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China Economics Update: April credit data decelerated while CPI picked up

中国经济评论: 四月社融增速放缓，CPI 价格压力上升

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4 月份的 TSF 和新贷款显着减速，居民贷款需求收缩是主要原因。4 月份社会融资总额(TSF)同比增长 10.2%，较上月下降 0.4 个百分点，主要受私营部门信贷需求疲软拖累， 特别是居民贷款需求疲软，与地产销售持续疲弱一致。总体企业信贷（贷款+债券）则相对平稳。政府发债仍然强劲，是支持社会融资总额增长的主要推动力，体现财政支持加快步伐。

CPI 重回同比 2%区间。政府保价稳供措施及需求放缓下，PPI 环比和同比增速均有所回落，但步伐仍居高位。同时，由于防疫封锁措施及油价高企，食品价格反弹，4 月 CPI 通胀加速。即使供给瓶颈未来可能舒缓，我们预计在猪周期及企业成本推动下，CPI 通胀在下半年仍将继续走升。

价格压力对货币政策大幅宽松形成制约，结构性工具是政策定向支持的主要选择。大宗商品价格居高、消费通胀反弹，将继续制约央行增加流动性宽松的空间。预计中国央行将维持宽松的流动性立场，同时以精准定向支持实体部门。近期央行推出的交通物流、清洁煤炭等再贷款项目是定向支持的体现。

Apr TSF and new loans decelerated, driven by soft borrowing demand from households as housing remained weak. Total social financing (TSF) rose 10.2% YoY in Apr, down 0.4ppt from the previous month. Household loan demand was the main drag despite further property relaxation, while credit, including loans and bonds to the corporate sector, were relatively steady. Government borrowing remained the key driver of TSF growth, consistent with accelerated fiscal support.

CPI accelerates to above 2% YoY. PPI slowed on slower demand and government measures to stabilize prices, while CPI rose more than the market expected, driven by rising food prices amid Covid lockdown measures, and high energy prices. While supply issues may ease in the coming months, we expect CPI to pick up in 2H on rising pork prices and industrial costs.

Price pressure constrains broad-based monetary easing, and we expect continued reliance on targeted support. Elevated global commodity prices and a likely rebound in CPI inflation in 2H22F will continue to constrain the possibility of broad-based monetary easing, in our view. We expect the PBoC to increase its use of structural tools to support targeted sectors. The latest relending programs announced by the PBoC are such examples.

TSF and new loans fell short of expectations

Today, the PBoC released total social financing (TSF) data indicating a 10.2% YoY rise in Apr 2022, down 0.4ppt from the month prior (Fig 1). New TSF increased by RMB910.2b, significantly below market consensus for RMB2.2t. Of the total, new loans came in lower than the market had anticipated (Fig 2). Credit to the private sector weakened YoY, dragging overall TSF growth.

In particular,

- **New yuan loans** increased by RMB645.4b, lower than the market had expected (cons: RMB1.53t). Outstanding loans rose 10.9% YoY, compared with 11.4% last month. Available data suggests that new loans to the corporate sector increased by RMB578.4b, including RMB320b in short-term loans and bills financings, and RMB265.2b in ML loans. Meanwhile, new loans to households contracted RMB217b in Apr, the second contraction this year, the last having taken place in Feb. Corporate loans and household loans accounted for 21% and 90% of the slowdown in new loans compared with the same period last year.
- **Outstanding corporate bonds edged up** 0.1ppt to 10.3% YoY, the seventh successive month of increase and the highest rate of growth since Apr 2021. Net domestic corporate bond issuance in Apr came to RMB348b, a steady pace of increase compared with the same period last year.
- Total renminbi loans and corporate bonds, which represent credit to the private sector, rose 10.7% YoY in Apr, having slowed from 11.2% YoY growth the previous month.
- **Government borrowing**, including outstanding CGB and LGB, grew 16.9% YoY, down 0.1ppt from Mar (Fig 1). The pace of government borrowing has been picking up since Oct 2021. It has been the fastest growing credit channel among all TSF items.
- **Shadow banking** (entrusted + trust + bills) shrunk 12.8% YoY, a pace unchanged from the previous month. Shadow banking continues to drag overall TSF growth. In absolute terms, new shadow banking items fell by RMB317b, after rising by RMB14b in Mar.

M2 picked up 10.5% YoY in Apr, higher than market consensus expecting 9.9%, and up from 9.7% in Mar, partly due to the low base last year. M1 rose 5.1% in Apr, up 0.4 ppt from the previous month.

More inflation in consumer prices

PPI eases less than the market expected. PPI inflation rose at its slowest pace in a year, climbing 8.0% YoY in Apr compared with 8.3% last month, yet still enough to beat the market expectation of 7.8%. In sequential terms, Apr PPI rose 0.6%, easing from a 1.1% gain in Mar. The deceleration in producer prices was across-the-broad, especially in the mining and upstream sectors (Fig 5) as commodity prices inched down from their peaks spurred by events in Ukraine. However, costs remained elevated as a resurgence of Covid and related lockdown measures added to operating costs. On the other hand, a breakdown of PPI reveals limited price pressure being passed on to mid- and downstream sectors at this point (Fig 5), which may reflect soft demand under the lockdowns.

CPI advances on Covid outbreaks and still-high global commodity prices. China's Apr consumer prices advanced 2.1% YoY, up from a rise of 1.5% YoY in Mar, marking the fastest pace of price increases since last Nov, above market consensus for 1.9% YoY. On a MoM basis, headline CPI rose 0.4% MoM. In particular, food prices reversed course to climb 0.9% MoM, a reversal from -1.2% MoM in Mar, possibly reflecting stocking needs and surging logistical costs under tighter pandemic measures imposed in Apr. The price of pork increased 1.5% MoM against a 9.3% MoM decline in Mar. Meanwhile, transportation CPI continued to expand on soaring energy prices, though the momentum eased somewhat from the previous month. Excluding food and energy prices, core CPI rose 0.1% MoM and 0.9% YoY, both slightly up from Mar.

Our view

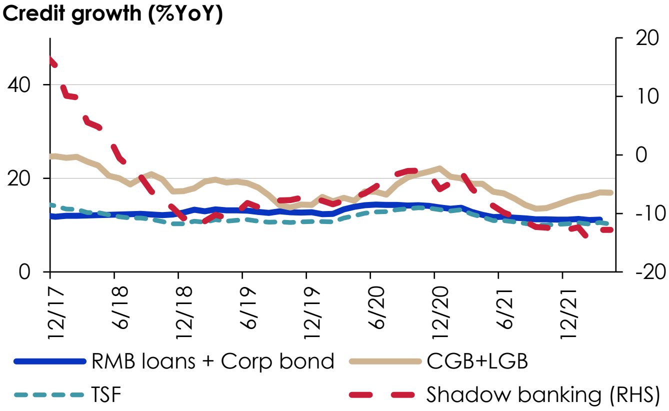
Much weaker TSF data points to the negative impact of the recent epidemic situation on borrowing demand, especially from households. Soft household borrowing accounted for 90% of the slowdown in loans YoY, consistent with sluggish housing sales despite the further relaxation of property measures in recent months. By comparison, corporate credit demand appeared to be steady: bank lending eased by RMB177b from Apr 2021, while net bond issuance held steady.

Fiscal support remained intact as suggested by still strong government borrowing. Bearing in mind the central government's goal of expanding effective investment to support the real economy, we expect new special purpose bonds in 2Q to reach RMB1.2t. An annual SPB quota of RMB3.65t is expected to be completed by Sep.

The latest inflation figures are likely to mark the turn in the current inflation trend. CPI is likely to remain contained in the near term amid soft services and household consumption demand. Surging logistics costs amid Covid-induced supply disruptions, rising pork prices and fuel costs are expected to add to the inflation story in 2H22. Global commodities prices eased in recent weeks on rising oil prices – the S&P Global Commodity Index is down 4.4% so far this month – yet the level remains elevated and could feed into downstream prices, including transportation costs (Fig 3, 4).

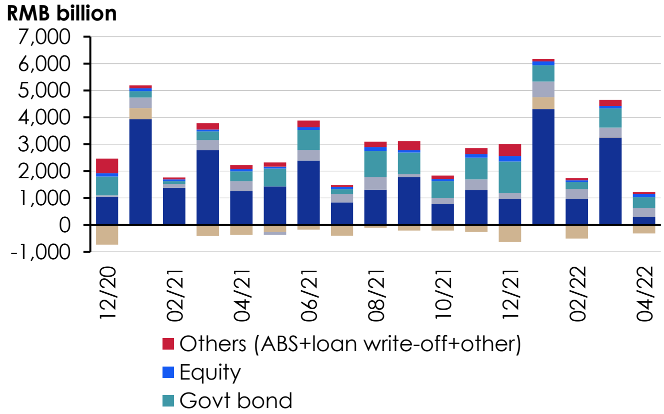
Despite the soft credit data, we expect the inflation trend will limit the scope for further liquidity easing, especially through a rate cut as we previously argued. The PBoC has increasingly relied on structured tools to support targeted sectors as we earlier expected. On 6 May, the central bank announced its intention to launch a RMB100b relending facility to support the transportation, logistics, and storage sectors. The announcement was made shortly after the bank raised its targeted re-lending quota for the coal industry by an additional RMB100b in aid of clean energy development. In order to accelerate business resumption, the PBoC also encouraged commercial banks to grant easy credit to key manufacturers in Shanghai. In today's press briefing after the TSF data release, the PBoC stated that the sharp slowdown in Apr new loans reflected the impact of the virus on the real economy, and that it will "proactively plan incremental policy tools". We believe the aforementioned measures are consistent with the PBoC's policy direction of maintaining an accommodative liquidity stance for targeted sectors. However, this also reduces the chances for broad-based monetary easing.

Fig 1: TSF growth slowed on weak credit demand from private sectors



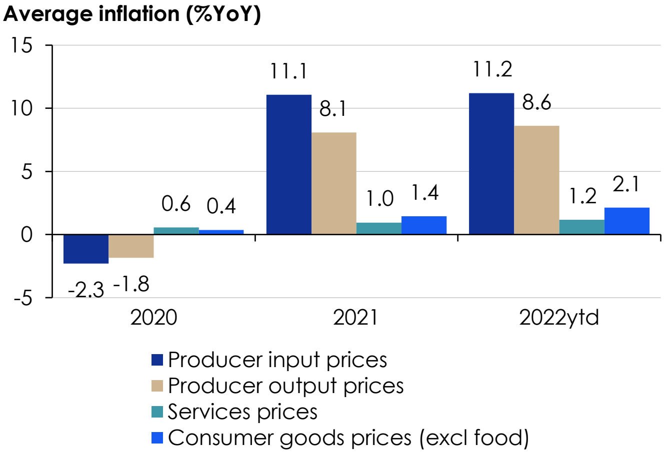
Source: CEIC, CCBI

Fig 2: New loans significantly below market consensus



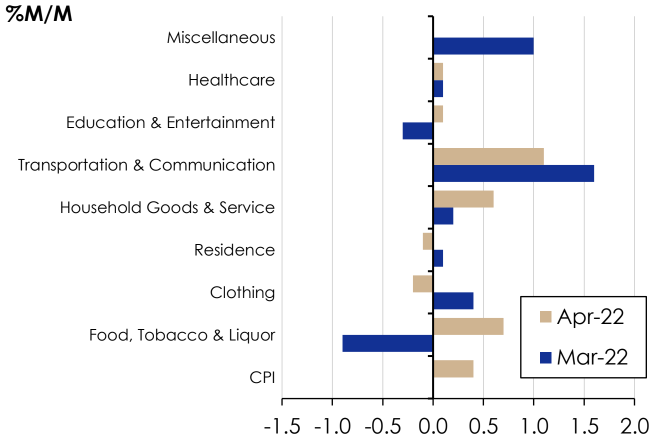
Source: CEIC, CCBI

Fig 3: Non-food consumer goods have picked up amid rising production costs, albeit at a gradual pace



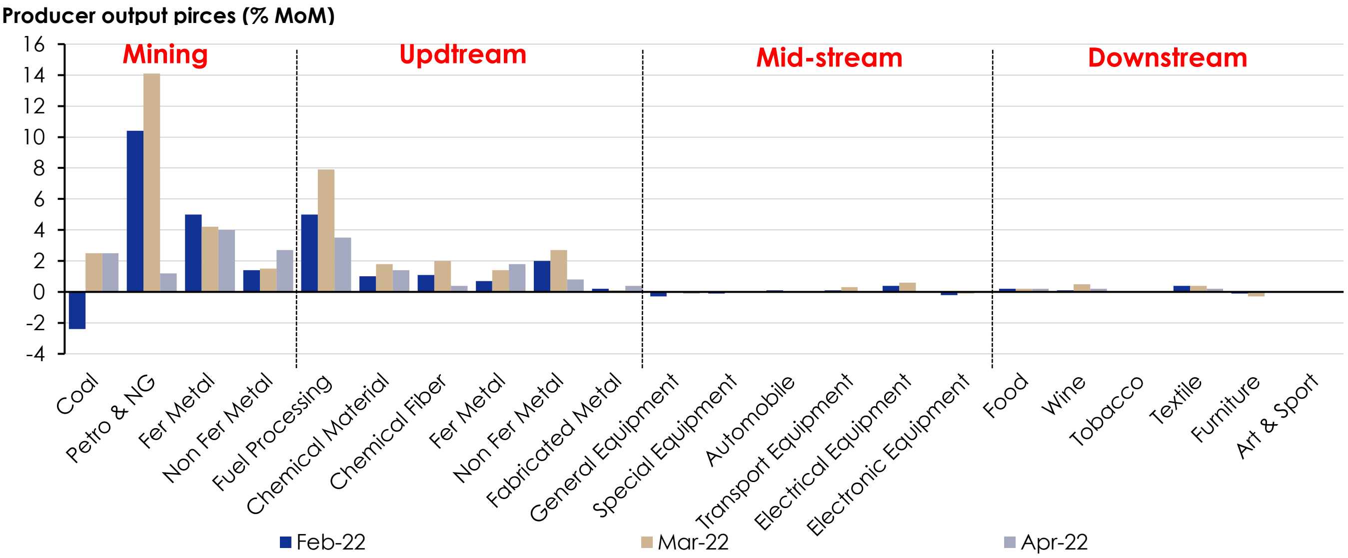
Source: CEIC, CCBI

Fig 4: MoM trend in detailed CPI categories reveals still high transportation prices fed by elevated global energy prices



Source: CEIC, CCBI

Fig 5: In Apr, producer prices in the mining and upstream sectors, especially fuel-related items, eased



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
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