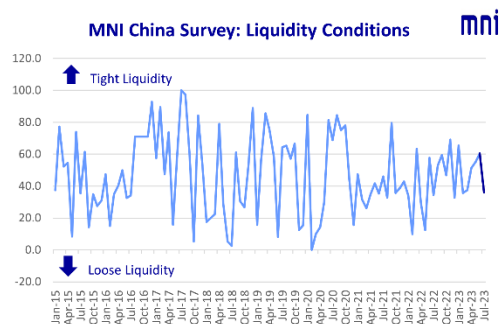


## MNI China Liquidity Index™ – July Conditions Ease

BEIJING (MNI) – China’s interbank market liquidity conditions eased in July for the first time in five months as banks released funds back to market following June’s end of H1 macro-prudential assessment and the People’s Bank of China maintained loose policy in order to support the economy through the weaker than expected GDP growth in Q2, the latest MNI Liquidity Conditions Index shows.

The MNI China Liquidity Condition Index fell to 35.9 in July from 60.5 in June, the largest change in conditions since February, with 46.2% of local traders reporting easing of conditions.



The higher the index reading, the tighter liquidity.

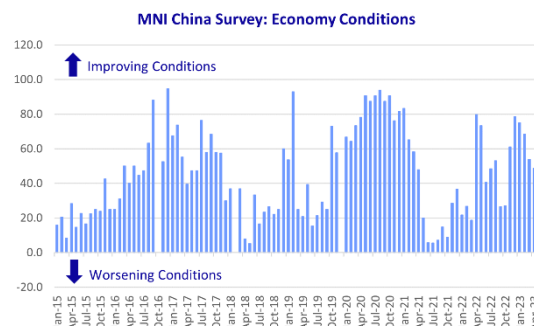
The PBOC conducted CNY billion MLF103 in July, injecting CNY3 billion into the market after offsetting a maturity of CNY100 billion MLF. The PBOC drained net CNY338 billion via its open market operation as of July 25, MNI calculated.

“Liquidity has returned to the market after June ended, the overnight rate is likely to be maintained at or below 1%,” a trader with a big commercial bank based in Shandong told MNI.

## ECONOMY

The MNI China Economy Condition Index slipped to 37.2 in July, down from 48.7 in June, marking the fifth consecutive month of decline, with 41.0% of local traders seeing weaker conditions.

China's GDP grew 6.3% in Q2 below the 7.0% consensus with retail sales up 3.1% y/y in June, down from 12.7% previous. Fixed-asset investment grew 3.8% y/y in H1, with property sector investment falling 7.9% y/y. Industrial production grew 4.4% y/y in June up from 3.5% in May.



“The recovery is not smooth sailing with Q2 GDP below consensus and exports under pressure...the recent sustainability of good financing demand data also needs to be proven,” a trader in Beijing told MNI, adding they were concerned by the economic situation overall.

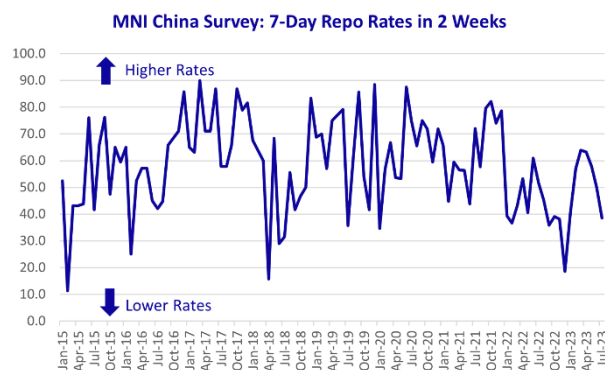
## POLICY HOLD

The MNI China PBOC Policy Bias Index read 35.9 in July with 71.8% of local traders expecting the PBOC keep monetary policy prudent and 28.2% expecting further easing.

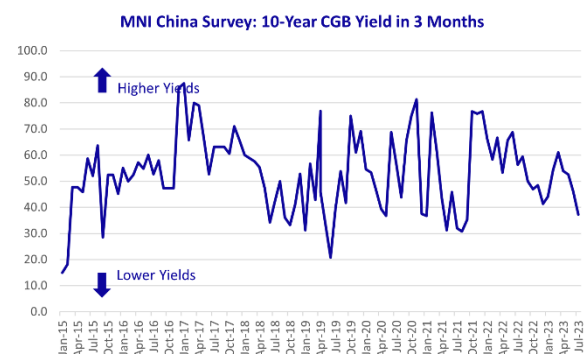
The MNI China Guidance Clarity Index read 57.7 for July, down from 57.9 previous, with 84.6% of local traders understanding the PBOC’s communication well.

## RATES

The MNI China 7-Day Repo Rate Index fell to 38.5 in July compared with June's 50.0, with 46.2% of local traders seeing the rate curve dropping due to ample liquidity.



The 7-day weighted average interbank repo rate for depository institutions (DR007) closed at 1.8571% Tuesday.

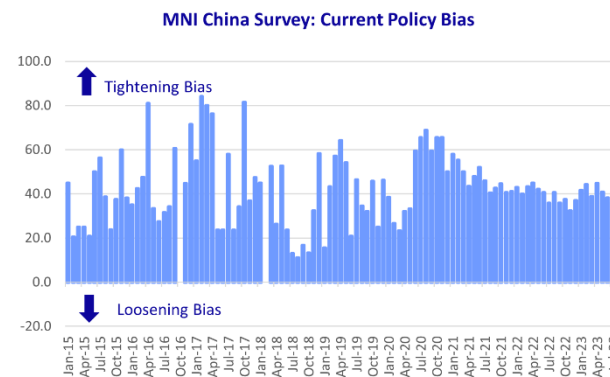
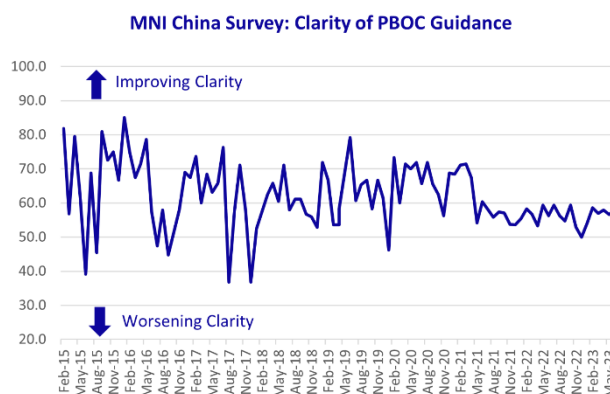


The MNI China 10-year CGB Yield Index read 37.2 in July, down from 46.1 previous, with 38.5% of traders expecting a fall in the curve due to weak economic expectations and good liquidity, with 12.8% predicting a rise.

## SPECIAL QUESTION

Given market calls for more supportive policies, MNI's July special question was "Do you expect a RRR cut in future three months?", with 46.2% of local traders

saying "very likely yes", whilst 28.2% responding "not very likely".



The central bank recently said it will implement prudent monetary policy and make cross-cycle adjustments to stabilize the economic growth, employment and prices, at its recent Q2 monetary policy committee meeting.

## RESPONDENTS' COMMENTS

### LIQUIDITY

"Liquidity has returned to the market after June ended, the overnight rate is likely to be maintained at or below 1%," a trader with a big commercial bank based in Shandong told MNI.

"July has some liquidity gaps due to the seasonal factors, but they are within control," another trader based in Hebei said, indicating moderately loose capital.

### ECONOMY

"The recovery is not smooth sailing with Q2 GDP below consensus and exports under pressure...the recent sustainability of positive financing demand data also needs to be proven," a trader in Beijing told MNI, adding they were concerned by the economic situation overall.

### POLICY

"I think monetary policy needs to maintain its loose stance to provide support to the economic recovery," a Fujian trader told MNI.

"There is reason for monetary policy to change in the short term," a Beijing trader emphasized, adding that continuity of policy is strongly needed to repair expectations.

"The PBOC's Q2 monetary policy committee meeting showed that monetary policy could further ease to support the economy, but any moves will be relatively restrained as authorities need to prevent and defuse risks," a senior fund manager in Shanghai told MNI.

## RATES

"There's a strong possibility conditions will be looser in Q3 if you look at the overall policy tone, so short-term rates won't climb up sharply," a Shanghai trader told MNI.

"Long-end rates are likely to return below 2.65% if ample liquidity is sustained," the Shandong trader predicted.

"The yield may maintain the current narrowly fluctuate until future policy direction becomes clearer," another trader told MNI.

## SPECIAL QUESTION

"There might be a reserve cut in Q3 to supplement longer term liquidity and increase the strength of cross-cycle adjustment", a Shandong trader said.

"Liquidity still needs to be maintained at a reasonable and ample level to better support policy measures, so a further reserve cut is to expect especially given the huge amount of MLF maturing in H2," another trader said.

**The MNI survey collected opinions from 39 local 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 July 10 – July 21.**

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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](mailto:info@mni-indicators.com) or visit [www.marketnerachews.com](http://www.marketnerachews.com)