



# IS THE CHINESE SNOWBALL GETTING BIGGER?

## Disclaimer:

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## Agenda:

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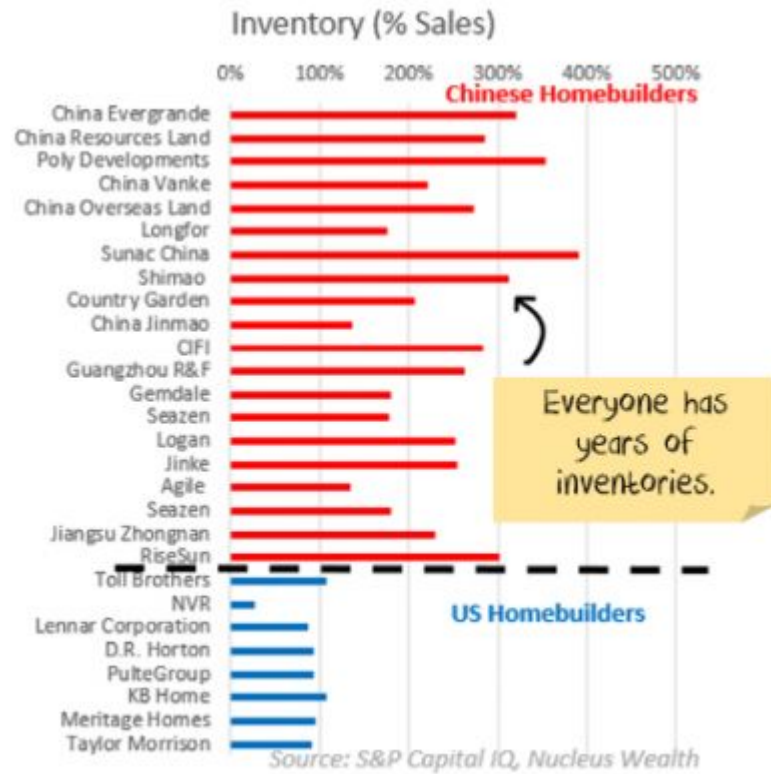
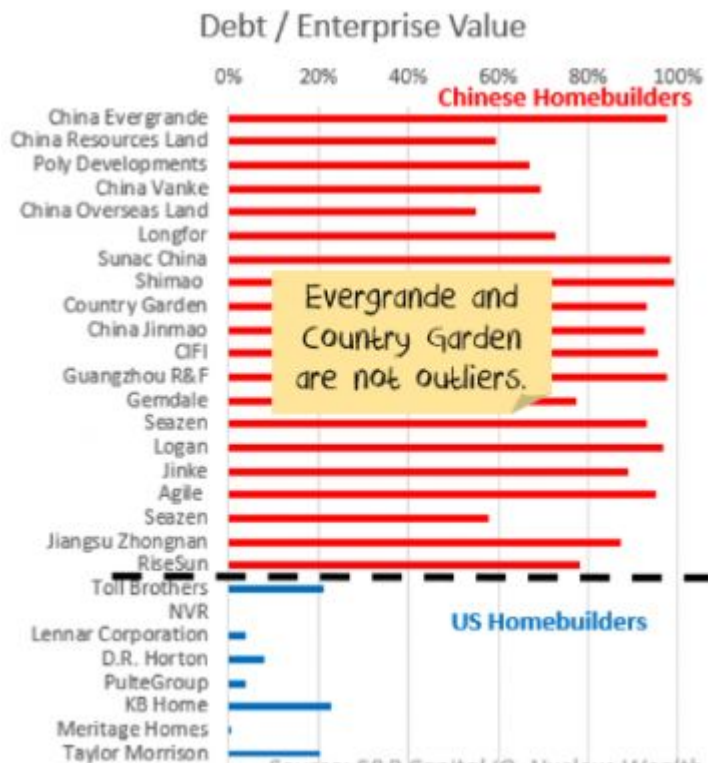
- Biggest asset class in the world
- Property Developers
- Macro construction stats
- Infrastructure to the rescue?
- Shadow banks
- Consumers to the rescue?
- Financial repression can't be a cause and a cure
- Latest Data
- Investment Outlook

## Biggest asset class in the world:

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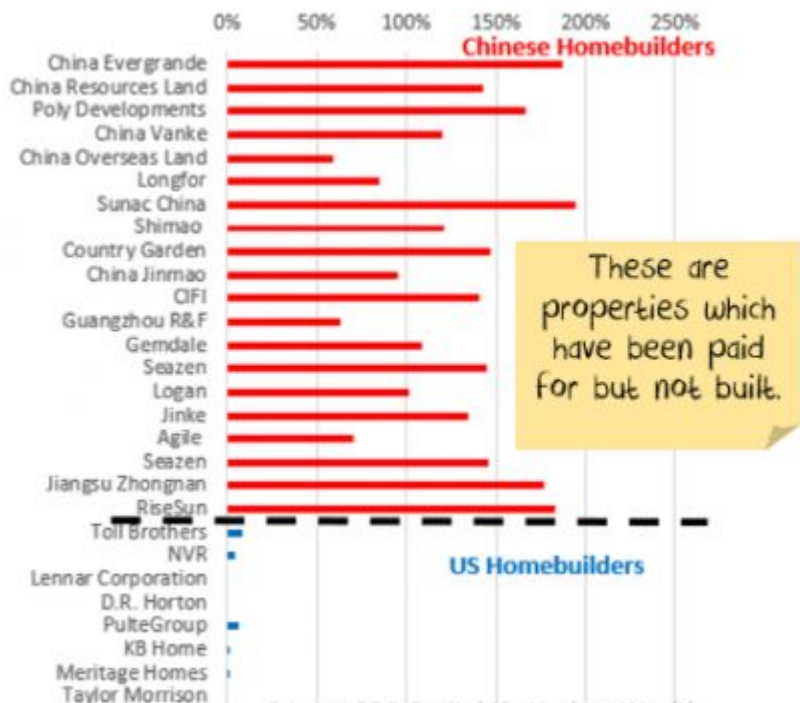
- Difference between prices and construction
- Australia leveraged to construction

# Property Developers:



# Property Developers:

## Unearned Income (% Sales)



Source: S&P Capital IQ, Nucleus Wealth

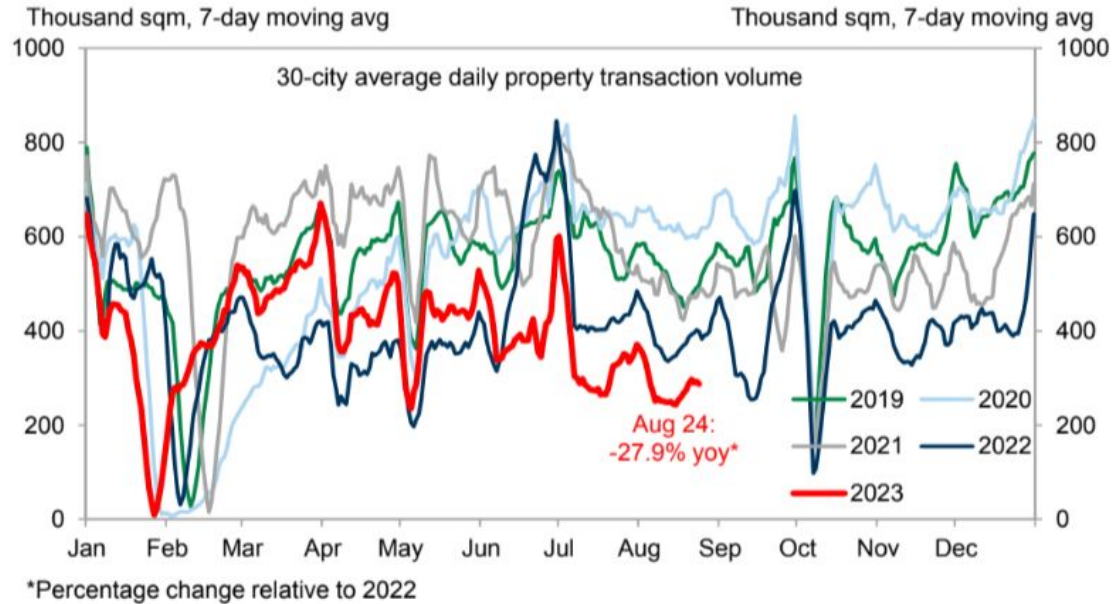
## Payables & Accrued Expenses (% Sales)



Source: S&P Capital IQ, Nucleus Wealth

# Property Developers:

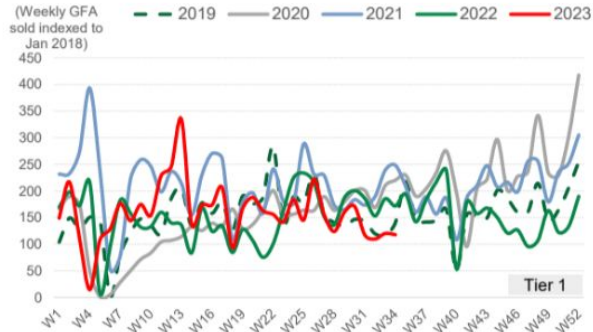
**Exhibit 1: 30-city daily property transaction volume was below last year's level**



# Property Developers:

## Exhibit 5: Tier-1 cities volume on average was -2% w/w and -31% yoy

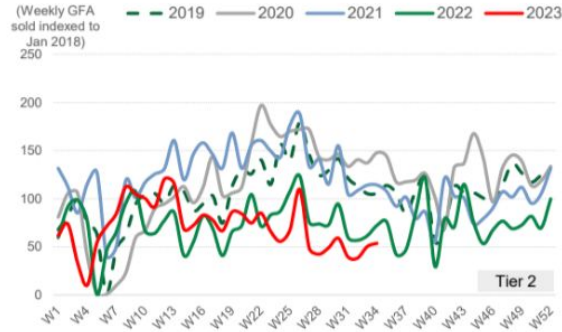
Summary of weekly transaction volume change in tier-1 cities



Source: CREIS, Goldman Sachs Global Investment Research

## Exhibit 6: Tier-2 cities volume on average was +7% w/w and -26% yoy

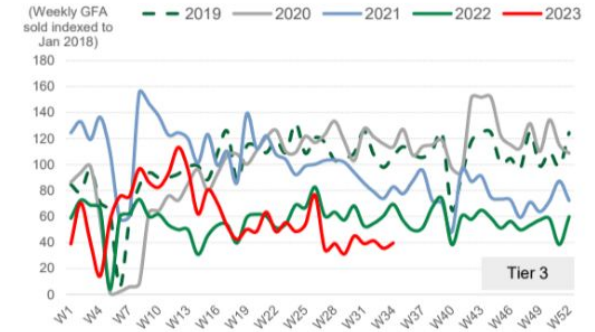
Summary of weekly transaction volume change in tier-2 cities



Source: CREIS, Goldman Sachs Global Investment Research

## Exhibit 7: Tier-3 cities volume on average was +12% w/w and -43% yoy

Summary of weekly transaction volume change in tier-3 cities

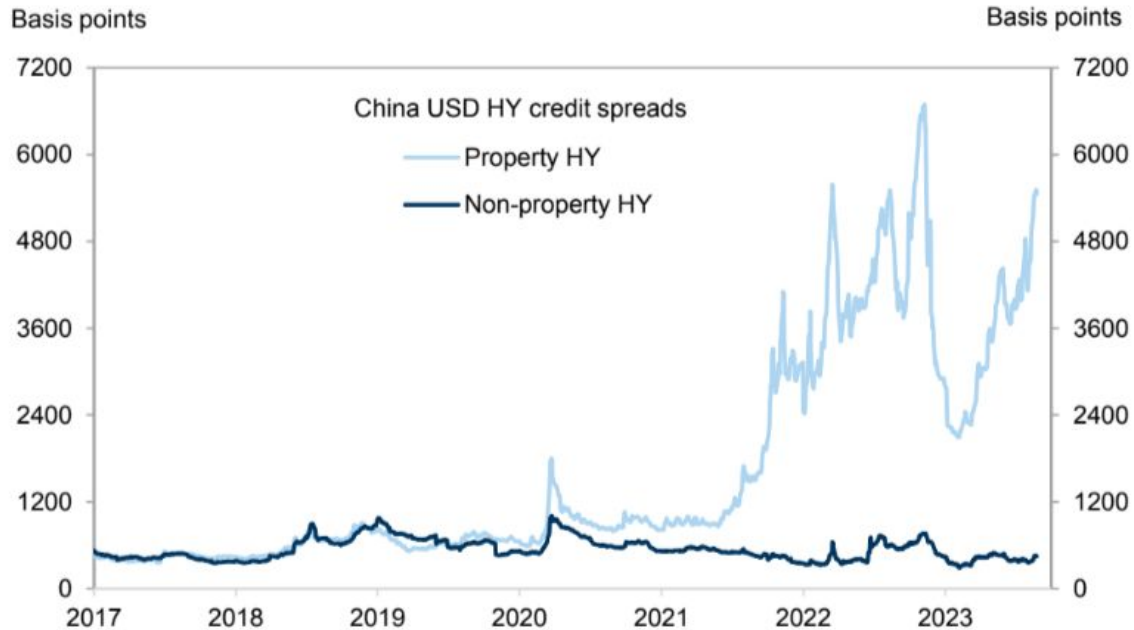


Source: CREIS, Goldman Sachs Global Investment Research



# Property Developers:

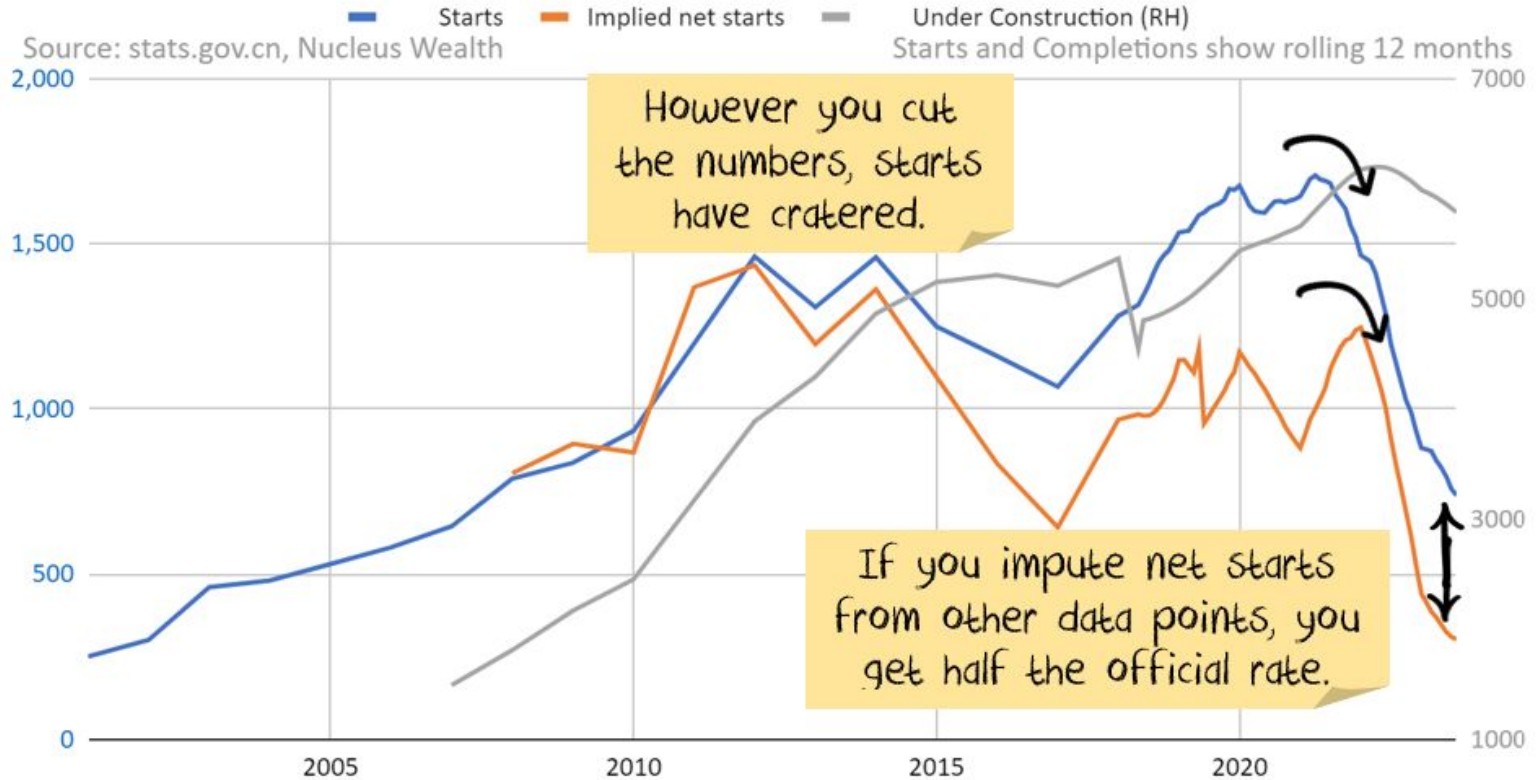
**Exhibit 15: Property HY credit spreads rose over the past week**



Source: ICE-BAML

# Macro construction stats:

China Residential Floorspace millions of sqm



## Choose themes to screen from your portfolio away from (i.e. remove stocks)

Climate Change

War

Human Rights

Health

Vices

Animal Rights

Religion

Asset Class

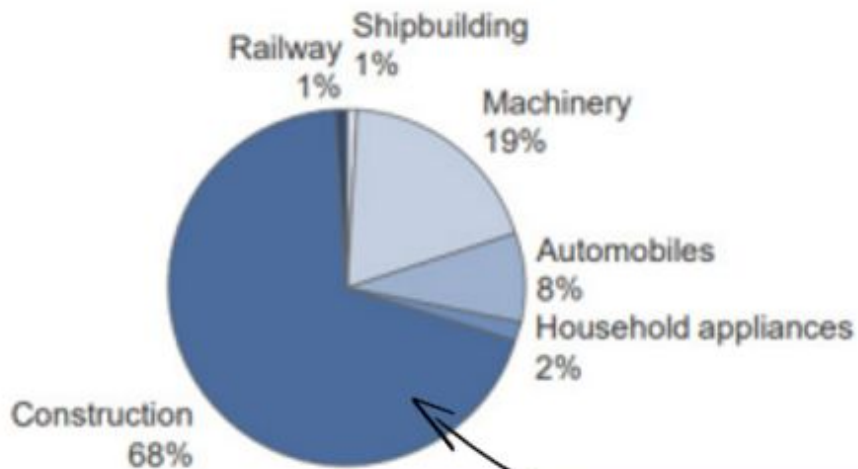
Thematic

### Climate Change

- No Fossil Fuels (Worst Offenders) ⊙
- No Fossil Fuels (Any) ⊙
- No Coal Seam Gas or Fracking ⊙
- No Nuclear Power ⊙
- No Old Growth Forest Logging ⊙

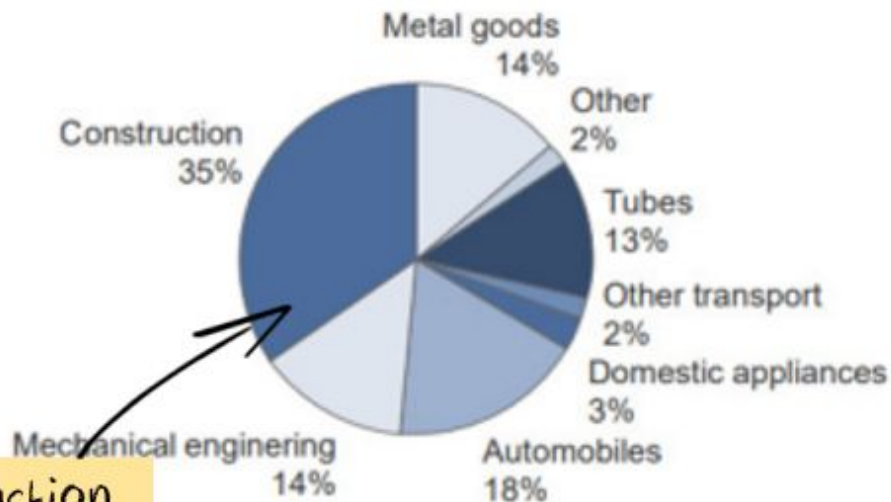
# Infrastructure to the rescue?

## Chinese Steel Use



China will halve construction steel once it stops building bridges to nowhere.

## European Steel Use



# Infrastructure to the rescue?

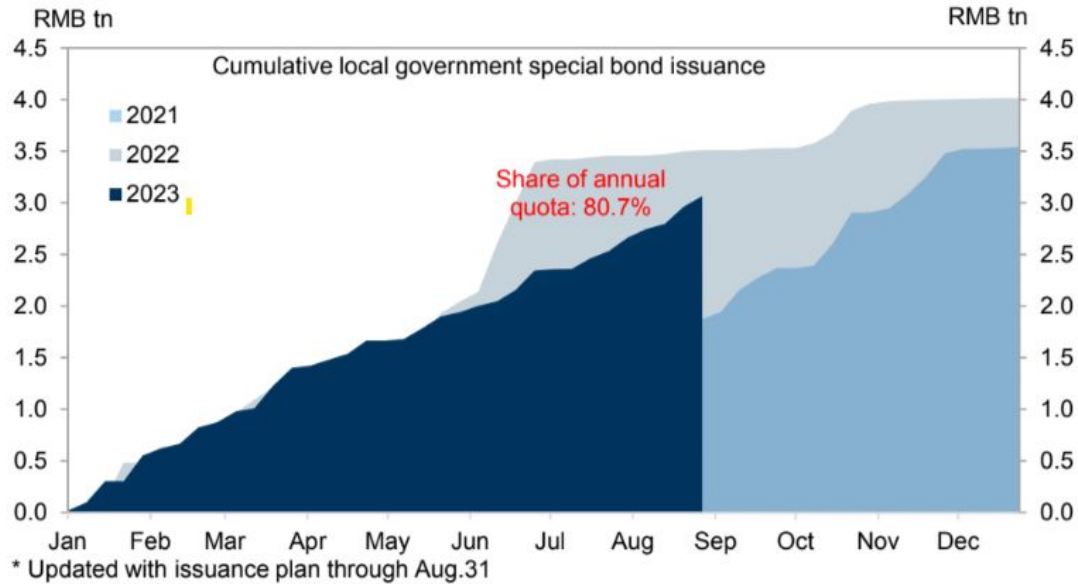
Number of bridges in Guizhou



Source: Wind

# Infrastructure to the rescue?

**Exhibit 9: Cumulative issuance of local government special bonds has been RMB3065bn year-to-date, slower than 2022**



## Shadow banks:

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- Zhongrong International
- Size of the problem
- Similar to initial phase of the financial crisis where CDO funds started to fail
- Probable bailout
- Dangerous cliff

## Consumers to the rescue?

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- COVID support comparison
- Demographics
- Youth unemployment
- Middle income trap
- Deflation



## Govt to the rescue?

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- Cuts in stamp duty on shares
- More food festivals

# Personalise Your Portfolio

## Screens

You can exclude the below to customise your portfolio

Climate Change	War	Human Rights	Health	Vices
Animal Rights	Religion	Asset Class	Thematic	

- No Fossil Fuels (Worst Offenders) ?
- No Fossil Fuels (Any) ?
- No Coal Seam Gas or Fracking ?
- No Nuclear Power ?
- No Old Growth Forest Logging ?

## Tilts

You can add the below to customise your portfolio

Investment Style Factors	Climate Change	Technology	
Consumption	Commodities	Military	GICS Sectors

- Quality Stocks ?
- Value Stocks ?
- Growth Stocks ?
- Defensives ?



Personalise your portfolio now >



# Build Your Portfolio

Need help with this page? Video Tutorial

- Account Selection
- Investment Choice
- Risk Profile
- Build Your Portfolio**
- Ethical Overlay
- Review
- Applicants
- Bank Details
- Compliance
- Final Review

## Portfolio Tilts



Quality Stocks

Value Stocks

Growth Stocks

Oil & Gas Stocks

Gold Stocks

Agribusiness

Large Technology Stocks

Cloud Computing Stocks

Robotics/AI

Video Gaming

Cybersecurity

Clean Energy

Defensives

Battery Supply Chain

Nuclear Power

Defense Contractors

Travel

Luxury Goods

Logistics

Global Communication Services

Global Consumer Discretionary

Global Consumer Staples

Global Energy

Global Financials

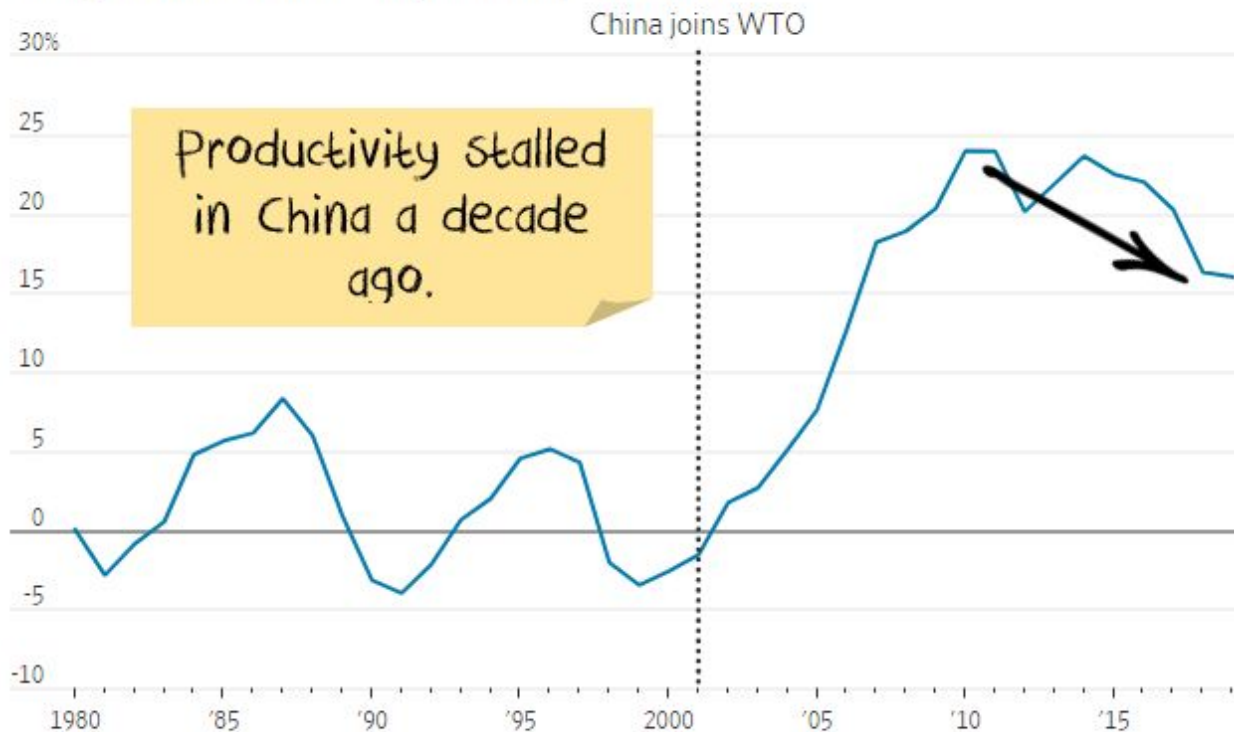
Global Health Care

Global Industrials

Global Information Technology

# Financial repression can't be a cause and a cure:

Change in Chinese total factor productivity since 1980



Source: Penn World Table 10.01, see Feenstra, Inklaar and Timmer in American Economic Review 2015  
[www.ggd.net/pwt](http://www.ggd.net/pwt)

# Financial repression can't be a cause and a cure:

## China-US Bond Yield Gap Implies a Much Weaker Currency Spread now at lowest since mid-2006 when yuan was near 8 per dollar



Source: Bloomberg

Bloomberg 

# Financial Repression

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- Low interest rates to finance investment
- Debt masking problems
- Increase household share
- Falling currency = opposite
- Lower interest rates = opposite

## Exports to the rescue?

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# Exports to the rescue?





## Exports to the rescue?

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## Impossible Trinity:

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- Free capital flow
- Fixed exchange rate
- Sovereign monetary policy

**Viewer question of the week:**

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**Is China stimulus coming?**

**Drop your answers in the comments**

## Investment outlook:

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- **Bull case:** returning to the old days of construction.
- **Base case:** “quite a lot” of stimulus to avoid disaster. End up looking like a worse version of Japan after its construction boom.
- **Bear case:** stimulus is either not large enough or not fast enough. A replay of the financial crisis (albeit with fewer links to the rest of the world).

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