China Reflation Policy 2024

27 Sep 2024. The PBOC cut the RRR and repo which will impact the MLF and mortgage rates. They will also offer a swap facility to brokers and mutual funds. Its managed to lift equity markets as sentiment improved. Will it materially impact the economy? I don’t think so. I don’t think people are in a mood to borrow to do anything. They might borrow to invest, hence the lines to brokers, but I don’t think anyone is going shopping anytime soon.

The government has managed to create a sense of despondency across the populace. They now need to repent and spend. I recommend that the government create a federal housing agency to buy up unsold housing, including uncompleted units, and complete them. This housing stock can be rented out at concessionary rates and will form a social safety net infrastructure, although I think they will probably be pretty empty for a while. There are a lot of buy to lets out there that will become the main inventory of this agency.

I recommend a 3 year term repo where developer loans and debt can be posted as collateral. This turns the PBOC into a giant pawnshop accepting dodgy heirlooms. Its ok. Banks will only be allotted this facility to fund new loans to property project companies, not the developers themselves, to complete the stock of uncompleted housing which the federal housing agency has agreed to purchase.

Its not a great solution but its better than offering cheap loans to people who don’t want them.