**Economic Watch**

# China | August credit data expanded faster than expected

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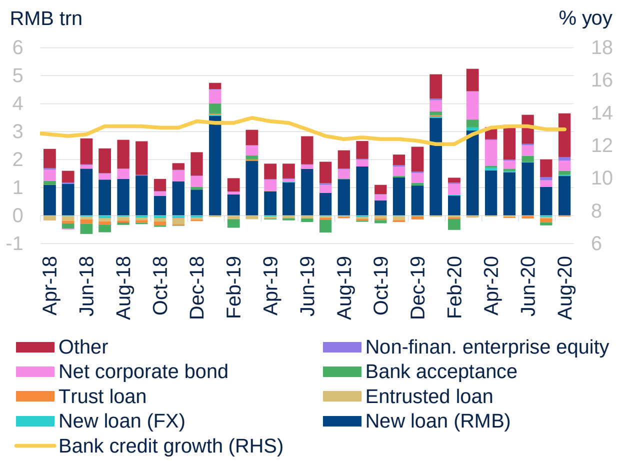
China's August credit data announced last Friday reflected credit expanded faster than the market expected. The credit rebound was mainly driven by robust new RMB loans, government bonds and net corporate bond financing, reflecting the authorities are continuing roll-out the previous easing measures to stimulate the economy. Despite of the rebound, authorities' intention of gradually normalizing the previous easing monetary policy in the rest of this year to reserve room for the ongoing uncertainties is still in place.

In particular, August's total social financing (TSF), a broad measure of credit and liquidity in the economy bounced back to RMB 3,580 billion, more than double the July's reading of RMB 1690 billion and above the Bloomberg consensus of RMB 2,730 billion. In terms of growth rate,TSF accelerated steadily to 13.3% yoy in August from 12.9% yoy in July. By contrast, August M2 growth slowed to 10.4% y/y in August from 10.7% y/y in July due to the high base effect, while M1 growth picked up to 8% as the ongoing improvement of industrial profit creats cash flow, showing a narrowing divergence between M2 and M1.

Component wise of the outstanding total social financing: (i) New yuan loans increased to RMB 1,280 billion in August from RMB 992.7 billion recorded a month ago (Bloomberg consensus: RMB 1,220 billion), mainly due to the pick-up of seasonal loans and the gradual recovery of domestic demand. Medium and long term loan accounted for a large share, benefiting from the targeted monetary policy to support the real economy especially SMEs; (ii) Government bond financing rose quickly at 18.7% yoy from 16.5% in July, boosted by local government bond issuance as the local government continues to shovel money into infrastructure projects to curb the economic fallout from the coronavirus. (iii) Net corporate bond financing remained its robust growth at 21.1%, which is in line with July's reading, supported by a decreasing bond yield. (iv) Off-balance-sheet shadow banking activities (including trust loan, entrust loan and bank acceptance) showed a negative yoy growth at -3.3%, narrowing July's declining of -4.0%. Although the contraction of off-balance-sheet lending is moderating, we do not expect the authorities will allow shadow banking lending to bounce back, taking lessons of the previous deleveraging campaign in the post-GFC RMB 4 trillion stimulus.

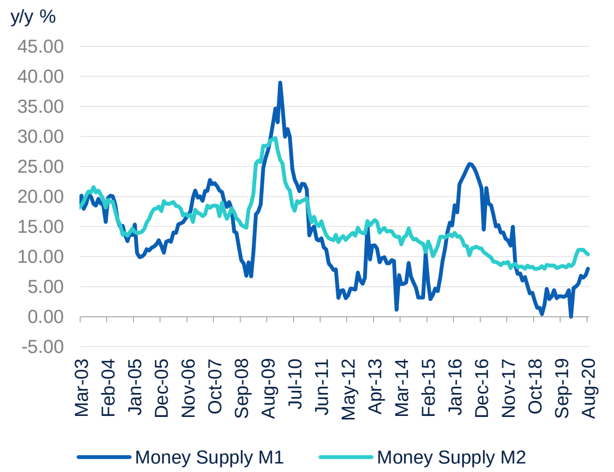
Looking ahead, despite of temporary rebound of TSF, we expect the authorities' intention of gradually normalizing the previous easing monetary policy in the rest of this year to reserve room for the ongoing uncertainties will be still in place. The better-than-expected economic recovery in Q2 and Q3 gave the PBoC more confidence to do so. However, this does not necessarily mean the monetary tightening cycle will start. After all, China still has much higher interest rate than that of other advanced economy, such as zero interest rate in US and negative interest rate in Japan and EU. Besides, the low inflation environment also gives the authorities policy room to maintain a more flexible monetary policy stance. Thus, we anticipate M2 growth will stabilize in 2H and possibly goes back to the single-digit growth track for the rest of the year. In addition, the authorities will adopt a more conservative stance on LPR cut, thus it is anticipated to be no LPR cut except for global outlook turnaround unprecedentedly in 2H 2020. Instead, the authorities will rely on targeted monetary easing measures to support SME financing.

Figure 1. **TOTAL SOCIAL FINANCING REBOUNDED**




Source: CEIC and BBVA Research

Figure 2. **DIVERGIENCE BETWEEN M2 AND M1 IS NARROWING**




Source: BBVA Research and CEIC

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