Chinese loan growth sees big jump

China's overall credit growth in January has seen a significant spike and most of the increase came from loans and government bonds. But we think more monetary easing and fiscal stimulus are on the way

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Soaring credit growth

In January, Chinese yuan loan growth increased by CNY 3.49trillion - a 12.1%YoY increase. This number is pretty big, but not massively different from our expectations of CNY3.22 trillion, as it is usual for Chinese banks to see their loan books swell in the early months of the year.

Aggregate financing increased by CNY5.07 trillion - the highest since the current data series started. This is considerably larger than our expectations of CNY4.14 trillion.

The big difference lies in the net issuance of government bonds of CNY761.3 billion - an increase of CNY591.3 billion year-on-year. These issuances could have been used to provide support to the already battered economy suffering from the trade and technology war.

Things could look similar in February

The People's Bank of China has set up a special re-lending programme, which offers low-interestrate loans to corporates that have directly been impacted by coronavirus since the beginning of February. This means loan growth is likely to increase more than usual after the Chinese New Year.

However, this alone won't be enough. The government will continue to issue bonds to support stimulus for individuals that are out of work and corporates that are facing cash flow problems. Therefore, we think aggregate finance in February will grow by a similar amount as in January.

More monetary easing on the way

We expect that if Covid-19 continues to spread for another quarter, the central bank will need to ease again by a 0.5 percentage point cut in the reserve ratio requirement and 10 basis point cut in 7D reverse repo, 1-year medium-term lending facility and 1-year loan prime rate.

However, if there is no increase in the rate of new cases, expect more broad-based policy support from the government and the central bank