

# China Policy

## China needs further credit easing to boost demand

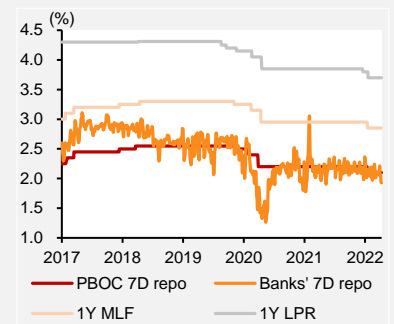
China's new credit rebounded in March as governments accelerated bond issuance and banks expanded short-term loan supply to corporates. But medium & long term loans especially mortgage loans remained weak amid sluggish housing demand. The Chinese policymakers have to demonstrate their determination to defend the 5.5% GDP growth target for 2022. We expect a possible mild cut in LPRs and further easing of liquidity & credit supply in 2Q22. The economy prospect may gradually improve from May and the stock market may see a second round of rebounding after the recent slump.

- New credit rebounded in March amid strong government bond issuance & short-term loans to corporates.** Total social financing rose 37.7% YoY in March after dropping 30.8% YoY in February. The YoY growth of outstanding social financing and M2 supply accelerated from 10.2% and 9.2% in February to 10.6% and 9.7% in March. Government bond financing increased 125.2% YoY in March as the cabinet urged to accelerate government special bond issuance to boost infrastructure investment. Corporate bond financing slightly rose 2.3% YoY, while new loans to corporate sector jumped 55% YoY with the short-term and medium & long term respectively up 115.8% YoY and 1.1% YoY in March. Off-balance-sheet financing turned positive in March as banks' acceptance financing and new entrusted loans respectively reached RMB28.6bn and RMB10.6bn and trust loans saw a smaller MoM decline at RMB25.9bn.
- But medium & long term loans especially mortgage loans remained weak.** New medium & long term loans to corporate sector only rose 1.1% in March as business capex demand remained weak. New medium & long term loans to household sector (mainly new mortgage loans) dropped 40.1% YoY in March after seeing a negative number in February. Potential homebuyers have been reluctant to buy housing due to fears of developer closures and housing price declines. The epidemic also exacerbated slump in mortgage loans and home sales in March.
- It is possible to see a mild cut in LPRs.** The property market stress calls for further credit loosening with interest rate cuts. But the PBOC is reluctant to launch significant rate cuts as they are considered as the signal for massive stimulus and will further narrow the Sino-US interest rate spreads. The central bank has a fear of floating exchange rates, as it believes exchange rate depreciation may cause capital outflows. To boost demand, the PBOC may launch a mild cut in loan prime rates (LPRs) in 2Q22. But it is unlikely to see a big cut in LPRs.
- China has additional room for liquidity & credit easing.** The PBOC may use open market operations, special refinancing supply or possible RRR cut to further ease liquidity condition and guide banks to expand credit supply to targeted sectors like manufacturing, service business, SMEs, green development and technology innovation.
- Implications for the stock market.** HK stock market has recovered from the extreme panic since China's Financial Stability and Development Committee sent a strong signal to stabilize the market on 16 March. Hang Seng Index and Hang Seng Tech Index once rebounded by 22% and 37%, respectively.

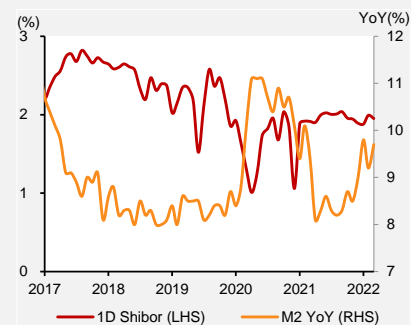
**Bingnan YE, Ph.D**

(852) 3761 8967

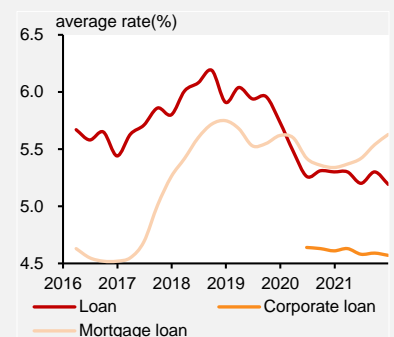
yebingnan@cmbi.com.hk



Source: Wind, CMBIGM



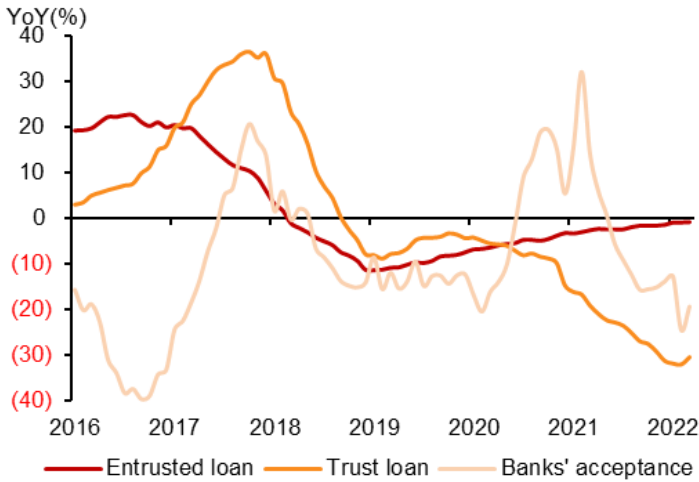
Source: Wind, CMBIGM



Source: Wind, CMBIGM

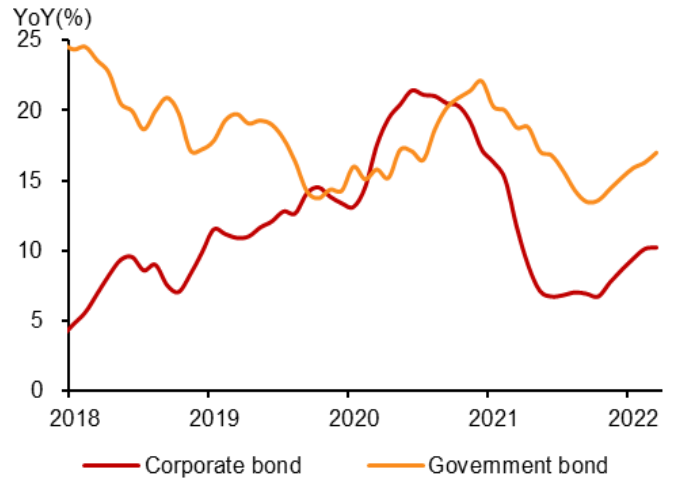
But the market has softened again recently, as the severe epidemic has hurt some investors' confidence. The Chinese policymakers have to demonstrate their determination to defend the 5.5% GDP growth target for 2022. With a probable gradual policy easing, infrastructure investment should maintain strong growth in 2Q-3Q22 and property market may see the bottom in May or June. Consumer goods and services may gradually resume from May as the epidemic in Shanghai is expected to be under control. Amid such a scenario, the stock market may see a second round of rebounding in May after the recent slump.

**Figure 1: Growth of Outstanding OBS Financing**



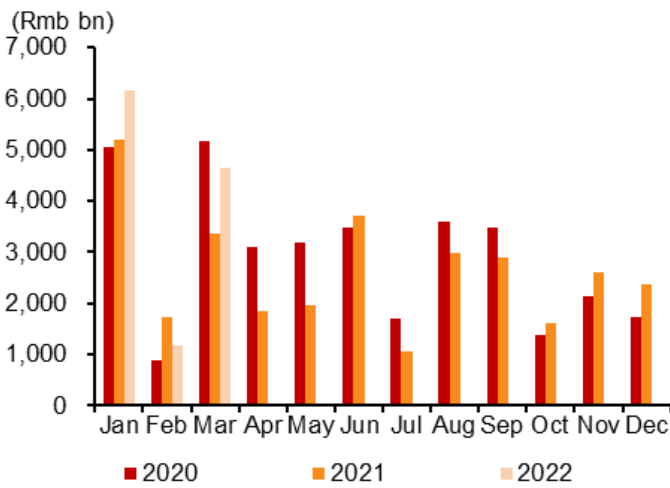
Source: Wind, CMBIGM

**Figure 2: Growth of Outstanding Bond Financing**



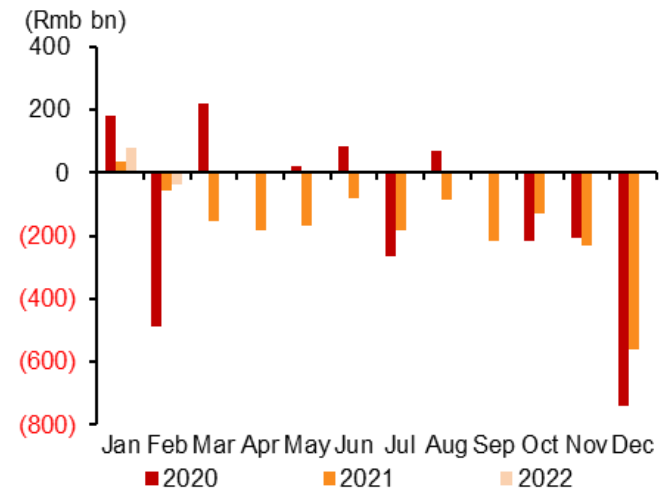
Source: Wind, CMBIGM

**Figure 3: Total Social Financing**



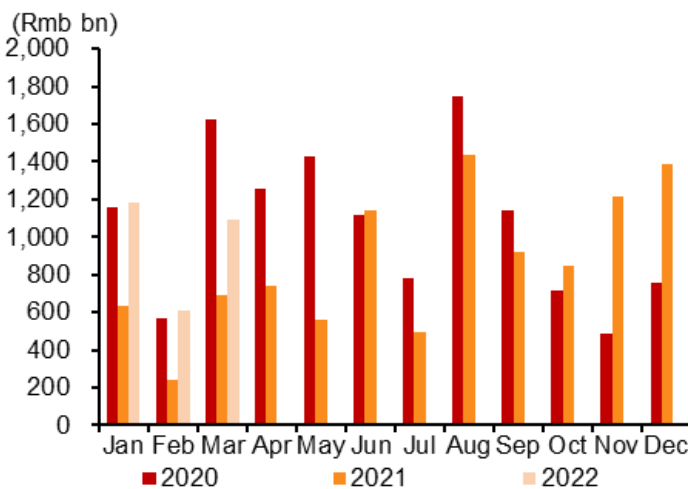
Source: MoF, CMBIGM

**Figure 4: OBS Financing**



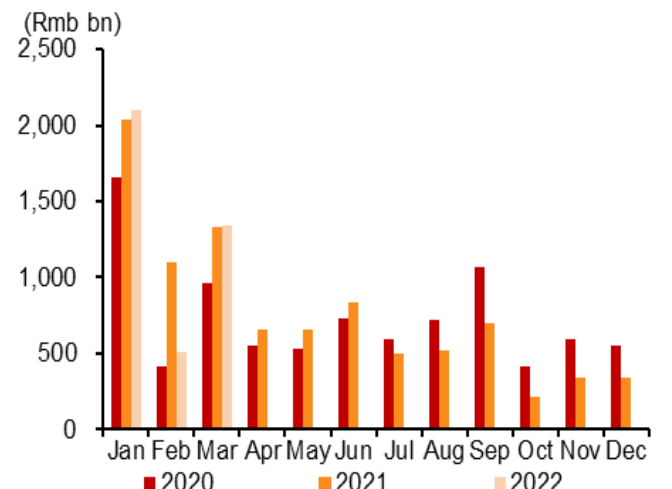
Source: MoF, CMBIGM

**Figure 5: Bond Financing**



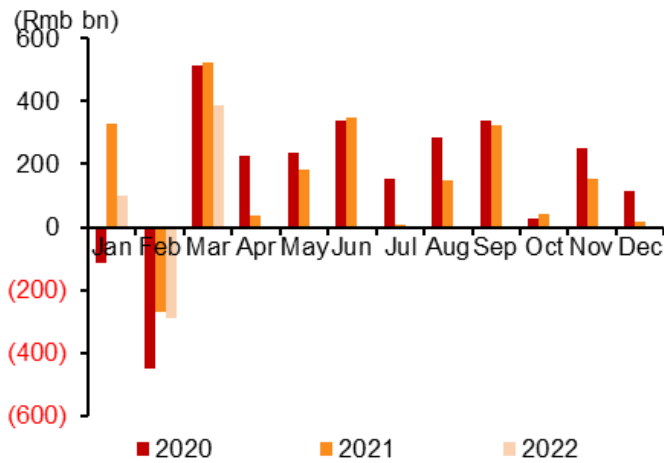
Source: Wind, CMBIGM

**Figure 6: New M&L Term Loans to Enterprises**



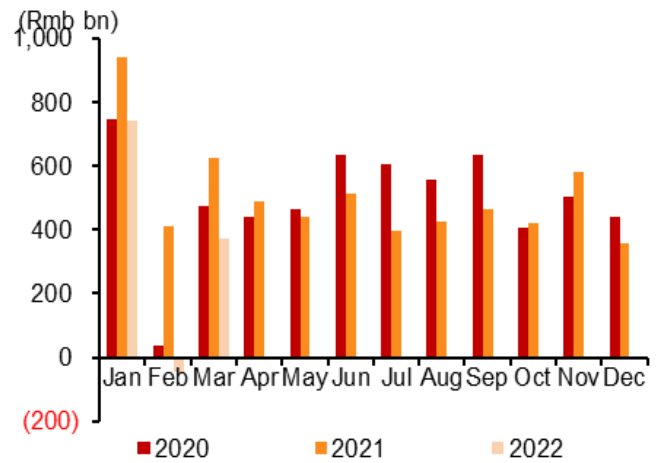
Source: Wind, CMBIGM

**Figure 7: New Short Term Loans to Households**



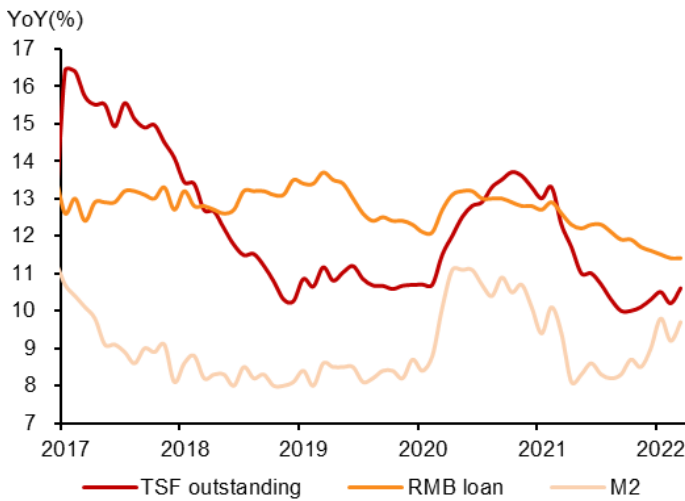
Source: Wind, CMBIGM

**Figure 8: New M&L Term Loans to Households**



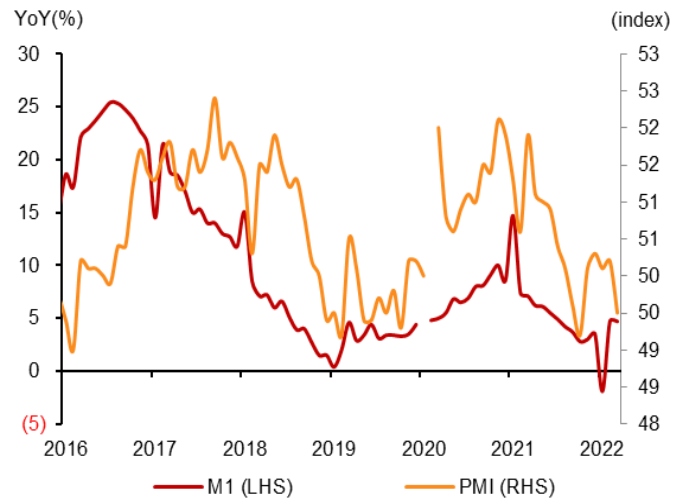
Source: Wind, CMBIGM

**Figure 9: Growth of Credit & Money Supply**



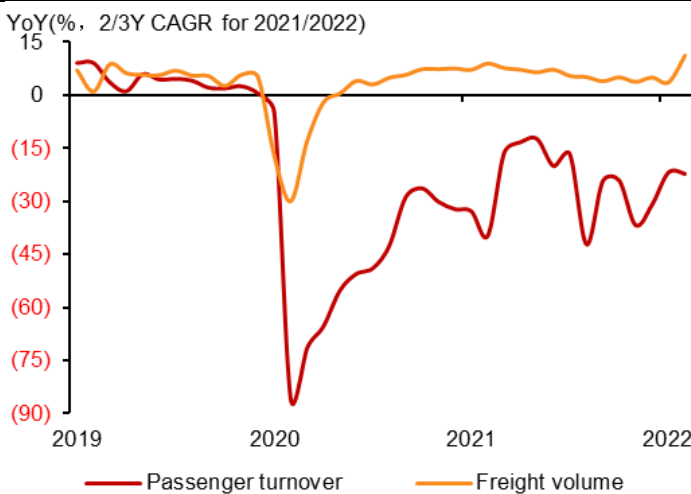
Source: Wind, CMBIGM

**Figure 10: M1 Growth and Manufacturing PMI**



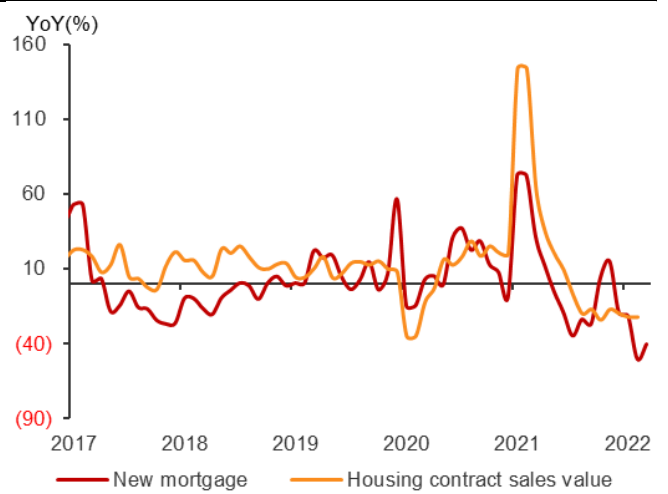
Source: Wind, CMBIGM

**Figure 11: Growth of Passenger & Freight Volume**



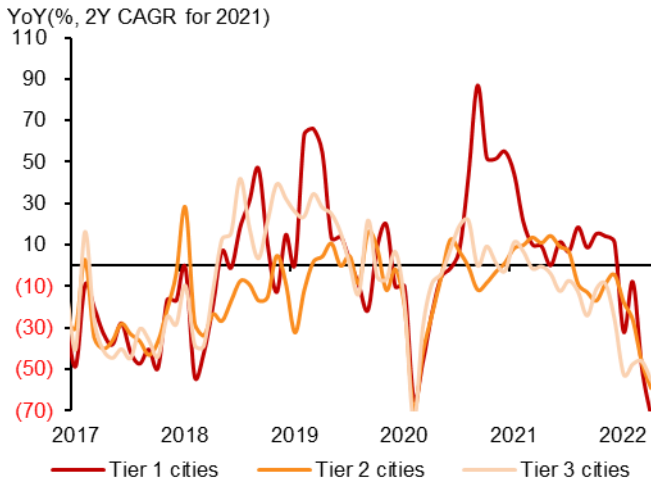
Source: Wind, CMBIGM

**Figure 12: New Mortgage & Housing Sales**



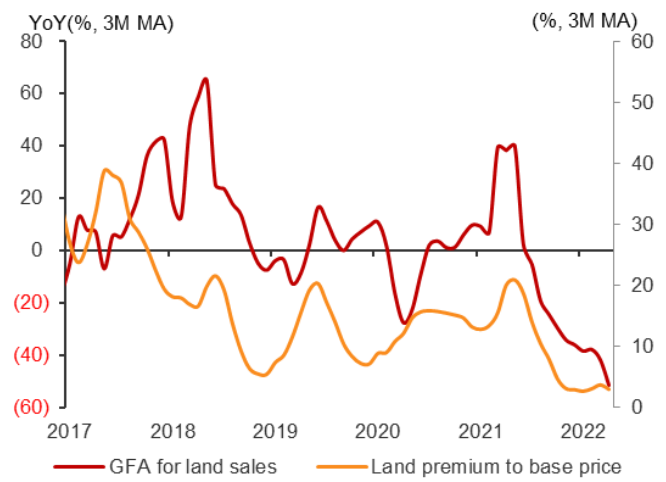
Source: Wind, CMBIGM

**Figure 13: Growth of Housing Sales by Cities**



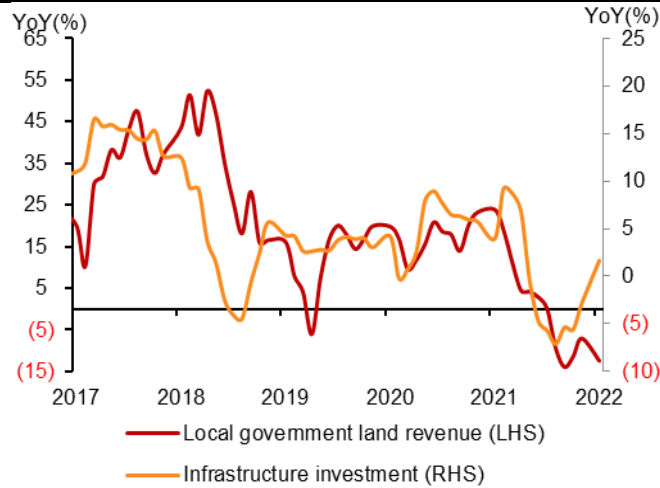
Source: Wind, CMBIGM

**Figure 14: Growth of Land Sales**



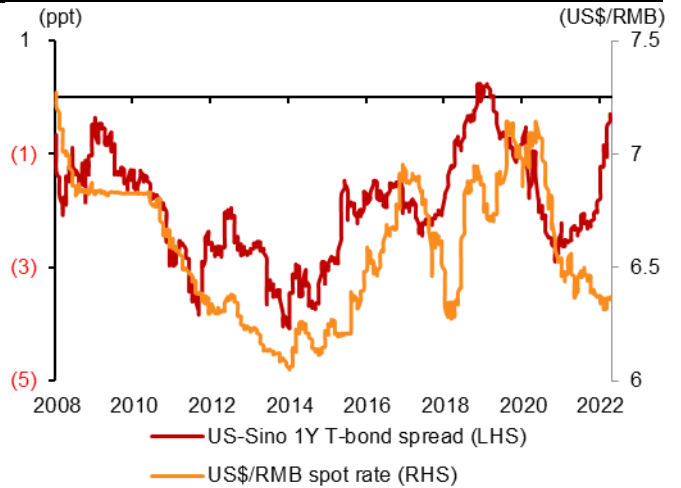
Source: Wind, CMBIGM

**Figure 15: Land Revenue & Infrastructure Investment**



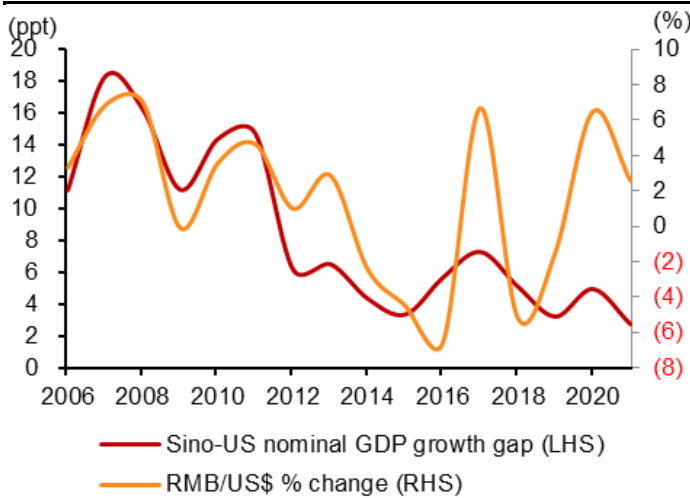
Source: Wind, CMBIGM

**Figure 16: US-Sino Interest Spreads**



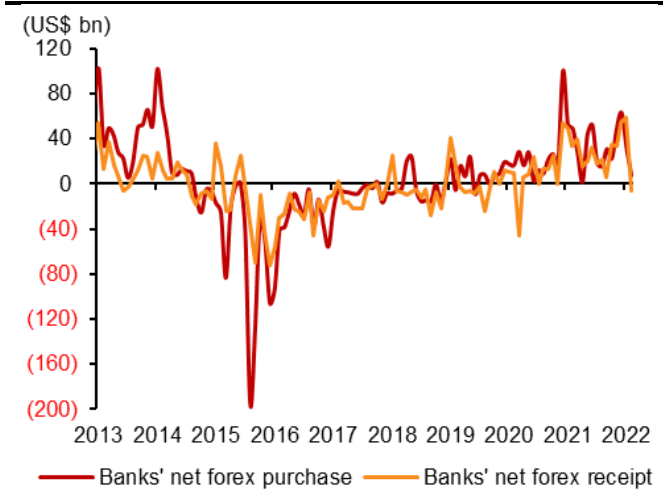
Source: Wind, CMBIGM

**Figure 17: Sino-US Growth Gap & RMB/US\$ Change**



Source: Wind, CMBIGM

**Figure 18: Net Forex Inflow**



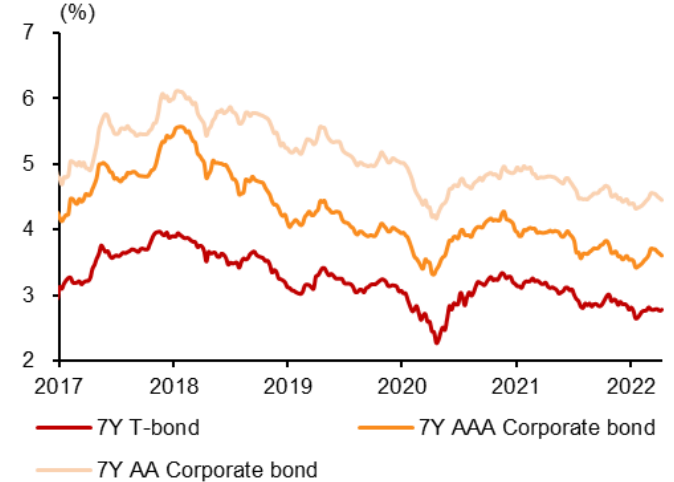
Source: Wind, CMBIGM

**Figure 19: Money Market Funding Cost**



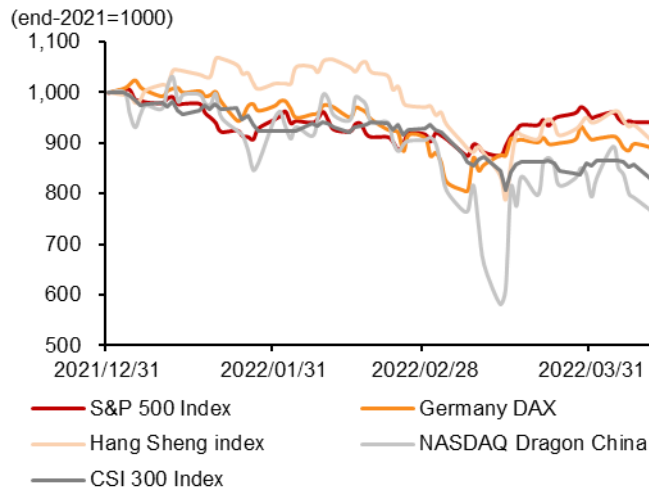
Source: Wind, CMBIGM

**Figure 20: Bond Market Rates**



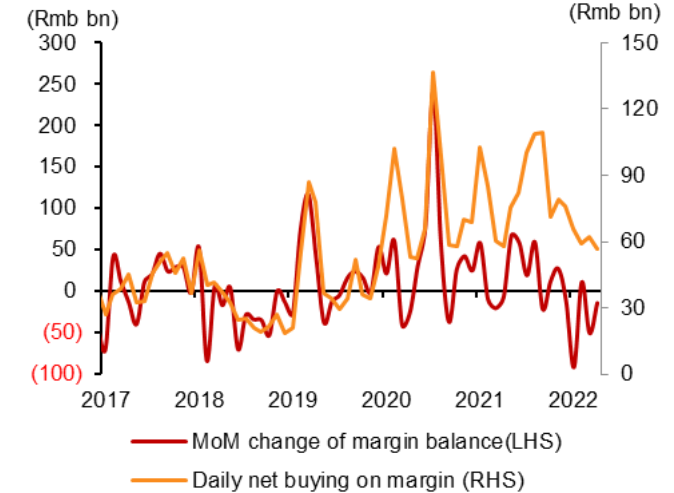
Source: Wind, CMBIGM

**Figure 21: Stock Market Performance**



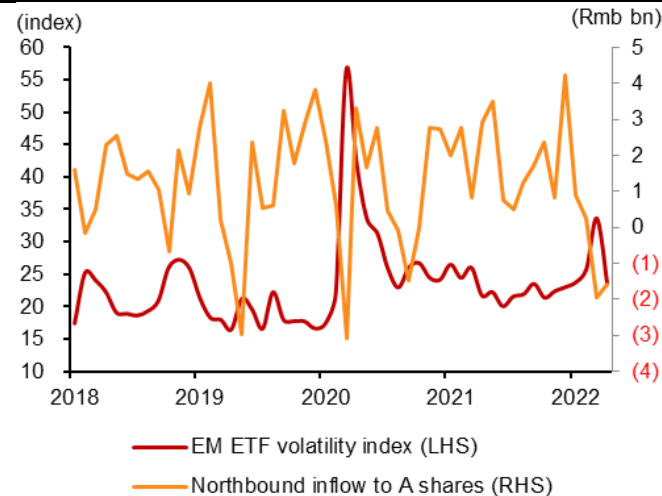
Source: Wind, CMBIGM

**Figure 22: Margin Trading in A Share Market**



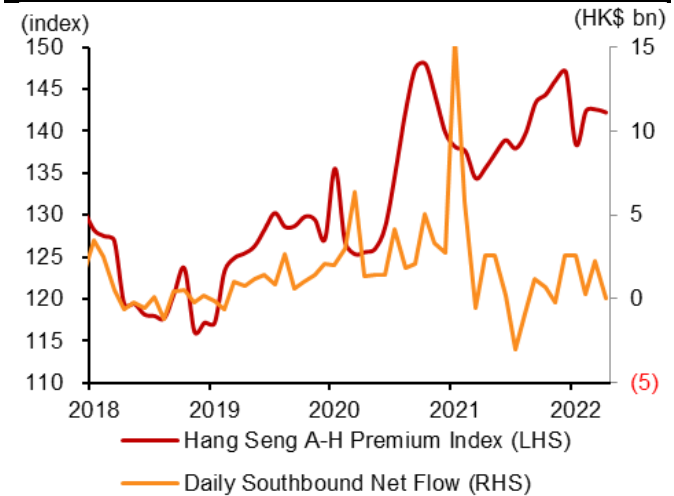
Source: Wind, CMBIGM

**Figure 23: EM ETF Volatility & Northbound Inflow**



Source: Wind, CMBIGM

**Figure 24: A/H Premiums & Southbound Net 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.