

China Policy

Credit growth tends to stabilize amid continuous policy easing

China's total social financing beat expectations in Sep with strong growth in government bond, shadow credit and household mortgage financing. Fiscal policy seemed to play a more active role as policymakers urged local governments to use up their bond issuance quotas for this year by end-3Q23 and allowed provincial governments to issue special bonds with new quotas to resolve the hidden debt problem. Meanwhile, households' mortgage prepayments declined as the PBOC started to guide banks to lower interest rates of existing mortgage loans. However, private business confidence remained weak as new loans to enterprises declined. Looking forward, credit growth may gradually stabilize with possible slight pick-up in next several months as the continuous policy easing should further expand credit supply and stimulate credit demand. China's economy may slowly improve as the GDP growth is expected to reach 5.1% in 2023 and 4.8% in 2024.

- Social financing came in better-than-expected as government bonds followed their previous acceleration and stronger shadow financing.** Social financing flow rose 16.3% YoY (all in YoY terms unless otherwise specified) to RMB 4.12trn in Sep after increasing 26.4% in Aug. The strong social financing flow was mainly driven by the government bond financing and discounted bills. Net government bond financing followed its acceleration in the previous month at RMB 994.9bn, which was smaller than RMB1.18tn in Aug but grew significantly at 79.8% YoY. Meanwhile, shadow financing saw stronger growth of RMB300.7bn mainly driven by the new undiscounted banks' acceptance at RMB239.6bn, significantly higher than the level in the previous year at RMB13.2bn and RMB112.9bn in previous month. Net entrusted loans and trusted loans both increased on a sequential term from RMB9.7bn and -RMB22.1bn to RMB20.8bn and RMB40.3bn, reversing the trend of deceleration of OBS since early 2023. New RMB loans to real sector dropped 1.2% to RMB 2.54tn after increasing 0.5% in Aug. New foreign currency loans remained weak due to high US dollar rates and weak RMB. Corporate bond financing rebounded by 91.9% in Sep, compared to 78.4% growth in Aug.
- New RMB loans were slightly below expectation despite robust rebound in new mortgage loans.** New RMB loans dropped 6.5% to RMB2.31tn in Sep after rising 8.8% in Aug. The weak new RMB loans were due to the soft corporate credit demand as new loans to enterprises fell 12.2% to RMB1.68tn in Sep after rising 8.4% in Aug. New short-term loans returned to positive at RMB568.6bn from -RMB40.1bn in August, although plunging 13.4% YoY. New medium- to long-term loans increased to RMB1.25tn from RMB644.4bn in August, with its YoY decline narrowed to 7% from 12.4%. Net bill discount financing dropped to -RMB150bn in Sep from RMB34.7bn in Aug. On the bright side, new loans to household finally recovered thanks to the rebound in new medium- and long-term household loans. Household loans resurged 32% in Sep at RMB858.5bn from dropping 14.4% in Aug at RMB392.2bn while medium- and long-term loans rebounded 58.3% at RMB547bn from dropping 39.7% in Aug at RMB160.2bn. The improving mortgage loans show either a higher demand in housing sales or alleviating prepayment pressure, driven by the easing of property policy and lower rate on new and outstanding mortgage. Looking forward, we wonder if the trend will continue since the housing sales

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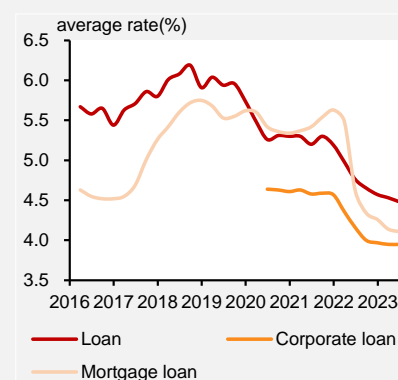
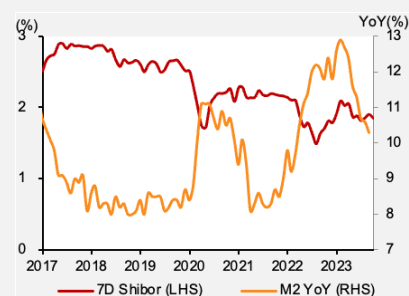
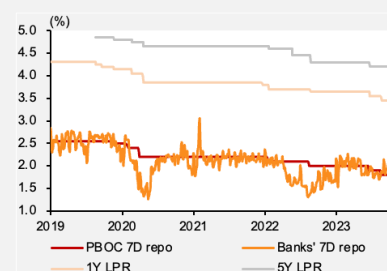
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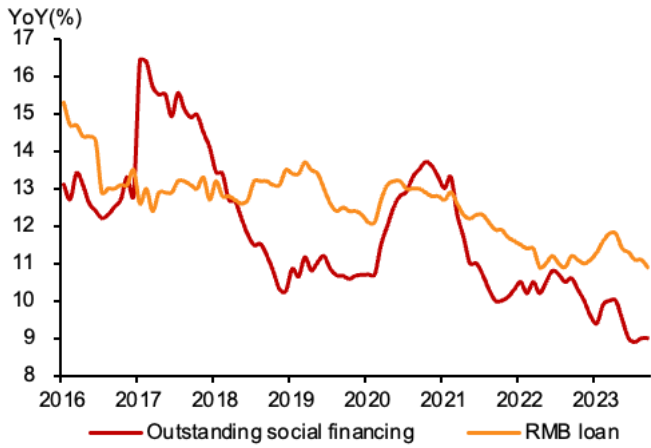
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dropped again in early Oct. New short-term loans reached RMB321.5bn as consumer expenditure marginally improved. Private business sentiment was still fragile as credit to corporate and real economy remained weak.

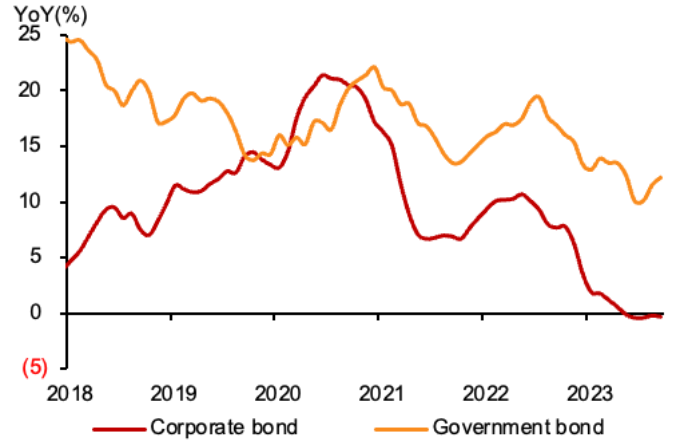
- **We expect a mild rebound in credit growth with more government debt issuance and mortgage financing ahead.** The policymakers may further loosen credit supply, property policy and fiscal policy ahead as the latest moves have failed to change market sentiment and business confidence. The PBOC may further cut RRR, deposit rates and LPRs in upcoming quarters and guide banks to expand credit supply. Meanwhile, municipal governments may further loosen property policy to stabilize property sector. In addition, governments may plan to issue more bonds with increasing broad fiscal deficit next year. Therefore, credit growth may gradually stabilize with possible mild rebound in next several months. China's economy may slowly improve. We maintain our forecast on the GDP growth at 5.1% in 2023 and 4.8% in 2024.

Figure 1: Growth of outstanding social financing



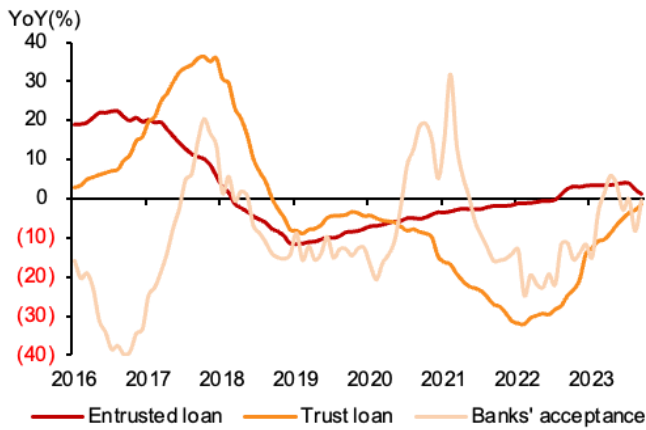
Source: Wind, CMBIGM

Figure 2: Growth of outstanding bond financing



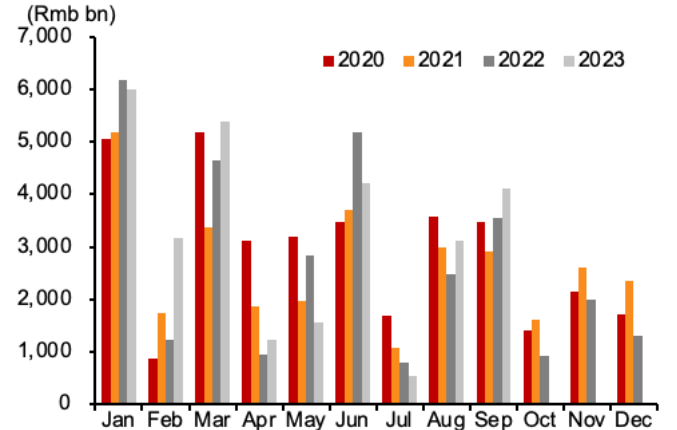
Source: Wind, CMBIGM

Figure 3: Growth of outstanding OBS financing



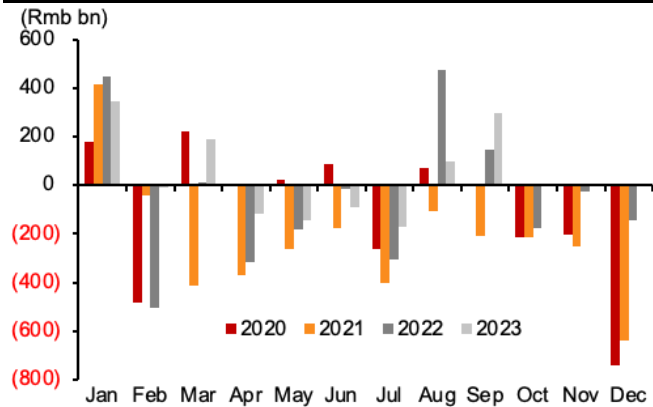
Source: MoF, CMBIGM

Figure 4: Total social financing



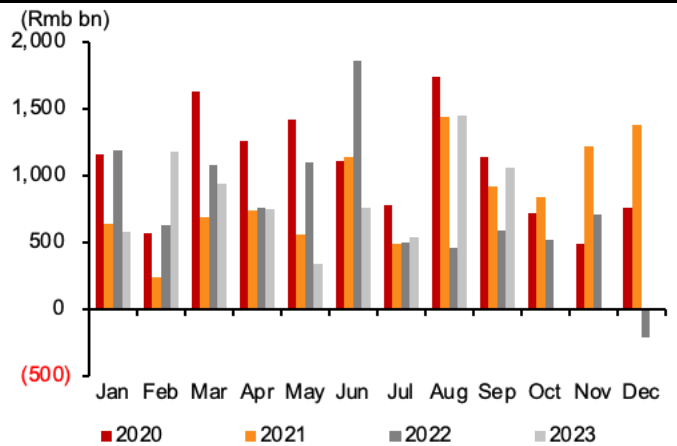
Source: MoF, CMBIGM

Figure 5: OBS financing



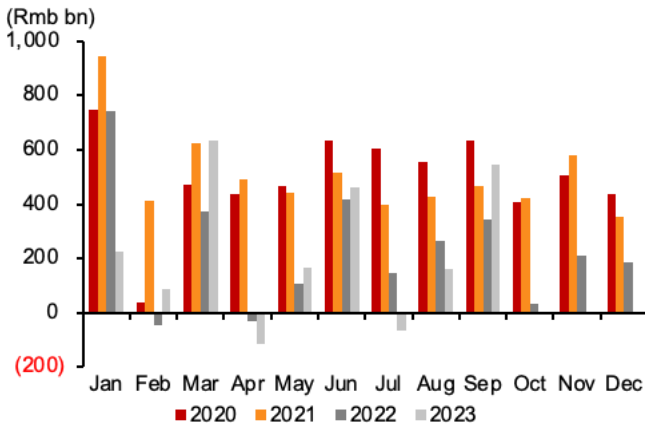
Source: Wind, CMBIGM

Figure 6: Bond financing



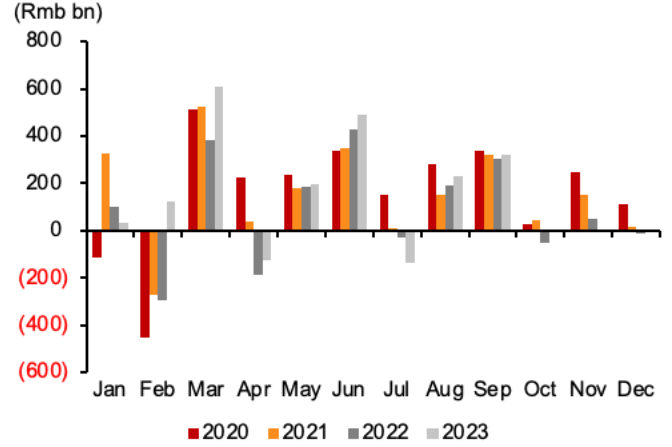
Source: Wind, CMBIGM

Figure 7: New M&L term loans to households



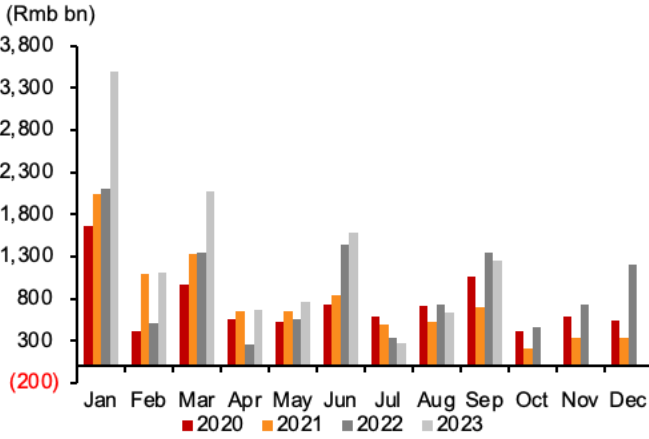
Source: Wind, CMBIGM

Figure 8: New short-term loans to households



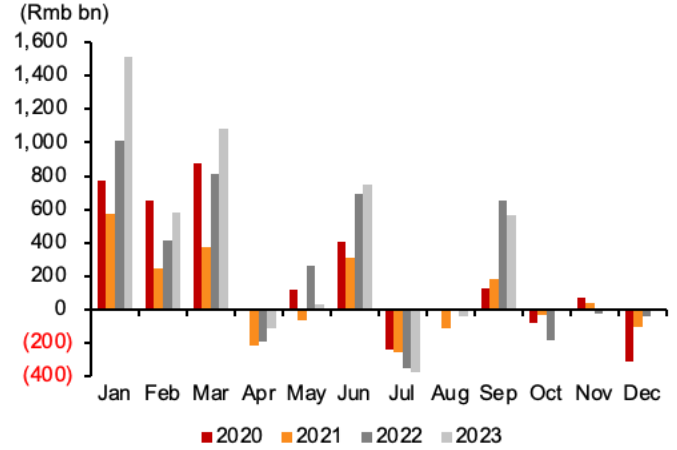
Source: Wind, CMBIGM

Figure 9: New M&L term loans to enterprises



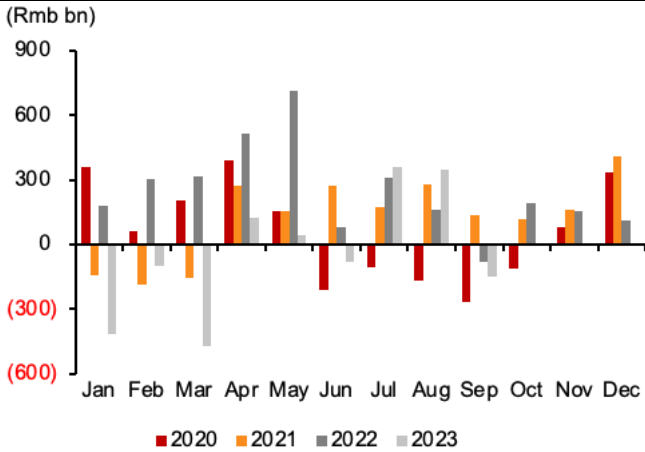
Source: Wind, CMBIGM

Figure 10: New short-term loans to enterprises



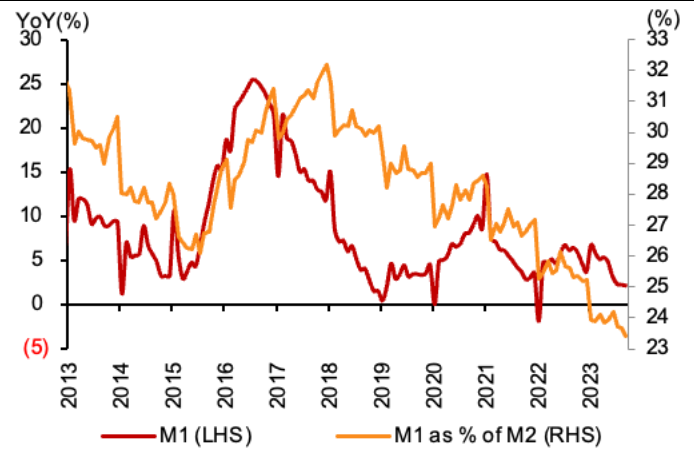
Source: Wind, CMBIGM

Figure 11: Bill financing to enterprises



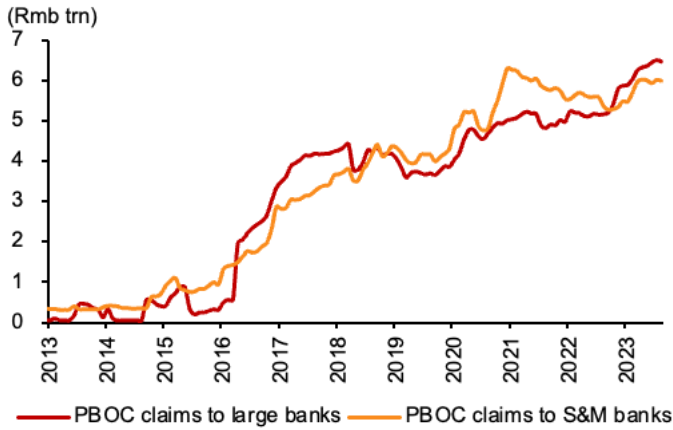
Source: Wind, CMBIGM

Figure 12: M1 growth & M1 as % of M2



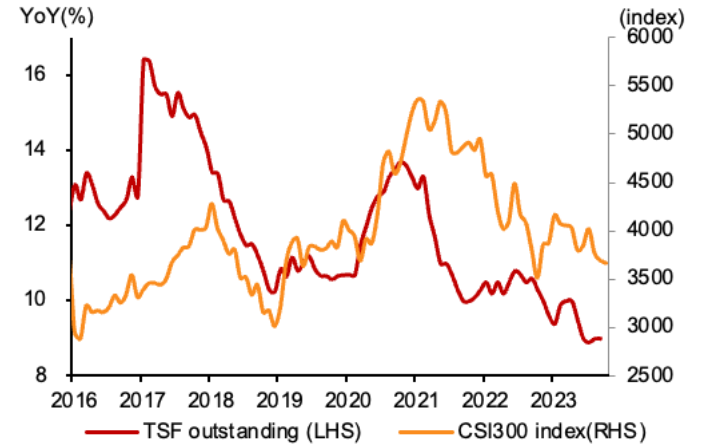
Source: Wind, CMBIGM

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



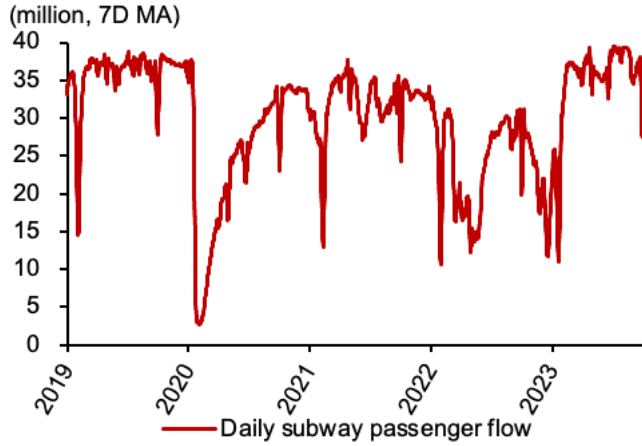
Source: Wind, CMBIGM

Figure 14: Total social financing & CSI300 index



Source: Wind, CMBIGM

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



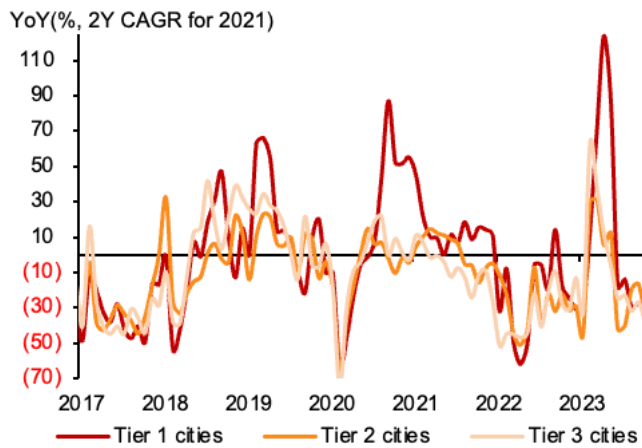
Source: Wind, CMBIGM

Figure 16: New mortgage & housing sales



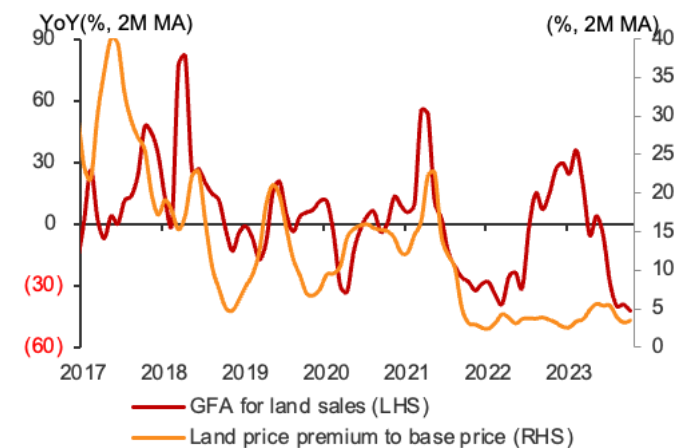
Source: Wind, CMBIGM

Figure 17: Growth of housing sales by cities



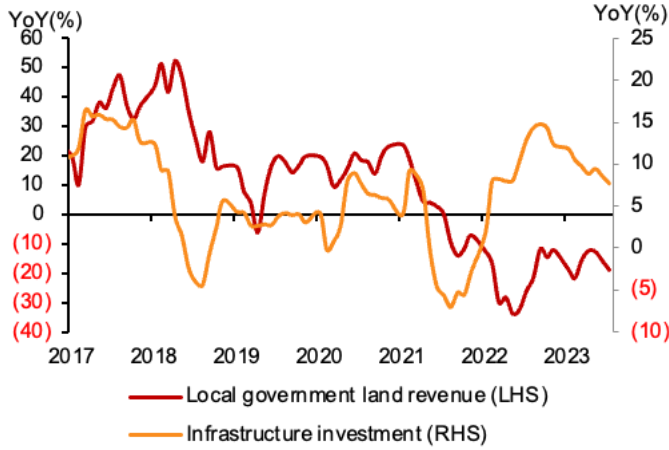
Source: Wind, CMBIGM

Figure 18: Growth of land sales



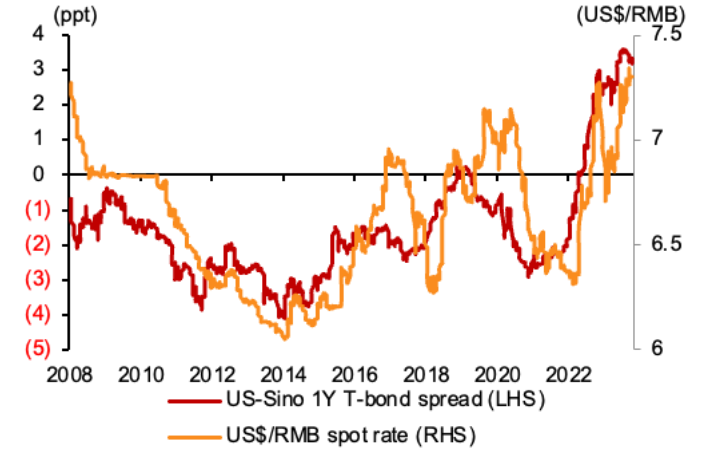
Source: Wind, CMBIGM

Figure 19: Infrastructure investment



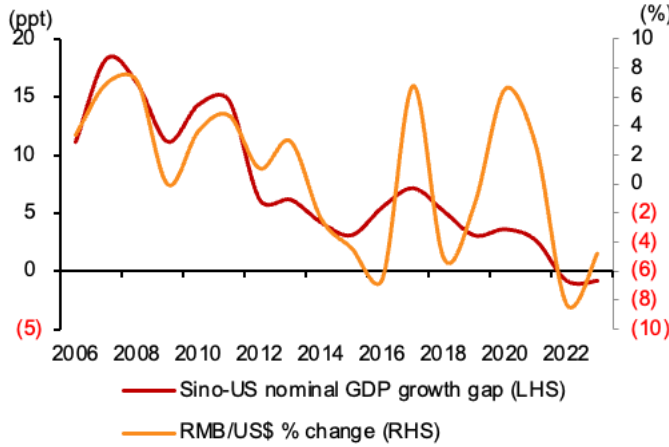
Source: Wind, CMBIGM

Figure 20: US-Sino interest spreads



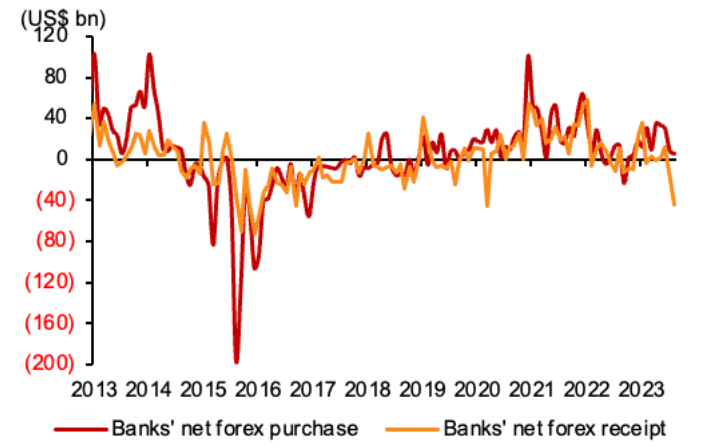
Source: Wind, CMBIGM

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



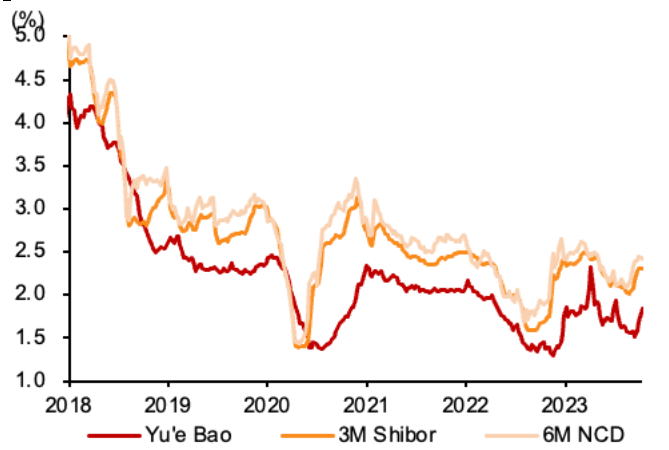
Source: Wind, CMBIGM

Figure 22: Net forex inflow



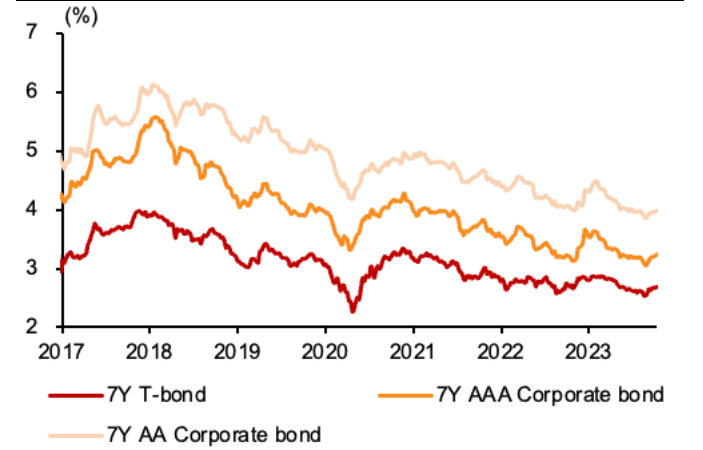
Source: Wind, CMBIGM

Figure 23: Money market funding cost



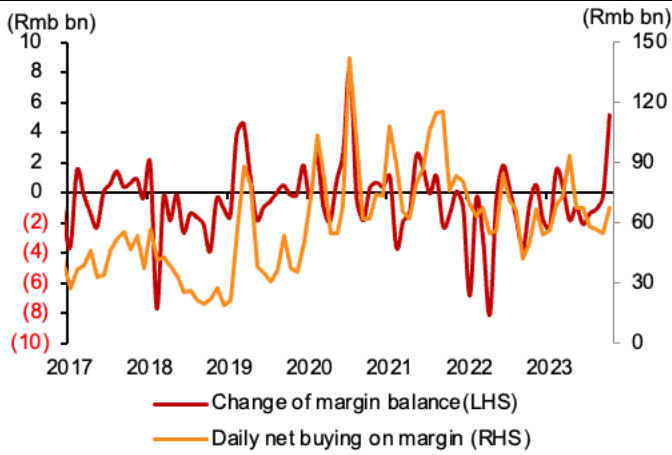
Source: Wind, CMBIGM

Figure 24: Bond market rates



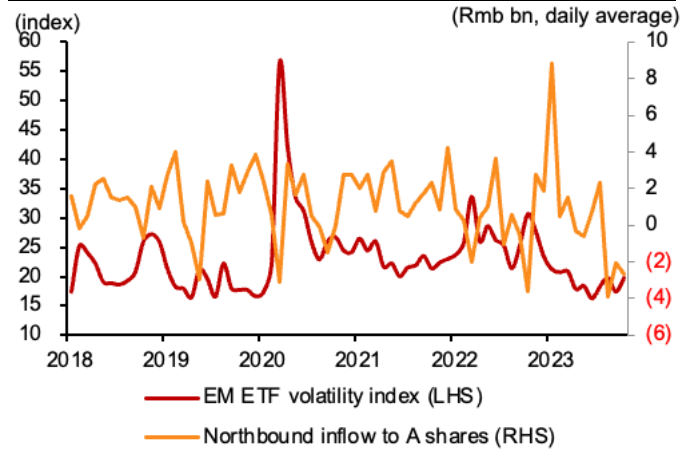
Source: Wind, CMBIGM

Figure 25: 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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