

## Strong loans in China reflect shrinking interbank activities

Recent money supply data reflects interbank activities among non-bank financial institutions moving into renminbi loan growth.



### The movement towards renminbi and trust loans

In June, new renminbi (RMB) loans were worth CNY1,540bn increasing from the previous amount of CNY1,110bn, where ING forecasted June's RMB loans as CNY1,500bn and the consensus forecasted them as CNY1,300bn.

Although our projections were in line with the data release, we are still surprised by the increase in trust loans of CNY250bn, particularly when the average growth in the last two months was CNY164bn. This confirms our analysis that interbank activities related to non-bank financial institutions are moving towards trust loans and RMB loans after the China Banking Regulation Commission (CBRC) announced its inspection exercise on banks of interbank items. The objective of this regulatory exercise being to limit interbank players cross buying products from each other simply to boost profitability, not allowing these funds to flow into economic activities.

This month's data release also exposes that even aggregate financing does not cover all of bank and non-bank activities in China.

9.4%

June M2 growth YoY

in line with loan growth

As expected

## What to expect in the near future

Since we expect the CBRC to continue this inspection on interbank and shadow banking activities, the trend of RMB loan growth and other items in aggregate financing, including trust loans, is likely to continue. M2, however, will keep growing at under a 10% rate as banks continue to increase their net interest margin by pushing the loan-deposit ratio higher.