China Economic Perspectives

New credit remained soft in June; PBoC pledges to keep monetary policy accommodative

Economics

China

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New credit remained soft despite policy effort

New RMB loans recovered seasonally to RMB 1.61trn in June, still short of a year ago (RMB -630bn YoY) and market expectation (RMB 1.95trn). Both M&L household loans and M&L corporate loans remained weaker than a year ago (by RMB -177bn/-450bn YoY, respectively). Bill financing recorded another solid reading as banks were pressured to increase bank lending, but it was not enough to offset weakness elsewhere. **New TSF recorded RMB 3.36trn in June**, RMB 862bn below a year ago and softer than market expected. Outside loans, issuance of government bonds softened and much weaker than a year ago. Shadow credit was largely flat YoY while corporate bonds improved modestly. Overall, the June reading reveals soft credit demand, lasting impact from debt swap, and slow pace of government bond issuance.

Credit growth weakened on all fronts

We estimate the sequential growth momentum of official TSF slowed to 6% MoM Saar from 7% in May as that of new loans slid to 3% from 5% previously. Seasonally adjusted new credit flows softened to 16% of GDP from 20% previously. On a YoY basis, the official TSF growth slowed by 0.3ppt to 7.4% YoY. Our credit impulse turned more negative to -3.6% of GDP (vs -2.3% in May). M1 declined sequentially and slowed YoY (-2% MoM Saar, 4% YoY). M2 growth decelerated sequentially (2% MoM Saar) and on YoY basis (8% YoY).

PBoC pledges to maintain monetary policy accommodative

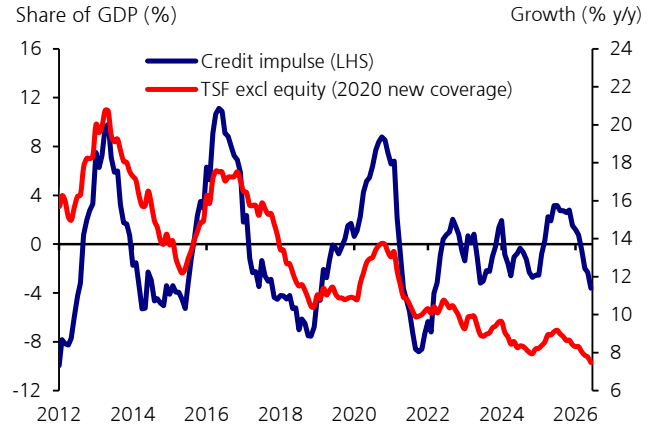
At the July 15 press conference, the PBoC governor reiterated the commitment to maintaining a supportive monetary policy stance and keeping financing costs for the real economy at a relatively low level. The PBoC attributed the recent increase in PPI to external factors and noted that CPI inflation remains modest, consistent with our view that inflation is not a binding constraint on further easing.

Expect ample liquidity, while further rate cut remains unclear

DR007 moved lower in the final week of June, partly reflecting the PBoC's liquidity support, including overnight repo operations (RMB 300bn/600bn on 29/30 June, respectively). Since then, DR007 has edged back up to around 1.4%, broadly in line with the policy operation rate. Given continued weakness in activity and credit growth, there remains a case for additional easing. That said, the PBoC may be comfortable with the current level of rates for now, as it views financing costs as already low by historical standards, with the weighted-average rate on new corporate loans at 3% and the rate on new housing mortgages at 3.1%. Cuts to other rates such as LPR and RRR can only happen with clear policy stance change at the Politburo meeting (see here for our expectation). If it happens it would be a positive surprise. The PBoC also commented that slower loan growth may become a new norm.

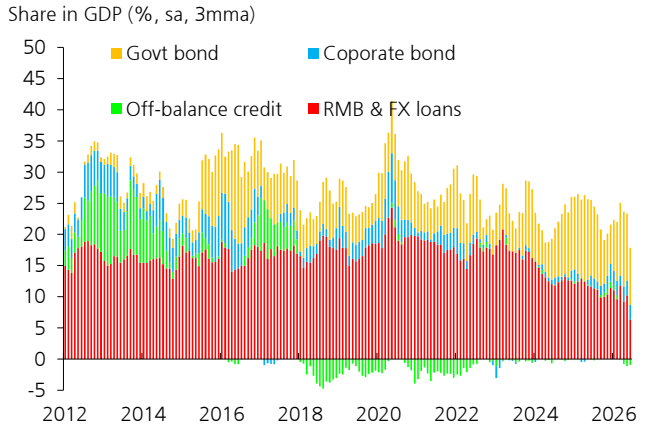
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Figure 1: Credit growth softened YoY, credit impulse turned more negative



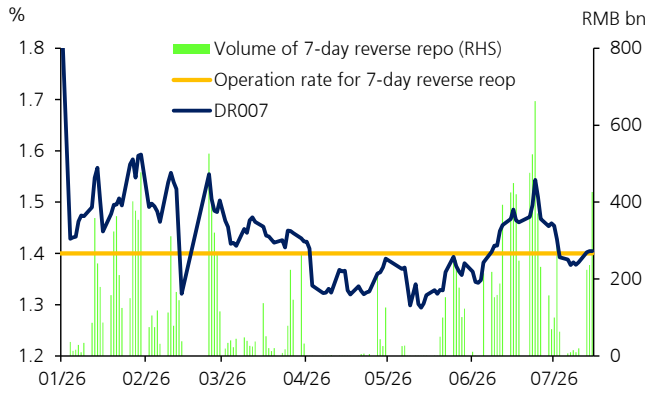
Source: CEIC, UBS estimates

Figure 2: New credit flow dropped sequentially



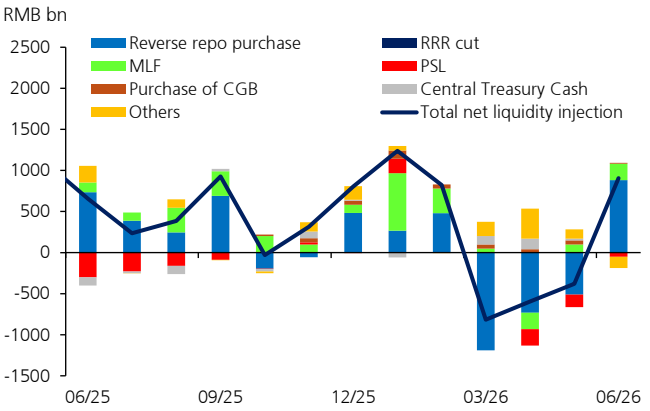
Source: CEIC, UBS estimates

Figure 3: DR007 edged up to 1.4% following declines in late June



Source: CEIC, UBS estimates

Figure 4: PBoC injected liquidity in June



Source: CEIC, UBS estimates

Valuation Method and Risk Statement

Risks include macroeconomic variables (such as GDP growth rates and inflation), economic slowdown, a weakening currency, global economic events, and government policy changes.

