China Economy

Credit weakness with liquidity easing

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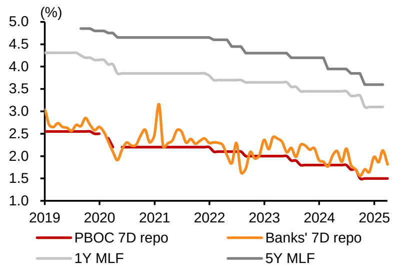
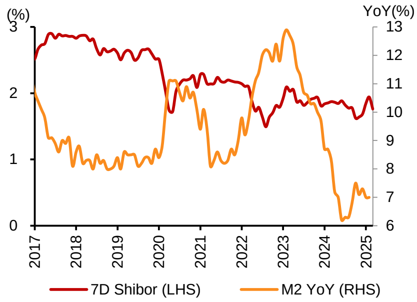
China's social financing flow beat market expectations yet its growth remained weak. Government bond issuance further slowed down, as a sign of moderating fiscal support. Credit demand in real economy remained subdued for both housing and corporate sectors, reflecting weakening property market and lethargic corporate capex. M1 growth continued to rebound as business activities improved. Looking forward, the central bank is likely to maintain ample liquidity and support steady credit growth. We expect 10 bps LPR cut and 50 bps RRR cut in 4Q25.

- **Social financing flows beat market expectation.** Outstanding social financing (SF) growth edged down to 8.7% in Sep from 8.8% (all in YoY terms unless otherwise specified), as the SF flow declined by 6.1% to RMB3.53trn, which beat market expectation of RMB3.27trn. Government bond issuance further contracted by 22.6% to RMB1.19trn in Sep compared to RMB1.37trn in Aug. The utilization of 83% of the RMB13.9 trn full-year incremental debt quota indicates that fiscal support may retreat notably in 4Q25 absent an additional quota expansion. Corporate bond issuance extended its recovery to RMB10.5bn in Sep from -RMB192.6bn last year, with YoY growth in 3Q accelerated to 131% from 53% in 2Q. RMB loans to the real economy under SF remained subdued but narrowed its decline from -40% in Aug to -19% to RMB1.61trn in Sep. M1 supply accelerated to 7.2% in Sep from 6% in Aug, the highest level since early 2021, reflecting the recovering business vitality. M2 declined from 8.8% in Aug to 8.4% in Sep.
- **New RMB loans remained subdued.** Growth of outstanding RMB loans edged down to 6.6% in Sep from 6.8%, marking another historical low. The flow of RMB loans dropped 18.9% to RMB1.29trn in Sep. Credit demand of household sector remained lethargic as loans to household contracted by 22%. ST loans dropped 47.4% in Sep, while M&L-term loans rebounded by 8.7% despite its 55.6% fall in quarterly growth, reflecting weakening demand in both consumption and property market. Loan to corporate sector dropped 18.1% in Sep. The ST loan rebounded by 54% while the M&L-term loans declined by 5.2%, and bill financing saw negative flow of -RMB402bn.
- **Liquidity condition will remain easing.** The continued pick-up of M1 growth indicates a gradual recovery of business activities. However, credit growth remained low as housing demand and business capex were still weak. Deflationary pressure lasted as real-term interest rates were still high. Looking forward, the central bank is likely to maintain ample liquidity and support steady credit growth to defy deflation and boost the economy and housing market. We expect 10 bps LPR cut and 50 bps RRR cut in 4Q25.



Source: Wind, CMBIGM



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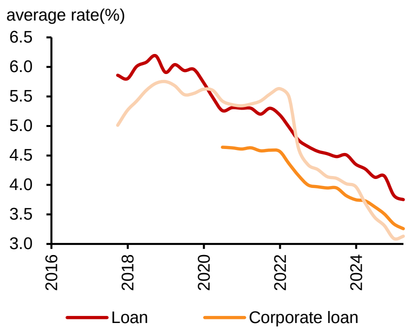
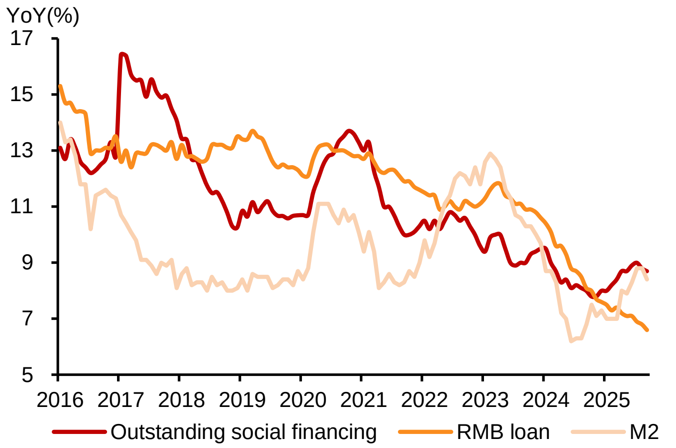


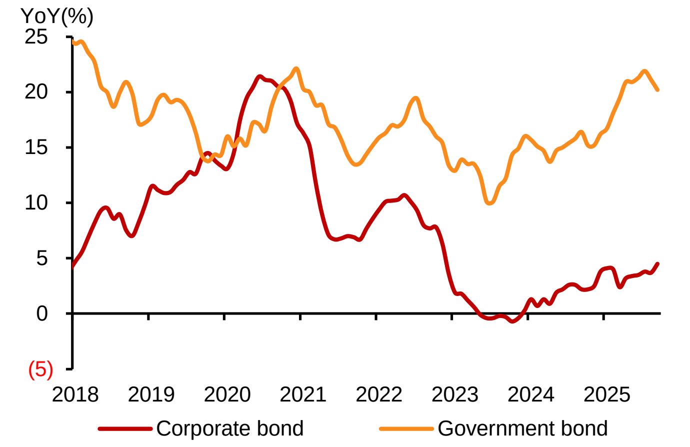
Source: Wind, CMBIGM

Figure 1: Growth of outstanding social financing



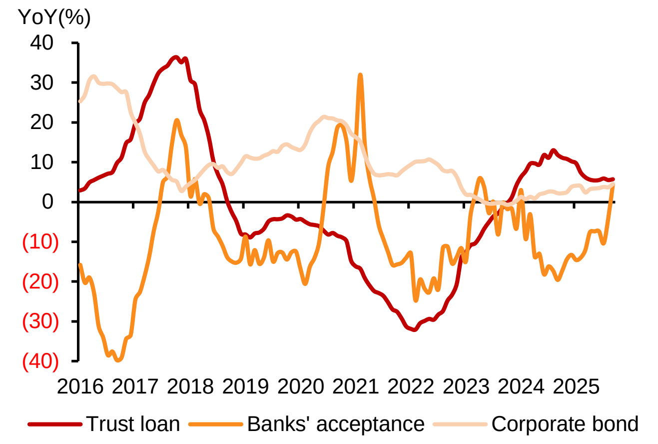
Source: Wind, CMBIGM

Figure 2: Growth of outstanding bond financing



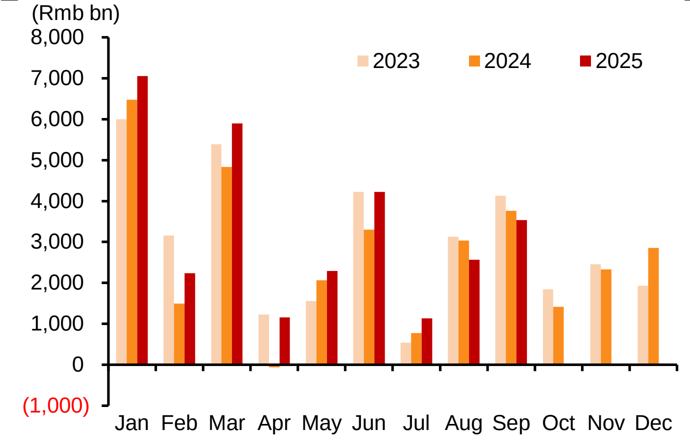
Source: Wind, CMBIGM

Figure 3: Growth of outstanding OBS financing



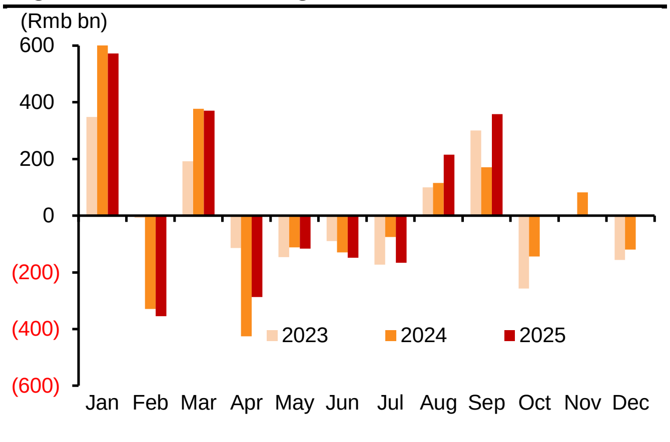
Source: MoF, CMBIGM

Figure 4: Total social financing



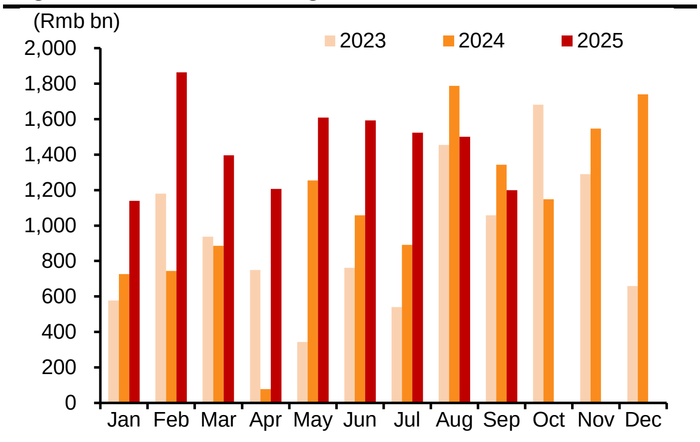
Source: MoF, CMBIGM

Figure 5: OBS financing



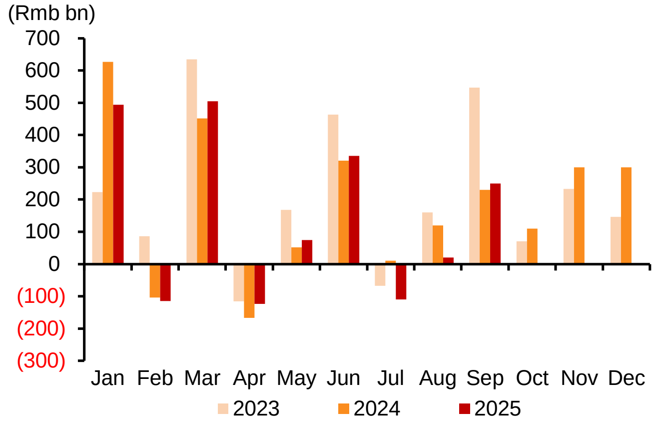
Source: Wind, CMBIGM

Figure 6: Bond financing



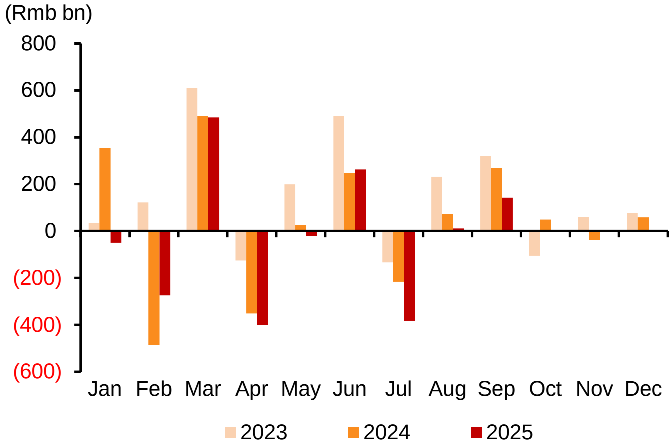
Source: Wind, CMBIGM

Figure 7: New M&L term loans to households



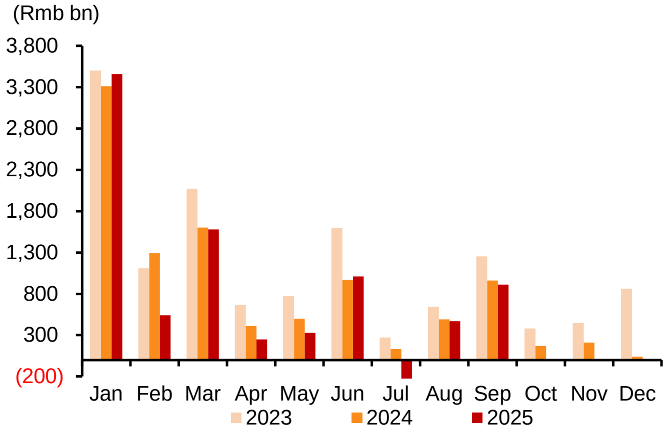
Source: Wind, CMBIGM

Figure 8: New short-term loans to households



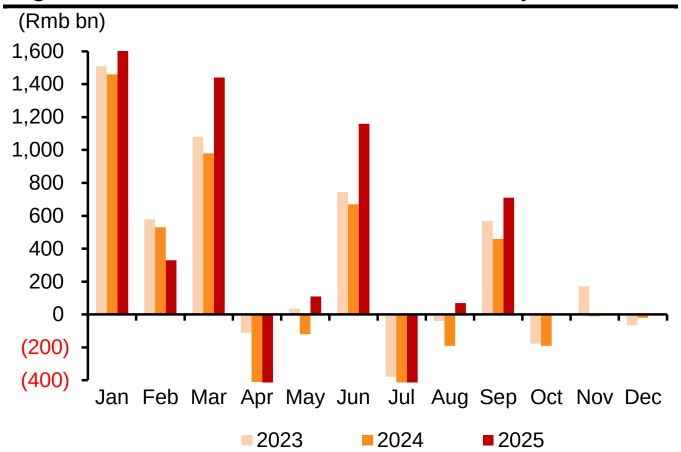
Source: Wind, CMBIGM

Figure 9: New M&L term loans to enterprises



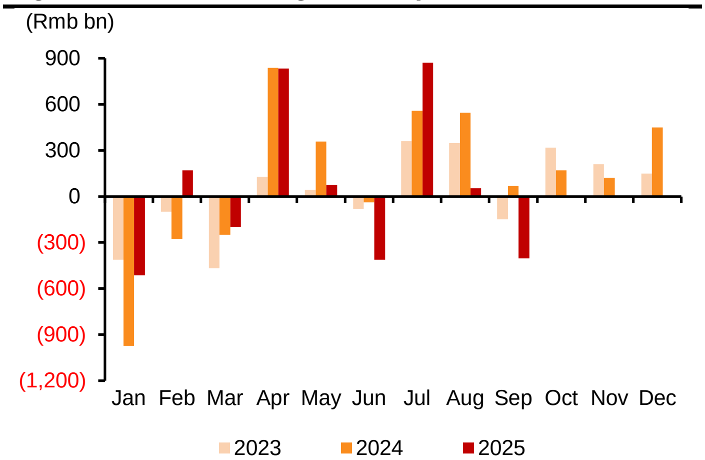
Source: Wind, CMBIGM

Figure 10: New short-term loans to enterprises



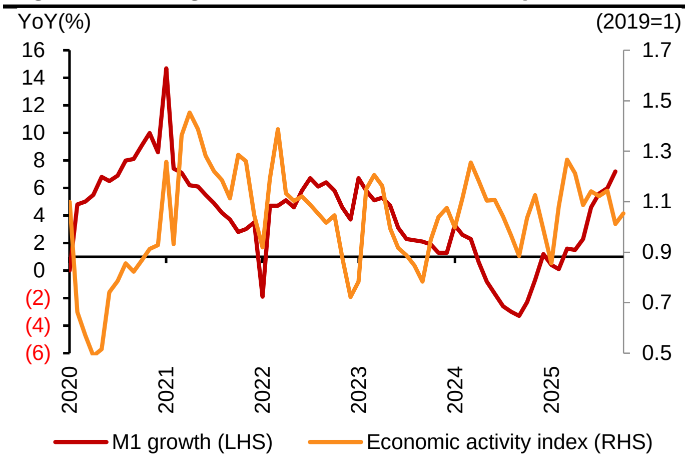
Source: Wind, CMBIGM

Figure 11: Bill financing to enterprises



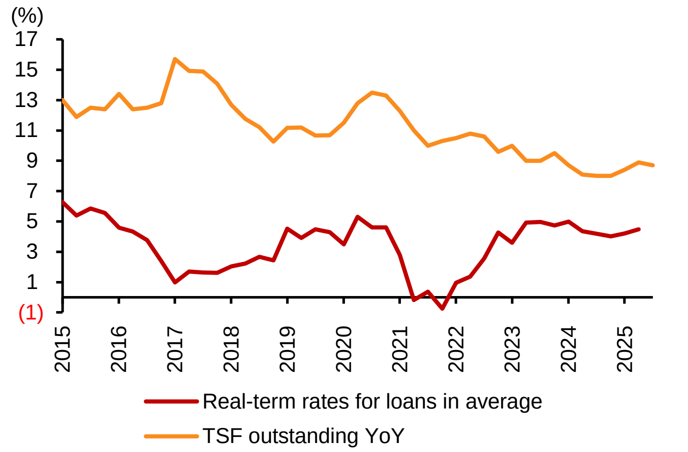
Source: Wind, CMBIGM

Figure 12: M1 growth & Economic activity index



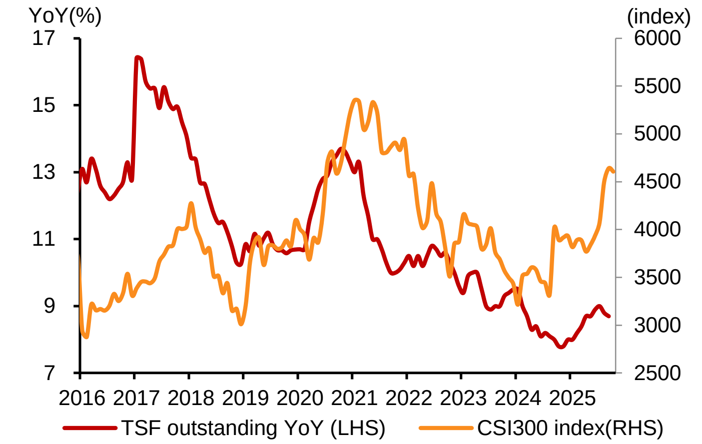
Source: Wind, CMBIGM

Figure 13: Real-term loan rates & TSF growth



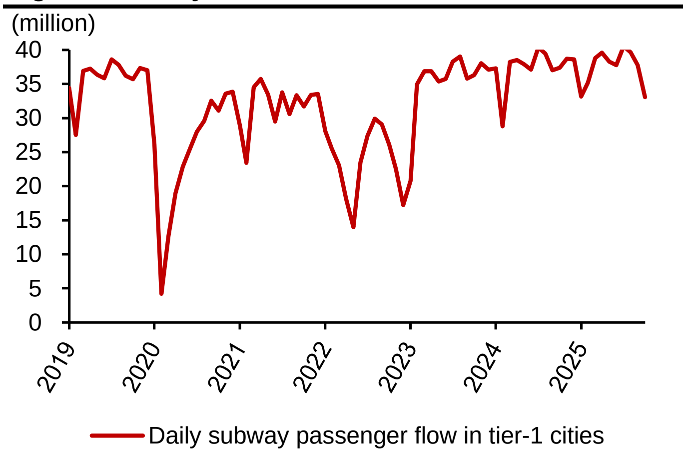
Source: Wind, CMBIGM

Figure 14: TSF growth & CSI300 index



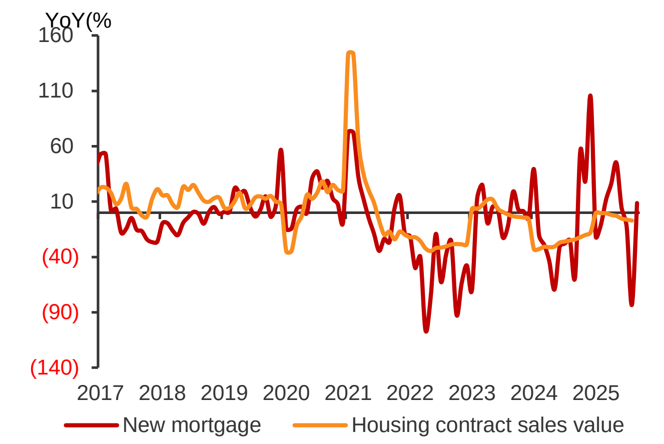
Source: Wind, CMBIGM

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



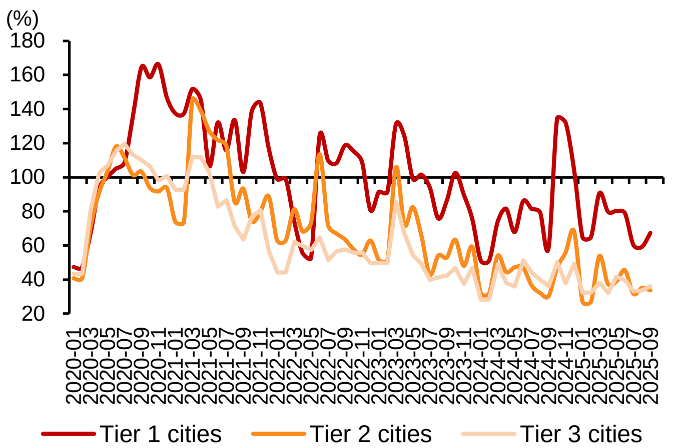
Source: Wind, CMBIGM

Figure 16: New mortgage & housing sales



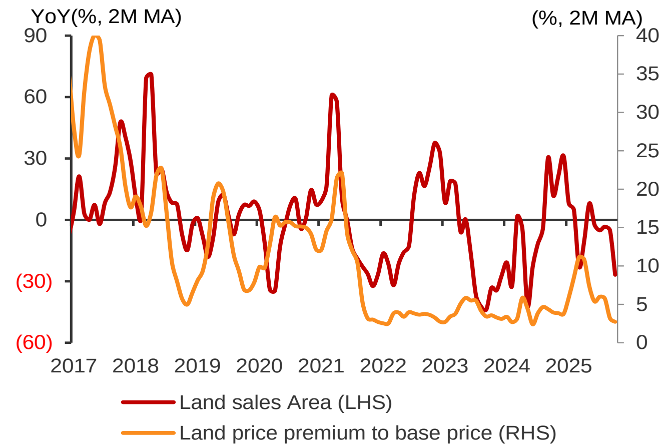
Source: Wind, CMBIGM

Figure 17: Housing sales recovery rates compared to 2019



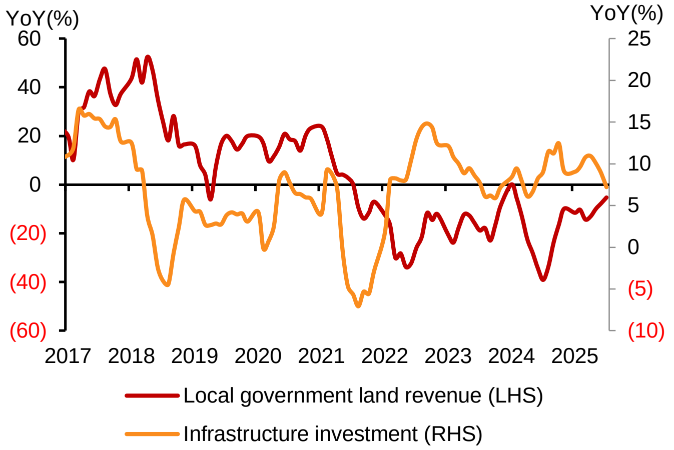
Source: Wind, CMBIGM

Figure 18: Growth of land sales



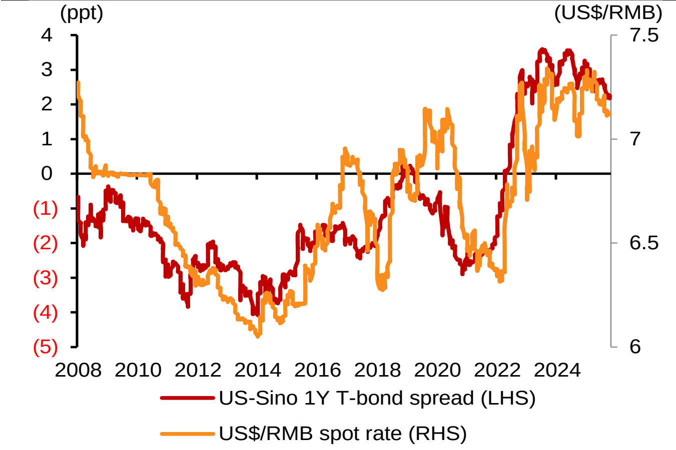
Source: Wind, CMBIGM

Figure 19: Infrastructure investment



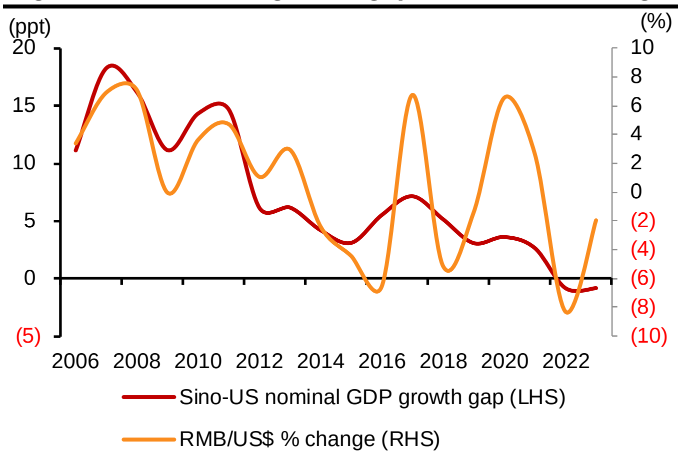
Source: Wind, CMBIGM

Figure 20: US-China interest spreads



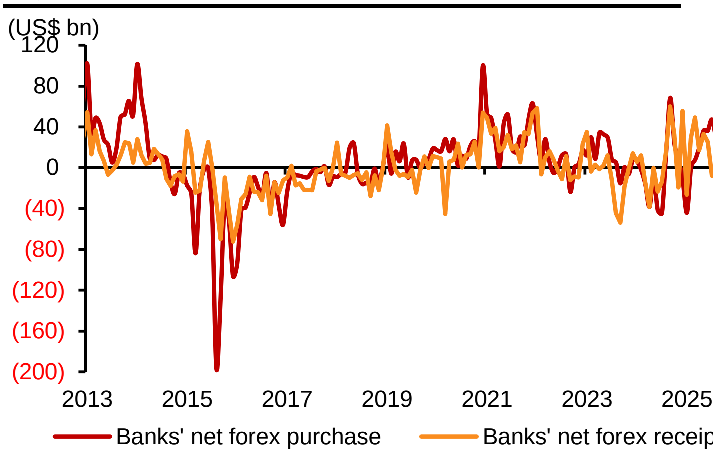
Source: Wind, CMBIGM

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



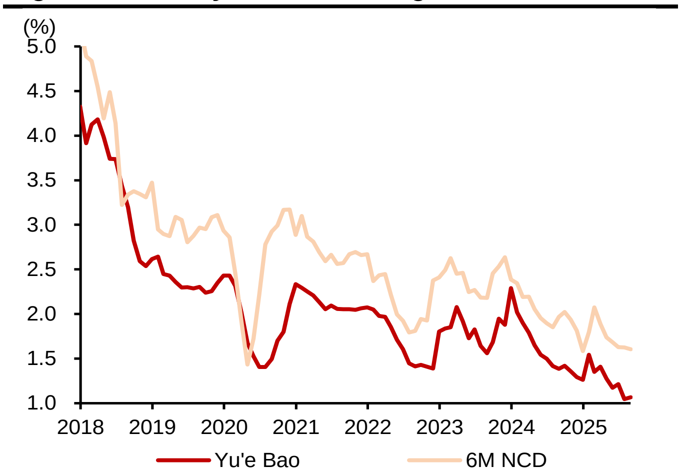
Source: Wind, CMBIGM

Figure 22: Net forex inflow



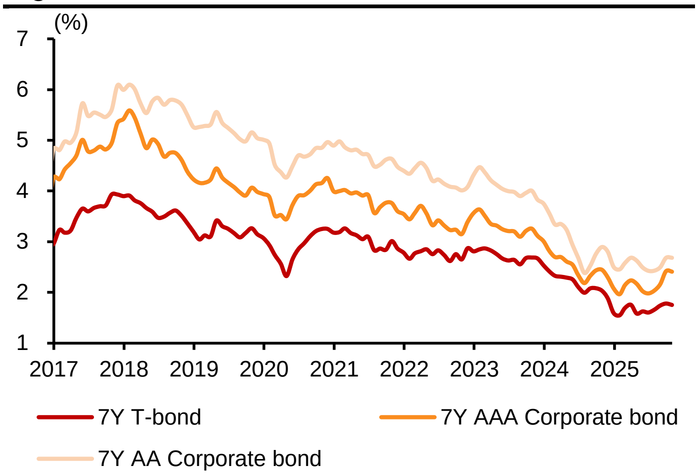
Source: Wind, CMBIGM

Figure 23: Money market funding cost



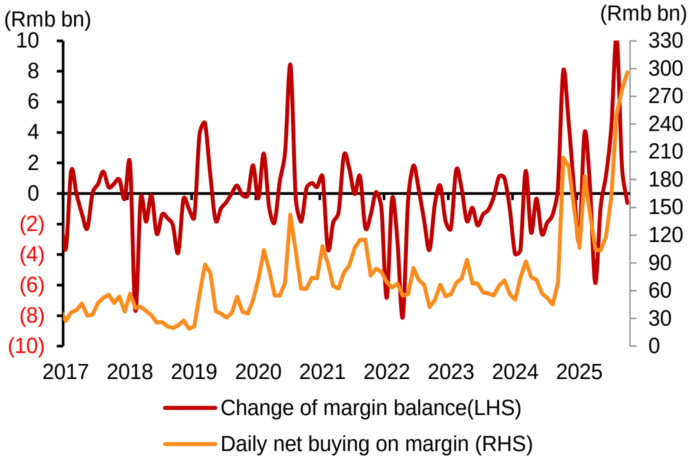
Source: Wind, CMBIGM

Figure 24: Bond market rates



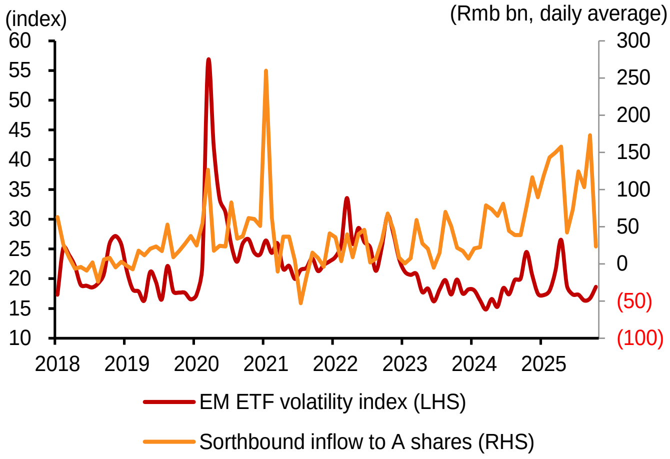
Source: Wind, CMBIGM

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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