

# China Policy

## New credit slumped amid weakening demand

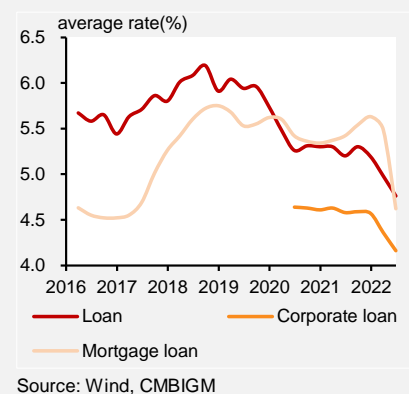
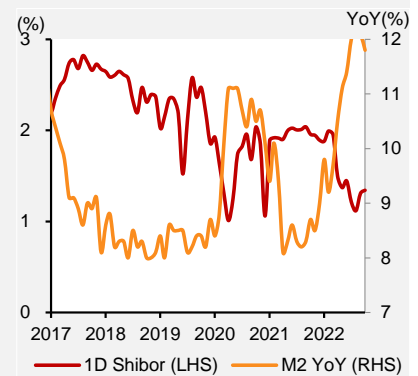
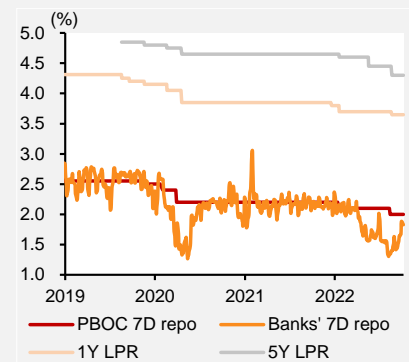
China's new credit slumped in October as housing sales, individual consumption and business capex weakened. New mortgage, consumer credit and short-term business operation loans all declined. Medium and long-term loans to enterprises remained strong amid strong credit policy support to manufacturing & infrastructure investment. China may gradually adjust its zero covid policy as the policymakers urged local governments to deploy targeted restrictions to seek a balance between reining in the epidemic and resuming normal life. Some investors may continue to bet possible reopening of China in future in the stock market. As housing market and consumption resume very slowly with the GDP growth below potential growth, the PBOC has to maintain accommodative monetary policy to boost the growth. It is possible to see further moderate cut in RRR and LPRs in next three quarters.

- New credit slumped again as demand weakened.** Total social financing dropped 43.9% YoY in October after rising 21.5% YoY in September. The YoY growth of outstanding social financing decelerated from 10.6% at end-September to 10.3% at end-October. New renminbi loans to real sector dropped 42.8% YoY in October as housing sales, individual consumption and business capex deteriorated amid tightening of zero covid policy. Meanwhile, local government bond financing continued to decline by 54.7% YoY as local governments used up the quotas for this year. New foreign currency loans remained negative amid renminbi depreciation expectations. Trust loans continued to see MoM declines amid risk aversion sentiment over real estate projects.
- New mortgage, consumer credit and short-term business loans declined as housing market, individual consumption and business operation deteriorated.** New medium to long-term loans to households dropped by 92.1% YoY in October after decreasing 25.9% in September, indicating significant weakening of housing demand. Meanwhile, new short-term loans to households turned negative in October as individual consumption weakened. In October, short-term loans to enterprises also experienced MoM declines as business operation deteriorated. However, new medium & long-term loans to corporates rose 111.1% YoY thanks to credit policy support to manufacturing and infrastructure sectors.
- China may gradually adjust its zero covid policy in future.** The new Politburo Standing Committee held a meeting yesterday, urging local officials to be more targeted with restrictions to minimize damage to the economy. Top leaders also called for more decisive measures to curb the spread of the virus to resume normal life and production as soon as possible. They required local governments to accelerate vaccinations to vulnerable people. It seems the policymakers try to gradually adjust the zero covid policy with more emphasis on normal life and economic development. The progress towards possible reopening next year is still unknown. However, the fiscal cost and social cost are increasingly high with the new virus variants. It becomes increasingly difficult to control the spread of the new virus. Some investors may continue to bet on possible reopening of China in future in the stock market.

**Bingnan YE, Ph.D**

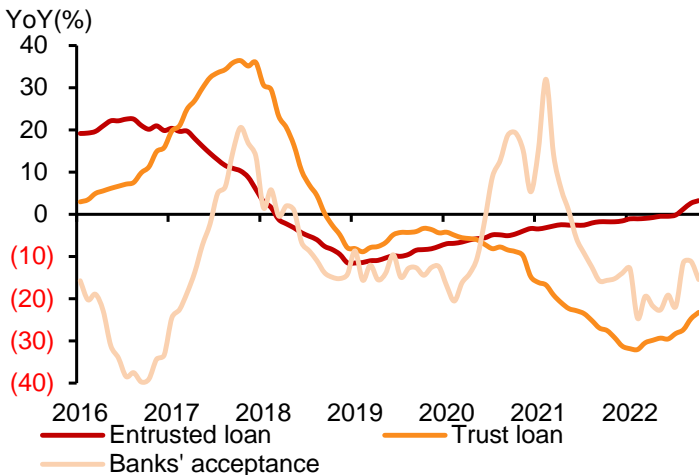
(852) 3761 8967

yebingnan@cmbi.com.hk



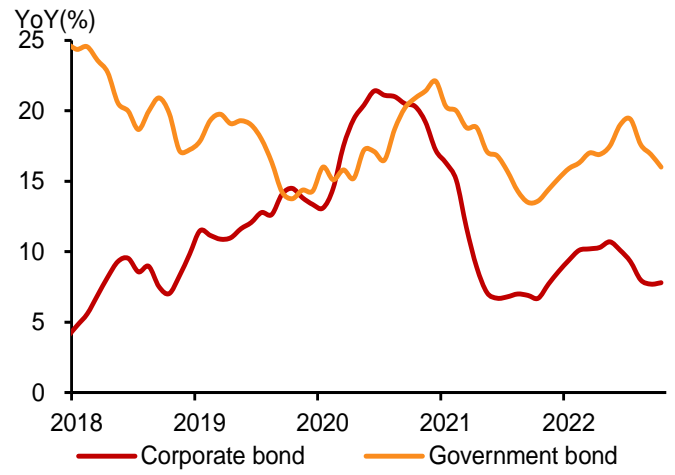
- **The PBOC should maintain accommodative monetary policy to stabilize property market and boost economic growth.** As housing market and consumption resume very slowly and the GDP growth remains far below the potential growth, the PBOC has to maintain accommodative monetary policy to boost the economic growth. The central bank is likely to maintain easing liquidity condition with possible further RRR cut in next three quarters. The LPR has room for moderate downside as credit demand remains weak.

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



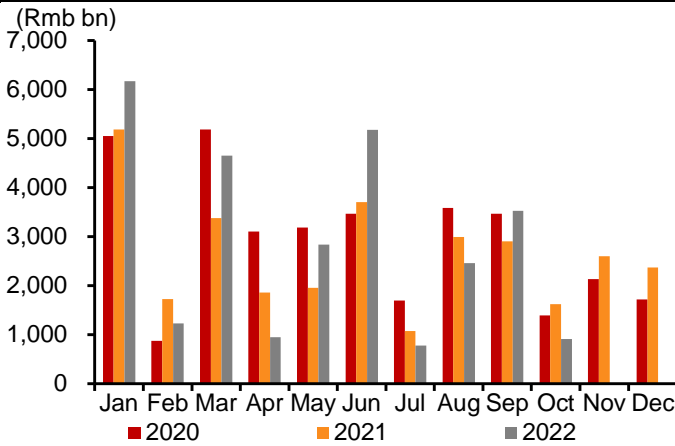
Source: Wind, CMBIGM

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



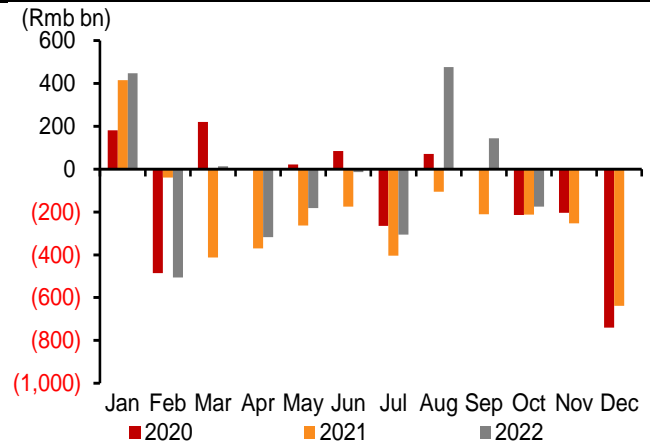
Source: Wind, CMBIGM

**Figure 3: Total social financing**



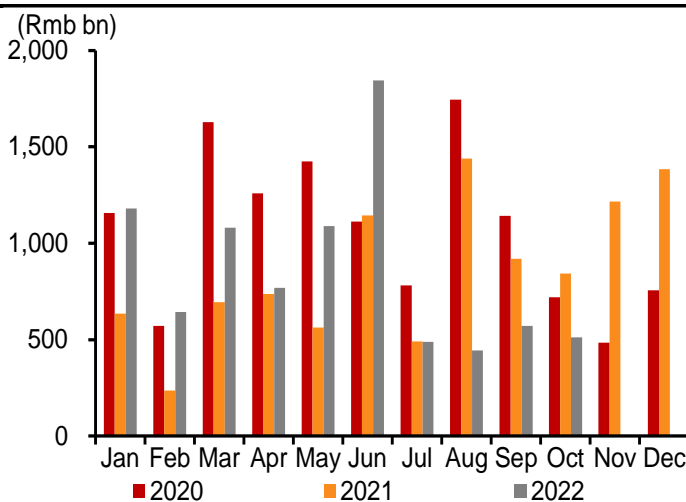
Source: MoF, CMBIGM

**Figure 4: OBS financing**



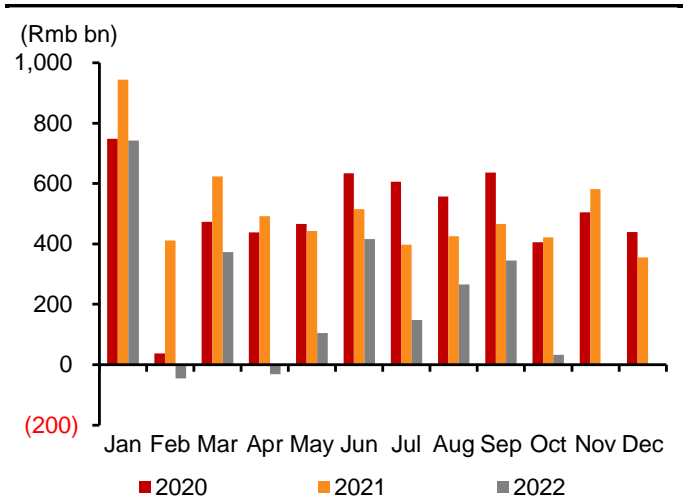
Source: MoF, CMBIGM

**Figure 5: Bond financing**



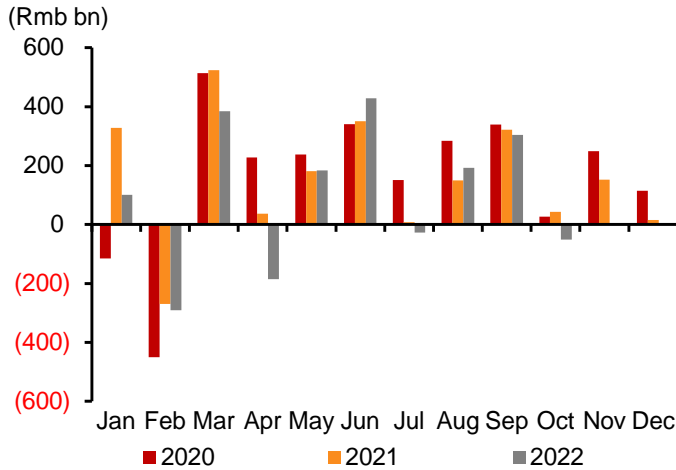
Source: Wind, CMBIGM

**Figure 6: New M&L term loans to households**



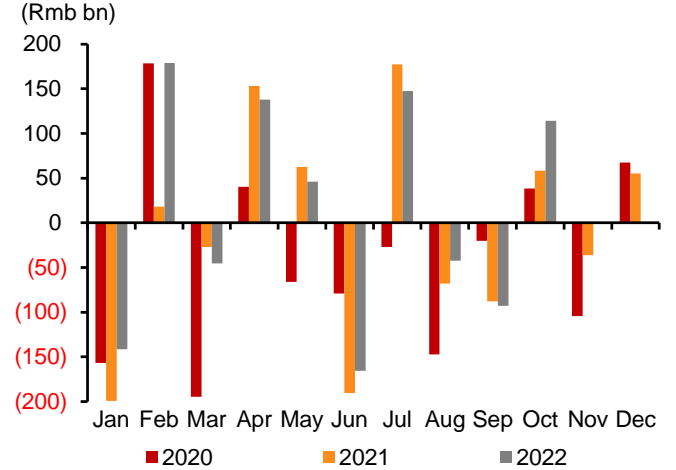
Source: Wind, CMBIGM

**Figure 7: New short term loans to households**



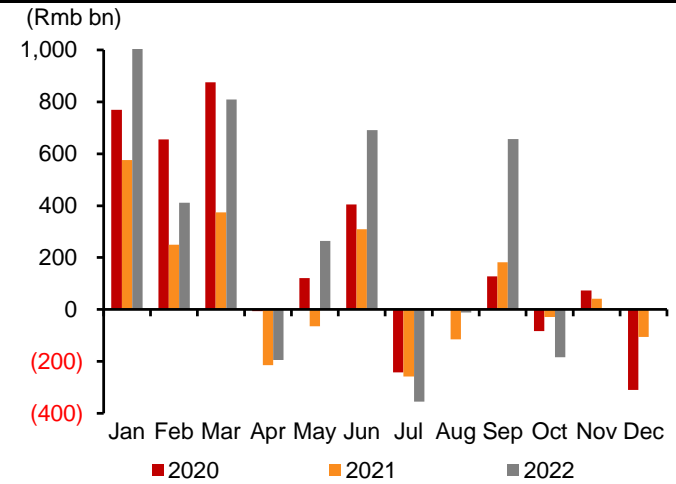
Source: Wind, CMBIGM

**Figure 8: New M&L term loans to enterprises**



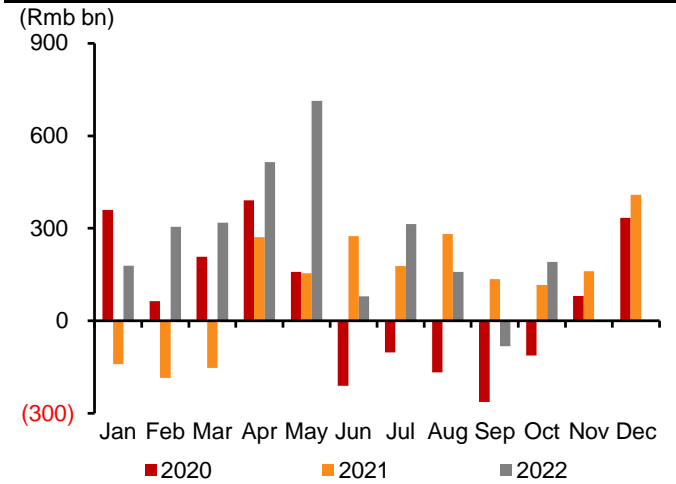
Source: Wind, CMBIGM

**Figure 9: New short term loans to enterprises**



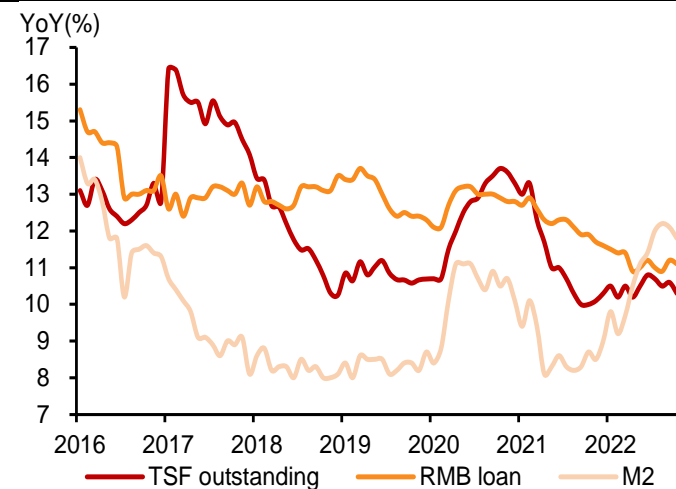
Source: Wind, CMBIGM

**Figure 10: Bill financing to enterprises**



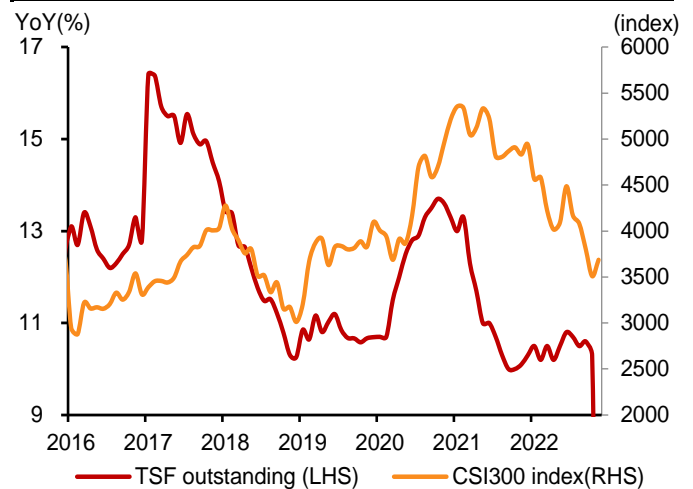
Source: Wind, CMBIGM

**Figure 11: Growth of credit & money supply**



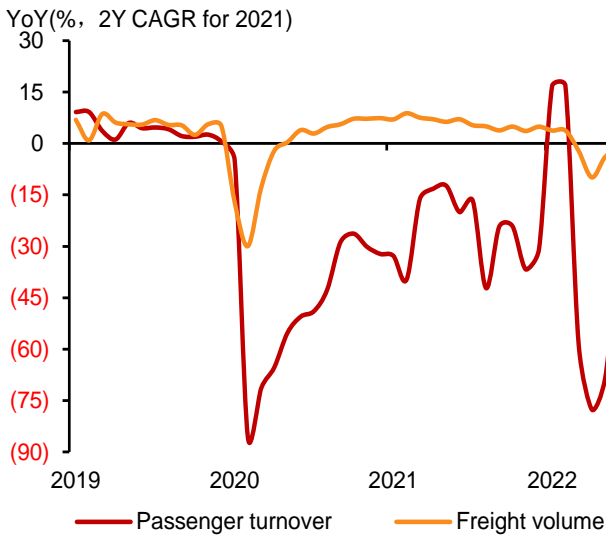
Source: Wind, CMBIGM

**Figure 12: Social financing growth & CSI300 Index**



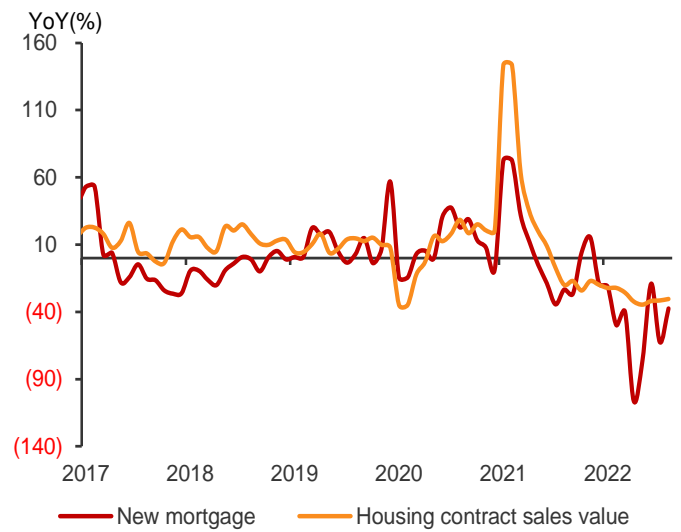
Source: Wind, CMBIGM

**Figure 13: Growth of passenger & freight volume**



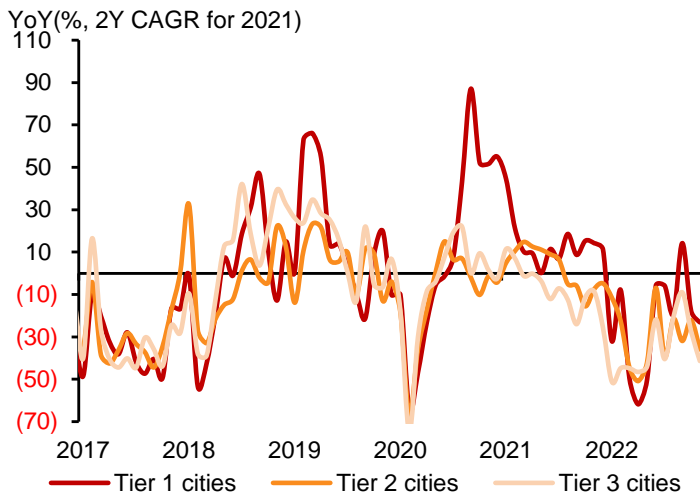
Source: Wind, CMBIGM

**Figure 14: New mortgage & housing sales**



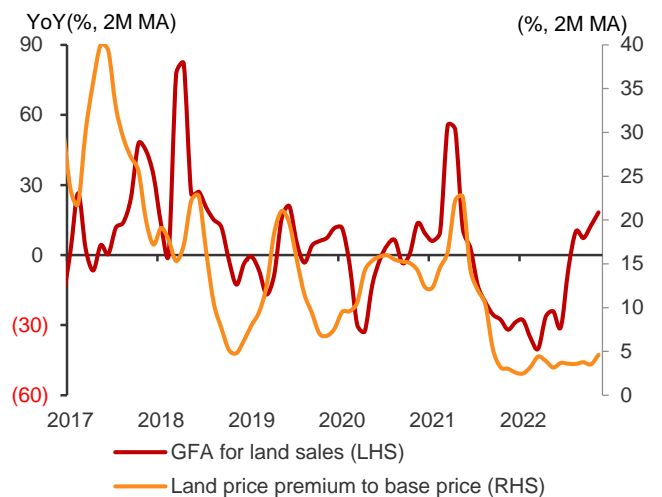
Source: Wind, CMBIGM

**Figure 15: Growth of housing sales by cities**



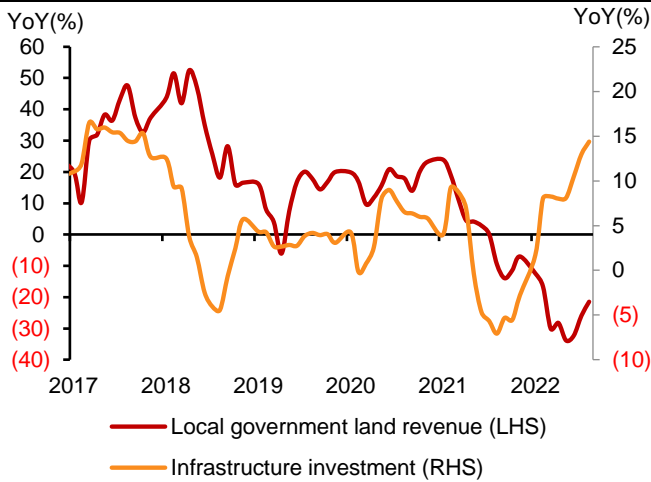
Source: Wind, CMBIGM

**Figure 16: Growth of land sales**



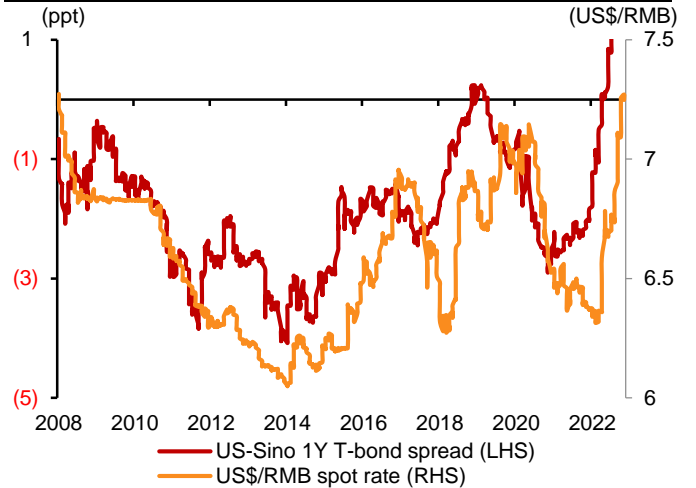
Source: Wind, CMBIGM

**Figure 17: Infrastructure investment**



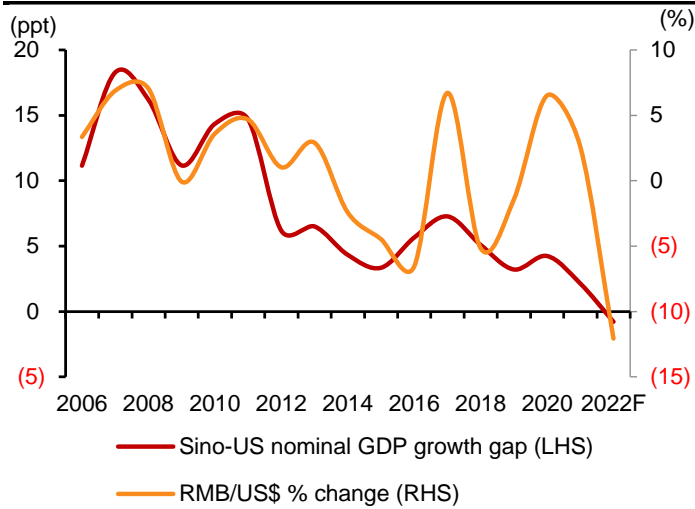
Source: Wind, CMBIGM

**Figure 18: US-Sino interest spreads**



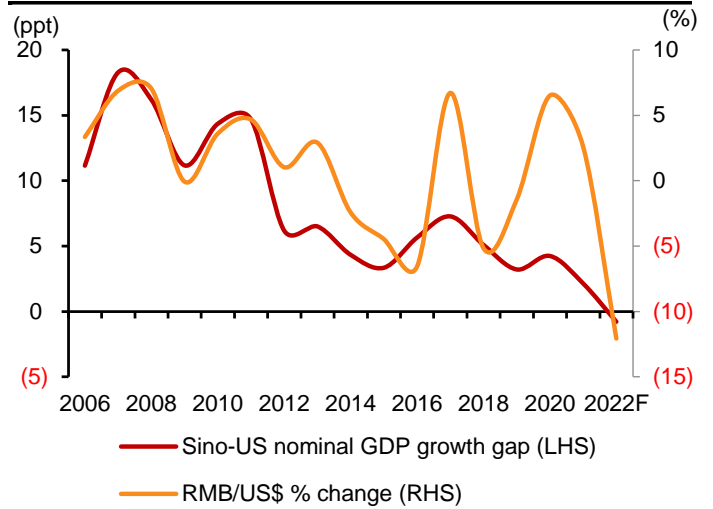
Source: Wind, CMBIGM

**Figure 19: Sino-US growth gap & RMB/US\$ change**



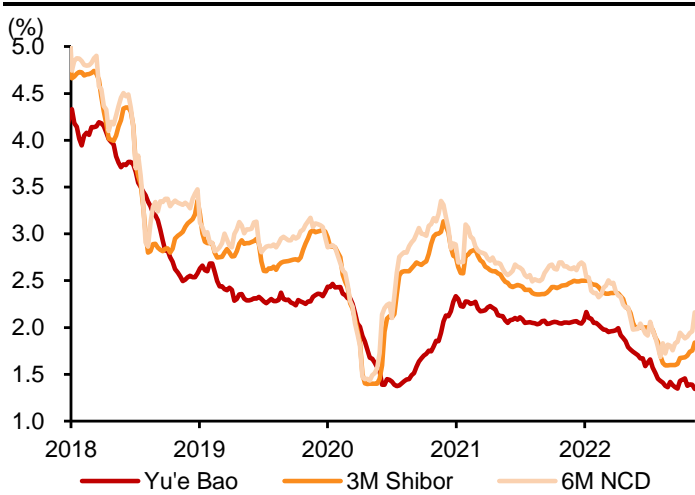
Source: Wind, CMBIGM

**Figure 20: Net forex inflow**



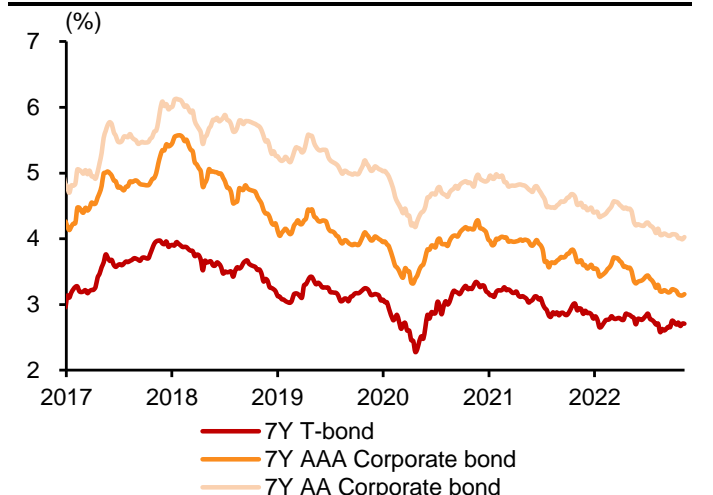
Source: Wind, CMBIGM

**Figure 21: Money market funding cost**



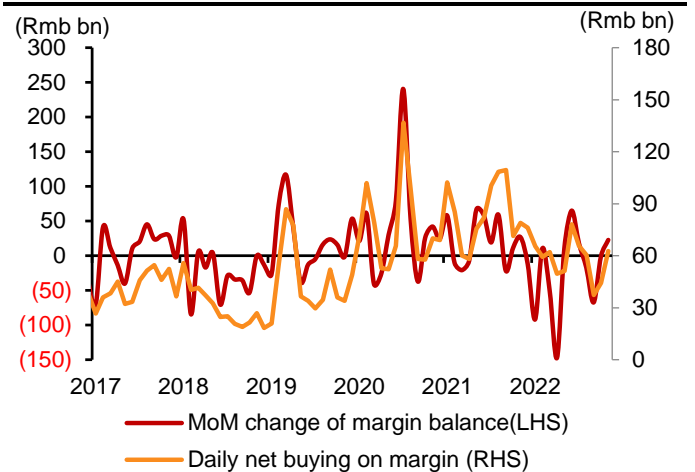
Source: Wind, CMBIGM

**Figure 22: Bond market rates**



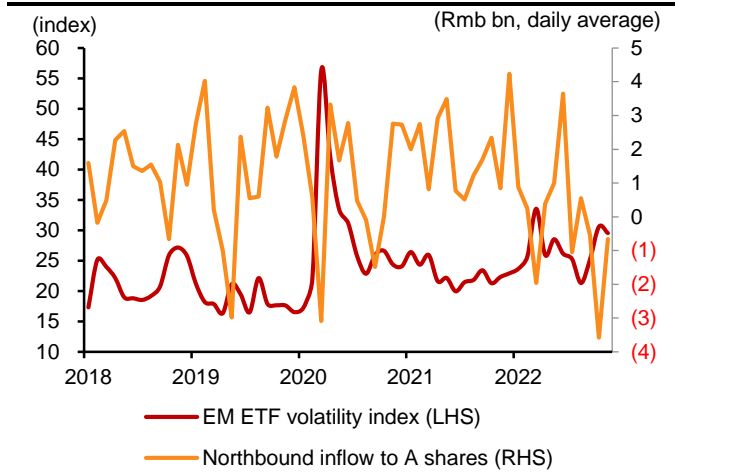
Source: Wind, CMBIGM

**Figure 23: Margin trading in A share market**



Source: Wind, CMBIGM

**Figure 24: EM volatility & northbound daily inflow**



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.