

China: An Equity Strategist's Diary

TSF, stimulus, and market bottom?

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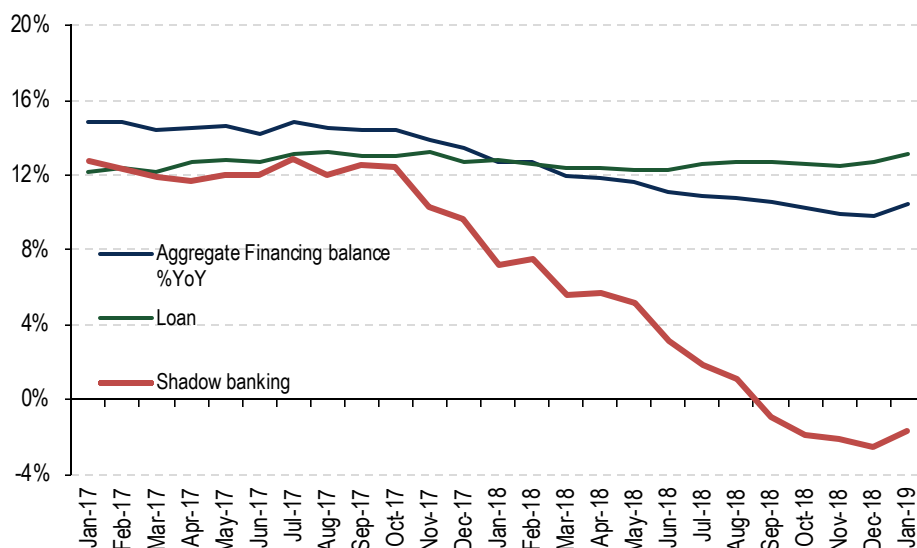
Investment Strategy

17 February 2019

Too early to call a bottom of the market

- Jan's new total social financing (TSF), at Rmb4,640bn, surprised the market on the upside (Xiaojia Zhi/Helen Qiao, [Upside surprise in TSF growth confirmed Jan financial condition easing](#), Feb 15). Particularly noteworthy is the Rmb3,570bn new Rmb loans granted in Jan, up from Rmb2,685bn in Jan 2018, up 33% YoY.
- Growth rate of TSF balance rose to 10.4% YoY in Jan, up from 9.8% YoY in Dec. This represents a reversal of the downward growth trend established since mid-2017 and could mark the bottom of the growth rate this round. Both loan and shadow banking YoY growth rates ticked up in Jan.
- Despite the positive surprise, we believe that it's still too early to call the start of a big stimulus and a possible bottom of China equity markets. First, Jan data could be distorted by the timing of the Chinese New Year public holiday in China: Feb 4-10 this year vs. Feb 15-21 in 2018. It's possible that some loans might have been front-loaded to Jan this year. Second, the rebound in TSF growth rate, even if sustained, only means a moderate acceleration of credit expansion. As a result, unless it surges in the following months, it remains to be seen whether such a moderate easing is sufficient to arrest the downward momentum in growth. Third, we believe that a significant portion of the new credit generated in 2015-2017 to boost growth is not captured by TSF, including the special construction fund, public private partnership (PPP), and government sponsored industry fund ([How to gauge the strength of the coming stimulus](#), Aug 13). In our view, we need to see a loosening of policy tightening in these areas as well to be sure of a big stimulus. For the moment, we continue to recommend to sell into this rally.

Chart 1: TSF growth rate ticked up in Jan



Source: CEIC, BofA Merrill Lynch Global Research

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Timestamp: 17 February 2019 09:48AM EST

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