China stimulates bank lending

Equities

William McInnes

China has stepped up efforts to buttress its economy amid its trade war with the US, freeing up liquidity in the banking system in order to boost domestic investment.

The People's Bank of China cut its reserve requirement for all banks by 0.5 percentage points on Friday, with some urban banks receiving a full percentage point cut.

The cuts will free up long-term funding of around 900 billion yuan ($184 billion), which banks can use to increase lending in China. Policymakers are attempting to reinvigorate the domestic economy as the trade war continues to bite.

"I'm expecting fairly significant stimulus measures [going forward] given the softness in China's real economy. China is slowing and sectors like manufacturing are doing it very tough," said Stonehorn Global Partners co-founder and chief executive Sam Le Cornu.

"This stimulus will be countermeasures to boost the economy [but] I strongly feel the market has underestimated the size and impact of China's policy toolbox."

The Chinese yuan rose 0.4 per cent against the US dollar on Friday, with the greenback buying 7.115 yuan at the close. ASX futures were down 7 points, or 0.1 per cent, on Sunday afternoon despite the China stimulus, with local investors cautious as to how much of an impact the move will actually have.

"Fifty [basis] points is not that much and it's not like the issue is an overly tight supply of credit," said Perpetual's head of investment strategy Matt Sherwood.

"Weak credit demand is the issue, and if the trade war continues to linger or deteriorate demand will weaken even further. While state-owned enterprises can be told to invest more, you'd have to question the creditworthiness of that in a world of structurally weaker growth."

China's is the first in what could be a number of policy measures set to be undertaken by major economies this month, as central banks seek to stave off slowing global growth and the widening impacts of the US' trade war with China.

The Federal Reserve is one of the few central banks with enough room to move significantly and could begin its easing cycle as soon as next week following a mixed US non-farm payrolls print on Friday.

The market is expecting the Federal Open Market Committee to cut when it meets next week, with another cut priced in by the end of the year and investors are hopeful that could ease the pressure of the trade war.

"The Fed will likely cut rates a total of 75 basis points in 2019 and that will have a positive effect on US consumers and the broader US economy," said THB Asset Management chief executive Christopher Cuesta.

"[But] the longer the trade dispute lingers, the possibility for decreasing levels of confidence in optimism increases."

Whether a Fed rate cut can offset the effect of the global trade ructions remains to be seen, with Friday's job's report revealing anaemic hiring in manufacturing, mining, truck driving and retail– industries that are most directly affected by the trade war.

"We continue to think a cautious approach is warranted towards risk markets at the moment," said Russell Investments investment strategy analyst Alexander Cousley.

"The divergence between the manufacturing and services sectors continues to grow, as reflected in the global PMIs and the ISM surveys that were released last week. Despite manufacturing being a smaller part of the economy, manufacturing has historically led the services sector."

The European Central Bank is also likely to announce stimulus measures this week. "It's pretty clear that global recession risks are rising and central banks are doing what they can with a very empty policy quiver," said Perpetual's Mr Sherwood.

"Unless fiscal policy is ramped up or the trade war dissipates, it's hard to see how we can come back from that."

While central bank stimulus could go some way in encouraging greater investment, caution is likely to remain while ever the US-China trade war rages. "It is very hard to make a call on whether this latest salvo is false optimism," said Swell Asset Management chief investment officer Lachlan Hughes.

"If I had to use a mantra, it is 'expect the unexpected'."

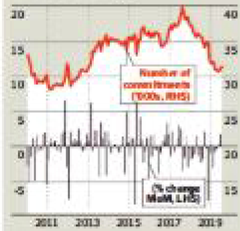
The People's Bank of China has cut its reserve requirement for all banks. PHOTO: AP

The week ahead

MONDAY

- **Eco AU** July Housing Finance; **Germany** July current account balance; **Japan** 2Q GDP, July current account balance; **UK** July GDP, July industrial production;
- **Earnings** Dacian Gold, QMS Media

Housing finance, July



Over recent months, the established housing market has shown some improvement, with house prices picking up in August after stabilising in June and July and following a large fall over the past year.

Tapas Strickland
NAB market strategist

TUESDAY

- **Eco AU** August NAB business conditions; **Canada** August housing starts; **China** August CPI, August PPI; **UK** July ILO unemployment rate

NAB business conditions, August (net balance, seasonally adjusted)