

China Economy

Signal of moderate monetary easing

China's outstanding social financing growth exhibited a notable deceleration toward the end of 2025. This trend, coupled with a sharp slowdown in M1 supply growth, underscores a cooling in economic activity and private sector confidence. There is a persistent economic imbalance between robust supply and weak demand as the corporate sector remains the primary engine of credit expansion and the household sector continues to prioritize deleveraging over new borrowings. In response, the People's Bank of China (PBOC) has signaled a shift toward a more accommodative stance and additional property stimulus for 2026, characterized by cuts in structural re-lending facilities and minimum down payment ratio for commercial property loans. Looking ahead, the central bank has indicated additional room for interest rate and RRR cuts, with expectations of a 50bps RRR cut and two 10bps LPR reductions this year. Regarding exchange rate policy, the central bank remains committed to market-driven flexibility and RMB resilience. The USD/RMB is projected to decline to 6.93 at end-1H26 before rising to 6.97 by year-end.

Credit and M1 growth slowed down as economic activities weakened. Outstanding social financing growth continued to decline from 8.7% at end-3Q25 to 8.5% at end-November and 8.3% at end-December, indicating a slowdown of broad credit growth. Outstanding government bond financing growth moderated from 18.8% at end-November to 17.1% at end-December as the fiscal expansion momentum softened. Outstanding RMB loan growth remained unchanged at 6.4% at the year end, but new RMB loan financing dropped 8.1% in December with the loan funding to business sector up 118.4% and that to household sector remaining negative. New medium- and long-term loans to households dropped 96.7% YoY, as housing sales continued to slump. Despite a YoY increase of bond and loan financing in the corporate sector, broad economic activity and private confidence weakened as M1 supply growth decelerated from 7.2% at end-3Q25 to 4.9% at end-November and 3.8% at end-December. 80% of M1 was demand deposits, which were oriented to economic transactions.

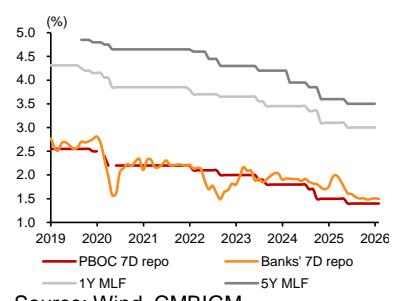
Sector divergence showed economic imbalance. The loan data revealed a stark economic imbalance with robust supply and weak demand. The corporate sector remained the primary engine of credit growth, partially supported by the low-cost special loans targeting specific sectors. In sharp contrast, the household sector remained in the deleveraging trap with more debt repayments than new borrowings. The household sector's reluctance to borrow is partially due to the balance-sheet effect following the property market slump. With housing prices down over 35% in major cities since 3Q21, the erosion of household wealth and confidence has severely dampened consumer spending and reflationary momentum. Unlike the US subprime or Eurozone sovereign debt crises, Chinese households instead of banks bear the primary burden of asset devaluation as the mortgage non-performing loan (NPL) ratios remain low. China's system features high down payment requirements and strong lender protections. Legal constraints on personal bankruptcy and deep cultural attachment to homeownership, rooted in traditional values of family security and social status, deter borrowers from defaulting even in distress. Consequently, Chinese households absorb most of the balance-sheet impacts of property market slump, contributing to weakened confidence and spending power. After decades of viewing real estate as a "sure bet," the current price correction has triggered a psychological pivot toward financial conservatism. Households are now prioritizing "balance-sheet repair" over consumption, a behavior that presents a significant challenge to the government's goal of a consumption-led recovery.

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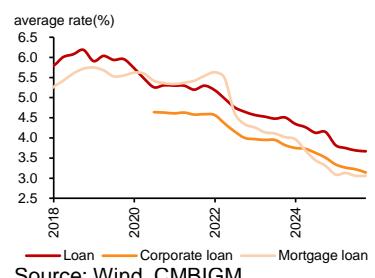
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Source: Wind, CMBIGM

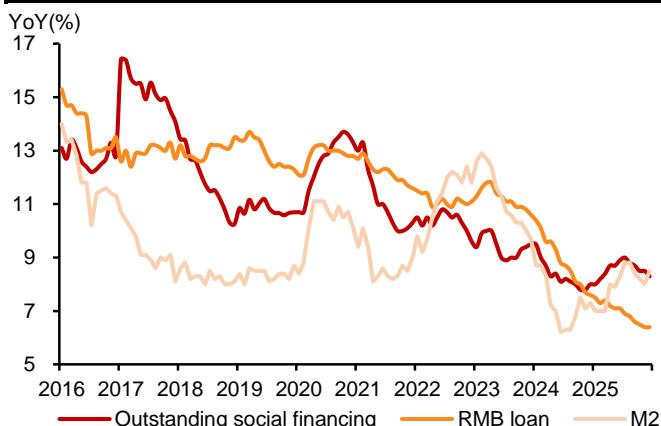


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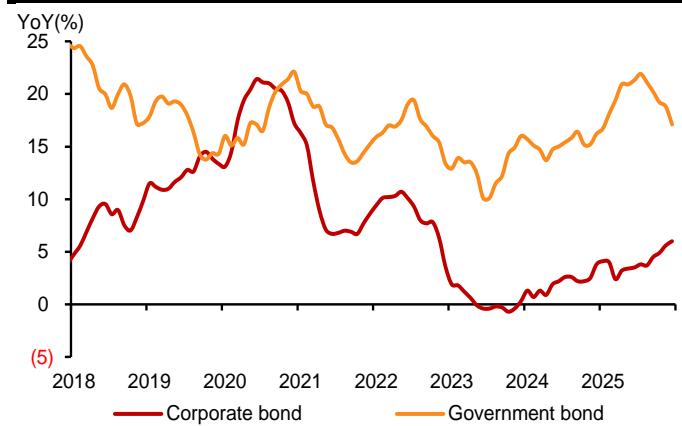


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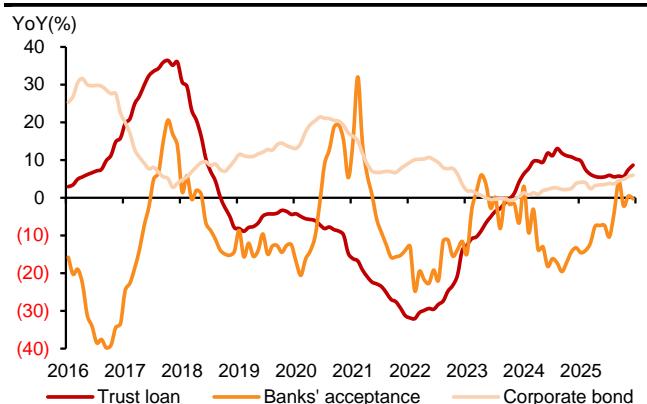
■ **Central bank signaled moderate easing ahead.** After the credit data release, PBOC officials held a press conference yesterday to outline the monetary policy direction this year. **First**, the PBOC announced immediate rate cuts by 25bps to structural re-lending facilities and massive supply expansion of these facilities, indicating stronger policy support to targeted sectors. These structural re-lending facilities with lower rates than general re-lending facilities mainly aim at incentivizing banks to expand credit supply to private enterprises, tech companies, green development, agriculture, elderly care and other targeted sectors. By focusing on those specific sectors, the central bank tries to influence the allocation of credit supply to make it in line with top leaders' target of high-quality development and common prosperity. We believe the integration of these structural monetary policy tools with fiscal policy such as interest subsidies and credit guarantees creates a powerful policy multiplier to support China's technology innovation and green development. **Second**, the PBOC announced lowering the minimum downpayment ratio for commercial property loans from 50% to 30%. This is aimed at clearing the inventory of office and commercial property, signaling the property sector as one focus of the new round of policy stimulus. **Third**, a PBOC official said there is additional room to cut interest rates and RRR, indicating continued monetary policy easing in 2026. We expect the central bank to cut LPRs by 10bps and RRR by 50bps in 1Q26 and reduce LPRs by an additional 10bps in 3Q26. The liquidity condition will remain accommodative with mild declines in money market rates. **Fourth**, the PBOC implied exchange rate policy for 2026 remains anchored in a commitment to market-driven flexibility and strategic stability. A key takeaway from the press conference is the officials' confidence in the RMB's resilience. The policy priority is to enhance the FX market depth and resilience and to promote the use of RMB in trade settlement. We expect USD/RMB to decline to 6.93 at end-1H26 before rising to 6.97 at end-2026.

Figure 1: Credit growth

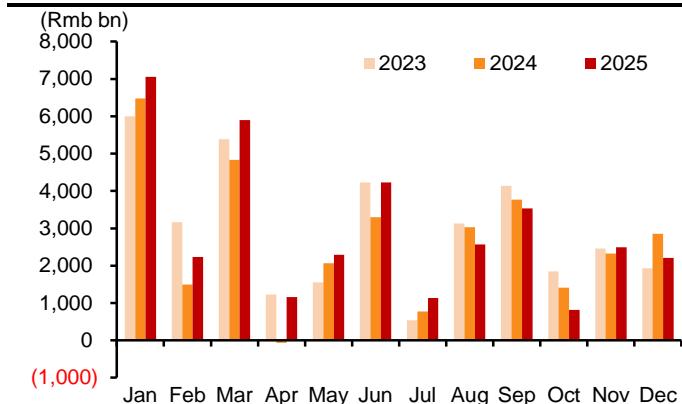
Source: Wind, CMBIGM

Figure 2: Growth of outstanding bond financing

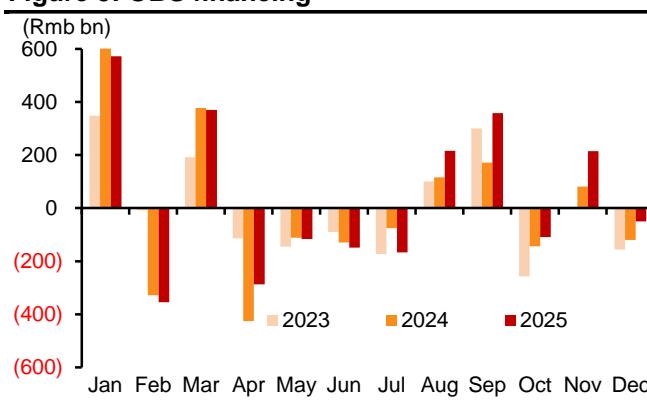
Source: Wind, CMBIGM

Figure 3: Growth of outstanding OBS financing

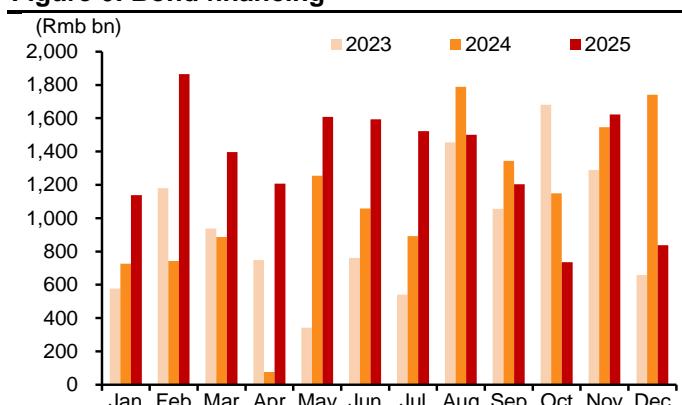
Source: MoF, CMBIGM

Figure 4: Total social financing

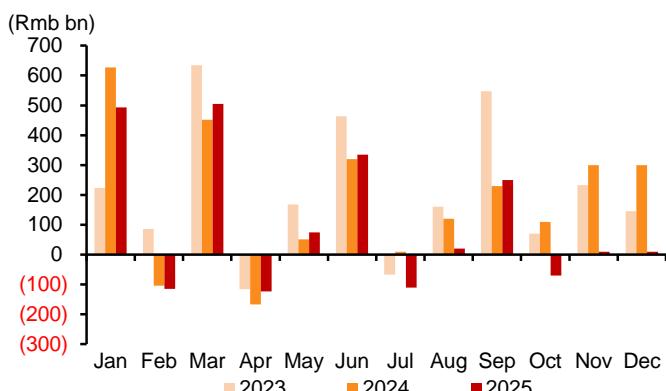
Source: MoF, CMBIGM

Figure 5: OBS financing

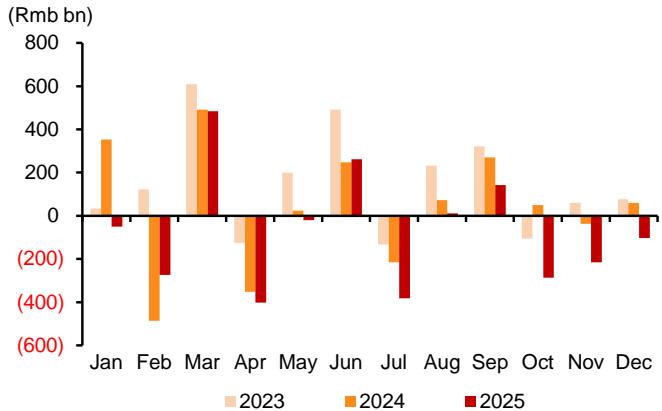
Source: Wind, CMBIGM

Figure 6: Bond financing

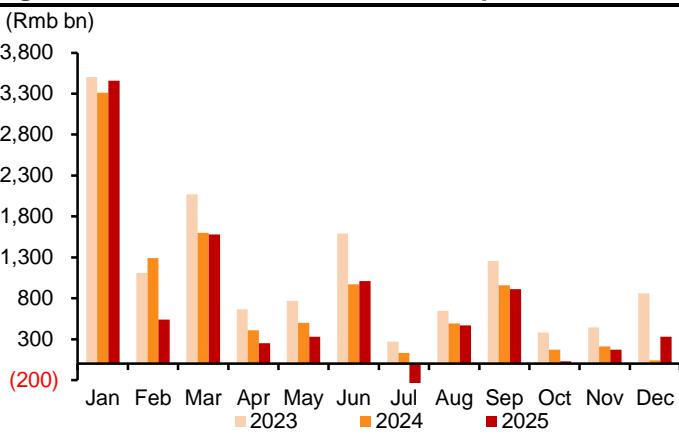
Source: Wind, CMBIGM

Figure 7: New M&L term loans to households

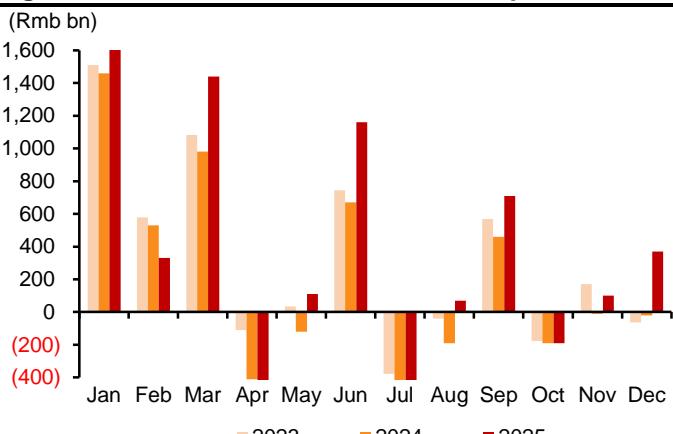
Source: Wind, CMBIGM

Figure 8: New short-term loans to households

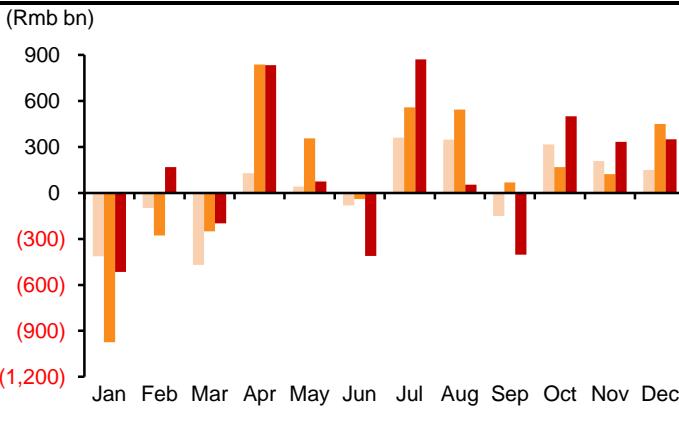
Source: Wind, CMBIGM

Figure 9: New M&L term loans to enterprises

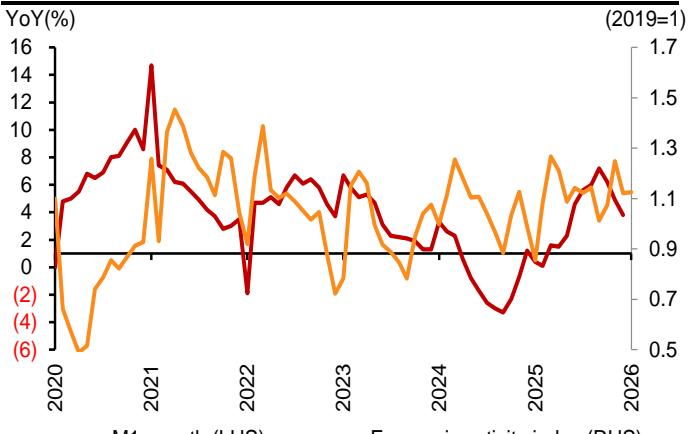
Source: Wind, CMBIGM

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

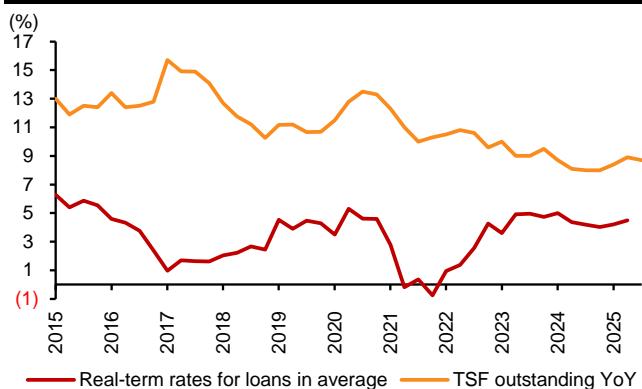
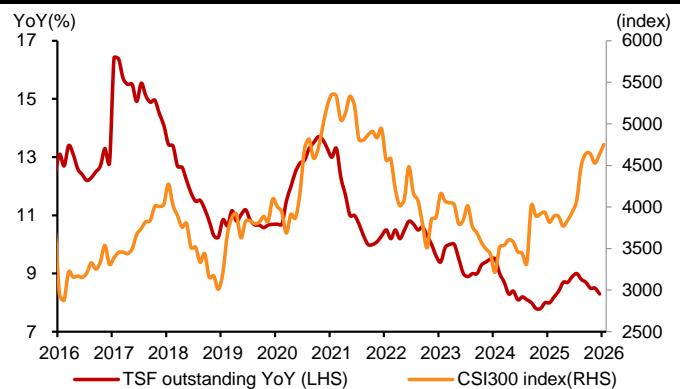
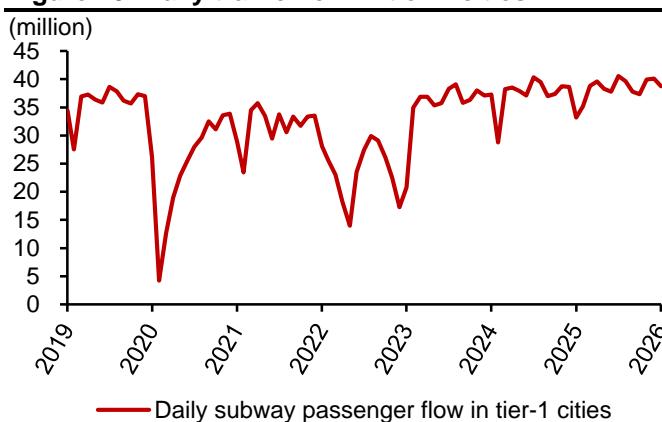
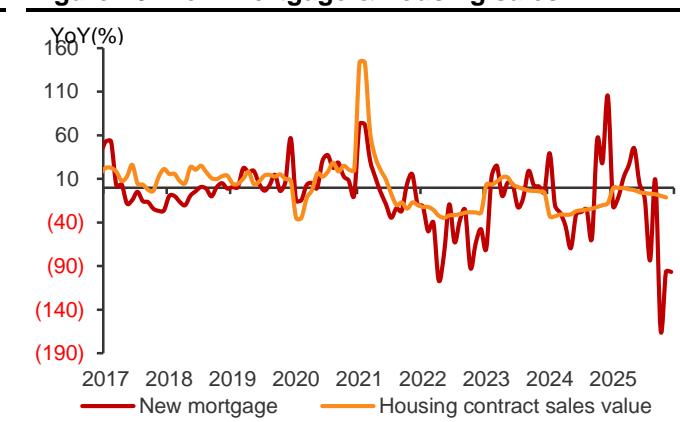
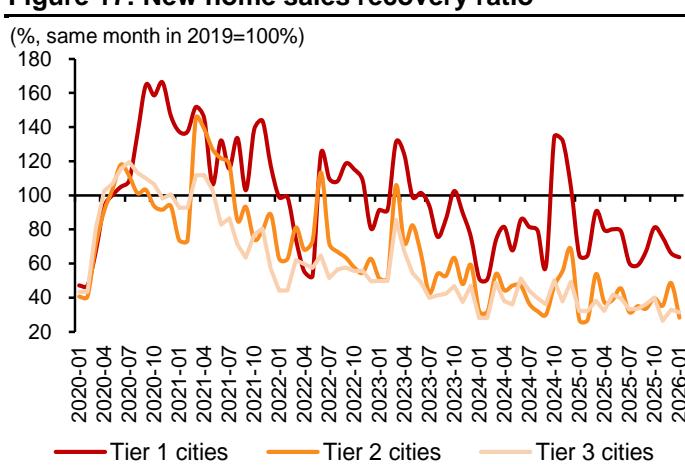
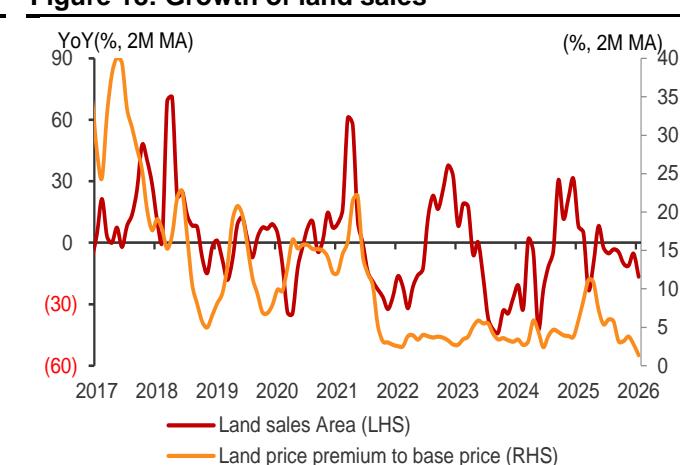
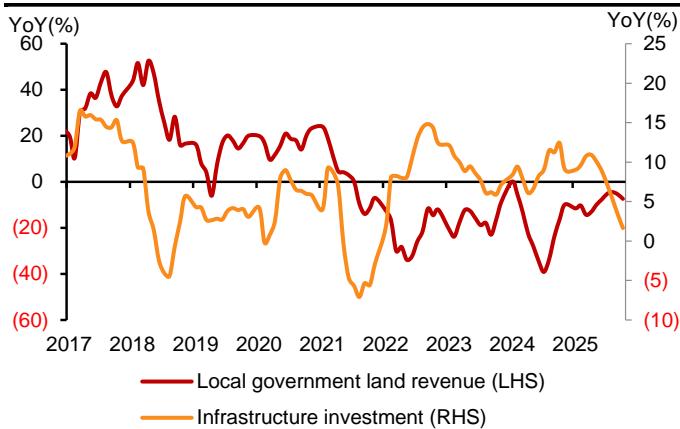
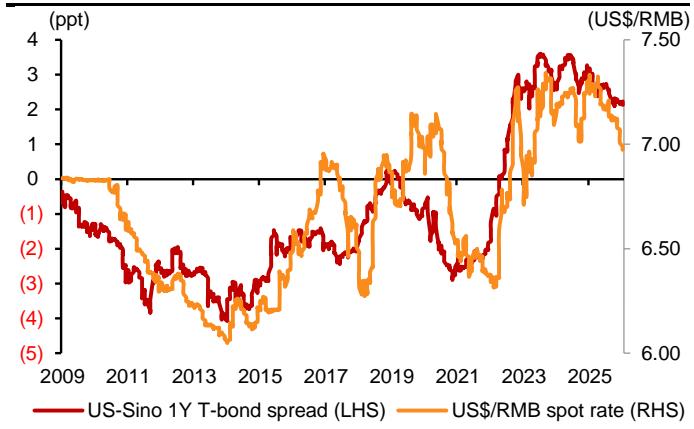
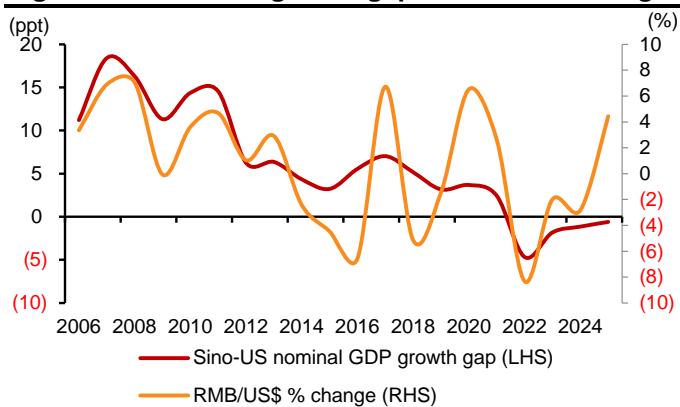
Figure 13: Real-term loan rates & TSF growth**Figure 14: TSF growth & CSI300 index****Figure 15: Daily traffic flow in tier-1 cities****Figure 16: New mortgage & housing sales****Figure 17: New home sales recovery ratio****Figure 18: Growth of land sales**

Figure 19: Infrastructure investment

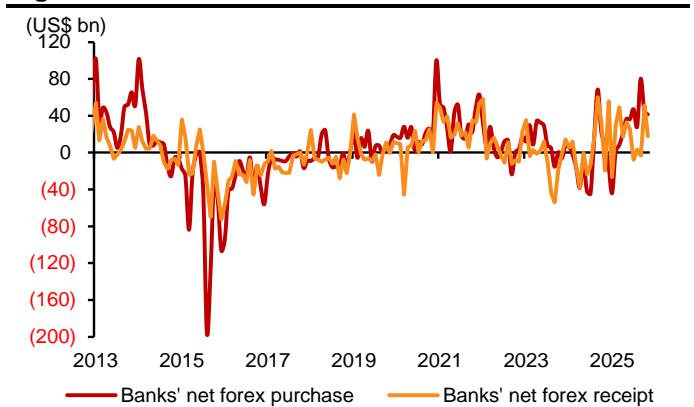
Source: Wind, CMBIGM

Figure 20: US-China interest spreads & FX rates

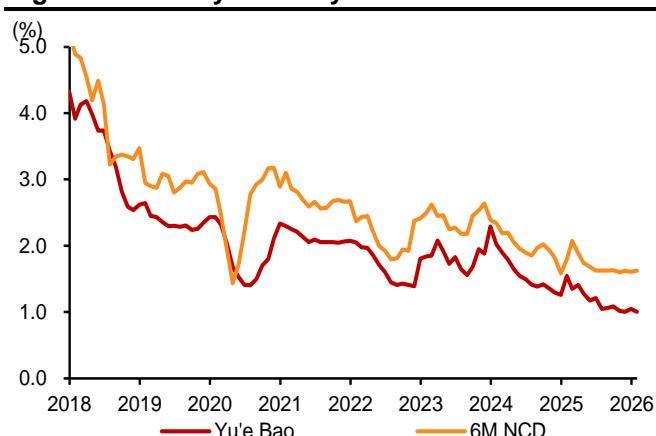
Source: Wind, CMBIGM

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

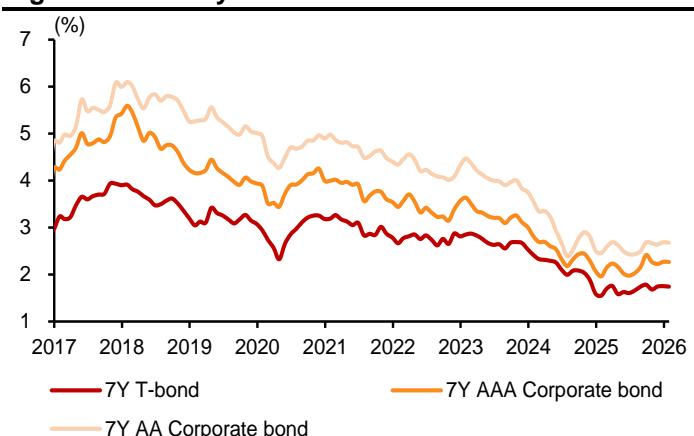
Source: Wind, CMBIGM

Figure 22: Net forex inflow

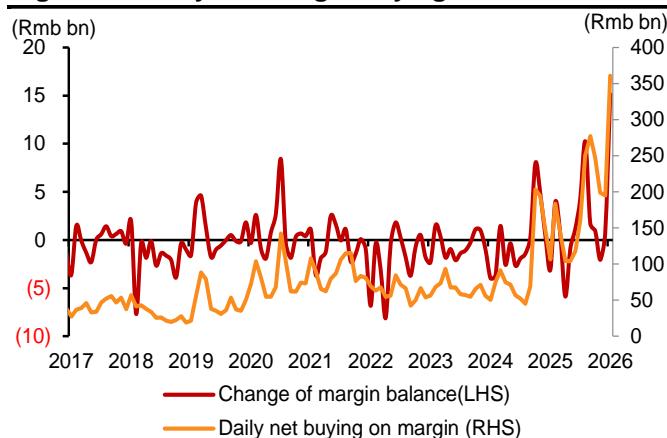
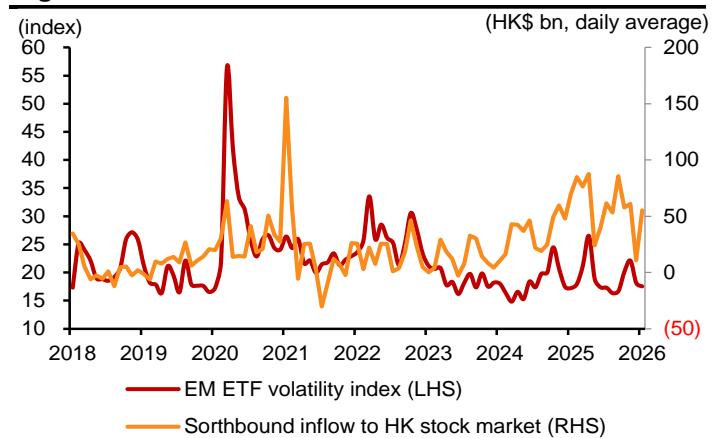
Source: Wind, CMBIGM

Figure 23: Money market yield

Source: Wind, CMBIGM

Figure 24: Bond yield

Source: Wind, CMBIGM

Figure 25: Daily net margin buying on A shares**Figure 26: Southbound flow to HK stocks**

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