

China Economy

Softening credit demand

China's credit data suggests that liquidity remained ample but endogenous demand stayed weak in 2M26. Social financing edged up supported mainly by corporate bonds and bankers' acceptances, while M1 and M2 pointed to improving liquidity conditions. However, new RMB loans continued to fall notably, dragged by renewed household deleveraging in both consumer credit and mortgage demand. Corporate borrowing remained tilted toward short-term loans rather than long-term capex. With credit demand remained subdued, the effectiveness of liquidity provision alone is reaching its limit. We expect the central bank to shift focus toward lowering the absolute cost of credit to stimulate demand as property market continued to contract and RMB remained strong. We expect PBOC to cut LPR and RRR by 10-15 bps and 50 bps in the end of 2Q26, while focusing on targeted support through structural monetary instruments in the near term.

■ **Social financing flows edged up across Jan-Feb.** Outstanding social financing (SF) growth remained flat at 8.2% YoY for Feb 2026, down from 8.3% at the end of 2025. Monthly TSF rose 3.4% in Feb mostly driven by the equity financing, while combined TSF flow across Jan-Feb (sorting out the CNY impacts) rose 3.4% to RMB 9.6 tn. Government bond financing remained the key anchor at RMB2.40tn in Jan-Feb, broadly flat from a high base last year as fiscal policy remained supportive. Corporate bond financing increased 6.5% YoY to RMB655bn in Feb, while undiscounted bankers' acceptances rose sharply to RMB454bn from RMB167bn a year ago, suggesting stronger liquidity intermediation within the banking system. By contrast, new RMB loans under social financing slipped 2.1% YoY. M2 growth held at 9.0% YoY in both Jan and Feb, while M1 accelerated further to 5.9% YoY in Feb from 3.8% in Dec and 4.9% in Jan, pointing to improving liquidity conditions and somewhat better money circulation.

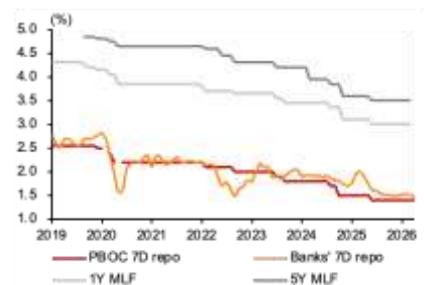
■ **New RMB loans weighed by household deleveraging while corporate demand remained cautious.** New RMB loan for Jan-Feb 2026 dropped 8.6% to RMB5.6tn. Household loans remained the most significant drag. Consumer credit demand further deteriorated in 2026 as short-term loan to household further contracted RMB360bn in Jan-Feb from RMB324bn in 2025. Medium- & long-term household loans continued to struggle, dropping 56.3% across Jan-Feb, signalling that the property market continued to slump. On the corporate side, while lending stayed positive at 2.1%, the composition shifted further toward short-term loans. Corporate M&L loans edge up by 1.8% in Jan-Feb while short-term loans significantly rose by 28%, suggesting prioritizing liquidity management over long-term capex.

■ **Liquidity remained ample amid persistent real-economy headwinds.** The combined Jan-Feb figures suggest that while the central bank has been effective in maintaining adequate liquidity, as seen in M1&M2, the transmission to the real economy is hindered by weak borrower sentiment. Monetary aggregates are improving, but credit aggregates, particularly long-term loans to households and private corporates, are lagging. With fragile household confidence and the property sector still in a deleveraging phase, the effectiveness of liquidity provision alone is reaching its limit. We expect the central bank to shift focus toward lowering the absolute cost of credit to stimulate demand as property market continued to sink while RMB remained strong. We expect PBOC to cut LPR and RRR by 10-15 bps and 50 bps in the end of 2Q26, while focusing on targeted support through structural monetary instruments in the near term.

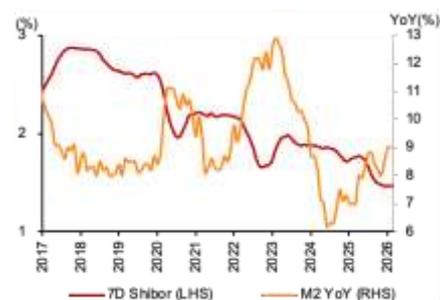
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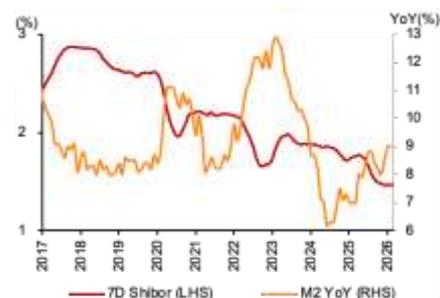
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Source: Wind, CMBIGM

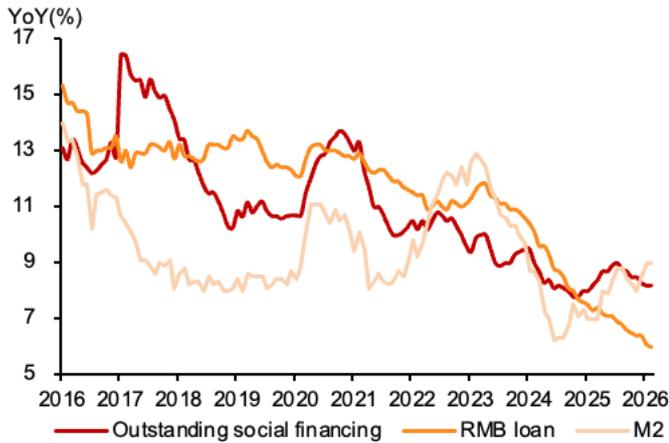


Source: Wind, CMBIGM



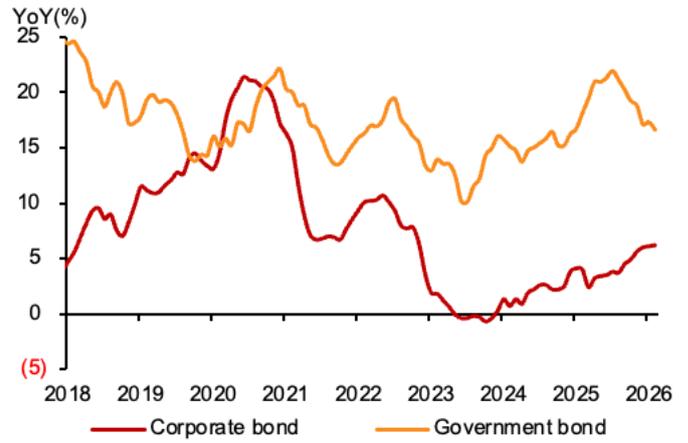
Source: Wind, CMBIGM

Figure 1: Growth of outstanding social financing



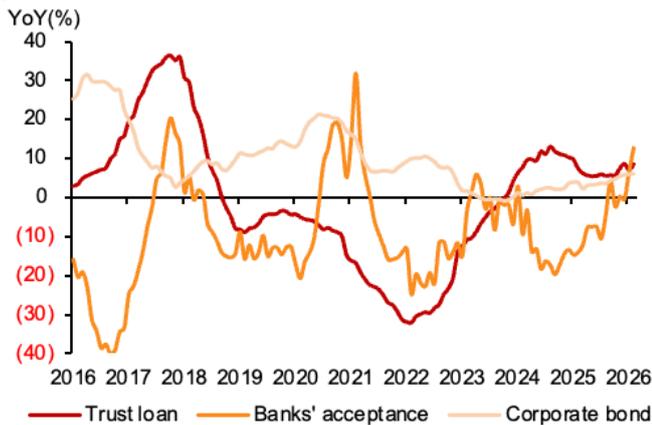
Source: Wind, CMBIGM

Figure 2: Growth of outstanding bond financing



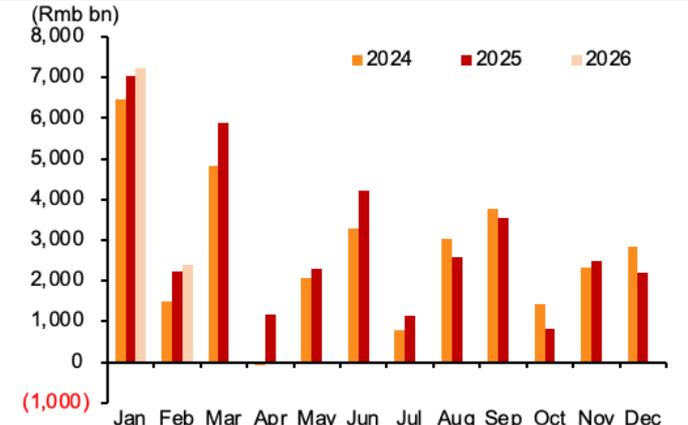
Source: Wind, CMBIGM

Figure 3: Growth of outstanding OBS financing



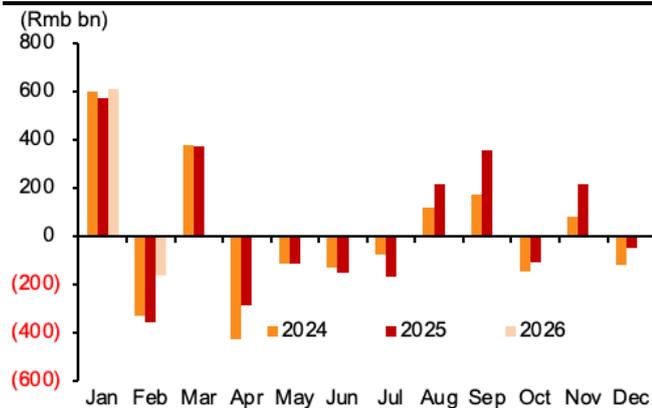
Source: MoF, CMBIGM

Figure 4: Total social financing



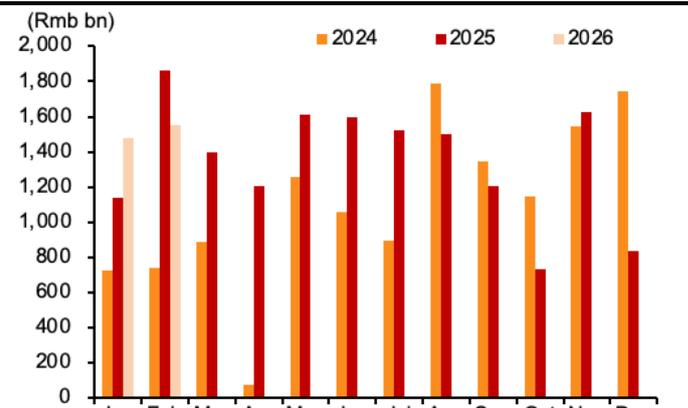
Source: MoF, CMBIGM

Figure 5: OBS financing



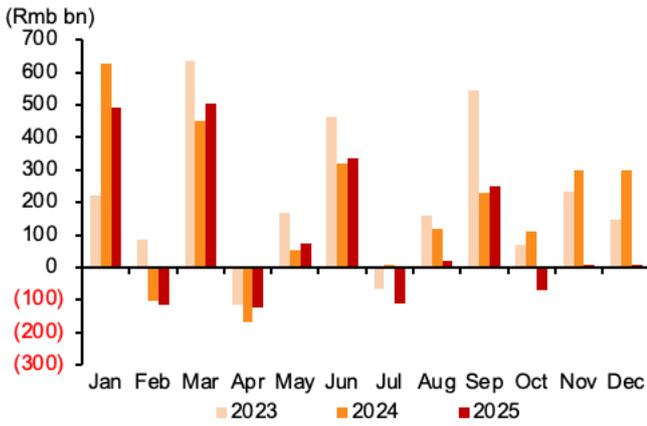
Source: Wind, CMBIGM

Figure 6: Bond financing



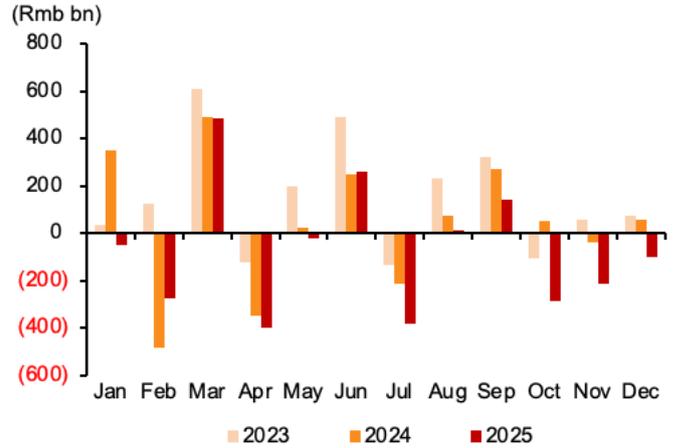
Source: Wind, CMBIGM

Figure 7: New M&L term loans to households



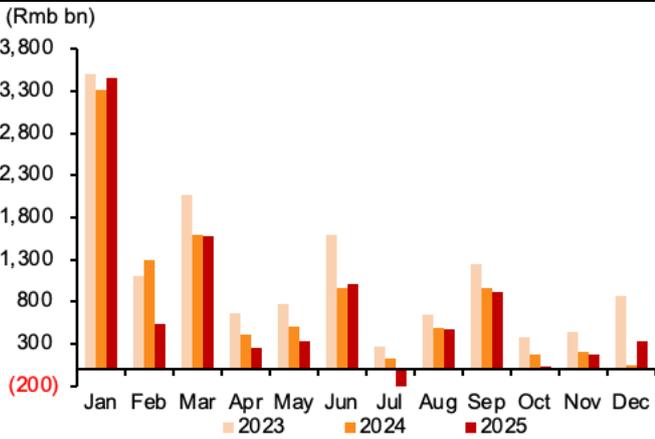
Source: Wind, CMBIGM

Figure 8: New short-term loans to households



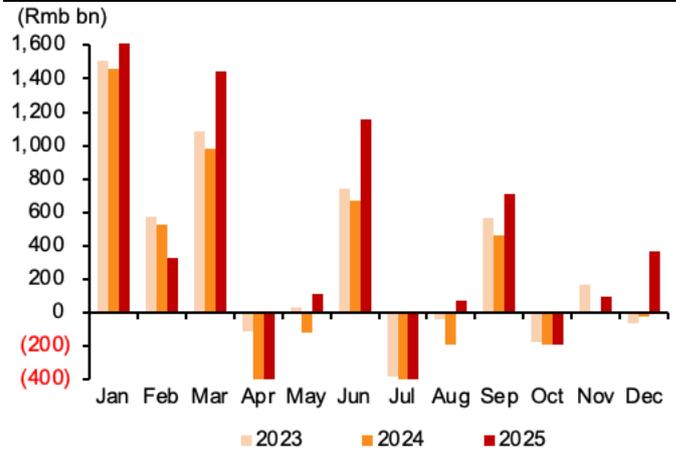
Source: Wind, CMBIGM

Figure 9: New M&L term loans to enterprises



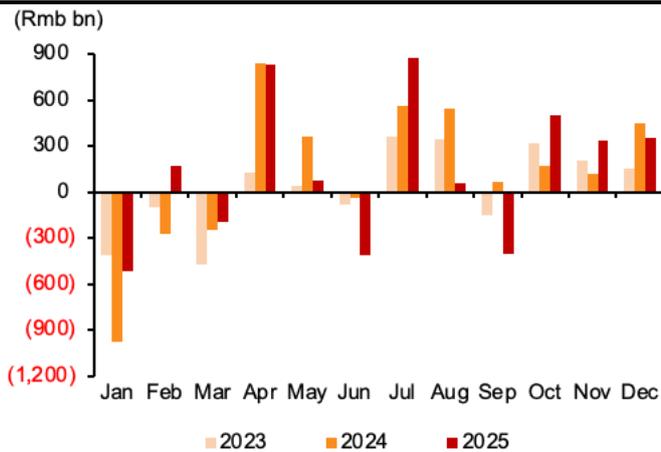
Source: Wind, CMBIGM

Figure 10: New short-term loans to enterprises



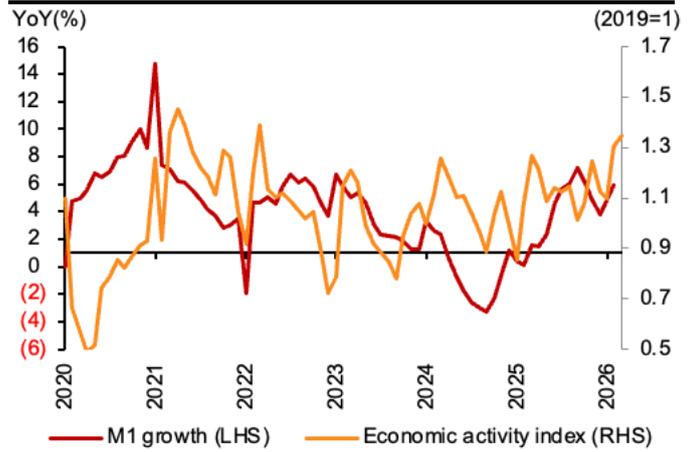
Source: Wind, CMBIGM

Figure 11: Bill financing to enterprises



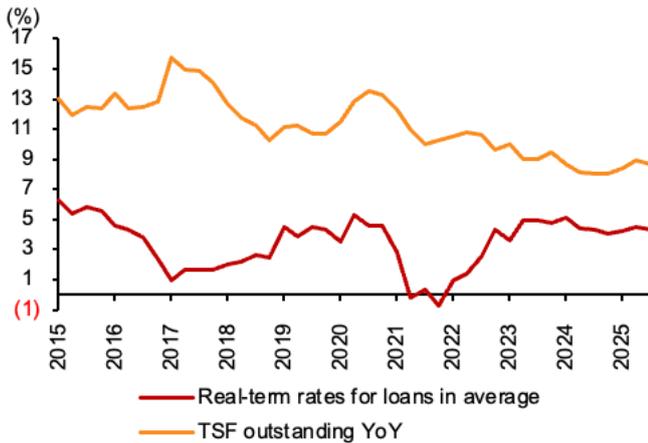
Source: Wind, CMBIGM

Figure 12: M1 growth & Economic activity index



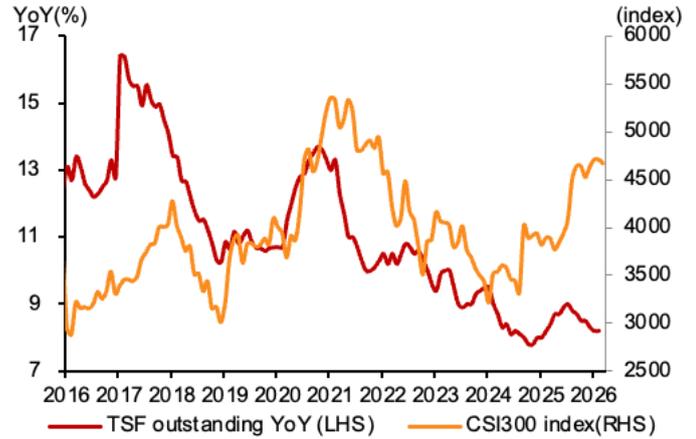
Source: Wind, CMBIGM

Figure 13: Real-term loan rates & TSF growth



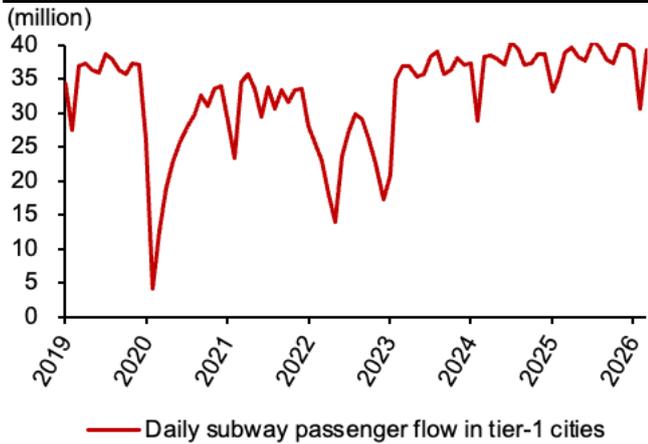
Source: Wind, CMBIGM

Figure 14: TSF growth & CSI 300 index



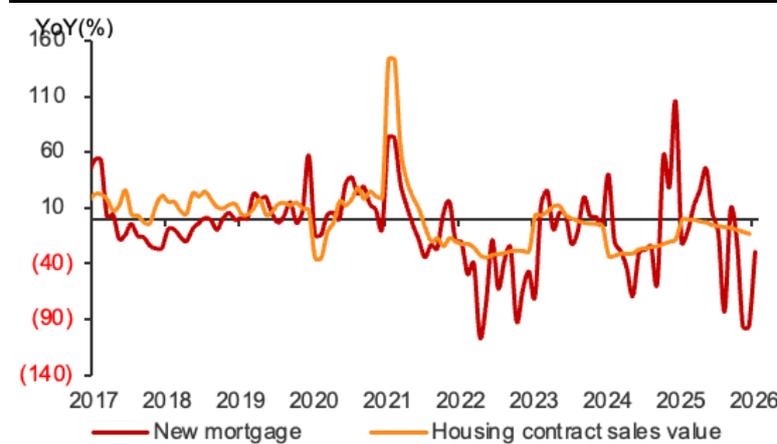
Source: Wind, CMBIGM

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



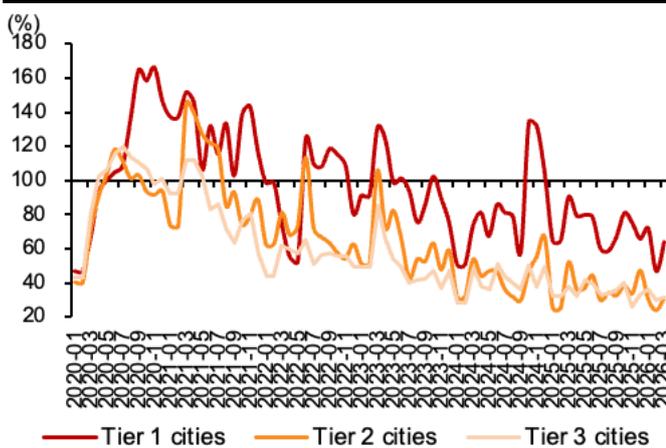
Source: Wind, CMBIGM

Figure 16: New mortgage & housing sales



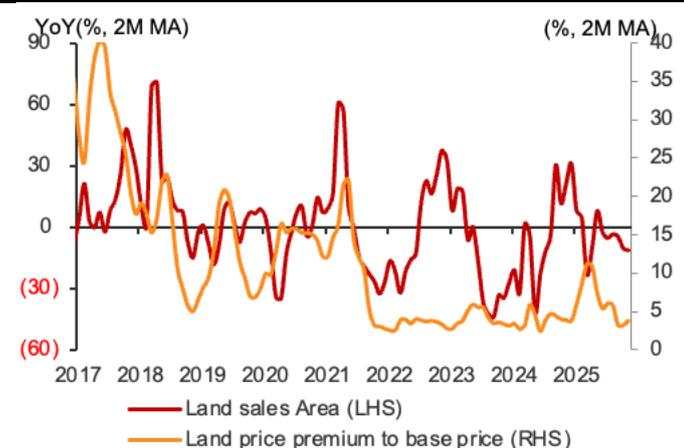
Source: Wind, CMBIGM

Figure 17: Housing sales recovery rates compared to 2019



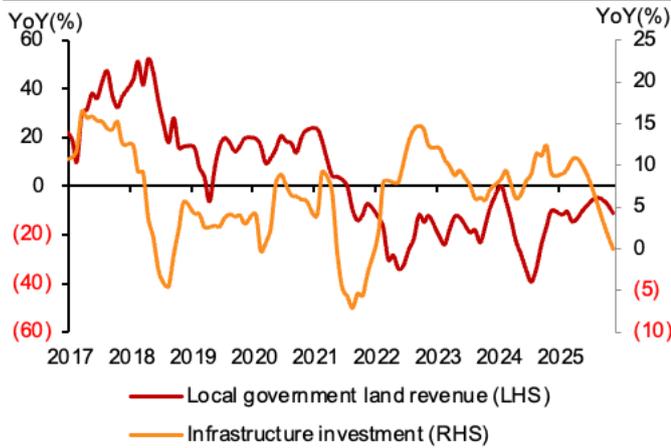
Source: Wind, CMBIGM

Figure 18: Growth of land sales



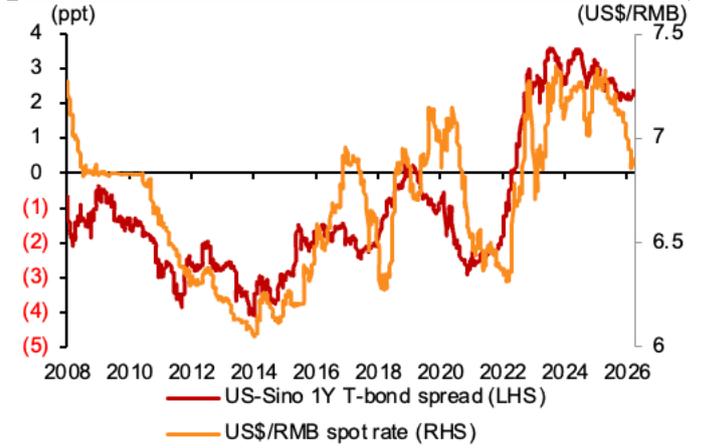
Source: Wind, CMBIGM

Figure 19: Infrastructure investment



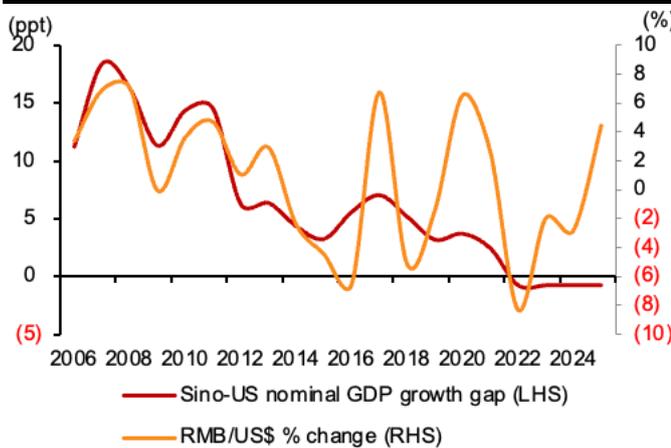
Source: Wind, CMBIGM

Figure 20: US-China interest spreads



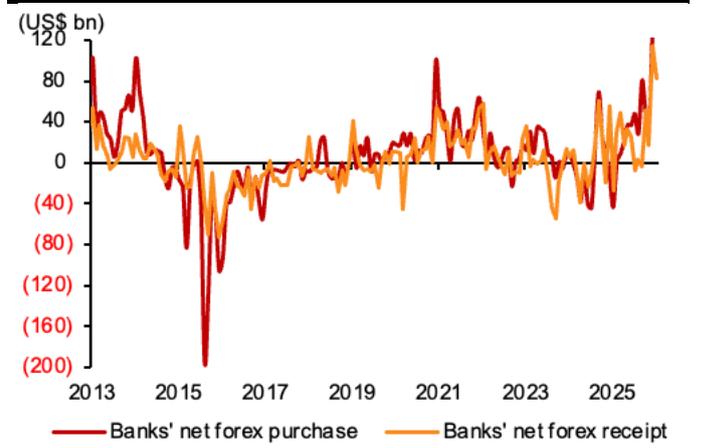
Source: Wind, CMBIGM

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



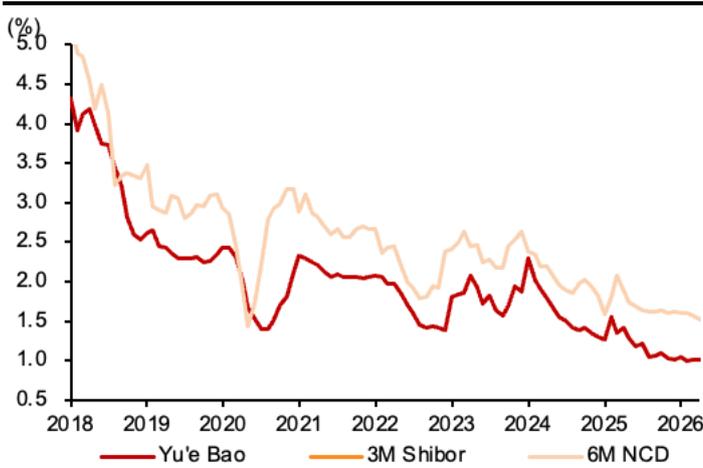
Source: Wind, CMBIGM

Figure 22: Net forex inflow



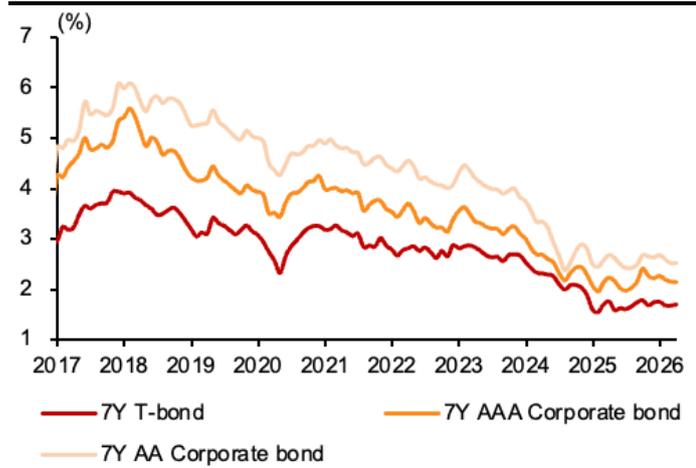
Source: Wind, CMBIGM

Figure 23: Money market funding cost



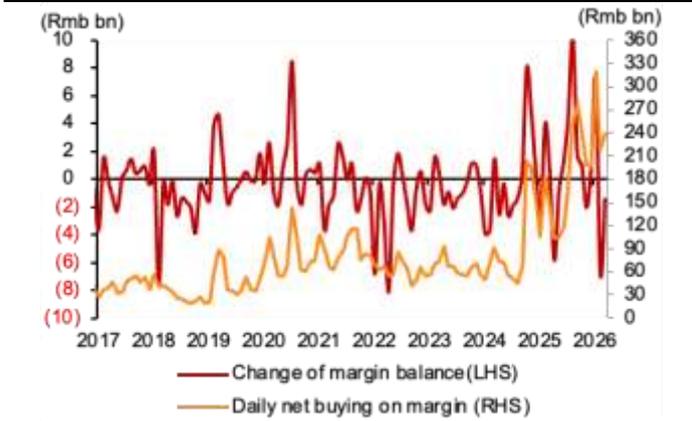
Source: Wind, CMBIGM

Figure 24: Bond market rates



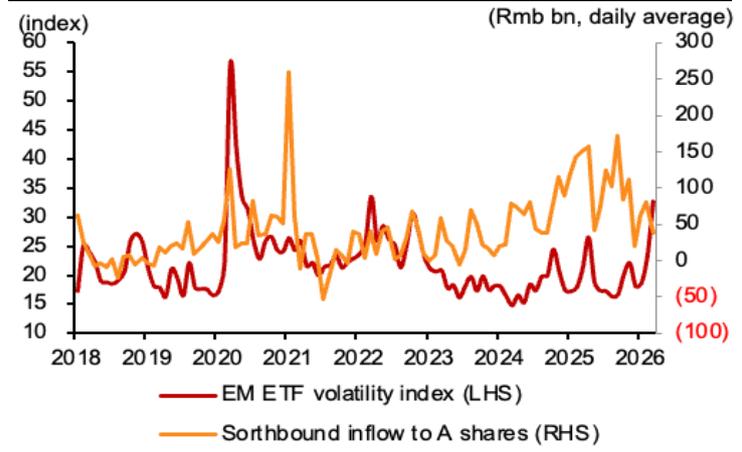
Source: Wind, CMBIGM

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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