

# China Economy

## Credit weakness points to liquidity easing

China's credit growth notably eased in Aug as government financing softened amid a higher base last year. Meanwhile, private sector remained lethargic as loans to household and corporate sectors plunged. The liquidity condition remained accommodative as the average DR007 rate edged down. The trend of shifting of household deposits into equities also continued as new savings deposits saw the lowest increase since 2014, while non-bank financial institution deposits remained elevated. However, sustainability of the market rally hinges on an economic fundamental recovery supported by stronger consumer demand and a reflation in prices. Softening economic activities in 3Q25 may drive further policy easing in 4Q25, as we expect another 10 bps LPR cut following the Fed rate cut in Sep and 50bps RRR cut. Meanwhile, the MoF may increase subsidies to households and consumers in 4Q25 to boost consumption.

### ■ Social financing flows slowed down as government financing eased.

Outstanding social financing (SF) edged down to 8.8% in Aug from 9% in July (all in YoY terms unless otherwise specified), the first decline since Oct 2024. The SF flow dropped 15.3% to RMB2.57trn, while beating market expectation at RMB2.49trn. Government bond issuance remained the major driver showing the first YoY decline in 2025, while dropping 19.1% to RMB1.37trn in Aug due to a higher base last year. RMB loans to the real economy under SF notably dropped 40.2% to RMB623bn in Aug, indicating credit demand in the private sector remained subdued. Corporate bond issuance dropped 21.2% to RMB134bn in Aug compared to RMB279bn in July. M2 remained unchanged at 8.8% in Aug, as fiscal deposits increased by RMB1.9trn. The M1 rose to 6% in Aug from 5.6% due to a lower base. The liquidity condition remained accommodative as the PBoC net injected RMB202bn into the banking system and the average DR007 rate edged down to 1.5% from 1.55% in Aug.

■ **New RMB loans continued to weaken.** Growth of outstanding RMB loans edged down to 6.8% in Aug from 6.9%, as the new RMB loans notably slumped by 29.8% to RMB590bn in May, better than market expectations at RMB581bn. Credit demand of household sector further weakened with total loan flows remarkably dropped 84.2%. ST loan flow dipped 84.7% to RMB11bn in Aug, as consumers were still reluctant to spend. M&L term loan flows also decreased by 83.3% to RMB20bn in Aug, amid the softening property market. Corporate sector also dropped 34.4% in loans flow to RMB590bn in Aug. ST loan recovered to RMB70bn in Aug from its year ago level of -RMB190bn while M&L term loan edged down 4.1% to RMB470bn. Net bill financing dropped 90.3% to RMB53bn, reflecting a tighter credit condition in banking system as banks lifted lending rates following the anti-involution competition guidance.

■ **Equity markets remained buoyant, although their sustainability hinges on economic recovery and reflation prospect.** Ample liquidity and the shift of household deposits into equities have fueled the recent stock rally. August data confirmed the trend, with new household deposits rising by only RMB 0.1trn — the lowest since 2014 — while non-bank financial institution deposits increased to RMB 1.2trn. However, sustainability hinges on an economic recovery supported by stronger consumer demand and a reflation in prices alongside improving corporate earnings. Softening economic activities in 3Q25 may drive further policy easing in 4Q25, as we expect another 10 bps LPR cut following the Fed rate cut in Sep and 50bps RRR cut. Meanwhile, the MoF may increase subsidies to households and consumers in 4Q25 to boost consumption.

Frank Liu

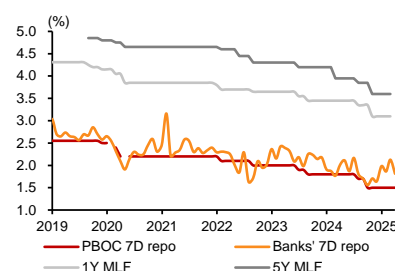
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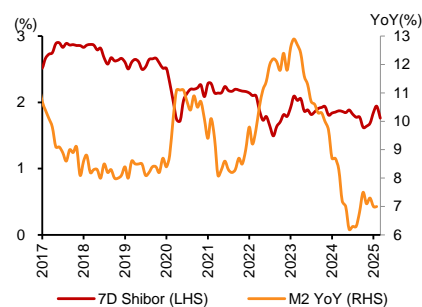
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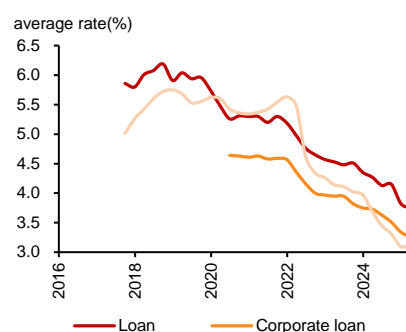
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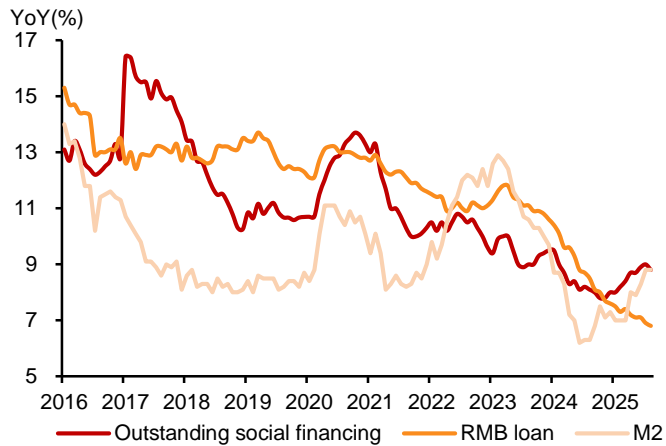
Source: Wind, CMBIGM



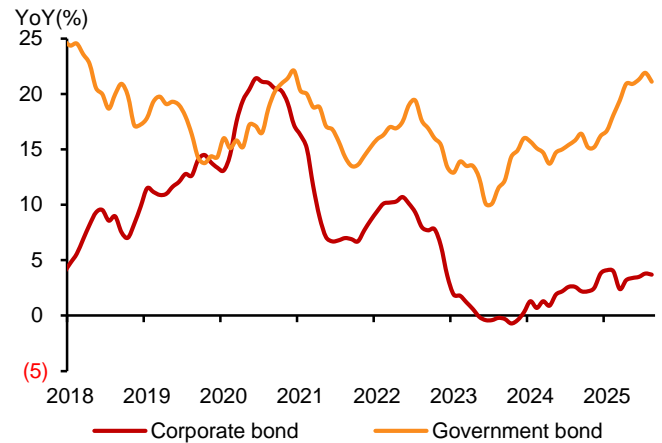
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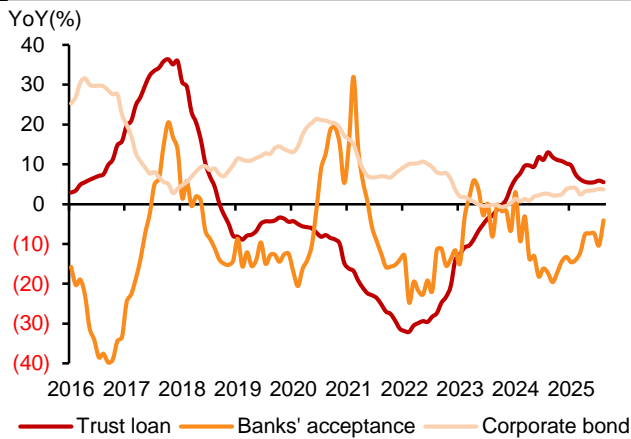
Source: Wind, CMBIGM

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

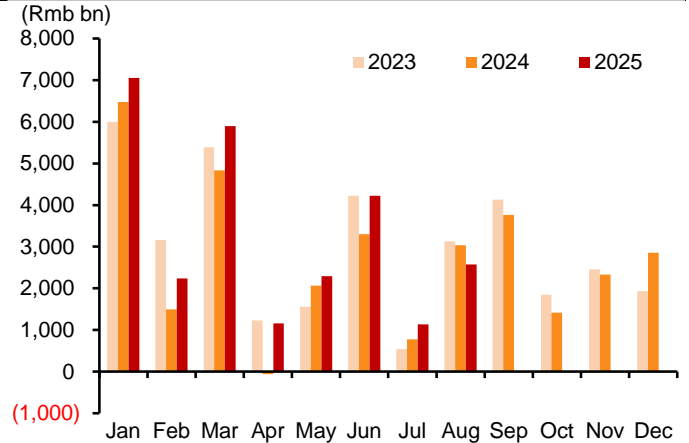
Source: Wind, CMBIGM

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

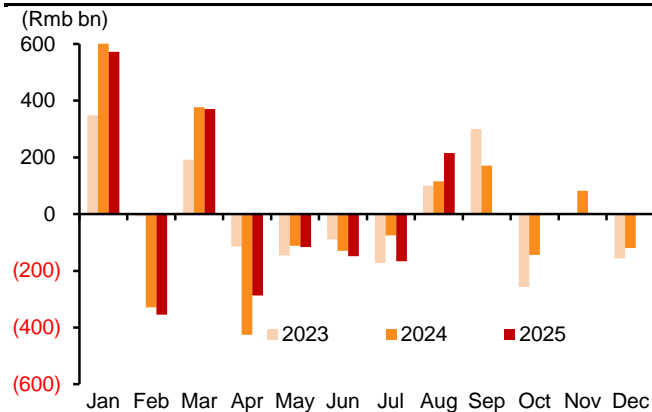
Source: Wind, CMBIGM

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

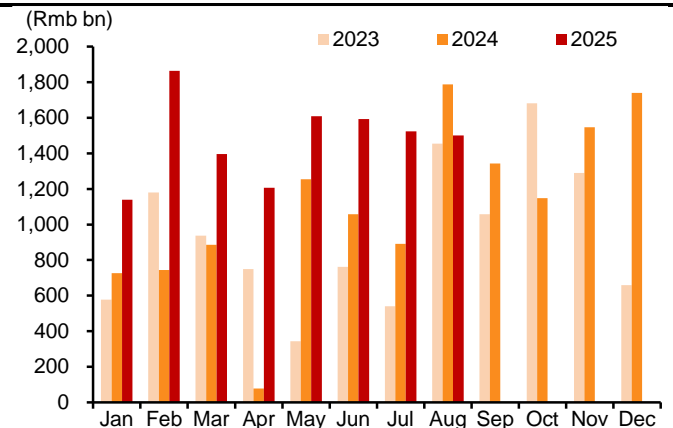
Source: MoF, CMBIGM

**Figure 4: Total social financing**

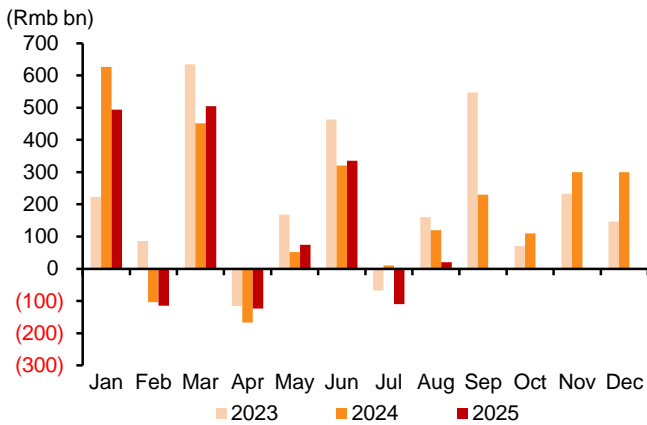
Source: MoF, CMBIGM

**Figure 5: OBS financing**

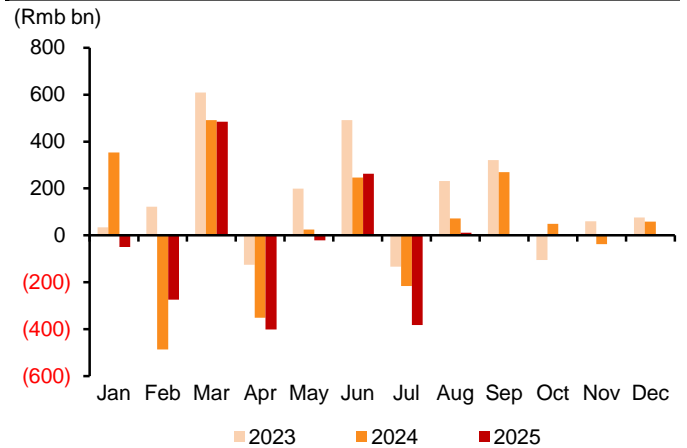
Source: Wind, CMBIGM

**Figure 6: Bond financing**

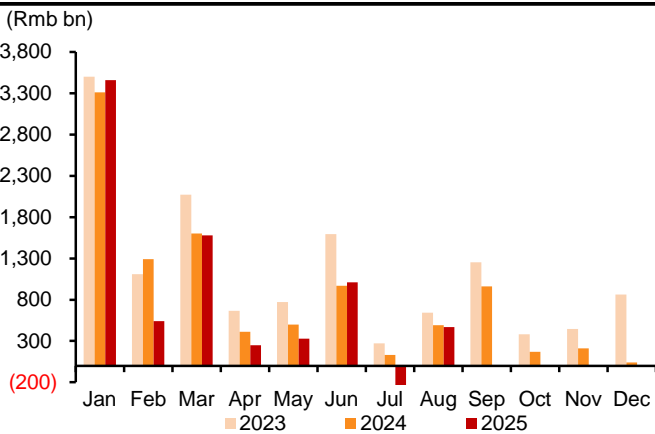
Source: Wind, CMBIGM

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

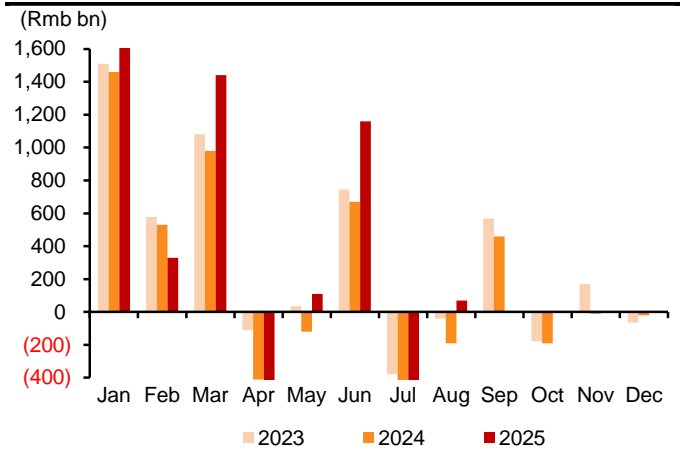
Source: Wind, CMBIGM

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

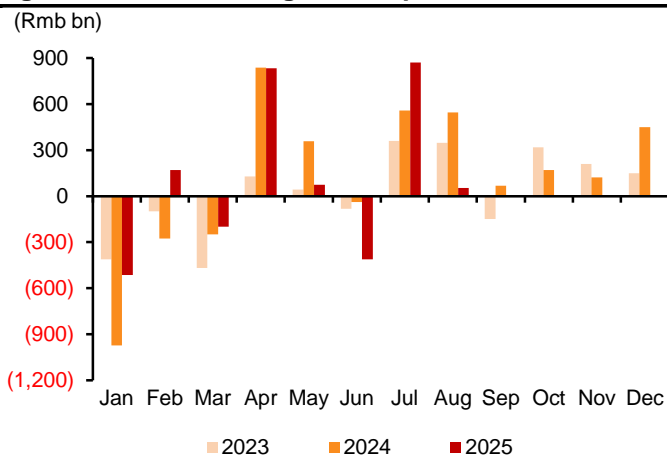
Source: Wind, CMBIGM

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

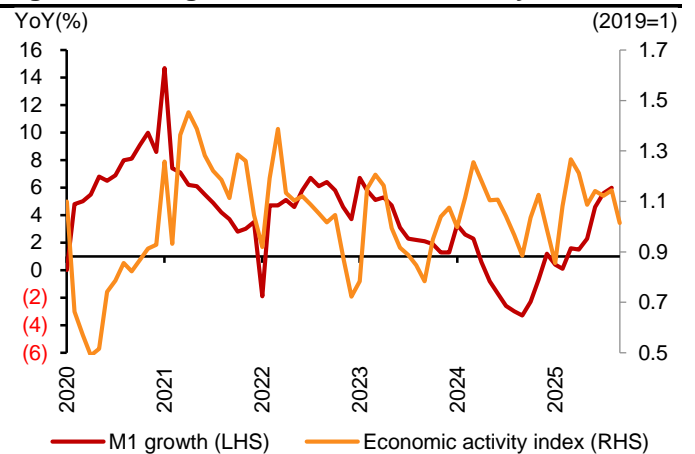
Source: Wind, CMBIGM

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

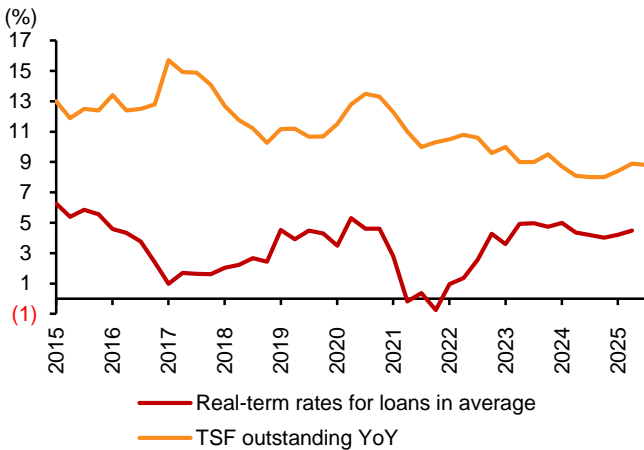
Source: Wind, CMBIGM

**Figure 11: Bill financing to enterprises**

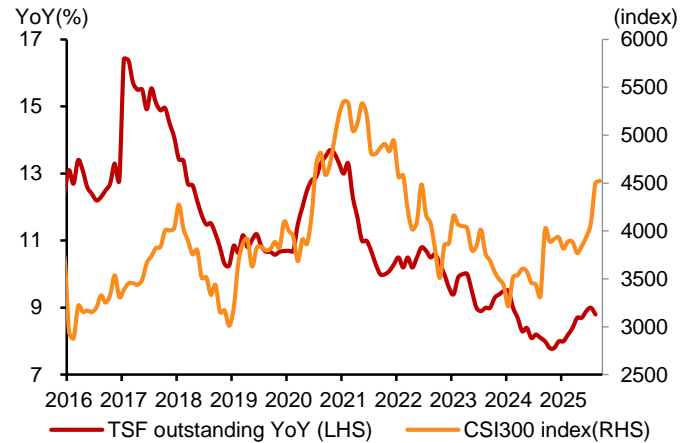
Source: Wind, CMBIGM

**Figure 12: M1 growth & economic activity index**

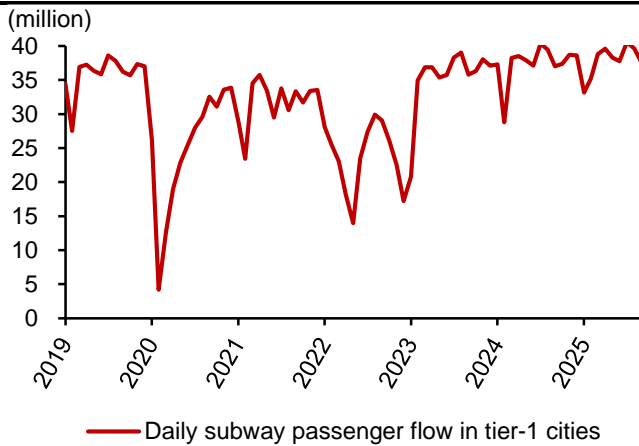
Source: Wind, CMBIGM

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

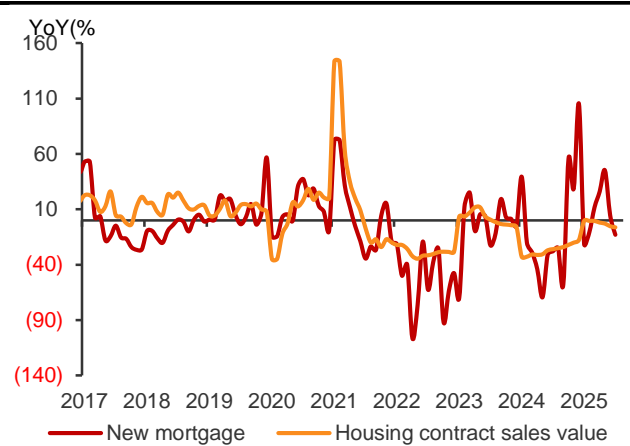
Source: Wind, CMBIGM

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

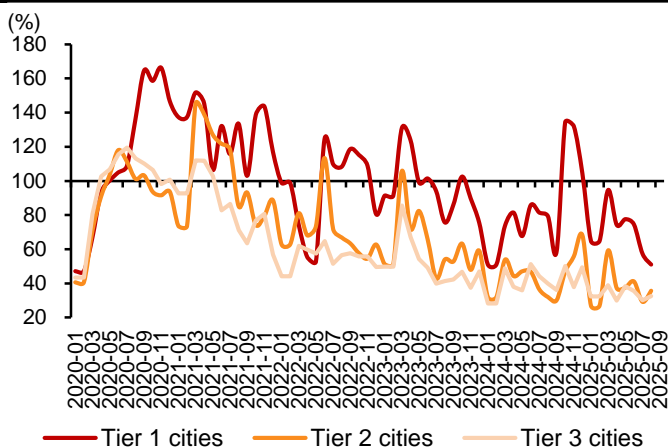
Source: Wind, CMBIGM

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

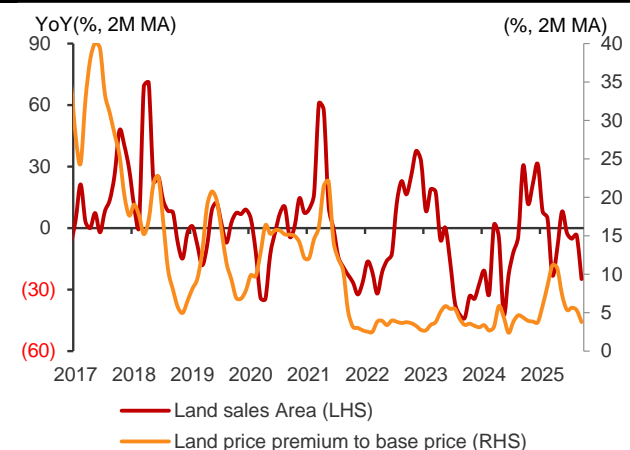
Source: Wind, CMBIGM

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

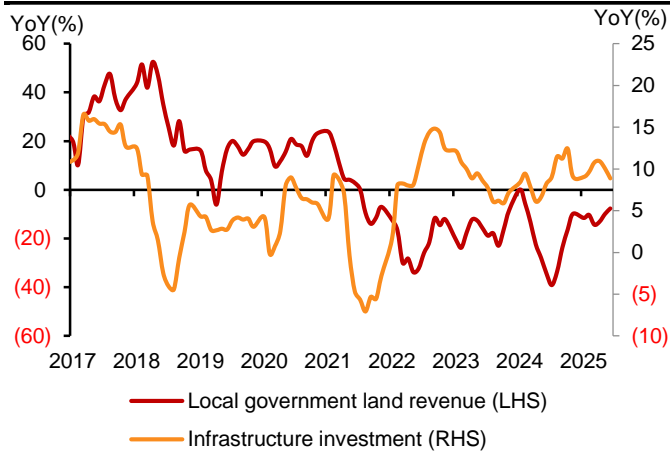
Source: Wind, CMBIGM

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

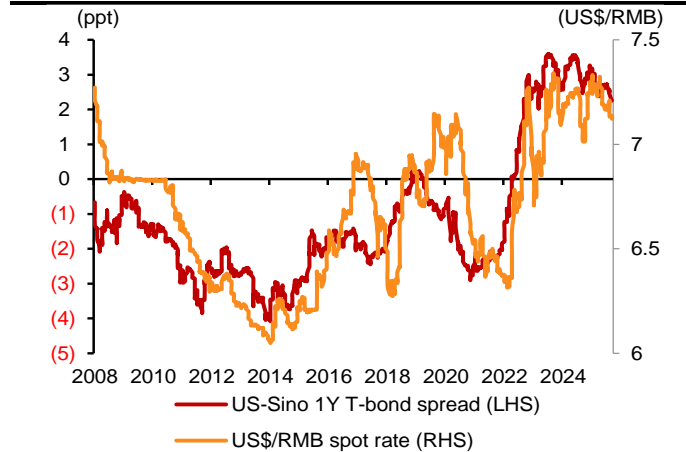
Source: Wind, CMBIGM

**Figure 18: Growth of land sales**

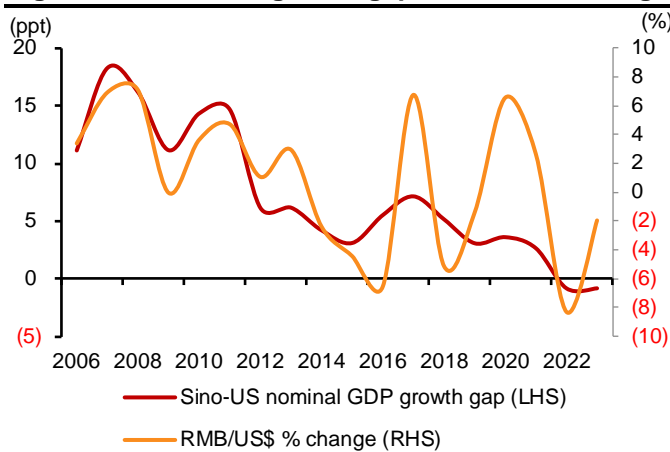
Source: Wind, CMBIGM

**Figure 19: Infrastructure investment**

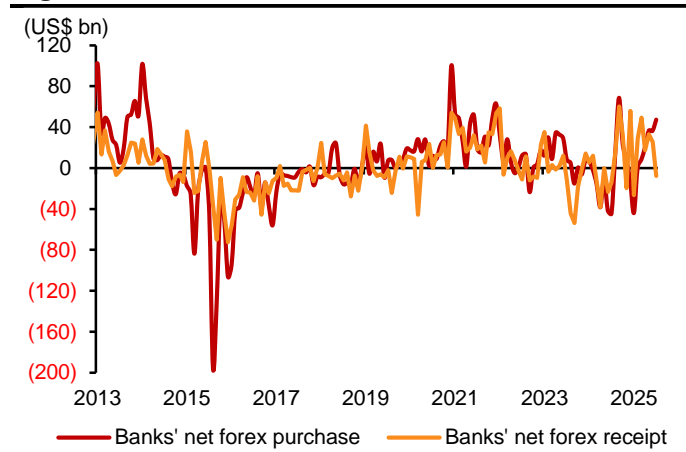
Source: Wind, CMBIGM

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

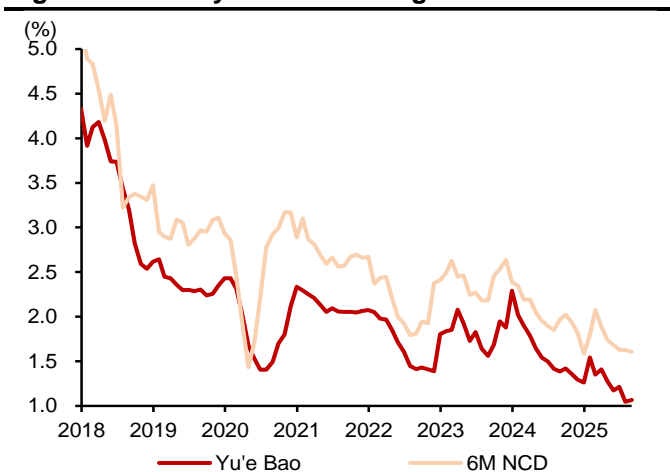
Source: Wind, CMBIGM

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

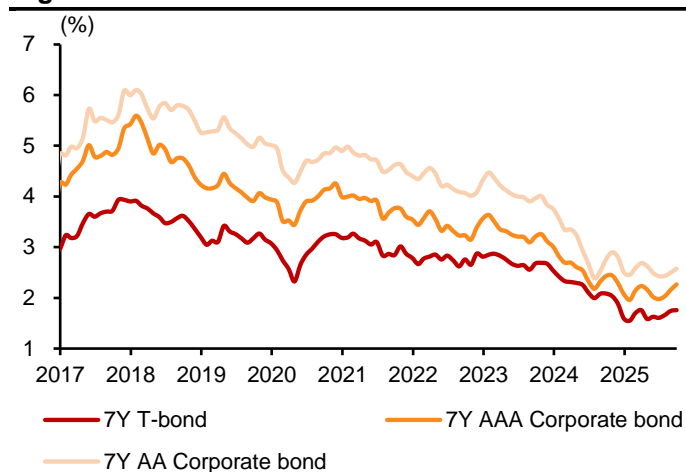
Source: Wind, CMBIGM

**Figure 22: Net forex inflow**

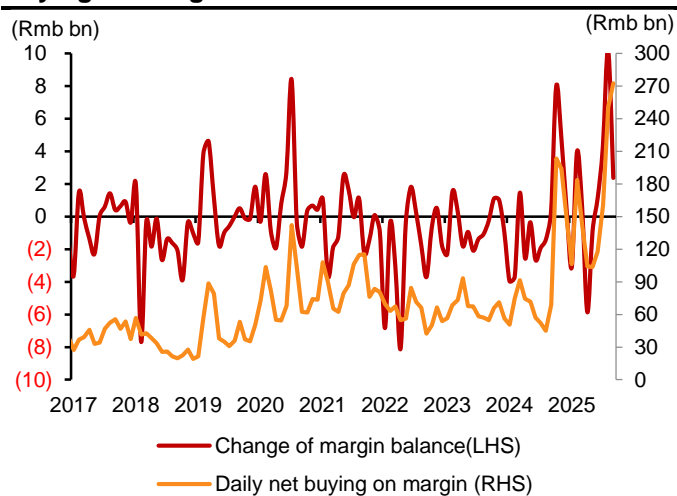
Source: Wind, CMBIGM

**Figure 23: Money market funding cost**

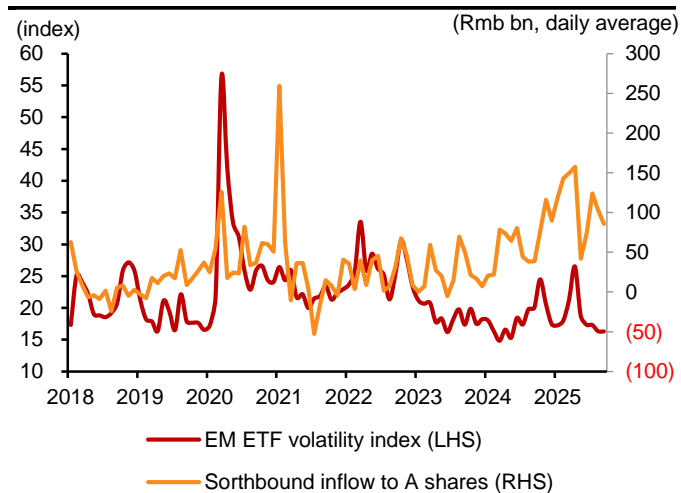
Source: Wind, CMBIGM

**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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