Global economic risks:

China, Trade and the Dollar

Tony Nash, November 2018

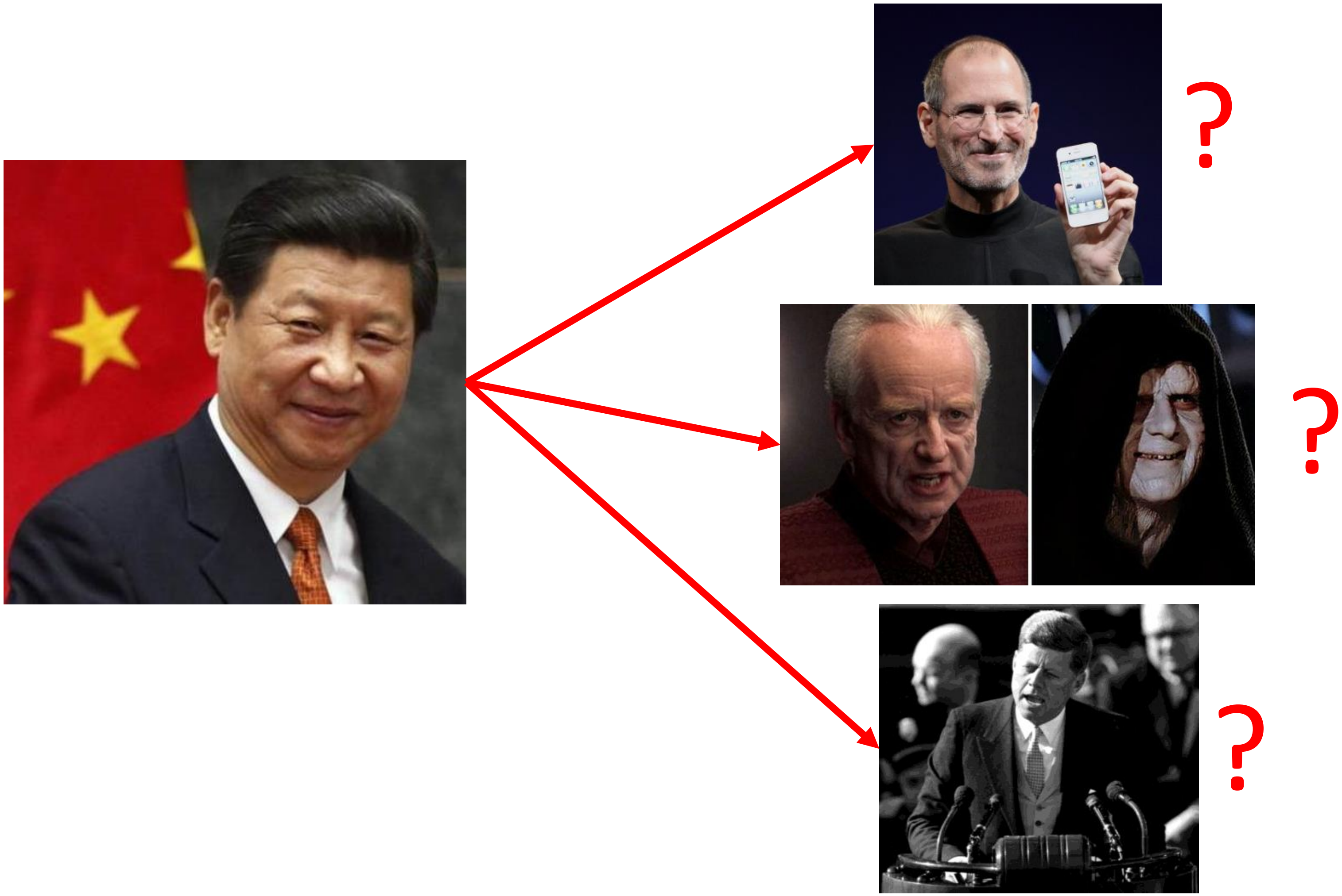
Top risks

- China slowdown
  - Every country in Asia is China's largest trading partner
  - Chinese debt
  - Trade war
  - Potential for social unrest (income/aspirations)
  - RMB internationalization
  - Belt and Road Initiative / Funds, failures and debt overload
- Rethinking multilateralism
  - Trade: WTO – What is "free trade"? Circumvention vs compliance.
  - Finance: G8/G20 vs G66 & China-led organizations
  - UN: China's increasing presence (risk or opprty?)
- Western baby boomer meltdown
  - Nationalism, political polarization and political giving (US)
  - Pensions, debt and taxes
  - Japan, China & Korea (Malaysia, Thailand, Singapore)?
- Dollar dominance
  - For how long? What competitors – EUR, CNY, crypto? Does the US want this dominance?
  - Impact on commodities? EM currencies/debt?
- Automation
  - Regionalization vs globalization / segmented supply chains (Vernon's product life cycle theory?)
  - Jobs impact – professional, skilled and unskilled
  - Impact on conflict / algorithmic war / mechanical casualties
- AI, Privacy, Individualism
  - What is AI? Is everything algorithmic?
  - Does privacy exist? Individual, corporate, government. Convenience, cost, surrender?
  - Collective vs individual cultures – How does AI form culture? Do cultures resist? Soft(ware) power projection.

Synchronized tightening? PMI slowdown all around

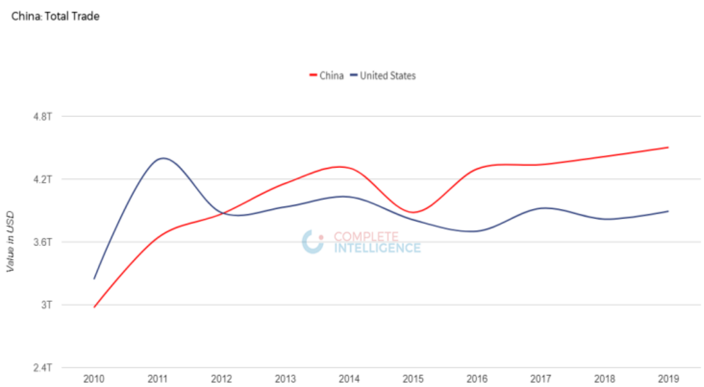
Source: Ifo, Eurostat, Macrobond Financial, Danske Bank

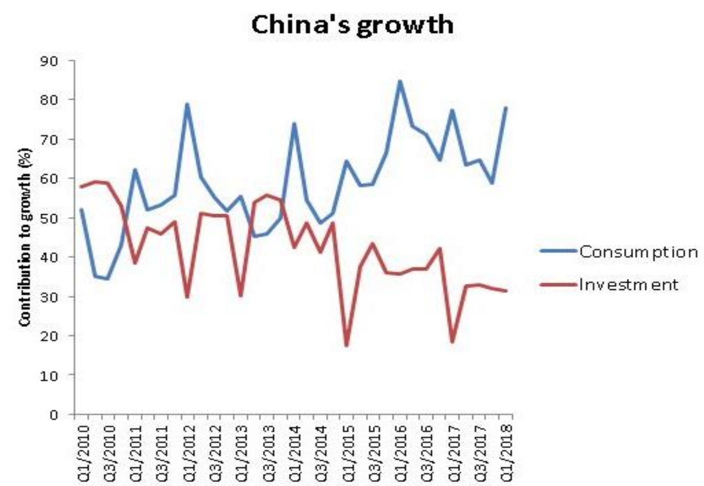
Before we look at China: What is your China bias?

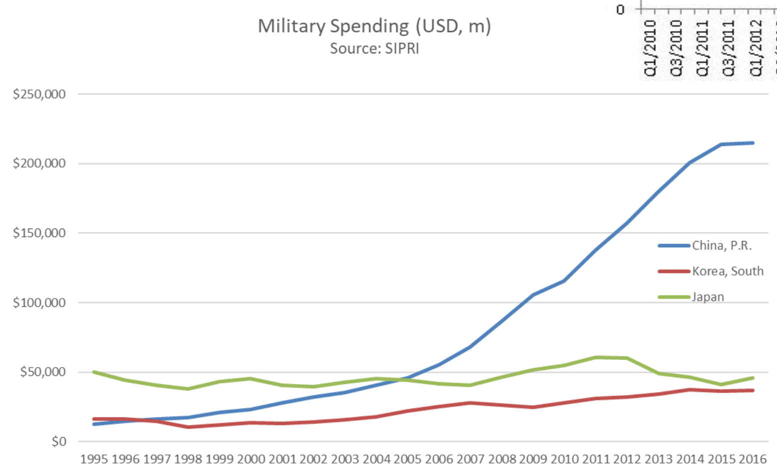


China: Rising power, changing methods

China is already the world's largest trading nation & largest military spender in Asia, but domestic infra spend has slowed dramatically







Social change: Does China understand itself?


Yiqin Fu
@yiqinfu
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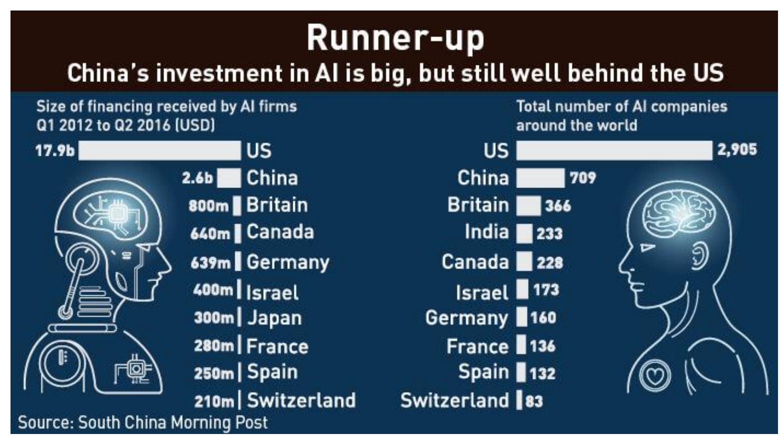
Young Chinese studying overseas are often thought to have a unique perspective on China. But the more China reporting and research I consume, the less confident I feel about my own understanding. It's almost certainly the case that I know more about the U.S. than my home country.

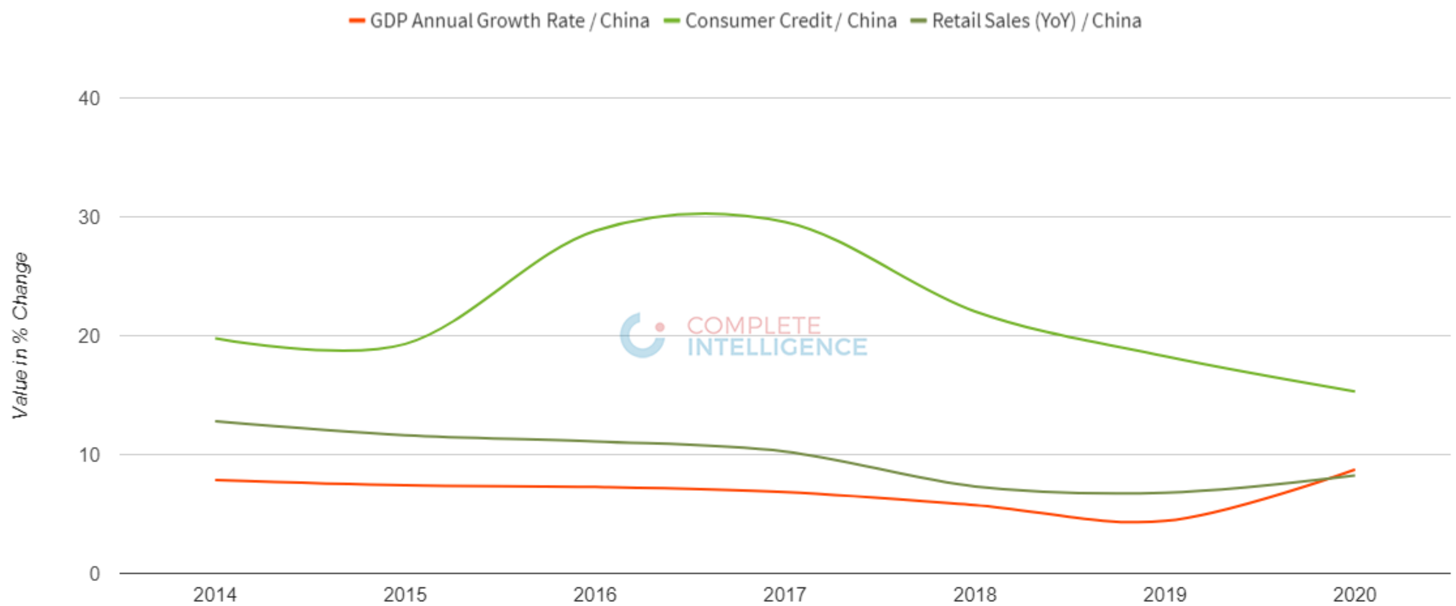
12:43 PM - 12 Oct 2018

Social credit scores



China is overly dependent on consumer credit & SOE debt, which are slowing fast.

China: GDP Annual Growth Rate / Consumer Credit / Retail Sales (YoY)



	Indicator	Units	2014	2015	2016	2017	2018	2019	2020
China	GDP Annual Growth Rate	% Change	7.8600%	7.4100%	7.2700%	6.8400%	5.7500%	4.4100%	8.7400%
China	Consumer Credit	% Change	19.7800%	19.3000%	28.8200%	29.5600%	22.0400%	18.2600%	15.3000%
China	Retail Sales (YoY)	% Change	12.8000%	11.6300%	11.1100%	10.2600%	7.3200%	6.7800%	8.2300%

China's not winning the trade war

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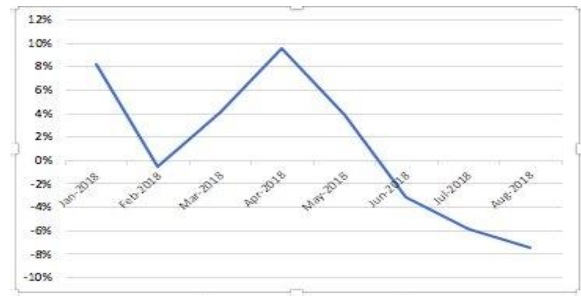
ECONOMY | ASIA ECONOMY

China's Economy Losing Steam as Trade Conflict With U.S. Intensifies

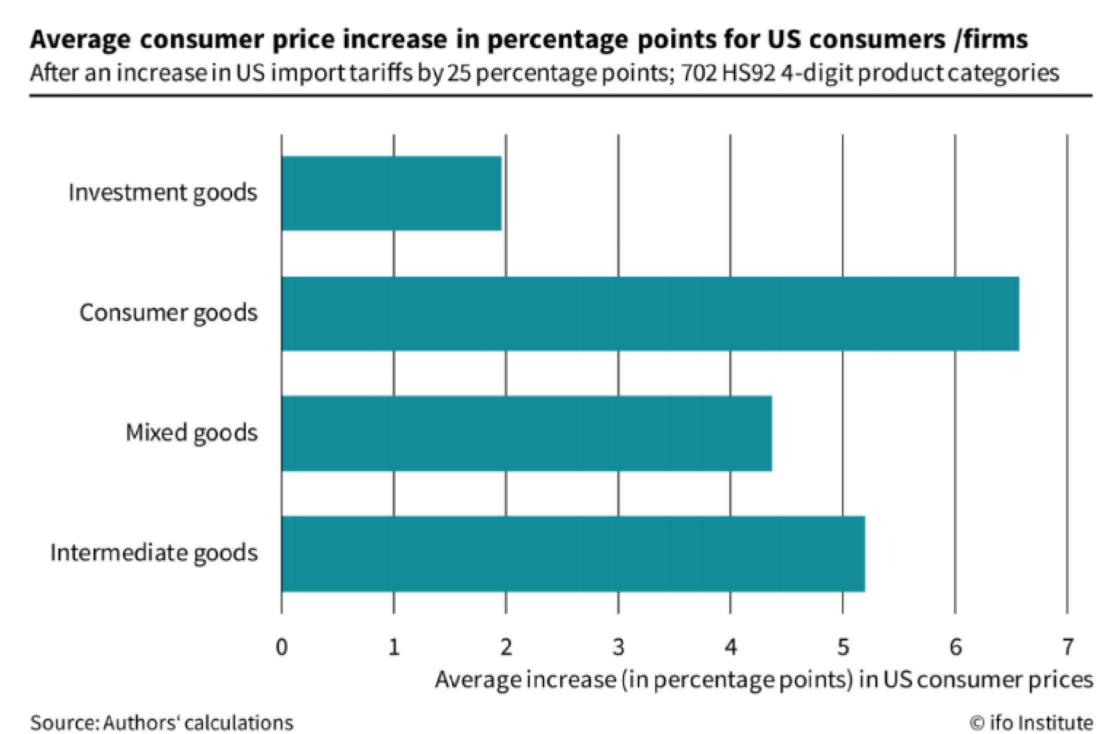
Manufacturing slowdown boosts likelihood that Beijing will step up economic stimulus measures

Sept. 30, 2018 7:01 a.m. ET

Sales of Chinese passenger cars 2018, usually a good gauge of asset markets, especially property.



Who is paying for the trade war?  or 



Michael Standaert @mstandaert Follow

Replying to @BaldingsWorld

Just in the last 24 hours had a Chinese exporter friend say he is moving to Vietnam to get around the trade issues; and another who is a technician at an American tech company manufacturing here say they've moved all production that is geared toward the US to Bangkok.

5:37 PM - 12 Oct 2018

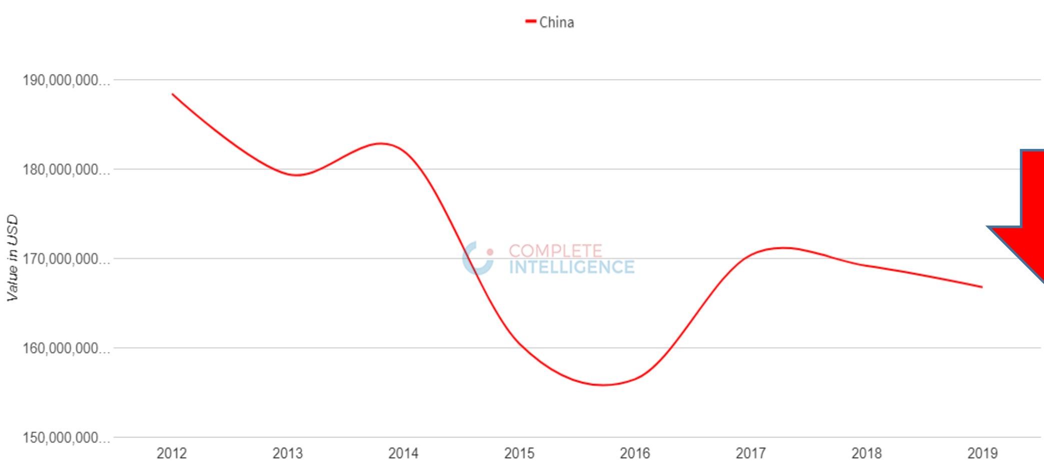
ASY @doumenzi · Oct 10

Seems like everyone in China is staying an extra week in Thailand or Hainan--no business to come back to.

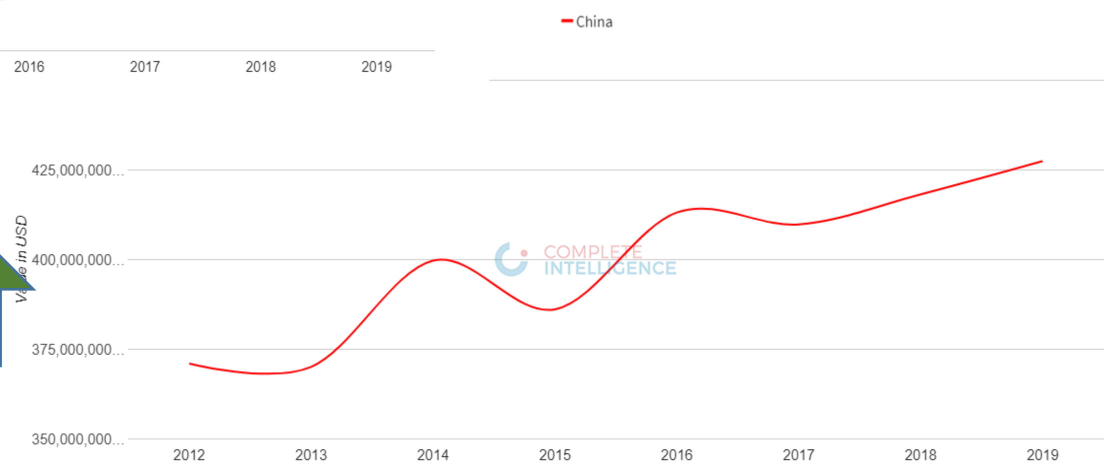
1 9

The biggest loser: If the US is successful, who would import China's deflation?

Japan Imports: China

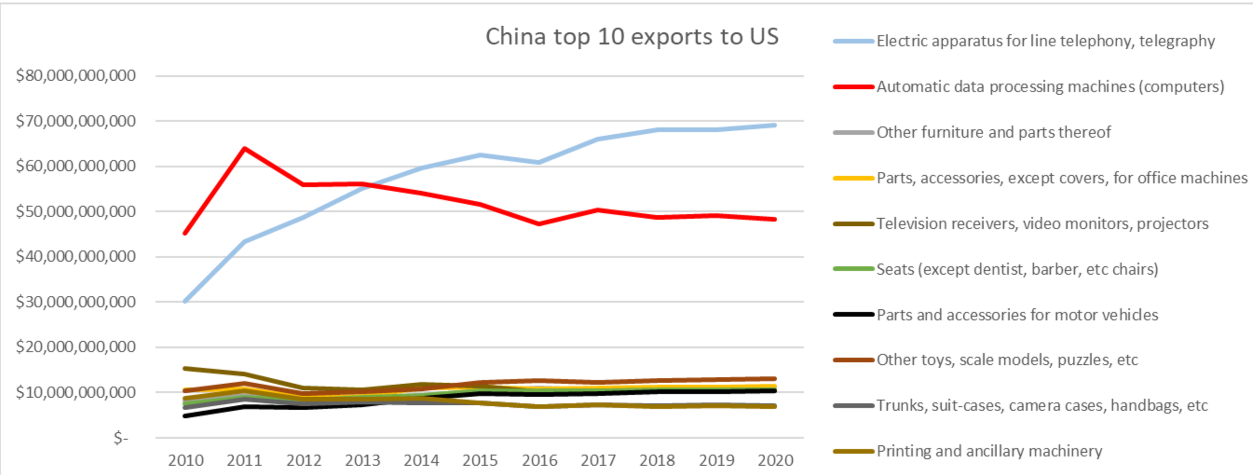


Japan imports from China down $20bn/yr since 2012



EU imports from China up $40bn/yr since 2012

A move to trade regionalization?  vs 



Top 10 Mexico
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Low value (VN/BD)
Rising MX competition
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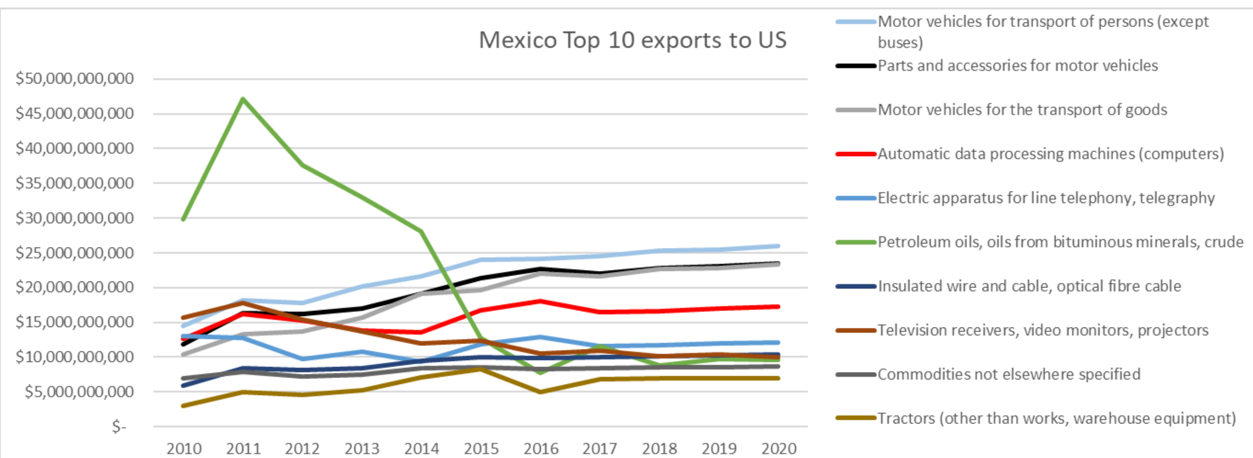
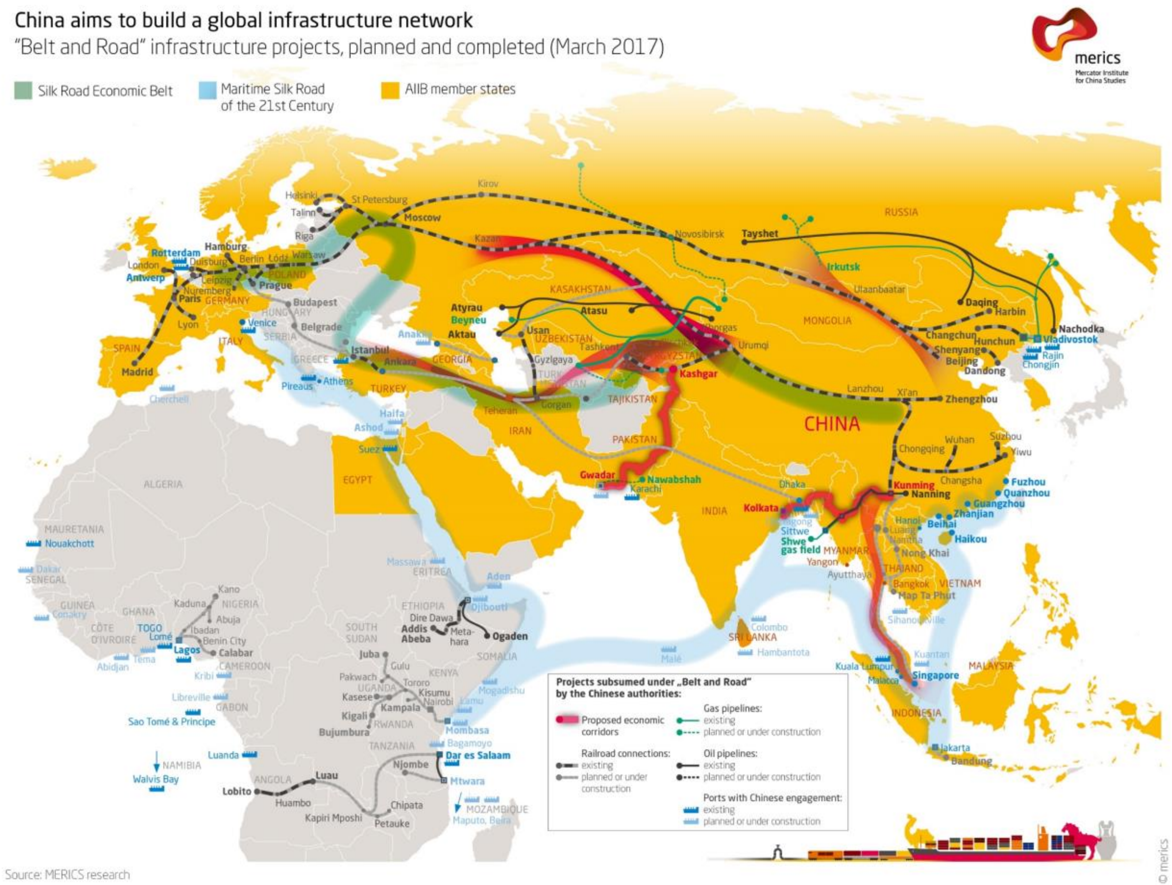


China is most exposed in computer assembly, but has clear advantages in mobile/wireless equipment.

Belt & Road Initiative: Beyond the Central Asia vision



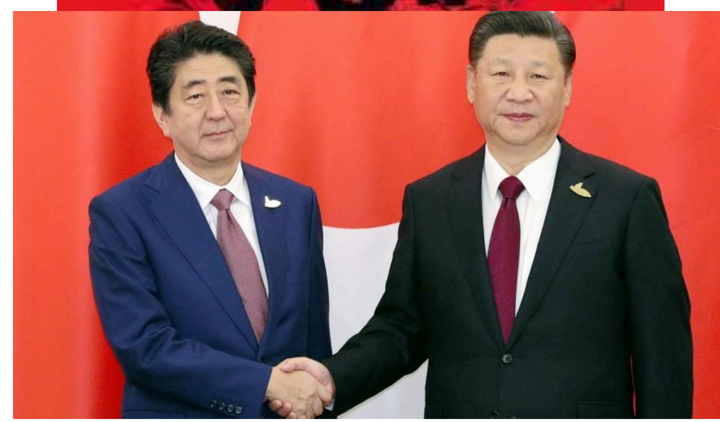
https://www.merics.org/en/china-mapping/silk-road-initiative

- Hungary
- Pakistan
- Indonesia
- Thailand
- Malaysia
- Greece
- Zimbabwe
- Kenya
- Etc

Filling an $8trn hole $100bn at a time

Major sources of Asian infrastructure funding include the following:

- BRI - CIC ($200bn) + AIIB ($100bn) + BRICS Bank ($100bn) + Silk Road Fund ($40bn) + CEB+ CDB; One Belt One Road ($6trn impact / CAAS-NDRC)
- Asian Development Bank has $53bn in equity and $99bn of loans outstanding
- India = ~$150bn for domestic road, port infrastructure, waterways and rail.
- Japan infrastructure investment fund: $110bn over 5 years
    - AAGC (Asia Africa Growth Corridor) – Japan, India, African nations



China wants to do it their way: Transparency, monitoring, anti-corruption, etc

Is Xi's vision being realized? Maybe….

2017 ODI fell: Non-financial ODI to countries involved in the Belt and Road Initiative has been encouraged. ODI in those countries totalled 14.4 billion U.S. dollars, 12 percent of the total, up from 8.5 percent in 2016.
http://www.xinhuanet.com/english/2018-01/16/c_136900334.htm

White elephants: Inside China's US$1 billion port in Sri Lanka where ships don't want to stop
http://www.straitstimes.com/asia/south-asia/inside-chinas-us1-billion-port-in-sri-lanka-where-ships-dont-want-to-stop

Cancelled high-profile projects: Indonesia set to abandon infrastructure schemes worth $19bn by 2019 if sufficient progress isn't made

- $6bn specific to BRI Jakarta-Bandung HSR
- Regulatory hurdles
- Disbursement of funds from China (CDB), 75% of project funds

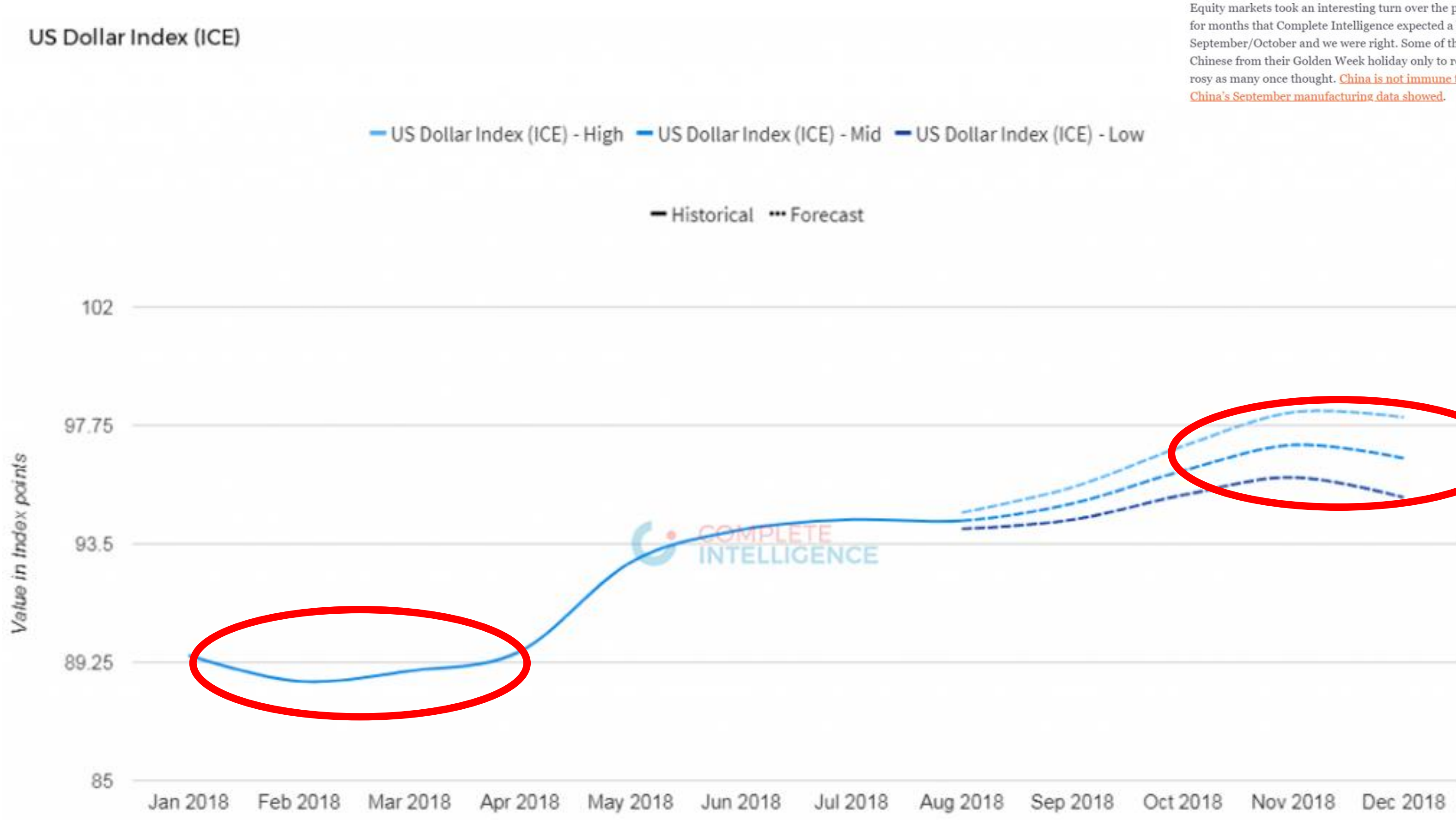
http://www.globalconstructionreview.com/news/indonesia-set-abandon-infrastructure-schemes-worth/

Corruption and tax evasion by key BRI players: EU suspects tax fraud at China's 'gateway to Europe' as state-owned shipping firm Cosco faces mounting opposition abroad
http://www.scmp.com/news/world/united-states-canada/article/2142760/eu-suspects-tax-fraud-chinas-gateway-europe-state

Completed	Cost
HUNGARY Huawei logistics center	$1.5bn
IRAN Rudbar Lorestan hydropower dam	$578m
KAZAKHSTAN Khorgos dry port	$245m
PAKISTAN Gwadar Port construction of breakwaters	$123m
SRI LANKA Hambantota deep sea port Phase I, II	$1.3bn
CAMBODIA National Road No. 214, Stung Treng-Mekong River Bridge	$117m
INDONESIA Sumsel-5 power plant	$318m
NORTH KOREA New Yalu Bridge	$350m

https://asia.nikkei.com/Features/Cover-story/Is-China-s-Belt-and-Road-working-A-progress-report-from-eight-countries?n_cid=NARAN012

Strong dollar takes a pause, then resumes strength in 19



COMPLETE INTELLIGENCE Weekly
Superforecasting Streamlined™

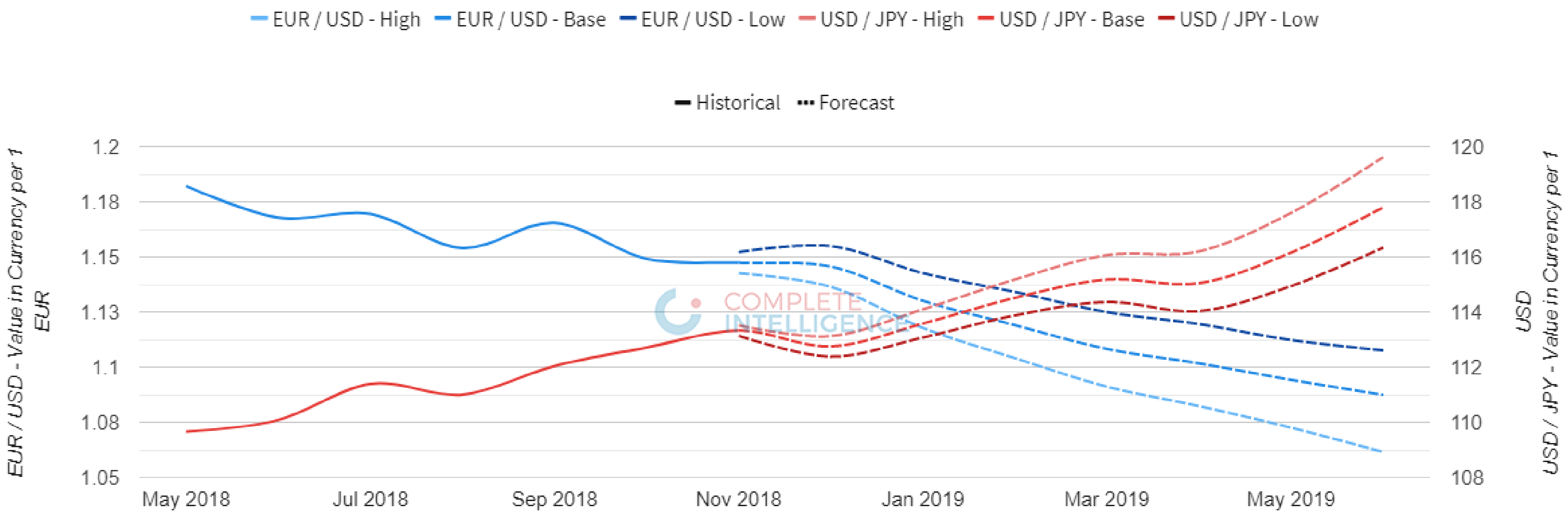
Volatility is back. And we expect disordered markets through the end of the year.

October 18, 2018
Issue No. 62

Equity markets took an interesting turn over the past week. We've been saying for months that Complete Intelligence expected a bit of turbulence in September/October and we were right. Some of this is due to the return of 1.5bn Chinese from their Golden Week holiday only to realize that things aren't as rosy as many once thought. China is not immune to Trade War fallout, as China's September manufacturing data showed.

Major currency weakness into the new year

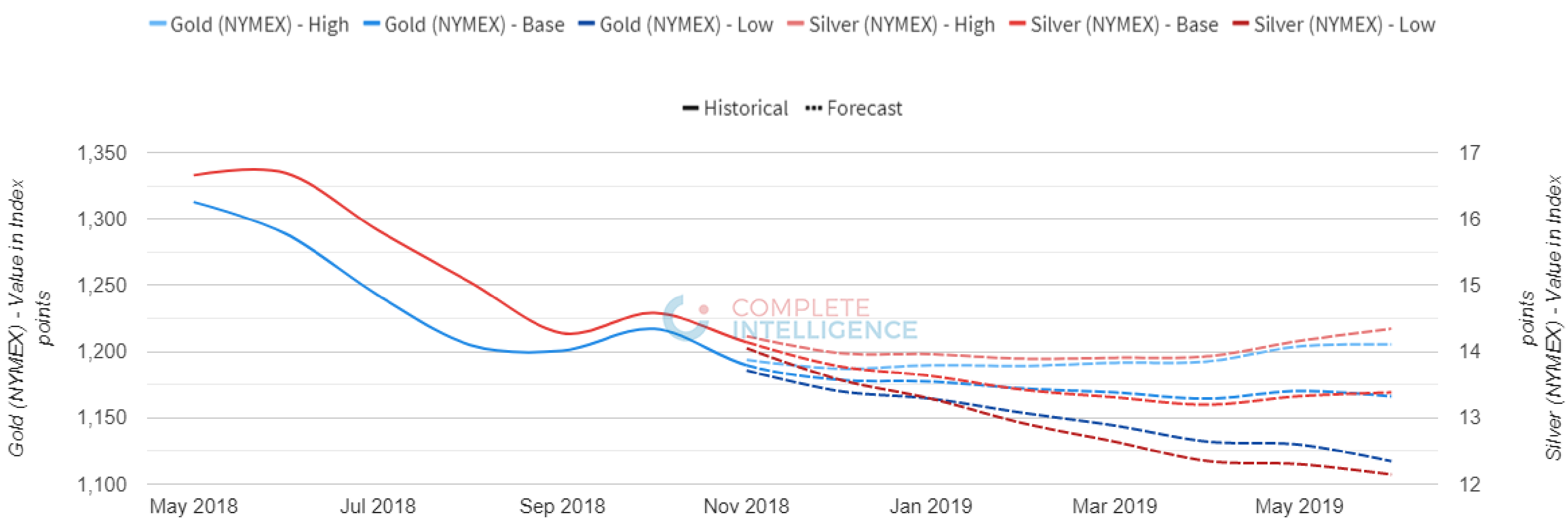
EUR / USD/USD / JPY



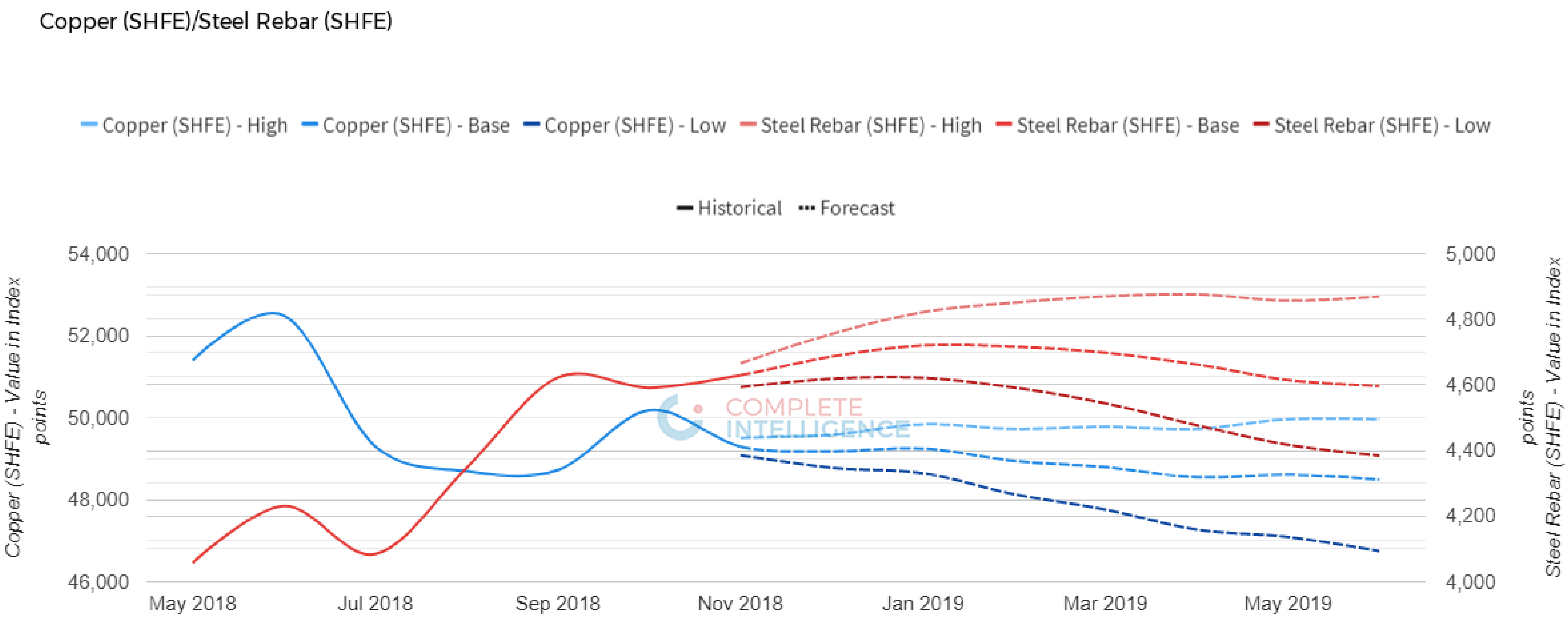
Bonus: CNY strength on very strong stimulus

Precious metals continue their decline in H1 18 on dollar strength and EM weakness

Gold (NYMEX)/Silver (NYMEX)



Chinese industrial metals mixed on stimulus to impact exports and real estate



Summary

- Structural changes in China – with trade, economics and politics – underscore uncertainty
- China's major global initiative – the Belt & Road Initiative – has failed to gain momentum. Will it die or will expectations tone down?
- Dollar appreciation continues, with impacts on major currencies, EMs, commodities

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https:// www.completeintel.com