

## Chinese loans grew less than expected in October

Small loan growth is a direct reflection of weak loan demand and a weak economy



### Small loan growth indicates a weak economy in the fourth quarter

The fourth quarter is usually a quiet time for loans and credits, but this set of data for October is just too soft.

Overall credit growth was only CNY907.9 billion in October, lower than the previous month's CNY3530 billion, and less than CNY1617.6 billion a year ago. Among all credit growth, yuan loan growth was CNY615.2 billion, also lower than the previous month's CNY2470 billion. Outstanding yuan loans grew 11.1% year-on-year, slower than 11% in the previous month and 11.9% during the same month in 2021.

This indicates that demand for loans was weak in October. Together with PMI and trade data, we believe that there could be a deeper-than-expected slowdown during the month.

The housing market should still be quiet as mortgage loans, which are a big part of household long-term loans, grew only CNY33.2 billion.

## Government and corporate bonds have been big drivers of credit

Yuan loans made up nearly 68% of total new credit in the month of October. Most of the rest were net issuance of corporate and government bonds, which contributed nearly 26% and 31%, respectively, of total new credit.

Local government special bonds will raise funds for the 2023 quota in the fourth quarter of this year. The issuance amount for 2023 is likely to be higher than the issuance amount of around CNY4.15 trillion in 2022. We believe funding raised will be used on finishing uncompleted home projects, buying back land from some property developers, infrastructure projects that have already started, and Covid-19-related spending.

What will be interesting to find out is how much more local government bond quotas are set for 2023. We believe that both central government and local governments will be key supporters of the economy until there is more relaxation in Covid measures.

We are still keeping GDP growth at 3.3% for 2022 and USD/CNY at 7.4 by the end of the year.