



# HAS THE GREAT CHINA RECKONING ARRIVED?

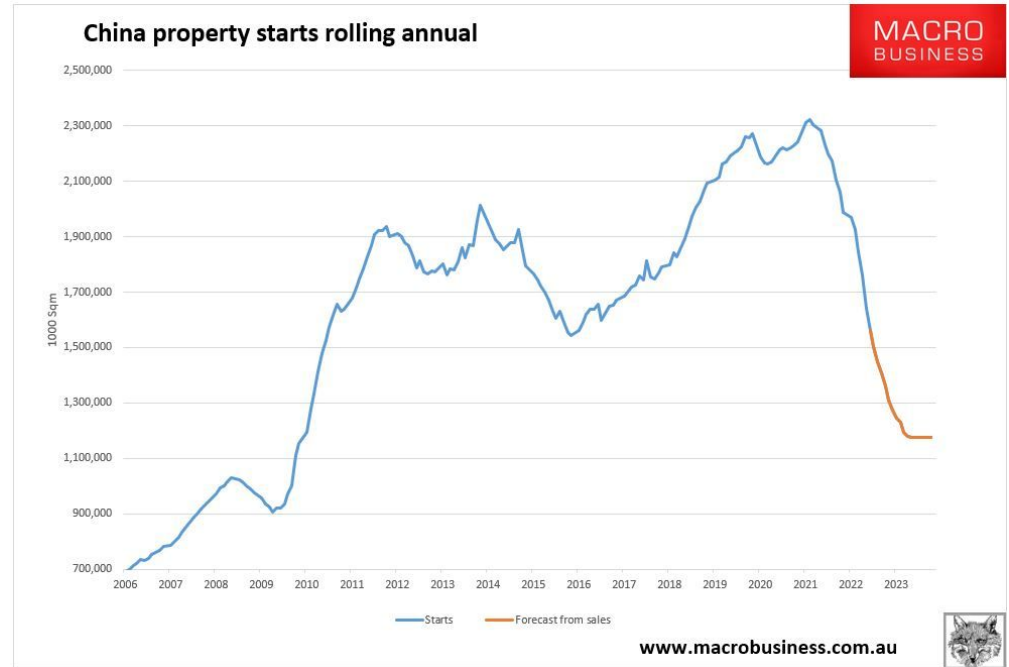
## Agenda: Is the great China reckoning upon us?

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- 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



# China's property crash

Exhibit 3: Property FAI declined 12.3% yoy in July



Source: CEIC, Goldman Sachs Global Investment Research

Exhibit 4: Property sales continued to slide in August

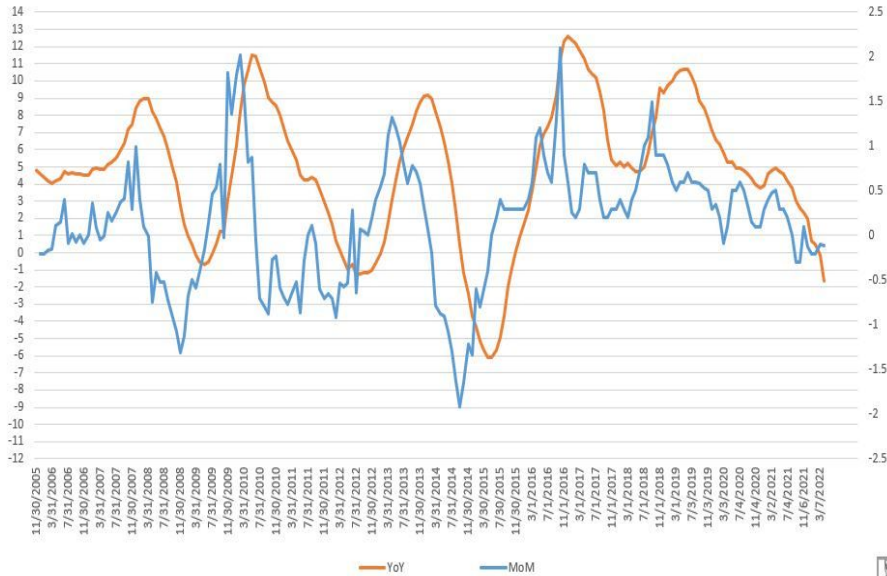


Source: Wind, Goldman Sachs Global Investment Research

# China's property crash

## China new house prices

MACRO  
BUSINESS



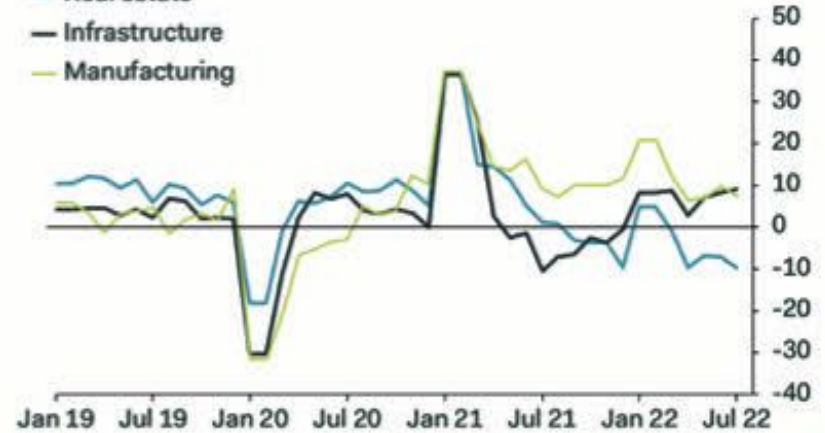
www.macrobusiness.com.au



## REAL ESTATE DRAGS AGAIN ON FAI GROWTH

Fixed asset investment, y/y%

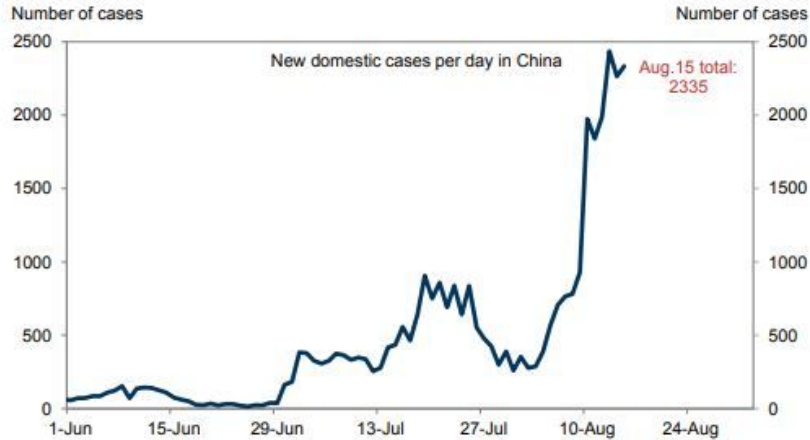
- Real estate
- Infrastructure
- Manufacturing



# Can China beat OMICRON?

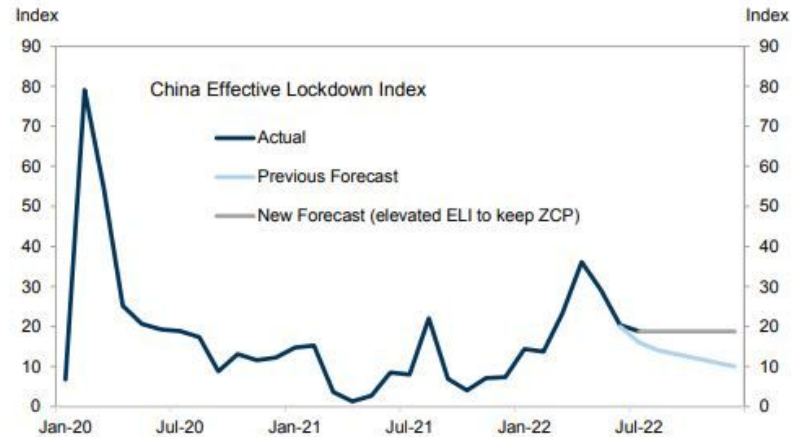
- Yes, but it won't reach growth targets and will lie
- Rolling lockdowns

**Exhibit 5: Daily Covid cases increased again in China**



Source: NHC, CEIC

**Exhibit 6: China ELI may need to stay elevated for the rest of 2022 under zero-Covid policy**

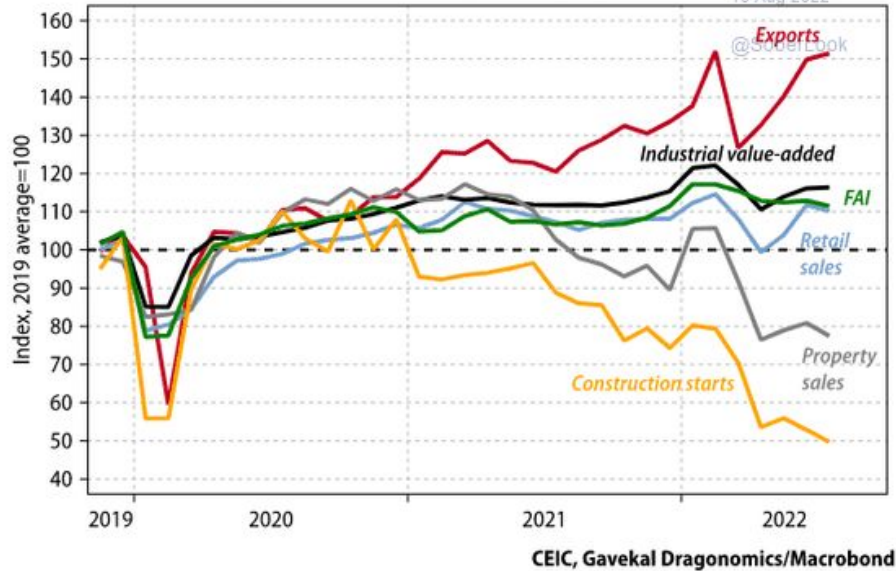


Source: Goldman Sachs Global Investment Research, University of Oxford (covidtracker.bsg.ox.ac.uk), Wind

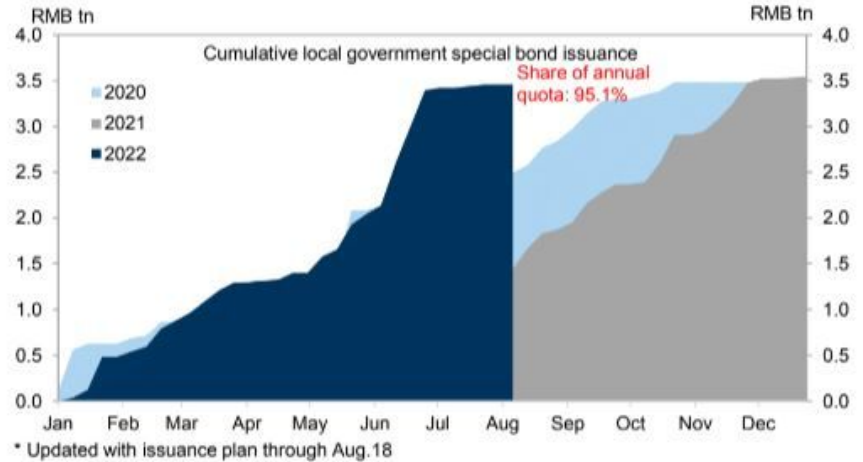
# Can China beat OMICRON?

## China's economy lost momentum in July

Monthly economic indicators, seasonally adjusted levels  
The Daily Shot  
18-Aug-2022



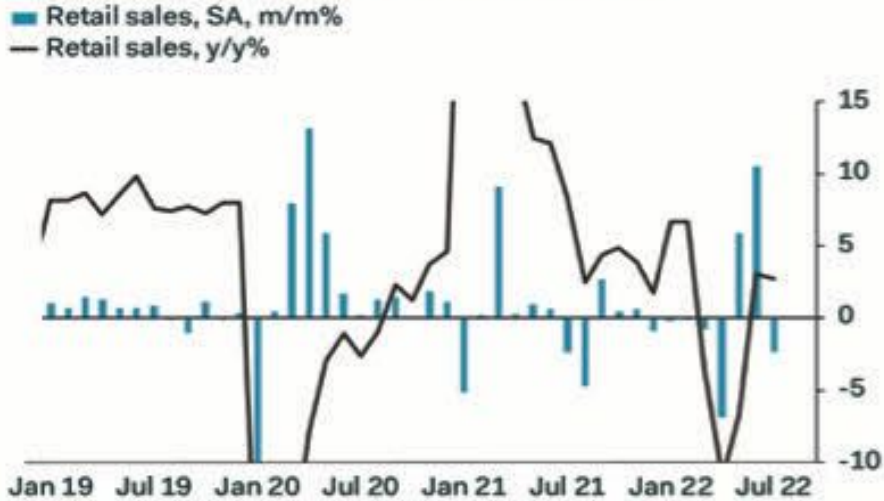
## Exhibit 19: Cumulative issuance of local government special bonds has been RMB3,471bn year-to-date



Source: Wind, Goldman Sachs Global Investment Research

# Can China beat OMICRON?

## THE RETAIL REBOUND WAS EVEN SHORTER LIVED

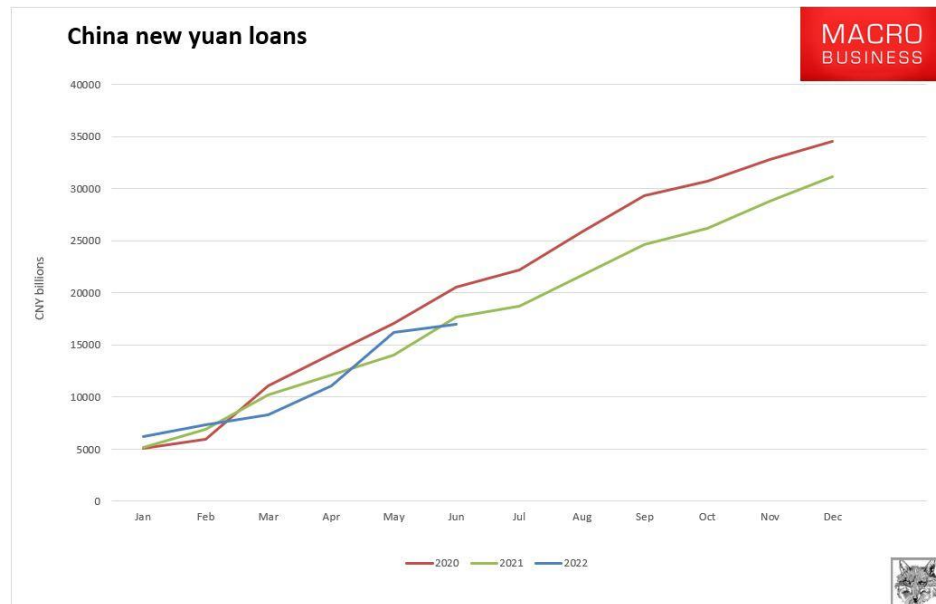


The Daily Shot\*



# 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



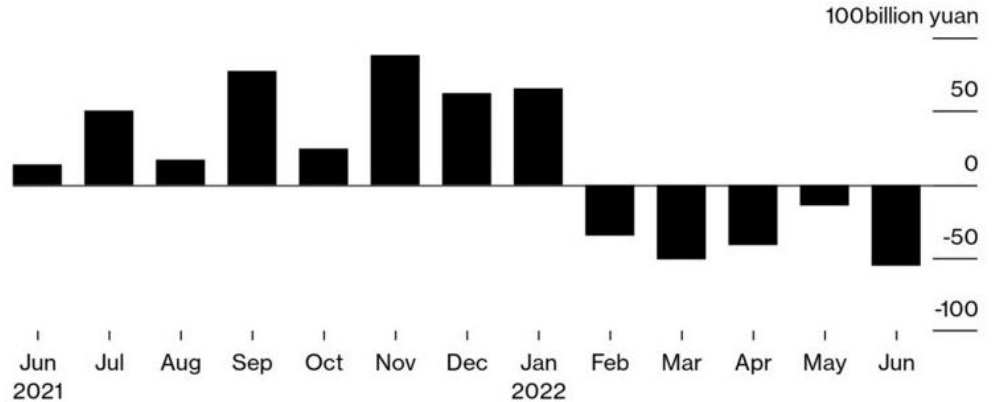
# China's impossible trinity stressed

- 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!

## Record Selloff

Overseas investors offloaded the most Chinese sovereigns in June

■ Net change of China government bonds held by overseas investors

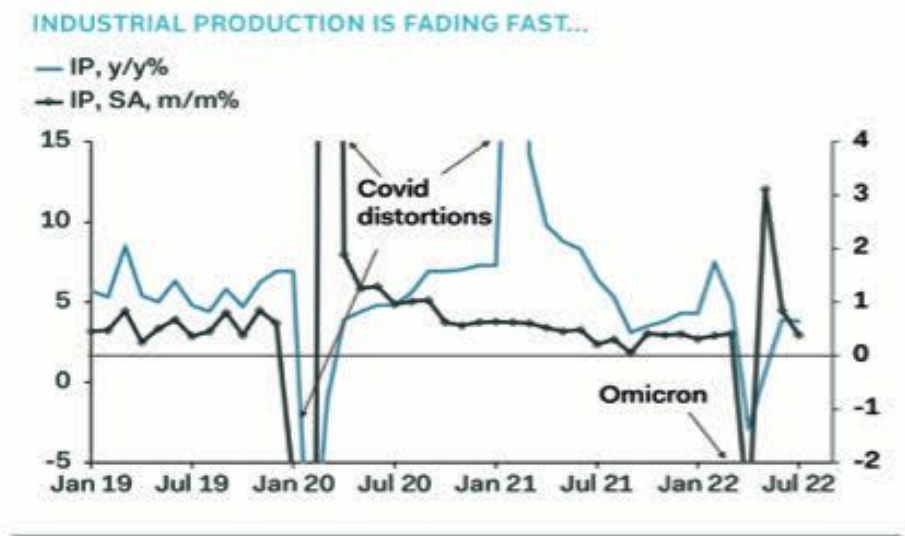


Source: Chinabond; Bloomberg

**Bloomberg**

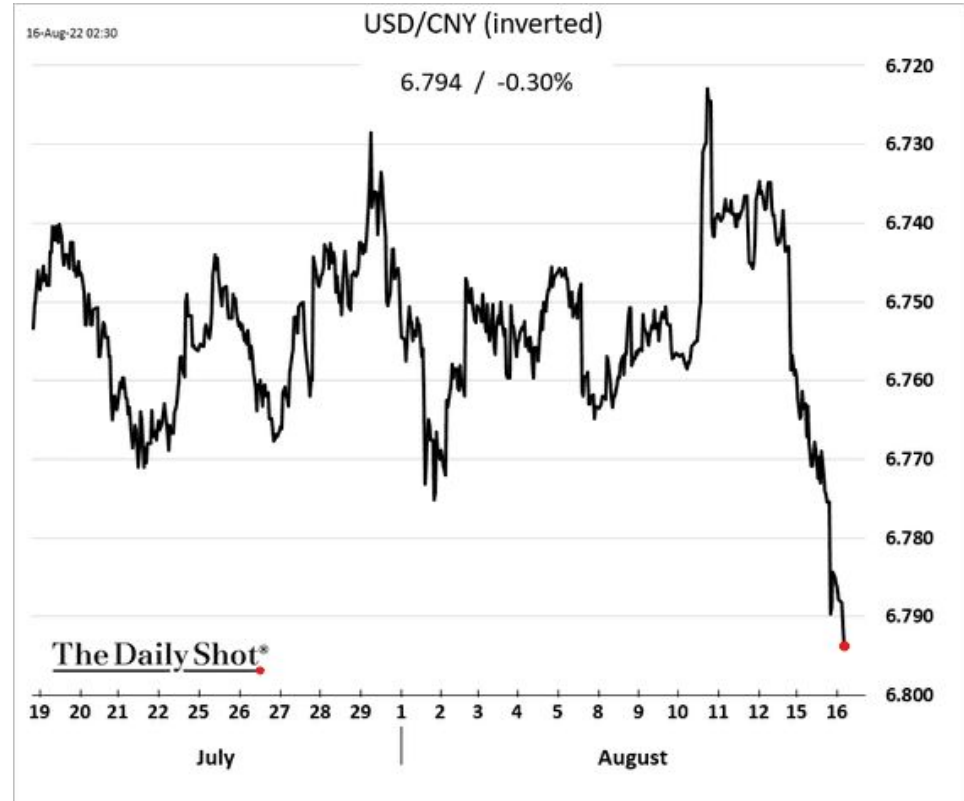
# The next shoe to drop

- 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?



## Viewer question of the week:

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**Has the great Chinese reckoning arrived or is this a blip on the radar?**

**Drop your answers in the comments**

# Agenda: Implications for markets

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- 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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