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China Financials | Asia Pacific

TSF further slowed yoy despite quarter-end window dressing

YoY TSF growth further slowed in June with reduced window guidance, although strong MoM growth was aided by quarter-end window dressing. Retail credit recovery held up better although the sharp drop in M1 growth may signal more bumpiness in the process of economic recovery.

June TSF growth continued to moderate to 9% yoy with more rational loan extension, from a high June-22:

The strong sequential increase in TSF of Rmb4.22tn in June was partly due to quarter-end window dressing that has become more pronounced in recent years. Notably, long-term corporate loans increased Rmb1.6tn in June, which was a big jump from April and May, to support quarter-end loan balance numbers and 2Q23 GDP. New short-term corporate loans were Rmb745bn, 8% higher yoy. On a yoy basis, new TSF was Rmb973bn, down yoy due to lower government bond issuance following a high base with the issuance of special local government bonds in June 2022. Despite moderating TSF and corporate loan growth, the modest recovery in retail loan growth continues. Corporate bonds added Rmb236bn, similar to last year but a clear increase compared with a net decline last month. We believe this shows that the market is still cautious on LGFV debt and volatility across months indicates active adjustments in market expectations.

Continued recovery in retail loans with slower mortgage repayments and more demand for personal consumption:

Long-term household loans added Rmb463bn, 11% higher yoy, mainly driven by slower repayments as they should have already peaked in previous months. However, we believe new mortgage loans are still under pressure given sluggish housing sales, which may weigh somewhat on a long-term household loan recovery. New short-term household loans in June were Rmb491bn, a further increase from May, which could indicate both an improvement in demand and a willingness to lend by financial firms despite the very uneven recovery post Covid reopening.

While we continue to expect TSF growth to moderate, we expect to see further recovery in retail credit, which should also help to support NIM for banks.

Household deposit growth further slowed yoy; M1 growth dropped sharply while M2 growth slightly declined:

Household deposit growth was 17.2% yoy in June, moderating from a peak of 18.3% in February. We believe households are gradually increasing their risk appetite and shifted funds to short-term investment funds and insurance products, which could help support fee income and manage funding costs for banks. However, M1 growth dropped to 3.1% in June from 4.7% in May, which may signal some moderation in business activities with more bumpiness in the process of economic recovery.

MORGAN STANLEY ASIA LIMITED+

Richard Xu, CFA

EQUITY ANALYST

Richard.Xu@morganstanley.com

+852 2848-6729

Beryl Yang

RESEARCH ASSOCIATE

Beryl.Yang@morganstanley.com

+852 3963-2224

Chiyao Huang

EQUITY ANALYST

Chiyao.Huang@morganstanley.com

+852 3963-4624



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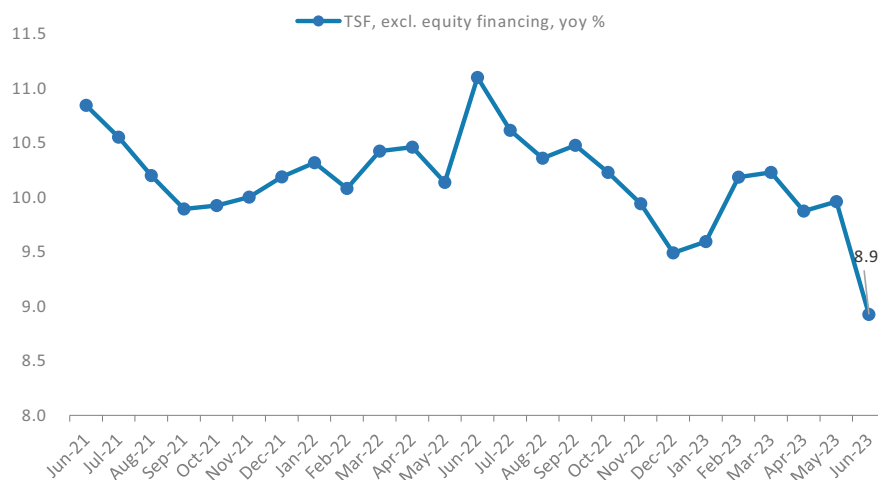
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Key Exhibits

Exhibit 1: YoY growth in TSF (excluding equity financing) dropped to 8.9% in June



Source: PBOC, Morgan Stanley Research

Exhibit 2: Headline TSF growth further moderated to 9.0% yoy in June with more rational loan extension, from a high in June 2022

	Total Social Financing (Balance)					
	June-23		May-23		April-23	
	Rmb bn	yoy	Rmb bn	yoy	Rmb bn	yoy
Total Social Financing	365,450	9.0%	361,420	9.5%	359,950	10.0%
Loans in RMB	228,860	11.2%	225,620	11.3%	224,400	11.7%
Loans in FX	1,890	-18.9%	1,870	-20.1%	1,860	-20.9%
Entrusted loans	11,320	4.0%	11,330	3.8%	11,330	3.7%
Trust loans	3,770	-5.0%	3,780	-6.7%	3,750	-9.0%
Undiscounted bankers' acceptance	2,750	-2.8%	2,820	3.7%	3,000	6.0%
Corporate bond	31,340	-0.4%	31,240	-0.2%	31,490	0.6%
Government bond	63,570	10.1%	63,030	12.4%	62,470	13.5%
Non-fin enterprise equity financing	11,100	11.4%	11,030	11.3%	10,950	10.8%

Source: PBOC, Morgan Stanley Research. Note: PBOC added loans originated by consumer finance company, bank WM subsidiary and financial investment company to RMB loans since Jan 2023 within TSF, and the growth rate is adjusted on a comparable basis

Exhibit 3: New TSF, at Rmb4.22tn, is sequentially higher partly due to quarter-end window dressing, but is Rmb973bn lower yoy – new RMB loans are up by Rmb183bn yoy, new government bonds recorded a yoy decline of Rmb1,083bn from a high base

	Total Social Financing (Flow)						
	June-23			May-23	June-22	June-21	
	Rmb bn	YoY	MoM	Rmb bn	Rmb bn	Rmb bn	
Total Social Financing	4,220	(973)	2,664	1,556	5,193	3,702	
Loans in RMB	3,237	183	2,015	1,222	3,054	2,318	
Loans in FX	(19)	10	15	(34)	(29)	70	
Entrusted loans	(6)	32	(9)	4	(38)	(47)	
Trust loans	(15)	68	(46)	30	(83)	(105)	
Undiscounted bankers' acceptance	(69)	(176)	111	(180)	107	(22)	
Corporate bond	236	1	454	(218)	235	393	
Government bond	539	(1,083)	(18)	557	1,622	751	
Non-fin enterprise equity financing	70	11	(5)	75	59	96	

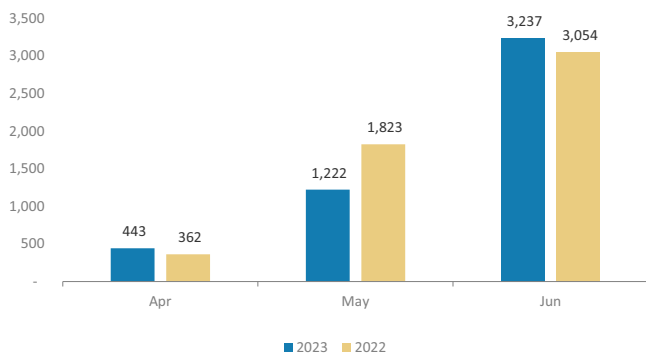
Source: PBOC, Morgan Stanley Research

Exhibit 4: Long- and short-term household loans added Rmb463bn and Rmb491bn, respectively, driven by slower mortgage repayment and continued demand improvement. Mid-/long-term corporate loans added Rmb1.6tn, a big jump sequentially to support 2Q23 GDP.

	June-23	June-22	Change - %	Change - Rmb bn	YTD 2022	YTD 2021	Change - %	Change - Rmb bn
Total RMB loans	3,051	2,805	9%	247	15,730	13,680	15%	2,050
Total household loans	964	848	14%	116	2,800	2,180	28%	620
S/t loans	491	428	15%	63	1,330	621	114%	709
L/t loans	463	417	11%	46	1,460	1,560	-6%	(100)
Total corporate loans	2,280	2,212	3%	69	12,810	11,400	12%	1,410
S/t corp. loans	745	691	8%	54	3,840	2,990	28%	850
Bill financing	(82)	80	-203%	(162)	(892)	2,110	-142%	(3,002)
Mid-L/t corp. loans	1,593	1,450	10%	144	9,710	6,220	56%	3,490

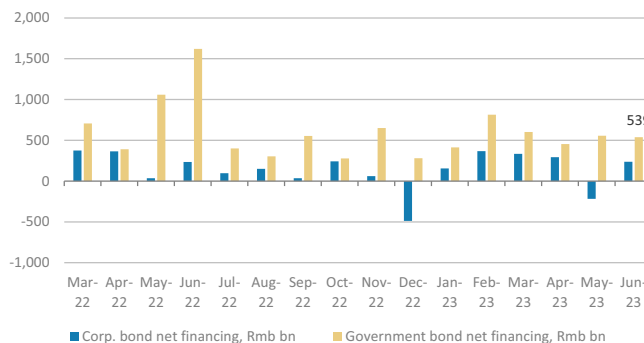
Source: PBOC, CEIC, Morgan Stanley Research

Exhibit 5: New RMB loans totaled Rmb3.2tn in June, up Rmb183bn yoy



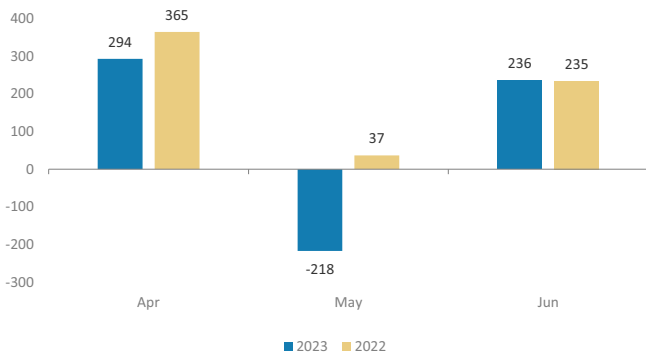
Source: PBOC, Morgan Stanley Research

Exhibit 6: Government bond issuance was Rmb539bn in June, flat MoM but down YoY due to a high base



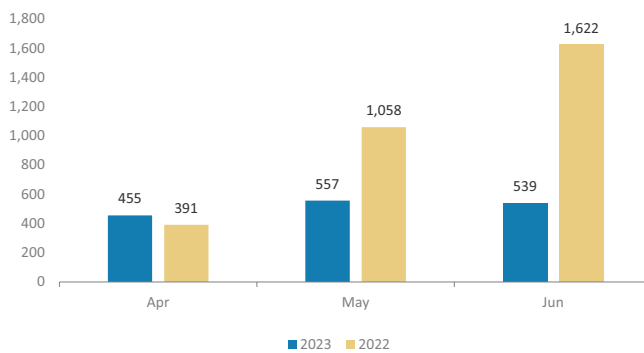
Source: PBOC, Morgan Stanley Research

Exhibit 7: Monthly corporate bond financing was flat YoY but higher MoM in June



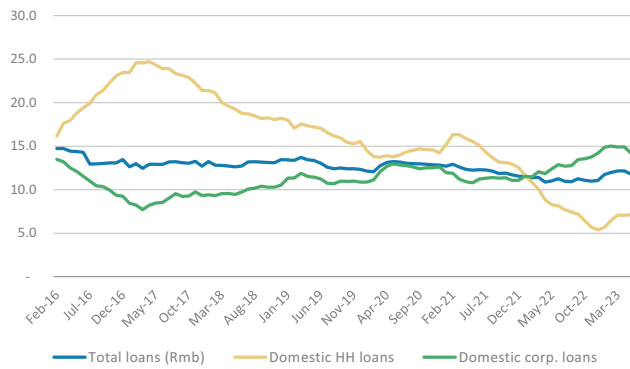
Source: PBOC, Morgan Stanley Research

Exhibit 8: Monthly government bond financing was down Rmb1,083bn yoy in June due to a high base



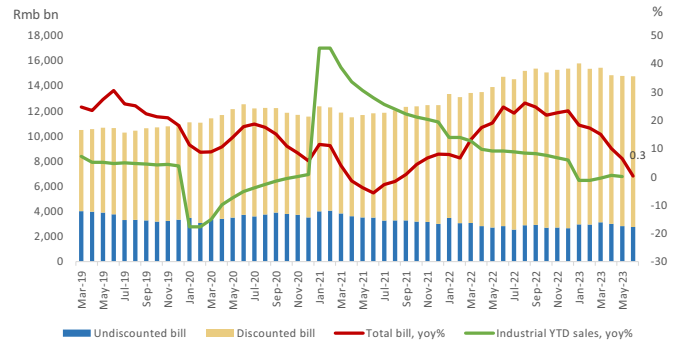
Source: PBOC, Morgan Stanley Research

Exhibit 9: Total RMB loan growth was 11.2% in June



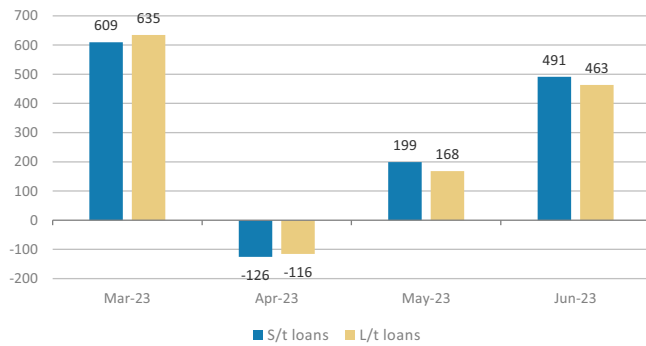
Source: PBOC, CEIC, Morgan Stanley Research

Exhibit 10: Balance of total bill financing rose 0.3% YoY in June



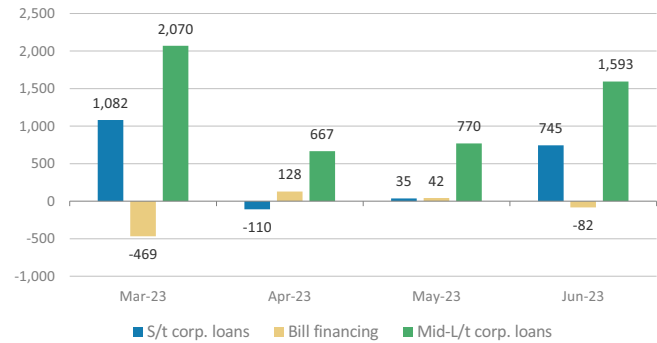
Source: PBOC, CEIC, Morgan Stanley Research

Exhibit 11: Both short-term and long-term household loans were up MoM



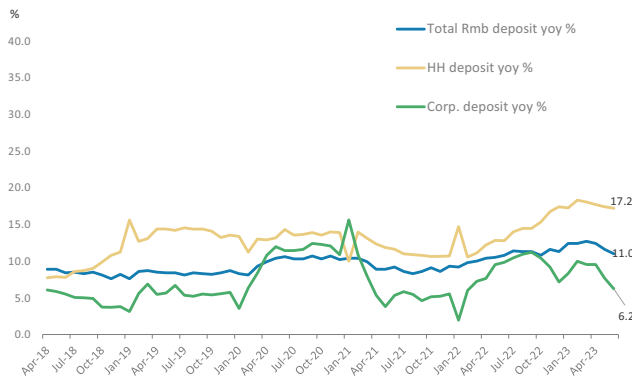
Source: PBOC, CEIC, Morgan Stanley Research

Exhibit 12: Short-term corporate loans and medium- to long-term corporate loan added Rmb745bn and Rmb1.6tn, respectively, in June 2023



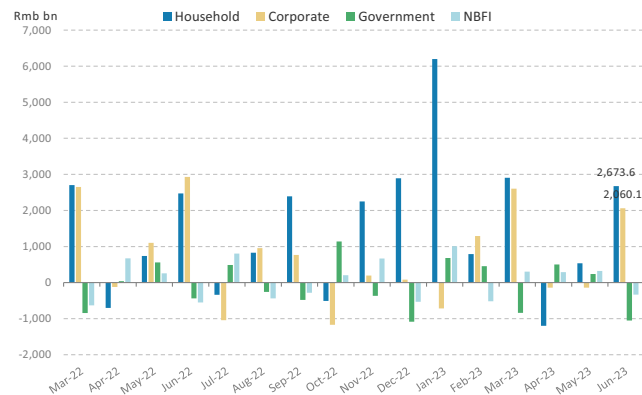
Source: PBOC, CEIC, Morgan Stanley Research

Exhibit 13: Household deposit growth further slowed to 17.2% yoy in June



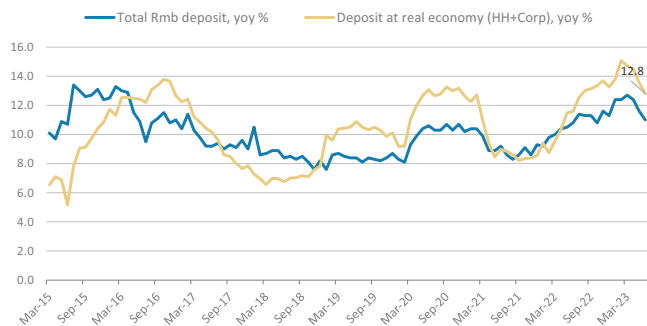
Source: PBOC, Morgan Stanley Research

Exhibit 14: Household and corporate deposits were up Rmb2.67tn and Rmb2.06tn, respectively in June



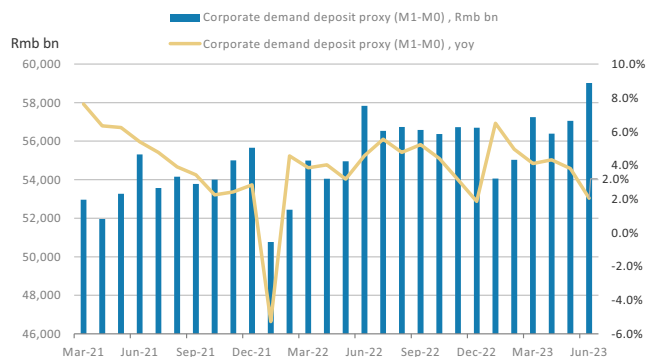
Source: PBOC, Morgan Stanley Research

Exhibit 15: Household and corporate deposits grew 12.8% YoY in June



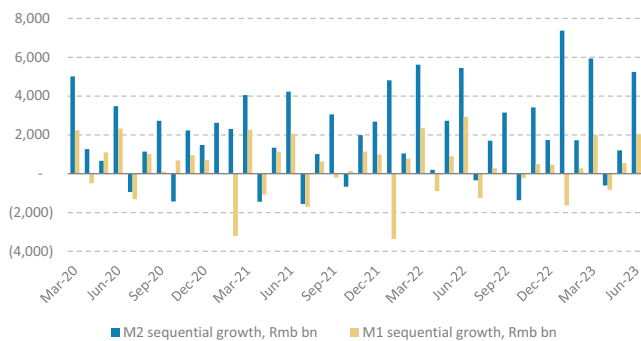
Source: PBOC, Morgan Stanley Research

Exhibit 16: Corporate demand deposit proxy (M1-M0) moderated to 2% yoy in June



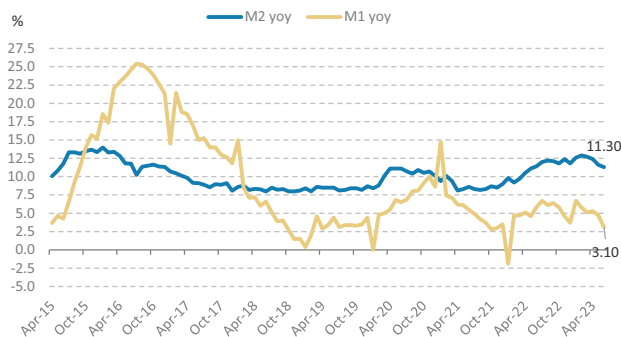
Source: PBOC, Morgan Stanley Research

Exhibit 17: M1 and M2 was higher sequentially but lower yoy in June



Source: PBOC, Morgan Stanley Research

Exhibit 18: M1 growth dropped sharply to 3.1% yoy, while M2 growth slightly moderated to 11.3% yoy, in June



Source: PBOC, Morgan Stanley Research

Valuation Comps

Exhibit 19: Valuation comparison

	Ticker	Price	P/E		P/B		Div Yield		ROE		ROA		
			23E	24E	23E	24E	23E	24E	23E	24E	23E	24E	
Chinese Banks													
H Share Banks													
ABC	OW	1288.HK	2.60 HKD	3.6	3.5	0.37	0.34	8.6	8.9	11.5	11.0	0.7	0.7
ICBC	OW	1398.HK	3.60 HKD	3.7	3.7	0.36	0.34	8.2	8.3	10.0	9.5	0.9	0.8
CCB	OW	0939.HK	4.36 HKD	3.5	3.4	0.38	0.35	8.7	8.9	11.5	10.8	0.9	0.9
BOC	OW	3988.HK	2.74 HKD	3.7	3.6	0.37	0.35	8.6	8.7	10.4	9.8	0.7	0.7
BoCom	UW	3328.HK	4.41 HKD	3.9	3.8	0.37	0.35	8.3	8.4	9.9	9.4	0.6	0.6
PSBC	OW	1658.HK	4.38 HKD	4.8	4.3	0.54	0.50	6.8	7.4	12.0	11.9	0.6	0.6
CMB	OW	3968.HK	33.00 HKD	5.5	4.9	0.78	0.69	5.5	6.2	14.8	15.1	1.4	1.4
Citic	EW	0998.HK	3.57 HKD	2.9	2.7	0.31	0.29	10.5	11.2	11.3	11.2	0.7	0.7
Minsheng	OW	1988.HK	2.87 HKD	3.5	3.3	0.20	0.19	8.7	9.1	5.9	6.0	0.5	0.5
Everbright	UW	6818.HK	2.18 HKD	2.8	2.8	0.27	0.26	11.4	11.5	10.4	9.9	0.7	0.6
CRCB	UW	3618.HK	2.71 HKD	2.9	2.7	0.25	0.23	7.3	8.8	9.1	8.9	0.8	0.8
Average				3.7	3.5	0.4	0.4	8.4	8.9	10.6	10.3	0.8	0.8
A Share Banks													
PingAn	OW	000001.SZ	11.21	4.7	4.1	0.6	0.5	2.7	3.6	12.8	13.1	0.9	1.0
Industrial	OW	601166.SS	15.48	3.7	3.4	0.5	0.4	7.6	8.3	13.3	13.2	1.0	1.0
SPDB	UW	600000.SS	7.28	4.9	4.9	0.3	0.3	4.6	4.5	7.3	6.7	0.5	0.5
Huaxia	UW	600015.SS	5.40	3.5	3.4	0.3	0.3	7.2	7.3	9.4	8.7	0.6	0.6
ABC	EW	601288.SS	3.53	4.6	4.5	0.5	0.4	6.7	6.9	11.5	11.0	0.7	0.7
ICBC	EW	601398.SS	4.83	4.7	4.6	0.5	0.4	6.5	6.6	10.0	9.5	0.9	0.8
CCB	EW	601939.SS	6.29	4.8	4.7	0.5	0.5	6.3	6.4	11.5	10.8	0.9	0.9
BOC	EW	601988.SS	3.93	5.2	5.1	0.5	0.5	6.2	6.3	10.4	9.8	0.7	0.7
BoCom	UW	601328.SS	5.80	5.0	4.9	0.5	0.4	6.5	6.6	9.9	9.4	0.6	0.6
CMB	OW	600036.SS	32.71	5.6	4.9	0.8	0.7	5.4	6.2	14.8	15.1	1.4	1.4
CITIC	UW	601998.SS	5.92	4.9	4.6	0.5	0.5	6.1	6.5	11.3	11.2	0.7	0.7
Minsheng	EW	600016.SS	3.78	4.7	4.5	0.3	0.3	6.4	6.7	5.9	6.0	0.5	0.5
Everbright	UW	601818.SS	3.08	4.0	3.9	0.4	0.4	8.0	8.1	10.4	9.9	0.7	0.6
Ningbo	OW	002142.SZ	24.73	6.6	5.6	1.0	0.9	2.2	2.6	15.7	16.2	1.0	1.0
Chengdu	OW	601838.SS	12.60	4.1	3.5	0.7	0.6	7.4	8.5	19.3	19.3	1.1	1.2
Beijing	EW	601169.SS	4.50	4.4	4.3	0.4	0.4	6.9	7.1	9.4	9.2	0.6	0.6
Hangzhou	EW	600926.SS	11.81	5.7	5.0	0.6	0.5	4.4	5.0	11.8	11.6	0.7	0.8
Average				4.8	4.5	0.5	0.5	6.0	6.3	11.5	11.2	0.8	0.8

Source: Refinitiv, Morgan Stanley Research estimates; closing prices as of July 11, 2023

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STOCK RATING CATEGORY	COVERAGE UNIVERSE		INVESTMENT BANKING CLIENTS (IBC)			OTHER MATERIAL INVESTMENT SERVICES CLIENTS (MISC)	
	COUNT	% OF TOTAL	COUNT	% OF TOTAL IBC	% OF RATING CATEGORY	COUNT	% OF TOTAL OTHER MISC
Overweight/Buy	1353	37%	280	44%	21%	607	39%
Equal-weight/Hold	1658	46%	293	46%	18%	716	46%
Not-Rated/Hold	2	0%	0	0%	0%	0	0%
Underweight/Sell	610	17%	68	11%	11%	224	14%
TOTAL	3,623		641			1547	

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months. Due to rounding off of decimals, the percentages provided in the "% of total" column may not add up to exactly 100 percent.

Analyst Stock Ratings

Overweight (O). The stock's total return is expected to exceed the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Equal-weight (E). The stock's total return is expected to be in line with the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Not-Rated (NR). Currently the analyst does not have adequate conviction about the stock's total return relative to the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Underweight (U). The stock's total return is expected to be below the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Unless otherwise specified, the time frame for price targets included in Morgan Stanley Research is 12 to 18 months.

Analyst Industry Views

Attractive (A): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.

In-Line (I): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be in line with the relevant broad market benchmark, as indicated below.

Cautious (C): The analyst views the performance of his or her industry coverage universe over the next 12-18 months with caution vs. the relevant broad market benchmark, as indicated below.

Benchmarks for each region are as follows: North America - S&P 500; Latin America - relevant MSCI country index or MSCI Latin America Index; Europe - MSCI Europe; Japan - TOPIX; Asia - relevant MSCI country index or MSCI sub-regional index or MSCI AC Asia Pacific ex Japan Index.

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INDUSTRY COVERAGE: China Financials

COMPANY (TICKER)	RATING (AS OF)	PRICE* (07/11/2023)
Chiyao Huang		
China International Capital Corp. Ltd. (3908.HK)	O (01/06/2023)	HK\$13.70
China Merchants Securities Co Ltd (600999.SS)	U (09/29/2022)	Rmb13.95
China Merchants Securities Co Ltd (6099.HK)	E (12/07/2021)	HK\$7.36
CITIC Securities Co. (6030.HK)	E (05/20/2022)	HK\$13.82
CITIC Securities Co. (600030.SS)	E (05/20/2022)	Rmb20.24
East Money Information Co Ltd (300059.SZ)	E (08/16/2022)	Rmb14.18
Futu Holdings Ltd (FUTU.O)	U (05/18/2023)	US\$42.62
Galaxy Securities (6881.HK)	E (02/27/2020)	HK\$3.88
Galaxy Securities (601881.SS)	U (09/29/2022)	Rmb11.75
GF Securities (000776.SZ)	U (05/20/2022)	Rmb14.89
GF Securities (1776.HK)	E (01/06/2023)	HK\$10.42
Haitong Securities (6837.HK)	U (06/03/2020)	HK\$4.87
Haitong Securities (600837.SS)	U (06/03/2020)	Rmb9.53
HTSC (601688.SS)	E (05/20/2022)	Rmb14.25
HTSC (6886.HK)	E (02/27/2020)	HK\$9.62
Noah Holdings Ltd (NOAH.N)	O (07/27/2022)	US\$14.29
Richard Xu, CFA		
Agricultural Bank of China Limited (601288.SS)	E (05/07/2019)	Rmb3.53
Agricultural Bank of China Limited (1288.HK)	O (10/19/2020)	HK\$2.60
Bairong Inc. (6608.HK)	O (05/04/2021)	HK\$8.79
Bank of Beijing Co Ltd (601169.SS)	E (08/17/2022)	Rmb4.50
Bank of Chengdu Co Ltd (601838.SS)	O (08/17/2022)	Rmb12.60
Bank of China Limited (601988.SS)	E (05/07/2019)	Rmb3.93
Bank of China Limited (3988.HK)	O (01/10/2020)	HK\$2.74
Bank of Communications (3328.HK)	U (05/20/2022)	HK\$4.41
Bank of Communications (601328.SS)	U (09/05/2014)	Rmb5.80
Bank of Hangzhou Co Ltd (600926.SS)	E (08/17/2022)	Rmb11.81
Bank of Ningbo Co. Ltd (002142.SZ)	O (08/17/2022)	Rmb24.73
BC Technology Group Ltd (0863.HK)	E (09/28/2021)	HK\$1.68
China Cinda Asset Management (1359.HK)	E (07/07/2016)	HK\$0.78
China CITIC Bank Corporation Limited (601998.SS)	U (09/05/2014)	Rmb5.92
China CITIC Bank Corporation Limited (0998.HK)	E (05/12/2023)	HK\$3.57
China Construction Bank Corp. (0939.HK)	O (10/11/2012)	HK\$4.36
China Construction Bank Corp. (601939.SS)	E (05/07/2019)	Rmb6.29
China Everbright Bank Co Ltd (6818.HK)	U (05/12/2023)	HK\$2.18
China Everbright Bank Co Ltd (601818.SS)	U (05/20/2022)	Rmb3.08
China Merchants Bank (600036.SS)	O (01/07/2019)	Rmb32.71
China Merchants Bank (3968.HK)	O (09/20/2018)	HK\$33.00
China Minsheng Banking Corp. (600016.SS)	E (05/12/2023)	Rmb3.78
China Minsheng Banking Corp. (1988.HK)	O (05/12/2023)	HK\$2.87
Chongqing Rural Commercial Bank (3618.HK)	U (05/12/2023)	HK\$2.71
CITIC Ltd (0267.HK)	E (03/16/2018)	HK\$8.51
Hua Xia Bank (600015.SS)	U (06/30/2015)	Rmb5.40
Industrial and Commercial Bank of China (1398.HK)	O (08/09/2013)	HK\$3.60
Industrial and Commercial Bank of China (601398.SS)	E (09/19/2022)	Rmb4.83
Industrial Bank Co. Ltd. (601166.SS)	O (02/25/2019)	Rmb15.48
Lufax (LU.N)	E (12/01/2022)	US\$1.46
Ping An Bank (000001.SZ)	O (05/07/2019)	Rmb11.21
Postal Savings Bank of China Co Ltd (1658.HK)	O (11/01/2016)	HK\$4.38
Qifu Technology Inc (QFIN.O)	O (08/25/2020)	US\$18.63
Shanghai Pudong Development Bank (600000.SS)	U (12/07/2021)	Rmb7.28

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* Historical prices are not split adjusted.