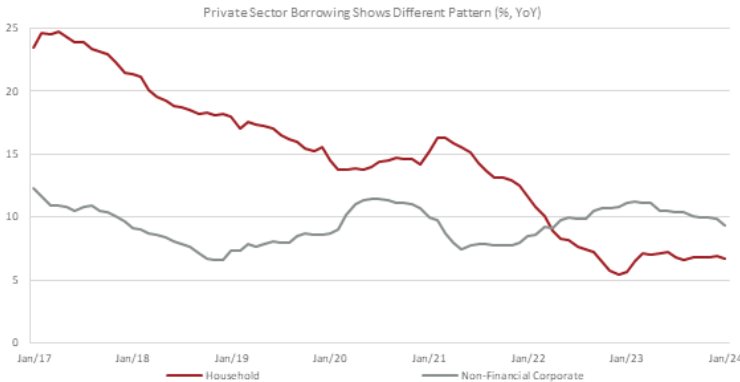


# China Bulletin: Market View



The People's Bank of China (PBoC) maintains its policy rate unchanged yet implements a notable 25 basis point reduction in the 5-year loan prime rate, the most significant adjustment since its inception. While some may argue that previous cuts in the required reserve ratio and deposit rates have incentivised banks to reduce loan rates, this combined move signals policymakers' recognition both of the need to lower borrowing costs to bolster growth and of the limitations of conventional monetary tools. This reduction appears geared towards reducing debt service ratios, stimulating household consumption, and encouraging investment in manufacturing fixed assets, rather than solely aiming to revive the struggling housing market. This interpretation is supported by only marginal relaxations in buying restrictions in core cities despite the evident challenges faced by property developers in meeting their financial obligations. The prevailing outlook for the housing sector suggests continued deterioration, albeit with a gradual reduction in its drag on overall growth.

The Chinese New Year holiday witnessed unprecedented economic activity, with 632.7 billion yuan spent on 474 million domestic trips, marking an 8% and 19% increase respectively compared to the same period in 2019. This surge in spending reflects a sustainable recovery,

consistent with trends observed during the previous National Day holiday five months prior. The ongoing downturn in the housing market may well dampen business confidence and employment recovery. But resilient personal income and spending, along with robust manufacturing investment and fiscal expansion by the central government, are poised to mitigate the impact of declining housing investment.

Social financing data surpasses expectations, indicating resilience in certain sectors. However, its significance is tempered by the evolving structural landscape. Household reluctance to borrow amidst a housing market downturn and heightened uncertainty during the structural transition has dampened borrowing activity. Similarly, non-financial corporate debt growth has decelerated due to reduced financing demand - due to local debt swaps and dwindling housing investment. Weaker financing demand and subdued risk sentiment are likely to maintain risk-free rates, term spreads, and credit spreads at relatively low levels. Nevertheless, caution is advised regarding China's interest rates and credit markets, as their valuations appear stretched compared to equity assets.

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