China Economy

Weak endogenous credit demand

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China's Mar credit data suggested liquidity conditions remained broadly accommodative, but endogenous credit demand softened further. Social financing moderated as government bond issuance slowed down, indicating that fiscal impulse was less than expected. M1 and M2 edged down while staying at relatively solid levels. However, new RMB loans weakened further, dragged mainly by a renewed slump in household borrowing, with both consumer credit and mortgage demand still soft. Corporate borrowing edged down in aggregate, as the mix remained skewed toward short-term funding rather than long-term capex. With fragile household confidence, ongoing pressure in the property sector and only tentative corporate capex appetite, further easing should increasingly focus on lowering the absolute financing costs and improving credit pass-through rather than simply maintaining abundant liquidity. We continue to expect the PBOC to cut LPR and RRR by 10bps and 50bps respectively by end-3Q26, while relying on structural monetary tools in the near term to support targeted sectors and credit delivery.

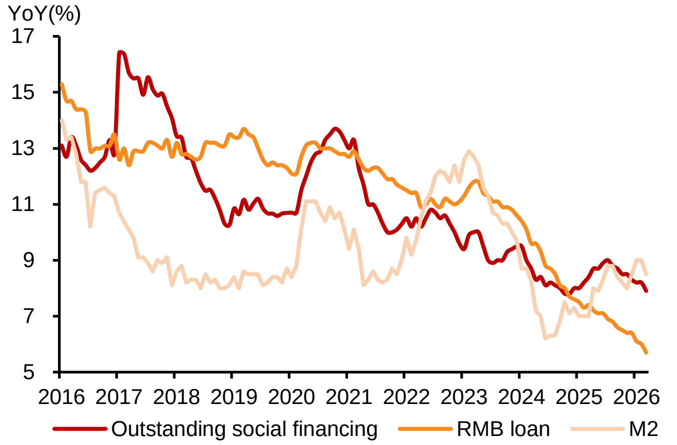
- **Social financing softened as fiscal credit moderated.** Outstanding social financing (SF) growth eased to 7.9% YoY in Mar 2026 from 8.2% in Jan-Feb. Monthly SF flow rose to RMB5.23tn in Mar, higher than market expectations at RMB5.09trn, while combined SF flow in 1Q26 edged down 2.3% YoY. Government bond financing remained the key anchor at RMB1.16trn in Mar, though it fell 21.8% from a high base last year, indicating that fiscal impulse was less than expected early in the year. Corporate bond financing notably surged to RMB395bn in Mar compared to -RMB90.5bn last year, indicating the recovering corporate credit demand. By contrast, new RMB loans under social financing fell 17.5% YoY to RMB3.2tn in Mar. Shadow financing also contracted as entrusted loans and trust loans saw negative flow while undiscounted bankers' acceptances moderated. M2 growth eased to 8.5% in Mar after holding at 9.0% YoY in Jan-Feb, while M1 moderated to 5.1% in Mar from 5.9% in Feb, implying that money circulation lost some momentum toward quarter-end as domestic economic activities moderated.

- **New RMB loans stayed weak.** New RMB loans dropped 17.9% in Mar to RMB3trn, below market expectations of RMB3.2trn. Household loans remained the largest drag, as total household borrowing dropped by 50.2% to just RMB490bn. Consumer credit turned weaker, with short-term household loans dipped 59.6% in Mar to RMB195.6bn. Medium- and long-term household loans also fell 41.5% YoY to RMB295.3bn, indicating that housing demand remained subdued and the property sector was still in a deleveraging phase. On the corporate side, aggregate borrowing dropped by 6.3% to RMB2.7trn in Mar, but the composition remained defensive. Corporate short-term loans rose 2.8% YoY, while medium- and long-term corporate loans fell 14.6%, suggesting that firms still prioritized working-capital management and liquidity buffers over long-duration capex expansion.

- **Liquidity remained adequate, but credit demand from real economy weakened further.** The central bank is still able to keep system liquidity supportive, as banks' 7D repo rate dropped below the PBOC policy rate and reflected in still-solid M1/M2 growth, but credit demand in the real economy remained weak. Monetary conditions are not tight, yet credit creation is still failing to translate into a meaningful pickup in household leverage or private-sector long-term borrowing. With fragile household confidence, ongoing pressure in the property sector and only tentative corporate capex appetite, further easing should increasingly focus on lowering the absolute financing costs and improving credit pass-through rather than simply maintaining abundant liquidity. We therefore continue to expect a 10bp LPR cut and

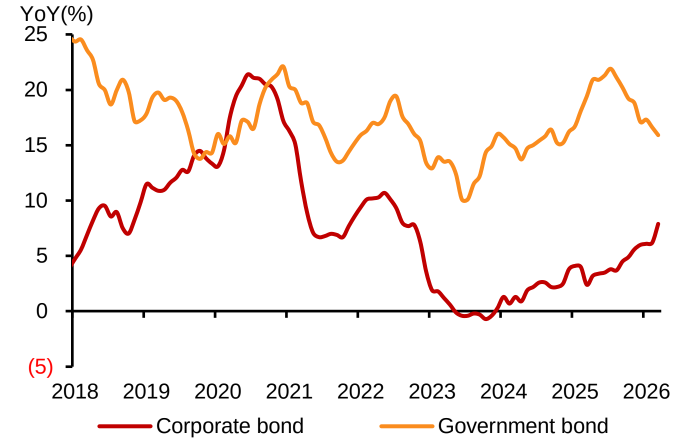
50bp RRR cut by end-3Q26 from the PBOC, alongside continued targeted support through structural monetary tools.

Figure 1: Growth of outstanding social financing



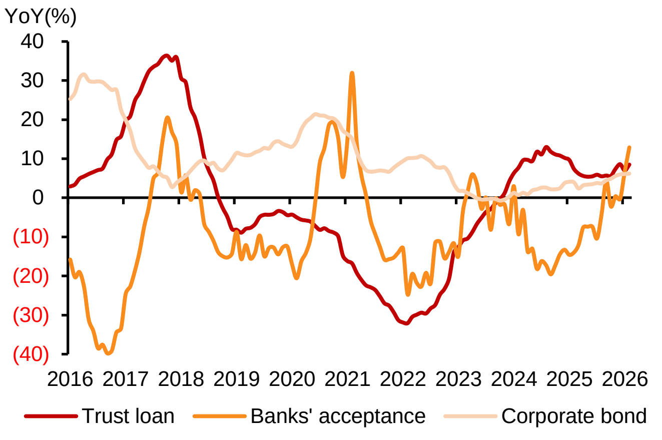
Source: Wind, CMBIGM

Figure 2: Growth of outstanding bond financing



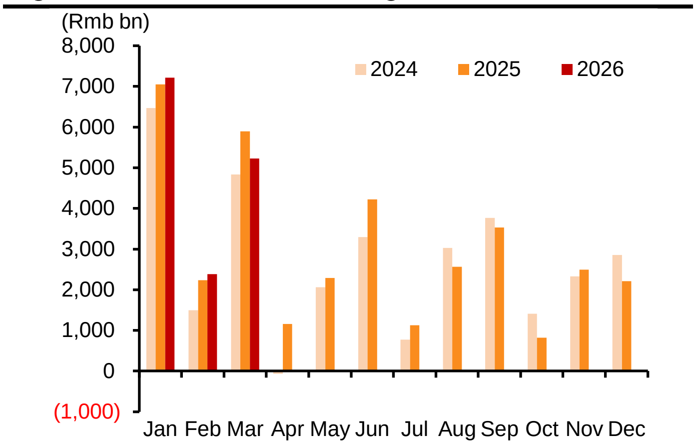
Source: Wind, CMBIGM

Figure 3: Growth of outstanding OBS financing



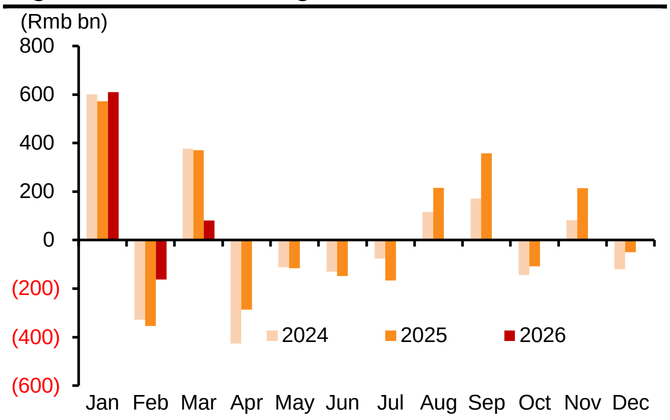
Source: MoF, CMBIGM

Figure 4: Total social financing



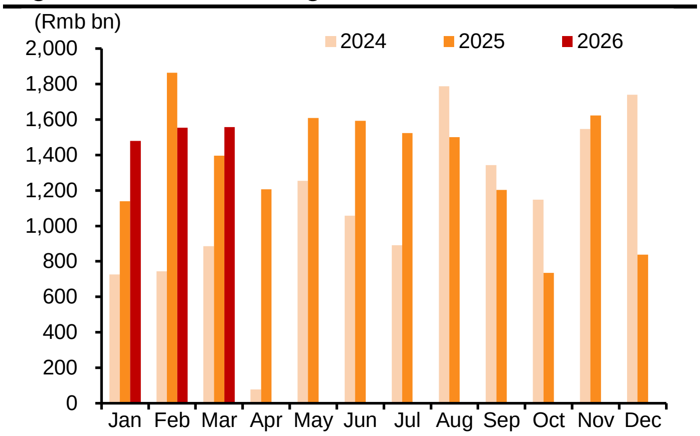
Source: MoF, CMBIGM

Figure 5: OBS financing



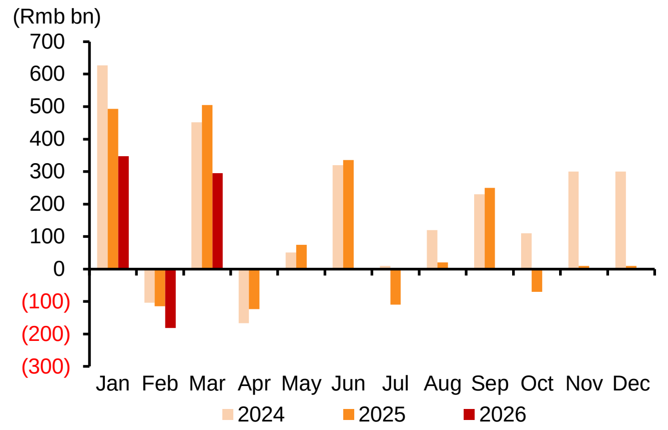
Source: Wind, CMBIGM

Figure 6: Bond financing



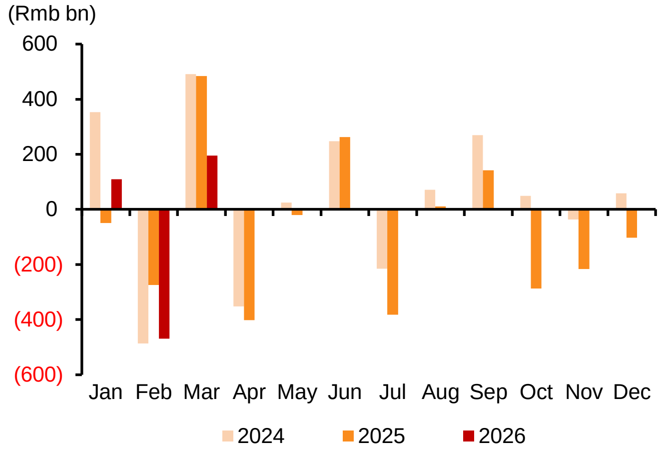
Source: Wind, CMBIGM

Figure 7: New M&L term loans to households



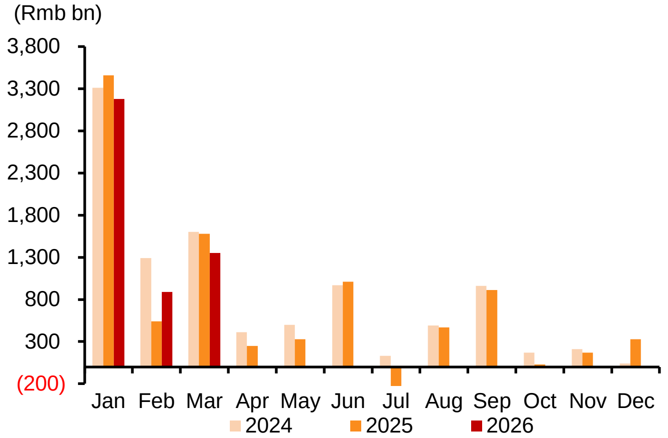
Source: Wind, CMBIGM

Figure 8: New short-term loans to households



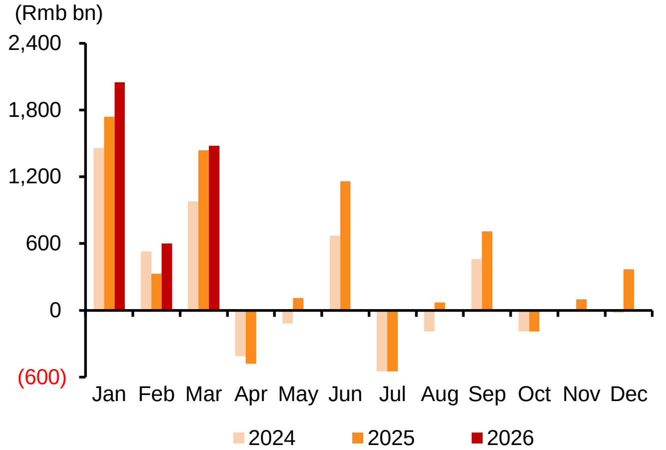
Source: Wind, CMBIGM

Figure 9: New M&L term loans to enterprises



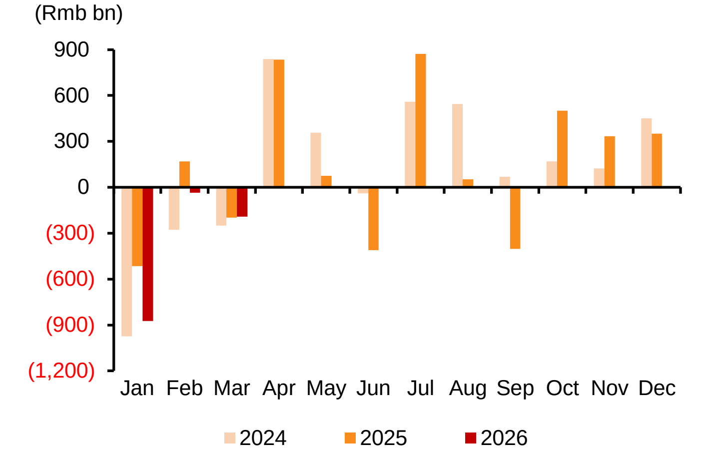
Source: Wind, CMBIGM

Figure 10: New short-term loans to enterprises



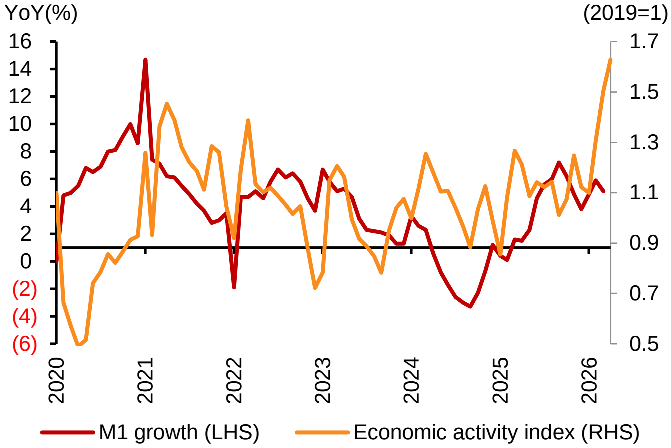
Source: Wind, CMBIGM

Figure 11: Bill financing to enterprises



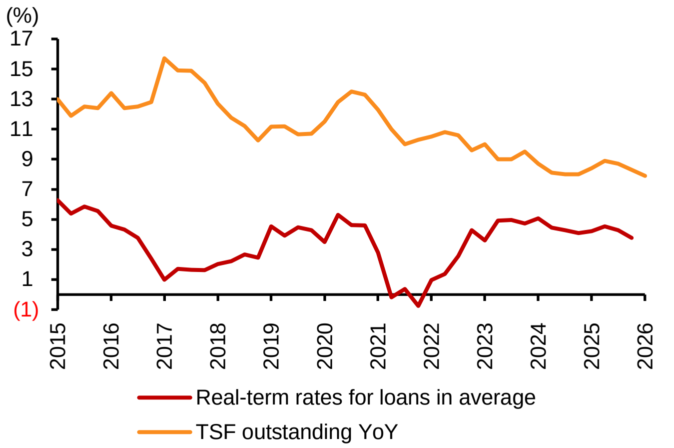
Source: Wind, CMBIGM

Figure 12: M1 growth & Economic activity index



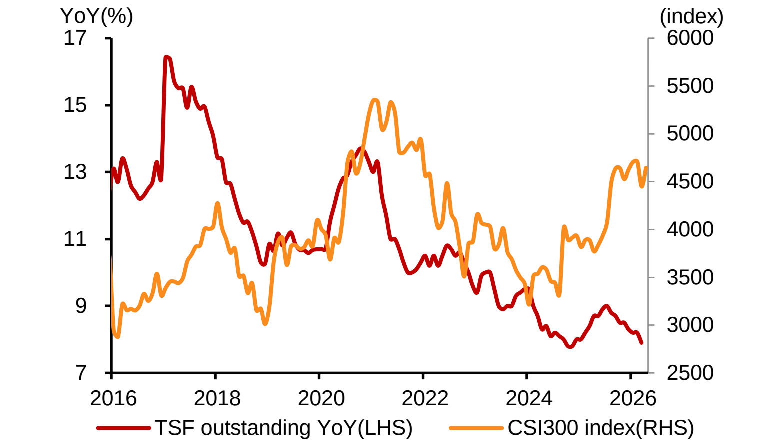
Source: Wind, CMBIGM

Figure 13: Real-term loan rates & TSF growth



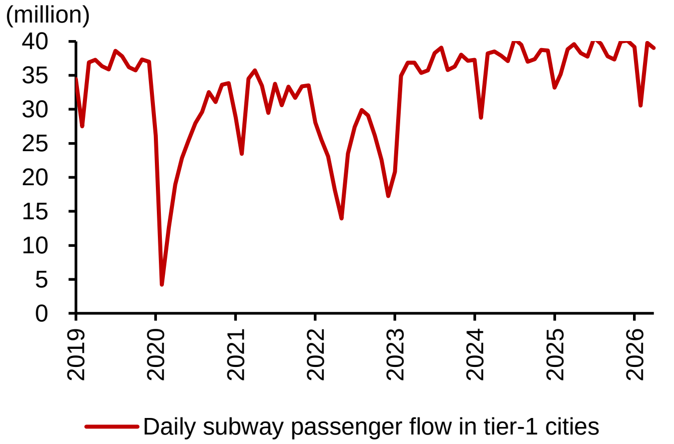
Source: Wind, CMBIGM

Figure 14: TSF growth & CSI300 index



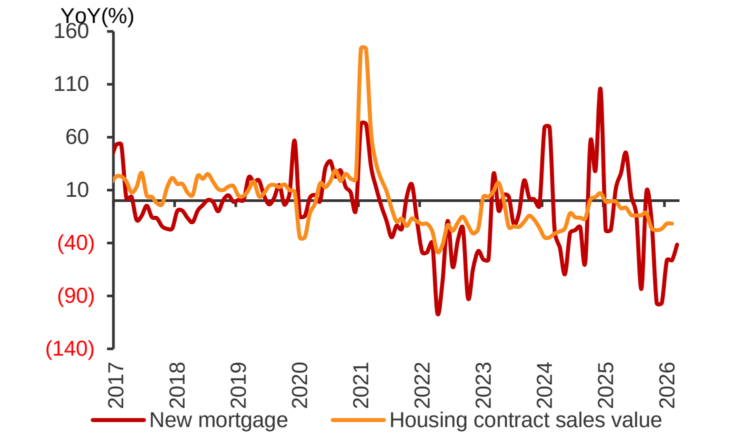
Source: Wind, CMBIGM

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



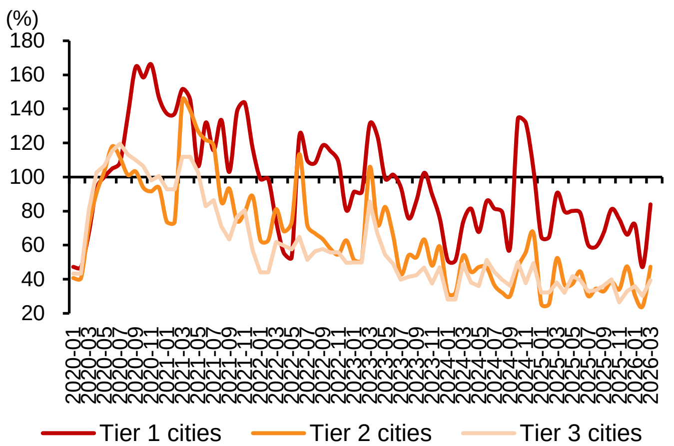
Source: Wind, CMBIGM

Figure 16: New mortgage & housing sales



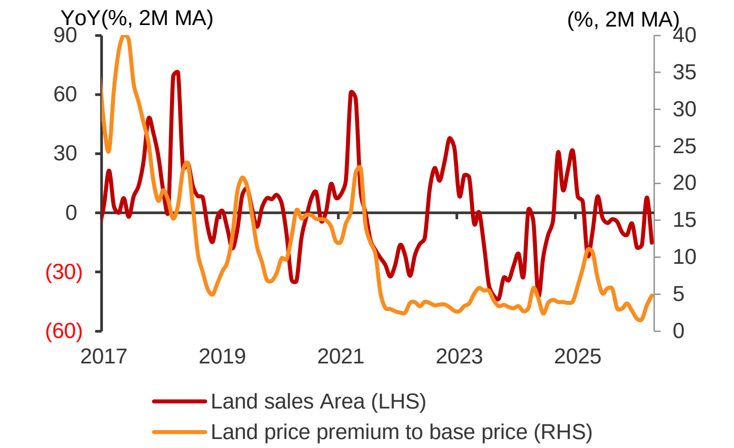
Source: Wind, CMBIGM

Figure 17: Housing sales recovery rates compared to 2019



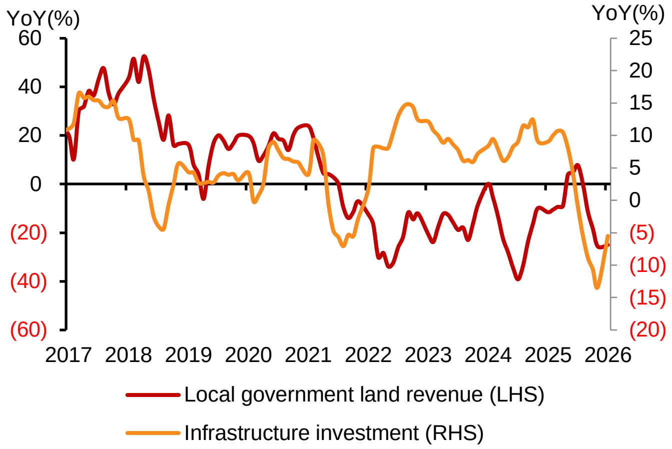
Source: Wind, CMBIGM

Figure 18: Growth of land sales



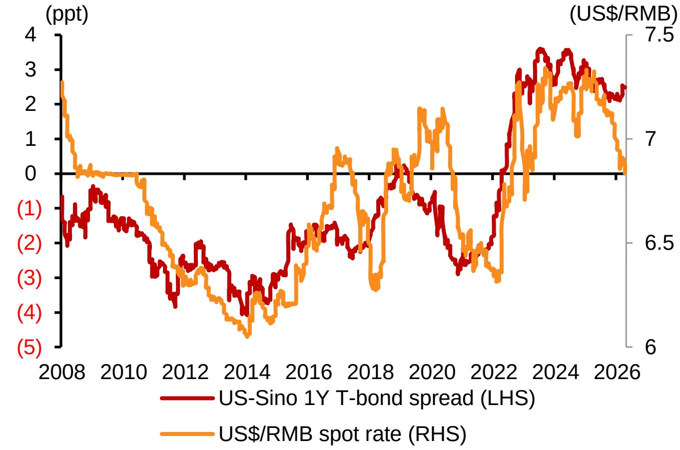
Source: Wind, CMBIGM

Figure 19: Infrastructure investment



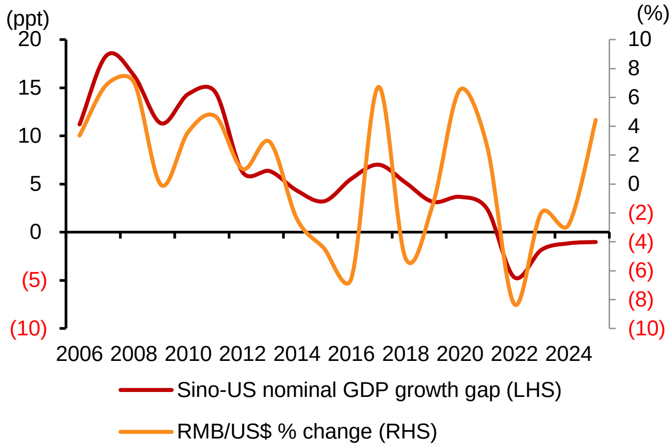
Source: Wind, CMBIGM

Figure 20: US-China interest spreads



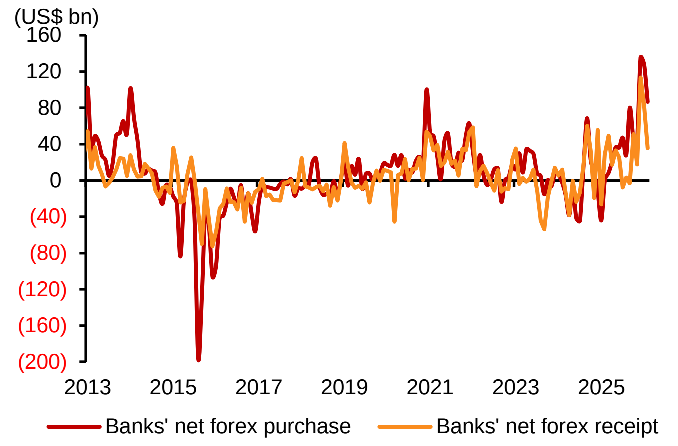
Source: Wind, CMBIGM

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



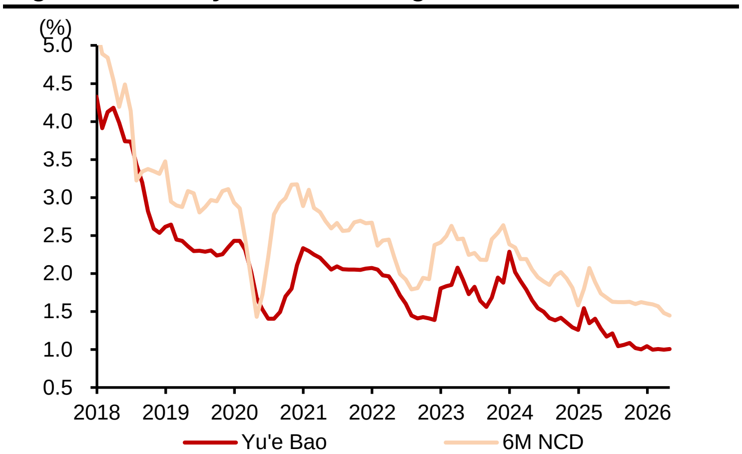
Source: Wind, CMBIGM

Figure 22: Net forex inflow



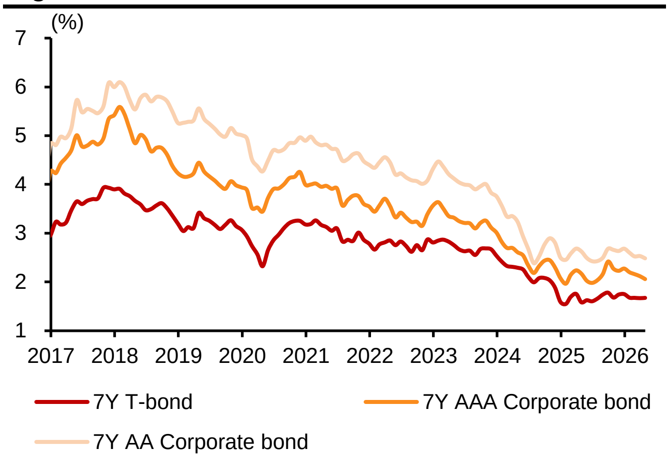
Source: Wind, CMBIGM

Figure 23: Money market funding cost



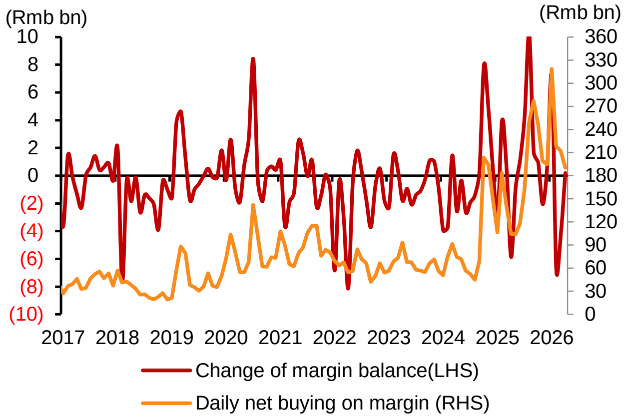
Source: Wind, CMBIGM

Figure 24: Bond market rates



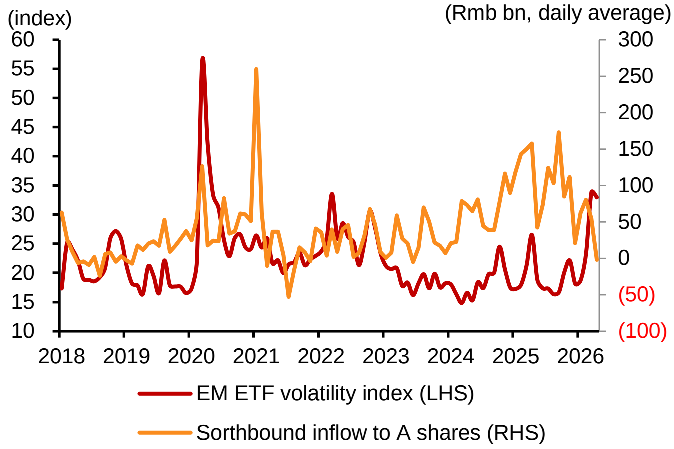
Source: Wind, CMBIGM

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



Source: Wind, CMBIGM

Figure 26: EM volatility and northbound flow to A-share



Source: Wind, CMBIGM

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