

China Policy

Credit growth gradually rebounds as China further eases policy

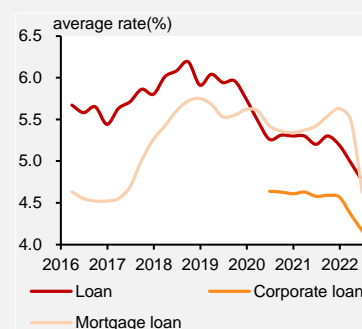
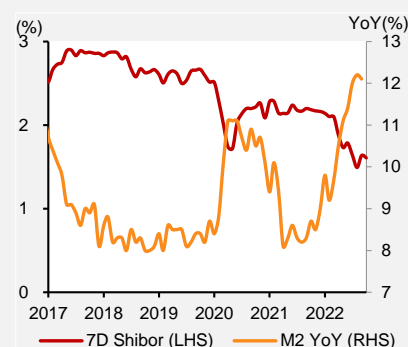
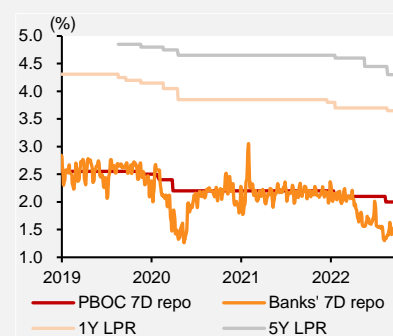
China's credit growth rebounded in September thanks to further easing of credit policy. Policy banks increased low-cost special loans to infrastructure projects while the PBOC restarted pledged supplementary lending (PSL) to policy banks. Meanwhile, the central bank urged commercial banks to expand loan supply to real sector. M2 growth remained high as households reduced spending for more savings, while M1 growth was still low as business activities remained weak. Credit flow to property sector continued to decline, yet with less magnitude. China's GDP growth should remain below potential growth in next several months amid the zero-Covid policy and weak improvement in housing market. The PBOC has to maintain easing liquidity condition as money market rates may remain low with some mild increases. The credit policy should remain accommodative with possible further moderate declines in loan contract rates especially in mortgage rates. China may have to keep renminbi exchange rates flexible and lower deposit rates to facilitate further decline of loan rates. We expect credit growth may slowly improve in next several months. The YoY growth of outstanding social financing and M2 is expected to reach 10.8% and 12.5% at end-2022, compared to 10.3% and 9% at end-2021.

- **Credit growth rebounded amid further policy easing.** Outstanding social financing rose 10.6% YoY at end-September, slightly up from 10.5% YoY at end-August. Meanwhile, the YoY growth of outstanding renminbi loans to real sector rebounded from 10.8% to 11.1% as the PBOC urged banks to expand their loan supply. Social financing flow rose 21.6% YoY in September after dropping 18.7% YoY in August, with the growth of new renminbi loans to real sector up from 5% to 44.9%. The pick-up of credit growth was mainly due to further easing of credit policy. Policy banks sharply increased their special loans to infrastructure projects, while the PBOC urged commercial banks to expand credit supply to real sector.
- **M2 growth remained strong with slight slowdown, as private sector reduced spending for more savings.** M2 growth reached 12.1% at end-September, slightly down from 12.2% at end-August. But it was much higher than the growth in the same month last year, as households and business cut their expenditures for more savings. M1 mildly picked up 6.4% at end-September after rising 6.1% in August. However, the growth remained low, as business activities were still weak.
- **Credit flow to property sector continued to decline yet with less magnitude.** Housing demand remained weak. New medium & long-term loans to households (mainly new mortgage loans) dropped 25.9% YoY in September after decreasing 37.6% YoY in August and 62.6% in July. Meanwhile, investors were still concerned about credit risk in property projects. Outstanding trust loans continued to drop 24.8% YoY at end-September after declining 27.4% YoY at end-August. From the MoM perspective, outstanding trust loans decreased by RMB19.2bn in September after dropping by RMB47.2bn in August.
- **Policy banks increased loan supply to support infrastructure investment and offset possible fiscal cliff effect.** Local governments used up most of this year's special bond quotas in the first seven months. Government bond

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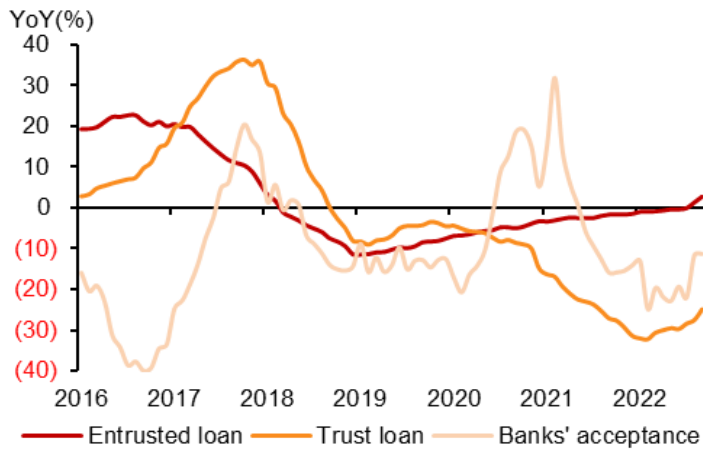
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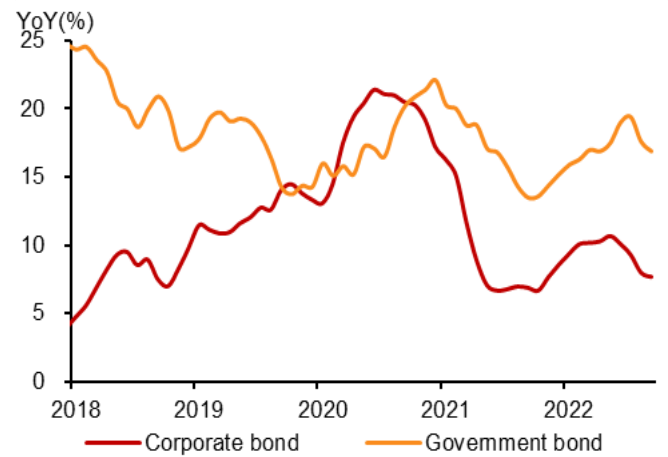


financing dropped 31.5% YoY in September after dropping 68.7% YoY in August. To offset the fiscal cliff risk, the policymakers urged policy banks to increase their special loans to infrastructure projects. New medium & long term loans to corporate sector jumped 94.1% YoY to RMB1.35trn in September after rising 41% YoY in August. They were also much higher than the amount in September 2020. The PBOC provided refinancing supply to policy banks through the PSL as policy banks' special loans have long maturities and low interest rates. Those special loans would play an important role in supporting China's infrastructure investment in next several months.

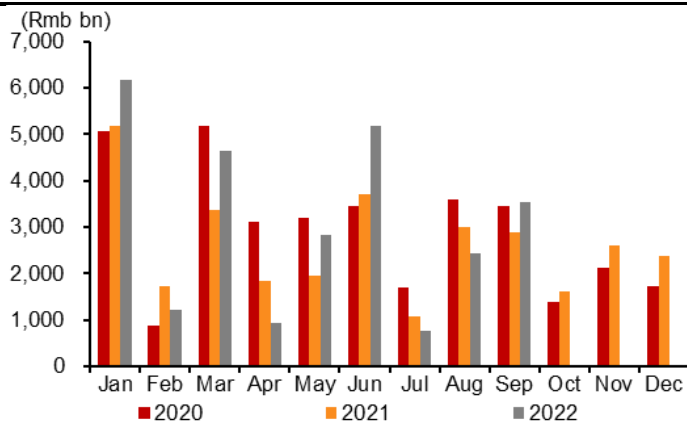
- **PBOC would maintain easing liquidity to boost credit supply.** China's GDP growth should remain below potential growth in next few quarters as the country maintains zero-Covid policy and housing market recovers very slowly. The PBOC has to maintain easing liquidity condition to boost credit supply. We expect money market rates to remain low with some mild increases.
- **PBOC may further loosen credit policy with moderate downside room for mortgage rates.** As housing market recovers very slowly, the central bank may further ease credit policy especially towards the property sector. We believe mortgage rates still have moderate downside room especially for first-home and second-home buyers. To facilitate further credit policy easing, China has to keep renminbi exchange rates flexible to absorb external shocks. Meanwhile, China may have to further lower deposit rates to alleviate banks' pressure in NIMs and asset quality. The weak consumption and strong savings is another reason for possible deposit rate cut in China.
- **Credit growth may slowly improve.** Credit growth may gradually improve as liquidity and credit policy remain accommodative and credit demand slowly rebounds. In 4Q22, local governments may be allowed to use part of next year's special bond quota. We expect the YoY growth rates of outstanding social financing and M2 may respectively reach 10.8% and 12.5% at end-2022, compared to 10.3% and 9% at end-2021.

Figure 1: Growth of outstanding OBS financing

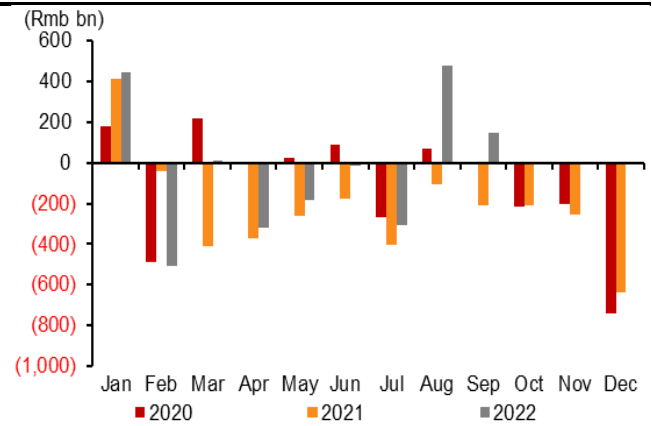
Source: Wind, CMBIGM

Figure 2: Growth of outstanding bond financing

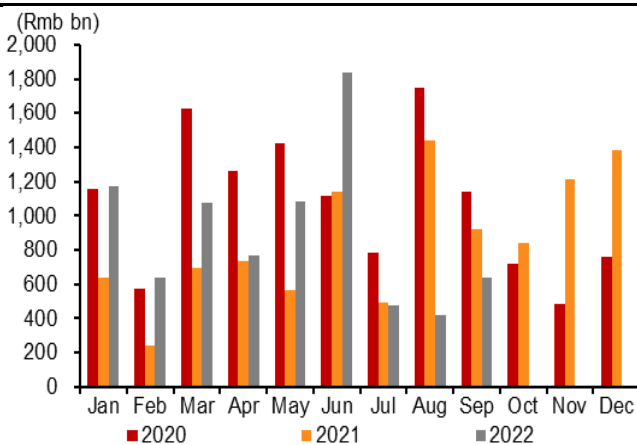
Source: Wind, CMBIGM

Figure 3: Total social financing

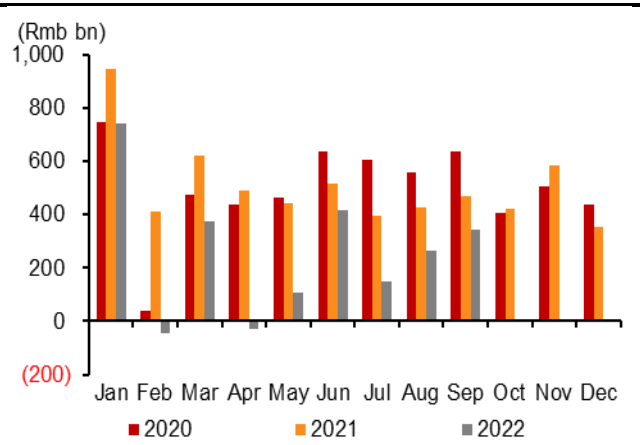
Source: MoF, CMBIGM

Figure 4: OBS financing

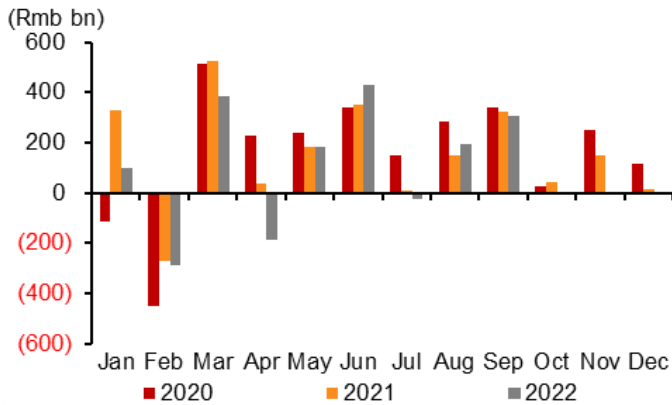
Source: MoF, CMBIGM

Figure 5: Bond financing

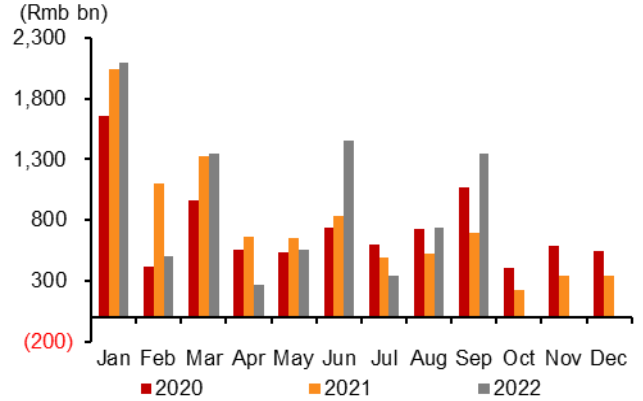
Source: Wind, CMBIGM

Figure 6: New M&L term loans to households

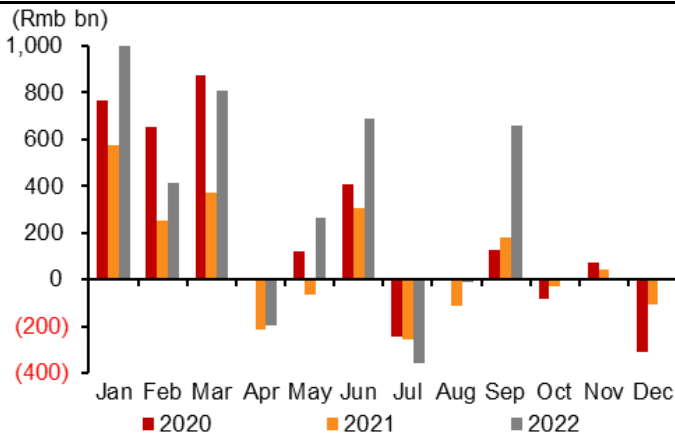
Source: Wind, CMBIGM

Figure 7: New short term loans to households

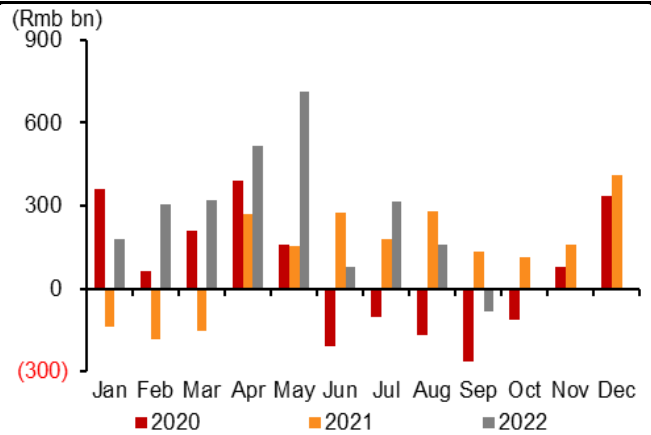
Source: Wind, CMBIGM

Figure 8: New M&L term loans to enterprises

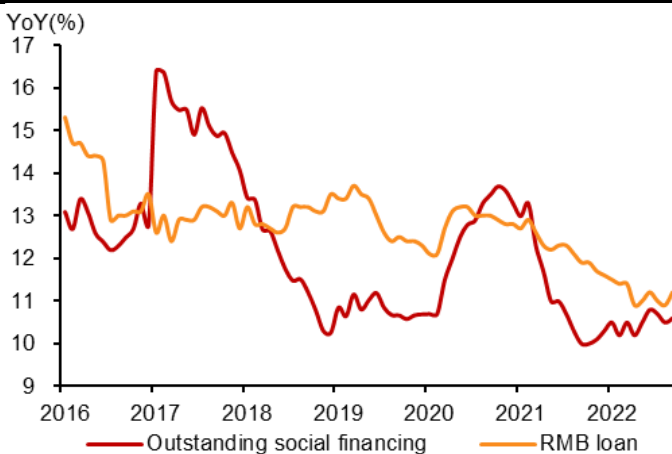
Source: Wind, CMBIGM

Figure 9: New short term loans to enterprises

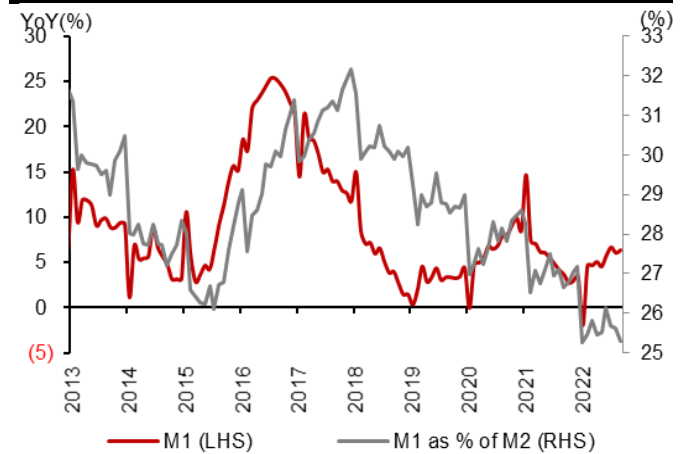
Source: Wind, CMBIGM

Figure 10: Bill financing to enterprises

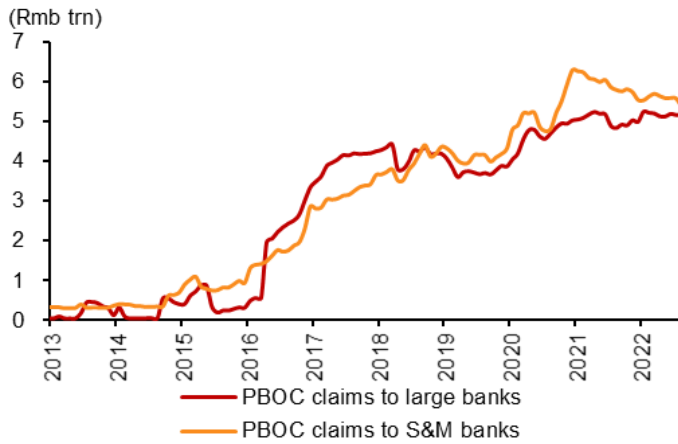
Source: Wind, CMBIGM

Figure 11: Credit growth

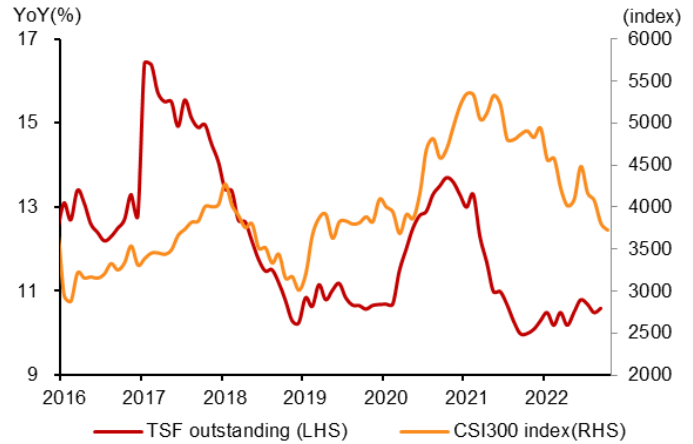
Source: Wind, CMBIGM

Figure 12: Money supply growth

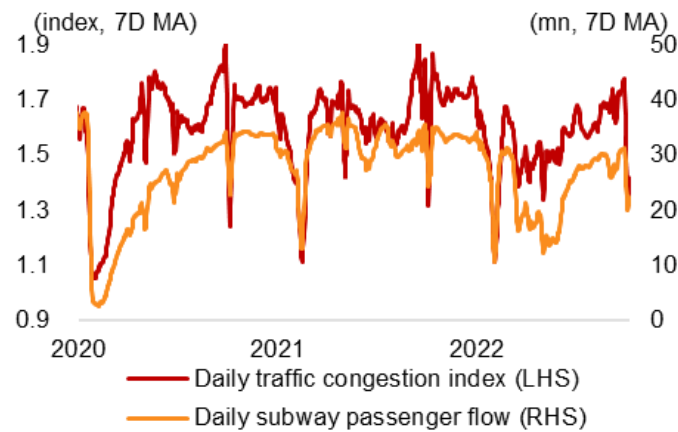
Source: Wind, CMBIGM

Figure 13: PBOC claims to banks

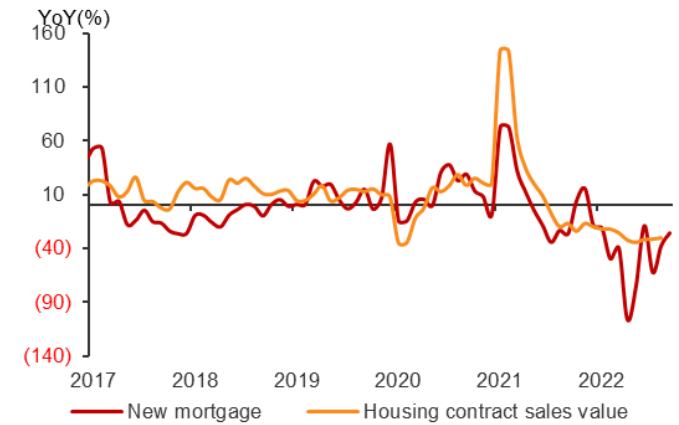
Source: Wind, CMBIGM

Figure 14: Social financing growth & CSI300 Index

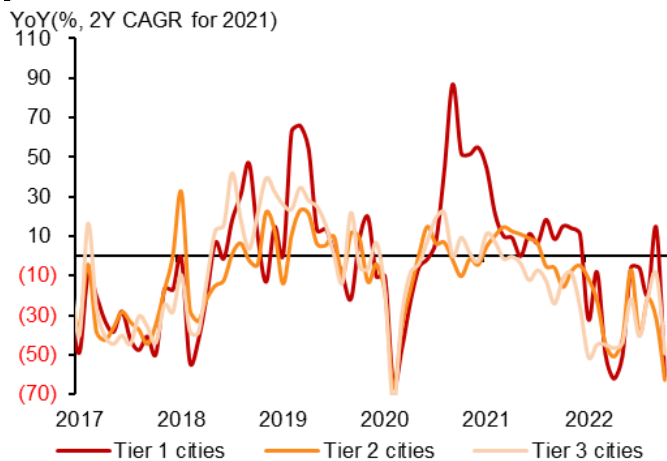
Source: Wind, CMBIGM

Figure 15: Mobility indicators in tier-one cities

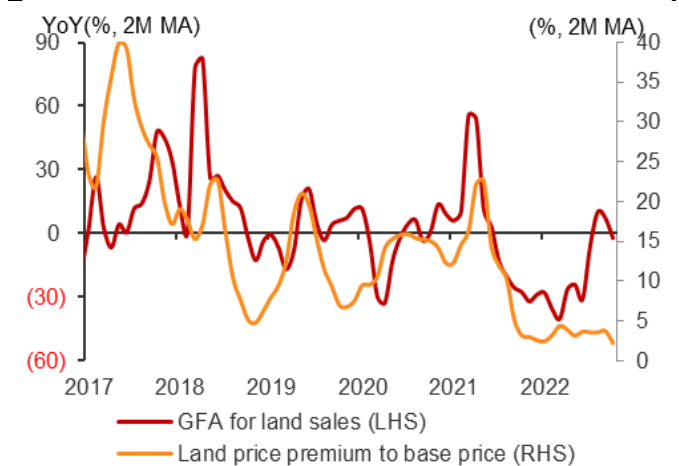
Source: Wind, CMBIGM

Figure 16: New mortgage & housing sales

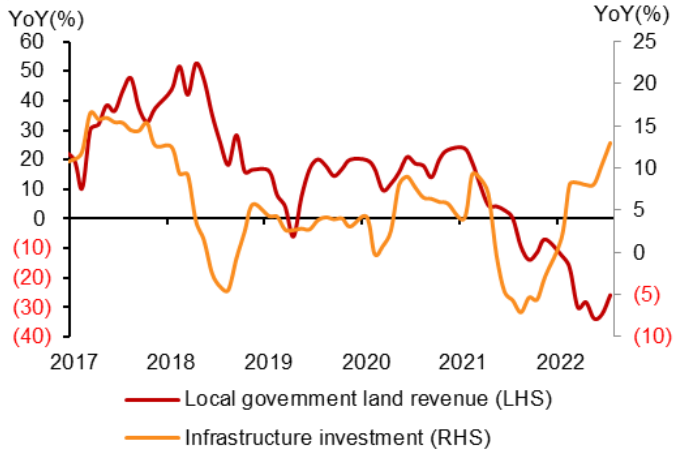
Source: Wind, CMBIGM

Figure 17: Growth of housing sales by cities

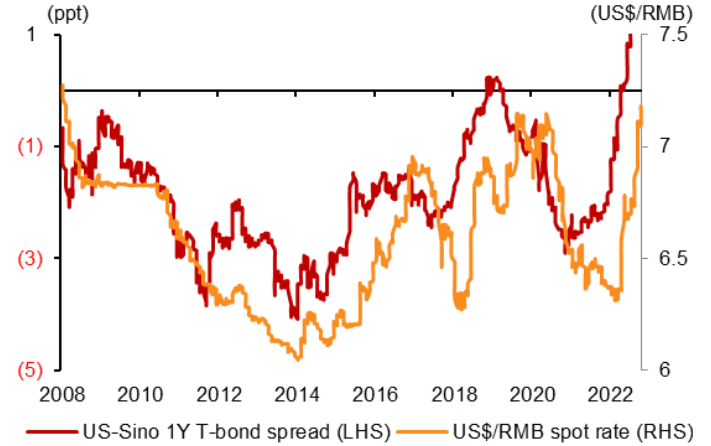
Source: Wind, CMBIGM

Figure 18: Growth of land sales

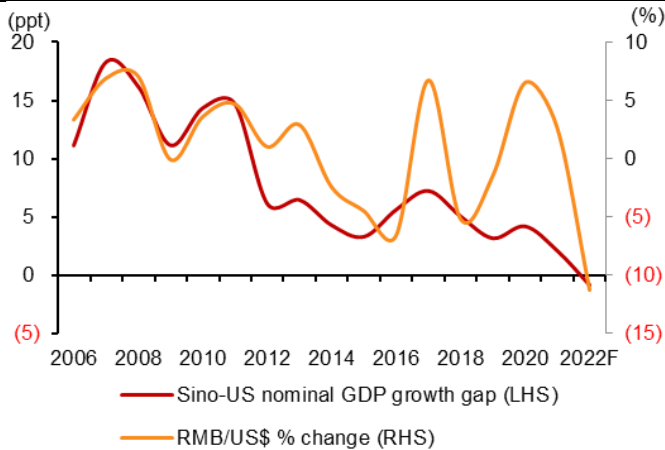
Source: Wind, CMBIGM

Figure 19: Infrastructure investment

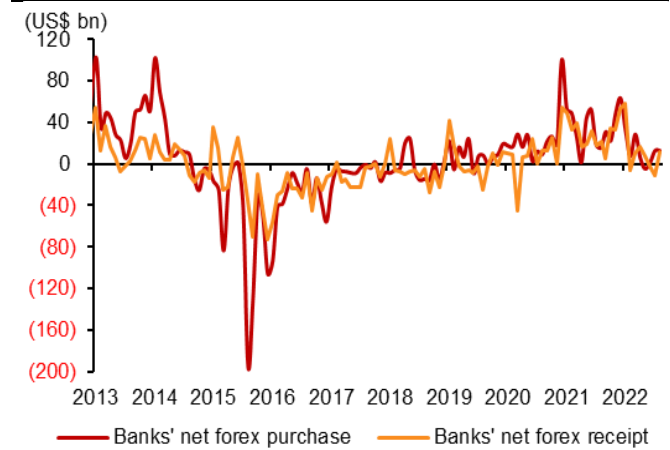
Source: Wind, CMBIGM

Figure 20: US-Sino interest spreads

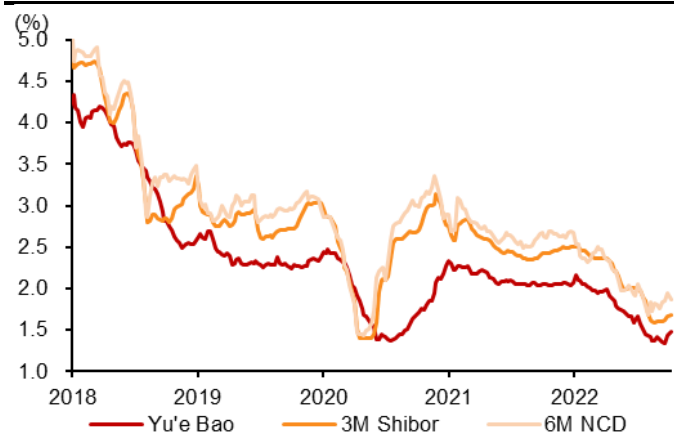
Source: Wind, CMBIGM

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

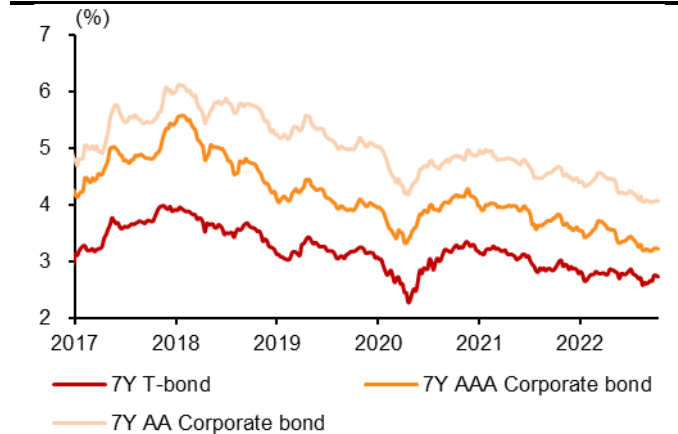
Source: Wind, CMBIGM

Figure 22: Net forex inflow

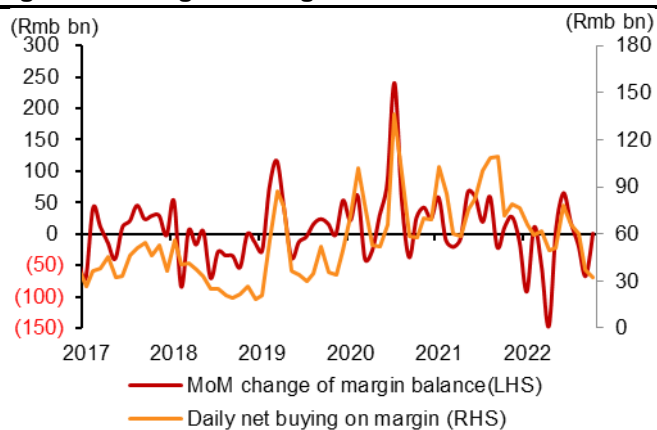
Source: Wind, CMBIGM

Figure 23: Money market funding cost

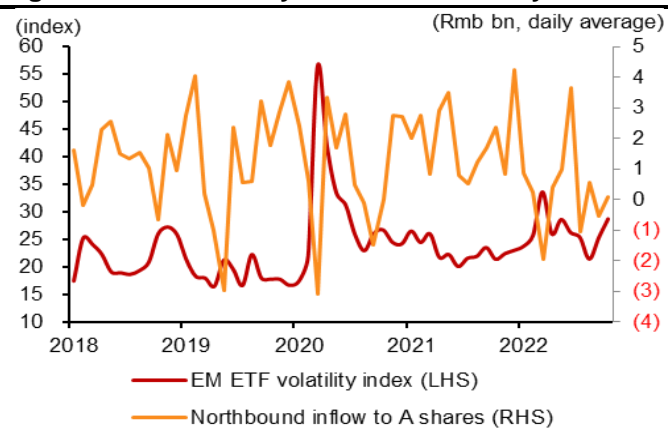
Source: Wind, CMBIGM

Figure 24: Bond market rates

Source: Wind, CMBIGM

Figure 25: Margin trading in A share market

Source: Wind, CMBIGM

Figure 26: EM volatility & northbound daily inflow

Source: Wind, CMBIGM

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