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中国经济评论: 社融增速如期反弹，出口疲软仍存

China Economics Update: Credit rebounded as expected, export weakness persists

6 月数据显示信贷周期进一步回升，与我们预期一致。社会融资总额增量超市场预期，但与我们的预测大致吻合。地方政府专项债发行加速是社融强势上升的主要原因。银行贷款增速放缓，同比仍保持 13%的快速增长。

此外，贸易数据依然疲软。虽然加工贸易进口增速较差，但一般贸易进口有所改善，表明内需持稳。

我们预计三季度贸易仍走弱，但年底有望温和复苏。预计政策面将继续发力稳固经济。得益于公共部门借贷需求，信贷增速将在下半年进一步回升，支持未来几个月基建投资的复苏。

In line with our view, Jun data points to a further pickup in the credit cycle. Total social financing grew more than consensus had forecasted but was broadly in line with our estimate. The increase was driven by a strong pickup in local project bond issuance in Jun. Bank lending growth moderated but nevertheless kept up a fast pace of 13% YoY.

Trade data, however, remains weak. While supply-chain trade is soft, general imports have held up, pointing to steady domestic demand.

Trade growth is likely to remain soft in 3Q before recovering gradually towards year-end. We expect Chinese policies to remain accommodative and credit growth to pick up in 2H led by government borrowing. This would support a pickup in infrastructure investment in coming months.

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					Jun-2019			2019F	
Trade indicators	**Jun-18**	**Mar-19**	**Apr-19**	**May-19**	**BBG**	**CCBIS**	**Actual**	**BBG**	**CCBIS**
Trade balance (US$ b)	40.9	32.3	13.8	41.7	45	38.9	51	-	-
Exports YoY (%)	11.3	14.2	-2.7	1.1	-1.4	-1.3	-1.3	2.5	2.0
Imports YoY (%)	14.1	-7.6	4.0	-8.5	-4.6	-0.9	-7.3	2.2	1.0

Source: Bloomberg, CCBIS estimates

					Jun 2019			2019F	
Main indicators	**Jun-18**	**Mar-19**	**Apr -19**	**May-19**	**BBG**	**CCBIS**	**Actual**	**BBG**	**CCBIS**
TSF (RMB b)	1,488	2,860	1,385	1,395	1,900	2,400	**2,260**	-	-
New loans (RMB b)	1,840	1,690	1,020	1,180	1,700	1,700	**1,660**	-	18,200
M2 YoY (%)	8.0	8.6	8.5	8.5	8.6	8.4	**8.5**	8.6	8.6
Loans YoY (%)	12.7	13.7	13.5	13.4	13.0	13.0	**13.0**	-	13.3
TSF YoY (%)	11.1	10.7	10.4	10.5	10.7	11.0	**10.9**	-	11.6

Source: Bloomberg, CCBIS estimates

Trade weakness persists

Exports gave back the gains in May as expected. Chinese exports declined 1.3% YoY in Jun, in line with our expectation (Bloomberg cons: -1.4%, CCBIS: -1.3%). On average, export growth continued to slide to -1% YoY in 2Q from 1.3% YoY in 1Q and 3.9% YoY in 4Q18.

Weakening exports across the board, suggesting the leg up from advanced shipments ahead of the end-of-Jun tariff hikes has faded out. By destination, exports to the EU and the US slowed the most. The two together dragged overall growth down by 2.3 ppt. Meanwhile, exports to ASEAN economies accelerated to 12.9% YoY in Jun from 3.5% YoY in May, suggesting trade diversion taking place in order to avoid tariffs.

Imports declined but general imports held up by 7.3% YoY in Jun, improving slightly from the 8.5% YoY decline in May. But the decline was still bigger than expected given the strong positive base effect (Bloomberg cons: -4.6%; CCBIS: -0.9%). Process imports fell 12.1% YoY in Jun after declining 10.3% YoY in May, shaving -0.4 ppt off the headline, though general imports held up, pointing to solid domestic demand.

FX reserves supported by the strong trade surplus and positive valuation effect

FX reserves increased by US$18.2b to US$3,119b at the end of Jun, beating the consensus expectation. The increase was driven by a positive valuation effect thanks to the strengthening euro. Combining the trade balance and FX reserve data, we estimate that non-FDI capital outflow picked up to US$63.3b from US$42.6b in outflows in May, reflecting some easing in bond inflows after a strong month of May. As trade tensions relaxed in early Jul, depreciation pressure on the renminbi eased and we expect the capital outflow pressure to remain contained.

Credit growth recovery well on track

Total social financing (TSF) increased strongly in Jun, in line with our expectations. TSF recorded a gain of RMB2,260b in Jun, higher than the consensus expectation but broadly in line with our estimate (Bloomberg cons: RMB1,900b, CCBIS: RMB2,400b). Outstanding TSF growth strengthened to 10.9% YoY in Jun from 10.6% YoY in May, the highest rate since 3Q18.

Strong bond issuance led the overall credit revival. Bond issuance picked up markedly in Jun, led by special local government bonds (LGB), which surged by RMB358b in Jun, more than double the pace of the first five months. Corporate bond issuance also recovered to RMB129b after the slowdown in May (RMB49b). Bond issuance accounted for most of the pickup in credit growth this month, while shadow banking credit continued to decline, this time by RMB 212b (versus RMB145b in May).

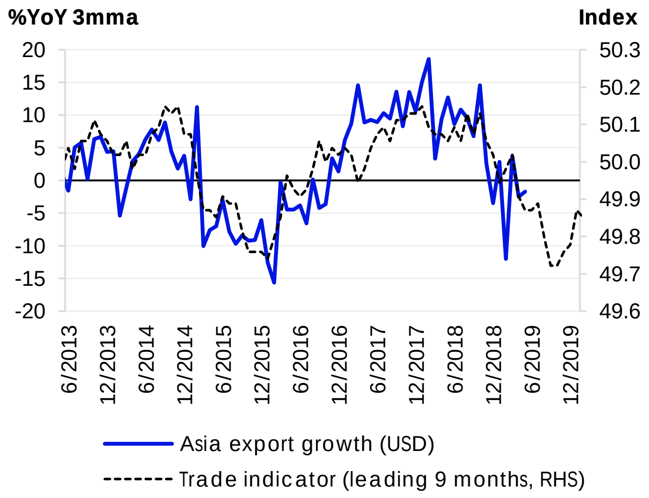
New yuan loans came in slightly below expectations, growing RMB1,660b in Jun (Bloomberg cons & CCBIS: RMB1,700b). Bank lending growth eased to 13% YoY in Jun, the slowest pace in a year. Lending to both households and corporates stayed buoyant.

Our view

Trade weakness to persist in 3Q. Chinese exports have given back earlier gains driven by advance shipments. The trend is consistent with the slowdown in regional exports as global trade demand continues to cool. We expect extended trade weakness in the near term, registering negative growth in 3Q. Improvement towards year-end is likely, as indicated by our leading indicator (Fig 1).

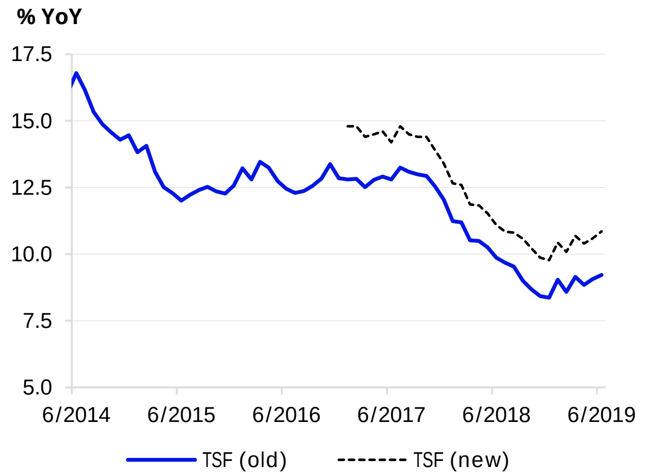
Credit policy to remain accommodative amid headwinds to global growth. As global growth is expected to slow further and trade policy uncertainty is likely to persist, we expect policies to remain supportive. Credit growth is likely to pick up to support the domestic economy. However, in contrast to past cycles, we expect incremental credit expansion to be used to fund a small rebound in infrastructure investment as the housing sector continues to experience a modest rebound.

Fig 1. Regional exports expected to remain in the negative territory throughout the year



Source: CEIC, CCBIS

Fig 2. Credit rebound well on track



Source: CEIC, CCBIS

Table 1. China trade data breakdown

In US$ terms (% YoY)	Jun 18	2Q18	3Q18	4Q18	1Q19	2Q19	May 19	Jun 19
Total exports (in US$ terms)	**11.3**	**11.5**	**11.7**	**3.9**	**1.4**	**-1.0**	**1.1**	**-1.3**
Total exports (in RMB terms)	**3.1**	**2.6**	**9.8**	**8.5**	**6.6**	**5.7**	**7.7**	**6.1**
Exports by destination								
Shipments to EU	10.4	9.8	11.6	6.2	8.1	2.9	6.1	-3.0
Shipments to US	12.5	11.3	12.9	6.3	-9.0	-8.2	-4.2	-7.8
Shipments to ASEAN	19.2	18.0	15.2	7.4	9.1	5.6	3.5	12.9
Exports by product								
Garments	0.6	-4.3	4.5	0.2	-4.4	-4.8	-0.1	-3.0
Steel products	22.6	18.9	18.3	9.9	2.2	-16.4	-17.5	-22.4
Mobile phones	11.3	15.2	11.6	-0.9	-19.2	-14.5	-4.0	-20.9
Hi-tech products	11.5	16.6	12.8	4.0	-2.5	2.5	0.5	-2.1
Total imports (in US$ terms)	**14.1**	**20.5**	**20.4**	**4.4**	**-4.8**	**-4.1**	**-8.5**	**-7.3**
Total imports (in RMB terms)	**6.0**	**11.2**	**19.1**	**9.1**	**0.4**	**2.3**	**-2.5**	**-0.4**
Imports by method of trade								
General imports	18.5	23.7	23.2	4.8	-3.9	-3.9	-8.6	-7.0
Processing imports	0.0	8.2	17.0	0.7	-10.3	-9.2	-10.3	-12.1
Entrepôt imports	18.4	18.5	10.1	5.6	-0.9	4.4	-0.6	2.9
Imports by commodity								
Iron ore (vol)	-12.1	-2.8	-1.3	1.8	-3.2	-7.8	-11.0	-9.7
Copper ore (vol)	24.6	25.4	26.2	-0.5	20.0	2.3	16.7	-16.5
Coal (vol)	17.9	2.8	18.5	-19.9	-2.4	14.3	23.0	6.4
Crude oil (vol)	-4.9	4.9	5.7	23.7	8.9	9.7	3.0	15.2

Source: CEIC, CCBIS

Table 2. China FX reserve indicators

	Jun 18	2H18 avg	1Q19 avg	Apr 19	May 19	Jun 19
FX reserves						
FX reserves (EOP, US$ b)	3,112.1	3,083.7	3,092.3	3,095.0	3101.0	3,119.2
Change in FX reserves (US$ b)	1.51	-6.6	8.7	-3.8	6.0	18.2
Estimated valuation effects (US$ b)	-4.56	-2.8	-5.3	-1.2	-1.6	15.6
Adjusted for valuation (US$ b)	6.07	-3.8	14.0	-2.6	7.7	2.6
Non-FDI capital flows (US$ b)	-50.3	-52.4	-22.7	-25.7	-42.7	-63.3

** The amount of liquidity injected includes RRR cuts and TMLF. EOP = end of period. Source: CEIC, CCBIS*

Table 3. China credit and monetary data breakdown

Monthly loan increases (RMB b)	Jun 2018	2Q18 (avg)	3Q18 (avg)	4Q18 (avg)	1Q19 (avg)	2Q19 (avg)	May 2019	Jun 2019
Households	707	617	696	558	603	650	663	762
- Short term	237	211	250	187	143	190	195	267
- Long term	463	403	443	373	460	457	468	486
Corporates	982	693	648	399	1495	593	522	911
- Short term	259	91	-56	-69	350	140	121	441
- Bill financing	295	147	274	227	261	132	113	96
- Medium and long term	400	423	403	223	854	303	252	375
Monthly TSF increases (RMB b)	**Jun 2018**	**2Q18 (avg)**	**3Q18 (avg)**	**4Q18 (avg)**	**1Q19 (avg)**	**2Q19 (avg)**	**May 2019**	**Jun 2019**
Bank loans	1642	1,284	1,286	881	2105	1239	1205	1671
Net corporate bond financing	135	160	190	278	302	187	48	129
Equity financing	26	41	20	17	18	22	26	15
Off-balance-sheet financing	-691	-375	-348	-210	20	-167	-145	-212
- Entrusted loans	-164	-156	-120	-150	-76	-89	-63	-83
- Trust loans	-162	-87	-93	-75	28	3	-5	1
- Banker's acceptance bills	-365	-131	-136	15	68	-81	-77	-131
Net issuance of LG project bonds	102	95	445	32	180	217	125	358
TSF outstanding growth (YoY %)	**Jun 2018**	**2Q18 (avg)**	**3Q18 (avg)**	**4Q18 (avg)**	**1Q19 (avg)**	**2Q19 (avg)**	**May 2019**	**Jun 2019**
TSF	11.1	11.5	10.7	10.0	10.4	10.6	10.5	10.9
Loans	12.7	12.7	13.2	13.2	13.5	13.3	13.4	13.0
Net corporate bond financing	8.6	8.0	7.6	8.0	10.5	10.8	10.9	10.9
Equity financing	11.2	11.6	9.8	6.8	4.6	3.5	3.5	3.3
Off-balance-sheet financing	-0.6	2.3	-4.1	-9.2	-10.6	-9.6	-9.8	-8.4
- Entrusted loans	-4.6	-3.5	-6.4	-9.8	-11.3	-10.3	-10.4	-9.7
- Trust loans	10.1	15.4	3.8	-5.2	-8.5	-6.7	-6.7	-5.7
- Banker's acceptance bills	-6.7	-1.3	-11.2	-14.8	-12.2	-13.0	-14.0	-9.6

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

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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