

Banks - China

Further deposit rate cut to help banks maintain reasonable NIM

Industry Overview

Regulators guide down the cost of call/agreement deposits

Various media (including Reuters, 21st Century Business Herald) reported that China regulators have asked banks to lower the interest rate ceiling on call deposits and agreement deposits to no more than 10bp/20bp higher than benchmark deposit rates for state banks/other banks compared to no more than 50bp/75bp before. These deposits are classified as demand deposits due to good liquidity but enjoy much higher yields than conventional demand deposits (the spread can be >100bp). While most banks' personal demand deposit costs had declined last year after the coordinated deposit pricing cuts, their corporate demand deposit costs continued to increase notably, likely due to the widespread use of call/agreement deposits and their rigid costs. So, regulators reportedly further guided down the cost of these deposits to help banks lower funding costs.

Certain JSBs to benefit more, but don't just focus on this cut

We estimate that call/agreement deposits account for 20-65% of corporate demand deposits or 2-25% of total deposits at most banks. Assuming a 40-50bp cut to the call/agreement deposit rates, this could boost major banks' NIMs by 1-6bp and revenue by 0-2.5%. CNCB/MSB/CIB/SPDB could benefit more due to their larger exposure to these deposits, while PSBC/CQRB could benefit less. However, we remind investors not to focus only on this cut, as it is just part of a series of measures to help manage down banks' deposit costs. Recall that regulators encouraged some mid-sized/small banks to lower the deposit rate ceiling by 10bp in April 2022. State banks, major JSBs and leading regional banks cut their deposit rates by 5-30bp across maturities in September 2022. More mid-sized/small banks have reduced deposit rates since April 2023, after the PBOC added market-oriented deposit pricing into Qualification and Prudence Assessment and indicated that it will punish those banks that fail to meet the requirements. These measures benefit banks in general, especially those with strong deposit franchises (e.g., state banks, PSBC, CMB). Many banks have guided declining RMB deposit costs, and the benefit should continue in coming quarters.

Macro/industry situations support deposit rate cuts

CPI/PPI inflation continued to miss expectations, with CPI softening to 0.1% and PPI declining to -3.6% in April 2023. The 10-year China Government Bond yield has fallen back to around 2.75% after rebounding to about 2.9% from December 2022 to March 2023 post reopening. These create room for deposit rate cuts. Meanwhile, total deposit and household deposit growth remained high at 12.4% and 17.7% YoY in April 2023. While a key driver of savings tendency remains depositors' confidence about the broader economy and investment, lowering deposit rates could still help contain fast deposit growth and push some money to consumption, investment, and wealth management. From an industry perspective, the China bank sector's NIM declined from 2.20% in 4Q19 to 1.91% by 4Q22 and further dropped in 1Q23, partly due to LPR repricing. Some banks' NIMs have fallen below the desirable level (>1.80%), as implied by PBOC's assessment. We believe that regulators will help banks maintain reasonable NIM levels.

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CPI: Consumer Price Index

JSB: Joint Stock Bank

LPR: Loan Prime Rate

NIM: Net Interest Margin

PBOC: People's Bank of China

PPI: Producer Price Index

RRR: Required Reserve Rate Cut

See bank abbreviations at the end of this report

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Regulators guide down the cost of call/agreement deposits

Call deposit is a type of deposit that does not have a fixed term and cannot be withdrawn until the depositor informs the bank in advance and appoints the withdrawal date and amount. **Agreement deposit** is a type of corporate deposit, which is deposited with an agreed amount in a current account by a corporate customer, and the amount in excess of the pre-agreed savings amount will be transferred by the bank to another corporate agreement account to accrue interest at a preferential interest rate. Call deposit and agreement deposit are usually classified as demand deposits due to their good liquidity but enjoy much higher yields than conventional demand deposits. The current benchmark rate for 1-day call deposits, 7-day call deposits, and agreement deposits are 0.80%, 1.35%, and 1.15%, respectively. Major banks' post rates are lower than these benchmark rates, but the actual rates they offer are much higher. According to our channel check, the ceiling rates for these deposits are 50bp/75bp higher than the benchmark rates for state banks/other banks. According to the media reports, these deposit rates will be capped at 10bp/20bp above the benchmark rates for state banks/other banks, respectively.

Exhibit 1: Deposit interest rate (banks' post rates versus benchmark)

Call deposits and agreement deposits are classified as demand deposits due to their good liquidity but enjoy much higher yield than conventional demand deposits

	Demand deposits	Call deposits (1-day)	Call deposits (7-day)	Agreement deposits	Time deposits (3-month)	Time deposits (6-month)	Time deposits (1-year)	Time deposits (2-year)	Time deposits (3-year)	Time deposits (5-year)
Benchmark	0.35%	0.80%	1.35%	1.15%	1.10%	1.30%	1.50%	2.10%	2.75%	na
Before Sep-2022										
State banks	0.30%	0.55%	1.10%	1.00%	1.35%	1.55%	1.76%	2.25%	2.75%	2.75%
JSBs	0.30%	0.59%	1.14%	1.02%	1.39%	1.64%	1.93%	2.39%	2.84%	2.88%
City banks	0.30%	0.80%	1.13%	1.10%	1.41%	1.67%	1.94%	2.52%	3.05%	3.13%
After Sep-2022										
State banks	0.25%	0.45%	1.00%	0.90%	1.25%	1.45%	1.66%	2.15%	2.60%	2.65%
JSBs	0.25%	0.48%	1.03%	0.90%	1.29%	1.54%	1.83%	2.28%	2.64%	2.69%
City banks	0.28%	0.75%	1.08%	1.05%	1.34%	1.57%	1.81%	2.35%	2.83%	2.85%
Change										
State banks	-5bp	-10bp	-10bp	-10bp	-10bp	-10bp	-10bp	-10bp	-15bp	-10bp
JSBs	-5bp	-11bp	-12bp	-12bp	-10bp	-10bp	-10bp	-11bp	-20bp	-19bp
City banks	-3bp	-5bp	-5bp	-5bp	-8bp	-10bp	-13bp	-17bp	-23bp	-28bp

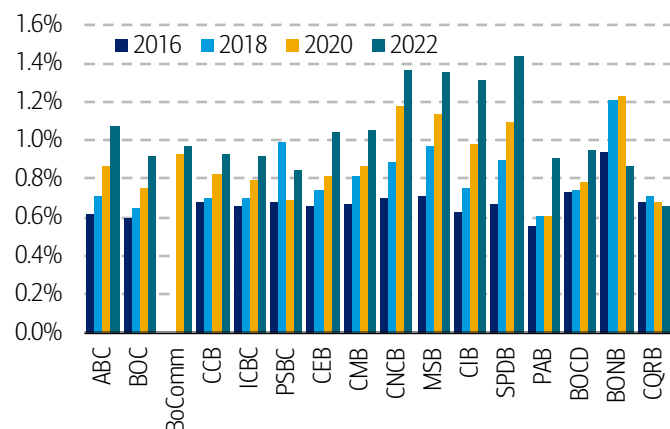
Source: PBOC, Wind; State banks include Big 6, JSBs include 9 major JSBs, City banks include Bank of Ningbo and Bank of Nanjing

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While most banks' personal demand deposit costs had declined last year after the coordinated deposit pricing cuts, their corporate demand deposit costs continued to increase notably, likely due to the widespread use of call/agreement deposits and their rigid costs.

Exhibit 2: Corporate demand deposit cost

Most banks' corporate demand deposit cost continued to rise in recent years

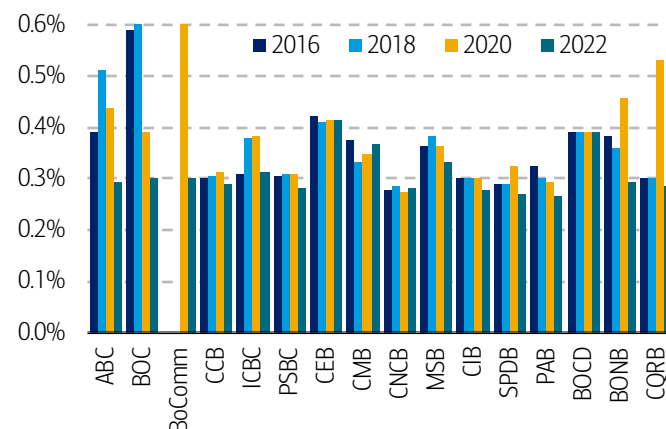


Source: Company reports, * Domestic deposit rate for BOC

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Exhibit 3: Retail demand deposit cost comparison

Most banks' personal demand deposit cost had declined in recent years



Source: Company reports, * Domestic deposit rate for BOC

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Exhibit 5: Corporate demand deposit cost and spread over retail demand deposit cost

Most banks' corporate demand deposit cost continued to increase notably in 2022

	Corporate demand deposit cost					Spread over retail demand deposit cost				
	1H21	2H21	1H22	2H22	Trend	1H21	2H21	1H22	2H22	Trend
ABC	0.94%	0.97%	1.01%	1.14%		0.56%	0.61%	0.69%	0.86%	
BOC	0.80%	0.84%	0.90%	0.94%		0.44%	0.50%	0.57%	0.67%	
BoComm	0.87%	0.89%	0.93%	1.00%		0.37%	0.44%	0.57%	0.75%	
CCB	0.86%	0.88%	0.92%	0.94%		0.54%	0.56%	0.60%	0.68%	
ICBC	0.81%	0.83%	0.87%	0.97%		0.46%	0.45%	0.52%	0.68%	
PSBC	0.72%	0.59%	0.81%	0.88%		0.41%	0.29%	0.50%	0.62%	
CEB	0.87%	0.91%	0.94%	1.15%		0.45%	0.47%	0.51%	0.75%	
CMB	0.90%	0.93%	0.99%	1.12%		0.56%	0.57%	0.63%	0.75%	
CNCB	1.28%	1.32%	1.31%	1.41%		1.01%	1.06%	1.04%	1.12%	
MSB	1.30%	1.43%	1.32%	1.39%		0.94%	1.07%	0.96%	1.09%	
CIB	1.04%	1.15%	1.28%	1.34%		0.74%	0.85%	0.98%	1.08%	
SPDB	1.11%	1.32%	1.39%	1.48%		0.80%	1.02%	1.09%	1.23%	
PAB	0.62%	0.67%	0.76%	1.04%		0.33%	0.38%	0.47%	0.80%	
BOCD	0.85%	0.84%	0.94%	0.97%		0.46%	0.45%	0.55%	0.58%	
BONB	1.12%	0.98%	0.85%	0.89%		0.61%	0.57%	0.55%	0.61%	
CQRB	0.65%	0.64%	0.63%	0.68%		0.31%	0.34%	0.33%	0.41%	

Source: Company reports, * Domestic deposit rate for BOC

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Exhibit 6: Impact analysis of call/agreement deposit rate cuts

CNCB/MSB/CIB/SPDB could benefit more due to their larger exposure to call/agreement deposits, while PSBC/CQRB could benefit less

	Corporate demand deposit cost (2H22)	Estimated call/agreement deposits*			Impact of deposit rate cuts to NIM (bp)^	Net interest income/Revenue	Impact of deposit rate cuts to revenue^
		As % of corporate demand deposits	As % of total deposits	As % of AIEA			
ABC	1.14%	56%	13%	9%	3.8	85%	1.8%

Exhibit 6: Impact analysis of call/agreement deposit rate cuts

CNCB/MSB/CIB/SPDB could benefit more due to their larger exposure to call/agreement deposits, while PSBC/CQRB could benefit less

Bank	Domestic deposit rate for BOC	Domestic deposit rate for BOC	Domestic deposit rate for BOC	Domestic deposit rate for BOC	Domestic deposit rate for BOC	Domestic deposit rate for BOC	Domestic deposit rate for BOC
BoComm	1.00%	44%	11%	7%	2.8	67%	1.3%
CCB	0.94%	39%	10%	8%	3.0	85%	1.3%
ICBC	0.97%	41%	11%	8%	3.3	82%	1.5%
PSBC	0.88%	33%	2%	2%	0.9	82%	0.4%
CEB	1.15%	42%	9%	6%	2.4	75%	0.9%
CMB	1.12%	40%	15%	11%	4.6	64%	1.2%
CNCB	1.41%	62%	25%	17%	6.6	71%	2.4%
MSB	1.39%	61%	17%	10%	4.1	77%	2.1%
CIB	1.34%	57%	20%	12%	4.6	66%	1.7%
SPDB	1.48%	68%	25%	15%	6.1	71%	2.6%
PAB	1.04%	34%	9%	6%	2.5	72%	0.7%
BOCD	0.97%	29%	10%	7%	2.9	82%	1.2%
BONB	0.89%	22%	7%	4%	1.8	65%	0.6%
CQRB	0.68%	6%	1%	0%	0.2	88%	0.1%

Source: BofA Global Research estimates, Company reports, *Based on 2H22 average data, *Assume state banks cut 40bp and other banks cut 50bp, *Domestic deposit rate for BOC

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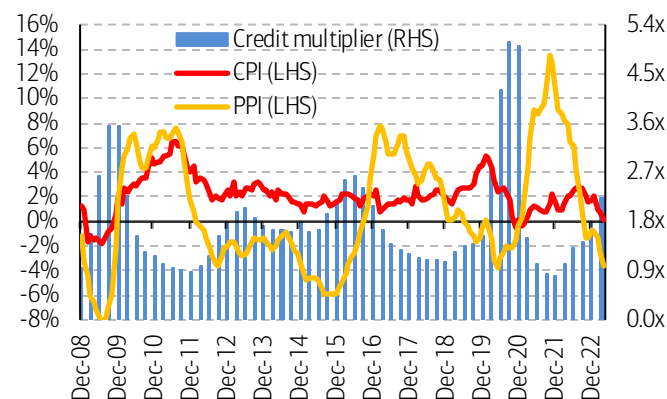
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Exhibit 6: China's CPI, PPI, and credit multiplier

China's CPI and PPI remain weak

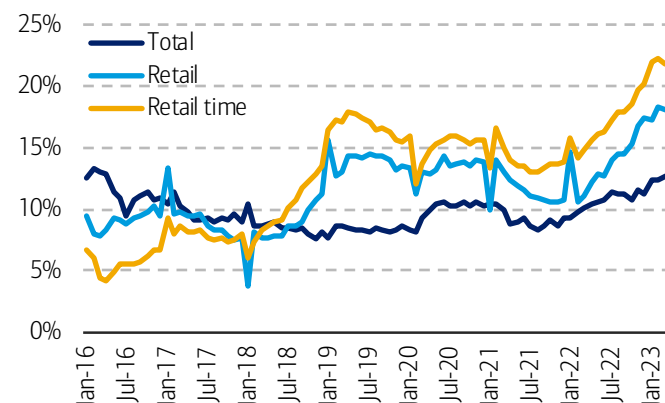


Source: CEIC

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Exhibit 7: China's RMB deposit growth (YoY)

Growth of total deposits and household deposits remained high in April



Source: PBOC

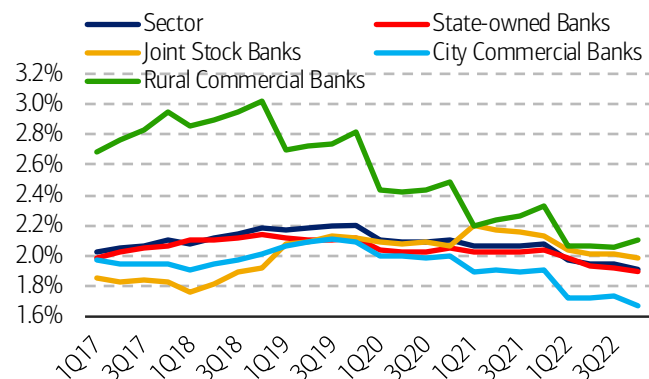
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desirable level (>1.80%), as implied by PBOC's assessment. We believe that regulators will help banks maintain reasonable NIM levels.

Exhibit 8: China banks' NIM

China bank sector's NIM declined from 2.20% in 4Q19 to 1.91% in 4Q22

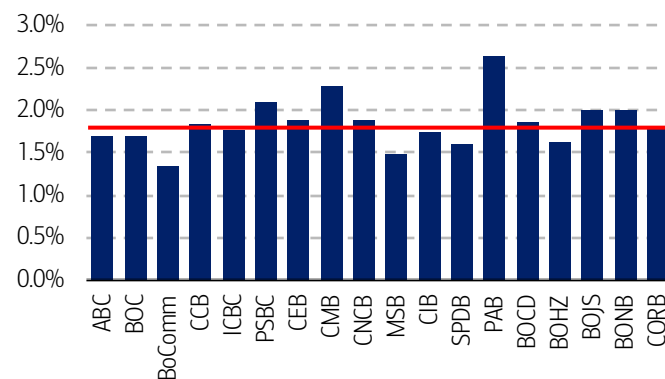


Source: CBIRC

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Exhibit 9: Individual banks' NIMs (1Q23)

Many banks' NIMs have fallen below the desirable level (1.80%)



Source: Company reports

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Bank Abbreviations

ABC: Agricultural Bank of China

BOC: Bank of China

BOCD: Bank of Chengdu

BoComm: Bank of Communications

BOHZ: Bank of Hangzhou

BOJS: Bank of Jiangsu

BONB: Bank of Ningbo

CCB: China Construction Bank

CEB: China Everbright Bank

CIB: China Industrial Bank

CMB: China Merchants Bank

CNCB: China CITIC Bank

CQRB: Chongqing Rural Commercial Bank

ICBC: Industrial and Commercial Bank of China

MSB: China Minsheng Bank

PAB: Ping An Bank

PSBC: Postal Savings Bank of China

SPDB: Shanghai Pudong Development Bank

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