



IS CHINA'S GREAT RECKONING AT HAND?

Agenda: Is the great China reckoning upon us?

- China's property crash
- Can China beat OMICRON?
- Monetary and fiscal policy pushing on a string
- The impossible trinity
- The next shoe to drop
- Yuan, yuan, yuan!
- Implications for markets

China's property crash

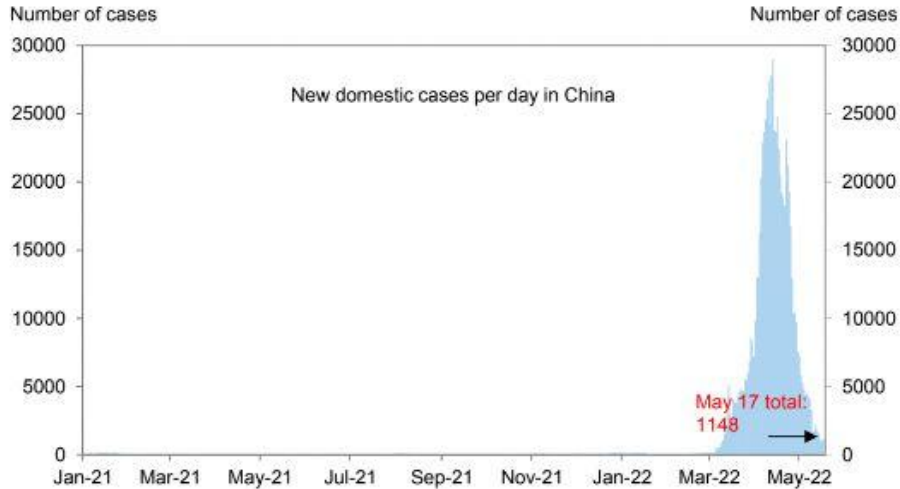
- Deliberate policy about deleveraging
- Sales collapsed on counterparty risk
- Inventory through roof
- Prices falling
- Starts catching down
- No quick fix and banking crisis looms
- If China had same starts/household as US, starts would halve



Can China beat OMICRON?

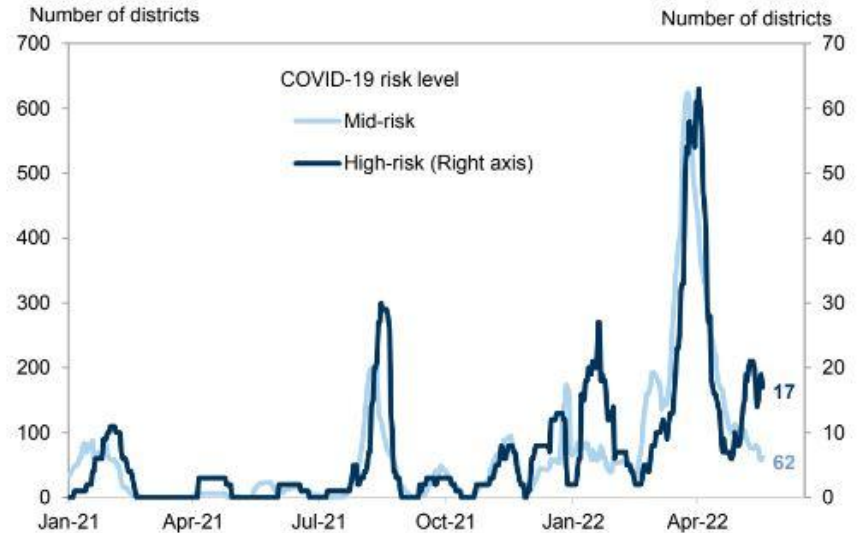
- Yes, but it won't reach growth targets and will lie
- Melbourne example

Exhibit 1: Daily new domestic cases decreased in recent days



Source: NHC, CEIC

Exhibit 2: The number of mid-risk districts decreased in recent day



Source: thepaper.cn, Sina, local government reports, Data compiled by Goldman Sachs Global Investment Research

Monetary and fiscal policy pushing on a string

- Lots of prudential easing at local and macro level for property has done nothing
- Problem is counterparty risk and distribution not price of credit
- Fiscal policy ill-targeted
- Infrastructure inhibited by OMI and land sales plunge
- Some recovery coming but mass testing is no solution
- Needs mRNA. Third stage trial underway

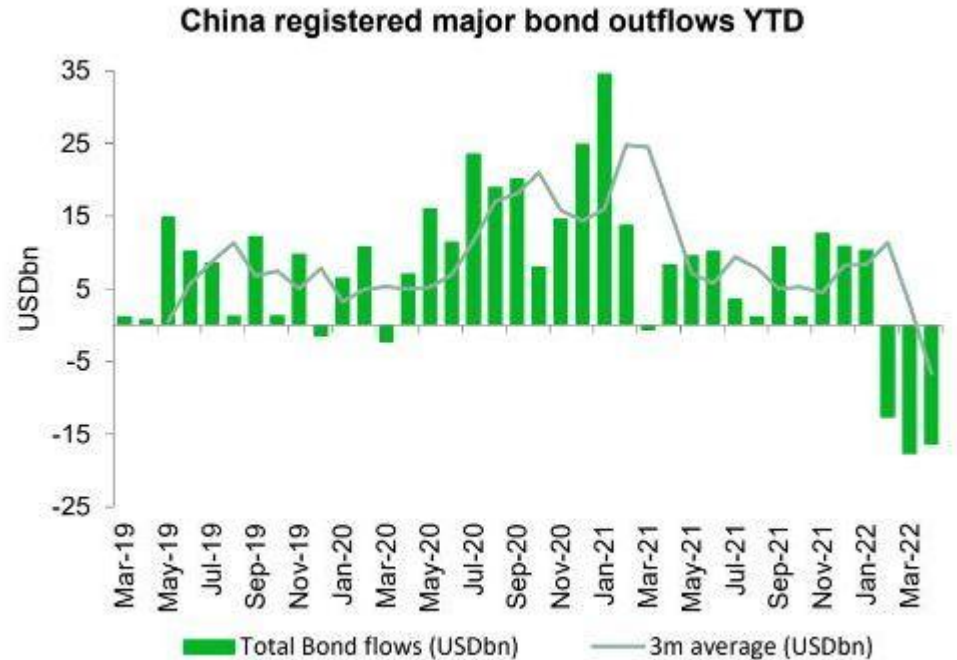
Exhibit 2: Land sales revenue contracted more sharply in April vs. March, while revenue from property-related taxes also dropped



Source: WIND, Data compiled by Goldman Sachs Global Investment Research

China's impossible trinity stressed

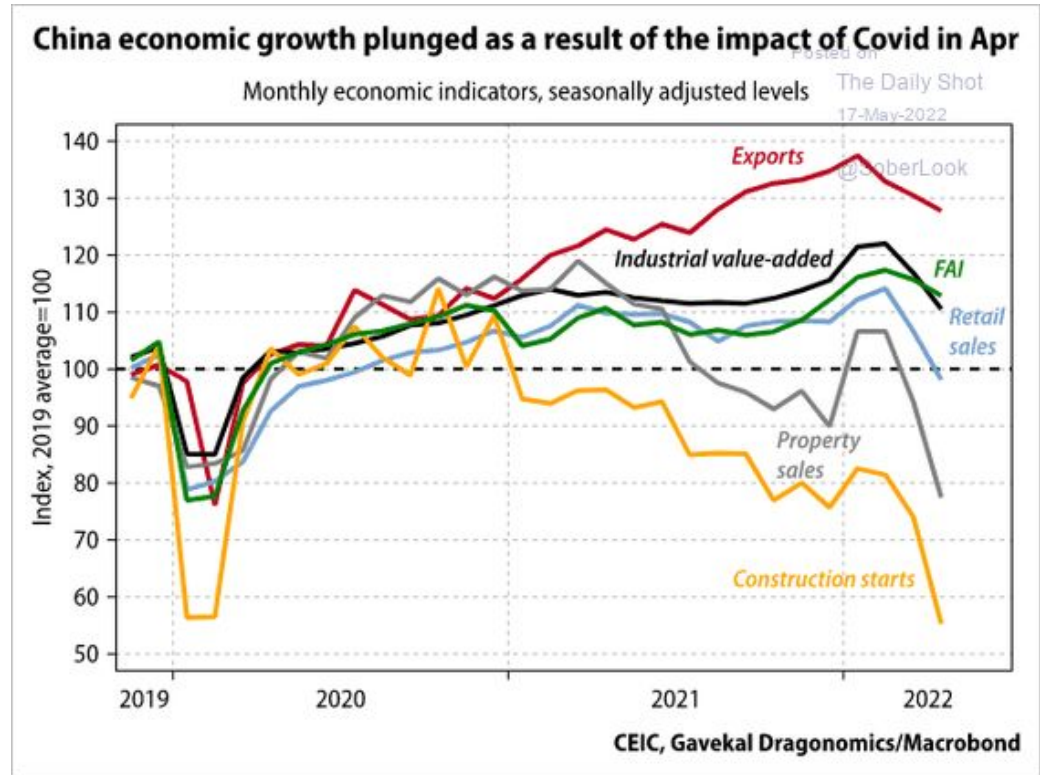
- A central bank can only control two of three macro levers in currency value, capital flows and interest rates
- China has so far chosen currency and interest rates but that is breaking down
- PBoC fears easing because accelerated capital outflow could cause credit crunch.
- It is already is!



Source: Bloomberg, TD Securities

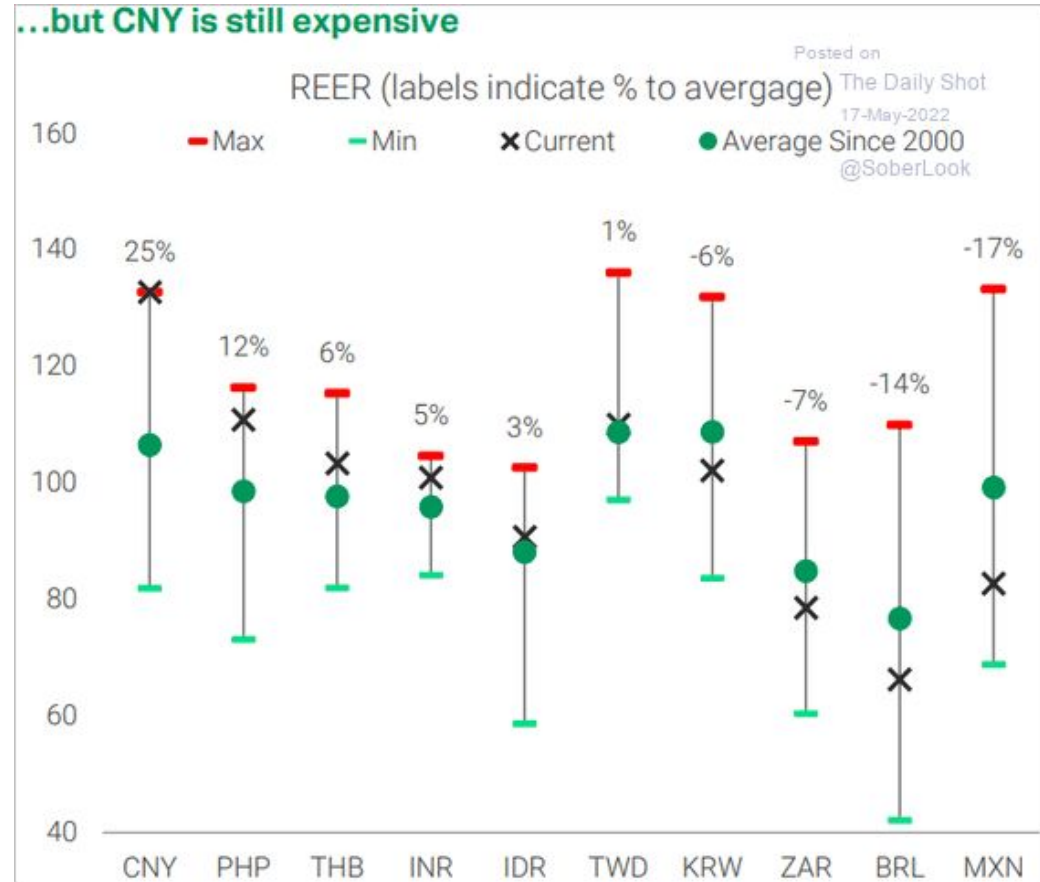
The next shoe to drop

- Fed tightening is stress-testing the US consumer
- Goods volumes are returning to trend on services handoff
- But Fed need consumer demand to fall
- Spillover will be China trade shock



All about the yuan

- Capital outflow triggering CNY falls
- Impossible trinity is Catch 22. Ease and outflow accelerates. Don't and growth falls and outflow accelerates
- Russia sanctions is structural dimension vis Taiwan
- Is external crisis possible?



Agenda: Implications for markets

- Where CNY goes AUD follows
- Markets hate falling CNY. Lifts geopolitical risk. Squashes EM competitiveness. Hurts commodities. Very deflationary
- No respite until Fed is finished and given that includes trade shock any Chinese recovery delayed further
- 2015 and 2018 on steroids
- Risk of global hard landing intensifying
- Sell commodities, buy bonds



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Viewer question of the week:

Is it a buying opportunity or are we too conservative?

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