

China Stimulus Rolled Out as Growth Stalls

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Below Craig Botham, Emerging Markets Economist at Schroders, comments on the Chinese data announced over the weekend:

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"A data-heavy week in China was capped by a larger-than-expected 100 basis points (bps) cut to the reserve requirement ratio (RRR) at the weekend. The cut signals growth concerns after a weak first quarter, but should not be read as "Chinese QE" or an attempt to weaken the currency.

The move should inject roughly 1.2 trillion renminbi into the system, boosting bank profitability and lowering corporate and government borrowing costs. Indeed, to us this seems a move aimed at supporting and complementing fiscal policy this year. Fiscal reform has seen local government fiscal efforts stall, and this provision of liquidity will help create demand for the 1 trillion renminbi in local government bonds set to be issued this year. It will provide funds too for the planned infrastructure stimulus, largely the domain of State Owned Enterprises and local governments.

The cut is growth positive, but so far not out of line with our expectations. Though we had forecast 100 bps of cuts this year, our expectations had been for a pair of 50 bps cuts rather than a single larger move.

First quarter growth may have been weaker than the officially reported number; our China growth tracker pointed to an especially sharp fall in March, slipping from around 7% to 6.2%, year-on-year. While we do not subscribe to the view espoused in some quarters that growth was 3% to 4% - based on the partial perspective of the economy provided by the Li Keqiang index –growth was likely weaker than reported and heading rapidly downhill.

Sequential growth should receive a boost from the RRR cut, but base effects will mean it is a struggle for the Q2 year-on-year number to post a significant improvement. We expect interest rate cuts this quarter, followed by one more RRR cut around Q3, as the authorities continue to target growth stabilisation."

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