

China Economy

Credit slowdown nears its conclusion

Credit growth remained subdued in Oct as the growth rates of outstanding social financing and RMB loans hit new lows. This trend serves as a leading indicator for the business cycle, suggesting the economy is not on a path of sustainable recovery. Government bond financing declined and corporate borrowings remained weak due to cautious capex expansion. However, long-term loans to households showed improvement with a rebound in housing sales following a recent policy shift towards significant easing. Additionally, the money supply picked up driven by the recovery in the housing market and a rally in the stock market over the past two months. We anticipate that the slowdown in credit is nearing its conclusion, as the recent policy changes are likely to enhance credit supply, boost government financing and stimulate sales in housing and durable goods. Nevertheless, ongoing deflationary pressure and a lack of confidence in the private sector may continue to weigh on credit growth. We project the PBOC may further ease liquidity and credit supply, potentially cutting RRR by 0.5-1ppt and lowering LPR & deposit rates by 20-40bps in 2025.

- Social financing further contracted while M2 continued to recover.** Outstanding social financing growth declined to 7.8% YoY (all in YoY terms unless otherwise specified) in Oct from 8% in Sep as social financing flow plunged 24.3% in Oct. Government bond financing was the major drag as it dropped 32.9% in Oct to RMB1.05tn after growing 54.8% to RMB1.54tn in Sep. New RMB loans to the real sector dropped 38.2% in Oct to RMB298bn, compared to RMB1.97tn in Sep. Corporate bond financing turned positive at RMB101bn in Oct from RMB-192bn in Sep, yet still below year-ago level. M1 supply narrowed its YoY decline partially thanks to the rebound of housing sales. M2 bounced up from 6.8% to 7.5%, as funds flowed from WMPs into deposits for equity investment and banks expanded lending to brokers, equity funds and insurance companies amid the support of the PBOC's special refinancing mechanism.
- New loans further declined but M&L term loans to households notably rebounded.** Growth of outstanding RMB loans edged down to 8% in Oct from 8.1%, hitting another historic low. New RMB loans dropped 32.3% to RMB500bn in Oct, following the 31.2% dip to RMB1.6tn in Sep. New short-term loans to households remained subdued but medium- and long-term loans saw a remarkable rebound of 55.6% to RMB110bn in Oct after dropping 58% to RMB230bn in Sep, as property sales in tier-1 cities were booming in Oct. New loans to the corporate sector markedly plunged by 74.8% in Oct to RMB130bn compared to RMB1.5tn in Sep, with negative short-term borrowing at -RMB190bn and medium- & long-term dropping 55.6%, as the effect of stimulus has yet to reach the corporate side. Bill financing picked up RMB169bn in Oct compared to RMB545.1bn in Aug.
- Credit slowdown is nearing its conclusion.** Recent policy developments suggest an important shift towards significant easing. The PBOC has eased liquidity condition and credit supply with abrupt RRR and interest rate cuts. Additionally, the MoF has initiated LG debt swaps to mitigate local fiscal distress. Municipal governments have also relaxed property policies. Credit slowdown is nearing its conclusion as the recent policy shift is expected to boost credit supply, increase government financing and stimulate sales in housing and durable goods. Nevertheless, the recent measures primarily focus on stabilizing the housing market and addressing local fiscal distress following the property slump. Policy support for consumers remains limited, as ongoing deflationary pressure and weakened confidence may continue to hinder credit expansion. The PBOC may further ease liquidity & credit supply with additional RRR cuts by 0.5-1ppt and LPR & deposit rate reductions by 20-40bps in 2025.

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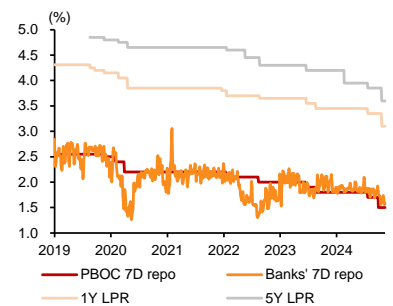
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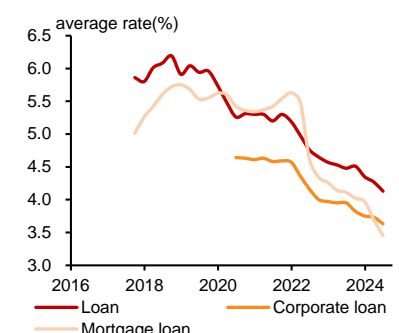
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Source: Wind, CMBIGM

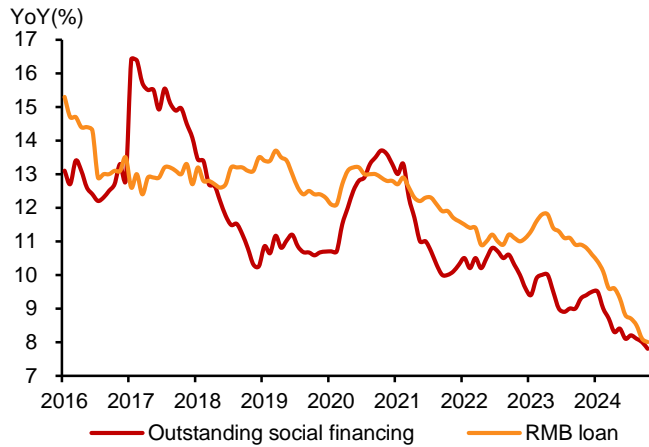


Source: Wind, CMBIGM



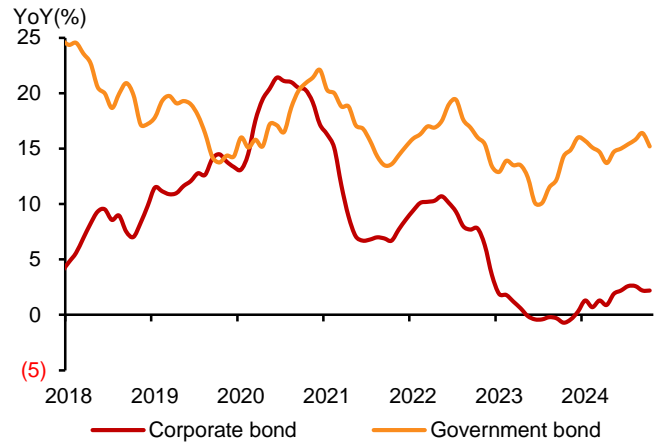
Source: Wind, CMBIGM

Figure 1: Growth of outstanding social financing



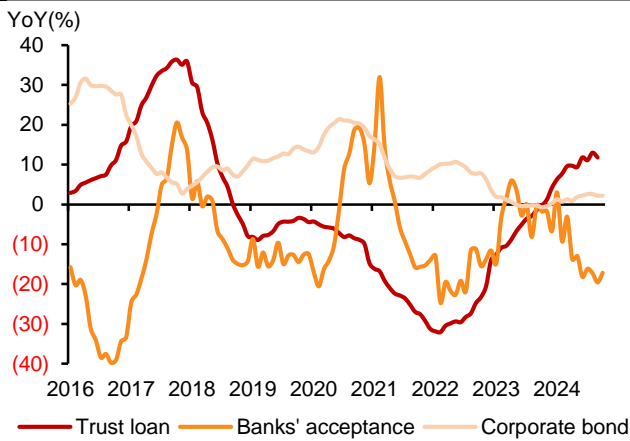
Source: Wind, CMBIGM

Figure 2: Growth of outstanding bond financing



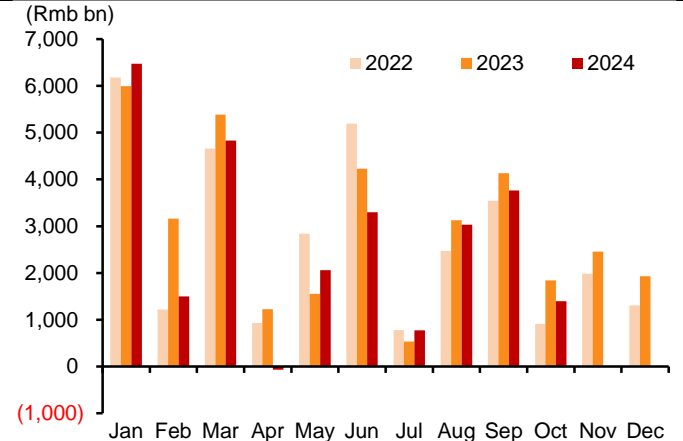
Source: Wind, CMBIGM

Figure 3: Growth of outstanding OBS financing



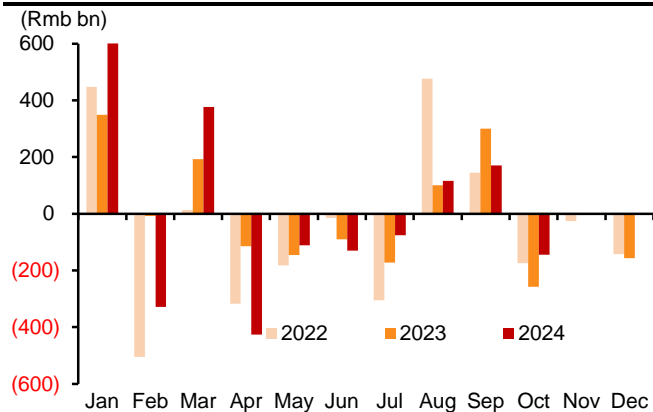
Source: MoF, CMBIGM
Note: OBS – off-balance sheet

Figure 4: Total social financing flow



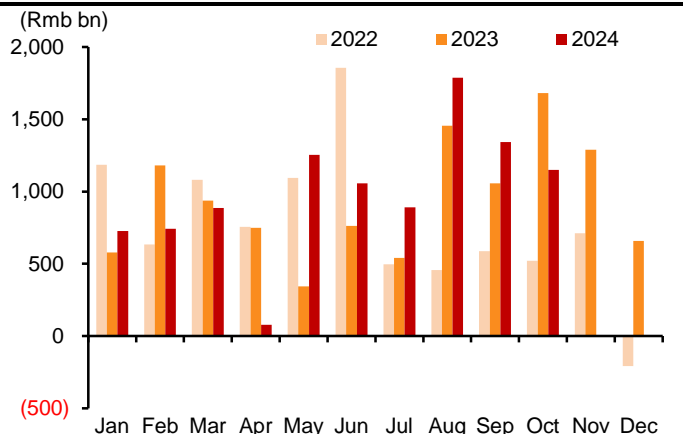
Source: MoF, CMBIGM

Figure 5: OBS financing flow



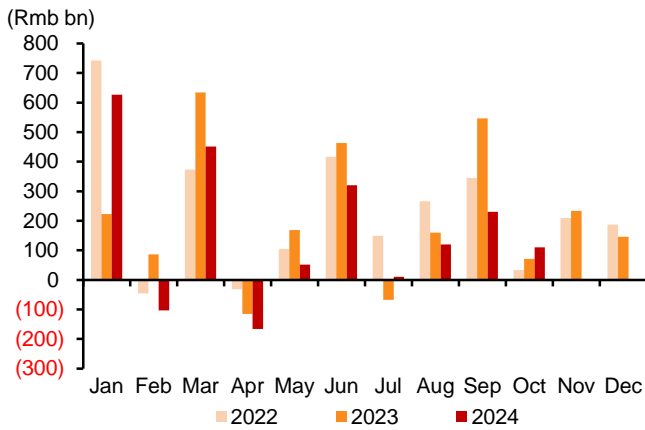
Source: Wind, CMBIGM

Figure 6: Bond financing flow



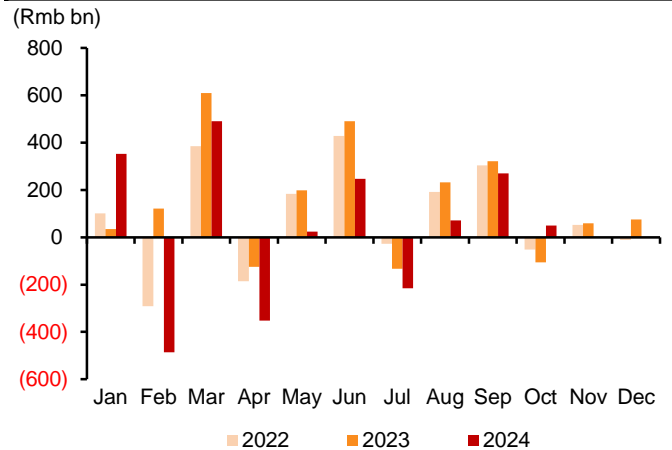
Source: Wind, CMBIGM

Figure 7: New M&L term loans to households



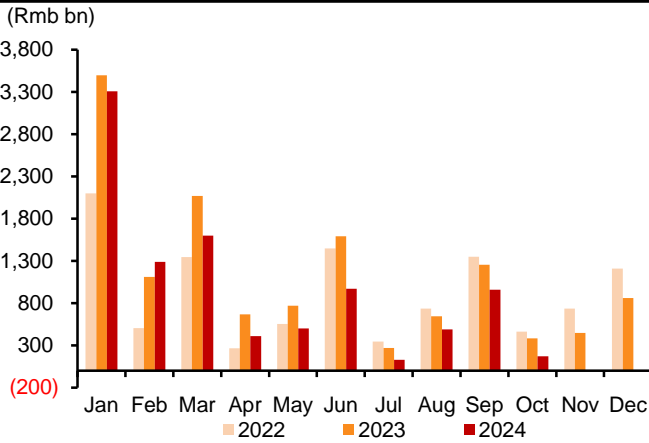
Source: Wind, CMBIGM

Figure 8: New short-term loans to households



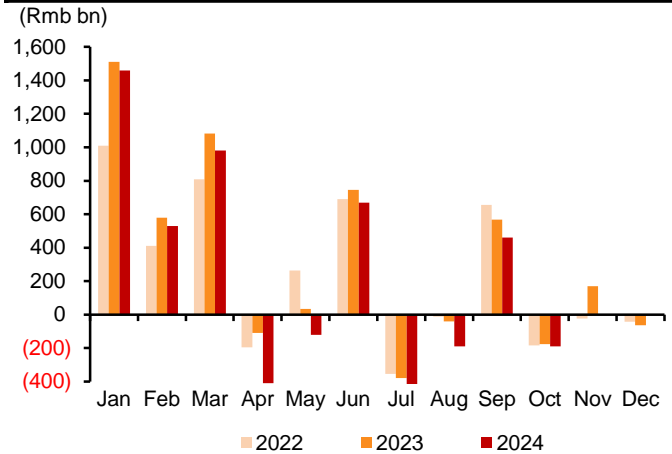
Source: Wind, CMBIGM

Figure 9: New M&L term loans to enterprises



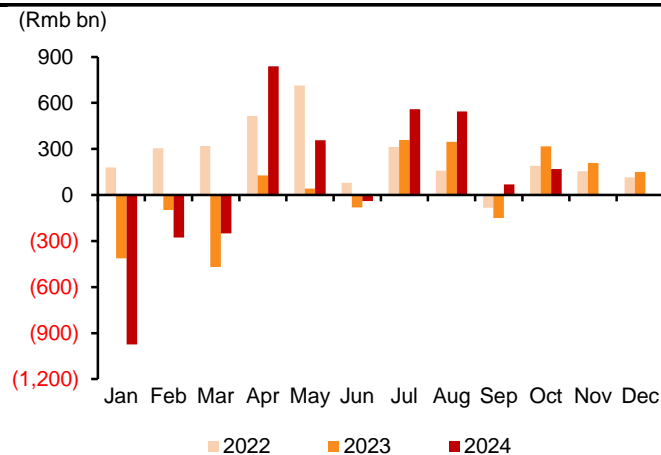
Source: Wind, CMBIGM

Figure 10: New short-term loans to enterprises



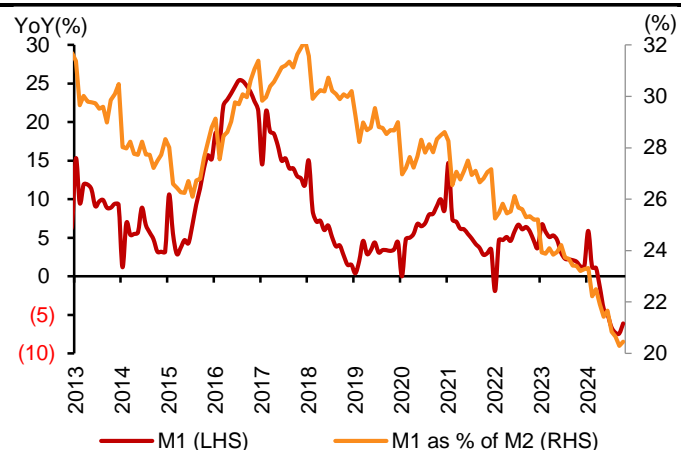
Source: Wind, CMBIGM

Figure 11: Bill financing to enterprises



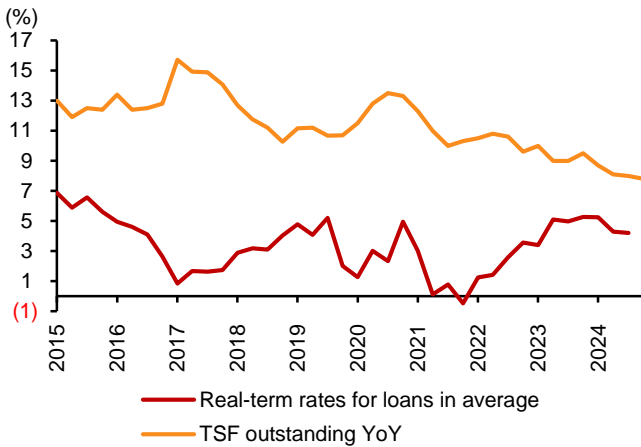
Source: Wind, CMBIGM

Figure 12: M1 growth & M1 as % of M2



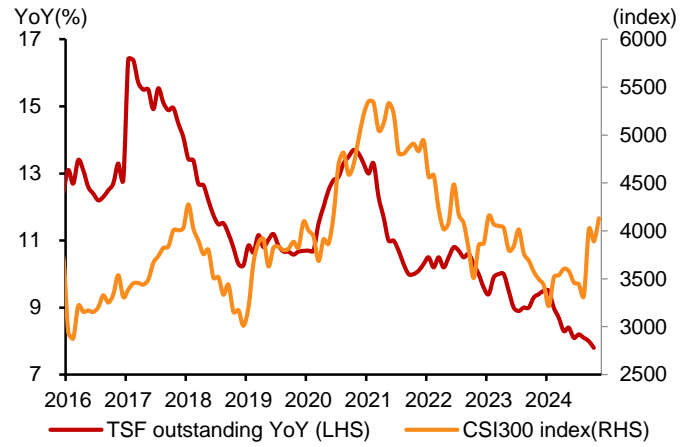
Source: Wind, CMBIGM

Figure 13: Real-term loan rates & TSF growth



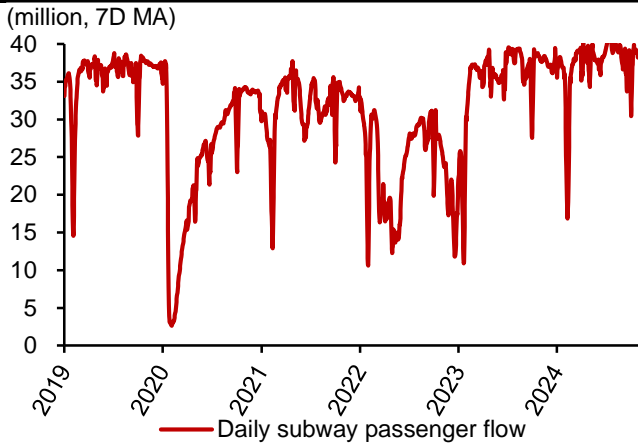
Source: Wind, CMBIGM

Figure 14: TSF growth & CSI300 index



Source: Wind, CMBIGM

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



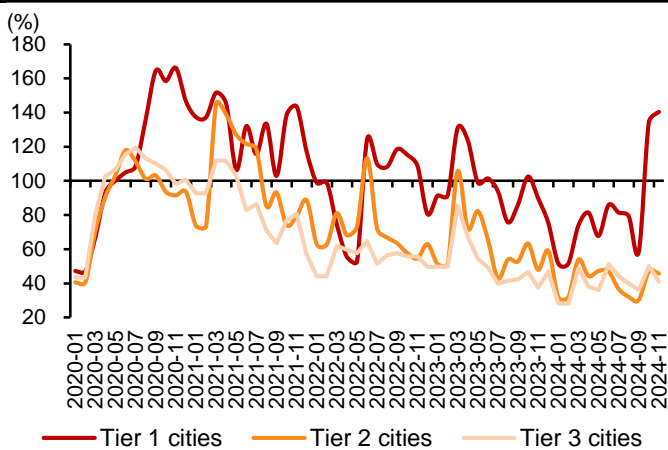
Source: Wind, CMBIGM

Figure 16: New mortgage & housing sales



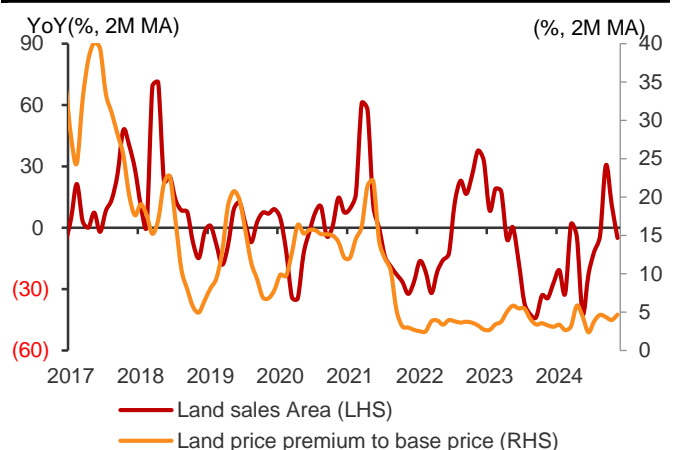
Source: Wind, CMBIGM

Figure 17: Housing sales recovery rates compared to 2019



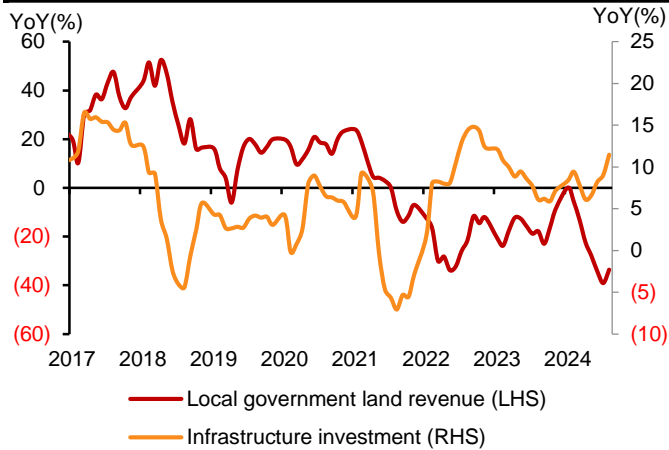
Source: Wind, CMBIGM

Figure 18: Growth of land sales



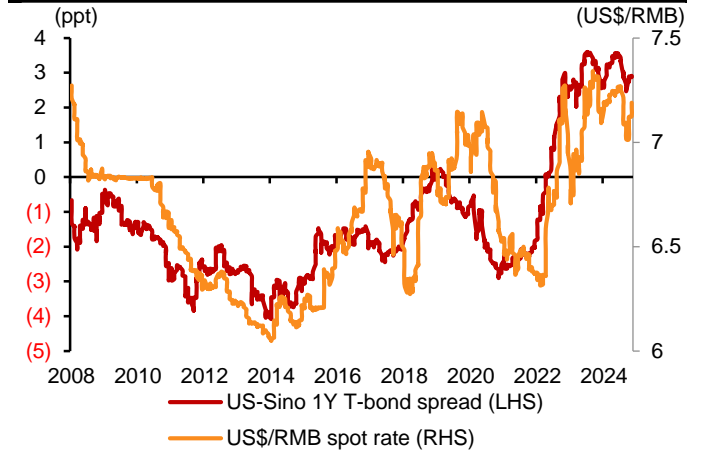
Source: Wind, CMBIGM

Figure 19: Infrastructure investment



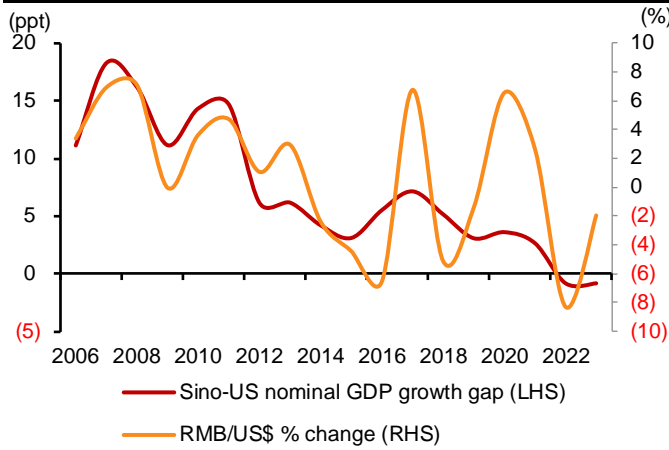
Source: Wind, CMBIGM

Figure 20: US-China interest spreads



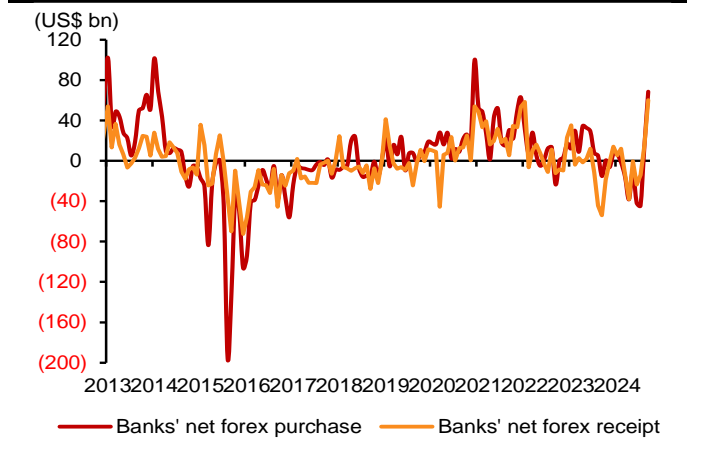
Source: Wind, CMBIGM

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



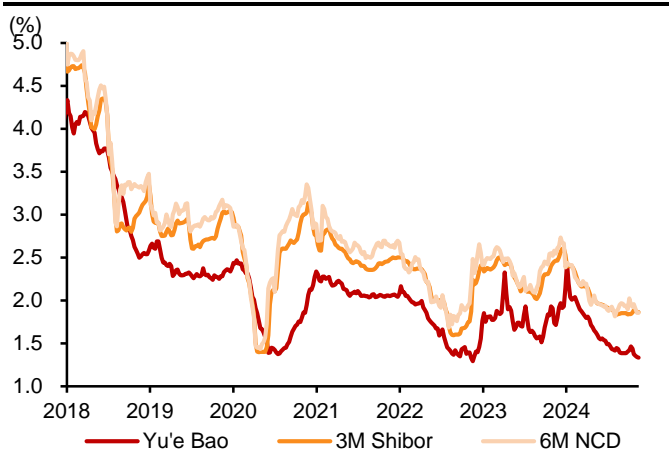
Source: Wind, CMBIGM

Figure 22: Net forex inflow



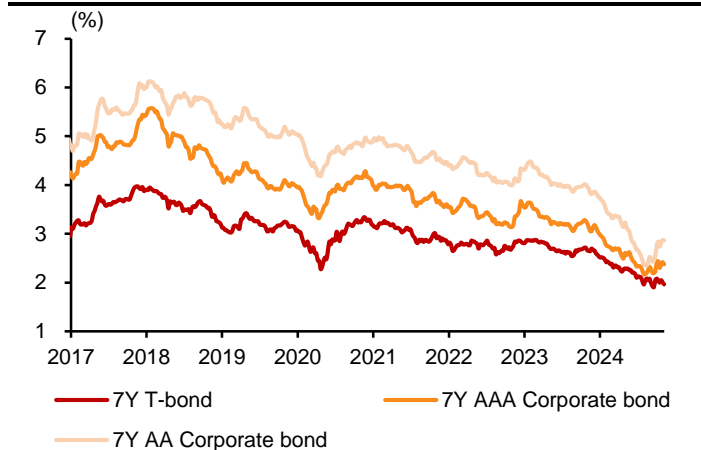
Source: Wind, CMBIGM

Figure 23: Money market funding cost



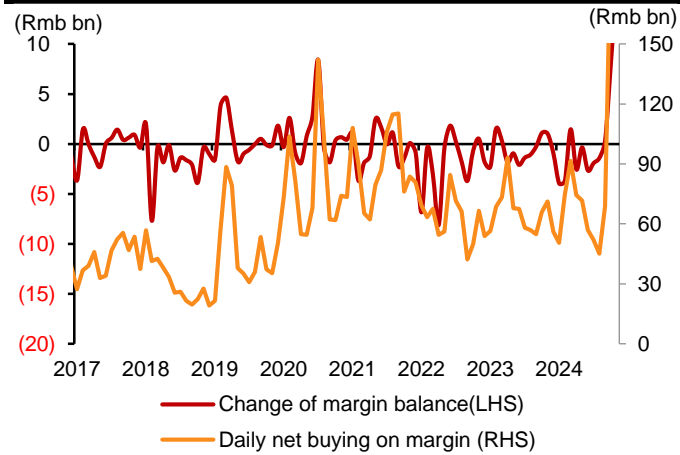
Source: Wind, CMBIGM

Figure 24: Bond market rates



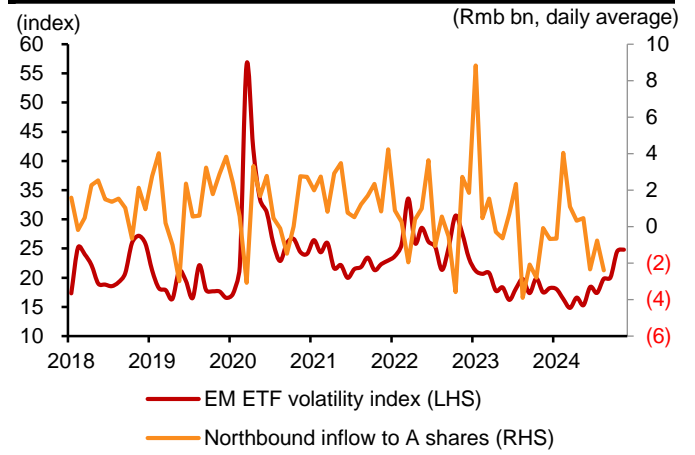
Source: Wind, CMBIGM

Figure 25: Change of margin balance and daily net buying on margin



Source: Wind, CMBIGM

Figure 26: EM volatility and northbound flow to A-shares



Source: Wind, CMBIGM

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