China Credit Growth Climbs as Targeted Easing Kicks In: Economy

By Bloomberg News - Oct 15, 2014

China’s broadest measure of new credit rose to a three-month high in September as the central bank’s targeted measures to boost liquidity helped spur lending.

Aggregate financing was 1.05 trillion yuan ($171 billion), the People’s Bank of China said today in Beijing, compared with the 1.15 trillion yuan median estimate in a Bloomberg survey of economists. New local-currency loans were 857.2 billion yuan, and M2 money supply grew 12.9 percent from a year earlier. Foreign reserves were $3.89 trillion at Sept. 30.

While holding off from broad cuts to interest rates or the overall level banks need to keep as reserves, the central bank has sought to bolster lending to targeted areas and reportedly injected 500 billion yuan into the largest lenders last month. Weighed by a property slump, the economy probably expanded 7.2 percent in the third quarter, the slowest in more than five years, based on the median estimate in a Bloomberg survey.

“The government efforts to support liquidity and guide interest rates lower have started to take some effect,” said Chang Jian, Chief China Economist at Barclays Plc in Hong Kong. “We continue to look for a recovery in sequential momentum.”

Foreign reserves fell 2.6 percent from the previous quarter, the steepest drop according to records dating back to 1996 and only the fourth quarterly decline over that period.

“If I am right that the big drop in reserves is related to global investment sentiment and hot money outflows, by and large the rest of the year won’t be that bad as markets have come down,” said Tim Condon, head of Asia research at ING Groep NV in Singapore. “China may go back to a small reserve accumulation.”

Yuan ‘Undervalued’

The decline is “welcome news” coming after the U.S. Treasury’s twice-yearly report to Congress on foreign exchange, Condon said. The U.S. said China has shown “some renewed willingness” to let the yuan strengthen while reiterating the currency “remains significantly undervalued.”

The yuan strengthened to 6.1229 versus the dollar, while stocks in China reversed losses after the credit data. China’s one-year interest-rate swap fell to a two-year low amid speculation of further policy easing.
New yuan loans, which measure new lending minus loans repaid, compared with economists’ median estimate of 750 billion yuan and 702.5 billion yuan in August. The M2 (CNMS2YOY) figure compared with the median estimate of 13 percent.

Aggregate financing, a measure of credit that includes bank lending, corporate bond issuance and shadow-banking products like entrusted loans, compared with 1.411 trillion yuan a year earlier. Historically, lending wanes through the year as companies’ need for capital slows and banks brush up against lending quotas.

**Prudent Policies**

People’s Bank of China Governor Zhou Xiaochuan said this month that the central bank will stick to prudent monetary policies to ensure reasonable growth in money and credit. China’s employment is better than expected and inflation will probably “stay mild,” he said.

Subdued inflation figures released yesterday gave the bank more room to further ease monetary policy. The PBOC cut the interest rate it pays lenders for 14-day repurchase agreements for the second time in a month this week.

Premier Li Keqiang has refrained from using broad-based stimulus and says China prefers reform to boost the economy. The government on Sept. 30 eased home-purchasing restrictions for the first time since the global financial crisis.

A separate report from the Beijing-based Ministry of Commerce showed foreign direct investment climbed 1.9 percent in September from a year earlier. China is confident in FDI prospects, Shen Danyang, spokesman of the Ministry of Commerce, said at a briefing today.

The ministry is looking into sharp export growth in some products to Hong Kong, Shen said. Data this week showed Hong Kong unexpectedly overtook the U.S. in September as the top destination for Chinese shipments, reviving concerns of over-invoicing and over-reporting.

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