



CHINA: IN THE BEAR'S EMBRACE

Disclaimer:

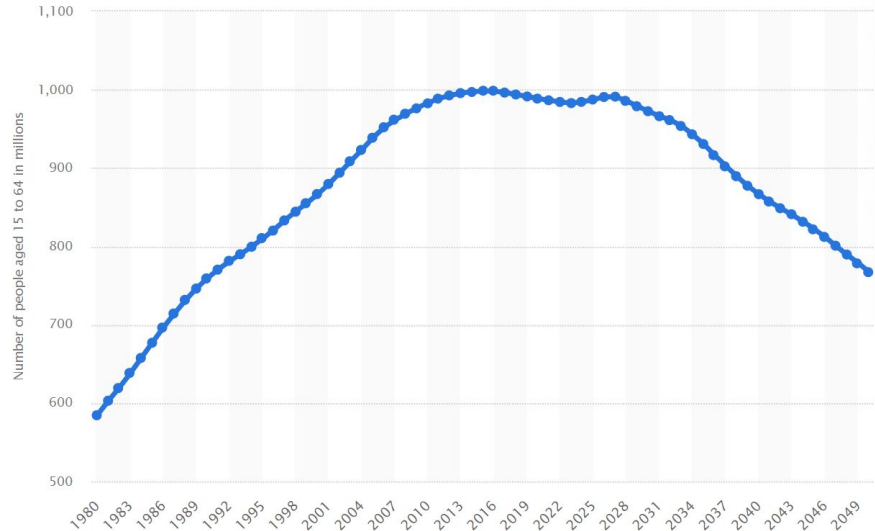
The information provided on this presentation is general in nature and does not constitute personal financial advice. The information has been prepared without taking into account your personal objectives, financial situation or needs. Because of this, you should consider the appropriateness of the information for your own objectives, financial situation and needs before acting on it. Also, before you decide to invest in a financial product arranged by a representative of Nucleus Wealth Management Pty Ltd, ABN 54 614 386 266, corporate authorised representative of Nucleus Advice Pty Ltd AFSL 515796 (Nucleus Wealth or we or us), it is important that you read and consider the Product Disclosure Statement relating to the product before making any decision about whether to invest in it. Your Nucleus Wealth adviser can help you with this decision if you would like them to do so.

Agenda: China eaten by bears

- 5Ds of China's structural growth adjustment
- The property crash
- Policy and the impossible trinity
- Markets fallout
- What next?

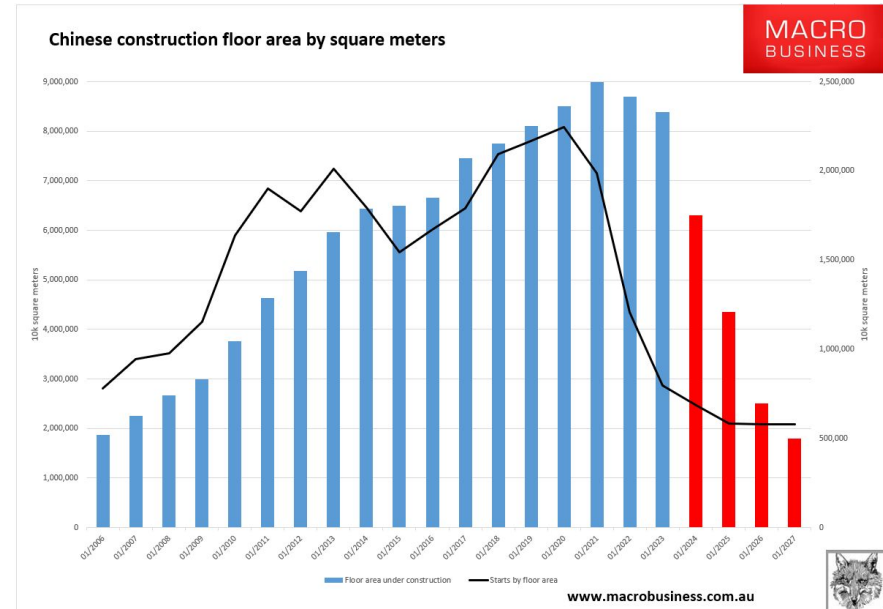
5 D's of doom

- Demographics
- Debt: 287% of GDP
- Deflation strongest in twenty years
- Deglobalisation: US export falls, Europe upset next
- Dictatorship: bad policy



The property crash

- Prices and sales falling
- Starts cratered
- Households deleveraging and saving more
- 30% of economy in reverse
- No end in sight



Policy and the impossible trinity

How to manage a deleveraging

- ZIRP to aid balance sheet repair, spend fiscally
- Trash currency
- Reform to boost household incomes

What China is doing

- Holding interest rate too high
- Supporting currency
- Spending fiscal on glutted supply side, including property
- No consumer reforms

Result

- Debt deflation, capital outflows, Japanification

Markets fallout

- CNY has fallen but nowhere near enough
- Yields falling as economy falls into deflation but nowhere near enough
- Green commodities crash. Bulks next
- Stock markets caught in relentless bear amid irresistible outflows

Chart 9: Big selling of Chinese stocks by foreign investors

Weekly foreign net buying of China stocks (CNY bn, 12-week cumulative)



Source: BofA Global Investment Strategy, Bloomberg

Global implications

- Very deflationary as China floods world with excess goods
- Global growth headwind for many years
- Inevitable big falls in AUD terms of trade
- AUD yield spreads to contract further
- Very negative for AUD
- Xi Jinping going bananas could rock trade
- Possible Taiwan trigger the end not beginning of Chinese empire
- Rinse and repeat capital outflows!

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 ⌵

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

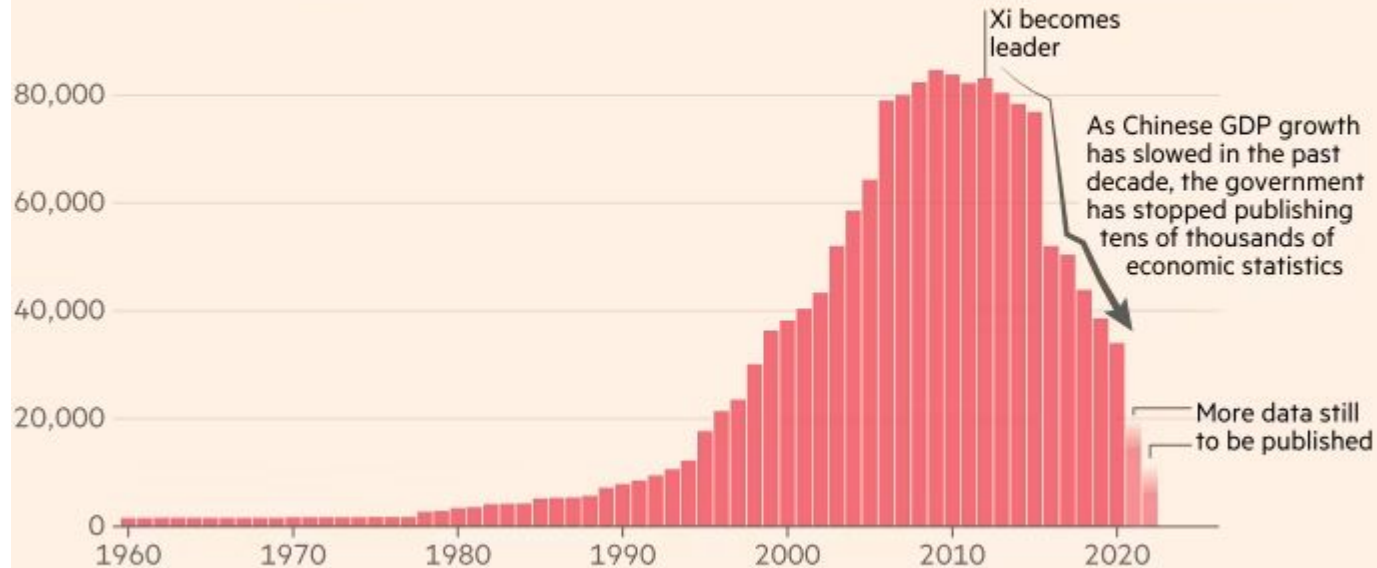
Politics:

- Coercive trade sanctions
- 14 demands
- Commodities. What a joy when you have a backward economy.
- Wine, Lobster beef still outstanding
- Not much on investment front
- Do we need more students? Maybe tourism
- Xi - one man rule

We are all (probably) in the dark

China is becoming much less transparent about its economic performance, quietly discontinuing thousands of statistical series

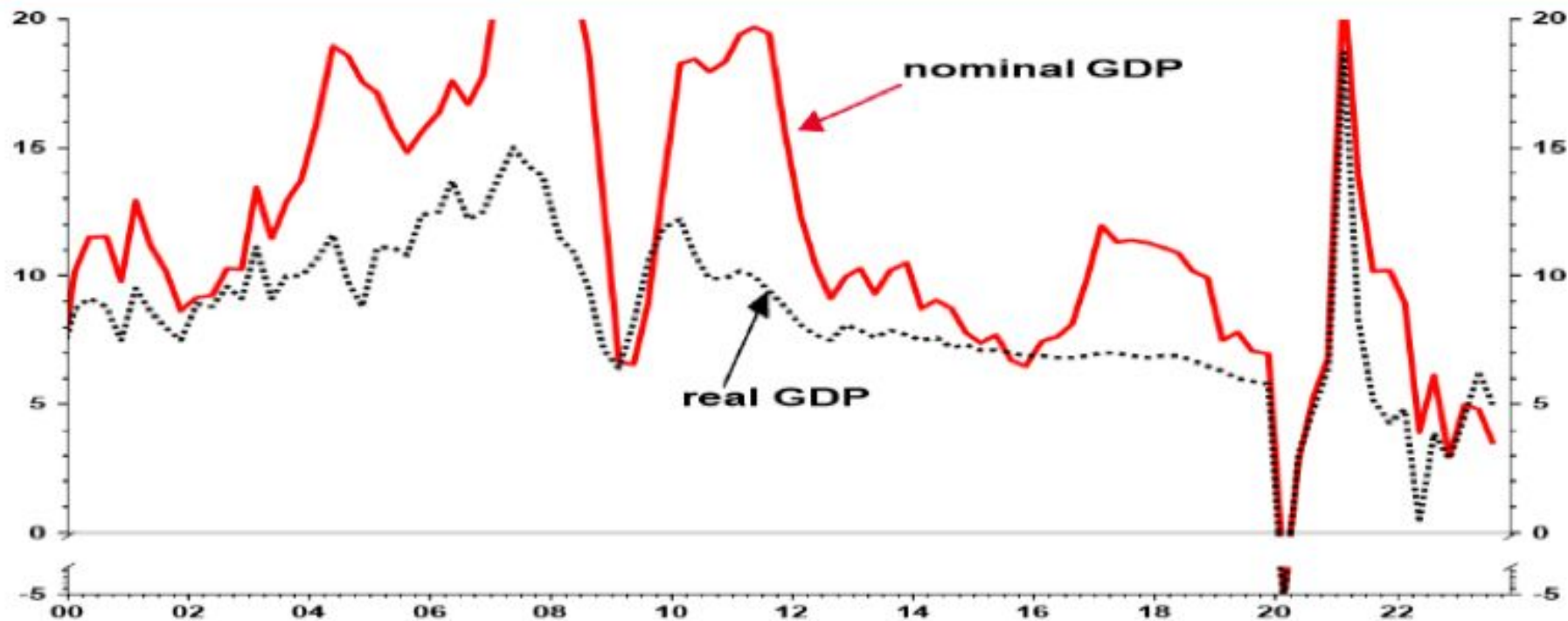
Annual number of economic indicators made available by China's National Bureau of Statistics



Source: FT analysis of CEIC; Chinese National Bureau of Statistics
FT graphic: John Burn-Murdoch / @jburnmurdoch
© FT

GDP growth back to 5%?

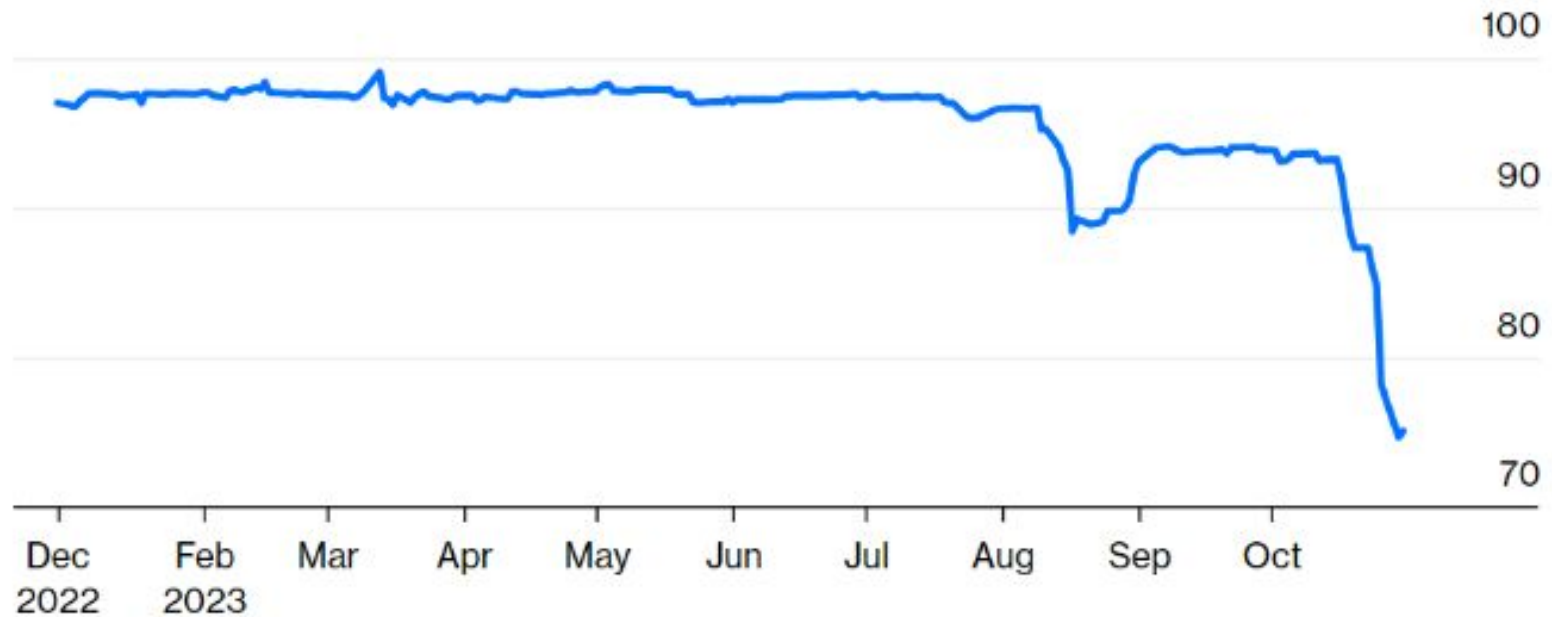
China nominal and real GDP growth yoy%



Property Developers:

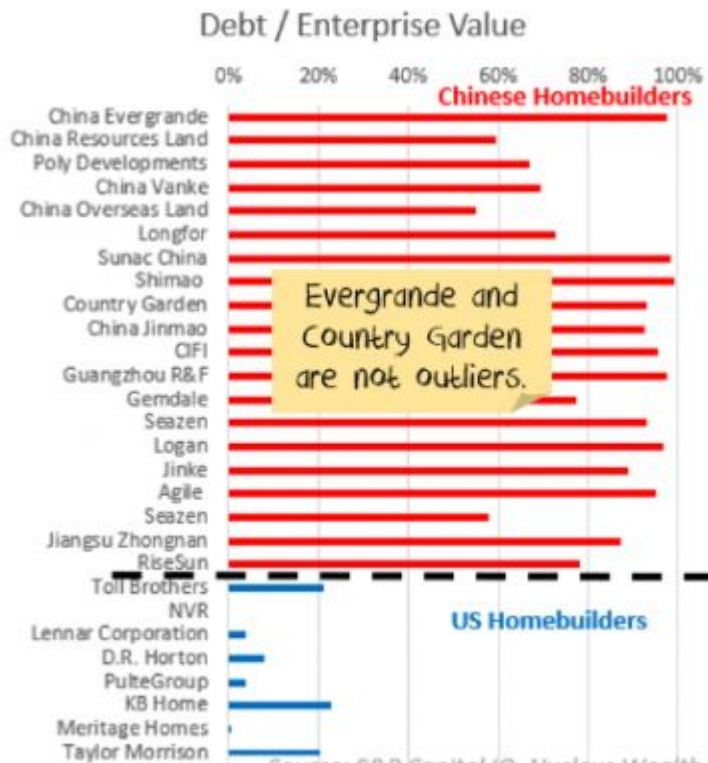
Winter Is Coming

Vanke's dollar bond due next June tumbled in recent days



Source: Bloomberg

Property Developers:



Property Developers:

Unearned Income (% Sales)



Source: S&P Capital IQ, Nucleus Wealth

Payables & Accrued Expenses (% Sales)



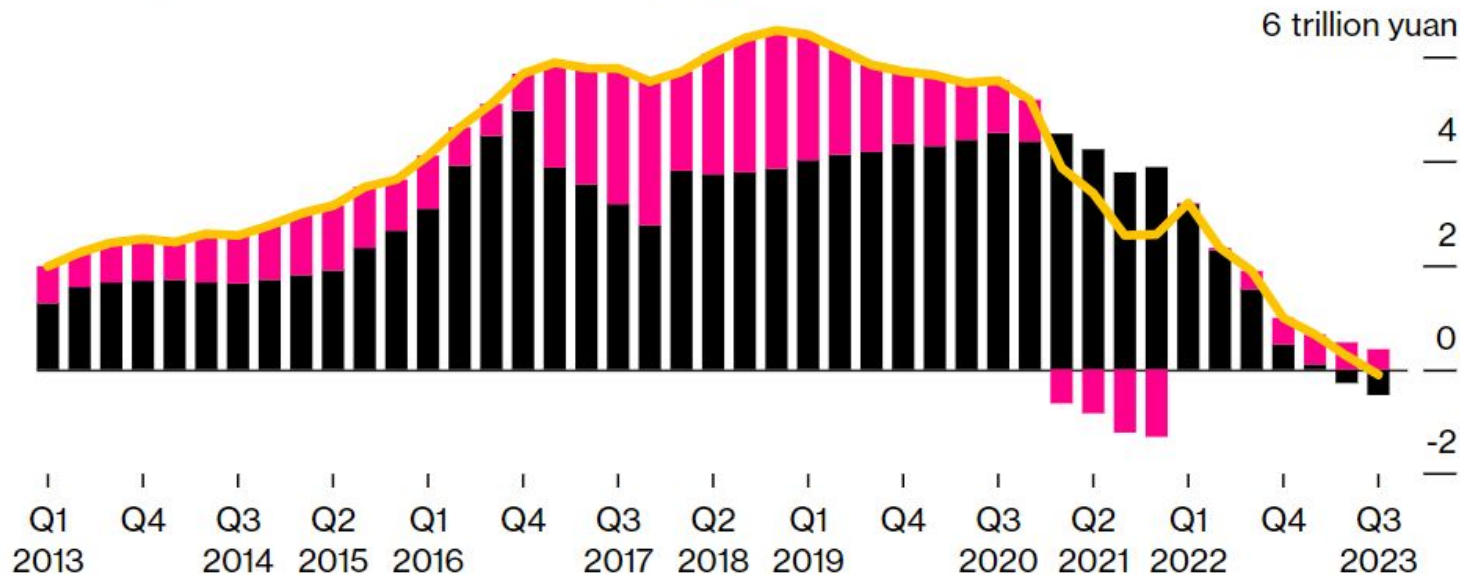
Source: S&P Capital IQ, Nucleus Wealth

Property Developers:

China's Property Loan Stock Records First Year-on-Year Drop

Mortgage stock also contracted for second straight quarter in 3Q

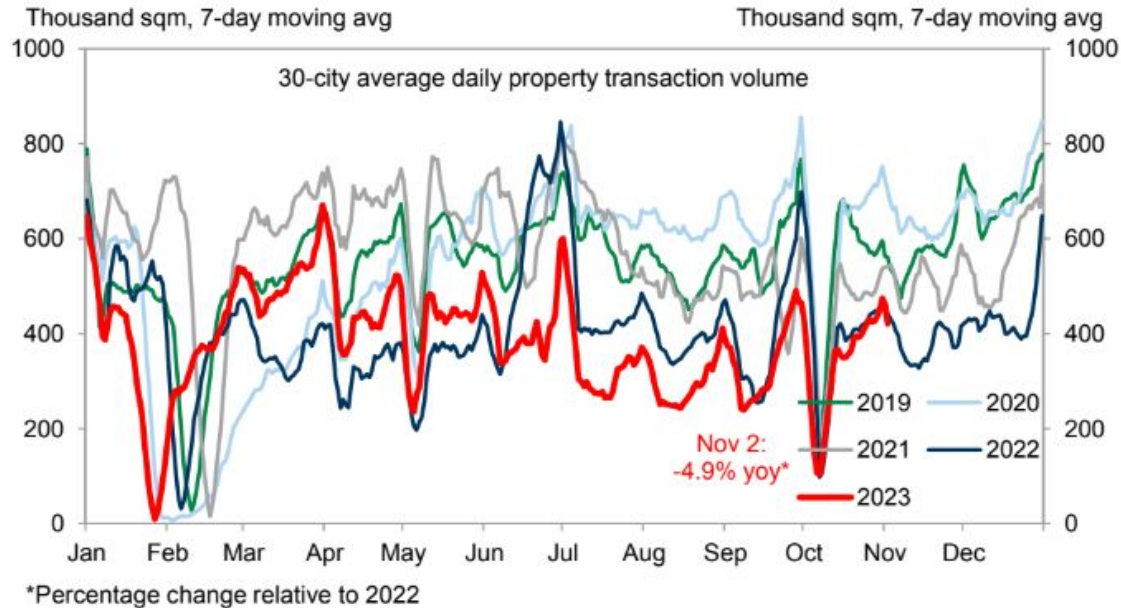
- Individual mortgages - change in outstanding loan balance from year earlier
- Other property related loans
- Overall property loans



Source: Bloomberg calculations based on People's Bank of China data

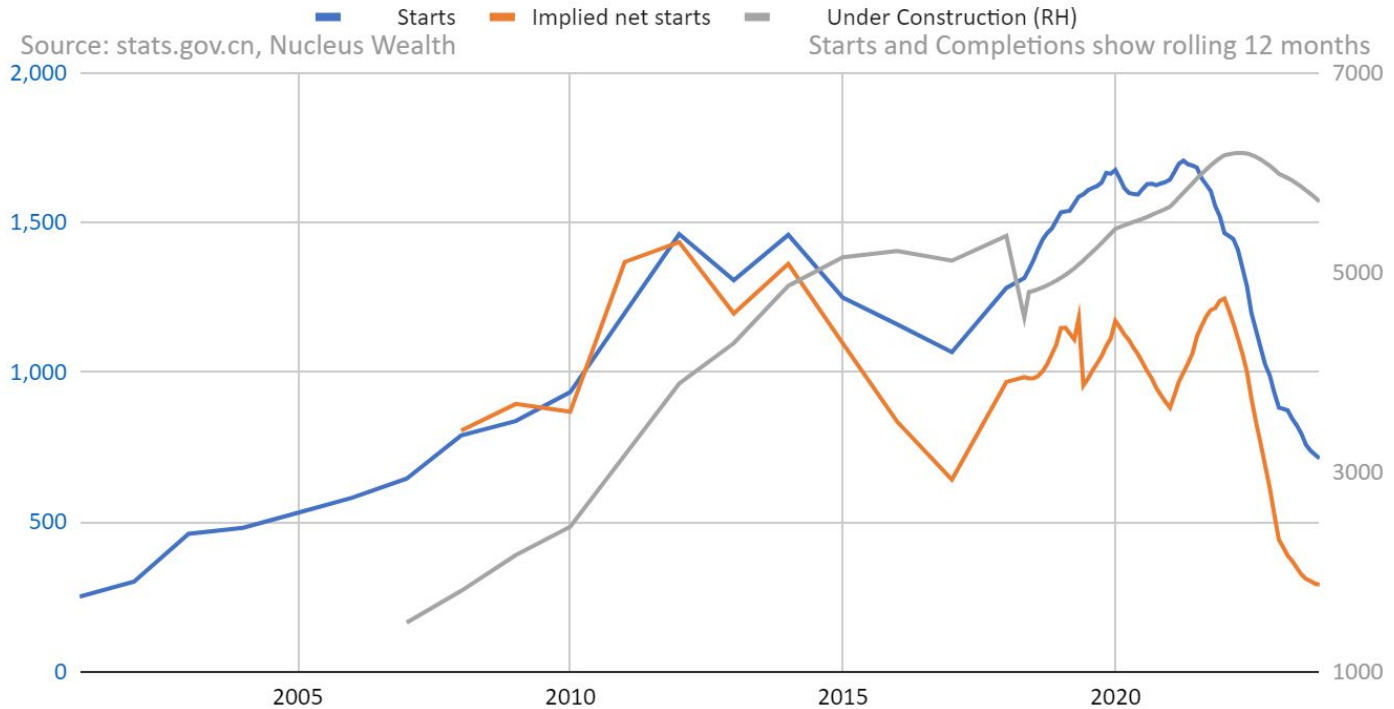
Property Developers:

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



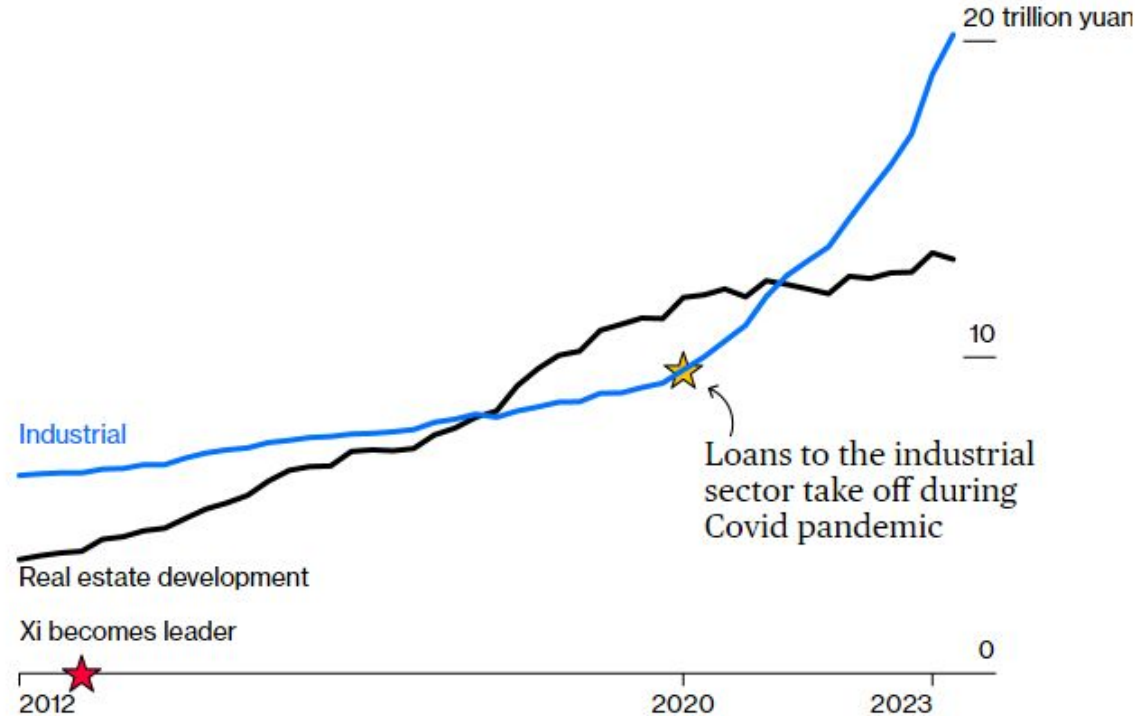
Macro construction stats:

China Residential Floorspace millions of sqm



Can exports save China?

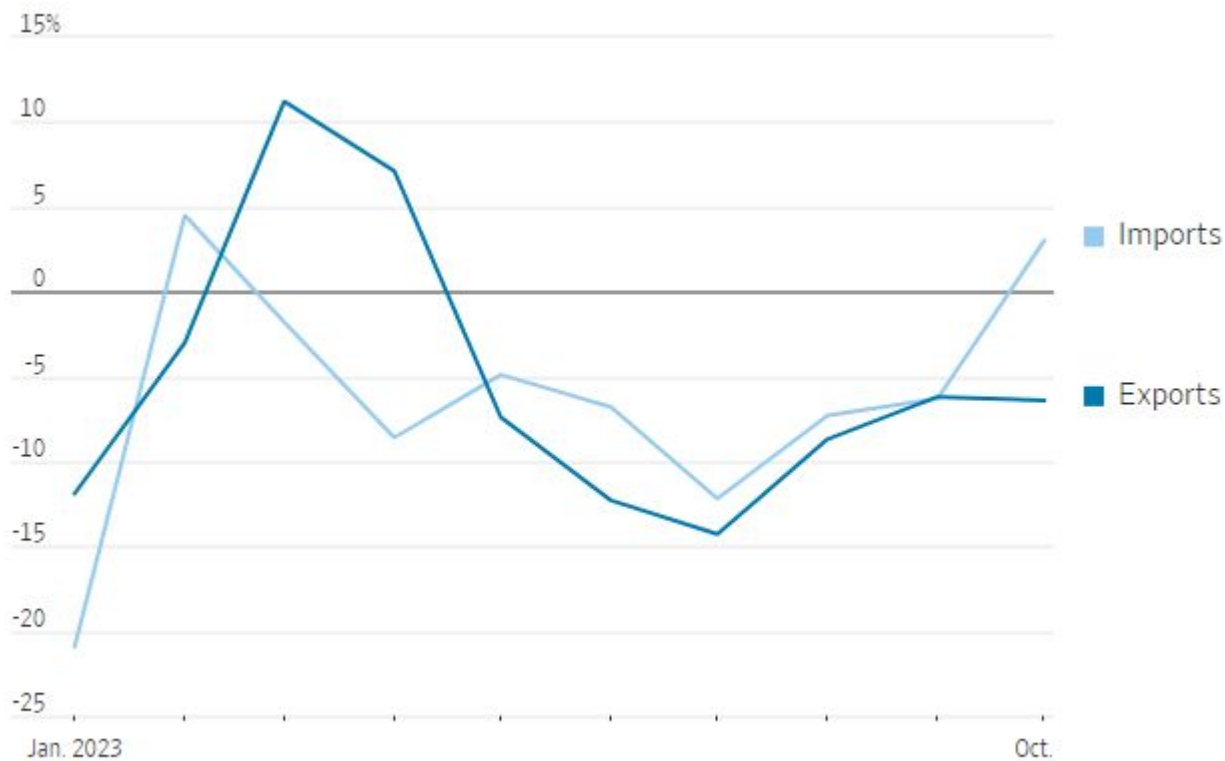
Bank loans to the industrial sector ballooned in the last three years



Source: The People's Bank of China via Bloomberg

Can exports save China?

Chinese trade in U.S. dollars, year-over-year change



Source: Wind

Exports to the rescue?



Exports to the rescue?



Exports to the rescue?



Can exports save China?

Official Chinese NBS PMI Employment sub-category – consistent with very weak GDP growth



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

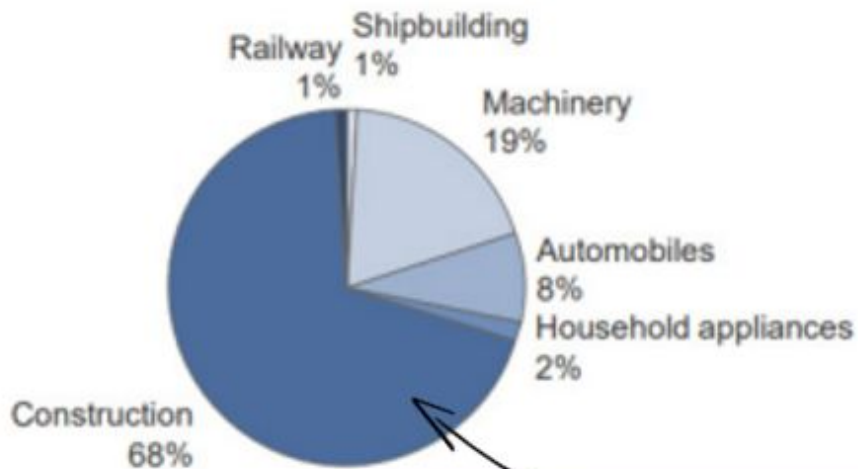
Thematic

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 

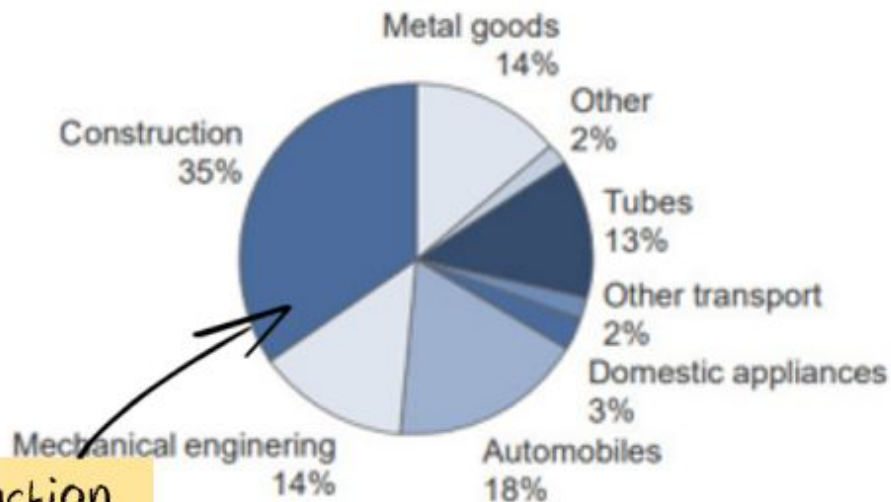
Infrastructure to the rescue?

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?

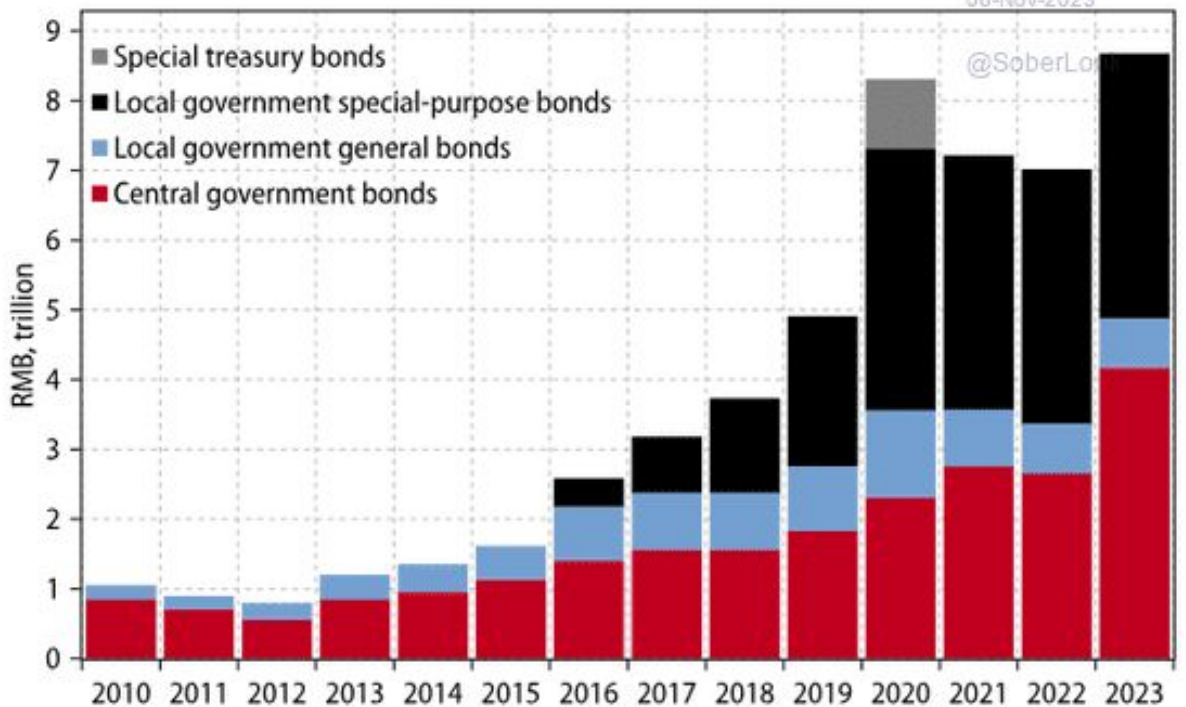
The revised central government bond quota is much higher than in 2022

Quota for government bond issuance, by type

The Daily Shot

08-Nov-2023

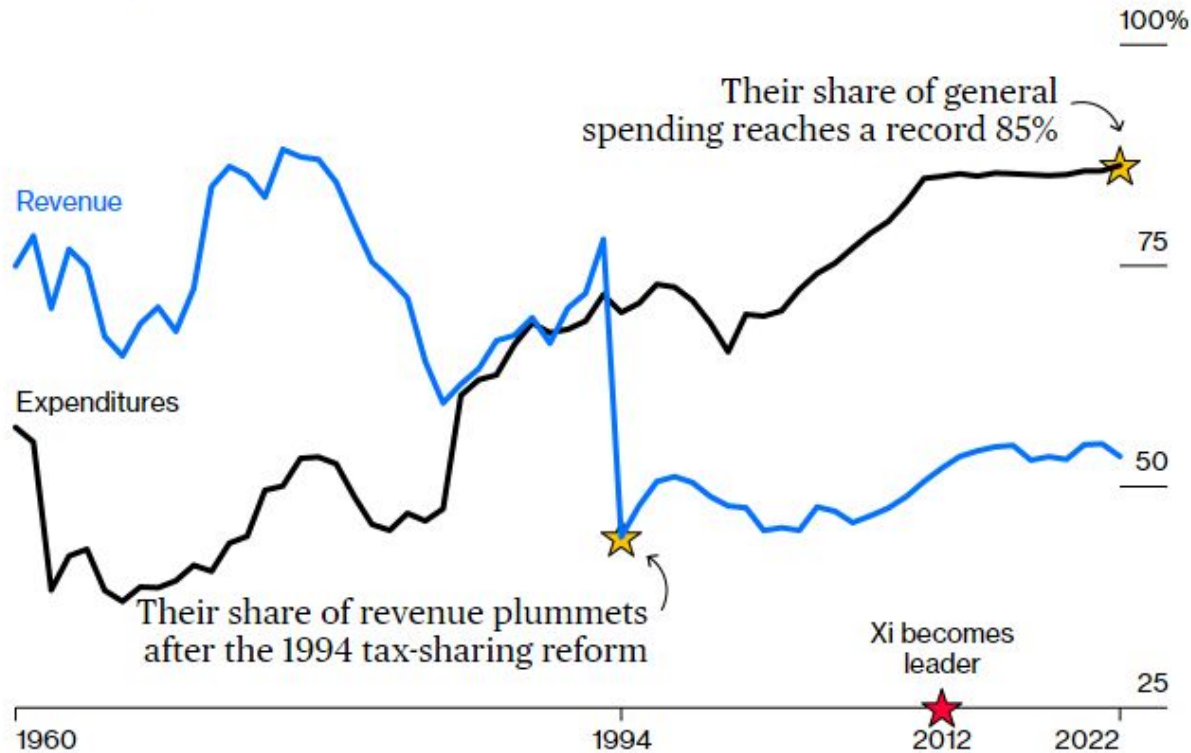
@SoberLo



Wind, Gavekal Dragonomics/Macrobond

Infrastructure to the rescue?

Local governments' finances deteriorate



Source: China's National Bureau of Statistics via Bloomberg

Shadow banks:

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

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

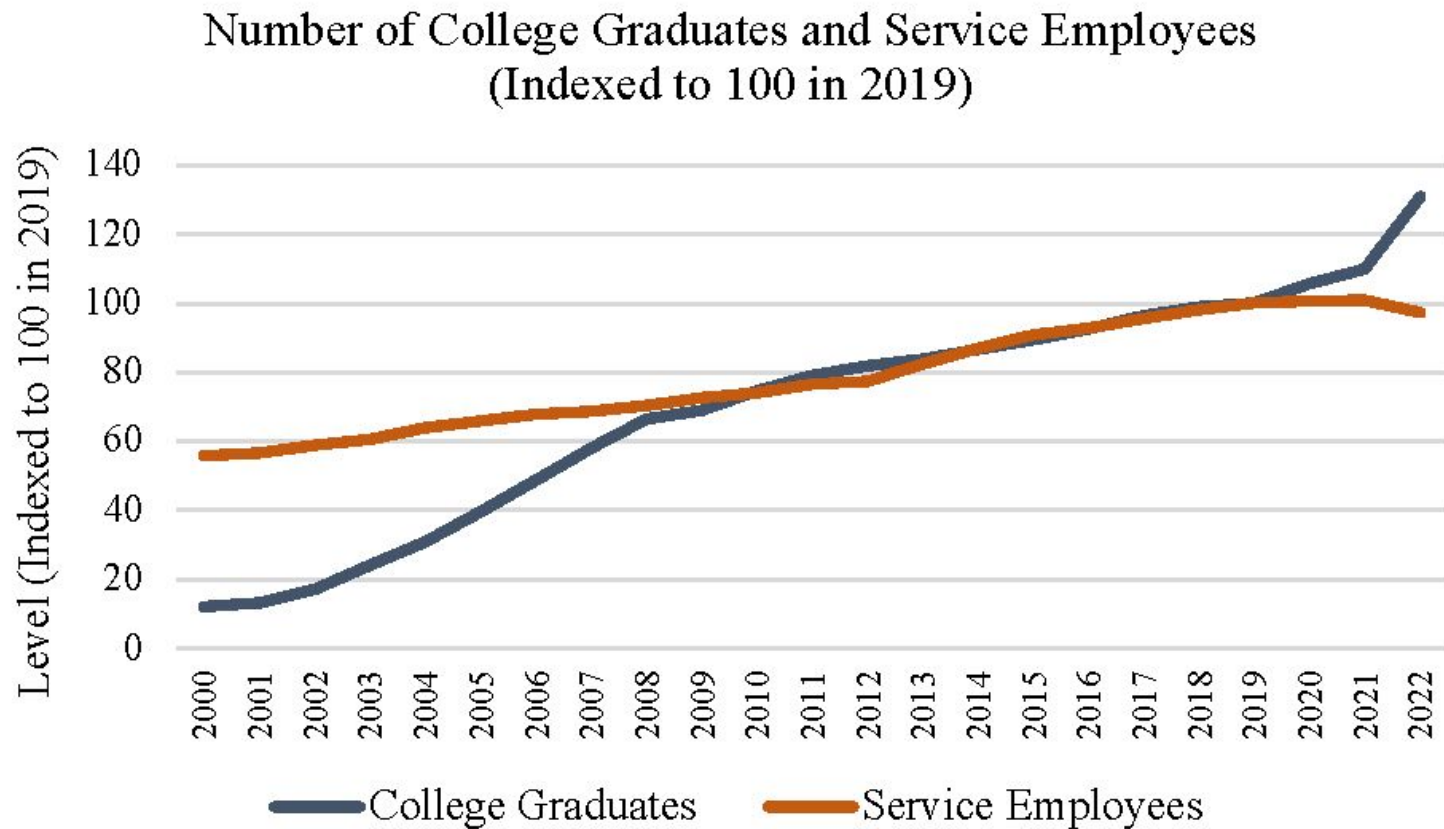
Global Industrials

Global Information Technology

Consumers to the rescue?

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

Consumers to the rescue?

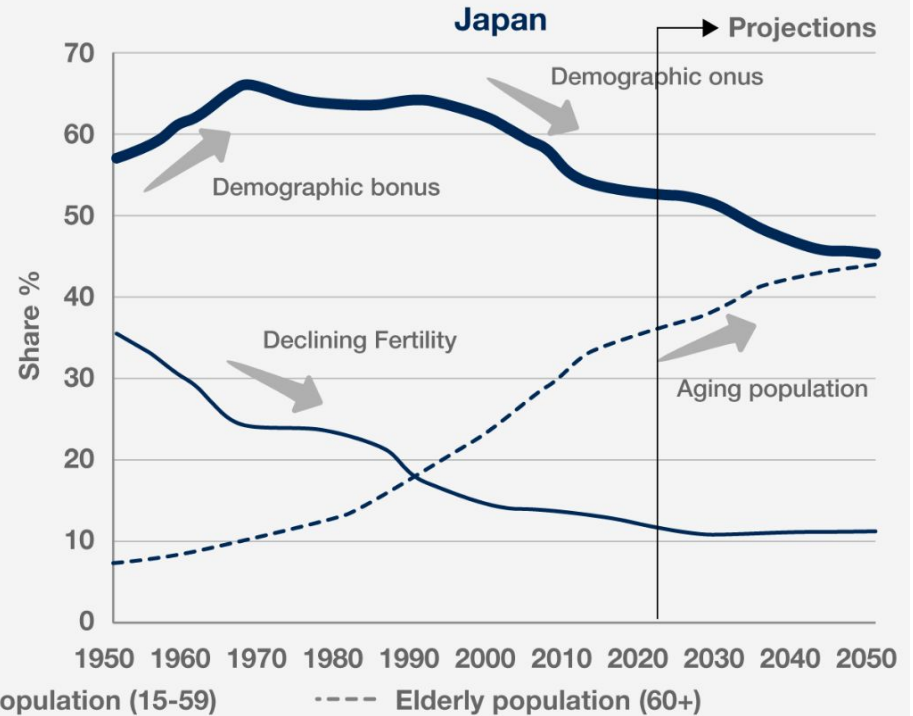
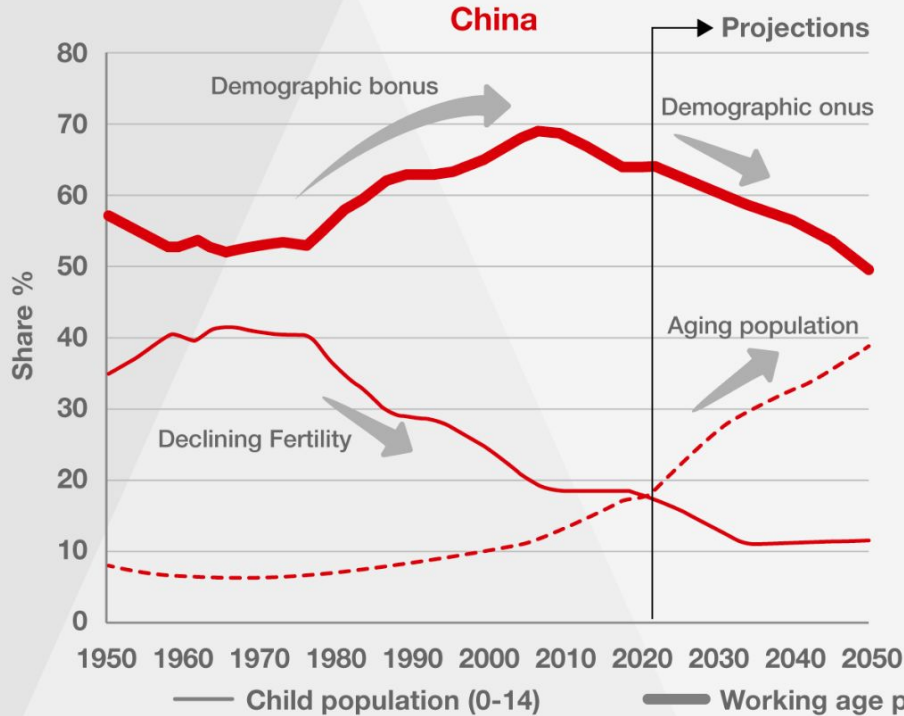


Consumers to the rescue?

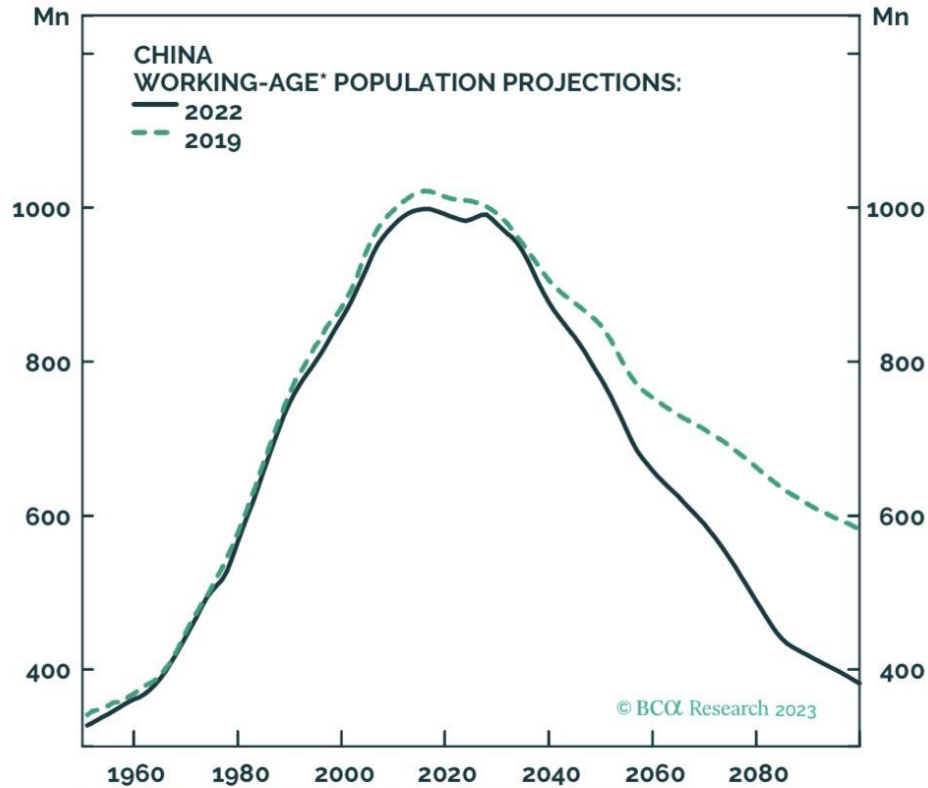
NOMURA

CHINA'S DEMOGRAPHIC TIMEBOMB: LESSONS FROM JAPAN'S LOST DECADES

Changes in Population Age Structure in China and Japan



Consumers to the rescue?

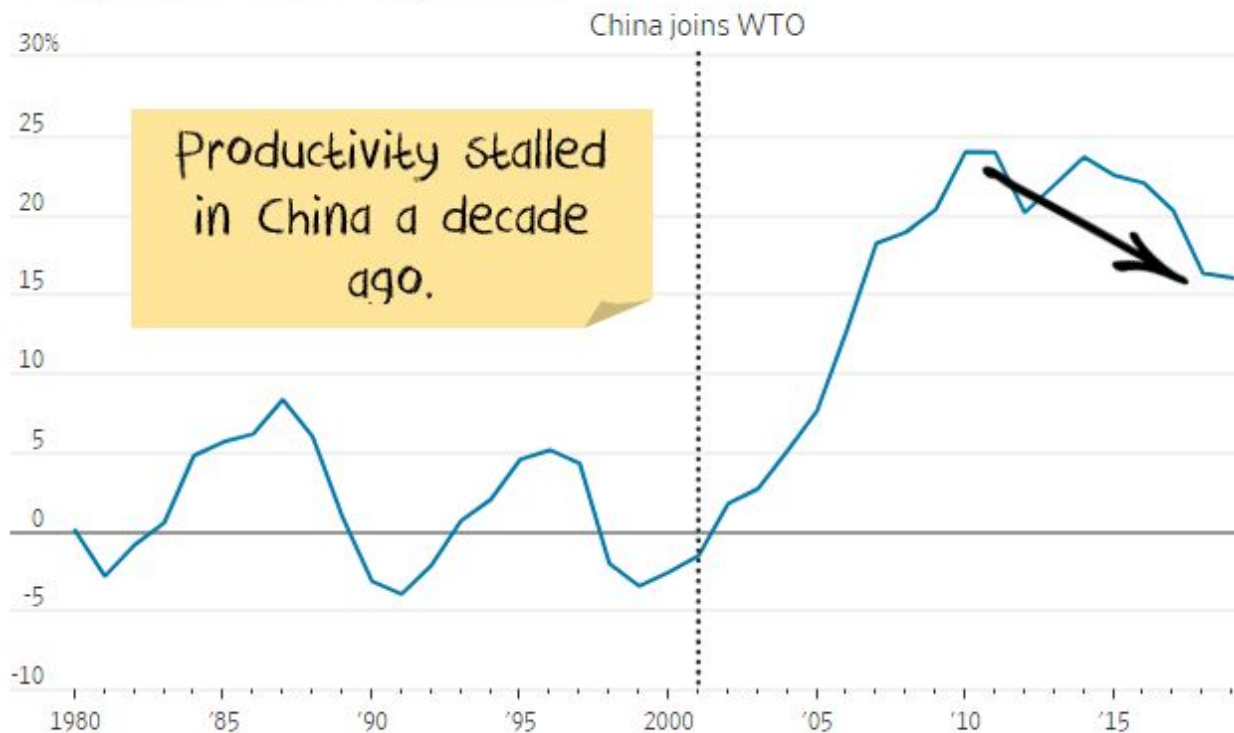


* ESTIMATED POPULATION BETWEEN 15-AND-64 YEARS OF AGE.

SOURCE: UN POPULATION DIVISION.

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

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

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

Impossible Trinity:

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

Investment outlook:

- **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).

More from Nucleus Wealth:

Content: [Nucleuswealth.com/content](https://nucleuswealth.com/content)

**Have a guest or topic suggestion for the show?
Leave a comment on YouTube**

Find us on all major (and minor) podcast platforms:




Social media:

 Facebook.com/nucleuswealth

 Linkedin.com/company/nucleuswealth

 Instagram.com/nucleus_wealth

 Twitter.com/nucleuswealth