

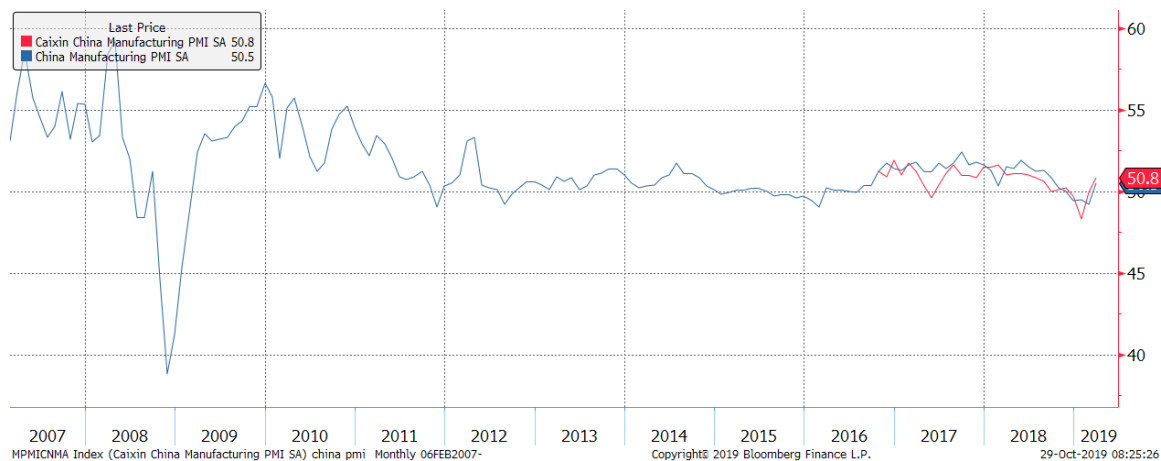


China Macro in Pictures

The death by monetary asphyxiation of a credit-addicted economy isn't actually all that exciting (until it is). So long as China continues to gradually decouple itself by sacrificing access to FX liquidity in pursuit of domestic stability, the relentless grind lower in economic activity is set to continue. **Here's a visual review of the slow-motion train wreck that is the China macroeconomy.**

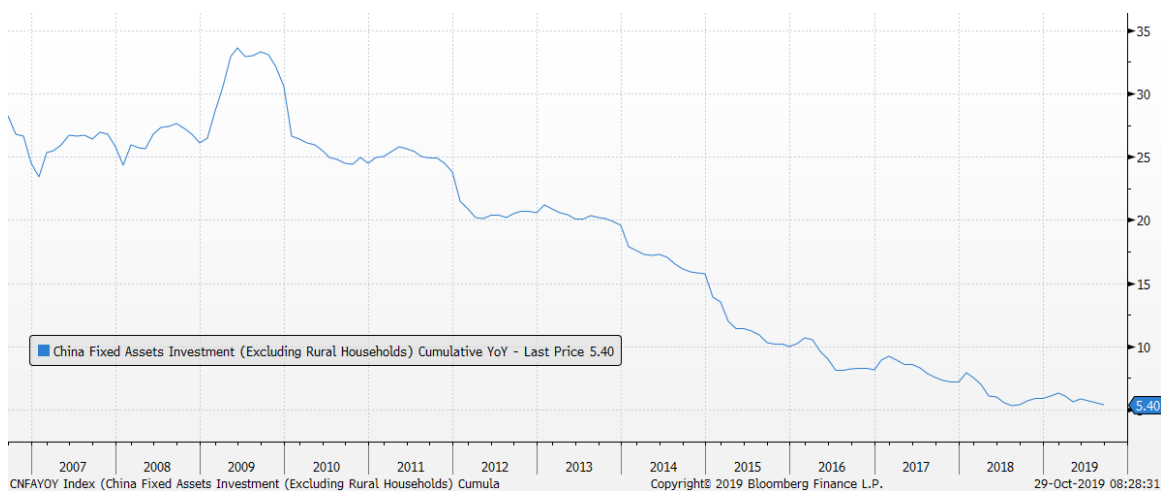
China PMI's

- A useless indicator. Outside of day-trading purposes, I ignore it.



Fixed Asset Investment

- Inclusive of land purchases, FAI provides a reasonable assessment of the rate at which shovels are getting stuck in the ground...





Industrial Production (w/ 3m MA)

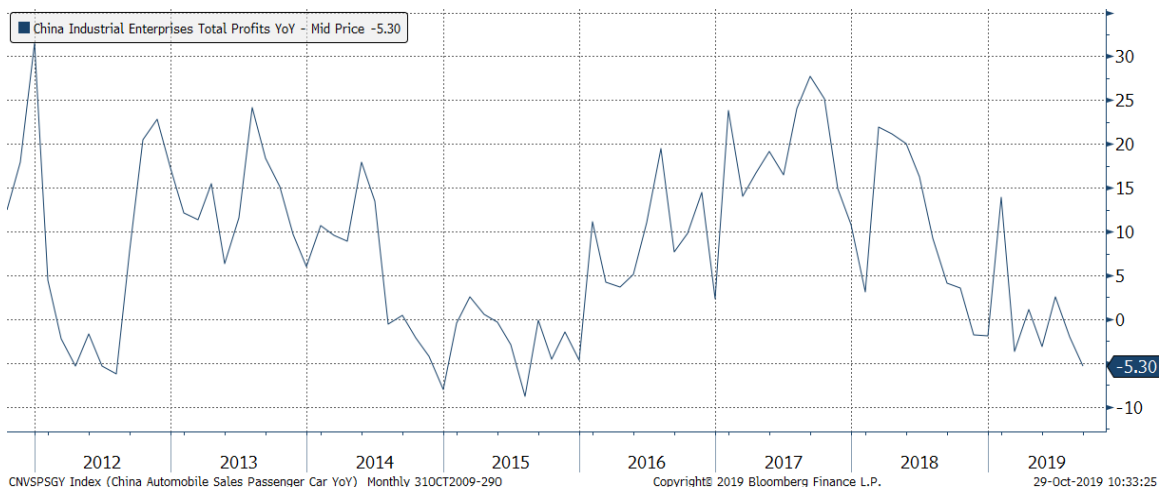
- The downshift in IP (5.0% on a 3mma) bodes ill for debt-repayment capacity in heavy industry



- Note that both FAI and IP are nominal figures.
- “Industrial China” is growing ~5% nominal

Industrial Enterprise Profits

- Current activity levels are insufficient to sustain the debt structure in the industrial sector





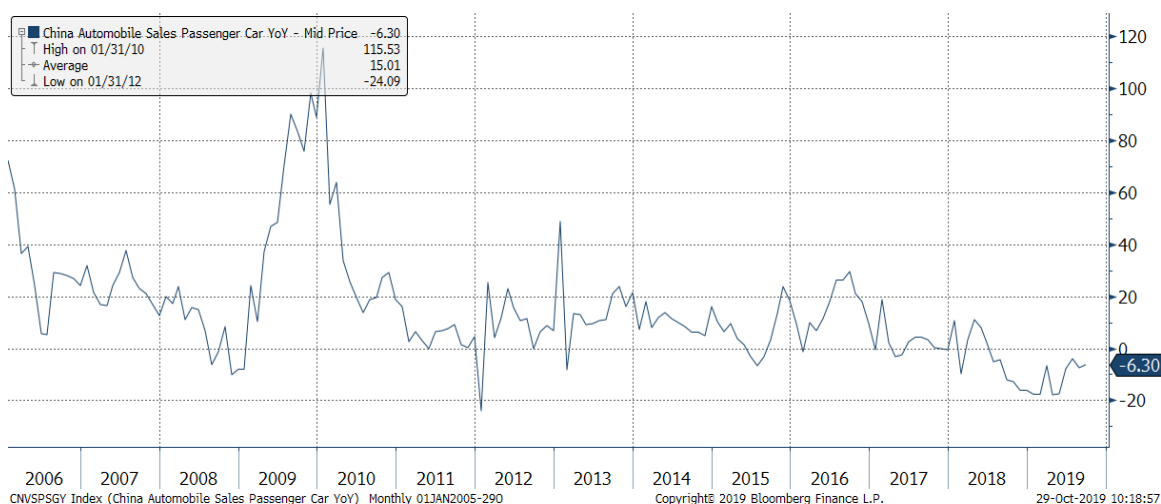
Retail Sales

- I'm not a huge fan of this series, which is distorted by purchases by govt & the military
- FWIW, it's also in relentless decline



Auto Sales

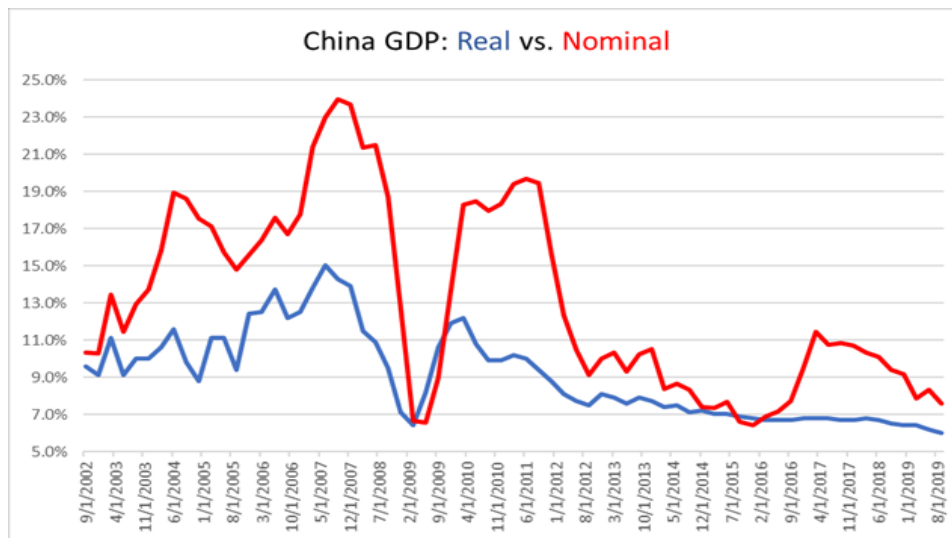
- We're over a year into the downturn in auto sales, amidst rampant overcapacity
- A shakeout is coming





GDP: Real & Nominal Growth

- Yes, GDP data is pretty much “fake,” but nominal GDP growth provides some perspective on the depths of the downturn relative to past stress episodes:



Nominal Growth in the “Secondary Sector”

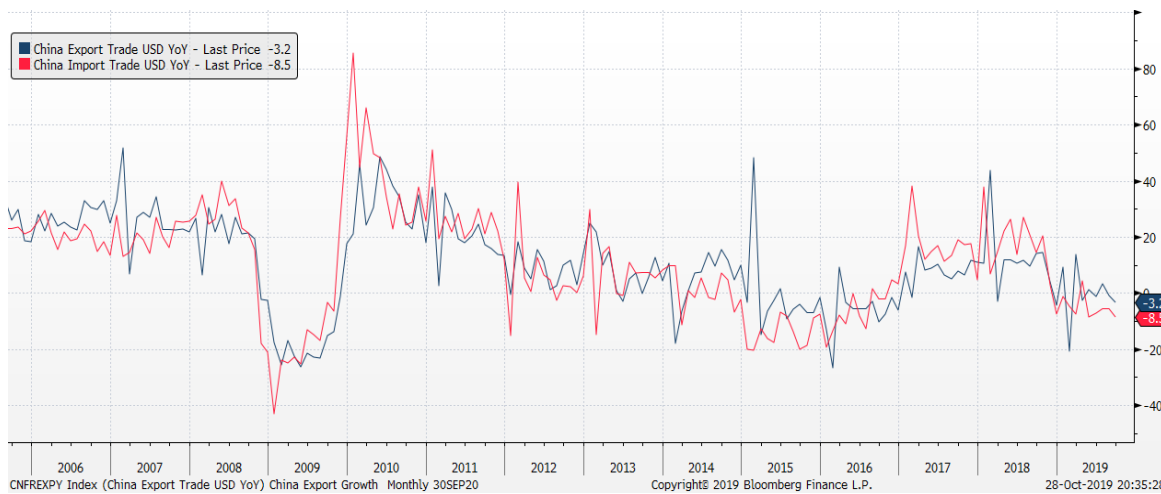
- China’s secondary sector (manufacturing, assembly construction) accounts for ~40% of GDP. It’s the “guts” of the Chinese economy
- A strong Dollar and supply-chain exodus will keep Chinese industry under pressure





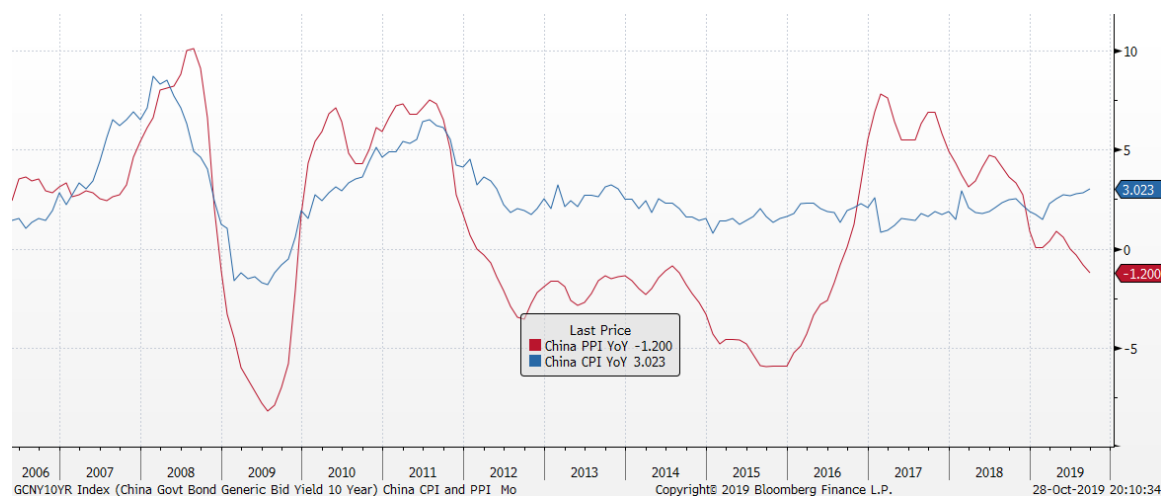
International Trade

- These metrics seem broadly in line with the slowdown in domestic growth and global manufacturing



Inflation

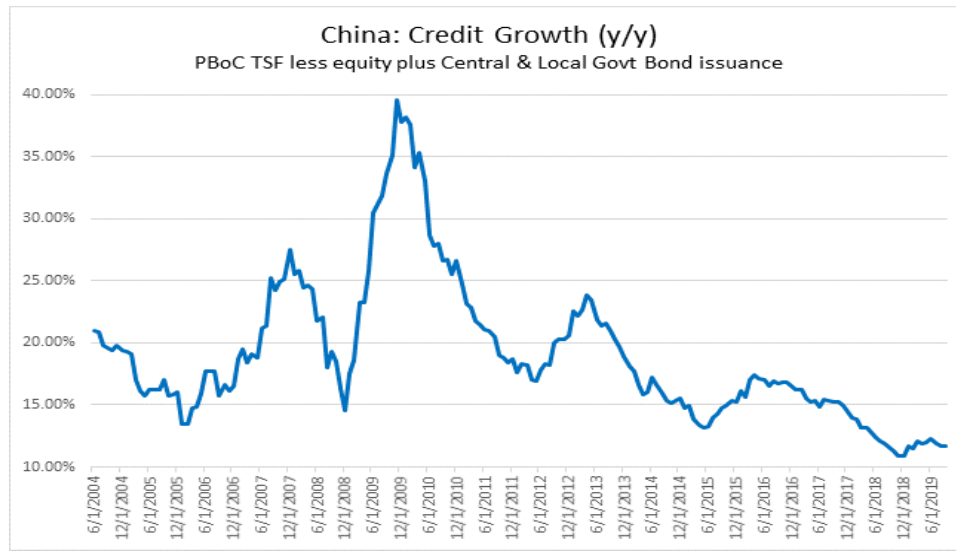
- CPI is another generally useless series
- **Swine flu is a supply-shock** – no bearing on monetary policy
- The relevant inflation metric is PPI
- Expect PPI to remain steady at slightly negative rates, **pressuring nominal output**





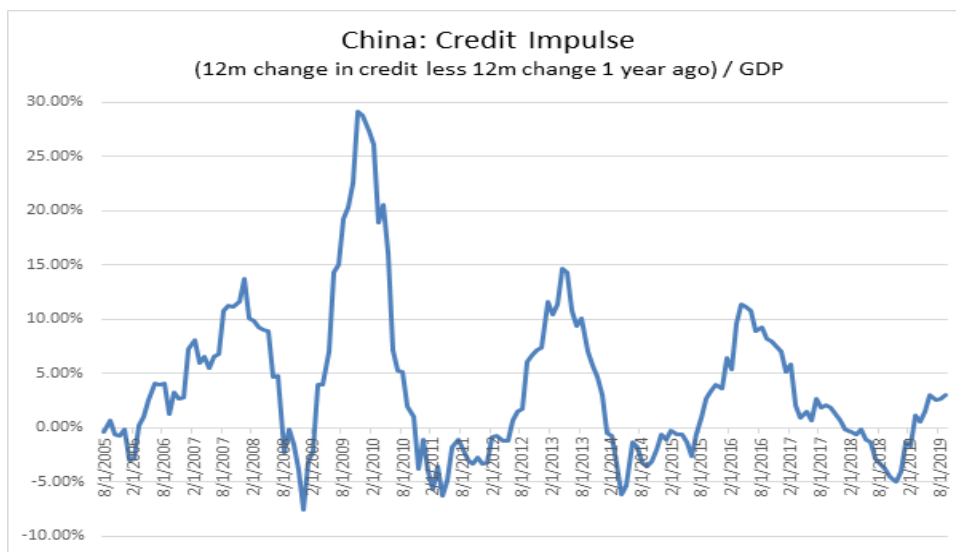
Credit Growth

- We're at generational lows on Chinese credit growth – and it's still nearly 12%!



Credit Impulse: the Best Measure of "Stimulus"

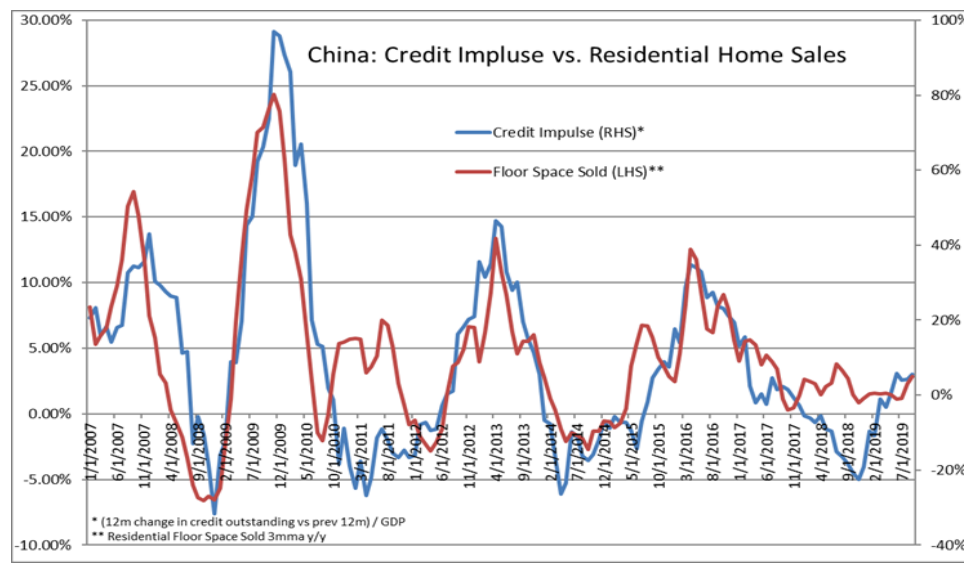
- Credit outstanding financed past GDP
- New credit will finance year's GDP
- So it's the change in growth in credit that fuels GDP *growth*...
- ... and there's not so much this year:





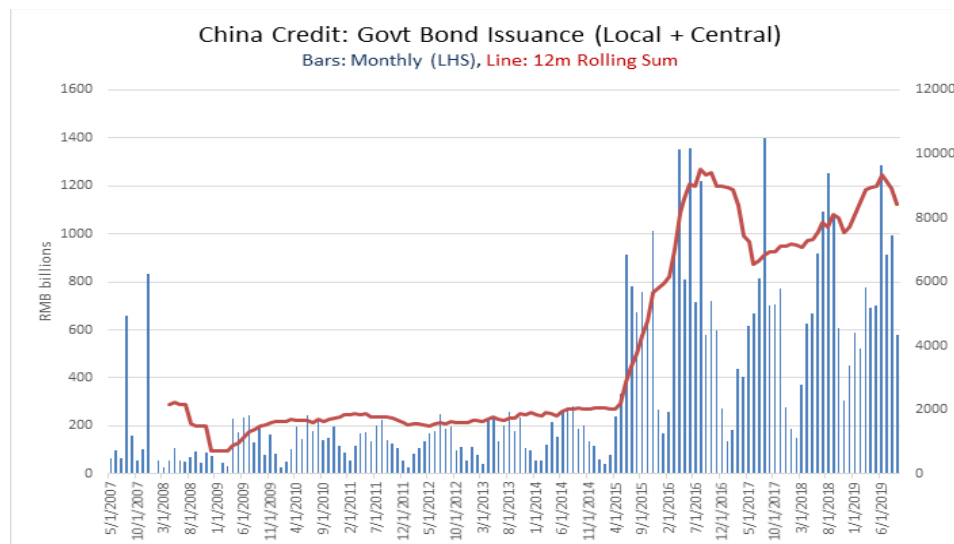
Home Sales

- You know what else the credit impulse fuels (or not)? The housing bubble...
- We're now entering year three of stagnation in **home sales**



Fiscal Stimulus?

- The pace of **government borrowing** is barely up on a year ago
- **No Net Stimulus:** Tax cuts were financed either via spending cuts or hidden taxes
- Limited headroom: Govt borrowing (not including LGFV's) is running at **8.9% of GDP**





The Renminbi against the CFETS Basket

- When China agrees to keep the RMB “basically stable against the basket,” that doesn’t rule out an 8-10% move over 6-12 months...



USDCNH Spot

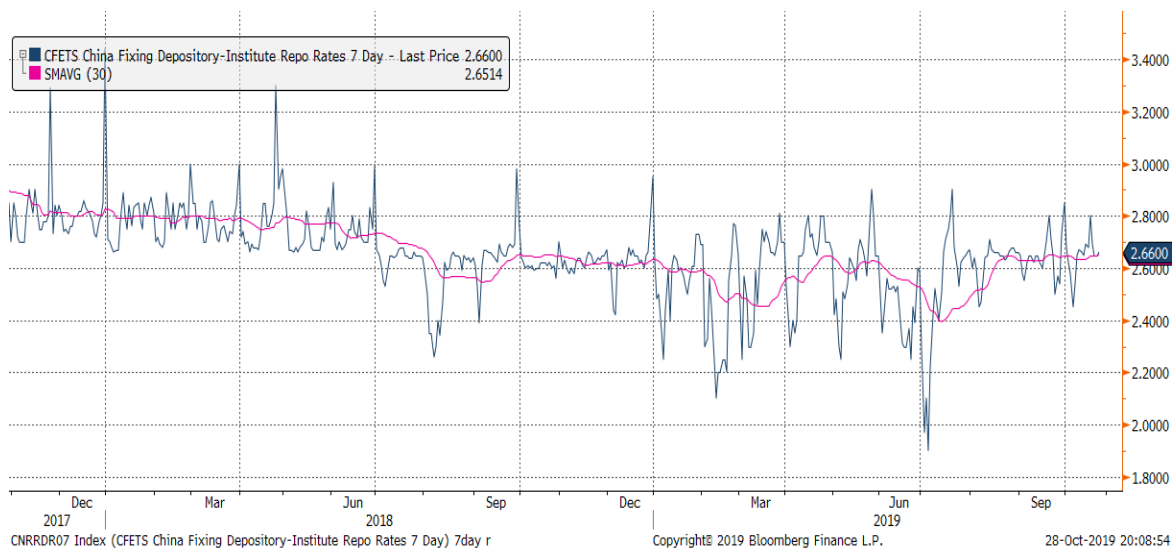
- If a “phase one” trade deal gets signed I’d play USDCNH to the low 6.90’s
- Look to establish core longs for 2020 around 6.90





7-Day Repo Fixing w/ 30d MA

- Don't get caught up in PBOC's daily open-market activities
- They really struggle with liquidity management on a day-to-day basis
- Funding rates have been stable around 2.6% for over a year now



5-Year Swap Rate (vs 7-Day Repo)

- Rates have ticked up on a nonsensical reaction to swine flu-induced CPI pressure and hopes for a U.S.-China trade deal
- If “phase one” gets signed, receive 5y CNY rates around 3.35-3.50%





Shanghai Composite Index

- A decade of lousy performance
- Broadly sideways since the 2015 wipeout
- Hate this market



MSCI China vs. MSCI All-Country World Index

- To be charitable, China is in the middle of its longer-term range against the Row
- Bouts of irrational euphoria notwithstanding, **China will structurally underperform its peers**

