

Economics

9 March 2012 | 6 pages

China Macro Flash

Feb Money and Credit Growth Still on the Weak Side

- **Money and credit growth may have been artificially boosted** – M2 grew by 13.0% YoY and new RMB lending during the month reached 711bn, both higher than our expectation. However, M1 growth, which reflects transaction demand in the economy, rose only slightly to 4.3% YoY from 3.1% in Jan, close to the slowest pace since 2001. It is reported that bank lending was very slow in the first 20 days of Feb, but banks accelerated loan extension toward the end of the month, possibly with encouragement from regulators. Even after the boost, M2 growth still fell short of the 2012 target of 14%. Assuming an annual lending target of Rmb8tn, credit extended in Jan-Feb was only 18% of the annual total. Following the implicit PBOC guidance to have 30% of the annual loan issued in Q1, a significant catch-up is needed in March.
- **Loan growth is less constrained by LDR** – RMB deposit increased by Rmb1.6tn in Feb, benefiting from the reflow of cash into the banking system following the holiday, which together with the RRR cut during the month, increased money multiplier. As a result, system-wide LDR declined from 69.3% to 68.8%. The incremental LDR during the month was only 0.442. This and slow credit growth in early Feb indicate weak loan demand amid slowing economic activity. That said, at the current level, the LDR is still among the highest in the past two years, and remains constraining on smaller banks.
- **Policy easing is needed to support growth** – Feb data released so far generally point to continued growth slowdown and falling inflation. Growth may slow to 8% YoY or less in Q1, and policy easing is needed to prevent further sliding of the economy. We believe the government is de facto targeting above 8% growth this year, and will be more active in implementing the fiscal policy after the budget is approved. Meanwhile, based on our estimate of FX inflows and liquidity injection in the open market operations, we think another RRR cut would be needed this month to avoid a fall of M2 growth from the Feb level, and more importantly, to improve business and consumer sentiment and mitigate the impact of property market correction.

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Figure 1. China Data Release

	Date	For	Actual	Citi Fcst	Mkt Fcst	Prev
New Yuan Loans (bn)	9-Mar	Feb	710.7	640.0	750.0	738.1
M0 (% YoY)			8.8	-	13.5	3.0
M1 (% YoY)			4.3	6.0	6.1	3.1
M2 (% YoY)			13.0	12.5	12.9	12.4

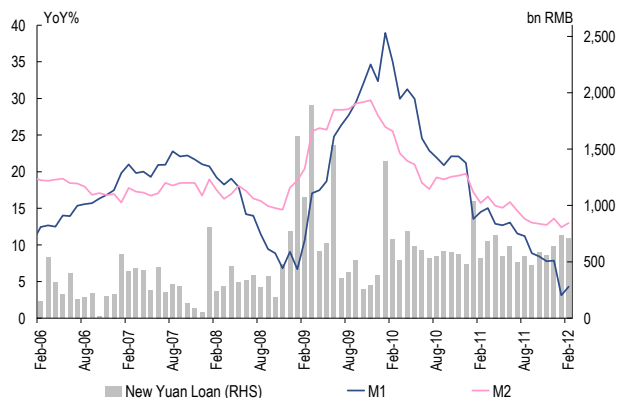
Source: PBOC and Citi Investment Research and Analysis Estimates

See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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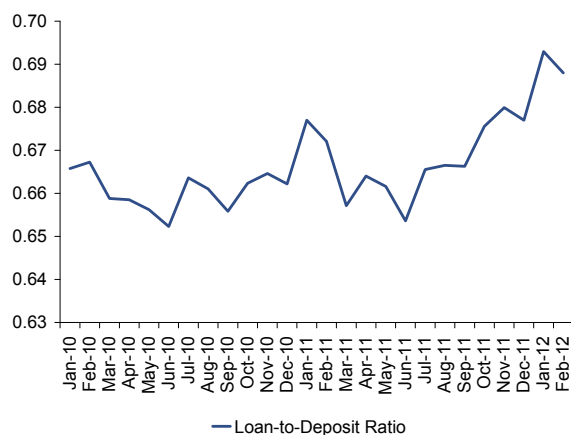
Feb Money and Credit Growth Still on the Weak Side

Figure 2. Money and credit growth was still weak



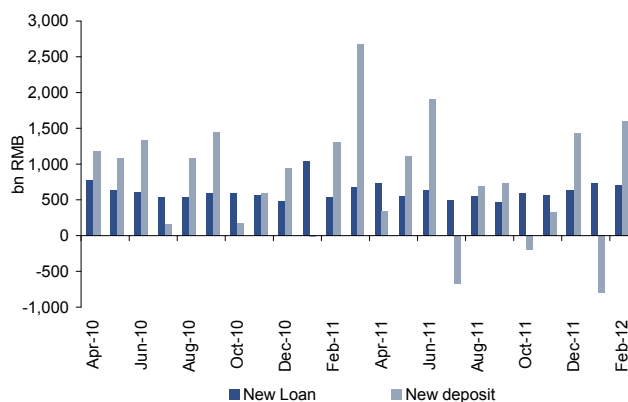
Source: CEIC and Citi Investment Research and Analysis

Figure 4. Loan growth is less constrained by LDR



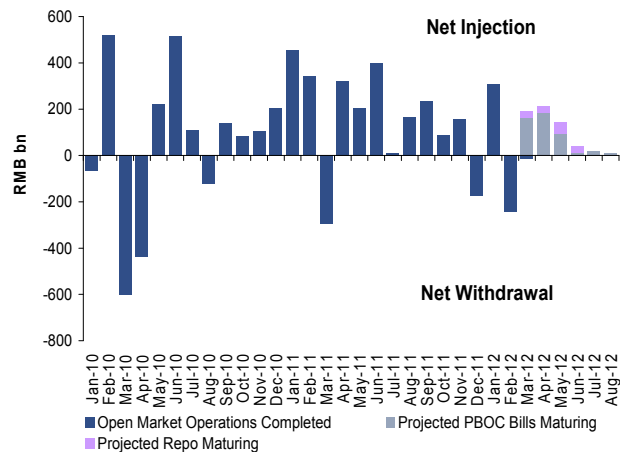
Source: CEIC and Citi Investment Research and Analysis

Figure 3. Deposit increased as cash reflow after holiday



Source: CEIC and Citi Investment Research and Analysis

Figure 5. Open market operations of PBOC



Source: CEIC and Citi Investment Research and Analysis

Appendix A-1

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