

# China Economy

## Credit remained weak with positive signs

China's social financing flow deteriorated and fell short of market expectations. Although government financing rebounded amid faster bond issuance, private credit demand remained weak amid the property slump, persistent deflation and subdued confidence. The change in the statistics system also contributed to the low readings of credit and money supply as the PBOC pointed out the less-inflated data was part of the process to "drain the swamp". Looking forward, the PBOC may further cut RRR by 25bps and LPRs by 15bps in 2H24 to relieve the debt service burden for the private sector. To protect banks' NIMs, the central bank may also reduce deposit rates. Meanwhile, the central bank would continue to guide banks to expand credit supply to boost economic growth and defy deflation pressure. We expect credit growth may mildly rebound in 2H24-2025.

■ **Social financing growth receded despite notable government bond issuance growth.** The growth of outstanding social financing (SF) slowed down to 8.1% YoY (all in YoY terms unless otherwise specified) in June from 8.4% in May, as the SF flow dropped by 22% to RMB3.3tn in June, after rising 32.7% to RMB2.1tn in May. Government bond issuance has picked up markedly since May and increased by 58% to RMB848.7bn in June. New RMB loans under SF has been declining YoY since Oct 2023 and dropped 32.2% to RMB2.2tn in June, after declining 32.9% to RMB819.7bn in May. Corporate bond issuance rebounded to RMB212.8bn in June from RMB28.5bn in May but dropped 5.4% compared to its year-ago level. Shadow financing contracted significantly as undiscounted banks' acceptance saw a significant negative flow at -RMB204.7bn in June. The M1 growth sank further to -5% from -4.2% as the central bank is discussing the modification of M1 definition to improve the data scope. M2 slowed down to a record low at 6.2% from 7% in May. We expect both M1 and M2 growth should stay muted in the near term due to weak property sales and business activities.

■ **Credit demand in private sector continued to deteriorate.** Growth of outstanding RMB loans hit another record low at 8.1% in June from 8.4%. The once again weaker-than-expected new RMB loans dipped 30.2% to RMB2.1tn in June, after dropping 31.1% to RMB950bn in May. New loans to households have been extremely weak throughout 2024 ytd as they either contracted due to prepayment or their YoY change declined by double digits. New loans to households dropped 41% to RMB570.9bn in June with short-term loans down 50% and new M&L loans down 31%. Demand for consumer credit was soft amid elevated real interest rates while property sales have yet to show any material improvement following the policy easing. We expect the growing spread between new and existing mortgage rates would trigger more early payments, weighing on future M&L loans growth. New loans to the corporate sector further declined 28.5% to RMB1.6tn after dipping 13.5% to RMB740bn in May. Short-term loans dropped 10% to RMB670bn while M&L loans dipped 39% to RMB970bn, compared to RMB510bn in May with -35% growth. Bill financing contracted to -RMB39.3bn compared to positive RMB357.2bn in May.

■ **PBOC toned down the significance of deteriorating credit data as it is part of the "drain the swamp" process.** Recent credit data has been markedly weak as the modification of GDP calculations of financial sector and cancellation of hidden deposit interest have resulted in the all-time lows of both credit and monetary base growth. On the bright side, the less-inflated data would be better indications for the central bank to coordinate its monetary policy and better reflection of current economy. Looking

**Bingnan YE, Ph.D**

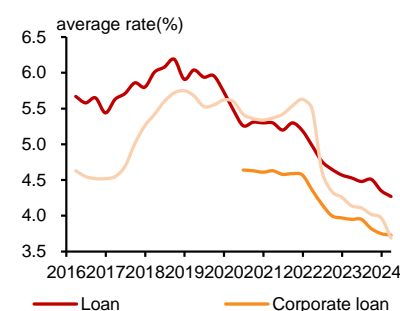
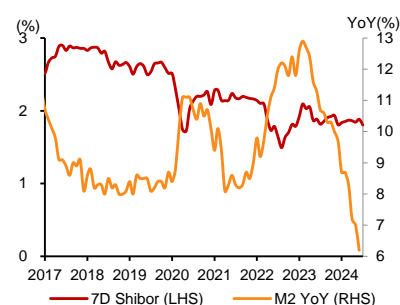
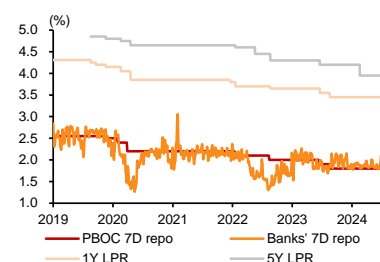
(852) 3761 8967

yingbingnan@cmbi.com.hk

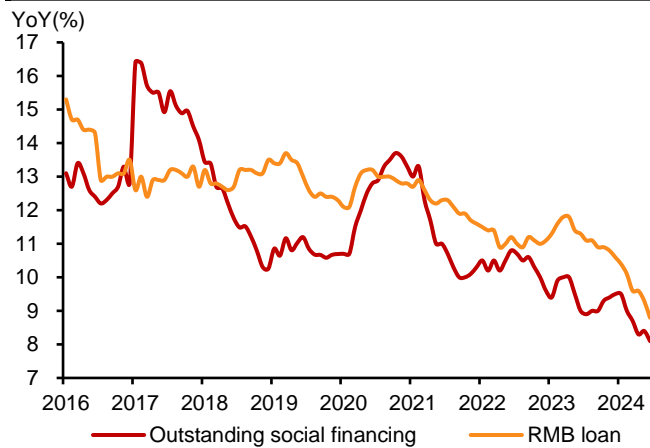
**Frank Liu**

(852) 3761 8957

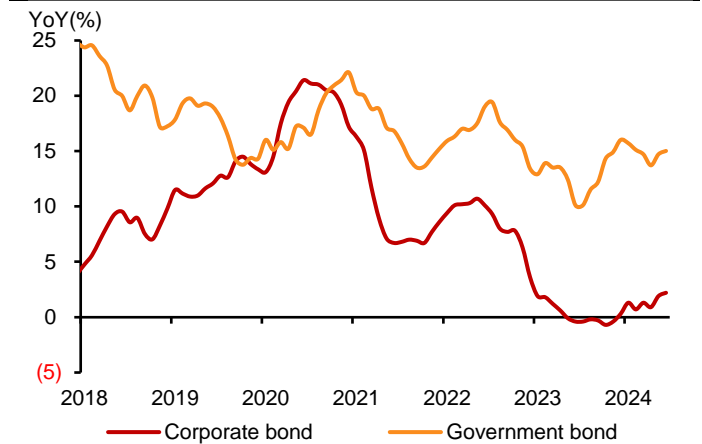
frankliu@cmbi.com.hk



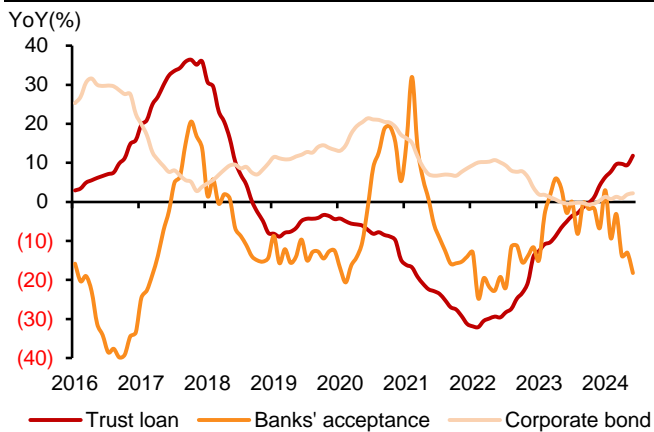
forward, we expect further LPRs cut by 15bps to relieve debt service burden of consumers and private business. The central bank may also reduce deposit rates to protect banks' NIMs. Meanwhile, the central bank may guide banks to expand credit supply to boost economic growth and defy deflation pressure. We expect credit growth may gradually rebound in 2H24-2025.

**Figure 1: Growth of outstanding social financing**

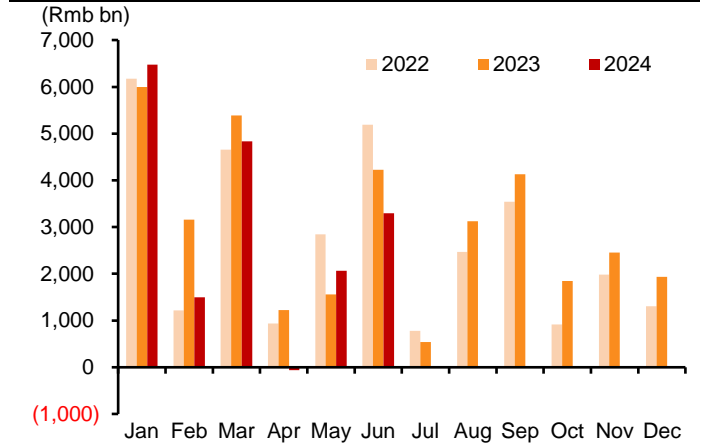
Source: Wind, CMBIGM

**Figure 2: Growth of outstanding bond financing**

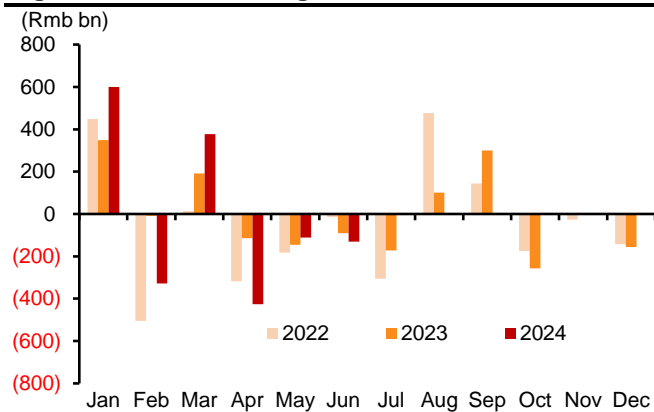
Source: Wind, CMBIGM

**Figure 3: Growth of outstanding OBS financing**

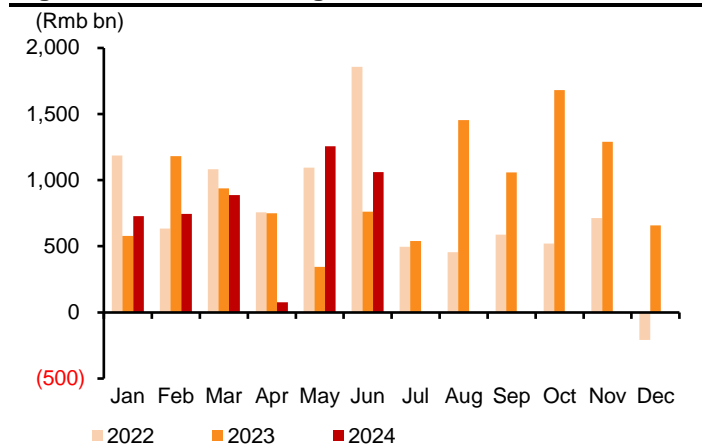
Source: MoF, CMBIGM

**Figure 4: Total social financing**

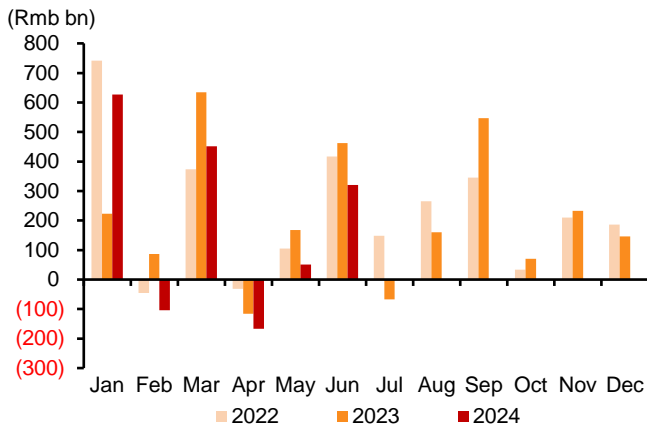
Source: MoF, CMBIGM

**Figure 5: OBS financing**

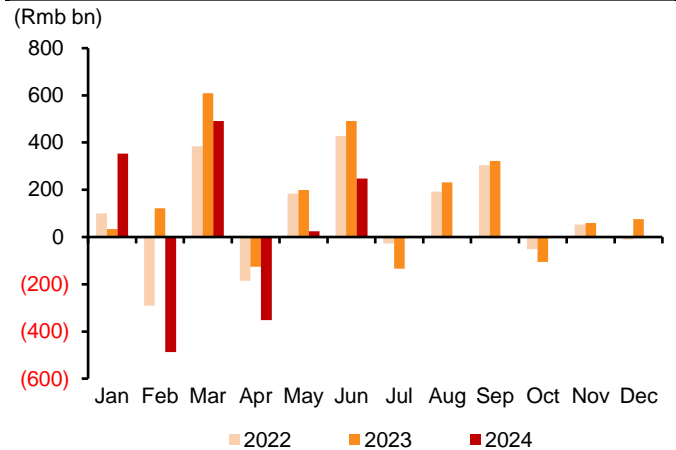
Source: Wind, CMBIGM

**Figure 6: Bond financing**

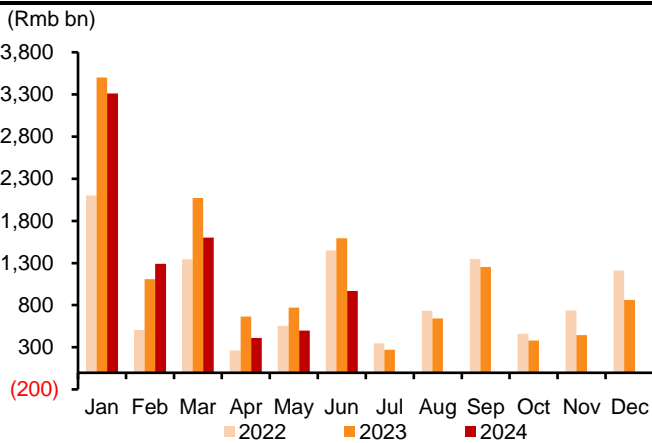
Source: Wind, CMBIGM

**Figure 7: New M&L term loans to households**

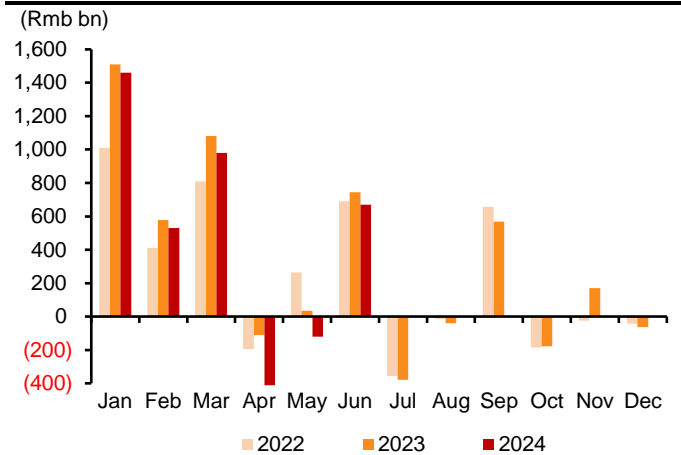
Source: Wind, CMBIGM

**Figure 8: New short-term loans to households**

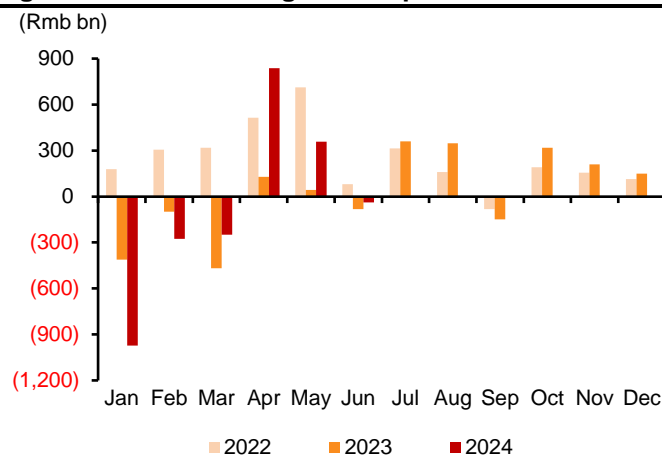
Source: Wind, CMBIGM

**Figure 9: New M&L term loans to enterprises**

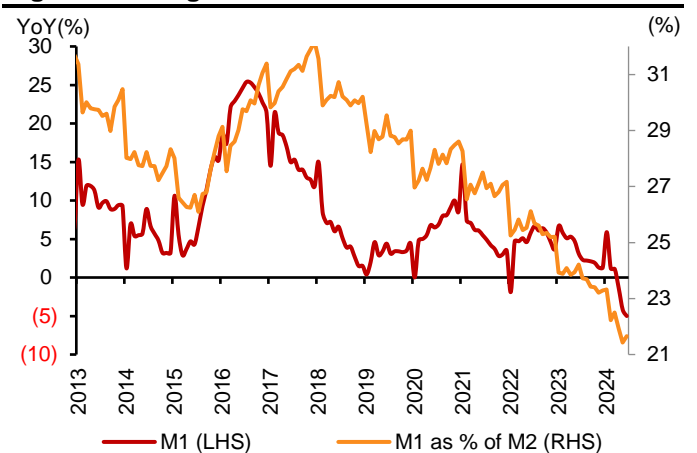
Source: Wind, CMBIGM

**Figure 10: New short-term loans to enterprises**

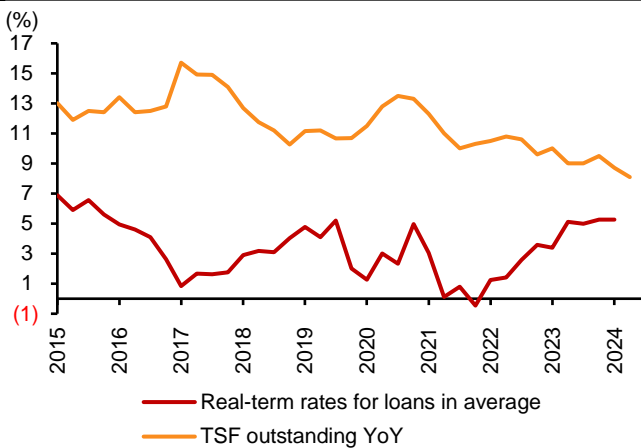
Source: Wind, CMBIGM

**Figure 11: Bill financing to enterprises**

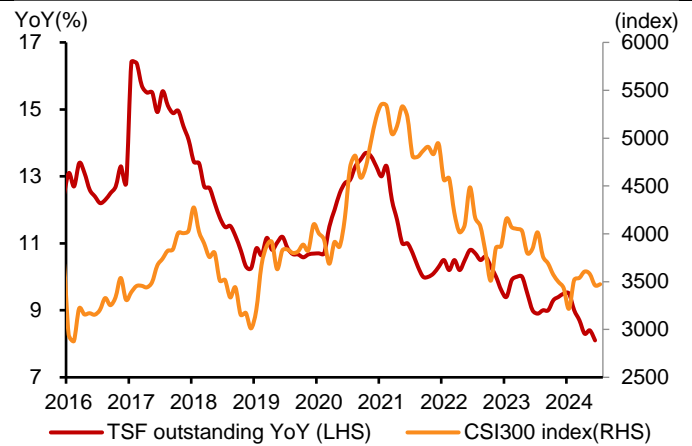
Source: Wind, CMBIGM

**Figure 12: M1 growth & M1 as % of M2**

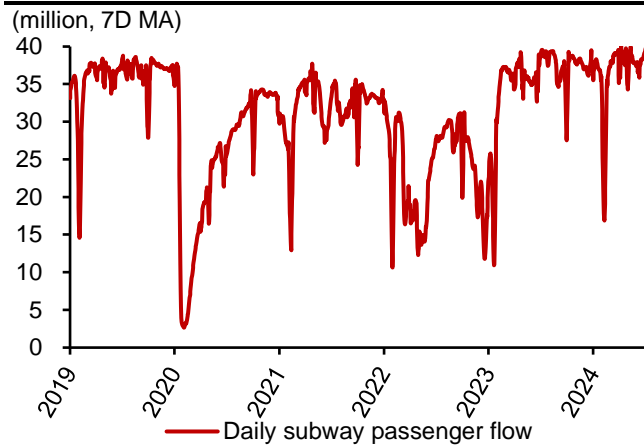
Source: Wind, CMBIGM

**Figure 13: Real-term loan rates & TSF growth**

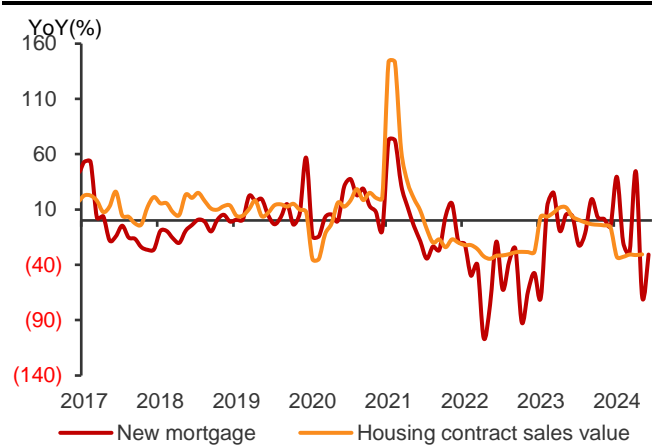
Source: Wind, CMBIGM

**Figure 14: TSF growth & CSI300 index**

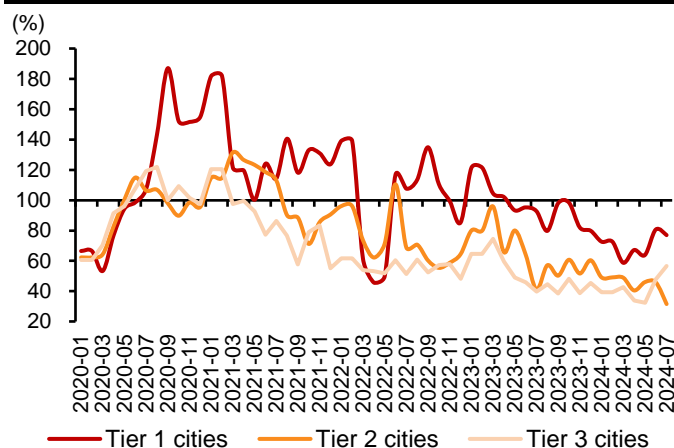
Source: Wind, CMBIGM

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

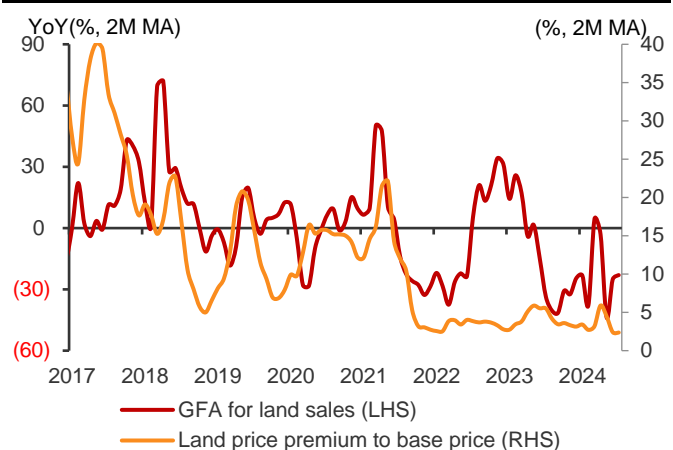
Source: Wind, CMBIGM

**Figure 16: New mortgage & housing sales**

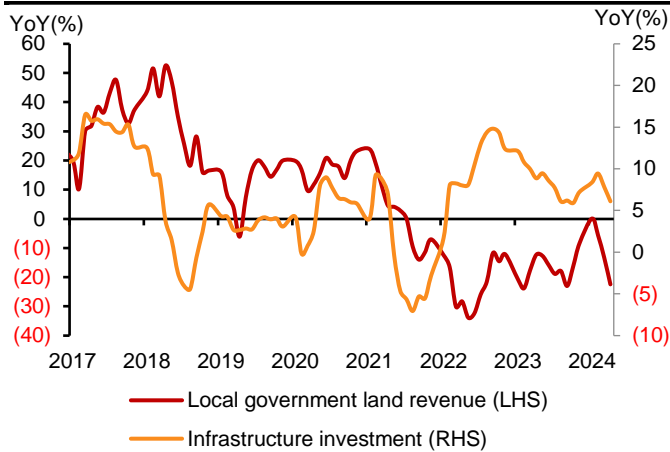
Source: Wind, CMBIGM

**Figure 17: Housing sales recovery rates compared to 2019**

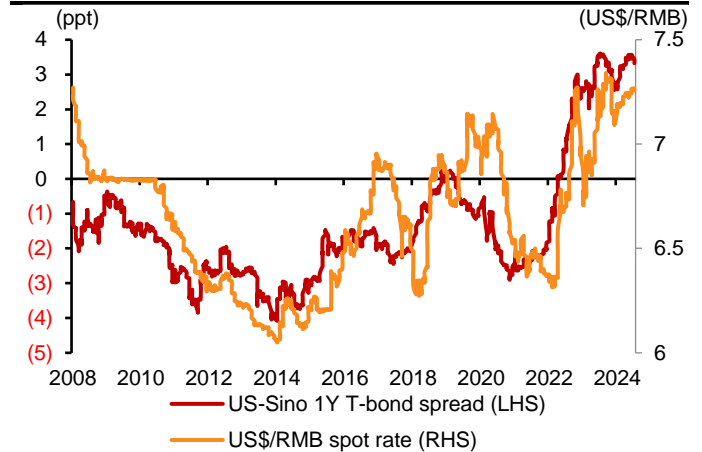
Source: Wind, CMBIGM

**Figure 18: Growth of land sales**

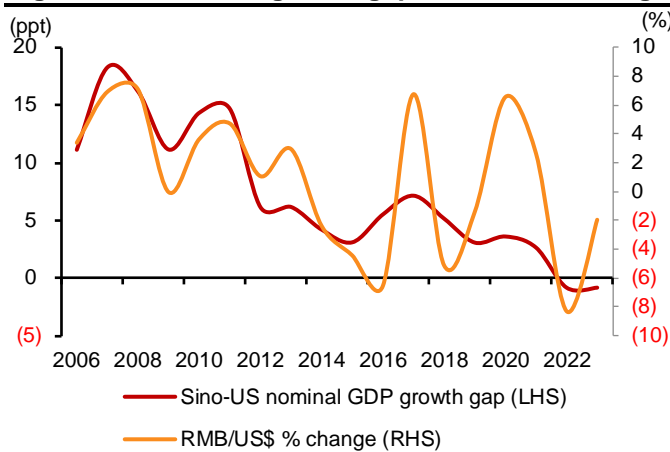
Source: Wind, CMBIGM

**Figure 19: Infrastructure investment**

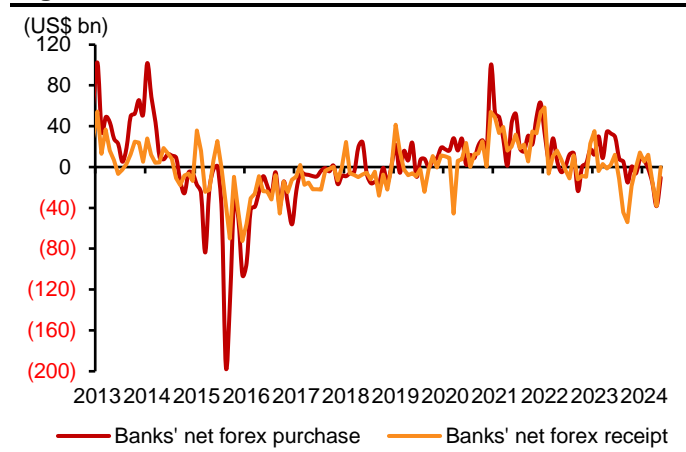
Source: Wind, CMBIGM

**Figure 20: US-China interest spreads**

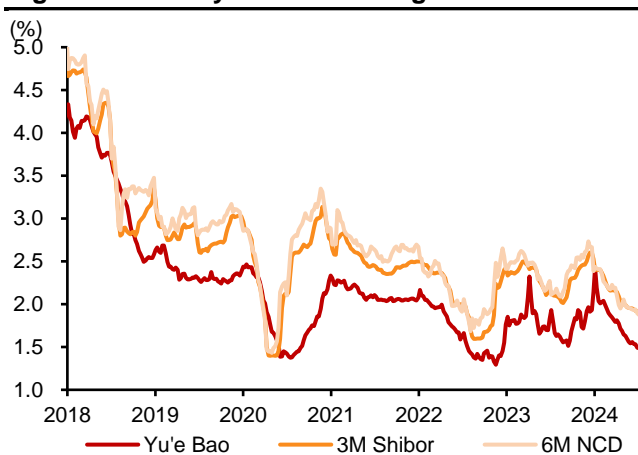
Source: Wind, CMBIGM

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

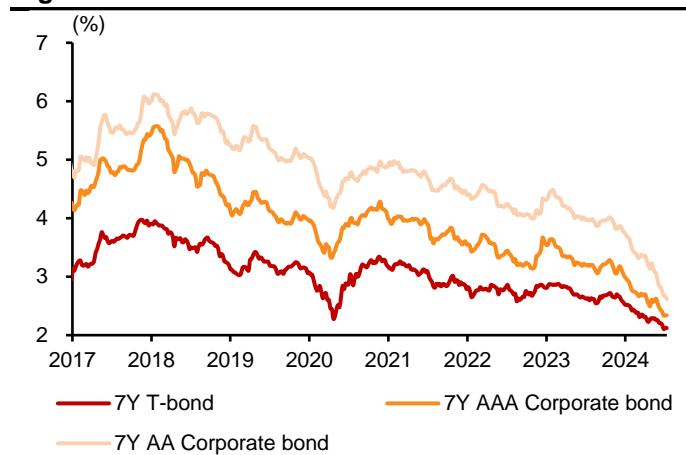
Source: Wind, CMBIGM

**Figure 22: Net forex inflow**

Source: Wind, CMBIGM

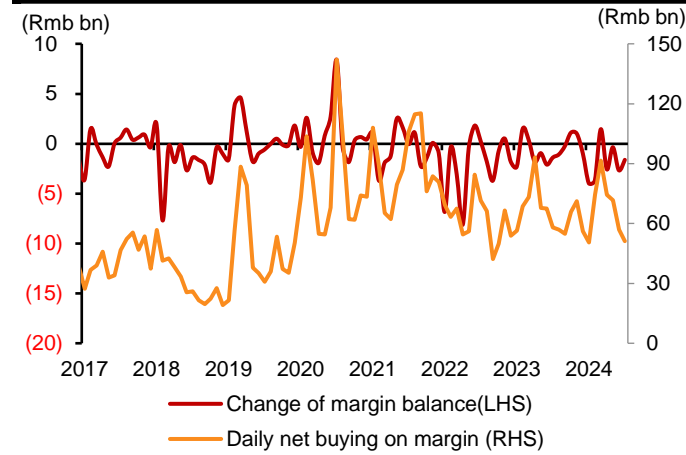
**Figure 23: Money market funding cost**

Source: Wind, CMBIGM

**Figure 24: Bond market rates**

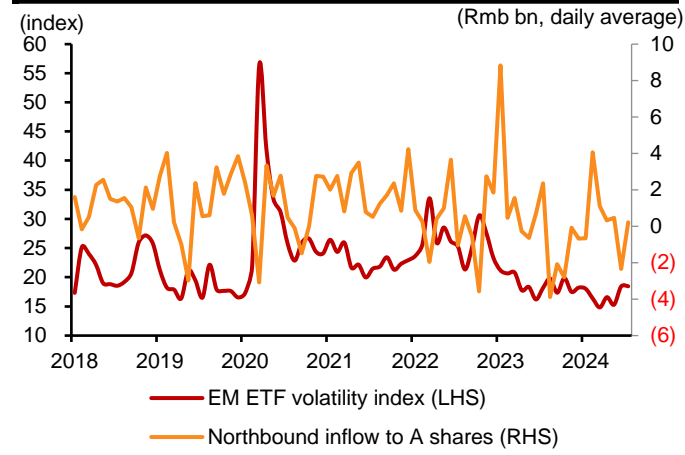
Source: Wind, CMBIGM

**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

# Disclosures & Disclaimers

## Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report. Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

## CMBIGM Ratings

**BUY** : Stock with potential return of over 15% over next 12 months  
**HOLD** : Stock with potential return of +15% to -10% over next 12 months  
**SELL** : Stock with potential loss of over 10% over next 12 months  
**NOT RATED** : Stock is not rated by CMBIGM

**OUTPERFORM** : Industry expected to outperform the relevant broad market benchmark over next 12 months  
**MARKET-PERFORM** : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months  
**UNDERPERFORM** : Industry expected to underperform the relevant broad market benchmark over next 12 months

## CMB International Global Markets Limited

**Address:** 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

**CMB International Global Markets Limited ("CMBIGM") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)**

## Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIGM does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIGM recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIGM nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIGM may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIGM does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIGM may have a conflict of interest that could affect the objectivity of this report and CMBIGM will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIGM. Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIGM.

For recipients of this document in the United States

CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.