

China Economy

Liquidity condition to remain easing

Social financing extended its recovery thanks to robust government bond issuance while M1 and M2 growth hit a recent high. However, Renminbi loans in the private sector continued to slow as housing demand and business capex remained weak amid the persisted deflationary pressure. Looking forward, the PBOC will maintain easing liquidity condition with low money market rates to stimulate credit demand, which is positive for Chinese stocks and commodities. The central bank might cut RRR by 50bps and LPRs by 10bps in 4Q25 when the YoY growth of housing sales and consumption is expected to slow down due to high base and diminishing policy effects. US\$/RMB might mildly rise in August and September as US inflation is expected to rebound while China's deflation may deteriorate. US\$/RMB may drop again in 4Q25 when US inflation might decline again and China might launch additional fiscal stimulus towards consumption. We expect US\$/RMB to reach 7.10 at end-2025.

■ **Social financing continued to recover.** Outstanding social financing (SF) edged up to 9% in July from 8.9% (all in YoY terms unless otherwise specified), while the SF flow expanded by 50.5% to RMB1.16trn, which fell short of market expectation of RMB1.41trn. Government bond issuance remained robust, rising 80.8% to RMB1.24trn in July compared to RMB1.35trn in June. The issuance pace was running ahead of the average pace to meet the full-year target of RMB13.9trn incremental debt quota, indicating that the fiscal support in 2H25 would be more stable and moderate compared to last year. Corporate bond issuance also remained strong, rising 37% to RMB279bn in July compared to RMB242bn in June. RMB loans to the real economy under SF dropped to negative flow at -RMB426bn in July compared to -RMB80.8bn last year, as LGFVs debt swap continued. M1 supply rose to 5.6% in July from 4.6%, the highest growth since early 2023, while M2 rose to 8.8% from 8.3%.

■ **New RMB loans remained subdued.** Growth of outstanding RMB loans edged down to 6.9% in July from 7.1%, marking another historical low, as the new RMB loans notably slumped to -RMB50bn in July compared to RMB260bn in previous year. Credit demand of household sector remained lethargic as both short-term and medium & long-term saw negative loan flows at -RMB382bn and -RMB110bn in July. ST loans to household has notably decreased by RMB383bn YTD as consumers were reluctant to spend. M&L loan flows have dropped 10.9% YTD as the property sector continued to soften, especially after June. Corporate sector also saw negative flows of -RMB550bn and -RMB260bn in ST and M&L loans, with their YTD growth at 47% and -16% in July. Bill financing increased by 55.9% to RMB871bn in July, reflecting possible idle funds circulation and lack of incentive for long-term capital investment.

■ **The easing liquidity condition should support Chinese stocks and commodities.** As the deflationary pressure persists with downside pressure on the economy, the PBOC will maintain easing liquidity condition to stimulate credit demand. The easing liquidity condition should support Chinese stocks and commodities. The central bank might cut RRR by 50bps and LPRs by 10bps in 4Q25 when the YoY growth of housing sales and consumption is expected to slow down due to high base and diminishing policy effects. US\$/RMB might mildly rise in August and September as US inflation is expected to rebound while China's deflation may deteriorate. US\$/RMB may drop again in 4Q25 when US inflation might decline again and China might launch additional fiscal stimulus towards consumption. We expect US\$/RMB to reach 7.10 at end-2025.

Frank Liu

(852) 3761 8957

frankliu@cmbi.com.hk

Bingnan YE, Ph.D

(852) 3761 8967

yebingnan@cmbi.com.hk

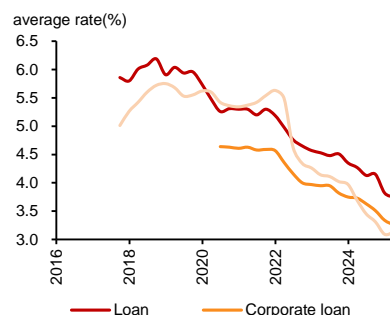
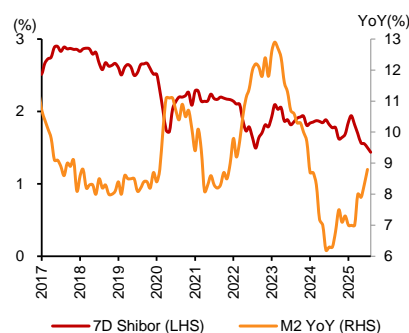
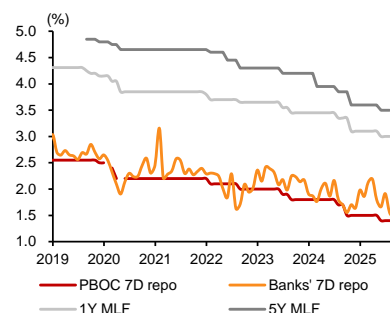
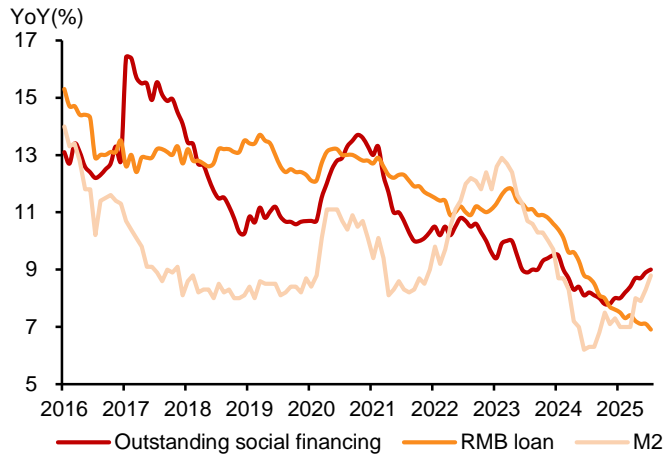
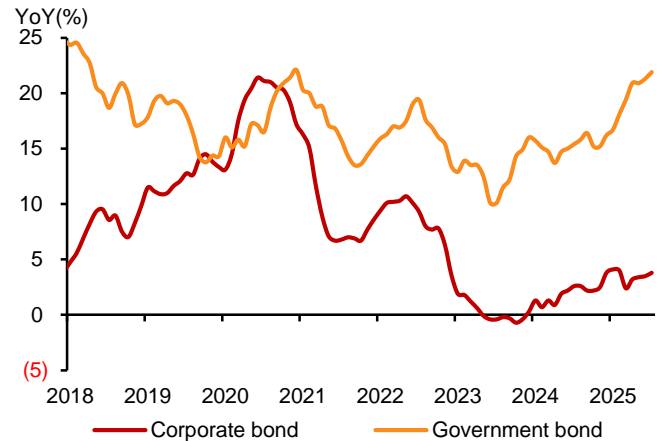
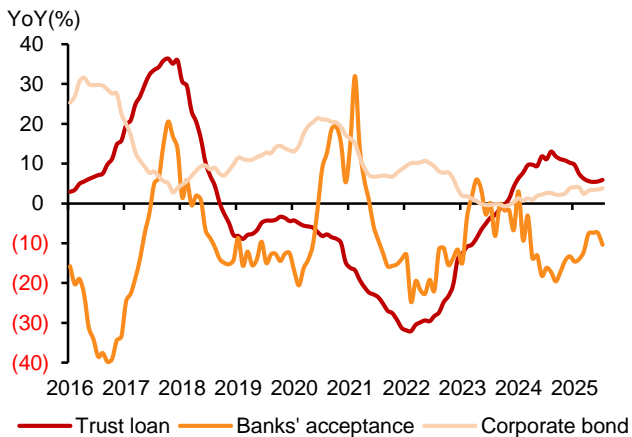


Figure 1: Growth of outstanding social financing

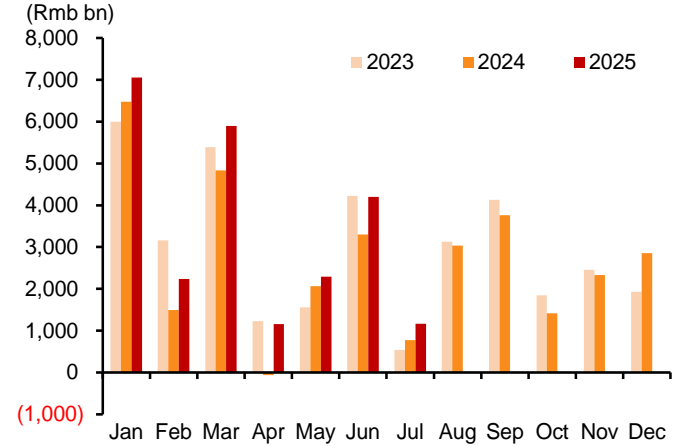
Source: Wind, CMBIGM

Figure 2: Growth of outstanding bond financing

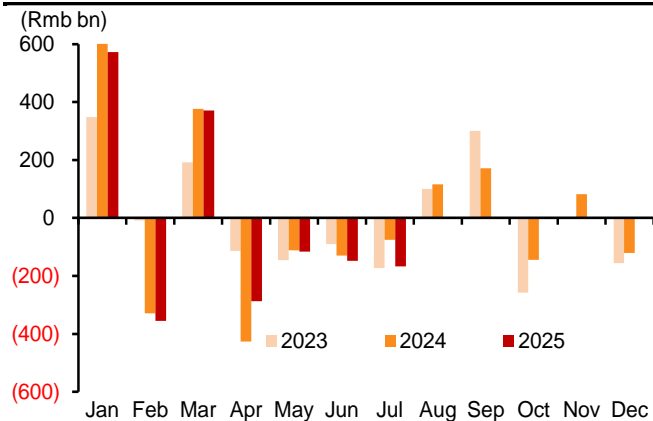
Source: Wind, CMBIGM

Figure 3: Growth of outstanding OBS financing

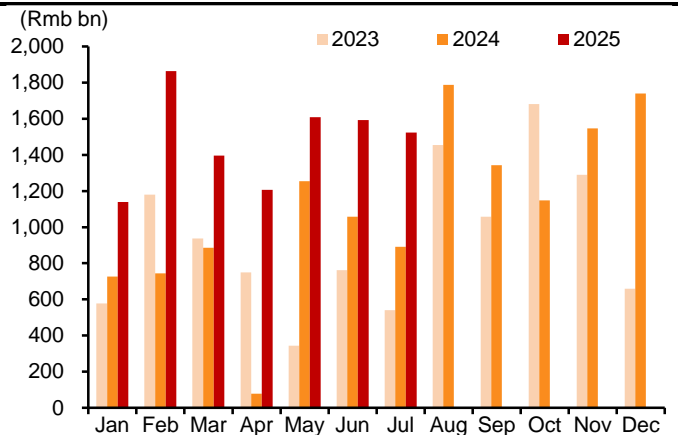
Source: MoF, CMBIGM

Figure 4: Total social financing

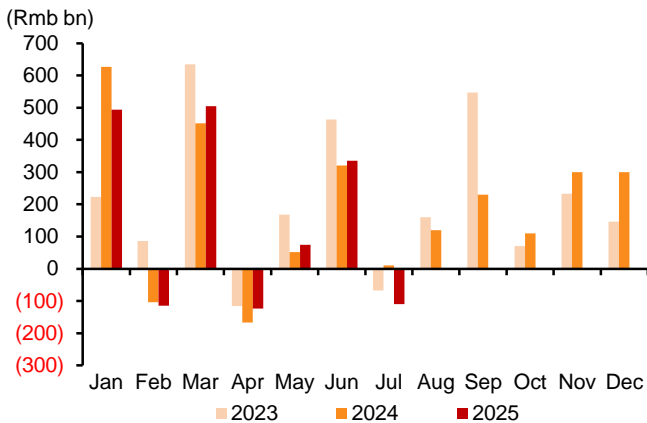
Source: MoF, CMBIGM

Figure 5: OBS financing

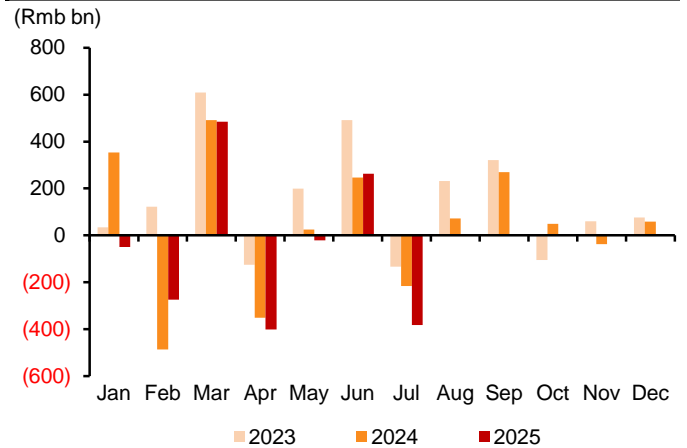
Source: Wind, CMBIGM

Figure 6: Bond financing

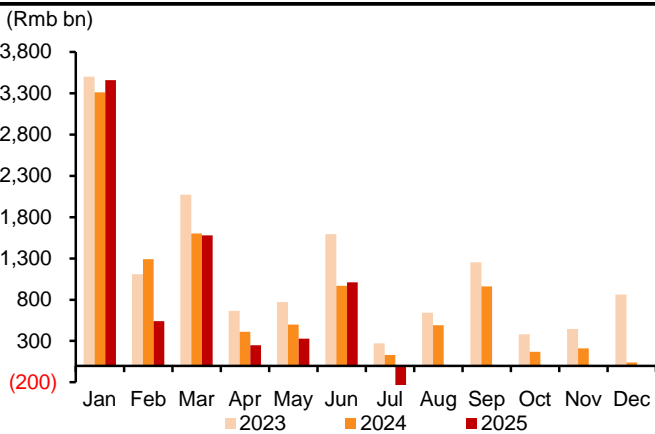
Source: Wind, CMBIGM

Figure 7: New M&L term loans to households

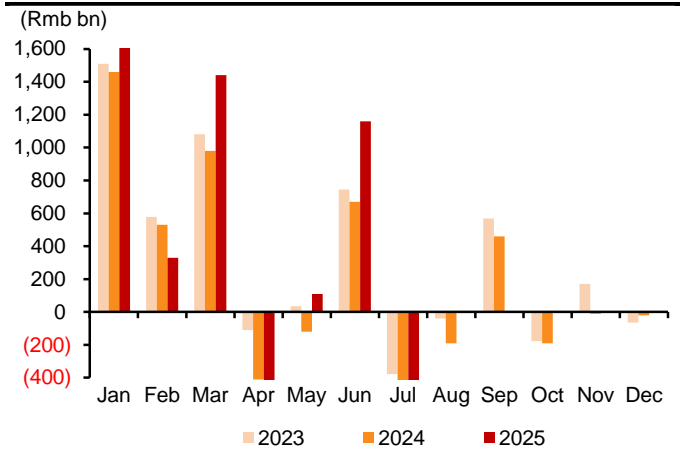
Source: Wind, CMBIGM

Figure 8: New short-term loans to households

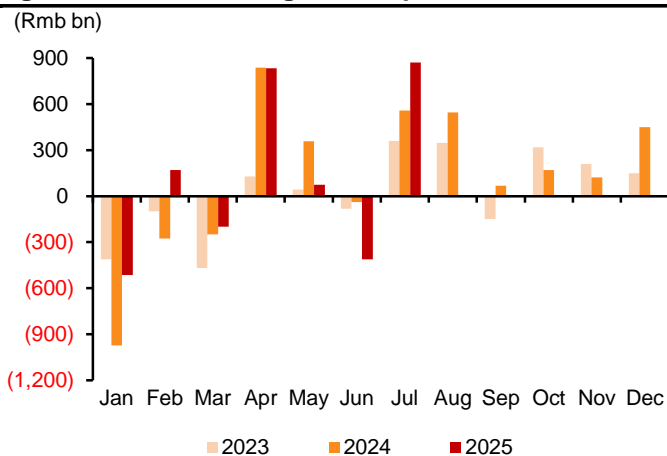
Source: Wind, CMBIGM

Figure 9: New M&L term loans to enterprises

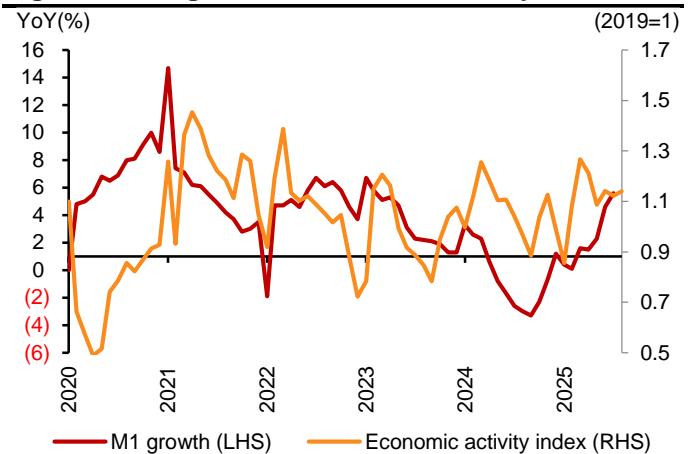
Source: Wind, CMBIGM

Figure 10: New short-term loans to enterprises

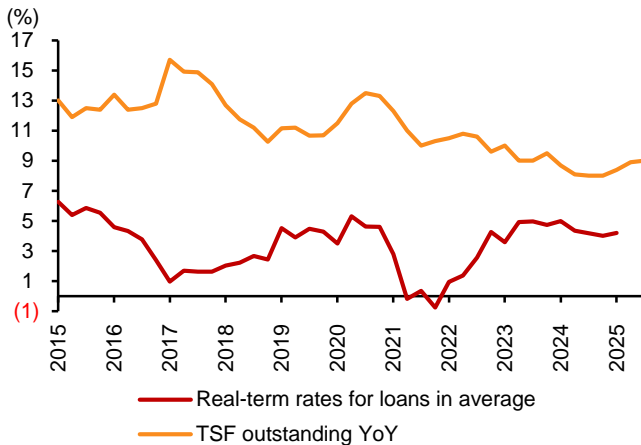
Source: Wind, CMBIGM

Figure 11: Bill financing to enterprises

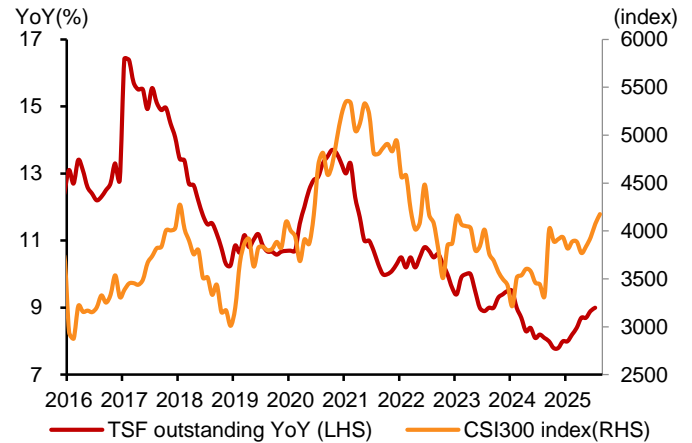
Source: Wind, CMBIGM

Figure 12: M1 growth & Economic activity index

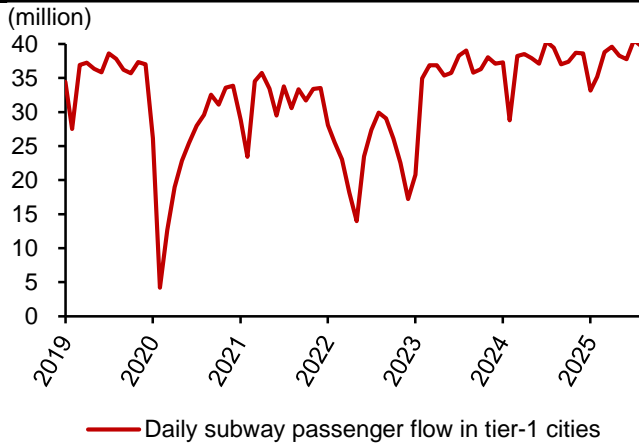
Source: Wind, CMBIGM

Figure 13: Real-term loan rates & TSF growth

Source: Wind, CMBIGM

Figure 14: TSF growth & CSI300 index

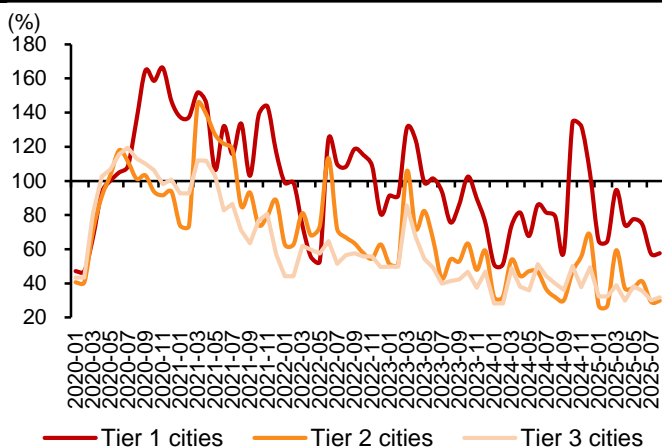
Source: Wind, CMBIGM

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

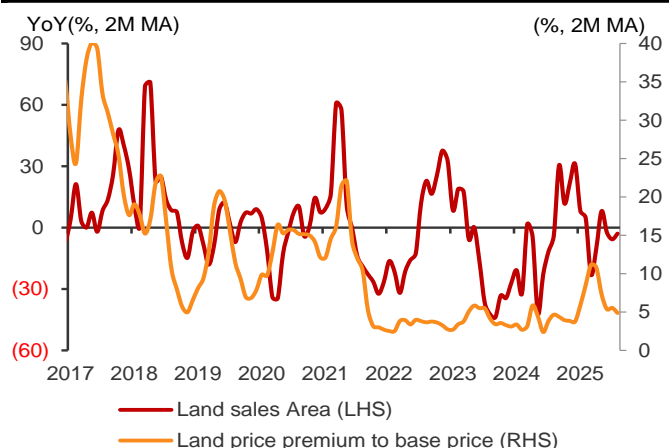
Source: Wind, CMBIGM

Figure 16: New mortgage & housing sales

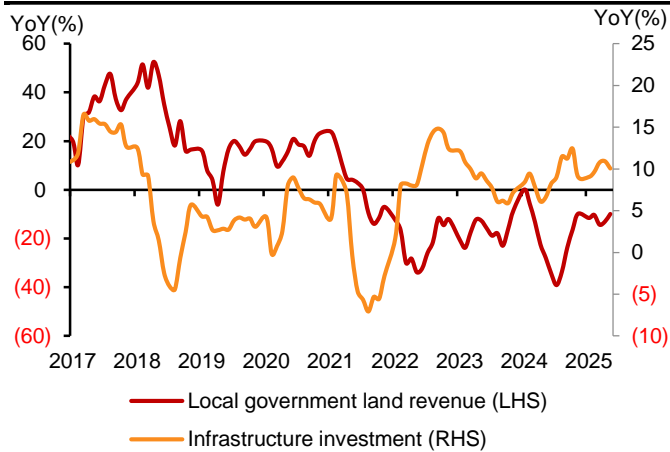
Source: Wind, CMBIGM

Figure 17: Housing sales recovery rates compared to 2019

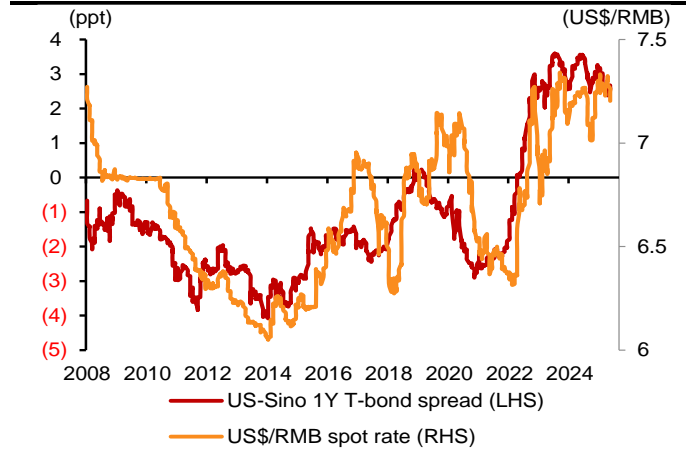
Source: Wind, CMBIGM

Figure 18: Growth of land sales

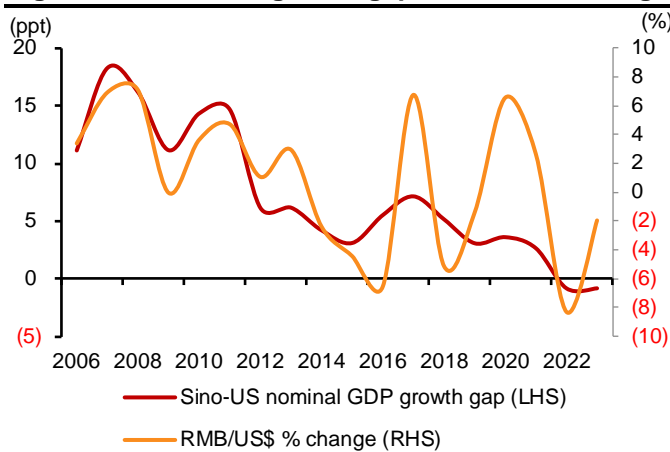
Source: Wind, CMBIGM

Figure 19: Infrastructure investment

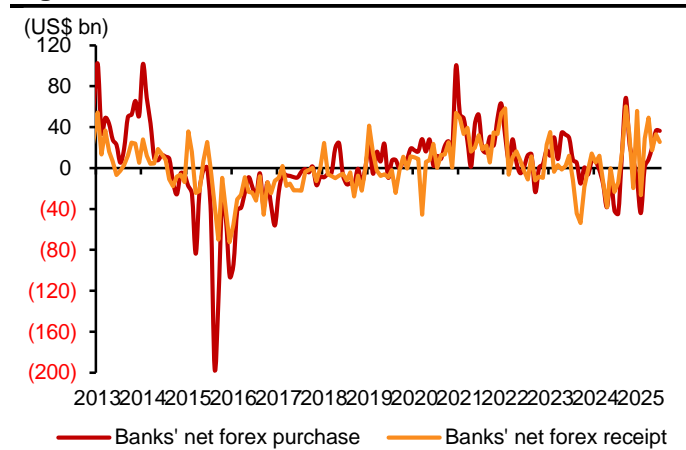
Source: Wind, CMBIGM

Figure 20: US-China interest spreads

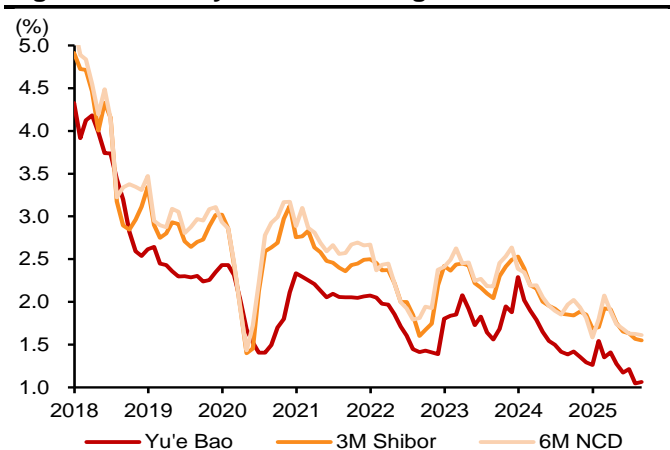
Source: Wind, CMBIGM

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

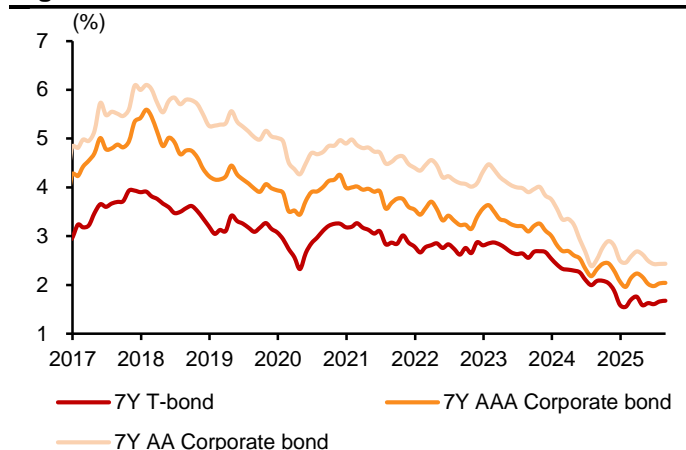
Source: Wind, CMBIGM

Figure 22: Net forex inflow

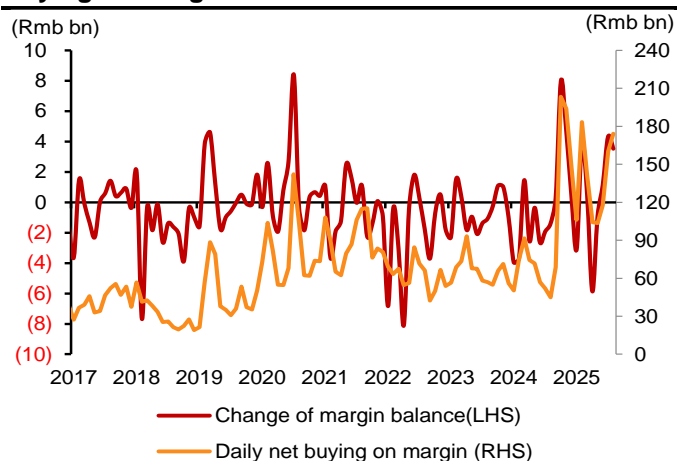
Source: Wind, CMBIGM

Figure 23: Money market funding cost

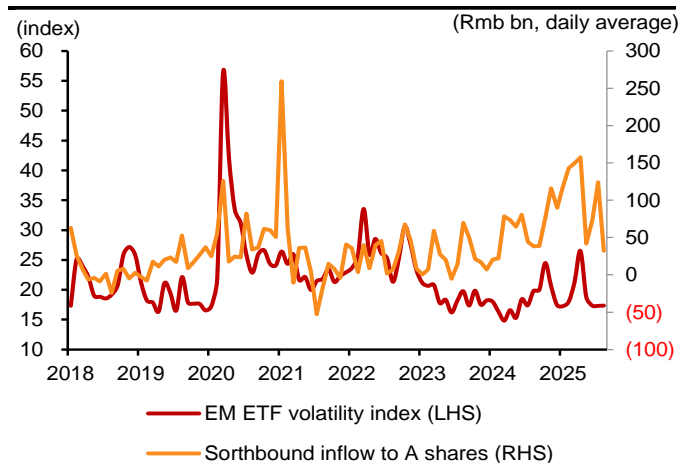
Source: Wind, CMBIGM

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.