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China

Stabilization in credit growth to continue in Q1

The PBoC adjusted total social financing statistics for the fourth time since July 2018 by adding central government bonds and local government general bonds to December total social financing. On the new statistical basis, growth in TSF remained steady at 10.7% in December. The stabilization in TSF growth in December reflects a) pickup in loan growth (led by increased long-term household loans), and b) narrowed contraction in shadow financing. Moreover, we note the credit impulse remained broadly stable in December. We think the stabilization in credit growth, accompanied by an expansionary manufacturing PMI, improved exports and imports, and firm auto sales volume, support our outlook of a near-term recovery in growth momentum. We expect the Q4 GDP (17 January) print to edge up to 5.8% q/q saar from 5.5% in Q3, and to stabilise at 6% y/y.

Looking ahead, we expect credit growth to be supported by a combination of factors: 1) many local governments have already started to issue the CNY1trn of approved front-loaded special bonds quota (19 provinces confirmed to issue around CNY600bn special bonds in Jan versus ~CNY140bn issuance a year ago), 2) a sizable decline in corporate onshore bond maturities (Q1 20: CNY1.4trn; Q1 19: CNY1.7trn) could reduce drag on growth in corporate bond financing, 3) more targeted credit policy to support financing to the manufacturing sector (emphasized by annual Central Economic Work Conference) is likely to lend some support to loan growth, and 4) the expected regulatory policy fine-tuning is likely to slow the pace of contraction in shadow financing (on 13 January, the CBIRC said it could allow more flexibility, if needed, for individual banks to comply with the New Asset Management Rule by end-2020, when the transition period is due).

Given that ensuring stable growth remains top priority, we think the PBoC will maintain an accommodative monetary policy stance in 2020. On 16 January, the head of the PBoC's monetary policy department, Sun Guofeng said the central bank will 1) step up counter-cyclical adjustments, 2) keep liquidity at reasonably ample levels by using monetary tools such as RRR, MLF OMO and SLF, 3) guide financial institutions to extend credit to small and micro private firms and further lower financing costs for them, and 4) continue to increase efforts to replenish banks' capital through the issuance of perpetual bonds. After the January's 50bp RRR cut, we expect another 100-150bp RRR cut in Q2-Q4. Meanwhile, we expect banks to lower 1y LPR by 5bp to 4.1% on 20 January after funding costs were reduced by the early-January RRR cut.

On the new broader basis, December TSF improved to CNY2103bn from CNY1931bn a year ago, mainly due to better loan financing (Dec: CNY1077bn, a year ago: CNY928bn) and a smaller contraction in off-balance-sheet lending (Dec: -CNY146bn, a year ago: -CNY168bn). While corporate bond financing appeared to be a main drag (Dec: CNY263bn, a year ago: CNY390bn), it was in part offset by improving government bond financing (Dec: CNY374bn, a year ago: CNY345bn) that likely benefited from the statistical adjustments.

Among the better-performing new loan segments (Dec: CNY1140bn, a year ago: CNY1080bn), household loans continued to improve (Dec: CNY646bn, a year ago: CNY450bn). Notably, long-term household loans (mainly mortgage loans) increased visibly to CNY482bn from CNY308bn a year ago. Moreover, long-term corporate loans have recovered (on y/y basis) for the fifth consecutive month, increasing to CNY398bn from CNY198bn a year ago, while short-term corporate loans and corporate bills decreased (Dec: CNY30bn; a year ago: CNY261bn).

Figure 1: Credit growth stabilised in December

Figure 2: TSF breakdown