

China Policy

Credit growth stabilized thanks to fiscal expansion

China's total social financing slightly beat expectations in Oct with the continuous acceleration in government bond issuance. Fiscal policy seemed to play a more active role as policymakers vowed to support the tumbling economy through fiscal expansion. Meanwhile, business confidence remained apathetic over the long run as financing for enterprises moved from short-, medium- and long-term loans to ultra-short bill financing. Household sentiment endured further deterioration as the short-term loans significantly dropped while mortgage loans stayed at a historic low in absolute terms. Looking forward, credit growth may gradually recover with a possible slight pick-up in the next several months, driven by fiscal expansion through government bond issuance and possibly slow improvement of business and consumer sentiment. China's economy may mildly improve and we forecast the GDP growth to reach 5.2% in 2023 and 4.9% in 2024.

- Social financing continued to recover driven by government bond issuance.** Social financing flow rose 102.5% YoY (all in YoY terms unless otherwise specified) to RMB1.85trn in Oct after increasing 16.4% in Sep. The better-than-expected social financing flow was mainly driven by the government bond financing. Net government bond financing accelerated to RMB1.56trn from RMB994.9bn in Sep and grew significantly by 458.9% YoY, as central government issued RMB1trn special treasury bonds in Oct. Meanwhile, shadow financing saw a sharp decline to -RMB257.2bn from RMB300.7bn in Sep, due to the drop of new undiscounted banks' acceptance at -RMB253.6bn, smaller than the level in the previous year at -RMB215.6bn and RMB239.7bn in the previous month. Net entrusted loans and trust loans both fell on a sequential term from RMB20.8bn and RMB40.3bn to -RMB42.9bn and RMB39.3bn, following the trend of deceleration of OBS since early 2023. New RMB loans to the real sector rose 9.2% to RMB483.7bn after dropping 1.2% in Sep. New foreign currency loans further deteriorated due to high US dollar rates and a weak RMB. Corporate bond financing dropped by 52.6% in Oct, compared to 60.6% growth in Sep.
- New RMB loans remained lackluster as business and household confidence are still low.** New RMB loans expanded 20% to RMB738.4bn in Oct after dropping 6.5% in Sep. The growth of new RMB loans were due to the bill financing to enterprises as net bill discount financing significantly increased to RMB317.6bn in Oct from -RMB150bn in Sep, above their year-earlier level of RMB190.5bn. New short-term loans to enterprises returned to contraction at -RMB177bn from RMB568.6bn in Sep, although narrowing its decline to 4% YoY from 13.4%. New medium- to long-term loans declined to RMB382.8bn from RMB1.25trn in Sep, with its YoY decline increased to 17.2% from 7%. The trend of enterprises moving to ultra-short-term loans through bill financing from short-, medium- and long-term loans shows the lack of confidence over the long run from the business sector. New loans to households remained soft as short-term loans to households further tumbled to -RMB105.3bn from RMB321.5bn in Sep, also drastically lower than its previous year level at -51.2bn, indicating a very weak consumer demand. Even though medium-and long-term loans to households resurged 113% in Oct, they remained at a historic low in the absolute term at RMB70.7bn. The marginal improvement in mortgage loans may be signs of alleviating

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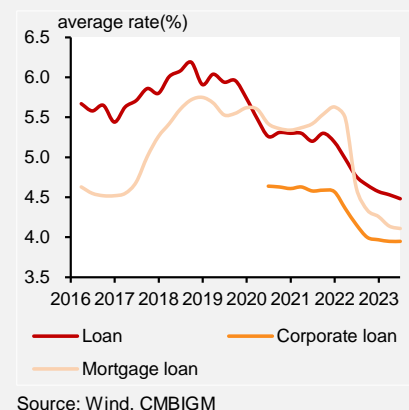
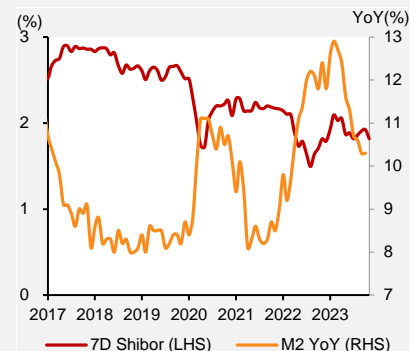
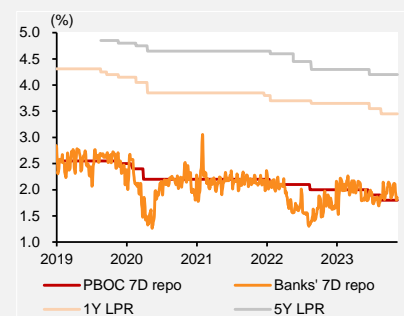
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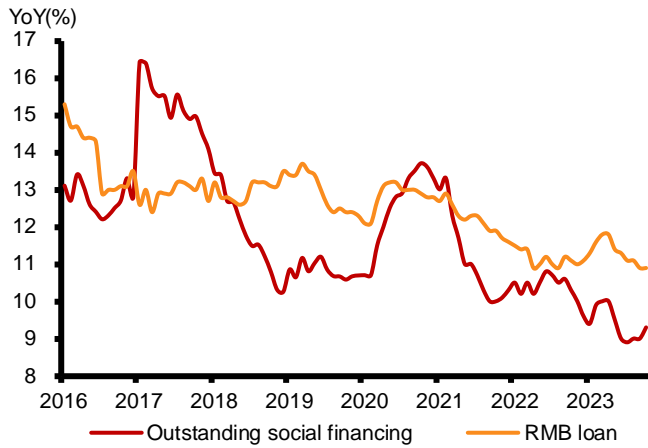
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prepayment pressure, driven by the easing of property policy and lower rates on new and outstanding mortgages, although overall sentiment remained fragile compared to over RMB400bn new medium-and long-term loans during the same time in 2020 and 2021. Looking forward, the incremental medium-and long-term loans are still distressed since housing sales dropped again in early Nov across different tiers of cities.

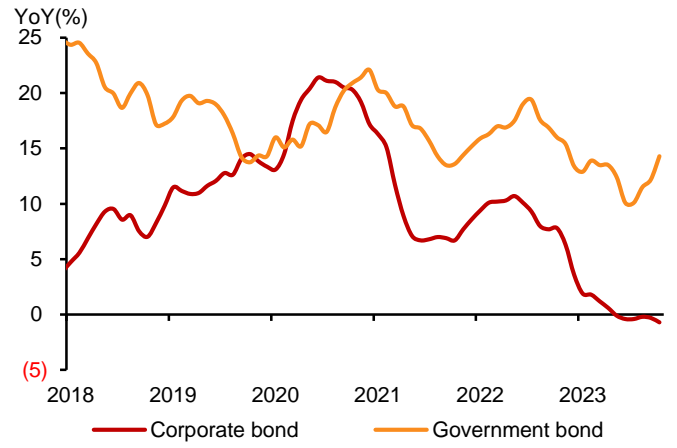
- **We expect a mild rebound in credit growth carried by higher government debt issuance and slow improvement of business and consumer confidence.** The policymakers may further loosen credit supply, property policy and expand fiscal support ahead as the government vowed to expand fiscal spending to support the economy. The PBOC may further cut the RRR, deposit rates and LPRs in upcoming quarters and guide banks to expand credit supply. The PBOC also promised liquidity support for debt-ridden local governments. Meanwhile, municipal governments may further loosen property policy to stabilize the property sector. In addition, governments may plan to issue more bonds with increasing broad fiscal deficits in both central and provincial governments next year. Therefore, credit growth may gradually stabilize with a possibly mild rebound in the next several months thanks to the carry from government debt issuance and slow improvement of business and consumer confidence. We maintain our forecast of the GDP growth at 5.2% in 2023 and 4.9% in 2024.

Figure 1: Growth of outstanding social financing



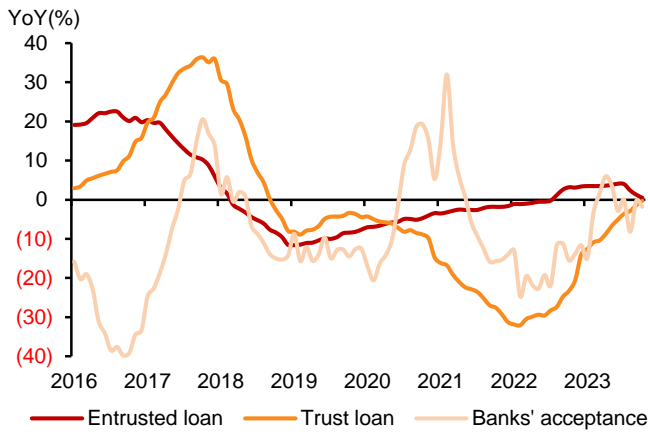
Source: Wind, CMBIGM

Figure 2: Growth of outstanding bond financing



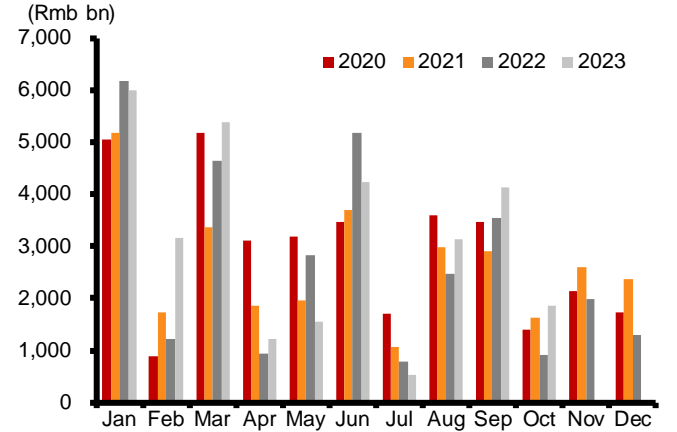
Source: Wind, CMBIGM

Figure 3: Growth of outstanding OBS financing



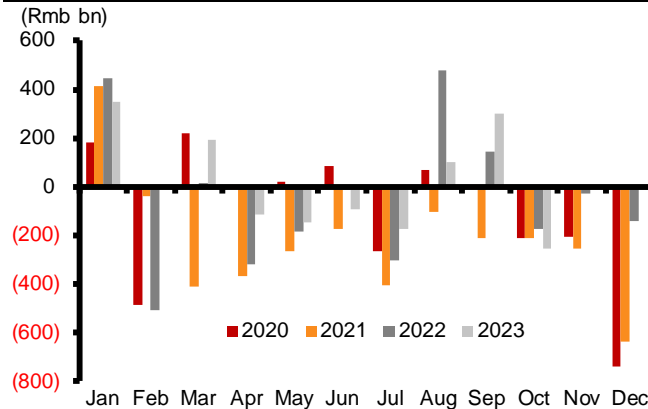
Source: MoF, CMBIGM

Figure 4: Total social financing



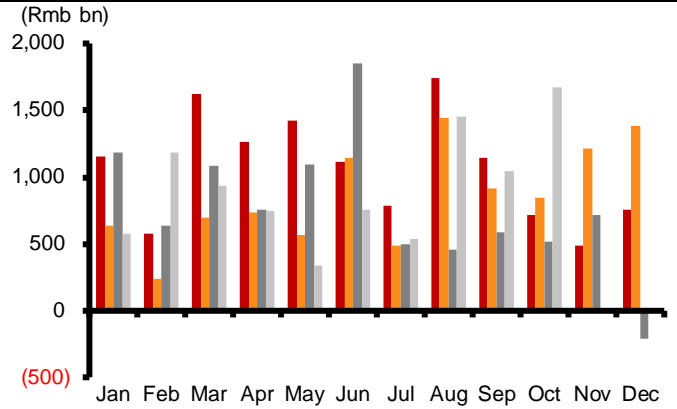
Source: MoF, CMBIGM

Figure 5: OBS financing



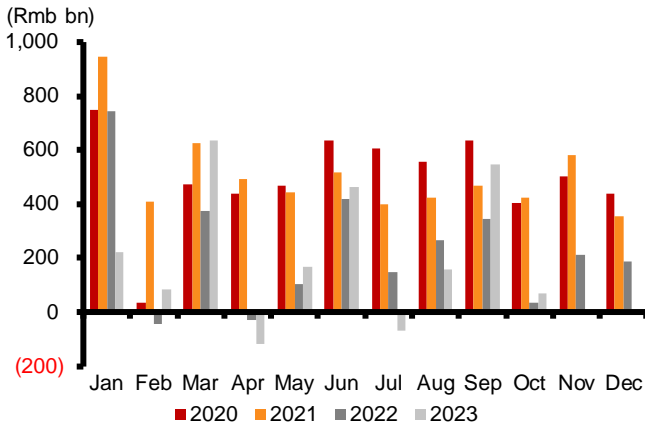
Source: Wind, CMBIGM

Figure 6: Bond financing



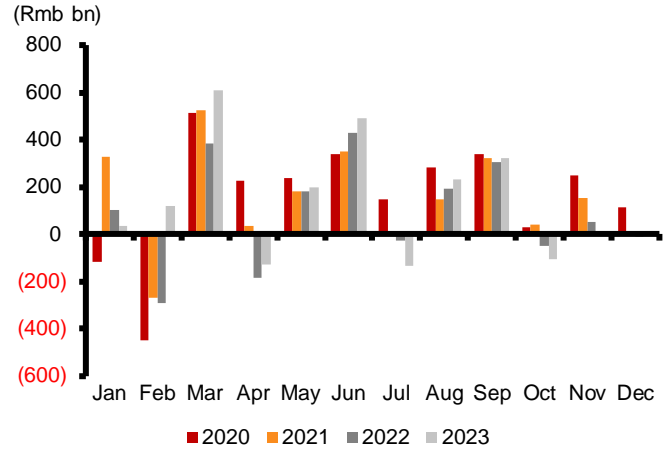
Source: Wind, CMBIGM

Figure 7: New M&L term loans to households



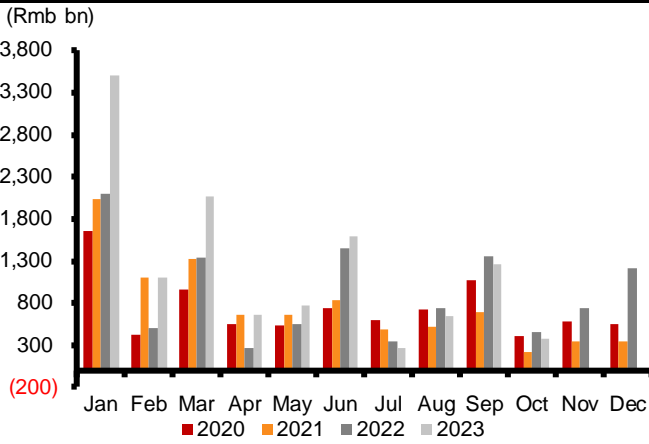
Source: Wind, CMBIGM

Figure 8: New short-term loans to households



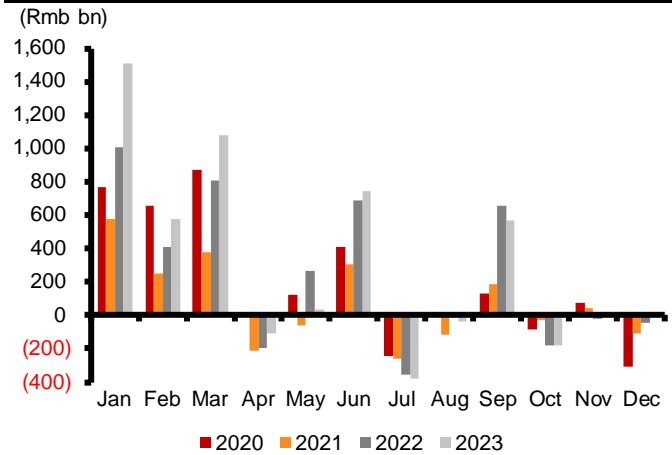
Source: Wind, CMBIGM

Figure 9: New M&L term loans to enterprises



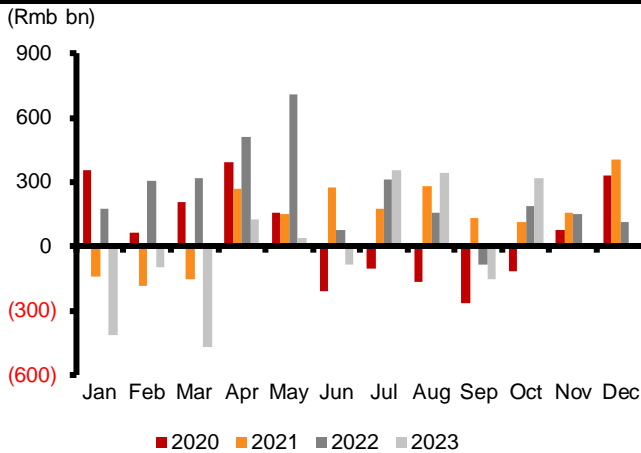
Source: Wind, CMBIGM

Figure 10: New short-term loans to enterprises



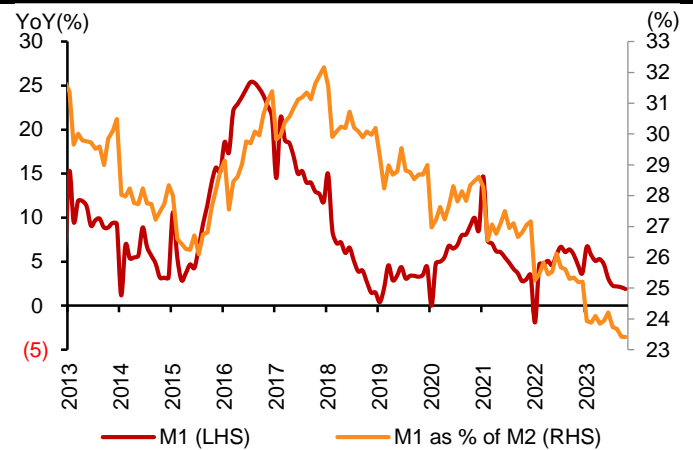
Source: Wind, CMBIGM

Figure 11: Bill financing to enterprises



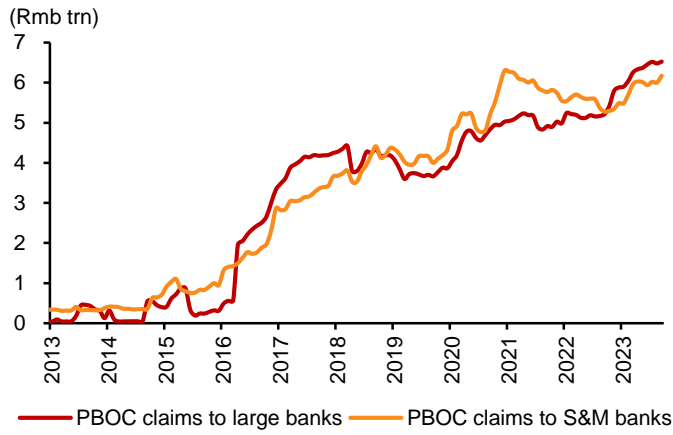
Source: Wind, CMBIGM

Figure 12: M1 growth & M1 as % of M2



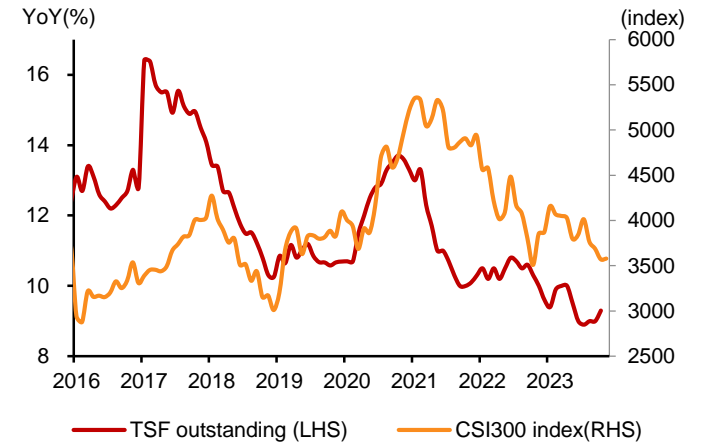
Source: Wind, CMBIGM

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



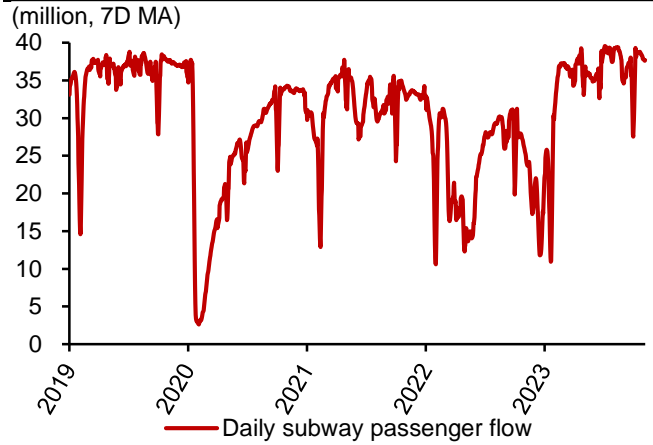
Source: Wind, CMBIGM

Figure 14: Total social financing & CSI300 index



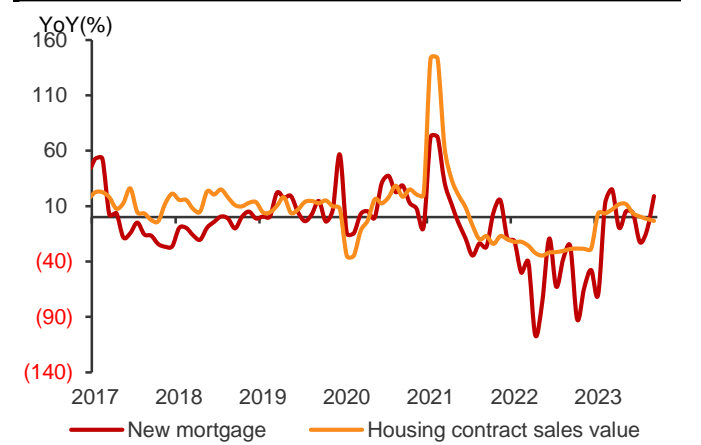
Source: Wind, CMBIGM

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



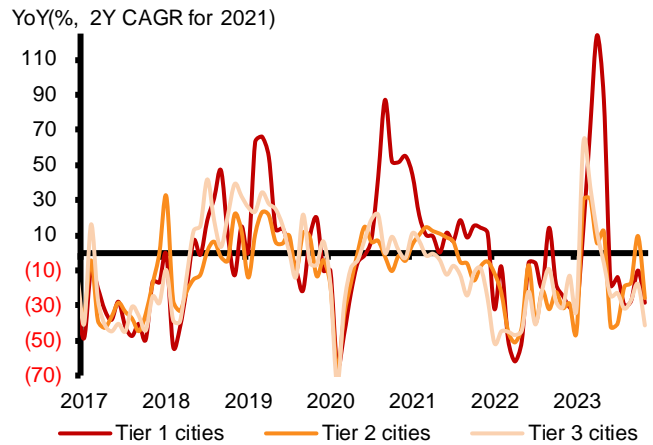
Source: Wind, CMBIGM

Figure 16: New mortgage & housing sales



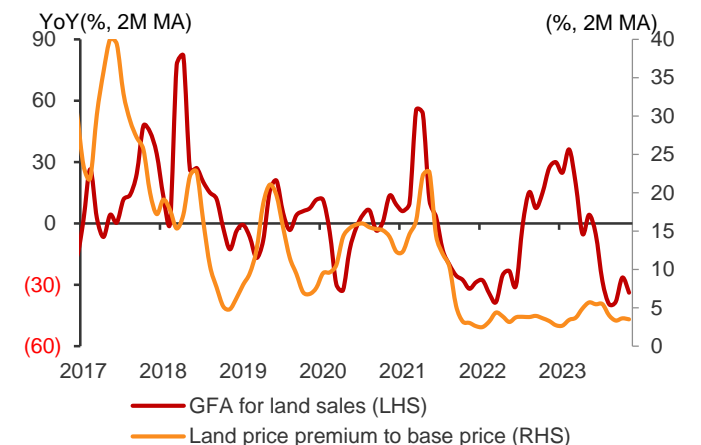
Source: Wind, CMBIGM

Figure 17: Growth of housing sales by cities



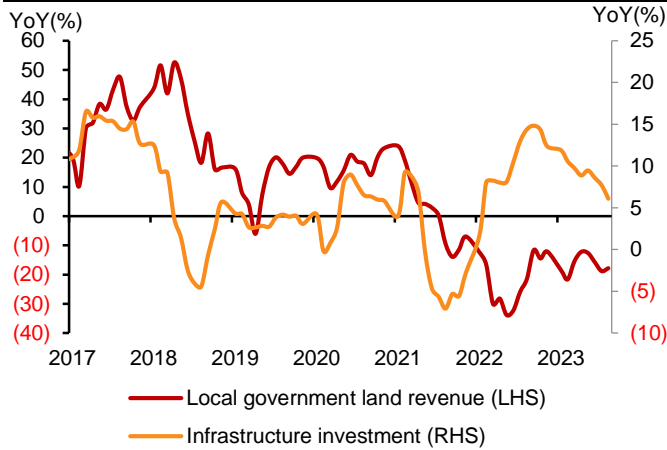
Source: Wind, CMBIGM

Figure 18: Growth of land sales



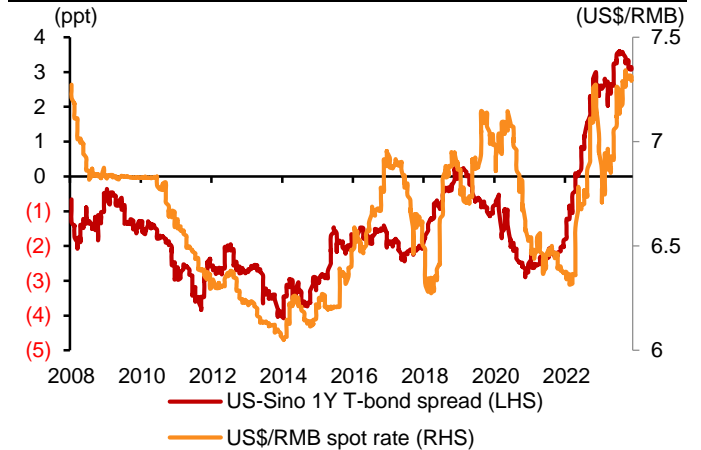
Source: Wind, CMBIGM

Figure 19: Infrastructure investment



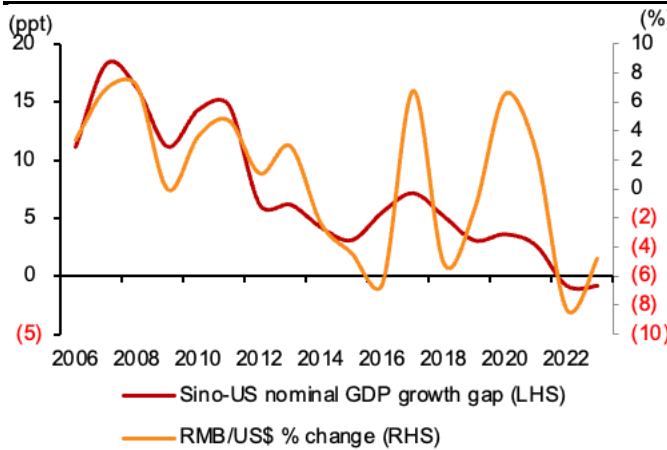
Source: Wind, CMBIGM

Figure 20: US-Sino interest spreads



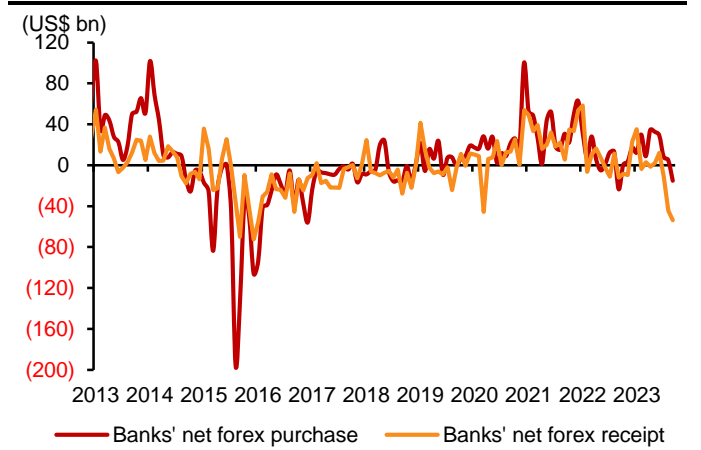
Source: Wind, CMBIGM

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



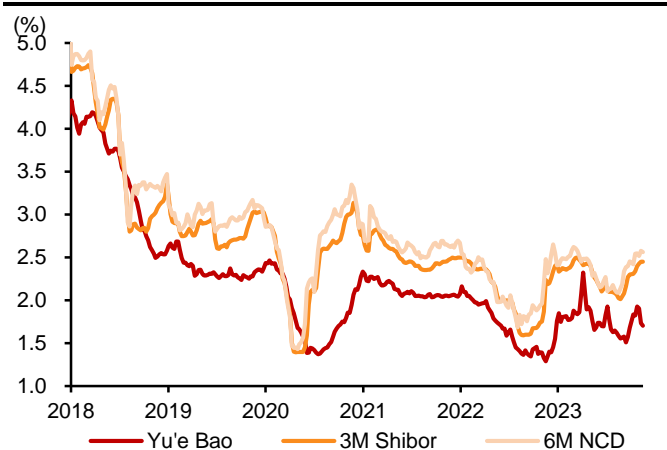
Source: Wind, CMBIGM

Figure 22: Net forex inflow



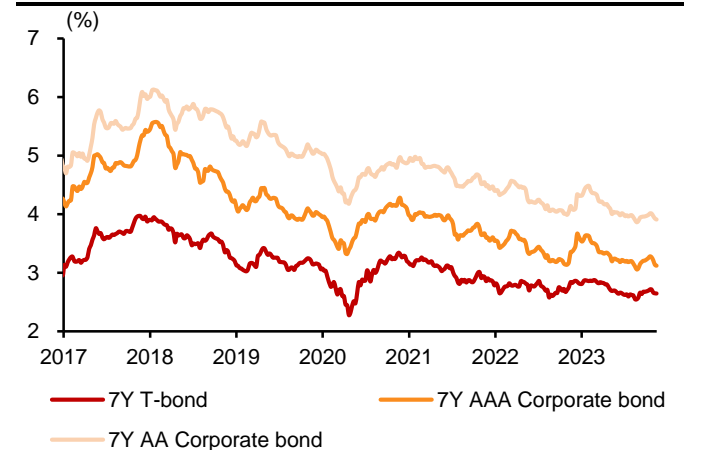
Source: Wind, CMBIGM

Figure 23: Money market funding cost



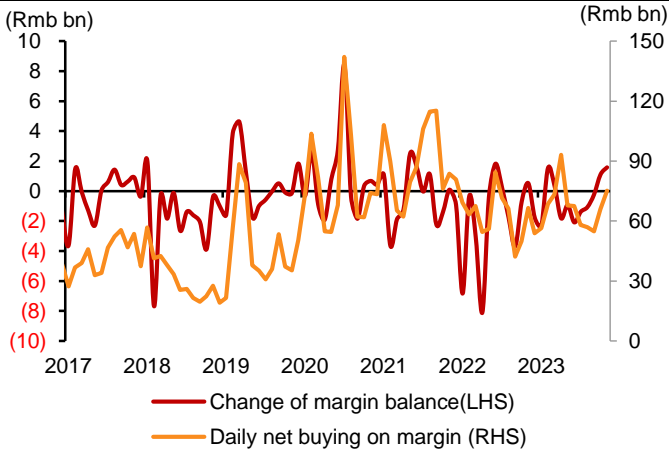
Source: Wind, CMBIGM

Figure 24: Bond market rates



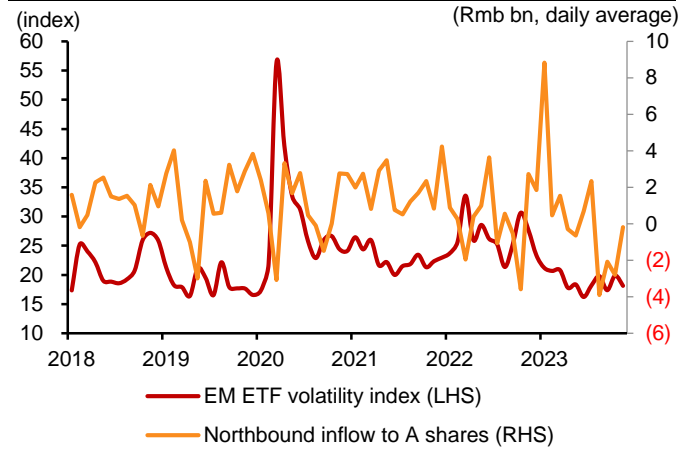
Source: Wind, CMBIGM

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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