

China Macro Flash

Feb monetary data: More Aggressive Lending to Curb Growth Risk

- **Strong credit support and normalized M2 growth** — In contrast to weak Jan-Feb real economy data, Feb monetary data broadly beat our and market expectations. M2 normalized to 12.5%YoY after a record low print in Jan while strong new RMB lending boosted credit growth to one-year high of 14.3%. Average interbank and repo rates edged higher in Feb, which partly triggered the recent rate cut, in our view. In the NPC meeting last week, M2 growth was set at 12% this year, but could be higher if necessary. In our view, accommodative monetary policy has to do the heavy lifting in order to curb the downside risks to both growth and inflation, given liquidity shortage - drained by continuous capital outflow, high real cost of capital in a lowflation environment and limited fiscal support amid debt restructuring. We expect two more broad-based policy rate cuts and 2-3 more RRR cuts this year. More rate cuts possible if China fully liberalizes interest rates this year, which has a high possibility, according to Zhou Xiaochuan, Governor of PBOC.
- **M2 growth rebounded after liquidity injection** — M2 growth picked up by 1.7ppts to 12.5%YoY after hitting record low of 10.8%YoY in Jan. This was largely driven by 1) RRR cut in early Feb – may have unlocked Rmb600bn liquidity and increased money velocity; 2) PBOC's injection of net of Rmb153bn into the banking system through the OMOs; 3) Monthly decrease in fiscal deposits registered of Rmb470.5bn – may have contributed to base money increase if the deposits decline occurred mostly in the central bank. Meanwhile, M0 and M1 growth, which are more sensitive to seasonal volatility, rose by 17.0% and 5.6% after recording growth of -17.0%YoY and 10.6%YoY in Jan due to CNY (Feb 19 2015 vs. Jan 31 2014).
- **Front-loaded new RMB lending** — New RMB lending in Feb reached Rmb1.02tn, boosting credit growth to 14.3%YoY from 13.9%YoY in Jan. Total new RMB lending in Jan-Feb hit Rmb2.5tn (or Rmb2.6tn excluding the new RMB lending by non-bank financial institutions), translating to about 33%YoY increase vs. last year. The credit extension seems to be front-loaded this year as the share of new lending in Jan-Feb to the whole year picked up from average of 22% in the past six years to 25% (assuming Rmb10.5tn loan quota in 2015), consistent with recovering growth of funding in fixed asset investment. Meanwhile, foreign deposit continued to increase by \$US18.7bn (or 27.6%YoY) while foreign loan was cut by \$US7.4bn, reflecting that corporates are trying to trim FX liability amid weakening RMB against USD.
- **TSF stays intact albeit subdued off-balance sheet (OBS) activity** — Thanks to robust RMB lending in Feb, Total Social Financing (TSF) increased by Rmb1.35tn, pushing up TSF stock growth from 13.6%YoY in Jan to 13.8%YoY. OBS items suffered from earlier crackdown and low risk appetite. In particular, trust loan grew merely Rmb3.8bn, down 70.9bn from Feb2014, while undiscounted bank acceptance bill was reduced by Rmb63bn, Rmb78.9bn less than the same period last year.

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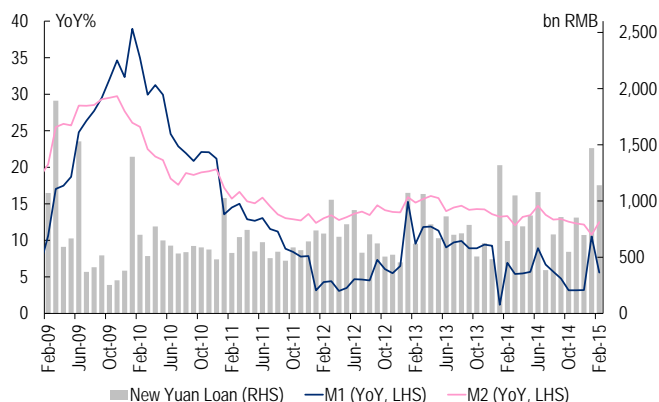
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Figure 1. China Data Release

	Date	For	Actual	Citi Fcst	Mkt Fcst	Prev
New Yuan Loans (bn)	12-Mar	Feb	1020	750	750	1470
M0 (%YoY)			17.0	-	-0.8	-17.6
M1 (%YoY)			5.6	4.5	6.8	10.6
M2 (%YoY)			12.5	11.7	11.0	10.8
Total Social Financing (bn Rmb)			1350	1150	1000	2050

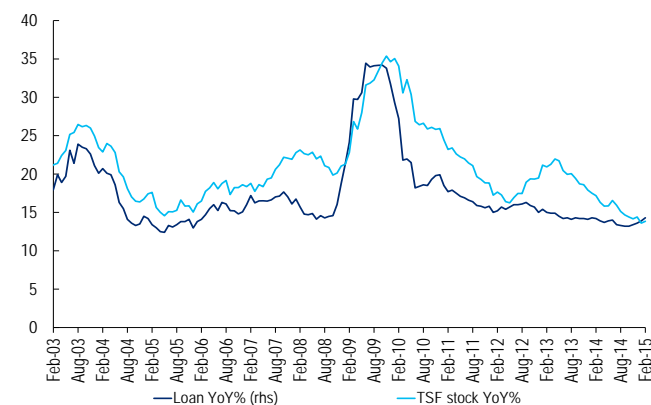
Source: PBOC and Citi Research estimates

Figure 2. M2 normalized to 12.5%YoY after a record low print in Jan



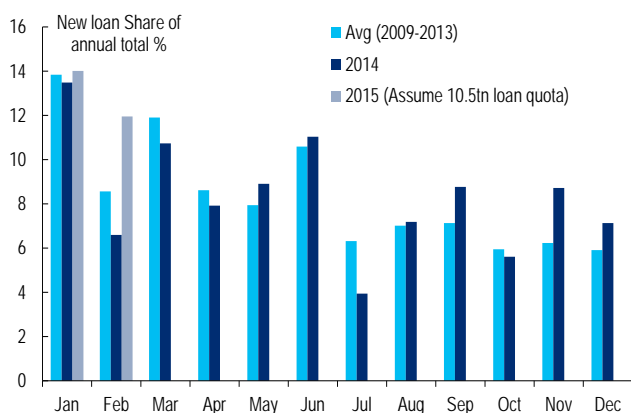
Source: CEIC and Citi Research

Figure 3. TSF stock vs. loan outstanding growth



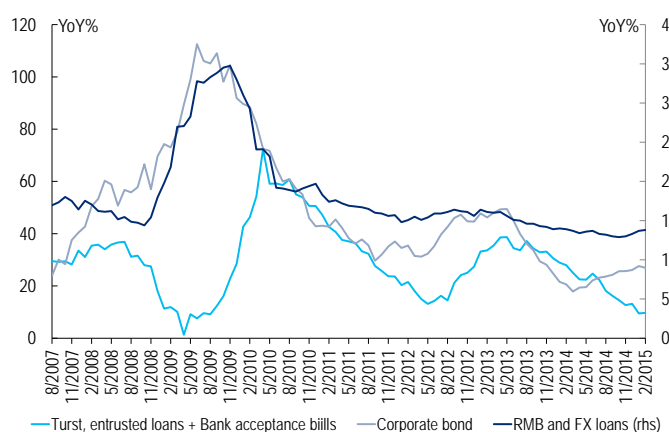
Source: CEIC and Citi Research

Figure 4. New RMB lending seems to be front-loaded



Source: CEIC and Citi Research

Figure 5. Off-balance sheet (OBS) expansion continued to be restrained



Source: CEIC and Citi Research

Appendix A-1

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