

# PBOC FINALLY CRACKS

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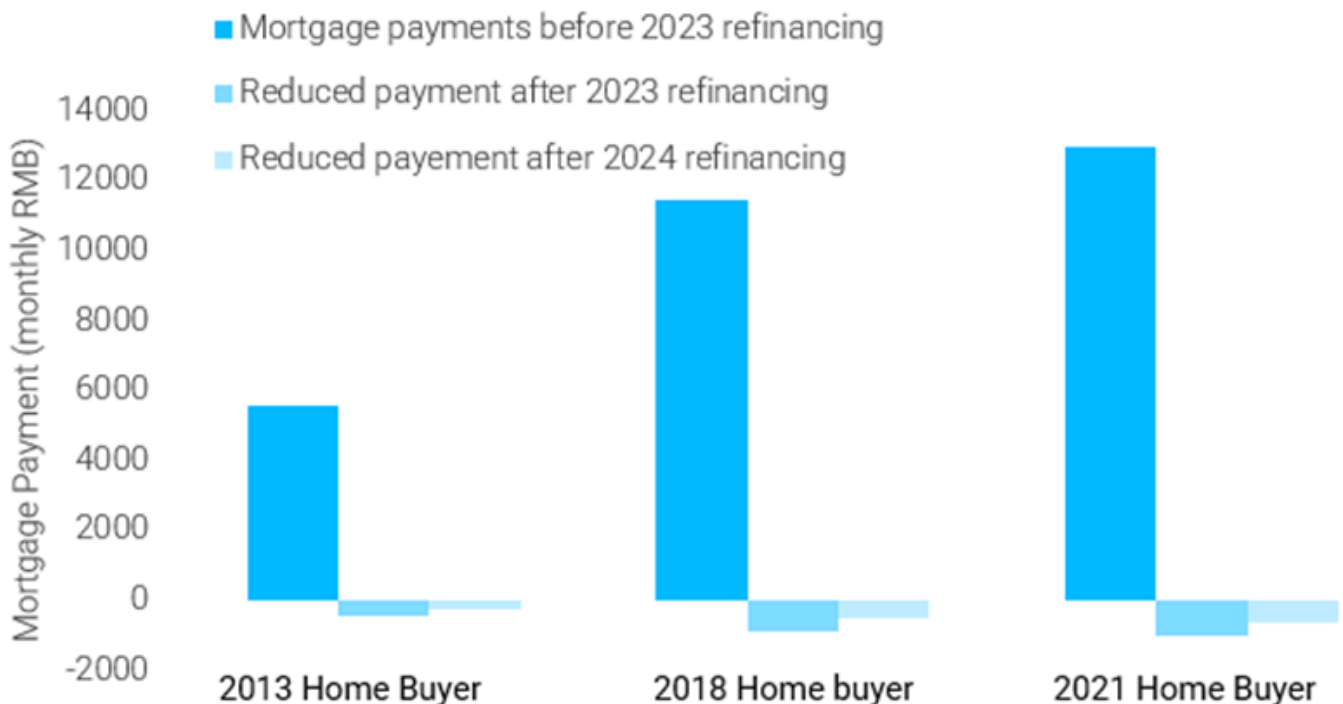
Is Pan Gongsheng reading our research? Last week we turned more bearish, calling for a second leg down in China growth, and flagged the risk of outright nominal GDP contraction. Concern is clearly rising in Beijing with the PBoC today unveiling its most expansive post-covid stimulus.

The package is encouraging, but insufficient to put a floor under the property market and wider economy. **A substantial nominal growth slump is baked in.**

The big question - whether this signals a decisive shift in Beijing towards a sustained pro-growth stance? We think central leaders are concerned (see [here](#) and [here](#)) but still prefer to “drip feed” support measures into the economy, albeit in larger drips.

Nominal GDP, macro data, and social stability will continue to deteriorate **despite today’s stimulus**, eventually triggering Xi Jinping’s pain threshold... but we are not there yet.

## Mortgage-Payment Savings Compared to 2023



## Pan’s shotgun (not bazooka)

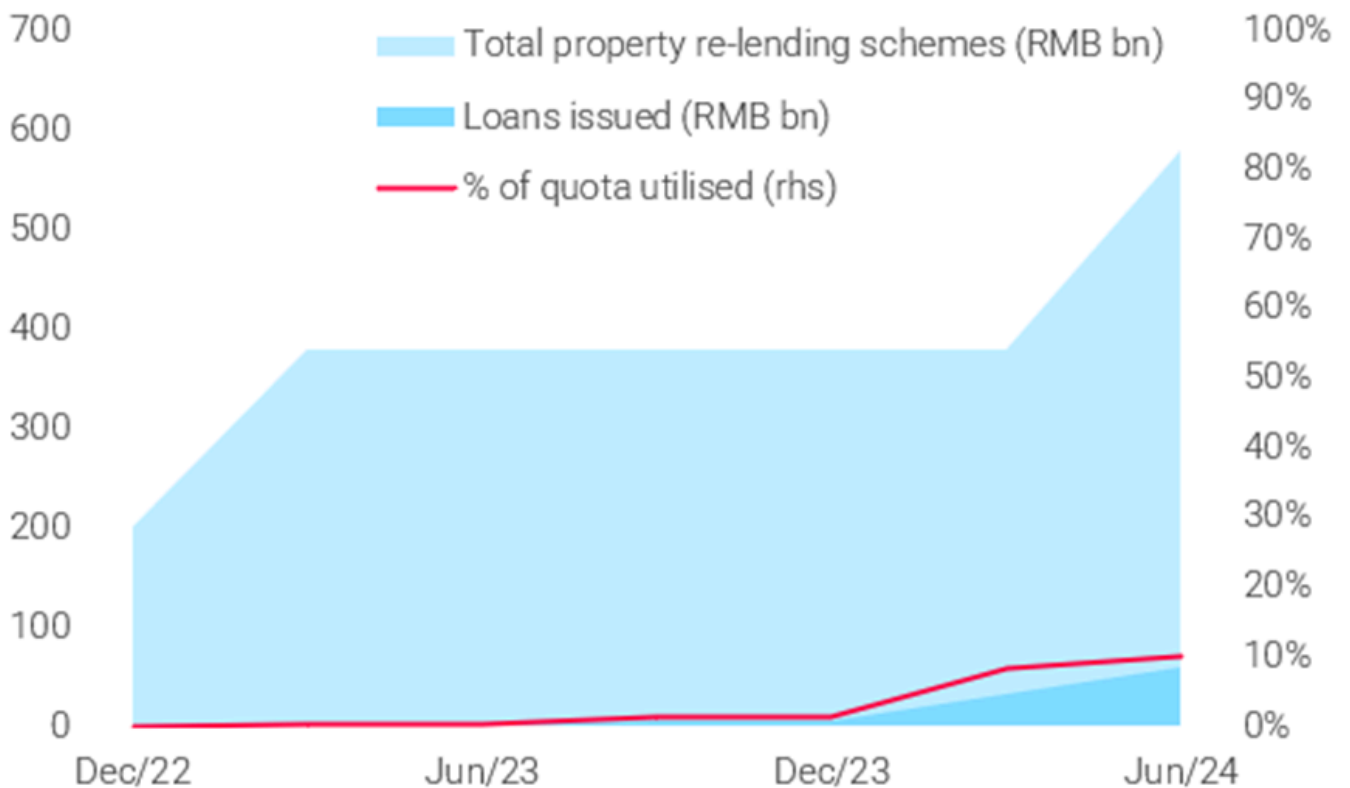
- **7-day reverse repo cut 20bps**
- **RRR cut 50bps**
- **MLF cut 30 bps**
- **PBoC to cover 100% of loans (up from 60%) for excess inventory purchase**
- **Downpayment for second home purchase cut from 25% to 15%**
- **Average mortgage rate reduction of 50bps (details not yet confirmed)**

Is this time different? All PBoC measures are variations or expansions on existing schemes that have thus far proven ineffective due to anaemic demand.

Most positive is mortgage rate reductions that could provide an increase in household spending power roughly equivalent to 0.14% of GDP. Similarly sized reductions in H2/23 failed to support home purchases or retail sales.

PBoC provision of 100% of the loan (up from 60%) for local government excess inventory purchase is also encouraging. Unattractive financing terms is one reason the plan has failed to gain traction.

### Plenty of credit available



Today's announcement has helped lift confidence, it will also support household consumption and ease debt servicing pain. However, fiscal and/or strong political follow through (ie forcing banks to lend and SOEs/local governments to borrow) is needed for cyclical macro stabilization. Structural issues would of course still remain.

Concern, not yet panic, is rising in Beijing. Panic will come later (perhaps by late Q4/24), with a bigger stimulus eventually supporting Chinese assets, even then activity will slump well into 2025.

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