

Don't expect more monetary easing

Monday, May 16, 2016

Highlights:

- The Apr economic and financial data mostly disappointed. However, please don't over read financial and credit data as they were distorted by temporary factors such as local government debt swap and the surge in fiscal deposit.
- The credit and financial data in April remained fairly strong after excluding the impact of those temporary factors.
- April economic activity readings are disappointed but not disastrous. The moderation of retail sales is mainly driven by the slowdown in car sales due to the implementation of tougher emissions standard in Eastern China.
- The weak private investment remains a concern, but is unlikely to be addressed by further monetary easing.
- Looking together with the article written by authoritative person in People's Daily last Monday, we don't expect more immediate monetary easing.

The April economic and financial data released over the weekend mostly disappointed, signaling the recovery is not a one-way street. Property market remained a key driver of growth in April. However, the increasing reliance on the property market also raised concerns about a property bubble and the sustainability of this recovery.

So shall we expect more easing following the disappointing April data? Our answer is no. We try not to over read April financial and credit data as those data are distorted by temporary issues.

Loan data were distorted by local government debt swap

According to China's local rating agency CCXI, the issuance of local government debt hit a record single month high of CNY1.06 trillion in April. About 44.1% of local government debt was issued in form of private placement, which is a popular form to swap the existing debt. This led to the significant decline of existing loan. Based on PBoC's estimation, loans to local government funding vehicles continued to go up in April to at least CNY350 billion. However, majority of the increment has been offset by the debt swap, which led to the slower growth of new Yuan loan. PBoC estimated new Yuan loan could have exceeded CNY900 billion in April excluding the impact of local government debt swap. This probably explained why the authoritative person flagged his concern about the credit expansion in People's Daily last Monday.

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Tommy Xie Dongming

+(65) 6530 7256

xied@ocbc.com

M2 was distorted by the surge of fiscal deposit

The deceleration of M2 could be partially explained by the sharp increase of fiscal deposit, which increased by CNY931.8 billion, up significantly from CNY110.1 billion in March. The sharp increase of fiscal deposit was mainly the result of increasing local government debt issuance as well as the surge in business tax recipients ahead of change of tax regime from May. The sudden surge of fiscal deposit, which dragged down M2 growth by more than 0.6% in April, is likely to be temporary.

The weak social financing was partially due to cancellation of corporate bond issuance

The sharp decline of aggregate social financing was partially due to the decline of corporate bond issuance as well as on-going corporate de-leveraging. Total net new issuance of corporate debt in April fell to CNY209.6 billion down from CNY698.6 billion due to massive cancellation of corporate bond issuance in April as a result of rising credit default. Meanwhile, total foreign currency loan under social financing fell by CNY70.6 billion signalling corporates continued to unwind their external debt despite stabilization in RMB.

In addition to the distortion of financial and credit data, we don't expect more easing for other two reasons. First, April economic activity readings are disappointing but not disastrous. Second, looking together with the People's Daily article, it shows government may have a higher tolerance for slightly slower growth to balance between growth and reform.

The moderation of retail sales growth to 10.1% from 10.5% is mainly driven by the slowdown in car sales due to the implementation of tougher emissions standard in Eastern China. Private investment, which decelerated further to 5.2% in the first four months, remained a key concern. But it is unlikely to be addressed by monetary policy easing.

Overall speaking, we think the credit and financial data in April remained fairly strong after excluding the impact of those temporary factors. Looking together with the article written by authoritative person in People's Daily last Monday, we don't see the rising easing expectation arising from the weaker than expected April financial and credit data. We think PBoC is likely to remain cautious in terms of credit expansion and liquidity management. The combination of OMO, MLF and PSL will continue dominate PBoC's policy tools.

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