

China Policy

Credit growth rebounded amid easing credit policy

China reported unexpectedly strong credit growth in February as credit demand from local governments & SOEs was strong while that from households gradually recovered. The recent increase of money market rates indicates a normalization of liquidity condition from excessive easing to mild easing as new credit supply and housing market recovery beat expectations in 2M23. We believe money market rates have already returned to reasonable levels. The PBOC has to maintain reasonable ample liquidity condition and easing credit policy to relieve debt risk and boost the growth. The recent failure of Silicon Valley Bank has caused contagious risk-off sentiment and increased global market volatility. The PBOC may temporarily increase liquidity supply to offset its spillover effect on China's financial market.

- China's new credit further beat expectations in February.** Total social financing rose 159.7% YoY in February after declining 3.1% YoY in January. Outstanding social financing picked up 9.9% YoY at end-February after rising 9.4% YoY at end-January. M2 supply grew at one of the fastest paces since 2016 at 12.9% YoY at end-February. The YoY growth of new RMB loans to the real sector jumped from 17.4% in January to 100.4% in February, thanks to strong loan supply to corporates and rebounding in mortgage loans to households. Meanwhile, government bond financing increased 199% YoY after dropping 31.3% YoY in January, indicating strong borrowing demand from local governments because of their difficult fiscal condition as well as the pro-growth policy shift from the top. Corporate bond financing also improved by slightly rising 0.9% YoY in February after plunging 74.5% YoY in January as large corporates' capex demand started to improve. New foreign currency loans rebounded to a positive number for the first time since last April after the latest round of renminbi rally. New trust loans also turned positive for the first time in recent two years, indicating a relief of credit risk in property development projects.
- Local governments and SOEs had strong credit demand while mortgage loans improved with housing market recovery.** New medium & long term loans to enterprises rose 119.7% YoY in February after climbing 66.7% YoY in January. SOEs, local government financing vehicles and manufacturing may have continued to dominate in the new loans to enterprises in February. According to China Banking and Insurance Regulatory Commission, new loans to infrastructure, leasing & business service (including industrial parks) and manufacturing sectors accounted for 62% in total new loans in January. Banks' bill discount financing remained negative in February as the strong loan demand from SOEs and large companies crowded out financing to small and medium private businesses. The borrowing of households indicated a recovery in housing market and consumption expenditure in February. New medium to long term loans to households, mainly mortgage financing, reached RMB86.3bn in February, compared to RMB45.9bn in the same period last year. New short-term loans to households also improved sharply from a negative number last February to RMB121.8bn this February.
- China will maintain easing credit policy to relieve debt risk and boost the growth.** The recent increase of money market rates indicates a normalization of the liquidity condition from "excessive easing" to "mild easing" as new credit

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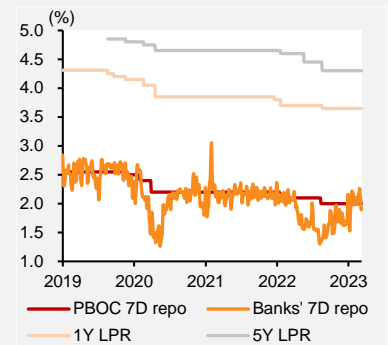
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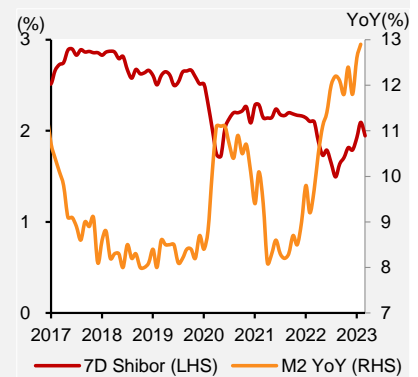
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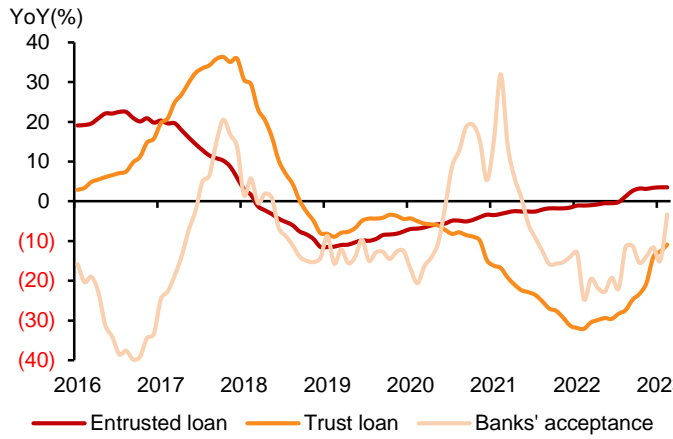
Source: Wind, CMBIGM



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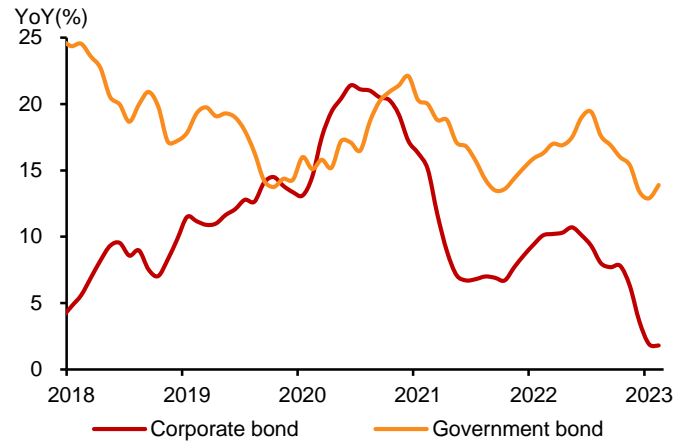
supply and housing market recovery beat expectations in 2M23. We believe money market rates have already returned to reasonable levels and the PBOC will sharply tighten the monetary policy ahead. China's GDP growth remains below the potential growth as the reflation pressure is quite low. Meanwhile, the property sector and local governments still face stress. The PBOC has to maintain reasonable ample liquidity supply and easing credit policy to boost the growth and relieve debt risk this year. The recent failure of Silicon Valley Bank has caused contagious risk-off sentiment and increased global market volatility. The PBOC may temporarily increase liquidity supply to offset its spillover effect on China's financial market.

Figure 1: Growth of outstanding OBS financing



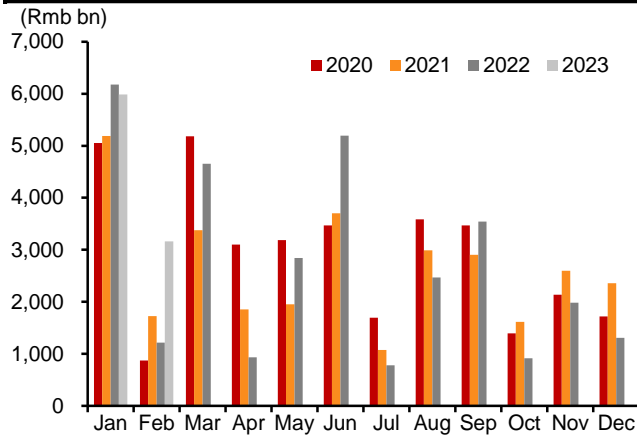
Source: Wind, CMBIGM

Figure 2: Growth of outstanding bond financing



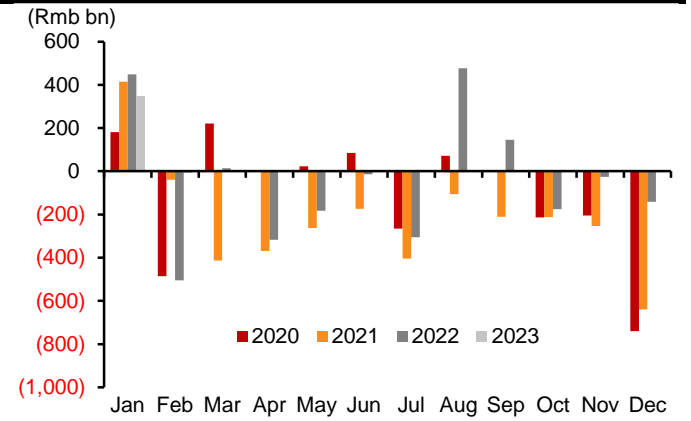
Source: Wind, CMBIGM

Figure 3: Total social financing



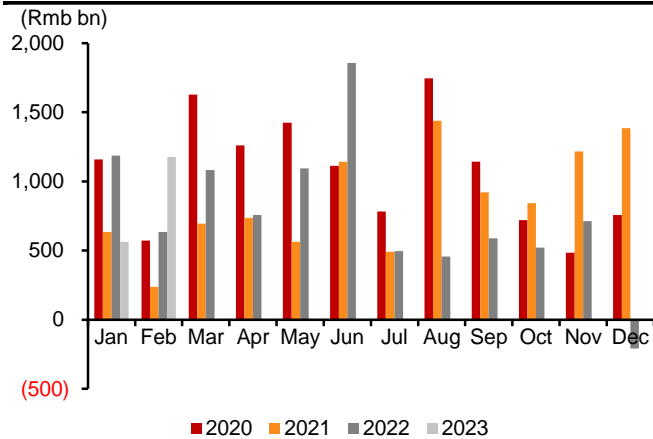
Source: MoF, CMBIGM

Figure 4: OBS financing



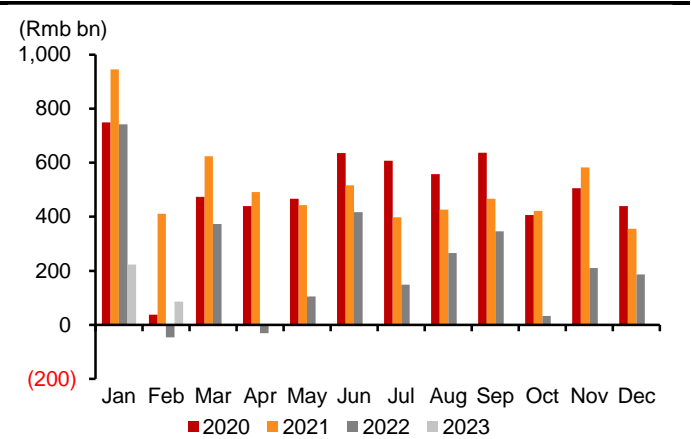
Source: MoF, CMBIGM

Figure 5: Bond financing



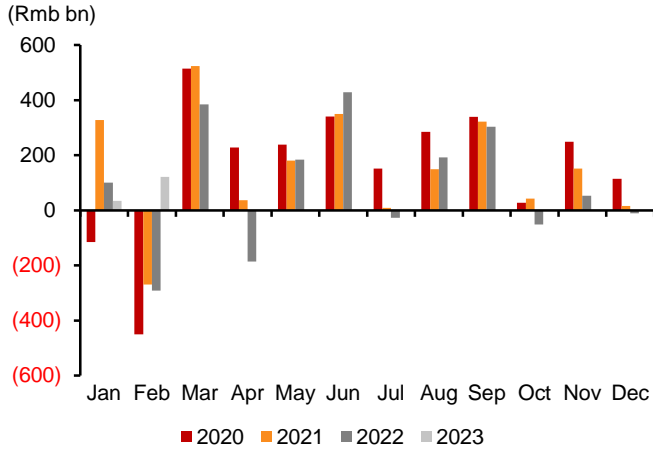
Source: Wind, CMBIGM

Figure 6: New M&L term loans to households



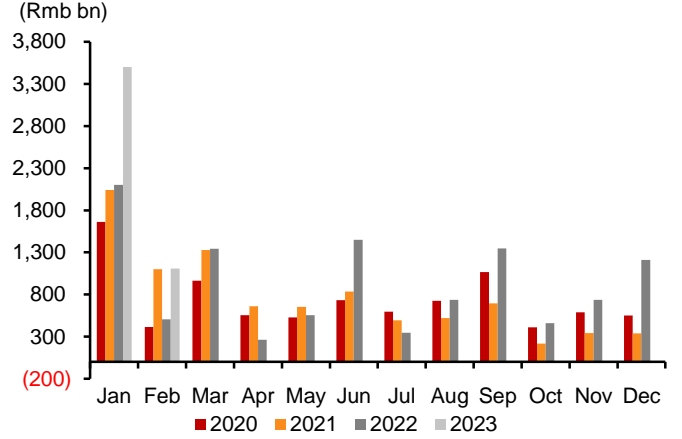
Source: Wind, CMBIGM

Figure 7: New short term loans to households



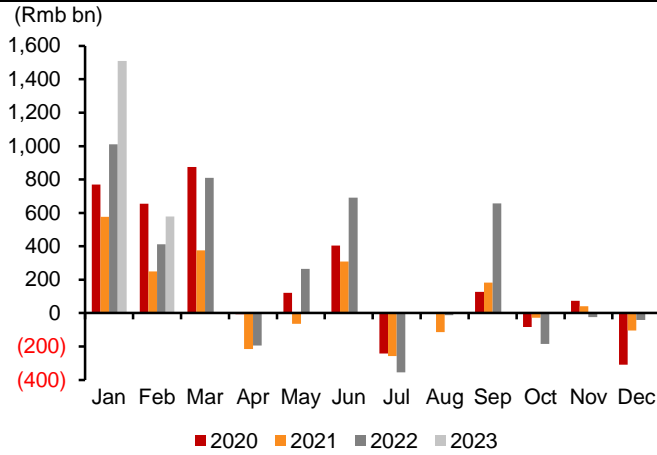
Source: Wind, CMBIGM

Figure 8: New M&L term loans to enterprises



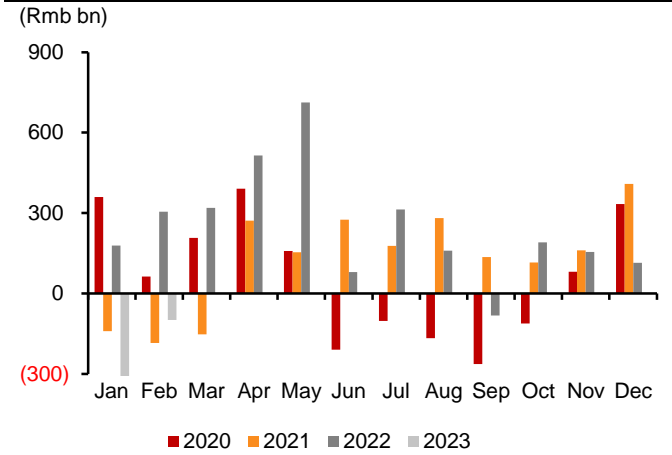
Source: Wind, CMBIGM

Figure 9: New short term loans to enterprises



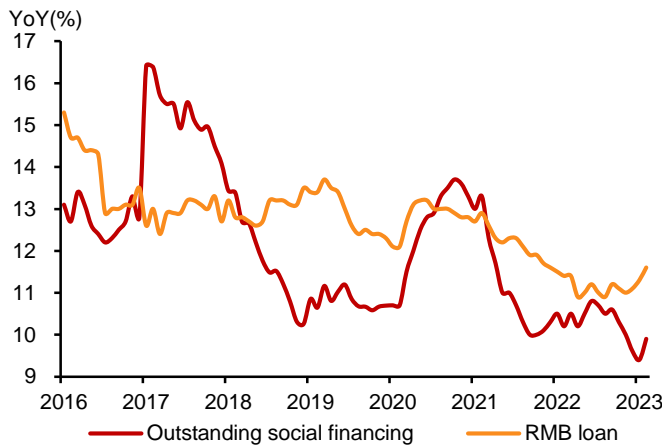
Source: Wind, CMBIGM

Figure 10: Bill financing to enterprises



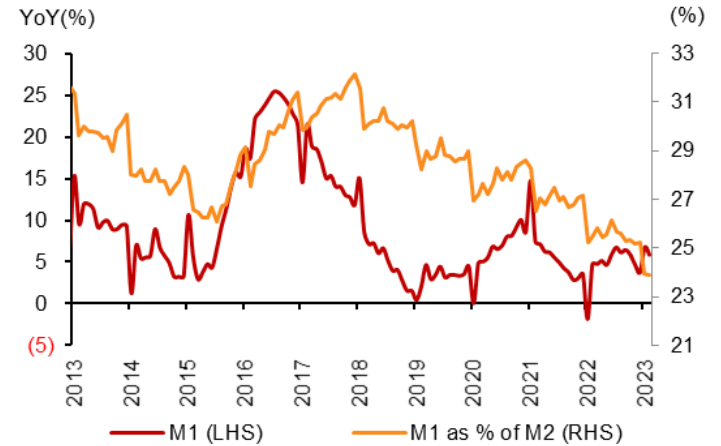
Source: Wind, CMBIGM

Figure 11: Growth of credit & money supply



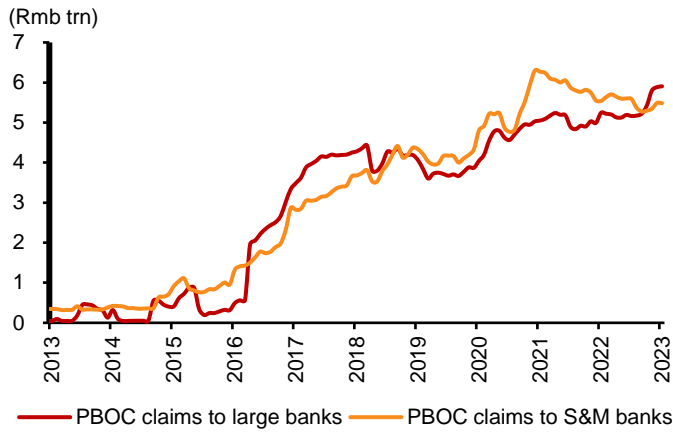
Source: Wind, CMBIGM

Figure 12: M1 growth & M1 as % of M2



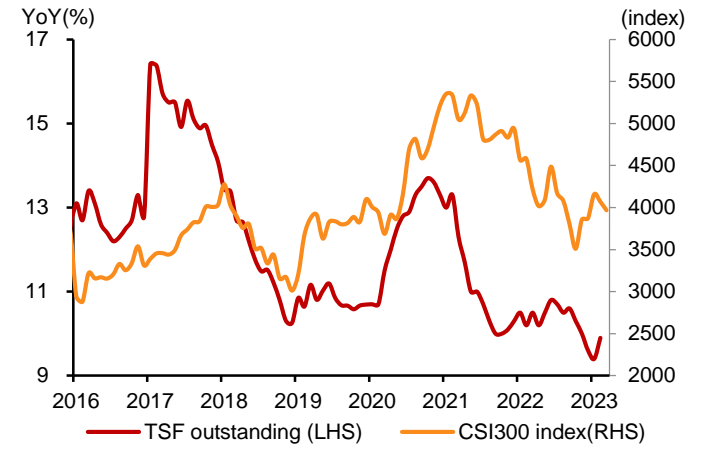
Source: Wind, CMBIGM

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



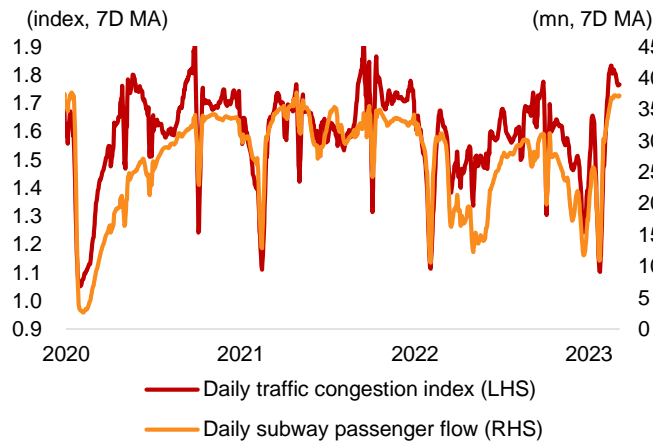
Source: Wind, CMBIGM

Figure 14: Total social financing & CSI300 index



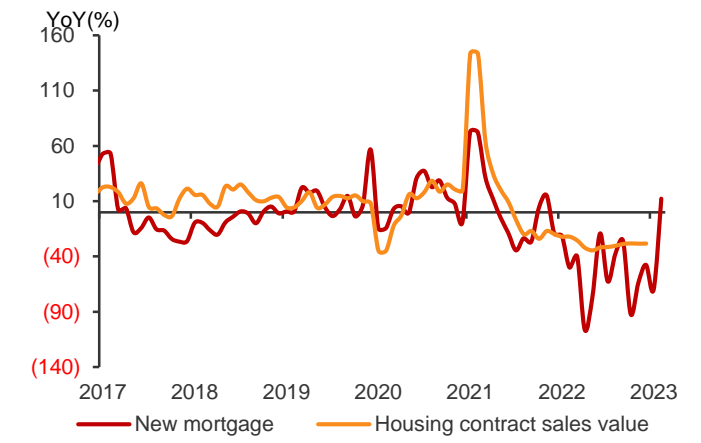
Source: Wind, CMBIGM

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



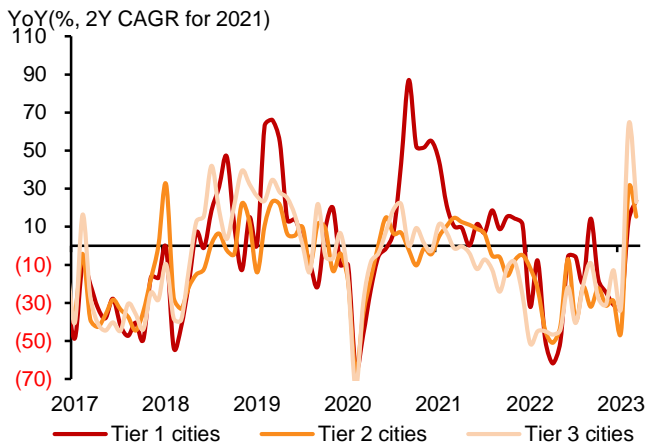
Source: Wind, CMBIGM

Figure 16: New mortgage & housing sales



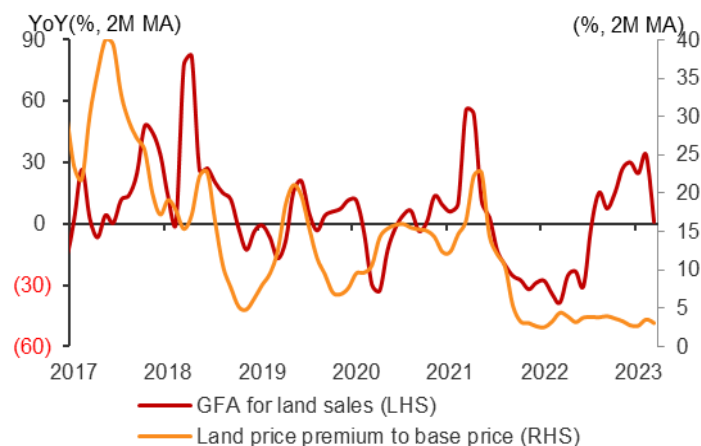
Source: Wind, CMBIGM

Figure 17: Growth of housing sales by cities



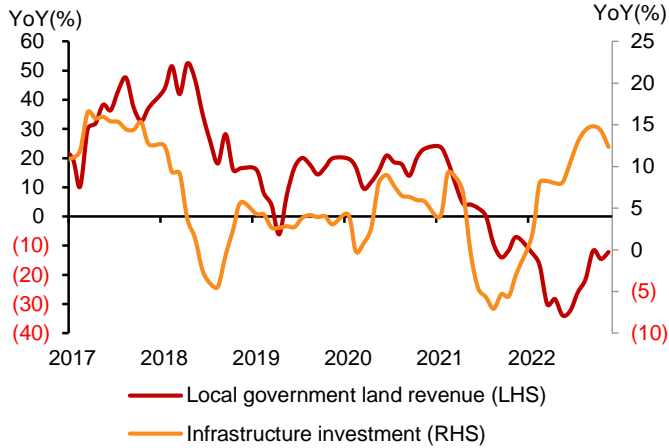
Source: Wind, CMBIGM

Figure 18: Growth of land sales



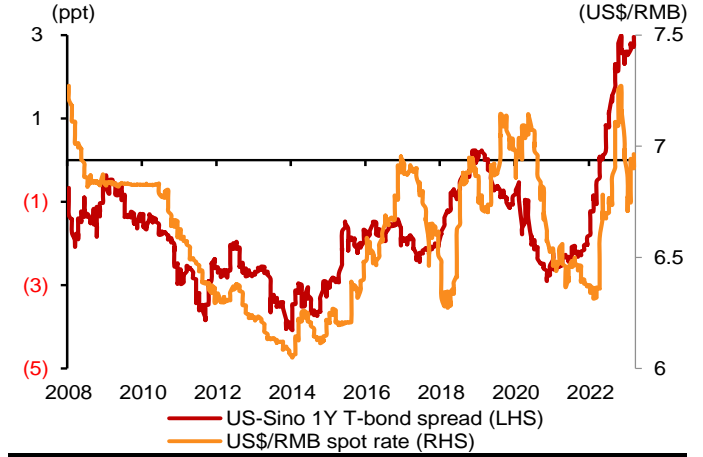
Source: Wind, CMBIGM

Figure 19: Infrastructure investment



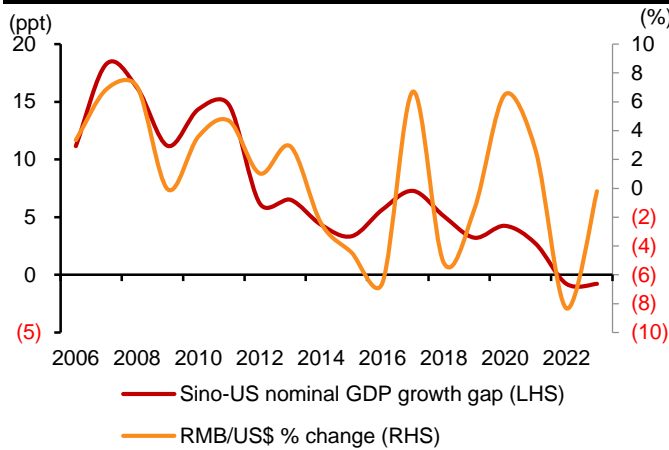
Source: Wind, CMBIGM

Figure 20: US-Sino interest spreads



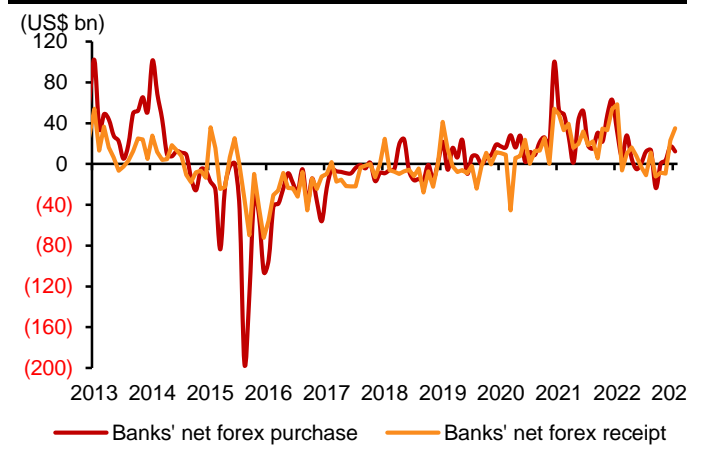
Source: Wind, CMBIGM

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



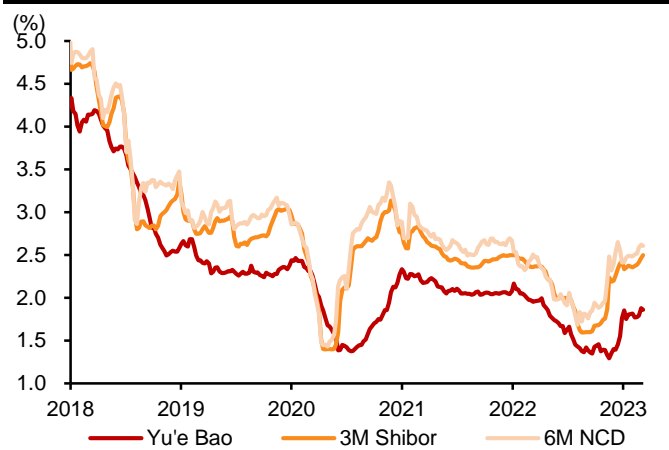
Source: Wind, CMBIGM

Figure 22: Net forex inflow



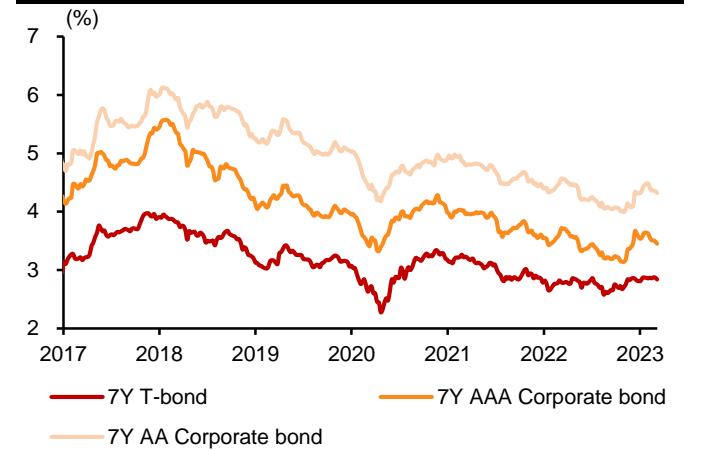
Source: Wind, CMBIGM

Figure 23: Money market funding cost



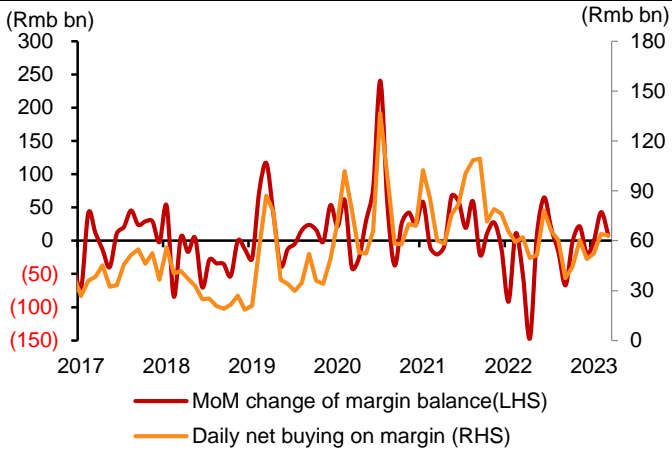
Source: Wind, CMBIGM

Figure 24: Bond market rates



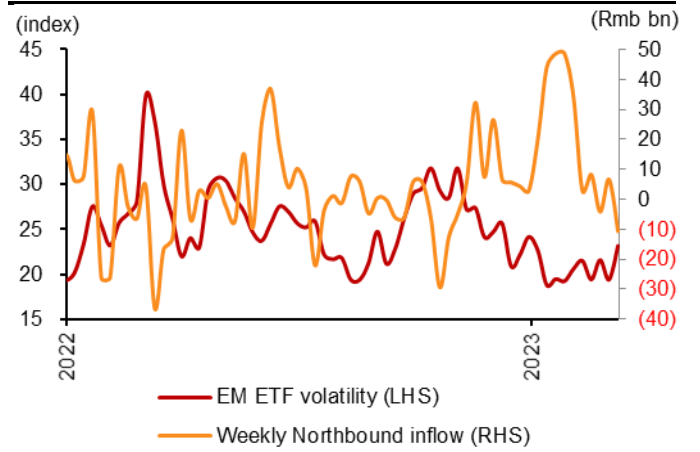
Source: Wind, CMBIGM

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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