

# The \$68 Billion Reason Why China May Start Adding Cash Again

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- Maturing funds, taxes may see liquidity situation reverse
- China Merchants tips resumption of open-market operations

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An onslaught of maturing funds may see China’s central bank reaching for the fire hose.

Liquidity has been [flush <https://www.bloomberg.com/news/articles/2017-07-06/china-s-latest-liquidity-mystery-sees-bond-market-awash-in-cash>](https://www.bloomberg.com/news/articles/2017-07-06/china-s-latest-liquidity-mystery-sees-bond-market-awash-in-cash) in Asia’s largest economy -- the result of a combination of curbs on loan issuance, a stronger yuan and seasonality factors. That’s seen the People’s Bank of China hold off on conducting open-market operations, until now. Policy makers [added](#) liquidity via OMOs for the first time in 13 days on Tuesday, and while the net effect was neutral, it could be a sign they’re ready to start pumping cash into the system again.

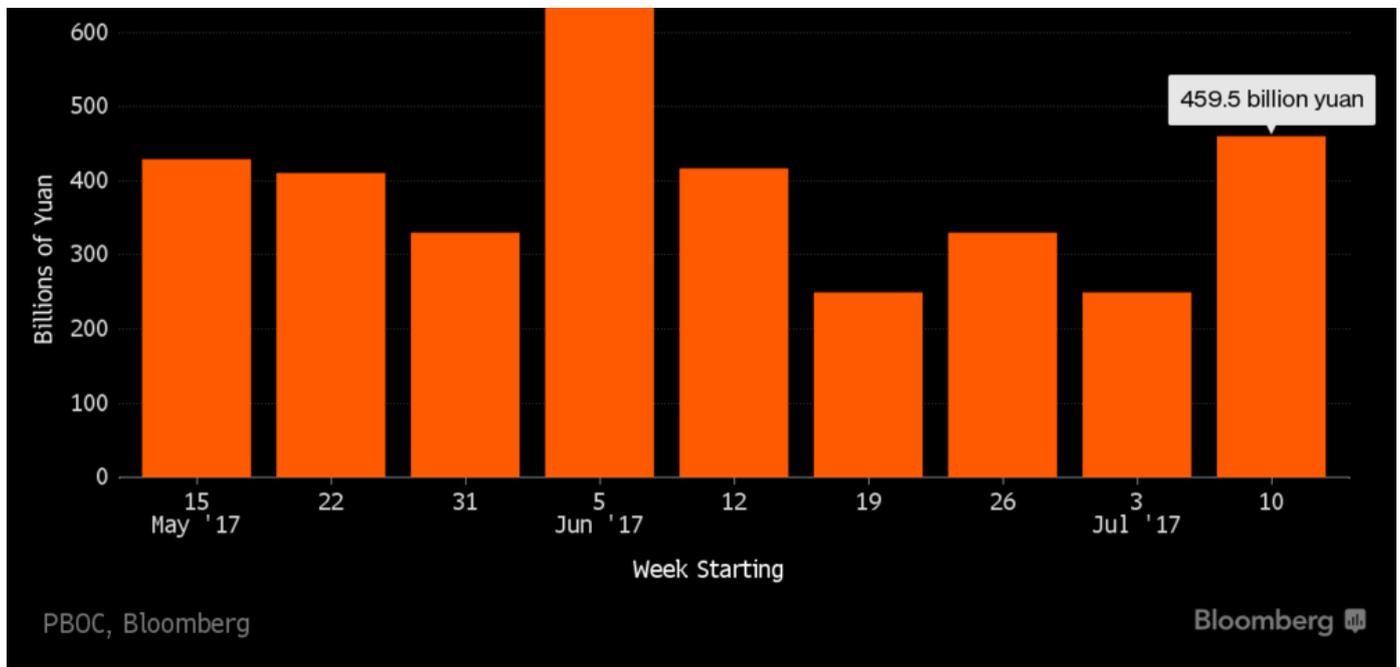
And this may be why: a [total](#) of 459.5 billion yuan (\$67.6 billion) of funds issued via reverse-repurchase agreements and the PBOC’s medium-term lending facility comes due this week, the most since the week ending June 5. Further pressuring liquidity, government issuers and policy banks will sell at least 483 billion yuan of bonds by Friday. And then there’s tax payments, which may see companies hoard cash into the end of July.

## Wall of Maturities

PBOC may inject liquidity this week as \$68 billion of funds come due

- Weekly open-market operations and medium-lending facility maturities

700



The looming maturity wall has also coincided with a shift in the PBOC's rhetoric.

The bank comments whenever it refrains from conducting open-market operations, or OMOs, and Monday's statement referred to a "moderate" level of liquidity in the banking system, a change from the previous 11 trading days when it was described as "relatively high." Policy makers inject funds to maintain stability in the financial system and to relieve pressure on economic growth as they push on with a much-publicized deleveraging campaign.

"Pressure for liquidity to tighten is building, and the money market rates have reached a floor," David Qu, a markets economist in Shanghai at Australia & New Zealand Banking Group Ltd. said in an interview on Monday. The PBOC is likely to roll over the medium-term lending facility funds due this week as a lot of cash has already been drained, he said. "In the future, long-term bond yields will continue to climb as the deleveraging drive continues."

### Not Stingy

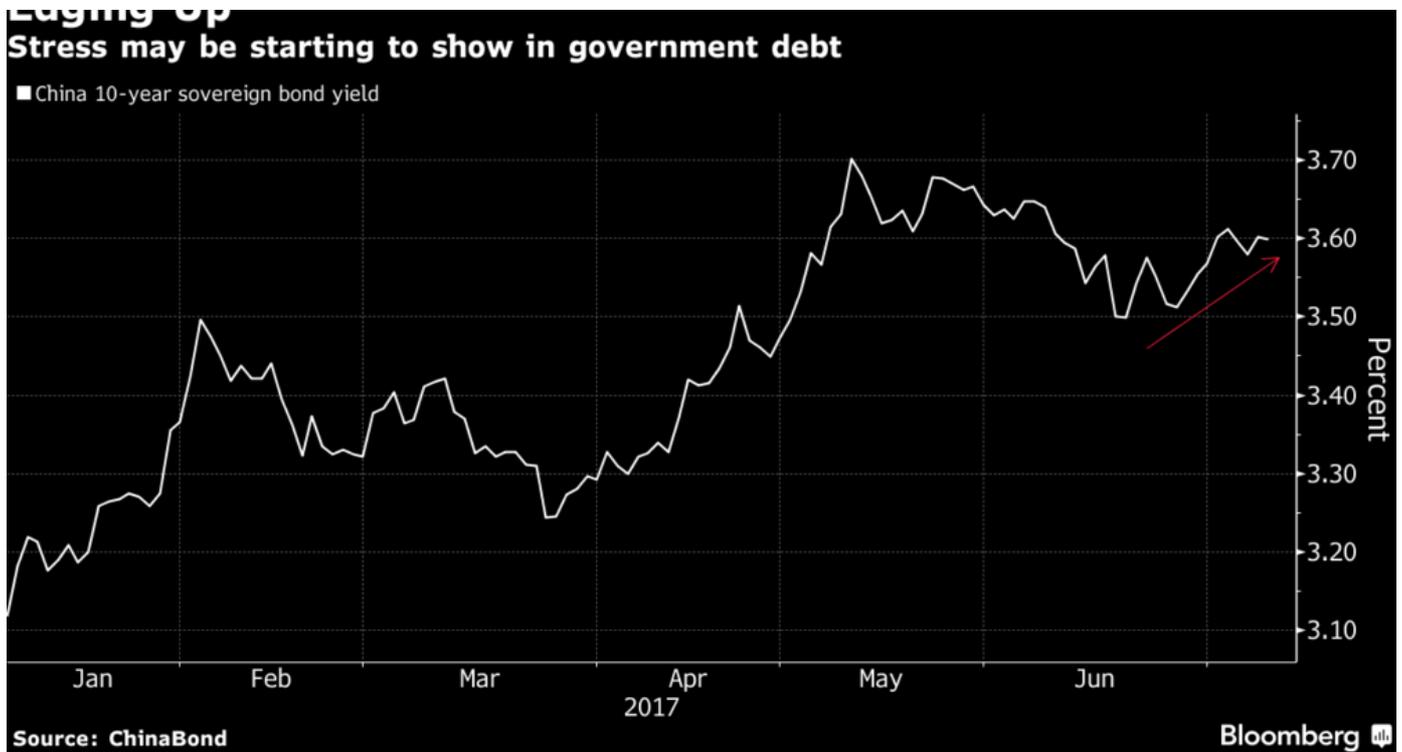
China Merchants Securities Co. goes a step further, with analysts led by Chief Bond Analyst Xu Hanfei predicting a resumption of OMOs as well. The authorities "won't be stingy" when it comes to injecting funds should China's economy start to slow in the third quarter, said Pan Jie, chief fixed-income analyst at Orient Securities Co.

Right now, money-market rates reflect a system still pretty flush with liquidity.

While China's benchmark seven-day repurchase rate edged up seven basis points as of 1:41 p.m. in Shanghai on Tuesday, it fell the most last week since May to a 12-week low. Still, yields are also creeping higher, with rates on 10-year government bonds nearing their highest level in three weeks.

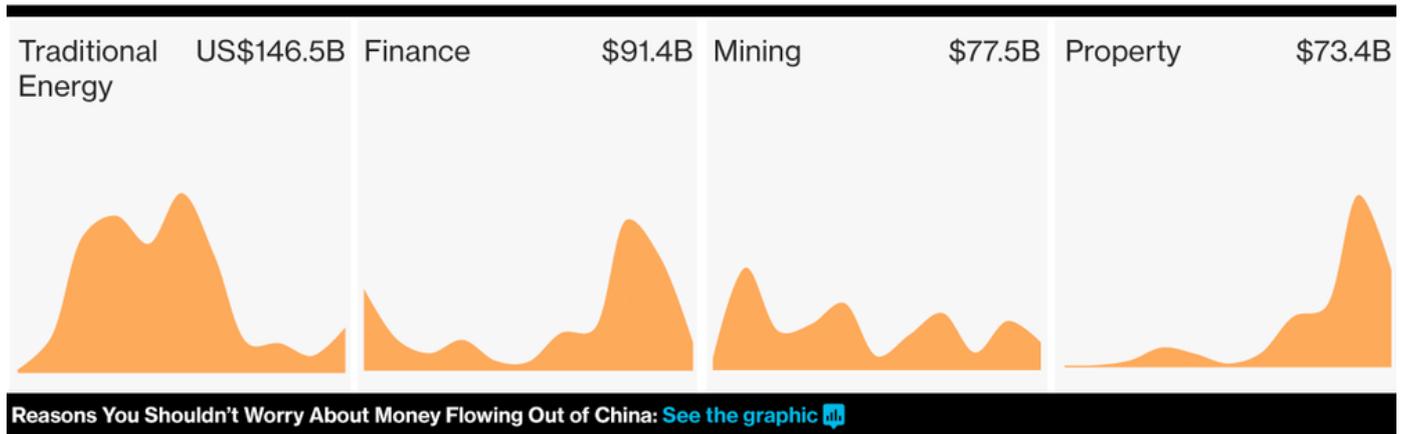
The liquidity surge was greeted with caution by bond analysts and investors: read more. <<https://www.bloomberg.com/news/articles/2017-07-06/china-s-liquidity-rush-has-the-bond-market-looking-for-the-catch>>

### Edging Up



The central bank doesn't want liquidity to be too tight because it could hit economic growth and financial stability, says Yulia Wan, a banking analyst at Moody's Investors Service in Shanghai.

"Policy makers will use a combination of tools to maintain neutral and slightly tight liquidity conditions for the rest of this year," she said.



<https://www.bloomberg.com/graphics/2017-china-capital-outflows/>

— With assistance by Tian Chen, and Yuling Yang