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China Economics Update: Credit growth stabilized as expected; PPI remained elevated, limiting the scope for broad-based easing

中国经济评论: 政策微调下社融增速如期企稳，价格压力下大幅宽松可能性不大

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10 月信贷增长企稳，符合我们的预期。 10 月份中国社会融资总额（TSF）同比增长 10%，自去年底持续放缓后企稳。影子银行活动继续收缩，但私营部门的信贷增长似乎已经见底，地方政府债券净发行保持强劲，推动政府借款略有回升。

PPI 通胀进一步加速，而 CPI 通胀仍受控。 10 月份 PPI 通胀创历史新高，反映了全球大宗商品价格的趋势和国内供应限制。上游价格（尤其是煤炭）的连续上涨对上涨对 PPI 的增速贡献最大。我们预计近期煤炭市场的政策措施将从 11 月起开始发挥作用，但预计工业生产价格仍将保持高位直至年底。食品和燃料价格推动 CPI 上涨，但由于国内疫情反弹导致需求疲软，核心和服务通胀均保持温和。

预计未来几个月央行将有选择性实施信贷宽松，并保持稳定的流动性。 据媒体报道，近期房地产行业的贷款边际回升。中国人民银行还推出了新的碳减排贷款工具，与银行对目标行业的贷款结构性转变相一致。选择性的调整表明，鉴于 PPI 通胀压力和长期结构性目标，央行不太可能实施降准等全面宽松的货币政策。

Credit growth stabilized in Oct, in line with our expectation. China's total social financing (TSF) rose 10%YoY in Oct, stabilizing after steadily slowing down from late last year. There has been continued contraction in shadow banking activities, credit growth to the private sector appears to have bottomed, while government borrowing picked up slightly driven by strong net issuance of local government bonds.

PPI inflation accelerated further while CPI inflation remained contained. PPI inflation hit an all time high in Oct, reflecting the global trend and domestic supply constraints. Sequential growth in upstream prices particularly coal contributed most to the surge. We expect recent policy measures on the coal market to start to feedthrough from Nov, but PPI will remain elevated until year-end. Food and fuel prices contributed to rising CPI, but core and services inflation stayed muted due to the soft demand amid rebound of domestic Covid cases.

Expect selective credit easing coupled with stable liquidity in the coming months. It has been reported by the media that property sector lending has increased at the margin. PBoC also launched new lending tools on carbon emission reduction, consistent with the on-going structural shift in bank lending to the targeted sectors. The selective adjustment suggest that broad-easing such as through an RRR cut is less likely given the PPI inflation pressure and long-term structural goals.

TSF stabilized, private borrowing appeared to have bottomed out

Total social financing rose 10% YoY in Oct 2021, same as in Sep, showing signs of stabilization after steadily slowing down since Oct 2020. New TSF increased by RMB1.59t, lower than market consensus of RMB1.7t. Most of the slowdown was driven by continued contraction in shadow banking while growth in other credit channels are stabilizing or improving (Fig 1).

In particular,

- **New yuan loans** increased by RMB826b, in line with our expectation (RMB830b) but higher than the market consensus at RMB800b. Medium and long-term loan growth eased further, but the pace slowed. Among which, mortage lending growth was relatively stable but loan growth of the corp sector slowed by 0.3ppt to 12.5%YoY.
- **Outstanding Corporate bonds** grew 6.7% YoY, down 0.2ppt from the prior month. Domestic corp bond issuance has stayed on the soft side since Sep due to an increased slowdown in the property sector as well as domestic activities.
- Total RMB loans and corporate bonds, which represent credit to the private sector, rose 11.3% YoY in Oct, same as in Sep. Among which, renminbi loans stabilized at 11.9%.
- **Government borrowing,** including outstanding CGB and LGB, grew 14.2% YoY, 0.1ppt higher than past month. This was mainly driven by faster local government bond issuance: rising 14.5%YoY (+1.4ppt).
- **Shadow banking** items (entrusted + trust + bills) declined 12.4% YoY (down 0.1ppt from Sep). Despite still being a drag on overall TSF growth, the pace of shadow banking slowdown has moderated in Oct.

M2 growth rose. M2 grew 8.7% YoY in Oct, roughly in-line with our expectation (8.6%) but higher than the consensus (8.3%). M1 growth eased 0.9ppt to 2.8% YoY. The development of M2 was consistent with increased new loans compared with the same time last year, as well as stabilization in credit growth (Fig 3). The slowdown in M1 growth possibly reflected a slower increase in demand deposit.

PPI beat market expectation again; CPI inflation remained contained

China's Oct factory prices inflation accelerated to hit a historical high. Fueled by soaring raw material prices, especially the coal amid power crunch in recent months, PPI reached historical high at 13.5% YoY (CCBIS: 12.7%, cons: 12.4%). On a sequential basis, Oct PPI rose 2.5% M/M, up further from 1.2% M/M in Sep. Coal price surged 20.1% M/M in Oct, contributing 0.74ppt to the headline growth, a dominant factor that led to the surge of Oct PPI (Fig 5). Prices of energy-intensive sectors such as non-metallic mineral products, non-ferrous metal and ferrous metal also rose at a relatively strong pace, ranging between 3-7% M/M, together contributing 0.81ppts to the headline.

CPI inflation quickened on food and transportation. Consumer price rose 1.5% YoY (CCBIS: 1.7%, cons: 1.4%), picking up from 0.7% YoY in Sep. In M/M terms, food prices picked up by 1.2%, mostly driven by vegetables amid cold weather and rebound of the domestic pandemic situation. Rising commodity prices also affected domestic fuel prices hence the price increase in transportation (Fig 4). Core CPI inflation, excluding food and energy, ticked up by only 0.1% M/M, same as service prices. The outbreak of the Delta variant in mid-Oct and heightened regional travel restrictions took a toll on the recovery in core CPI.

Our view

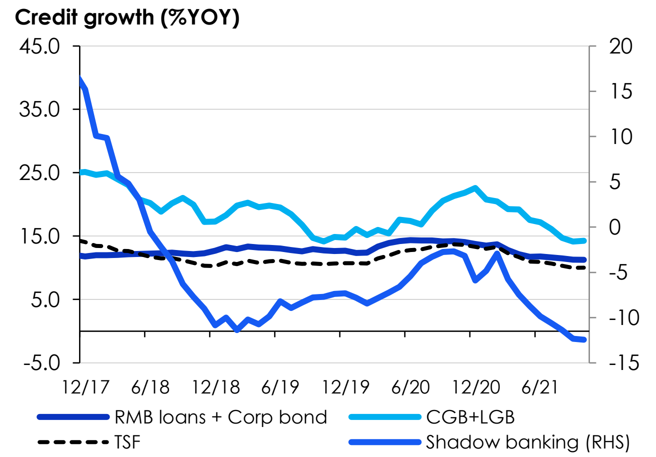
PPI to stay elevated but limited impact on CPI this year. Recent policy measures on containing coal prices may start to feedthrough in the coming months' PPI, however, factory prices likely will stay on the high end towards year-end due to base effect. Cold weather and renewed travel restrictions amid the local pandemic situation on one hand had may fuel the rise in food prices, but on the other hand it could restrain recovery in consumption and service demand. We expect CPI to average around 2% YoY during Nov-Dec largely driven by base effect, and for the full-year, CPI inflation likely will average at around 1%. Widening PPI and CPI gap suggest still-limited passthrough of upstream prices to the mid and downstream. This benefited industrial profits particularly for the mining sector, while for the manufacturing sector, profit growth eased recently but remained high at above 30% by 3Q if compared to 2019.

Selective credit easing in energy and property space. We previously highlighted the marginal credit easing on the property sector (Monthly Econ Data Preview, Nov 5). Today's credit data confirms that such policy adjustment has supported some stabilization in overall credit growth. Some acceleration in mortgage and developer loans together with lower regional mortgage rates, as reported by media in recent weeks, should further the trend.

Separately, the PBOC on Nov 8th announced new lending tools for carbon reduction, offering favorable interest rate for financial institutions (FIs) to support businesses engaged in low-carbon emission projects. We view this as a long-term policy tool arrangement that intends to support the economy's energy transition and drive lower financing cost. PBOC did not give any quota for this lending tool but stressed that the initial focus will be "small but precise". Given the relatively stringent criteria, we don't expect the adjustment to have a major effect on overall corporate lending.

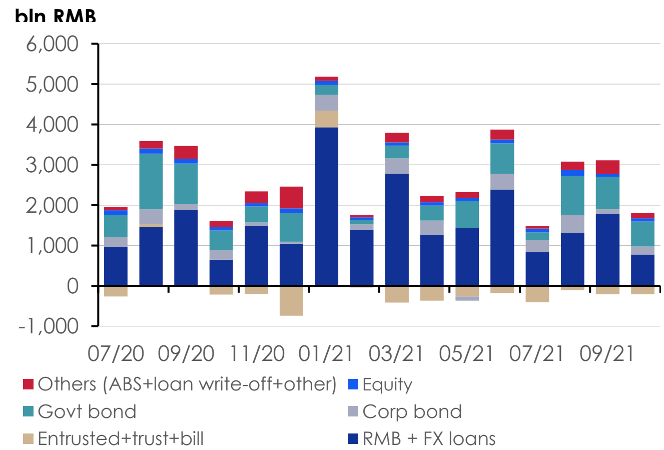
Liquidity supply to keep interbank market stable. Aside from a large amount of maturing MLF totaling RMB1.95t in Nov and Dec, net local government bond issuances are expected to stay high at around RMB690b in Nov, similar to Oct. We expect the PBOC to conduct open market operations to meet such liquidity needs, and it remains to be seen whether the central bank will fully roll over MLF at maturity. We continued to see a large-scaled policy easing such as RRR cuts as unlikely in the near term, considering heightened PPI inflation pressure.

Fig 1: TSF growth stabilized in Oct, so as major credit channels, except for continued contracting shadow banking activities



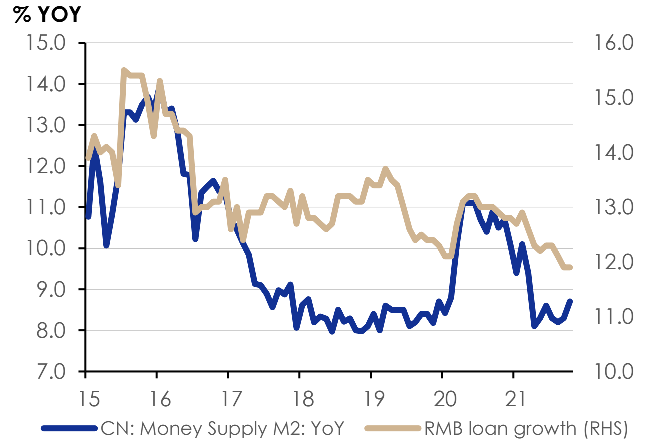
Source: CEIC, CCBI

Fig 2: New loans above the level in Oct 2020, but declined from prior month largely on seasonality



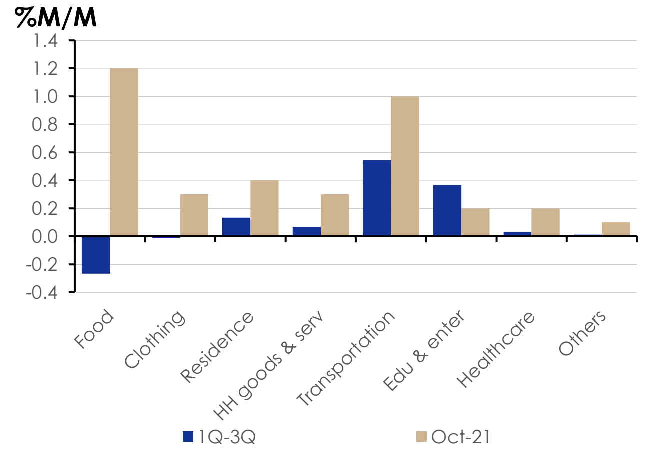
Source: CEIC, CCBI

Fig 3: M2 turned up to 8.7%YoY driven by the increase in new loans and stabilizing TSF growth



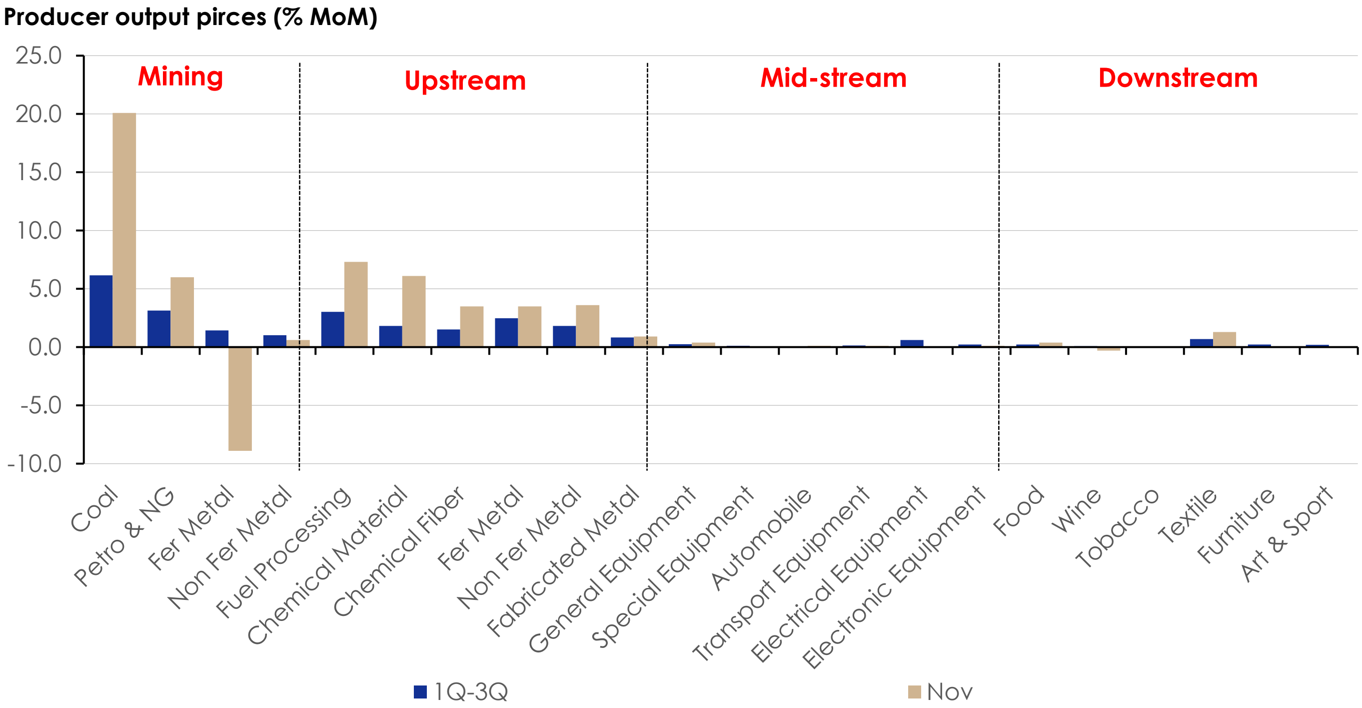
Source: CEIC, CCBI

Fig 4: Food and transportation prices picked up faster among all CPI categories



Source: CEIC, CCBI

Fig 5: Limited feedthrough of upstream factory prices to mid and downstream sectors



Source: CEIC, CCBI

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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