

## Flash Notes 24/04/2019

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### China - Have we reached the end of the stimulus? What's next?

#### US-China Trade talks

- Kudlow cautiously optimistic over US-China trade talks: White House economic adviser Larry Kudlow said yesterday he was cautiously optimistic about the prospects for a trade deal (Reuters). Kudlow cited usual sticking points over structural reform and technology transfers, while noting the importance of achieving consensus on areas like ownership enforcement and lowering commodity market barriers.
- What's next? US Trade Representative Lighthizer and Treasury Secretary Mnuchin will head to Beijing for trade talks next Tuesday. Talks will cover trade issues including: Intellectual Property, forced tech transfers, non-tariff barriers, agriculture, services, purchases and enforcement. A Chinese delegation then heads to Washington for return talks on 8-May.

#### PBoC: The end of stimulus?

- Some policy insiders said the PBoC is likely to pause reserve requirement ratio (RRR) cuts to assess economic conditions before making any further moves, while they assessed that “policy easing remains on track”.
- The pause comes after recent better-than-expected data were released and amid PBoC concerns about injecting excess liquidity that could reignite bubbles.
- While the “easing bias remains unchanged”, insiders say the PBoC wants to save ammunition and leave room for fiscal policy to play a bigger role in supporting growth.
- **Statements and counterclaims, do not make clear in what stimulus strategy we are.** Insiders said that the PBoC has penciled in at least one targeted RRR cut for small banks this year, but officials push back against RRR cut rumors (more specifically they pushed back against market rumors that the PBOC would propose to some rural banks a 1% cut in the reserve requirement ratio).
- Some media and economic sources suggested yesterday that “the PBoC will ease capital requirements for some small commercial banks”, pointing that this decision is likely to come after the PBoC

conducts its next quarterly Macro-Prudential Assessments (MPA) for banks to assess the level of risk in the country's financial system.

### Markets

- The Shenzhen Composite index rose 1.1% yesterday following earlier declines, with media focused on the PBoC amid recent speculation surrounding the prospects of further easing.
- The central bank drained a net CNY160B via open market operations. Actions that were interpreted as a signal it wants to deter market expectations for stronger easing.
- Our quick assessment: While the stimulus remain in place, we will remain positive in this market. But as soon as we perceive that the authorities resume the path of prudence (reforms and tightening) and abandon stimuli, then we will modify our positioning towards a more cautious stance in this market. We may be near this point.

Best