

# China Policy

## Credit further slowed as capex demand remained weak

China's credit growth continued to slow in Mar as business capex and home sales remained weak while government bond financing declined. The weak credit growth reminded policymakers that China economy was far from full recovery as property continued to slump and private business and household confidence remained low. As deflation pressure persisted, real-term interest rates remained high especially for mortgage loans. Looking forward, the PBOC may further lower mortgage rates by 25bps while keeping LPRs basically stable this year as contract loan rates for large enterprises and SOEs are already very low. To protect banks' NIMs, the central bank may guide banks to reduce deposit rates before the mortgage rate cut. Meanwhile, banks will continue to expand credit supply to tech enterprises, manufacturers and green projects to facilitate high-quality development. We expect credit growth to gradually stabilize in 2H24 as the growth of outstanding social financing may slightly moderate from 9.5% at end-2023 to 9.2% at end-2024.

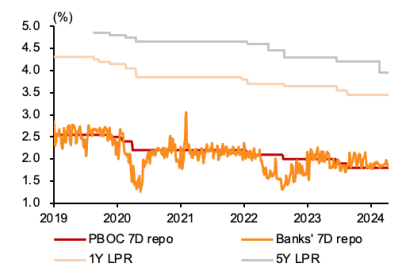
■ **Social financing growth slowed down to historic low.** Growth of outstanding social financing slowed to 8.7% YoY (all in YoY terms unless otherwise specified) in Mar, marking the lowest rate in recorded history. Social financing flow dipped 9.5% to RMB4.9trn in Mar, compared to RMB1.5trn in Feb. The decline of government bond issuance and new RMB loans were key factors contributing to the contraction in social financing flow. But government bond issuance may accelerate in the next two quarters given the stronger fiscal support this year. On shadow financing, new entrusted loans continued to fall while trust loans and undiscounted banks' acceptance notably rebounded YoY. Corporate bond issuance notably rebounded in Mar thanks to the historically low bond yields. 10Y CGB yield plunged to historic lows below 2.3% due to weak economic prospects and limited options of safe-haven investment. M1 growth dipped to 1.1% in Mar and remained much lower than M2 growth as business activity was still weak.

■ **New RMB loans dipped amid sluggish household & business capex demand.** Growth of outstanding RMB loans eased to 9.6%, the lowest reading in nearly 45 years. New RMB loans dropped 20.6% YoY to RMB3.1trn in Mar. New loans to households decreased 24.4% to RMB940.6bn with new short-term loans down 19.5% and new M&L loans down 28.9%. Property sales extended its deep contraction while durables consumption also weakened in Mar. New loans to the corporate sector declined 13.3% to RMB2.34trn partly due to a higher base last year. Demand was still lethargic for both short-term and M&L loans. Bill financing contracted by RMB250bn. New loans to non-bank financial institutions retracted by RMB195.8bn compared to an RMB404.5bn increase in Feb.

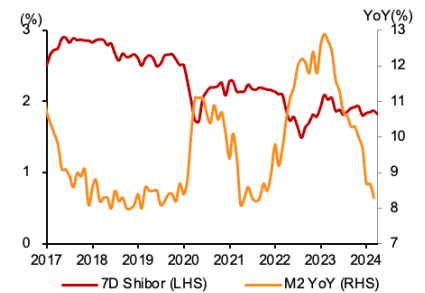
■ **The PBOC may further loosen credit policy ahead.** Real-term interest rates remained high especially for mortgage rates as deflation pressure persisted. The PBOC may further lower mortgage rates by 25bps while keeping LPRs basically stable this year as contract loan rates for large enterprises and SOEs are already very low. To protect banks' NIMs, the central bank may guide banks to reduce deposit rates before the mortgage rate cut. Meanwhile, banks will continue to expand credit supply to tech enterprises, manufacturers and green projects to facilitate high-quality development. We expect credit growth to gradually stabilize in 2H24 as the growth of outstanding social financing may slightly moderate from 9.5% at end-2023 to 9.2% at end-2024.

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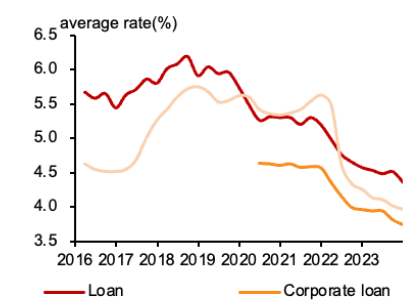
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Source: Wind, CMBIGM

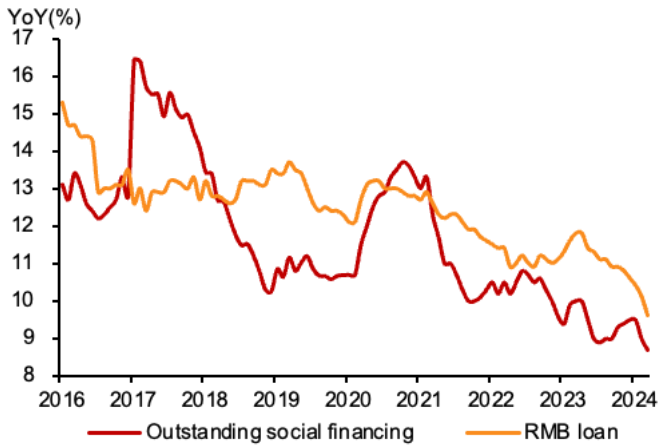


Source: Wind, CMBIGM



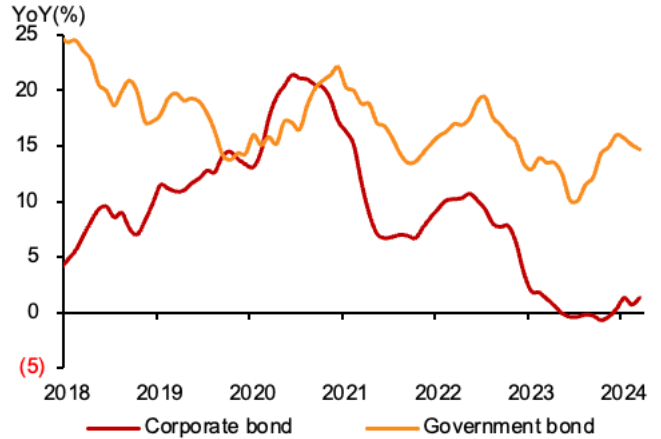
Source: Wind, CMBIGM

**Figure 1: Growth of outstanding social financing**



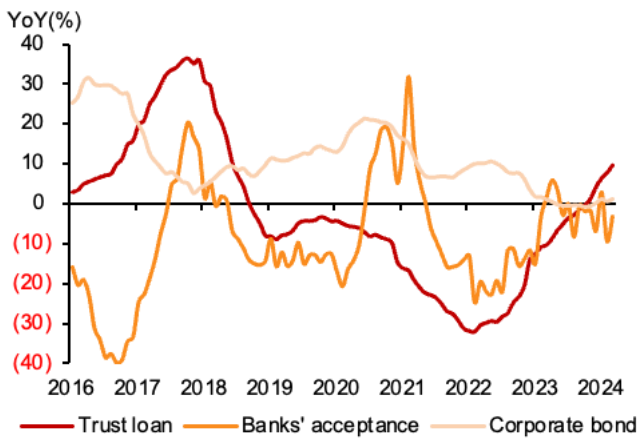
Source: Wind, CMBIGM

**Figure 2: Growth of outstanding bond financing**



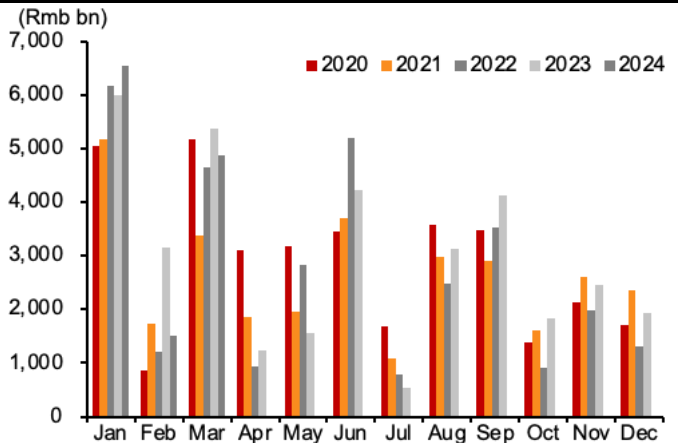
Source: Wind, CMBIGM

**Figure 3: Growth of outstanding OBS financing**



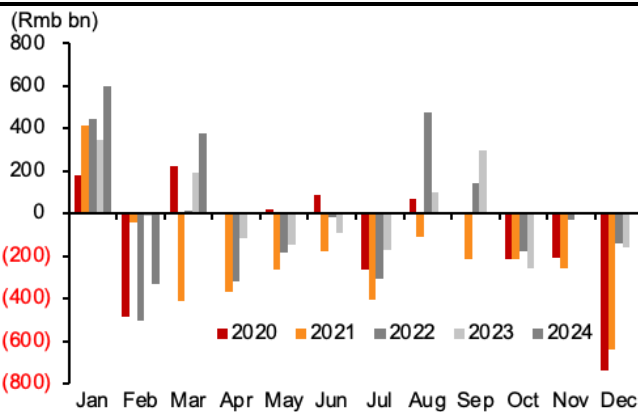
Source: MoF, CMBIGM

**Figure 4: Total social financing**



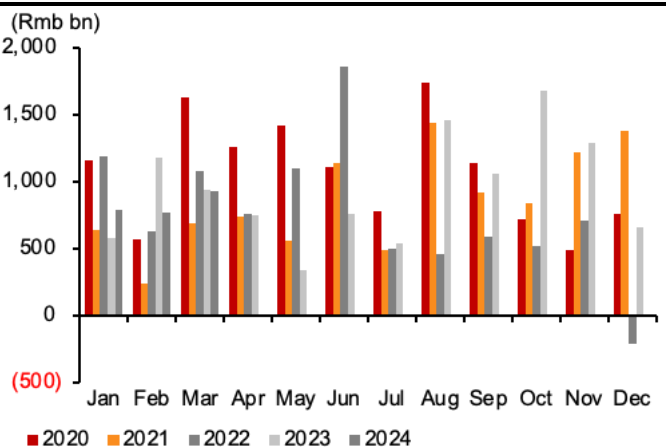
Source: MoF, CMBIGM

**Figure 5: OBS financing**



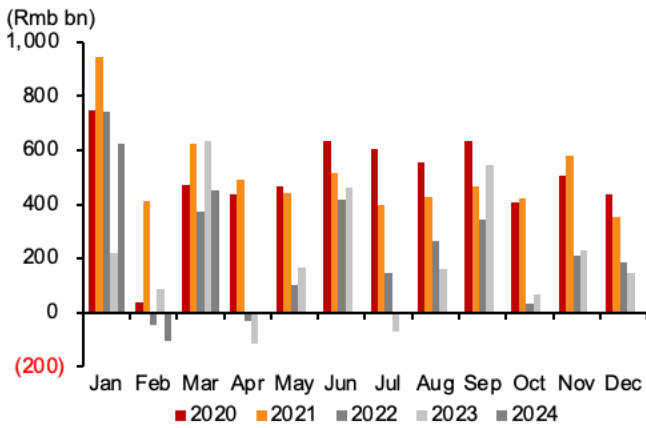
Source: Wind, CMBIGM

**Figure 6: Bond financing**



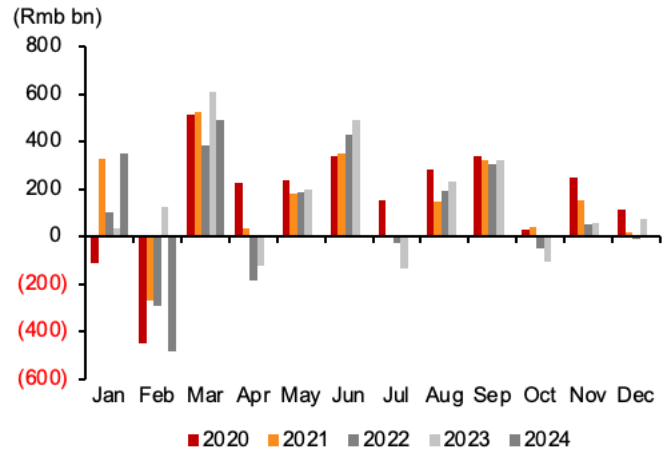
Source: Wind, CMBIGM

**Figure 7: New M&L term loans to households**



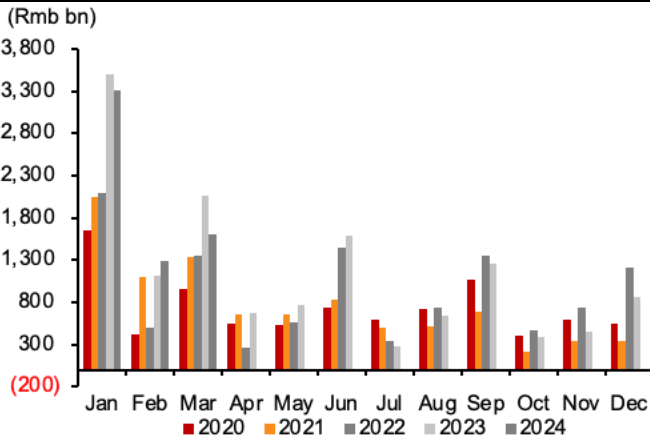
Source: Wind, CMBIGM

**Figure 8: New short-term loans to households**



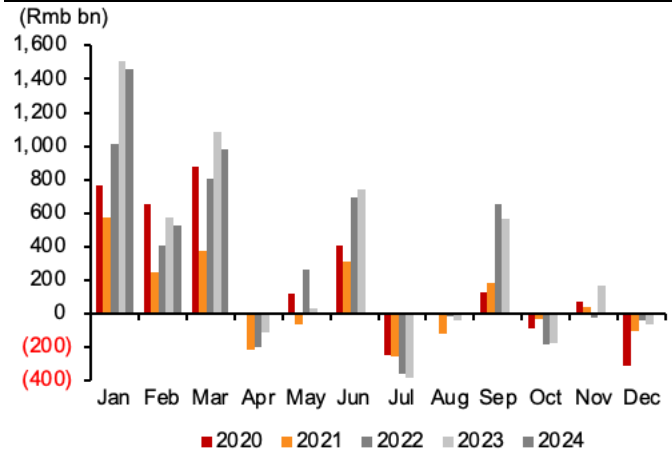
Source: Wind, CMBIGM

**Figure 9: New M&L term loans to enterprises**



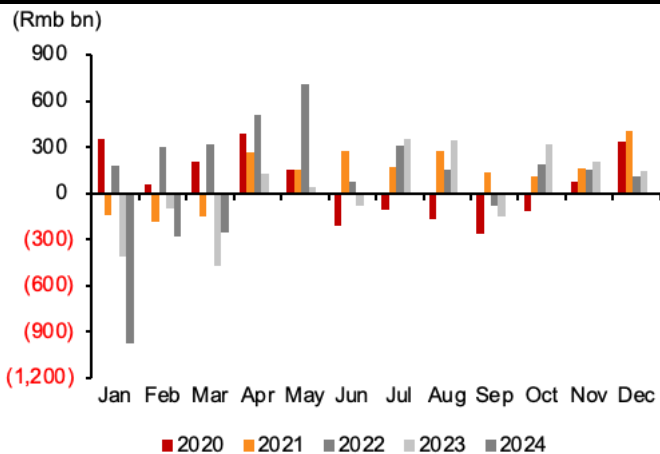
Source: Wind, CMBIGM

**Figure 10: New short-term loans to enterprises**



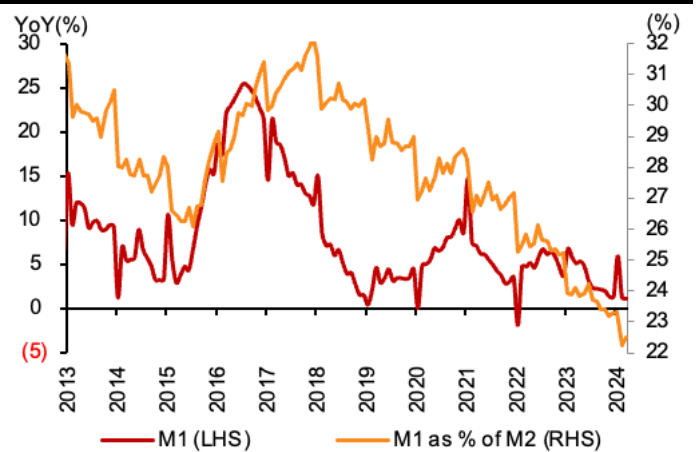
Source: Wind, CMBIGM

**Figure 11: Bill financing to enterprises**



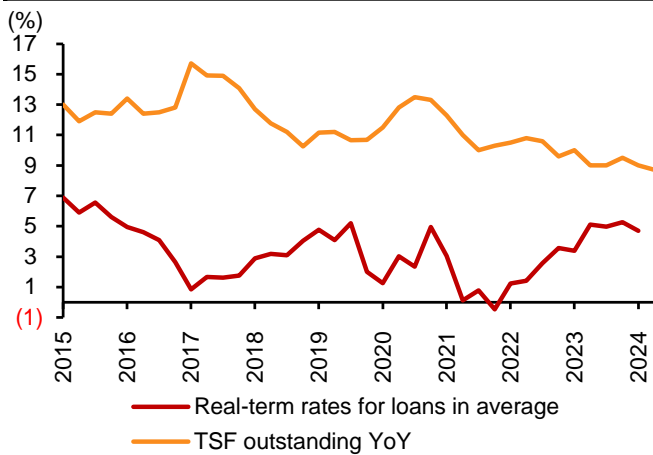
Source: Wind, CMBIGM

**Figure 12: M1 growth & M1 as % of M2**



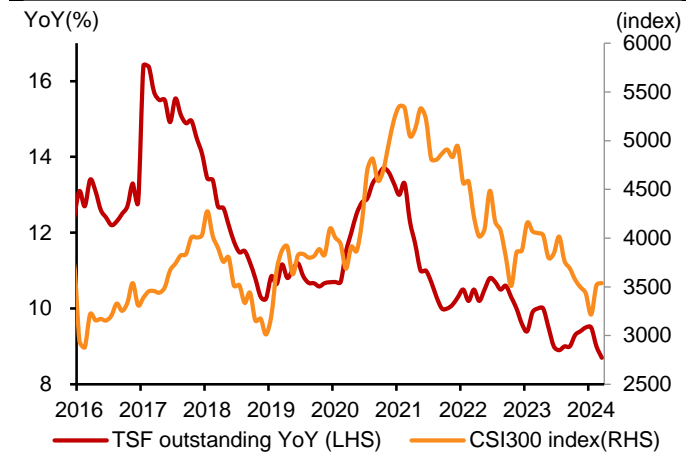
Source: Wind, CMBIGM

**Figure 13: Real-term loan rates & TSF growth**



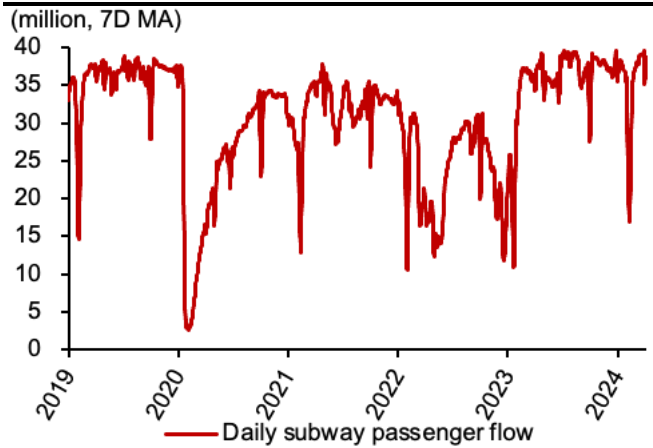
Source: Wind, CMBIGM

**Figure 14: TSF growth & CSI300 index**



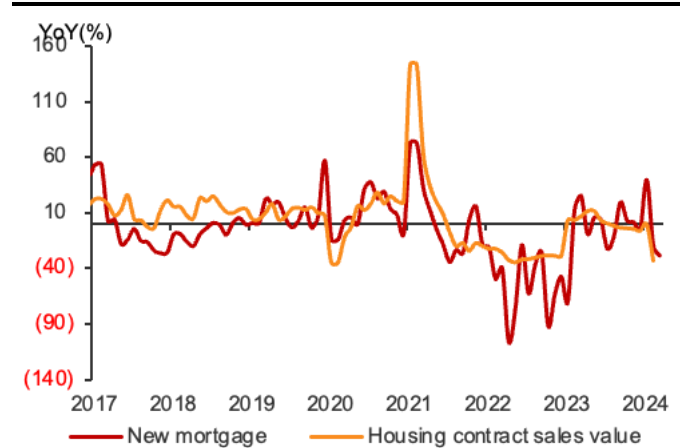
Source: Wind, CMBIGM

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



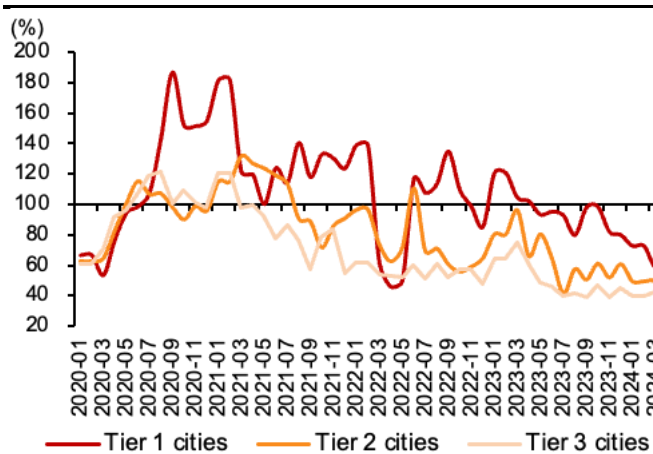
Source: Wind, CMBIGM

**Figure 16: New mortgage & housing sales**



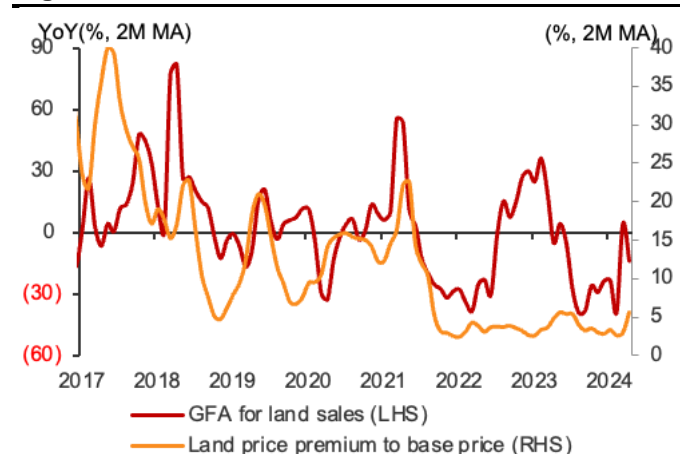
Source: Wind, CMBIGM

**Figure 17: Housing sales recovery rates compared to 2019**



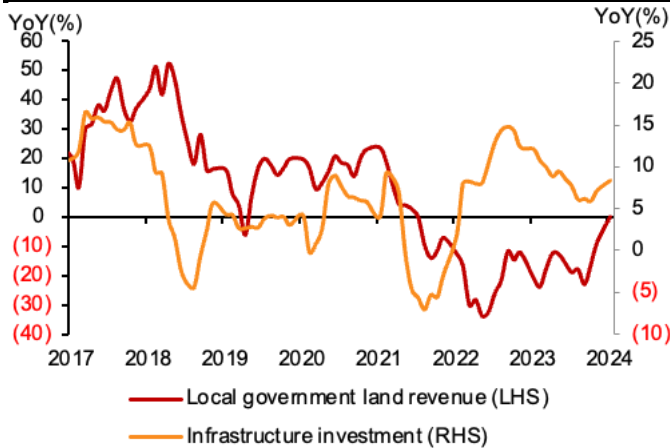
Source: Wind, CMBIGM

**Figure 18: Growth of land sales**



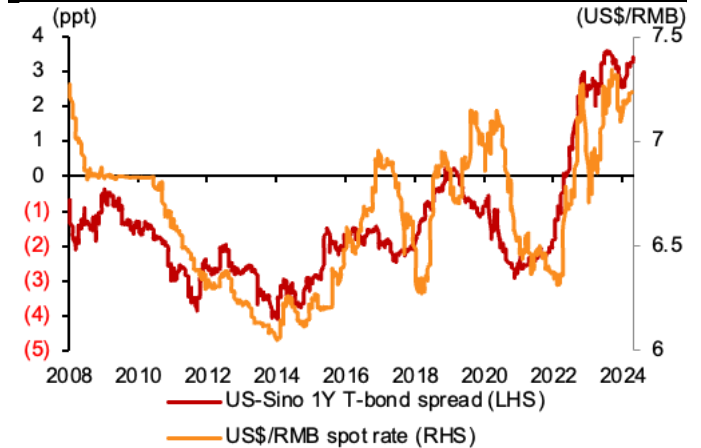
Source: Wind, CMBIGM

**Figure 19: Infrastructure investment**



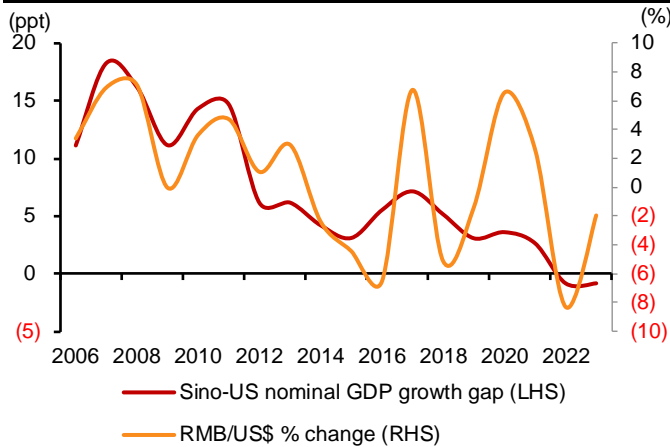
Source: Wind, CMBIGM

**Figure 20: US-China interest spreads**



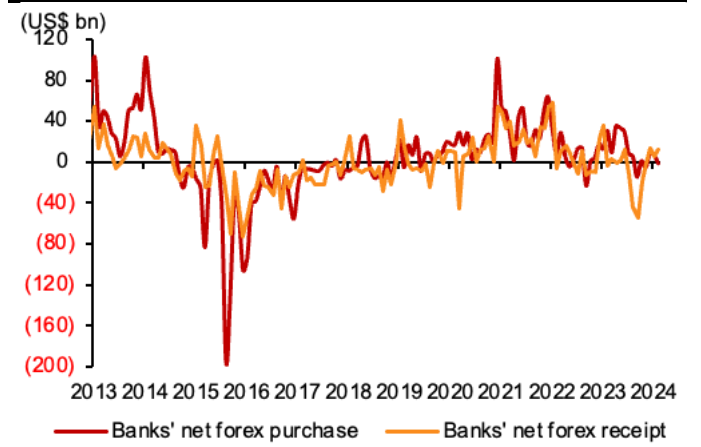
Source: Wind, CMBIGM

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



Source: Wind, CMBIGM

**Figure 22: Net forex inflow**



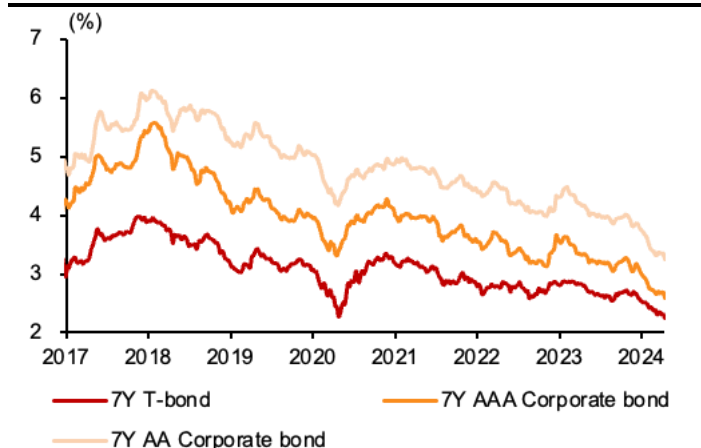
Source: Wind, CMBIGM

**Figure 23: Money market funding cost**



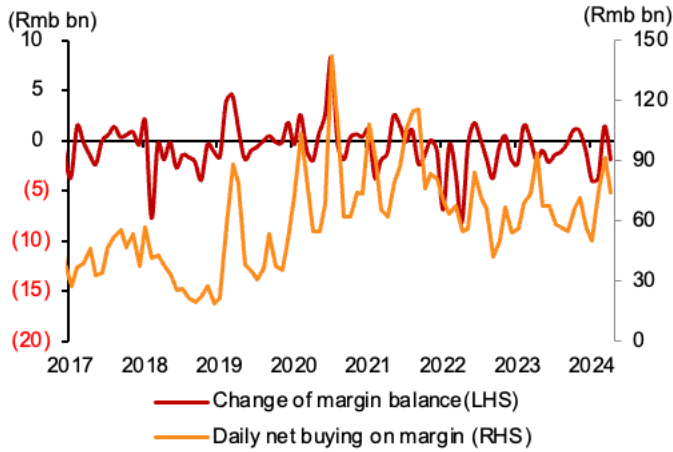
Source: Wind, CMBIGM

**Figure 24: Bond market rates**



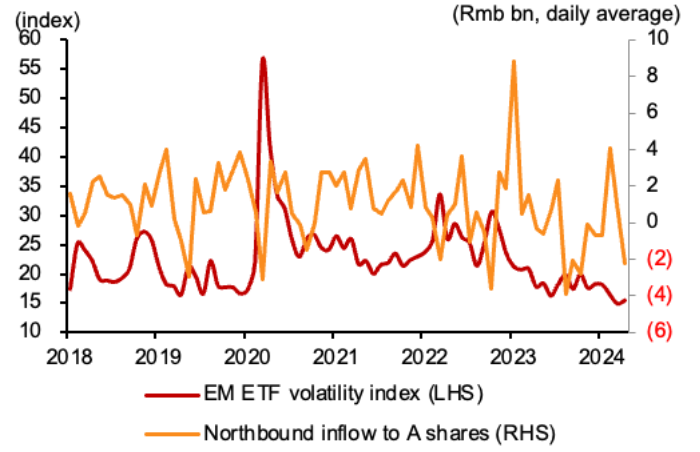
Source: Wind, CMBIGM

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



Source: Wind, CMBIGM

**Figure 26: EM volatility and northbound flow to A-shares**



Source: Wind, CMBIGM

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