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China Economics Update: Rebounding credit expansion consistent with improving sequential growth momentum and policy support

中国经济评论: 9 月信贷反弹反映环比需求改善和政策支持

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Sep credit data was supported by improving housing credit and strong government bond issuance. Accelerating government bond issuance was the key driver of credit data outperformance. A string of policy easing in the property sector led to a solid rebound in medium to long-term (ML) household loans in Sep. The sequential pick-up in ML corporate loan demand may also reflect improving business sentiment amid rebounding growth momentum.

Government bond issuance is likely to remain robust. Accelerating issuance of special refinancing bonds and the remainder of the local government bond quota will continue to support credit growth. Furthermore, policymakers are in discussions regarding the early batch of the 2024 local government bond quota, which will start to be issued in Q4 2023. We also expect continued policy relaxation in the property sector to help stabilize housing transactions.

Monetary policy likely to stay accommodative. We expect inflation to pick up in the months ahead. However, the inflation outlook remains soft. As a result, we expect the PBoC will keep monetary policy accommodative, with likely further small cuts to policy interest rates. Additional cuts to the RRR cannot be ruled out.

9 月份信贷主要是由于住房信贷的改善和强劲的政府债券发行。政府债券发行提速是信贷数据表现优异的关键原因。在一系列针对地产行业的政策放松措施推出后，9 月住房信贷强劲反弹。中长期企业贷款需求的环比改善也可能反映出在增长势头回升的情况下企业信心的改善。

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Another set of better-thanexpected total social financing (TSF) data in Sep

Sep credit data posted upside surprise (RMB4.12t actual versus RMB3.7t expected), the second straight month of positive surprise. TSF growth has stabilized around 9.3% YoY for four consecutive months. Accelerating government bond issuance remains the key contributor of outperforming credit expansion (Fig 1).

- **New RMB loans increased by RMB2.31t in Sep, smaller than the consensus forecast of RMB2.5t**. Seasonality usually plays a role in the jump in new bank loans in Sep. However, both ML loan demand from both corporates and households rebounded notably sequentially. ML corporate loans rose by RMB610b, though still down 7% YoY compared to one year ago. The increase in ML household loans was substantial in Sep, lifting growth of outstanding household loans by 0.4ppt to 4.9% YoY (Fig 2), consistent with the recent stabilization of property sales on the back of the recent policy easing in the main cities.
- **Outstanding corporate bonds fell slightly by RMB70b in Sep.** Tight liquidity conditions, strong government bond supply and falling asset prices have weighed on demand for corporate bonds.
- **Outstanding government bonds lifted by RMB990b in Sep**. Government bond issuance has picked up since Jul as part of the plan to increase fiscal support. Growth in outstanding government bonds accelerated by 0.6ppt to 12.1% YoY in Sep, the fastest pace since May 2023.

Consumer inflation was flat in Sep while PPI deflation eased amid rising global oil prices

Headline consumer inflation in Sep missed expectations (0.0% YoY actual versus 0.2% YoY expected). The downside surprise reflects still-soft domestic demand. Sequential CPI growth was positive for the third month, albeit ticking down slightly to 0.3% MoM. Improving growth momentum on the back of a slew of measured policy stimulus may take time to push up consumer prices. Nevertheless, the annual fall in food prices was the key drag on the CPI. Core inflation, excluding food and energy, remained soft at 0.8% YoY.

By category:

- **A larger annual drop in food prices in Sep was mainly driven by a high base last year.** Sequential price gains eased by 0.2ppt to 0.3% MoM, contributing 0.1% MoM to overall inflation. Food supply increased after logistics recovered following severe weather conditions last month. Pork prices increased by 0.2% MoM in Sep following 11.4% MoM in Aug. We continue to expect the annual fall in pork prices to ease as the outlook for pork supply improves (Fig 3), lending support to food inflation.
- **Non-food inflation picked up to 0.7% YoY in Sep, supported by easing energy deflation**. Fuel prices rose for the third straight month by 4.2% MoM in Sep, though its contribution to overall inflation was small (Fig 4).
- **Services inflation was unchanged at 1.3% YoY in Sep.** Services inflation dipped 0.1% MoM in Sep as travel demand faded following the summer holidays. However, we expect services inflation to pick up in Oct given strong services demand during the Golden Week holiday.

PPI deflation eased for the third straight month to 2.5% YoY in Sep, largely driven by higher global energy prices. Month-on-month PPI inflation rose 0.4% MoM, the second month-on-month growth since Mar 2023. The outlook of tighter global oil supply and resilient energy demand points to potentially higher energy prices, supporting an acceleration in PPI inflation ahead.

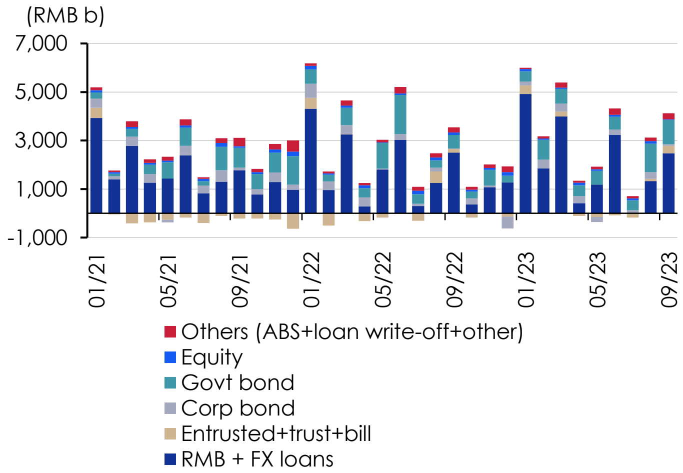
Our view

Strong than expected Sep credit data mostly reflects solid government bond issuance and improving mortgage lending. Following a deceleration in the earlier months of 2023, credit growth has stabilized since Jun after policymakers shifted to a pro-growth stance. The sharp rebound in ML household loans, a proxy for housing mortgages, was consistent with easing restrictions in the property sector, while lower mortgage costs may have helped revive some pent-up housing demand. However, we expect additional policy easing is needed to stabilize housing demand. The sequential pick-up in ML corporate loan demand may reflect green shoots of improving business sentiment, which is key to sustain rebounding growth momentum.

Government bond issuance is likely to stay strong in the months ahead, supporting credit growth. We estimate local governments have about RMB660b left in their 2023 bond quota. Moreover, Xinhua news agency reported China's National People's Congress (NPC) is discussing to grant an early batch of the 2024 local government bond quota to be issued in Q4 2023, a policy initiative started in recent years to maintain steady funding for public infrastructure investment. If the early quota is confirmed, we expect solid government bond issuance will continue in Q4 2023 and support credit expansion. Furthermore, a number of provincial governments have taken the lead in issuing refinancing bonds to refinance the debts owed by local government financing vehicles (LGFVs) and other off-balance sheet government debt with low-cost government bonds. Solid refinancing bond issuance will also help support credit growth.

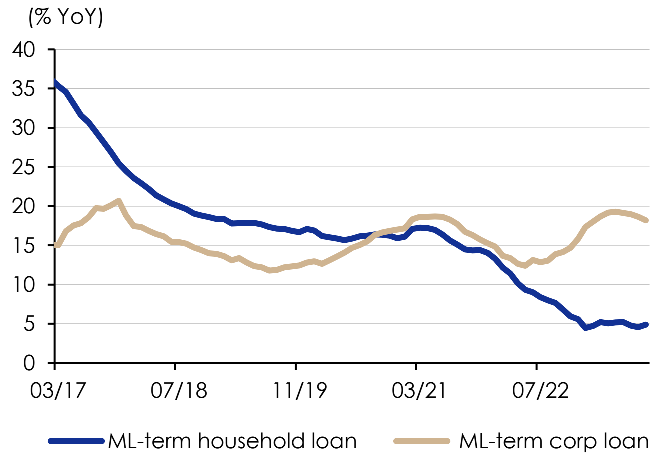
We expect accommodative monetary policy in the remainder of the year. Interbank liquidity has been relatively tight lately. Meanwhile, government bond issuance will likely be ample. We expect the PBoC to cut the policy interest rates, including the 7-day reverse repo rate and the 1-year MLF rate, by 10bp in 4Q 2023 to reduce borrowing costs. Additional cuts to the RRR cannot be ruled out to maintain sufficient liquidity and facilitate government bond issuance.

Fig 1: Government bond issuance remained strong in Sep, continuing the pickup since July.



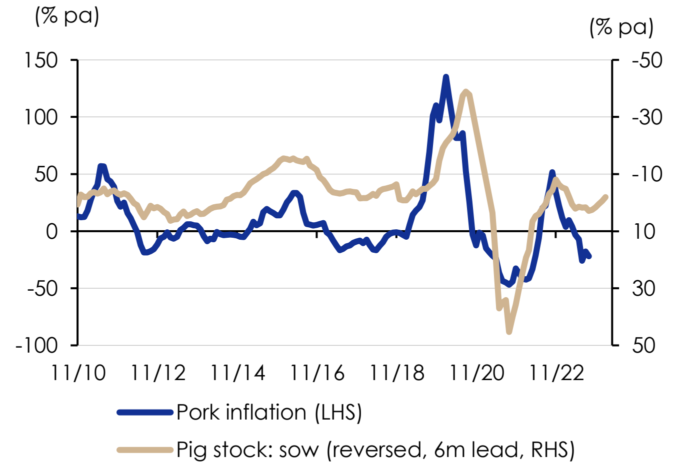
Source: CEIC, CCBIS

Fig 2: Housing mortgage demand stabilized



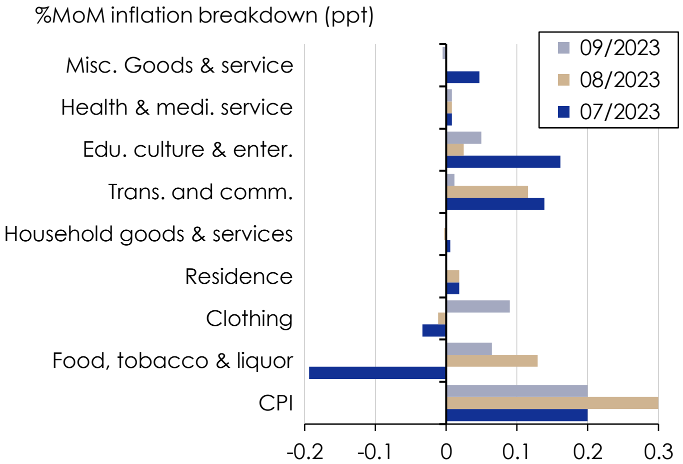
Source: CEIC, CCBIS

Fig 3: Pork deflation is expected to ease on tighter supply outlook



Source: CEIC, CCBIS

Fig 4: Consumer goods inflation lifted in Sep



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