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WUHAN: People wearing face masks walk past a mall in Wuhan, in China's central Hubei province yesterday. — AFP

China unexpectedly cuts reverse repo rate

Easing steps come as analysts predict steep Q1 GDP contraction

SHANGHAI: China's central bank unexpectedly cut the rate on reverse repurchase agreements by 20 basis points yesterday, the largest in nearly five years, as authorities ramped up steps to relieve pressure on an economy ravaged by the coronavirus pandemic.

The People's Bank of China (PBOC) announced on its website that it was lowering the 7-day reverse repo rate to 2.20 percent from 2.40 percent, but it did not give a reason for the move. Ma Jun, a central bank adviser told state media that China still has ample room for monetary policy adjustment and the rate decision took into consideration the return of Chinese companies to work, the global virus situation and a deterioration in the external economic environment.

It was the third cut in the 7-day rate since November, and comes as the coronavirus infections in China - where the outbreak originated late last year - has slowed from a peak in February. The country has so far reported 3,304 deaths from 81,470 infections. In a note to clients, Capital Economics said "a lot more easing will be needed, especially on the fiscal front, to help the economy return to its pre-virus trend."

Global policymakers have rolled out unprecedented stimulus measures in the past few weeks, cutting rates sharply and injecting trillions of dollars to backstop their economies as many countries have been put under tight lockdowns to contain the pandemic.

Yan Se, chief economist at Founder Securities in Beijing, said the rate cut was China's commitment to a pledge it made during the Group of 20 major economies meeting last week to combat the coronavirus and stabilize financial markets. "China was the only major economy that had not yet implemented large-scale easing measures" Yan said, noting that many other nations have implemented more drastic steps such as quantitative easing and deeper cuts to benchmark rates.

Leaders of the G20 pledged on Thursday to inject over $5 trillion into the global economy to limit job and income losses from the coronavirus, which has so far infected more than 700,000 people and killed nearly 34,000 worldwide.

> Seven-day reverse repo at 2.20% vs 2.40% previously

Earlier in the day, the PBOC injected 50 billion yuan ($7 billion) into money markets through seven-day reverse repos, breaking a hiatus of 29 trading days with no fresh fund injections. Chinese 10-year government bond futures initially responded positively to the cut, with the most-traded contract for June delivery rising as much as 0.23 percent, before pulling back to last trade down 0.1 percent. Xing Zhaopeng, markets economist at ANZ in Shanghai, said the latest cut follows the ruling Communist Party's Politburo meeting last Friday.

"The medium-term lending facility (MLF) rate and Loan Prime Rate (LPR) will be cut at the same pace this month. We believe this cut is a signal to urge all loans to refer LPR as the benchmark so that the PBOC can improve the effectiveness of monetary policy transmission," he said.

At Friday's meeting, the politburo said the government will step up policy measures and tighten enforcement in a bid to achieve full-year economic and social development targets. The coronavirus hit the Chinese economy just as it was starting to show some signs of stabilizing after growth cooled last year to its slowest pace in nearly 30 years amid a trade war with the United States. Analysts expect China's economy to contract sharply in the first quarter due to widespread disruptions to business and consumer activity caused by the virus as authorities put in place tough public measures to contain the pandemic. Nomura has lowered its annual GDP growth forecast for China to 1.0 percent this year, from 1.5 percent previously, and adjusted quarterly GDP forecasts to a 9.0 percent annual contraction, from an earlier prediction of 0.9 percent contraction. — Reuters

Singapore eases monetary policy

SINGAPORE: Singapore's central bank eased monetary policy yesterday as the city-state, seen as a bellwether for the health of global trade, heads for a deep recession due to the coronavirus pandemic.

The easing echoes moves made by other countries and comes after data last week showed the city-state suffered its sharpest contraction in the first quarter since the global financial crisis.

The Monetary Authority of Singapore said it had flattened the slope of the band at which the local dollar is allowed to move against a basket of currencies of its major trading partners-effectively weakening the local unit. Instead of using interest rates, trade-reliant Singapore manages monetary policy by letting the local dollar rise or fall against a currency basket of its trading partners.

"Major uncertainty remains. The recovery in the global economy will depend on the epidemiological course of the pandemic and the efficacy of policy responses," the central bank said.

MAS was supposed to issue its next policy statement in April but brought it forward as the country reels from the economic impact of the virus.

SINGAPORE: People buying vegetables at a market in Singapore. —AFP

The financial hub is one of the world's most open economies, and is usually hit hardest and earliest during any global shock. Gross domestic product (GDP) shrank by 2.2 percent in the first quarter compared with the previous year-the worst decline since the 2009 financial crisis, according to advance estimates released last week by the trade ministry.

The ministry has downgraded its growth forecast, projecting GDP will fall by up to four percent this year. With global demand hammered by business closures, a halt in air travel and other measures to contain the virus, Singapore's easing is more to reflect the current economic climate than to support exports, said CIMB Private Banking regional economist Song Seng Wun.

"You cannot have a strong Singapore dollar when regional economies and the global economy are in deep recession," he said. —AFP

Oil prices at 17-yr lows as virus ravages

SINGAPORE: Oil prices extended losses in Asian trade yesterday and languished at 17-year lows, with the coronavirus crisis escalating around the world and no end in sight to a vicious price war. US benchmark West Texas Intermediate fell 5.3 percent to trade at $20 a barrel, while international benchmark Brent crude was off 6.5 percent at $23. The falls came after the death toll from the pandemic surged past 30,000 at the weekend as cases in hard-hit Europe and the United States showed no sign of letting up.

Senior US scientist Anthony Fauci estimated the virus could possibly result in 100,000 to 200,000 deaths in the United States, while President Donald Trump extended "social distancing" guidelines until April 30. The president also said he expected the country to "be well on our way to recovery" by June 1 — dropping his previous target of mid-April.

The virus has infected more than 140,000 in the world's top economy and left more than 2,400 dead.

Oil markets have been plunging for weeks as lockdowns and travel restrictions imposed by governments worldwide to fight the virus strangle demand. Even as demand falls, supply has increased dramatically after top producers Saudi Arabia and Russia engage in a price war following a row about whether to cut output to support prices.

At the end of last week, Riyadh said it had not been in touch with Moscow about potential output cuts while Russia's deputy energy minister said oil at $25 a barrel was not a catastrophe for the country's producers-signalling the two sides are still far apart. "Demand concerns are critical but well known, what really took the market down were the signals we got from Saudi Arabia and Russia that they intend to continue their current path," Vivek Dhar, a commodities analyst at Commonwealth Bank of Australia, told Bloomberg News.

"Market hopes of a deal have come undone." There are fears the commodity could fall further as storage tanks around the globe approach full capacity. "When the storage capacity is filled, we should probably expect a response from Saudi Arabia, Russia, and other essential oil producers," Axi-Corp's Stephen Innes said, though he warned "the longer their response takes, the higher the risk of another steep decline in oil prices". — AFP