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China Economics Update: Soft April credit consistent with slow recovery, expect pickup in coming months

中国经济评论: 疲软的 4 月社融数据和复苏放缓一致, 预计信用增长会有回升

Apr credit data pulled back after three months of strong growth, reflecting an uneven and soft economic recovery. Medium- to long-term corporate lending remained solid, consistent with the supportive macro policy stance and strong business investment. In contrast, demand for housing mortgages remained soft following the initial release of pent-up demand. Corporate bond issuance slowed, while government bond issuance remained strong, consistent with the supportive fiscal stance.

We expect credit growth to warm up slightly this year. Manufacturing demand and public investment should support a modest pick up in credit growth this year, even though household borrowing may stay weak. We expect the PBoC to maintain ample liquidity conditions while leaving policy interest rates unchanged amid the continued recovery. Further RRR cuts in 2023F remain a possibility, albeit less likely.

在经历一季度的强劲增长后, 信贷数据 4 月有所回落, 反映经济复苏仍较疲软且不均衡。稳健的中长期企业贷款与支持性宏观政策和强劲的制造业投资一致。相比之下, 在积累的购房需求初步释放后, 住房贷款转向疲软。公司债券发行亦有所放缓, 而政府债券发行仍然强劲, 与支持性财政政策一致。

我们预计今年信贷增长将略有回暖。制造业需求和公共投资会支持信贷增长的温和回升, 而居民借贷可能仍然较弱。我们预计中国央行将维持充裕的流动性, 同时在复苏持续下, 维持政策利率不变。不排除央行进一步下调存款准备金率, 尽管可能性较小。

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April TSF (Total Social Financing) data came in below expectations; inflation was soft

The increase in TSF surprised on the downside (RMB2t expected versus RMB1.2t actual). Today's small miss came after three months of strong credit expansion. **Growth in TSF stock remained solid at 10.3% YoY in Mar 2023, steady from last month.** The downside surprise was driven by a smaller than expected increase in RMB loans, while corporate bonds slowed to just 0.6%, also weighing on overall TSF growth.

- **New RMB loans** increased RMB719b, softer than the consensus expectation of RMB1.4t. Growth in outstanding RMB loans was steady at 11.7% YoY following three months of acceleration. The loan expansion in Apr was also entirely driven by medium- to long-term (ML) lending to corporates. Outstanding ML corporate lending picked up to 21.2% YoY in Apr on our estimates (Fig 1). In contrast, ML loans to households, a proxy for housing mortgages, contracted RMB115b in Apr.
- **Growth of outstanding corporate bonds** slowed to 0.6% YoY in Apr, the sixth straight month of deceleration. The soft economic recovery likely weighed on market sentiment, leading to wider credit spreads for weaker issuers and dented corporate bond issuance. Total RMB loans and corporate bonds, which represent credit to the private sector, rose 10.5% YoY in Apr, a tad lower than Mar (Fig 2).
- **Government borrowing**, including outstanding CGBs and LGBs, grew by a solid 13.5% in Apr 2023. C.35% of the 2023 local government special bond issuance quota has been used as of the end of 1Q 2023.
- **Shadow banking** (entrusted + trust + bills) grew 1.1% YoY, the first expansion since Jun 2018. The proportion of shadow credit in TSF has shrunk from a peak of around 13% in early 2018 to just 5.0% at present.

Soft inflation: headline inflation slowed from 0.7% YoY in Mar to 0.1% YoY in Apr, below the consensus expectation of 0.3% YoY. Slowing headline inflation was mainly driven by cooling food inflation. Food inflation slowed from 2.4% to 0.4% in Apr. Core inflation, excluding food and energy, remained unchanged at 0.7% YoY in Apr, pointing to soft domestic consumption. PPI decreased 0.5% MoM in Apr, and was 3.6% lower YoY.

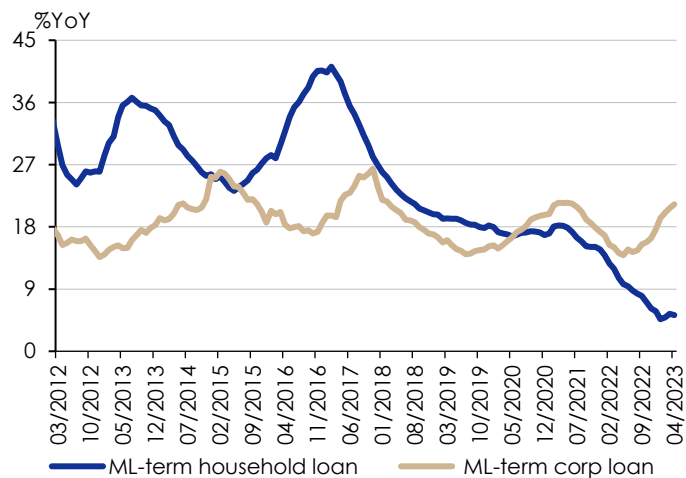
Our view

Soft credit growth mostly reflects the slow economic recovery, which has dented demand for credit. While solid ML corporate lending suggests business investment will continue to support domestic growth momentum, the decline in lending to households is in line with the still soft sentiment towards the housing sector, despite a recovery from the trough late last year. Property indicators largely exhibited a soft recovery after an initial rebound supported by pent-up demand (read [here](#) for details). We continue to hold the view that continued improvement in employment and household income is needed to support the housing recovery, and local measures such as relaxing Hukou and other restrictions may support demand on the margin.

We expect TSF growth to pick up modestly, in-line with the supportive macro policy stance. The Apr Politburo meeting re-iterated an overall supportive macro policy stance (read [here](#) for details). Despite acknowledging the recent economic recovery, the meeting noted domestic demand remains soft and future recovery remains bumpy. We expect local government special bond issuance to continue at a solid pace, supporting infrastructure investment. Other supportive policies include pro-consumption measures, such as encouraging electric vehicles, and employment enhancing measures, particularly targeted at recent graduates. However, fiscal support still needs to balance local government debt risks. **There will continue to be divergence in credit growth this year** (read [here](#) for details). While the property sector will likely go through moderate and measured deleveraging, manufacturing and public sectors will likely lead credit expansion because of the industrial cycle and supportive government policies.

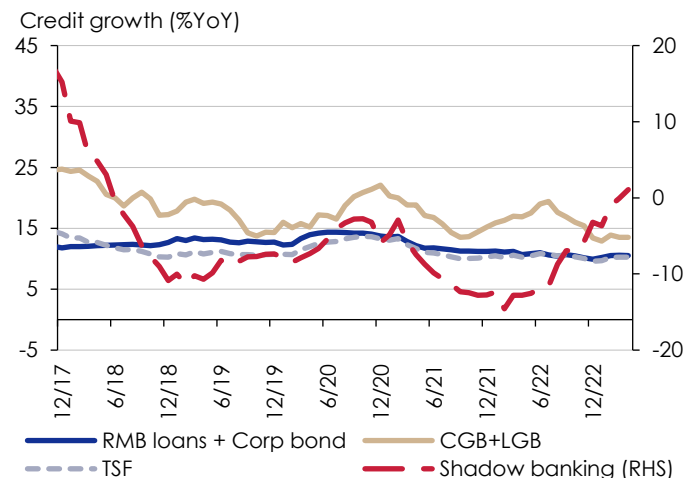
We expect the PBoC to maintain an accommodative policy setting amid limited inflation pressure. We expect the PBoC to keep policy interest rates unchanged this year as long as the domestic recovery continues as expected. We also expect the PBoC to maintain sufficient liquidity to support credit demand. The Apr liquidity injection via medium-term lending facility (MLF) was a small RMB20b, down from Q1 2023. Additional RRR cuts in 2023F remain possible, albeit less likely, in our view.

Fig 1: The divergence between ML household and corporate lending



Source: CEIC, CCBIS

Fig 2: Steady credit expansion to the private sector



Source: CEIC, CCBIS

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