China: Weaker-than-expected money and credit data in June; PBOC press conference suggests broad easing remains conditional

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Bottom line:

June money and credit data missed market expectations, mainly due to weaker-than-expected bank loans extension. Government bond net issuance also declined from May to June after seasonal adjustment. The heavy reliance on short-term financing, together with the year-over-year decline in new loans, suggests the loan demand of the real economy remained weak. Both M1 and M2 growth slowed in June, partly reflecting a high base last year. Separately, the PBOC held a press conference this afternoon, where senior officials reiterated their measured easing stance after the release of weaker-than-expected Q2 GDP data. In our view, faster implementation of existing fiscal measures remains the most likely policy response, with the PBOC maintaining ample interbank liquidity. While we remain constructive on CNY outlook, the central bank pointed out that USD/CNY at around 6.80 is broadly near the midpoint of its range in recent years, suggesting significant further CNY gains may require fresh catalysts and a weaker USD.

Key numbers:

New RMB loans (flow, reported): RMB 1610bn in June (RMB loans to the real economy: RMB 1765bn) vs. GS forecast: RMB 2000bn, Bloomberg consensus: RMB 1950bn.

Outstanding RMB loan growth: 5.2% yoy in June (+3.5% mom sa ann, estimated by GS); May: 5.5% yoy (+4.9% mom sa ann).

Total social financing (TSF flow, reported): RMB 3365bn in June, vs. GS forecast: RMB 3700bn, Bloomberg consensus: RMB 3710bn.

TSF stock growth: 7.4% yoy in June, vs. 7.7% in May. The implied month-on-month growth of TSF stock: 5.6% in June (seasonally adjusted annualized rate), vs. 7.2% in May.

M2: 8.0% yoy in June (2.8% mom sa ann estimated by GS) vs. GS forecast: 8.5% yoy, Bloomberg consensus: 8.5% yoy. May: 8.6% yoy (6.4% mom sa ann).

Main points:

1. June total social financing (TSF) flows came in below consensus expectations, mainly due to weaker-than-expected bank loans extension. After seasonal adjustment, TSF flows fell from May to June mainly on slower bank loan extension and government bond issuance: bank loan extension decreased to RMB 890bn (vs. RMB 1117bn in May), and government bond net issuance declined to RMB 846bn (vs. RMB 1143bn in May), after seasonal adjustment (Exhibit 1). In year-over-year terms,

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TSF stock growth moderated to 7.4% yoy in June (vs. 7.7% yoy in May).

2. New RMB loans also missed market expectations in June. The outstanding RMB loan growth slowed to 5.2% yoy in June (vs. 5.5% yoy in May). The year-over-year decline of new loans suggests loan demand remained weak. In non-seasonally adjusted terms, household loan extension was RMB 265bn in June (vs. an RMB 598bn increase a year ago). Outstanding corporate loans expanded by RMB 1500bn in June (vs. an RMB 1770bn extension a year ago). However, the loan extension was primarily driven by short-term financing (RMB 820bn from short-term loans and RMB 114bn from bill financing). Mid-to-long term corporate loans rose by RMB 560bn in June (vs. an RMB 1010bn expansion a year ago).

3. M1 growth slowed to 4.0% yoy in June (vs. 5.5% yoy in May; Exhibit 2), and M2 growth moderated to 8.0% yoy in June (vs. 8.6% yoy in May). The slowdown in money supply growth mainly reflected a high base last year. Meanwhile, fiscal deposits declined by RMB 939bn in June, about RMB 119bn lower than the decline a year ago, suggesting a faster pace of fiscal spending.

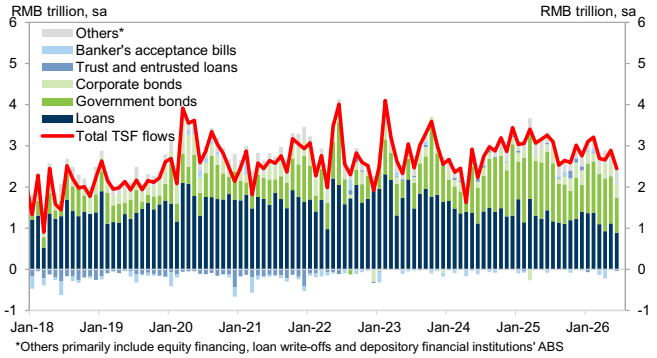
4. Separately, senior PBOC officials held a press conference on monetary policy and credit data this afternoon, focusing on the policy stance, liquidity management, the CNY outlook and RMB internationalization. We note our key takeaways as below:

- On **monetary policy**, the PBOC reiterated its intention to "*keep financing costs at relatively low levels*" rather than further lower interest rates. While the PBOC officials mentioned strengthening counter-cyclical and cross-cyclical adjustments, this was explicitly conditioned on developments in domestic and external conditions.[1] In our view, the weaker-than-expected Q2 GDP data have increased somewhat the likelihood of further monetary easing, although rate/RRR cuts this year are still not in our baseline. Faster implementation of existing fiscal measures remains the most likely policy response, with the PBOC maintaining ample interbank liquidity.
- On **liquidity management**, PBOC officials emphasized that short-term market rates (e.g., DR001), rather than the size of OMOs (or other liquidity management operations), are a better gauge of the policy stance. They also indicated that the overnight reverse repo could be more frequent, mainly as a liquidity management tool. The 7-day reverse repo remains the primary policy rate for now, according to the PBOC deputy governor Zou Lan.
- On **FX**, the PBOC pointed out that USD/CNY at around 6.80 is broadly near the midpoint of its range in recent years and expected continued two-way fluctuations. We still expect CNY to appreciate against the USD over the medium term, but significant further gains in the near term may require fresh catalysts (such as positive news coming out of President Xi's visit to the US in September) and a weaker USD.
- On **RMB internationalization**, the policy focus remains on expanding the supply of offshore RMB assets and improving CNH liquidity (and related infrastructure). More importantly, the PBOC aims to promote greater convergence between offshore and onshore RMB asset pricing.

[1] Counter-cyclical measures target short-term growth headwinds, while cross-cyclical adjustments aim to smooth medium-term cycles and preserve policy space over a longer horizon. Therefore, a highlight of counter-cyclical measures is often received as a signal of upcoming additional easing measures.

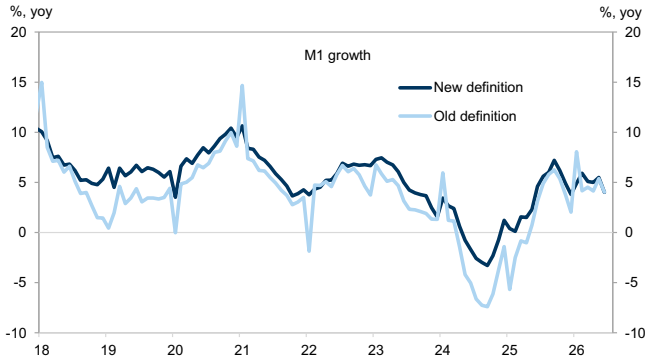
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Exhibit 1: TSF flows declined from May to June after seasonal adjustment



Source: PBOC, Data compiled by Goldman Sachs Global Investment Research

Exhibit 2: M1 growth slowed in June partly on a higher base last year



New M1 data before 2024 are GS estimates. The PBOC only published 2024-25 data. New M1 = Old M1 + household demand deposits + reserve funds of non-bank payment institutions.

Source: CEIC, Goldman Sachs Global Investment Research

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