

China Policy

New credit slumped again amid weak demand

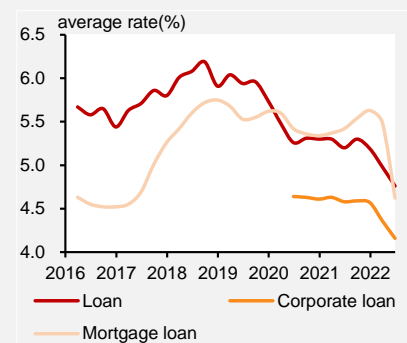
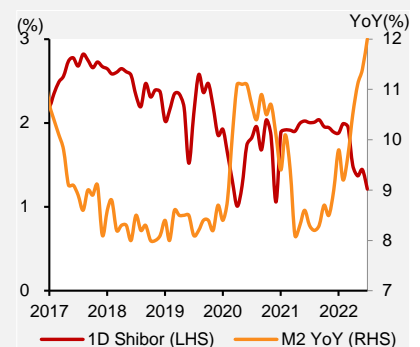
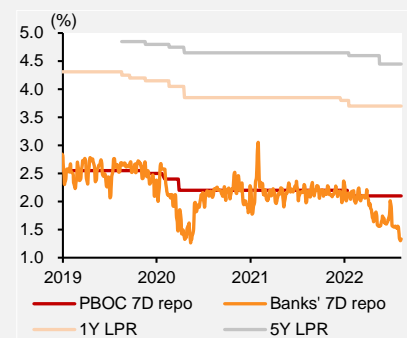
China's new credit slumped again in July as real demand retreated amid weak confidence and seasonal factor. Property sales, consumption and business capex should have weakened as new mortgage, consumer credit and medium & long-term corporate loans all declined. The PBOC faced the condition like a liquidity trap as ample liquidity failed to spur strong credit expansion. The main reason is property market slump and strict control over local government contingent debt as the two sectors play an important role in China's credit creation. As economic resumption and credit recovery may be gradual, the central bank should maintain accommodative policy ahead. Since current liquidity is ample and consumer inflation will gradually rise, the possibility of RRR or LPR cut is relatively low.

- New credit slumped as real demand retreated in July.** Total social financing dropped 29.7% YoY in July after rising 19.2% YoY in 2Q22. Meanwhile, new renminbi loans to real sector and corporate bond financing respectively dropped 51.3% and 76.3% YoY after rising 4.1% and declining 3.7% in 1H22. New credit shrinkage indicated weakening of real demand in July as property market slumped and household consumption & business capex remained weak. Off-balance-sheet credit further shrunk as property market confidence deteriorated, while policymakers continued to control local government contingent debt and small business condition remained tough. Government bond financing seasonally declined MoM in July, yet higher than the amount in the same month last year. But it may decrease in 2H22 as local governments used up the quotas for this year.
- New mortgage, consumer credit and long-term corporate loans all declined as housing market, consumption & business weakened.** New medium to long-term loans to households dropped by 62.6% YoY to RMB148.6bn in July, as housing sales further slumped. New short-term loans to households turned negative in July, indicating deterioration of consumption. Both the housing market slump and Covid-zero policy hurt consumer confidence. New medium & long-term loans to corporates decreased 29.9% YoY in July after rising 5.6% in 2Q22. Business capex softened amid uncertainty and weak confidence.
- PBOC may maintain accommodative policy in face of the condition like a liquidity trap.** Money market liquidity was easing as banks' 7D repo rates further declined from 1.55% in July to 1.35% in recent two weeks. But ample liquidity failed to spur strong credit expansion as property sector and local governments played an important role in China's credit creation. The weak credit expansion was mainly due to property market slump and strict control over local government contingent debt. As economic resumption and credit recovery may be gradual, the PBOC is likely to maintain accommodative policy in 2H22. Since current liquidity is ample and consumer inflation will gradually rise, the possibility of RRR or LPR cut is relatively low.
- Implications of long-term economic transformation.** The Chinese policymaker is committed to high-quality development with the ambition to shift the growth engine from property and infrastructure investment to tech innovation, green projects and consumption. This means the growth era for

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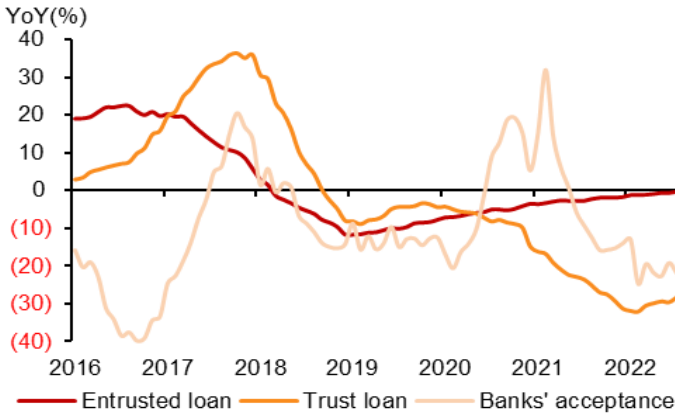
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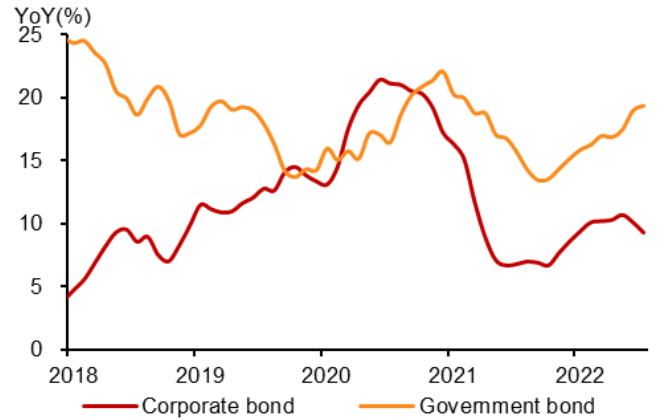
the two highly leveraged sectors will end, which is positive for China to control its high debt ratio in the medium to long term. However, the transformation of growth engine requires profound changes in China's financial system. Technology innovation and green development needs the support of active venture capitals and a developed capital market. To facilitate consumption growth, China needs substantially growing SMEs to provide high-quality employment, stable economic condition and policy environment to support consumer confidence.

Figure 1: Growth of outstanding OBS financing



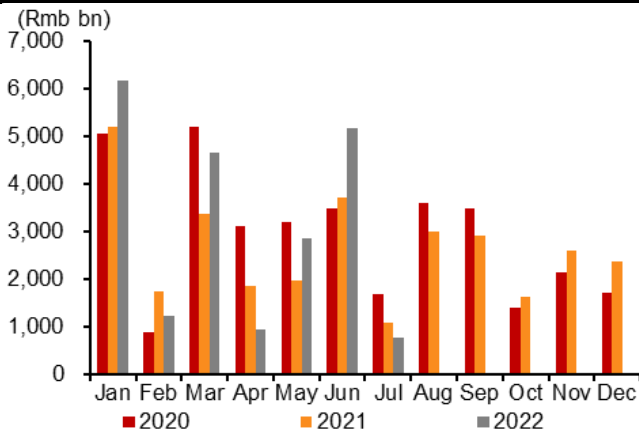
Source: Wind, CMBIGM

Figure 2: Growth of outstanding bond financing



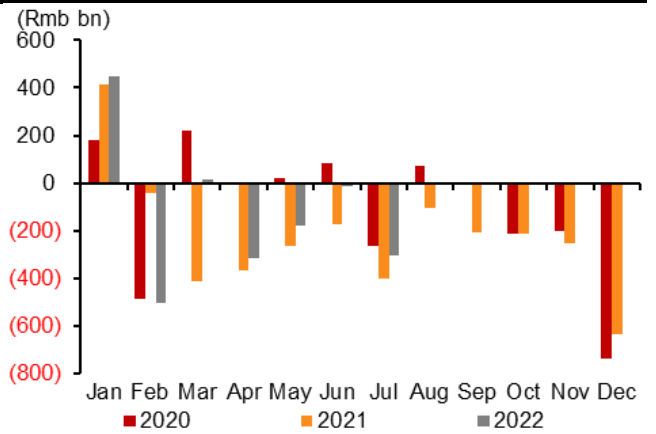
Source: Wind, CMBIGM

Figure 3: Total social financing



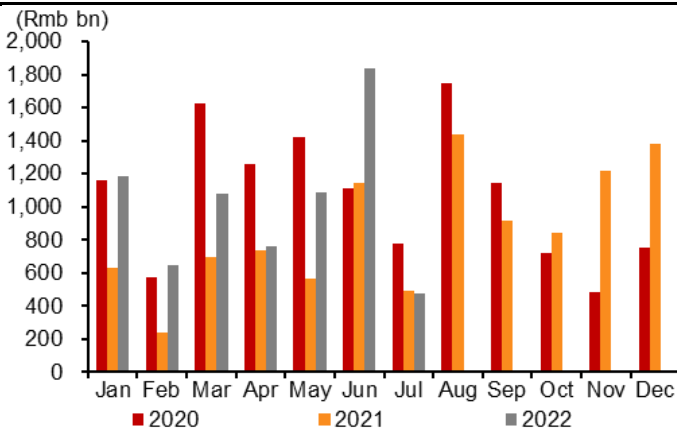
Source: MoF, CMBIGM

Figure 4: OBS financing



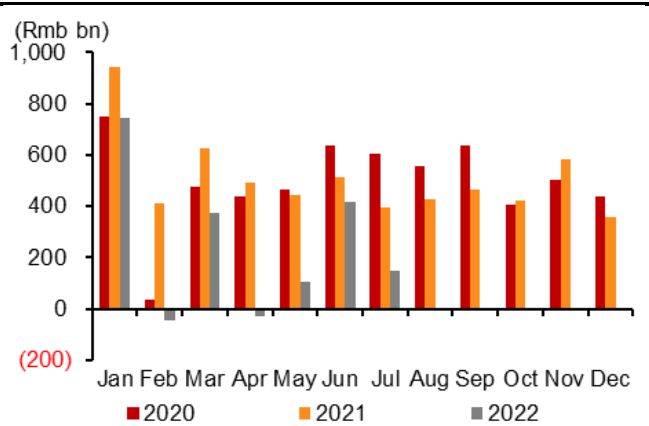
Source: MoF, CMBIGM

Figure 5: Bond financing



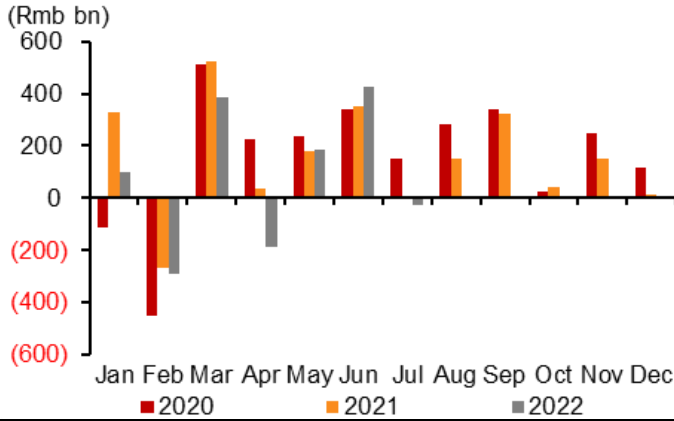
Source: Wind, CMBIGM

Figure 6: New M&L term loans to households



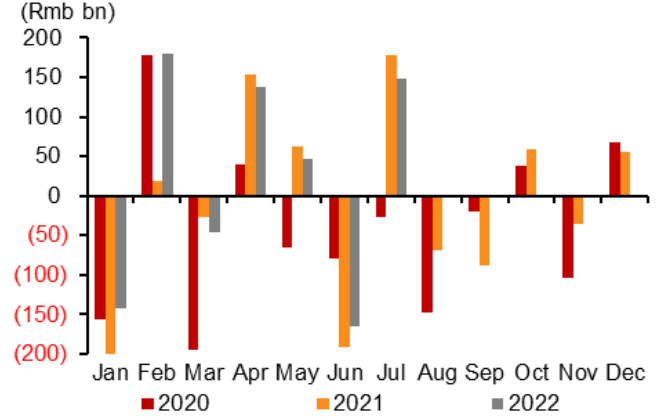
Source: Wind, CMBIGM

Figure 7: New short term loans to households



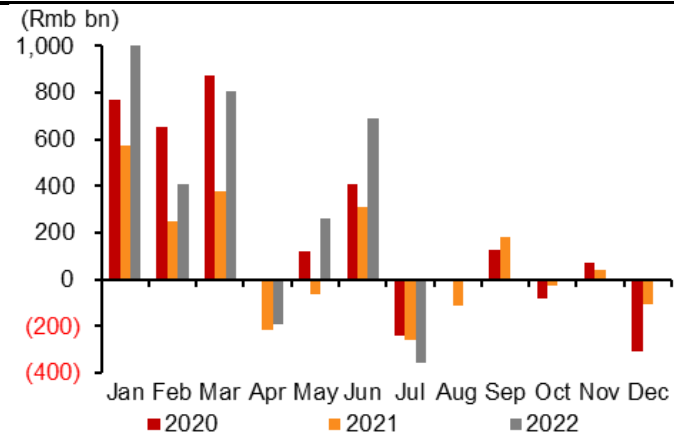
Source: Wind, CMBIGM

Figure 8: New M&L term loans to enterprises



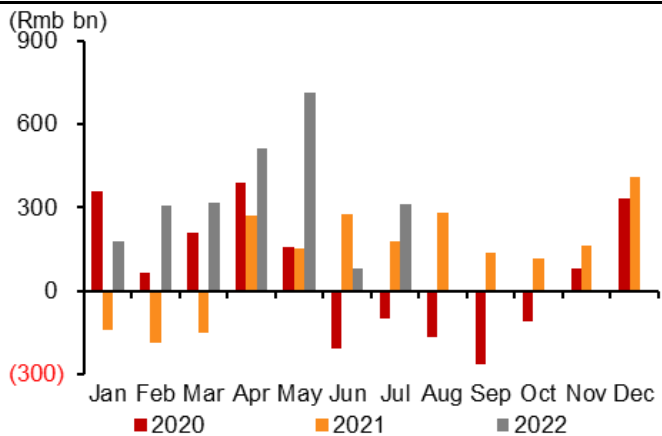
Source: Wind, CMBIGM

Figure 9: New short term loans to enterprises



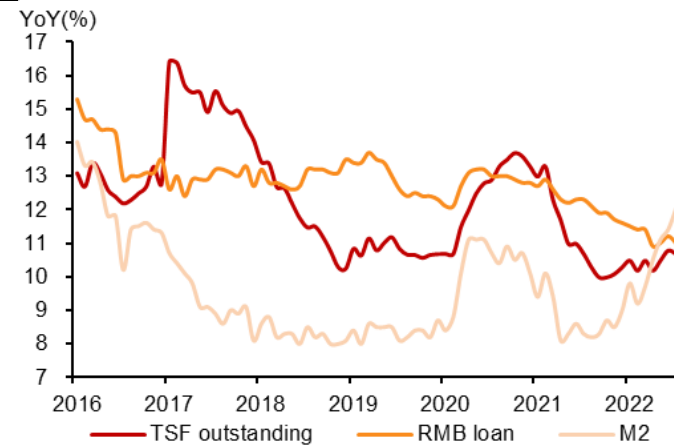
Source: Wind, CMBIGM

Figure 10: Bill financing to enterprises



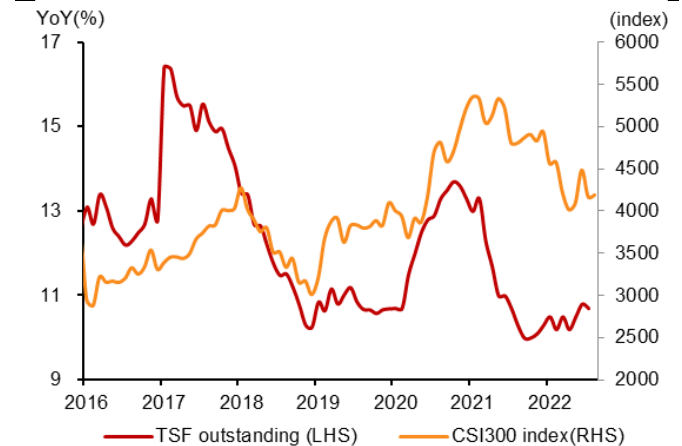
Source: Wind, CMBIGM

Figure 11: Growth of credit & money supply



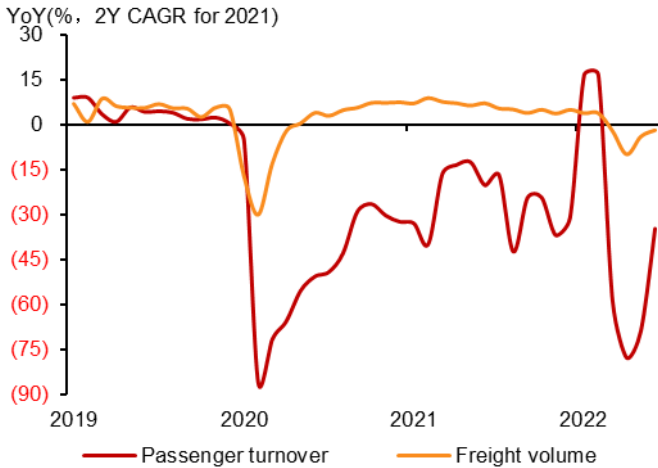
Source: Wind, CMBIGM

Figure 12: Social financing growth & CSI300 Index



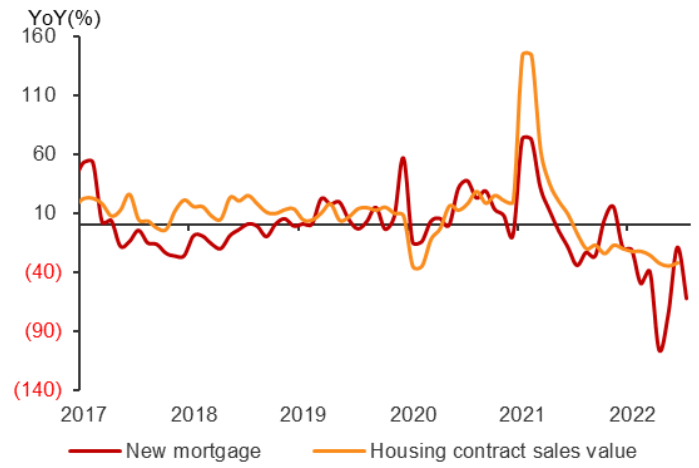
Source: Wind, CMBIGM

Figure 13: Growth of passenger & freight volume



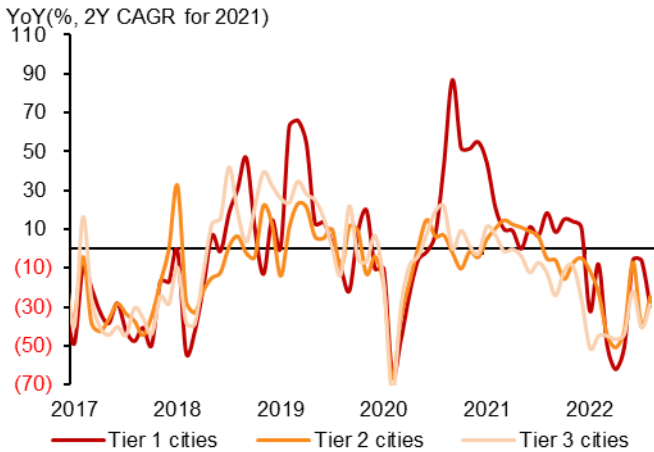
Source: Wind, CMBIGM

Figure 14: New mortgage & housing sales



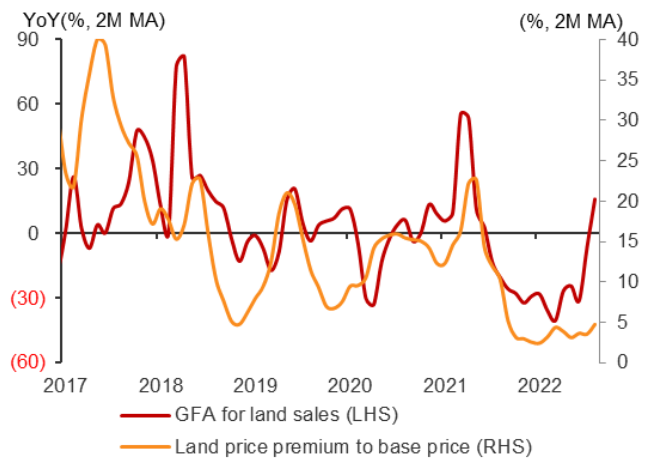
Source: Wind, CMBIGM

Figure 15: Growth of housing sales by cities



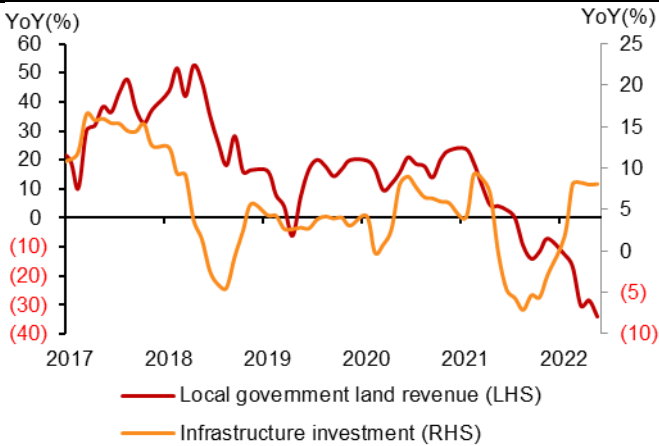
Source: Wind, CMBIGM

Figure 16: Growth of land sales



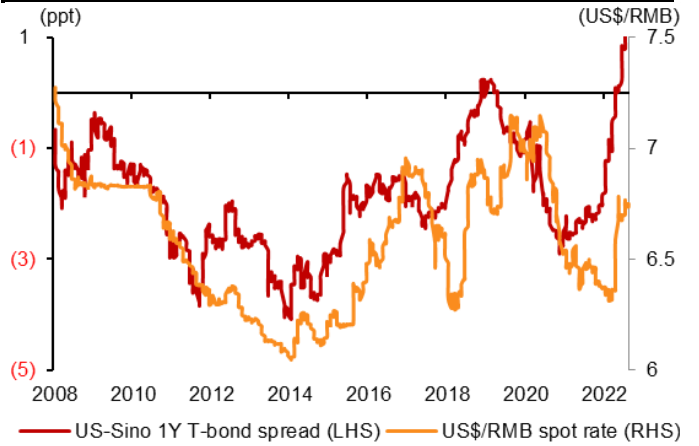
Source: Wind, CMBIGM

Figure 17: Infrastructure investment



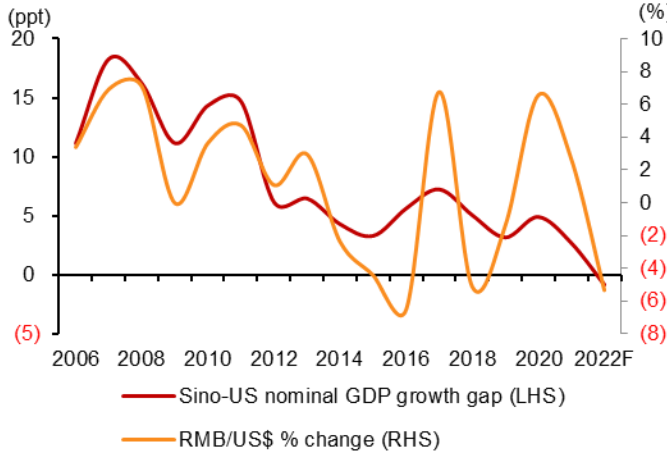
Source: Wind, CMBIGM

Figure 18: US-Sino interest spreads



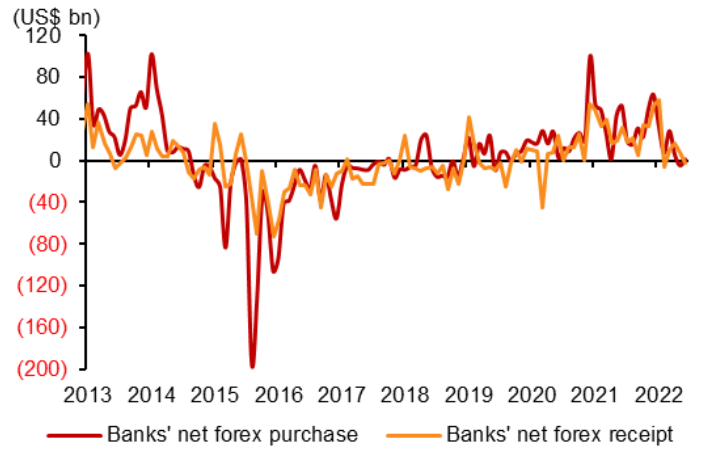
Source: Wind, CMBIGM

Figure 19: Sino-US growth gap & RMB/US\$ change



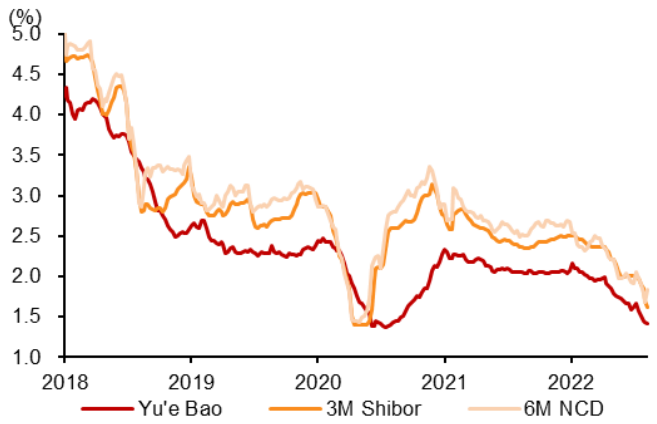
Source: Wind, CMBIGM

Figure 20: Net forex inflow



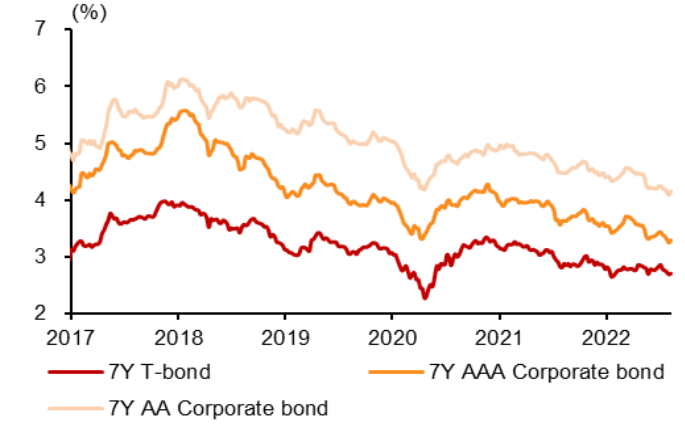
Source: Wind, CMBIGM

Figure 21: Money market funding cost



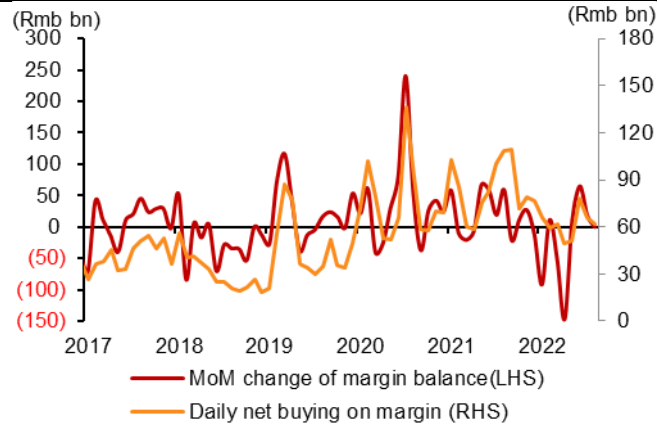
Source: Wind, CMBIGM

Figure 22: Bond market rates



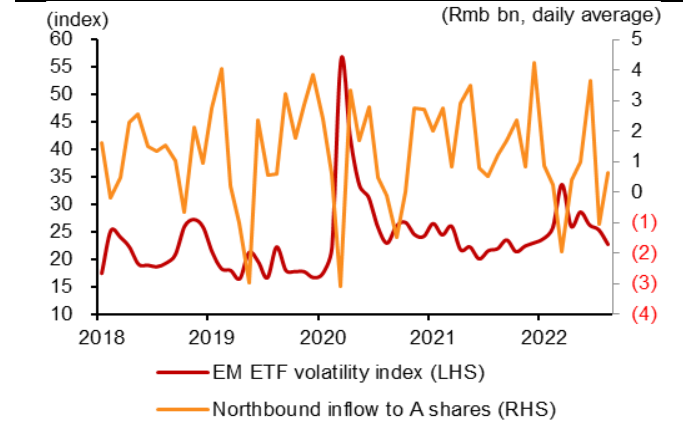
Source: Wind, CMBIGM

Figure 23: Margin trading in A share market



Source: Wind, CMBIGM

Figure 24: EM volatility & northbound daily inflow



Source: Wind, CMBIGM

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