Mizuho Chart Speak: China

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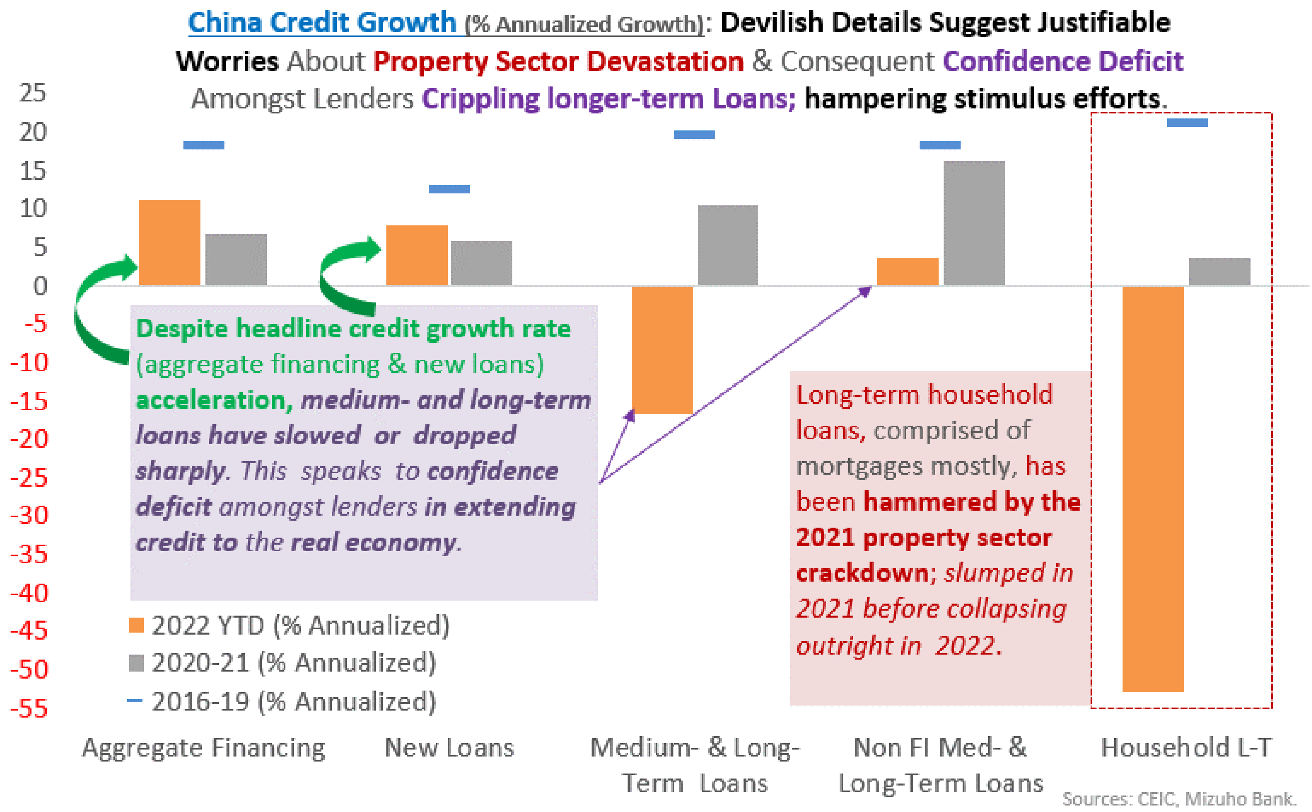
China Overestimating Stimulus?



"… knows the price of everything, and the value of nothing." **– Oscar Wilde**

In a Nutshell: Amid dismal economic data bets **on further China policy stimulus are admittedly understandable and welcome**. And despite the surprise MLF cut alongside other policy backstops being encouraging, *Beijing's greater policy risk is doing "too little, too late"* to avert a hard landing. At this juncture, the biggest threat is that **economic boost from policy stimulus is being overestimated** as pre-existing regulatory/property sector drag and consequently stifled growth multipliers are under-accounted. Revealingly, the details of credit data validate some of these concerns. Even if we look past July's credit growth slowdown, the **bigger and more worrying picture** is one of **sharply lower medium- to long-term lending**, and consequently **binding restraint on underlying economic momentum**. What Oscar Wilde said of cynics, it appears also applies to *die-hard optimists swayed by headline stimulus price* (rate cuts and fiscal headlines) *rather than staying grounded by underlying value* (gaps).

Welcome Stimulus, But Not Out of the Woods: There is **no doubt** that **further China policy stimulus** (including this week's MLF* cut) **is welcome**. In fact, dismal activity data validate our earlier warning** that *Beijing's greater policy risk is doing "too little, too late"* to avert a hard landing than inflaming untamed inflation. And that refrain *still applies*.

Overestimating Stimulus Relief is the Bigger Risk: The upshot is that even now, **overestimating economic lift from stimulus** remains **the greater danger as economic momentum continues to grind lower**.

Point being, **China bulls-in-waiting appear to be seduced by the price**, whether that is the *price of money* (being cut with the various rate cuts) or *reported headline fiscal price tags* (such as the CNY1.5trln of special bond issuance quotas for local government infrastructure programs). **Whereas** the **underlying value** (shortfall) **of the stimulus in stoking growth multipliers** is arguably **not rigorously assessed**.

Rate Cut Hopes: To be sure, the **buzz surrounding PBoC's unexpected MLF cut** (by 10bp to 2.75%), inciting *bets on a wider range of (possibly deeper) cuts* to follow, is **admittedly understandable**. **Especially** insofar that it is **projected** by markets **as more coordinated easing across a suite of fiscal and monetary levers** and attendant, much-needed, boost to the flagging economy.

But optimism risks being perilously overstated, and certainly **not unconditional**.

Stimulus Hamstrung by Confidence Deficit & Stifled Growth Multipliers: The upshot is that **until and unless confidence**, and consequently **growth multipliers**, are **restored by sufficiently coherent, comprehensive and adequate policy stimulus** across sectors, including *providing crucial backstop for the beleaguered property sector*, **Beijing may fall short of "escape velocity"**.

What's problematic is that ostensibly; i) the **effort to turn course** from this downward spiral is being **underestimated** (the monetary parallel being the so-called pushing on a string problem given higher leverage over the last decade has increased credit intensity of growth), and; ii) **growth multipliers associated with stimulus are being grossly over-estimated**.

Property Woes Cast a Long Shadow: Whereas in reality, **growth multipliers are stifled by pre-existing economic/regulatory drag**; led by **property sector devastation** that ripples through pervasive *supply-chains* as well as *credit* and *wealth channels*. And the **trouble is** that while **incremental drip-feed of property sector alleviation measures** to restore confidence may be encouraging, it still **continues to fall short of a convincing resolution**. And that remains as a key impediment.

Confidence Deficit Shows in Credit Details: Tellingly, the **resultant confidence deficit** is **evident in** the **devilish details of credit data**; which are misleadingly more buoyant in the headlines. And this *goes well beyond just the disappointing slowdown in July's credit growth* numbers.

Specifically, the shortfall, if not **sharp pullback in medium- and long-term loans** (which is what's really required to boost underlying economic activity) **despite the pick-up in headline aggregate financing/loan creation** is what's more **deeply worrying**; speaking volumes about more **weakness under the hood**.

Impaired Transmission & Impeded Stimulus: Fact is, **a banking sector hesitant to make medium- to long-term loans** is perhaps the definition of **impaired monetary policy** (stimulus) **transmission**. And with that the attendant impediment to economic revival. And so, all said, **cheer about China's stimulus appears overdone**.

* Medium-term lending facility

** Mizuho Chart Speak - China's Policy Risk is "Too Little, Too Late", 16th March 2022