

China Policy

Credit demand softens as economic recovery slows

China's new credit growth kept flat in April despite a low base last year. Households' credit demand softened as the recovery momentum weakened in housing market and durable consumption. Consumer income growth and confidence remained weak as labor market was not strong. Private businesses accounted for over 80% of urban employment and they were still cautious to expand capex and employment. Credit demand of SOEs and LGFVs was relatively strong as new loans to corporate sector remained high. Looking forward, China has to further lower loan rates and send stronger pro-business signals to boost private business confidence and recovery momentum.

- Total social financing was higher than our forecast yet below market expectations.** Total social financing picked up 30.8% YoY in April after growing 20.5% YoY in 1Q23. Breaking down items, the YoY growth of new renminbi loans decelerated from 28.4% in 1Q23 to 22.5% in April as households' loan demand declined. Off-balance-sheet financing remained weak as investors' risk appetite was still low. Corporate bond financing continued to decline 14.8% in April after dropping 27.9% in the first quarter as corporate loans had lower financing costs. Government bond financing rose 16.3% in April after growing 15.7%, pointing to moderate expansion of fiscal expenditure in 2Q23.
- Mortgage and consumer loans shrunk again as recovery momentum in housing & durables weakened.** New medium & long term loans to households turned negative again in April as mortgage repayment exceeded new mortgage borrowing. New short term loans to households also dropped to a negative number as durable consumption remained weak. We note housing sales retreated again in April especially in lower-tier cities.
- Corporate loans maintained strong growth as businesses use more debt to support operation and capex.** Corporate loans continued to expand in April as new medium & long term loans to enterprises rose 151.5% YoY in April after growing 69.1% YoY in 1Q23. Due to weak profit and low loan rates, corporates tends to use more debt to support their operation and capex. In April, bill discount financing turned positive as bill discount rates sharply declined amid weakening of loan demand.
- The possibility of additional monetary policy easing increases due to a subdued credit demand and a fading recovery trend.** Recent information indicates China's economic recovery has noticeably slowed especially in property, durables and business capex. Despite some moderate improvement after the economic reopening, private business sentiment and consumer confidence has remained low. The possibility of additional monetary policy easing like RRR or LPR cut increases due to a subdued credit demand and a fading recovery trend.

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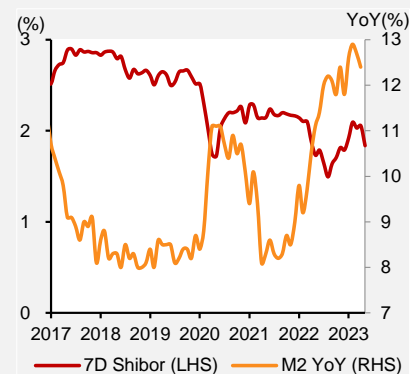
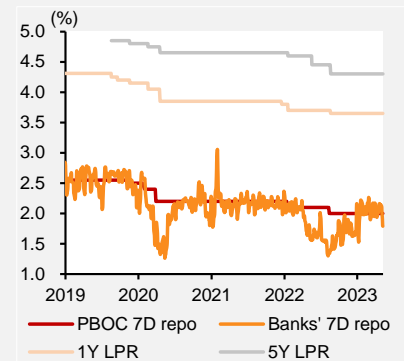
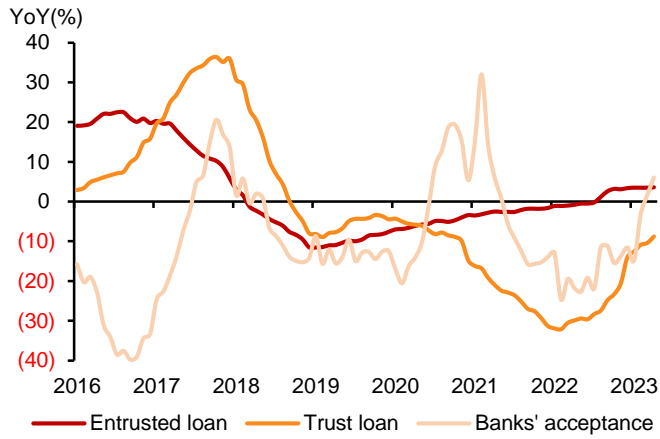
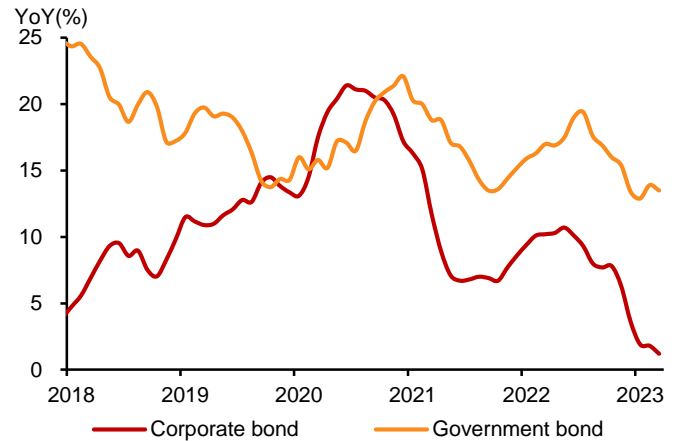


Figure 1: Growth of outstanding OBS financing



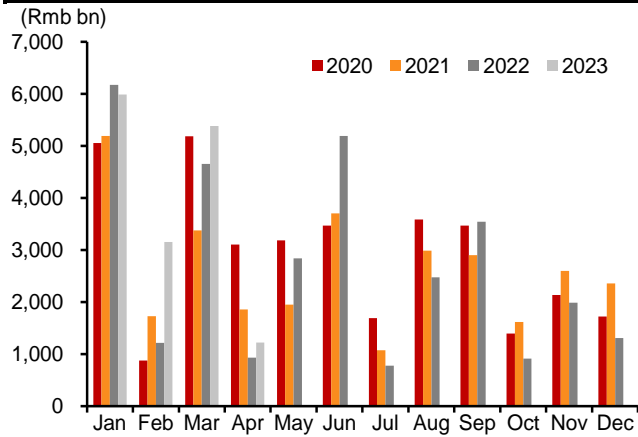
Source: Wind, CMBIGM

Figure 2: Growth of outstanding bond financing



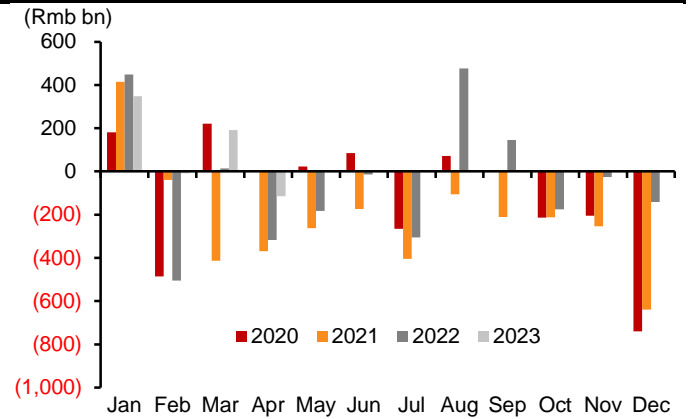
Source: Wind, CMBIGM

Figure 3: Total social financing



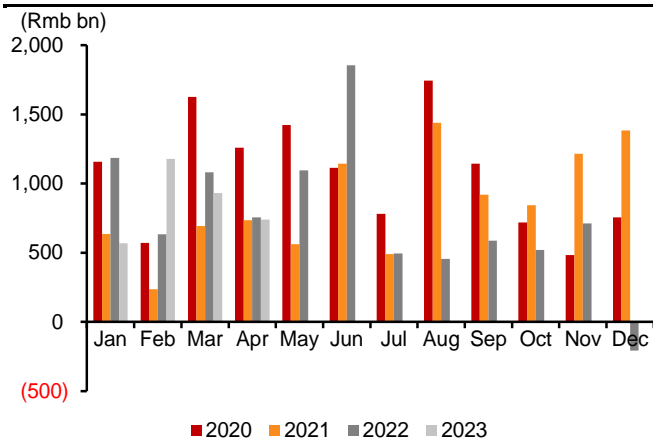
Source: MoF, CMBIGM

Figure 4: OBS financing



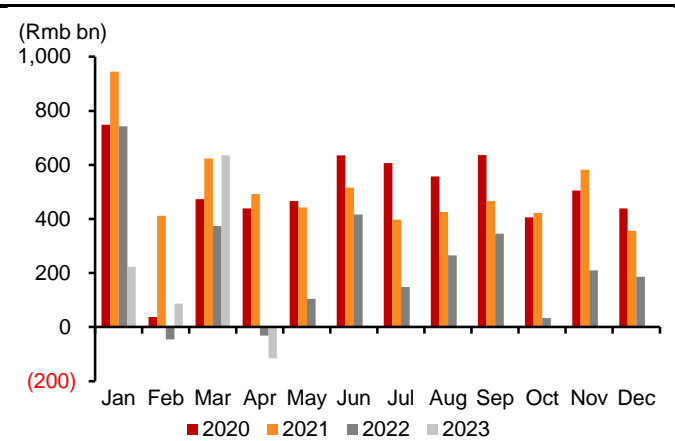
Source: MoF, CMBIGM

Figure 5: Bond financing



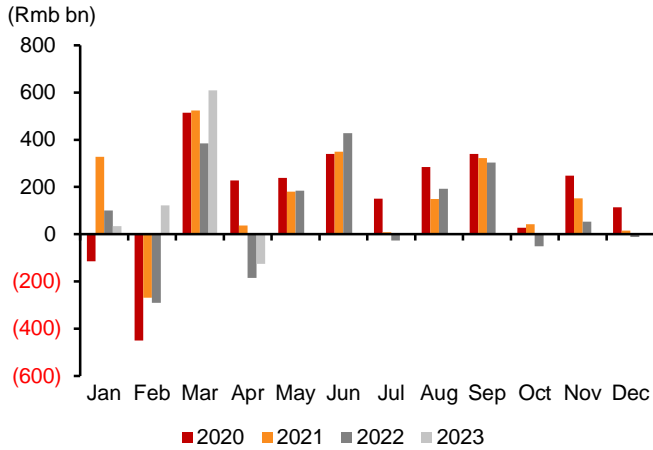
Source: Wind, CMBIGM

Figure 6: New M&L term loans to households



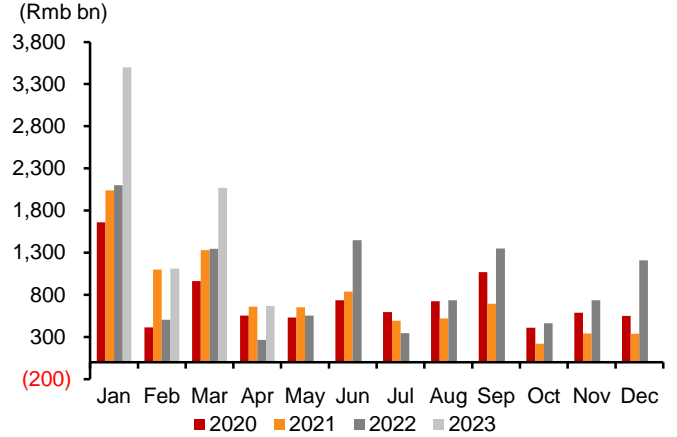
Source: Wind, CMBIGM

Figure 7: New short term loans to households



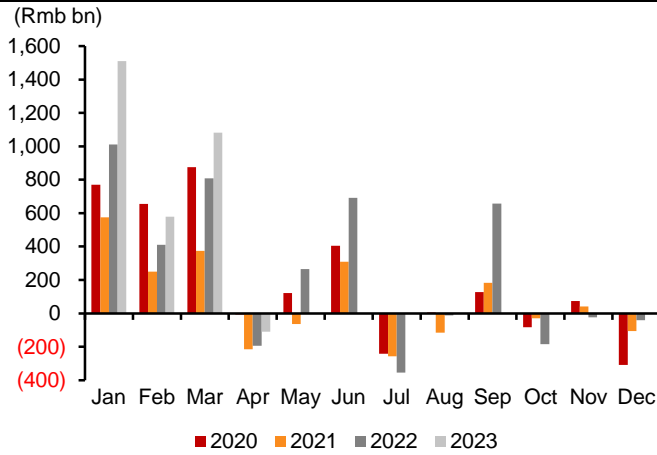
Source: Wind, CMBIGM

Figure 8: New M&L term loans to enterprises



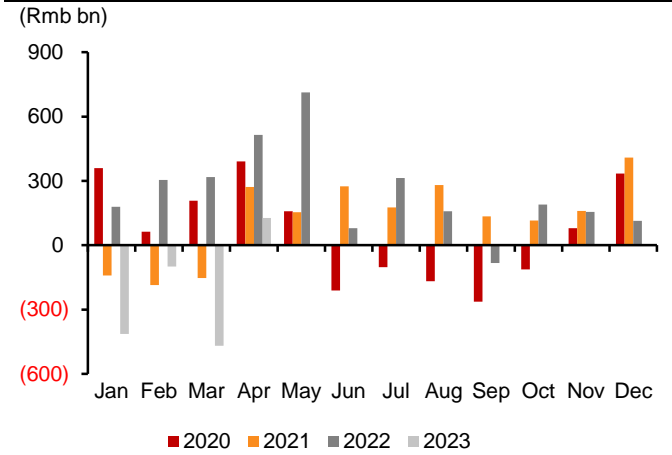
Source: Wind, CMBIGM

Figure 9: New short term loans to enterprises



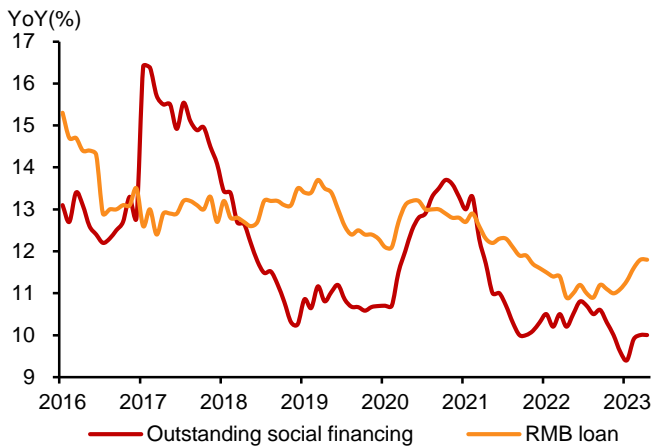
Source: Wind, CMBIGM

Figure 10: Bill financing to enterprises



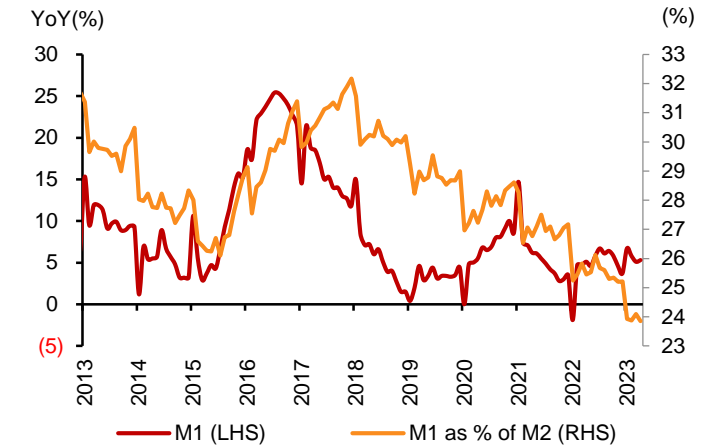
Source: Wind, CMBIGM

Figure 11: Growth of credit & money supply



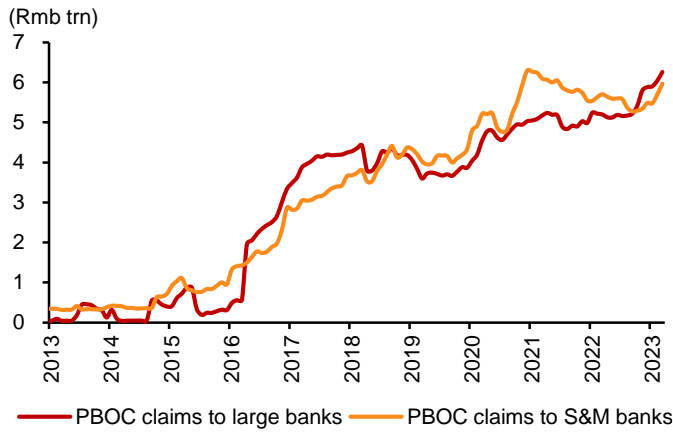
Source: Wind, CMBIGM

Figure 12: M1 growth & M1 as % of M2



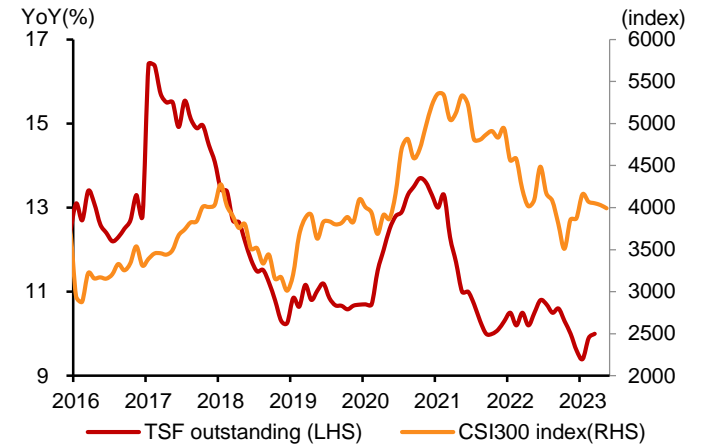
Source: Wind, CMBIGM

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



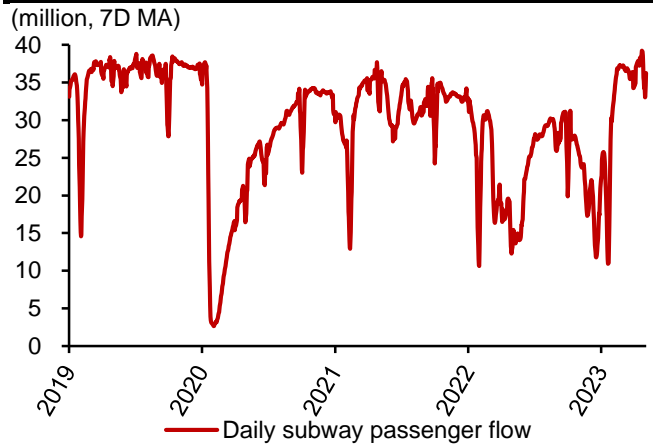
Source: Wind, CMBIGM

Figure 14: Total social financing & CSI300 index



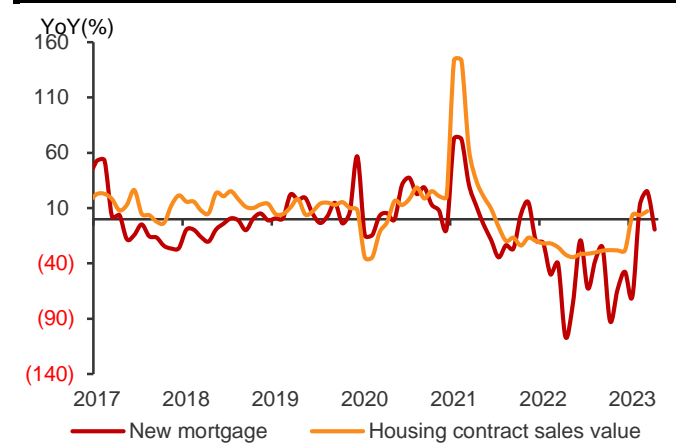
Source: Wind, CMBIGM

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



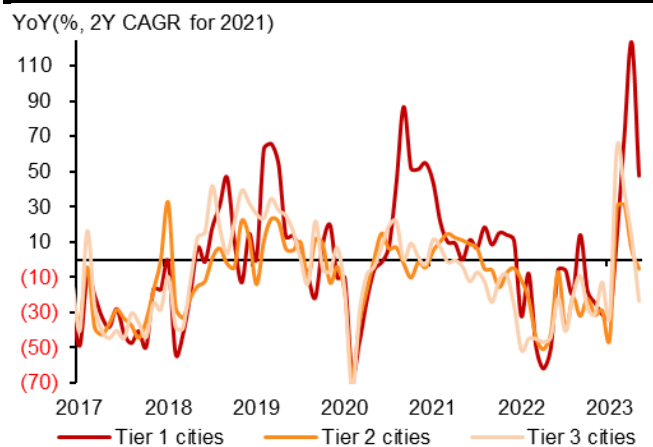
Source: Wind, CMBIGM

Figure 16: New mortgage & housing sales



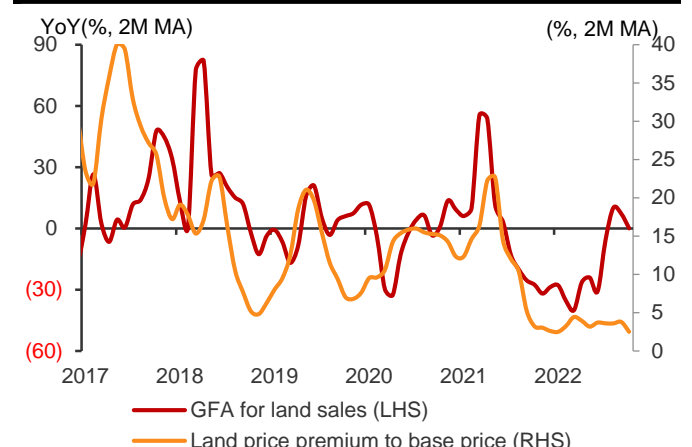
Source: Wind, CMBIGM

Figure 17: Growth of housing sales by cities



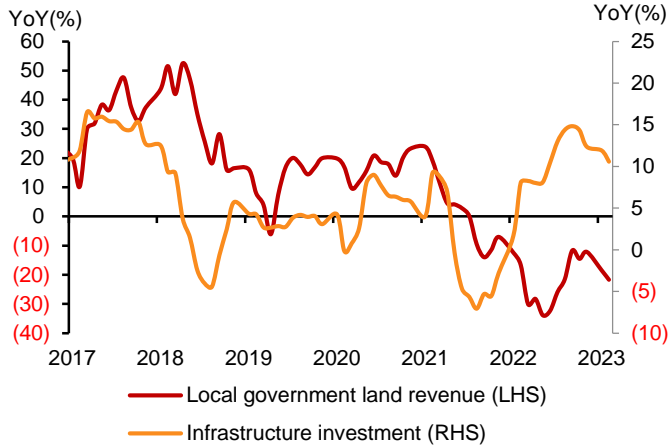
Source: Wind, CMBIGM

Figure 18: Growth of land sales



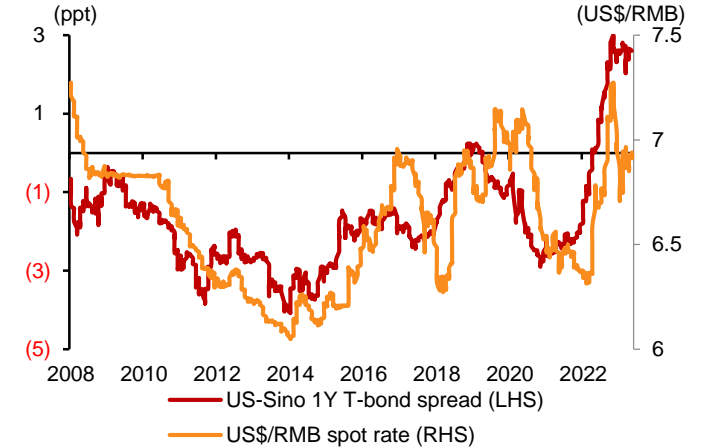
Source: Wind, CMBIGM

Figure 19: Infrastructure investment



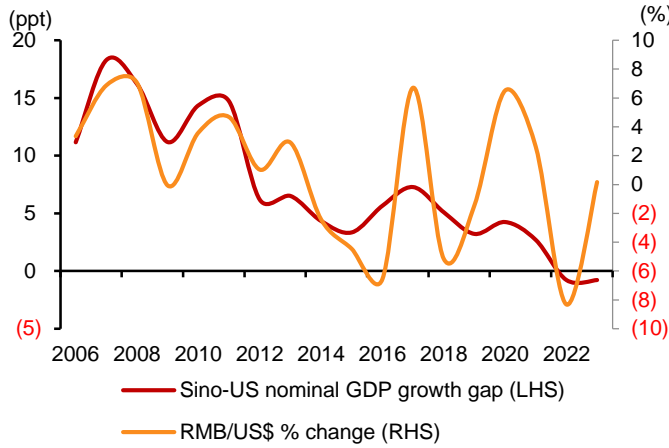
Source: Wind, CMBIGM

Figure 20: US-Sino interest spreads



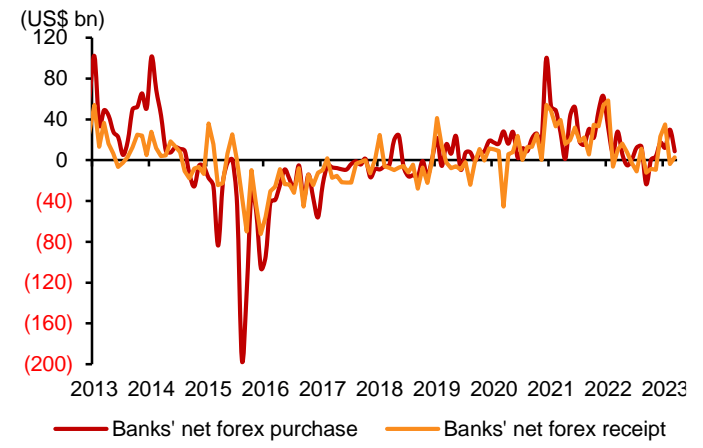
Source: Wind, CMBIGM

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



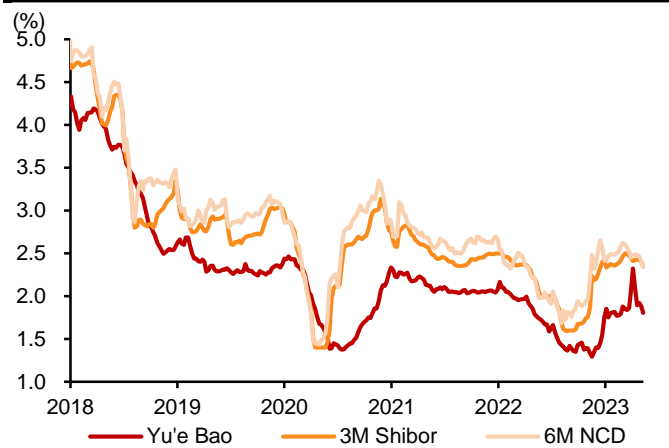
Source: Wind, CMBIGM

Figure 22: Net forex inflow



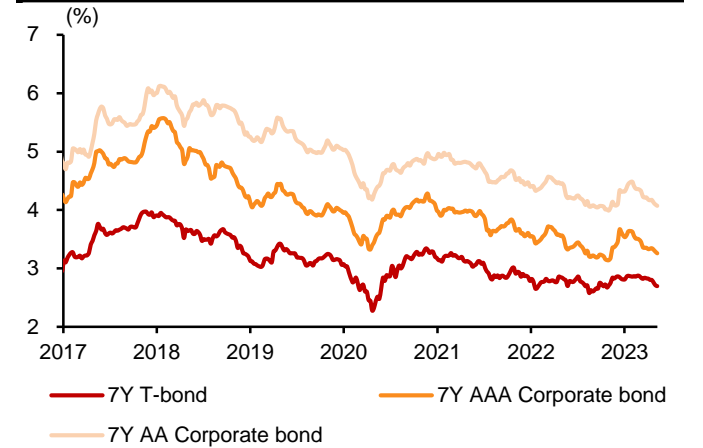
Source: Wind, CMBIGM

Figure 23: Money market funding cost



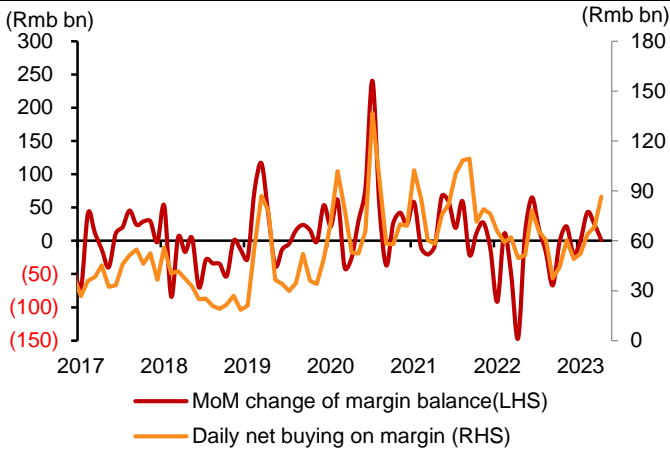
Source: Wind, CMBIGM

Figure 24: Bond market rates



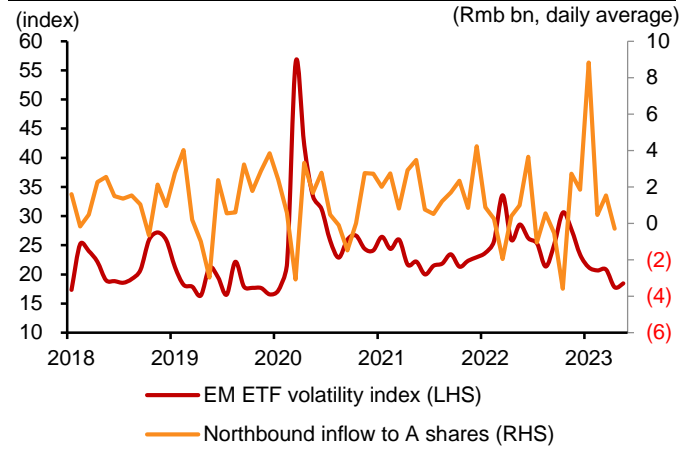
Source: Wind, CMBIGM

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

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