

China Watch

Robust March credit data confirm a new credit cycle has started

Exhibit 1: March money and credit data (announced: 11 April 2023)

March new loans and TSF data both beat market expectations

Mar	New Loans	Loan growth	New TSF	TSF growth	M0	M1	M2
	RMB bn	% yoy	RMB bn	% yoy	% yoy	% yoy	% yoy
Actual	3,890	11.8	5,380	10.0	11.0	5.1	12.7
Previous	1,812	11.6	3,156	9.9	10.6	5.8	12.9
Consensus	3,300		4,500			6.0	12.7
BofA Global Research	3,300	11.9	4,300	9.9			12.8

Source: PBoC, Bloomberg, BofA Global Research estimates

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Financial conditions eased in March on RMB depreciation

Our BofA China Financial Condition Indicator (FCI) eased further to 99.8 in March (from 100.3 in February, Exhibit 2), the lowest level since June 2020. The easing was driven by faster yoy CNY NEER depreciation and the improvement in TSF growth, even as nominal interest rate picked up slightly.

New loans and TSF both surprised on the upside

New RMB loans came in at RMB3,890bn (vs. RMB3,130bn in March 2022), beating the market consensus of RMB3,300bn by a wide margin. The outstanding loan growth accelerated to 11.8% yoy from 11.6% in February. New TSF also turned out stronger than expected at RMB5,380bn, leading to faster outstanding TSF growth of 10.0% yoy (vs. 9.9% previously). M2 growth moderated to 12.7% yoy (vs. 12.9% in February).

Corp loans picked up; household loans rebounded notably

Within TSF, new RMB loans remained strong at RMB3,950bn, exceeding the same month last year, while net corporate and government bond issuance stayed largely on par with March 2022. Off-balance-sheet financing also improved in March.

By loan breakdown, new MLT corporate loans remained robust at RMB2,070bn (vs. RMB1,345bn in Mar 2022), suggesting strong credit demand, likely from manufacturing and infrastructure investment. New MLT household loans (mostly mortgages) also improved to RMB635bn (vs RMB374bn in last March), in line with the recent housing market rebound. Moreover, short-term household loans also picked up to RMB609bn (vs. RMB385bn in March 2022), likely helped by both improvement in consumer confidence and the favorable rates offered by commercial banks in 1Q23.

Strong loan growth confirms the start of new credit cycle

The strong March credit data have confirmed our view that a new credit cycle has kicked off, as banks funnel cheap funds to strategically important sectors under the window guidance of policy makers as well as the direction of structural monetary policy tools. We expect this pick-up in credit momentum to lead to stronger economic activities in 1-2 quarters, as it will eventually boost capex amid stronger confidence. Meanwhile, the housing market recovery has started to show up in household loan data, while the sustainability of that improvement remains in question. We believe that risks are skewed to the upside for our annual GDP growth forecast of 5.5%.

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Abbreviations:

LNY: Lunar New Year

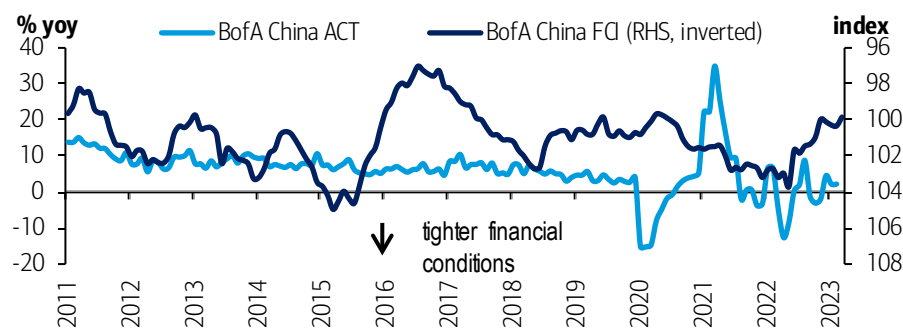
MLT: medium- to long-term

NEER: nominal effective exchange rate

TSF: total social financing

Exhibit 2: BofA China FCI & ACT

Financial conditions eased further in March, driven by CNY NEER depreciation



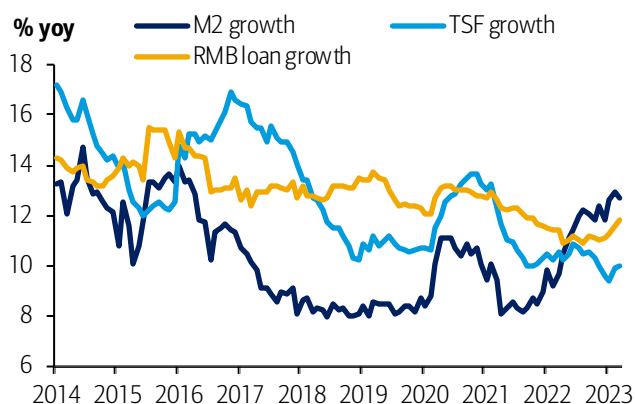
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Source: BofA Global Research, CEIC, Wind

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Exhibit 3: Growth of M2, TSF and RMB loans

Growth of M2 slowed in March while that of TSF and RMB loans accelerated

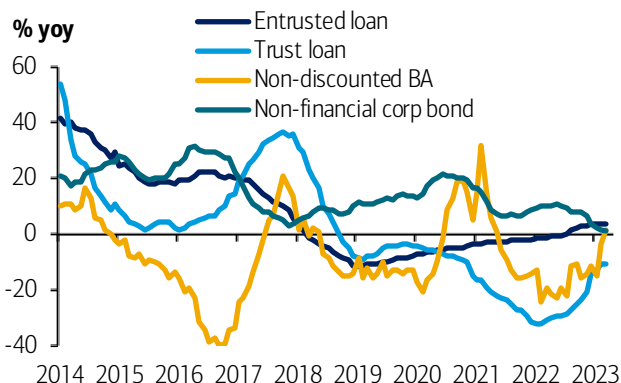


Source: BofA Global Research, CEIC

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Exhibit 4: Growth of bonds and off B/S credit

Growth of non-discounted BA turned positive

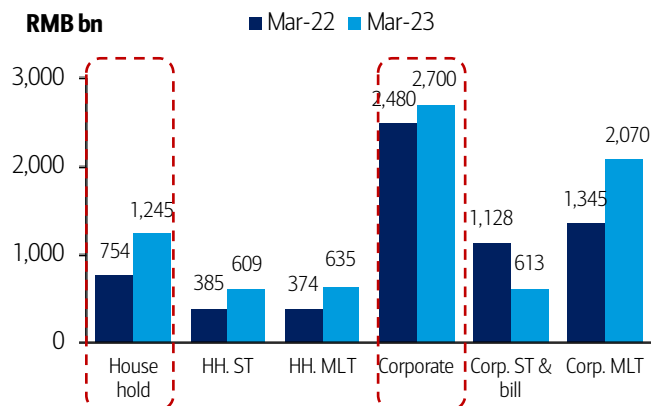


Source: BofA Global Research, CEIC

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Exhibit 5: New loans breakdown

MLT corporate loans stayed robust while household loans rebounded notably

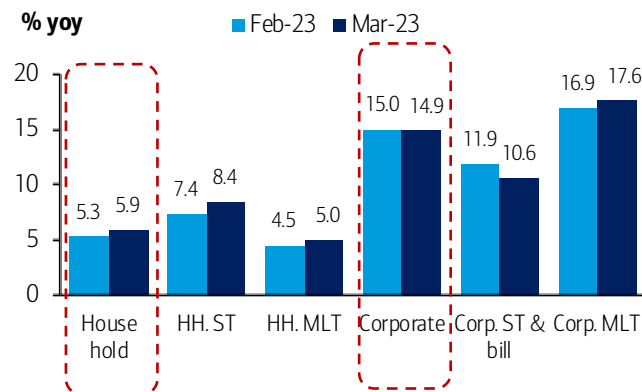


Source: BofA Global Research, CEIC

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Exhibit 6: Loan growth breakdown

Household loans improved from last month's level

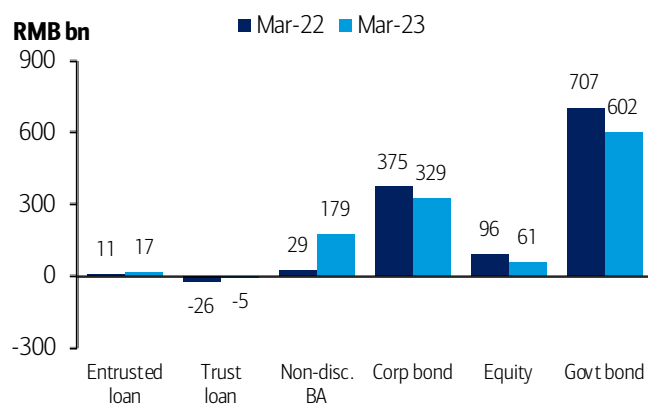


Source: BofA Global Research, CEIC

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Exhibit 7: TSF breakdown

New corporate and government bond issuance slightly lower than that of March 2022

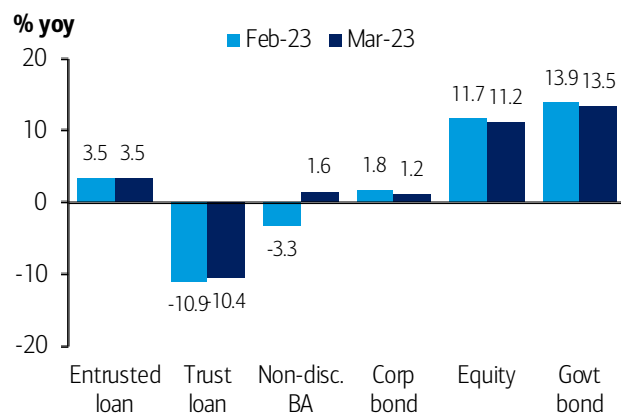


Source: BofA Global Research, CEIC

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Exhibit 8: TSF growth breakdown

Growth of outstanding non-discounted BA improved in March

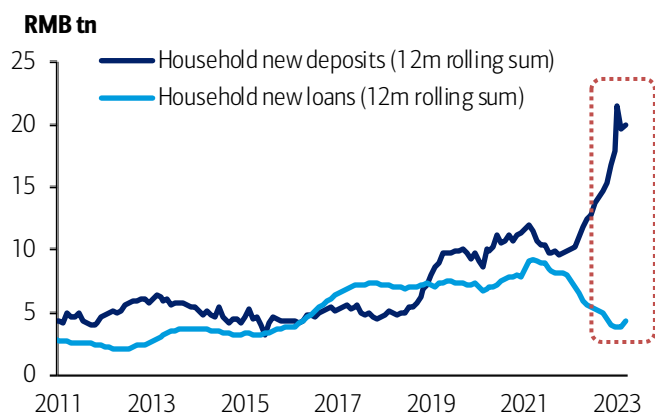


Source: BofA Global Research, CEIC

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Exhibit 9: Household new deposits and new loans

New household deposits remained elevated while household loans edged up



Source: BofA Global Research, Wind

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