

## Quality versus Quantity in Liquidity

There is ample liquidity in [China](#) and the latest spike in money market rates was a result of market distortions caused by widespread speculative trading and shadow financing, state news agency Xinhua said in a commentary on Sunday.

China's central bank faced down the country's cash-hungry [banks](#) on Friday, letting interest rates again spike to extraordinary levels of some 25 percent for some banks as it stepped up the pressure to contain rampant informal lending.

Comments from Xinhua confirm analysts' suspicions that the central bank's funding squeeze is aimed at reducing non-bank lending, or shadow banking, which has boomed in recent years.



The cash crunch engineered by the central bank was intended as a warning to over-extended [banks](#) but has also fed fears that a miscalculation could trigger a full-blown crisis.

Xinhua said there was sufficient liquidity in the market, with data showing broad M2 money supply rose 15.8 percent in May from a year earlier, and the total social financing aggregate, a broad measure of liquidity in the [economy](#), was more than 1 trillion [yuan](#). "The banks are short on cash, the stock market and small- and medium-sized enterprises are short on cash, but there is ample money supply in the market," it said in the commentary.

"Many large companies are still spending heavily and making large purchases in wealth management products. There is also a lot of hot money seeking speculative investments and private lending is still widespread."

These factors showed that the liquidity crunch was not caused by a shortage of funds but by structural issues that kept money from reaching the real [economy](#), it said.

On Sunday China's central bank reiterated that it was committed to prudent monetary policy and moderate credit growth.

- 4.17	1885	18	54	海立美达	1112	1093	2174	- 310	1132	75	37
- 327	26.10	3	5	司尔特	1085	1065	3796	- 184	1085	20	
- 333	869	26	10	新都化工	850	819	13712	- 466	850	65	
- 706	1327	2	19	亚太科技	694	660	18450	- 544	694	103	
- 367	79.1	15	38	鸿路钢构	1002	944	9119	- 560	1002	1	
- 5.17	8.78	34	110	中化岩土	1147	1107	6790	- 306	1147	10	
- 386	2050	7	6	万和电气	900	858	8299	- 509	900	45	
- 6.16	9.73	66	126	杰赛科技	830	812	55342	- 275	860	16	
- 308	1090	7	35	东方铁塔	1489	1426	13054	- 493	1510	35	30
- 5.18	15.18	7	38	新联电子	1557	1499	10726	- 397	1557	13	5
- 796	9.15	4	100	春兴精工	1220	1101	54009	- 788	1224	14	38
- 4.10	1652	10	19	金新农	1024	990	1923	- 246	1033	28	8
- 398	1008	44	44	凯美特气	1340	1285	17126	- 302	1340	4	12
- 260	2765	13	6	千红制药	3890	3746	28718	- 395	3969	12	19
- 380	1428	33	180	尚荣医疗	2950	2830	15792	- 507	2979	21	59
- 186	1358	30		鼎重工	1024	1014	7	- 165	1042	55	215
- 7.14	1582	60		轴承	1355	1311		- 324		7	8
- 396	1280	10		普	1216	1111		- 82		3	1
- 388	6.15	300		股份	1028	992		- 43		19	419
- 301	599	37		股份	595	573		- 370			267

It will use multiple monetary policy [tools](#) to enhance liquidity management so money will better serve the real economy and support economic restructuring, it said in its second-quarter report.

Overall financing in the Chinese economy increased 52 percent in the first five months of 2013 from the corresponding period last year, which analysts say was led by a surge in shadow banking activity and wealth management products that promised investors high returns.

The central bank's refusal to inject cash into the system, despite a spike in short-term lending rates, suggests its monetary policy has begun to shift from one focusing on quantity to quality of market liquidity, Xinhua said.

China's cabinet has vowed to ensure credit growth supports the real economy and to control the flow of new money into industries struggling with overcapacity. Reuters reports, June 2013.