

China Policy

Credit growth dipped amid weak demand

China's outstanding social financing growth plunged to a five-month low in Feb due to weak demand as well as CNY holiday effect. Credit supply in the household sector remarkably contracted while corporate sector growth mildly moderated. Loans to non-bank financial institutions saw the largest growth since July 2015 as the A-share market rebounded with support from the "national team". For 2M24, both social financing flow and new RMB loans slowed down amid weak demand from the private sector and a lagging pace in government bond issuance. Looking forward, we think China needs further credit policy loosening and fiscal policy expansion to boost credit growth. Higher-tier cities may further loosen property policies ahead. Meanwhile, the cabinet may guide governments to accelerate bond issuance and fiscal expenditure to boost real demand. The PBOC may further lower RRR, LPRs and mortgage rates for first-home and second-home buyers in 2H24. We expect outstanding social financing growth may mildly rise from 9.5% at end-2023 to 10% at end-2024.

■ **Social financing flow notably dropped as bond and loan financing slowed down amid weak demand and CNY holiday effect.** Social financing flow dipped 51.9% YoY (all in YoY terms unless otherwise specified) to RMB1.5trn in Feb from RMB6.5trn in Jan as outstanding SF growth decelerated from 9.5% to 9%. Bond financing was the primary cause as corporate bond & government bond financing plunged 55.2% and 26.1% in Feb. We expect the pace of government bond financing to pick up in the next two quarters given more fiscal support this year. New RMB loans to the real sector also notably dropped 46.3% to RMB977.3bn in Feb. On shadow financing, new entrusted loans continued to fall while trust loans notably increased YoY. Undiscounted banks' acceptance financing contracted by RMB368.8bn after rising RMB563.3bn in Feb. For 2M24, social financing flow dropped 12% as RMB loans, banks' acceptance and government bond financing dropped 13.8%, 32.7% and 27%, while corporate bonds increased by 24.4%. 10Y CGB yield plunged to historic lows around 2.3% as economic prospects further weakened. M2 growth remained flat at 8.7% in Feb while M1 growth dipped to 1.2% as business activity remained weak.

■ **New RMB loans came in below expectations due to largest household borrowing contraction.** New RMB loans came in lower than expected at RMB1.45trn in Feb, dragging growth of outstanding RMB loans from 10.4% to 10.1%, the slowest pace since early 2000s. New loans to households remarkably dropped to RMB-590.7bn, which was the largest contraction in history. New short-term loans fell by RMB486.8bn in Feb as people repaid consumer debt with year-end bonus amid weak income prospects while new medium- and long-term loans reached RMB-103.8bn, as property sales remained depressed in Feb. New loans to the corporate sector dropped 2.5% YoY to RMB1.57trn. New loans to non-bank financial institutions saw a remarkable increase by RMB404.5bn, the largest increase since July 2015 as the A-share market rebounded amid the support from the "national team".

■ **China needs additional credit policy loosening and fiscal policy support as credit growth may mildly rebound this year.** China may need to further loosen credit policy to boost credit demand. Higher-tier cities may further loosen property policies in the next few months. The cabinet may guide governments to accelerate their bond issuance and fiscal expenditure to boost aggregate demand. The PBOC may further cut RRR by 50bps in total, LPRs by 10bps and lower mortgage rates moderately for first-home and second-home buyers. Credit growth may mildly rebound this year as outstanding SF growth may rise from 9.5% at end-2023 to 10% at end-2024. We maintain our forecast on GDP growth at 4.8% for 2024.

Bingnan YE, Ph.D

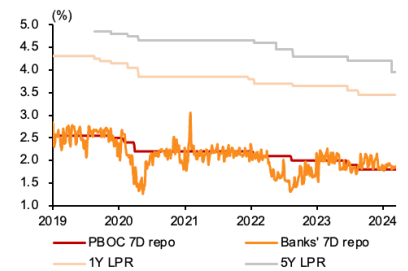
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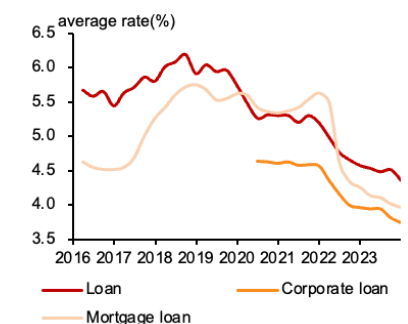
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Source: Wind, CMBIGM

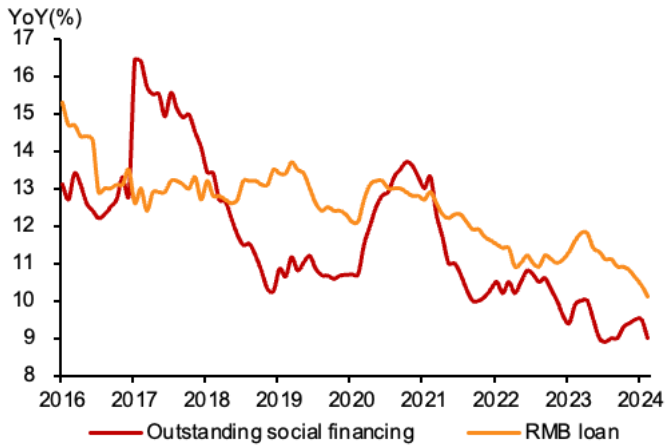


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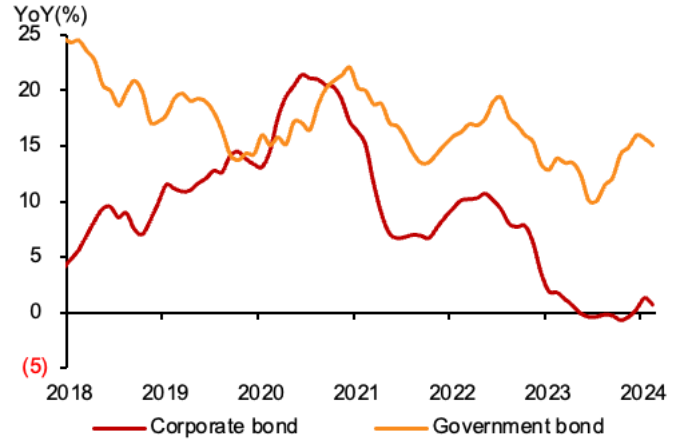
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Figure 1: Growth of outstanding social financing



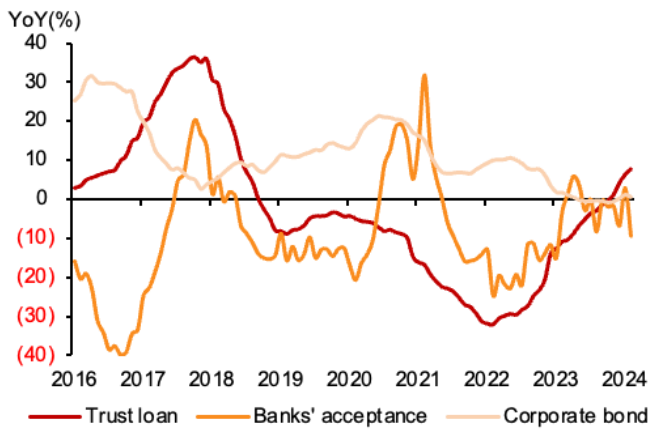
Source: Wind, CMBIGM

Figure 2: Growth of outstanding bond financing



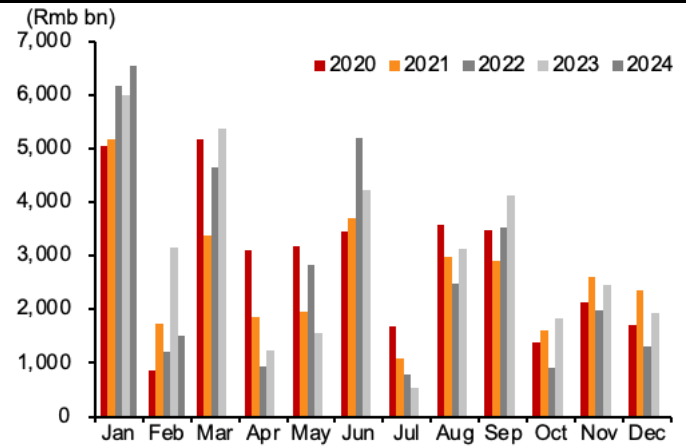
Source: Wind, CMBIGM

Figure 3: Growth of outstanding OBS financing



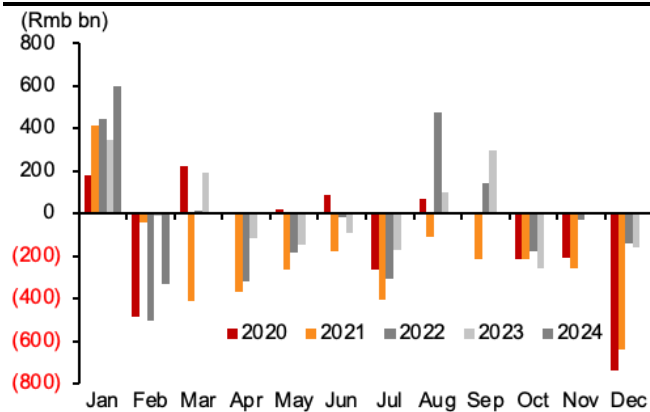
Source: MoF, CMBIGM

Figure 4: Total social financing



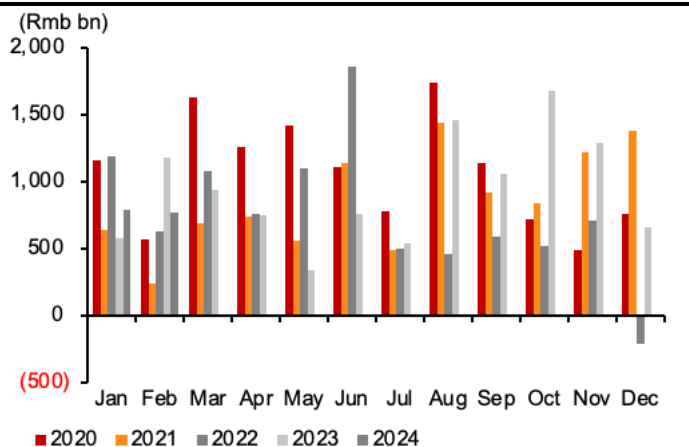
Source: MoF, CMBIGM

Figure 5: OBS financing



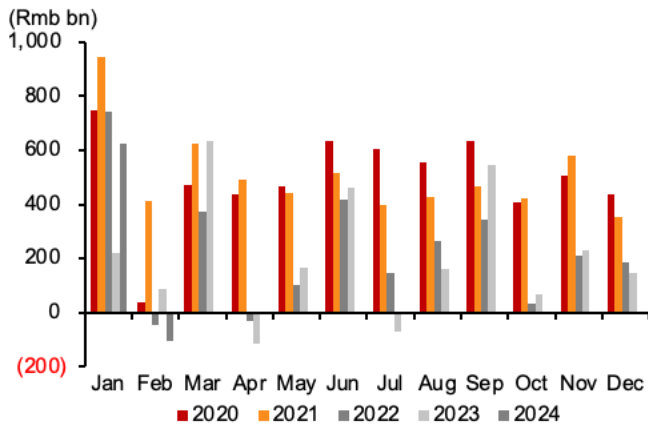
Source: Wind, CMBIGM

Figure 6: Bond financing



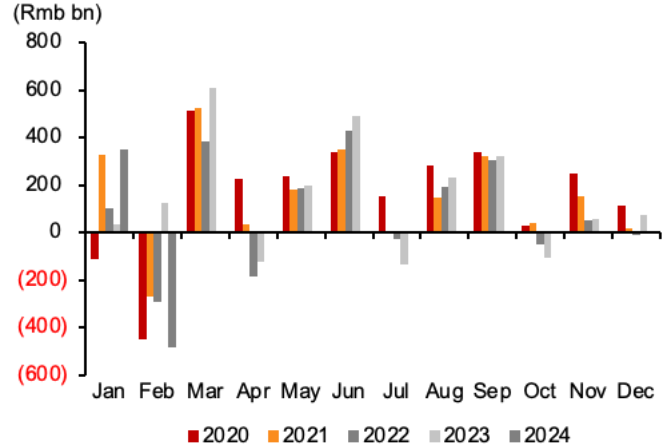
Source: Wind, CMBIGM

Figure 7: New M&L term loans to households



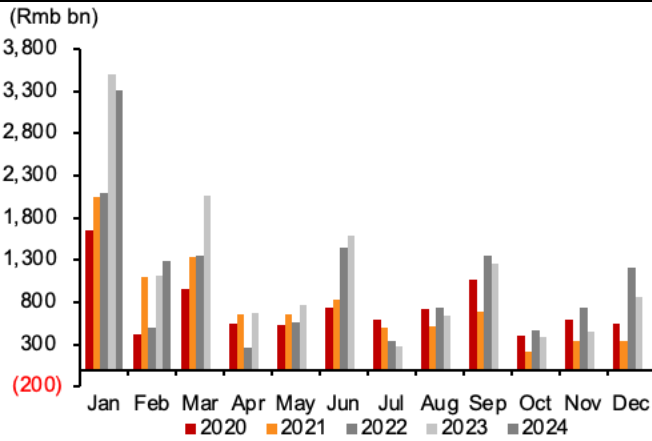
Source: Wind, CMBIGM

Figure 8: New short-term loans to households



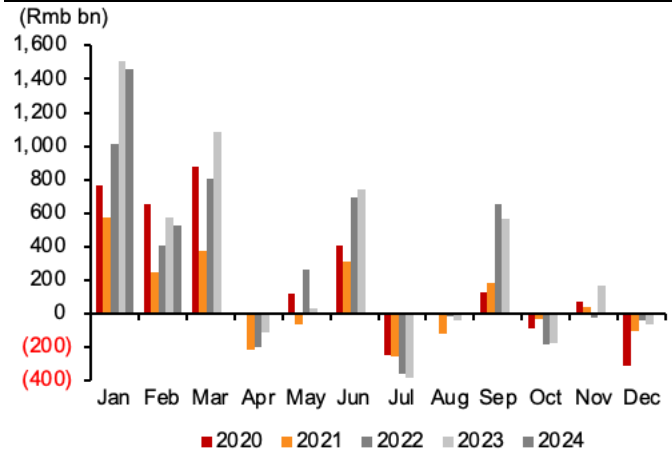
Source: Wind, CMBIGM

Figure 9: New M&L term loans to enterprises



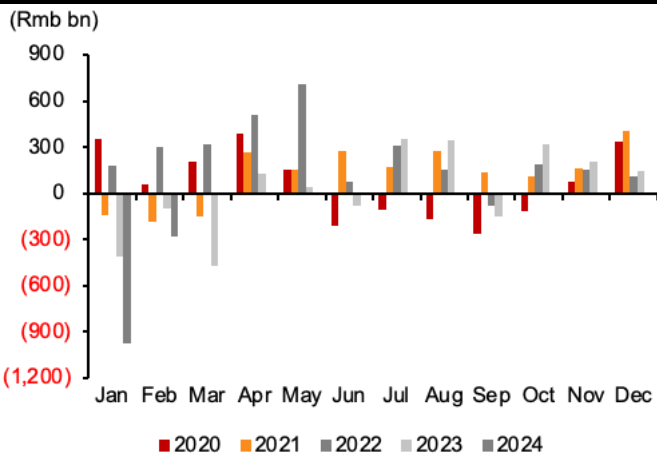
Source: Wind, CMBIGM

Figure 10: New short-term loans to enterprises



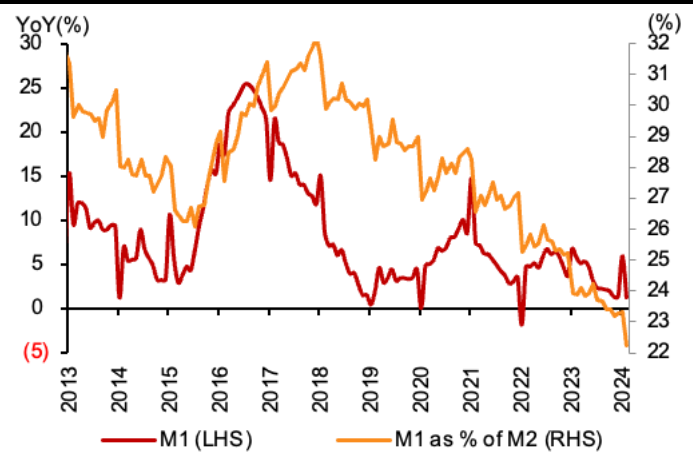
Source: Wind, CMBIGM

Figure 11: Bill financing to enterprises



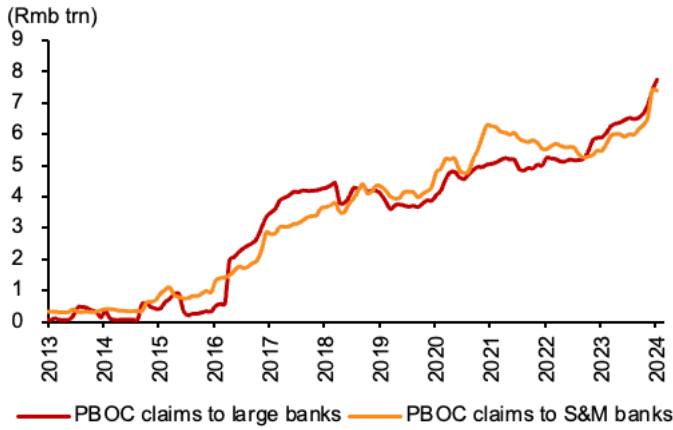
Source: Wind, CMBIGM

Figure 12: M1 growth & M1 as % of M2



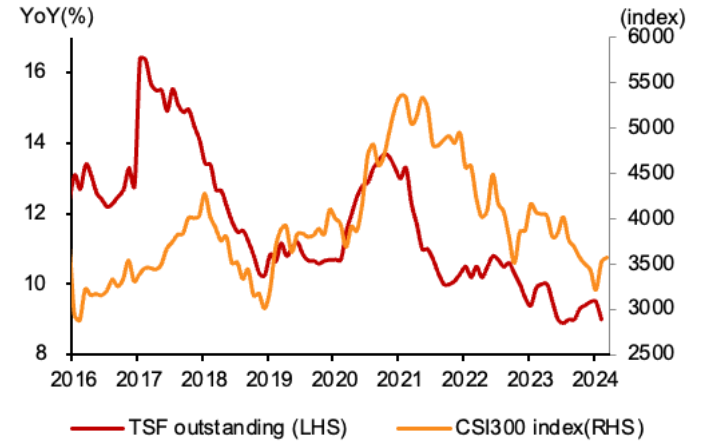
Source: Wind, CMBIGM

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



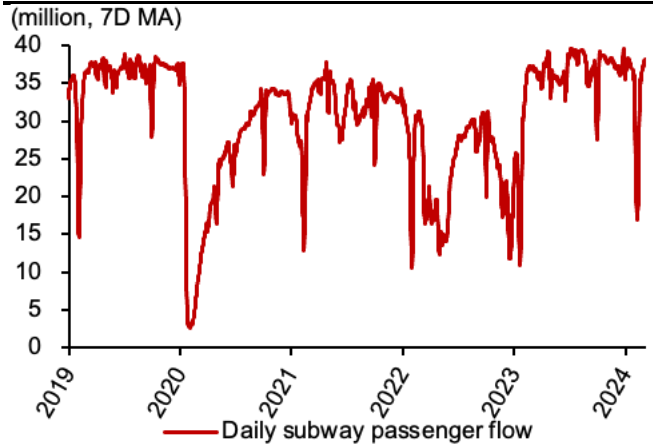
Source: Wind, CMBIGM

Figure 14: Total social financing & CSI300 index



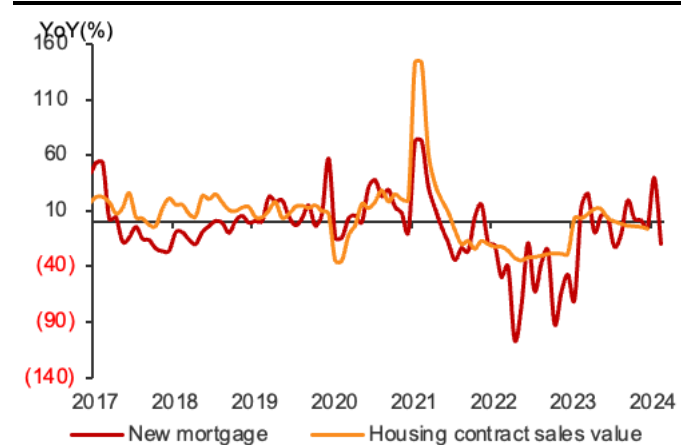
Source: Wind, CMBIGM

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



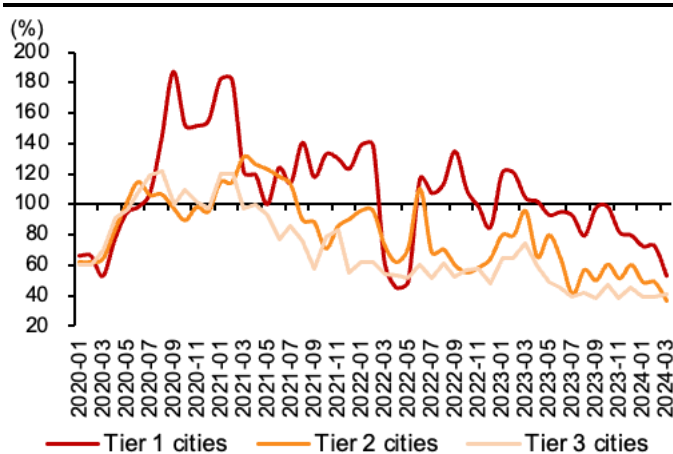
Source: Wind, CMBIGM

Figure 16: New mortgage & housing sales



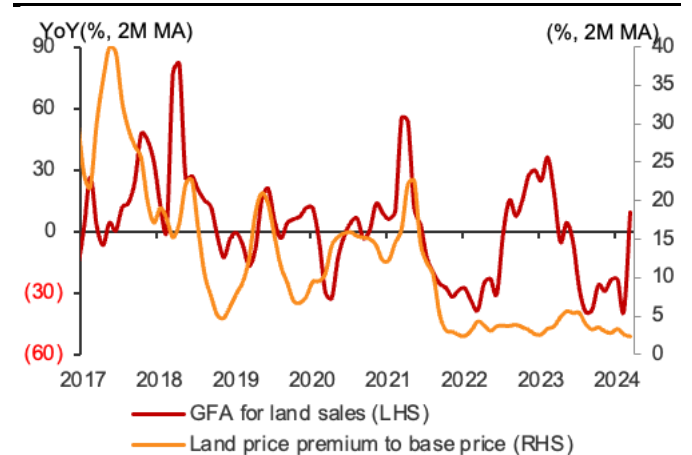
Source: Wind, CMBIGM

Figure 17: Housing sales recovery rates compared to 2019



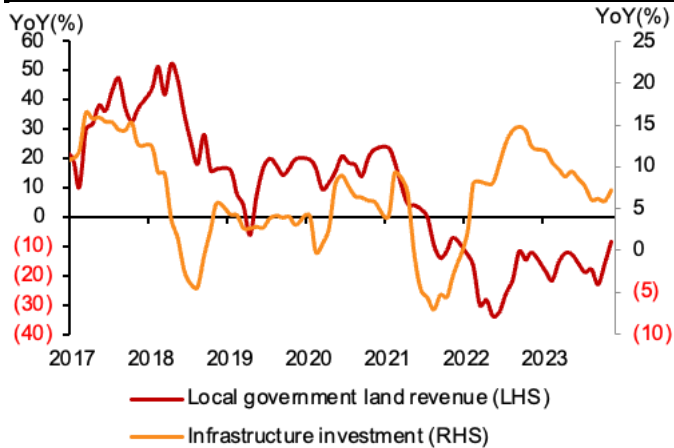
Source: Wind, CMBIGM

Figure 18: Growth of land sales



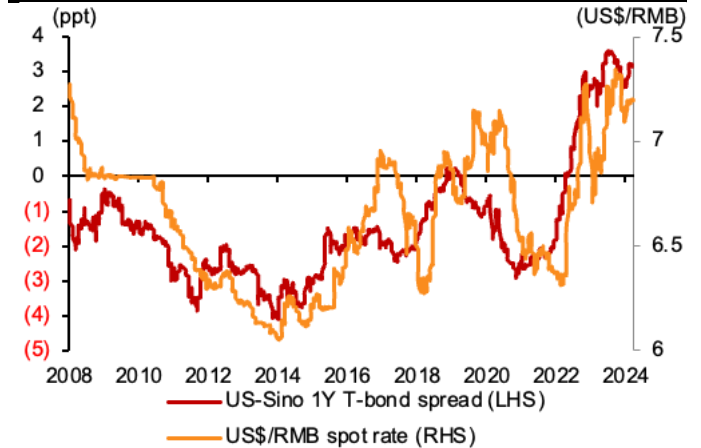
Source: Wind, CMBIGM

Figure 19: Infrastructure investment



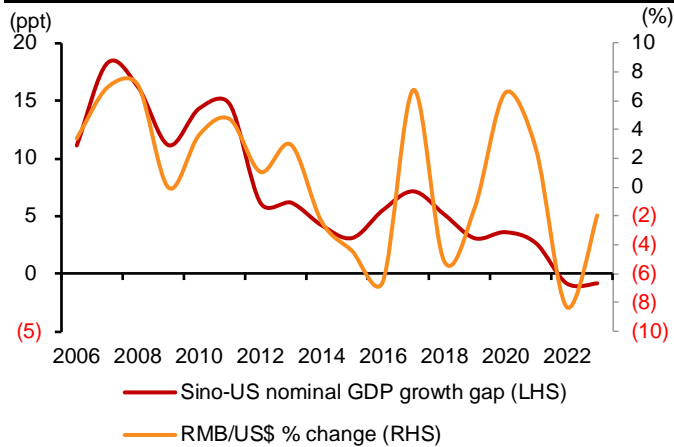
Source: Wind, CMBIGM

Figure 20: US-China interest spreads



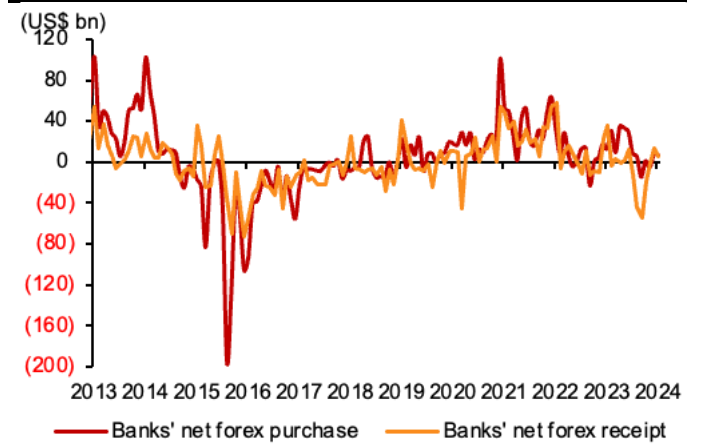
Source: Wind, CMBIGM

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



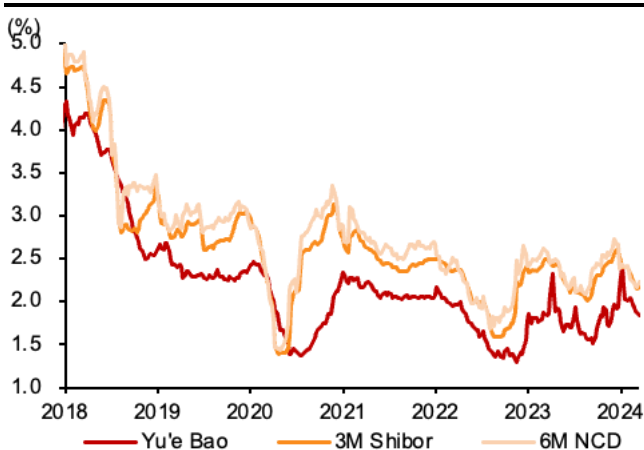
Source: Wind, CMBIGM

Figure 22: Net forex inflow



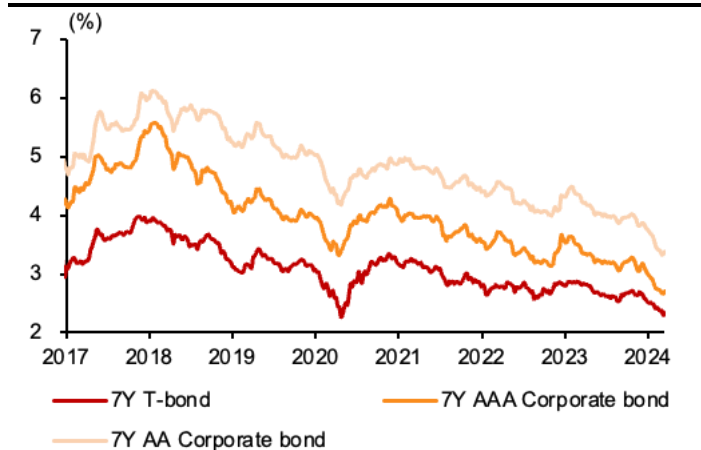
Source: Wind, CMBIGM

Figure 23: Money market funding cost



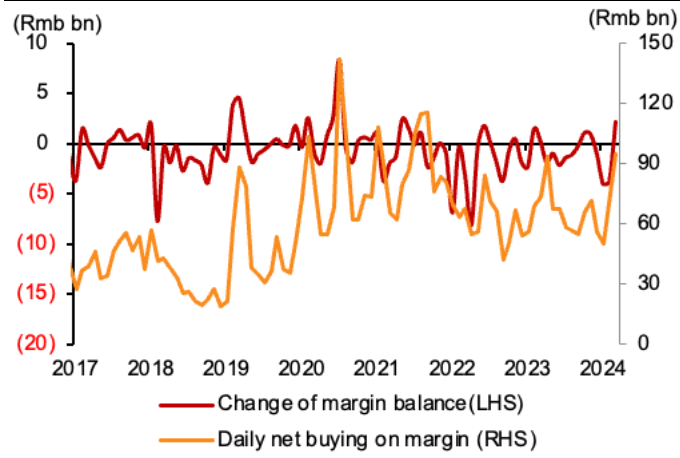
Source: Wind, CMBIGM

Figure 24: Bond market rates



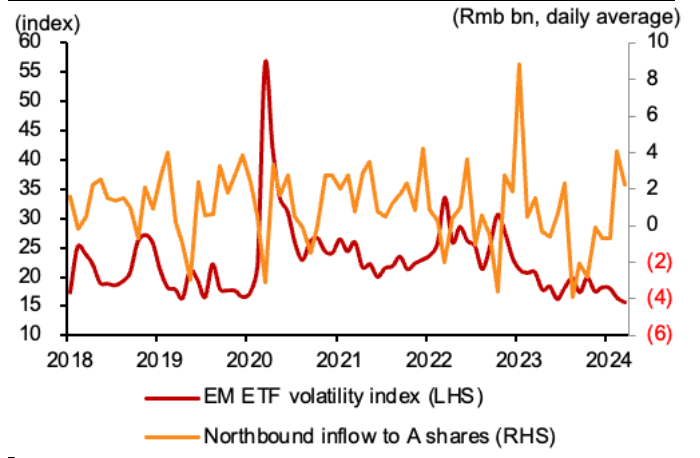
Source: Wind, CMBIGM

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

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