

# China Economy

## Credit growth remained weak

China's social financing flow marginally improved in May thanks to the acceleration of government bond issuance. But credit demand in the private sector continued to deteriorate as property sales remained subdued, deflation pressure persisted and private business confidence was weak. M1 notably contracted due to the ban on hidden interest payment on checking account, which led to the sharp decline of corporates deposits. Meanwhile, fiscal reserves have accumulated markedly, as we expect infrastructure investments to pick up in the near term. Credit growth remained low due to elevated real-term interest rates, weak private business and consumer confidence. New mortgage rates may have further room for downside after the PBOC has abolished the floor limit. The PBOC may further cut LPRs by 10- 20bps to relieve the debt service burden for the private sector. The central bank may also reduce deposit rates to protect banks' NIMs. Meanwhile, the central bank would continue to guide banks to expand credit supply to boost economic growth and defy deflation pressure. We expect credit growth may mildly rebound in 2H24-1H25.

■ **Social financing growth slightly rebounded as government bond issuance accelerated.** The growth of outstanding social financing (SF) edged up to 8.4% YoY (all in YoY terms unless otherwise specified) in May from 8.3% in Apr. The SF flow rebounded by 32.7% to RMB2.1tn in May, compared to -RMB65.8bn in Apr. As we expected, government bond issuance notably increased by 120% to RMB1.2tn, compared to -RMB92.7bn in Apr, as ultra-long special CGB started in May on top of CGB and LGB. Infrastructure investment may get boosted thanks to the accumulation of fiscal reserve. On the other hand, non-government sector remained subdued in credit demand. New RMB loans under SF dropped 32.9% to RMB819.7bn in May. Corporate bond issuance notably slowed down to RMB28.5bn compared to RMB170.7bn in Apr, above its year-ago level at -RMB214.4bn. Shadow financing continued to contract as new entrusted loans and undiscounted banks' acceptance saw a negative flow in May while trust loans declined by 26%. The decline of M1 growth further slumped to -4.2% from -1.4% due to the ban on hidden interest payment on checking account, which led to the sharp decline of corporates deposits. The policy would mitigate the pressure on banks' NIM while creating distortions on monetary data. We expect the effect of the policy would marginally diminish and the gap between M1 and M2 growth would narrow while both of their growth should stay muted in the near term due to weak property sales and business activities.

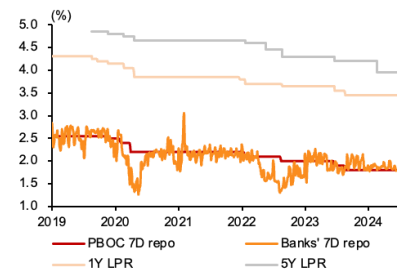
■ **Credit demand in non-government sector continued to deteriorate.** Growth of outstanding RMB loans hit a new record low at 9.3% in May from 9.6%. The weaker-than-expected new RMB loans dipped 30.1% to RMB950bn in May, compared to RMB730bn in Apr. Although marginally recovered from RMB516.6bn contraction in Apr, new loans to households significantly dropped 79% to RMB75.7bn with new short-term loans down 88% and new M&L loans down 70%. Consumer demand stayed lethargic while property sales has yet to show any material improvement following the policy easing. The growing spread between new and existing mortgage rates would trigger more early payments, weighing on future M&L loans growth. New loans to the corporate sector declined 13.5% to RMB740bn, compared to RMB860bn in Apr. Short-term loans continued to drop RMB120bn after decreasing RMB410bn while M&L loans dipped 35% to RMB500bn, compared to RMB410bn in Apr. More than half of the new corporate loans were driven by bill financing, remarkably rising 750% to RMB357.2bn, compared to RMB838.1bn in Apr.

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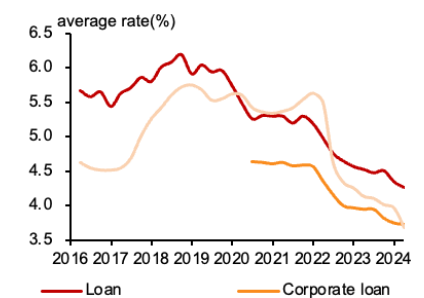
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Source: Wind, CMBIGM



Source: Wind, CMBIGM



Source: Wind, CMBIGM

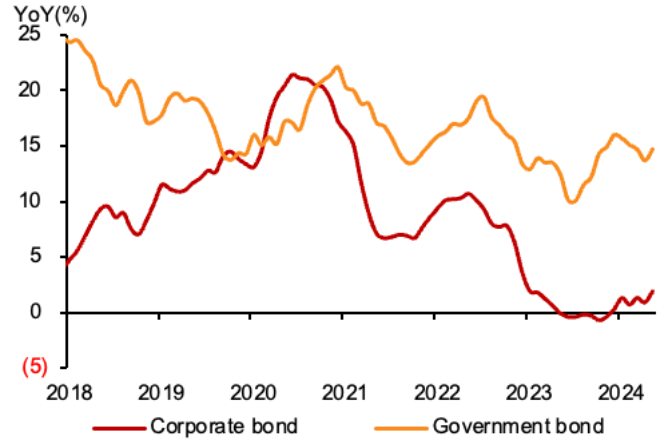
- **The PBOC may further cut interest rates to boost credit demand.** Credit growth has remained low due to elevated real-term interest rates and weak private business and consumer confidence. The PBOC may further cut LPRs by 10-20 bps to relieve debt service burden of consumers and private business. The central bank may also reduce deposit rates to protect banks' NIMs. Meanwhile, the central bank may guide banks to expand credit supply to boost economic growth and defy deflation pressure. We expect credit growth may gradually rebound in 2H24-1H25

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



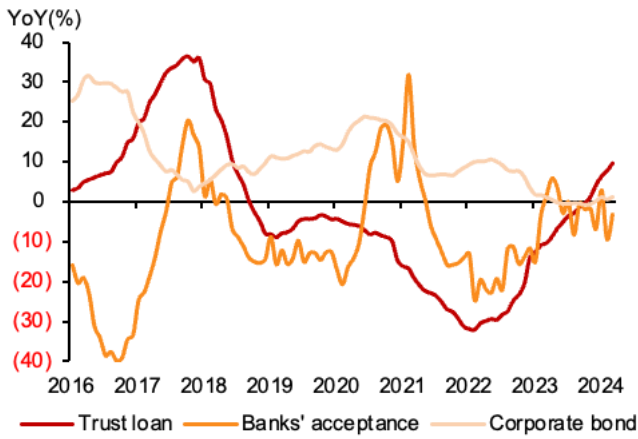
Source: Wind, CMBIGM

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



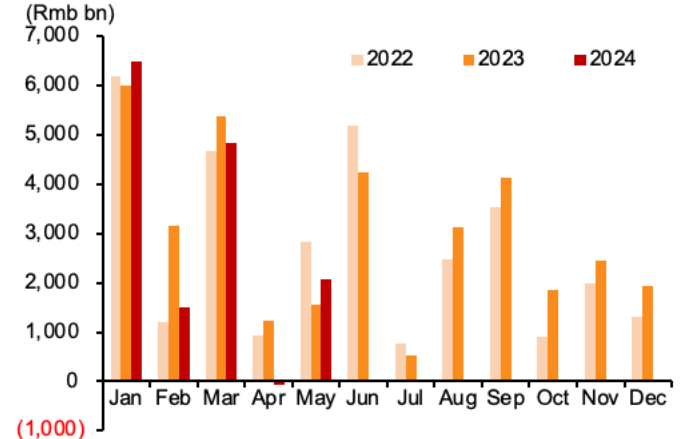
Source: Wind, CMBIGM

**Figure 3: Growth of outstanding OBS financing**



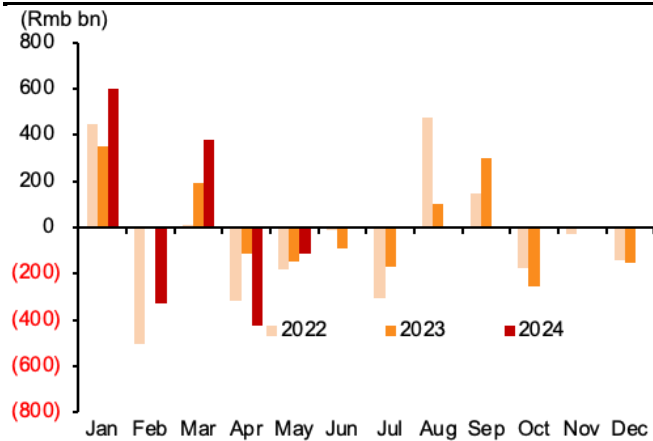
Source: MoF, CMBIGM

**Figure 4: Total social financing**



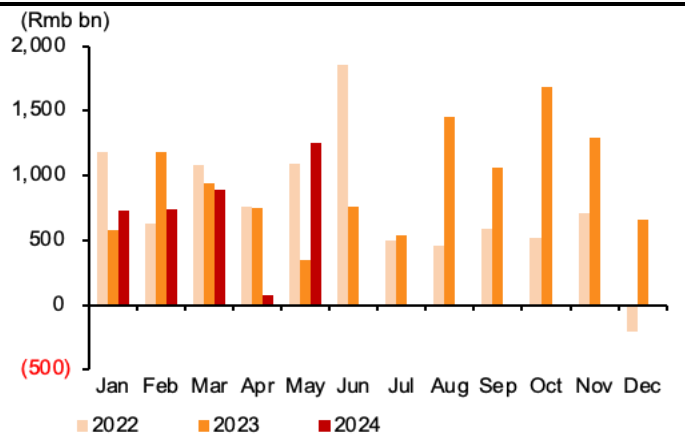
Source: MoF, CMBIGM

**Figure 5: OBS financing**



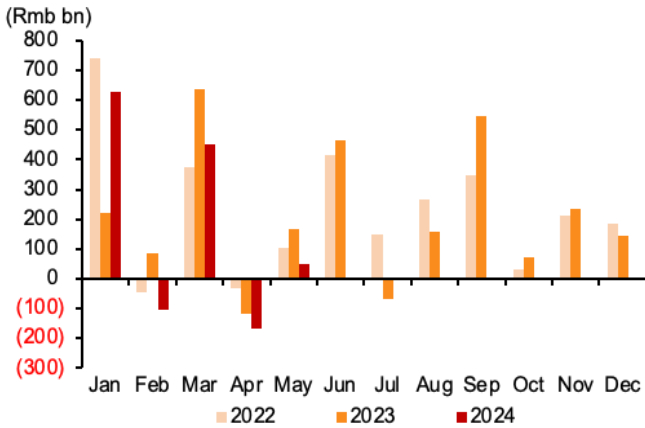
Source: Wind, CMBIGM

**Figure 6: Bond financing**



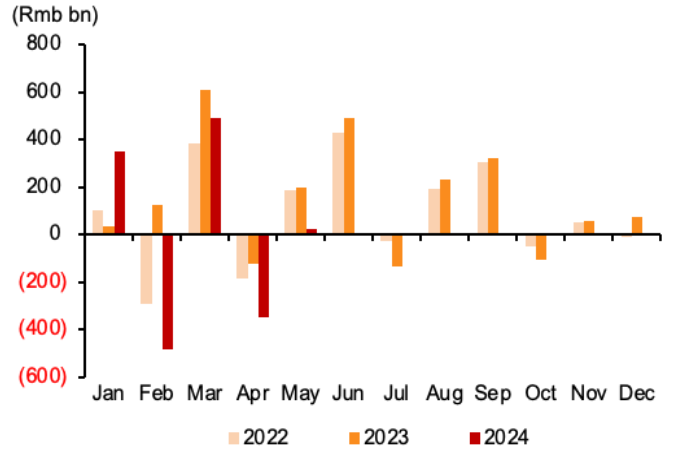
Source: Wind, CMBIGM

**Figure 7: New M&L term loans to households**



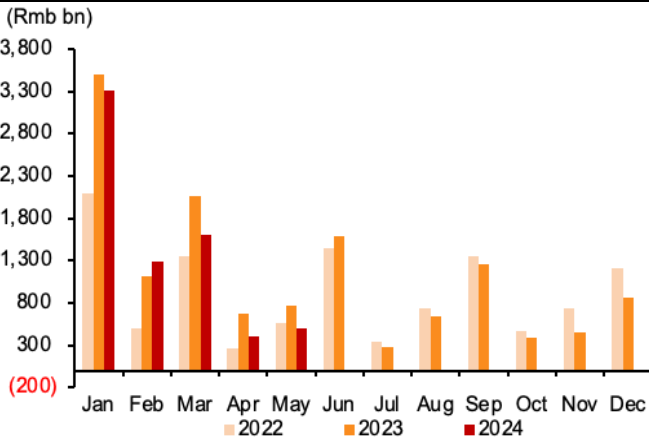
Source: Wind, CMBIGM

**Figure 8: New short-term loans to households**



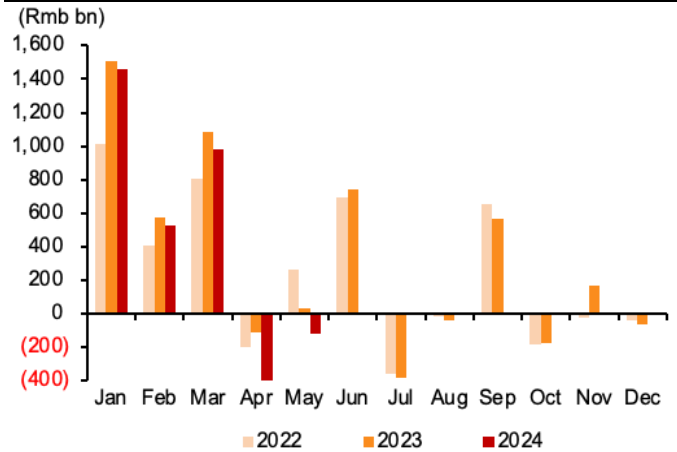
Source: Wind, CMBIGM

**Figure 9: New M&L term loans to enterprises**



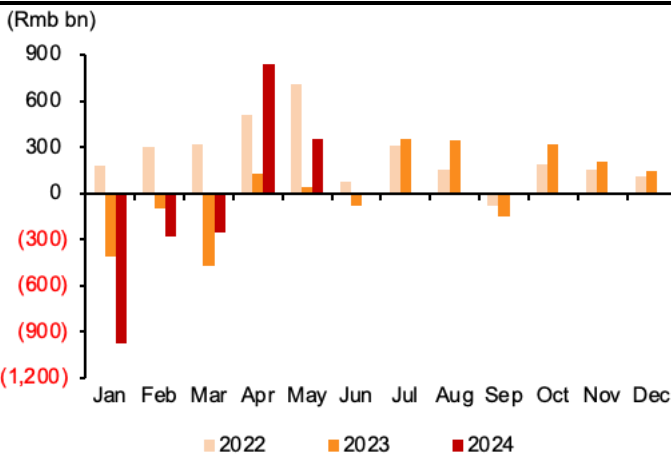
Source: Wind, CMBIGM

**Figure 10: New short-term loans to enterprises**



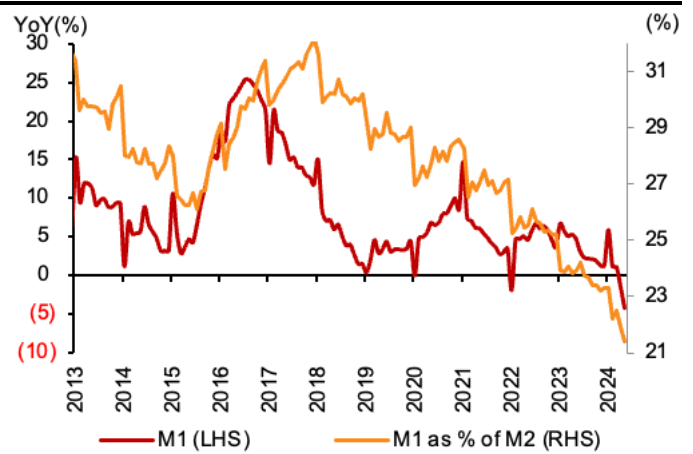
Source: Wind, CMBIGM

**Figure 11: Bill financing to enterprises**



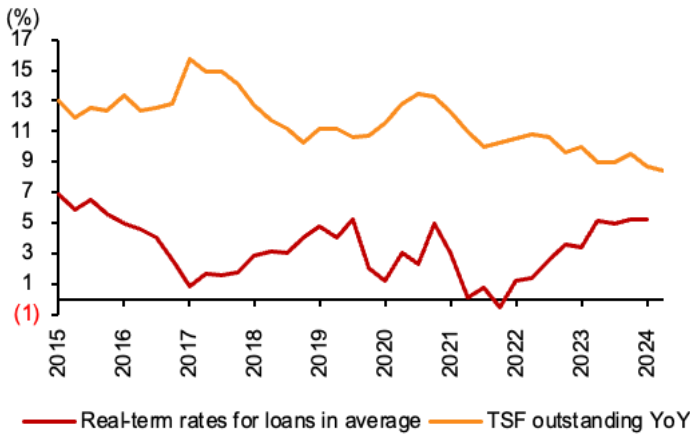
Source: Wind, CMBIGM

**Figure 12: M1 growth & M1 as % of M2**



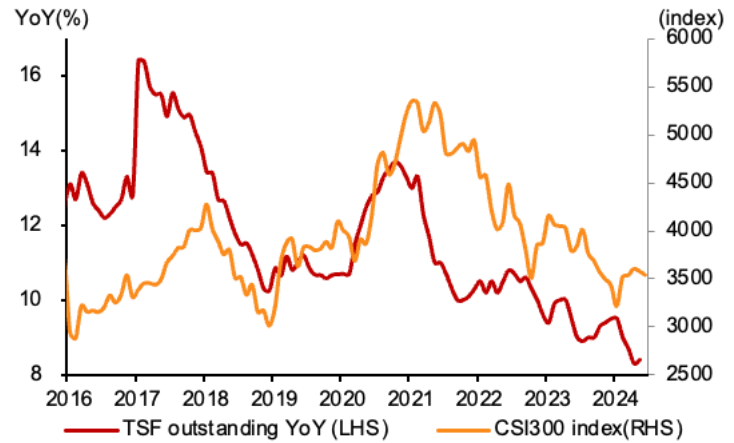
Source: Wind, CMBIGM

**Figure 13: Real-term loan rates & TSF growth**



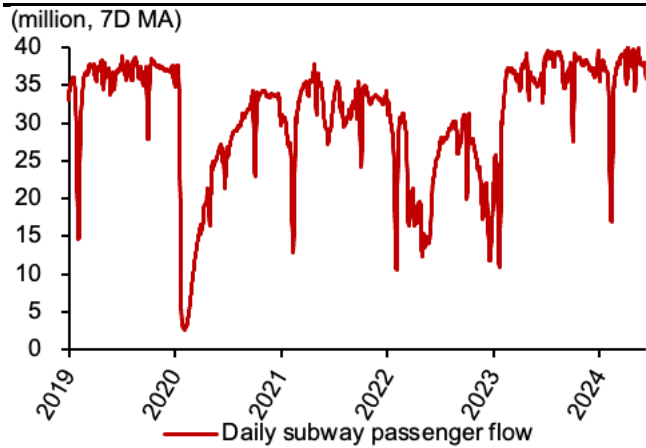
Source: Wind, CMBIGM

**Figure 14: TSF growth & CSI300 index**



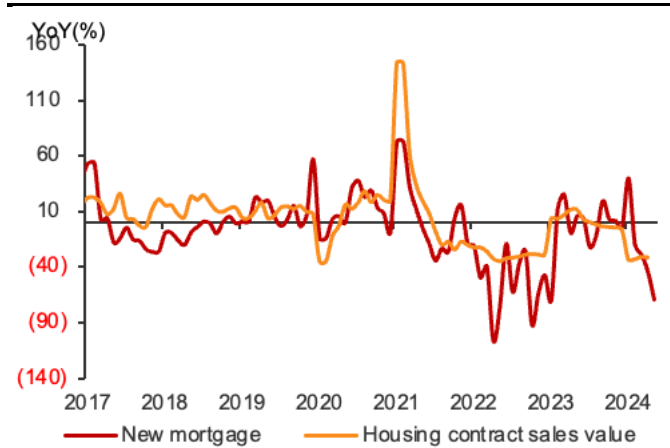
Source: Wind, CMBIGM

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



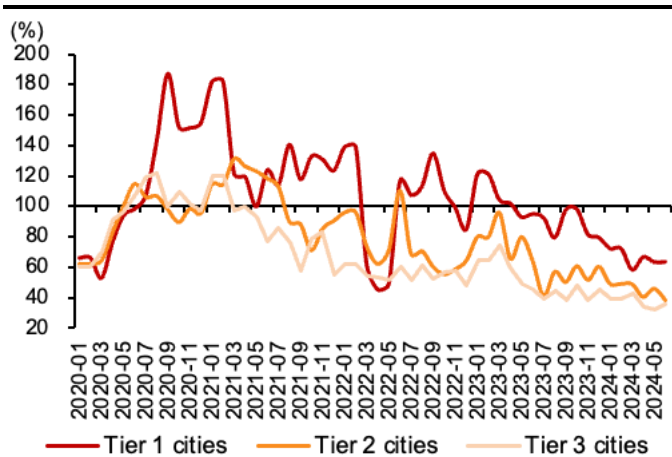
Source: Wind, CMBIGM

**Figure 16: New mortgage & housing sales**



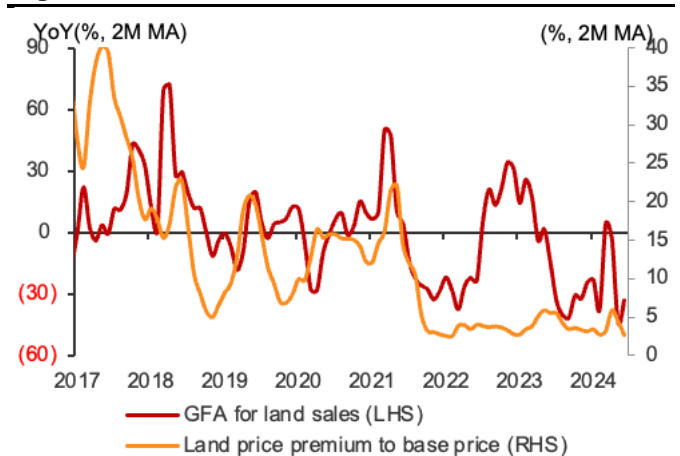
Source: Wind, CMBIGM

**Figure 17: Housing sales recovery rates compared to 2019**



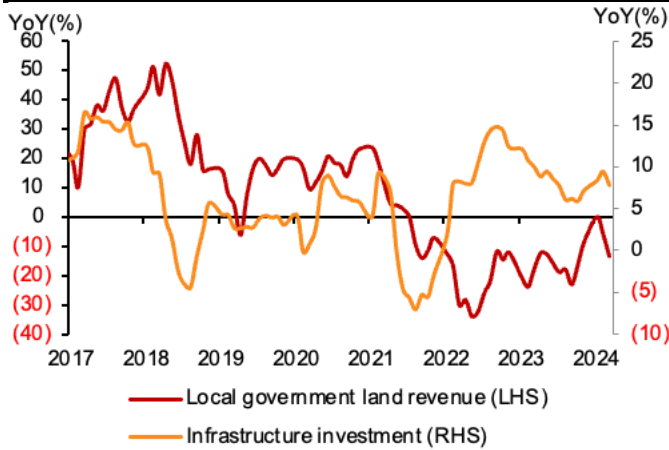
Source: Wind, CMBIGM

**Figure 18: Growth of land sales**



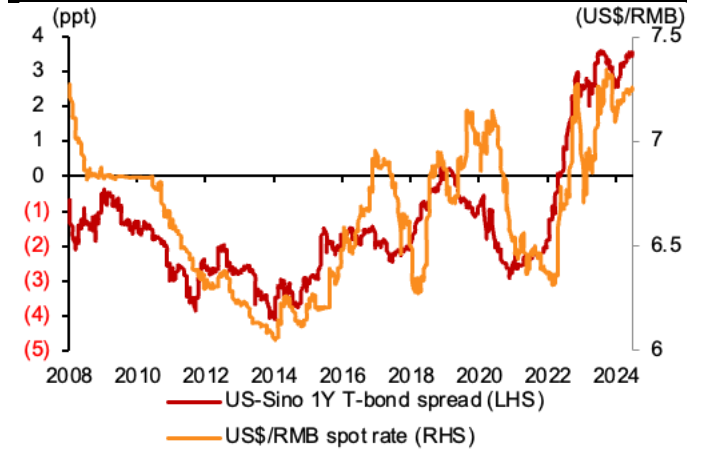
Source: Wind, CMBIGM

**Figure 19: Infrastructure investment**



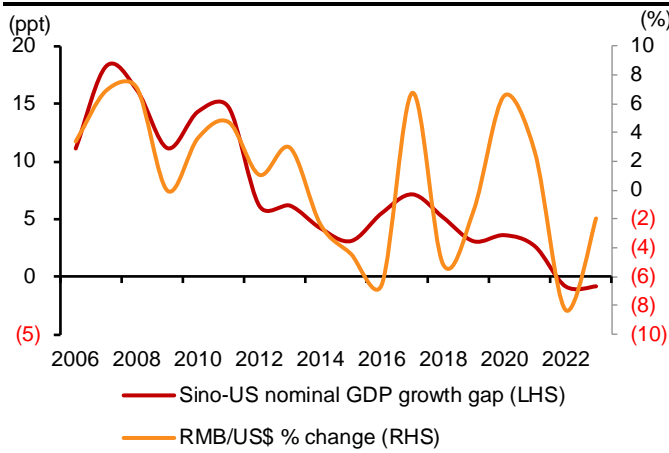
Source: Wind, CMBIGM

**Figure 20: US-China interest spreads**



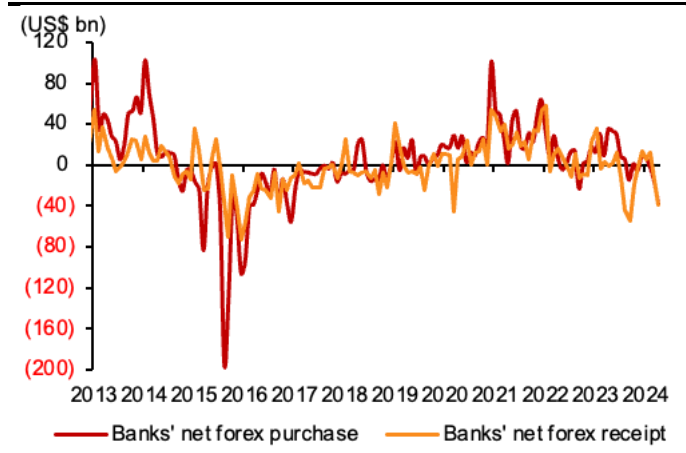
Source: Wind, CMBIGM

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



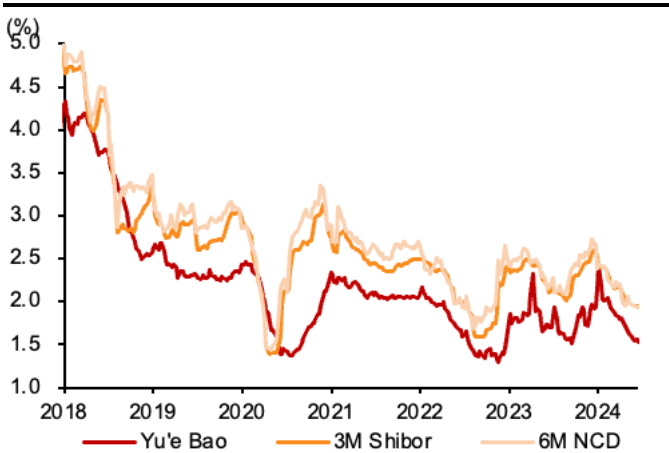
Source: Wind, CMBIGM

**Figure 22: Net forex inflow**



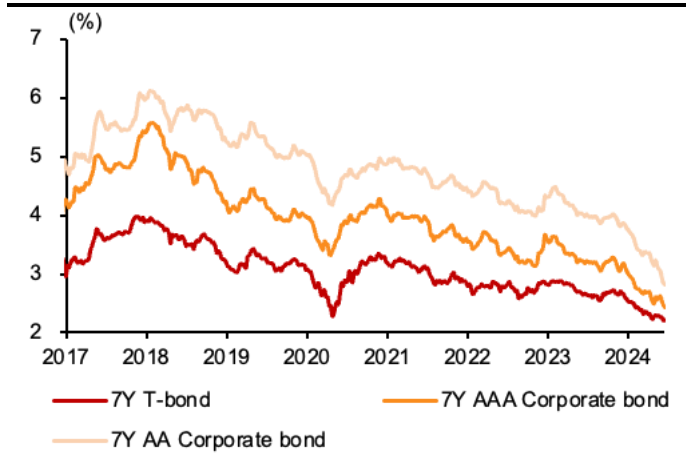
Source: Wind, CMBIGM

**Figure 23: Money market funding cost**



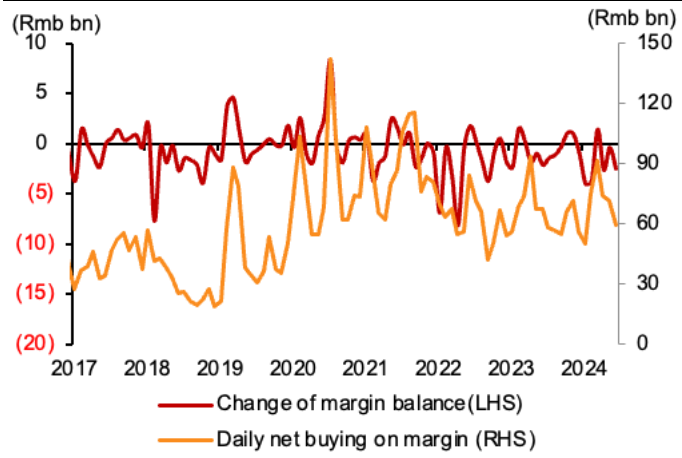
Source: Wind, CMBIGM

**Figure 24: Bond market rates**



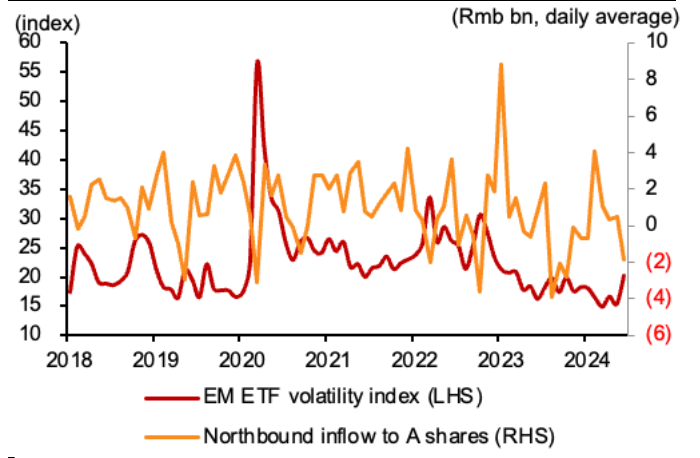
Source: Wind, CMBIGM

**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

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