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Markets in High Resolution

Yield Curve History and Weekend Links

It's "reflation trade" week here at Macrolens.

On Monday I dissected the myth that QE is driving the risk asset rally.

Yesterday I covered the Q1 Reflation trade, outling a very bullish backdrop for politics and policy, but also noting a **disconcerting lack of improvement in my favored liquidity indicators**.

Today, before getting to the links, its a quick review of the last three yield curve inversion episodes. I set upon this exercise to confirm the market narrative that we can take solace from the recent trend towards bull steepening as we exit inversion. As it turns out, that **market narrative is deeply flawed**. In fact, prior to each of the last three recessions the curve inverted, then **bull-steepened somewhat prior to the onset of recesssion**.

The recession-signalling pattern has been:

- Bear flatten into inversion
- Some degree of corrective bear-steepening to disinvert
- Long yields peak
- Recession within 3-12 months

Of course, we can only know for certain that long rates have peaked with hindsight. But we are currenctly in an environment in which **falling long yields are a very bad sign**.

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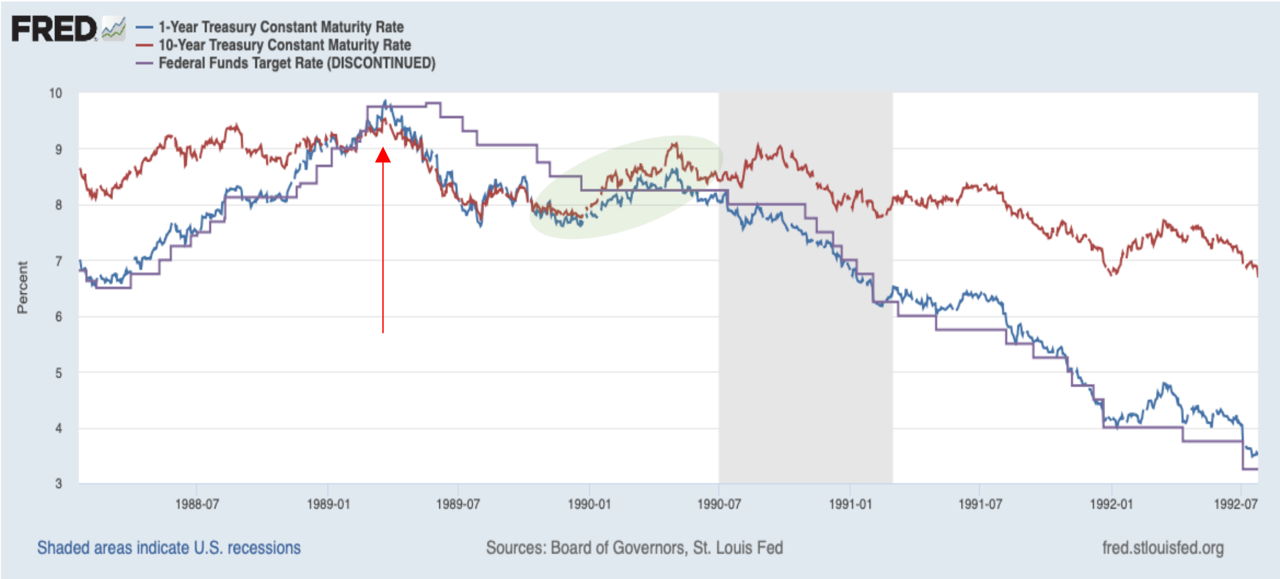
1990 Recession



- Curve Inverts 18 months before recession while bear-flattening
- Curve subsequently BULL-steepens 30bps
- 10y Yields peaks 2 months prior to recession, falling 25bps

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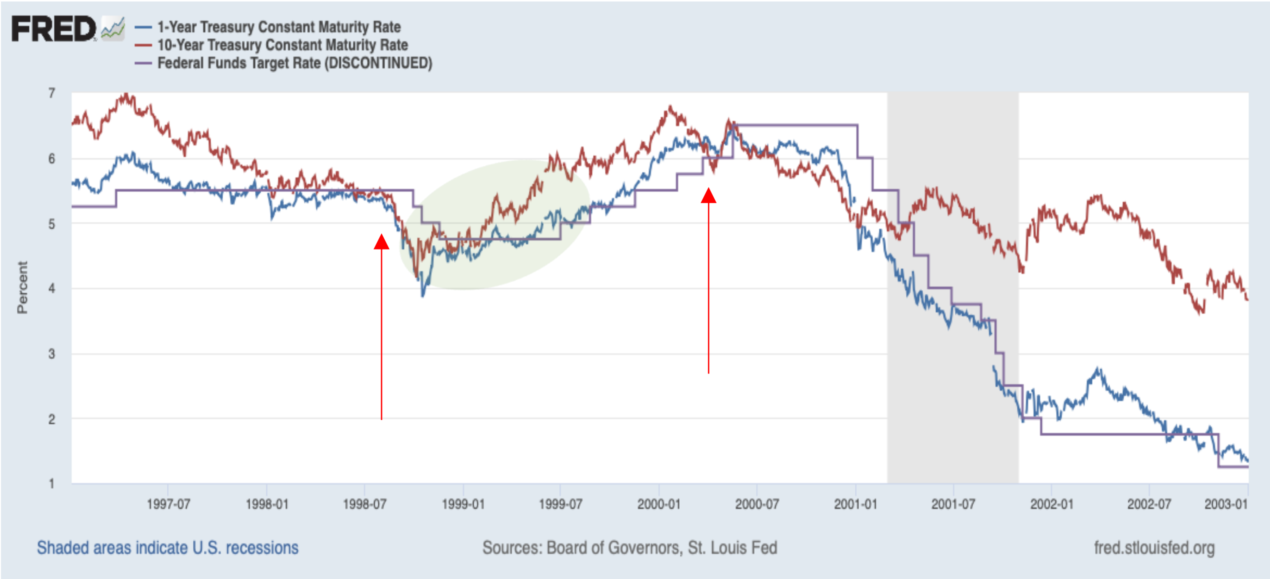
2001 Recession



- Curve Inverts 30 months before recession while bull-flattening
- Fed cuts 75bps in "mid-cycle adjustment"
- Curve subsequently BULL-steepens 80bps triggering renewed fed tightening
- Curve re-inverts 11 months before recession while bear-flattening
- **10y Yields peaks 14 months prior to recession, falling 180bps**

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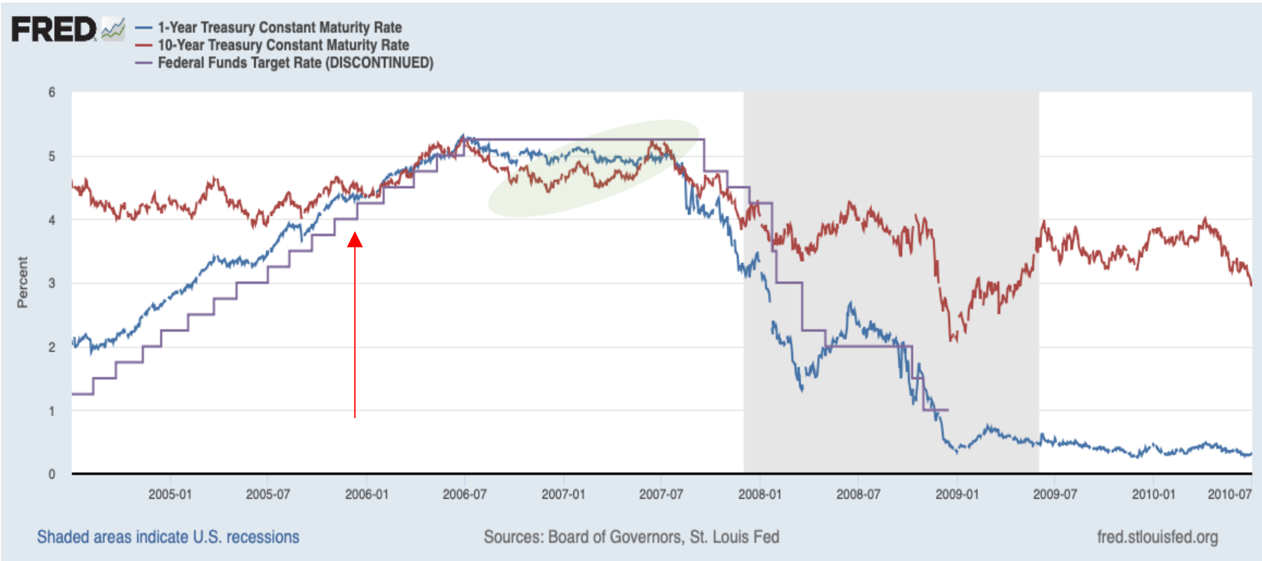
2008 Recession



- Curve Inverts 18 months before recession while bear-flattening
- Curve subsequently BULL-steepens 60bps
- 10y Yields peaks 6 months prior to recession, falling 75bps

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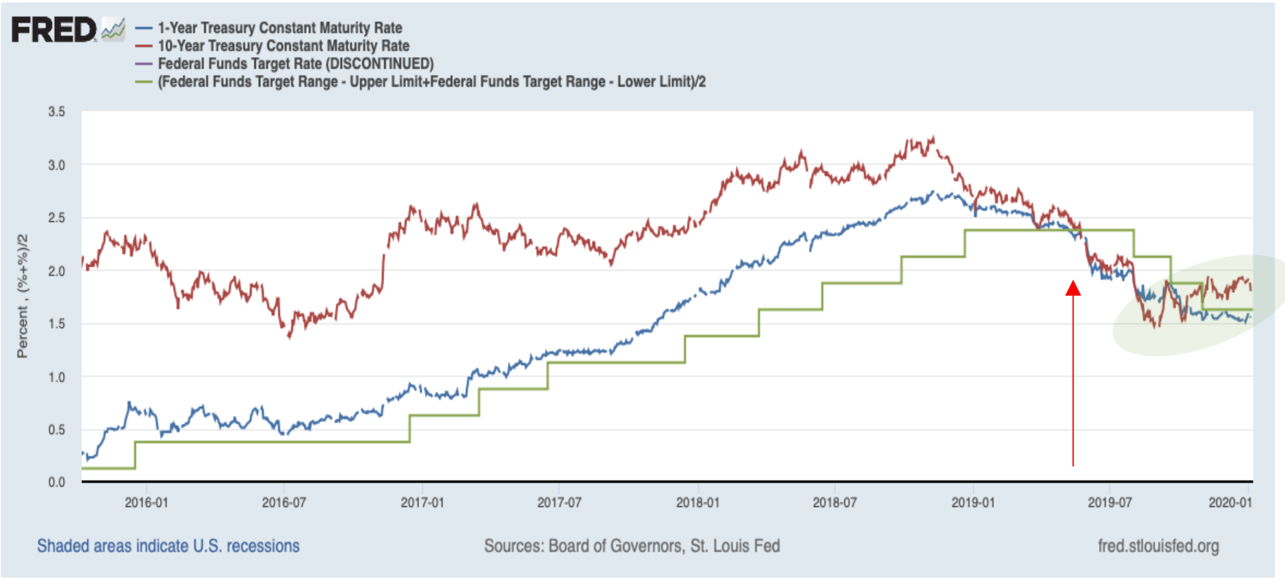
Current Episode



- Curve Inverts while bull-flattening
- Curve subsequently BULL-steepens 60bps

The recent inversion shares one unique characteristic with the inversion preceding the Fed's successful "mid-cycle adjustment" in 1998: **the inversion resulted from a bull-flattening, not a bear-flattening**. We can therefore maintain some expectation of skirting recession **so long as 10y yields keep rising**.

This chart patter suggest 10y yields **should break higher.** But these patterns are far from foolproof, and the bullish price action in Treasuries this week, even while stocks ramped to new highs, is disconcerting for the Q1 reflation trade.

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On to the links…

Phase One Signing

I fully expect the "structural components" of Phase One to consist of nothing more than the thin gruel on IP theft and forced tech transfer than China has already offered up via changes to domestic law that are widely deemed inadequate to address the concerns of foreign business.

I'll be looking out for release of the text with a jaundiced eye next week…

Trade truce won't stop US and China decoupling

The cynical view about next week's phase-one deal is that it will be a substance-free rehash of "concessions" that Xi Jinping, China's president, was prepared to offer as early as 2017.

The past year and a half of on-off negotiations, which regularly roiled global financial markets, has therefore been a waste of time and is also unlikely to make any further progress on what Trump has promised will be a "phase-two" trade negotiation. ***The Party simply won't relent on such critical structural issu****es because it views them as central to China's economic success over the past 40 years, and the US can't force it to relent. Case closed, Trump is a fool, Beijing wins!*

Except, except, except… there is a counterargument to this conventional cynicism that is increasingly heard among Beijing-based executives for some of the world's largest multinationals, many of whom dared to hope that Trump and Lighthizer would, in fact, force significant structural changes in China's unique party-state economic model.

Such executives now acknowledge that this will never happen. But, they now wonder, ***while Trump clearly lost the structural-reform battle, has he in fact achieved a more important political objective — starting the great unravelling, or "decoupling"****, of the world's two largest and still deeply intertwined economies?*

Another big event this weekend – Taiwan's election could help set the tone for a fraught year in Chinese foreign relations. If China is issued a strong rebuke as they were in Hong Kong recently, it could really feed the sense of angst permeating Chinese foreign policy…

Taiwan heads to the polls in what is seen as a referendum on its relationship with China

"Taiwanese voters, for the first time, are voting between two candidates that have completely different visions of what Taiwan's relationship is with China and the world," said Shirley Lin,

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Compton Visiting Professor in World Politics at the Miller Center of Public Affairs, University of Virginia.

Xi has been "a fantastic campaign manager for her," said Rupert Hammond-Chambers, managing director for Taiwan at BowerGroupAsia, a government affairs and public policy consulting firm.

Tsai scored points with the Taiwanese when she "defended the island's democracy and she spoke out clearly about the shortcomings of 'one country, two systems' and the fact that it's a non-starter for Taiwan," noted Hammond-Chambers.

"As long as I'm President, 'one country, two systems' will never be an option," she proclaimed on Twitter on June 9, in support of the Hong Kong protests.

"The Chinese are truly confronted both in Hong Kong and in Taiwan post the Tsai re-election with the complete and utter ending of any discussion about the viability of 'one country, two systems' for Taiwan. That debate as a practical matter is over," said Hammon-Chambers.

The results of the weekend election will have implications for the U.S.-China-Taiwan triangle as ***"Taiwan has long been seen as important as a proxy for the battle for hegemony between China and the United States*** *in the region," wrote Natasha Kassam and Richard McGregor at Australian think tank, Lowy Institute.*

That Chinese angst reveals itself in the surprise change atop the Central liaison Office in Hong Kong with a supposed hard-liner, signaling the intention to give no ground on protesters' demands…

China Replaces Its Top Representative in Hong Kong With an Enforcer

The Chinese government abruptly replaced its top representative in Hong Kong on Saturday evening, installing a senior Communist Party official with a record of difficult assignments in inland provinces that involved working closely with the security services.

The top representative, Wang Zhimin, was replaced as the head of the powerful Central Liaison Office in Hong Kong by Luo Huining, the official Xinhua news service said.

Mr. Wang's successor, Mr. Luo, has served as the top official, Communist Party secretary, in two provinces. Xi Jinping, China's top leader, has found in him a representative whose main qualification appears to be political loyalty and experience in tough security measures, but who has little familiarity with Hong Kong.

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From 2003 to 2016, ***Mr. Luo rose through the ranks in Qinghai Province, where Beijing has pursued increasingly stringent policies toward a large Tibetan minority****.*

In 2016, Mr. Xi put Mr. Luo in charge of cleaning up Shanxi Province, a northern coal-mining area plagued by corruption scandals. Mr. Luo oversaw a purge of the party's senior ranks there, as a series of investigations documented broad misconduct.

Luo Huining: Beijing's enforcer in Hong Kong

Luo Huining has ***a record of using hardline tactics*** *to resolve tough problems for the Chinese Communist party.*

In coal-producing Shanxi province he helped root out corrupt officials with ties to the powerful aide of former president Hu Jintao. Before that he spent more than a decade in Qinghai, birthplace of the Dalai Lama, where alongside efforts to revive the local economy he tightened restrictions on Tibetan Buddhist communities.

But up to now the little-known 65-year-old has operated away from the limelight. His elevation to the role of Beijing's man in Hong Kong has moved him centre stage in the biggest political crisis on Chinese soil in decades.

Appointing Mr Luo is the "biggest policy adjustment the party centre can make, given they are unwilling to give into the Hong Kong people's demands", said Wu Qiang, an outspoken former politics lecturer at Tsinghua University in Beijing.

The symbolism of inserting such a powerful figure into the territory's crisis has not been lost on Hong Kongers who joke about him being their new "party secretary" — the most senior official in mainland Chinese hierarchies.

Tech Decoupling

A helpful framing from Eurasia Group here, although they don't seem to see the logical outcome: if we're heading towards dual standards and a choice of dependency - a sovereign LIFE OR DEATH dependency - between the U.S. and China, that choice will have to be based on deeper considerations that who has the best tech at the most heavily subsidized price. Yes, the U.S. might cut you off if you invade a neighbor or surreptitiously build a nuclear bomb. China will cut you off if you complain about their ethnic cleansing. **Is this really a choice** for any but the most cash-strapped and morally flexible?

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Risk 2: The Great Decoupling

The big question: Where will the new virtual Berlin Wall go up? Which side will countries choose?

Taiwan will take on increased strategic importance to China as a key source of non-US-origin equipment, especially the cutting-edge semiconductors that Chinese companies such as Huawei rely on to compete at the global cutting edge. South Korea will increasingly tilt toward China for the same reason. The shift toward China will be most palpable in Southeast Asia, sub-Saharan Africa, eastern Europe, and Latin America, in that order. Countries in all these regions will become ***battlegrounds where the US and China compete*** *to decide who will supply consumers with tools to navigate the 21st-century economy—not just smartphones and the networks that power them, but mobile payments, e-commerce, and financial services, too.*

Decoupling will affect not just the entire $5 trillion global tech sector, but a host of other industries and institutions from media and entertainment to academic research.

Lastly, ***both the US and China have demonstrated they're willing to weaponize global trade and supply chains****. For the US, this includes the export ban on Huawei and other Chinese tech companies. For China, it includes blocking imports from trade partners involved in foreign-policy disputes with Beijing (for example, Canada and its canola exports).*

The U.S. is not playing around either: time to pick a side…

Trump administration pressed Dutch hard to cancel China chip-equipment sale: sources

The Trump administration mounted an extensive campaign to block the sale of Dutch chip manufacturing technology to China*, with Secretary of State Mike Pompeo lobbying the Netherlands government and White House officials sharing a classified intelligence report with the country's Prime Minister, people familiar with the effort told Reuters.*

The high-level push, which has not previously been reported, demonstrates the importance the White House places on preventing China from getting hold of a machine required to make the world's fastest microprocessors.

The pressure appears to have worked. Shortly after the White House visit, the Dutch government decided not to renew ASML's export license, and the $150 million machine has not been shipped

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All this sets up for the Huawei decisions in the U.K. and Germany - **events that are greatly underappreciated** in their importance to global macro outcomes this year. China's already angst-ridden foreign policy could go any which way if Huawei is rebuffed in Europe. Such an outcome may well **make China re-think the value of compromising with the U.S**. on Phase One and Two.

No matter how much #Orangemanbad, I don't see Western powers taking the self-destructive path of choosing the Chinese side of the tech divide…

Try as It Might, Germany Isn't Warming to Huawei

Following a government announcement in mid-October that Huawei would in principle be permitted to supply components for Germany's 5G networks, senior representatives of ***virtually all German political parties have come forward to condemn*** *these plans, with only the left-wing party "Die Linke" remaining mute about the issue.*

Many Germans have reacted with cynicism to U.S. warnings that Huawei devices could be turned into espionage tools, since they remain keenly aware of Washington's own mass surveillance measures in Germany, revealed in 2013.

In the context of the current dispute about Huawei, many German policymakers have criticized Washington no less harshly than Beijing – even within Angela Merkel's conservative Christian Democratic Union (CDU), traditionally the most pro-American political party in Germany. CDU intelligence expert Patrick Sensburg stated in July that he "neither trusts [5G] vendors from China, nor from the U.S." because "in both countries, telecommunications companies need to cooperate closely with the security agencies."

But for the vast majority of German policymakers who have spoken out against Huawei, the position of the United States has never been more than a secondary concern. Highest on their list of concerns has been the risk of exposing the future German 5G network to large-scale espionage and data theft on behalf of corporate and political actors in China. In recent years, Germany's intelligence agencies have reported ***a steady increase in Chinese government-directed espionage and hacking activities against German targets, primarily with the aim of acquiring corporate secrets.***

In light of these security concerns, ***even the representatives of German business and industrial associations have now begun to counsel caution*** *with regard to Huawei. The major business associations have long been among the strongest proponents of including Huawei in 5G network construction, citing the need to build state-of-the-art 5G networks fast, efficiently, and economically, in order to secure the future competitiveness of German companies. But in recent months, support from business representatives has diminished.*

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One additional factor that has contributed to the widespread resistance against Huawei's inclusion in 5G development is the fact that ***Germany's trade and economic relations with China*** *– while still being extremely lucrative for both states –* ***have gradually soured*** *and become more adversarial in recent years. In mid-November, the German Chamber of Commerce in China published the results of an annual opinion poll among managers of German companies in China who complained about severe* ***market access barriers, persistent legal uncertainty, forced technology transfers****, complex regulatory conditions, and indirect restrictions, among other problems*

More angst evident…

China will not 'sit idle' if Huawei is excluded from Germany's 5G rollout: official

If Germany passes laws that bar Huawei from participating in local 5G construction without showing solid evidence, ***China will not "sit idle,"*** *a Chinese official told the Global Times, noting that companies from the European nation have reaped massive benefits from the Chinese market.*

Facing pressure from the US, Germany's politicians are now divided on whether to exclude Huawei from its 5G rollout, citing security concerns. The German government reportedly delayed a decision on Germany's 5G rollout that may ban the Chinese tech company until 2020. Some ***media reports hint that the decision may be announced in January****.*

Wang Weidong, commercial counselor of the Chinese Embassy in Germany, told the Global Times in an exclusive interview that it is a "discriminative and unjust" decision against Chinese companies if Huawei is banned in Germany.

"Germany's firms have been operating in China and participating in the construction of local industries for years, and benefiting a lot from the Chinese market. If Huawei is excluded, it will release both a wrong signal of protectionism and a negative message to Sino-German economic cooperation and even cause a setback to bilateral relations," Wang warned.

Of course, the U.S. is issuing threats as well…

'Shot across the bow': U.S. steps up pressure on UK ahead of Huawei decision

The United States is making a final pitch to Britain ahead of a UK decision on whether to upgrade its telecoms network with Huawei equipment, amid threats to cut intelligence-sharing ties, people with knowledge of the matter told Reuters.

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Britain is expected to make a final call on how to deploy Huawei equipment in its future 5G networks later this month.

U.S. Secretary of State Mike Pompeo is expected to press British Foreign Secretary Dominic Raab over Huawei at a meeting in Washington on Thursday, the sources said.

Last month, the United States also passed ***legislation that included a provision bolstering threats to restrict intelligence-sharing*** *with allies that use Huawei equipment.*

Washington is seen to be "cocking the pistol," said a person with knowledge of the British government's position on Huawei. "What's unclear is how, when or indeed if it will actually be fired."

A UK government spokesman said: "The security and resilience of the UK's telecoms networks is of paramount importance. The government continues to consider its position on high-risk vendors and a decision will be made in due course."

Brazil may be somewhat fortunate in hitting a technical snag that may allow them to punt the Huawei decision until they can see which way the political winds are blowing…

Brazil to reject US pressure on Huawei 5G bid, minister says

Brazil will not accept any pressure from the US *over whether to allow the Chinese company Huawei to bid for its 5G network, Marcos Pontes, the minister for science, technology, innovation and communications, said.*

"A good partner always understands the needs of the other," Pontes said in an interview in his office in Brasilia. "Just as Brazil makes no claim over what business the US does with China and whether this affects or not our agribusiness."

Pontes, responsible for establishing the criteria for the construction of the latest generation of ultra-fast internet, said that he would not veto any company from the bidding process and that the final decision would be based purely on merit.

Scheduled initially for March this year and then postponed until the second half of 2020, the 5G auction ***could be delayed until 2021****, according to Pontes. That Is due to a technical problem as the new network would interfere with the transmission from the satellite dishes that currently relay television signals in Brazil.*

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FT's Jamil Anderlini on why China has its hackles up overseas…

China is taking its ideological fight abroad

The key to understanding this belligerence lies in the policies and priorities that make up "Xi Jinping thought". In numerous speeches and official documents, the Chinese president describes a bitter struggle between "socialism with Chinese characteristics" and "western anti-China forces" with their "extremely malicious" ideas of freedom, democracy and human rights.

In the 1950s, Nikita Khrushchev famously said the Soviet Union would "bury" western capitalist democracies. Since 2013 Mr Xi has put it this way: "Capitalism is inevitably dying and socialism is inevitably winning . . . This is an irreversible general trend in the development of history."

This is more a struggle to perpetuate authoritarian rule in China than an ideological campaign like that of the cold war and it is primarily being waged on Chinese soil. But the fight is increasingly being exported, too, as **Beijing strives to make the world safe for Chinese autocracy***. The goal is to impose as heavy a price as possible on anyone, anywhere who opposes the party's power or objectives. Western liberal democracies are the main targets.*

The biggest problem with Phase one is that the angst-ridden **Chinese are not willing partners**. They view the deal as a stop-gap, and will break it as soon as the opportunity presents itself…

Doubts over US-China phase one deal as ties 'still in deep trouble'

The "phase one" trade deal between China and the United States is unlikely to lead to a broader pact because ***"excessive" demands by Washington have left Chinese officials feeling it is "useless" to engage****.*

That is the view of Jia Qingguo, one of Beijing's top foreign policy experts and a professor of international studies at Peking University.

"Despite the recent announcement that we are going to have the first phase agreement, [the] relationship between China and the US is still in deep trouble and is heading south rather than north. It is getting worse," Jia told the Regional Outlook Forum 2020 hosted by the ISEAS-Yusof Ishak Institute in Singapore on Thursday.

Jia highlighted several areas of tension which have resulted in bilateral ties being "in bad shape". The ongoing tech war was one example of aggression initiated by the Americans, said Jia, citing how the US would not sell tech products such as microchips to China, with Beijing being "forced" to develop its own alternatives.

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Jia also felt it was "very unreasonable" for the US to demand that China buy its products in huge quantities, even though Beijing has made "concessions" such as agreeing in December to buy US$50 billion worth of agricultural goods for the suspension of some tariffs on Chinese products.

This kind of thing obviously puts the Chinese in a defensive posture…

U.S. congressional study urges sanctions on China over 'crimes against humanity'

A U.S. congressional report called for sanctions against China over human rights abuses, and for U.S. officials to keep rights concerns in mind during dealings with Beijing, including trade negotiations.

The annual human rights report from the Congressional-Executive Commission on China said human rights and rule of law conditions worsened in China from August 2018 to August 2019, the period studied.

The report detailed what is said was China's crackdown on religious minorities, labor activists and the press, and focused extensively on treatment of the minority Muslim Uighur population in Xinjiang, "where the Commission believes Chinese authorities may be committing crimes against humanity."

"In addition, the Administration should develop talking points for U.S. Government officials - including those engaged in trade negotiations - that consistently link freedoms of press, speech, and association to U.S. and Chinese interests," the report released on Wednesday said.

Chinese Foreign Ministry spokesman Geng Shuang said the report was neither objective nor credible. The United States should reflect on its own human rights situation and stop smearing China, he said at a daily briefing on Thursday in Beijing.

The Commission is led by Democratic Representative Jim McGovern and Republican Senator Marco Rubio.

Practical matters also suggest that **China will be back sooner than later to demand more tariff rollback**. This piece from SCMP suggests that while the Phase One tariff deferrals might staunch the bleeding, China will need further rollback to halt the dynamic…

For manufacturing in China, 'Elvis has left the building'

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Rising labor and environmental costs, a head-spinning regulatory environment, the ever-looming threat of more and higher tariffs, along with a sharp increase in the perception of risk associated with living and working in China mean that the manufacturing exodus that began at the tail end of the last decade will continue well into this one.

"For companies exporting to the US, the entire time span of the trade war has sent the message that this isn't going to go away and that they need to rethink things," said John Evans, managing director at Tractus Asia. Evans, who advises firms on relocating from China, said that even with the announcement of a phase-one deal, he has been getting more calls.

"There were still a number of companies sitting on the sidelines, even into the last quarter of last year, thinking there'll be a grand resolution. But in reality, it's more of a new normal."

"For every foreign company that left China in 2019, there were two to three more seriously contemplating doing so and we expect more companies to leave China in 2020 than in 2019," wrote Dan Harris, founder of Harris Bricken, an international law firm working extensively in China

Allar Peetma is the CEO of Estonian manufacturer Gerardo's Toys, which makes rocking horses near Shanghai using moulds made in the European Union. His biggest export market is the US, and his products were due to face a 15% tariff on December 15. This was postponed indefinitely with the announcement of the phase-one trade deal, but Peetma does not seem comforted by the truce.

French scooter manufacturer Globber, meanwhile, is experiencing "15 to 30% higher costs" at its Dongguan plant, in southern China, compared to its previous production base near Hangzhou in the country's east. New tariffs would make it more expensive to export to the US.

"December 15 was good news for us," *said CEO Pascal Comte, but he is already thinking of what might come next. "In the short term, you can't do anything [about tariffs], you have to pay the costs and it affects sales. Long term for sure, or medium term, the best option is Vietnam. It takes a while to transfer tooling, and to find operations and manpower."*

China Economy & Finance

Mor "reform"…

State-owned firms asked to strengthen Party leadership

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The Central Committee of the Communist Party of China (CPC) issued a trial regulation calling for the ***strengthening of party leadership in corporate governance*** *at state-owned enterprises (SOEs), the Xinhua News Agency reported Sunday.*

SOE party organs must combine strengthening leadership with improving corporate governance and ***bring the party's leadership into "all aspects" of governance,*** *Xinhua reported.*

China cements Communist Party's role at top of its state firms

China has implemented a new regulation to officially put Communist Party committees at the centre of power in running state-owned enterprises, a move reflecting Beijing's strong desire to enhance the control of its vast state sector.

It is the first time that the Central Committee of China's ruling Communist Party has issued a specific document articulating how a party unit, which answers only to an upper level Communist Party organ and generally cannot be held accountable by courts or regulators, should operate within a company that is exclusively or majority owned by the state.

*"****All major business and management decisions must be discussed by the Communist Party organ*** *before being presented to the board of directors or management for decision," according to the regulation.*

I smell an official pump & dump coming to celebrate China's "winning the trade war" in Phase One…

China's equities market is likely to be the next 'big bang'

The fortunes with China's ascendant equities market are difficult to fathom, but ***colossal returns are broadly anticipated*** *by upbeat economists and enthusiastic individual and institutional investors.*

Pessimism about a hard landing of the world's second largest economy is dissipating after China has weathered a ferocious and protracted trade war with the US and has come out of it largely unscathed

Zzzzzzzz…..
China to pursue stable monetary policy: PBC

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China will pursue a stable monetary policy with an appropriate level of flexibility in 2020, the People's Bank of China (PBC), the country's central bank, noted in a statement published on Sunday.

China will strengthen counter-cyclical adjustment to keep liquidity reasonably adequate. It will further deepen market-oriented interest rate reform and let the market play a decisive role in the formation of interest rates, according to the statement.

It also noted that it would keep the yuan's exchange rate generally stable this year.

Dong Dengxin, director of the Finance and Securities Institute at Wuhan University of Science and Technology, said that the PBC hasn't changed the major keynote of the country's monetary policy: stabilization for this year.

"Although China's economy is facing downward pressure, ***the government is very cautious about loosening monetary policy*** *too much for fear of side effects such as inflation and the erosion of asset value," Dong told the Global Times on Sunday.*

Chinese policy lingo:

"Control Financial Risk" means "make sure everything gets rolled."
"Macroprudential regulation for cross-border flows," means choke the foreign exchange market to maintain the disequilibrium between domestic monetary policy and the RMB's value…

China's Central Bank Lays Out Top Tasks to Tackle in 2020

PBOC said it would set up a mechanism that would enable local offices of the Financial Stability and Development Committee (FSDC) to coordinate with local financial regulators. The cabinet-level committee was set up in 2017 to coordinate the various agencies that oversee the country's sprawling financial sector and formulate policies to ***control financial risks****.*

The FSDC will set up offices in every provincial branch of the central bank, an official from a local branch told Caixin, ***allowing officials in PBOC branches to supervise other financial regulators at the city or county level*** *in the name of the committee. The PBOC currently only has the authority to manage its own branches and does not have the power to punish or take action against other local watchdogs.*

The central bank also vowed to improve the macro-prudential regulation framework through measures that will include expanding the areas covered by the policy, setting up a stress-test system and ***a macro-prudential regulation system for cross-border capital flows****.*

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Shanghai Office Rents Slide as Vacancy Climbs to 20%

Grade A office rents in Shanghai continued their downward slide in the fourth quarter of 2019 as the ***citywide vacancy rate hit 20%,*** *according to a report published by Cushman & Wakefield this week.*

With the mainland commercial hub's count of empty office space standing at approximately 2.5 million square metres (27 million square feet) at the end of December, rents fell for the fifth consecutive quarter during the last three months of the year, according to a separate report released by Knight Frank this month.

As migration to Shanghai's outer regions continues, core area rents in the city of 26 million people fell to RMB 299.8 per square metre per month from October to December, a 5% drop from the RMB 315.3 recorded in the same period last year.

Lujiazui, which has traditionally been the most sought after of Shanghai's core submarkets, saw average rents fall to RMB 341.9 in the fourth quarter, a 10% drop from the same period last year, while vacancy increased to 17.8% from 14.9% over the same period.

As the suburbs gain traction, Shanghai's priciest areas are getting emptier. The core area vacancy rate increased to 13.6% in the fourth quarter, up from 11.8% for the same period in 2018.

But vacancy in the suburbs is also climbing amid an oversupply of new offices. Vacancy hit 30% for the three months between October and December, up from 24% for the same quarter the year before.

Another example of Goodhart's law – once a measure becomes a target it ceases to be a good measure…

A third of China's new urbanites really still live in the country, study says

About a third of China's urban residents actually live rural lives, according to a recent study, suggesting Beijing's claims about the success of its urbanization program have been significantly overstated.

The study, carried out by economists from Southwestern University of Finance and Economics in Chengdu and Nankai University in Tianjin, is based on demographic changes to 700,000 communities across the country between 2009 and 2017.

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What it found was that over the period, 33% of people were redefined by the authorities as being part of the urban population, though their actual lives did not change in any discernible way.

"These communities, though ***statistically reclassified as urban****, retain their basic rural characteristics," said Gan Li, who led the study. "Residents in these communities continue to share similar living conditions with rural villagers, even years after being reclassified."*

In 2014, Beijing set a goal to "urbanize" 100 million people by 2020, however, the central government is moving towards that goal by simply reclassifying rural areas, meaning that millions of rural dwellers have become urban folk without ever leaving their homes, the researchers found.

The study adds fuel to the debate over the actual rate of urbanization in China, which the government put at 60% at the end of 2018, with a target of 75% by 2035.

Loss given default is going to rapidly tend towards zero, I'm afraid…

China bond investors battle to claim cash after defaults

In 2016, 46% of borrowers in default made some sort of principal or interest payments to bondholders, according to Wind, a financial information provider. Last year, that total dropped to 13%.

"There is too much uncertainty in debt recovery due to a lack of a mechanism for handling corporate defaults," said Ivan Chung, an analyst at Moody's in Hong Kong. "That has prompted many investors to walk away from the [bond] market."

China has laws to protect investors when borrowers fail to repay, but ***enforcement is patchy****. Communist party-controlled courts often rule in favor of defaulters that play a major role in the local economy, rather than backing investors who are owed money.*

One flashpoint is in the north-eastern city of Dandong, separated by the Yalu River from North Korea, where courts have declined to hear lawsuits by investors keen to recover funds from Dandong Port. The company filed for bankruptcy in April last year after defaulting on seven bonds worth a combined Rmb8bn ($1.2bn). Creditors want to obtain its latest financial statements, supported by the country's bankruptcy law. But ***local courts refuse to help****, said Harold Ruvoldt, a lawyer representing various shareholders and creditors of DP.*

"It is clear we are entitled to the information but we never heard from the court," he said.

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An official at Dandong Intermediary People's Court said there was no requirement that it accept lawsuits. "We haven't broken any rules," he said.

When corporate bond defaults first picked up in 2014, most distressed borrowers received state-orchestrated bailouts. But delinquencies are now taking off — the total value of corporate bond defaults rose to Rmb144bn last year, more than three times the level of 2016. ***Many Chinese cities and provinces are too stretched to bankroll troubled firms*** *even though local officials remain keen to do so, to preserve jobs.*

*As a result****, local governments have begun to encourage defaulters to bend the rules*** *while negotiating with creditors, according to two distressed debt investors.*