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Flash Notes

China: Relaxation Of Property Market Measures

China announced on Monday evening (30 March) further housing market relaxation:

The PBoC cut the minimum down payment to 40% from 60% for some purchases buying a second home before paying off an existing mortgage, adding to a move in September to relax mortgage restrictions. Meanwhile, **Ministry of Finance will waive sales tax for deals involving homes held for two years or more, down from minimum of 5 years**, to avoid the 5.5% tax.

The move came after four years of property market curbs to stem speculative activities. However, loosening measures since September (when PBoC broadened access to lower down payments and mortgage rates), including two interest rate cuts and one reserve requirement ratio (RRR) reduction, did not have significant effect, as new-home sales slumped 17% in January and February, after registering its first year-on-year increase in 12 months in December. In the 70-city property index, the number of cities with month-on-month price declines rose in February, to 66 from 64 in January, after falling for three consecutive months.

With the headline growth on track to slow in 1Q15, the pace of declines may be exceeding the limits tolerated by officials, and hence loosening of property markets is just a matter of time and we expect the Chinese government to undertake further steps to manage further slippage in overall economic conditions.

After Monday's measures, we still anticipate at least another round of interest rate and RRR cuts sometime in 2Q15, to bring the 1Y lending rate down to 5.10% (from 5.35%), 1Y deposit rate to 2.25% (from 2.50%), and RRR to 19.00% (from 19.50%). In view of the recent poor run of data, we had earlier lowered our forecast for China's 1Q15 GDP growth expectation to 6.8%, from our initial call of 7.1%. This week will have a further health check on China with purchasing managers index (PMI) reports for March due on Wednesday (1 April), before the release of China's 1Q15 report on 15 April morning.

With China's growth outlook likely to remain downbeat, we still expect a somewhat weak tone for the RMB ahead, which is in line with our call that the US Federal Reserve would commence its interest rate liftoff from June. Despite the pair's declines in recent weeks, we are keeping to our USD/CNY forecasts of 6.33/USD for end-2Q15, and 6.29 for end-2015 (vs. close of 6.2077 on 30 March), keeping in mind larger volatility for the currency, which could include a possible widening of trading bands sometime this year.