

China: Loan growth poised to pick up

China's April credit data matched the smooth progress of trade talks last month. But as the trade tension increases, we expect faster loan growth to return



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Loan growth dropped more than expected in April

We thought loan growth would decline in April but the drop from CNY1.69 trillion to CNY1.02 trillion was more than expected.

The seemingly smooth progression of trade talks last month signalled that exporters would not be facing any additional tariff hikes and therefore gave China's central bank, the PBoC, a reason to limit banks' loan growth. There's no need to place an extra burden on banks when the environment is stable. We do not agree with the market that the slower loan growth means lower loan demand. Loan demand in China has been strong from infrastructure projects and small- and medium-sized companies.

China needs faster credit growth if there are more tariffs from US

But we believe credit growth in May will be higher than April and could be similar to the scale seen

in March, which was CNY1.69 trillion.

Higher tariffs from the US on Chinese exporters means small Chinese exporters will need extra money to survive the tough times ahead, otherwise, the job market will be affected. Job stability is a top priority for the Chinese government as outlined in its "[six stability](#)" policy for 2019.

If China implements more fiscal stimulus to defy a trade-induced economic slowdown, credit for infrastructure projects will increase, which implies total credit growth will be even faster.

Easing monetary policy stance

We believe there will be targeted reserve requirement ratio (RRR) cuts and targeted lending from the medium-term lending facility (MLF) to release liquidity to banks and then to small exporters. Though this creates some relief for small exporters, it will put extra pressure on banks as the credit risk associated with small creditors is usually higher.

The interest rate transmission mechanism is still under reform, and each move of the 7D policy rate is only five basis points. As such, we do not think the PBoC will use the 7D policy rate to lower interest rates in China. Instead, we expect continuous liquidity injections in the market will push down interbank interest rates.