

China Economy

Liquidity up, long-term credit demand still soft

China's social financing flows picked up modestly in Jan 2026, coming in above market expectations and mainly supported by front-loaded government bond issuance, steady corporate bond financing, and a rebound in bankers' acceptances. RMB loans to the real economy decelerated to a fresh record low, with both households and corporates reluctant to take on long-term credit, signaling fragile confidence in the economic outlook. The confidence remained weak. Overall, data reflected liquidity improvement but persistent real-economy headwinds. With underlying growth momentum still reliant on policy support and household confidence remaining fragile, we expect that the central bank will prioritize lowering real funding costs to stimulate credit demand, possibly through structural monetary policy instruments. We maintain our expectation for 10bp LPR cut in 1Q26 to support the economic growth.

■ **Social financing flows rebounded modestly.** Outstanding social financing (SF) growth edged down to 8.2% YoY in Jan 2026, from 8.3% in December 2025, continuing its gradual deceleration. SF flow rose 2.4% YoY to RMB 7.22trn, up from RMB 2.21trn in Dec 2025. Government bond issuance rose 40.8% YoY to RMB 976bn in Jan, funding the early-year projects and ramping up fiscal support. Corporate bond issuance rose 13% YoY to RMB 503bn in Jan, as corporates financing demand recovered. Undiscounted bankers' acceptances surged 35% YoY to RMB 629.3bn in Jan, reflecting banking system's obvious start-of-year lending impulse. On the contrary, new RMB loans under SF dropped 6.1% YoY to RMB4.9trn in Jan, as credit demand in real economy remained weak. M2 growth accelerated to 9.0% YoY from 8.5% in Dec, mainly driven by the surge in fiscal deposit. M1 growth rebounded to 4.9% in Jan from 3.8% due to adequate liquidity conditions and favourable base effect.

■ **New RMB loans remained weak, led by household deleveraging.** Growth of outstanding RMB loans slowed further to 6.1% YoY in Jan from 6.4% in Dec. New RMB loan issuance dropped 8.2% YoY to RMB 4.7trn during the same period, beating market expectations at RMB4.5trn. Household loans edged up 2.9% in Jan after six months of contraction, as short-term loans recovered to RMB109.7bn from -RMB49.7bn a year ago, reflecting mild improvement in consumer demand. M&L-term loans narrowed its contraction from -97% to -30% at RMB347bn, as housing market remained subdued. Corporate loans dropped 7% in Jan as M&L-term loans remained weak and dropped 8%. ST loans rebounded, suggesting firms continued to favor short-term liquidity tools over long-term capex commitments.

■ **Data reflects liquidity improvement but persistent real-economy headwinds.** Monetary aggregates including M1 & M2 are improving, suggesting effective liquidity provision by the central bank, while credit aggregates including LT loans to household and corporates are lagging. With underlying growth momentum still reliant on policy support and household confidence remaining fragile, we expect that the central bank will prioritize lowering real funding costs to stimulate genuine credit demand, possibly through structural monetary policy instruments. We maintain our expectation for 10bp LPR cut in 1Q26 to support the economic growth.

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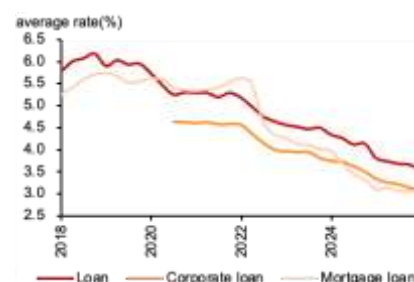
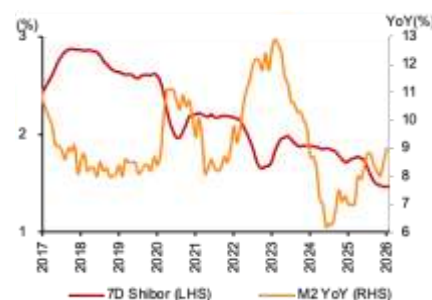
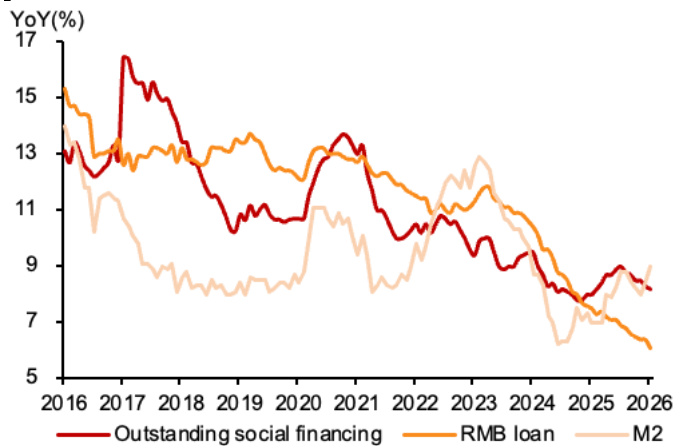
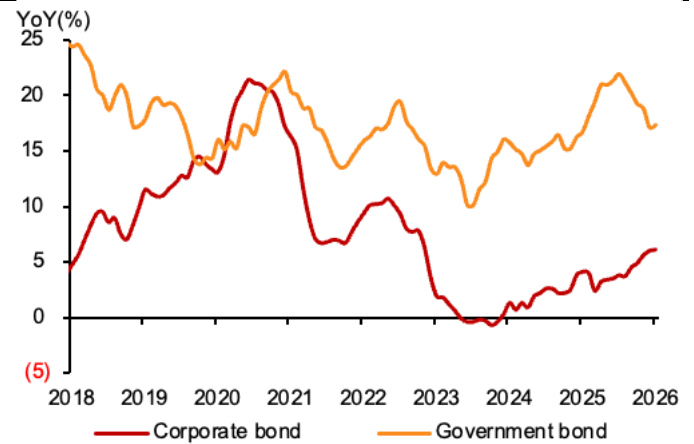
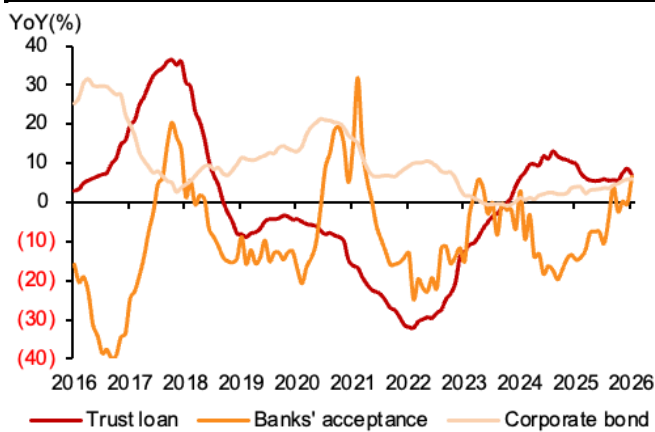


Figure 1: Growth of outstanding social financing

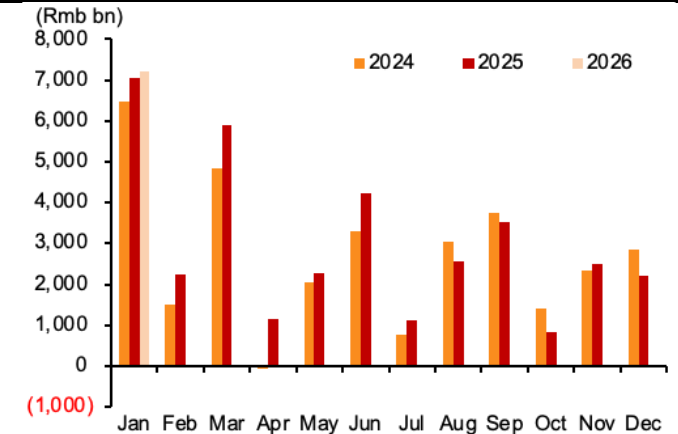
Source: Wind, CMBIGM

Figure 2: Growth of outstanding bond financing

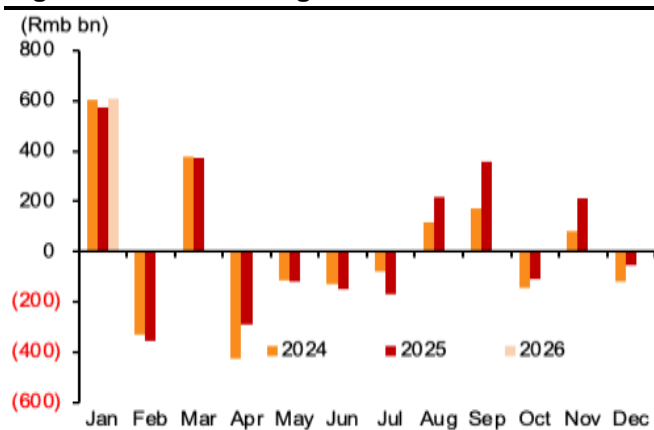
Source: Wind, CMBIGM

Figure 3: Growth of outstanding OBS financing

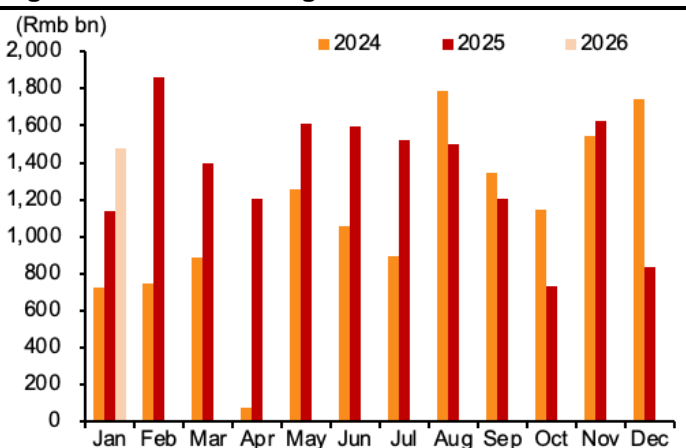
Source: MoF, CMBIGM

Figure 4: Total social financing

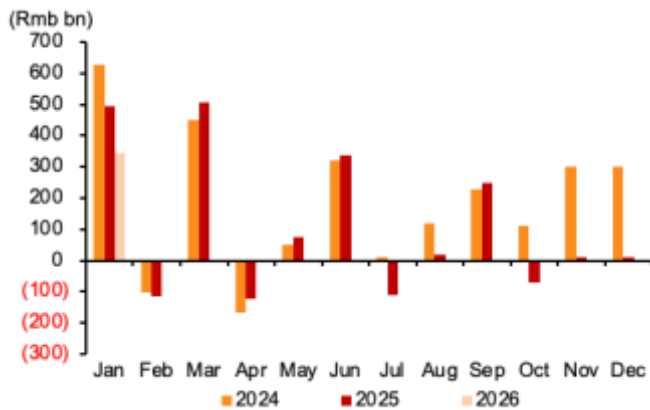
Source: MoF, CMBIGM

Figure 5: OBS financing

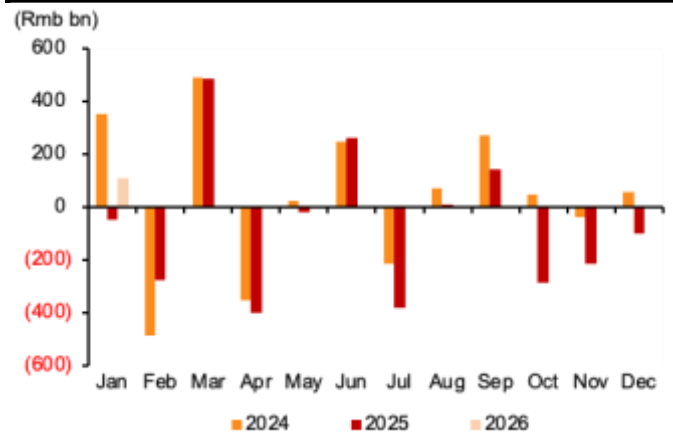
Source: Wind, CMBIGM

Figure 6: Bond financing

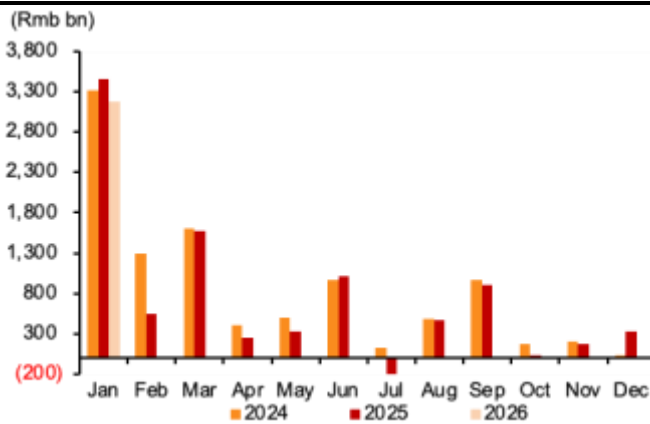
Source: Wind, CMBIGM

Figure 7: New M&L term loans to households

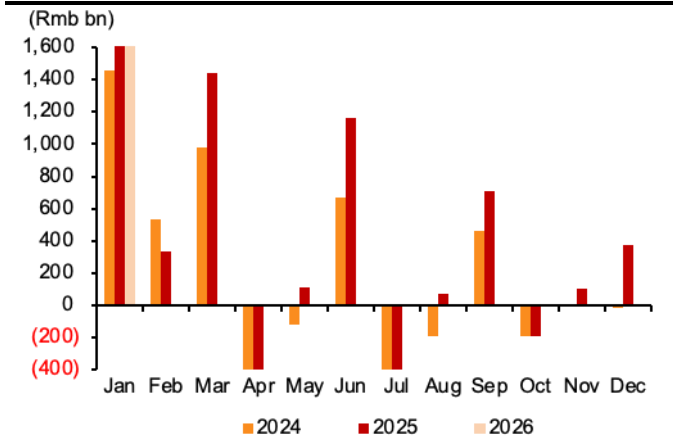
Source: Wind, CMBIGM

Figure 8: New short-term loans to households

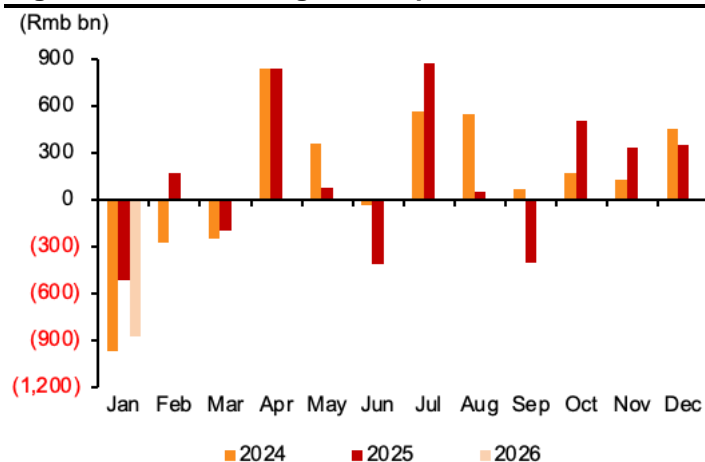
Source: Wind, CMBIGM

Figure 9: New M&L term loans to enterprises

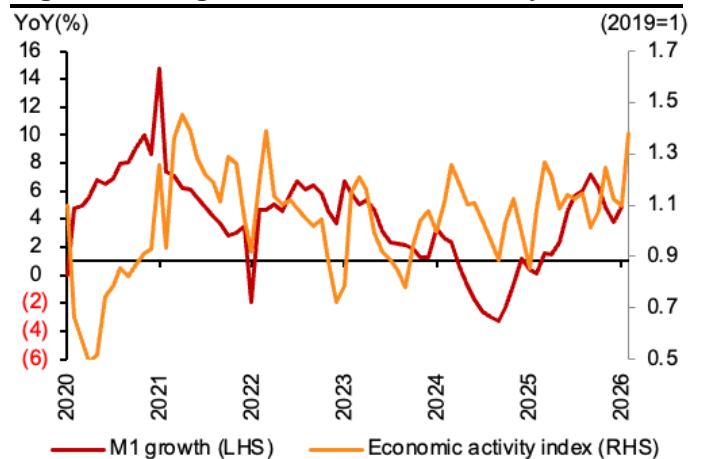
Source: Wind, CMBIGM

Figure 10: New short-term loans to enterprises

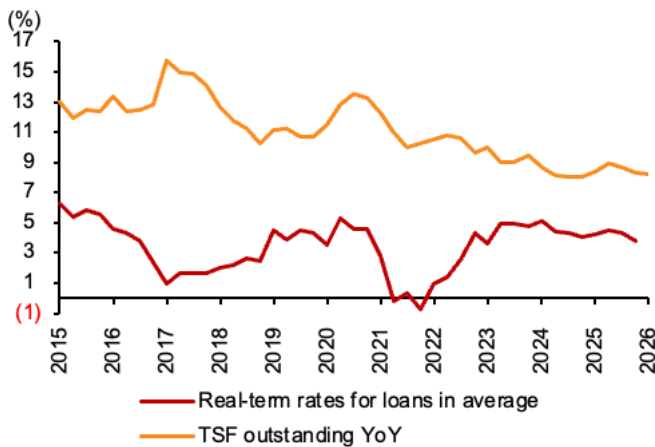
Source: Wind, CMBIGM

Figure 11: Bill financing to enterprises

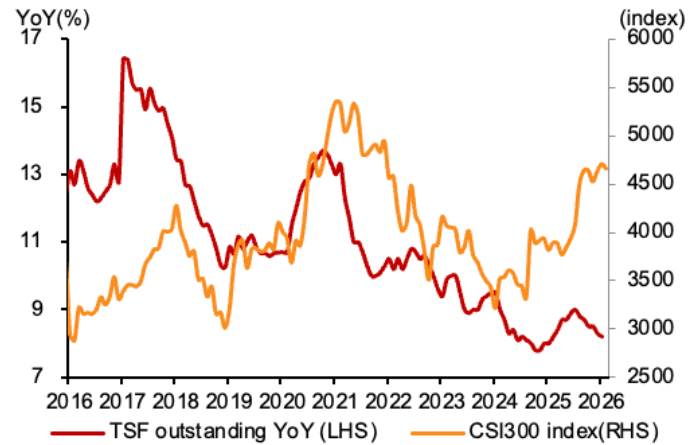
Source: Wind, CMBIGM

Figure 12: M1 growth & Economic activity index

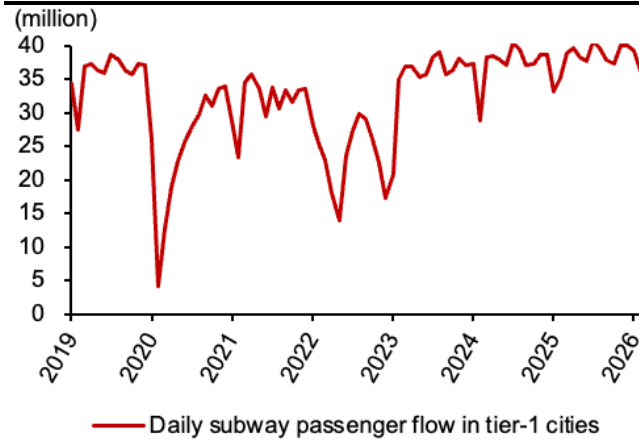
Source: Wind, CMBIGM

Figure 13: Real-term loan rates & TSF growth

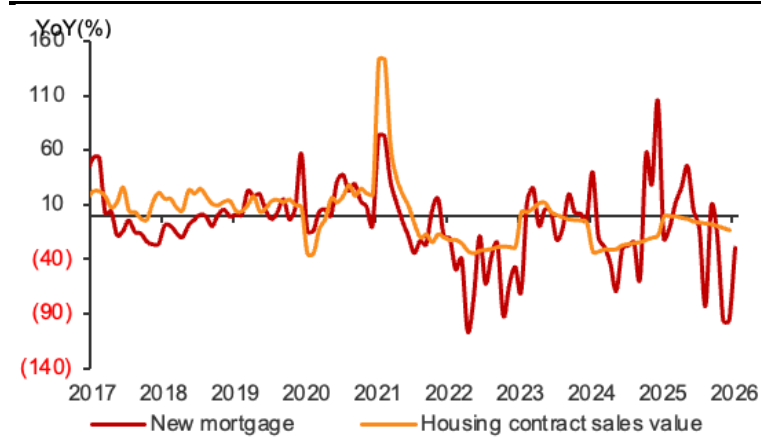
Source: Wind, CMBIGM

Figure 14: TSF growth & CSI300 index

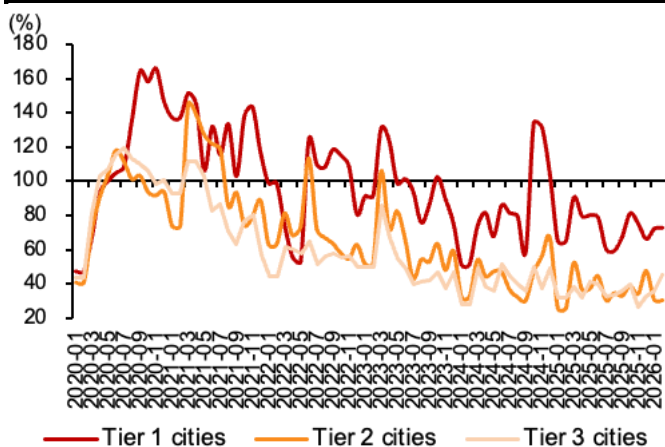
Source: Wind, CMBIGM

Figure 15: Daily domestic traffic flow in tier-1 cities

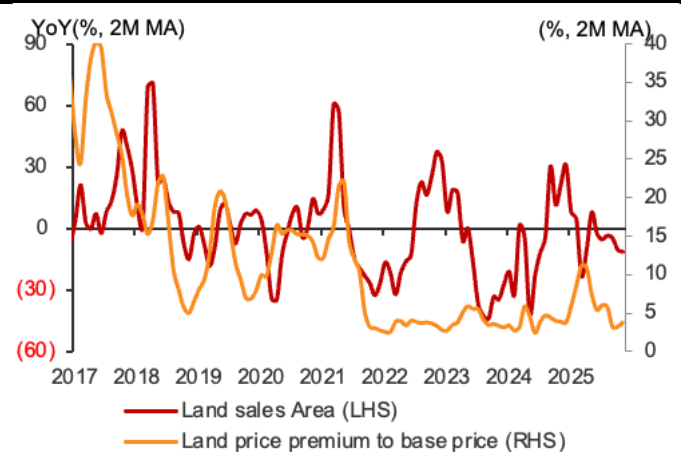
Source: Wind, CMBIGM

Figure 16: New mortgage & housing sales

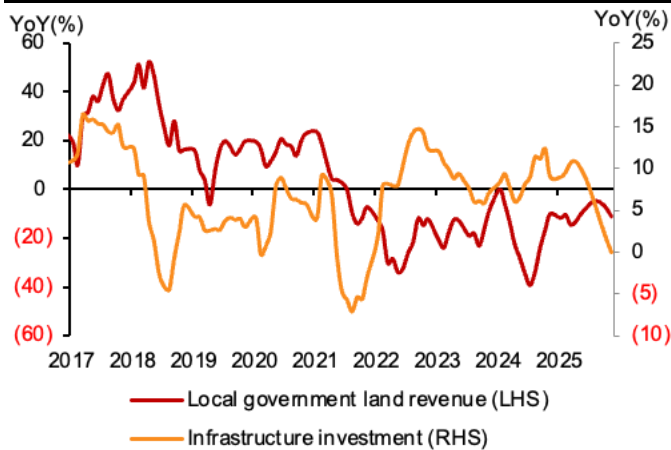
Source: Wind, CMBIGM

Figure 17: Housing sales recovery rates compared to 2019

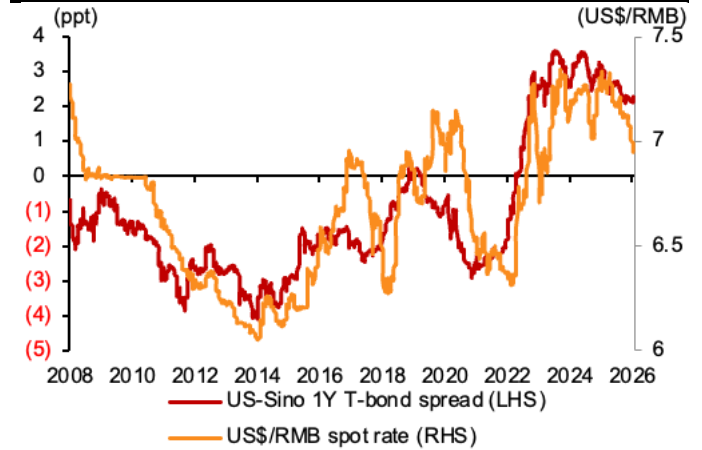
Source: Wind, CMBIGM

Figure 18: Growth of land sales

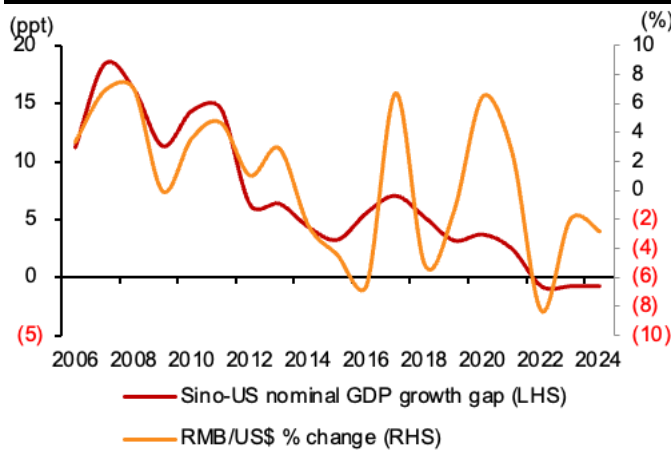
Source: Wind, CMBIGM

Figure 19: Infrastructure investment

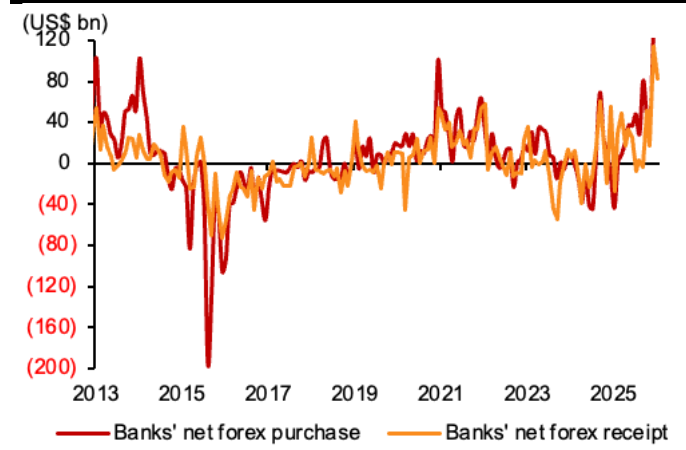
Source: Wind, CMBIGM

Figure 20: US-China interest spreads

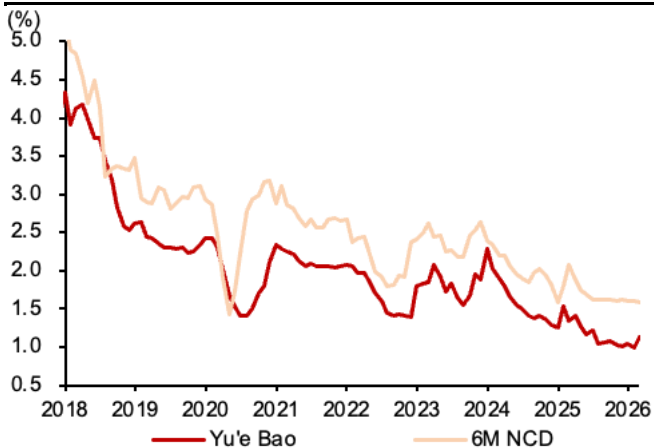
Source: Wind, CMBIGM

Figure 21: China-US growth gap & RMB/US\$ change

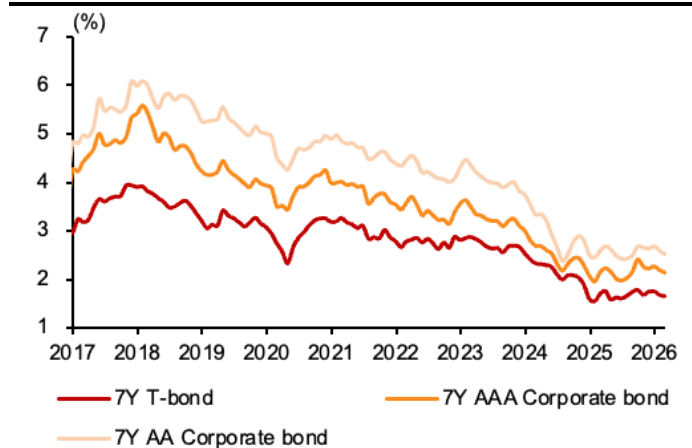
Source: Wind, CMBIGM

Figure 22: Net forex inflow

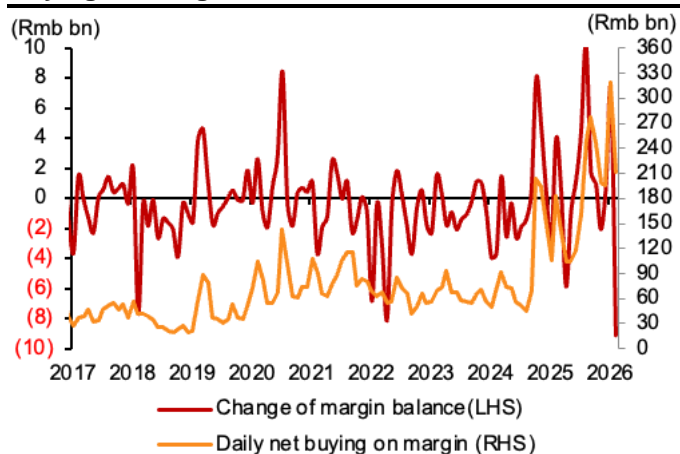
Source: Wind, CMBIGM

Figure 23: Money market funding cost

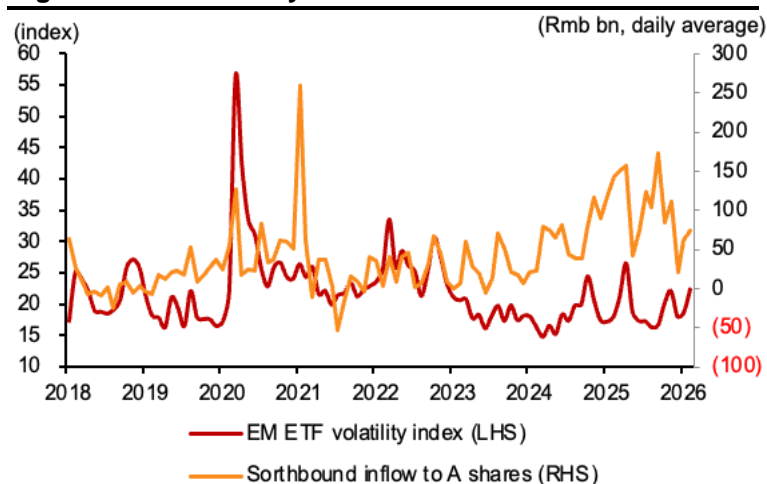
Source: Wind, CMBIGM

Figure 24: Bond market rates

Source: Wind, CMBIGM

Figure 25: Change of margin balance and daily net buying on margin


Source: Wind, CMBIGM

Figure 26: EM volatility and northbound flow to A-share


Source: Wind, CMBIGM

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