

China Policy

New loans slumped as capex demand weakened

China's new loans declined in July as households and private businesses were reluctant to increase debt for capex. Housing sales continued to deteriorate while fixed investment of private enterprises may have further declined. The economy continued to weaken with deflation pressure. The policymakers may further loosen credit supply with additional cuts in RRR, deposit rates and LPRs. Meanwhile, most cities may loosen property policy with continuous declines in down-payment ratios and mortgage rates for first-home and second-home buyers. In addition, credit and fiscal support for hard-technology and high-end manufacturing sectors may further increase.

- Social financing slumped as credit demand remained weak.** Social financing flow further dropped 32.2% YoY (all in YoY terms unless otherwise specified) in July after decreasing 18.7% in June. New renminbi loans to real sector plunged 91.1% in July after rising 15% in 1H23. New foreign currency loans remained negative due to high US dollar rates and weak renminbi. New trust loans was also weak as investors' risk aversion towards property projects remained high. Banks' acceptance balance dropped by RMB196.2bn or its new financing was at RMB-196.2bn in July as financing demand of small business was low. Corporate bond financing rebounded by rising 22.8% in July, compared to the YoY decline of 40.3% in 1H23. Government bond financing picked up 2.8% in July after dropping 27.4% in the first half year as local governments were guided to accelerate their bond issuance to boost the growth.
- New loans to households turned negative again as more people chose to repay the mortgage in advance due to high outstanding mortgage rates and low confidence for financial investments.** New loans to households turned negative at RMB 200.7bn in July. New short-term loans reached RMB 133.5bn as consumer demand especially for durables remained weak. New medium and long term loans was also negative at RMB 67.2bn as more households chose to repay their mortgages due to high outstanding mortgage rates and low confidence about financial investments. Due to limited cuts in LPRs, outstanding mortgage rates remained high considering the current economic condition. Due to the sharp correction of A share market, investors had low confidence about risky asset investment. Looking forward, loans to households may see the trough in 3Q23 and gradually improve in next four quarters.
- New corporate loans declined as credit demand of private businesses was weak.** New loans to enterprises dropped 17.3% in July after rising 3.1% in 1H23. New short-term loans turned negative at RMB 378.5bn, while new medium to long term loans decreased 21.6%. Private business confidence remained low as they were cautious to increase debt for capex expansion. Bill discount financing rose 14.7% to RMB359.7bn as bill discount rates dropped to historical low.
- China may further ease credit supply and property policy to boost the growth.** The slump of new loans in July indicates weakening of economic growth and credit demand in China. Both housing sales and exports of goods further deteriorated in July while the CPI growth turned negative with deflation

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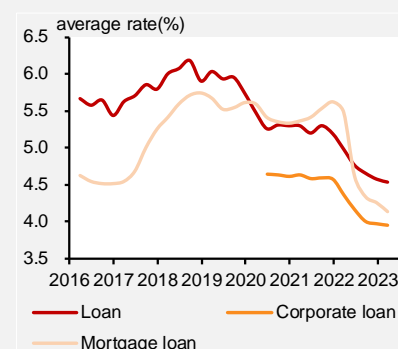
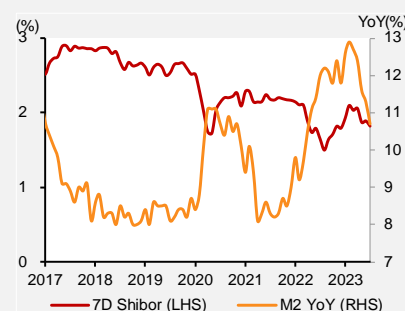
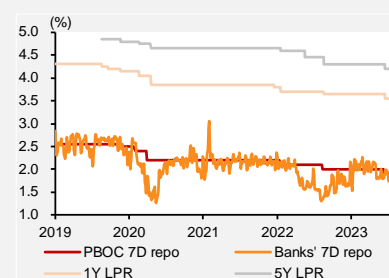
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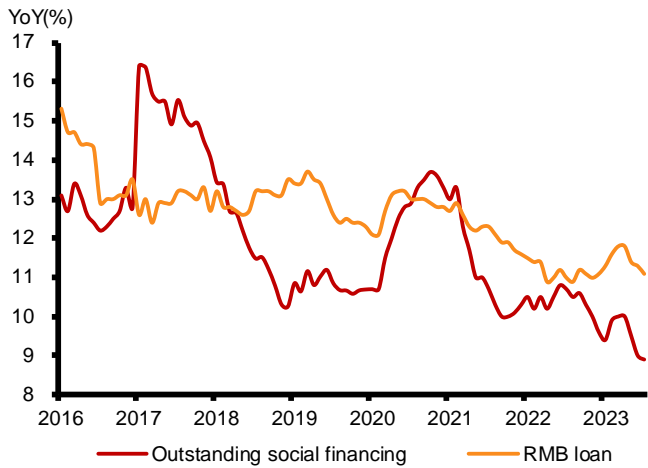
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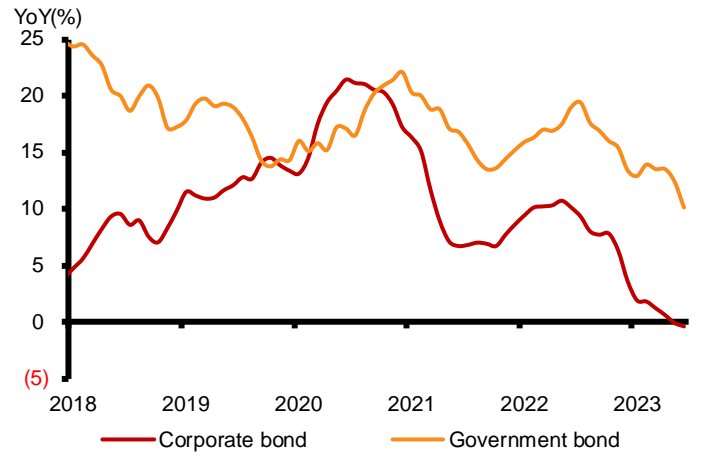
in most sectors. The policymakers may further loosen credit supply and property policy in 2H23. The PBOC may cut RRR, deposit rates and LPRs in next several months and guide banks to expand credit supply to real sector. Meanwhile, most cities may loosen property policy with possible declines in down-payment ratios and mortgage rates for first-home and second-home buyers. In addition, credit and fiscal support for hard-technology and high-end manufacturing sectors may further increase.

Figure 1: Growth of outstanding social financing



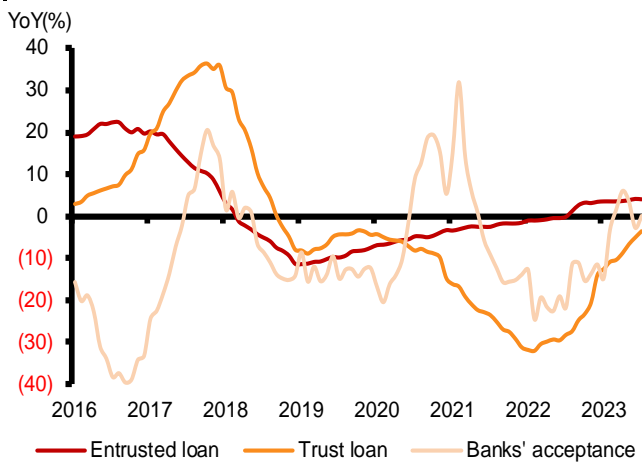
Source: Wind, CMBIGM

Figure 2: Growth of outstanding bond financing



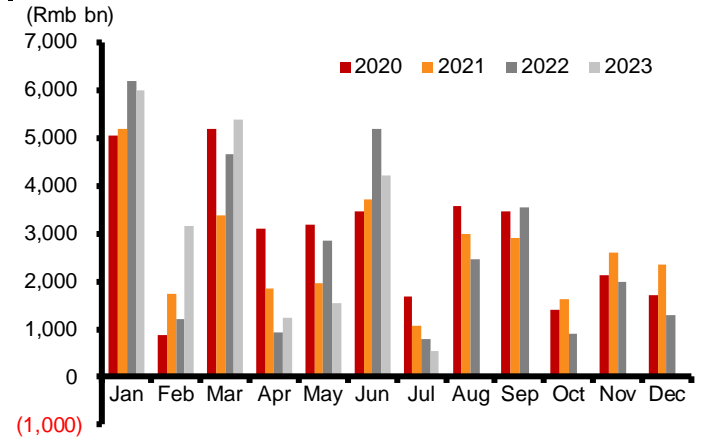
Source: Wind, CMBIGM

Figure 3: Growth of outstanding OBS financing



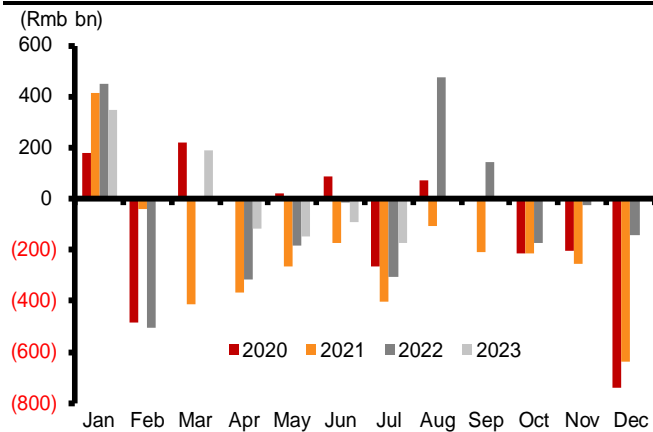
Source: MoF, CMBIGM

Figure 4: Total social financing



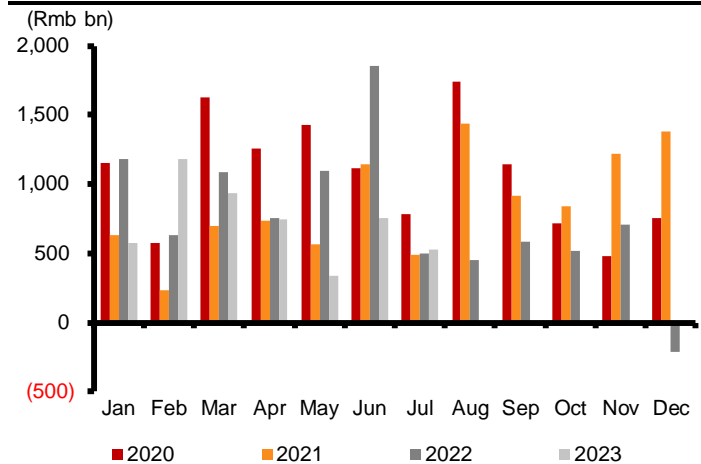
Source: MoF, CMBIGM

Figure 5: OBS financing



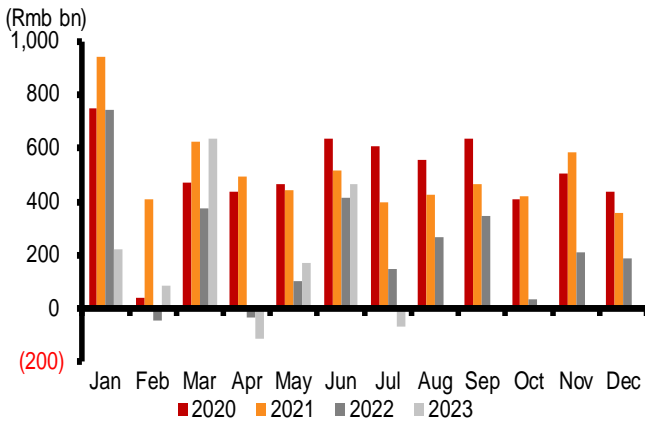
Source: Wind, CMBIGM

Figure 6: Bond financing



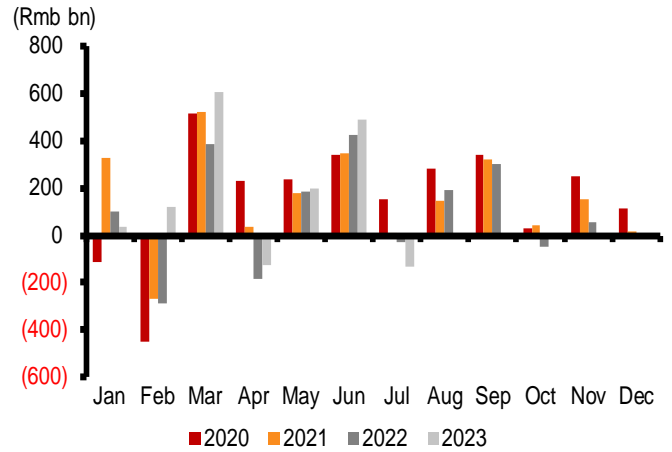
Source: Wind, CMBIGM

Figure 7: New M&L term loans to households



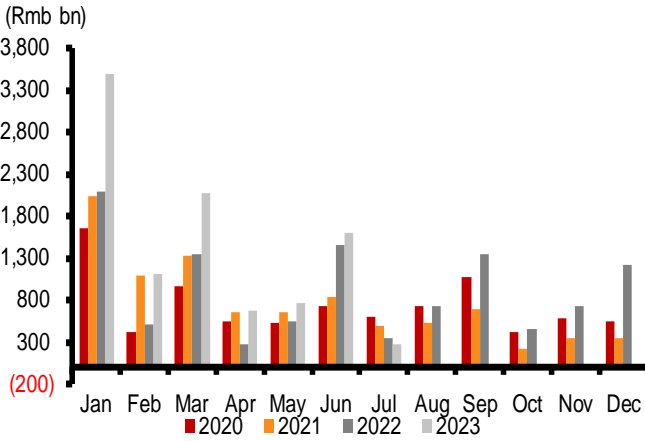
Source: Wind, CMBIGM

Figure 8: New short-term loans to households



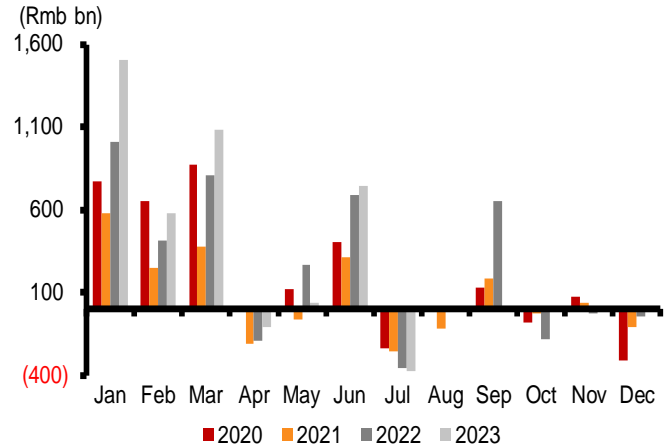
Source: Wind, CMBIGM

Figure 9: New M&L term loans to enterprises



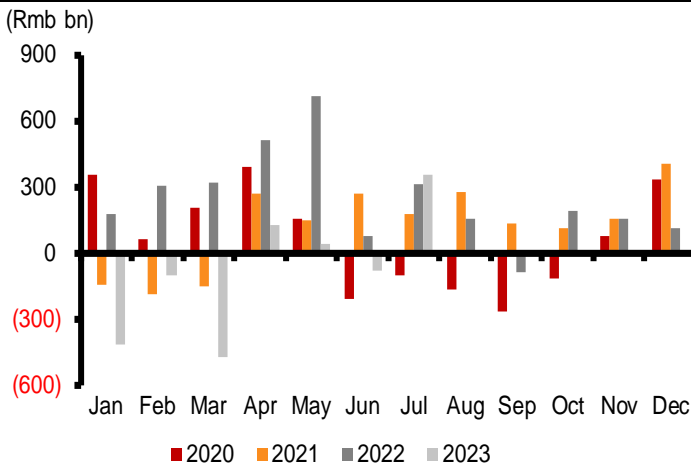
Source: Wind, CMBIGM

Figure 10: New short-term loans to enterprises



Source: Wind, CMBIGM

Figure 11: Bill financing to enterprises



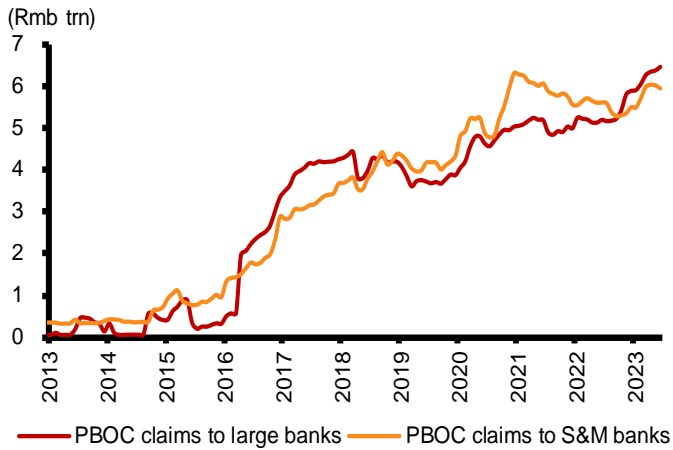
Source: Wind, CMBIGM

Figure 12: M1 growth & M1 as % of M2



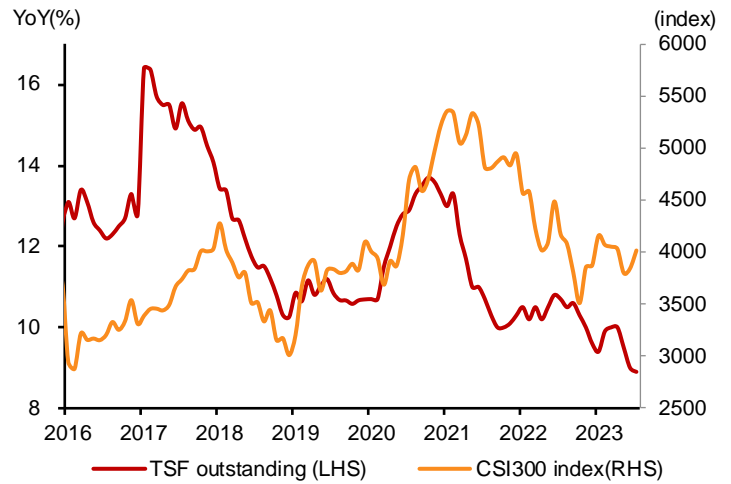
Source: Wind, CMBIGM

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



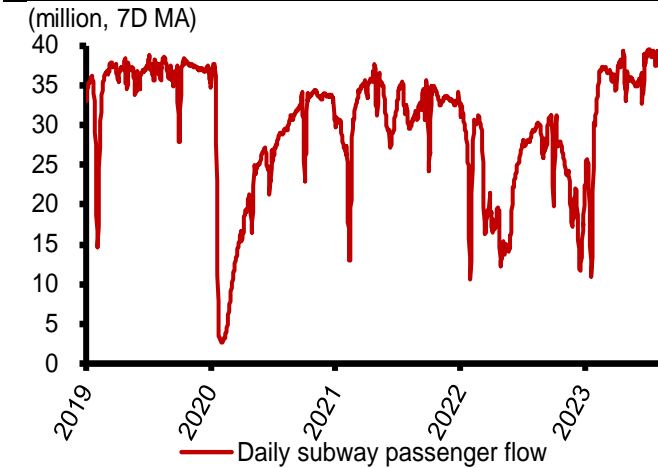
Source: Wind, CMBIGM

Figure 14: Total social financing & CSI300 index



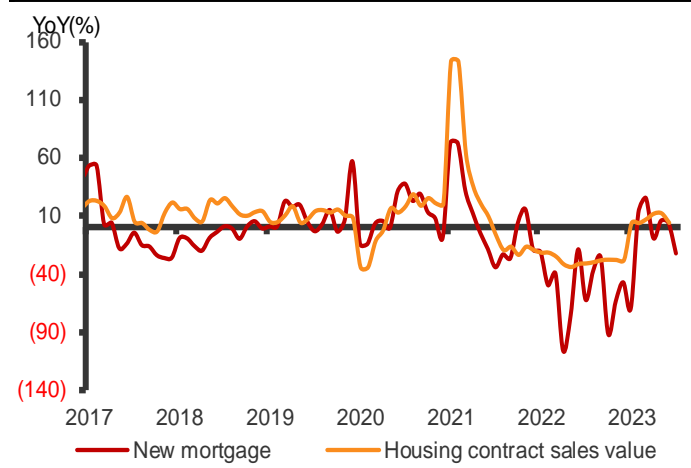
Source: Wind, CMBIGM

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



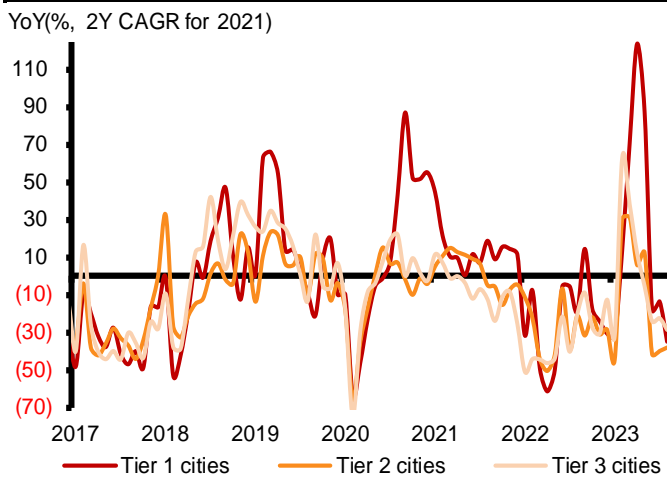
Source: Wind, CMBIGM

Figure 16: New mortgage & housing sales



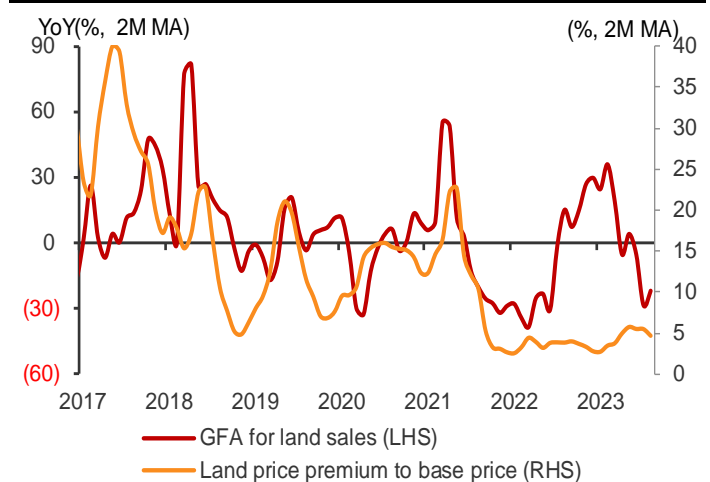
Source: Wind, CMBIGM

Figure 17: Growth of housing sales by cities



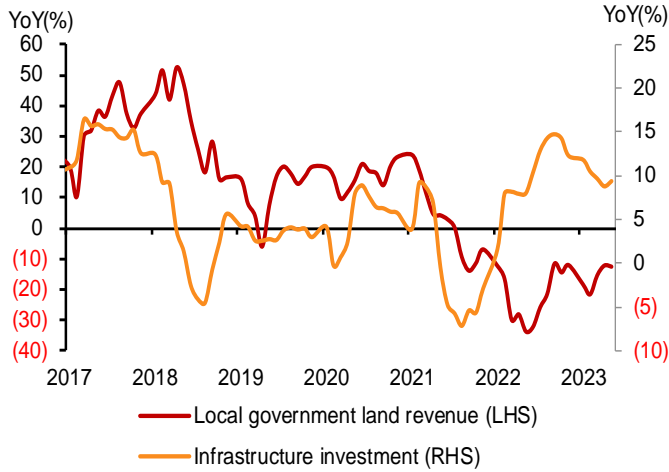
Source: Wind, CMBIGM

Figure 18: Growth of land sales



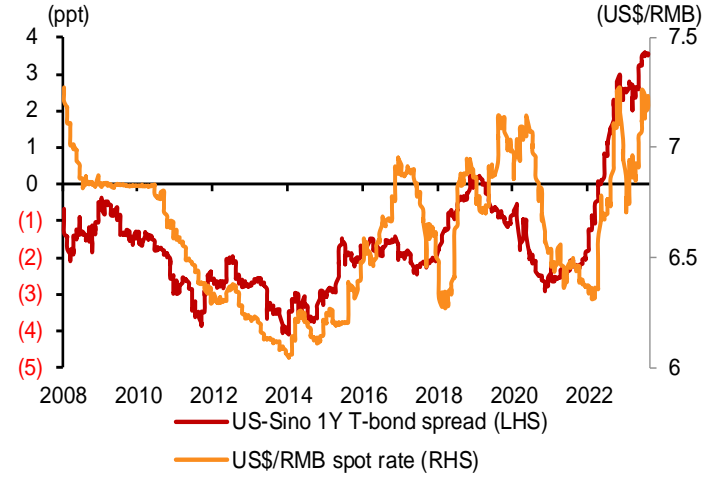
Source: Wind, CMBIGM

Figure 19: Infrastructure investment



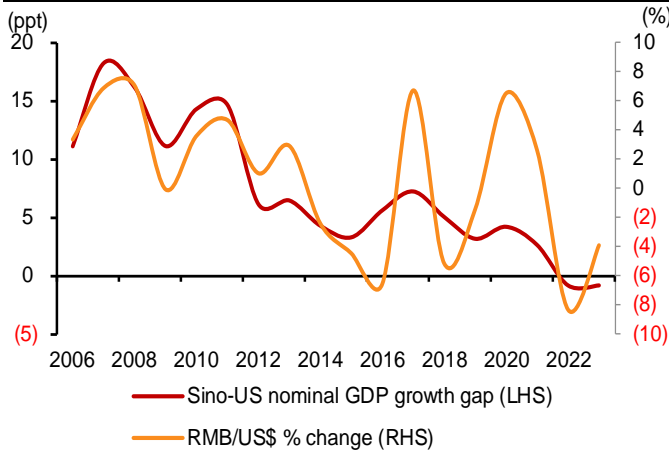
Source: Wind, CMBIGM

Figure 20: US-Sino interest spreads



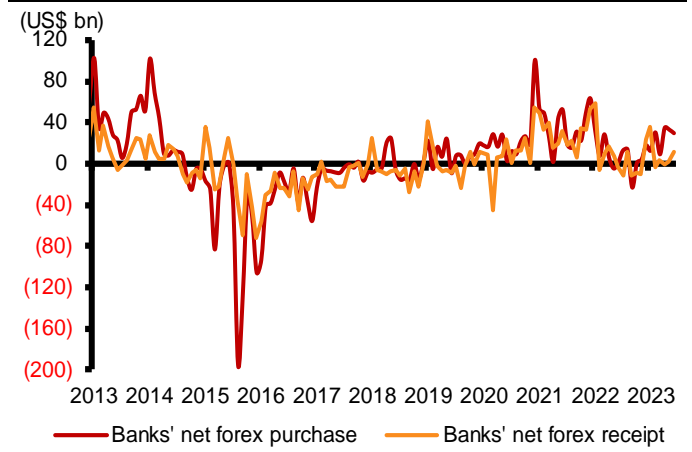
Source: Wind, CMBIGM

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



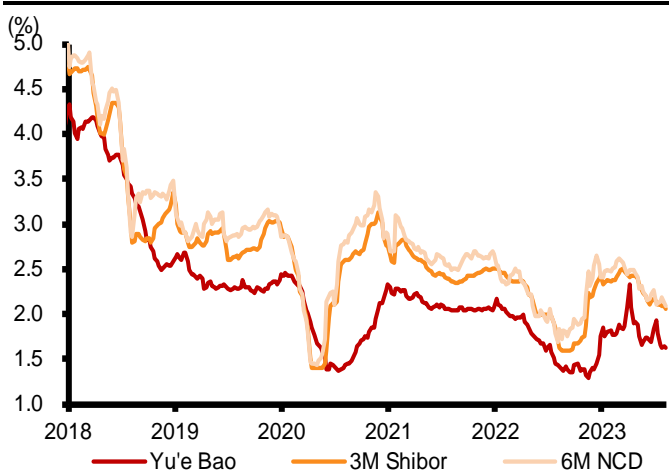
Source: Wind, CMBIGM

Figure 22: Net forex inflow



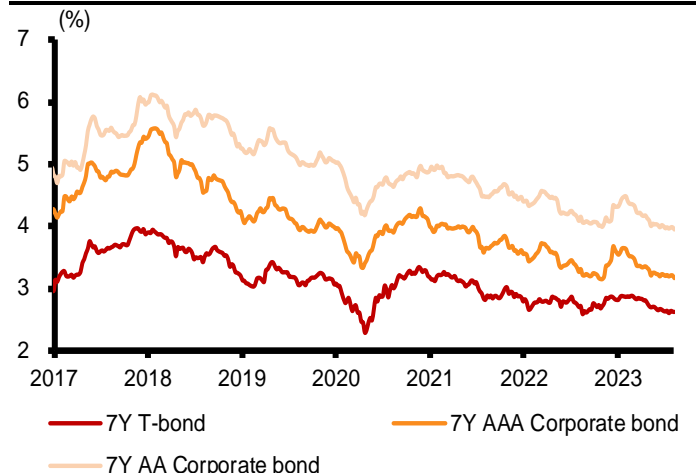
Source: Wind, CMBIGM

Figure 23: Money market funding cost



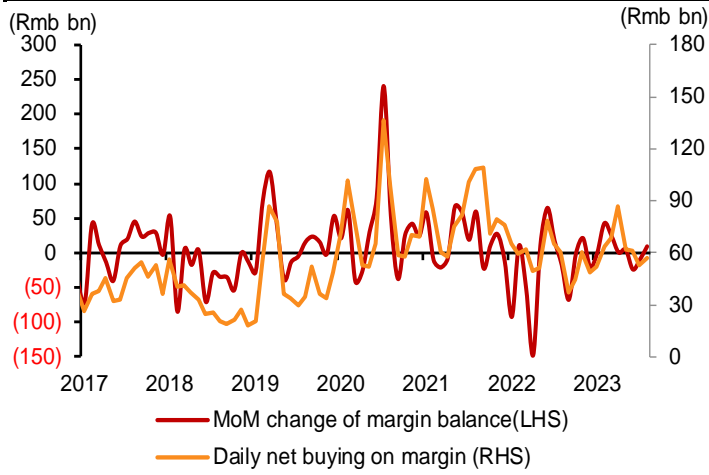
Source: Wind, CMBIGM

Figure 24: Bond market rates



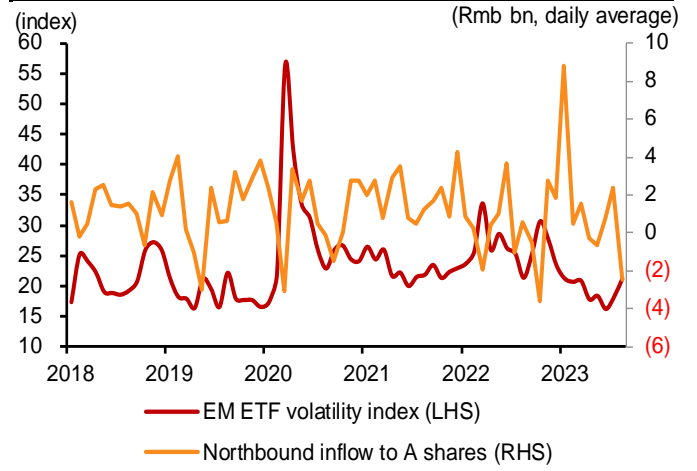
Source: Wind, CMBIGM

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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