

China's very strong loan growth in March signals more investment

China's loan growth was stronger than the market expected. This should move the market tomorrow when China's stock market opens. CNY and CNH should strengthen



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

Very strong loan growth in March

New yuan loans rose by CNY3890 billion in March from CNY1810 billion in February. Including loan growth, all credit channels experienced very strong growth, which totalled CNY5380 billion.

For the first quarter, new yuan loans rose by CNY10.7 trillion and overall credits rose by CNY14.53 trillion. This is a quarter of exceptionally strong credit growth. Most of the growth came from infrastructure and corporate investment needs. If we look at the details, government bond net issuance, which includes local government bonds increased by CNY1.83 trillion. This means credit growth from the government contributed more than 12.5% of total credit growth in the first quarter, and this does not include bank loans for infrastructure investment.

Why is this market moving?

We think that this exceptionally strong loan growth in March could be market-moving for several

reasons.

1. It is not usual for loan growth to be so strong in March. Loan growth is usually strong in January and February but softer in March as most loans are booked in the first two months. This year's strong loan growth in March should support more investment for the rest of the year compared to previous years.
2. This may not be a completely good signal for the market, depending on how it is interpreted. This very strong loan growth indicates that banks could be under window guidance to grow more loans to support the economic recovery. This might be the case as we see less aggressive credit growth in corporate bond issuance and stock market IPOs from this set of data. This could signal that genuine demand for loans is lower as corporates can deposit the loans back to banks when they do not need them.
3. But at least corporates did borrow more from banks, which means they also envision the recovery to be strong in the latter part of the year.

So, we believe that the market should open higher tomorrow but could be calmer after market participants digest the data. The same should apply to USD/CNY and USD/CNH, with the yuan strengthening at the beginning of China's market open before stabilising for the day.

We are looking forward to seeing the investment data on 18 April

To confirm our view, we need to wait a bit longer. Activity data and the first quarter GDP report will be released on 18 April. We expect a pickup in infrastructure investment from the strong loan growth. How fast could these loans turn into investment activity? This should be clearer if the fixed asset investment grows faster than February's rate and faster than the pre-Covid growth rate. We also expect that some loans were taken out by real estate developers. If this is the case, we should see faster property investment in March.

We wrote about the possibility of the People's Bank of China easing if the activity data does not show a solid recovery, you can read it [here](#).

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