

China Economy

Credit slump triggered possible policy easing

Credit growth has decelerated further as social financing flows returned to negative growth and growth of outstanding RMB loans hit another historic low. Government bond issuance remained the cornerstone of social financing (SF) growth while households and corporate sector continued their deleveraging in new RMB loans. M1 growth experienced another record decline. PBOC has unexpectedly signalled easing to the market following the release of credit data, pledging to “introduce incremental policy measures to further reduce corporate financing and household credit costs” and “prioritize gradual recovery of prices as key factors in steering monetary policy”. Looking forward, the PBOC may further cut LPRs, refinancing rates and deposit rates by 10-20bps in the remainder of the year. Meanwhile, the central bank may guide banks to lower existing mortgage rates to relieve household debt burden and boost consumer demand in coming months.

■ **Social financing flow edged down despite a further increase of government bond.** The growth of outstanding social financing (SF) inched down to 8.1% YoY (all in YoY terms unless otherwise specified) in Aug from 8.2% in July, as the SF flow dropped 3.1% to RMB3tn after rising 43% to RMB771bn in July. Government bond issuance remained the cornerstone of social financing growth, as it rose 37.6% to 1.62tn and contributed over 50% of the SF flow in Aug. New RMB loans to real sector rebounded from -RMB80bn drop in July, one of only three instances in history, to RMB1.04tn growth, but declined by 22.4% on YoY. Corporate bond issuance dropped 38.9% to RMB170.3bn, after rising 57.8% to RMB203bn in July. Shadow financing remained in contraction as new undiscounted banks' acceptance and entrust loans dropped 42% and 74% respectively. The M1 supply further dropped 7.3% in Aug after declining 6.6% in July. We may see a gradual recovery of M1 in upcoming months as the work of banning hidden interest payment has accomplished by 90% in June according to 2Q monetary report, but weak business activities and consumer spending still contain its further rebound. M2 remained flat at 6.3% in Aug. Looking forward, we expect M1, M2 and social financing growth should stay muted in the near term amid weaker property sales and economic activities.

■ **New loans further slumped as private sector accelerated deleveraging amid weak confidence.** Growth of outstanding RMB loans moderated to 8.5% in Aug from 8.7%, registering another historic low. The weaker-than-expected new RMB loans dropped 33.8% to RMB900bn in Aug, following the 24.8% dip to RMB260bn in July. New loans to households dropped by 51.6% to RMB190bn in Aug with 69% drop in short-term loan and 25% drop in medium- and long-term loan, as household continued to cut spending and deleveraged their balance sheet. New loans to the corporate sector further declined 11.5% to RMB840bn after dipping 45% to RMB130bn in July, with primary increment driven by bill financing.

■ **The PBOC has signaled easing to the market.** Amid recent credit slump and accelerating deleveraging of private sector, PBOC has pledged to “introduce incremental policy measures to further reduce corporate financing and household credit costs” and “prioritize gradual recovery of prices as key factors in steering monetary policy”, while unusually called on the fiscal authorities to enhance the effectiveness of fiscal policy. Looking forward, the PBOC may further cut LPRs, refinancing rates and deposit rates by 10-20bps in the remainder of the year. Meanwhile, the central bank may guide banks to lower existing mortgage rates in coming months.

Bingnan YE, Ph.D

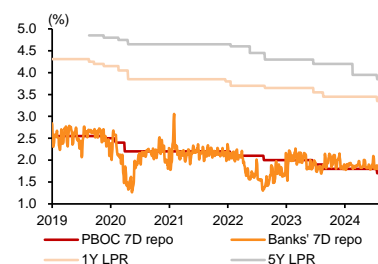
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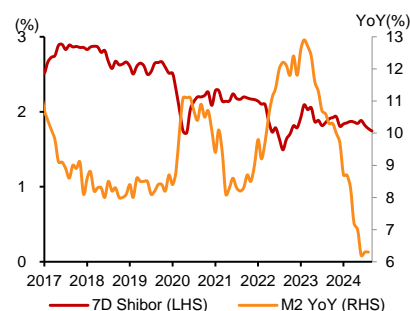
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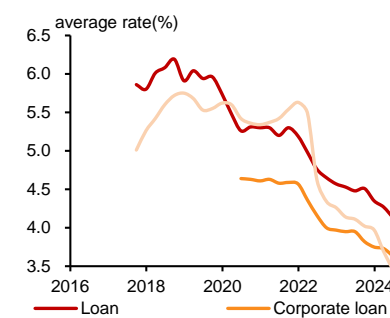
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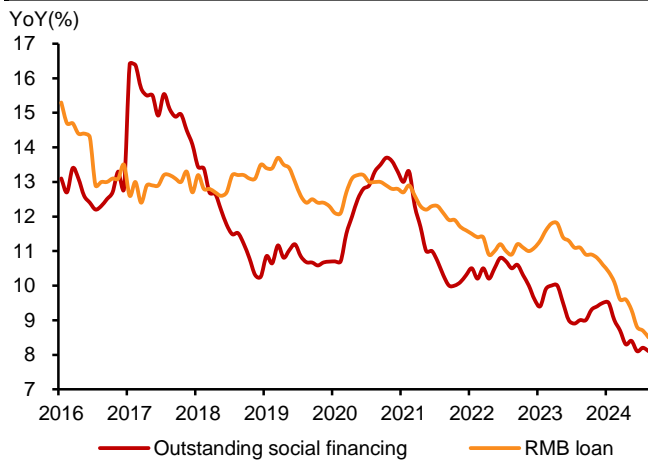
Source: Wind, CMBIGM



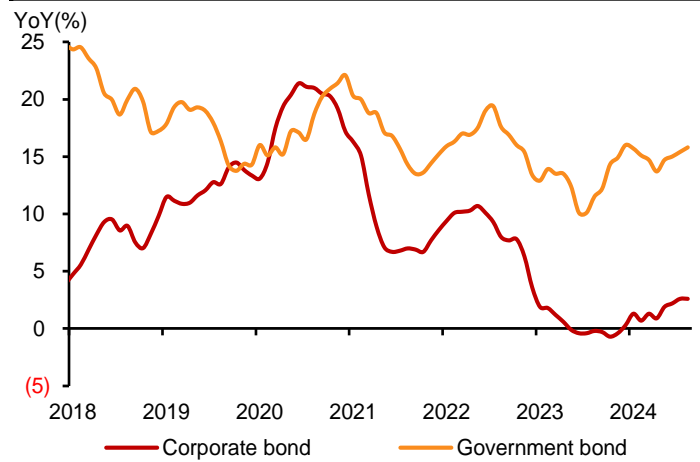
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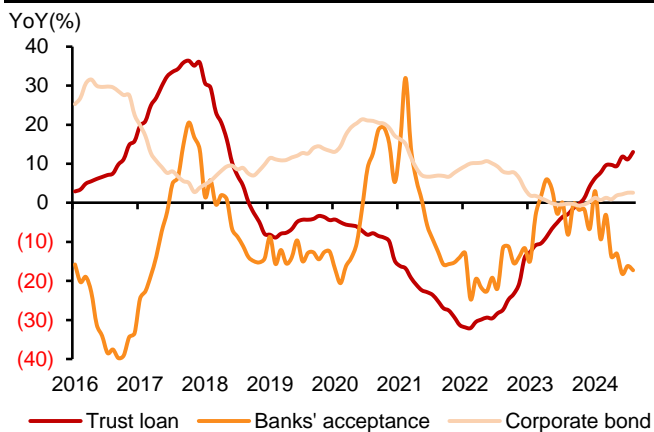
Source: Wind, CMBIGM

Figure 1: Growth of outstanding social financing

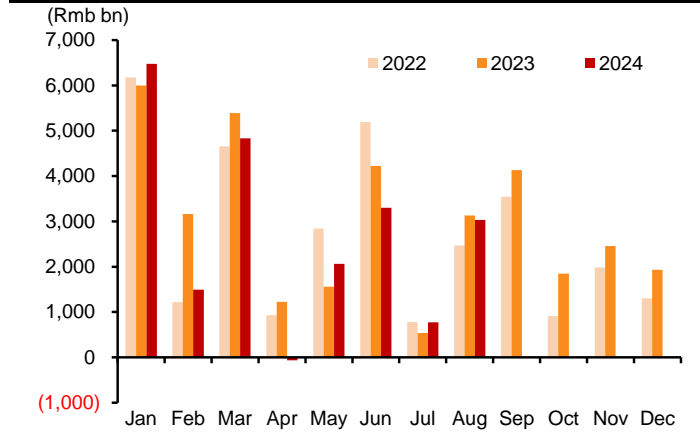
Source: Wind, CMBIGM

Figure 2: Growth of outstanding bond financing

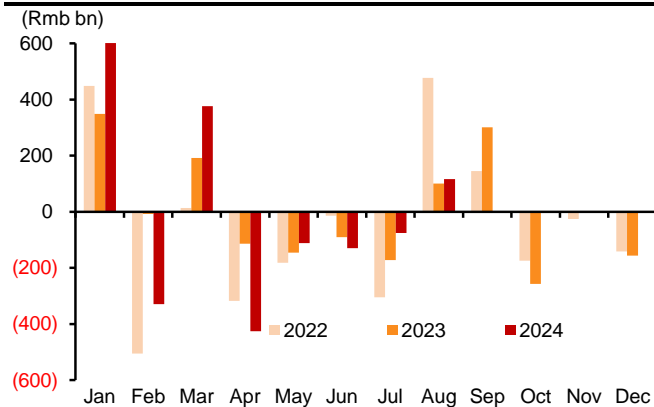
Source: Wind, CMBIGM

Figure 3: Growth of outstanding OBS financing

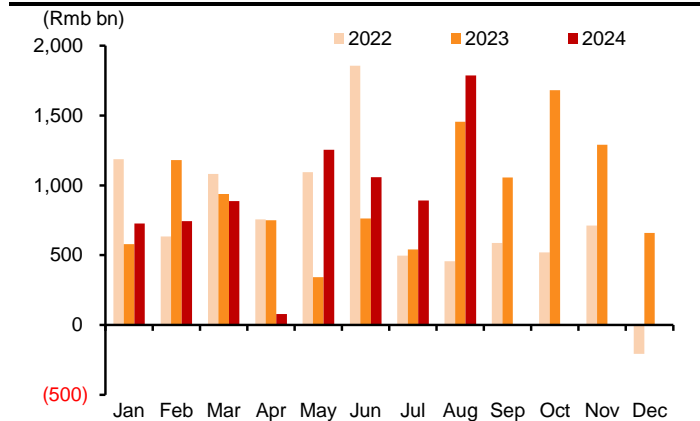
Source: MoF, CMBIGM

Figure 4: Total social financing

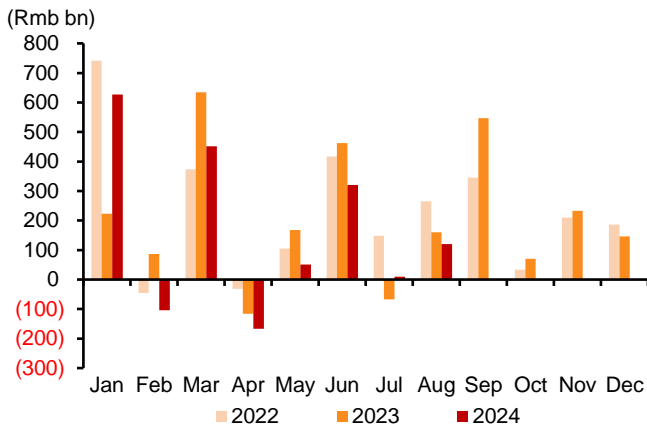
Source: MoF, CMBIGM

Figure 5: OBS financing

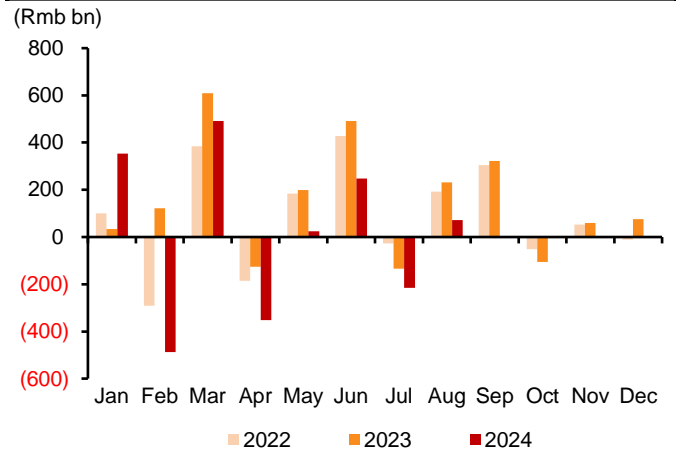
Source: Wind, CMBIGM

Figure 6: Bond financing

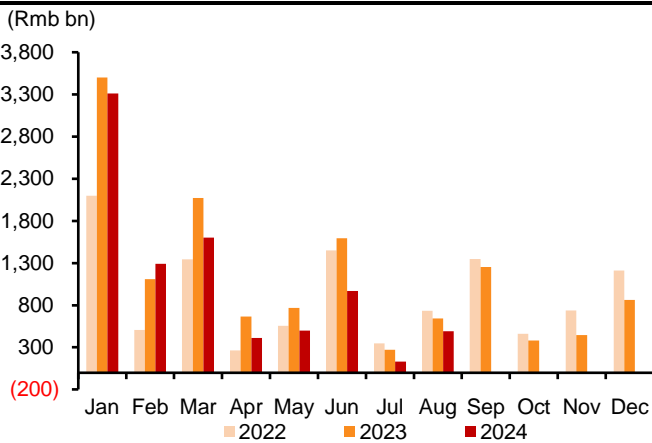
Source: Wind, CMBIGM

Figure 7: New M&L term loans to households

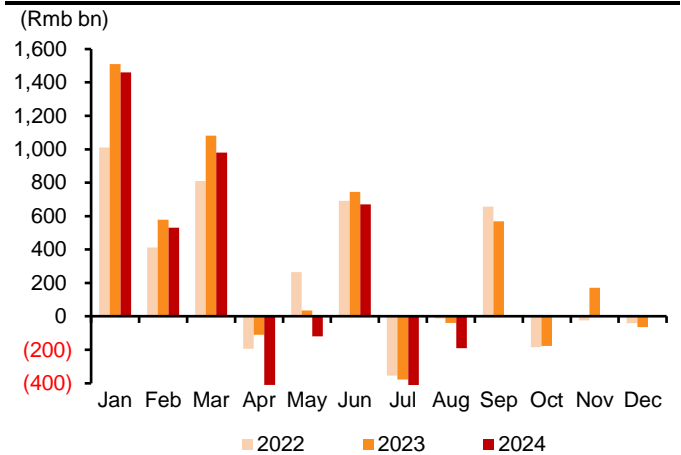
Source: Wind, CMBIGM

Figure 8: New short-term loans to households

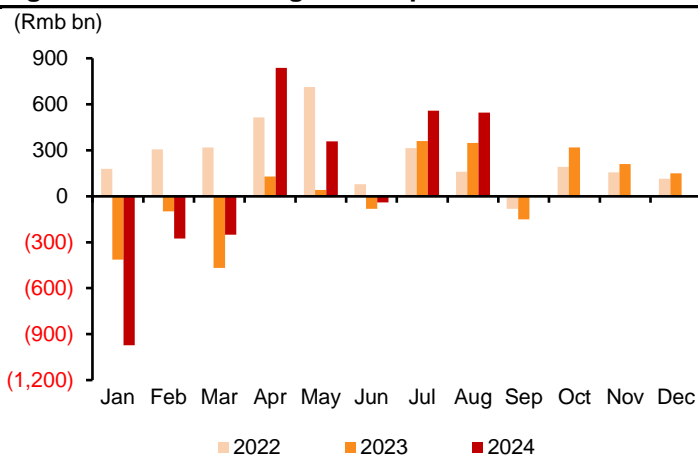
Source: Wind, CMBIGM

Figure 9: New M&L term loans to enterprises

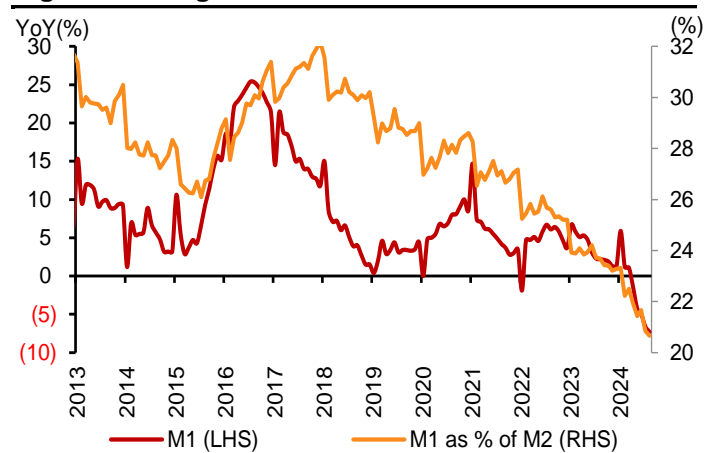
Source: Wind, CMBIGM

Figure 10: New short-term loans to enterprises

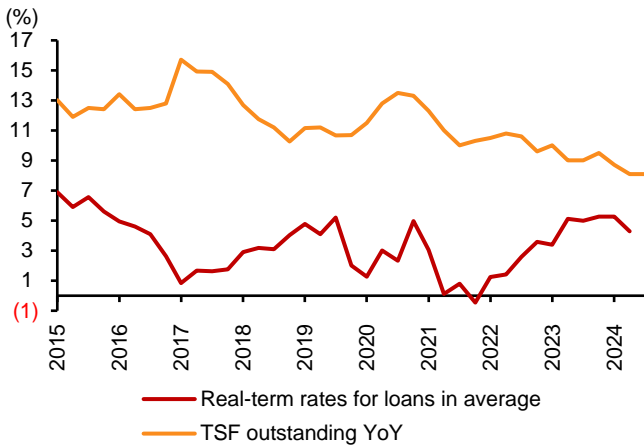
Source: Wind, CMBIGM

Figure 11: Bill financing to enterprises

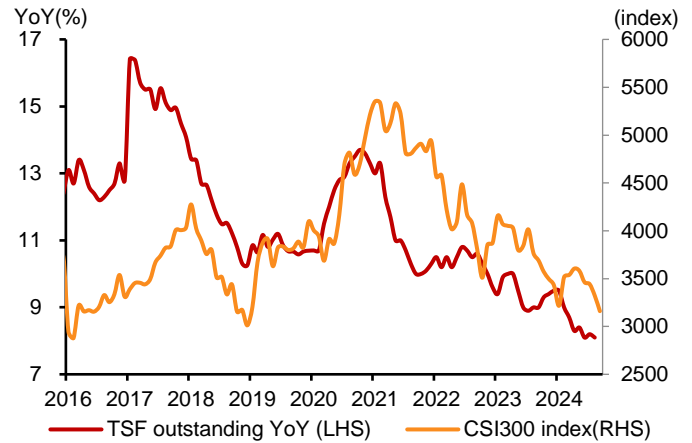
Source: Wind, CMBIGM

Figure 12: M1 growth & M1 as % of M2

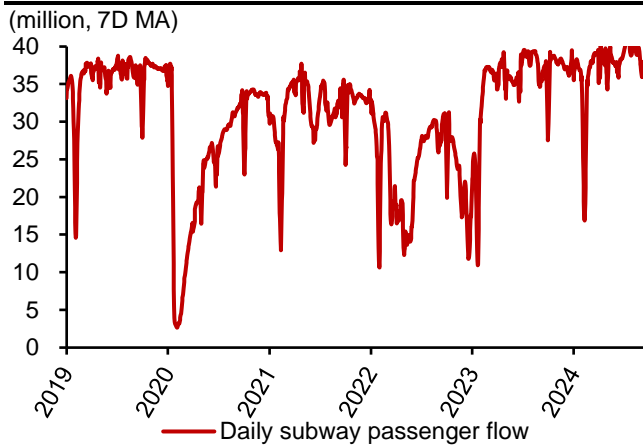
Source: Wind, CMBIGM

Figure 13: Real-term loan rates & TSF growth

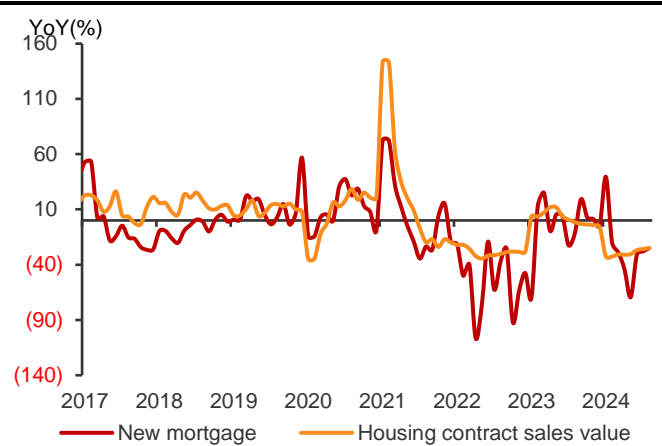
Source: Wind, CMBIGM

Figure 14: TSF growth & CSI300 index

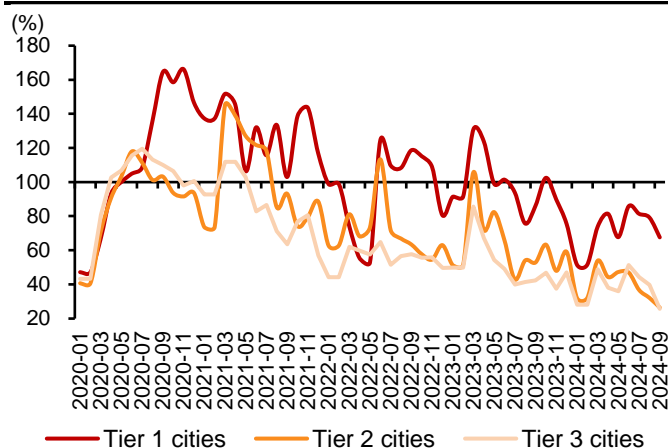
Source: Wind, CMBIGM

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

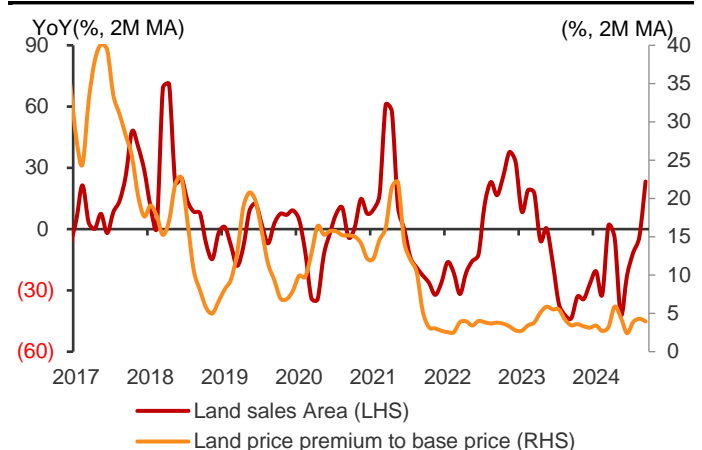
Source: Wind, CMBIGM

Figure 16: New mortgage & housing sales

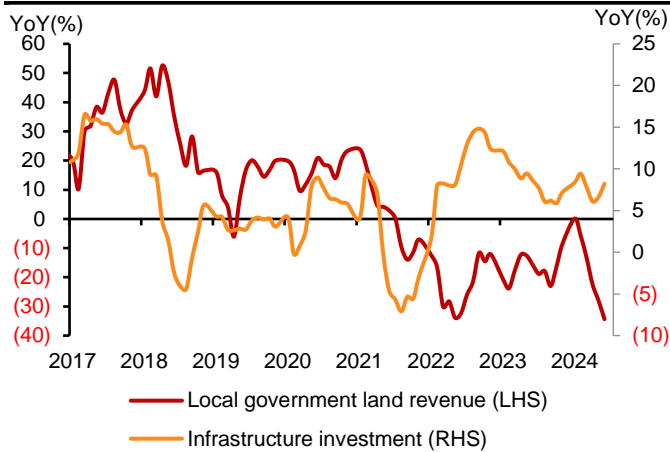
Source: Wind, CMBIGM

Figure 17: Housing sales recovery rates compared to 2019

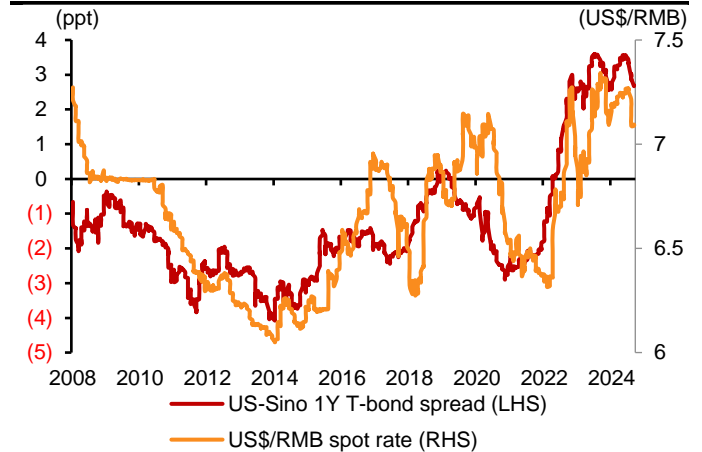
Source: Wind, CMBIGM

Figure 18: Growth of land sales

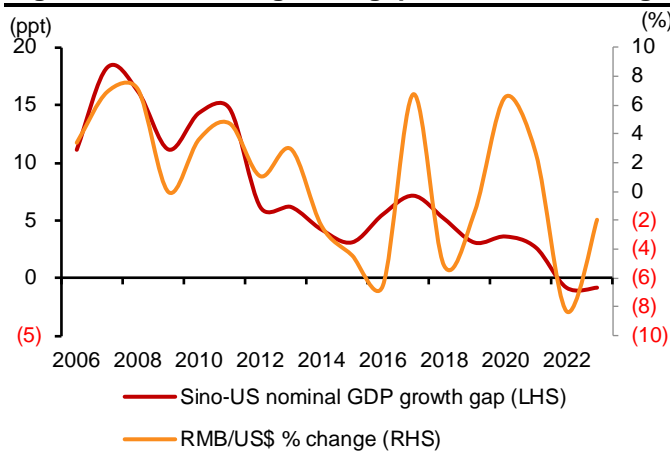
Source: Wind, CMBIGM

Figure 19: Infrastructure investment

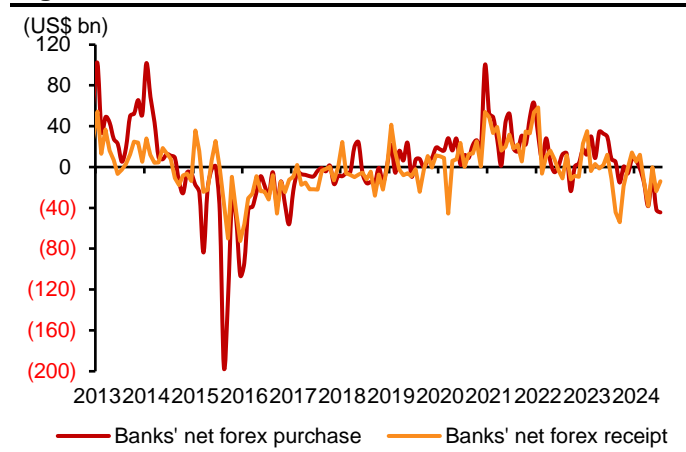
Source: Wind, CMBIGM

Figure 20: US-China interest spreads

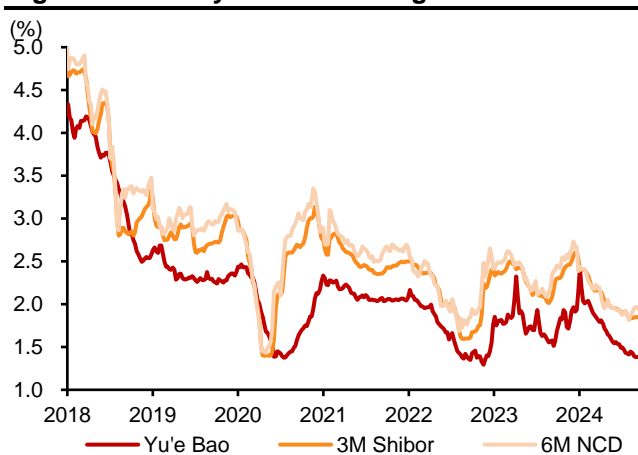
Source: Wind, CMBIGM

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

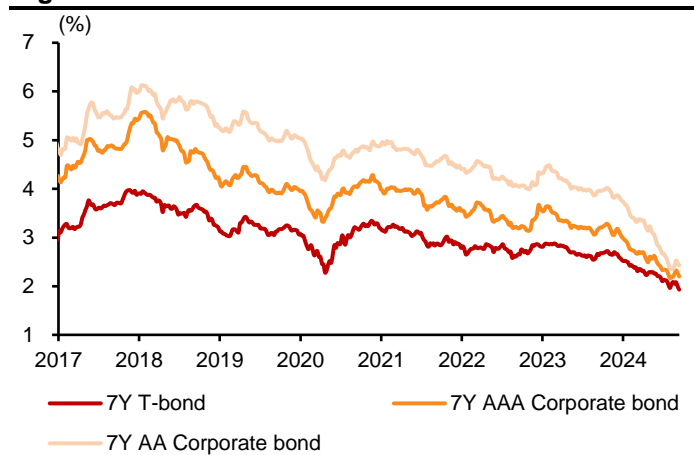
Source: Wind, CMBIGM

Figure 22: Net forex inflow

Source: Wind, CMBIGM

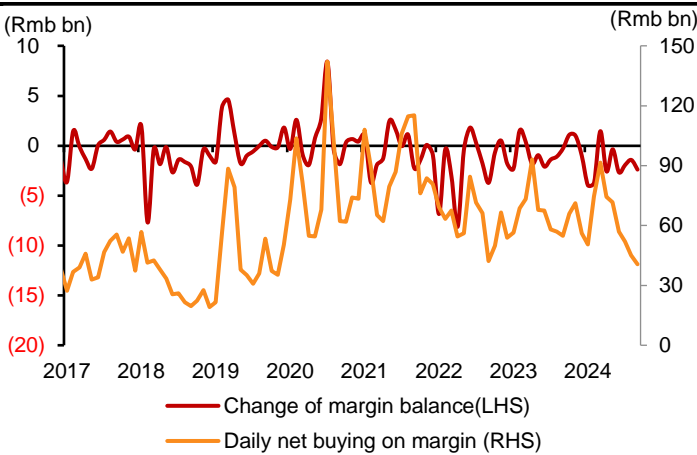
Figure 23: Money market funding cost

Source: Wind, CMBIGM

Figure 24: Bond market rates

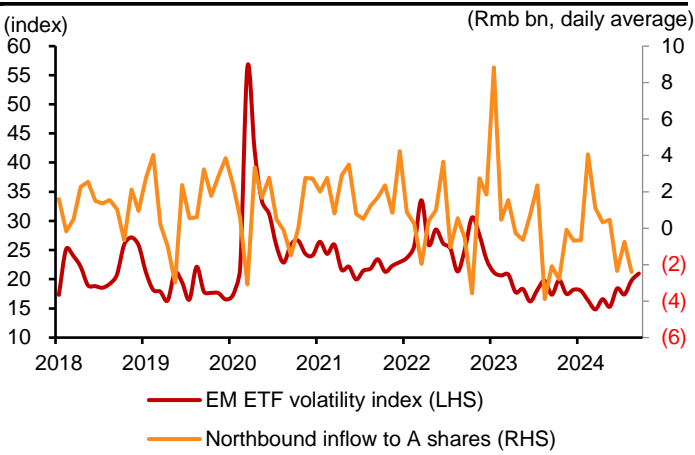
Source: Wind, CMBIGM

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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