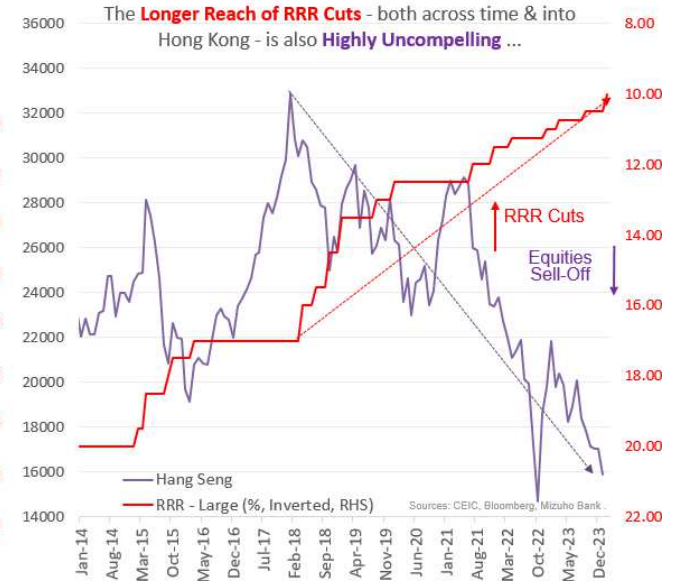
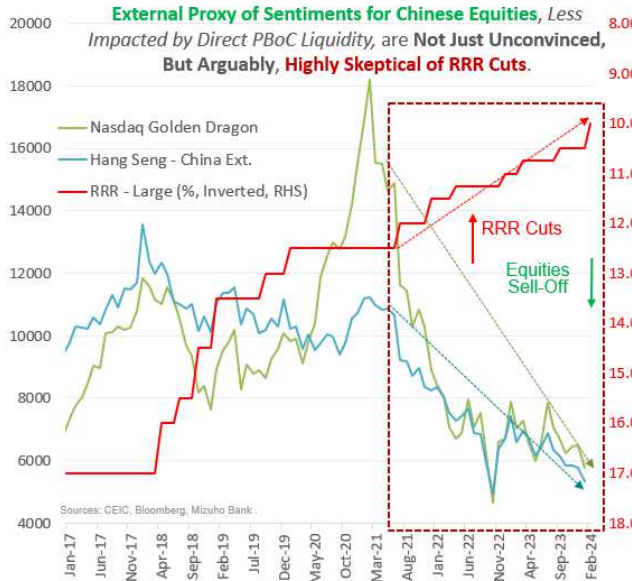
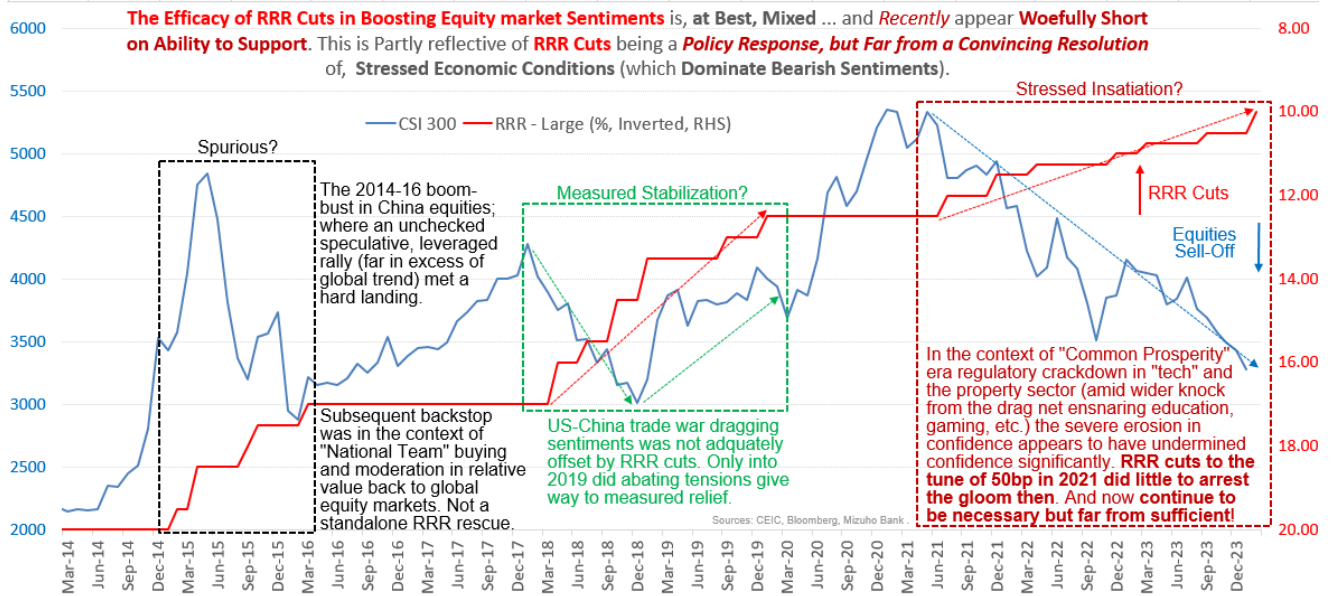


Mizuho Chart Speak: China Stimulus

Why RRR Cuts ... Don't Cut (It)



"If no mistake you have made, losing you are, a different game you must play." - Master Yoda

- To be sure, the **50bp RRR cut**, which we previously flagged, is **welcome**. And the uncharacteristic *"forward guidance"* on the easing pipeline encouraging. **But** this necessary policy response **falls far short of a reassuring resolution to the confidence crisis** that underpins equities gloom.
- Sure, **additional CNY1trln of banking liquidity** unleashed by this 50bp RRR cut (effective 5th Feb) will **alleviate**, possibly avert, **unnecessary funding stress**; buoying asset markets, all else equal.

- **But it doesn't guarantee that equities will turnaround decisively, durably or imminently;** especially given the pre-existing and entrenched stress in markets.
- For one, **liquidity stimulus from RRR cuts is considerably more diffuse;** not necessarily being **effectively directed to backstop equities**, despite arguments about money being fungible.
- *In particular, if banks do not have the appetite to lend;* be it towards equity funding directly or indirectly prop up listed entities. Arguably, the former is facilitated by confidence of a recovery market while the latter is a function of economic confidence. Neither of which RRR cuts unilaterally instill.
- Whereas, the **targeted CNY2trln “national team” rescue, using offshore funds**, surgically targets equities with *“fresh”, unencumbered liquidity*; which **mitigates** threats of **unintended self-defeating financial stability risks** from inadvertent CNH that may result from monetary policy stimulus.
- And if this **CNY 2trln rescue plan has failed to impress** (perhaps even convince) markets, then there ought to be *no illusions about RRR cuts being anything more than a low-bar complement* for shoring up asset market, or for that matter, wider economic sentiments.
- Unsurprisingly, the **track record of RRR cuts** in offering relief (much less a panacea) has been **mixed at best, and underwhelming of recent**. Not only have **RRR cuts previously failed to inspire** a rebound or instigate rallies, but clearly have *failed to arrest sharp and sustained declines* (Charts).
- The upshot is that **RRR cuts alone are lamentably unconvincing**; inadequate as a decisive backstop. Instead, it is *only within a wider suite of policy stimulus aimed at restoring confidence* via; i) unflinching policy appetite to boost the economy; ii) backed by unobscured policy clarity and; iii) sponsored by unmistakable political will; *that RRR cuts work could pitch in a meaningful complement*.
- Clearly, policy makers **need to at least need up their game, if not play “a different game”**.

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