Economics

Money Supply

New Loans Turn Negative, New TSF Lifted By Bond Issuance

- July's M1 growth held flat at 4.0% yoy, marginally above Bloomberg's consensus estimate of 3.9% yoy, while M2 growth eased to 7.7% yoy (-0.3ppt mom), below consensus of 7.9% yoy and the slowest M2 pace since Mar 25.
- New bank loans turned negative at -Rmb0.34t, the largest monthly net repayment on record and below consensus estimate of -Rmb0.1t. New TSF of Rmb1.40t beat the Rmb1.09t consensus estimate, but was driven by government and corporate bond issuance rather than bank credit.
- Outstanding bank loans growth slipped to 5.1% yoy (-0.1ppt mom), a record low, while outstanding TSF growth held at 7.4% yoy. With bank credit contracting and non-bank channels carrying the load, the government must look beyond monetary easing to lift domestic demand.

Our View

- **M2 growth eased further by 0.3ppt to 7.7% yoy in Jul 26,** below Bloomberg's consensus forecast of 7.9% yoy. M1 money supply growth held at 4.0% yoy, marginally above market expectations of 3.9% yoy, while M0 growth moderated to 11.6% yoy (-0.2ppt mom). The narrowing gap between M1 and M2 growth reflects slower broad money expansion rather than a pick-up in transactional demand for money, which remains subdued.
- **Banks recorded a net reduction of Rmb0.34t in new loans in Jul 26,** reversing Jun 26's Rmb1.61t and missing Bloomberg's consensus estimate of -Rmb0.10t. This marks the largest monthly contraction on record. New household loans fell to -Rmb0.46t (-Rmb0.72t mom), with both short-term and long-term borrowings in negative territory. New corporate & government loans turned negative at -Rmb0.10t (-Rmb1.46t mom), dragged by short-term (-Rmb1.07t mom) and medium-to-long term (-Rmb0.79t mom) loans. Bills financing rose to Rmb0.38t (+Rmb0.26t mom) and provided the only meaningful support.

Key Monetary Indicators

(yoy % chg)	Jul 26	Consensus	Jun 26	May 26
M0 Money Supply	11.6	-	11.8	11.9
M1 Money Supply	4.0	3.9	4.0	5.5
M2 Money Supply	7.7	7.9	8.0	8.6
Outstanding Bank Loans	5.1	-	5.2	5.5
Outstanding Total Social Financing	7.4	-	7.4	7.7
New Bank Loans (Rmbt)	-0.34	-0.1	1.61	0.52
New Total Social Financing (Rmbt)	1.40	1.09	3.37	2.03

Source: Wind, PBOC, UOB Kay Hian

- **Jul 26's new TSF fell to Rmb1.40t from Jun 26's Rmb3.37t,** but beat Bloomberg's consensus of Rmb1.09t. The beat was driven by non-bank channels, as renminbi loans within TSF contracted Rmb0.59t. New government bond issuance rose to Rmb1.32t (+Rmb0.55t mom), though on a stock basis, its growth edged lower to 14.1% yoy (-0.1ppt mom). Corporate bond growth accelerated to 9.2% yoy (+0.3ppt mom) and equity issuance rose to 5.5% yoy (+0.5ppt mom), while bank acceptances turned positive at 2.7% yoy (+5.5ppt mom), consistent with the continued substitution away from bank credit.
- **Outstanding bank loans growth slipped to 5.1% yoy (-0.1ppt mom) in Jul 26,** marking another record low, while outstanding TSF growth was unchanged at 7.4% yoy, with the widening gap reflecting greater reliance on government led issuance. The PBOC left the one-year and five-year LPRs unchanged at 3.00% and 3.50% on 20 Jul 26, its 14th consecutive hold.

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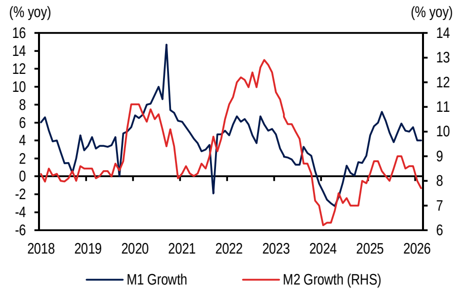
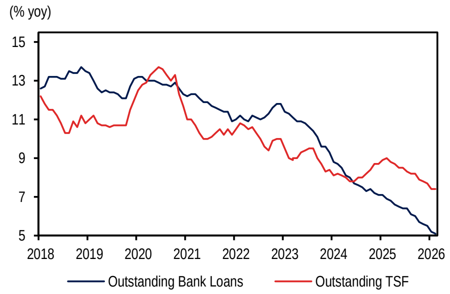
M1 And M2 Growth



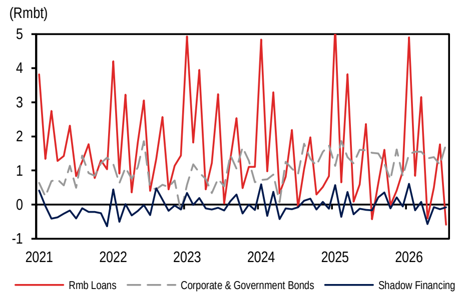
Source: PBOC, UOB Kay Hian

Outstanding Credit Growth



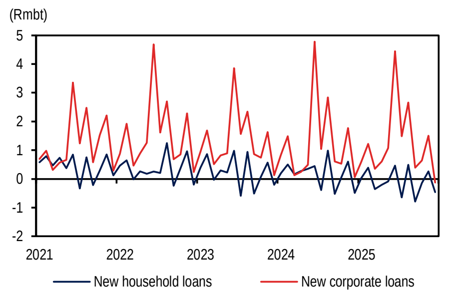
Source: PBOC, UOB Kay Hian

New TSF



Source: PBOC, UOB Kay Hian

New Bank Loans



Source: PBOC, UOB Kay Hian

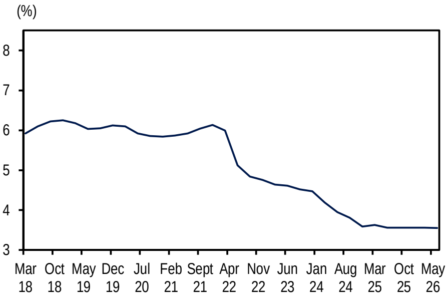
Going forward, with credit demand rather than funding costs the binding constraint, the government must look beyond monetary easing to lift domestic demand.

Outstanding TSF

(yoy % chg)	Jul 26	Jun 26	May 26	Apr 26
Renminbi Loans	5.2	5.3	5.5	5.6
Forex Loans	-1.7	-2.9	-4.3	-3.8
Entrusted Loans	0.7	0.5	0.0	-0.1
Trust Loans	3.2	4.0	7.1	7.4
Bank Acceptances	2.7	-2.8	-6.2	-7.9
Corporate Bond	9.2	8.9	8.4	8.3
Government Bond	14.1	14.2	15.1	15.6
Equity Issuance	5.5	5.0	4.7	4.6

Source: Wind, PBOC, UOB Kay Hian

Mortgage Loan



Source: PBOC, UOB Kay Hian

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