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中国经济评论：信贷弱复苏

China Economics Update: Credit rebound likely to be limited

中国 8 月新增贷款、社融和 M2 增速均如我们预期反弹，特别是票据和银行短期贷款在 7 月走弱后显著回升，但整体信贷增长持平。

四季度社融预计继续持平但难以大幅提速。银行加强风控、地方政府专项债发行放缓将拖累整体信贷复苏，抵消影子银行去杠杆步伐放缓的有利因素。

近期宏观环境表明“宽货币、紧信贷”的政策组合将持续。政府在支撑经济增长的同时，也强调规范债务和防范房地产过热风险。此政策环境有利企业债。

China's new yuan loans, total social financing (TSF) and M2 growth rebounded in Aug as we expected, with a notable recovery in short-term bills and bank loans after Jul's dip. However, credit growth has remained flat.

4Q TSF growth is likely to be soft. Banks pursuing stricter risk management and slower special local government bond issuance are likely to weigh on the overall revival in credit, even though shadow banking deleveraging is proceeding at a slower pace.

The latest data and policy announcement continues to suggest a combined "easy liquidity, tight credit" policy as the government strives to contain debt and property dynamics while supporting growth. Corporate bonds tend to benefit under such a policy combination.

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				Aug 2019			2019F	
Main indicators	**Aug-18**	**Jun -19**	**Jul -19**	**BBG**	**CCBIS**	**Actual**	**BBG**	**CCBIS**
TSF (RMB b)	1,939	2,260	1,011	1,604.5	2,070	**1,980**	-	-
New loans (RMB b)	1,280	1,660	1,060	1,200	1,300	**1,210**	-	17,000
M2 YoY (%)	8.2	8.5	8.1	8.2	8.2	**8.2**	8.5	8.4
Loans YoY (%)	13.2	13.0	12.6	-	-	**12.4**	-	12.5
TSF YoY (%)	10.8	10.9	10.7	-	-	**10.6**	-	10.5

Aug credit data bounces back after an earlier dip

TSF data rebounded more than the market expected…

Total social financing (TSF) rebounded to RMB1,980b in Aug, almost double the previous month's reading. This is broadly in line with our forecast but well below the market expectation (BBG median: RMB1,604.5b, CCBIS: RMB2,070b). Outstanding TSF growth eased slightly to 10.6% YoY from 10.7% YoY in Jul.

…thanks to a recovery in short-term loans and bill financing after Jul's sharp decline

Bank loans picked up to RMB1,210b in Aug from RMB1,060b the previous month, largely in line with market expectation but below our forecast (BBG median: RMB1,200b, CCBIS: RMB1,300b), thanks to a strong rebound of short-term borrowing. Outstanding bank lending growth slipped 0.2 ppt to 12.4% YoY.

Shadow banking credit fell at a slower pace of RMB101b, compared with a RMB623b decline the previous month. Bankers' acceptance bills registered a RMB16b increase following a sharp RMB456b contraction the previous month. Entrusted loans and trust loans saw small contractions. As a result, outstanding shadow banking credit contracted at a slower pace.

Meanwhile, bond issuance kept up a fast pace. Net corporate bond issuance strengthened to RMB304b, on top of a RMB224b increase in Jul driven by the fall in the domestic interest rate. Net issuance of local government project bonds increased by RMB321b after a RMB438b increase the previous month.

Our indicator of **real economy borrowing** (comprising bank loans, corporate bonds and LGBs) **eased** to 13.3% YoY in Aug from 13.7% YoY in Jul due to softer bank loan growth and a negative base effect. **M2 growth edged up to 8.2% YoY**, in line with the market and our expectation. Corporate and household deposits both recovered from the previous month. Fiscal deposits (not included in M2) saw a smaller increase than the same month last year.

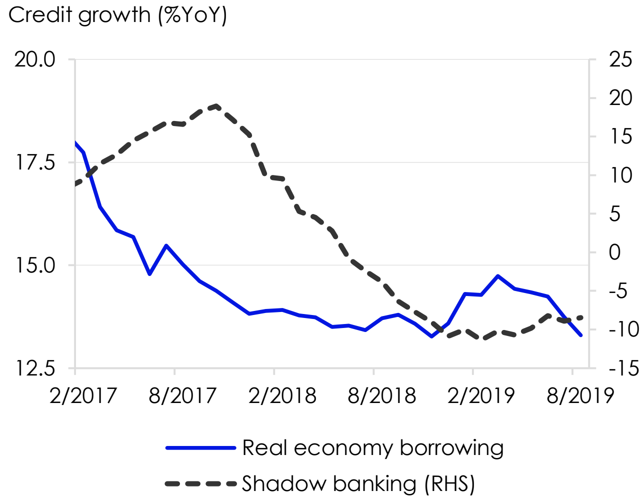
Our view

Mild pick up in credit cycle amid tighter regulations while easy liquidity fuels short-term borrowing. As an indication of just how tight credit standards are at the moment, the financial regulator, CBIRC, openly criticized smaller Chinese banks for imprudent lending to unqualified property developers, LGFVs and companies that failed to fulfill environmental protection standards. Bank lending is now at its lowest reading since late 2002. Meanwhile, easy liquidity conditions are driving down borrowing costs in the interbank and bond markets, boosting short-term borrowing. We expect this divergence to continue, benefitting bonds, especially those of short duration.

Debt quota to constrain public borrowing in 4Q19. Net issuance of special LGB reached RMB1,946b year to date in Aug. This left an issuance amount of slightly over RMB200b for the rest of the year. Although the State Council confirmed the 2020 special LGB quota in advance, it has not mentioned an expansion of the quota for 2019, even though this quota will soon be reached. The slowdown in special local government bonds will be another factor that will negatively affect overall credit growth in 4Q19.

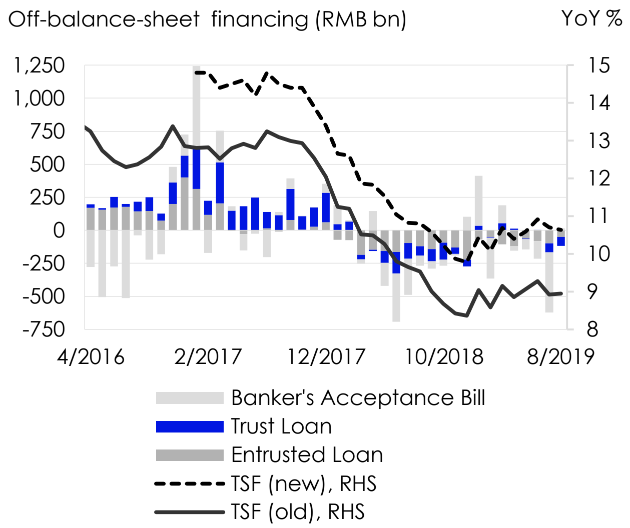
Liquidity conditions to stay accommodative, but no rate cut is expected. The PBoC skipped the roll-over of RMB176.5b MLF on Monday, defying market expectations of a policy rate cut. To replace maturing MLF, the PBoC instead conducted three 7-day repo operations amounting to RMB230b. The limited net injection of liquidity after the RRR cut announcement was in line with our view of constrained easing. We continue to expect no rate cut in the remainder of 2019F given the policy objective of containing debt and risks to the property sector.

Fig 1. Credit Growth continued to slow…



Source: PBoC,CEIC, CCBIS

Fig 2. …despite a slower contraction in shadow bank financing



Source: PBoC,CEIC, CCBIS

Monthly loan increases (RMB b)	Aug 2018	2Q18 (avg)	3Q18 (avg)	4Q18 (avg)	1Q19 (avg)	2Q19 (avg)	Jul 2019	Aug 2019
Households	701	617	696	558	603	650	511	654
- Short term	260	211	250	187	143	190	70	200
- Long term	442	403	443	373	460	457	442	454
Corporates	613	693	648	399	1495	593	297	651
- Short term	-175	91	-56	-69	350	140	-220	-36
- Bill financing	410	147	274	227	261	132	128	243
- Medium and long term	343	423	403	223	854	303	368	429

Monthly TSF increases (RMB b)	Aug 2018	2Q18 (avg)	3Q18 (avg)	4Q18 (avg)	1Q19 (avg)	2Q19 (avg)	Jul 2019	Aug 2019
Bank loans	1,280	1,284	1,286	881	2,105	1,239	787	1,275
Net corporate bond financing	340	160	190	278	302	187	224	304
Equity financing	14	41	20	17	18	22	59	26
Off-balance-sheet financing	-267	-375	-348	-210	20	-167	-623	-101
- Entrusted loans	-121	-156	-120	-150	-76	-89	-99	-51
- Trust loans	-69	-87	-93	-75	28	3	-68	-66
- Banker's acceptance bills	-78	-131	-136	15	68	-81	-456	16
Net issuance of LG project bonds	411	95	445	32	180	217	438	321

TSF outstanding growth (YoY %)	Aug 2018	2Q18 (avg)	3Q18 (avg)	4Q18 (avg)	1Q19 (avg)	2Q19 (avg)	Jul 2019	Aug 2019
TSF	10.8	11.5	10.7	10.0	10.4	10.6	10.7	10.6
Loans	13.2	12.7	13.2	13.2	13.5	13.3	12.6	12.4
Net corporate bond financing	8.2	8.0	7.6	8.0	10.5	10.8	11.2	11.0
Equity financing	9.6	11.6	9.8	6.8	4.6	3.5	3.9	4.0
Off-balance-sheet financing	-3.8	2.3	-4.1	-9.2	-10.6	-9.6	-9.0	-8.5
- Entrusted loans	-6.2	-3.5	-6.4	-9.8	-11.3	-10.3	-9.8	-9.3
- Trust loans	4.4	15.4	3.8	-5.2	-8.5	-6.7	-5.0	-5.1
- Banker's acceptance bills	-11.0	-1.3	-11.2	-14.8	-12.2	-13.0	-15.0	-12.7

** LG = local government*
Source: CEIC, CCBIS

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Rating definitions:

Outperform (O) – expected return > 10% over the next twelve months
Neutral (N) – expected return between -10% and 10% over the next twelve months
Underperform (U) – expected return < -10% over the next twelve months

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