



# The China Bull View

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# Outline



- The China bear view
- Why the data don't support it:
  - Recent growth indicators
  - Factors supporting China's growth in near term and medium term
- Role that other factors (affecting commodity markets) have played role in recent EM slowdown

*Source: DB Global Markets Research*

# China Bear view



- GDP growth has slowed sharply, to less than 6% and is about to plunge further
- Massive overinvestment has led to a collapsing property market
- Falling property prices and excessive debt accumulation have pushed up nonperforming loans
- A conventional EM liquidity crisis looms ahead brought on by bank failures and loss of foreign investor confidence
- Accordingly, China's stock market has been in free fall, while a stop-gap effort by Chinese authorities to shore-up plunging growth via currency devaluation has backfired

*Source: DB Global Markets Research*



# Recent growth performance

*Source: DB Global Markets Research*



# Growth slowing, but how much?

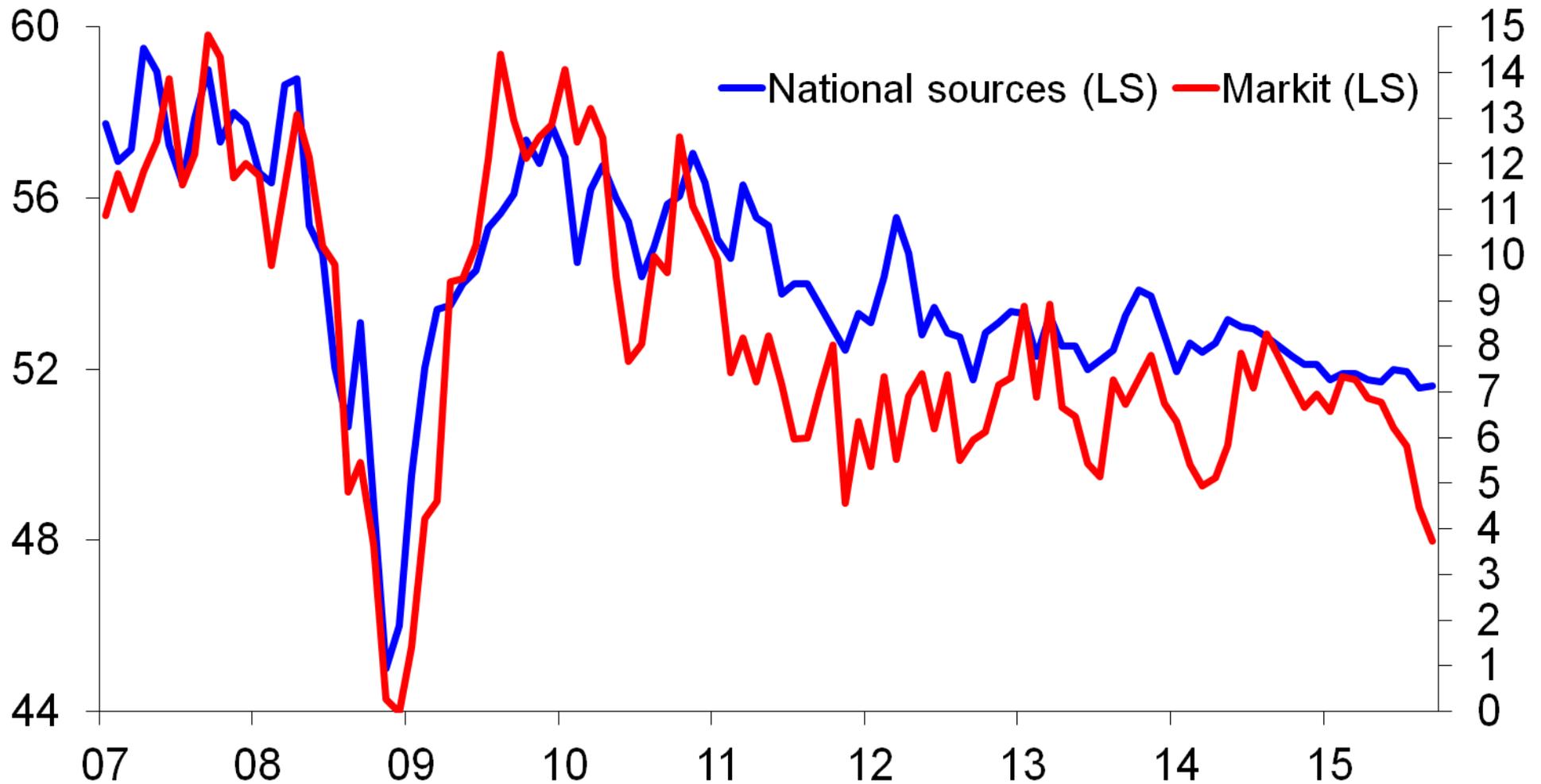


Source: CNBS, Haver Analytics, DB Global Markets Research

# PMI's disagree on recent performance

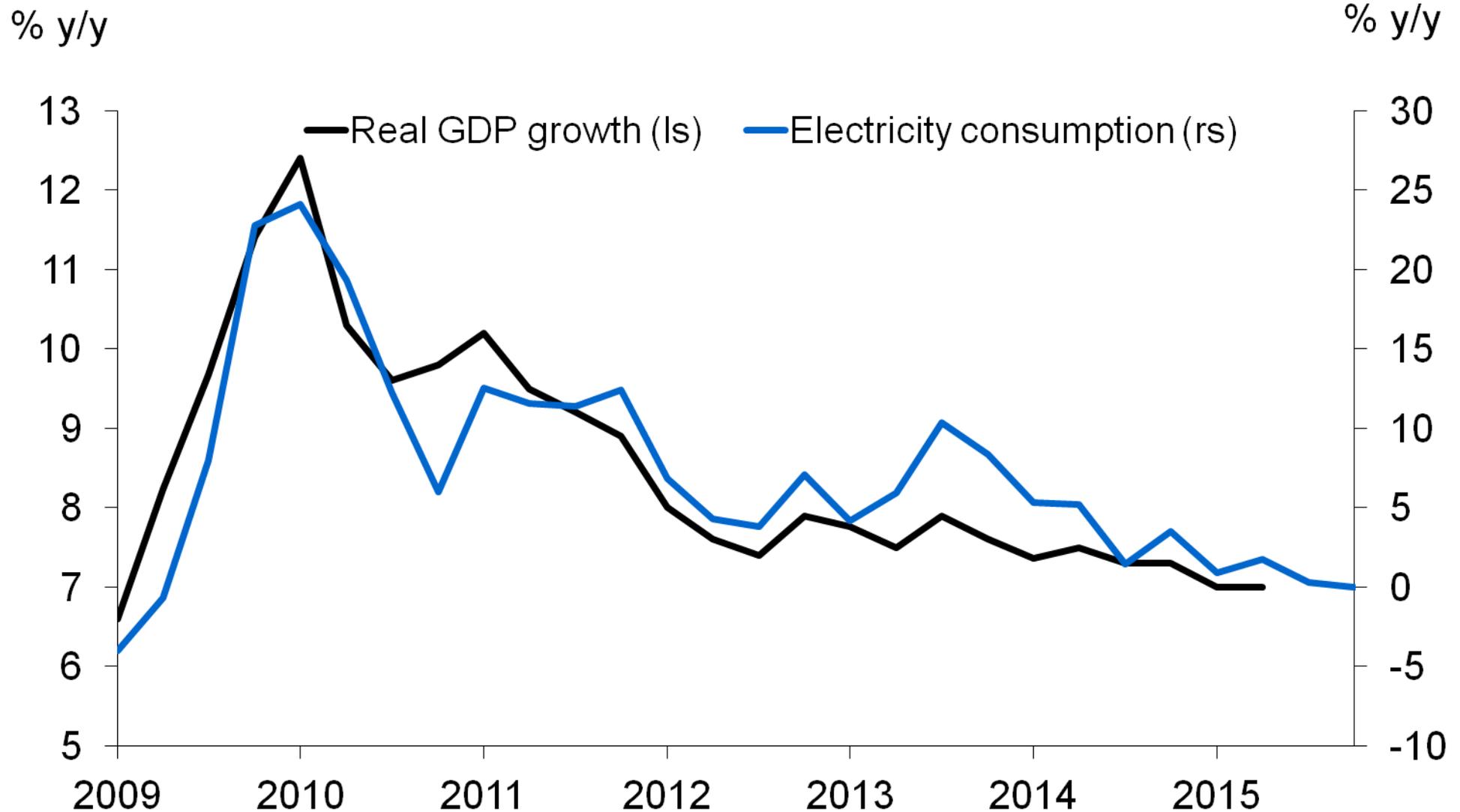


## China's composite manufacturing + nonmanufacturing PMI



Source: CFLP, Markit, Haver Analytics, DB Global Markets Research

# Electricity consumption slowing gradually



Source: CEIC, CNBS, DB Global Markets Research

# Retail sales growth easing gradually



Source: CNBS, Haver Analytics, DB Global Markets Research



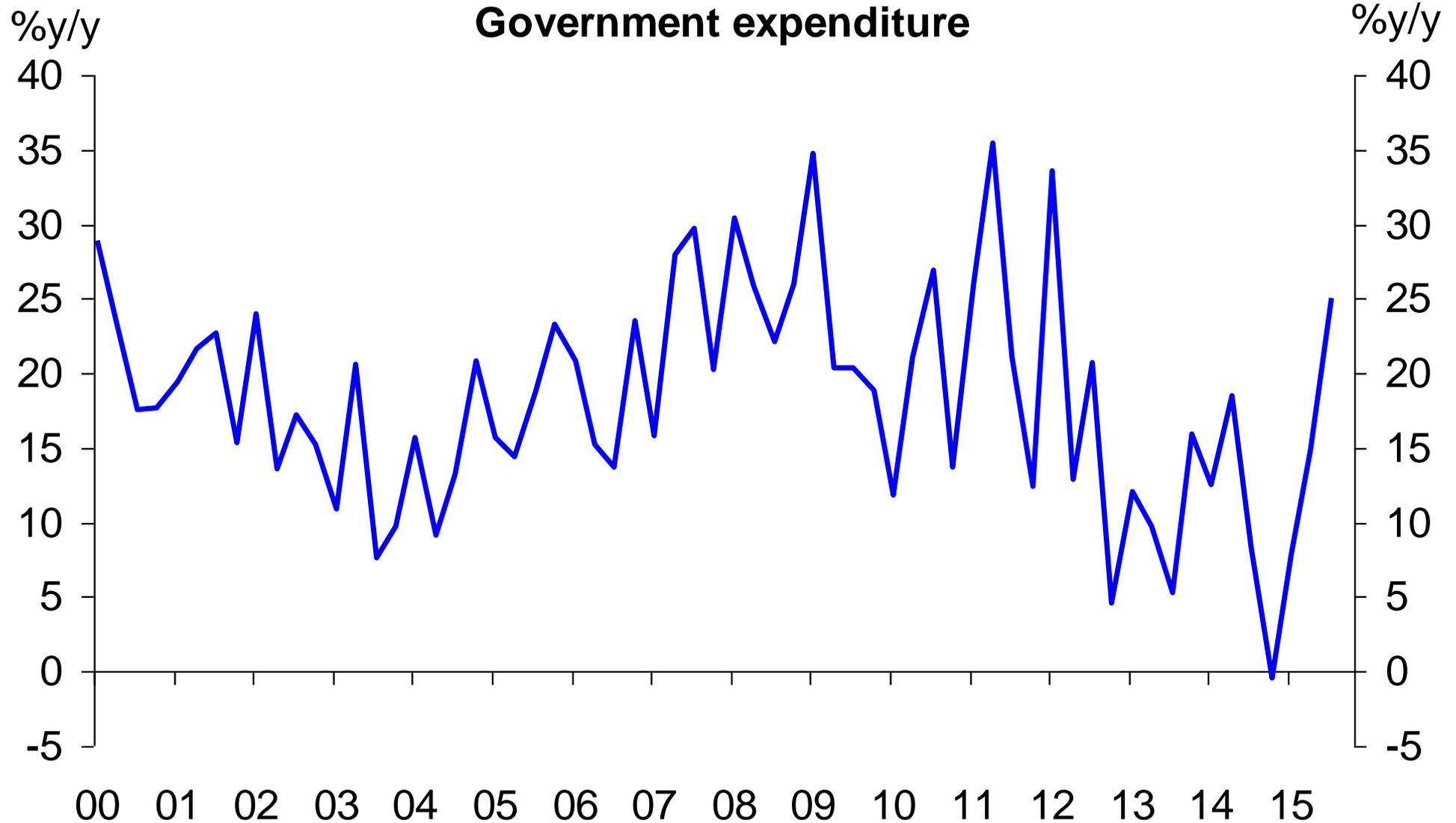
# Factors supporting near-term growth prospects

*Source: DB Global Markets Research*

# More fiscal stimulus this year



## Government expenditure

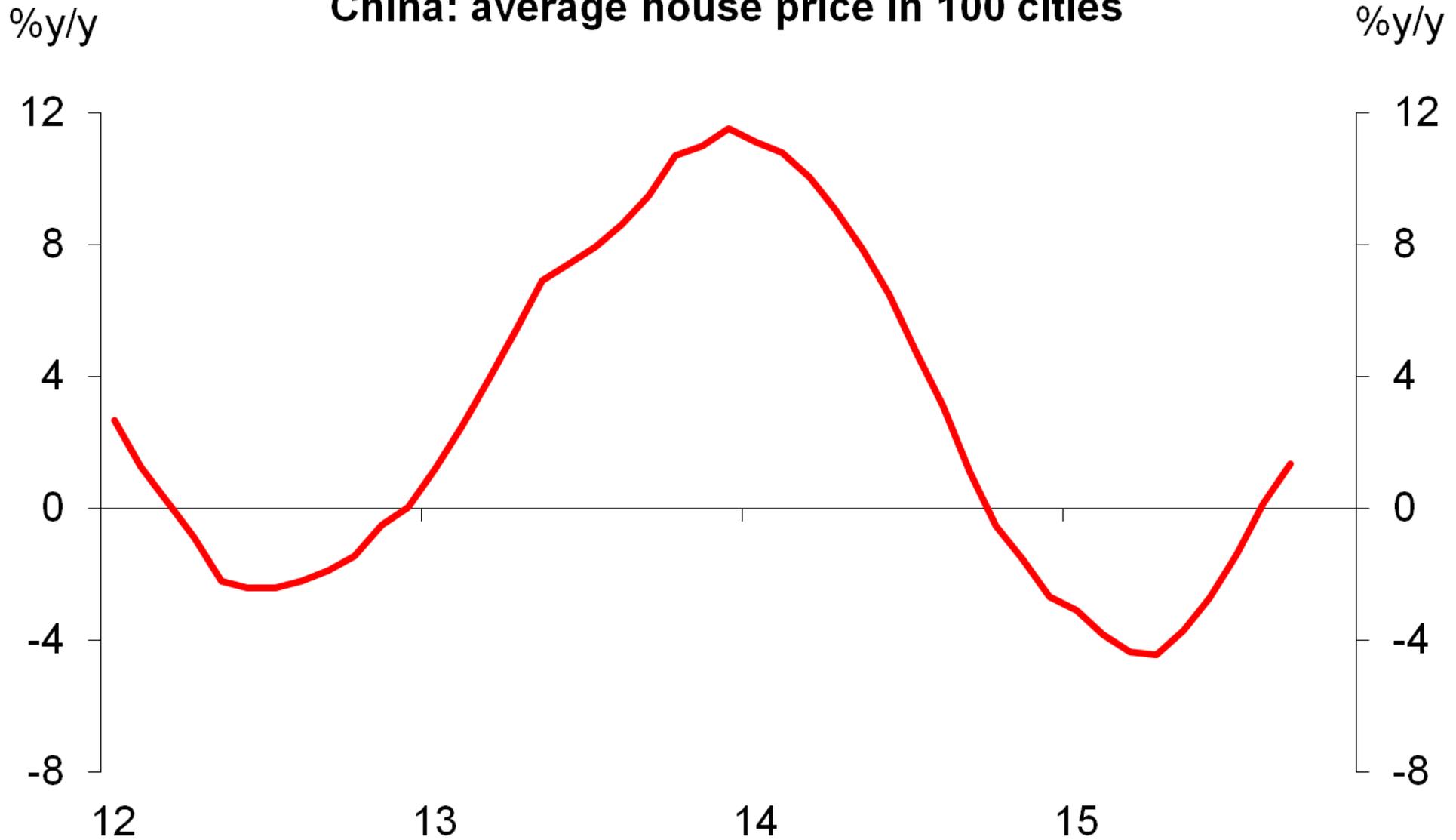


Source: CEIC, DB Global Markets Research

# Residential property market picking up

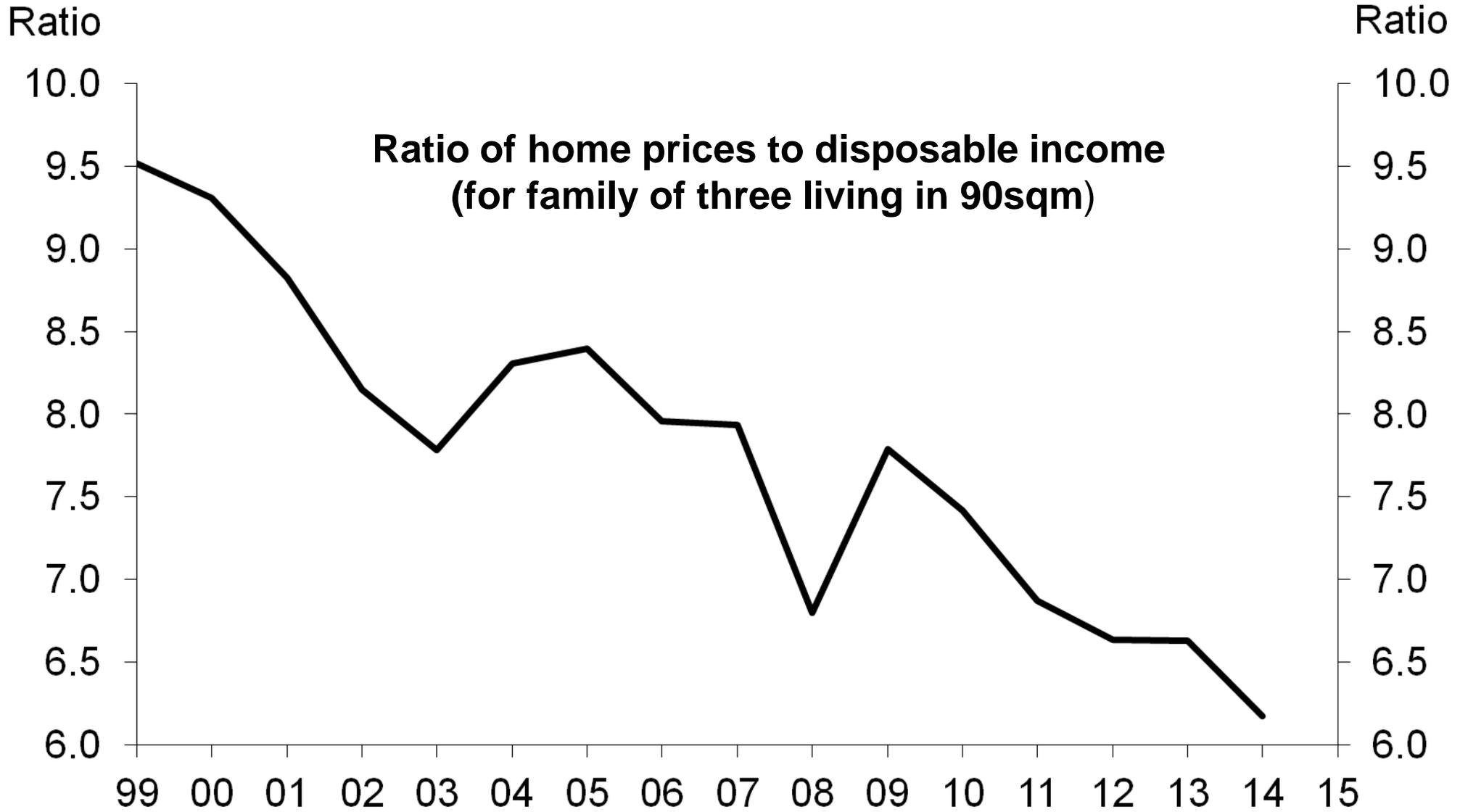


## China: average house price in 100 cities



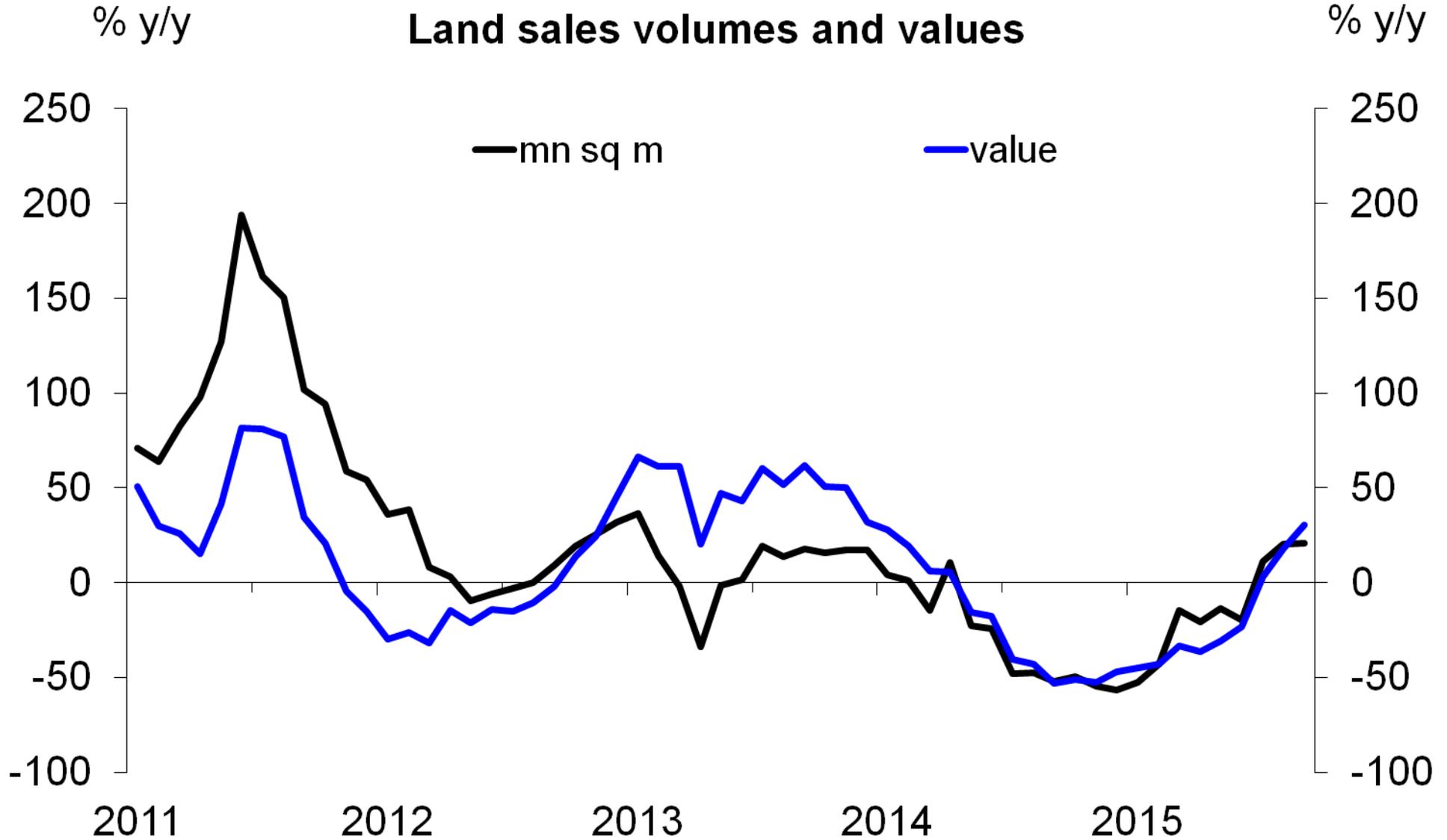
Source: China Index Academy/Soufun, Haver Analytics, DB Global Markets

# Housing affordability improving



Source: CEIC, Haver Analytics, DB Global Markets Research

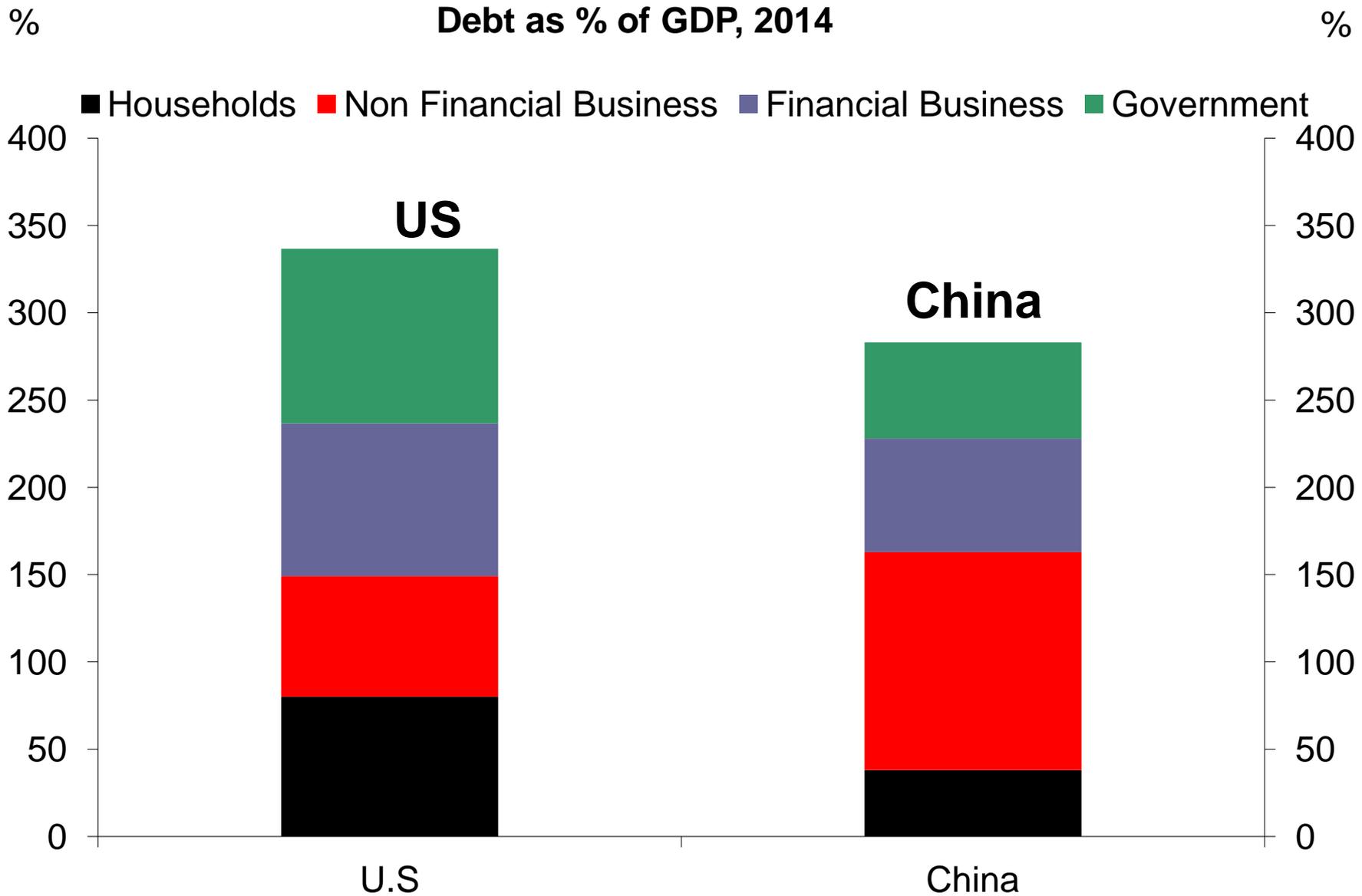
# Land sales rising again



Source: CREIS, DB Global Markets Research



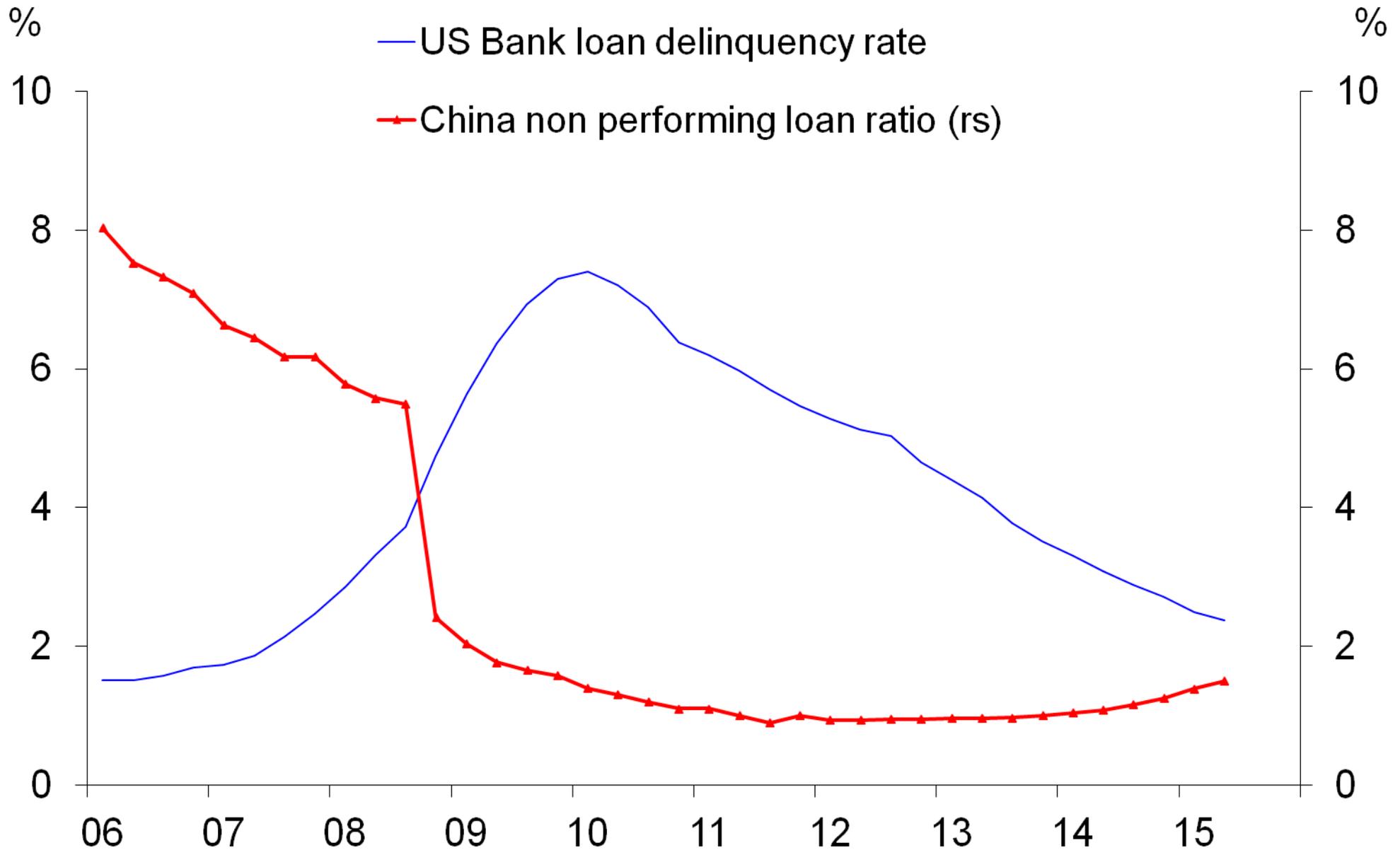
# Debt levels not unusually high in China



Source: FRB, Haver Analytics, Blackrock, Mckinsey, DB Global Markets Research

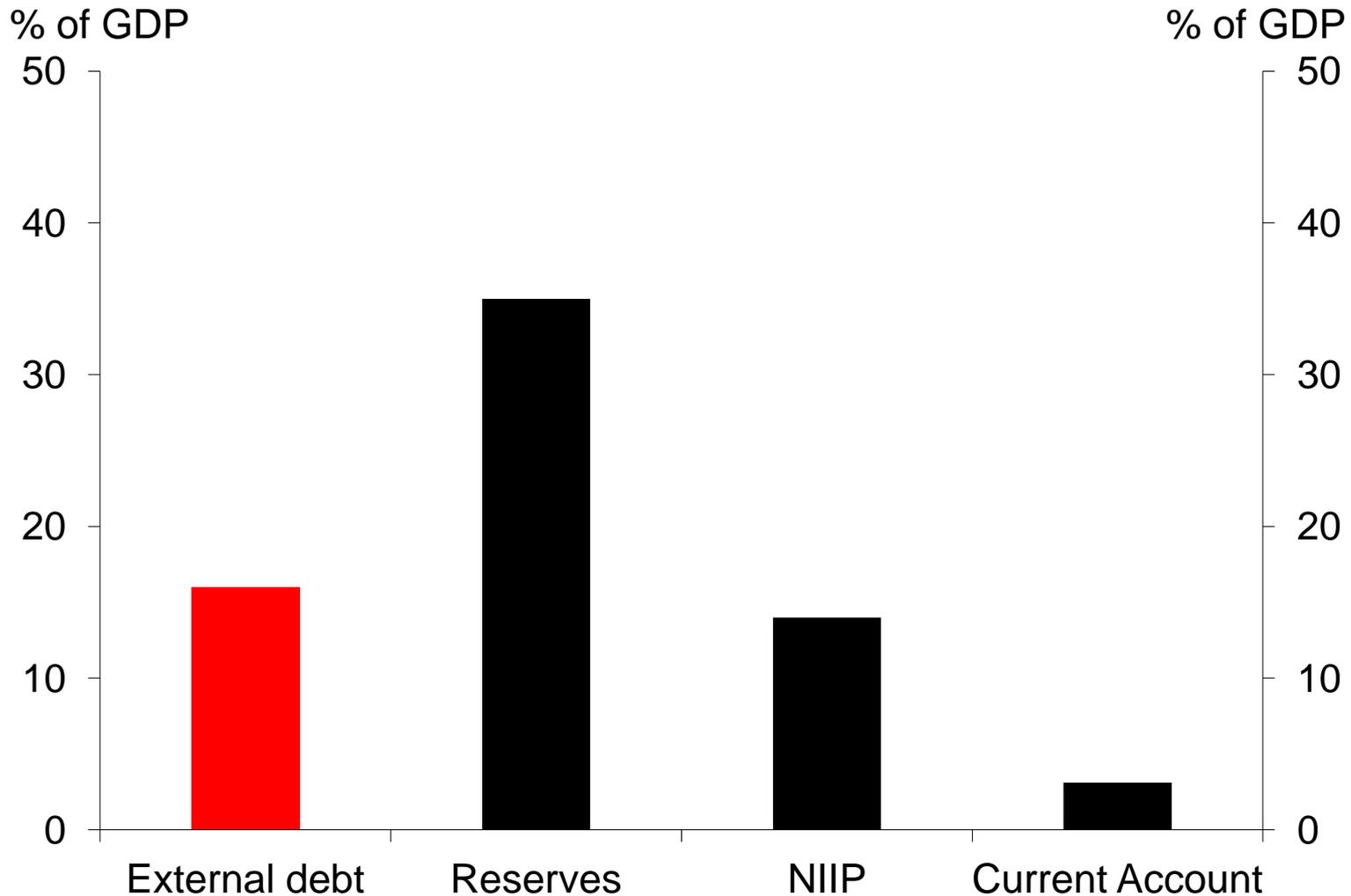


# What banking crisis?



Source: CBRC, Federal Reserve Board, Haver Analytics, DB Global Markets Research

# China's external financial risk is relatively low



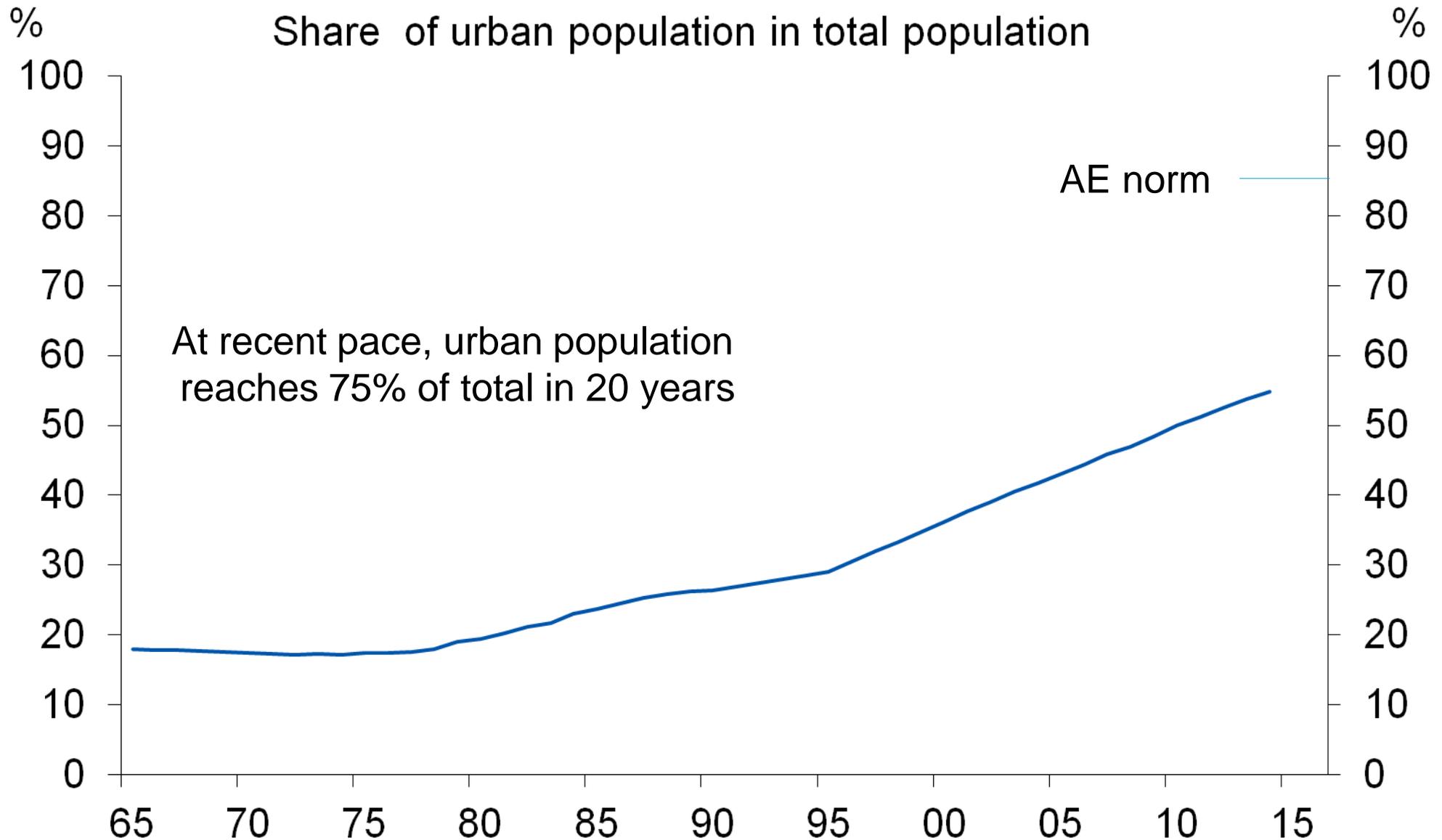
Source: SAFE, CNBS, Haver Analytics, DB Global Markets Research



# Factors supporting medium-term growth prospects

*Source: DB Global Markets Research*

# Urbanization has at least another 20 years to go

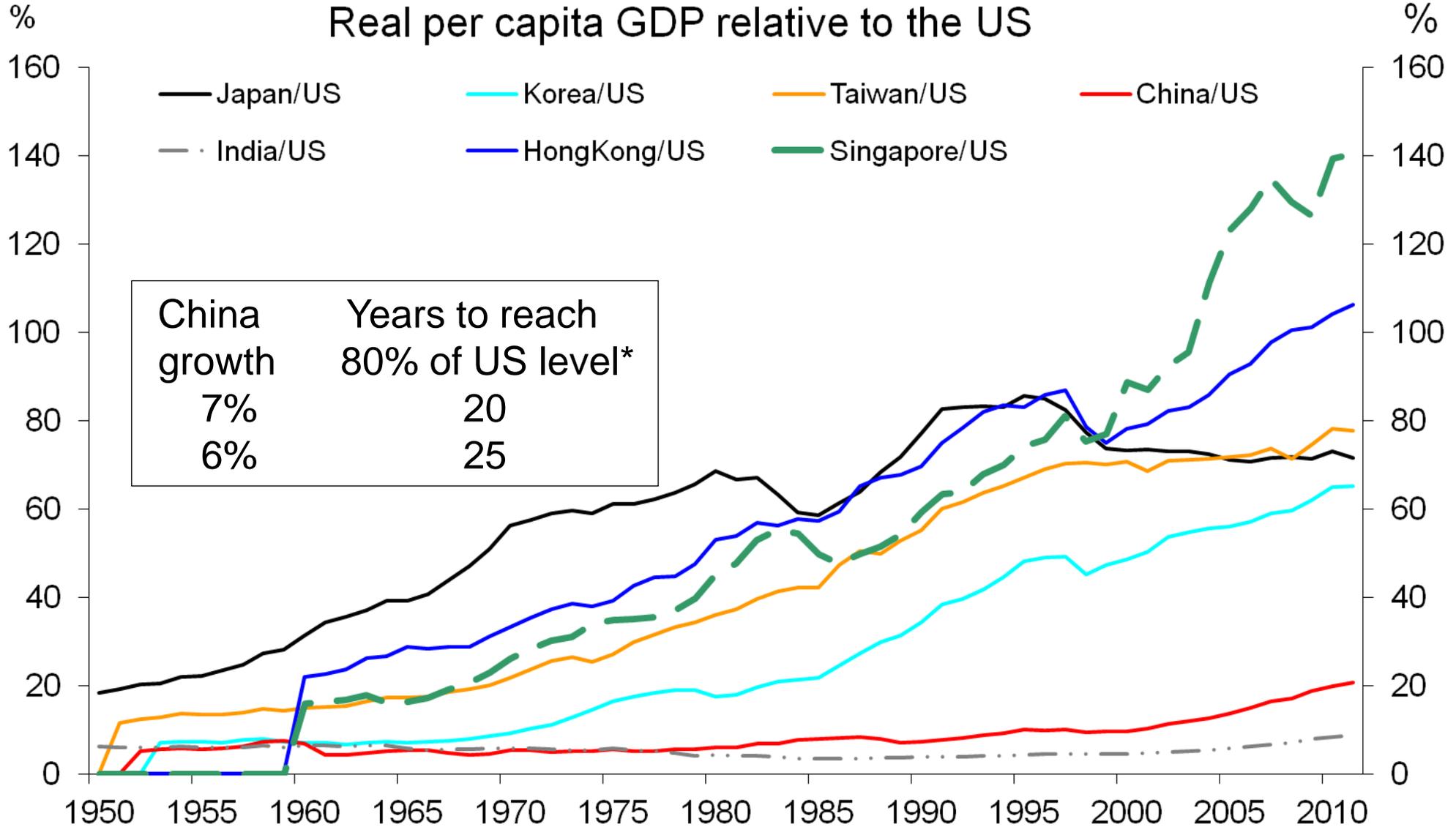


Source: CNBS, Haver Analytics, DB Global Markets Research

# Per capita GDP gap is still wide



## Real per capita GDP relative to the US



China growth	Years to reach 80% of US level*
7%	20
6%	25

\*Assumes China's population growth is zero, US per capita growth = 1.5% AR.

Source: Penn World Tables PWT 8.1 , DB Global Markets Research



## Reforms needed to complete transition from investment to consumption led growth

- Financial sector reforms to allow for market determination of interest rates, exchange rate, and so on.
- Reform of SOEs, leveling the playing field between public and private sectors.
- Fiscal reforms: including broad based income or consumption tax, social safety net.

*Source: DB Global Markets Research*



# EM slowdown reflects commodity market developments

*Source: DB Global Markets Research*

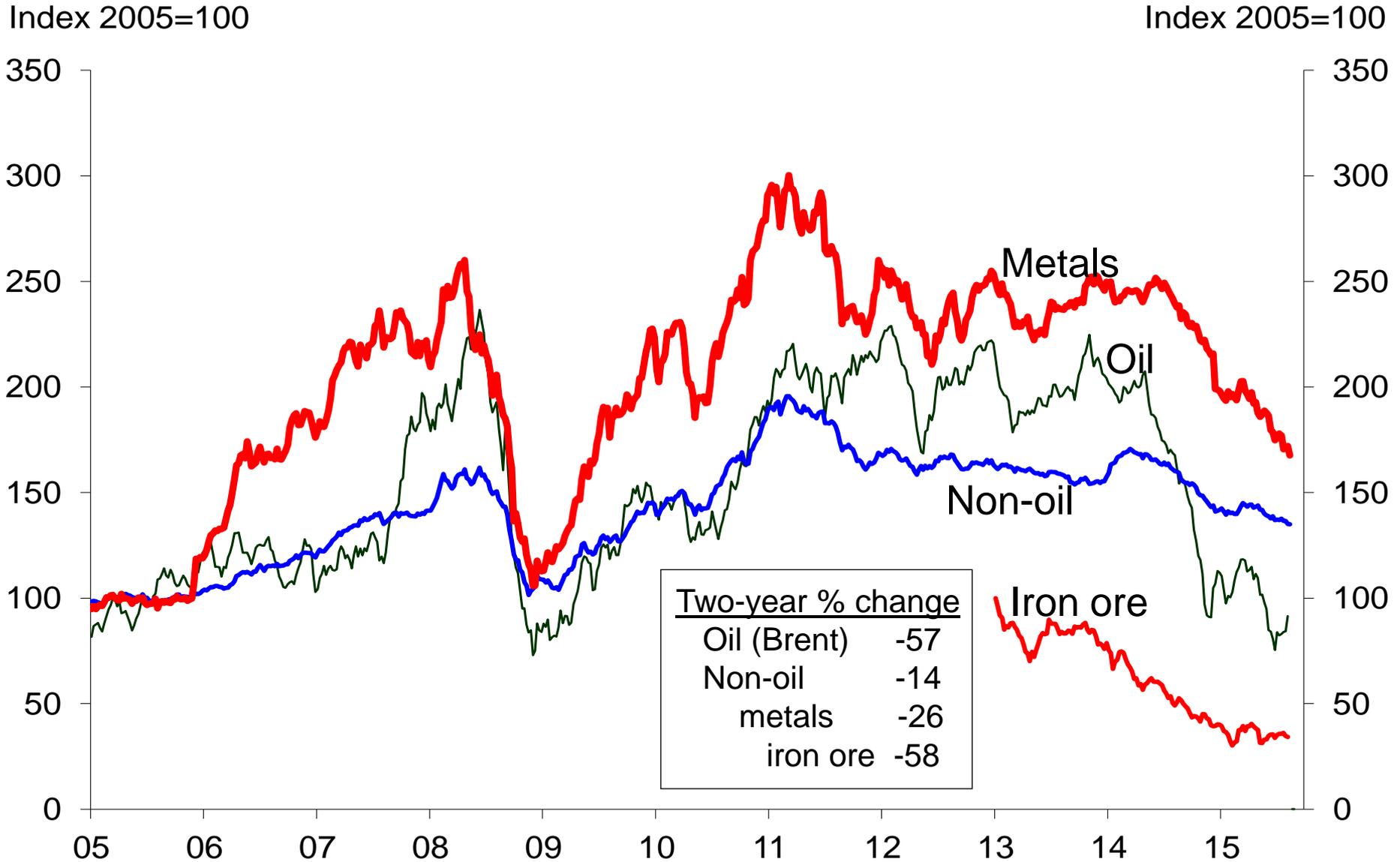


# IMF World Economic Outlook Projections

	July 2015		October 2015		Change from July to October	
	2015	2016	2015	2016	2015	2016
	World	3.3	3.8	3.1	3.6	-0.2
Advanced Economies	2.1	2.4	2	2.2	-0.1	-0.2
Emerging Market and Developing Economies	4.2	4.7	4	4.5	-0.2	-0.2
Emerging and Developing Asia	6.6	6.4	6.5	6.4	-0.1	0
China	6.8	6.3	6.8	6.3	0	0
Latin America and the Caribbean	0.5	1.7	-0.3	0.8	-0.8	-0.9
<b>Brazil</b>	<b>-1.5</b>	<b>0.7</b>	<b>-3</b>	<b>-1</b>	<b>-1.5</b>	<b>-1.7</b>
Russia	-3.4	0.2	-3.8	-0.6	-0.4	-0.8

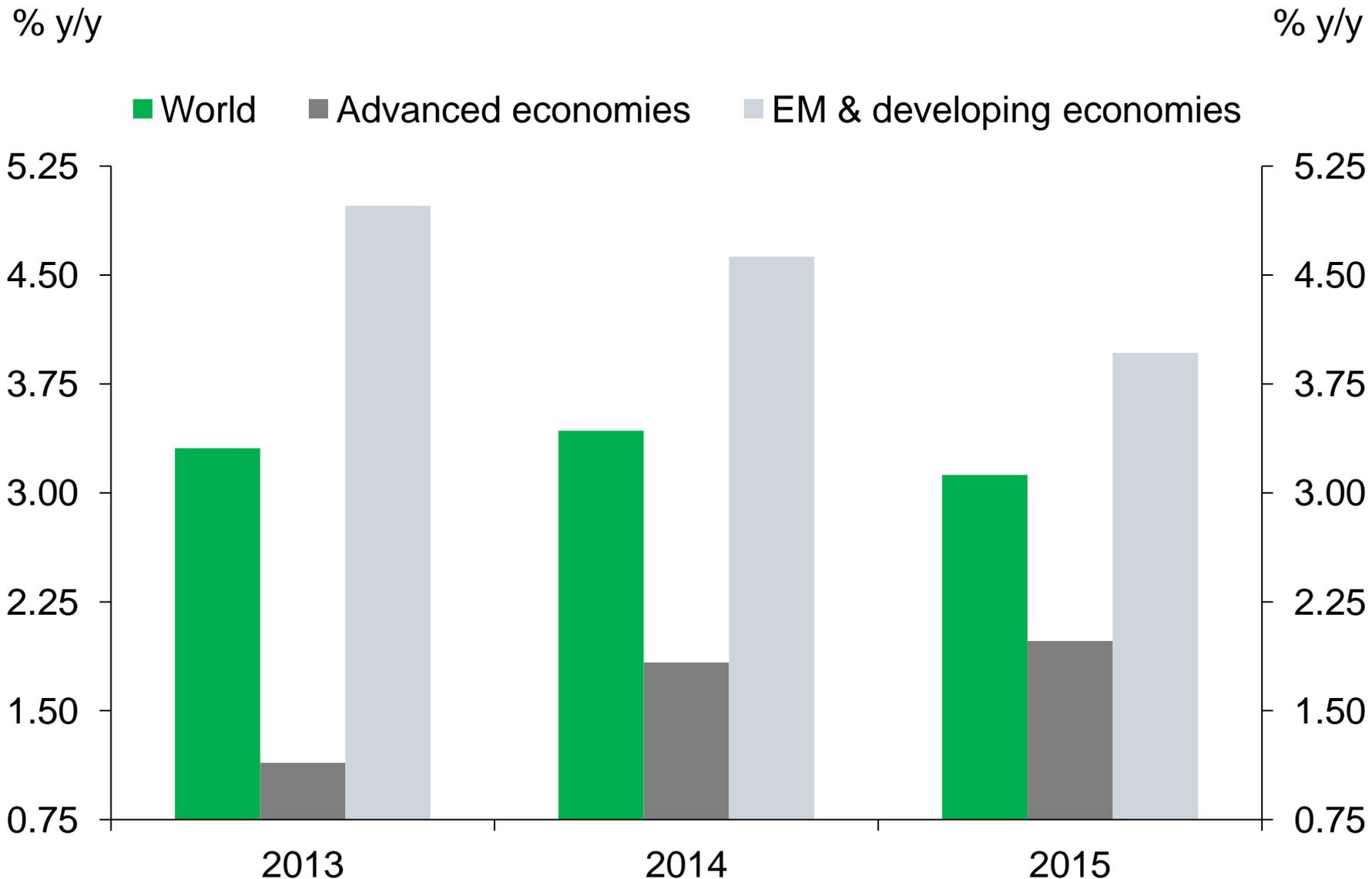
Source: IMF, DB Global Markets Research

# EM's hit by plunge in commodity prices



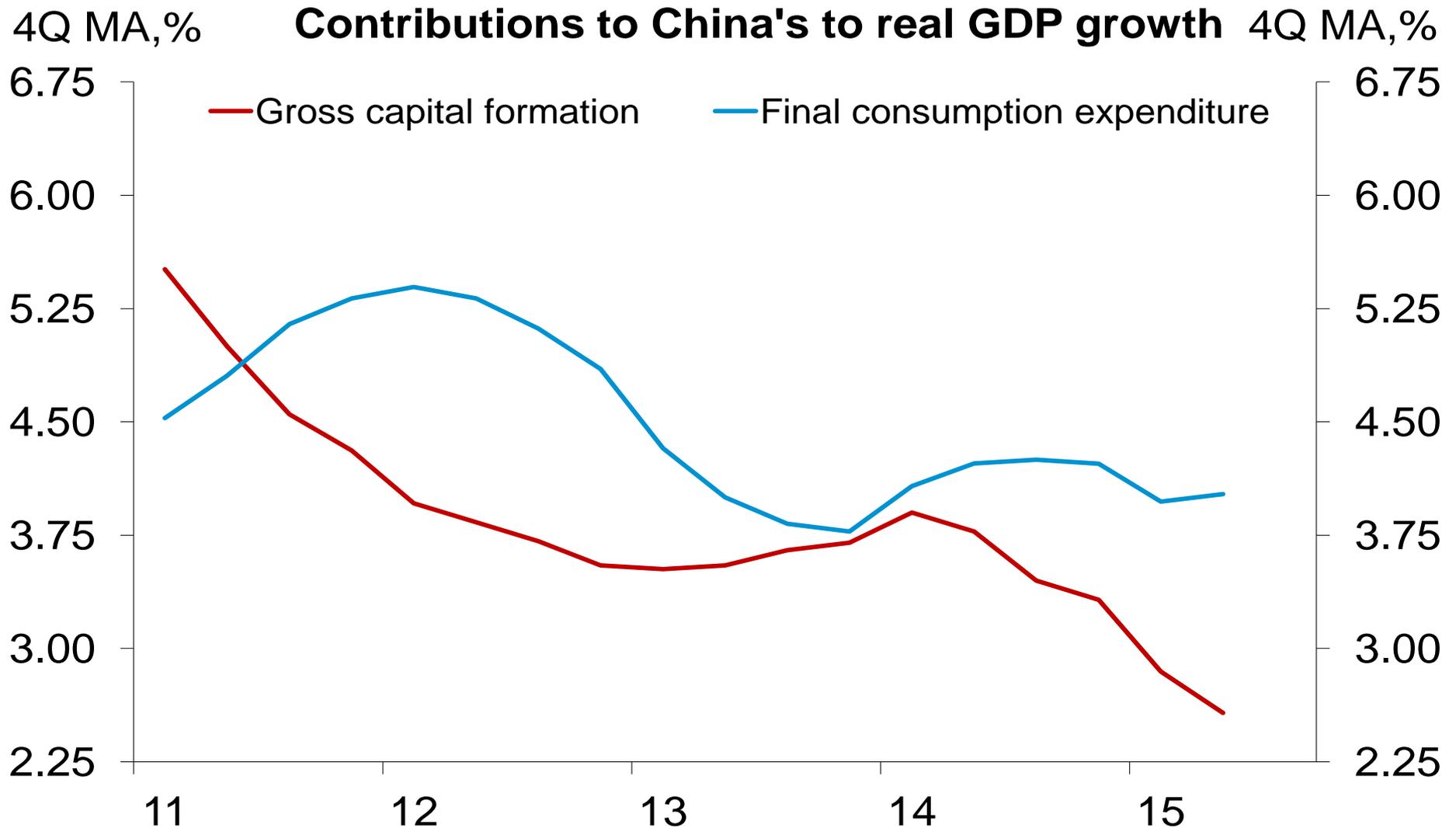
Source: CRB, EIA, Haver Analytics, DB Global Markets Research

# World GDP growth has slowed only modestly this year



Source: IMF, Haver Analytics, DB Global Markets Research

# Change in China's growth mix negative for metals

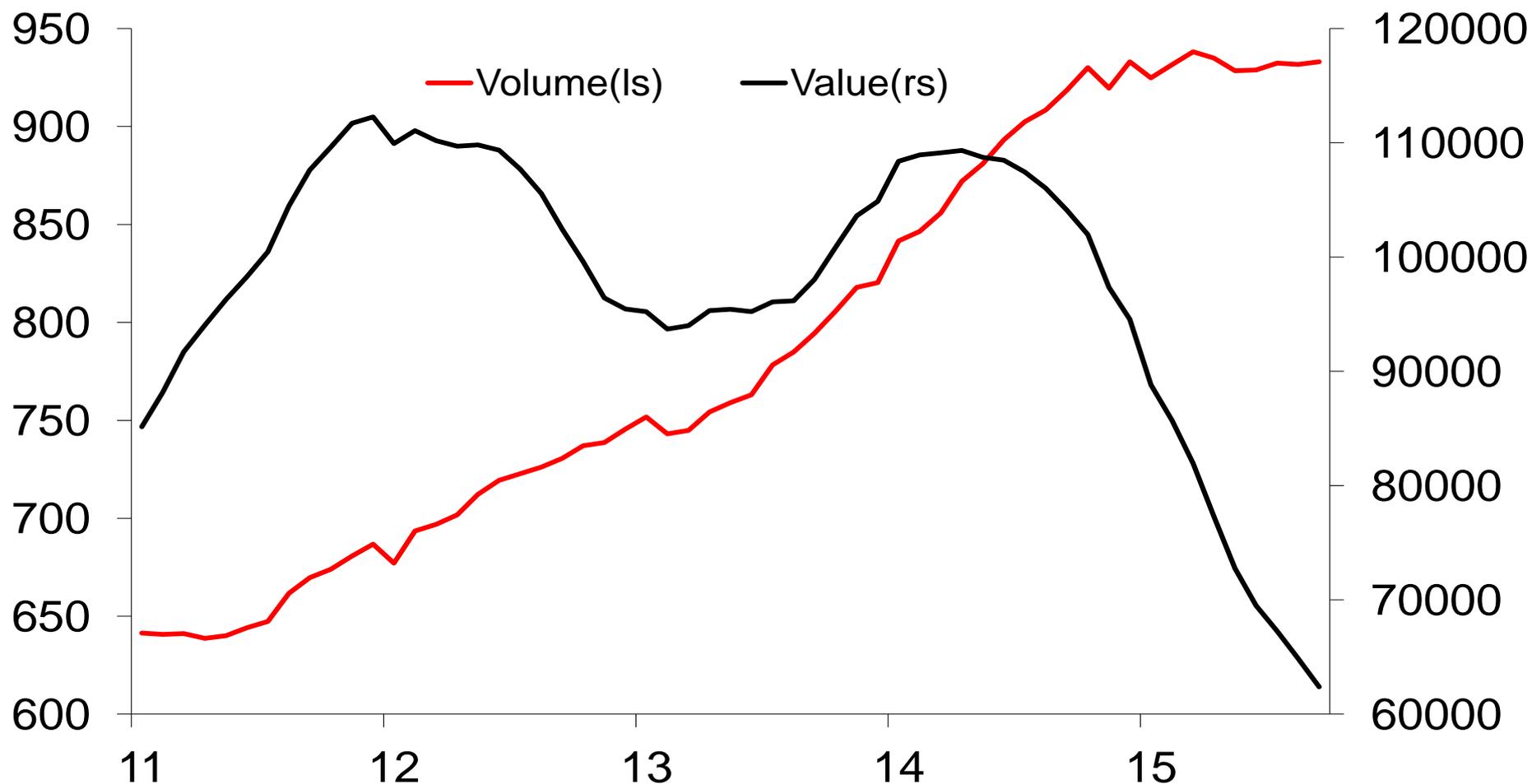


Source: CNBS, Haver Analytics, DB Global Markets Research

# China's iron ore imports: volume has decelerated, value plunged



Mil. tons      China: imports of iron ore & concentrates, 12 month moving total      Mil\$



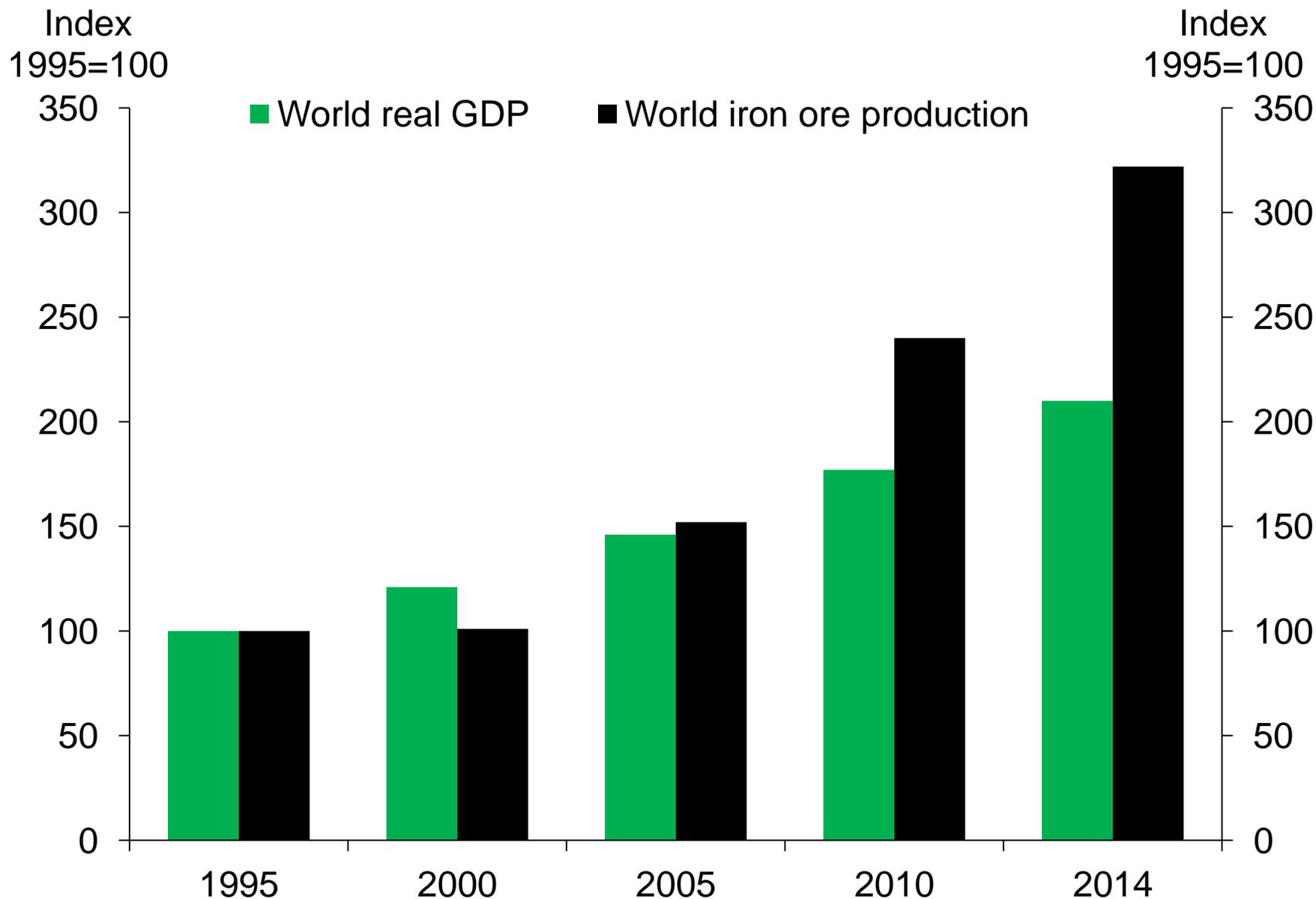
Source: China Customs, Haver Analytics, DB Global Markets Research

# Brazil iron ore exports: Volume up, Value down



Source: BCB, Haver Analytics, DB Global Markets Research

# Surge in supply is depressing prices too



Source: IMF, US Geological Survey, Haver Analytics, DB Global Markets Research

# Conclusions



- Recent data and prospects do not support the China bear view:
- Various indicators point to an ongoing gradual growth slowdown: in vicinity of 7% H2, slightly less next year.
- Recent fiscal stimulus and rising property prices and land sales will support growth in the near term.
- China's risk of incurring a banking or currency crisis is low.
- Substantial further urbanization and catch-up in productivity with AEs will support growth in the medium term—so long as needed reforms are implemented.
- China's growth slowdown has contributed to the drop in commodity prices that has hit EMs, but so has overinvestment by major commodity producers.

*Source: DB Global Markets Research*



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- **Peter Hooper** joined Deutsche Bank Securities in 1999 as Chief US Economist. He became Chief Economist and co-head of global economics in 2006. Prior to joining Deutsche Bank, Hooper enjoyed a distinguished 26-year career at the Federal Reserve Board in Washington, D.C. While rising to senior levels of the Fed staff, he held numerous positions, including as an economist on the FOMC. Hooper and his team produce weekly and quarterly publications for Deutsche Bank with a focus on US and global economic developments and Fed policy; he also comments on US and global economic and financial developments in the news media.
- Hooper currently serves as a member of the Economic Advisory Panel of the Federal Reserve Bank of New York, a member and former chairman of the Economic Advisory Committee of the American Bankers Association, a founding member of the US Monetary Policy Forum, a member of the Economic Leadership Council for the University of Michigan, and a member of the Forecasters' Club of New York. Hooper earned a BA in Economics (cum laude) from Princeton University and an MA and Ph.D. in Economics from University of Michigan. He has published numerous books, journal articles, and reviews on economics and policy analysis.



# Appendix 1

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