

iFlow

MACRO MORNING BRIEFING

February 15, 2024

China Credit Data Constructive

Although mixed, China's January credit and loan data contained some encouraging signs.

One in particular was aggregate financing – a broad measure of credit and liquidity – coming in at CNY 6500bn, or a steady growth rate of 9.5% y/y; this bottomed at 8.9% in July 2023. Another was a pickup in issuance of corporate bonds after a sluggish and tough refinancing environment over the past two years. The total of CNY 484bn worth of corporate bonds issued in January was the most in a month since January 2022 (CNY 584bn) and well above the monthly averages in 2022 (CNY 171bn) and 2023 (CNY 135bn). We will be monitoring the pace corporate issuance as a sign of normalisation. The corporate issuance also compensated for an easing in issuance of government, local government, and special government bonds to CNY 300bn last month (total CNY 3650bn issued in Q4 2023).

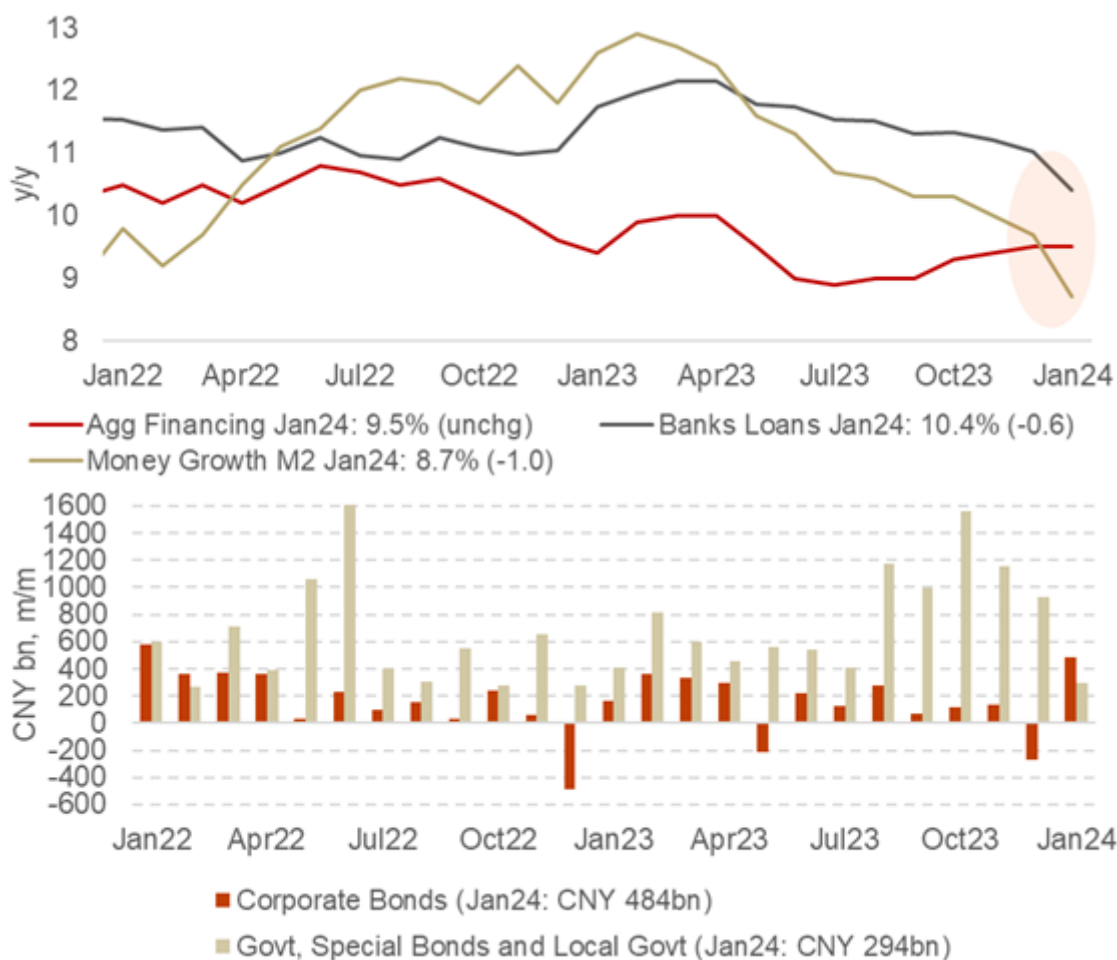
The CNY 564bn surge in undiscounted bankers' acceptances (part of "shadow banking") might be related to short-term [arbitrage-related activities](#) and susceptible to a reversal in the coming months, as has happened over the past few years. Undiscounted bankers' acceptances have been on a declining trend, with total outstanding dropping from CNY 3.01trn at end-2021 to CNY 2.66trn at end-2022 and to CNY 2.49trn at end-2023.

Despite bank loans in January notching a new record at CNY 4920bn, exceeding the CNY 4900bn in January 2023, the underlying growth rate remains relatively subdued. New RMB-denominated bank loan growth of 10.4% y/y was actually the slowest on record and down from 11% y/y in December; the 0.6ppt drop was the largest m/m decline since January 2017. One consolation in lending data is the recovery in medium- to long-term loans to households, a proxy for mortgage demand: CNY 627bn, the most since CNY 742bn in January 2022 and nearly three times the monthly average of CNY 213bn in 2023.

While it's too early to declare a definitive recovery in the real-estate sector, we nonetheless view the positive signs above as progress. We are also optimistic about a stabilisation in loan

growth, supported by the 50bp reduction of Reserve Requirement Ratio effective Feb. 5, as well as about potential monetary policy moves and relaxation of regulations ahead.

Exhibit #1: Revival In Corporate Bond Financing A Sign Of Confidence



Source: BNY Mellon Markets, Bloomberg L.P.

China's housing sector is expected to remain a drag on the growth recovery. The Hong Kong court order for the liquidation of China Evergrande Group at the end of January has injected additional uncertainties around the sector, in both Hong Kong and China.

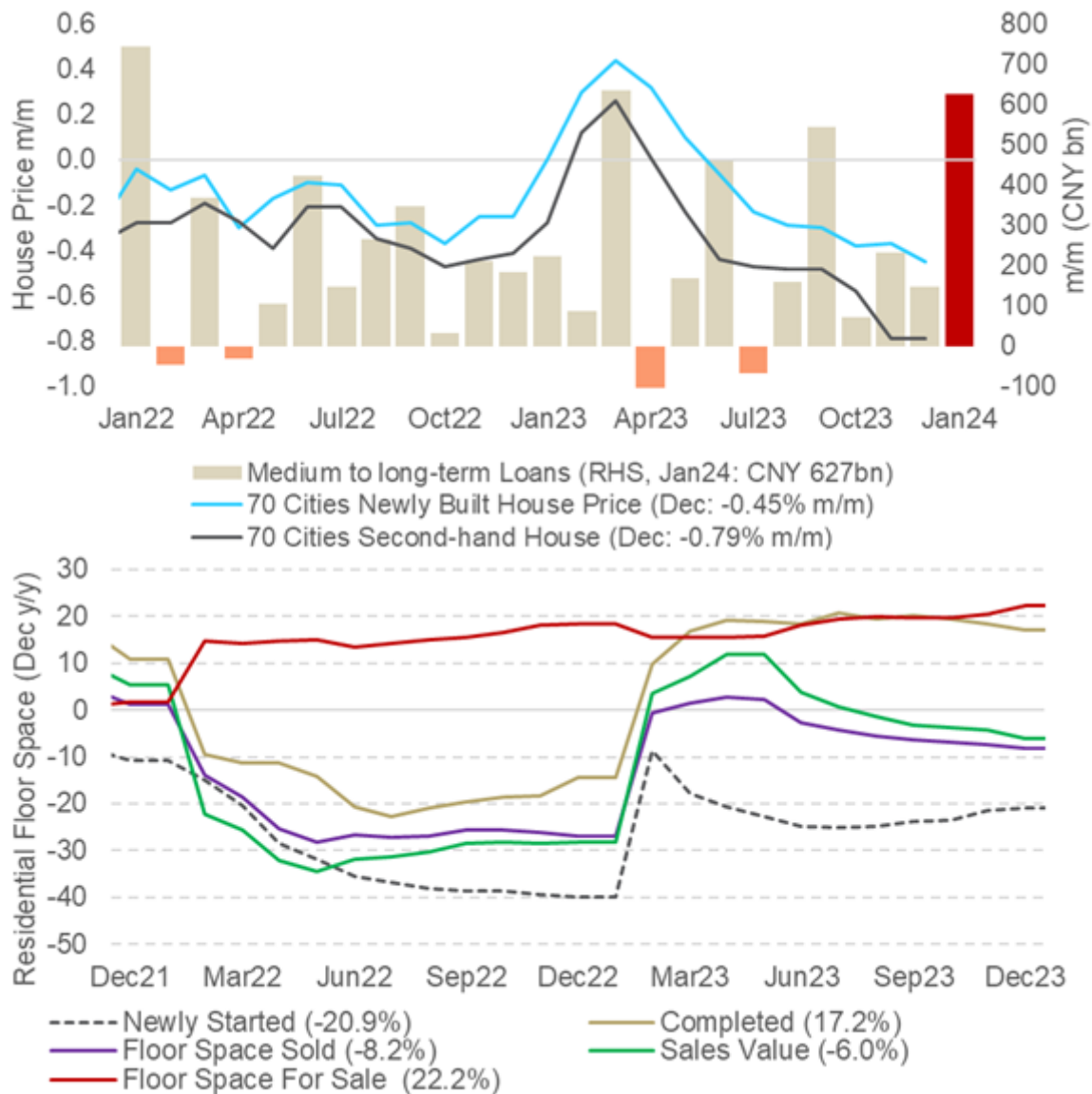
The upcoming January housing data is likely to show further declines, including in Tier-1 cities. Newly built residential buildings in Tier-1 cities in December came in at -0.1%, the first negative reading since June 2018. Note that data from the real estate research institute China Real Estate Information Corp (CREIC) shows a 34% drop in home sales in January, but a 45% increase in land auctions following the removal of restrictions on the maximum price limit for auctioned lands according to China Index Academy.

The downturn in the real-estate sector is not new and widely acknowledged. An IMF a staff report entitled [China's Real Estate Sector: Managing the Medium-Term Slowdown](#) noted that cyclical and structural adjustment pressures are likely to see housing investment fall further

and likely remain subdued, but that increases in spending on affordable housing and urban redevelopment could help offset some of the investment decline.

We continue to look for stabilisation in the sector both from the perspective of funding and the pace of drawdown of inventory. The government’s latest effort, “project whitelist”, is likely to provide much-needed support and revive the sector. Project whitelist is a targeted financing and rescue program aiming at individual property projects recommended by respective provincial governments. We will pay close attention to the combined January and February 2024 housing investment data to be released in mid-March.

Exhibit #2: Early Signs Of Stabilisation In Real-Estate Sector



Source: BNY Mellon Markets, Bloomberg L.P.

APAC FX flows were relatively subdued over the past week given the impending Lunar New Year holiday. Looking back over the past few months, despite the FX depreciation pressure across the region, APAC FX flows had been mixed and relatively resilient: marginal inflows into IDR, KRW, and PHP, while CNY and SGD suffered the most outflows. In terms of scored

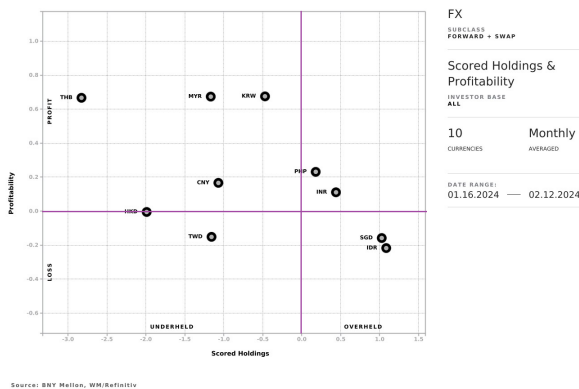
holdings and profitability: THB, MYR and KRW are underheld and the most profitable; TWD stands alone as both underheld and unprofitable; SGD and IDR are overheld but unprofitable; and PHP and INR are overheld and profitable.

Somewhat contrary to the broad selling pressure on global equities, APAC equity flows were relatively balanced: good-sized selling in China and Hong Kong, but strong demand in Taiwan. Equities in the Philippines, South Korea and Indonesia were net bought over the past month. Taking EM APAC as an aggregate, iFlow shows demand in the IT, Utilities and Energy sectors, and the most selling in Financials and Consumer Staples.

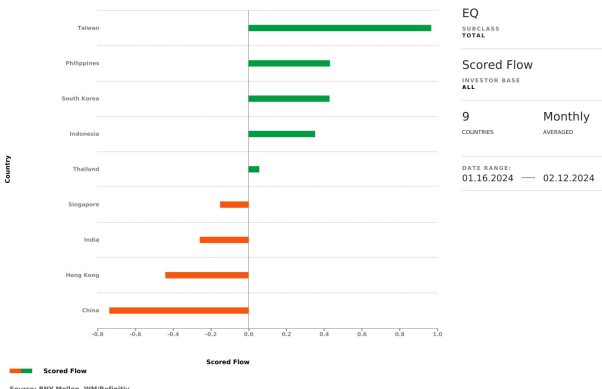
We saw limited election-related volatility in Indonesia asset flows ahead of that country's presidential election. Judging by rupiah positioning, investor confidence still seems elevated: IDR weekly average scored holdings at 1.38 is the highest level in the past three months.

Exhibit #3: iFlow Shows Balanced Flows In APAC Equities

FX Scored Holdings & Profitability



EQ Scored Flow



Source: BNY Mellon Markets, Bloomberg L.P.

Please direct questions or comments to: iFlow@BNYMellon.com



Wee Khoon Chong
APAC MARKET STRATEGIST

CONTACT BOB



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