

China Policy

Credit growth beat expectations

China's outstanding social financing notably escalated and reached record high in Jan due to the expansion in undiscounted banks' acceptance and corporate bonds while government bonds moderated. Credit growth in the household sector saw surprisingly robust growth in Jan despite sluggish housing sales during the month. But new loans in corporate sector mildly declined YoY. We expect the PBOC may cut LPR by 10 or 20 bps in Feb as the economy remains weak with continuous deflation pressure. The central bank may continue to loosen liquidity and credit supply in the remaining of 2024. Credit growth may slightly pick up this year thanks to more expansionary fiscal policies and more accommodative monetary policies. We expect outstanding social financing growth to rise from 9.5% at end-2023 to 10% at end-2024.

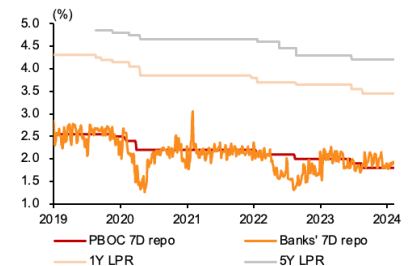
■ **Social financing reached a historic high thanks to strong banks' acceptance and corporate bond financing.** Social financing flow increased 8.4% YoY (all in YoY terms unless otherwise specified) to RMB6.5tn in Jan from RMB1.94tn in Dec, above market expectation and reaching a historic high in Jan. The major contribution was from banks' acceptance financing and corporate bond financing, which respectively rose 90.2% and 195.2% to RMB563.5bn and RMB483.5bn in Jan. Bill and bond financing costs further declined amid continuous weakening of economic prospect. Government bond financing dropped to RMB 294.7bn in Jan from RMB932.4bn in Dec, down 28.8% YoY, after the large-scale issuance of special CGB in Nov and Dec. New RMB loans fell 1.9% in Jan to RMB4.8tn. New foreign currency loans returned to positive at RMB98.9bn. For shadow financing, new entrusted loans continued to drop while trust loans mildly improved. M2 growth further slowed to 8.7% in Jan due to high base last year while M1 growth accelerated to 5.9%, possibly due to the mismatch from Lunar New Year.

■ **New RMB loans came in above market expectation due to rebounding household borrowing.** New RMB loans stayed almost flat YoY at RMB4.92tn in Jan after dropping 16.4% in Dec at RMB1.17tn. New loans to households remarkably increased as short-term loans rocketed 934% to RMB352.8bn from RMB75.9bn in Dec. New medium and long-term loans to households rebounded 181% to RMB627.2bn in Jan from RMB146.2bn in Dec, although housing sales remained subdued in Jan and early Feb. Loans to corporate sector saw strong growth at RMB3.86tn despite a historic high base last year. New bill financing contracted by RMB973.3bn in Jan while new short-term loans and medium and long-term loans saw robust reading of RMB1.46tn and RMB3.31tn.

■ **Credit growth may mildly rebound with stronger fiscal expansion and accommodative monetary policy.** We expect to see further fiscal expansion to support the 5% growth target in 2024. Government bond issuance may remain strong as broad fiscal deficit may rise to 7.1% in 2024 from 6.4% in 2023. PBOC has injected RMB0.5tn PSL into policy banks in Dec and Jan while we expect additional RMB0.5-1tn PSL in the remaining of the year for "3 major projects". The PBOC may cut LPRs by 10 or 20 bps in Feb as the economy has remained weak with continuous deflation pressure. The central bank may further loosen liquidity and credit supply in the remaining of 2024. Credit growth may mildly rebound amid stronger fiscal expansion and more accommodative monetary policies. Outstanding social financing growth is expected to rise from 9.5% at end-2023 to 10% at end-2024. We expect the GDP growth to reach 4.8% in 2024.

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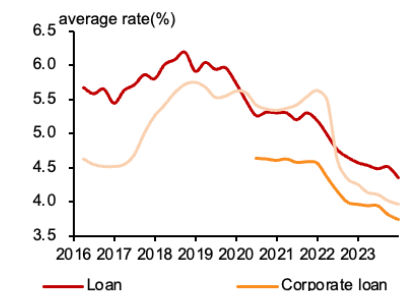
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Source: Wind, CMBIGM

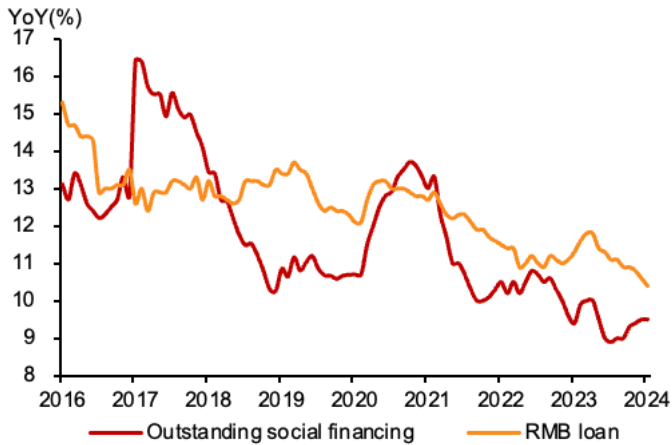


Source: Wind, CMBIGM



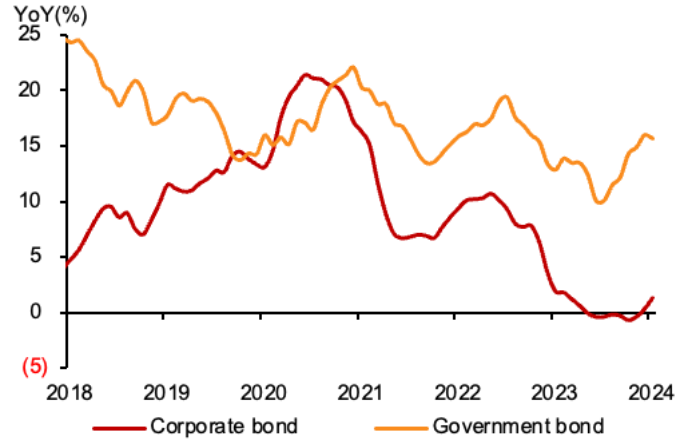
Source: Wind, CMBIGM

Figure 1: Growth of outstanding social financing



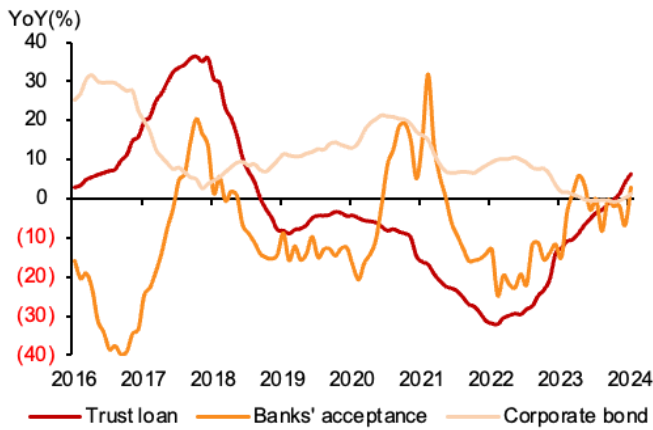
Source: Wind, CMBIGM

Figure 2: Growth of outstanding bond financing



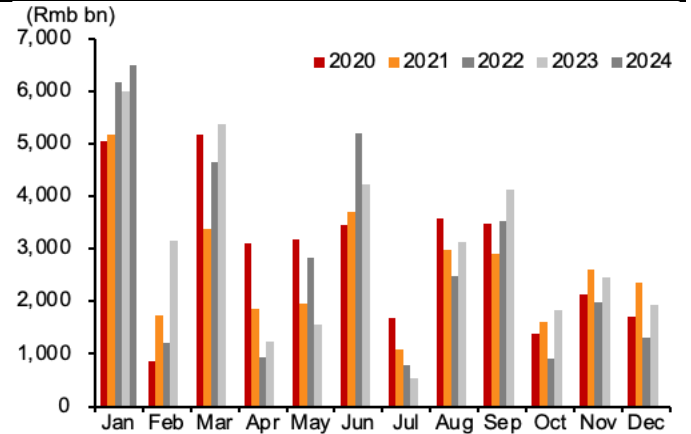
Source: Wind, CMBIGM

Figure 3: Growth of outstanding OBS financing



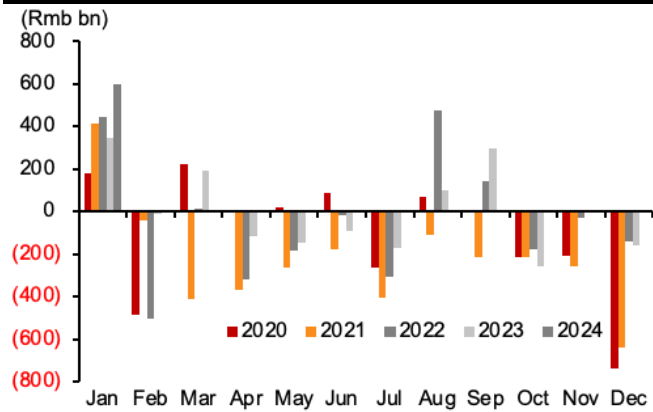
Source: MoF, CMBIGM

Figure 4: Total social financing



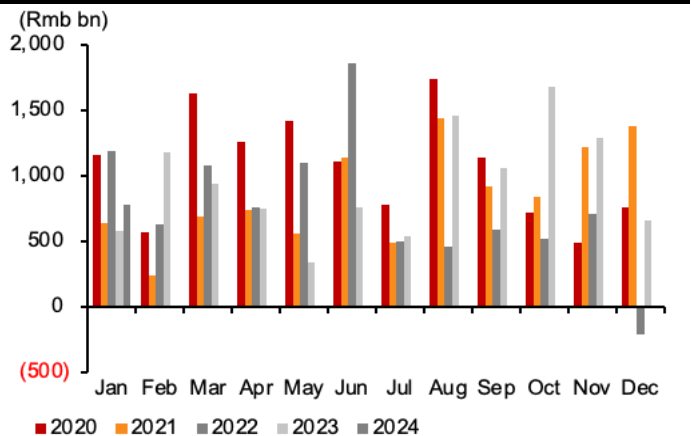
Source: MoF, CMBIGM

Figure 5: OBS financing



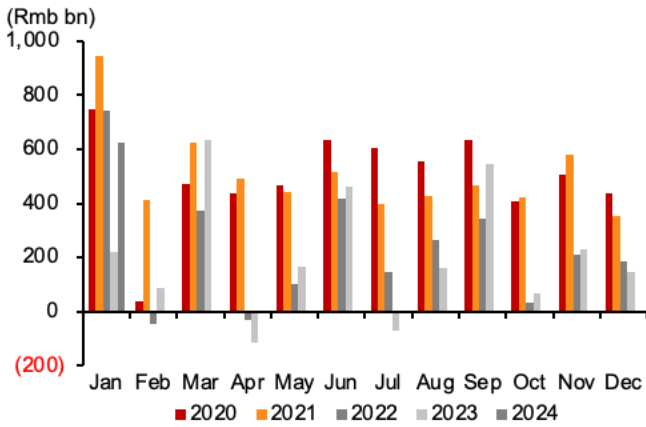
Source: Wind, CMBIGM

Figure 6: Bond financing



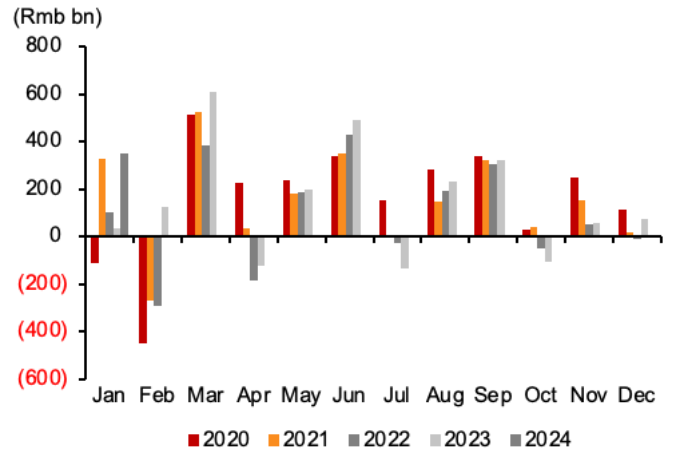
Source: Wind, CMBIGM

Figure 7: New M&L term loans to households



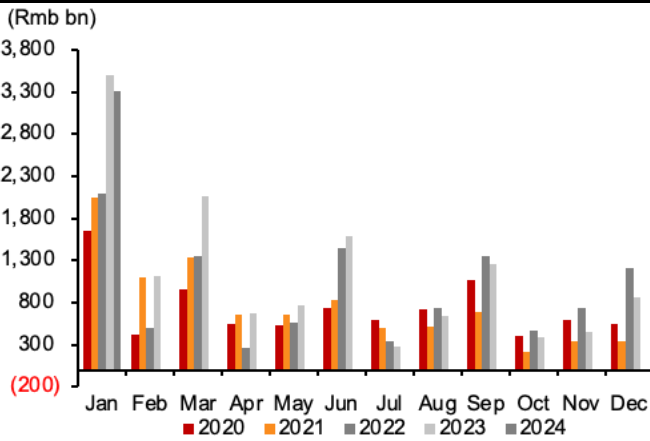
Source: Wind, CMBIGM

Figure 8: New short-term loans to households



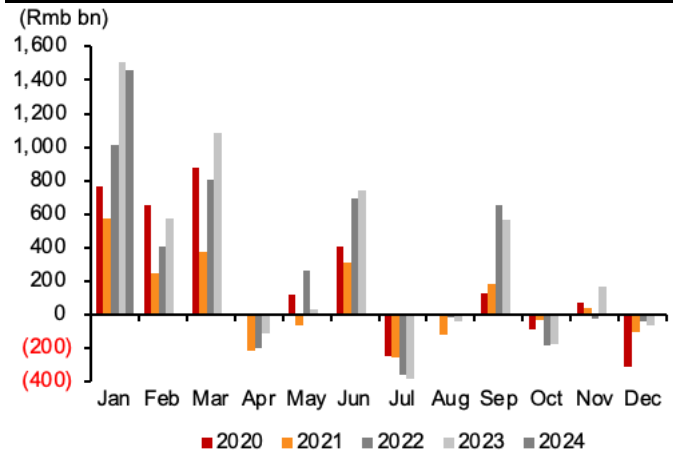
Source: Wind, CMBIGM

Figure 9: New M&L term loans to enterprises



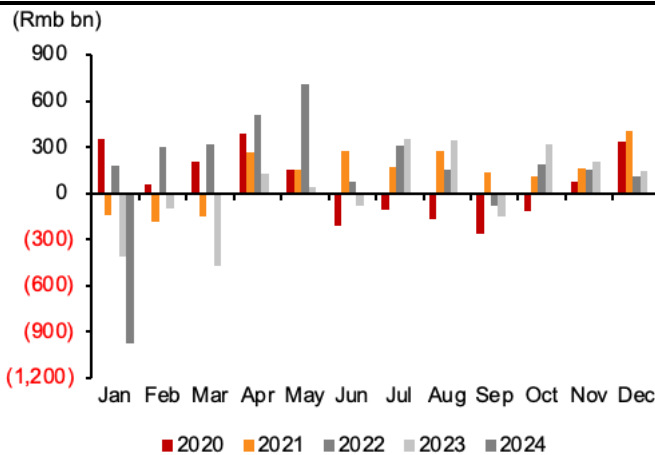
Source: Wind, CMBIGM

Figure 10: New short-term loans to enterprises



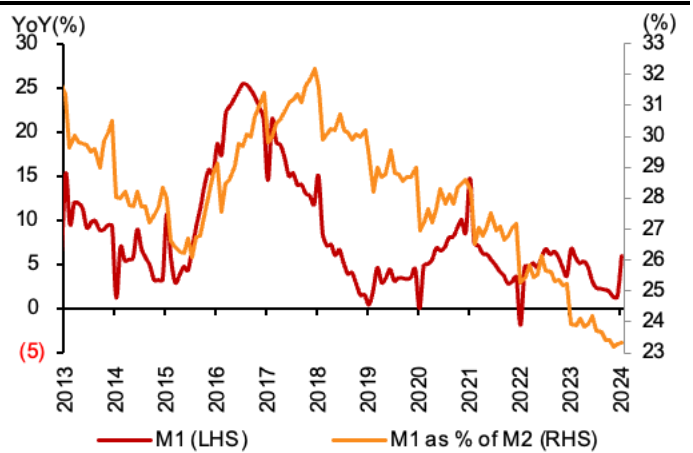
Source: Wind, CMBIGM

Figure 11: Bill financing to enterprises



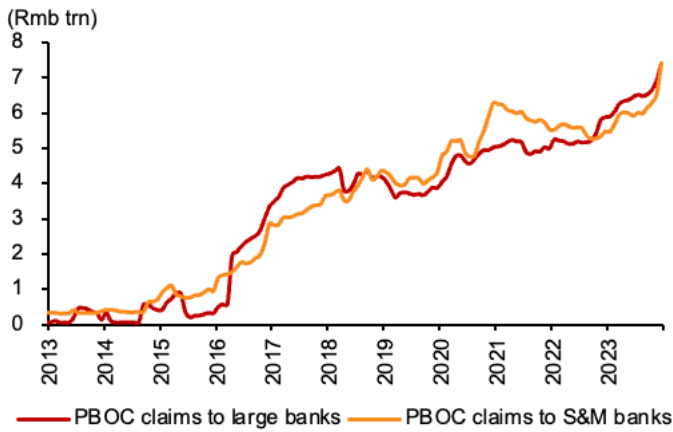
Source: Wind, CMBIGM

Figure 12: M1 growth & M1 as % of M2



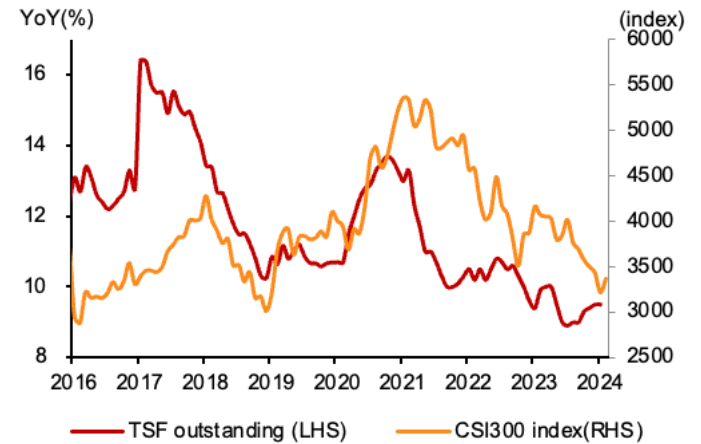
Source: Wind, CMBIGM

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



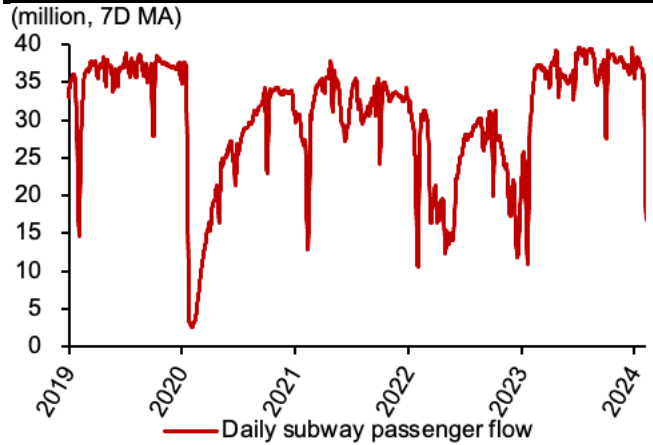
Source: Wind, CMBIGM

Figure 14: Total social financing & CSI300 index



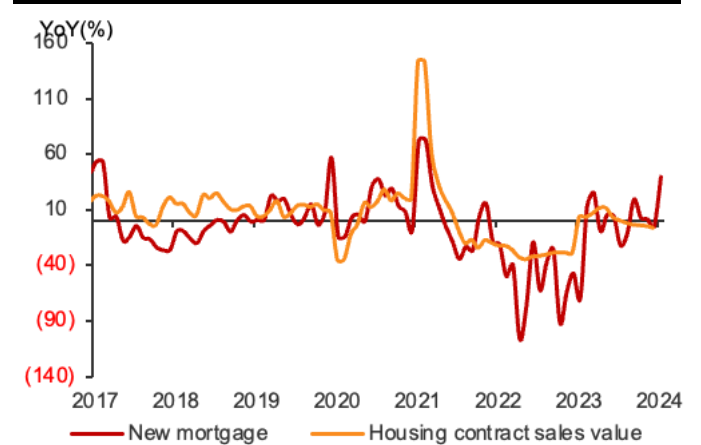
Source: Wind, CMBIGM

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



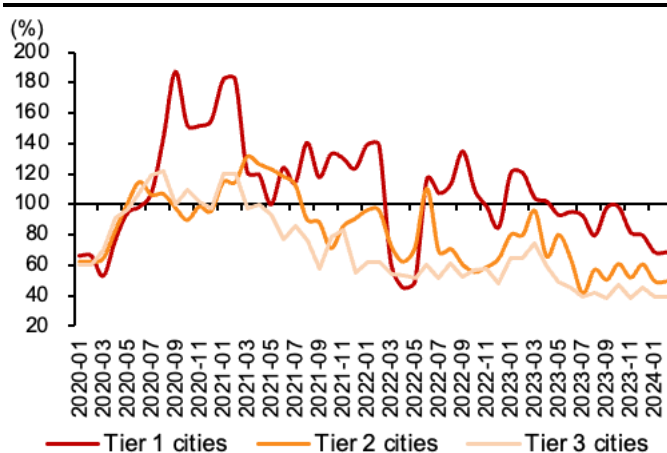
Source: Wind, CMBIGM

Figure 16: New mortgage & housing sales



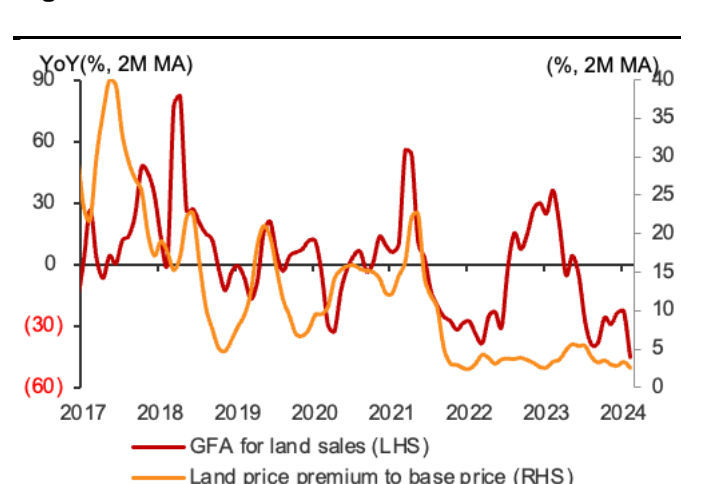
Source: Wind, CMBIGM

Figure 17: Housing sales recovery rates compared to 2019



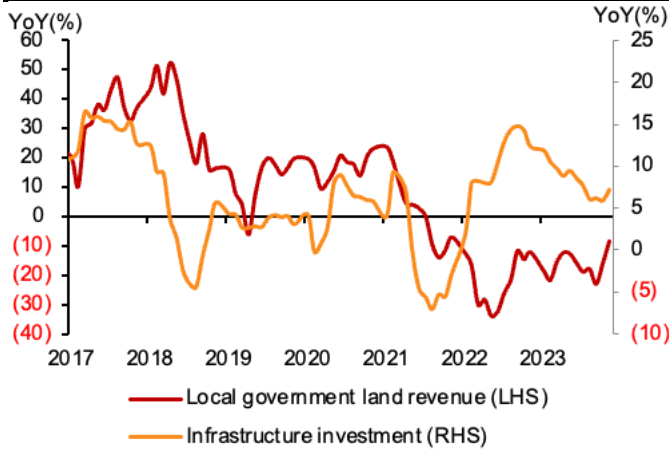
Source: Wind, CMBIGM

Figure 18: Growth of land sales



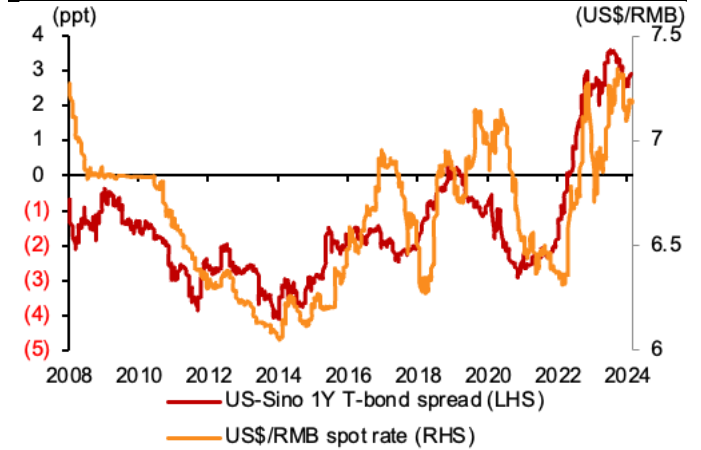
Source: Wind, CMBIGM

Figure 19: Infrastructure investment



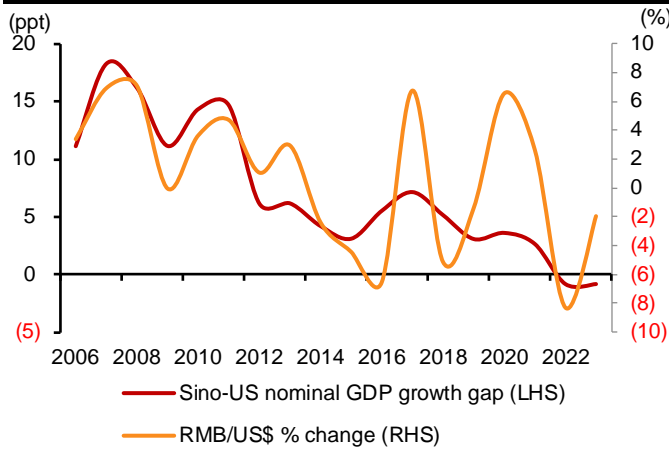
Source: Wind, CMBIGM

Figure 20: US-Sino interest spreads



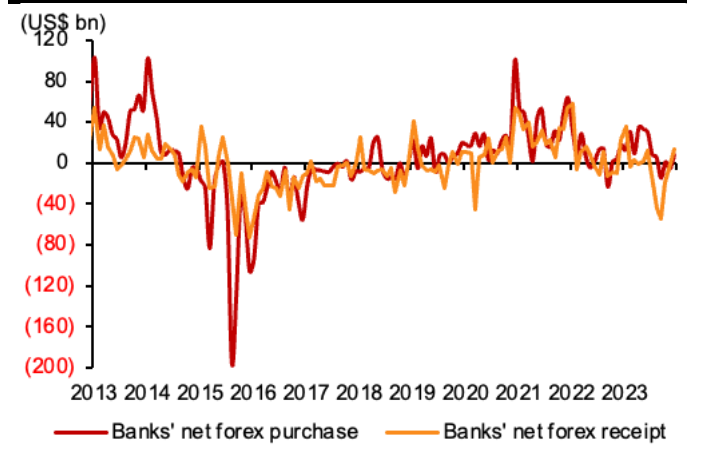
Source: Wind, CMBIGM

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



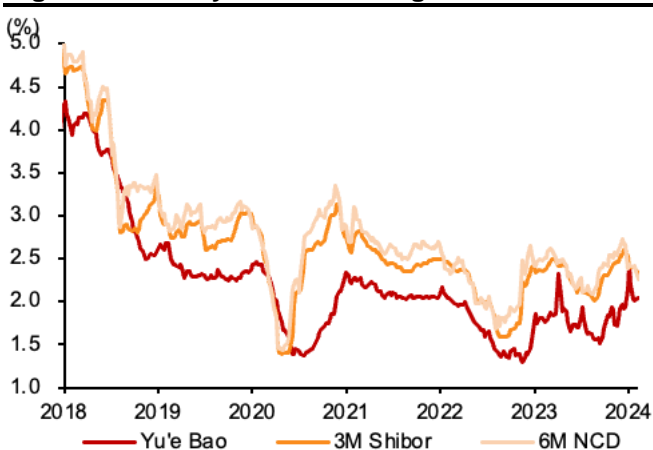
Source: Wind, CMBIGM

Figure 22: Net forex inflow



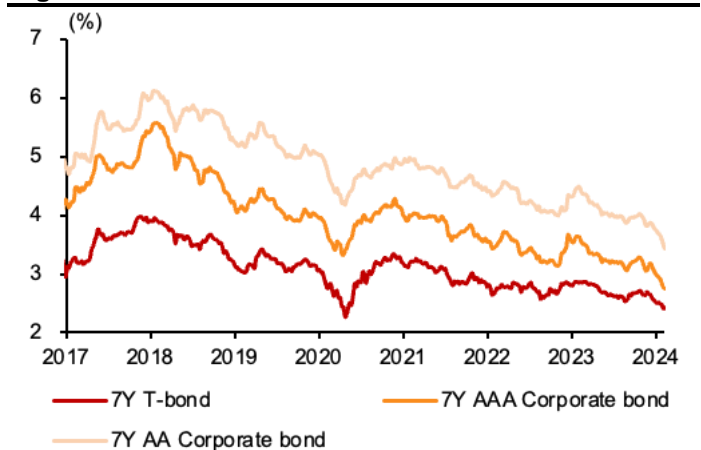
Source: Wind, CMBIGM

Figure 23: Money market funding cost



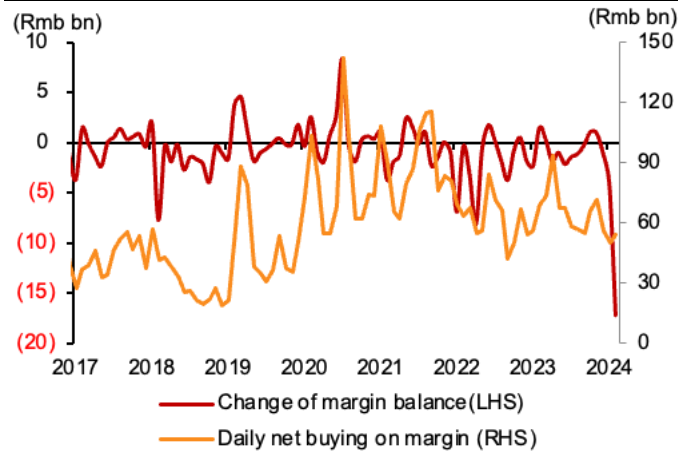
Source: Wind, CMBIGM

Figure 24: Bond market rates



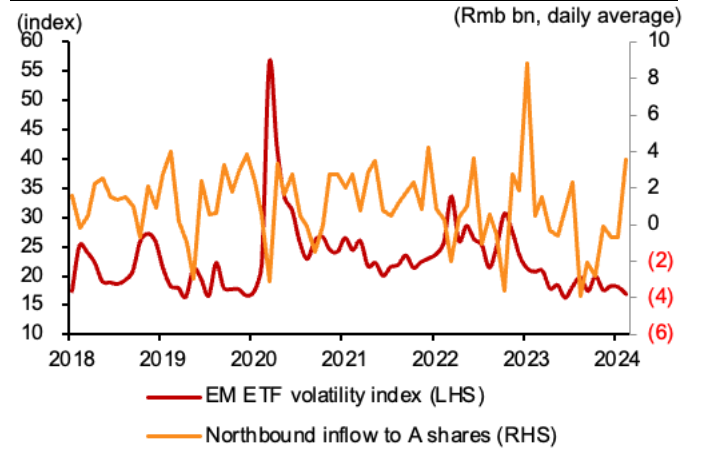
Source: Wind, CMBIGM

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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