

MNI Market Analysis: Will The Rebound In China ‘Liquidity’ Matter For Asset Prices This Year?

12 August 2022, Yvan Berthoux

Executive summary

- Even though aggregate financing rose less than expected in July, China ‘liquidity’ metric, computed as the annual change in China Total Social Financing (TSF), continues to rise, now up 3tr USD in the past year.
- Hence, Investors have been questioning if the rise China ‘liquidity’ this time will be enough to stimulate both domestic and international asset prices.

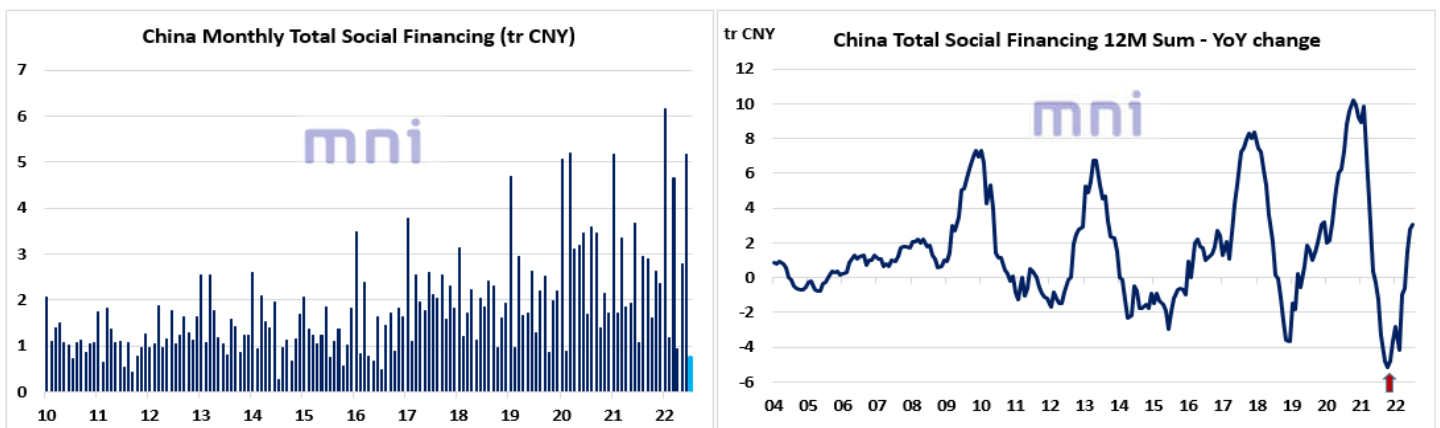
The PBoC reported this morning that aggregate financing rose by 756bn CNY in June (figure 1, left frame), significantly below expectations of 1.35tr CNY with new yuan loans rising by 679bn CNY (1.125tr CNY exp.). However, China ‘liquidity’ metric, computed as the annual change in China Total Social Financing (TSF), continues to rise, now up 3tr USD in the past year (figure 1, right frame).

Investors have been questioning if the rise China ‘liquidity’ this time will be enough to stimulate both domestic and international asset prices. Figure 2 (right frame) shows that the annual change in China Total Social Financing (TSF) has strongly led global equities (MSCI) by 6 months in the past cycle. This year, the easing conditions (policy and liquidity) have been barely enough to limit the downside risk on the real economy.

Figure 3 shows that China ‘liquidity’ has also led China-sensitive commodities (i.e. copper, right frame) and has usually resulted in an ease in risk aversion (i.e. cheaper USD, left frame) in the following 6 to 9 months.

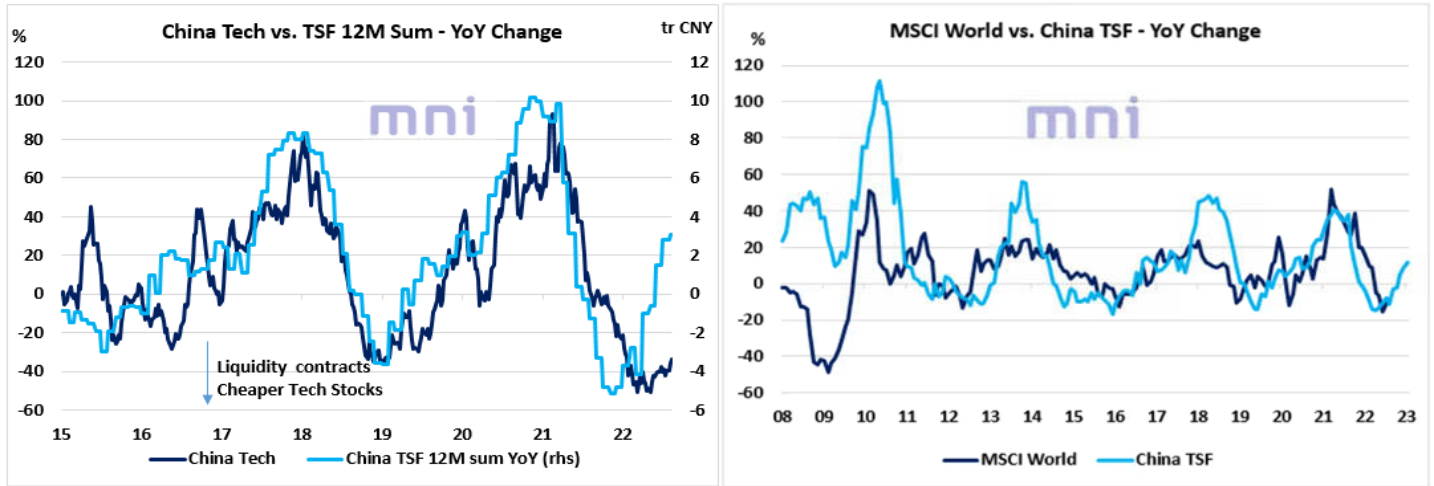
China M1 money supply came in higher than expected at 6.7% in July (vs. 6%), up from 5.8% the previous month. As inflationary pressures continued to ease in July (PPI inflation decelerate to 4.2%), China real M1, another strong leading indicator of risky assets, continues to rebound. Figure 4 (left frame shows that China real M1 has strongly led cyclical stocks such as EM financials in the past cycle and could also put an ‘implicit’ floor on the housing market, which has been slowing down significantly in the past year (figure 4, right frame).

Figure 1



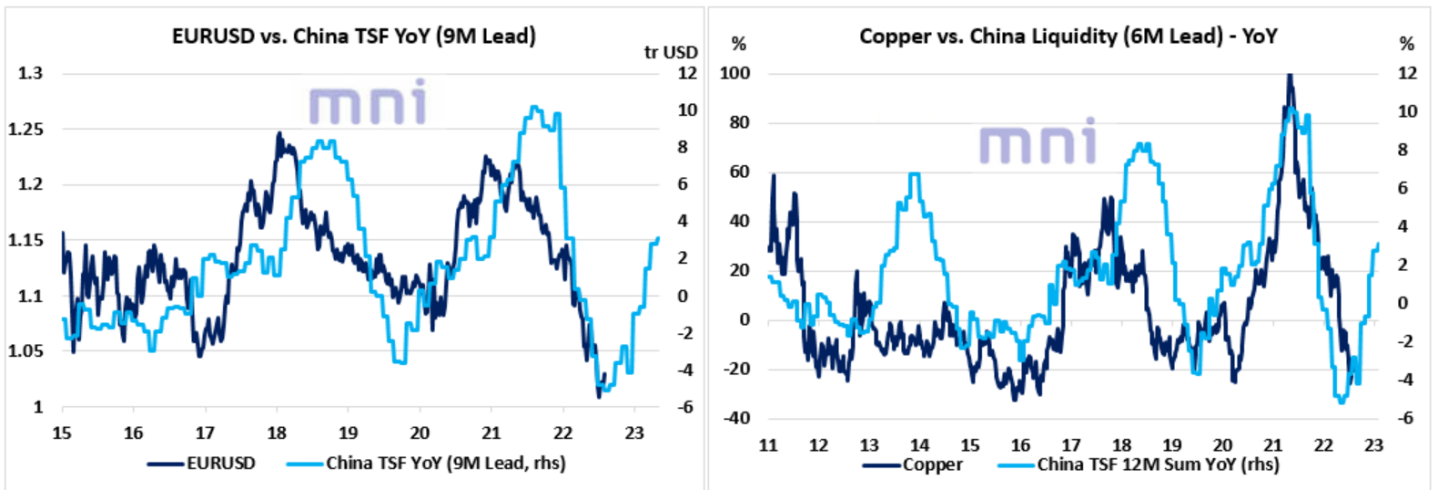
Source: Bloomberg/MNI

Figure 2



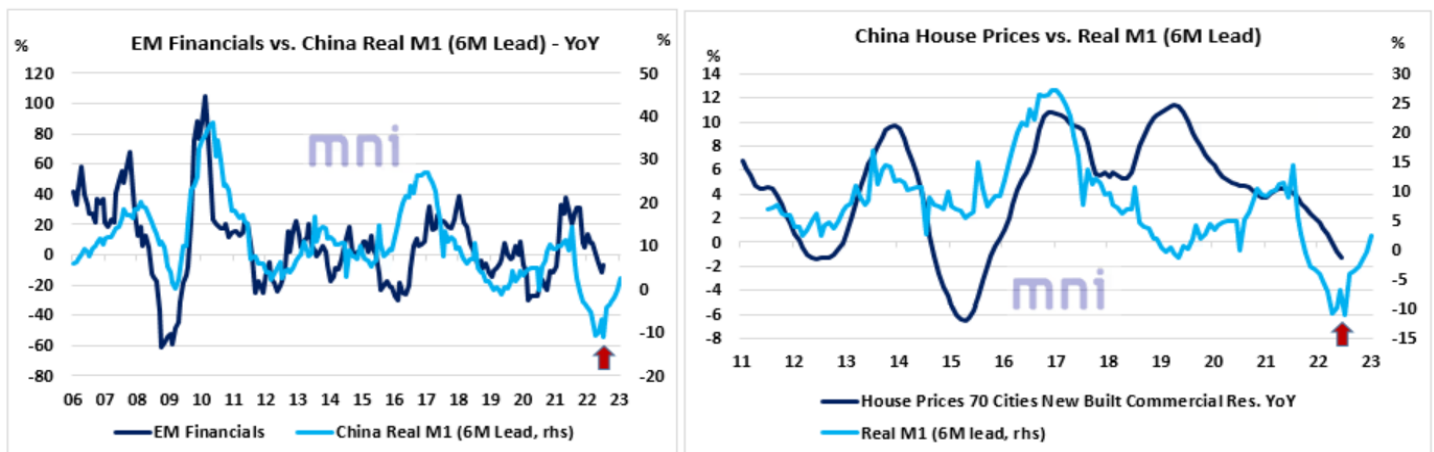
Source: Bloomberg/MNI

Figure 3



Source: Bloomberg/MNI

Figure 4



Source: Bloomberg/MNI

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