

China Policy

Severe credit shrinkage amid lockdowns

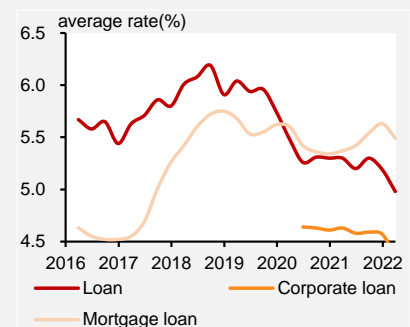
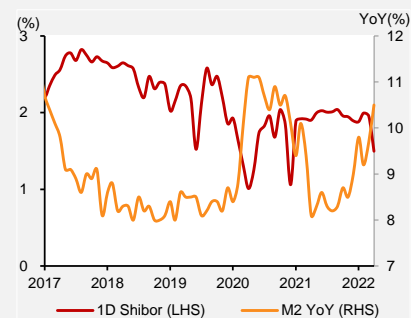
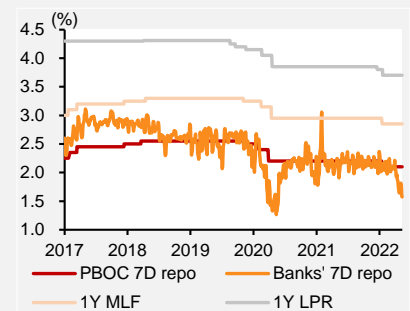
China's new credit plummeted in April as the lockdowns caused an economic recession with a severe shrinkage in credit demand. The credit condition indicated a deterioration in property market, investor sentiment as well as consumer & business confidence in April. The PBOC's cut in minimum mortgage rate for first-time homebuyers indicates further credit loosening to boost housing demand. It is possible to see a mild LPR cut, but aggressive cuts are unlikely amid the US Fed tightening. China's economic policy has already seen its bottom with a shift from tightening last year to loosening this year. But the magnitude of China's policy easing has been below expectations. Moreover, China's pandemic control policy has not relaxed and the US Fed's tightening cycle has not reached its peak. Those factors explain why the Chinese stock market has continued to slump after three important meetings have signaled to loosen economic policies since last December. But China's policy direction is clear and Chinese stocks' valuation is relatively low. After China gets ready for reopening and US inflation begins to drop noticeably, the Chinese market may gradually usher in a rally.

- New credit dropped by the most since 2017.** Total social financing and new renminbi loans respectively plummeted 51% and 56.1% YoY in April after rising 37.7% and 14.7% YoY in March. The YoY growth of outstanding social financing and renminbi loans respectively decelerated from 10.6% and 11.4% in end-1Q22 to 10.2% and 10.9% in end-April.
- Property market condition deteriorated with sharp declines in related credit.** New mortgage loans turned negative in April as property sales further fell sharply after the lockdowns. Off-balance-sheet financing remained negative amid property market stress and investors' risk aversion.
- Investor, consumer and business confidence weakened.** As the investors' flight to quality offset the effect of credit shrinkage, China's M2 growth accelerated from 9.7% in end-1Q22 to 10.5% in end-April. Consumer confidence weakened as new consumer credit turned negative in April. Business capital expenditure demand also declined as new medium & long term loans to enterprises sharply dropped by 59.8% amid the lockdowns.
- China may further loosen credit condition for property sector.** The PBOC announced on Saturday (14 May) to lower the mortgage rate floor for first-time homebuyers by 20bps, indicating further credit loosening to boost housing demand. In China, mortgage contract rates are generally pegged to the 5Y loan prime rate (LPR). The PBOC cut the minimum mortgage rate from the 5Y LPR to 20bps below the 5Y LPR. With the 5Y LPR at 4.6%, the new minimum mortgage rate should be 4.4%.
- It is possible to see a mild cut in LPRs but aggressive cuts are unlikely.** The China's economy is in face of weak demand amid lockdowns. A cut in LPRs will reduce interest rates on both new loans and outstanding loans and could boost demand and confidence. But the PBOC seems concerned about exchange rate fluctuation and capital outflow risks amid the US Fed tightening. The shift of renminbi from strengthening to weakening provides some room for a mild cut (eg. 10-20bp cut) in LPRs. But the possibility of aggressive cuts in LPRs should be still low in the short term.

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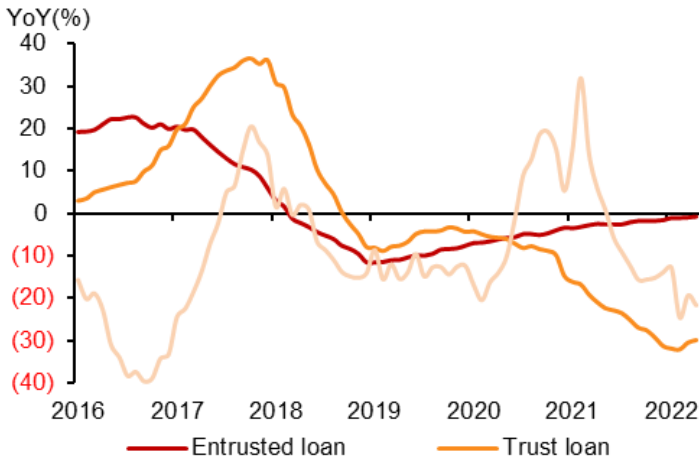
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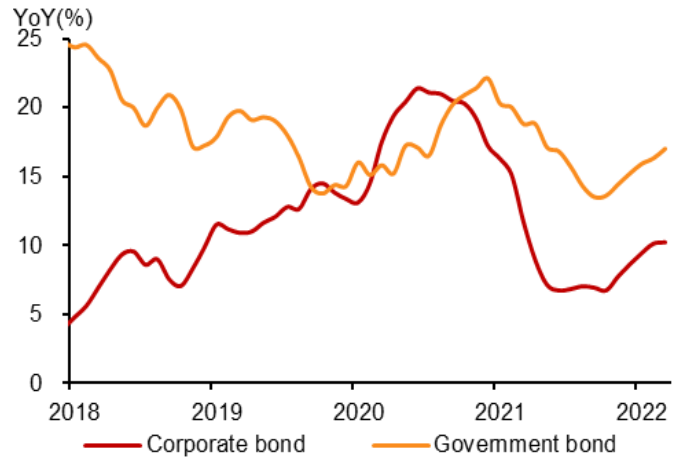
- **Policy cycle, business cycle and market cycle.** There is a saying in the Chinese market that the bottom of the policy comes first, then the bottom of the market and finally the bottom of the economy. China's economic policy has already seen its bottom with a shift from tightening last year to loosening this year. But the magnitude of policy loosening has been below expectations. Moreover, China's pandemic control policy has not relaxed and the US Fed's tightening policy has not reached its peak. Due to these factors, investors expects a U-shaped recovery instead of a V-shaped recovery in China economy in future. This explains why the Chinese stock market has continued to slump after three important meetings have signaled to loosen economic policies since last December. But China's policy direction is clear and Chinese stocks' valuation is relatively low. After China gets ready for reopening and US inflation begins to drop noticeably, the Chinese market may finally usher in a rally.

Figure 1: Growth of outstanding OBS financing



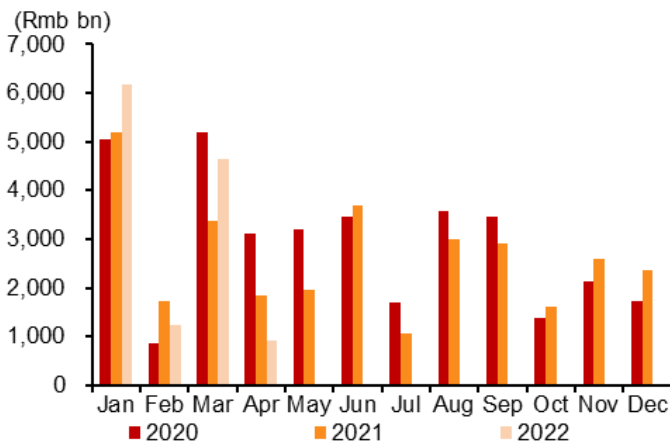
Source: Wind, CMBIGM

Figure 2: Growth of outstanding bond financing



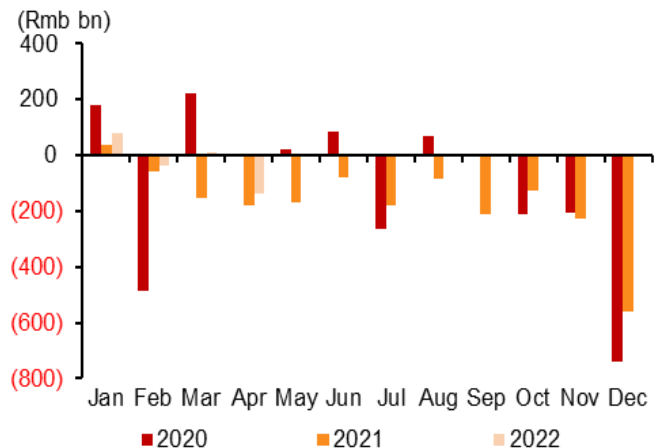
Source: Wind, CMBIGM

Figure 3: Total social financing



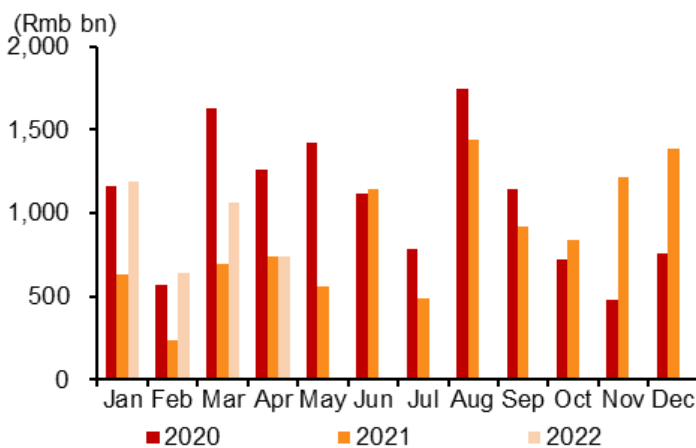
Source: MoF, CMBIGM

Figure 4: OBS financing



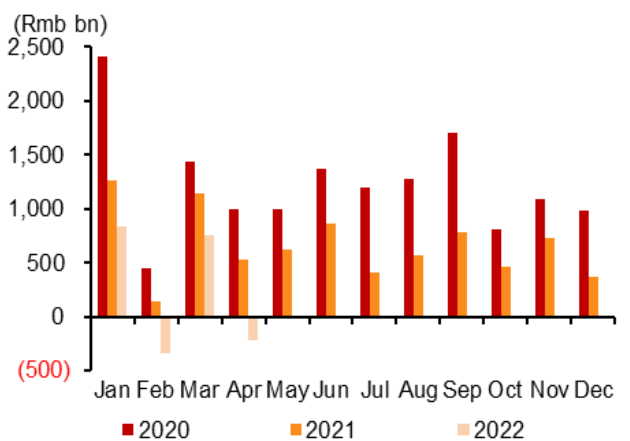
Source: MoF, CMBIGM

Figure 5: Bond financing



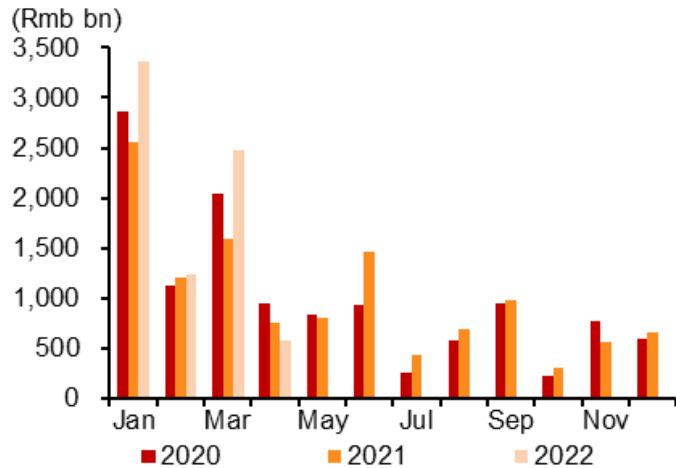
Source: Wind, CMBIGM

Figure 6: New loans to households



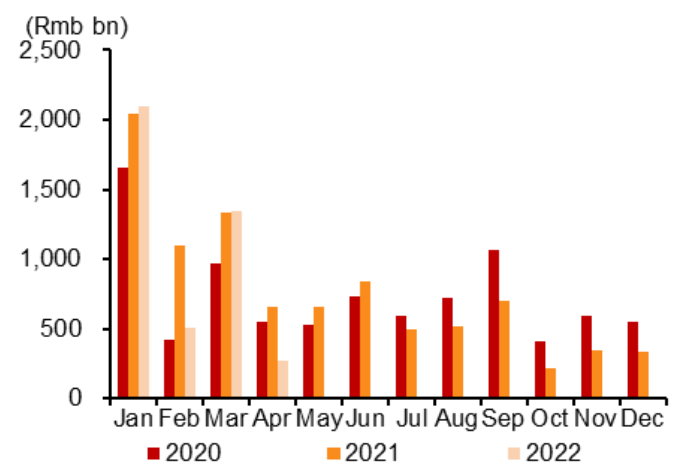
Source: Wind, CMBIGM

Figure 7: New loans to enterprises



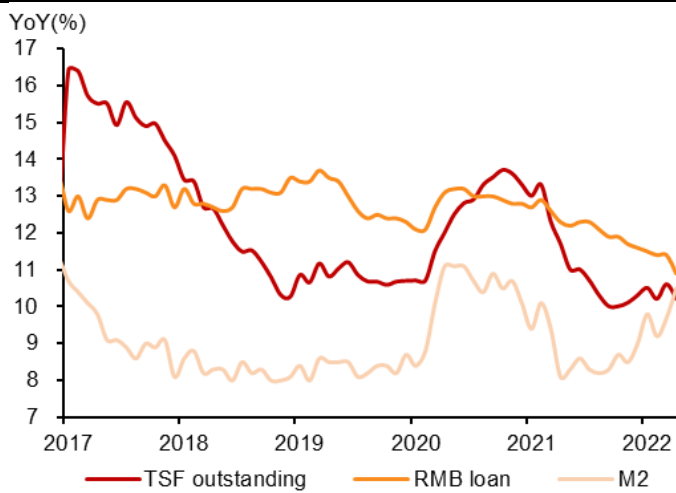
Source: Wind, CMBIGM

Figure 8: New M&L term loans to enterprises



Source: Wind, CMBIGM

Figure 9: Growth of credit & money supply



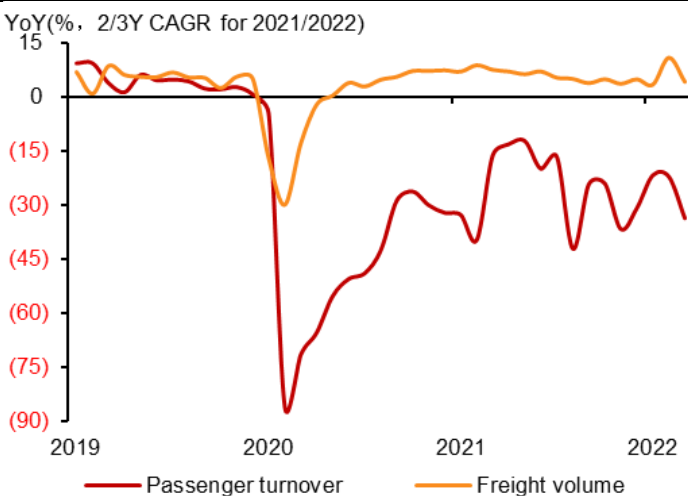
Source: Wind, CMBIGM

Figure 10: Social financing growth & CSI300 Index



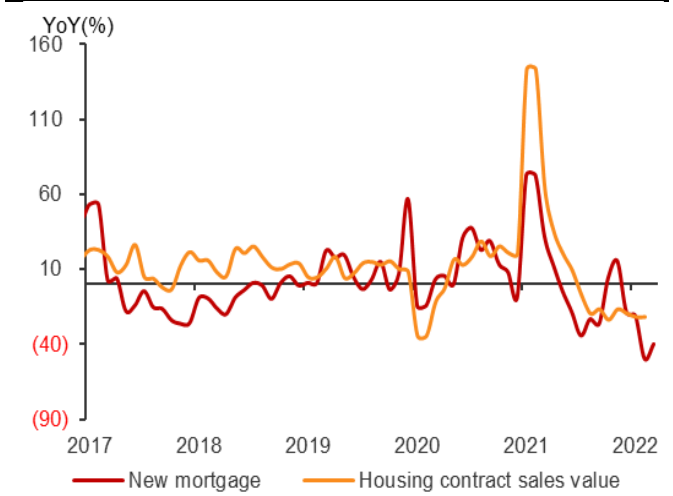
Source: Wind, CMBIGM

Figure 11: Growth of passenger & freight volume



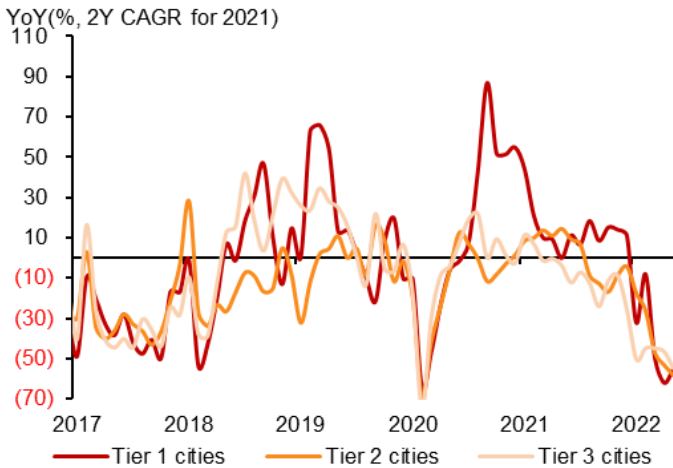
Source: Wind, CMBIGM

Figure 12: New mortgage & housing sales



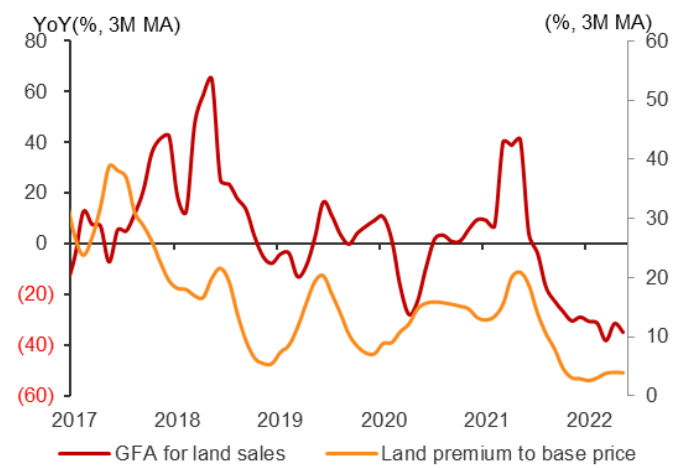
Source: Wind, CMBIGM

Figure 13: Growth of housing sales by cities



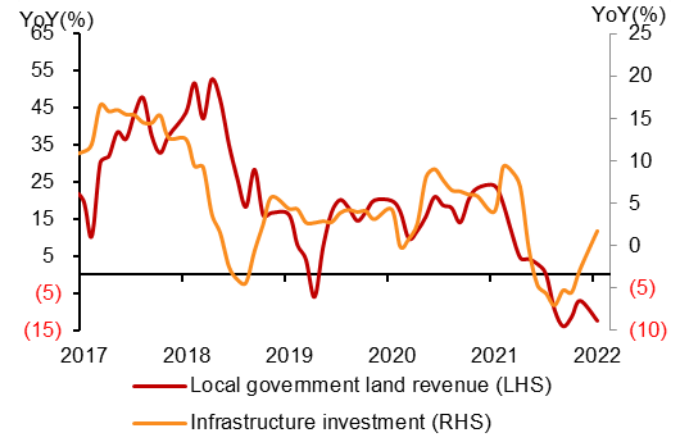
Source: Wind, CMBIGM

Figure 14: Growth of land sales



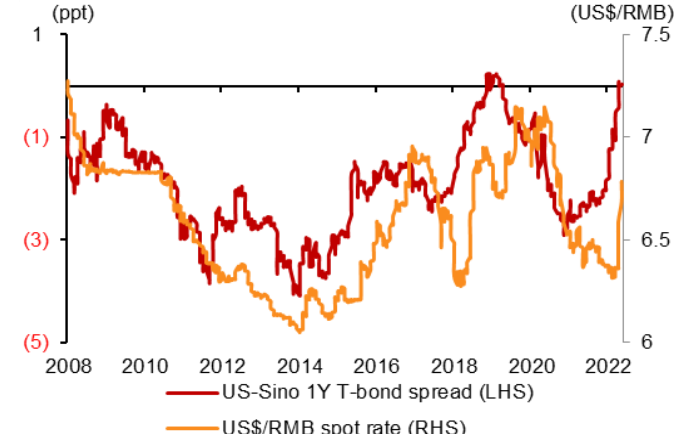
Source: Wind, CMBIGM

Figure 15: Land revenue & infrastructure investment



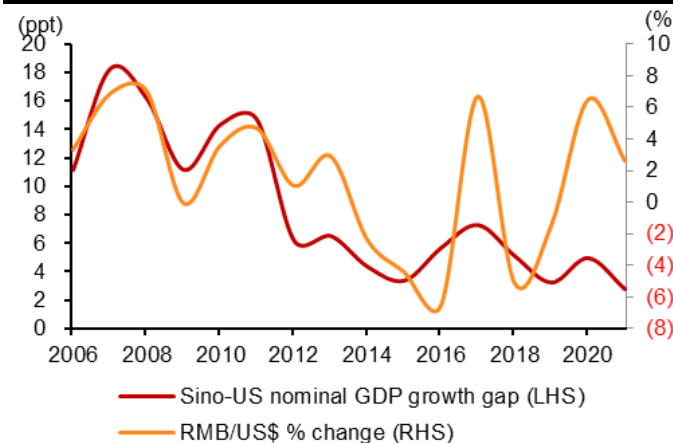
Source: Wind, CMBIGM

Figure 16: US-Sino interest spreads



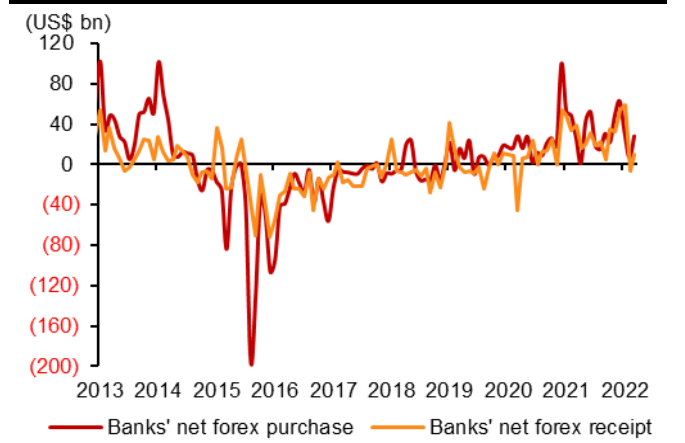
Source: Wind, CMBIGM

Figure 17: Sino-US growth gap & RMB/US\$ change



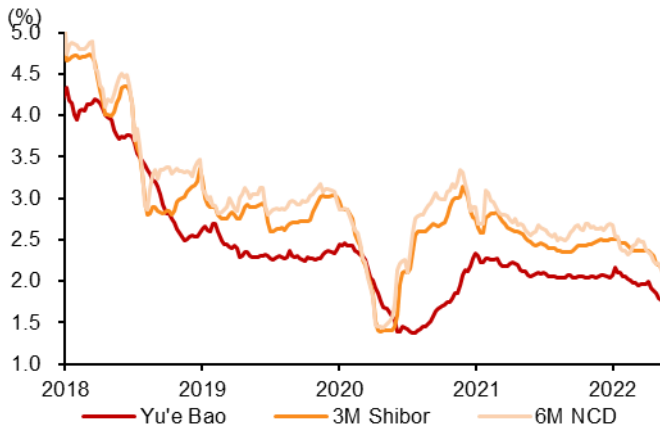
Source: Wind, CMBIGM

Figure 18: Net forex inflow



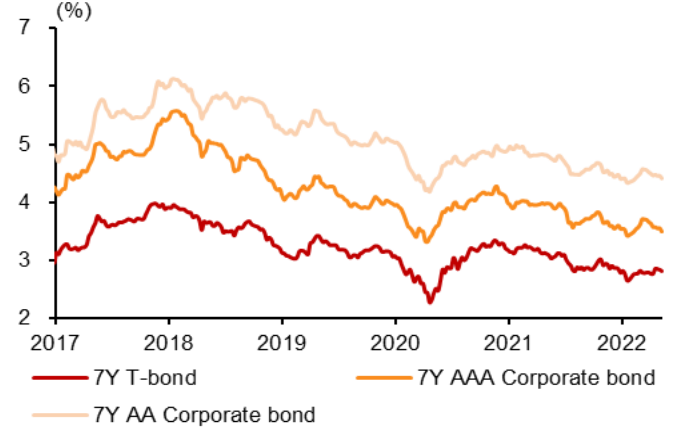
Source: Wind, CMBIGM

Figure 19: Money market funding cost



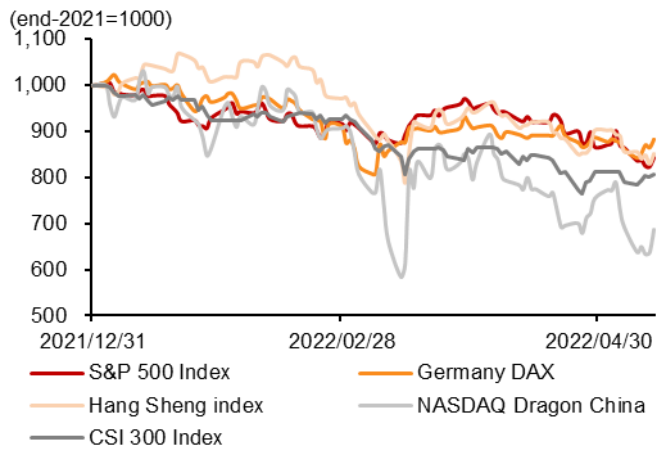
Source: Wind, CMBIGM

Figure 20: Bond market rates



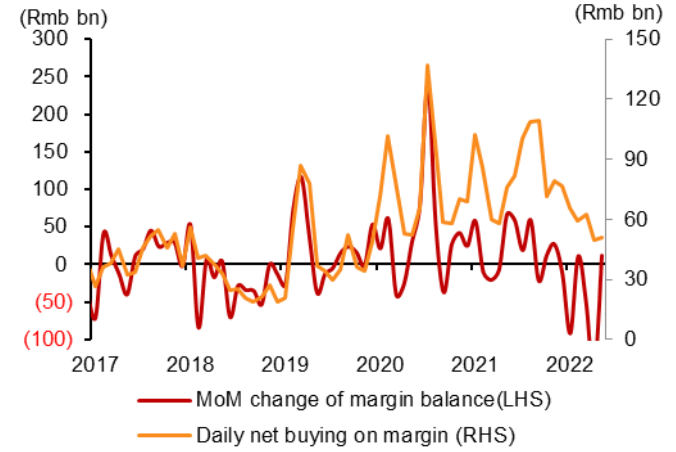
Source: Wind, CMBIGM

Figure 21: Stock market performance



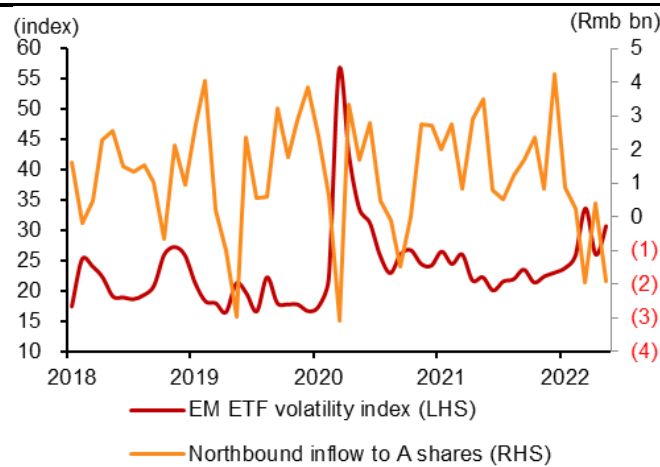
Source: Wind, CMBIGM

Figure 22: Margin trading in A share market



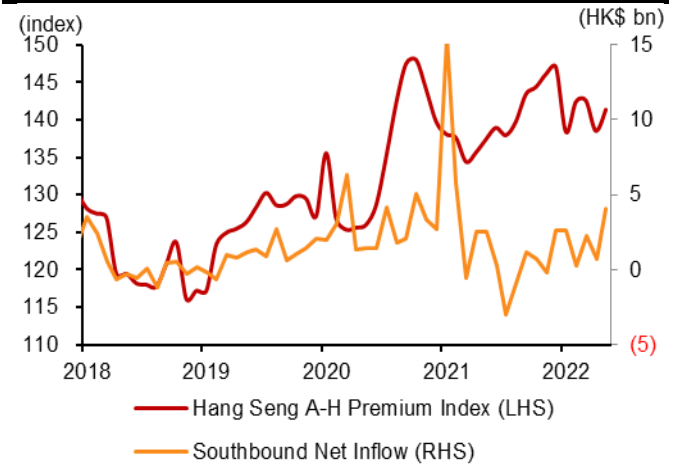
Source: Wind, CMBIGM

Figure 23: EM ETF volatility & northbound daily inflow



Source: Wind, CMBIGM

Figure 24: A/H premiums & southbound daily inflow



Source: Wind, CMBIGM

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