China: Weaker-than-expected credit extension mainly from slow bank loan extension and government bond issuance

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Bottom line:

August money and credit data missed market expectations. The weaker-than-expected credit extension was mainly from slow bank loan extension and government bond issuance. The detailed breakdown shows that both household and corporate loan demand remained weak. M1 growth edged up from July to August, while M2 growth moderated, mainly reflecting slower growth of deposits of non-bank financial institutions.

Key numbers:

New RMB loans (flow, reported): RMB 60bn in August (RMB loans to the real economy: RMB 55bn) vs. GS forecast: RMB 300bn, Bloomberg consensus: RMB 404bn.

Outstanding RMB loan growth: 4.9% yoy in August (+3.6% mom sa ann, estimated by GS); July: 5.1% yoy (+4.3% mom sa ann).

Total social financing (TSF flow, reported): RMB 1660bn in August, vs. GS forecast: RMB 2000bn, Bloomberg consensus: RMB 2122bn.

TSF stock growth: 7.2% yoy in August, vs. 7.4% in July. The implied month-on-month growth of TSF stock: 4.8% in August (seasonally adjusted annualized rate), vs. 8.5% in July.

M2: 7.5% yoy in August (5.9% mom sa ann estimated by GS) vs. GS forecast: 7.5% yoy, Bloomberg consensus: 7.6% yoy. July: 7.7% yoy (7.7% mom sa ann).

Main points:

1. August total social financing (TSF) flows came in below consensus expectations, mainly due to weaker government bond issuance and bank loan extension. After seasonal adjustment, TSF flows dropped from July to August: government bond net issuance declined to RMB 635bn (vs. RMB 1450bn in July), and loan extension fell to RMB 730bn (vs. RMB 995bn in July; Exhibit 1). In year-over-year terms, TSF stock growth moderated to 7.2% yoy in August (vs. 7.4% yoy in July).

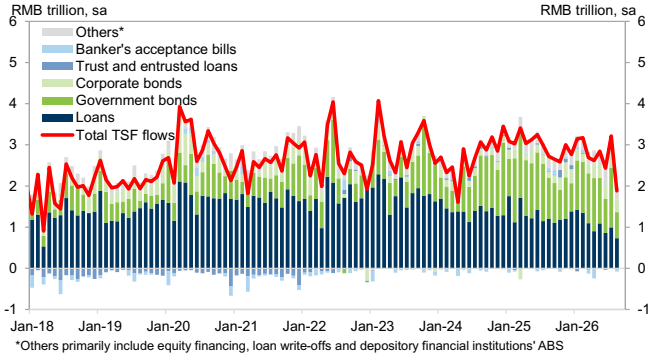
2. RMB loan stock (not seasonally adjusted) increased by RMB 60bn in August, below market expectations. Outstanding RMB loan growth slowed to 4.9% yoy in August (vs. 5.1% yoy in July). The detailed breakdown shows that both household and corporate loan demand remained weak. Household loans declined by RMB 203bn in August (vs. an RMB 30bn increase a year ago). Outstanding corporate loans rose by RMB 260bn in August (vs. an RMB 590bn extension a year ago).

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3. M1 growth edged up to 4.1% yoy in August (vs. 4.0% yoy in July), while M2 growth moderated to 7.5% yoy in August (vs. 7.7% yoy in July). The detailed breakdown suggests the slowdown in M2 growth mainly reflected slower growth of deposits of non-bank financial institutions. Meanwhile, fiscal deposits rose by RMB 110bn in August, about RMB 80bn lower than the increase a year ago, suggesting slightly faster fiscal spending.

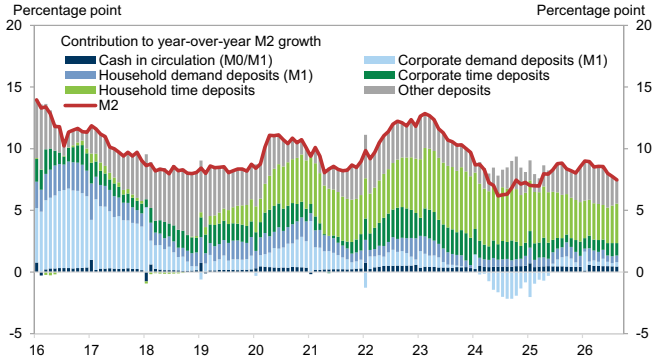
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Exhibit 1: TSF flows dropped from July to August after seasonal adjustment



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

Exhibit 2: M2 growth slowed from July to August, mainly reflecting slower growth of deposits of non-bank financial institutions



Source: CEIC, Goldman Sachs Global Investment Research

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