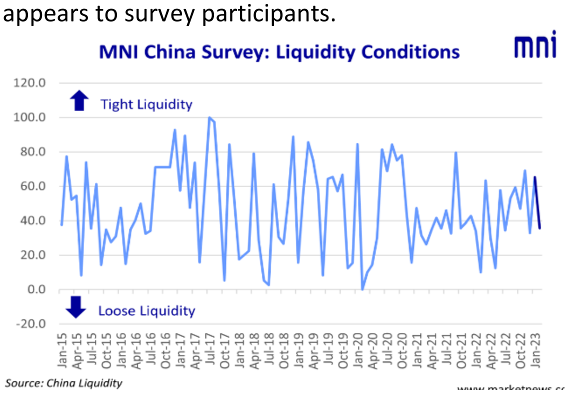
MNI MARKET NEWS
All Signal, No Noise
DATA ANALYSIS

MNI China Liquidity Index™ – Falls To 35.7 in February

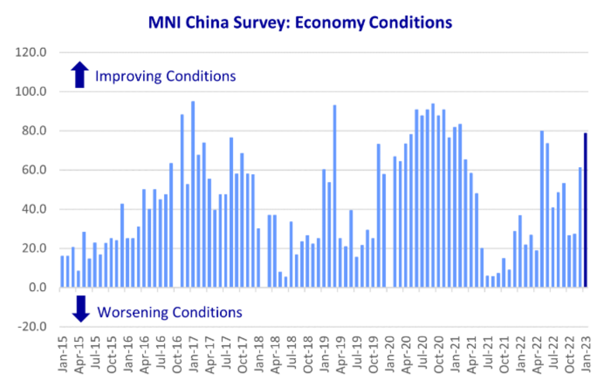
Liquidity across China's interbank market eased in February as the PBOC acted to keep conditions loose in the financial system, traders said, while the economy showed the first signs of a rebound during through the Chinese New Year holiday, according to the latest MNI Liquidity Conditions survey.

The higher the index reading, the tighter liquidity appears to survey participants.



"Strong consumption data during the Spring Festival, together with the PMI, were positive signals to reflect a quick recovery of the economy," a trader told MNI.

Consumption during the Chinese New Year increased 66% compared with the same period in 2019, with movie ticket sales and tourism trips up year on year 11.89% and 30% respectively.



The Liquidity Condition Index eased to 35.7 in February from the previous 65.3, with 51.4% of traders surveyed reporting conditions as easier after the Chinese lunar new year, although 22.9% of traders thought conditions tightened.

The People's Bank of China conducted MLF operations totalling Yuan 499 billion in February, injecting Yuan 199 billion into the market after offsetting the Yuan 300 billion of maturing MLF. PBOC drained net Yuan 420 billion via its open market operation as of February 20, MNI calculated.

RECOVERY

The Economy Condition Index picked up to 78.6, following last month's 61.1 reading, marking the highest level since June 2022, when the economy was rebounding after the Shanghai lockdown.

POLICY HOLD

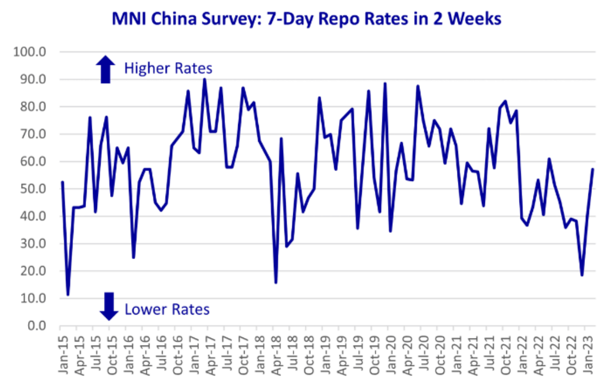
The PBOC Policy Bias Index read 44.3, picking up from last months' 41.7, with 88.6% of the participants seeing policy stance as on hold.

"Monetary policy will be aimed at supporting the recovery, liquidity will be kept ample to help lowering the financing costs of the real economy," a senior analyst based in Beijing told MNI.

The Guidance Clarity Index stood at 58.6, following the previous reading of 54.2, with 82.9% of the participants saying recent PBOC signals were clear.

RATES

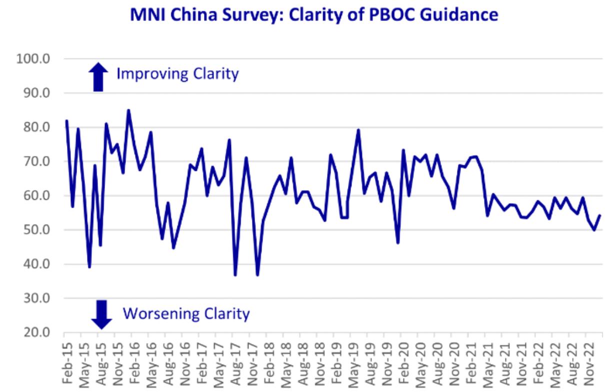
The 7-Day Repo Rate Index rose to 57.1 in February, up from the previous 40.3, with 37.1% of the participants seeing the rate curve climbing in the next two weeks while another 22.9% predicted falling rates.

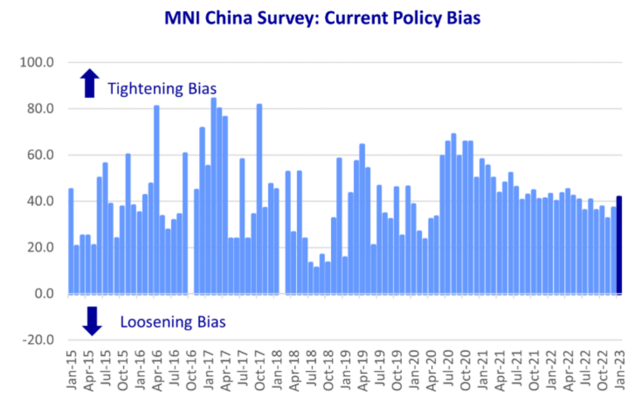


The 7-day weighted average interbank repo rate for depository institutions (DR007) closed at 2.1523% on Tuesday.

The 10-year CGB Yield Index stood at 54.3, with 31.4 % traders predicting higher yields on the back of better economic expectations.

"Yields will not fluctuate much in the next three months as the current rate supports recovery in the economy," a Beijing trader told MNI.





The MNI survey collected the opinions of 35 traders with financial institutions operating in China's interbank market, the country's main platform for trading fixed income and currency instruments, and the main funding source for financial institutions. Interviews were conducted February 6 – February 17.

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RESPONDENTS' COMMENTS

LIQUIDITY

"The liquidity gap has greatly improved after Chinese New Year, though tax payments and government bond issuance may bring minor disruption, liquidity is not a problem," a trader with state-owned bank based in Zhejiang told MNI.

"Liquidity usually gets looser when M0 comes back into the banking system after the Spring Festival, but the central bank has adjusted open market operation to drain excess liquidity," a trader in Shandong said.

"The PBOC has drained large amounts from the market, but liquidity is still 'reasonable and ample' with market expectations stable," a senior fund manager in Shanghai said.

ECONOMY

"Strong consumption during the Spring Festival, together with the PMI, was a really positive signal to indicate a quick recovery of the economy," a trader told MNI.

POLICY

"The economy is in the process of recovering and needs support from monetary policy, ample liquidity will be maintained to help lower financing costs of the real economy," a senior analyst based in Beijing told MNI, indicating monetary policy stance will be on hold in short term.

RATES UP

"Short-term rates are fluctuating due to open market operations adjustments, the rate is going to increase towards the end of month," a Shandong trader said.

"Yields will not fluctuate a lot in the next three months as the current rate provides solid support for the economy," the Beijing trader told MNI.

"There is not much need for PBOC to lower rates or reserves as the previous moves need some time to take effect," a trader with a big commercial bank based in Hebei told MNI.

About MNI Indicators

MNI Indicators specialises in producing business and consumer surveys designed to present an advance picture of the economic landscape and highlight changing trends in business and consumer activity. MNI Indicators also produces the renowned Chicago Business Barometer™, a key leading indicator of the US economy. MNI Indicators is part of Market News International, Inc., a leading provider of news and intelligence.

Notes to Editors

Production: MNI Indicators, part of Market News International Inc.
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Collection method: Survey data is collected by phone each month from traders.

Calculation method: Respondents are asked their opinion on whether liquidity is looser or tighter compared with the previous month.
E.g. Is Liquidity looser/Same/Tighter compared with a month ago?

A diffusion indicator is then calculated by adding the percentage share of positive responses to half the percentage of those respondents reporting no change.

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