Investments - Flash

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REAL RATES ARE TOO HIGH IN CHINA

The PBOC will support GDP with further cuts in the RRR and MLF.

China's central bank (PBoC) may well be on the verge of changing its strategy and adopting a more aggressive monetary policy to support a Chinese economy that is performing less well than expected. The expected growth of +5.1% for 2023 seems difficult to achieve in the current context of weak consumption and exports (-14.5%/year). It has the means to do so, particularly in view of recent inflation trends, which have turned negative (-0.3%/year), raising fears of a return to deflationary risks and a penalizing rise in real interest rates for the economy (+2.8%). China is faced with a sometimes high level of indebtedness, particularly in real estate, a major sector of its economy, which also weighs on household consumption capacity. High real interest rates make it difficult to restructure the sector and improve consumers' financial situation, and pose a risk to the country's financial stability.

The PBoC's recent rate cuts on various maturities have remained modest, and their impact alone will not be decisive in revitalizing growth. The PBoC should therefore step up its action with further gradual cuts and a reduction in the level of reserve requirements for banks (RRR). We expect the PBoC to cut its one -year MLF rate by 20-30 basis points and its RRR rate from 10.75% to 10%. With this in mind, China's largest banks are preparing to lower their rates on mortgages worth over $5 trillion and on their deposits. This should boost consumption a little by reducing the current average cost of financing, estimated at around 4.7%, and increase the flow of investment into the financial markets. This will boost confidence a little and support new investment in the CSI300 index, which is still down sharply (-11.4%) in 2023.