

China Economy

Credit slump indicated policy easing ahead

China's social financing flow turned negative in Apr, the first time since Nov 2005, while outstanding social financing growth dipped to new historic low. The PBOC implied in the recent monetary policy report that its crackdown on banks' hidden interest payment to depositors reduced loan arbitrage activities, which might be an important reason for credit shrinkage in Apr. Meanwhile, credit demand was also weak as real-term interest rates remained high, private business and consumer confidence was low and government bond financing contracted. The slump of social financing increased the possibility of further policy easing ahead. The MoF and local governments would accelerate their bond issuance and fiscal expenditure in next several months. The PBOC may further lower mortgage rates to boost housing demand and reduce deposit rates to protect banks' NIMs. Meanwhile, the central bank may guide banks to expand credit supply to boost economic growth and defy deflation pressure. We expect credit growth may gradually rebound in 2H24-1H25.

- Social financing flow turned negative for the first time for nearly a decade.** Social financing flow turned negative in Apr at -RMB198.7bn, the first time since Nov 2005. The YoY growth of outstanding social financing further slowed to 8.3% (all in YoY terms unless otherwise specified) from 8.7% in Mar. New household loans, short-term corporate loans, government bond financing and banks' acceptance all declined sharply. Regulatory factors and demand weakness may have caused credit squeeze in Apr. The NBS has changed the calculation of GDP growth in financial service sector from growth of outstanding loans and deposits to banks' profit growth in order to weaken the incentive of twisting loan statistics at the end of each quarter. Meanwhile, the PBOC has pressed banks to cancel the hidden interest payment to depositors to reduce loan arbitrage activities. In addition, credit demand remained weak as housing market continued to slump, deflation pressure persisted and private business confidence was still low.
- New credit deteriorated across household and corporate sectors.** Growth of outstanding RMB loans remained unchanged at 9.6% in Apr, still the lowest reading in nearly 45 years. New RMB loans marginally increased by 1.6% YoY to RMB730bn in Apr from RMB3.1tn in Mar, driven by the substantial increase of corporate bill financing rising 555% at RMB838.1bn, the largest monthly increase in history. New short-term loans to corporates declined to -RMB410bn while new M&L term loans dipped 38.5% to RMB410bn. New loans to households decreased to -RMB546.6bn in Apr from RMB940.6bn in Mar. New short-term loans dipped to -351.8bn and new M&L loans dropped to -RMB166.6bn in Apr, as household demand in consumption and property remained subdued.
- The credit slump increased the possibility of further credit policy loosening.** The credit slump brought additional downside risks on China's economic growth, which should increase the possibility of further policy loosening in future. The MoF and local governments are expected to accelerate their bond issuance and fiscal expenditure in next several months. The PBOC may further lower mortgage rates to boost housing demand and reduce deposit rates to protect banks' NIMs. Meanwhile, the central bank may guide banks to expand credit supply to boost economic growth and defy deflation pressure. We expect credit growth may gradually rebound in 2H24-1H25.

Bingnan YE, Ph.D

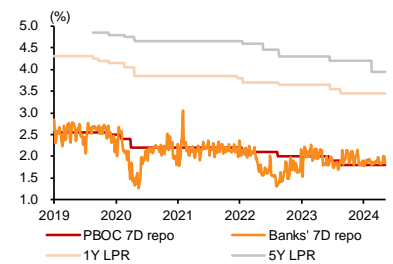
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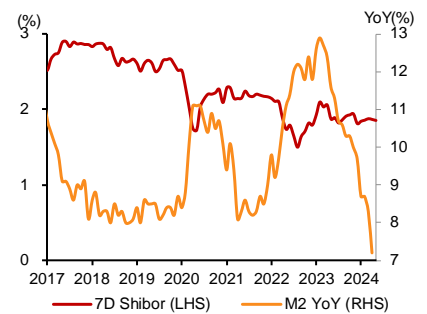
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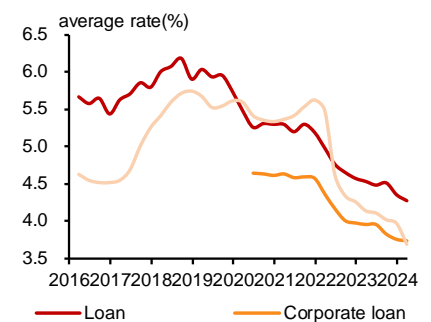
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Source: Wind, CMBIGM

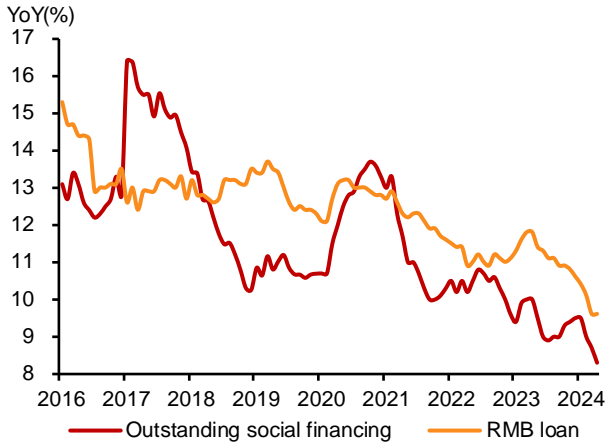


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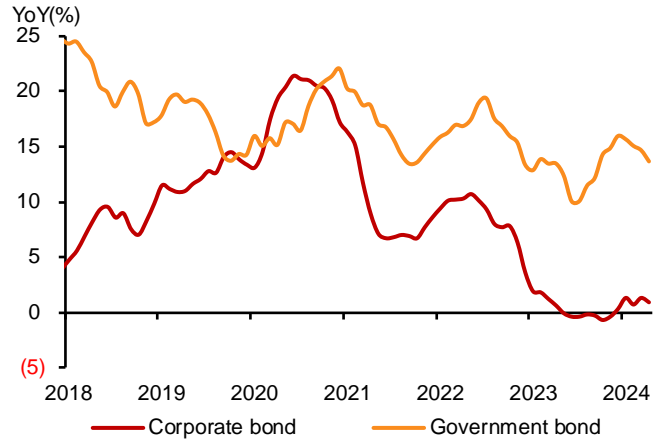
Source: Wind, CMBIGM

Figure 1: Growth of outstanding social financing



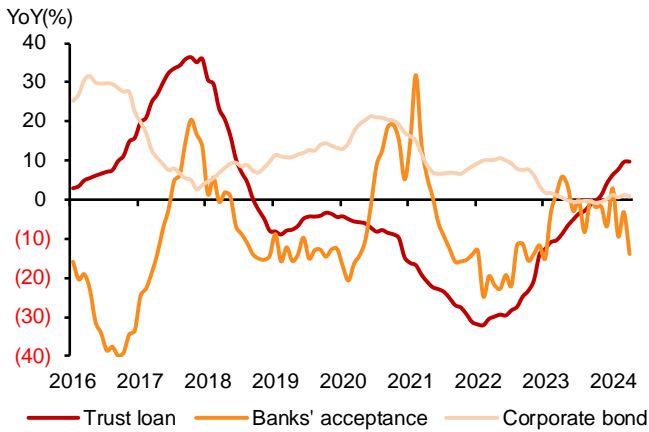
Source: Wind, CMBIGM

Figure 2: Growth of outstanding bond financing



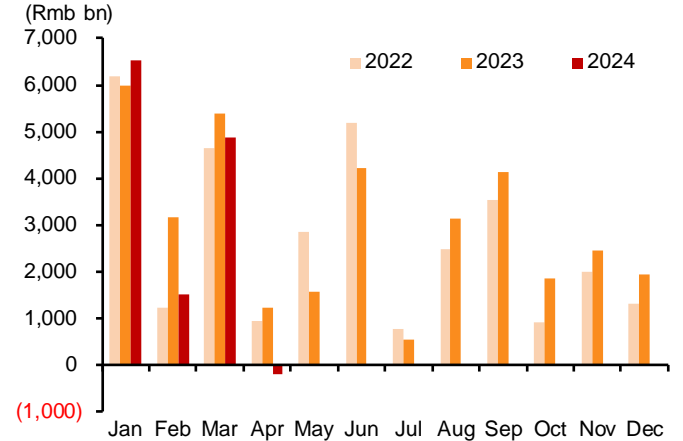
Source: Wind, CMBIGM

Figure 3: Growth of outstanding OBS financing



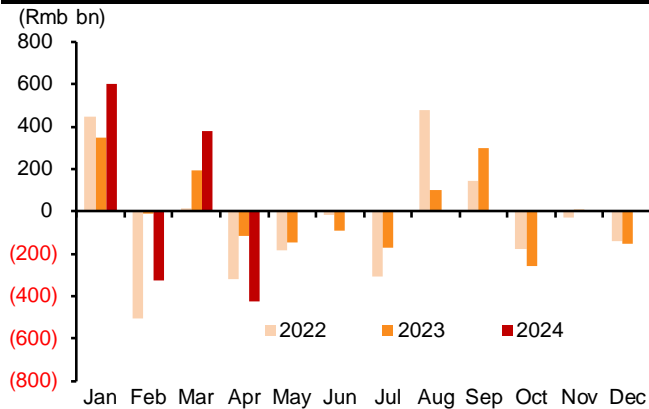
Source: MoF, CMBIGM

Figure 4: Total social financing



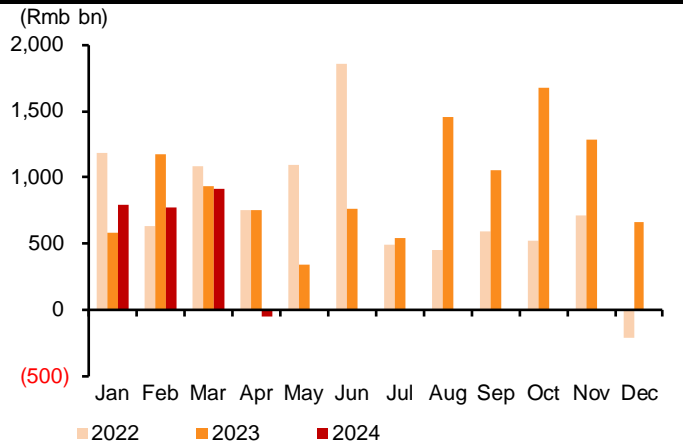
Source: MoF, CMBIGM

Figure 5: OBS financing



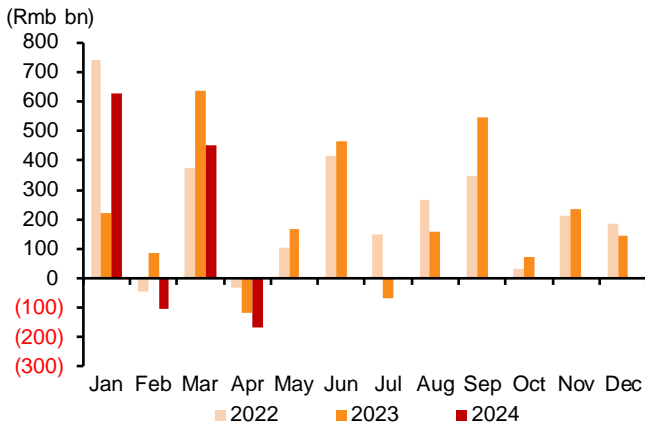
Source: Wind, CMBIGM

Figure 6: Bond financing



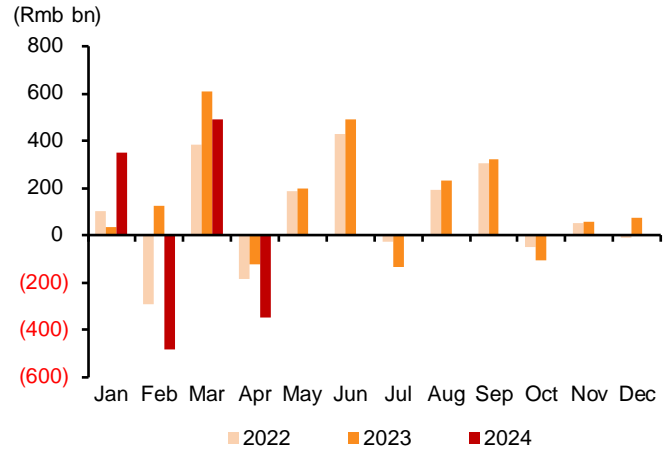
Source: Wind, CMBIGM

Figure 7: New M&L term loans to households



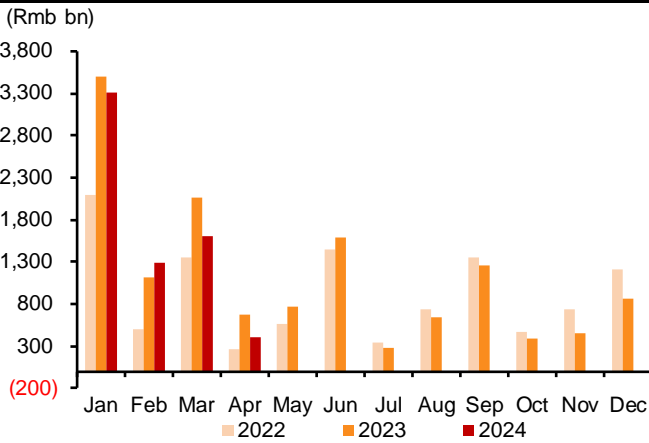
Source: Wind, CMBIGM

Figure 8: New short-term loans to households



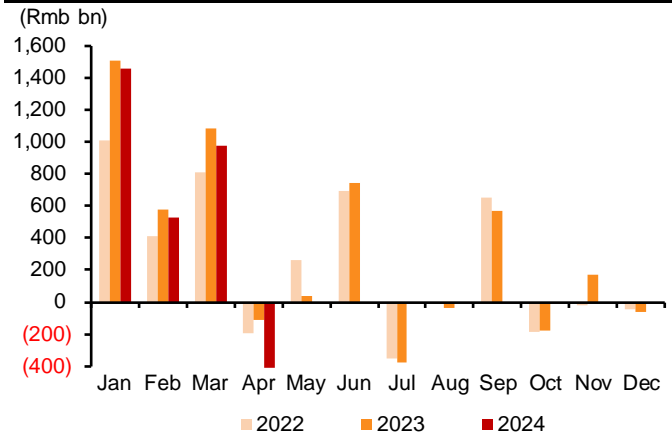
Source: Wind, CMBIGM

Figure 9: New M&L term loans to enterprises



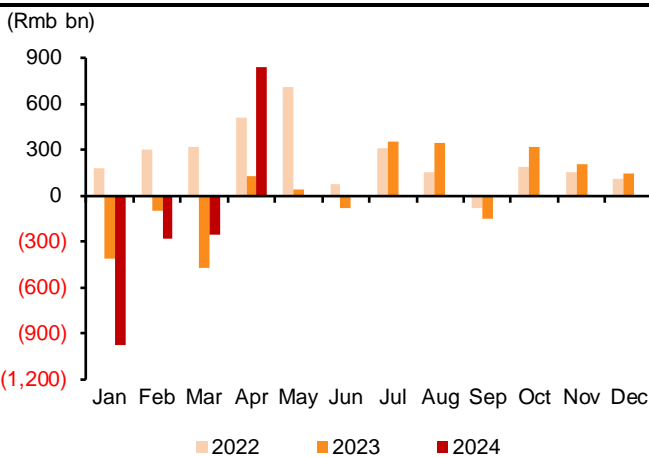
Source: Wind, CMBIGM

Figure 10: New short-term loans to enterprises



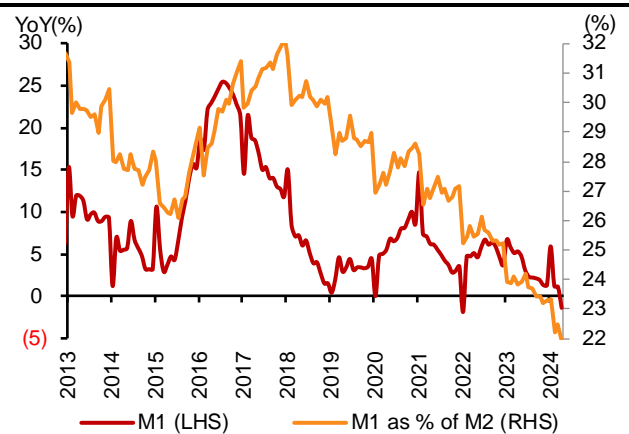
Source: Wind, CMBIGM

Figure 11: Bill financing to enterprises



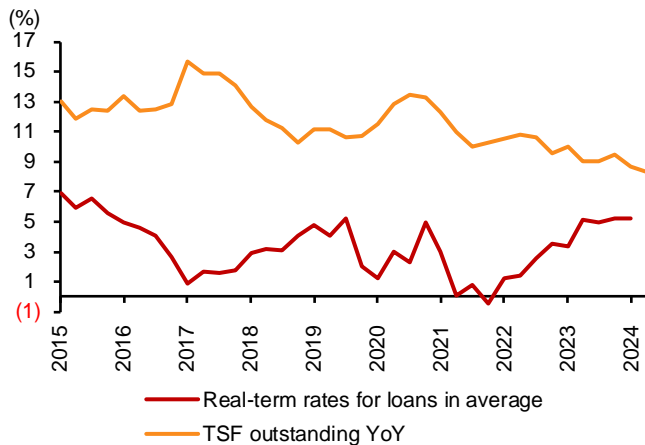
Source: Wind, CMBIGM

Figure 12: M1 growth & M1 as % of M2



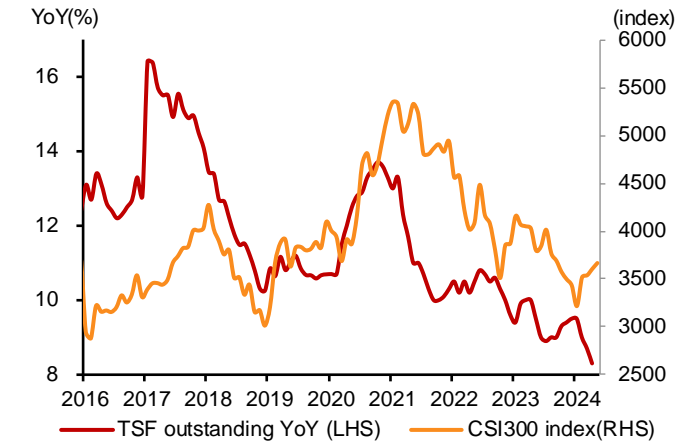
Source: Wind, CMBIGM

Figure 13: Real-term loan rates & TSF growth



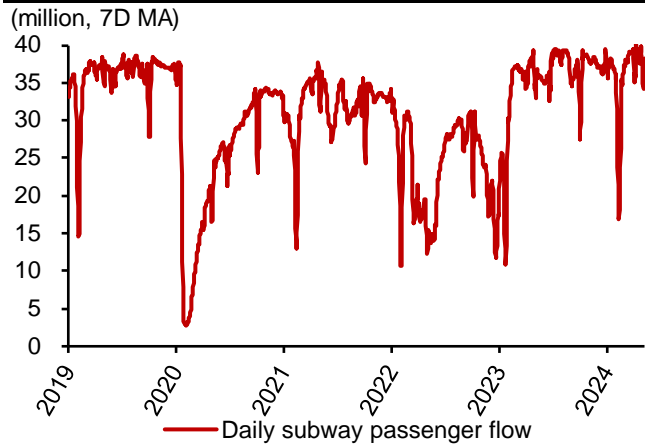
Source: Wind, CMBIGM

Figure 14: TSF growth & CSI 300 index



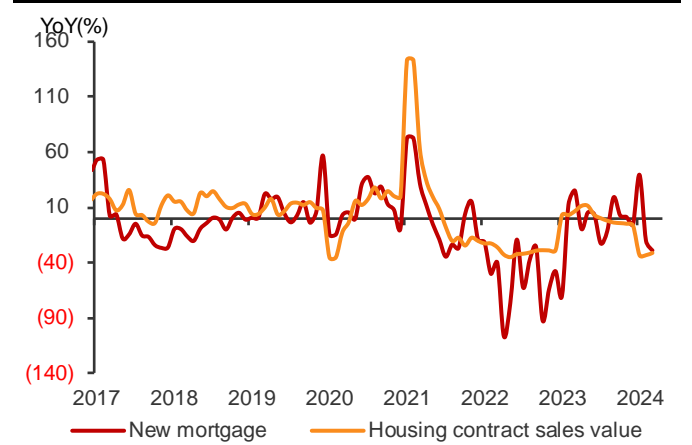
Source: Wind, CMBIGM

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



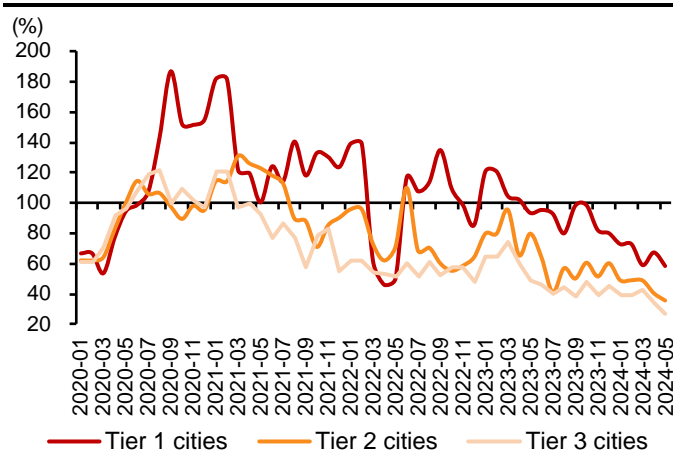
Source: Wind, CMBIGM

Figure 16: New mortgage & housing sales



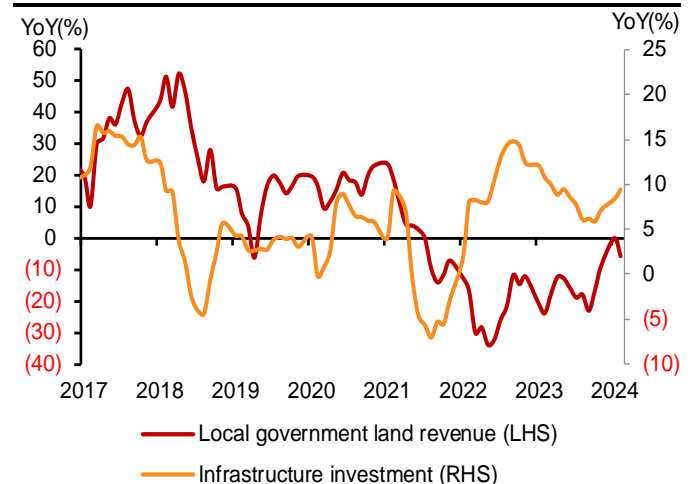
Source: Wind, CMBIGM

Figure 17: Housing sales recovery ratio compared to 2019



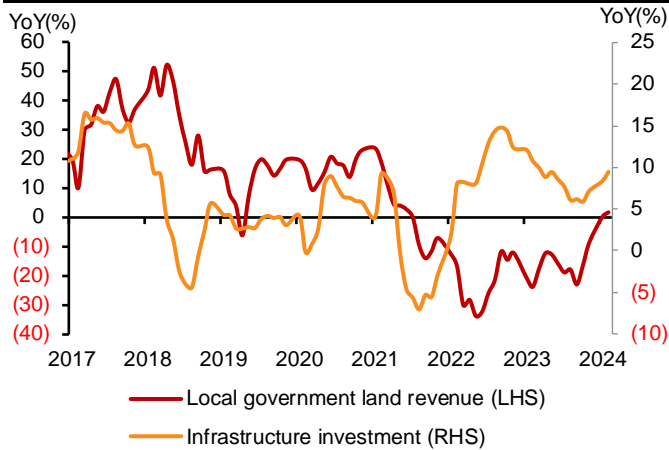
Source: Wind, CMBIGM

Figure 18: Growth of land sales



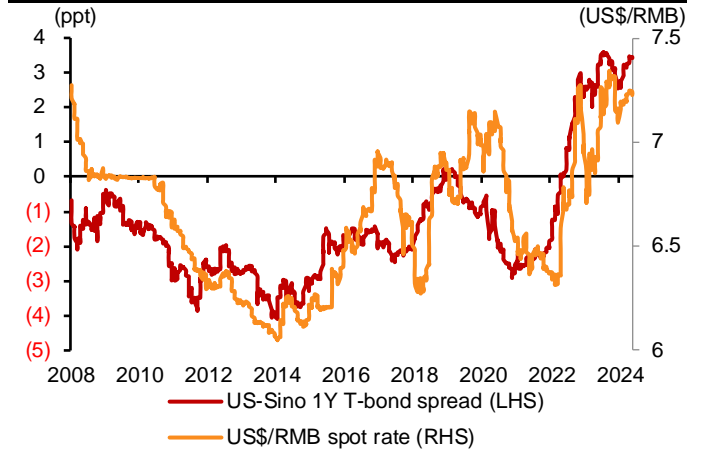
Source: Wind, CMBIGM

Figure 19: Infrastructure investment



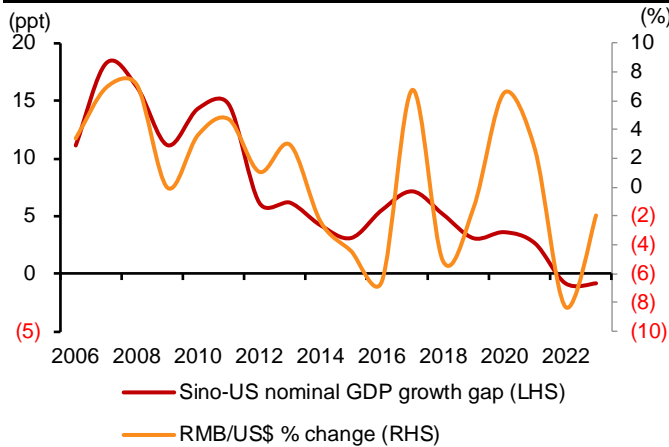
Source: Wind, CMBIGM

Figure 20: US-China interest spreads



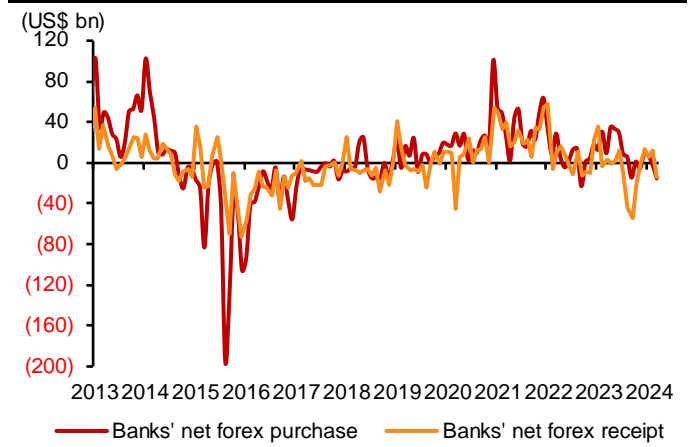
Source: Wind, CMBIGM

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



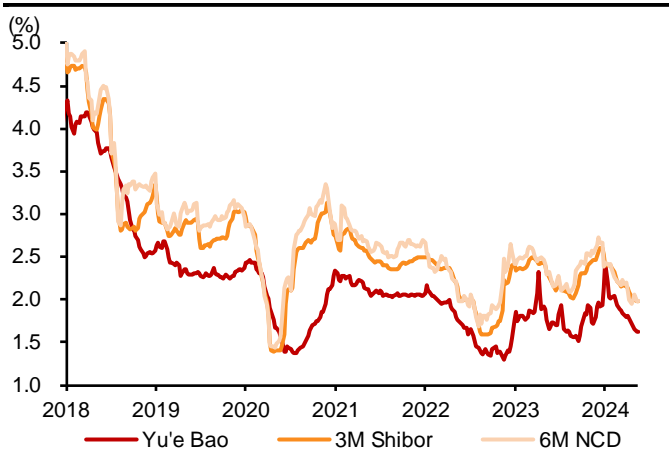
Source: Wind, CMBIGM

Figure 22: Net forex inflow



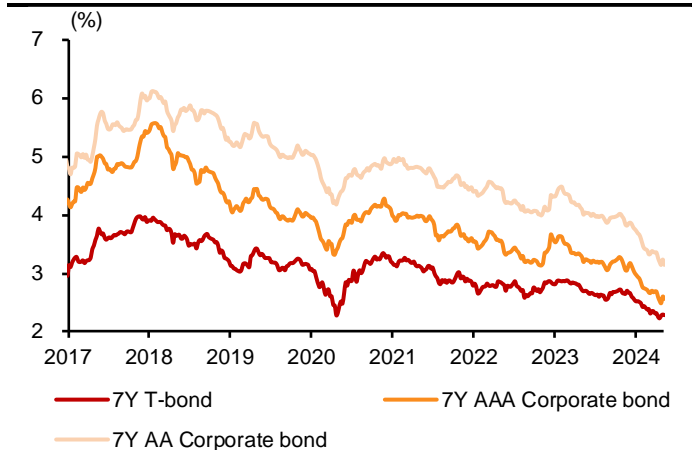
Source: Wind, CMBIGM

Figure 23: Money market funding cost



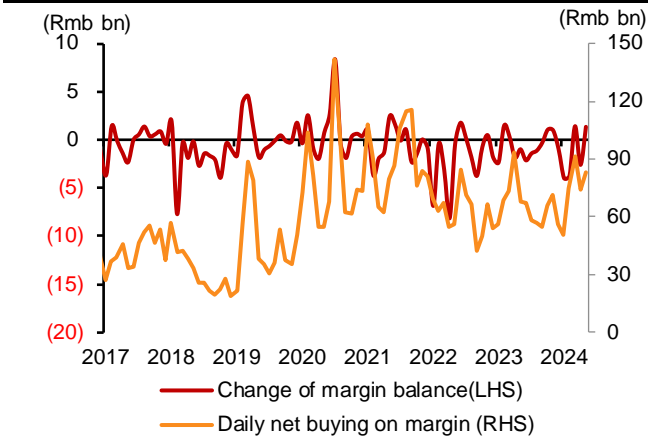
Source: Wind, CMBIGM

Figure 24: Bond market rates



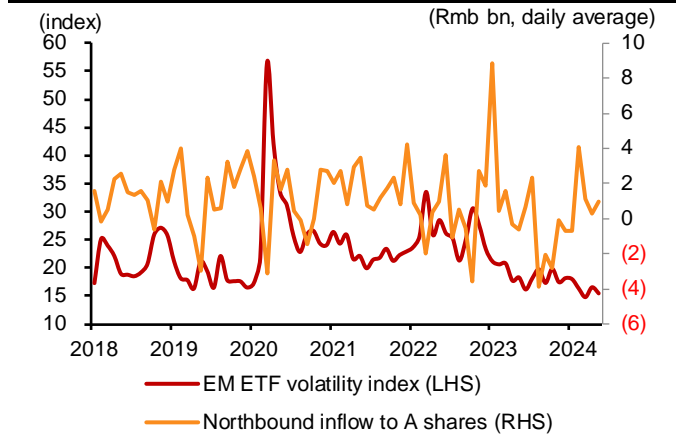
Source: Wind, CMBIGM

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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