## PM Datanote: MLF, China, Oct

# In one line: China's MLF rate unchanged after September's cut; Tight funding conditions in banks open window for RRR cut

**- China: 1-Year MLF rate was unchanged at 2.0% in October. Consensus was 2.0%.**

The PBoC left the MLF rate unchanged at 2.0% today, following

© 2024 Pantheon Macroeconomics | 400 Columbus Avenue, Suite 10S, Valhalla, NY 10595, United States | All rights reserved | No secondary distribution without express permission.

the 30bp cut last month as part of the monetary stimulus package announced at the end of September. There was an RMB 89B net withdrawal of liquidity via 1Y MLF. Note that the PBoC is changing its market policy benchmark from the MLF rate to the 7-day reverse repo rate, as indicated by Governor Pan in his July speech.

According to a Bloomberg report today, NCD yields rose to the highest level since June, pointing to a liquidity squeeze and high funding costs in the

© 2024 Pantheon Macroeconomics | 400 Columbus Avenue, Suite 10S, Valhalla, NY 10595, United States | All rights reserved | No secondary distribution without express permission.

banking sector. This is an unintended outcome of the monetary easing at the end of September, which triggered an equity rally of around 30% within a few weeks, as households converted their bank deposits and other lower-yielding assets into short-term investments in stocks. Another contributing factor to the funding squeeze is the recent fall in deposit rates, as banks tried to maintain their banking NIM amid falling LPRs. As it stands, this opens the window for another RRR cut to ease liquidity

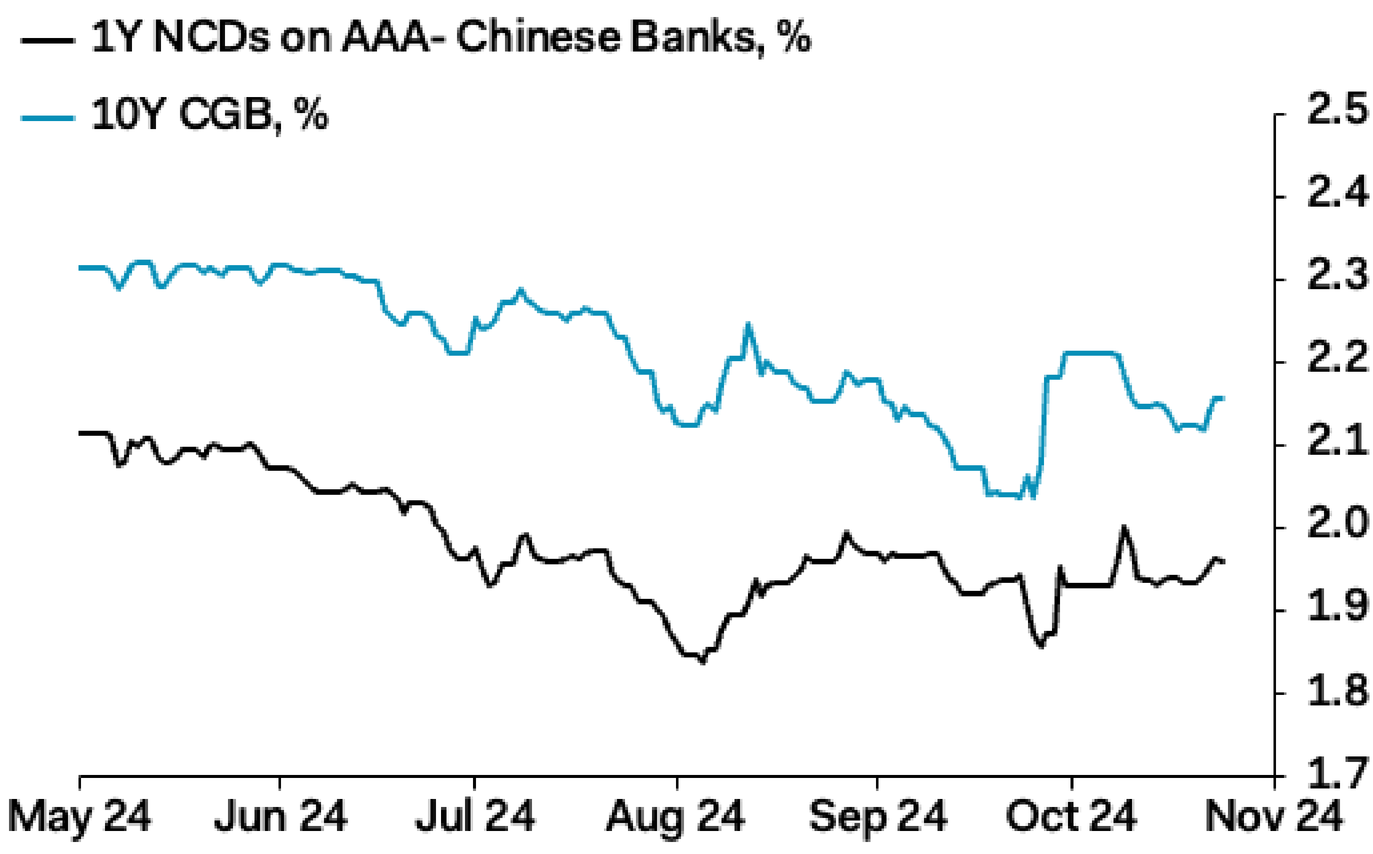
© 2024 Pantheon Macroeconomics | 400 Columbus Avenue, Suite 10S, Valhalla, NY 10595, United States | All rights reserved | No secondary distribution without express permission.

conditions.

Looking ahead, we expect another 10bp cut in the 7D RR rate and a 50bp cut in RRR before the year-end. On October 18, Governor Pan also guided the market for further easing in the RRR by 25-50bp in the near term. Despite better-than-expected Q3 GDP outturn, the economy will still need to grow by a sizable 1.8% q/q SA in Q4 to achieve the lower bound (4.8%) of the “around 5%” GDP target for this year, justifying more efficient

© 2024 Pantheon Macroeconomics | 400 Columbus Avenue, Suite 10S, Valhalla, NY 10595, United States | All rights reserved | No secondary distribution without express permission.

implementation of existing stimulus, while more concrete expansionary fiscal policy should be deployed to keep the growth momentum going well into next year.




© 2024 Pantheon Macroeconomics | 400 Columbus Avenue, Suite 10S, Valhalla, NY 10595, United States | All rights reserved | No secondary distribution without express permission.