建银国际
CCB International

CCBI SECURITIES | RESEARCH

China Economics Update: Jun credit data points to stronger borrowing

中国经济评论: 6 月社融数据显示信贷需求有所回升

Kevin Xie
(852) 3911 8241
kevinxie@ccbintl.com

Li Cui
(852) 3911 8274
cuili@ccbintl.com

Huiting Yan
(852) 3911 8012
yanhuiting@ccbintl.com

Solid credit data in Jun reflects some recovery in private borrowing demand. Rebounding RMB loans have been the key driver. The details reveal a broad-based rebound in loan demand from both corporates and households. Interest rate cuts may also have helped support corporate bond issuance. Government bond issuance remained solid, although the pace was slower this year than in 2022.

The credit data should ease concerns about the sluggish recovery though we expect supportive macro policy to continue. The latest price data highlights softness in consumption following the release of pent-up demand this year. We expect the PBoC to hold interest rates steady, although small cuts signaling policy support cannot be ruled out. Stronger fiscal support will be needed to stabilize growth.

6 月份信贷数据好于预期，私人部门信贷需求有所复苏。人民币贷款与 5 月相比显著回升，是拉动 6 月信贷的重要贡献项。分项显示企业和家庭的贷款需求广泛反弹。央行降息也推动企业债券发行的反弹。政府债券发行依然稳健，但增速低于 2022 年。

6 月份信贷数据在一定程度上缓解对复苏乏力的担忧，但我们预计支持性的宏观政策将继续保持。最新的价格数据显示，在经历了需求释放带来的反弹之后，消费趋于疲软。我们预计央行将维持利率稳定，但不排除小幅降息以示政策支持。同时，稳增长也需要更强有力的财政政策进行支持。

Better-than-expected Jun total social financing (TSF) data; muted inflation

The increase in TSF came in above the Bloomberg consensus estimate (RMB3.1t expected versus RMB4.2t actual), pointing to a gradual recovery in credit appetite. Better RMB loan demand was the key contributor. Growth in TSF stock dipped to 9.3%YoY in Jun, compared with 9.8% in May.

- **New RMB loans** beat expectations in Jun (RMB3.1t actual versus RMB2.3t expected). Bank loans exhibited strong seasonality. However, the Jun rebound from the disappointing May figure was stronger than the usual seasonal jump. The details reveal a broad recovery in loan demand. In particular, medium- to long-term (ML) lending to both corporates and households increased from May to Jun. As a result, growth in ML lending to corporates has sustained at recent highs of around 21% YoY, while growth in outstanding ML household loans stabilized at around 5.4% YoY in recent months (Fig 1).
- **Outstanding corporate bonds** increased RMB236b in Jun, a much better outcome than the RMB218b decline in May. The PBoC's interest rate cuts may have incentivized corporate borrowing with lower costs. Nevertheless, the stock of outstanding corporate bonds contracted 0.4% YoY in Jun, driven by reduced borrowing by property developers over the past year. Growth in total RMB loans and corporate bonds, which represent credit to the private sector, slowed through 2Q to 10% YoY in Jun, following an uptick in 1Q23 (Fig 2).
- **Outstanding government bonds** grew 10.1% YoY in Jun. Although the 2023 local government special bond issuance has been steady (Fig 3), growth in outstanding government bonds has slowed from the fast pace in 2022.
- **Shadow banking** (entrusted + trust + bills) contracted by RMB90b in Jun, but the pace of contraction has steadily slowed with positive YoY growth posted in recent months. At present, the stock of shadow credit represents less than 5.0% of total TSF.

Separately, the easing trend in inflation highlights softness in consumption following the release of pent-up demand this year. Headline CPI inflation was flat in Jun, weaker than the 0.2% YoY posted in May. Sequentially, consumer prices have declined for five consecutive months; moreover, six out of eight categories of the CPI basket registered month-on-month deflation in Jun. By category:

- **Food prices were dragged by falling pork prices.**
- **Non-food goods prices fell** (Fig 4). Fuel prices have fallen sharply this year, down 17.6% YoY in Jun. However, other non-food goods prices, such as household durable goods (down 1.8% YoY in Jun), were also on a falling trend this year. Notwithstanding strong car sales in recent months, deep price cuts to clear car inventories may have contributed to softer inflation.
- **Service inflation remained low.** Despite the recovery in services post re-opening, services inflation fluctuated between 0.6% and 1% YoY in 1H23. However, the recovery in offline consumption boosted travel-related prices (6.4% YoY in Jun).

Core inflation, excluding food and energy, inched down to 0.4%YoY in Jun, the slowest pace since 1Q20, pointing to weak domestic demand.

PPI deflation deepened to 5.4% YoY in Jun, driven by easing global commodity prices. Sequentially, PPI has fallen for a third consecutive month, down 0.8% MoM since May.

Our view

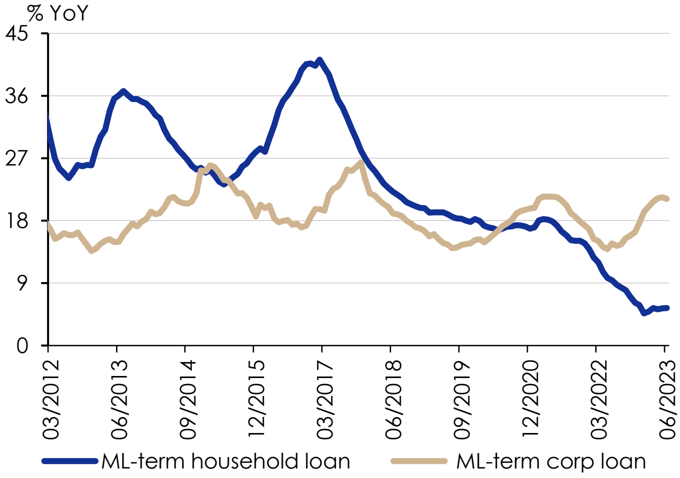
Jun credit data should help ease concerns over credit demand following disappointing data from May. Corporate borrowing is still solid, as seen from medium-to-long term corporate borrowing. The property sector will take longer to recover, in our view, though relaxation in housing policy by local governments may support property demand at the margin. Our view remains that improvement in employment and household income will have to continue if the housing recovery is to sustain.

We expect the PBoC to maintain an accommodative policy in support of domestic demand. Muted inflation pressure points to soft consumption despite the quick normalization in offline consumption. Hence, we expect the PBoC to support credit expansion, particularly in prioritized areas such as the green transition (read here for details). In Jun, the PBoC increased its long-term liquidity injection by RMB37b via the one-year Medium-term Lending Facility. Additional RRR cuts in 2023F remain possible, in our view.

However, policy interest rates have been at record lows and room for continued reduction of policy rates is limited. Recent weakening in the CNY after the interest rate cuts may also be a constraint to policymakers. Though unlikely, further cuts cannot be ruled out; although, if they occur, we believe they will be modest.

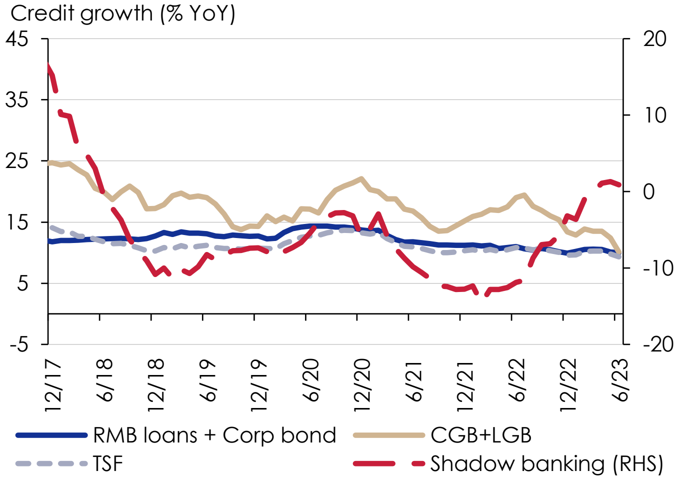
A more supportive fiscal stance is likely to lift TSF growth slightly in 2H23F. As monetary policy eases, fiscal support has slowed. Local government special bond issuance has been solid, but slower than the pace in 2022. Additional fiscal support in the form of tax cuts, targeted measures to support consumption, and accelerated spending in 2H23 could support soft domestic demand (read here for details). The Jul Politburo meeting is likely to set the policy tone for 2H23 as it will signal potential easing measures. In our view, a massive stimulus package is unlikely.

Fig 1: ML household has started to stabilize and growth in corporate lending remains robust



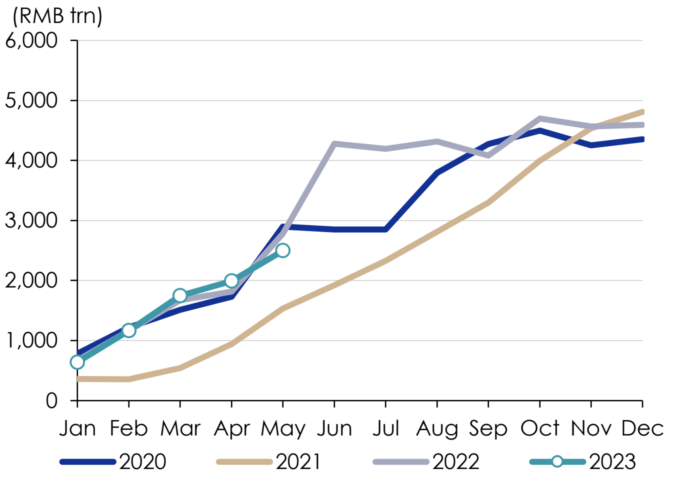
Source: CEIC, CCBIS

Fig 2: Steady credit expansion to the private sector



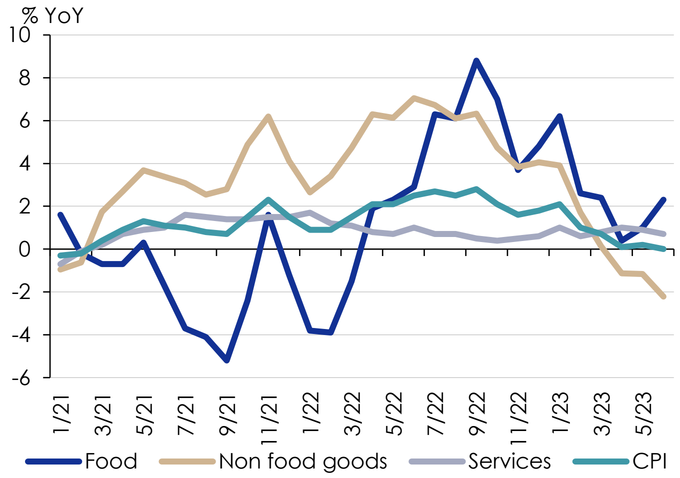
Source: CEIC, CCBIS

Fig 3: Robust government bond issuance



Source: CEIC, CCBIS

Fig 4: Non-food goods inflation driving down headline inflation



Source: CEIC, CCBIS

Analyst certification:

The author(s) of this document, hereby declare that: (i) all of the views expressed in this document accurately reflect his/her personal views about any and all of the subject securities or issuers and were prepared in an independent manner; (ii) no part of any of his/her compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed in this document; and (iii) he/she receives no insider information/non-public price-sensitive information in relation to the subject securities or issuers which may influence the recommendations made by him. The author(s) of this document further confirm that (i) neither he/she nor his/her respective associate(s) (as defined in the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission issued by the Hong Kong Securities and Futures Commission) has dealt in/traded or will deal in /trade the securities covered in this document in a manner contrary to his/her outstanding recommendation, or neither he/she nor his/her respective associate(s) has dealt in or traded in the securities covered in this document within 30 calendar days prior to the date of issue of this document or will so deal in or trade such securities within 3 business days after the date of issue of this document; (ii) neither he/she nor his/her respective associate(s) serves as an officer of any of the companies covered in this document; and (iii) neither he/she nor his/her respective associate(s) has any financial interests in the securities covered in this document.

Disclaimers:

This document is prepared by CCB International Securities Limited. CCB International Securities Limited is a wholly-owned subsidiary of CCB International (Holdings) Limited ("CCBIH") and China Construction Bank Corporation ("CCB"). Information herein has been obtained from sources believed to be reliable but CCB International Securities Limited, its affiliates and/or subsidiaries (collectively "CCBIS") do not guarantee, represent and warrant (either express or implied) its completeness or accuracy or appropriateness for any purpose or any person whatsoever. Opinions and estimates constitute our judgment as of the date of this document and are subject to change without notice. CCBIS seeks to update its research as appropriate, but various regulations may prevent it from doing so. Besides certain industry reports published on a periodic basis, the large majority of reports are published at irregular intervals as appropriate according to the analyst's judgment. Forecasts, projections and valuations are inherently speculative in nature and may be based on a number of contingencies. Readers should not regard the inclusion of any forecasts, projections and valuations in this document as a representation or warranty by or on behalf of CCBIS that these forecasts, projections or valuations or their underlying assumptions will be achieved. Investment involves risk and past performance is not indicative of future results. Information in this document is not intended to constitute or be construed as legal, financial, accounting, business, investment, tax or any professional advice for any prospective investors and should not be relied upon in that regard. This document is for informational purposes only and should not be treated as an offer or solicitation for the purchase or sale of any products, investments, securities, trading strategies or financial instruments of any kind in any jurisdiction. CCBIS makes no representations on the availability of the securities covered in this document (or related investment) to the recipients. The securities described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. Neither CCBIS nor any other persons accept any liability whatsoever for any loss or damages (whether direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential) arising from any use of this document or its contents or otherwise arising in connection therewith. Securities, financial instruments or strategies mentioned herein may not be suitable for all investors. The opinions and recommendations herein do not take into account prospective investors' financial circumstances, investment objectives, or particular needs and are not intended as recommendations of particular securities, financial instruments or strategies to any prospective investors. The recipients of this document should consider this document as only a single factor in marking their investment decision and shall be solely responsible for making their own independent investigation of the business, financial condition and prospects of *companies* referred to in this document. Readers are cautioned that (i) the price and value of securities referred to in this document and the income derived from them may fluctuate; (ii) past performance is not a guide to future performance; (iii) any analysis, ratings and recommendations made in this document are intended for long-term (at least for 12 months) and is not linked to a near-term assessment of the likely performance of the securities or companies in question. In any event, future actual results may differ materially from those set forth in any forward-looking statements herein; (iv) future returns are not guaranteed, and a loss of original capital may occur; and (v) fluctuations in exchange rates may adversely affect the value, price or income of any security or related instrument referred to in this document. It should be noted that this document covers only those securities or companies as specified herein and does not extend to any derivative instruments thereof, the value of which may be affected by many factors and may not correspond with the value of the underlying securities. Trading in these instruments is considered risky and are not suitable for all investors. While all reasonable care has been taken to ensure that the facts stated herein are accurate and that the forward-looking statements, opinions and expectations contained herein are based on fair and reasonable assumptions, CCBIS has not been able to verify independently such facts or assumptions and CCBIS shall not be liable for the accuracy, completeness or correctness thereof and no representation or warranty is made, express or implied, in this regard. All pricing referred to in this document is as of the close of local market for the securities discussed, unless otherwise stated and for information purposes only. There is no representation that any transaction can or could have been effected at those prices, and any prices do not necessarily reflect CCBIS' internal books and records or theoretical model-based valuations and may be based on certain assumptions. Different assumptions could result in substantially different results. Any statements which may be contained herein attributed to a third- party represent CCBIS' interpretation of the data, information and/or opinions provided by that third party either publicly or through a subscription service, and such use and interpretation have not been reviewed or endorsed by the third party. Reproduction and distribution of these third party contents in any form is prohibited except with the prior written consent of such third party. The recipients must make their own assessments of the relevance, accuracy and adequacy of the information contained in this document and make such independent investigation as they may consider necessary or appropriate for such purpose. Recipients should seek independent legal, financial, accounting, business, investment and/or tax advice if they have any doubt about the contents of this document and satisfy themselves prior to making any investment decision that such investment is in line with their own investment objectives and horizons. Use of hyperlinks to other internet sites or resources (if any) as referred to in this document is at users' own risk. They are provided solely for the purpose of convenience and information and the content of these internet sites or resources does not in any way form part of this document. The contents, accuracy, opinion expressed, and other links provided at these sites are not investigated, verified, monitored, or endorsed by CCBIS. CCBIS expressly disclaims any responsibility for and does not guarantee, represent and warrant (either express or implied) the completeness, accuracy, appropriateness, availability or security of information found on these websites. Users of these websites are solely responsible for making all enquiries, investigation and risk assessment before proceeding with any online or offline access or transaction with any of these third parties. All activities conducted by users via or at these websites are at their own risk. CCBIS does not guarantee the security of any information users may forward or be requested to provide to any third parties via these websites. Users are deemed to have irrevocably waived any claims against CCBIS for any loss or damage suffered as a result of any access to or interaction with any of these websites. Upon request CCBIS may provide specialized research products or services to certain customers focusing on the prospects for specific securities as compared with other covered securities over varying time horizons or under differing market conditions. While the views expressed in these situations may not always be directionally consistent with the long-term views expressed in the analyst's published research, CCBIS has procedures in place to prevent selective disclosure and will update the relevant readers when our views has changed. CCBIS also has procedures in place to identify and manage potential conflicts of interest that may arise in connection with its research business and services. Chinese Wall procedures are also in place to ensure that any confidential and/or price sensitive information is properly handled. CCBIS will use its best endeavors to comply with the relevant laws and regulations in this respect. Nevertheless, the recipients should be aware that CCB, CCBIS, their affiliates and/or their officers, directors and employees may do business with the issuer(s) of the securities covered in this document, including investment banking business or direct investment business or may hold interest in (and/or later add or dispose) such securities (or in any related investment) for themselves and/or on behalf of their clients from time to time. As a result, investors should be aware that CCBIS may have a conflict of interest that could affect the objectivity of this document and CCBIS will not assume any responsibility in respect thereof. Further, the information contained herein may differ or be contrary to opinions expressed by other associates of CCBIS or other members of the CCB or CCBIH group of companies. Where this document refers to any products, investments, securities, financial instruments or industry sectors, this is for the information of the institutional and professional customers of CCBIS only and this document should not be distributed to retail customers. This document is not directed at you if CCBIS is prohibited or restricted by any legislation or regulation in any jurisdiction from making it available to you. You should satisfy yourself before reading it that CCBIS is permitted to provide research material concerning investments to you and that you are permitted and entitled to receive and read the document under relevant legislation and regulations. In particular, this document is only distributed to certain US Persons to whom CCBIS is permitted to distribute according to US securities laws, but cannot otherwise be distributed or transmitted, whether directly or indirectly, into the US or to any other US person. Any US person (as defined under the Exchange Act or the U.S. Internal Revenue Code of 1986, as amended) who is a recipient of this material wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided herein should direct such transaction exclusively to and such transaction shall be effected only through CCB International Overseas (USA), Inc. This document also cannot be distributed or transmitted, whether directly or indirectly, into Japan and Canada and not to the general public in the People's Republic of China (for the purpose of this document, excluding Hong Kong, Macau and Taiwan) unless under applicable laws. Any unauthorized reproduction or redistribution by any means to any persons, in whole or in part of this document is strictly prohibited and CCBIS accepts no liability whatsoever for the actions of third parties in distributing this research report. If this document has been distributed by electronic transmission, such as e-mail, then such transmission cannot be guaranteed to be secure or error-free as information could be intercepted, corrupted, lost, destroyed, arrive late or incomplete, or contain viruses. CCBIS therefore does not accept liability for any errors or omissions in the contents of this document, which may arise as a result of electronic transmission. The disclosures contained in this document prepared by CCBIS shall be governed by and construed in accordance with the laws of Hong Kong.

Distribution in Singapore: The information/research herein is prepared by CCB International Securities Limited ("CCBIS"), a foreign affiliate of CCB International (Singapore) Pte Ltd ("CCBISG") (Co. Reg, No. 201531408W). CCBISG holds a capital markets services licence from the Monetary Authority of Singapore for fund management, dealing in capital market products (specifically securities and collective investment schemes) and providing custodial services, and is an Exempt Financial Adviser under the Financial Advisers Act in respect of advising others by issuing or promulgating research analysis or research reports. CCBIS may distribute information/research pursuant to an arrangement with CCBISG under Regulation 32C of the Financial Advisers Regulations. CCBIS is licensed in Hong Kong to provide such information/research reports. Singapore recipients should contact CCBISG at +65-68071880 for matters arising from, or in connection with the information distributed.

CCB International Securities Limited
12/F, CCB Tower, 3 Connaught Road, Central, Hong Kong
Tel: (852) 3911 8000 / Fax: (852) 2537 0097s