

China Policy

Credit expansion points to continuous economic recovery

China's credit supply continued to expand at faster-than-expected rates as the policymakers adopted easing credit policy to boost confidence and growth momentum. Medium & long term loans to households significantly rebounded as housing market improved. Loans to enterprises continued to see rapid growth amid easing credit supply condition and strong credit demand from SOEs and LGFVs. China's economic recovery was still uneven as GDP growth remained below potential growth with limited reflation risk. The PBOC has to maintain "reasonable ample" liquidity supply and easing credit condition to support the growth. We expect outstanding credit growth may continue to improve, paving the way for further economic recovery in 2023-2024.

- New credit beat expectations again in March following the RRR cut.** Total social financing rose 15.5% YoY in March after growing 23.7% YoY in 2M23. The RRR cut in March indicates the PBOC's easing bias with the credit policy. New renminbi loans to real sector grew 22.3% YoY in March after rising 32.2% YoY in 2M23. Off-balance sheet (OBS) financing turned positive in March as banks' acceptance financing strongly recovered. However, corporate bond financing continued to decline as large SOEs turned to renminbi loans for financing as their borrowing rates from banks were lower than financing costs in the bond market. Banks had to compete fiercely for those high-quality borrowers as their credit supply significantly expanded while credit demand from private business, SMEs and households remained weak. Government bond financing also declined as local governments lacked enough high-quality projects for financing.
- Mortgage loans improved while corporate loans continued to expand.** For household sector, new medium & long term loans and short-term loans respectively rose 70% and 58.4% YoY in March after dropping 55.6% and 181.8% YoY in 2M23. Both housing market and service consumption recovered noticeably, supporting mortgage and consumer loans in March. Corporate loans continued to grow fast in March as new M&L term loans to enterprises rose 53.9% YoY in March after increasing 77% YoY in 2M23. Bill discount financing remained negative in March, indicating credit supply for SMEs was relatively tepid.
- PBOC will maintain easing credit policy to boost confidence and growth momentum.** China's economic recovery was still uneven. Passenger mobility, service activity and SOEs' sentiment rapidly rebounded. However, exports remained weak as the recent banking sector turmoil in US & Europe increased recession risk and accelerated disinflation trend. Private business confidence remained low as geopolitical, economic and policy uncertainty continued to exist. China's GDP growth was still below the potential growth as reflation risk was low. The policymakers will focus on boosting confidence and growth by maintaining easing macro policies and continuing to send pro-business signals. The PBOC will maintain accommodative credit policy as credit growth may continue to improve this year.

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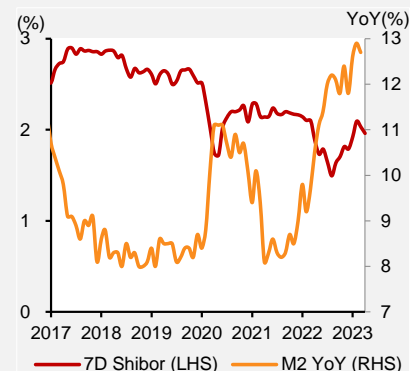
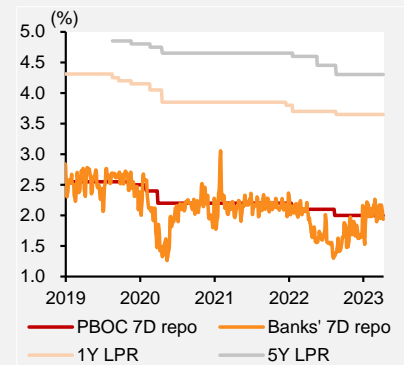
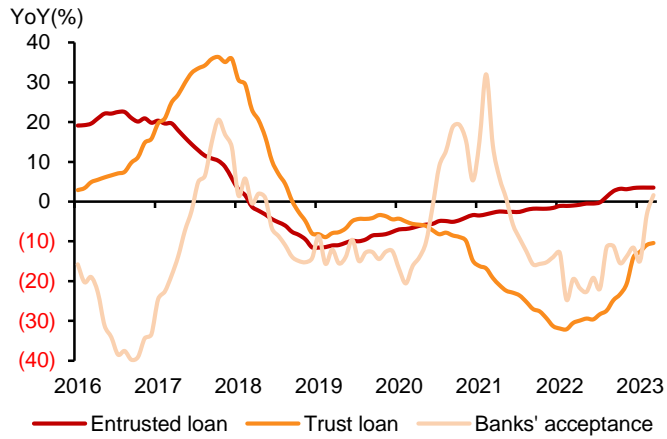
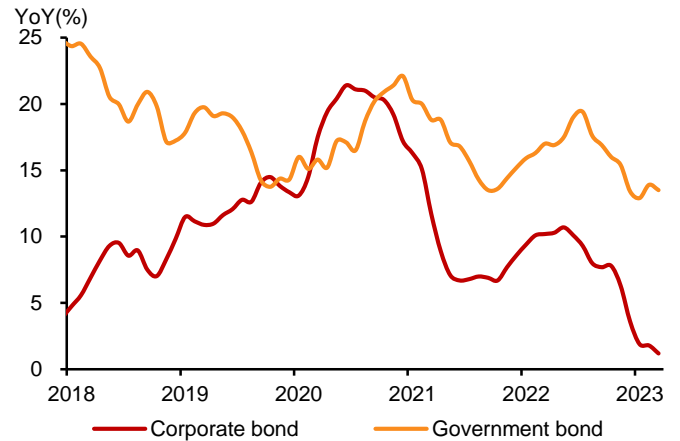


Figure 1: Growth of outstanding OBS financing



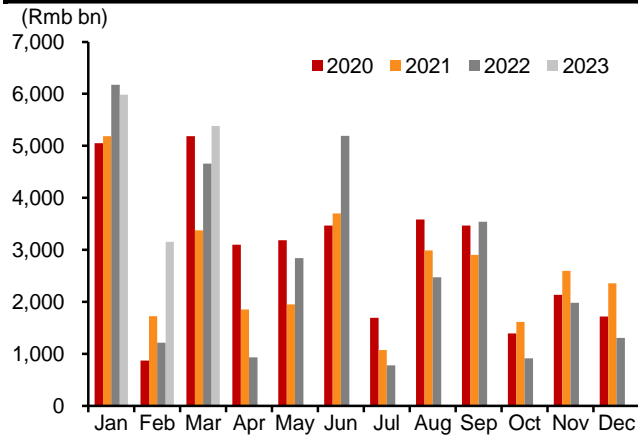
Source: Wind, CMBIGM

Figure 2: Growth of outstanding bond financing



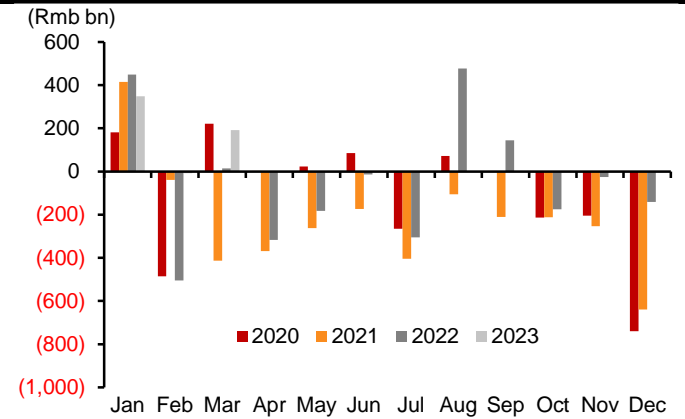
Source: Wind, CMBIGM

Figure 3: Total social financing



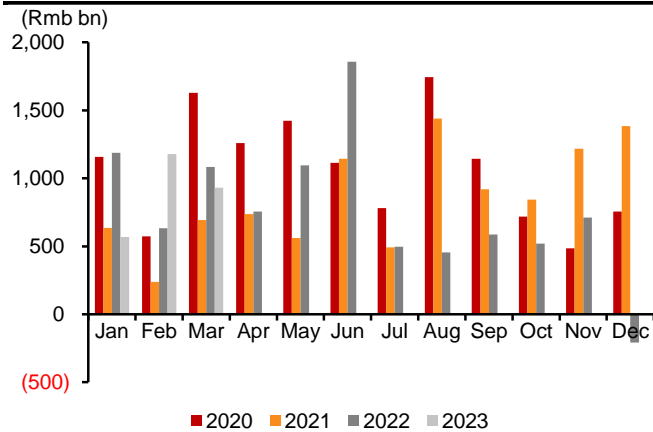
Source: MoF, CMBIGM

Figure 4: OBS financing



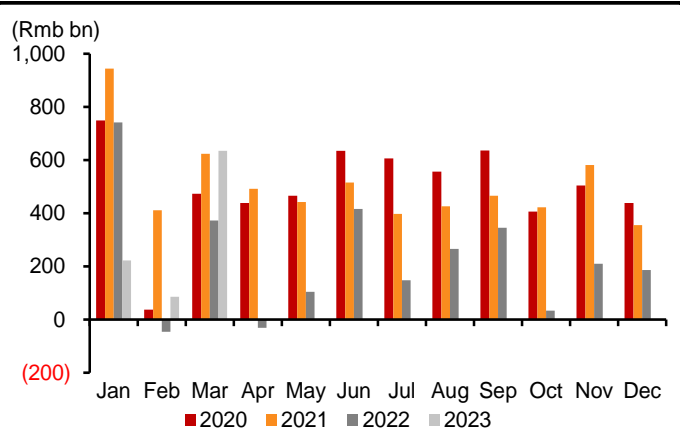
Source: MoF, CMBIGM

Figure 5: Bond financing



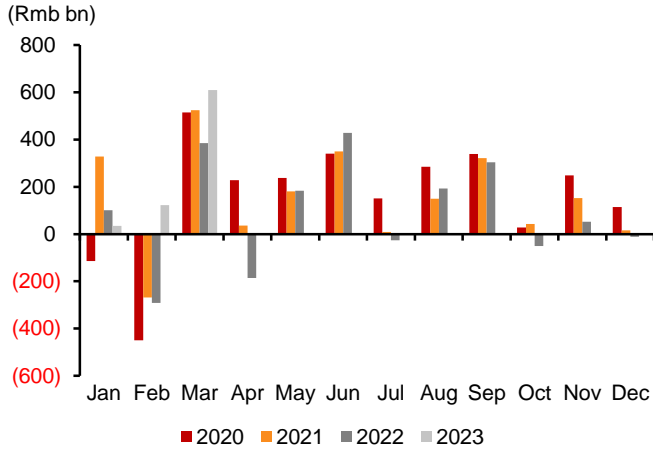
Source: Wind, CMBIGM

Figure 6: New M&L term loans to households



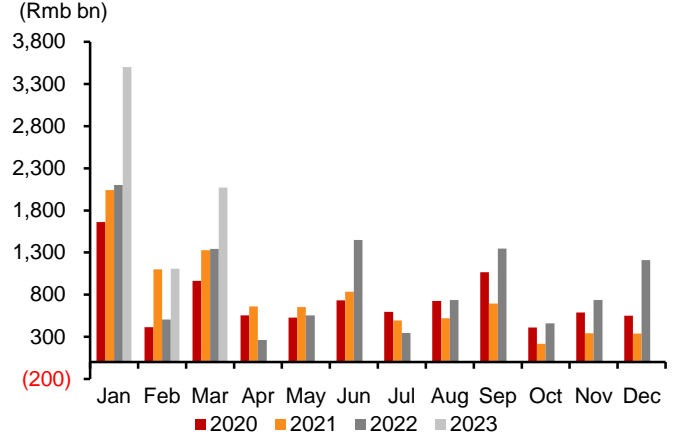
Source: Wind, CMBIGM

Figure 7: New short term loans to households



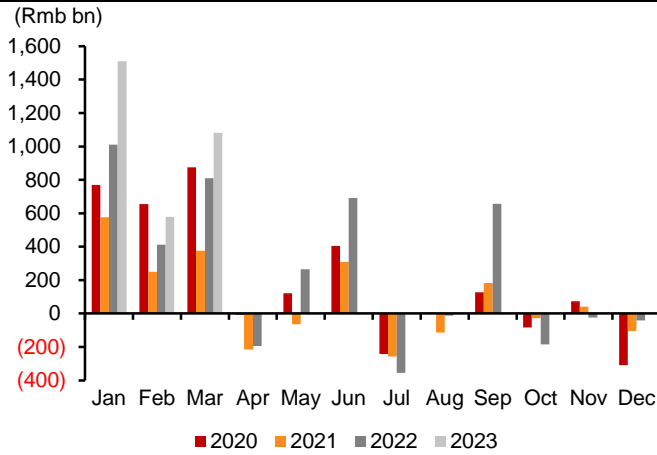
Source: Wind, CMBIGM

Figure 8: New M&L term loans to enterprises



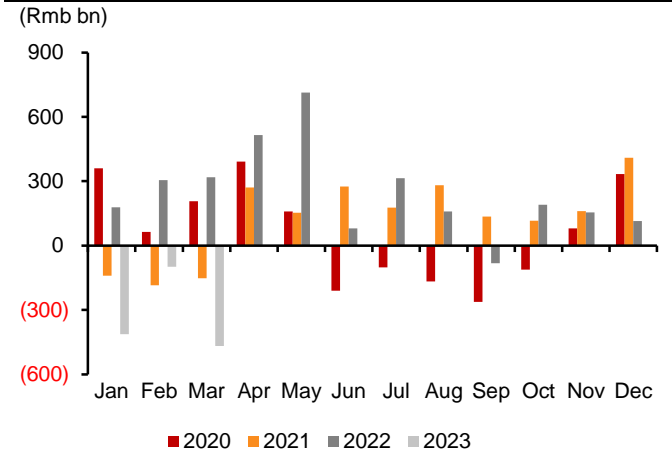
Source: Wind, CMBIGM

Figure 9: New short term loans to enterprises



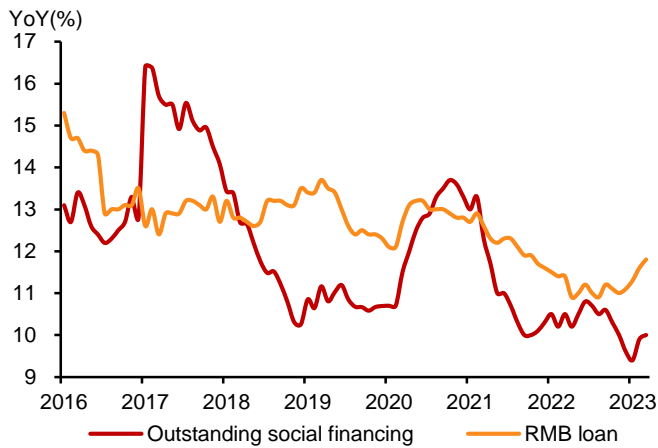
Source: Wind, CMBIGM

Figure 10: Bill financing to enterprises



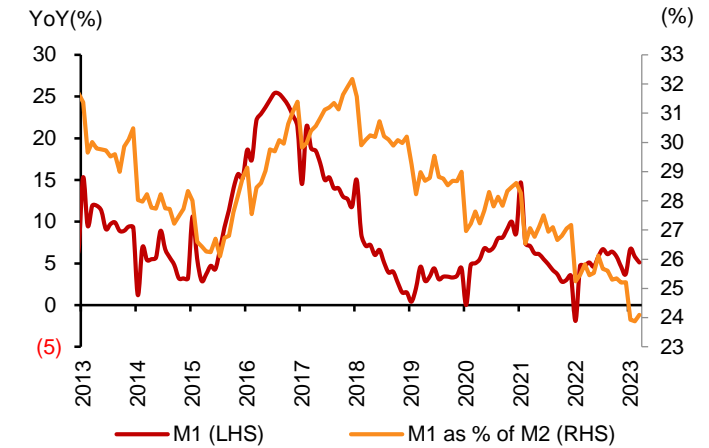
Source: Wind, CMBIGM

Figure 11: Growth of credit & money supply



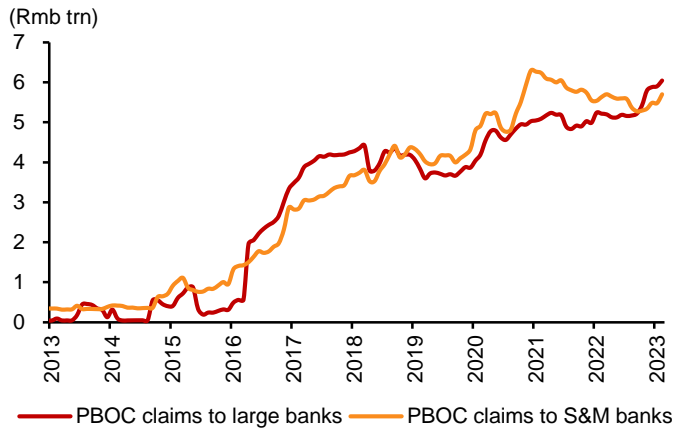
Source: Wind, CMBIGM

Figure 12: M1 growth & M1 as % of M2



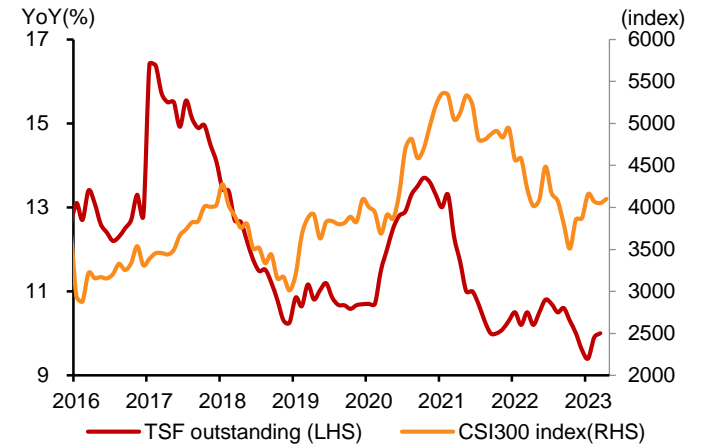
Source: Wind, CMBIGM

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



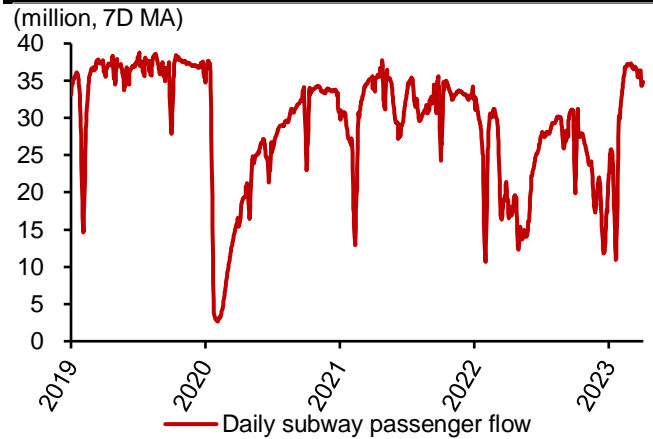
Source: Wind, CMBIGM

Figure 14: Total social financing & CSI300 index



Source: Wind, CMBIGM

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



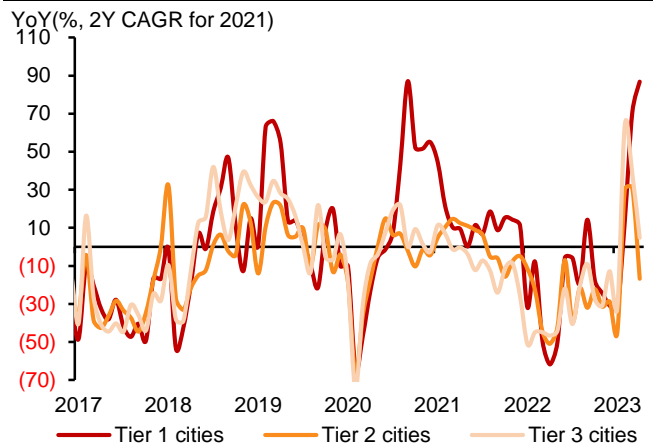
Source: Wind, CMBIGM

Figure 16: New mortgage & housing sales



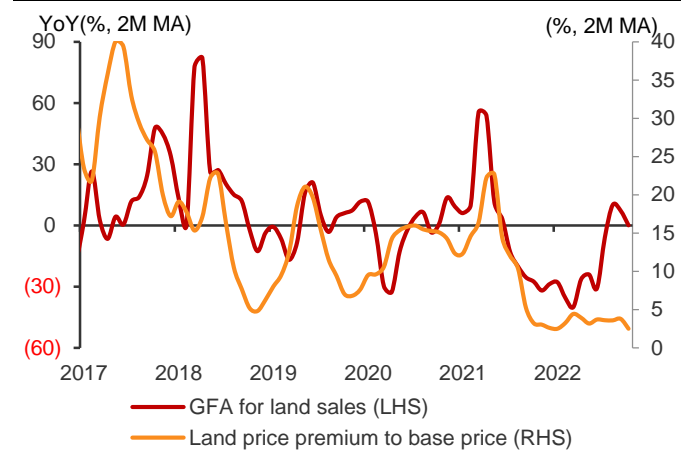
Source: Wind, CMBIGM

Figure 17: Growth of housing sales by cities



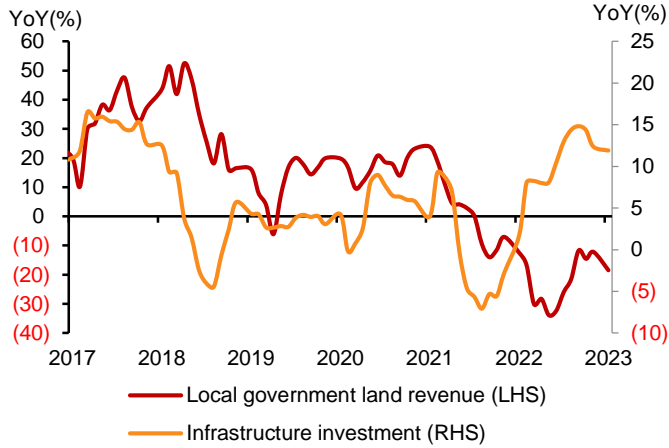
Source: Wind, CMBIGM

Figure 18: Growth of land sales



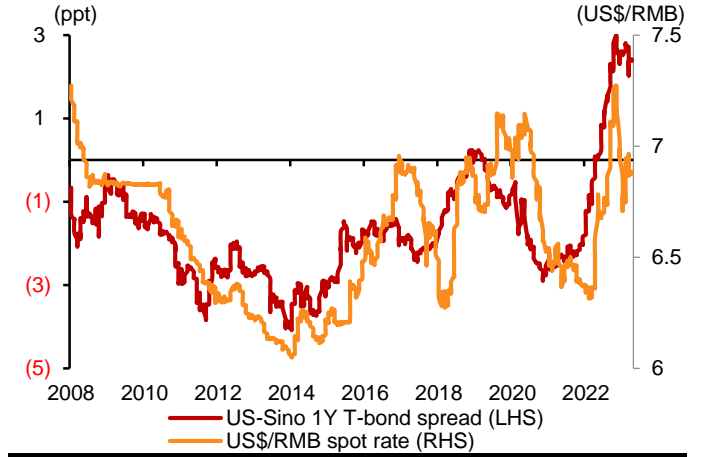
Source: Wind, CMBIGM

Figure 19: Infrastructure investment



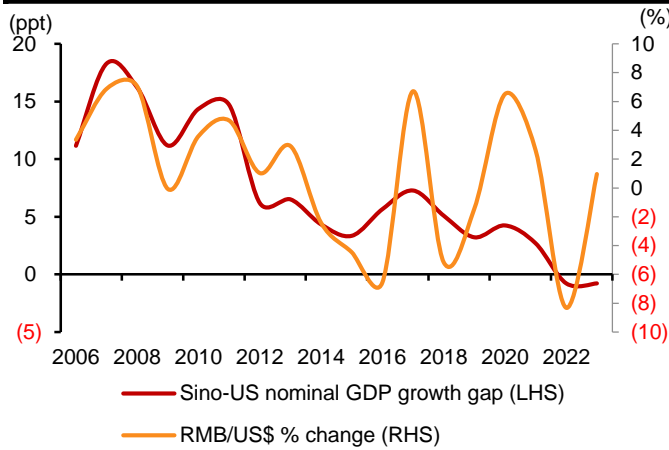
Source: Wind, CMBIGM

Figure 20: US-Sino interest spreads



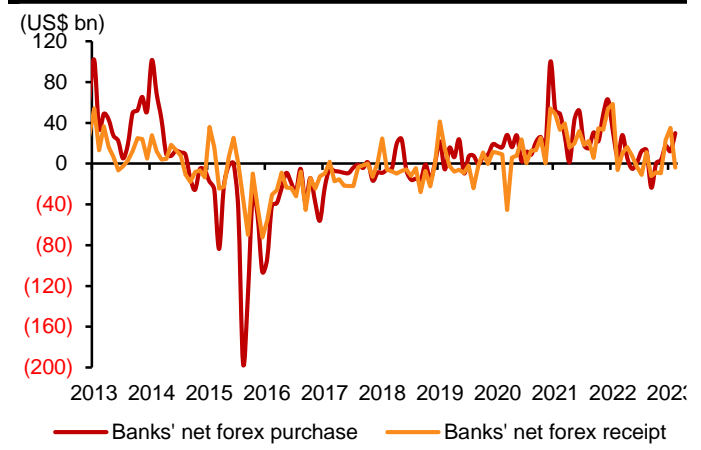
Source: Wind, CMBIGM

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



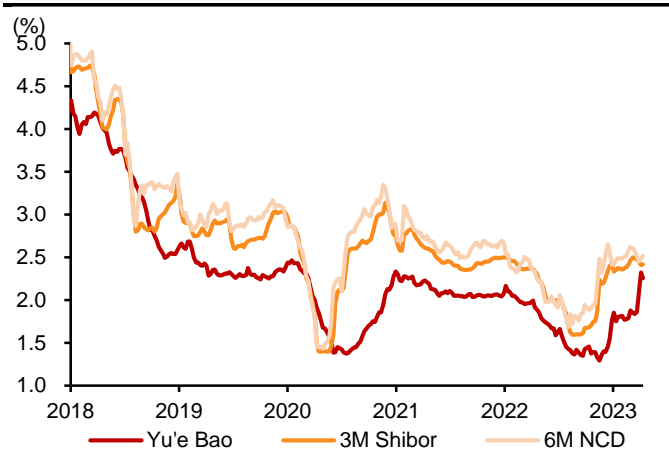
Source: Wind, CMBIGM

Figure 22: Net forex inflow



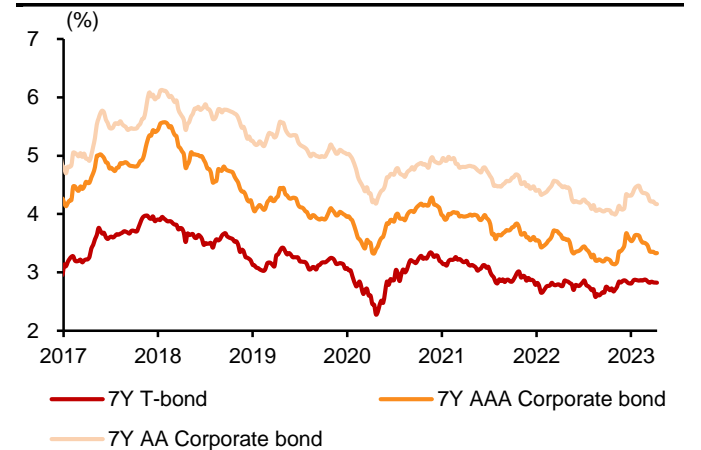
Source: Wind, CMBIGM

Figure 23: Money market funding cost



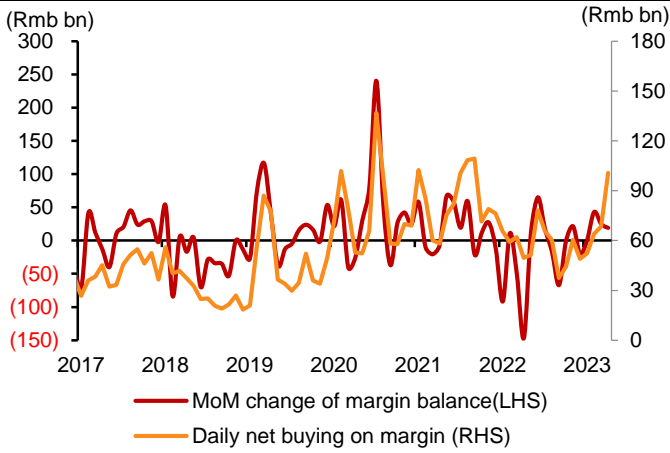
Source: Wind, CMBIGM

Figure 24: Bond market rates



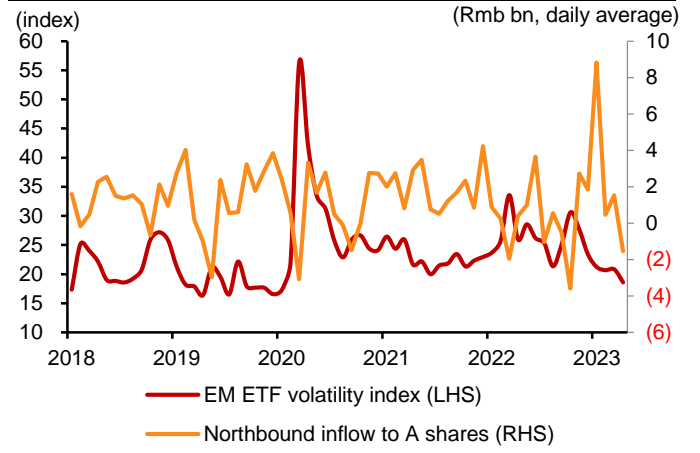
Source: Wind, CMBIGM

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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