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中国经济评论：央行小幅宽松，MLF 调降 5 bp

China Economics Update: PBoC cuts MLF rate by 5 bp

央行周二意外降息，将一年期中期借贷便利（MLF）利率下调 5 个基点至 3.25%，这是自 2016 年以来央行首次降低公开市场操作（OMO）利率。

我们认为本次小幅降息旨在缓解银行间市场近期的融资压力。过去几周国内食品价格上涨、且央行宽松幅度不及预期，推动短中长债息普涨。降息显示央行意图防止利率过快上涨对银行体系流动性和信贷成本造成压力。

作为贷款最优利率 LPR 的基准，MLF 利率下调后，贷款利率有下行压力。不过，由于银行间市场资金成本上升，预计 LPR 下调空间有限，难以推动信贷周期的大幅反弹。若 MLF 利率调降后银行资金压力有所缓解，央行可能将推迟降准至明年 1 季度春节前。

The PBoC cut the rate for one-year Medium Lending Facility (MLF) by 5 bp to 3.25% on Tue, the first cut to OMO rates since 2016 and a dovish surprise.

We believe the mini cut mainly aims to ease pressure on the interbank market. The recent surge in domestic food inflation, coupled with the less-than-expected monetary easing, has driven an increase in bond yields across the curve. Against this backdrop, the PBoC delivered its mini cut to prevent rates from rising too fast amid surging inflation.

The MLF cut points to downward pressure on the bank lending rate, given the Loan Prime Rate is linked to the MLF. However, rising interbank rates suggest that the fall in the LPR rate is likely to be small, with limited incremental impact on the credit rebound. If bank funding pressures ease after today's cut, we expect the PBoC to defer RRR cut(s) from 4Q to Jan next year, ahead of the Chinese New Year holidays (25 Jan).

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A technical adjustment to avoid over-tightening

The PBoC cut the rate of one-year Medium Lending Facility (MLF) by 5 bp on Tue, marking the first change of Open Market Operation (OMO) rates since Mar 2018 when the PBoC pushed up the rate by 5 bp, and is the first OMO rate cut since 2016 (Table 1).

The recent increase in interbank rates could be the main reason why the PBoC chose to move now. Bond yields have risen notably since Sep, while the average of short-term market rate (DR007) climbed 20bp from end-2Q, pushing up interest rates across the curve (Fig 1 & Fig 2).

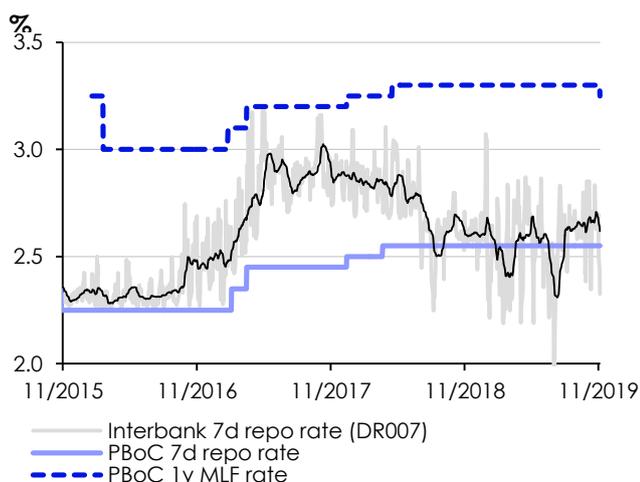
Against this backdrop, today's cut, which came as a dovish surprise, appears to be a technical one to preempt an over-tightening of overall financial conditions. The macro backdrop is less supportive for a rate cut now; in fact, markets had expected a policy cut in 3Q/Oct given downward pressure on growth, yet the PBoC chose to leave key OMO rates unchanged. In recent weeks, market expectations for a rate cut dwindled in light of improvements in high frequency macro indicators, better news on the trade front, and surging food prices.

While MLF cut means lower benchmark for loan rates, rising interbank borrowing costs may limit the fall of LPR to no more than 5bp in Nov, in our view. Under the new LPR mechanism introduced in early Aug, LPR would be set by banks based on MLF rate plus a premium that reflects a bank's funding costs. Against the rising short-term rates in Oct, LPR announced on Oct 20th was held unchanged after a cumulative decline of 11 bp in Aug and Sep, suggesting limited scope to lower LPR rate.

What's next?

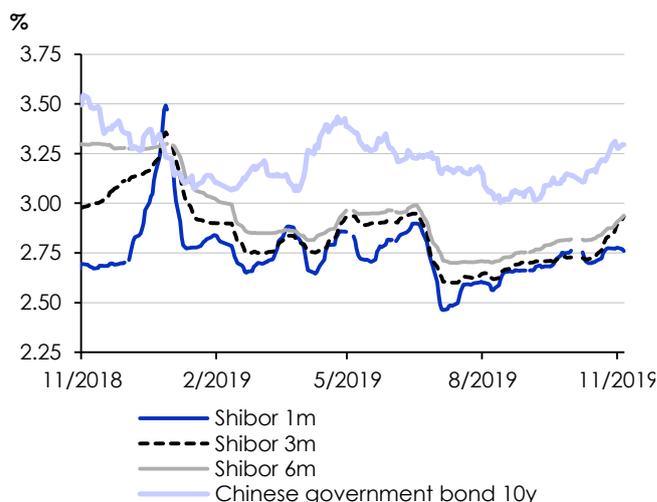
Today's mini cut signals policy intention to stay accommodative despite the rising price pressure, so as to prevent interest rate to rise too quickly. The signal would be stronger if the PBoC cuts other OMO rates simultaneously, as it did before (Table 1). Should interbank rates soften as a result of today's cut, we expect the PBoC to delay the RRR cuts (universal and/or targeted) to Jan next year, ahead of the Chinese New Year holidays (25 Jan).

Fig 1. Interbank funding costs have moved up...



Source: CEIC, CCBIS

Fig 2. ... driving rates to climb across the curve



Source: CEIC, CCBIS

Table 1: Rates of PBoC's OMOs and standing facilities

Tool	Duration	Rates after the change, %						Changes on the day, bp					
		24 Jan 2017	03 Feb 2017	16 Mar 2017	14 Dec 2017	22 Mar 2018	05 Nov 2019	24 Jan 2017	03 Feb 2017	16 Mar 2017	14 Dec 2017	22 Mar 2018	05 Nov 2019
Reverse repo	7d	2.25	2.35	2.45	2.50	2.55	-	-	+10	+10	+5	+5	-
	14d	2.40	2.50	2.60	2.65	2.70	-	-	+10	+10	+5	+5	-
	28d	2.55	2.65	2.75	2.80	2.85	-	-	+10	+10	+5	+5	-
MLF	3m	2.75	-	-	-	-	-	-	-	-	-	-	-
	6m	2.85	2.95	3.05	-	-	-	+10	-	+10	-	-	-
	12m	3.00	3.10	3.20	3.25	3.30	3.25	+10	-	+10	+5	+5	-5
SLF	1d	2.75	3.10	3.30	3.35	3.40	-	-	+35	+20	+5	+5	-
	7d	3.25	3.35	3.45	3.50	3.55	-	-	+10	+10	+5	+5	-
	1m	3.60	3.70	3.80	3.85	3.90	-	-	+10	+10	+5	+5	-

Source: PBoC, CCBIS

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