

CHINA REACT: PBOC Support to Stay Even Amid Credit Upswing (1)
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(Bloomberg Economics) -- Seasonal factors still played a role in another strong reading for credit data in March. Taking the first quarter reading as a whole, the impact of monetary easing remains evident.

We expect the People's Bank of China to keep its monetary stance supportive despite the encouraging credit outturn and signs of domestic demand stabilizing. The policy focus may shift more toward measures aimed at getting funding to sectors in need and away from general easing.

* The monthly expansion in aggregate social financing rose to 2.86 trillion yuan, from 703 billion yuan in February. This significantly overshoot the consensus forecast of 1.85 trillion yuan.

* Total aggregate social financing rose 8.18 trillion yuan in 1Q, easily exceeding credit expansion in the previous two years.

* New yuan loans amounted to 1.69 trillion yuan, well above the 885.8 billion yuan in February and the consensus forecast of 1.25 trillion yuan.

Aggregate Social Financing

The robust rate of credit expansion this year doesn't rule out continued monetary easing. We think that's still needed to help the economy find a solid footing, though the focus should increasingly shift to targeted measures.

* Broad-based easing is still needed to provide liquidity to the banking sector so it can sustain the expansion in credit. The need is higher in 1H and we continue to see the possibility of reductions in the reserve requirement ratio, with the first potentially coming as early as in April.

* There's less of a necessity for an interest rate cut, in our view.

* Targeted measures are important for channeling funding to sectors in greater need of funding -- small, private firms -- to lower their effective borrowing costs.

In Detail:

* The stock of ASF printed a 10.7% year-on-year rise in March,

up from 10.1% growth in February. M2 money supply accelerated to show expansion at a one-year high of 8.6% year on year.

* The 1.69 trillion new yuan increase in March was the highest for that month in almost two decades. The increases were strong for both loans to non-financial corporates and households.

* In particular, mid- to long-term loans extended to companies rose to 650 billion yuan, from February's 512.7 billion yuan. This suggests that business investment may start to accelerate.

* Household's mid- to long-term loans recorded an increase of 460.5 billion yuan, up from February's 222.6 billion yuan. This marked the biggest monthly advance in two years. Given the weight of mortgage loans in long-term lending, such a strong rise may indicate an improvement in the housing market.

* Shadow banking printed a slight increase -- 82.4 billion yuan, reversing the contraction of 364.8 billion yuan in February. Entrusted loans declined by 107 billion yuan; trust loans rose by 52.8 billion yuan and undiscounted bankers' acceptances saw an increase of 136.6 billion yuan.

* Net funding via corporate bonds was 352.5 billion yuan, compared with 80.5 billion yuan in February or 355.2 billion yuan a year earlier.

* Local governments' special bond issuance also contributed importantly to the strong rise in ASF, rising further to 253.2 billion yuan from 177.1 billion in February. So far in 2019, the net issuance of special bonds has totaled 539 billion yuan, equal to 25% of the approved 2.15 trillion quota for this year. This should help support infrastructure spending.

China Economic Forecast Table

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