

- The January credit figures represent the second major upside surprise that China has confronted the market with in the young life of calendar 2014. Following on from the strong export and import data, bank lending increased by 1320 billion yuan in January (consensus 1100) and total social financing (TSF) increased by 2580 billion yuan (consensus 1900). **Phat Dragon** gauges that despite the apparently impressive size of these flows, and the margin of outperformance over market forecasts, these figures are no better than reasonable from the point of view of the real economy. **Phat Dragon's** reasoning for this judgement is that in a growing economy without an explicit loan quota, it is naive to focus on nominal figures without reference to growth rates. And the growth in new financing is now just 1.4%yr. That is not an amazing number for an economy hoping to expand at 10% nominal, or just below.

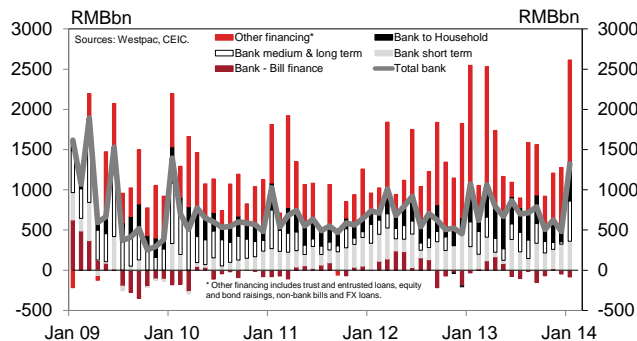
- Phat Dragon** notes that the composition of bank lending was sound: a record level for new household loans; an increase in the medium and long term share (from 30% in Dec to 62% in Jan); and a modest increase in short term and bill financing from December, although not enough to bring the year-ended growth rate back into positive territory. Among the non-local currency bank loans side of financing, entrusted loans are the only major category where flows are above the level in the same month a year ago. Foreign currency loans are down 12%yr, trust loans are down 49%yr and bond raisings are down 85%yr.

- Phat Dragon** was interested to see that incremental loans exceeded incremental deposits in the month (change in stocks), a reversal of the 2013 situation. There is no definitive directional seasonality in the loan to deposit ratio in January, but when it does decline, by definition there must have been some action in the wholesale bank financing sphere. On this point, the PBoC added 700 billion yuan in net liquidity in the month, principally through newly initiated reverse repos but with material assistance from passive maturities in the repo space; while interbank volumes were steady vis-a-vis December, whereas they traditionally decline. The 7-day interbank repo rate ranged from 4.06%pa to 6.64%pa in January, with a standard deviation of 0.64, versus the 2013H2 outcome of 1.31. And as an aside, the idea that hot money inflows spiked in January on export invoicing shenanigans is not borne out by either insipid RMB deposit growth (11.3%yr from 13.8%yr in Dec) or accelerating growth in FX deposits (17.8%yr from 7.9% in Dec).

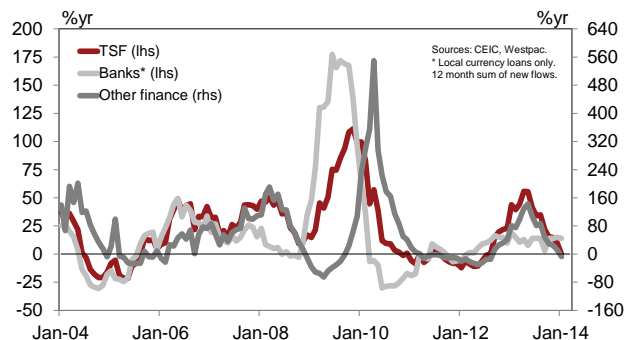
- Are there signs of financial stress in shadow banking evident in the January figures? For the counter argument **Phat Dragon** points to the relatively contained market interest rates in the month despite the high call on non-deposit financing. That is balanced by pro arguments regarding the continued weak performance of trust lending (down 49%yr, declining in year-ended terms since August) and FX loans. Bill finance (down 16%yr, declining in year-ended terms since May) is looking a little steadier than it did in the second half of last year, while remaining soft overall. Entrusted loans continue to exhibit formidable momentum, while bonds and equity have traded places, with bond finance falling and equity on the rise.

- In a separate but somewhat related manner, BIS' data covering events up to September 2013 imply stronger that G4 bankers got over their 2012 jitters in a big way. Having withdrawn a net \$US31 billion from the Mainland economy across 2012, they pumped \$US135bn back in over the first nine months of 2013. **Phat Dragon** notes that this figure represents almost 40% of total FX reserve growth in that period.

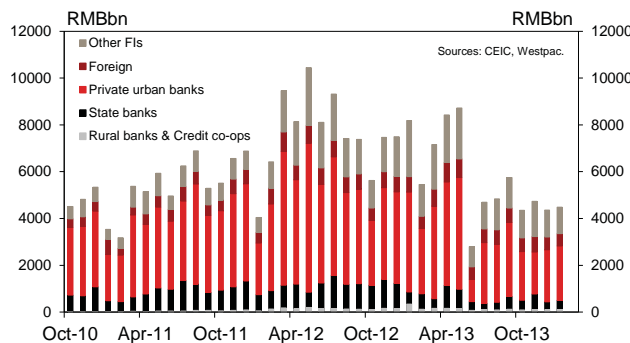
### New lending : a reasonable January in 2014



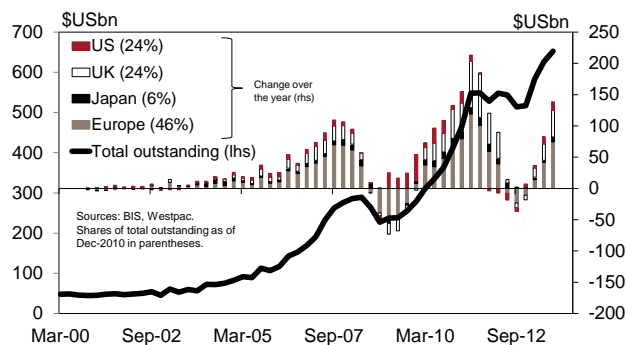
### Total credit supply – new flows



### Interbank loan turnover volume by type of FI



### Foreign bank claims on China



- Stats of the week: China had 1.1 billion cellular telephone subscriptions in 2012, around 0.81/capita. The US had 310 million, around 0.98/capita.**



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