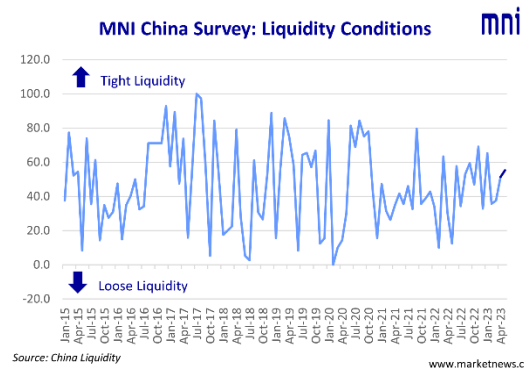


MNI China Liquidity Index™ – Economy Down In May

Local traders in China’s interbank market reported a moderate tightening of liquidity and a notable decline in economic sentiment in May, with participants concerned the recovery lacks momentum given recent weak data, the latest MNI China Liquidity Survey showed.

The MNI China Liquidity Condition Index rose to 55.3 in May, up 51.3 in April, the fourth consecutive month of tightening, with 28.9% of the traders reporting a tighter conditions.



The higher the index reading, the tighter liquidity.

The People’s Bank of China (PBOC) conducted CNY125 billion MLF in May, injecting CNY25 billion into the market after offsetting a maturity of CNY100 billion MLF. The PBOC drained net CNY689 billion via its open market operation as of May 29, MNI calculated.

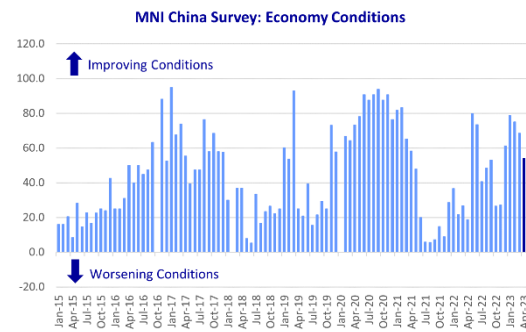
“Conditions tightened due to rising government bonds issuance,” a trader with a medium-sized commercial bank in Shandong told MN.

RECOVERY

The MNI China Economy Condition Index fell to 53.9, down from 68.4 last month, the largest m/m drop since last October. Participants believing conditions

worsened totalled 28.9%, up from 18.4% previous, with traders citing weak PMI and inflation data as areas of concern.

Fixed-asset investment in Jan-Apr period increased 4.7% y/y, with property development falling 6.2% compared with a year ago. The manufacturing purchasing managers’ index (PMI) also fell to 49.2 in April, down from 51.9 previous, the first time below 50 since December last year. Industrial profits in the first four months also fell 20.6% y/y, the latest data from the National Bureau of Statistics showed.



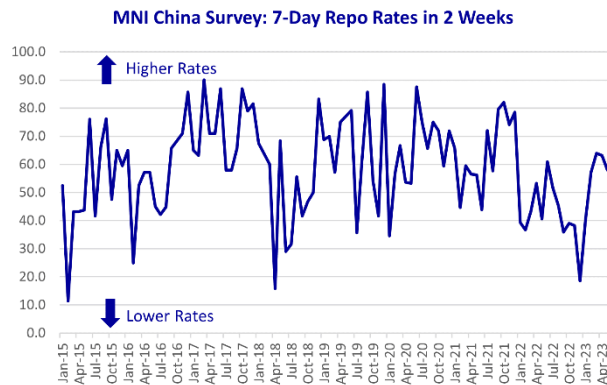
POLICY HOLD

The MNI China PBOC Policy Bias Index stood at 40.8, down from a previous 44.7, with 81.6% of the traders believing policy stance would be maintained.

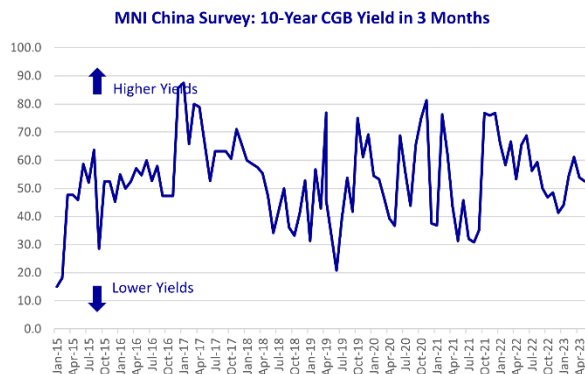
The MNI China Guidance Clarity Index dropped to 56.6 from previous 57.9, with 86.8% of participants understanding well the PBOC’s policy intentions.

RATES

MNI's 7-Day Repo Rate Index read 57.9 in May, down from previous 63.2, with 28.9% of participants seeing the rate curve falling in the next two weeks, while 44.7% predicting a rise.

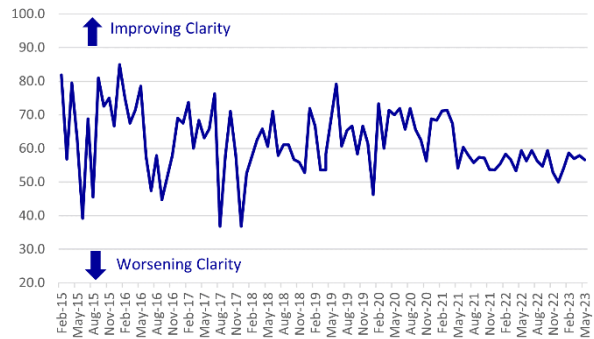


The 7-day weighted average interbank repo rate for depository institutions (DR007) closed at 2.0650%

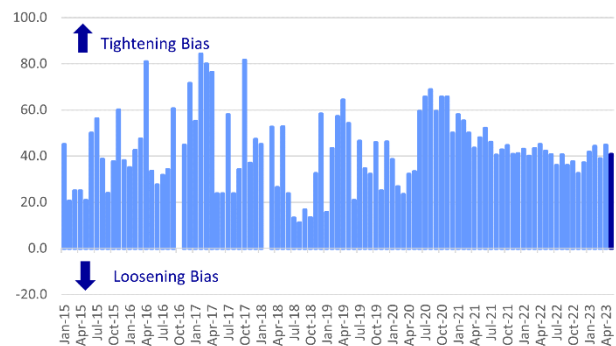


MNI's 10-year CGB Yield Index was 52.6, down from 53.9 in April, with 23.7% expecting the curve to fall, based on doubts over the economic recovery, while 28.9% traders expected yields to rise.

MNI China Survey: Clarity of PBOC Guidance



MNI China Survey: Current Policy Bias



SPECIAL QUESTION

Do you think there is possibility of a benchmark rate cut in future 3 months? A total 18.4% said yes, and 60.5% said no, with the remainder uncertain.

“Unless the developed economies stop rate hikes, the PBOC will not consider the cut,” a trader said to MNI

RESPONDENTS' COMMENTS

LIQUIDITY

"Conditions tightened due to rising government bond issuance," - trader in Shandong told MNI

"Some extra tightness came from maturing NCDs (Negotiable Certificate of Deposit) which has added more pressure to banks," - Jianguo based trader

"The PBOC is still making good use of its OMOs to release liquidity tension,"

ECONOMY

"Discounting the low base effect from last year, recent data doesn't look optimistic," - trader in Shandong who tracks high frequency data.

"April indicators were disappointing, although the headline growth might look good,"

"Recent capital market volatility shows the rebound is unstable, momentum is still weak though Q1 GDP grew quickly, economic growth may slow down in Q2," a fund manager based in Shanghai said.

RATES

"Repo rates are oscillating within the reasonable range," said a Fujian based trader who expects the curve rising towards month end.

SPECIAL QUESTION

"Unless developed economies stop rate hikes, the PBOC will not consider the cut,"

The MNI survey collected the opinions of 38 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 May 15 – May 26.

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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.

Release Date: Last Wednesday of the month

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.

For more information please contact us at info@mni-indicators.com or visit www.marketnerachews.com