

China Policy

Credit rebounded with sign of economic stabilisation

China's credit supply in August beat market expectation amid policy loosening. Total social financing rebounded significantly thanks to an increase of local government bond issuance for fiscal support as well as a recovery in new renminbi loans. Credit demand of private businesses improved with a mild rebound in loan and bond financing while households maintained their risk-averse appetite for medium-and long-term loans. The policymakers have adopted a more pro-growth policy stance with additional cuts in deposit rates & LPRs and further loosening of property policies. Meanwhile, both central and local governments accelerated their bond issuance for fiscal expansion to support the growth. Looking forward, we see the bottoming out of China's economy in next two quarters with a stabilization of housing sales and moderate recovery of household consumption.

- Social financing was better than market expected as government accelerated their bond issuance and new renminbi loans improved.** Social financing flow rose 26.3% YoY (all in YoY terms unless otherwise specified) to RMB3.12trn in August after decreasing 32.2% in July. The strong social financing flow was mainly driven by a significant increase of government bond financing and an improvement of new RMB loans. Government bond financing jumped 287.5% to RMB1.18trn as local governments had been urged to use all of their bond issuance quotas for this year by the end of September. Meanwhile, new RMB loans to real sector grew 0.4% to RMB1.34trn after dropping 91.1% in July. New foreign currency loans further weakened due to high US dollar rates and weak RMB. New trust loans were also weak as investors' risk aversion towards property projects remained high. New Banks' acceptance balance increased by RMB112.9bn after dropping RMB196.2bn in July while its YoY growth further declined from -28.5% to -67.6%. Corporate bond financing rebounded by rising 78.4% in August, compared to 22.8% growth in July.
- New RMB loans moderately improved thanks to easing loan supply and lower loan rates.** New RMB loans rose 8.8% to RMB1.36trn in August after dropping 49.1% in July. New loans to enterprises grew 8.4% to RMB948.8bn in August after dropping 17.3% in July. New short-term loans narrowed its decline from RMB-378.5bn in July to RMB-40.1bn in August. New medium to long term loans increased from RMB271.2bn to RMB644.4bn in August, with its YoY decline narrowed to 12.4%. Private business confidence mildly improved as the policymakers showed a more pro-growth and pro-business policy stance. Bill discount financing was another major driver of new RMB loans which rose 118.2% to RMB347.2bn, but it did not necessarily indicate the recovery of credit demand since banks often used them to meet credit supply requirement.
- New loans to households remained weak as individuals were still reluctant to raise long-term debt to purchase home or durables.** New loans to households turned positive at RMB 392.2bn in August, compared to RMB-200bn in July. But it still registered a YoY decline of 14.4%. New short-term loans reached RMB232bn as consumer expenditure marginally improved. New medium and long term loans dropped 39.7% to RMB160.2bn. The effect of latest property policy support has not yet shown as housing sales

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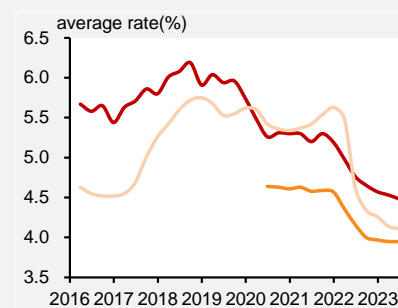
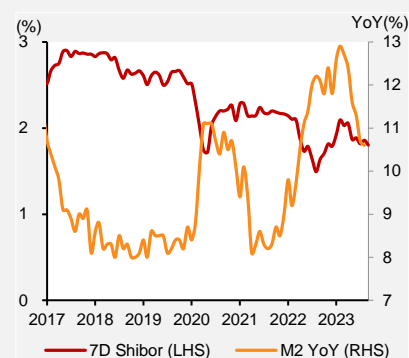
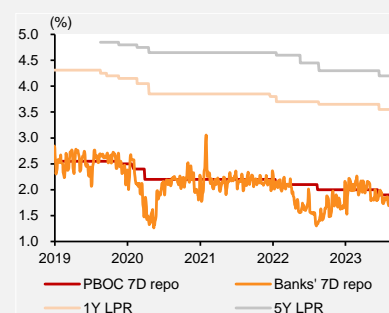
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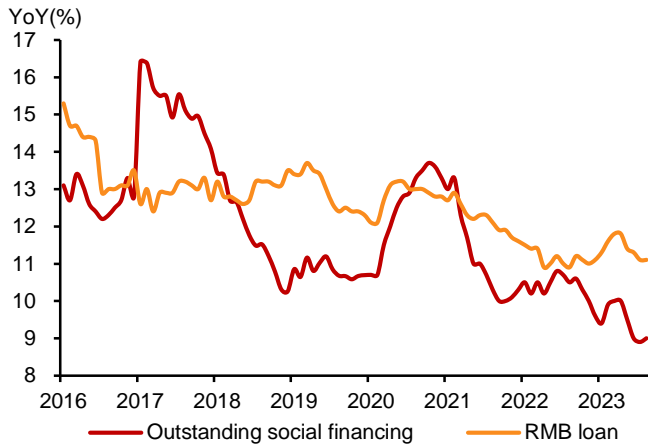
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still remained weak in early September. Looking forward, with more loosening of property policies and credit supply ahead, housing demand may gradually improve in next four quarters.

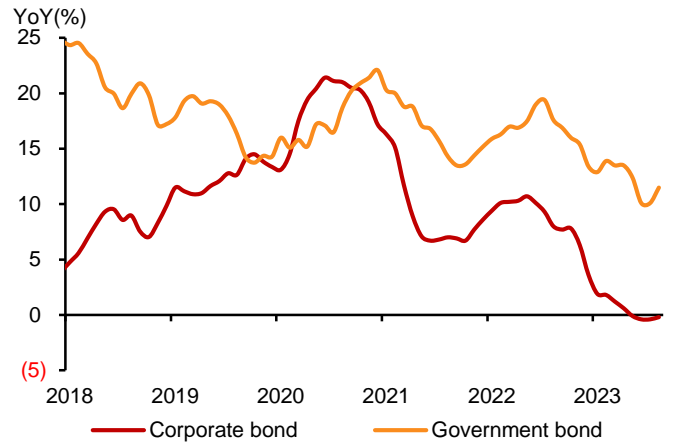
- **We expect a mild recovery in credit demand with more pro-growth policy coming.** Since the July politburo meeting, the policymakers have made tremendous effort including monetary policy loosening, credit supply boost and property policy easing. The PBOC may further cut RRR, deposit rates and LPRs in upcoming quarters and guide banks to expand credit supply to real sector. Meanwhile, most cities may further loosen property policy with removal of home purchase restrictions and additional cuts in down-payment ratios and mortgage rates. In addition, credit and fiscal support for hard-technology and high-end manufacturing sectors may further increase. With stimulus package gradually taking effect, we expect the bottoming out of economy and a moderate recovery of credit demand in next two quarters.

Figure 1: Growth of outstanding social financing



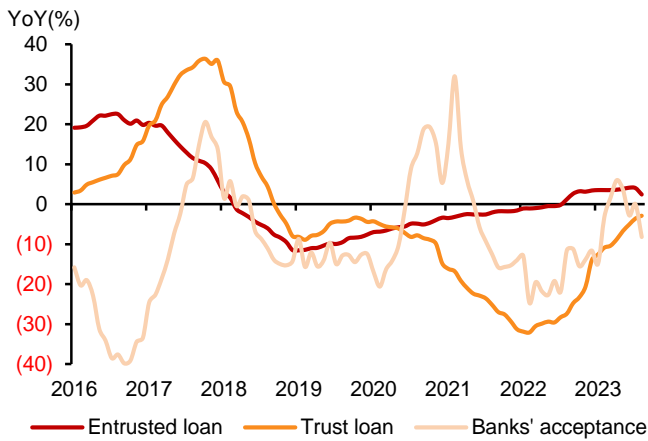
Source: Wind, CMBIGM

Figure 2: Growth of outstanding bond financing



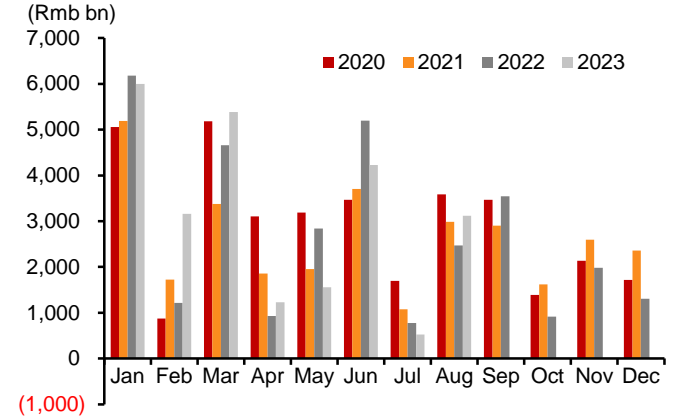
Source: Wind, CMBIGM

Figure 3: Growth of outstanding OBS financing



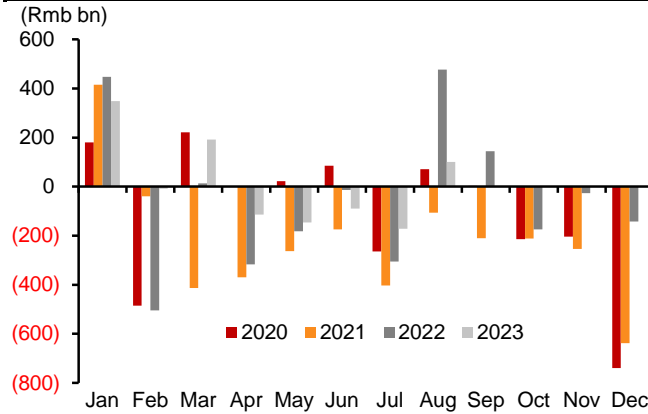
Source: MoF, CMBIGM

Figure 4: Total social financing



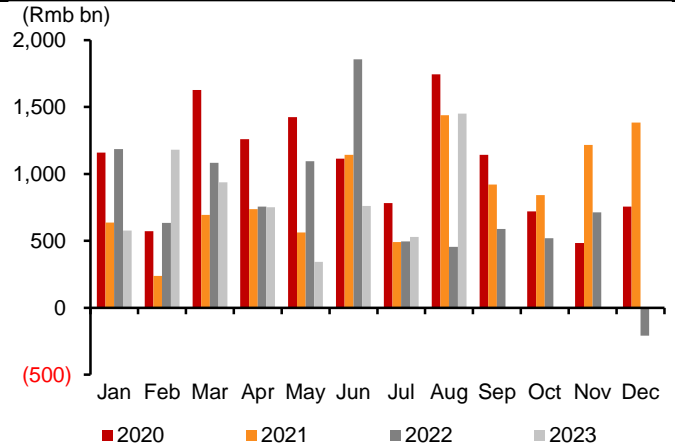
Source: MoF, CMBIGM

Figure 5: OBS financing



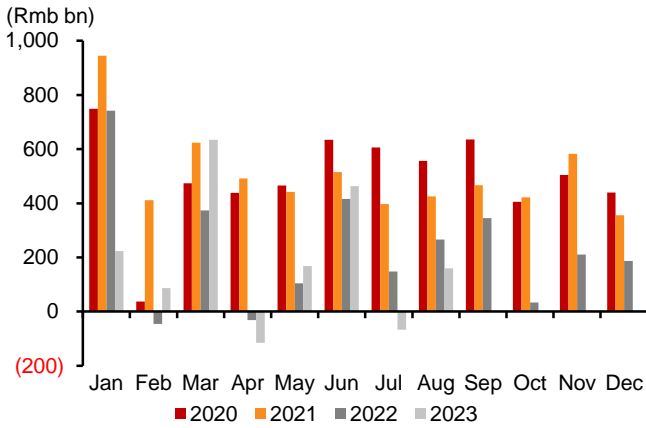
Source: Wind, CMBIGM

Figure 6: Bond financing



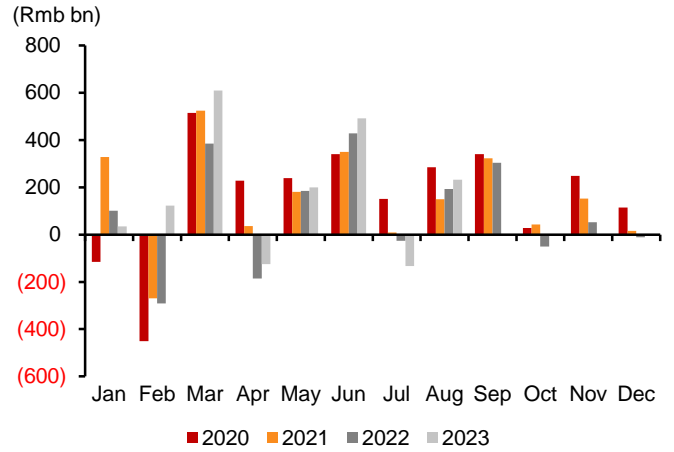
Source: Wind, CMBIGM

Figure 7: New M&L term loans to households



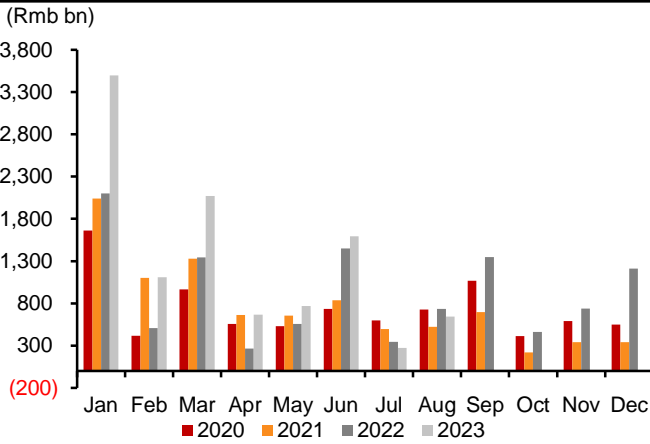
Source: Wind, CMBIGM

Figure 8: New short-term loans to households



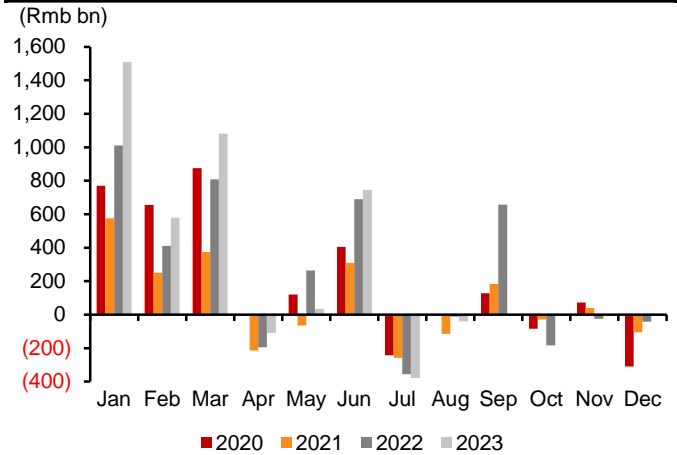
Source: Wind, CMBIGM

Figure 9: New M&L term loans to enterprises



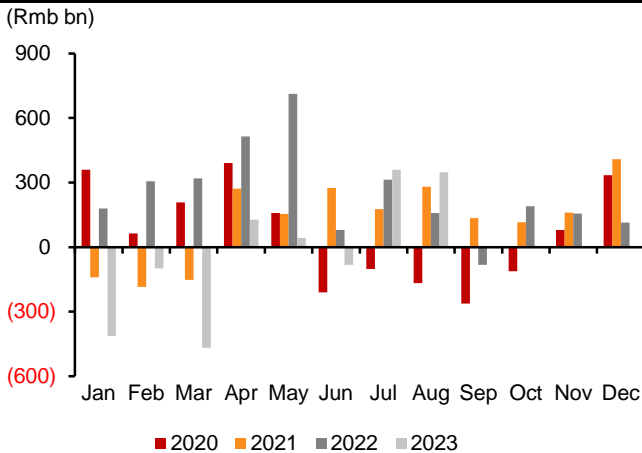
Source: Wind, CMBIGM

Figure 10: New short-term loans to enterprises



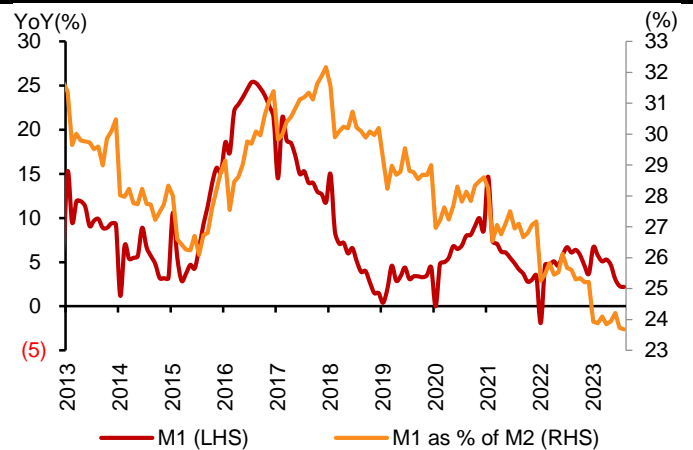
Source: Wind, CMBIGM

Figure 11: Bill financing to enterprises



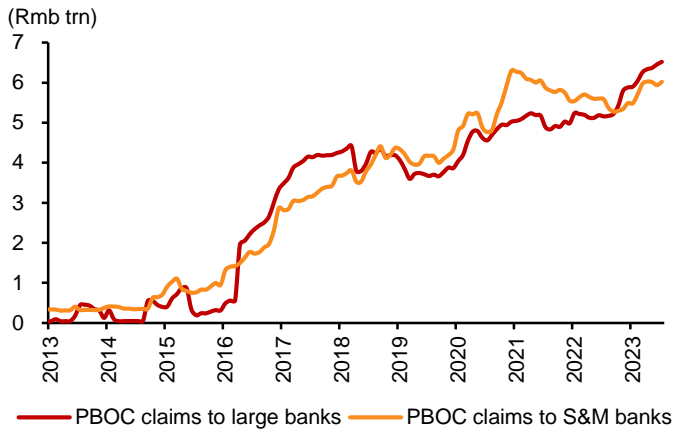
Source: Wind, CMBIGM

Figure 12: M1 growth & M1 as % of M2



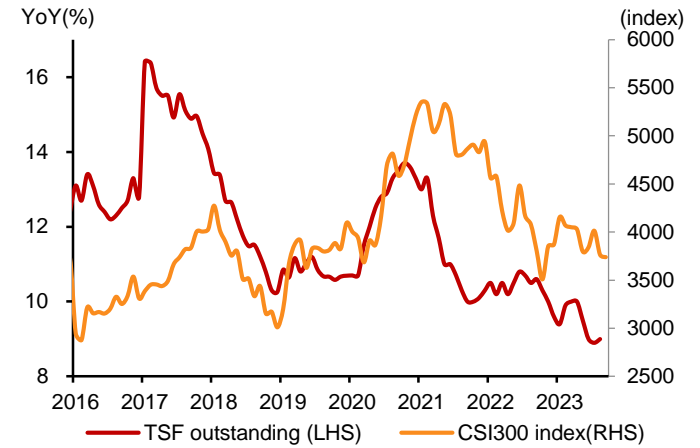
Source: Wind, CMBIGM

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



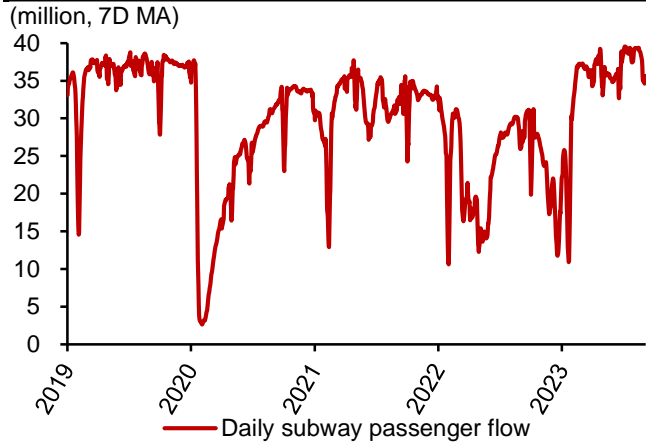
Source: Wind, CMBIGM

Figure 14: Total social financing & CSI300 index



Source: Wind, CMBIGM

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



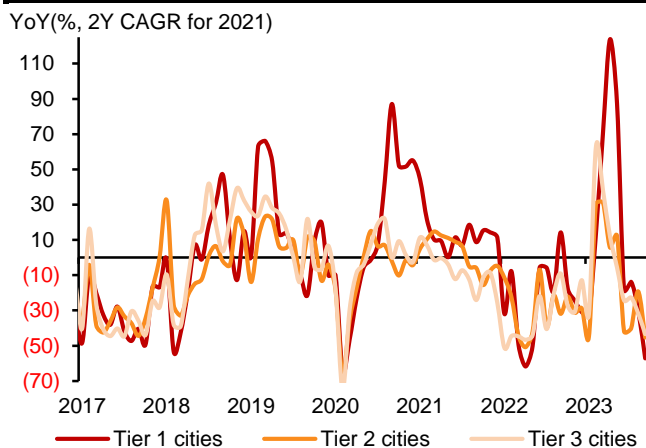
Source: Wind, CMBIGM

Figure 16: New mortgage & housing sales



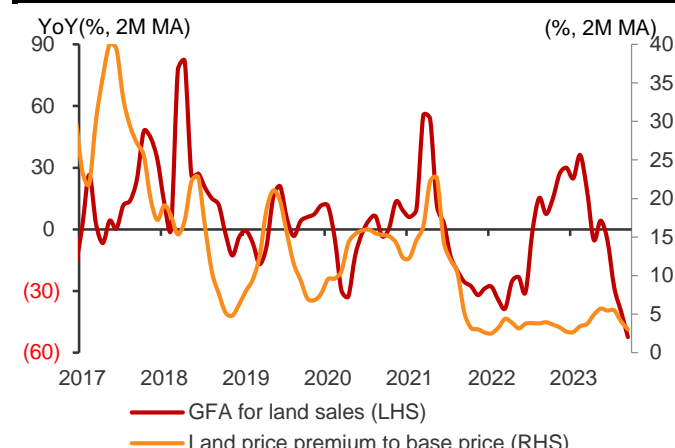
Source: Wind, CMBIGM

Figure 17: Growth of housing sales by cities



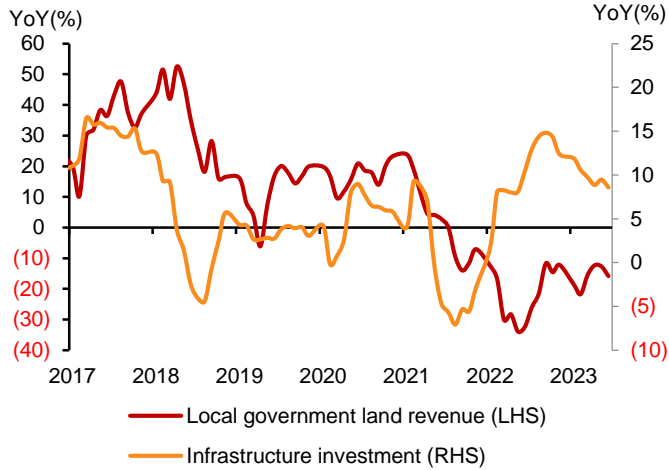
Source: Wind, CMBIGM

Figure 18: Growth of land sales



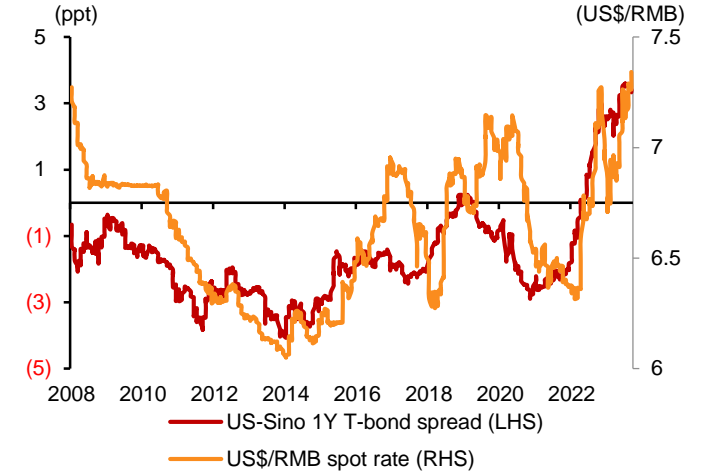
Source: Wind, CMBIGM

Figure 19: Infrastructure investment



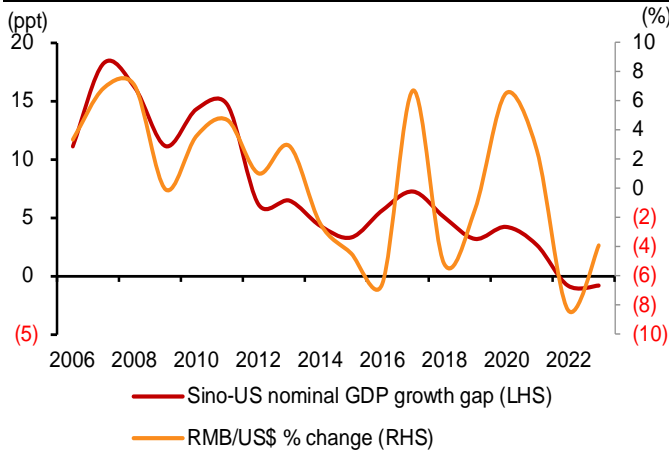
Source: Wind, CMBIGM

Figure 20: US-Sino interest spreads



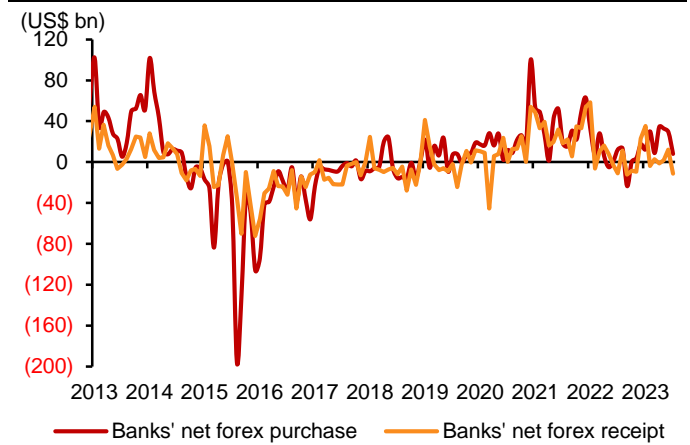
Source: Wind, CMBIGM

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



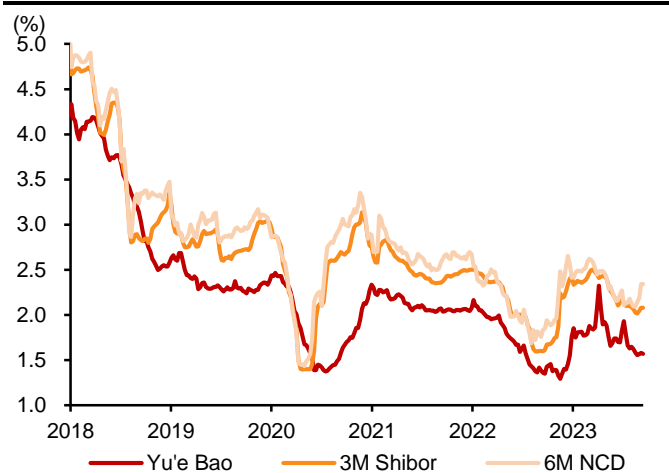
Source: Wind, CMBIGM

Figure 22: Net forex inflow



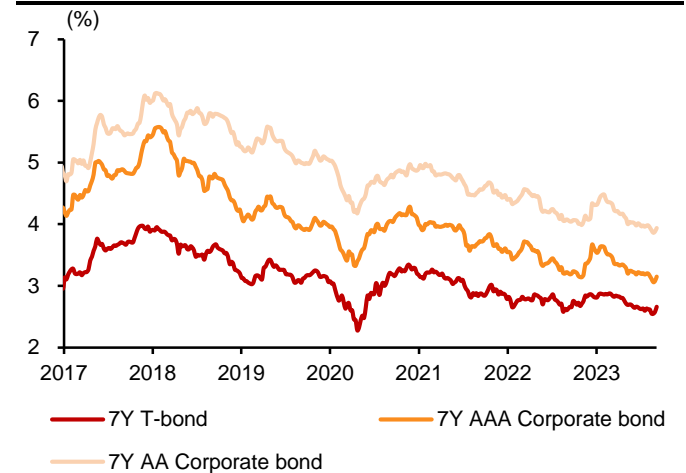
Source: Wind, CMBIGM

Figure 23: Money market funding cost



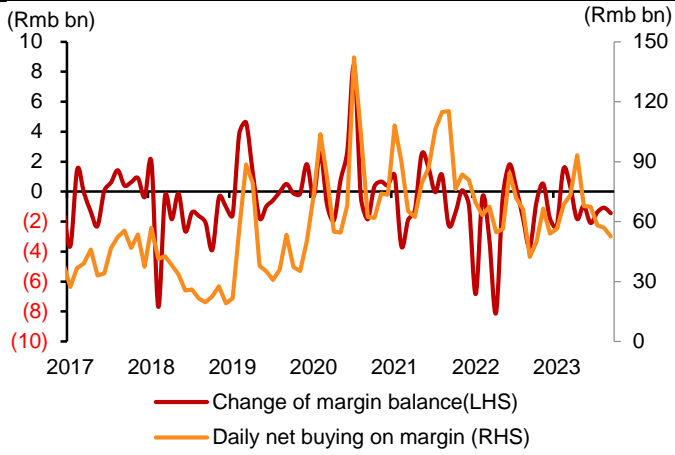
Source: Wind, CMBIGM

Figure 24: Bond market rates



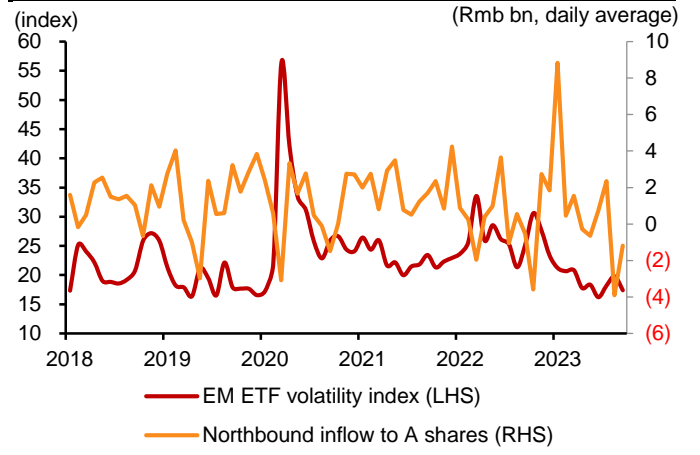
Source: Wind, CMBIGM

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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