China: credit growth supports stimulus and GDP

China’s credit growth increased in August. Some of the money may have been spent on infrastructure stimulus, which should boost GDP growth in 3Q and 4Q. It is expected that the People's Bank of China will maintain this credit growth momentum through its daily open market operations

Leading members of the People's Bank of China, including Governor, Yi Gang (waving)

More credit growth means stimulus measures are in progress

Aggregate finance grew CNY3.85 trillion in August after growing CNY1.69 trillion in July.

CNY1.42 trillion was yuan loan growth and there was a CNY1.38 trillion increase in the issuance of government bonds. These two categories outstripped the others, e.g. corporate bond net issuance was a mere CNY363.3 billion. But when we combine loans drawn by corporates for long term use, amounting to CNY725.2 billion, and the net issuance of corporate bonds in August, total credit going to corporates reached CNY1.089 trillion.

Despite the need for credit growth, China continued to shrink its shadow banking market. An exception was undiscounted bills, which increased CNY144.1 billion. An increase in undiscounted bills is usually due to tight liquidity, which was the case in early August.

Housing market is also helping growth

Loans to households came in at CNY841.5 billion. Most of them are long-term loans such as mortgages, reflecting the fact that sentiment in the housing market in China has continued to rise even though there have been tightening measures by some local governments.

We expect property developers and the construction sector to have benefited from this rising momentum in the housing market. And this will continue in the third and fourth quarters.

Expect credit to keep growing even if the PBoC does not easing further

Analysing the credit data, we think stimulus measures are in progress, which includes traditional infrastructure stimulus and 5G infrastructure. These projects will continue to support GDP growth in 3Q and 4Q. We believe that credit growth momentum should last into the end of the year, although we don't expect any cut in interest rates or the Required Reserve Ratio.

We have revised our USD/CNY forecasts from 6.97 to 6.70 by the end of 2020. This is mainly a result of the weak dollar as we do not expect the PBoC to ease further in 2020.

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