China: Stronger-than-expected credit extension in September mainly from higher government bond issuance

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Bottom line:

September credit data came in above market expectations. The stronger-than-expected credit extension was mainly from higher government bond issuance. The detailed breakdown shows that both household and corporate loan demand remained soft. Both M1 and M2 growth softened from August to September, likely reflecting relatively slower pace of fiscal spending.

Key numbers:

New RMB loans (flow, reported): RMB 1080bn in September (RMB loans to the real economy: RMB 1274bn) vs. GS forecast: RMB 1100bn, Bloomberg consensus: RMB 1025bn.

Outstanding RMB loan growth: 4.8% yoy in September (+3.6% mom sa ann, estimated by GS); August: 4.9% yoy (+3.6% mom sa ann).

Total social financing (TSF flow, reported): RMB 3550bn in September, vs. GS forecast: RMB 3500bn, Bloomberg consensus: RMB 3341bn.

TSF stock growth: 7.1% yoy in September, vs. 7.2% in August. The implied month-on-month growth of TSF stock: 6.1% in September (seasonally adjusted annualized rate), vs. 4.9% in August.

M2: 7.2% yoy in September (3.9% mom sa ann estimated by GS) vs. GS forecast: 7.3% yoy, Bloomberg consensus: 7.4% yoy. August: 7.5% yoy (5.9% mom sa ann).

Main points:

1. September total social financing (TSF) flows came in above consensus expectations. After seasonal adjustment, TSF flows rose notably from August to September, mainly on higher government bond issuance: government bond net issuance rose to RMB 1221bn (vs. RMB 649bn in August; Exhibit 1). In year-over-year terms, TSF stock growth edged down to 7.1% yoy in September (vs. 7.2% yoy in August).

2. RMB loan stock (not seasonally adjusted) increased by RMB 1080bn in September, roughly in line with market expectations. Outstanding RMB loan growth edged down to 4.8% yoy in September (vs. 4.9% yoy in August). The detailed breakdown shows that household loan demand remained soft, while corporate loan demand was broadly unchanged from a year ago. Household loan stock was roughly unchanged in September (vs. an RMB 389bn increase a year ago). Outstanding corporate loans rose by RMB 1290bn in September (vs. an RMB 1220bn extension a year ago).

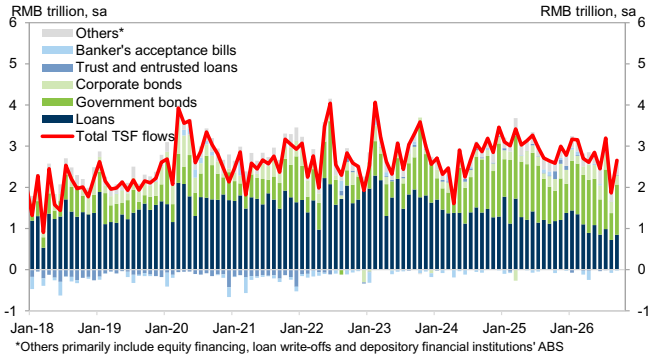
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3. M1 growth moderated to 3.2% yoy in September (vs. 4.1% yoy in August), and M2 growth fell to 7.2% yoy in September (vs. 7.5% yoy in August). Fiscal deposits declined by RMB 430bn in September, about RMB 400bn less than the decrease a year ago (Exhibit 2). Combined with increased government bond issuance, the relatively slower pace of fiscal spending likely contributed to weaker money supply growth.

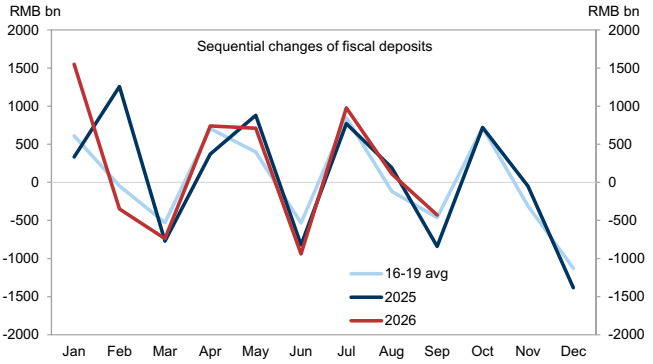
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Exhibit 1: TSF flows rose from August to September after seasonal adjustment



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

Exhibit 2: Fiscal deposits in September declined less than a year ago



Source: CEIC, Goldman Sachs Global Investment Research

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