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China Economics Update: Accelerating credit growth in December supported by solid government bond issuance

中国经济评论: 强劲政府债券发行推动 12 月信用扩张提速

Credit growth picked up for the third straight month in Dec, reflecting strong government bond issuance. Bank loans were softer than expected. Despite being on a moderating trend, medium- to long-term (ML) corporate loan demand remained resilient in Dec. Growth in household mortgage loans has hovered around recent lows, helped by continued policy relaxation in the property sector.

We expect government bond issuance to remain robust in the months ahead. Local governments began to front-load special bond issuance in early Jan. Government bond issuance will aid the economic recovery. We forecast TSF growth will edge down slightly to 9% YoY in 2024F.

We expect the PBoC will keep monetary policy accommodative. Persistently low core inflation points to soft domestic demand. The PBoC is likely to remain accommodative in order to maintain sufficient liquidity, facilitate government bond issuance, and support the domestic recovery. We expect two RRR cuts and one 10bp cut to policy interest rates.

受政府债券发行强劲驱动，12 月社会融资增速连续第三个月回升。银行贷款略弱于预期。虽然增速有所放缓，但中长期企业贷款需求仍较韧性。随着地产行业政策持续松绑，住房抵押贷款需求近期探底趋稳。

我们预计未来数月政府债券发行将保持强劲。地方政府已于 1 月初开始提前发行专项债券。政府债券的发行将促进经济复苏。我们预计 2024 年社会融资规模增速将小幅下滑至同比 9%。

我们预计央行将维持宽松的货币政策。核心通胀持续走低表明国内需求仍较疲软。预计央行将维持宽松货币政策，保持流动性充裕，助力政府债券发行，支持国内经济复苏。我们预计央行 2024 年 1 季度和 2 季度分别降准 25 个基点。同时，央行有望年内下调政策利率 10 个基点。

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Total social financing (TSF) picked up further in Dec on government borrowing

TSF growth picked up for the third straight month to 9.8%YoY in Dec, aided by government bond issuance while loan growth held steady (Fig 1).

- **New RMB loans rose slightly to RMB1.20t in Dec, falling just short of the consensus forecast of RMB1.35t.** ML loan demand from both corporates and households fell on a year-on-year basis. Despite a gradual moderating trend, growth in corporate long-term borrowing remained resilient in Dec, sustaining above the 2019 growth rate (Fig 2). Growth in household mortgage loans has hovered around recent lows, helped by continued policy relaxation in the property sector.
- **Net corporate bond issuance and shadow banking contracted.** Despite improved inter-bank liquidity, net corporate bond issuance fell by RMB262.5b in Dec, the first decline since May 2023. Outstanding shadow banking continued to shrink. These declines likely reflect weak interest in private sector debt.
- **Outstanding government bonds increased by RMB930b.** Despite a slow-down in issuance momentum, government bond issuance remains solid compared with previous years. Growth in outstanding government bonds accelerated by 1ppt to 15.9% YoY in Dec, the fastest pace since Oct 2022.

Both CPI and PPI deflation eased in Dec

Headline consumer inflation eased to -0.3% YoY in Dec, slightly better than the consensus forecast of a 0.4% YoY decline. Sequentially, consumer prices grew 0.1% MoM. The first positive growth following two months of decline was driven by rebounding food prices. Nevertheless, domestic demand remained soft. Core inflation, excluding food and energy, was low at 0.6% YoY, for the third straight month.

By category:

- **The annual decline in food prices eased in Dec, driven by a 0.9% MoM rise in food prices.** Food price gains were driven by a 6.9% MoM rise in fresh vegetable prices and contributed 0.2ppt to sequential CPI inflation (Fig 3). The annual decline in pork prices eased to -26.1% YoY in Dec. Sequentially, pork prices continued to come down, but the pace of decline slowed to 1% MoM. We continue to expect the annual fall in pork prices to ease as the outlook for pork supply improves (Fig 4), lending support to food inflation.
- **Non-food inflation edged up on easing energy deflation.** Fuel deflation eased from 2.9% YoY to 1.4% YoY in Dec, partially offset by a larger decline in transportation equipment prices. Services inflation was unchanged for the second month in a row at 1% YoY, the slowest pace since Jul.

PPI deflation eased to 2.7% YoY in Dec, largely because of base effects. Sequentially, PPI inflation fell for the second month in a row by 0.3% MoM in Dec, dragged by declining energy prices.

Looking ahead, falling pork supply and a continued recovery in domestic demand point to a modest pickup in CPI inflation.

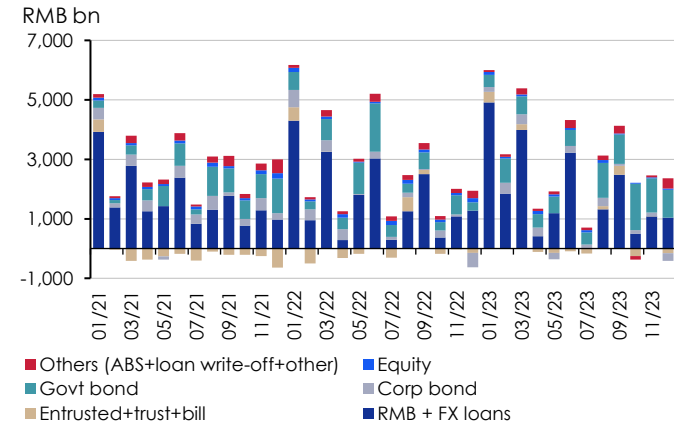
Despite recent weakness, global energy supply is still tight. Our expectation is for a resilient US economy and heightened geopolitical risks leading to higher energy prices, which would support modestly faster PPI inflation.

Our view

Government bond issuance is likely to remain strong, supporting credit growth. Accelerating TSF growth in Dec was driven by solid government bond issuance, mainly RMB1t in central government bond supply. Policymakers approved an early batch of the 2024 local government bond quota in 4Q 2023. By early Jan, local governments began to front-load special bond issuance. Published media reports from Chinabond suggest RMB482b in special bond issuance is scheduled for 1Q 2024, representing about 35% of the 1Q 2023 issuance. Solid government bond issuance will remain supportive of TSF expansion this year. We expect TSF to expand 9% YoY in 2024 (details in our [2024 Macro Outlook](#)).

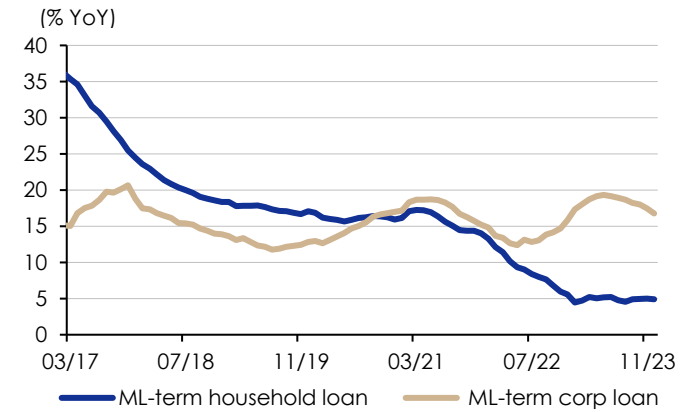
We expect the government's liquidity stance to stay accommodative. The PBoC has injected a total of RMB1.4t in long-term liquidity in Nov and Dec, helping to lower interbank borrowing rates and facilitate government bond issuance. The PBoC is likely to keep the liquidity stance accommodative to support the recovery. We expect two RRR cuts and one 10bp cut to the policy interest rate in 2024F.

Fig 1: Government bond issuance supports credit expansion



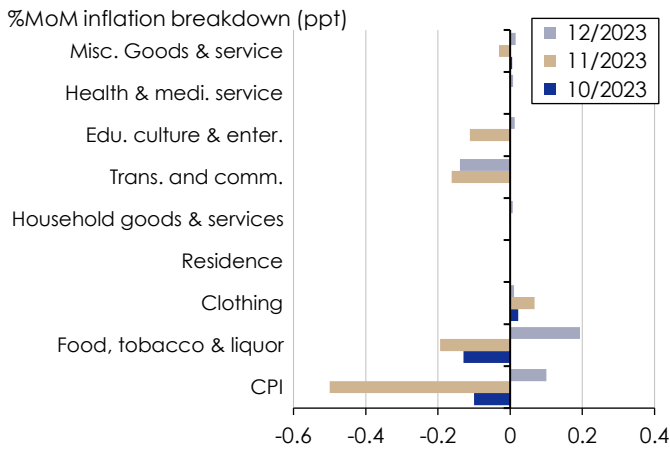
Source: CEIC, CCBIS

Fig 2: Corporate loan demand growth slowed, while housing mortgage demand stabilized



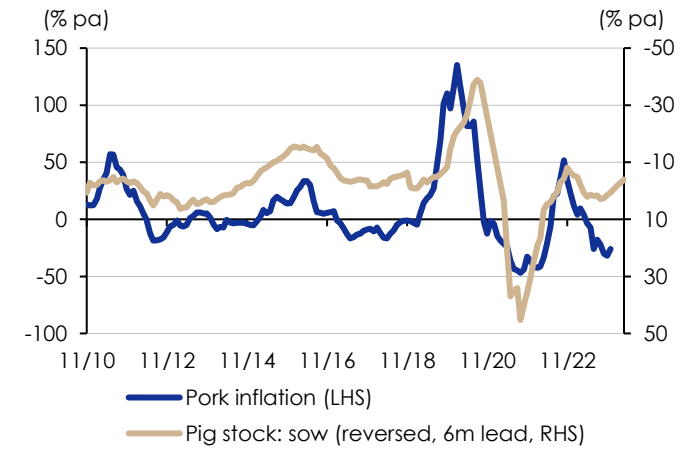
Source: CEIC, CCBIS

Fig 3: Food inflation lifted sequential CPI inflation



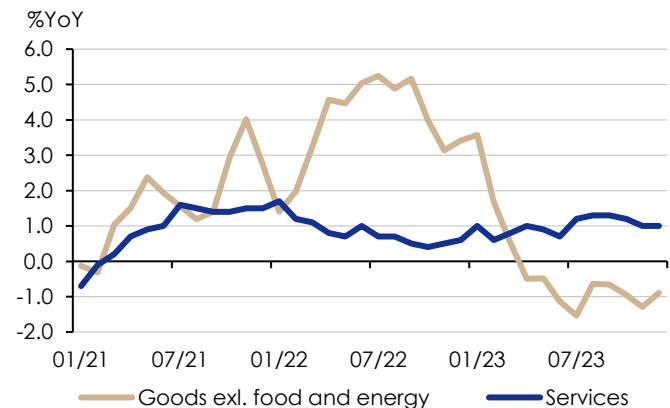
Source: CEIC, CCBIS

Fig 4: Pork deflation is expected to ease on tighter supply outlook



Source: CEIC, CCBIS

Fig 5: Services inflation was steady



Source: CEIC, CCBIS

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