

China Credit Growth & Policy; September FOMC Minutes

- China's credit growth slows further in September, raising market demand and expectations for more easing measures; The PBoC is likely to roll over CNY 500bn of MLF loans due Friday with a larger amount or it may renew part of maturing MLF loans along with a 50bp RRR cut to be delivered as early as Friday
- According to the September FOMC meeting minutes, the Fed is poised to begin reducing its bond purchases in either mid-November or mid-December and conclude the gradual tapering process by mid-2022; Fed policymakers also debate when they might need to raise rates amid rising inflation risks
- The DXY Index will likely head for the 93.5 level in the near term, with dissipating uncertainties surrounding the Fed's tapering path; We stay with our short USD/CNH spot and short USD/SGD spot positions

Asia Overview - Most EM Asian currencies advanced versus the dollar on Wednesday. The SGD and JPY gained 0.4% and 0.3% respectively amid a 4bp drop in the 10Y UST yield.

The CNY and CNH rose 0.3% and 0.4% respectively. USD/CNH will likely trade between 6.4 and 6.5 at this stage, with further downside potential. China's trade surplus widened to USD 66.76bn in September from USD 58.33bn the month before, with exports rising 28.1% yoy and imports increasing 17.6% yoy. The KRW rebounded 0.4%. USD/KRW will likely trade lower towards the 1,180 level. South Korea's bank loans to households increased KRW 6.5tn mom to KRW 1,052.7tn at end-September. South Korea said on Wednesday that a 60.8% of population have been fully vaccinated. The TWD rallied somewhat despite equity outflows. USD/TWD will likely trade between 28.0 and 28.2 in the near term.

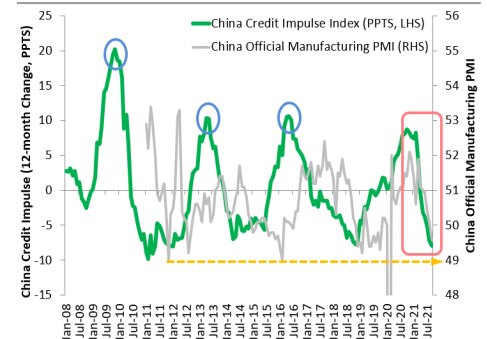
The INR rallied 0.2%. USD/INR will likely head for the 75.0 level in the near term. India is considering an IPO of Central Warehousing Corporation as part of a plan to list some state-owned companies. India has taken another round of measures to cut import taxes on edible oils in order to alleviate the impact of soaring global prices on the domestic market. Prime Minister Narendra Modi on Wednesday outlined a master plan to dismantle silos within the government to enable India seamlessly build infrastructure projects and improve ease of doing business. Finance Minister Nirmala Sitharaman said that India is looking at near close to double-digit growth this year and the country will be one of the fastest-growing economies. The IDR closed flat. USD/IDR is likely to fluctuate around the 14,200 level for now. Continued trade surplus amid booming commodity prices helps stabilize the rupiah. The BI said in a survey report on Wednesday that manufacturing production, order volume and inventory are seen back in expansionary phase as demand increases. The MYR increased 0.1%. USD/MYR is likely to slide to the 4.15 level amid resilient oil prices. Malaysian banks have limited exposure to Chinese developers and any fallout from the debt woes facing the nation's property industry will be manageable, according to the BNM. The PHP advanced 0.3%. USD/PHP is likely to consolidate between 50 and 51 at the moment. The BSP awarded all of PHP 450bn term deposits offered at its weekly auction on Wednesday. BSP Governor Benjamin Diokno said on Wednesday that the peso trading at the 50 to 51 against the dollar isn't worrisome for the central bank, citing the country's hefty reserves and manageable inflation. USD/THB will likely drop to 33.0 amid a broad dollar weakness. Thailand's main coronavirus task force will likely approve more relaxations of current restrictions on Thursday.

Most regional equity indices resided in the green on Wednesday. China's SHCOMP index rallied 0.42%, while India's NIFTY50 index increased 1.05%. South Korea's KOSPI index climbed 0.96% despite USD 46.1mn of equity outflows. In the meantime, Taiwan's TWSE index slid 0.70% as global funds reduced their holdings in local main board shares by USD 303.3mn on Wednesday. Malaysia's KLCI index and Indonesia's JCI index closed up 0.85% and 0.78% respectively. Thailand's onshore markets were closed Wednesday for a public holiday.

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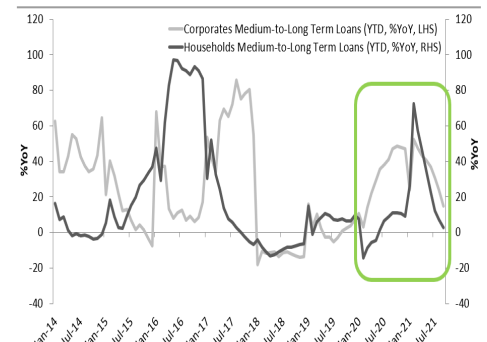
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China Credit Impulse Index (12-month Change) vs. China Official Manufacturing PMI



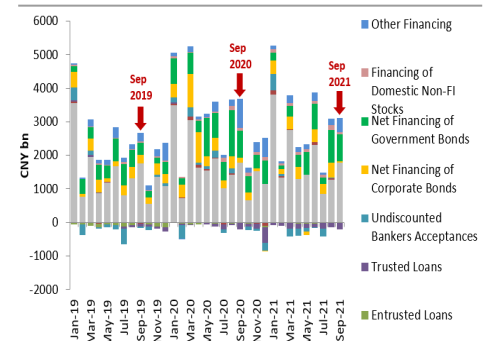
Source: Bloomberg, PBoC & Scotiabank FICC Strategy

China Medium-to-Long Term Loans (YTD, %YoY) Corporates vs. Households



Source: Bloomberg, PBoC & Scotiabank FICC Strategy

China Social Aggregate Financing Breakdown



Source: Bloomberg, PBoC & Scotiabank FICC Strategy

China • China's credit growth slowed further in September, raising market demand and expectations for more easing measures to sustain the economic recovery into 2022 when the nation's ruling party will be holding the 20th National Party Congress. Both China's credit impulse index and official manufacturing PMI are set to rally late this year/early next as the two indicators are approaching the bottom of the current credit cycle.

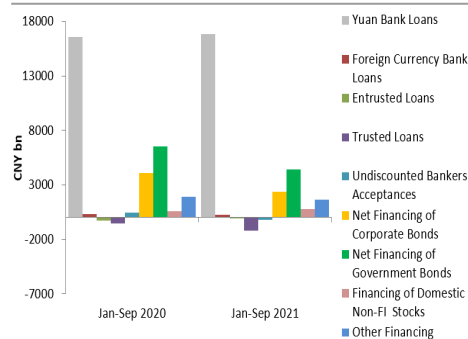
Chinese banks extended CNY 1.66tn of new yuan loans in September, up from August's CNY 1.22tn, bringing the nation's January-September lending to CNY 16.72tn. However, the annual growth rate of both household and corporate medium and long-term loans dropped markedly last month. Meanwhile, China's total social financing (TSF, aggregate financing) declined to CNY 24.75tn in the first nine months from CNY 29.62tn a year earlier, largely due to weaker bond financing and falling off balance sheet financing.

China has expedited the issuance of special-purpose local government bonds in August and September, raising CNY 488.4bn and CNY 523.1bn sequentially. As of September 2021, the country's year-to-date cumulative new issuance of special-purpose local government bonds have reached CNY 2.37tn that accounts for 64.8% of the 2021 budget target of CNY 3.65tn, compared to CNY 3.37tn (89.7% of the 2020 budget target of CNY 3.75tn) raised in the same month of the previous year.

On September 30, Chinese media 21st Century Business Herald exclusively reported that "The regulatory authorities recently required that the remaining new special-purpose bond quotas all over the country must be issued before the end of November, with no such quotas to be reserved for December." **It suggests the average monthly issuance size in October and November is about CNY 650bn.** Earlier on August 9, it was reported by 21st CBH that some quotas will be reserved for December.

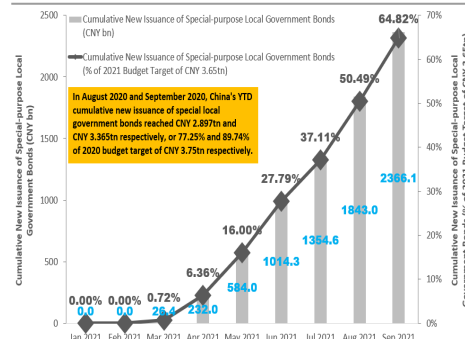
As we know, CNY 500bn of MLF loans are set to mature on Friday. **We reckon that 1) the PBoC is likely to roll over CNY 500bn of MLF loans with a larger amount to boost credit and money supply growth, or the PBoC may renew part of maturing MLF loans along with a 50bp RRR cut to be delivered as early as Friday and; 2) a less rollover of maturing MLF loans Friday indicates a higher chance of a RRR cut to be announced in the near term. A total of CNY 2.45tn of MLF loans are scheduled to mature by the year end.**

China Social Aggregate Financing Breakdown Jan-Sep 2021 vs. Jan-Sep 2020



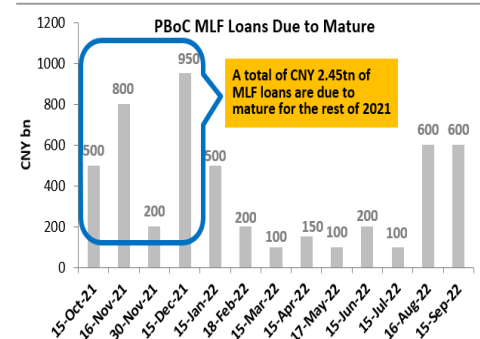
Source: Bloomberg, PBoC & Scotiabank FICC Strategy

Cumulative New Issuance of Special-purpose Local Government Bonds (Jan-Sep 2021)



Source: MoF China & Scotiabank FICC Strategy

PBoC MLF Loans Due to Mature — Another 50bp RRR cut needed to repay maturing MLF



Source: Bloomberg, PBoC & Scotiabank FICC Strategy

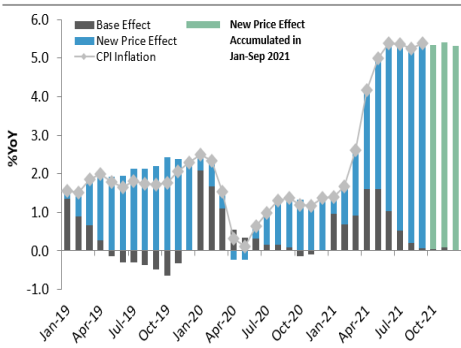
EM Asia • Minutes from the September FOMC meeting showed that the Fed is poised to begin reducing its bond purchases by USD 15bn per month in either mid-November or mid-December and conclude the gradual tapering process by the middle of 2022. Under plans discussed last month, the US central bank will pull back its Treasury purchases by USD 10bn per month and its purchases of agency mortgage-backed securities by USD 5bn per month.

Fed policymakers also debate when they might need to raise rates amid rising inflation risks. According to the minutes, we note 1) the Committee's "substantial further progress" standard regarding its asset purchases was distinct from the criteria on the federal funds rate and that a policy shift towards the tapering provided no direct signal about its interest rate policy; 2) Various participants stressed that economic conditions were likely to justify keeping the rate at or near its lower bound over the next couple of years and; 3) a number of participants raised the possibility of beginning to increase the target range by the end of next year.

The DXY Index will likely head for the 93.5 level in the near term, with dissipating uncertainties surrounding the Fed's tapering plan. Going forward, the short-term (2Y) UST yield that is susceptible to market expectations for Fed rate hikes could play a greater role in determining the DXY Index. Therefore, the DXY Index will likely start to rally substantially amid mounting worries over looming Fed rate hikes when entering Q2 2022. As of writing, Fed Funds Futures are pricing in a 13bp and 22bp rate hike by July 2022 and September 2022 respectively, considering US CPI inflation to remain elevated in H1 2022.

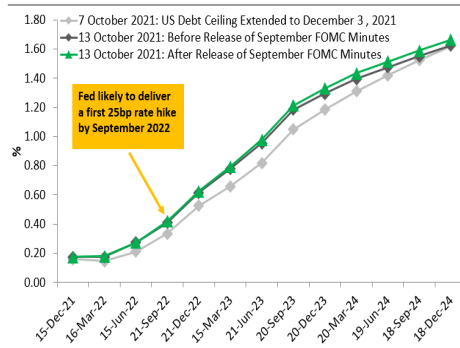
In the near term, EM Asian currencies could extent their gains amid a risk-friendly mood. We maintain our short USD/CNH spot and short USD/SGD spot positions.

US CPI Inflation



Source: Bloomberg & Scotiabank FICC Strategy

Eurodollar Futures Implied Yields



Source: Bloomberg & Scotiabank FICC Strategy

DXY Index vs. Eurodollar Futures Implied Yield (EDZ2, December 2022)



Source: Bloomberg & Scotiabank FICC Strategy

TODAY'S CALENDAR

Time (HKT)	Economy	Type	Release	Period	Consensus	Actual	Last	Significance
05:00	KR	INFL.	Export Price Index YoY	Sep		20.2%	18.9%	med
05:00	KR	INFL.	Import Price Index YoY	Sep		26.8%	22.4%	med
08:00	AU	INFL.	Consumer Inflation Expectation	Oct			4.4%	med-high
08:00	SG	GDP	GDP YoY	Q3 A	6.6%		14.7%	med-high
08:00	SG	GDP	GDP SAAR QoQ	Q3 A	1.1%		-1.8%	med-high
08:00	SG	MAS	MAS Semiannual Monetary Policy Review	Oct				high
08:30	AU	JOB	Employment Change	Sep	-110.0K		-146.3K	high
08:30	AU	JOB	Unemployment Rate	Sep	4.8%		4.5%	high
08:30	AU	JOB	Participation Rate	Sep	64.7%		65.2%	high
09:30	CN	INFL.	CPI YoY	Sep	0.8%		0.8%	high
09:30	CN	INFL.	PPI YoY	Sep	10.5%		9.5%	high
14:30	IN	INFL.	WPI YoY	Sep	11.15%		11.39%	med

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