

# China Economy

## Weak credit demand calls for easing policy

China's social financing flow marginally rebounded due to lower base and expanding government bond issuance. However, credit demand further weakened in the private sector as households cut housing purchase and discretionary consumption while businesses reduced capex amid deflation expectations and subdued confidence. New RMB loans to real sector registered a negative reading the first time since July 2005 with short-term loans to households and enterprises notably contracted. The weak credit demand in the private sector calls for further fiscal expansion and monetary policy easing. But the policymakers choose to seek a balance between multiple targets, restraining the policy room ahead. Looking forward, we expect the PBOC to further cut LPRs and deposit rates by 10-20bps and RRR by 25bps in the remainder of this year. We expect credit growth may see the trough around this year end as the US Fed's rate cut cycle may expand the PBOC's policy room next year.

■ **Social financing flow mildly rebounded amid lower base and expanding government bond issuance.** The growth of outstanding social financing (SF) edged up to 8.2% YoY (all in YoY terms unless otherwise specified) in July from 8.1% in June, as the SF flow rebounded by 43.6% to RMB770bn, after dropping 21.9% to RMB3.3tn in June. Government bond issuance has emerged as the cornerstone of social financing growth, as it increased by 68.2% and contributed nearly 90% of the SF flow in July. New RMB loans to real sector has become negative for the first time since July 2005 as credit demand has been extremely weak in the private sector. Corporate bond issuance surged 57.2% to RMB202.8bn, after dropping 6.6% to RMB210bn in June. Shadow financing continued to contract as new undiscounted banks' acceptance and trust loans dropped by RMB107.5bn and RMB2.6bn in July. The M1 supply further dropped 6.6% in July after decreasing 5% in June, as business activities were weak. M2 growth edged up to 6.3% in July from 6.2%. We expect both M1 and M2 growth should stay muted in the near term due to weak property sales and business activities.

■ **New loans further slumped as private sector accelerated deleveraging amid weak confidence.** Growth of outstanding RMB loans inched down to 8.7% in July from 8.8% in June, registering another historic low. The once again weaker-than-expected new RMB loans dropped 24.8% to RMB260bn in July, following the 30.2% dip to RMB2.13tn in June. New loans to households were negative as people cut housing purchase and discretionary consumption and repaid their debts amid concerns about economic uncertainty. New loans to the corporate sector further declined 45.3% to RMB130bn after dipping 28.5% to RMB1.63tn in June.

■ **Weak credit demand calls for easing policy.** Private sector has experienced a spontaneous deleveraging. Households have cut spending on home and consumption to repay their loans in advance amid deflation pressure and high real term interest rates. Businesses have reduced capex due to a lack of growth opportunities and overcapacity pressure. The credit demand weakness calls for fiscal expansion and easing monetary policy ahead. But the policymakers choose to seek a balance between multiple targets, which may restrain the policy room ahead. Looking forward, the PBOC may further cut LPRs and deposit rates by 10-20bps and RRR by 25bps in the remainder of this year. A possible weakening of the US dollar during the Fed's rate cut cycle may expand the PBOC's policy room next year as China's credit growth may gradually stabilize.

**Bingnan YE, Ph.D**

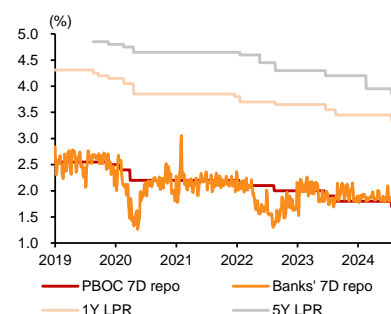
(852) 3761 8967

yebingnan@cmbi.com.hk

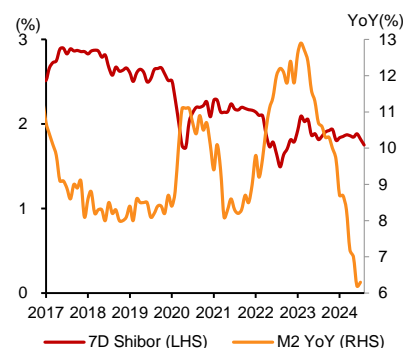
**Frank Liu**

(852) 3761 8957

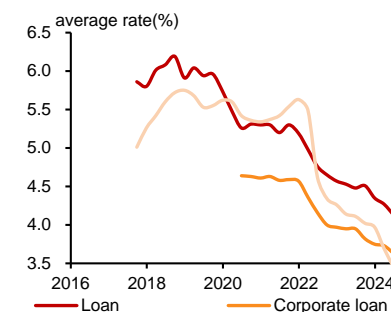
[frankliu@cmbi.com.hk](mailto:frankliu@cmbi.com.hk)



Source: Wind, CMBIGM

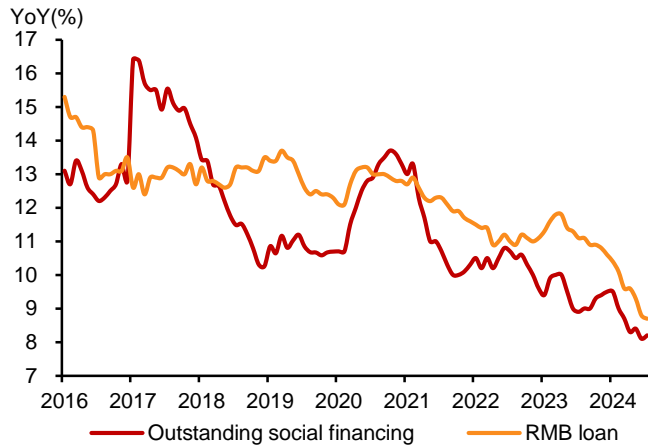


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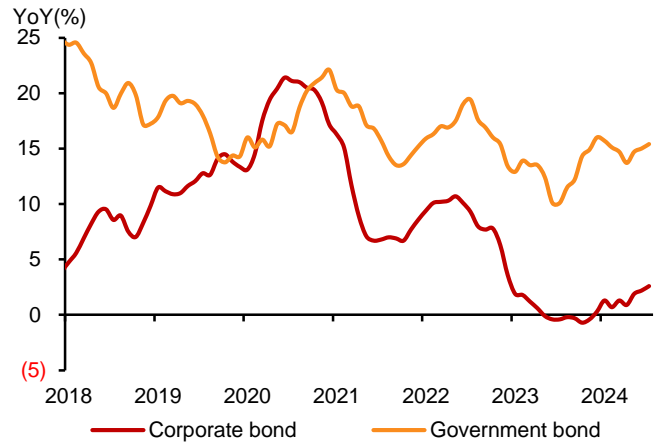
Source: Wind, CMBIGM

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



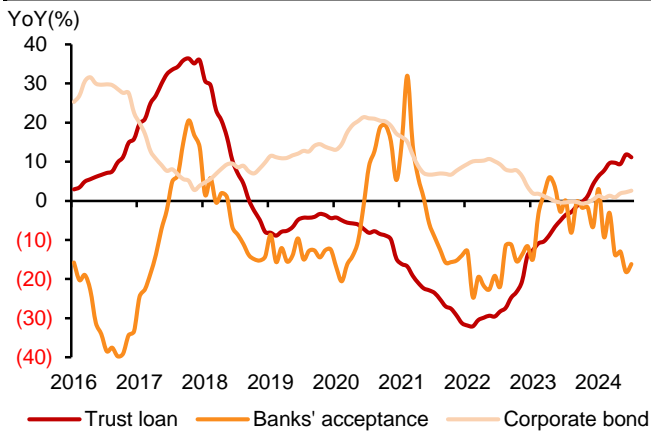
Source: Wind, CMBIGM

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



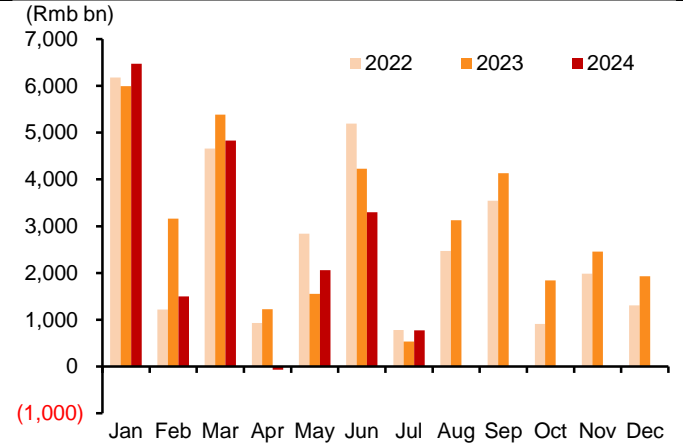
Source: Wind, CMBIGM

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



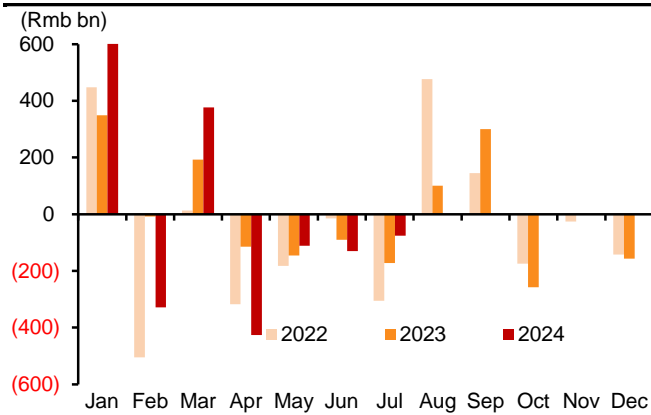
Source: MoF, CMBIGM

**Figure 4: Total social financing**



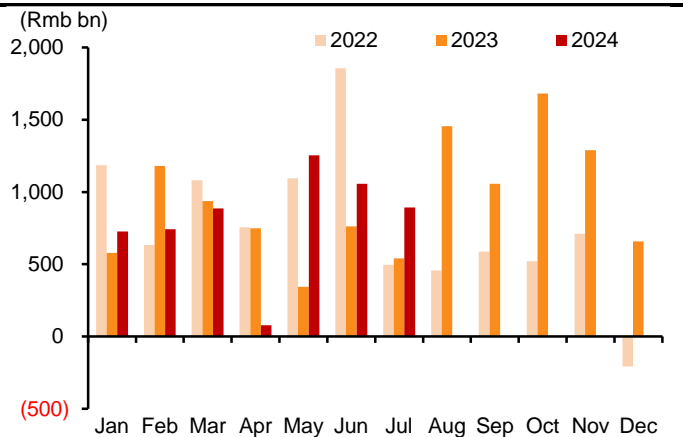
Source: MoF, CMBIGM

**Figure 5: OBS financing**



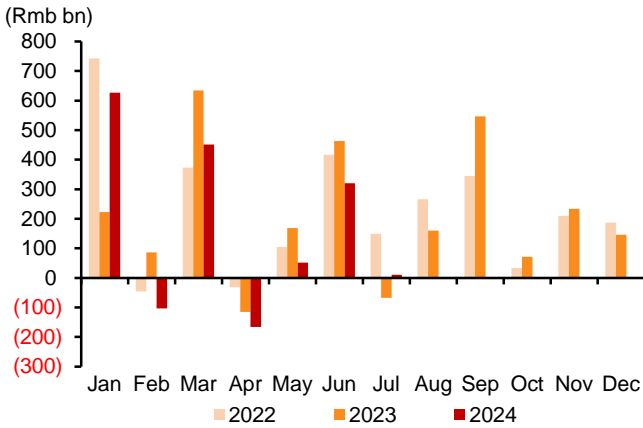
Source: Wind, CMBIGM

**Figure 6: Bond financing**



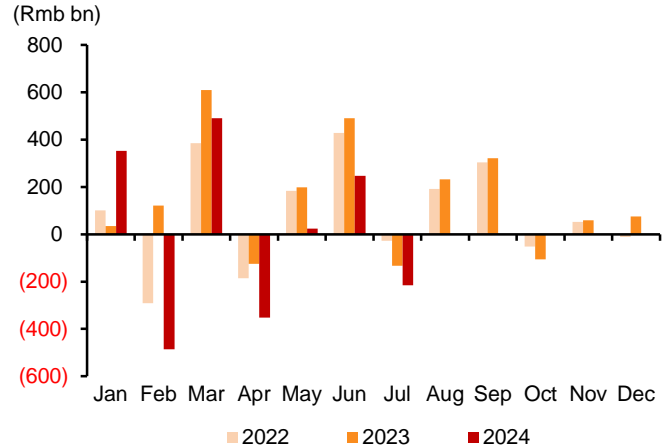
Source: Wind, CMBIGM

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



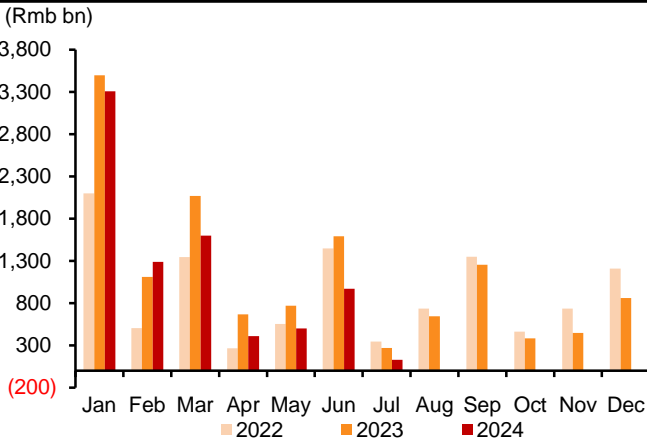
Source: Wind, CMBIGM

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



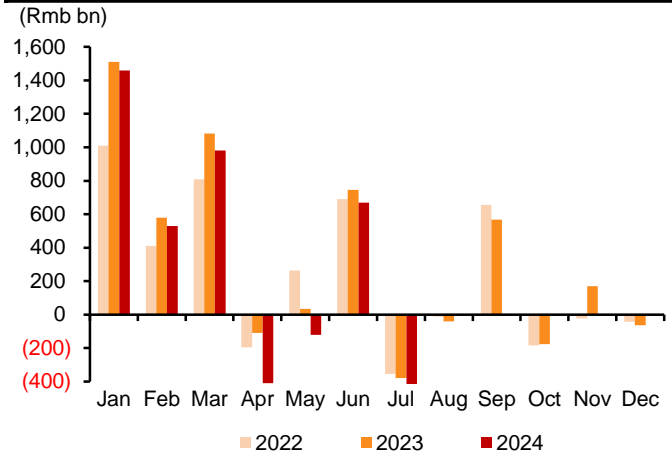
Source: Wind, CMBIGM

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



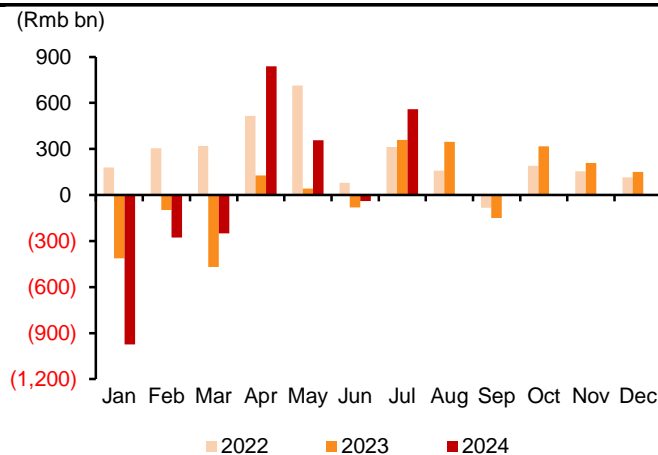
Source: Wind, CMBIGM

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



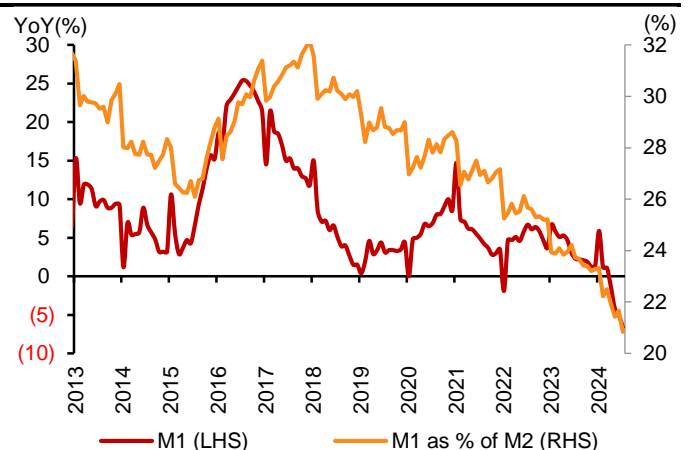
Source: Wind, CMBIGM

**Figure 11: Bill financing to enterprises**



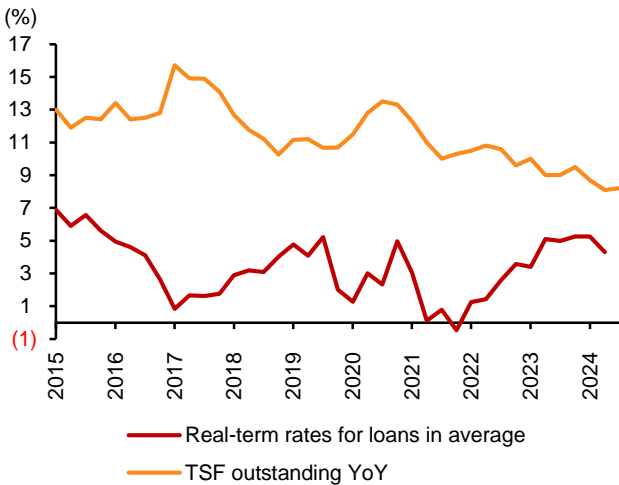
Source: Wind, CMBIGM

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



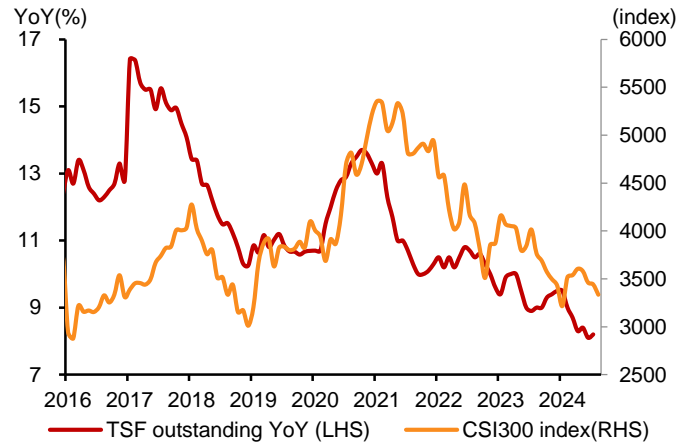
Source: Wind, CMBIGM

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



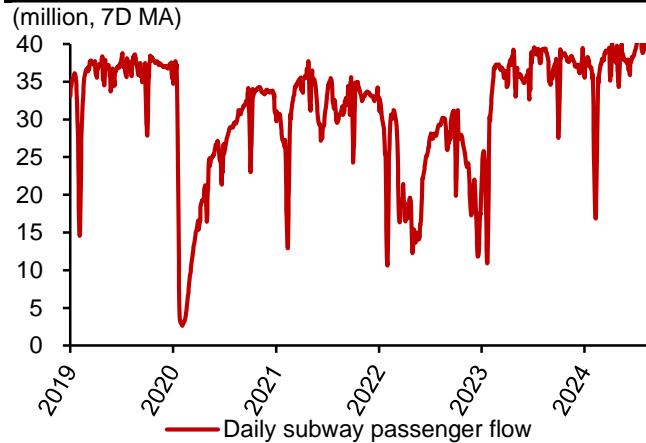
Source: Wind, CMBIGM

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



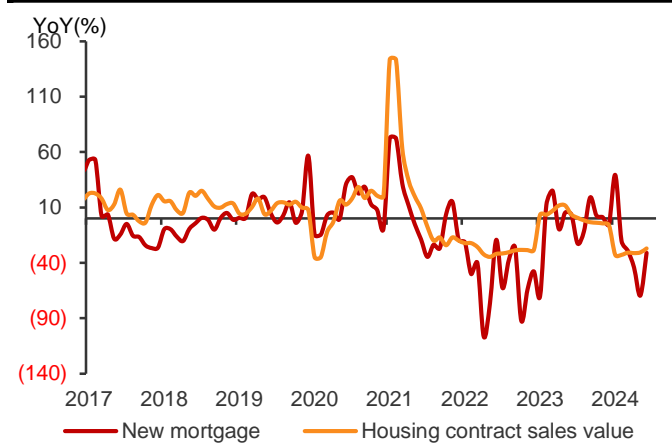
Source: Wind, CMBIGM

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



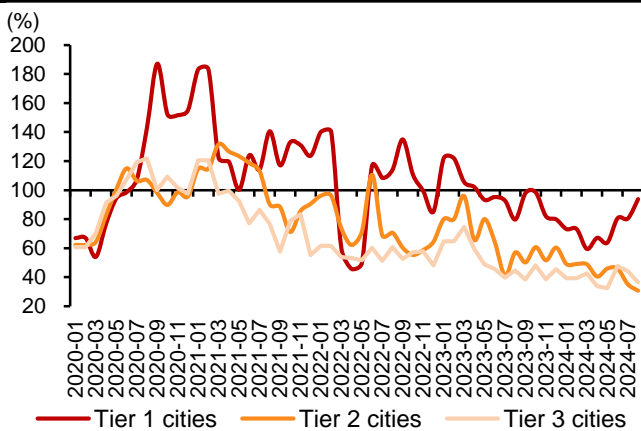
Source: Wind, CMBIGM

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



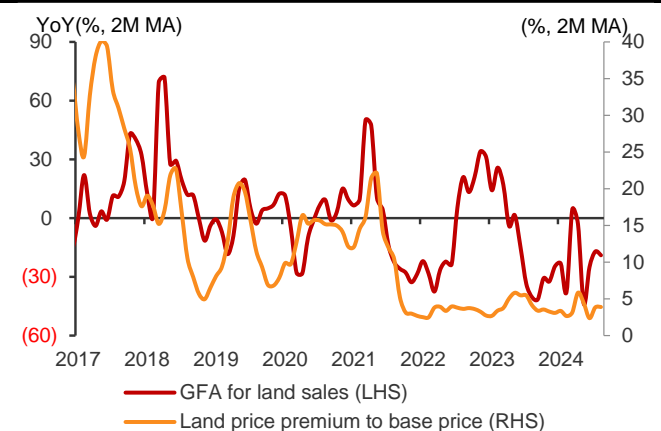
Source: Wind, CMBIGM

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



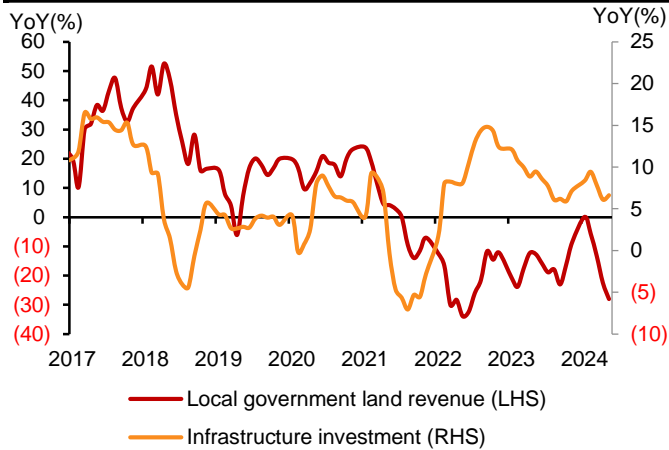
Source: Wind, CMBIGM

**Figure 18: Growth of land sales**



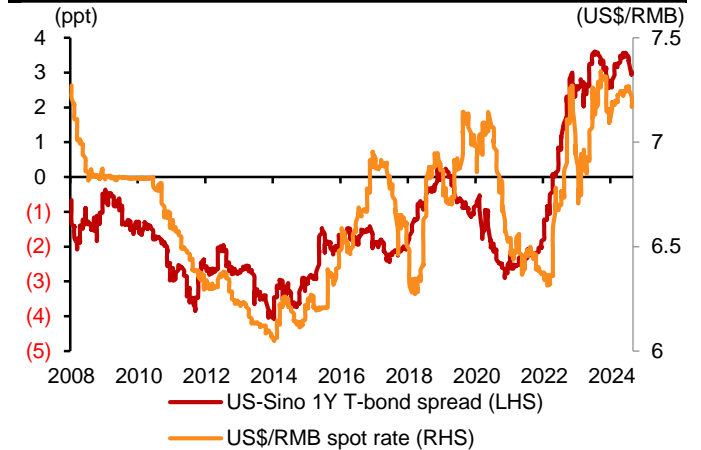
Source: Wind, CMBIGM

**Figure 19: Infrastructure investment**



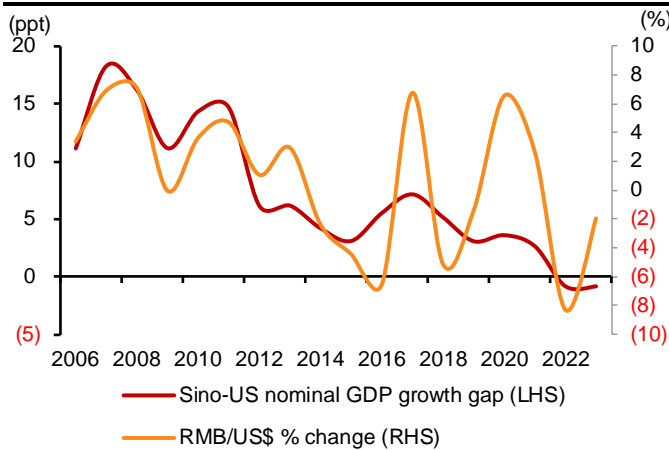
Source: Wind, CMBIGM

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



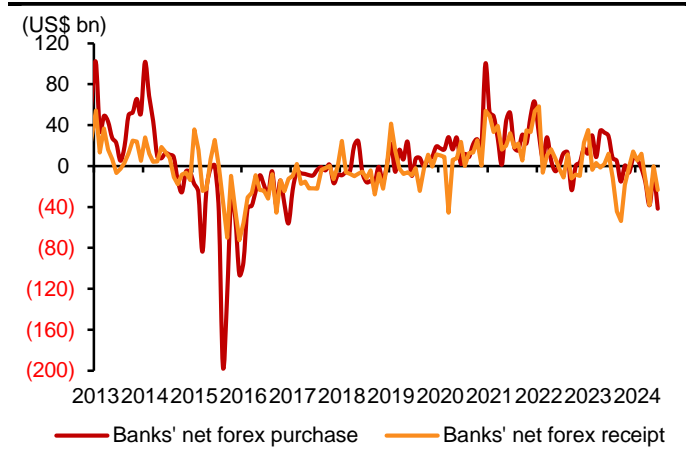
Source: Wind, CMBIGM

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



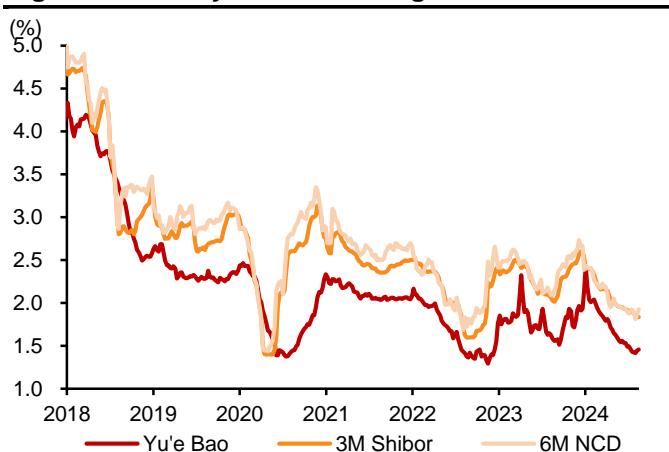
Source: Wind, CMBIGM

**Figure 22: Net forex inflow**



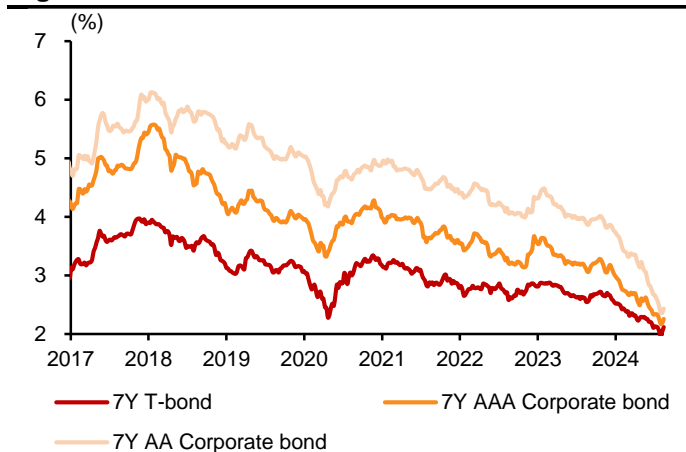
Source: Wind, CMBIGM

**Figure 23: Money market funding cost**



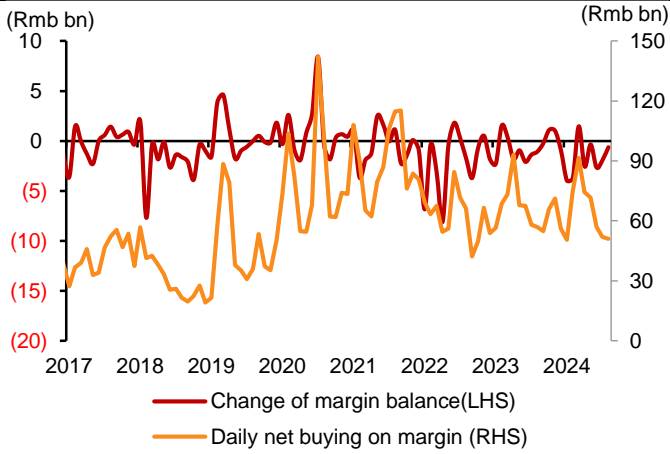
Source: Wind, CMBIGM

**Figure 24: Bond market rates**



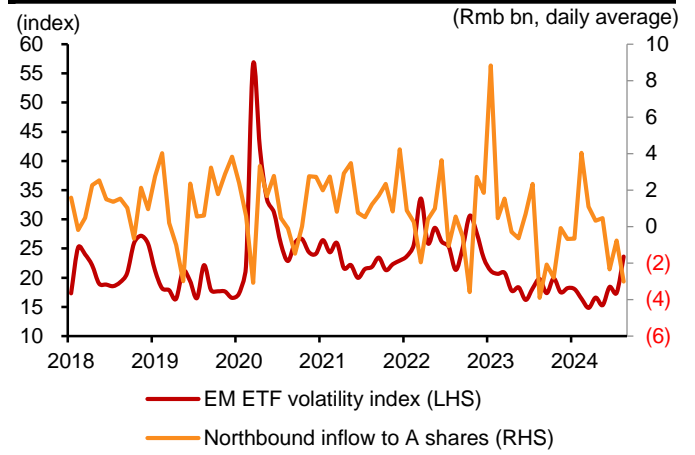
Source: Wind, CMBIGM

**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

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