

China Policy

China may moderately ease credit policy to boost growth

China's new credit weakened in May as economic activities and credit demand in private sector further slowed. Corporate loans in medium and long term remained strong as enterprises especially SOEs leveraged historically low loan rates for business operation, capex or financial arbitrage. Mortgage and consumer loans remained tepid with slight improvement as housing market and durable consumption were still weak. After the economy continued to weaken for three months, the PBOC guided banks to lower deposit rates and cut its 7D repo refinancing rates by 10bps, paving the way for possible LPR cut by 10bps on 20 June. It will point to further moderate easing of credit policy in China. We expect more cities may follow Qingdao to moderately lower down-payment ratios and mortgage rates for first and second home buyers. But the property policy easing should be moderate as top leaders still want to guide more credit resources into hard technology and high-end manufacturing industries which are keys for the Sino-US strategic competition.

- Total social financing missed market expectations.** Total social financing dropped significantly by 45.1% YoY (all in YoY terms unless otherwise specified) after growing 30.5% in April. Breaking down, new renminbi loans to real sector declined by 33.1% in May after growing 22.5% in April as credit demand in private sector weakened. Off-balance-sheet (OBS) financing remained negative. Gov't bond financing dropped by 47.4% in May after increasing by 16.3% in April as fiscal expenditure diminished. Corporate bond financing turned negative in May for the first time this year as corporate loans presented with much lower financing costs. The YoY growth of outstanding social financing slowed from 10% at end-April to 9.5% at end-May, with the growth of outstanding renminbi loans down from 11.7% to 11.3%.
- New loans to households rebounded thanks to the base effect.** New M&L term loans to households picked up 60.8% in May due to low base in the same period last year. Housing sales slightly improved especially in Tier-1 and Tier-2 cities. Short-term loans expanded moderately by 8.0% in May from a negative figure in April, indicating some level of recovery in individual business credit thanks to the continuous improvement of service activity.
- New corporate loans softened with mixed information.** New M&L term loans to enterprises grew 38.7% in May after increasing by 151.5% in April as SOEs and large manufacturers continued to leverage low loan rates to support their business operation and capex. New short-term loans to enterprises was weak as corporates replaced them with M&L loans, whose rates were also very low. Bill financing remained low as credit demand of SMEs was still weak.
- China may moderately ease credit policy to boost growth.** China's commercial banks were guided to lower deposit rates in the past few weeks, while PBOC lowered its 7D repo refinancing rates by 10bps yesterday, paving the way for possible LPR cut by around 10bps on 20 June. It indicates further moderate easing of credit policy to boost growth as China's economy has noticeably slowed with rising deflation pressure in recent three months. We expect more cities to follow Qingdao to moderately lower down-payment ratio and mortgage rates for the first and second home buyers. The property policy loosening should be mainly driven by local governments with fiscal difficulty

Bingnan YE, Ph.D

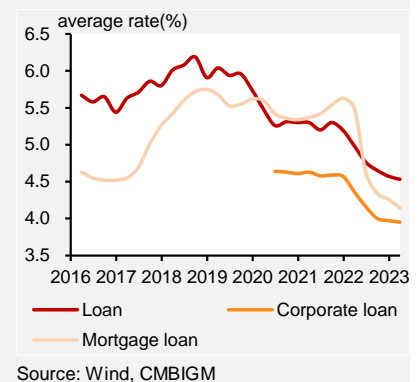
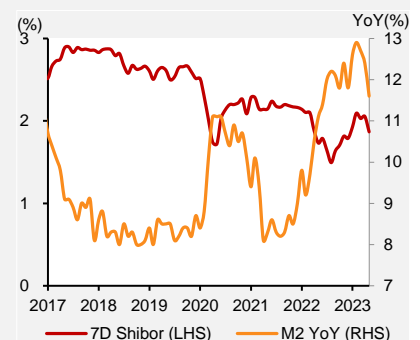
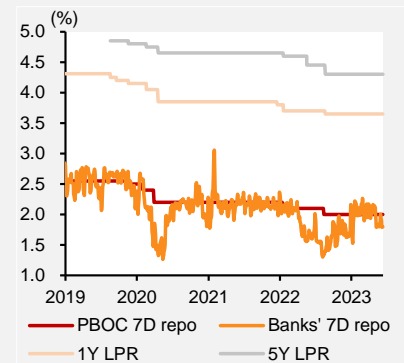
(852) 3761 8967

yebingnan@cmbi.com.hk

Kevin Zhang

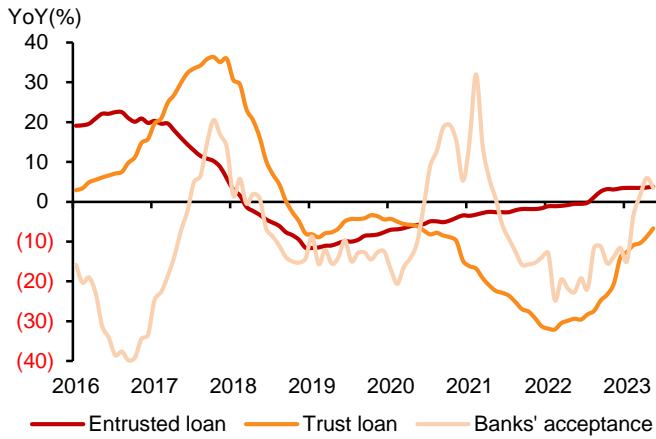
(852) 5336 4682

kevinzhang@cmbi.com.hk



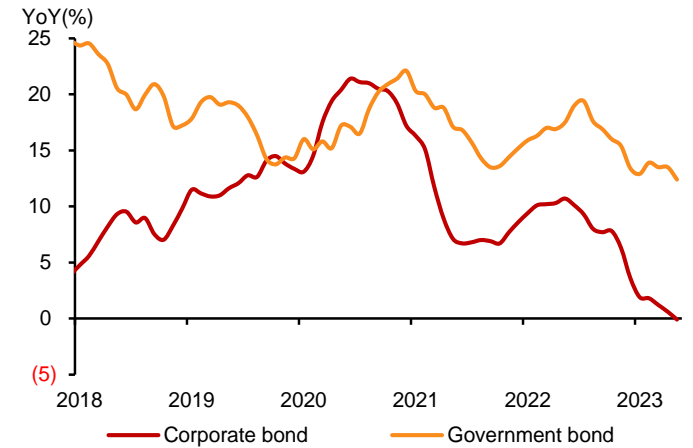
and debt repayment pressure. The central ministries do not have a strong motivation to noticeably relax property policies as they are unwilling to take the risk of changing the fundamental tone of “housing is for living, not for speculation”. Top leaders still target to guide more credit resources to hard technology and high-end manufacturing industries which are keys for Sino-US strategic competition. Therefore, the property policy loosening should be gradual and moderate.

Figure 1: Growth of outstanding OBS financing



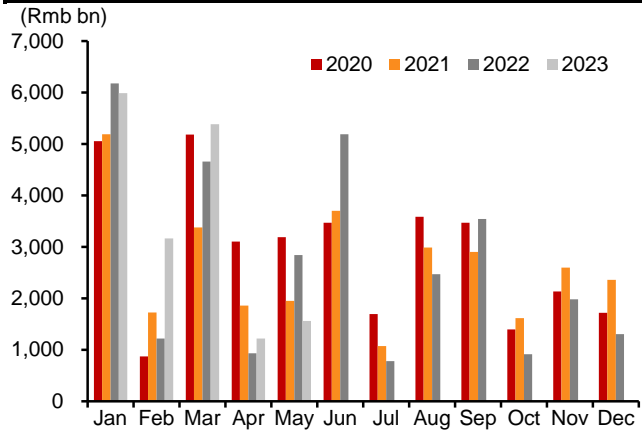
Source: Wind, CMBIGM

Figure 2: Growth of outstanding bond financing



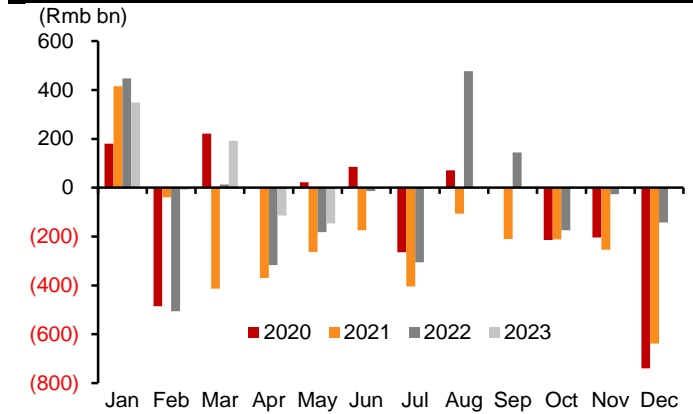
Source: Wind, CMBIGM

Figure 3: Total social financing



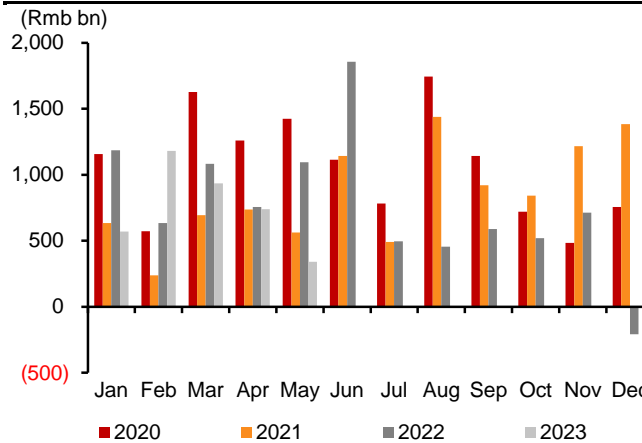
Source: MoF, CMBIGM

Figure 4: OBS financing



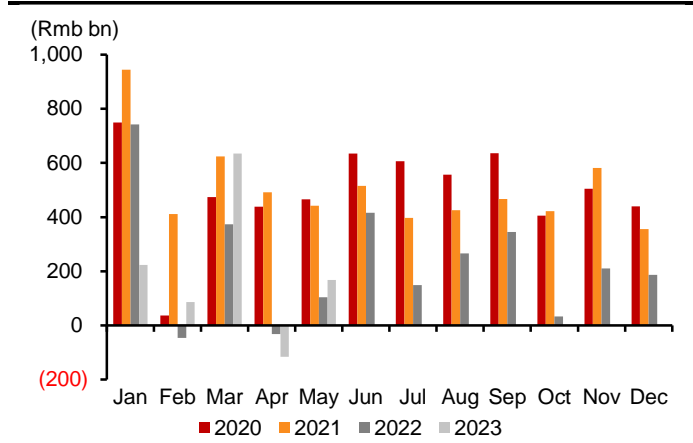
Source: MoF, CMBIGM

Figure 5: Bond financing



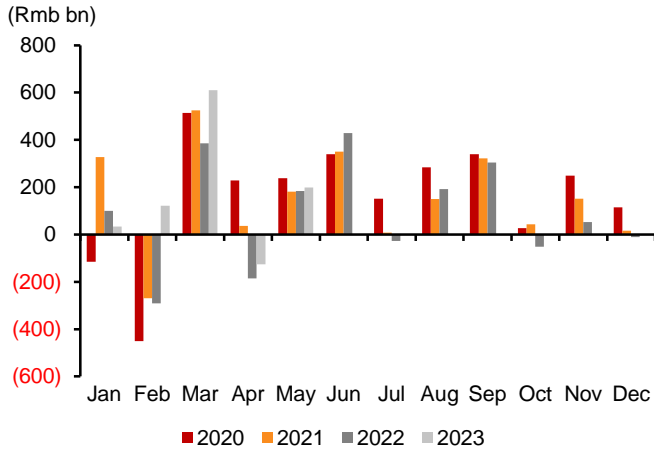
Source: Wind, CMBIGM

Figure 6: New M&L term loans to households



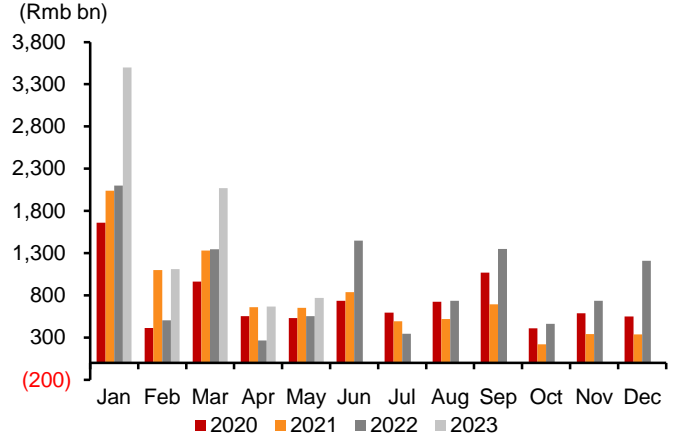
Source: Wind, CMBIGM

Figure 7: New short term loans to households



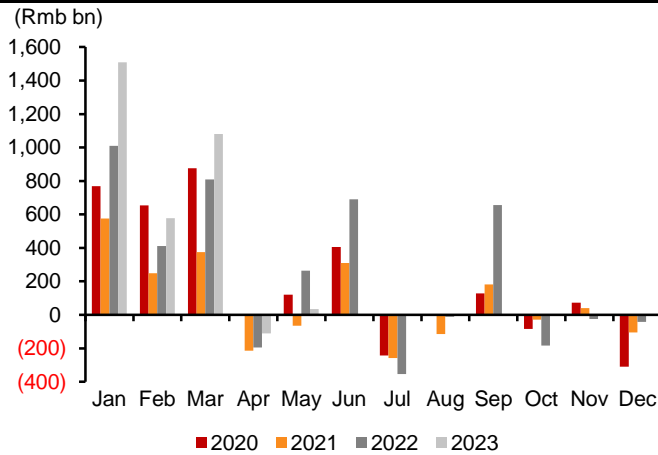
Source: Wind, CMBIGM

Figure 8: New M&L term loans to enterprises



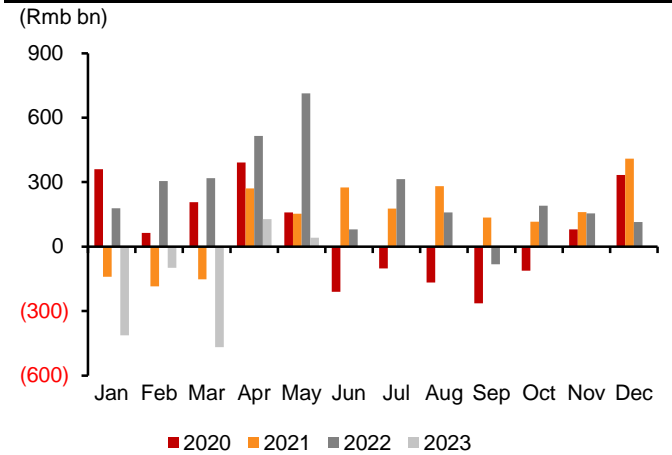
Source: Wind, CMBIGM

Figure 9: New short term loans to enterprises



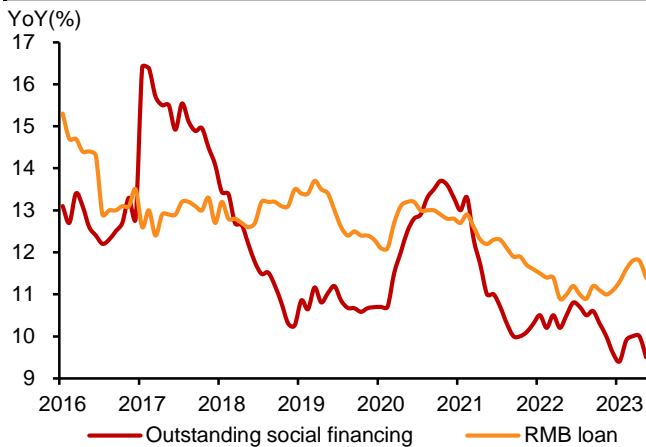
Source: Wind, CMBIGM

Figure 10: Bill financing to enterprises



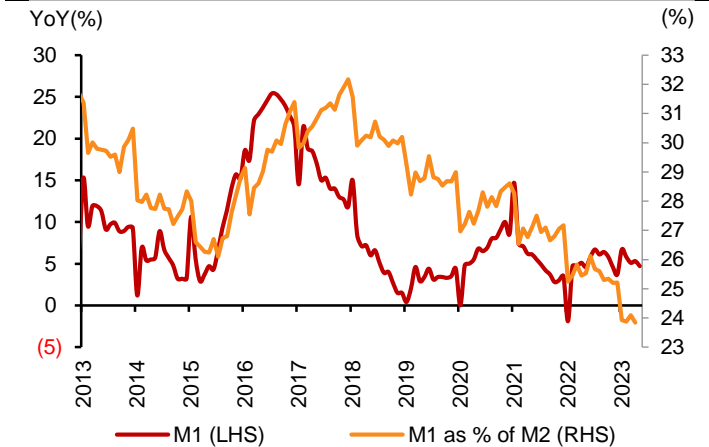
Source: Wind, CMBIGM

Figure 11: Growth of credit & money supply



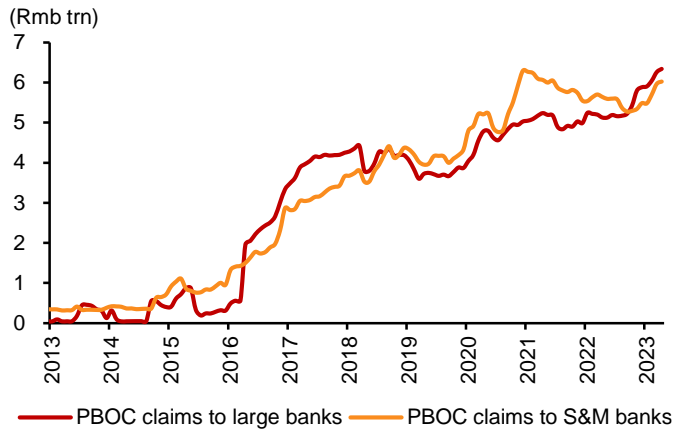
Source: Wind, CMBIGM

Figure 12: M1 growth & M1 as % of M2



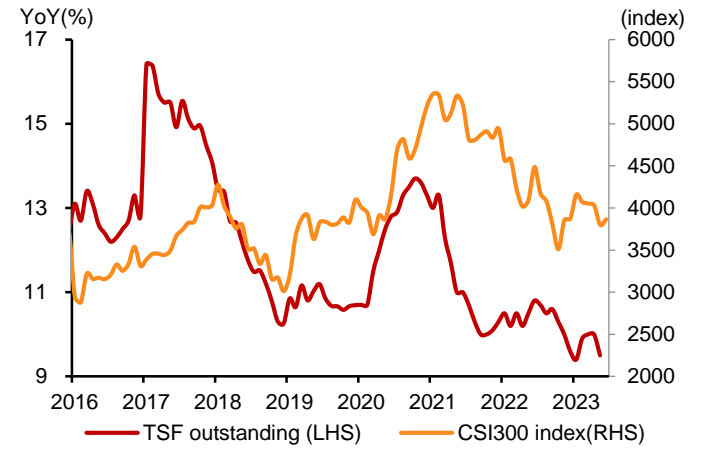
Source: Wind, CMBIGM

Figure 13: PBOC claims to large and S&M banks



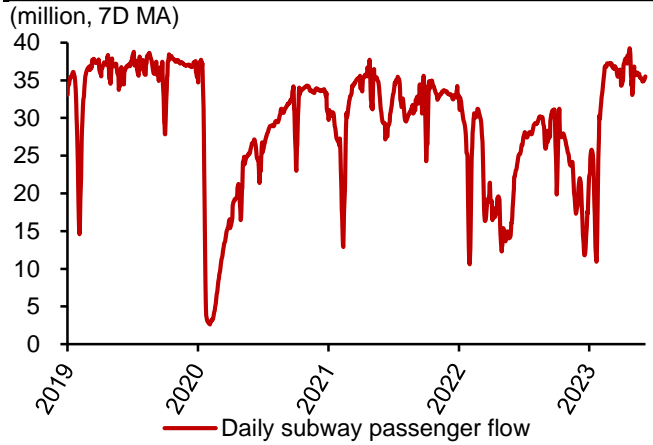
Source: Wind, CMBIGM

Figure 14: Total social financing & CSI300 index



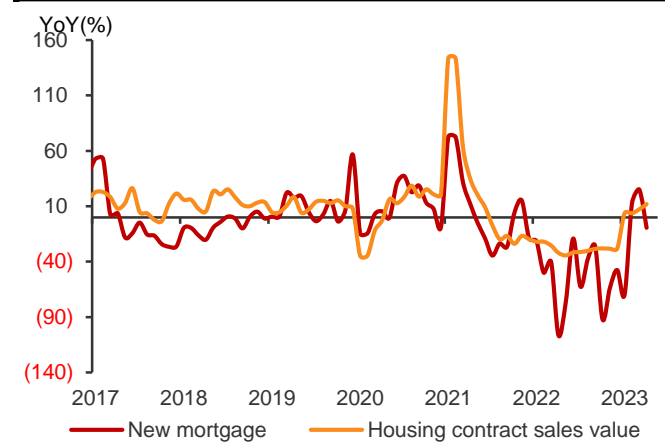
Source: Wind, CMBIGM

Figure 15: Daily domestic traffic flow in tier-1 cities



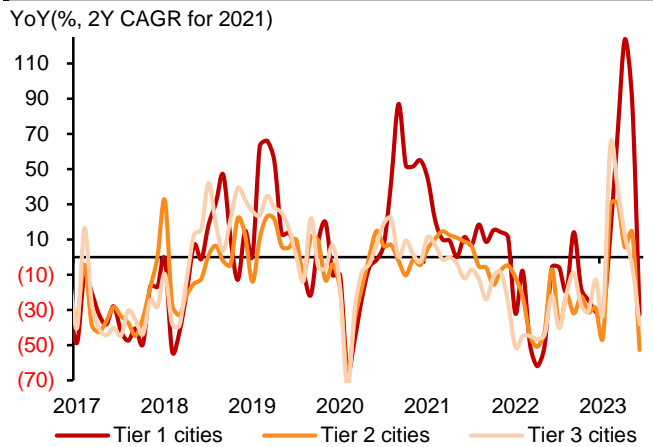
Source: Wind, CMBIGM

Figure 16: New mortgage & housing sales



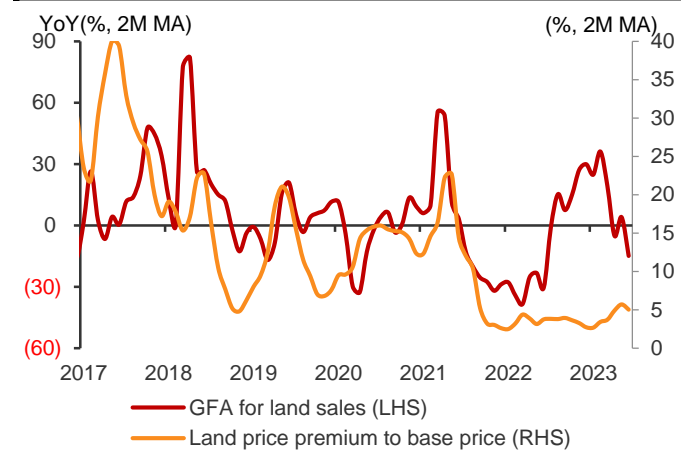
Source: Wind, CMBIGM

Figure 17: Growth of housing sales by cities



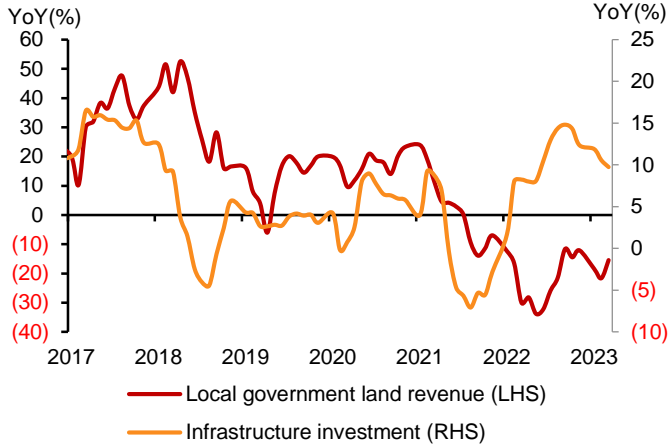
Source: Wind, CMBIGM

Figure 18: Growth of land sales



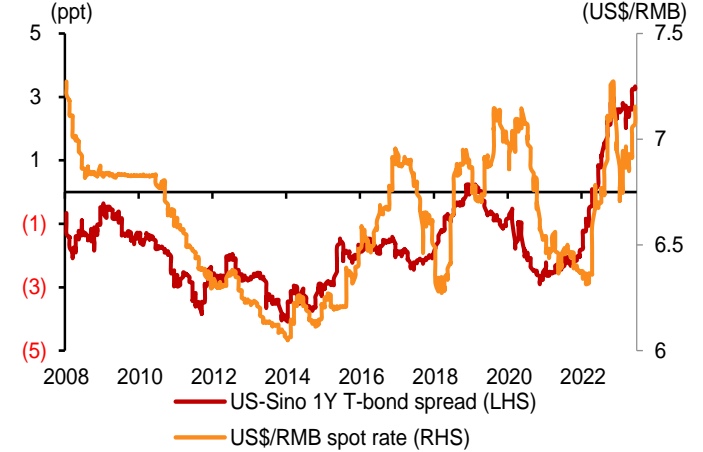
Source: Wind, CMBIGM

Figure 19: Infrastructure investment



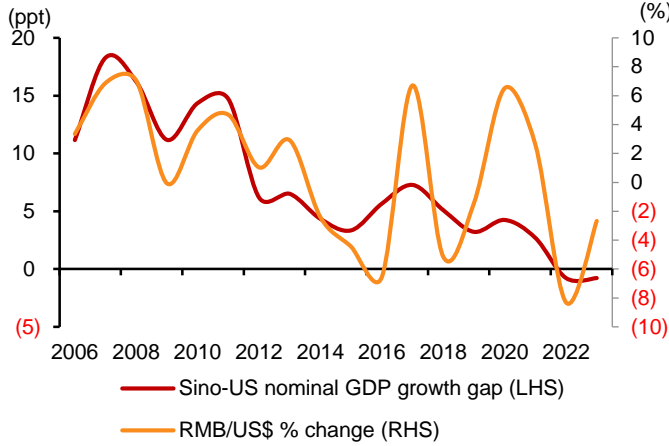
Source: Wind, CMBIGM

Figure 20: US-Sino interest spreads



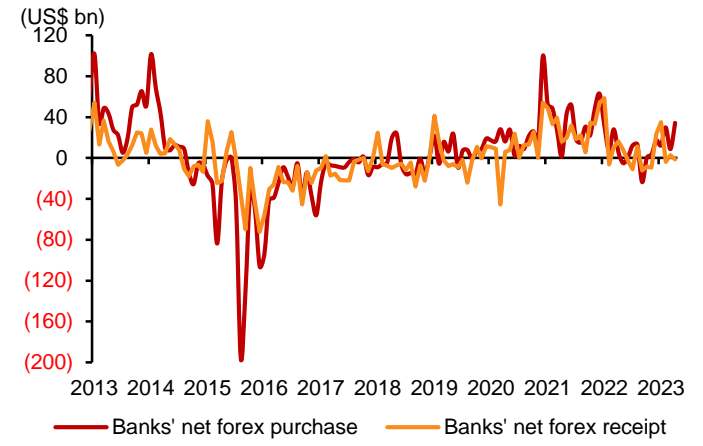
Source: Wind, CMBIGM

Figure 21: Sino-US growth gap & RMB/US\$ change



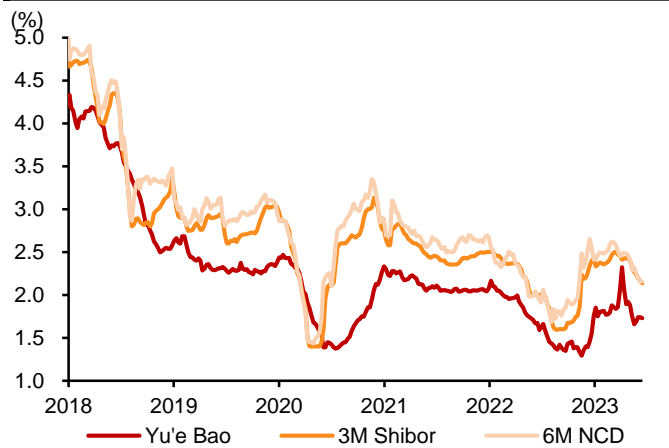
Source: Wind, CMBIGM

Figure 22: Net forex inflow



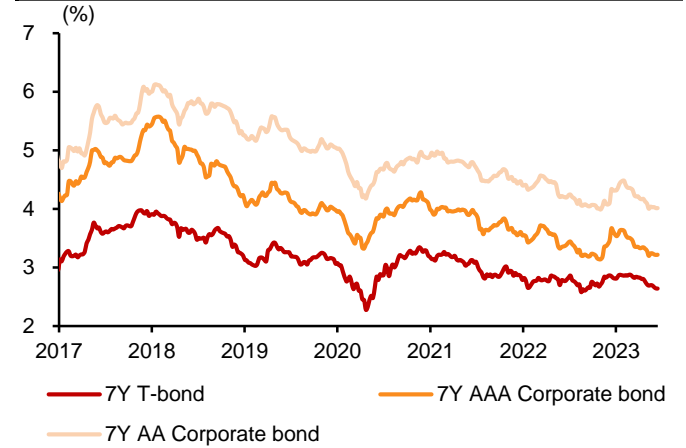
Source: Wind, CMBIGM

Figure 23: Money market funding cost



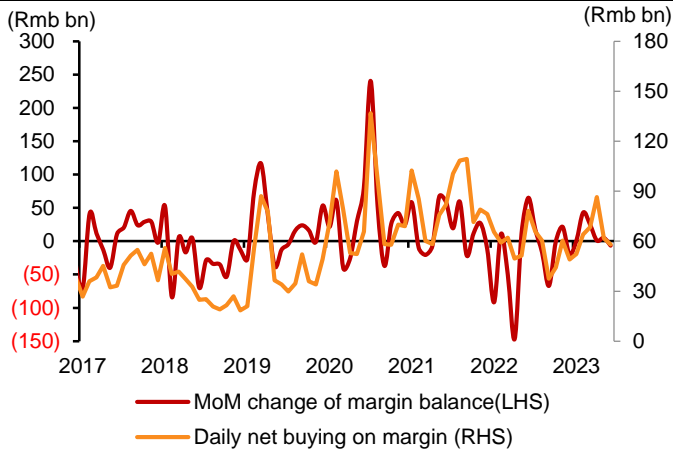
Source: Wind, CMBIGM

Figure 24: Bond market rates



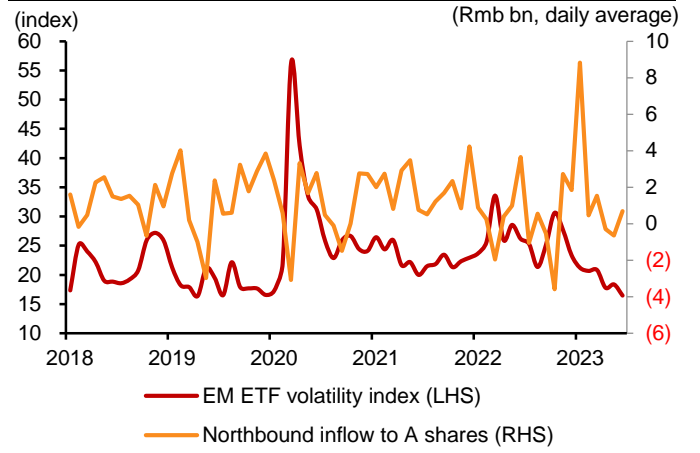
Source: Wind, CMBIGM

Figure 25: Change of margin balance and daily net buying on margin



Source: Wind, CMBIGM

Figure 26: EM volatility and northbound flow to A-share



Source: Wind, CMBIGM

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

CMBIGM Ratings

BUY : Stock with potential return of over 15% over next 12 months
HOLD : Stock with potential return of +15% to -10% over next 12 months
SELL : Stock with potential loss of over 10% over next 12 months
NOT RATED : Stock is not rated by CMBIGM

OUTPERFORM : Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM : Industry expected to underperform the relevant broad market benchmark over next 12 months

CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

CMB International Global Markets Limited ("CMBIGM") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIGM does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIGM recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIGM nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM may issue other publications having information and/or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIGM may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIGM does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIGM may have a conflict of interest that could affect the objectivity of this report and CMBIGM will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIGM.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIGM.

For recipients of this document in the United States

CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.