Flash note
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Alex Fusté
@AlexfusteAlex
alex.fuste@andbank.com

China – Daily Follow Up

The government is examined China's housing problem: Beijing is saying that there are at least 65M empty homes. China's government could marginally relax policy on real estate financing at the end of this year, especially on home mortgage loans, in an attempt to offset some of the negative effects of Evergrande's debt problems (YuanTalks).

PBOC keeps liquidity at reasonable levels:

- **The PBOC is rolling over CNY500B in policy loans as it looked to maintain liquidity at existing levels. It injected the cash through its medium-term lending facility with the rate left at 2.95%. No additional easing actions from the PBOC in the short term as** easing expectations have been pushed back, with the PBOC expected to leave the RRR unchanged in Q4, and only deliver a 50bp cut (easing move) in 1Q22. This contrasts with the July estimates, in which a rate cut was expected in Q4.
    - **Banks required to keep ample liquidity:** Beijing has also ordered the banks (and their wealth management units) to cut their exposure to cash-management products to 40% of their overall product portfolio by year end in order to contain liquidity risks.

The rise in Producer prices could be behind the PBOCs decision not to ease conditions: China's PPI rose 10.7% y/y in September (above August's 9.5%). It was the ninth straight month of increases in factory gate prices and the strongest growth since Nov-95, reflecting both rising commodity prices and a low base effect. Prices of raw materials rose 20.4% y/y (versus 18.3% in August), while mining was 49.4% higher y/y. On the positive side, Headline CPI was a fixed at a moderate 0.7% y/y in September, (with a 0% change m/m) and moderating vs August's CPI of 0.8% y/y. Core inflation remained steady at 1.2% y/y.

Power shortages: Close to getting the situation under control?

- The government ordered to rise coal inventories at several north-eastern power plants owned by SoEs (inventories have increased by 28% in two weeks) in a clear signal that the government wants to control the price of coal. The number of days of coal in inventory also increased.
- Additionally, Beijing has taken steps to improve the import of electricity and coal from Russia, while Chinese energy companies are in advanced talks with US exporters to secure long-term liquified LNG supplies. It said at least five major SoEs including Sinopec (338.HK) and CNOOC (883.HK) are involved in the talks that could lead to deals worth tens of billions of dollars with Sinopec taking as much as 4M tones annually
- Beijing also announced that it will cut exports of oil products from its refineries until the tight situation of fuel balances improves.
- Despite all these measures to control energy prices, coal prices extended gains on Friday.

Best