

China Macro Flash

Apr Data: Monetary Easing Bias May Stay for Longer

- **Money/credit growth beats expectations again** – While RMB credit growth has been in line with an implicit annual quota of Rmb9tn, broad money (M2) and total social financing growth have consistently exceeded market expectations this year. As inflation does not appear a short-term threat and foundation for growth is not deemed as solid by the PBOC, the shift of monetary policy from an easing bias to a neutral position is likely to be prolonged, especially in a global environment of QE and rate cuts. However, an outright interest rate cut appears premature, with inflation trending up and housing prices rising, unless this is accompanied by rate liberalization measures (such as increasing the upward floating for deposit rate from 10% to 20%). The current policy stance should support investment and growth momentum in the next two quarters, although financial risks may also accumulate.
- **M2 growth powered on to reach 16.1% YoY in Apr** – This is the highest rate since Aug 2011, and way above the annual target of 13%. Fiscal deposits posted a seasonal increase (due to tax collection) of Rmb522bn, withdrawing liquidity in the market. However, the PBOC may have continued FX purchases during the month amid trade surplus/capital inflows. In addition, PBOC injected Rmb98bn on a net basis through open market operations. M1 growth remained stable at 11.9%, suggesting buoyant economic activity. Going forward, recent measures introduced by SAFE to tighten speculative capital flows may reduce FX purchase by PBOC, and the resumption of the PBOC bill issuance this week may strengthen the Central Bank's ability to manage liquidity. M2 growth may gradually decelerate, most likely toward 14%, instead of the official target of 13%.
- **RMB credit appears consistent with an implicit annual quota of around Rmb9tn** – Rmb credit increased by Rmb793bn in Apr, also higher than market expectations, but the total credit in the first four months (Rmb3.5tn) indicates PBOC is still targeting growth of credit outstanding of around 14%. The share of medium- and long-term loans remained high at 53%, indicating strong momentum of home purchase and business investment. FX credit grew by a stunning 36.9%YoY, likely reflecting borrowing to speculate on RMB appreciation.
- **Total social financing (TSF) continued to dwarf bank credit growth** – TSF, which is less controllable by the monetary authorities, arrived at Rmb1.75tn in Mar. In the first four months, TSF (Rmb7.91tn) was 38.7% higher than that of the same period last year. While trust loans, designated loans, bank acceptance bills, and bond financing all grew significantly YoY, both trust loans and bond financing dropped by more than 50% MoM, suggesting the government measures taken early this year to contain local government debt and regulate wealth management products started to show effect. In light of the rapid growth to date, TSF will likely exceed our estimate of Rmb18.5tn for the year.

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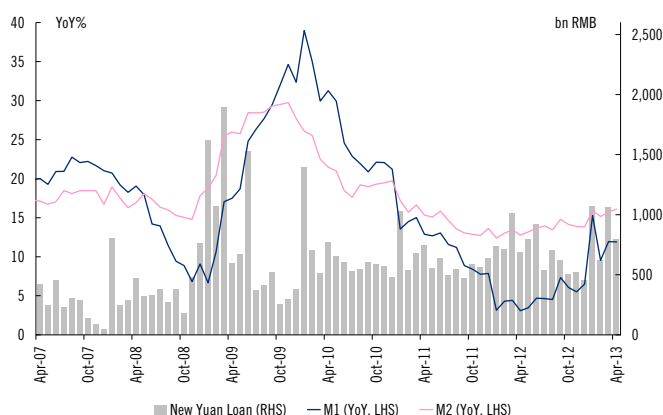
Monetary Easing Bias May Stay for Longer

Figure 1. China Data Release

	Date	For	Actual	Citi Fcst	Mkt Fcst	Prev
New Yuan Loans (bn)	10-May	Apr	792.9	785	755	1060
M0 (%YoY)			10.8	12.0	12.0	12.4
M1 (%YoY)			11.9	9.3	11.0	11.9
M2 (%YoY)			16.1	15.2	15.5	15.7
Total Social Financing (tn Rmb)			1.75	--	1.50	2.54

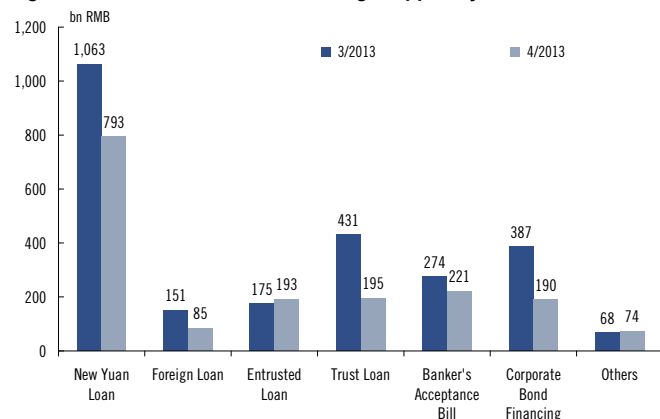
Source: PBOC and Citi Research Estimates

Figure 2. Money/credit growth beats expectation again



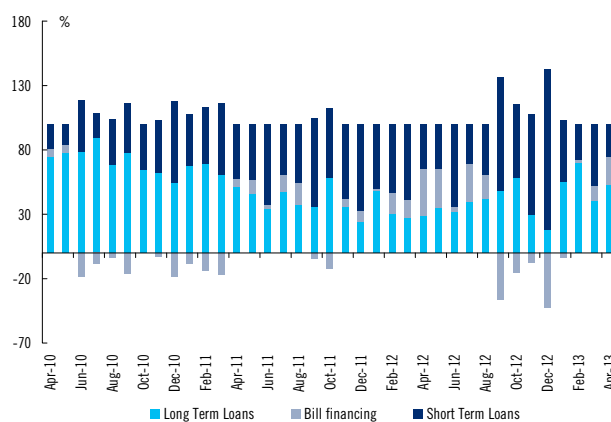
Source: PBOC and Citi Research

Figure 4. Trust loans & bond financing dropped by more than 50% MoM



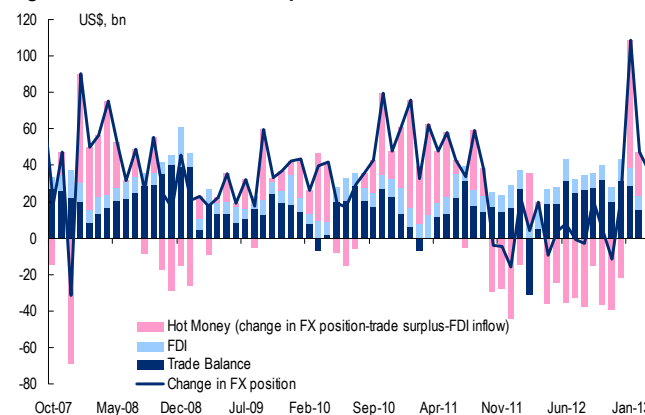
Source: CEIC and Citi Research

Figure 3. The share of medium- and LT loan remained high, indicating strong momentum of home purchase and business investment



Source: PBOC and Citi Research

Figure 5. PBOC continued FX purchase in the first 3 months



Source: CEIC and Citi Research

Appendix A-1

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