

China Economics

Credit not strong enough to stabilize growth

China's credit growth continued to mildly rebound in January amid policy easing. But it was not strong enough to stabilize growth as housing and capital expenditure demand remained weak. China has to further ease liquidity and credit policy to boost confidence and real sector demand.

- **Social financing and M2 growth continued to rebound for three months.** Outstanding social financing and M2 supply further picked up 10.5% YoY and 9.8% YoY in January after rising 10.3% YoY and 9% YoY last December. Social financing flows increased by 18.9% YoY in January, compared to the YoY growth of 37.9% last December.
- **Bond financing led the rebounding amid policy easing and credit risk alleviation.** Government bond financing picked up 147.3% YoY in January after rising 63.8% YoY last December as policymakers urged governments to accelerate bond issuance and project started to boost growth. Corporate bond financing also rebounded amid liquidity easing and credit risk alleviation as it increased by 48% YoY in January after rising 397% YoY last December.
- **Mortgage loans continued to decline amid weak housing sales.** New medium and long term loans to households further declined by 21.4% YoY in January after dropping 19% last December, as housing sales continued to decrease.
- **But long-term corporate loans improved as infrastructure investment rebounded.** New medium and long term loans to enterprises turned from a YoY decline of 38.3% last December to a YoY growth of 2.9% in January as infrastructure investment rebounded.
- **Off-balance-sheet financing remained weak despite some improvement.** Banks' acceptance significantly improved as policymakers urged banks to expand financing supply to SMEs. Trust loans continued with a MoM decline yet with less magnitude as investors were still concerned about credit risk of property projects.
- **China has to further ease liquidity and credit policy to stabilize growth.** Real sector demand especially for housing, durables and capital expenditure remained weak. China has to further ease liquidity and credit policy to stabilize growth. We expect possible additional RRR cut before the National People's Congress (NPC). The central bank may continue to urge banks to expand credit supply to manufacturing, SMEs, infrastructure & green development projects. Renminbi may see some weakening against US dollar as Sino-US interest rate spreads continue to decline.
- **Stock market rotation in the process from liquidity easing to credit expansion and then to economic expansion.** Financials and property sector firstly outperform as liquidity eases and credit risk alleviates. When credit expansion starts with expectations of economic stabilization, infrastructure construction, durables & capital goods may rebound. As economy expands and gets rid of the impact of the pandemic, service consumption items may start to rally.

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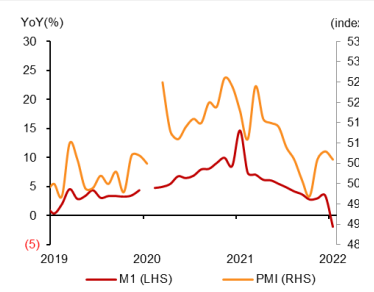
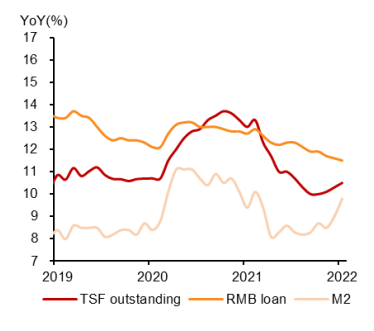
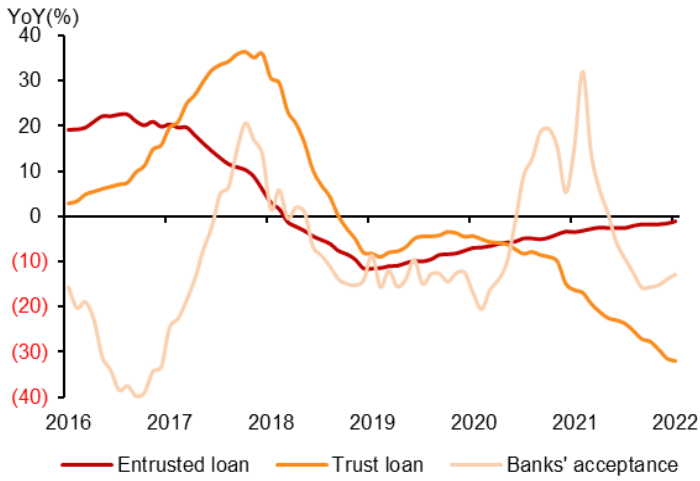
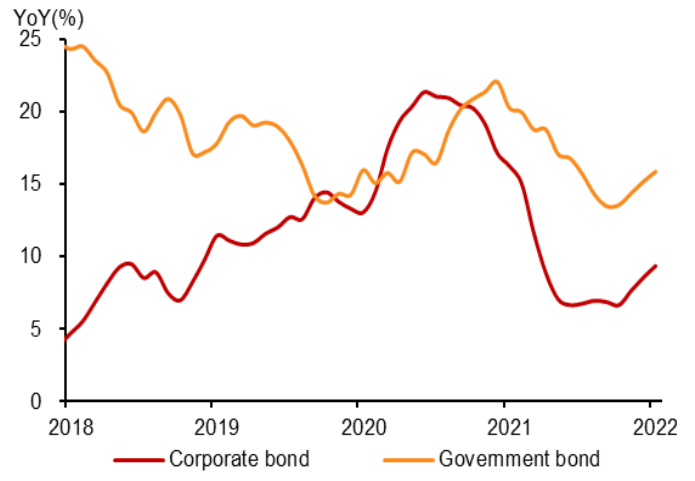


Figure 1: Outstanding Off-balance-sheet Financing



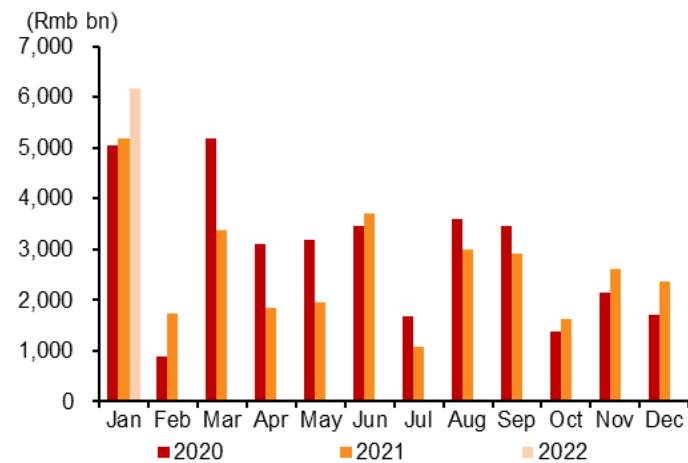
Source: PBOC, CMBIS

Figure 2: Outstanding Bond Financing



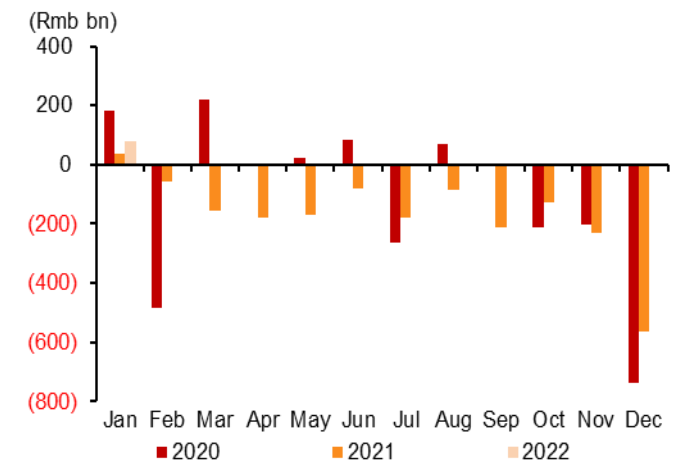
Source: PBOC, CMBIS

Figure 3: Total Social Financing



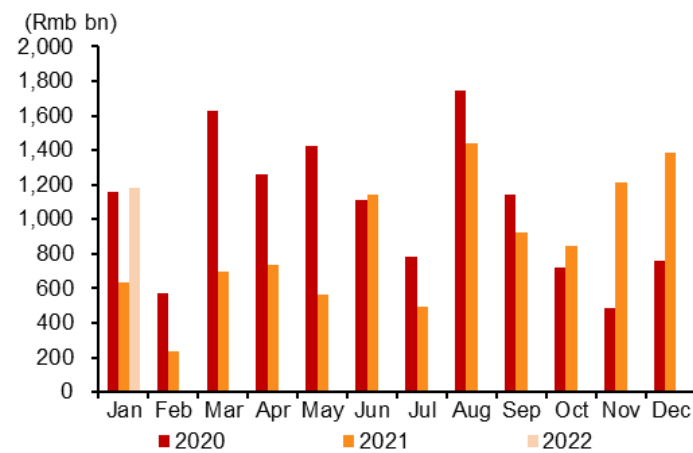
Source: PBOC, CMBIS

Figure 4: Off-balance-sheet Financing



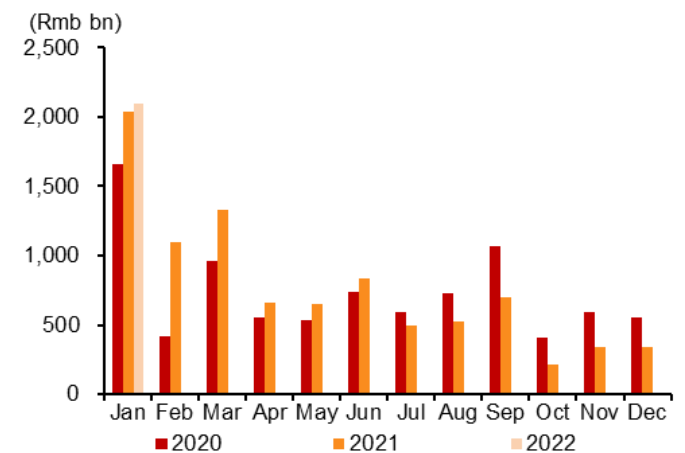
Source: PBOC, CMBIS

Figure 5: Bond Financing



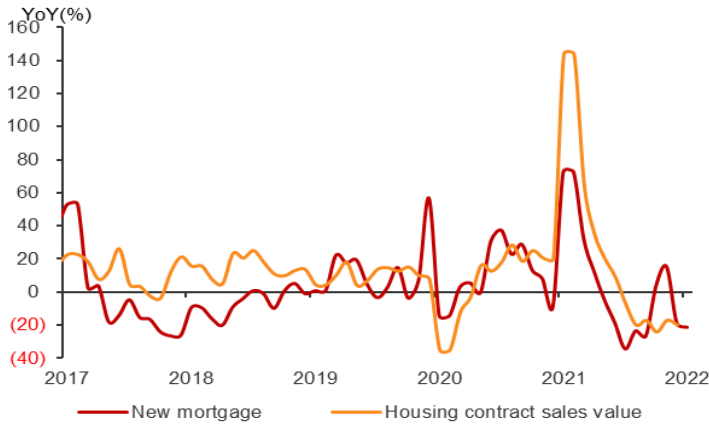
Source: PBOC, CMBIS

Figure 6: New M&L Term Corporate Loans



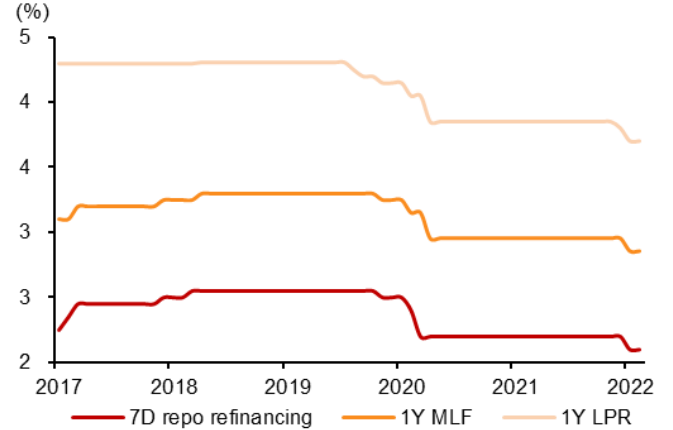
Source: PBOC, CMBIS

Figure 7: New Mortgage and Housing Sales



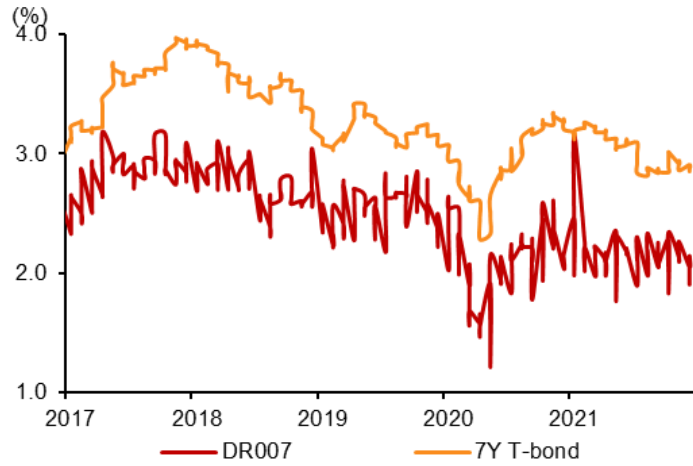
Source: PBOC, CMBIS

Figure 8: PBOC Policy Rates



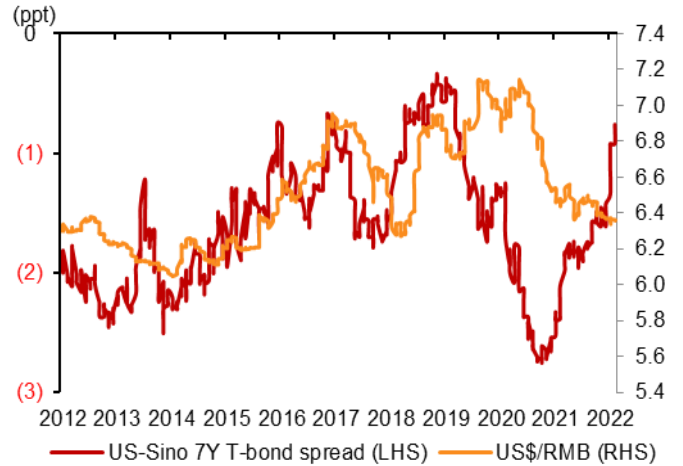
Source: PBOC, CMBIS

Figure 9: Money Market and Bond Market Rates



Source: PBOC, CMBIS

Figure 10: US\$/RMB Rates and Interest Spreads



Source: PBOC, CMBIS

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