

China Policy

China may further ease credit policy as credit demand remained weak

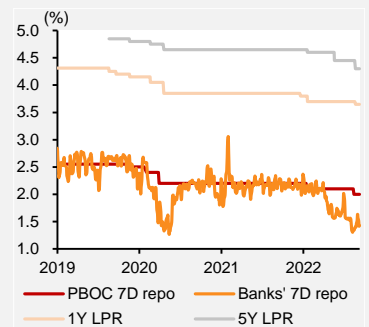
China's credit growth further slowed in August as real sector demand remained weak. But M2 continued to pick up as households cut consumption and home spending for more savings. M1 growth remained low as business activities were still weak. Housing market sentiment and consumer confidence remained low as new loans to households only mildly improved. The cabinet urged policy banks to increase special loans to meet possible gap for infrastructure financing as local governments used up most of this year's special bond quota. PBOC should maintain easing liquidity condition to spur credit supply. But ample liquidity is not enough to spur credit demand. The central bank may further loosen credit policy with moderate declines in mortgage rates if housing market remains weak in next two months. To gain additional room for credit loosening, China may have to keep exchange rates flexible and further lower deposit rates. Credit growth may slowly improve from 4Q22 thanks to possible further loosening of credit policy. The YoY growth rates of outstanding social financing and M2 are expected to reach 10.8% and 12.8% at end-2022, compared to 10.3% and 9% at end-2021.

- Credit growth continued to slow as real demand remained weak.** Outstanding social financing rose 10.5% YoY at end-August, down from 10.7% YoY at end-July. The YoY growth of outstanding renminbi loans slowed from 11% at end-July to 10.9% at end-August, as real sector demand remained weak. Social financing flow dropped 18.7% YoY in August after declining 29.7% YoY in July. Meanwhile, new renminbi loans rose 2.5% YoY, compared to the decline of 37.1% in July and the growth of 7.3% in 1H22. The slowdown of credit growth indicated real demand remained weak as property market continued to slump and consumer & business confidence was still low.
- M2 further picked up as private sector was reluctant to spend and take risk.** M2 growth accelerated from 12% at end-July to 12.2% YoY at end-August. Saving deposit especially in medium to long term increased strongly as households cut consumption and home purchase for more savings. Business was also reluctant to expand capex or take risk as M1 as % of M2 remained low. Most of M1 are demand deposits of corporate sector, which can reflect receipt activity and procurement propensity.
- Housing market sentiment and consumer confidence remained low with slight improvement.** Housing demand only mildly improved as new medium & long-term loans to households saw a less YoY decline of 37.6% in August after dropping 62.6% in July. Investors were still concerned about credit risk in property projects as outstanding trust loans continued to drop 27.4% YoY at end-August after decreasing 28.3% YoY at end-July. New short-term loans to households improved noticeably as it grew 28.5% YoY in August. But this does not mean a strong recovery of consumer confidence. It may be because some households used lower-cost individual business or consumer loans to refinance their mortgage loans.
- China used policy bank loans to resolve the fiscal cliff issue.** As local governments used up most of this year's special bond quotas in the first seven months, government bond financing dropped 68.7% YoY in August after rising 91.7% YoY in 7M22. To lower the fiscal cliff risk, the state council urged policy banks to increase their special loan quotas this year. Those special loans have

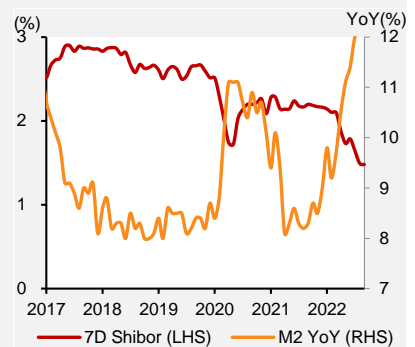
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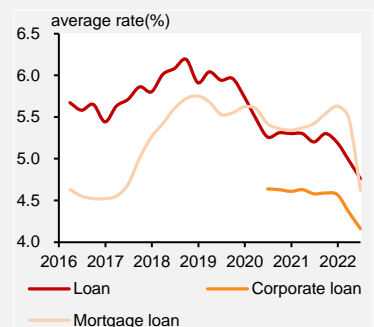
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Source: Wind, CMBIGM



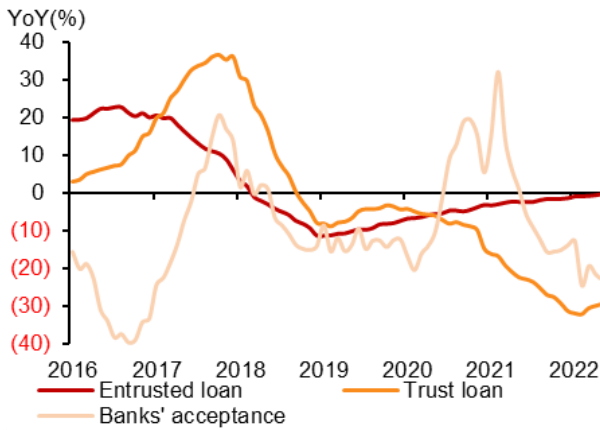
Source: Wind, CMBIGM



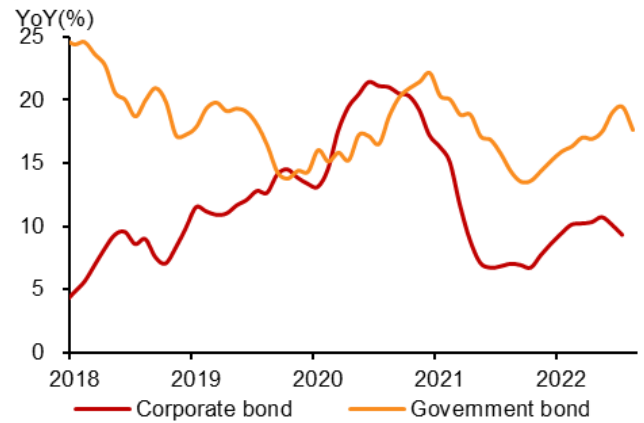
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long maturities and low interest rates as they would play an important role in supporting the infrastructure investment. New medium & long term loans to corporate sector jumped 41% YoY in August after respectively dropping 29.9% in July and 6% in 1H22. We guess the main support was from the policy bank loans.

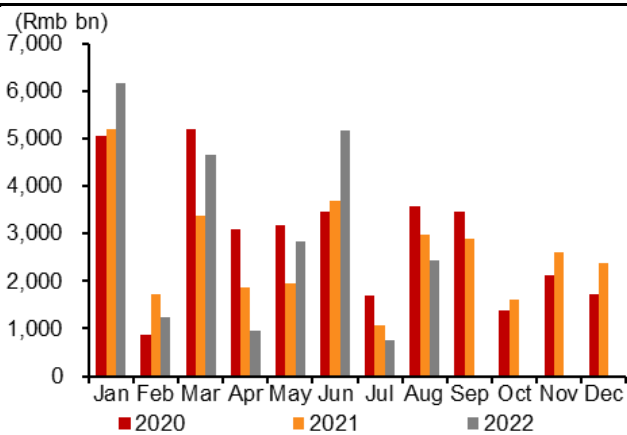
- **Business capex & operation condition was still weak.** Corporate bond financing continued to decline by 75.3% YoY in August after decreasing 76.3% YoY in July and rising 25.5% in 1H22. The YoY growth of outstanding corporate bond slowed from 10.1% at end-1H22 to 9.3% at end-July and 8% at end-August. Meanwhile, bill financing and new short-term loans to corporate respectively dropped 89.5% and 43.4% YoY in August, compared to the growth of 77.1% and 37.6% in July.
- **PBOC would maintain easing liquidity to boost credit supply.** As China maintains zero-Covid policy and housing market recovers very slowly, the country's GDP growth should remain below potential growth in next few quarters. The PBOC has to maintain easing liquidity to boost credit supply. At present, China has easing liquidity condition as banks' 7D repo rates have been close to the lowest level in history.
- **PBOC may further loosen credit policy with moderate declines in mortgage rates if housing demand remains weak in golden September & silver October.** The ample liquidity has failed to spur strong credit expansion as property sector and local governments play a key role in China's credit creation. Both housing and land sales have slumped sharply this year. Housing demand is the key for developers' liquidity & financing condition, governments' land revenue, some durable sales and fixed asset investment. If housing demand remains weak in next two months, the central bank may further loosen credit policy. It is possible to see further declines in mortgage rates especially for first-home and second-home buyers.
- **China has to keep exchange rates flexible and further lower deposit rates to gain room for credit loosening.** China has to further cut loan rates to spur credit demand. This move will have two effects. One is downside pressure on renminbi. China has to keep exchange rates flexible and let renminbi go down in face of further shrinkage in Sino-US interest spreads. The depreciation risk has already lowered private borrowing in foreign currency as it may intensify capital outflow pressure in near term. The other is about banks' net interest margins. Loan rate cut especially for mortgage loans will squeeze banks' net interest margins, which may influence banking system stability and cabinet's revenue from banks' profit distribution. China may have to further low deposit rates to stabilize banks' NIMs. China has more reasons to do this, given the strong growth of saving deposit and low willingness of consumption.
- **Credit growth may slowly improve from 4Q22.** Credit growth may further slow in September as government bond financing may further decline and credit demand remains weak. But it may slowly improve from 4Q22 with possible further loosening in credit policy. In 4Q22, local governments may be allowed to use part of next year's special bond quota. We expect the YoY growth rates of outstanding social financing and M2 may respectively reach 10.8% and 12.8% at end-2022, compared to 10.3% and 9% at end-2021.

Figure 1: Growth of outstanding OBS financing

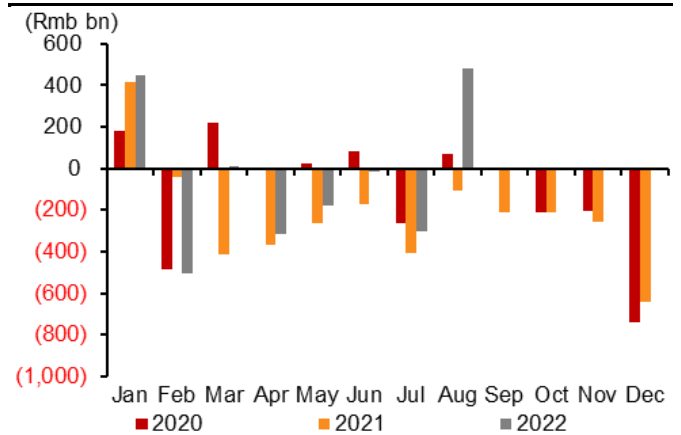
Source: Wind, CMBIGM

Figure 2: Growth of outstanding bond financing

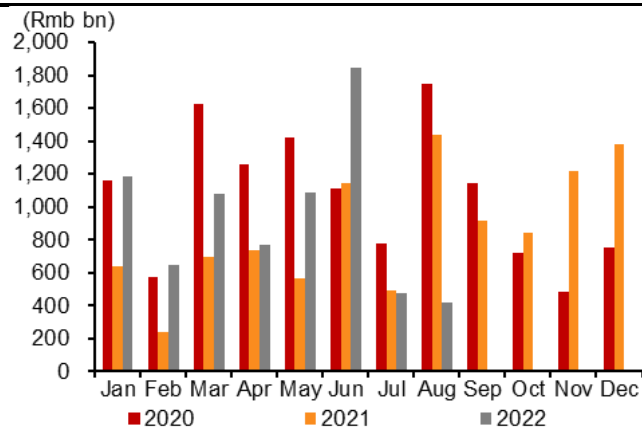
Source: Wind, CMBIGM

Figure 3: Total social financing

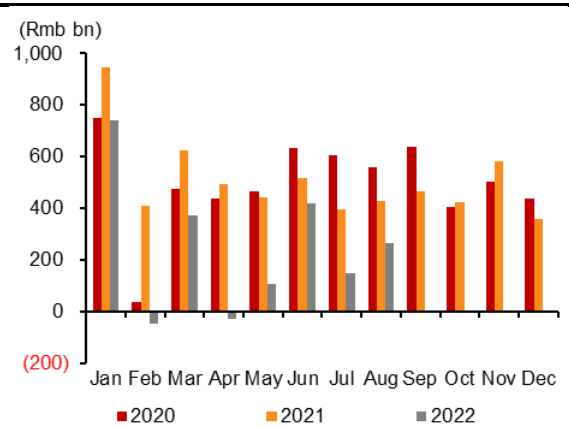
Source: MoF, CMBIGM

Figure 4: OBS financing

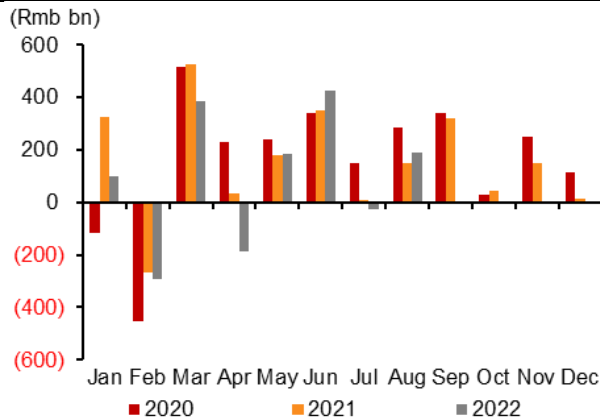
Source: MoF, CMBIGM

Figure 5: Bond financing

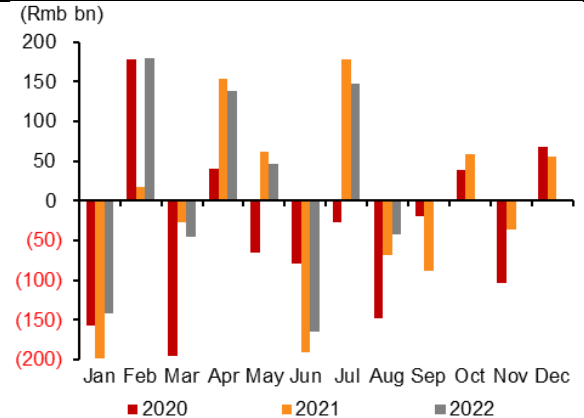
Source: Wind, CMBIGM

Figure 6: New M&L term loans to households

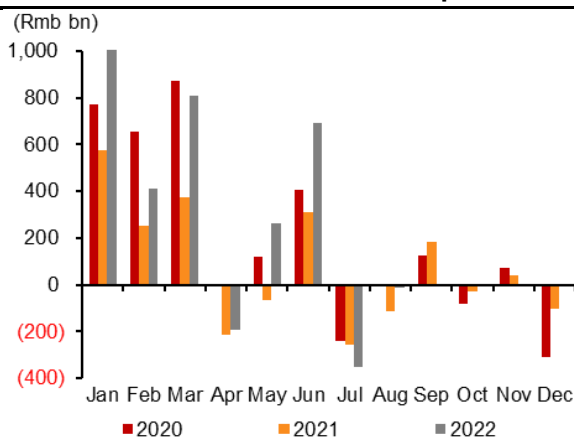
Source: Wind, CMBIGM

Figure 7: New short term loans to households

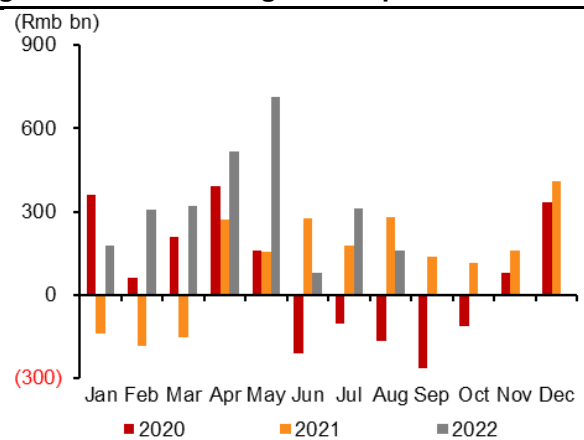
Source: Wind, CMBIGM

Figure 8: New M&L term loans to enterprises

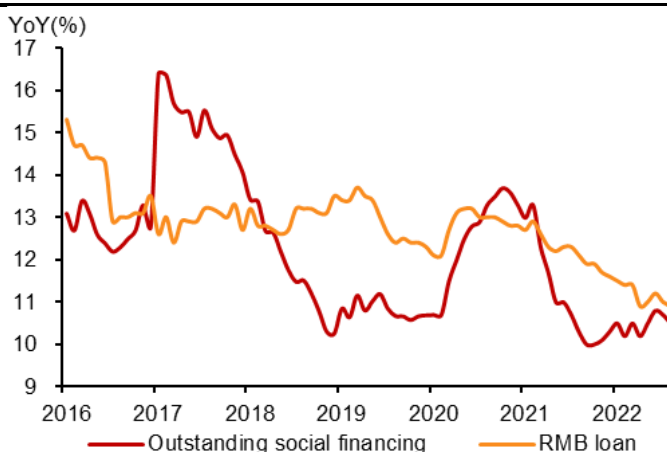
Source: Wind, CMBIGM

Figure 9: New short term loans to enterprises

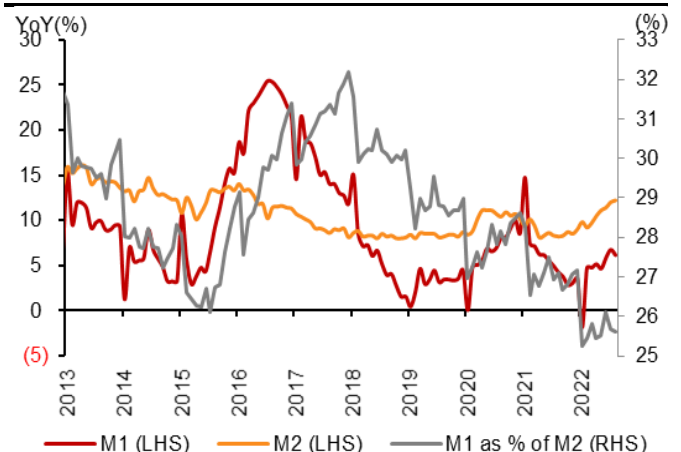
Source: Wind, CMBIGM

Figure 10: Bill financing to enterprises

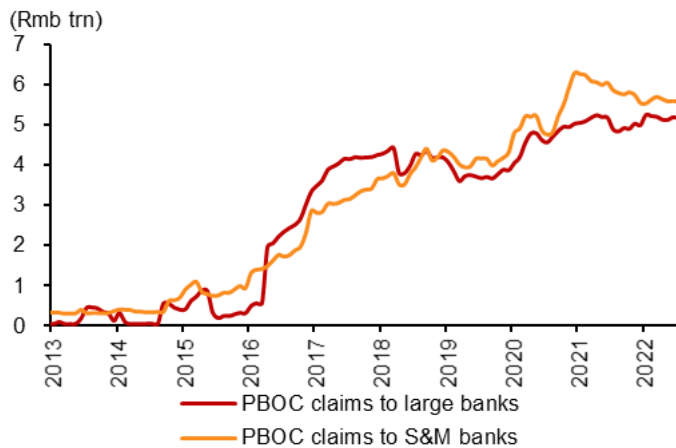
Source: Wind, CMBIGM

Figure 11: Credit Growth

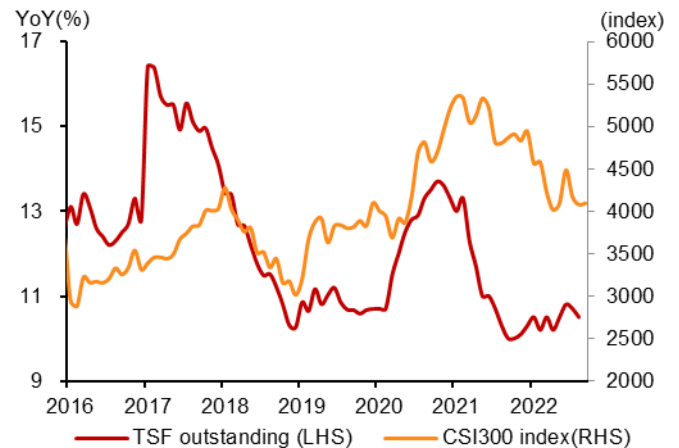
Source: Wind, CMBIGM

Figure 12: Money Supply Growth

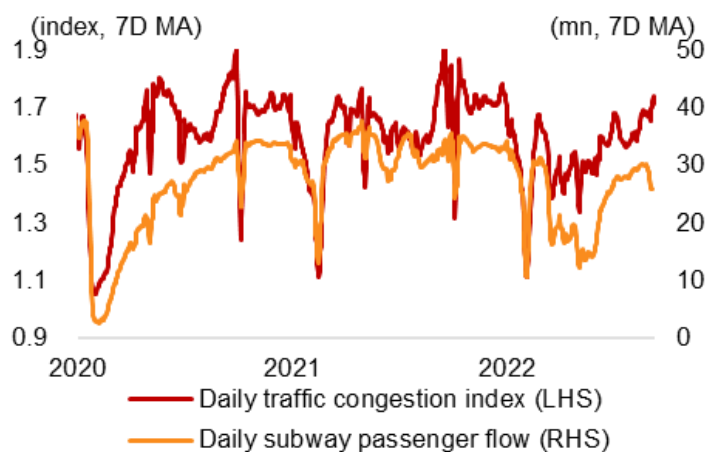
Source: Wind, CMBIGM

Figure 13: PBOC Claims to Banks

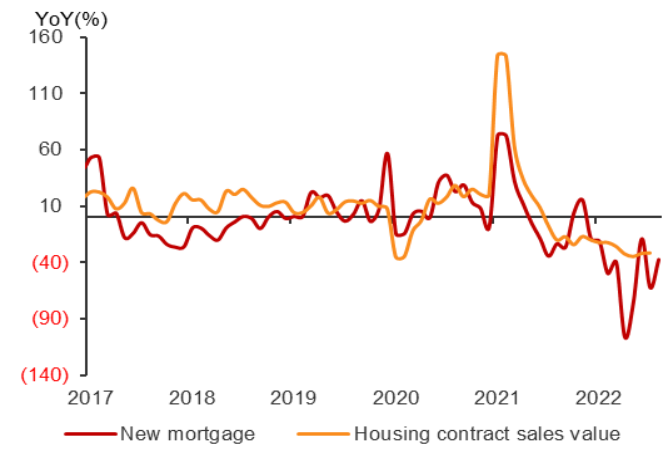
Source: Wind, CMBIGM

Figure 14: Social financing growth & CSI300 Index

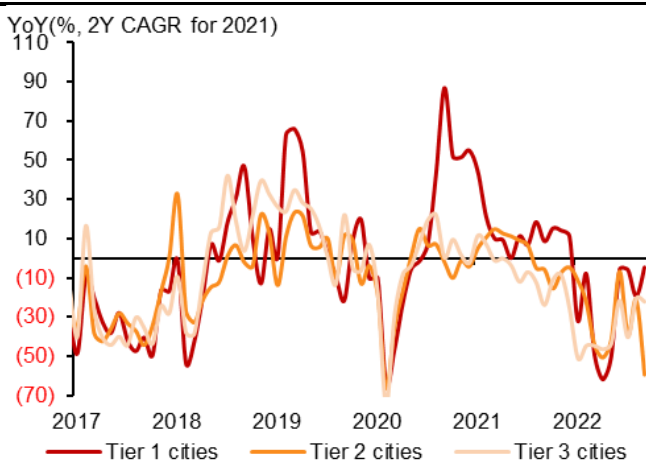
Source: Wind, CMBIGM

Figure 15: Mobility Indicators in Tier-one Cities

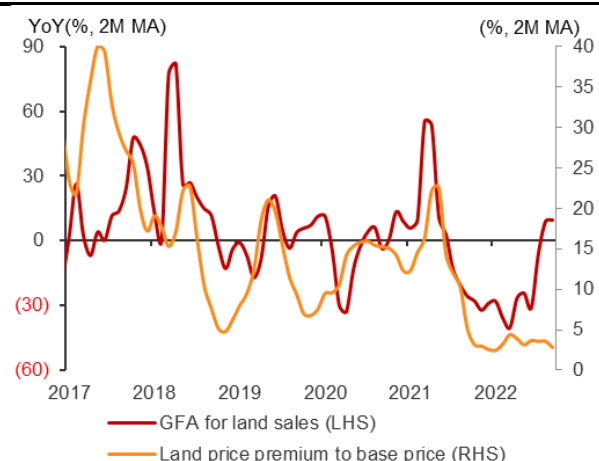
Source: Wind, CMBIGM

Figure 16: New mortgage & housing sales

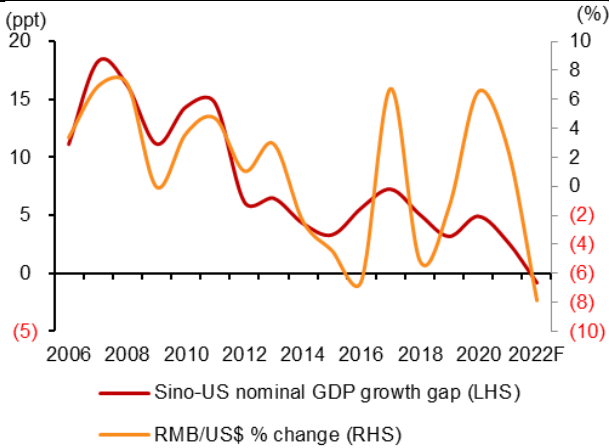
Source: Wind, CMBIGM

Figure 17: Growth of housing sales by cities

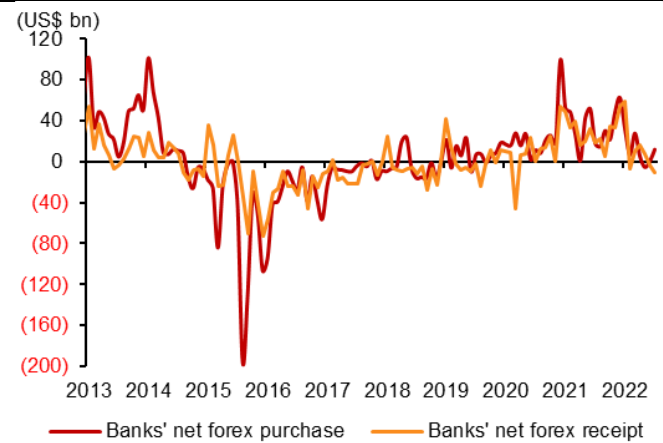
Source: Wind, CMBIGM

Figure 18: Growth of land sales

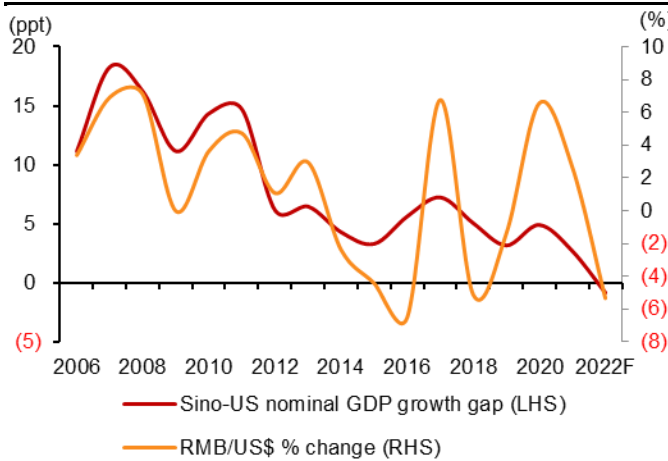
Source: Wind, CMBIGM

Figure 19: Infrastructure investment

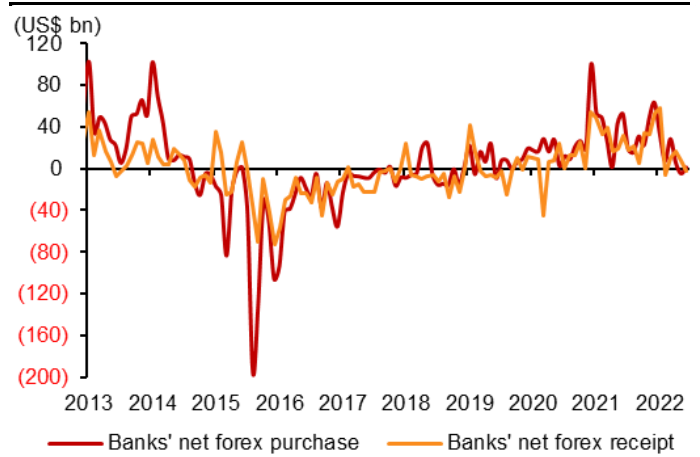
Source: Wind, CMBIGM

Figure 20: US-Sino interest spreads

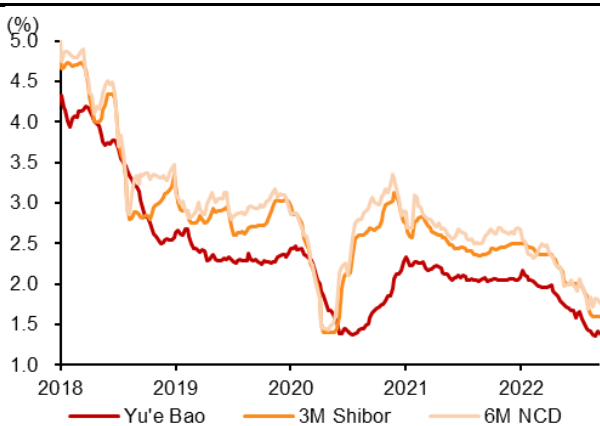
Source: Wind, CMBIGM

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

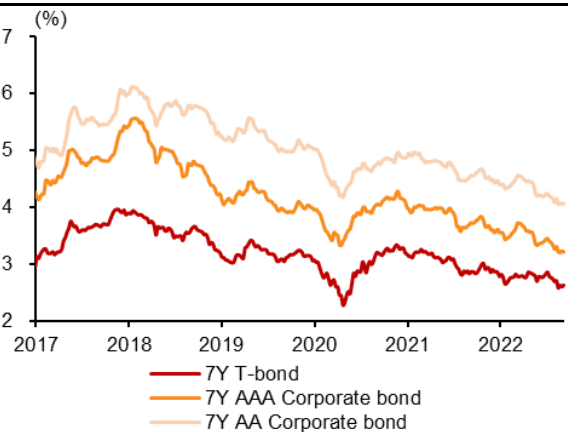
Source: Wind, CMBIGM

Figure 22: Net forex inflow

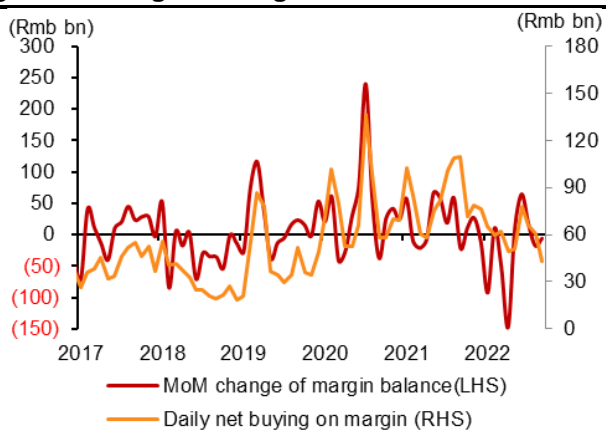
Source: Wind, CMBIGM

Figure 23: Money market funding cost

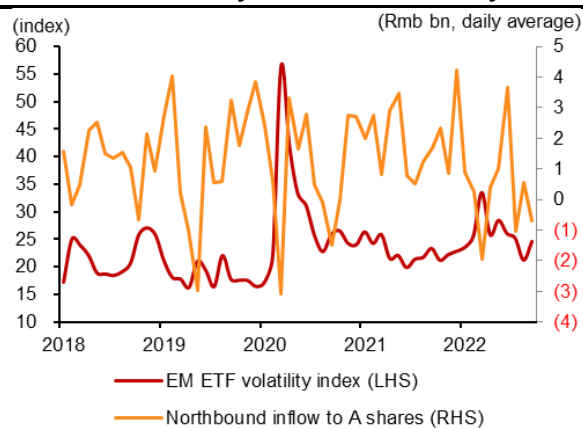
Source: Wind, CMBIGM

Figure 24: Bond market rates

Source: Wind, CMBIGM

Figure 25: Margin trading in A share market

Source: Wind, CMBIGM

Figure 26: EM volatility & northbound daily inflow

Source: Wind, CMBIGM

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