

China Economy

Soft credit drags on 4Q momentum

Social financing flows fell sharply below market expectation and continued its moderation. Government bond issuance slowed notably, suggesting further retreat in fiscal impulse. Credit demand in the real economy weakened materially across both housing and corporate sectors, reflecting worsening property sentiment and sluggish corporate capex. Combined with softer M1 and M2, these trends point to weakening economic momentum into late 4Q. Looking forward, the central bank's 3Q Monetary Policy Report downplayed the focus on quantity targets, and highlighted priorities of "adequate counter-cyclical and cross-cyclical adjustments" and "enhancing policy transmission," suggesting the PBoC will focus on the effectiveness of existing easing measures, but may still cut RRR and LPR if achieving the full-year growth target becomes more challenging. We still expect 10 bps LPR cut and 50 bps RRR cut in this December or 1Q26.

- **Social financing flows weakened further. Outstanding social financing (SF) growth softened to 8.5% YoY in Oct from 8.7% in Sep, as the SF flow contracted by 42.3% YoY to RMB815bn, significantly below market expectation of RMB1.53trn. Government bond issuance dropped 53.4% YoY, pointing to a notable deceleration in fiscal spending momentum. Corporate bond financing remained strong, with issuance rising 150% YoY to RMB246.9bn, extending the recovery from September. RMB loans to the real economy under SF remained subdued, consistent with soft credit demand. M1 growth slowed to 6.2% in Oct from 7.2%, while M2 eased to 8.2% from 8.4%, suggesting weakening cash-flow conditions and transaction activities among firms, while households maintained a preference for precautionary savings.**
- **New RMB loans remained weak.** Growth of outstanding RMB loans slipped to 6.5% in Oct from 6.6%, marking another historical low. The flow of new RMB loans fell 56% YoY to RMB220bn in Oct, far below market expectation of RMB460bn. Credit demand from households deteriorated sharply, with household loans contracting RMB360bn, compared to an increase of RMB398bn in September and RMB160bn in last October. During the period, short-term household loans dropped RMB287bn, while medium- and long-term mortgage-related loans fell RMB70bn, both pointing to a deepening downturn in consumption and property demand. Corporate loan demand was also soft, with short-term loans falling RMB190bn, while corporate bill financing surged to RMB501bn, suggesting firms relied more on low-cost bill credit amid weak capex appetite.
- **Trend of migrating deposits into stocks showed signs of reversal.** Household deleveraging intensified, with both ST and M&L-term household loans posting sizable declines, indicating weakening housing sales and consumer demand. Corporate financing shifted toward bill credit rather than genuine capex expansion. Combined with the deceleration in M1 and M2, these trends point to softer economic momentum into late 4Q. Looking forward, the central bank's 3Q Monetary Policy Report stressed that as the base grows, the slower increases in social financing and money supply are natural, and that policy focus will gradually shift away from quantity targets. The report also highlighted the needs for "adequate counter-cyclical and cross-cyclical adjustments" and improving transmission of existing tools—implying the PBoC will prioritize to enhance the effectiveness of prior easing. However, if pressure on achieving the full-year growth target intensifies, further RRR and LPR cuts remain likely in the coming months. We still expect 10 bps LPR cut and 50 bps RRR cut in this December or 1Q26.

Frank Liu

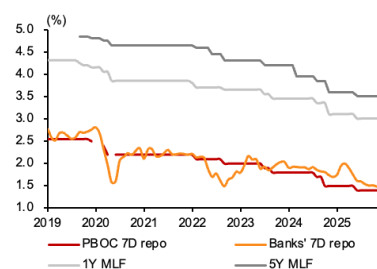
(852) 3761 8957

frankliu@cmbi.com.hk

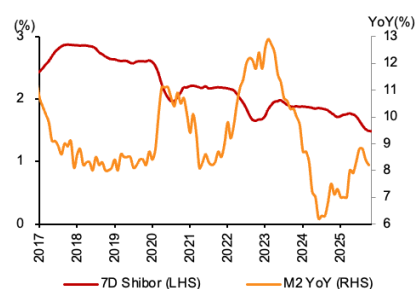
Bingnan YE, Ph.D

(852) 3761 8967

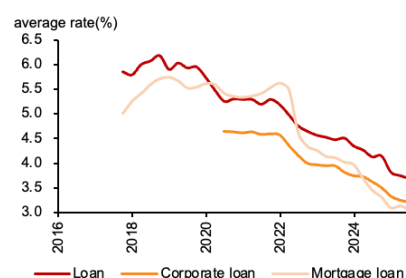
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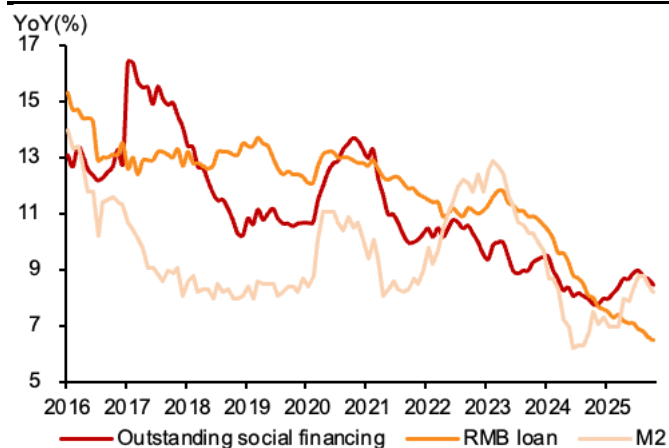
Source: Wind, CMBIGM



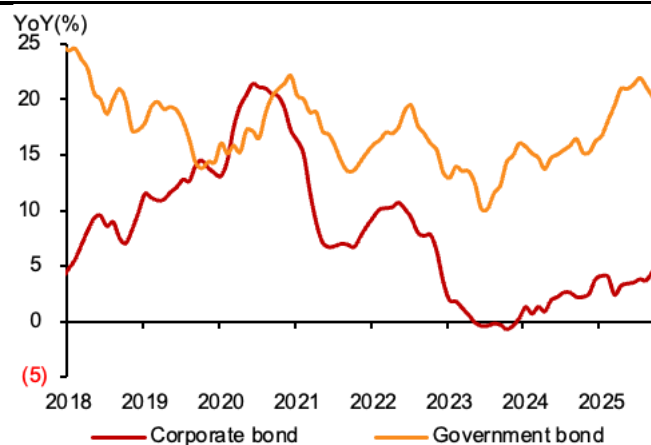
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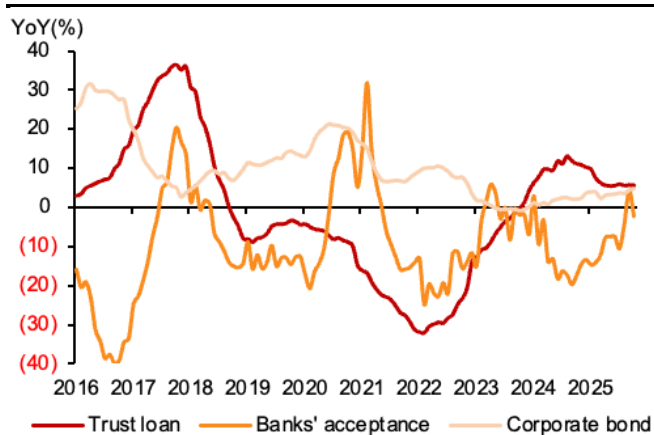
Source: Wind, CMBIGM

Figure 1: Growth of outstanding social financing

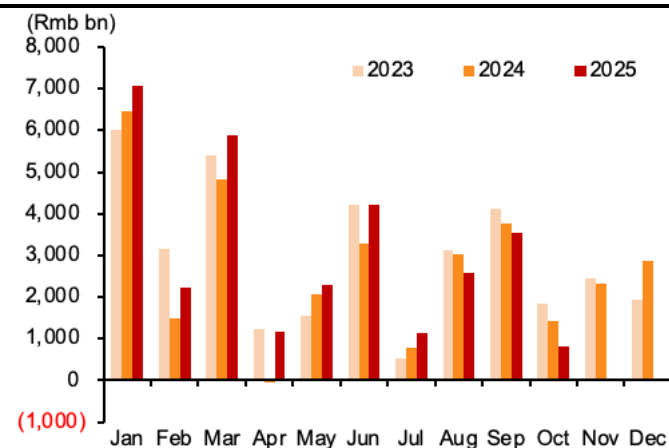
Source: Wind, CMBIGM

Figure 2: Growth of outstanding bond financing

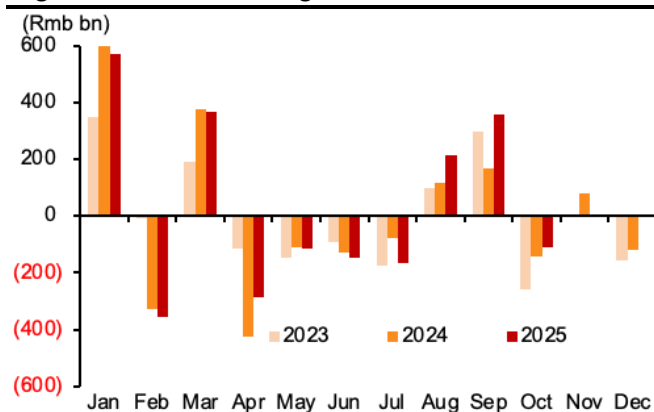
Source: Wind, CMBIGM

Figure 3: Growth of outstanding OBS financing

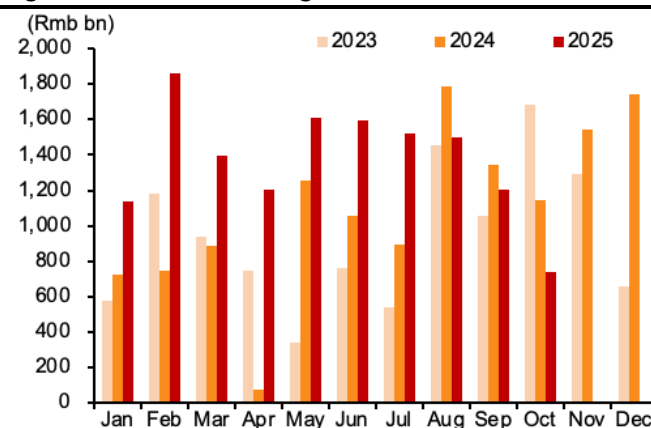
Source: MoF, CMBIGM

Figure 4: Total social financing

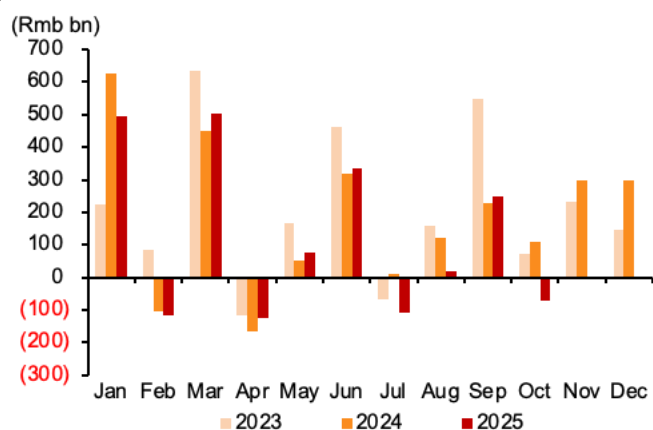
Source: MoF, CMBIGM

Figure 5: OBS financing

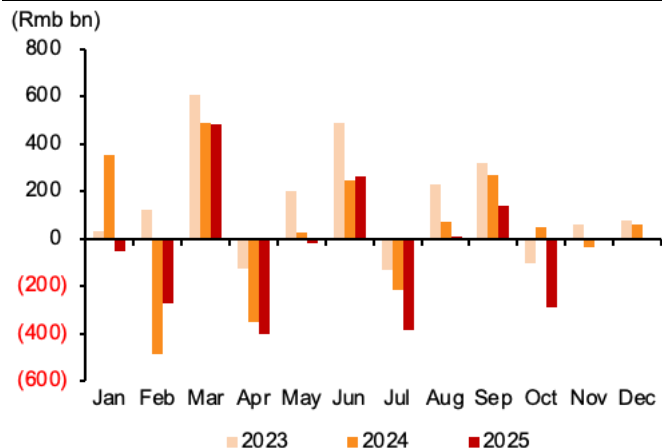
Source: Wind, CMBIGM

Figure 6: Bond financing

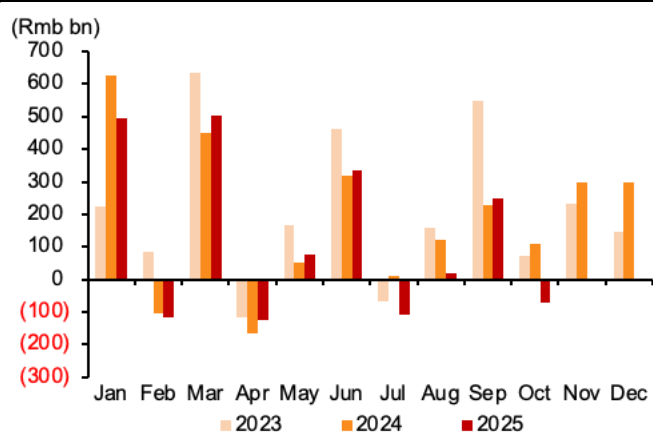
Source: Wind, CMBIGM

Figure 7: New M&L term loans to households

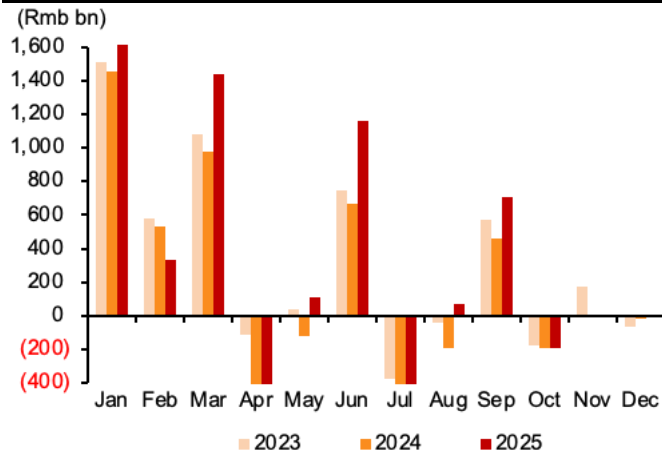
Source: Wind, CMBIGM

Figure 8: New short-term loans to households

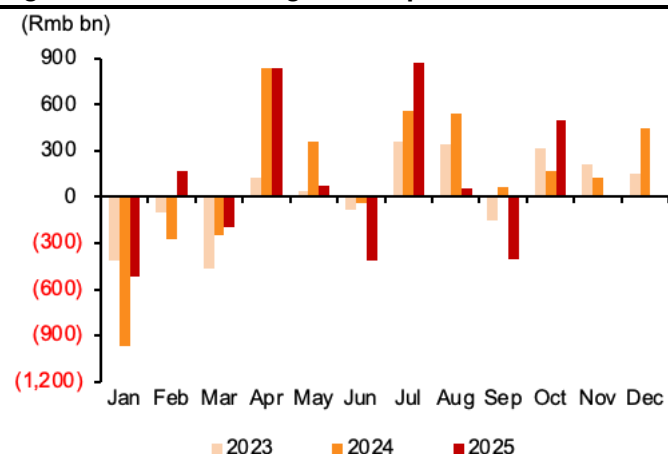
Source: Wind, CMBIGM

Figure 9: New M&L term loans to enterprises

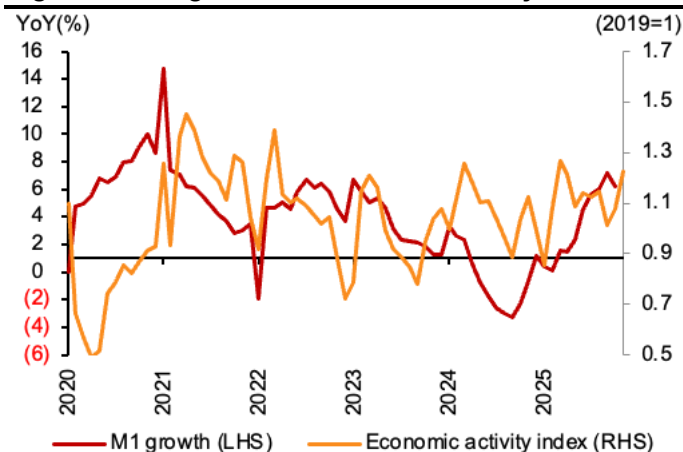
Source: Wind, CMBIGM

Figure 10: New short-term loans to enterprises

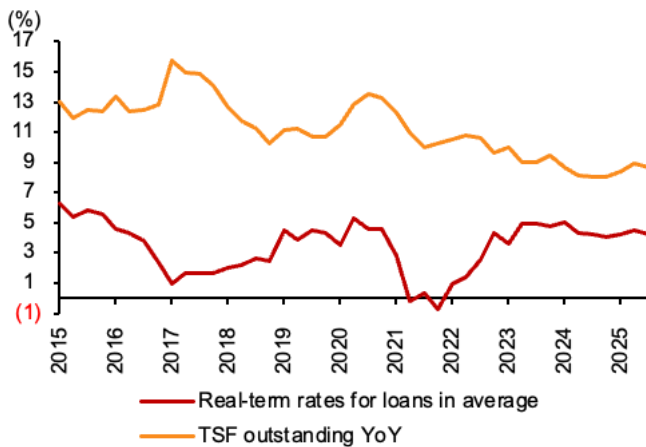
Source: Wind, CMBIGM

Figure 11: Bill financing to enterprises

Source: Wind, CMBIGM

Figure 12: M1 growth & Economic activity index

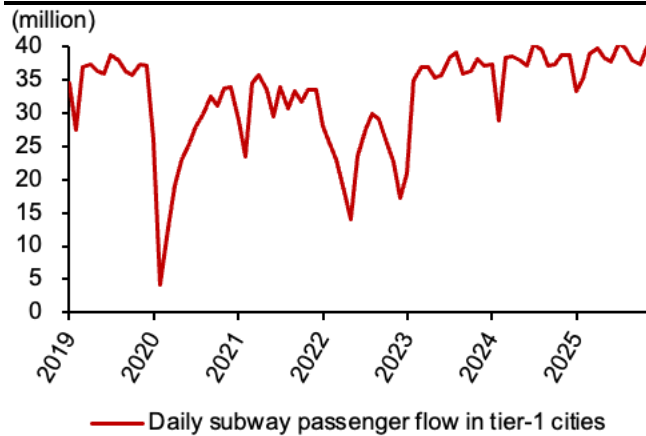
Source: Wind, CMBIGM

Figure 13: Real-term loan rates & TSF growth

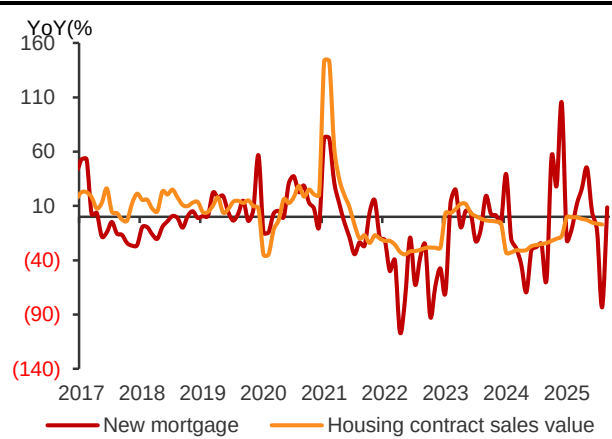
Source: Wind, CMBIGM

Figure 14: TSF growth & CSI300 index

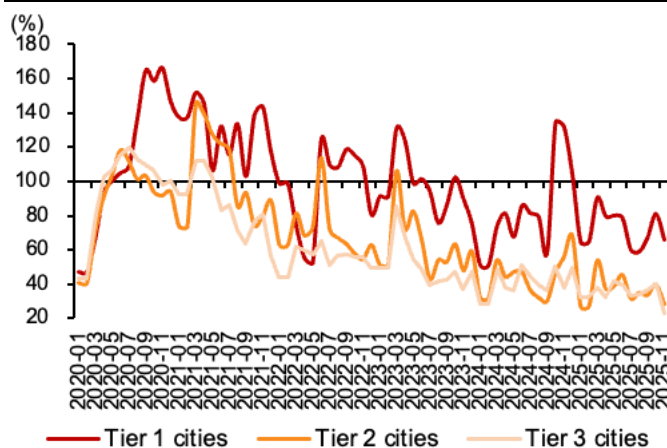
Source: Wind, CMBIGM

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

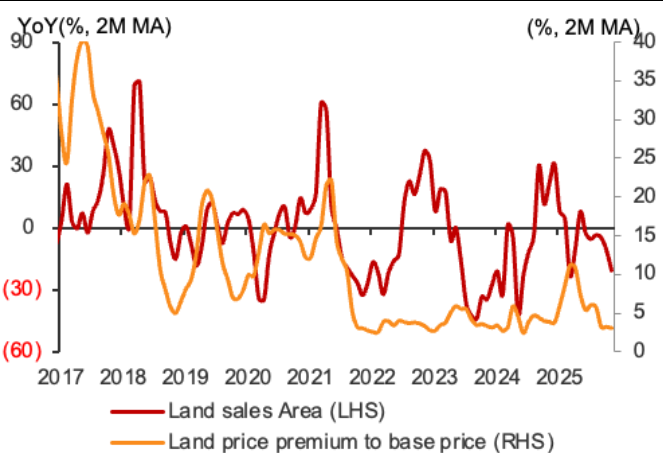
Source: Wind, CMBIGM

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

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CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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