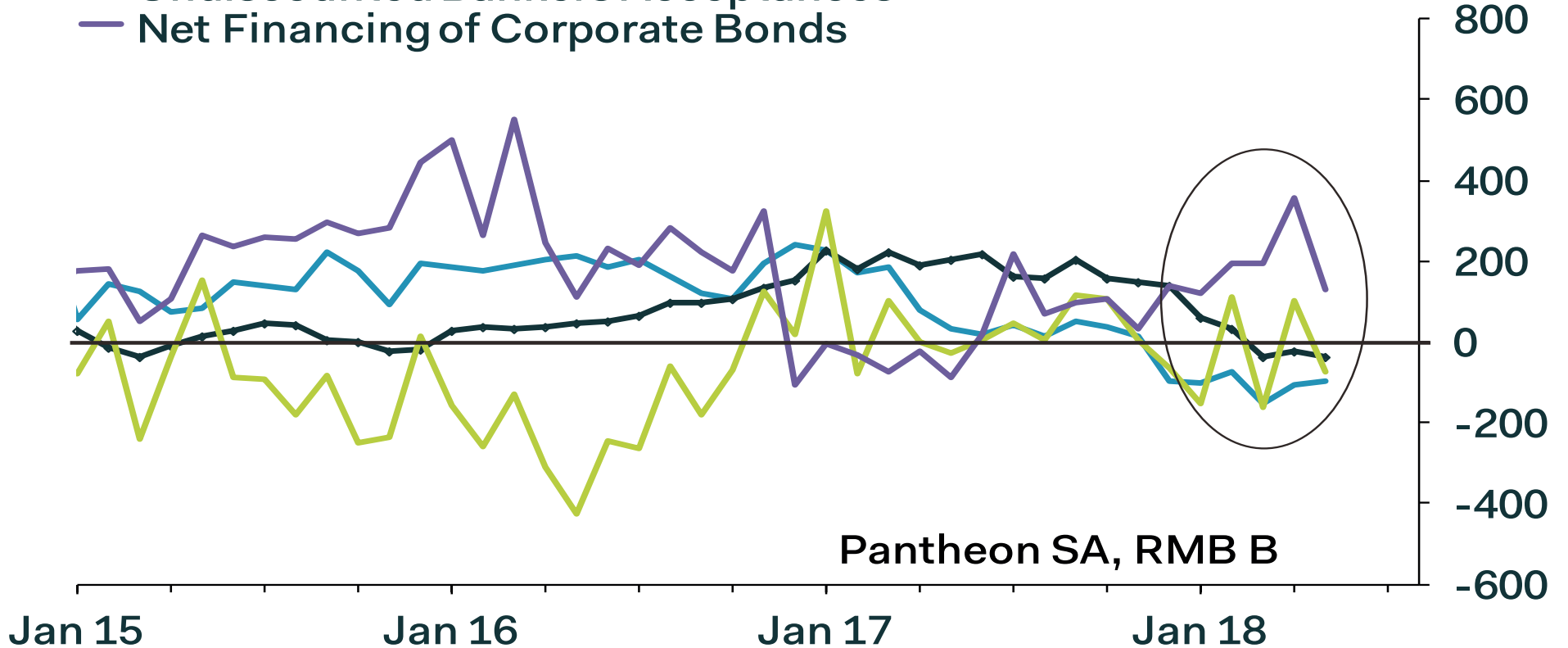
— Mortgage rates, forecast from 10yr yields, inverted (Right)





7. FOR NOW, THE MACROPRUDENTIAL ATTACK ON SHADOW BANKING CONTINUES

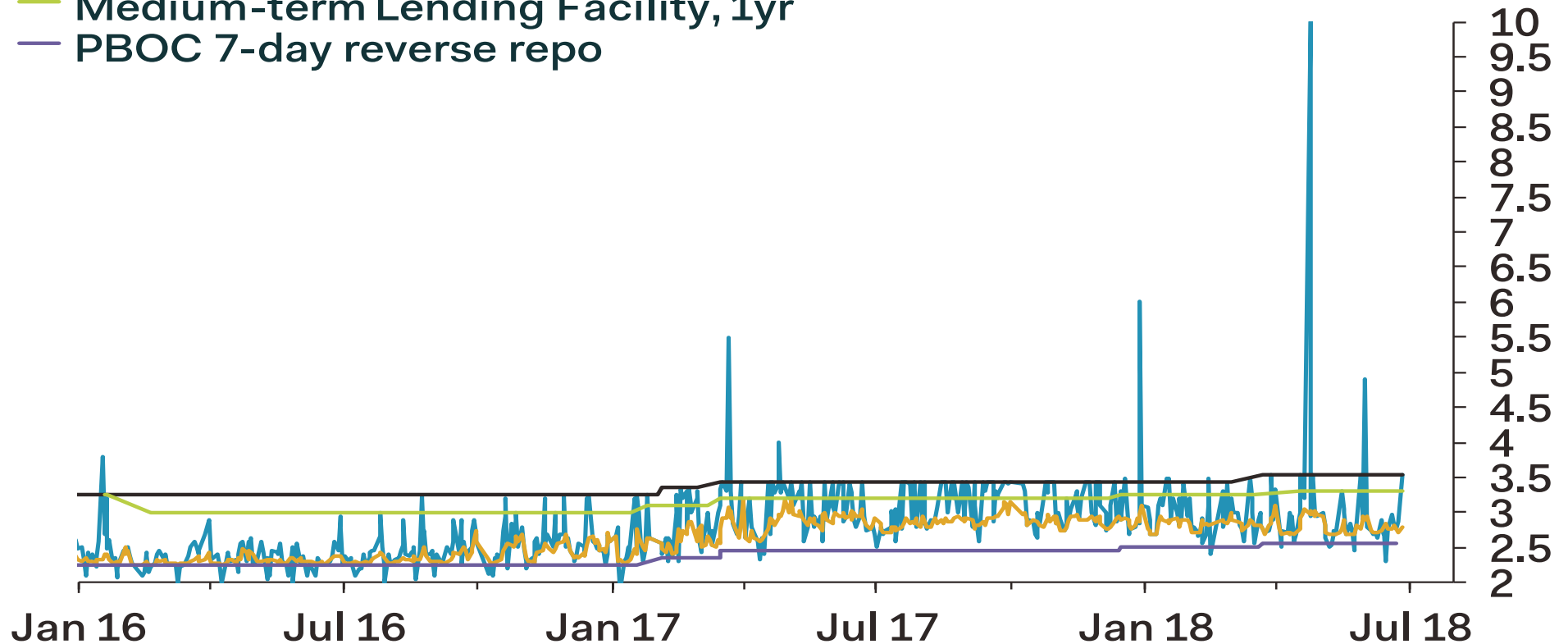
- Entrusted Loans
- Trust Loans
- Undiscounted Bankers Acceptances
- Net Financing of Corporate Bonds





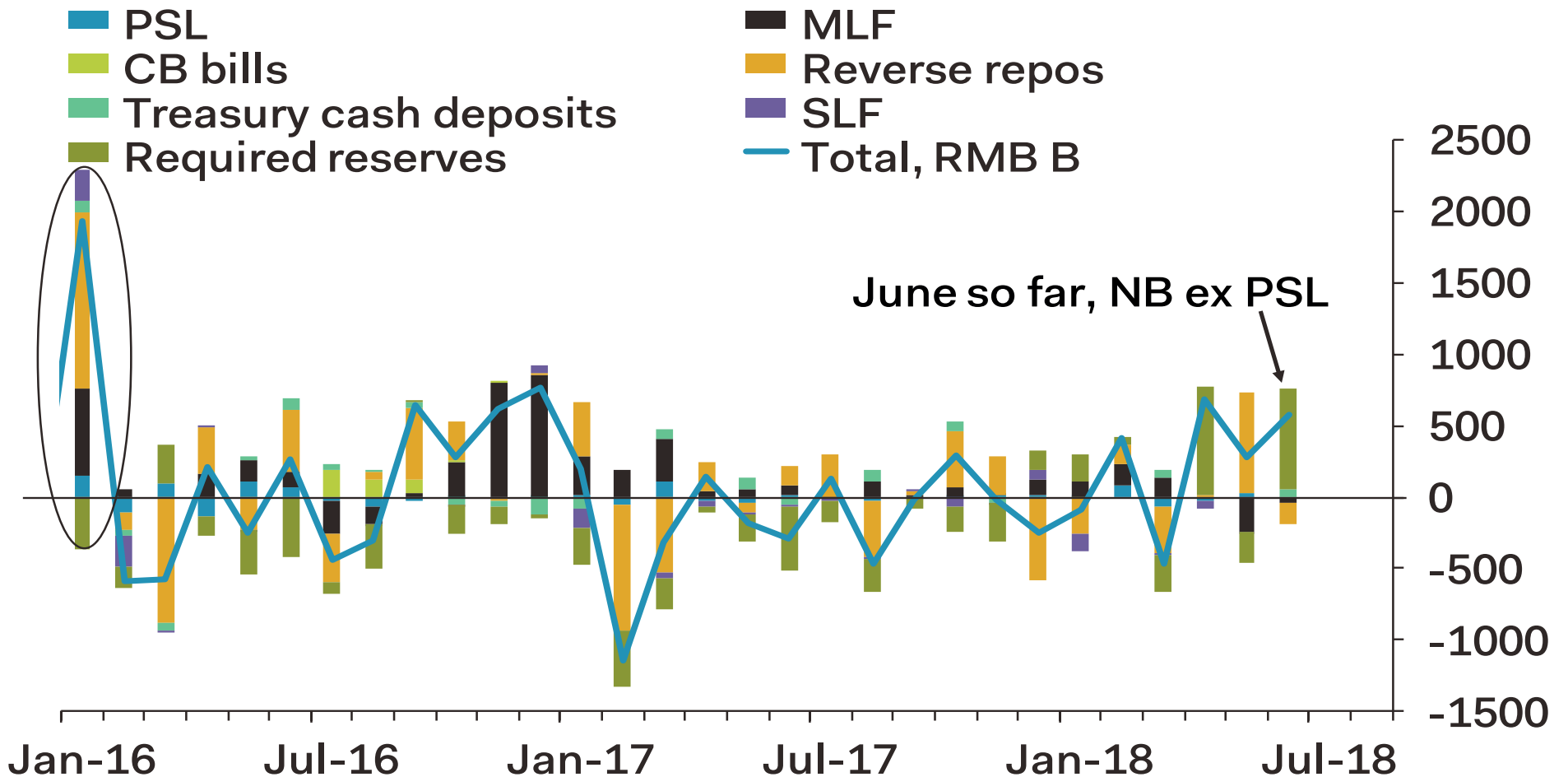
8. THE PBOC APPEARS TO HAVE GIVEN UP THE CHARADE OF 5BP HIKES

- 7-day repo rate, %
- Standing Lending Facility, 1m
- CFETS China Interbank repo, volume-weighted average, 7d
- Medium-term Lending Facility, 1yr
- PBOC 7-day reverse repo



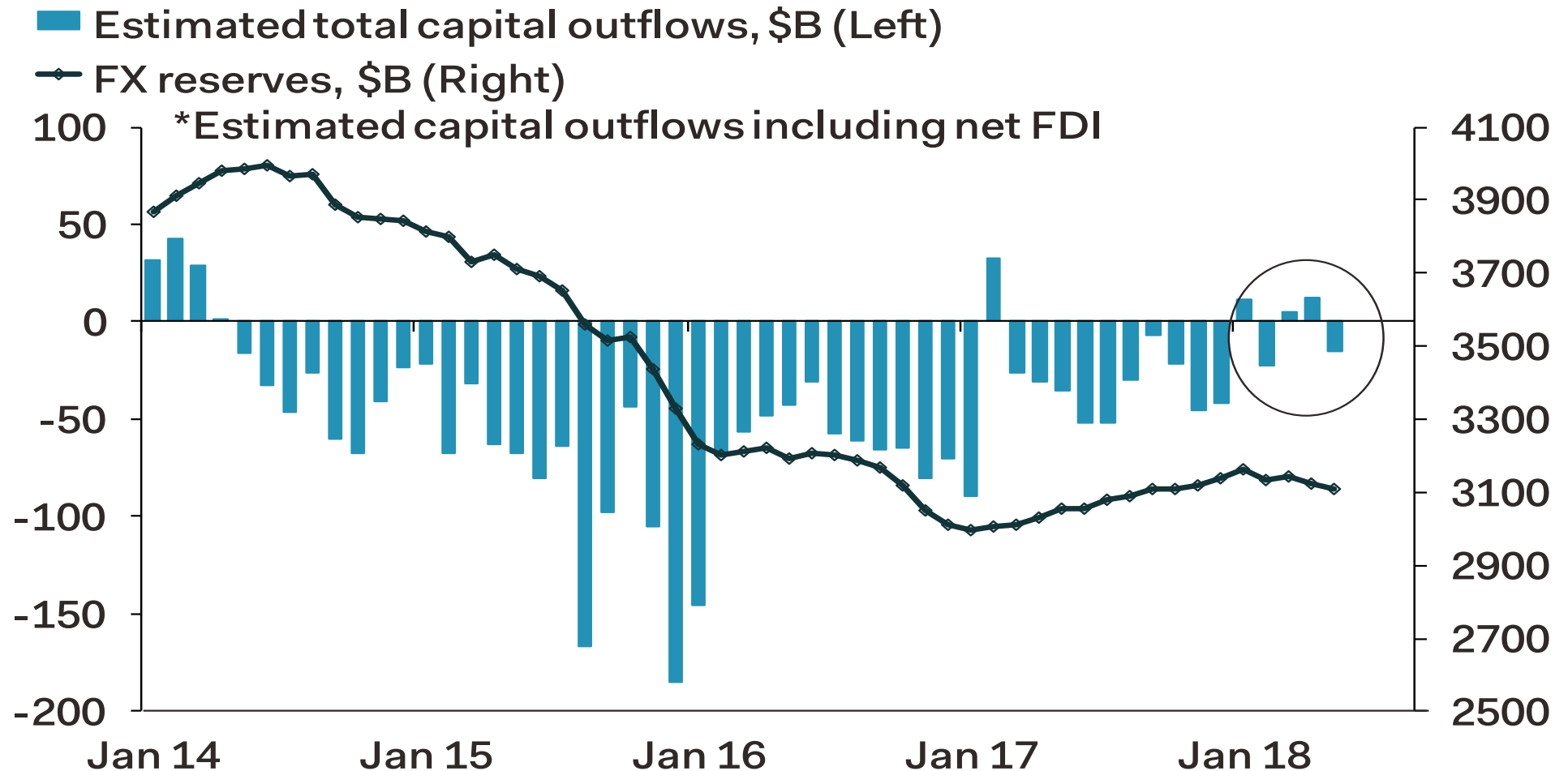


9. NET INTERBANK INJECTIONS, INCLUDING THE RRR CUTS, HAVE PICKED UP RECENTLY



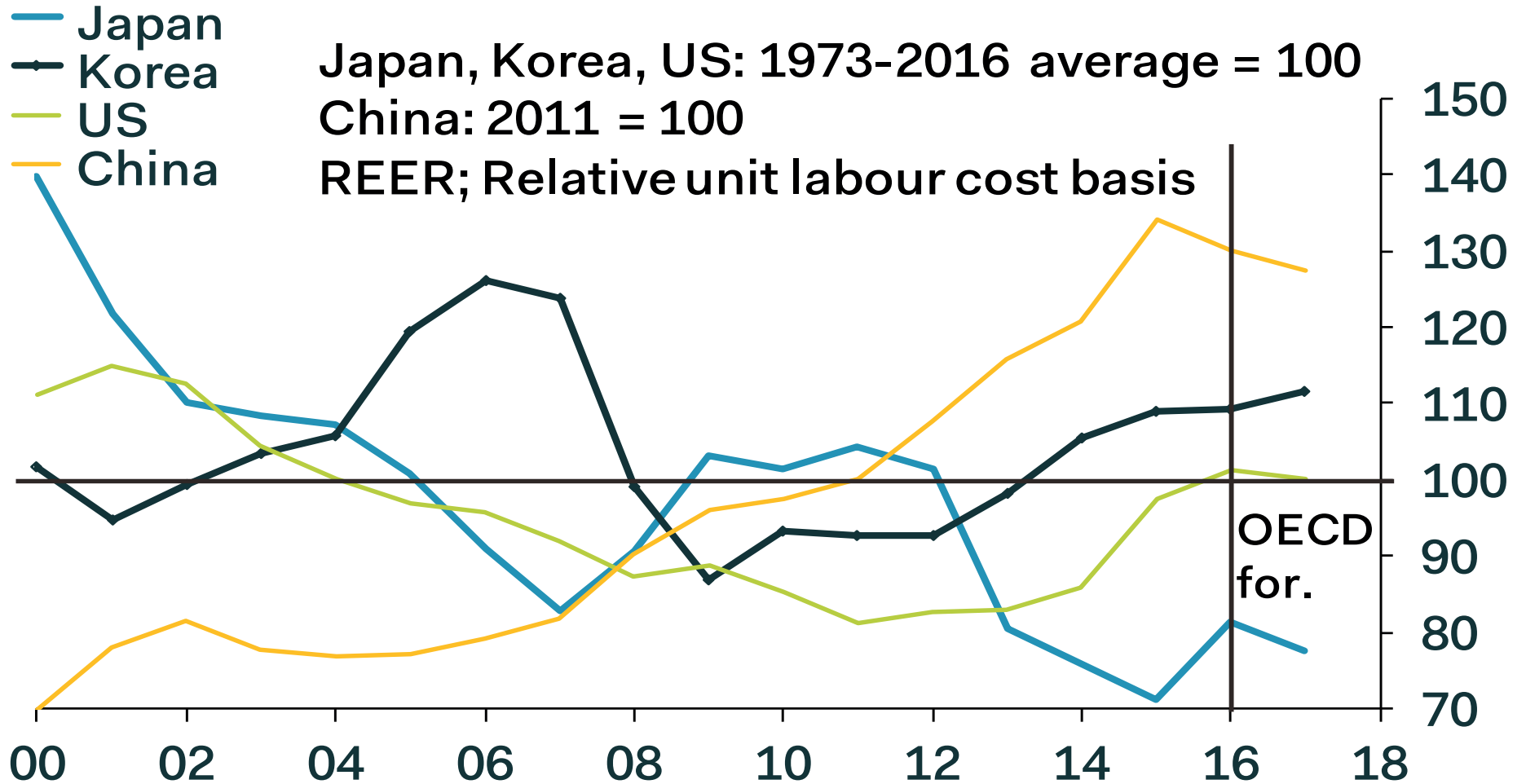


10. CAPITAL OUTFLOWS HAVE TO PICK UP NOW THAT MONETARY POLICY DIVERGENCE IS BACK ON



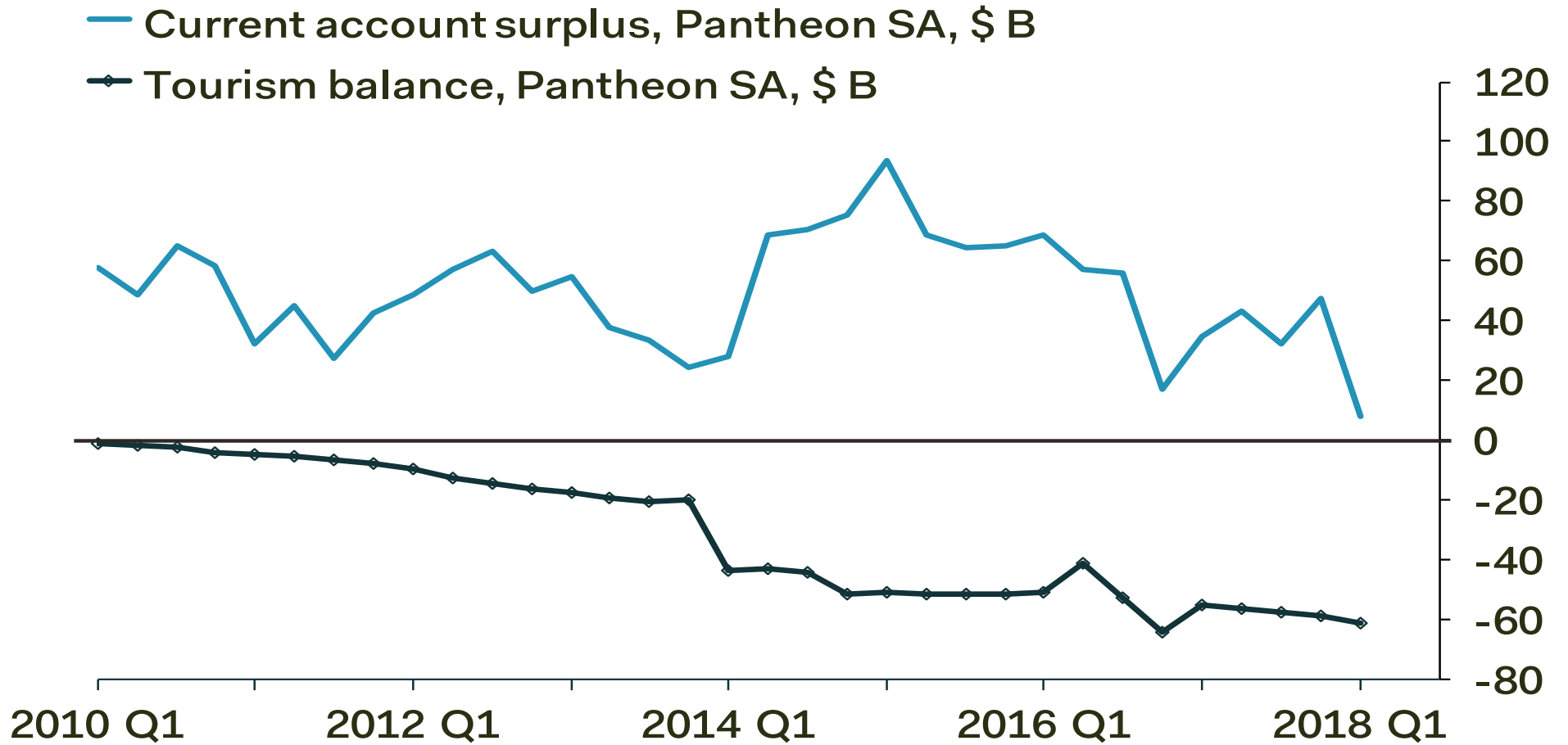


11. WE CONTINUE TO THINK THAT THE RMB IS OVERVALUED



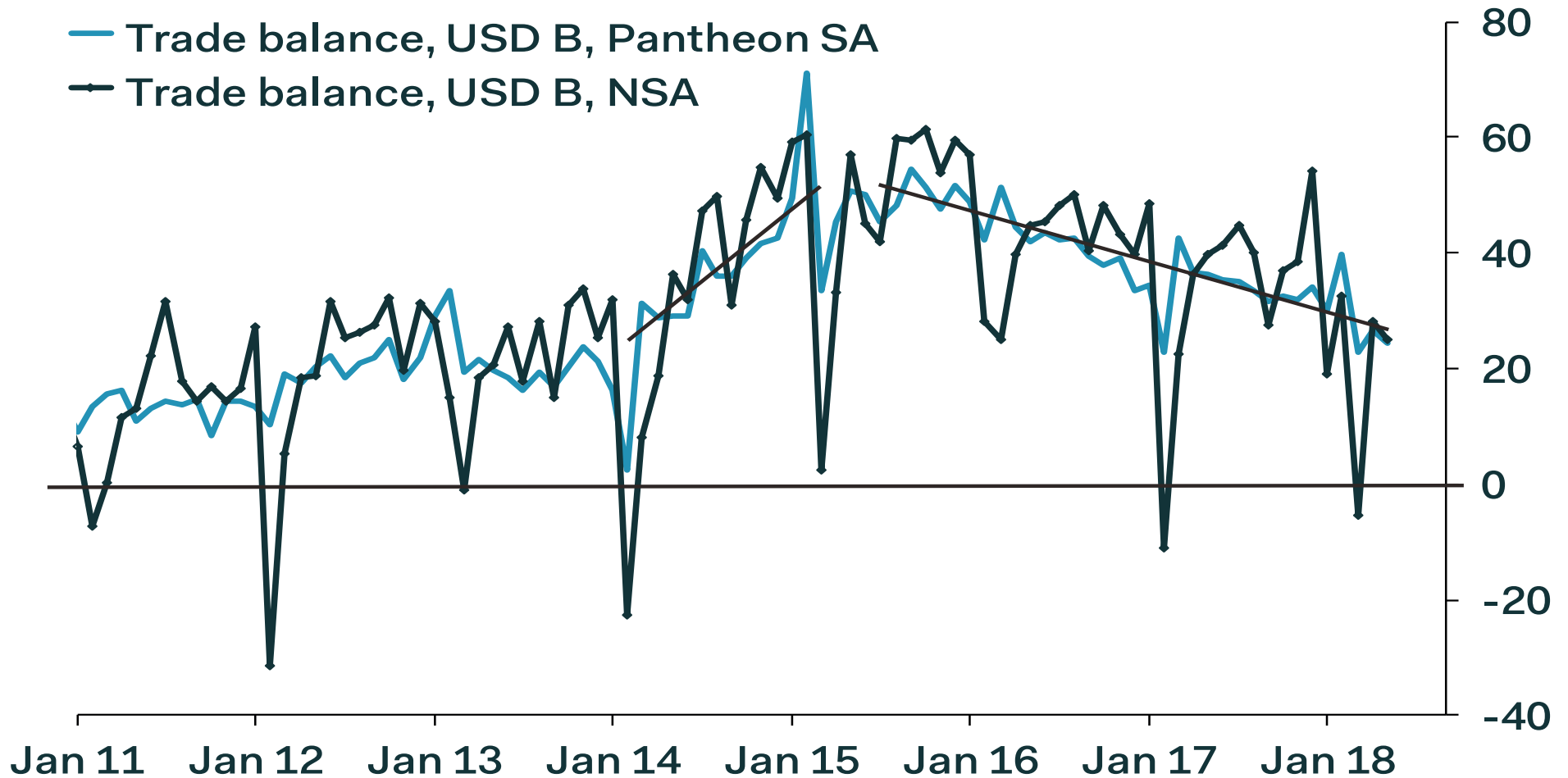


12. CHINA CAN'T AFFORD TO RUN A CURRENT ACCOUNT SURPLUS AND RELY ON FOREIGN CAPITAL





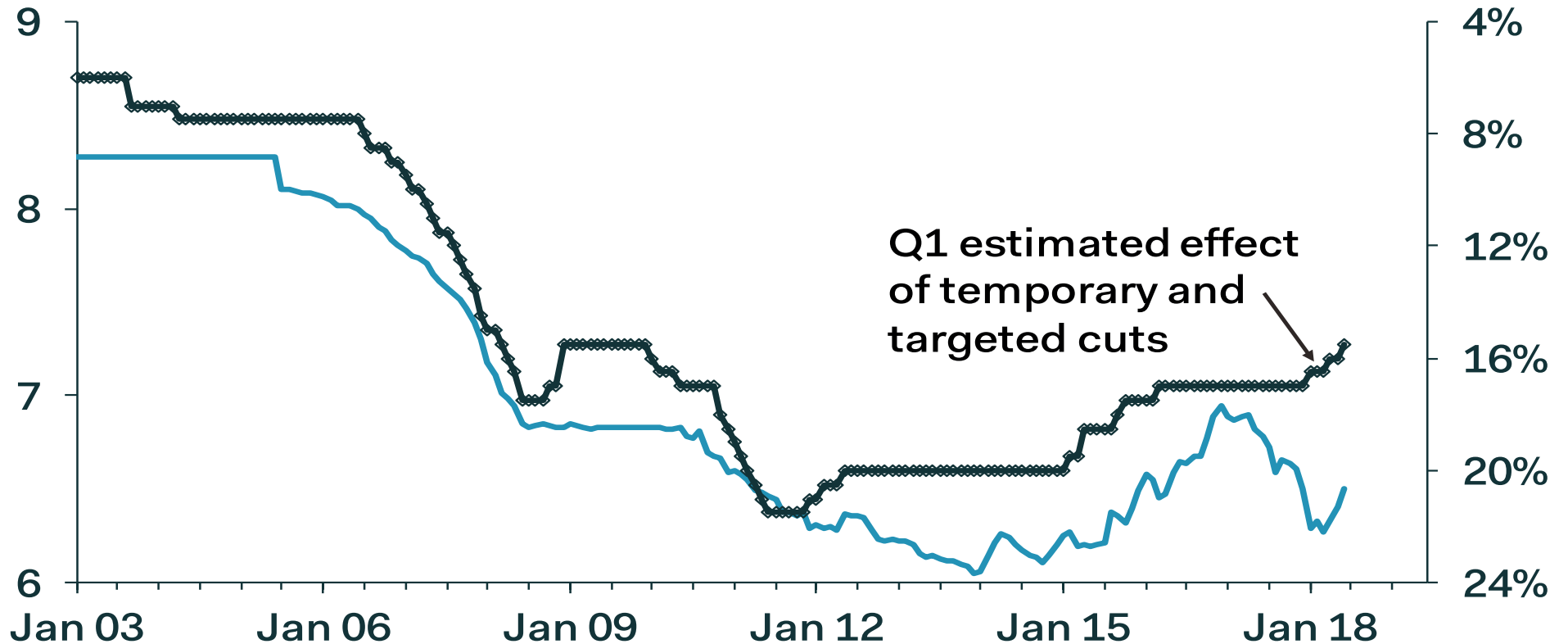
13. THE TRADE SURPLUS SHOULD BEGIN TO REBUILD





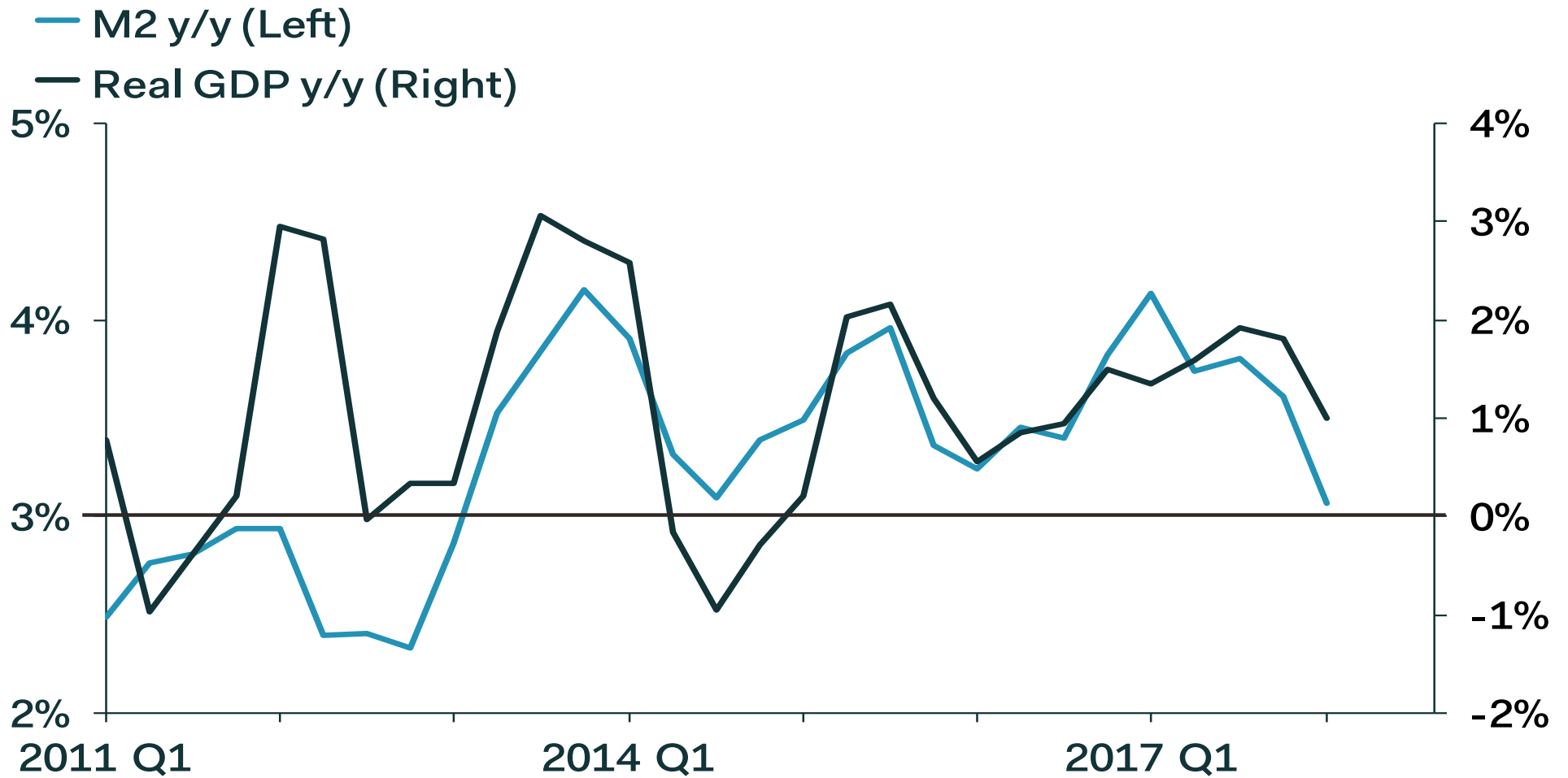
14. THE PBOC COULD NOW RELY ON RRR CUTS TO SUPPORT ITS SLOW-BURN DEBT CLEAN-UP

- CNY, as at June 25, (Left)
- Reserve ratio for major banks, Inverted (Right)



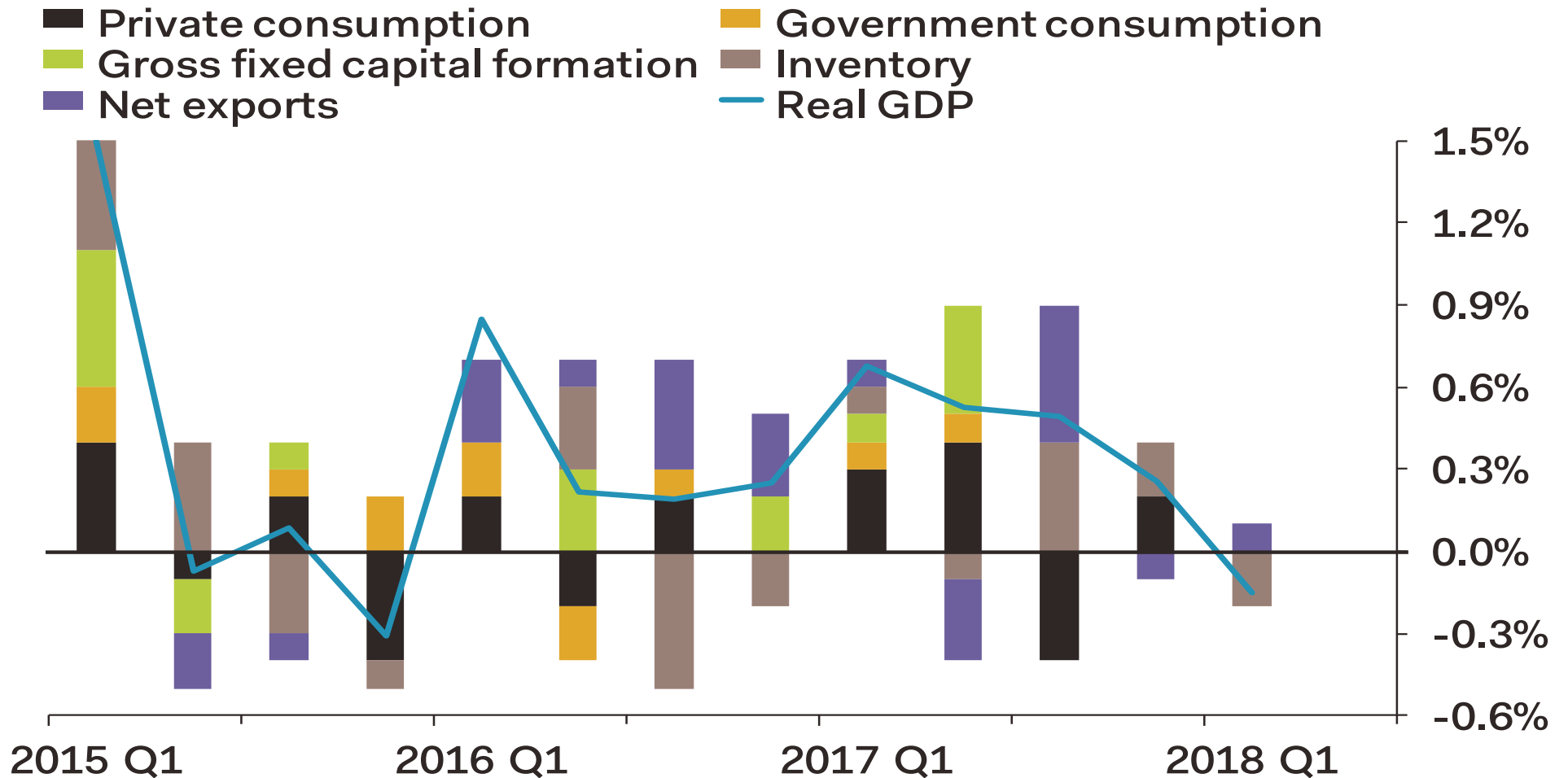


15. WE CAN'T IGNORE JAPAN'S WEAKENING MONEY GROWTH



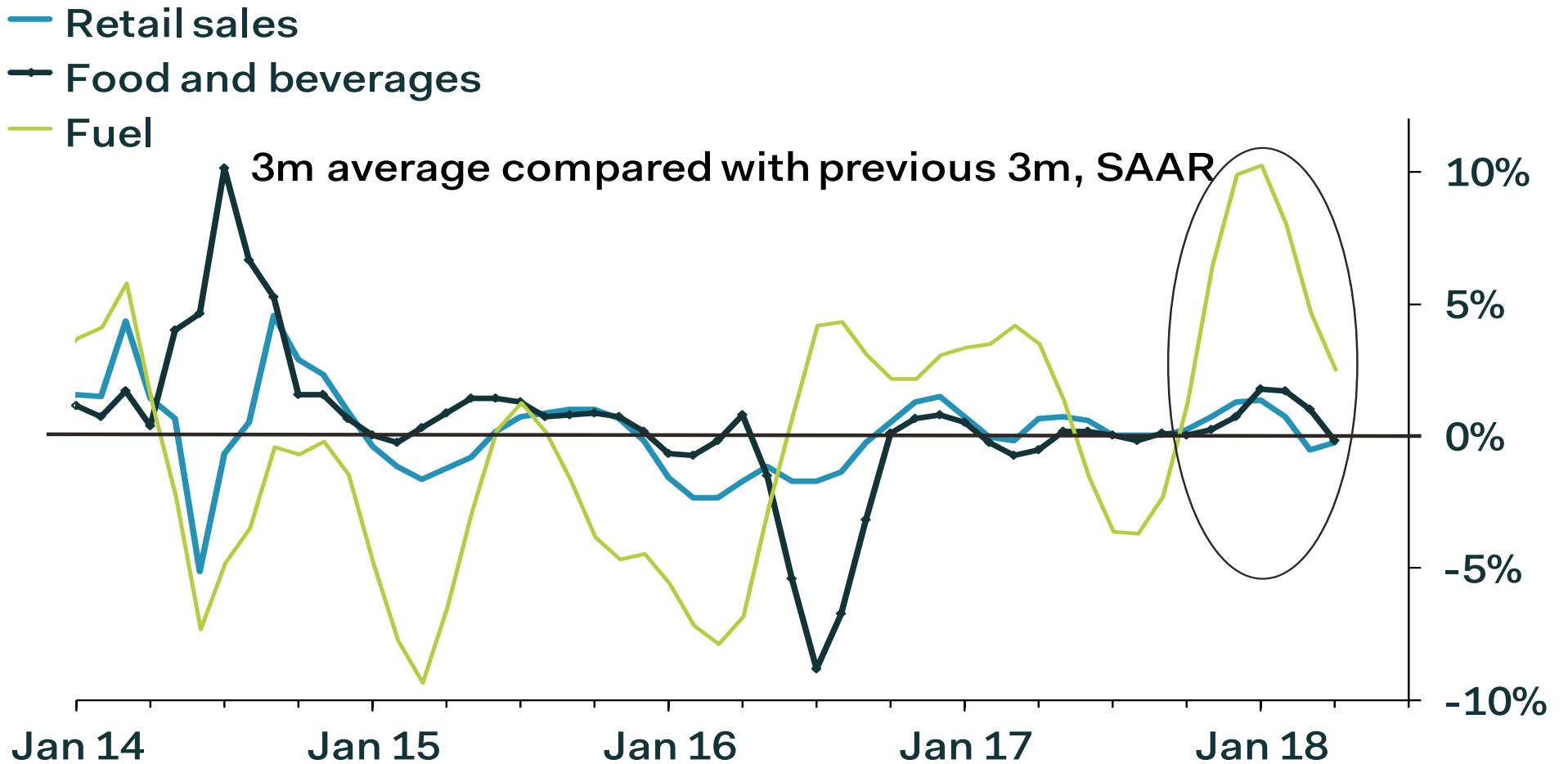


16. GDP GROWTH SHOULD REBOUND STRONGLY IN Q2...





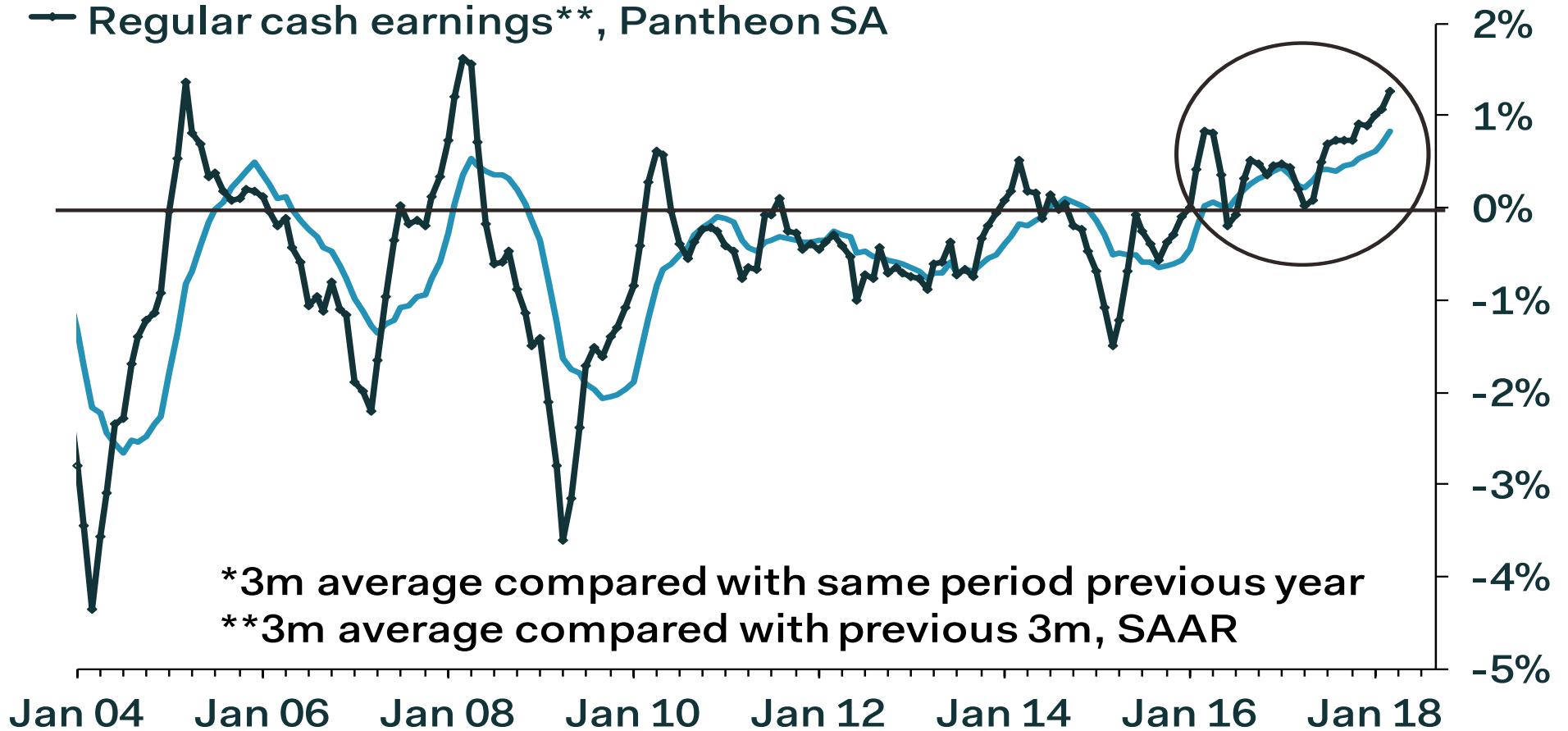
17. ...AFTER NON-CORE INFLATION ERODED PURCHASING POWER IN Q1





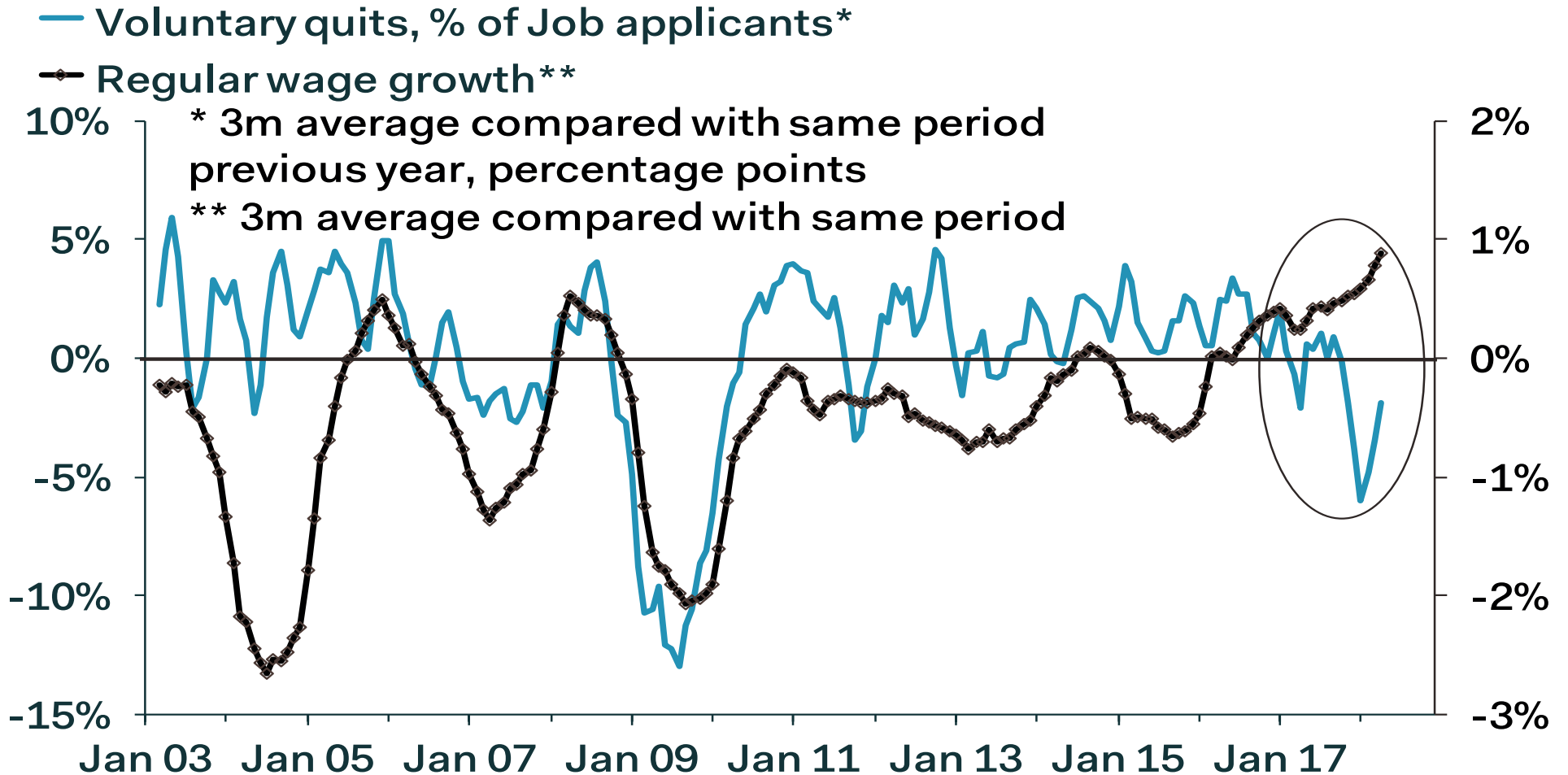
18. THE TIGHT LABOUR MARKET SHOULD UNDERPIN GROWTH THIS YEAR

- Regular cash earnings*, Pantheon SA
- Regular cash earnings**, Pantheon SA





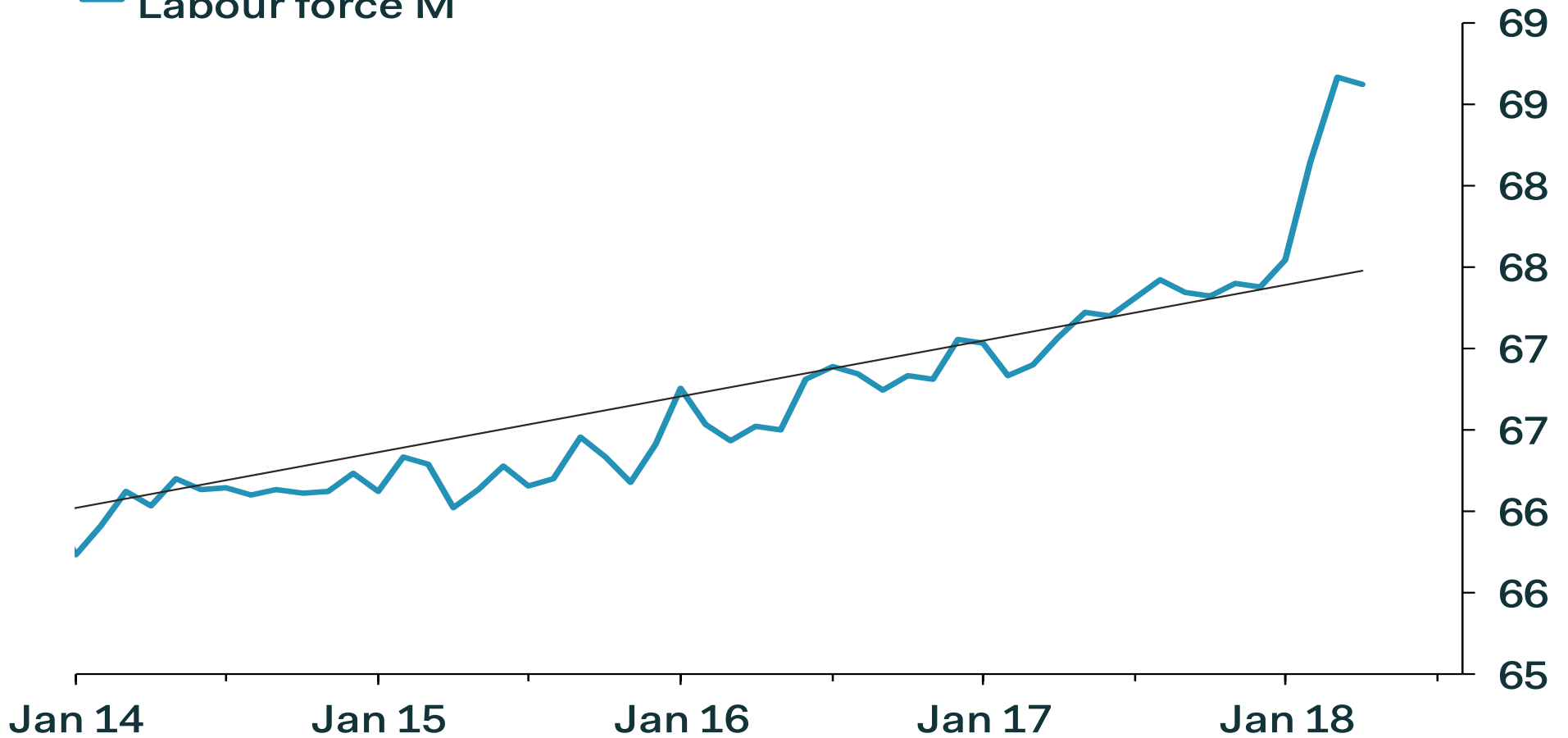
19. COMPANIES ARE HAVING TO HIKE WAGES TO RETAIN STAFF





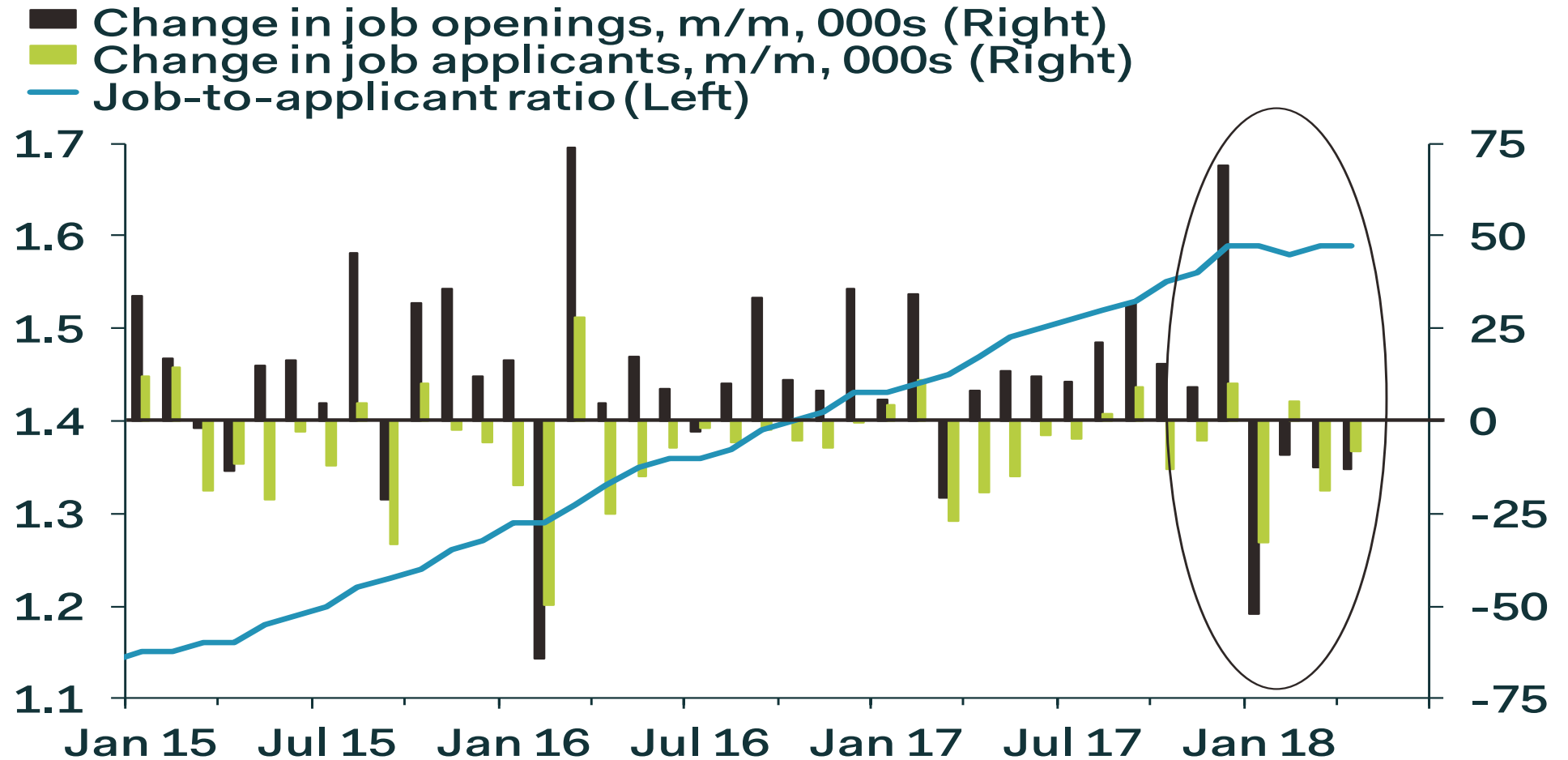
20. A STATISTICAL BLIP MAKES IT HARD TO GAUGE THE TREND, BUT HIRING REMAINS STRONG

— Labour force M



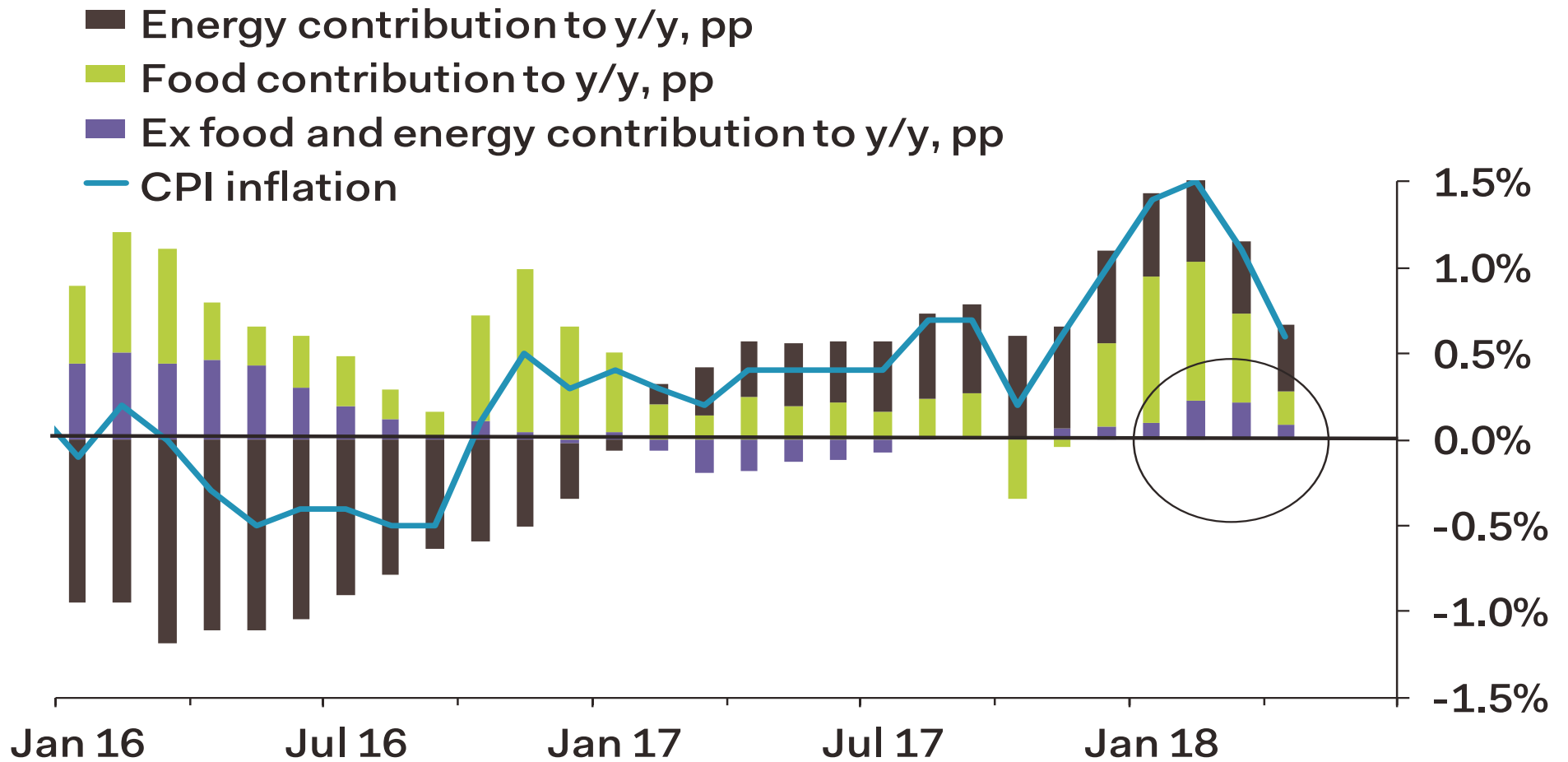


21. FIRMS LIKELY BEGAN TO CREATE NEW POSITIONS AGAIN IN MAY



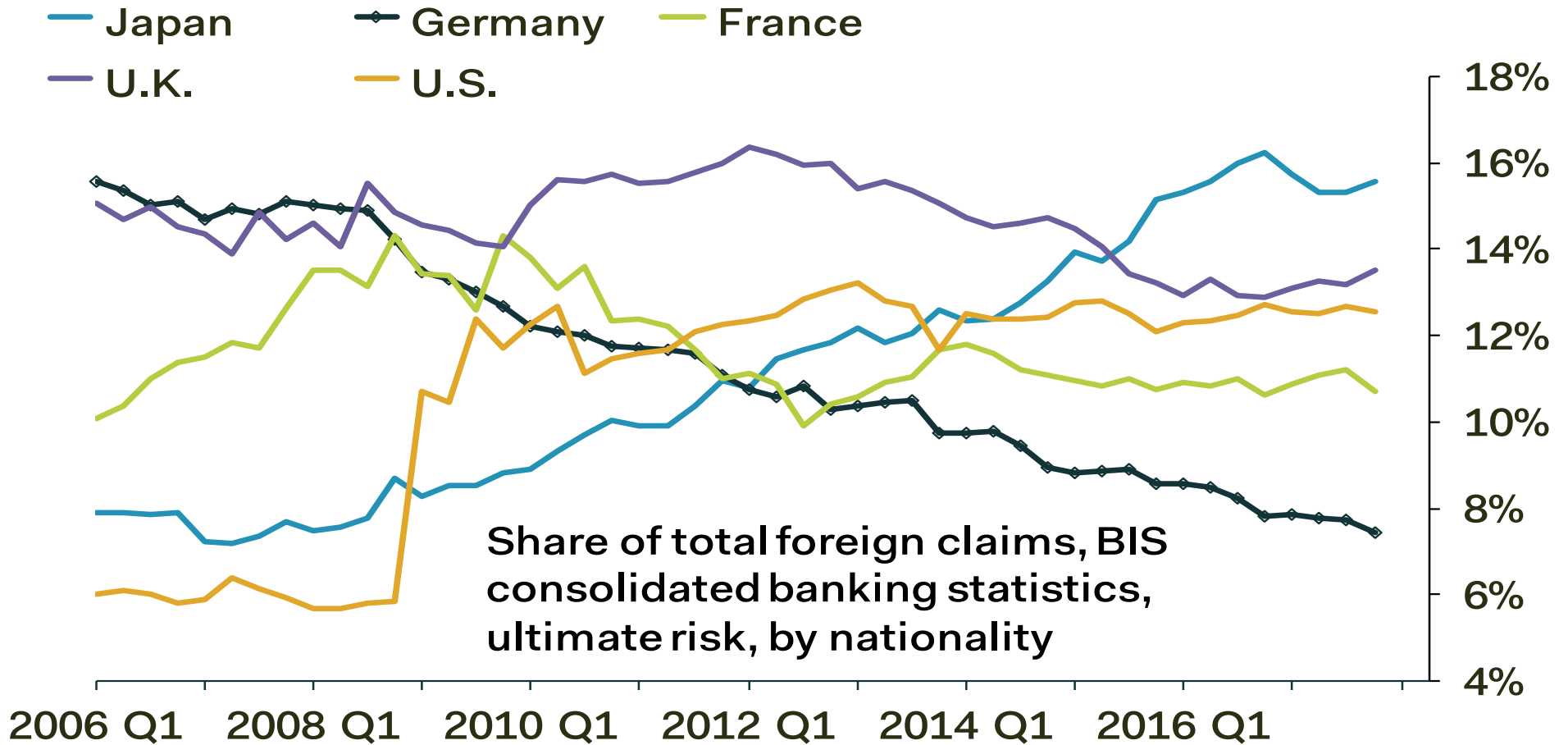


22. THE MONETARY POLICY EXPERIMENT IS TAKING TOO LONG; CORE INFLATION STILL AWOL...



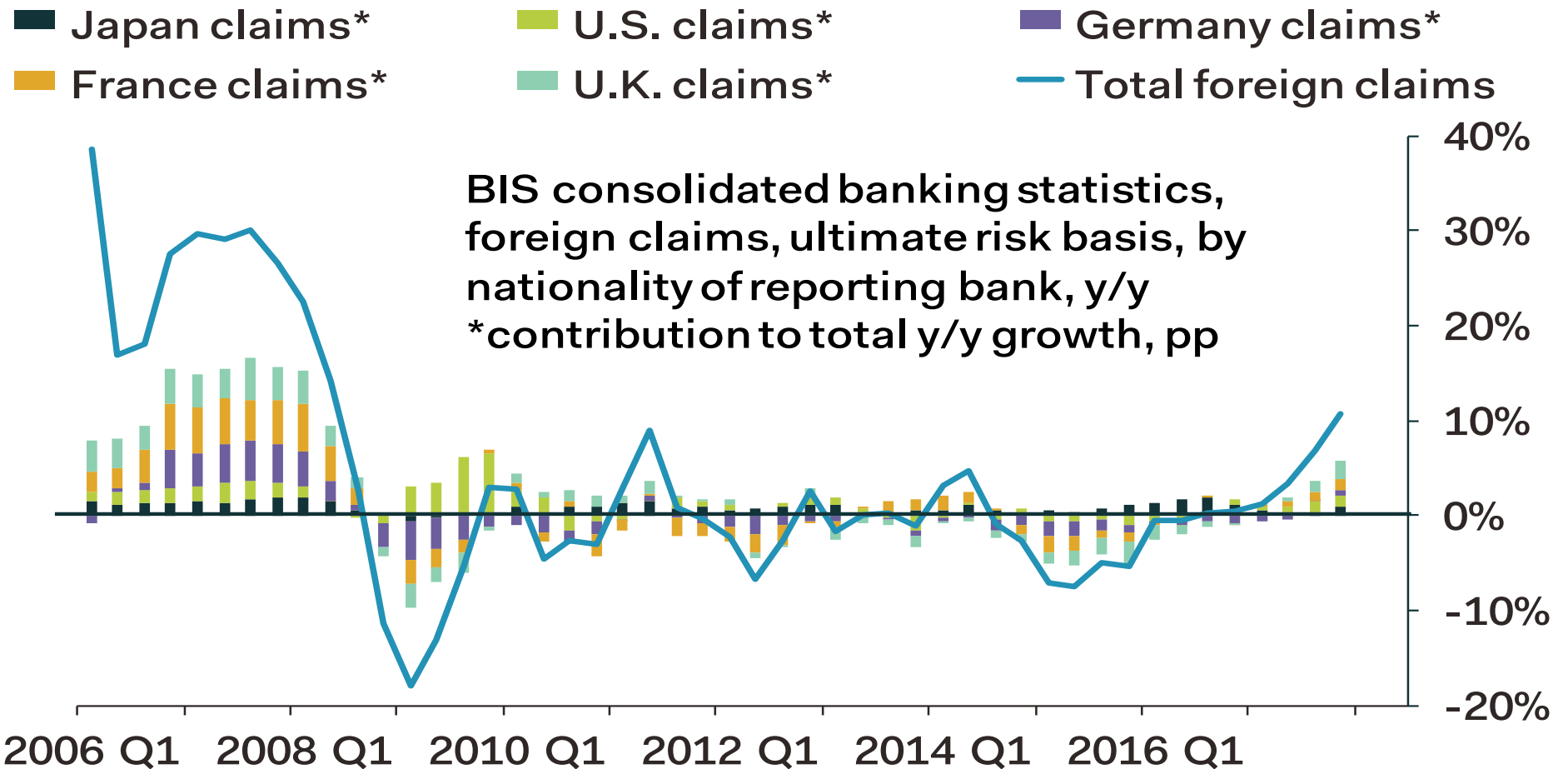


23. ...WHILE FINANCIAL RISKS ARE BUILDING



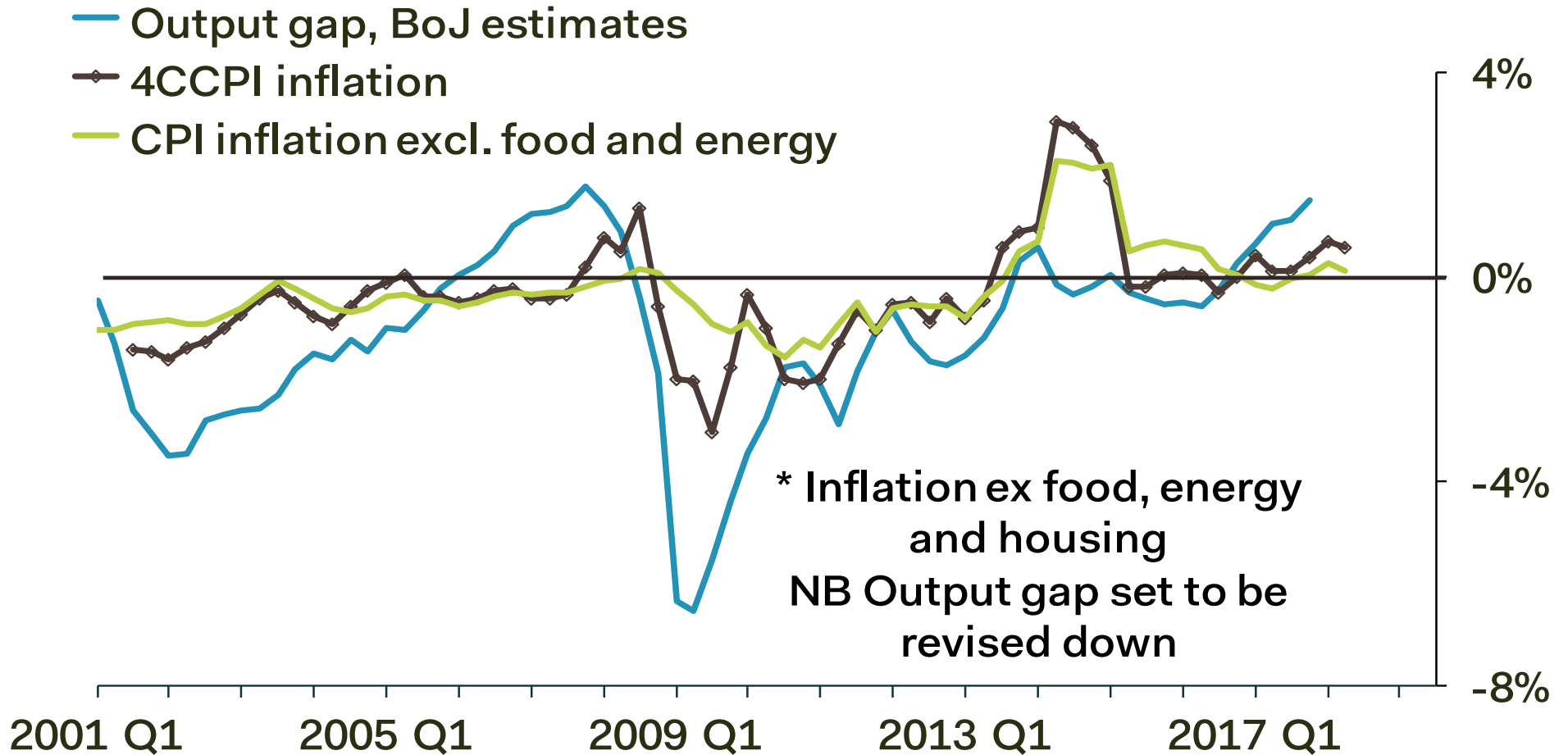


24. ON THE FACE OF IT, RISKS REMAIN MUCH SMALLER AT THE GLOBAL LEVEL THAN BEFORE 2008/09





25. HOW WILL THE BOJ BEGIN TO JUSTIFY EXIT





Summary

- * **Chinese GDP growth will trend down substantially this year, causing the authorities to switch to an easing stance.**
- * **Trade tensions are a good excuse to ease policy, though the direct impact of any tariffs this year likely will be modest.**
- * **PPI inflation and services CPI inflation are broadly slowing.**
- * **The authorities appear to be trying RRR cuts as a way of supporting debt clean-up, amid tightening liquidity conditions. Ultimately, this implies a weaker RMB.**
- * **Japanese GDP growth should rebound in Q2, but is on a downtrend, while the inflation target remains a long way off.**
- * **The BoJ will focus more on the elements of inflation that respond to capacity pressures.**
- * **Building risks in the foreign operations of financial institutions will cause the BoJ to steepen the JGB curve, though they likely will want to retain control of the 10-year yield.**