FX Viewpoint Flash

Currencies
Global

RMB: China's big monetary stimulus

- On 24 September, China unveiled an outsized easing package…
- …but this may just be the start, in our economists' view
- USD-RMB performance hinges on any improvement in Chinese asset inflows and US election risks amongst others

China announced rate cuts and RRR reduction, in addition to measures to boost the property sector and capital markets

On 24 September, China's regulators, including the People's Bank of China (PBoC), the National Financial Regulatory Administration (NFRA), and the China Securities Regulatory Commission (CSRC), held a joint press conference, announcing a slew of easing policies, covering three main areas: monetary policy, property policy, and capital market policy. The measures are summarised in the table below:

China's policy support measures in a snapshot

Monetary	Cut banks' reserve requirement ratios (RRR) by 50bp; possibility to further lower RRR this year by another 25-50bp. Cut 7-day reverse repurchase rate by 20bp to 1.5%; medium-term lending facility (MLF) rate to drop by about 30bp and loan prime rates (LPR) to fall by 20-25bp.
Property	Reduce existing mortgage rates by c50bp (equal to initial mortgage rates). Lower the minimum down payment ratio for second homes to 15% (same as the first home). Allow policy banks and commercial banks to support qualified enterprises in acquiring land from developers. Extend two policies from 2024 to the end of 2026: • operating property loans can be used to repay developers' existing real estate-related loans and open market bonds. • developers' existing loans can be extended, with repayment arrangements adjusted. Affordable housing re-lending: local state-owned enterprises (SOE) can borrow 100% of the principal loan amount (up from 60%) to purchase unsold homes and convert into affordable ones.
Capital market	Create liquidity backstop to securities firms/fund managers/local life insurance companies to purchase stocks, with an initial quota of RMB500bn. Create a relending program for equity buy-back, initial quota of RMB300bn. Studying the creation of a market stabilisation fund.

Source: Xinhua, Bloomberg, HSBC

Our economists expect more monetary easing and fiscal stimulus to come before end-2024

The stimulus package, beating market expectations, is more cyclical in nature, but is a good starting point for further easing to shore up growth, in our economists' view. More will have to be done in terms of housing stabilisation, but it may take longer to be rolled out. As there is a need to support liquidity and market sentiment, facilitate credit issuance and boost growth, **our economists now expect a further 10bp cut to interest rates, another 50bp of RRR cut, and another RMB1trn of special government bonds to come before the end of 2024**.

The RMB may see more support if asset inflows improve…

As for the RMB, the offshore RMB (known as "CNH") strengthened briefly past 7 per USD for the first time since May 2023, as markets are digesting these stimulus measures this morning (*Bloomberg*, 25 September 2024). In our view, **if the new measures offer fresh expectations of a comeback of equity inflows into China or a potential revival of risk appetite, the RMB may see more support.**

…but US election risks may support the USD

But the question remains whether the inflows will be strong enough to offset other potential drags on the RMB. For example, with the PBoC's monetary easing, **China's yield gap against the USD may widen again**, especially considering that markets pricing for US rate cuts have been more dovish than the Federal Reserve's latest dot plot (i.e., 80bp of rate cuts vs 50bp by end-2024, *Bloomberg*, 25 September 2024). Uncertainties over the upcoming US elections may support the USD, and by extension, weigh on the RMB. It is also worth noting that the PBoC shifts to a neutral FX policy stance, with the governor, Pan Gongsheng, reiterating the central bank will prevent one-sided expectations and overshooting risks. As such, **the PBoC is likely to maintain two-way fluctuation of the RMB exchange rate.**

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