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Submitted by Tyler Durden on 10/23/2015

Reactions To China Rate Cut Trickle In: "China Is Getting More And More Desperate"

To say that China, which a few days ago reported GDP of 6.9% which "beat" expectations and which a few hours ago reported Chinese home prices rose in more than half of tracked cities for the first time in 17 months, stunned everyone with its rate cut on Friday night, meant clearly for the benefit of US stocks, as well as the global commodity market, is an understatement: nobody expected this.

As a result strategists have been scrambling to put China's 6th rate cut in the past year (one taking place just ahead of this weekend's Fifth plenum) in context. Here are the first responses we have seen this morning.

First, from Vikas Gupta, executive vice president at Mumbai-based Arthveda Fund Management Pvt., who told Bloomberg that "China rate cut will spur fund flows to EMs." He adds that "the move rules out U.S. rate increase this yr; Fed's "hands are getting tied" concluding that **"easing shows China is "getting more and more desperate" and that "things are really bad there."**"

While there is no debate on just how bad things in China are, one can disagree that the Fed's hands are tied - after all the Fed's biggest "global" concern was China. The PBOC should have just taken that concern off the table.

The second reaction comes from Citi's Richard Cochinos:

> **Bottom line: Impacts of China rate announcements on the G10 are falling. Investors remain cautious ahead of this weekend's announcements, and what policy cuts imply for the region.**
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> One day after a dovish ECB, China cuts interest rates by 25bp and RRR cut by 50bps. **Accommodative policy begets accommodative policy it seems**. Our economics team has been expecting further policy accommodation out of China, the issue was just a matter of timing. Unlike other major central banks, the PBOC doesn't announce policy on a set schedule – but this doesn't mean there isn't a pattern to it. Before today, **it had announced cuts to the RRR or interest rate six times in 2015 – the last being on 25 August**. So today was a surprise in terms of action, but not completely unexpected. **We prefer to see the easing can be seen in the larger picture of China adjusting to weaker growth in a systematic and controlled manner, rather than a reaction to a new economic shock.**
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> This view helps explain the muted reaction in the G10. So far, AUDUSD (0.27%) and USDJPY (0.18%) have borne the bulk of price action, but we note price action so far is muted relative to April, June or August. *Clearly stimulus is beneficial to both Japan and Australia – but we are cautious not to sound too optimistic.* **Today's rate cut comes ahead of this weekend's Fifth plenum, and previous ones haven't been sufficient to reverse the economic slowdown**. Additionally, this weekend it has been expected GDP targets for the next 5-years will be announced (currently at 7%, but broadly expected to fall), along with other fiscal plans and goals. Without knowing the full baseline of what China expects and is working towards, it is difficult to chase price

action. The main drivers of EM Asia lower has been poor growth and trade in the region – hence we main cautious. Policy adjustments now could be a way to soften the impact of further weak economic growth.

And finally, from MarketNews:

The PBOC will cut its key one-year lending rate by 25 basis points to 4.35%, the bank said on its website, and make a similar reduction to its one-year deposit rate, taking it to 1.5%. Reserve ratio requirements for China's domestic lenders were also trimmed by 50 basis points and the PBOC abolished a ceiling on banks' deposit rates, the so-called final step of China's interest rate reform.

The triple-set of moves provides a much better assessment of the impending weakness in China's economy, it seems, than the various indicators scrutinized in Europe over the past few weeks, which continue to suggest minimal impact from the slowdown.

They may also better explain the surprisingly dovish stance articulated Thursday by ECB President Mario Draghi, who emphatically flung the door to further monetary easing measures wide open and suggested the Bank might even consider a re-think of its "lower bound" assessment on key interest rates.

And therein lies the question: just how bad are things in China (and Europe for that matter) for the PBOC to act (and the ECB to hint) with the urgency of a world hanging on the edge of a global recession. We'll find out next Friday when the BOJ become the third bank to join the global easing train.