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?

China’s Real GDP growth

% y/y

Pre-crisis average of 10%

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

%y/y

%y/y

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

Ratio of home prices to disposable income
(for family of three living in 90sqm)

Source: CEIC, Haver Analytics, DB Global Markets Research
Land sales rising again

% y/y

Land sales volumes and values

Source: CREIS, DB Global Markets Research
Debt levels not unusually high in China

Debt as % of GDP, 2014

Source: FRB, Haver Analytics, Blackrock, Mckinsey, DB Global Markets Research
What banking crisis?

- US Bank loan delinquency rate
- China non performing loan ratio (rs)

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

At recent pace, urban population reaches 75% of total in 20 years

Source: CNBS, Haver Analytics, DB Global Markets Research
Per capita GDP gap is still wide

Real per capita GDP relative to the US

<table>
<thead>
<tr>
<th>Country</th>
<th>Years to reach 80% of US level*</th>
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<tbody>
<tr>
<td>China 7%</td>
<td>20</td>
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<tr>
<td>China 6%</td>
<td>25</td>
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*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

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<th>July 2015</th>
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<th>Change from July to October</th>
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<td>Advanced Economies</td>
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<td>China</td>
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<td>Russia</td>
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</table>

*Source: IMF, DB Global Markets Research*
EM’s hit by plunge in commodity prices

Index 2005=100

Two-year % change

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<th>Commodity</th>
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<tr>
<td>Non-oil</td>
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<tr>
<td>Metals</td>
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<td>Iron ore</td>
<td>-58</td>
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</tbody>
</table>

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

Contributions to China’s real GDP growth

Source: CNBS, Haver Analytics, DB Global Markets Research

Gross capital formation
Final consumption expenditure

Change in China’s growth mix negative for metals

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

Source: China Customs, Haver Analytics, DB Global Markets Research
Brazil iron ore exports: Volume up, Value down

Brazil: exports of iron ore & concentrates, 12 month moving total

Source: BCB, Haver Analytics, DB Global Markets Research
Surge in supply is depressing prices too

- Index 1995=100

World real GDP
World iron ore production

Conclusions

- Recent data and prospects do not support the China bear view:
  - Various indictors 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.
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