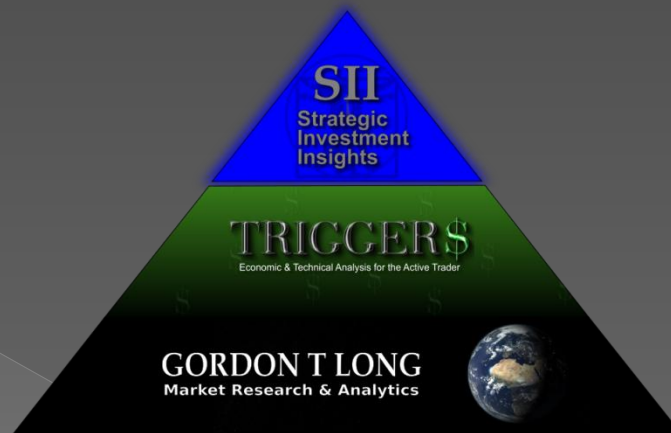




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Technical Analysis
Market Road Maps | HPTZ
Methodology



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CHINA CONTAGION

GHOST CITIES

CHINA SOLVED 2008,
BUT CHINA WILL CREATE 2022!

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PREVIOUS MESSAGE

- I. COVID HAS TRIGGERED THE NEXT FINANCIAL CRISIS
- II. IT IS NOT IMMANENT – BUT NOW INEVITABLE AND UNAVOIDABLE
- III. IT IS LONG OVERDUE AND HEALTHY FOR THE FUTURE



KEY MESSAGE

STRUCTURAL

China: Investment Model

Regions / Cities: Property Centric

Individuals: Real Estate Is Wealth

CULTURAL

SYSTEMIC

CHINESE CREDIT IMPULSE > Supply Shock

XI JINPING'S "HARD SHIFT"

Competitor >> **THREAT**

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GDP (current US\$) - China

World Bank national accounts data, and OECD National Accounts data files.

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Line

Bar

Map

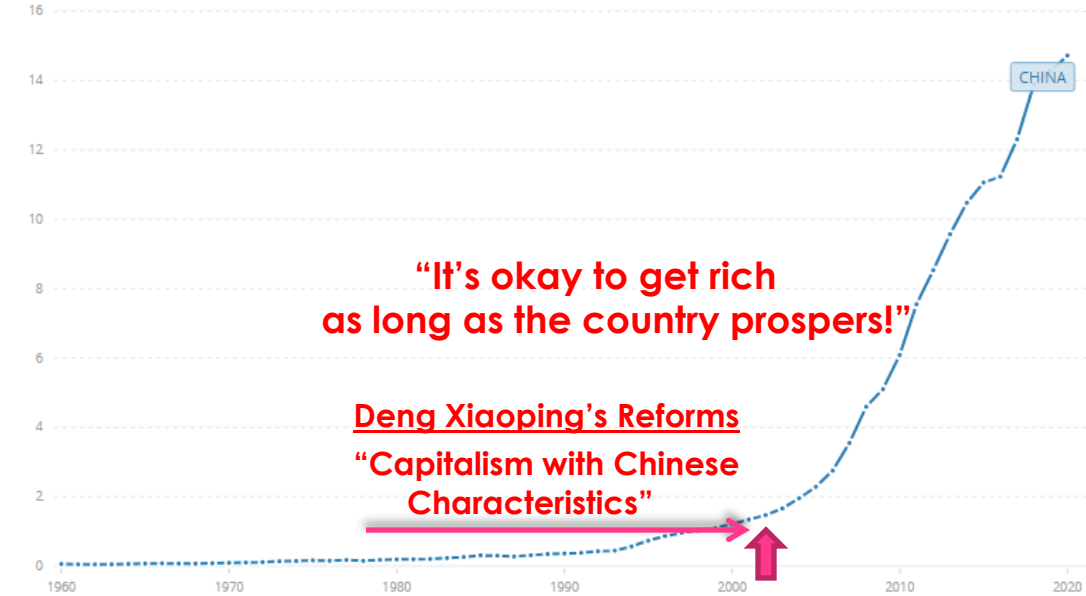
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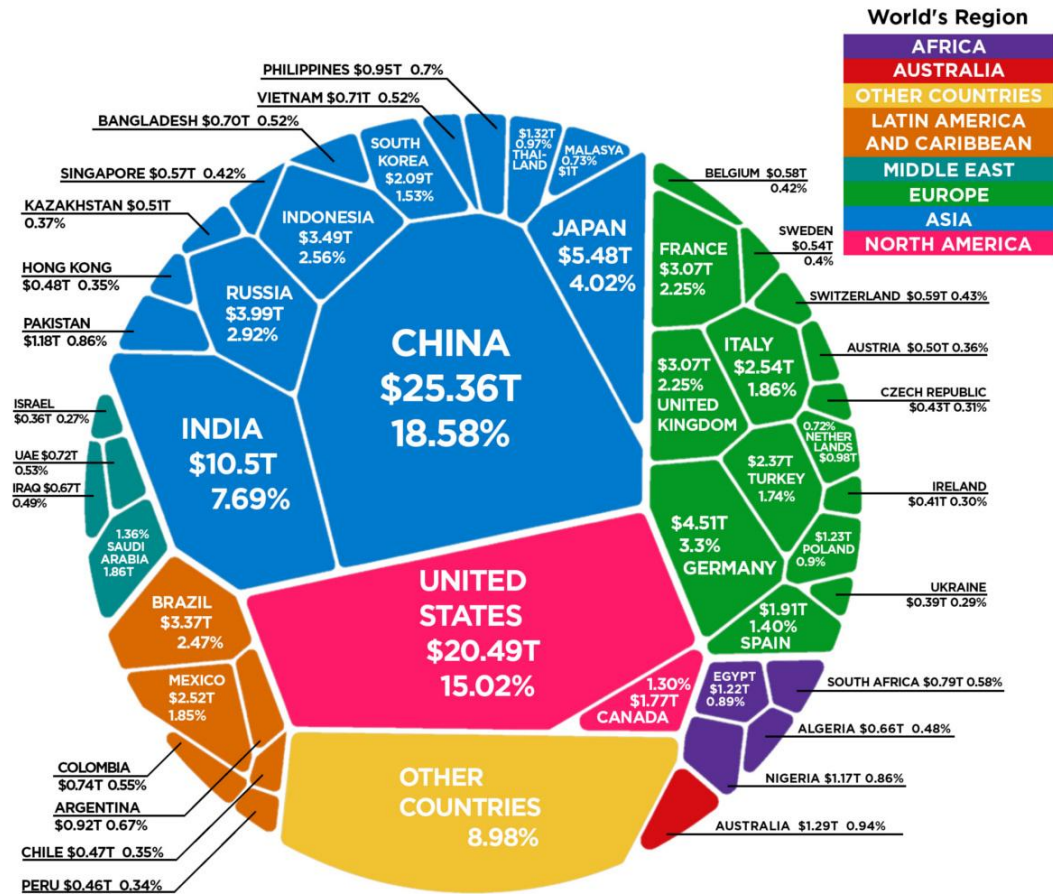


**"It's okay to get rich
as long as the country prospers!"**

Deng Xiaoping's Reforms
**"Capitalism with Chinese
Characteristics"**

**ENTERS
WTO**

1960 - 2020



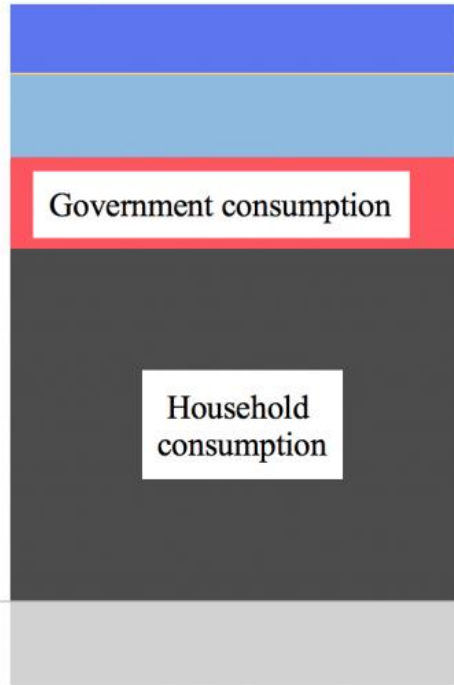
Article & Sources:

<https://howmuch.net/articles/the-world-economy-ppp-2018>
 The World Bank - <https://databank.worldbank.org>

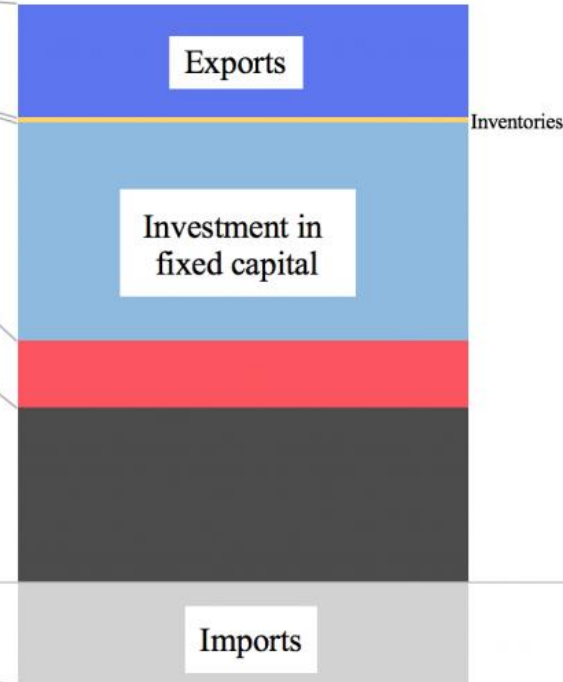
howmuch.net

Compare and contrast, composition of GDP

United States



China



Data: CIA World Factbook 2015

GROWING

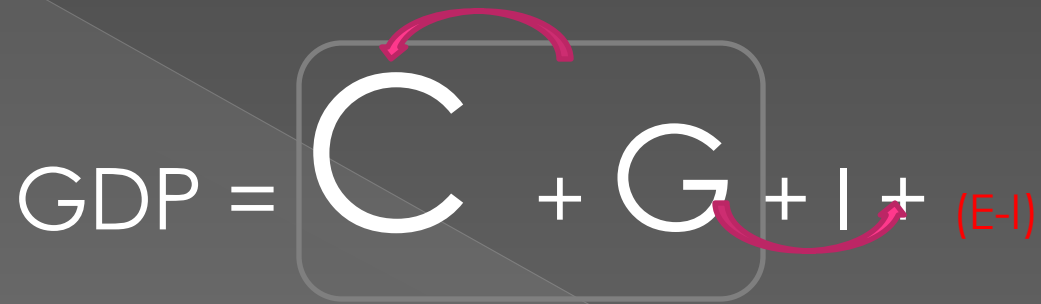


The diagram shows the GDP equation: $GDP = C + G + I + (E - I)$. The term $G + I$ is enclosed in a red rounded rectangle. A red arrow points from the word "GROWING" above to the G term. Another red arrow points from below to the I term, with the text "REAL ESTATE - 20-30%" below it. A third red arrow points from the right towards the $(E - I)$ term, with the text "NET EXPORTS (Minimal Profit)" to its right.

$$GDP = C + G + I + (E - I)$$

REAL ESTATE - 20-30%

NET EXPORTS
(Minimal Profit)

$$\text{GDP} = \boxed{\text{C} + \text{G}} + \text{I} + (\text{E} - \text{I})$$


The diagram shows the GDP equation: $\text{GDP} = \text{C} + \text{G} + \text{I} + (\text{E} - \text{I})$. The terms C and G are enclosed in a light gray rounded rectangle. A red curved arrow points from the top of the rectangle to the top of the C term. Another red curved arrow points from the right side of the rectangle to the $+$ sign between G and I . The term $(\text{E} - \text{I})$ is written in red.

AN ILLUSION OF GROWTH

SOCIALISM

GOVERNMENT
IS THE ECONOMY

RATIONED
CONSUMPTION

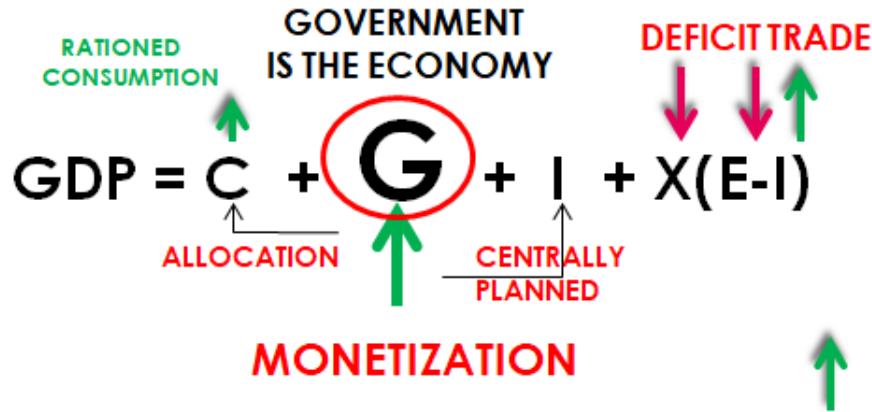
DEFICIT TRADE

$$\text{GDP} = \text{C} + \text{G} + \text{I} + \text{X}(\text{E}-\text{I})$$

ALLOCATION

CENTRALLY
PLANNED

MONETIZATION

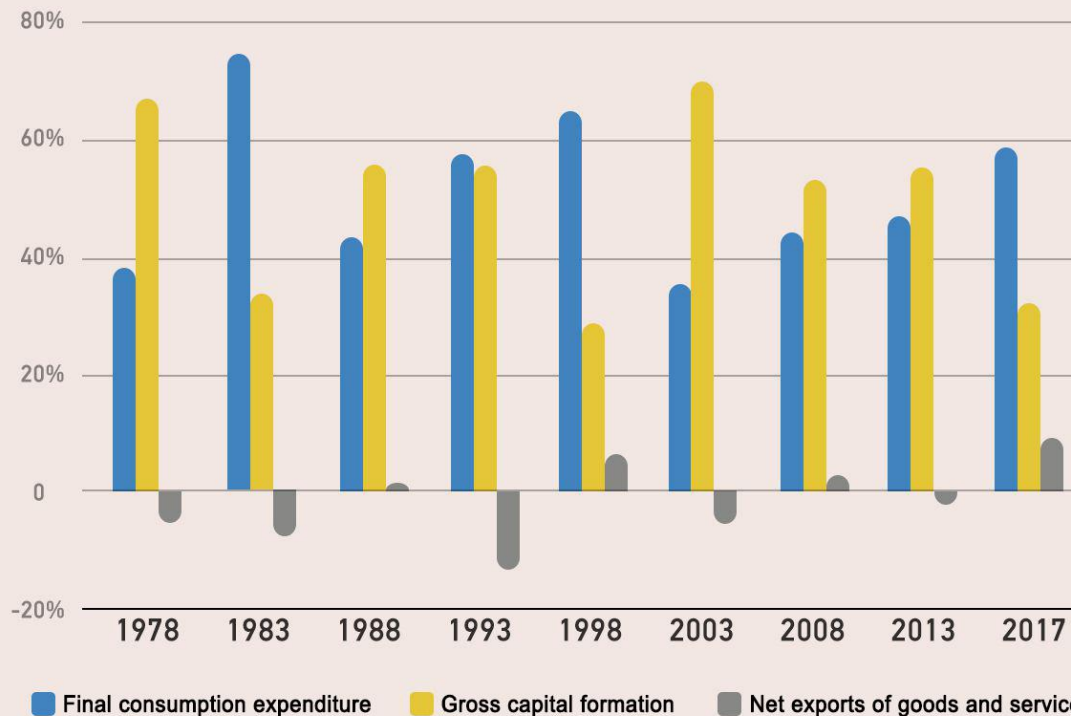


- Consumers Get What The Government Determines, Awards or Rations
- Standards of Living Is Universal Except for Government Officials

Percentage contribution to China's GDP growth



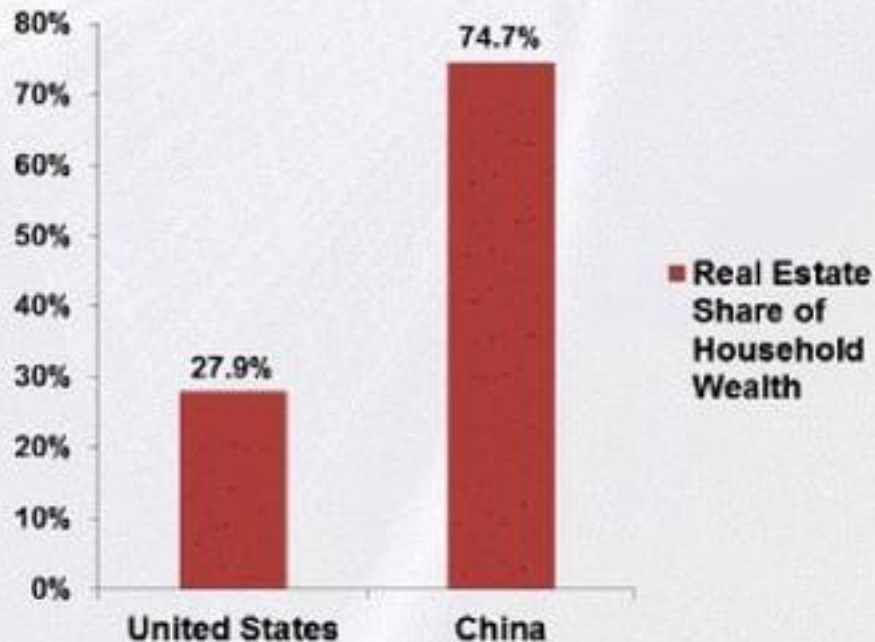
CGTN



Source: National Bureau of Statistics

Nearly All Their Eggs In One Basket

Share of Chinese Wealth Held In Real Estate



DENT

Source: http://www.china.org.cn/business/2014-07/26/content_33065409.htm

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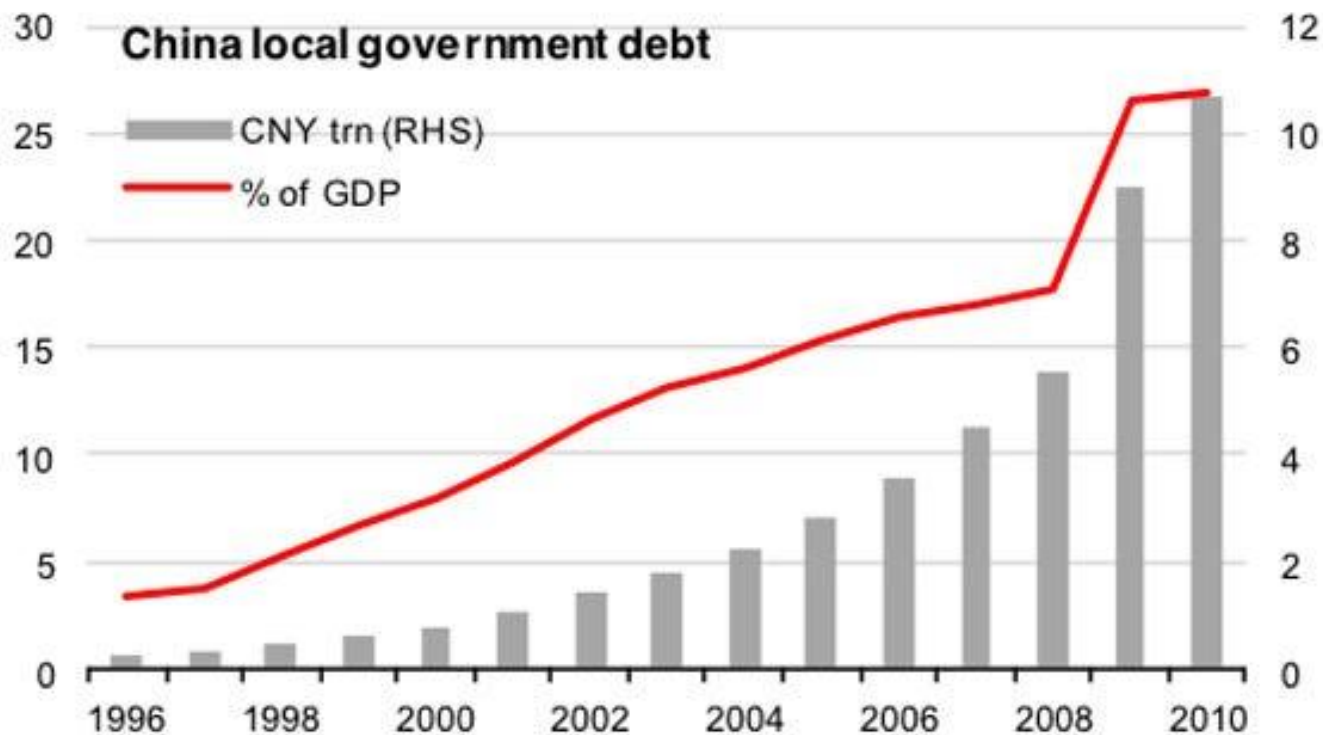


"When you have an investment-driven economic model, you know your annual GDP on January 1st of that year, because you can stick shovels in the ground to make your growth numbers. That's how the model works."

*Renowned short-seller Jim Chanos,
Founder of Kynikos Associates,*



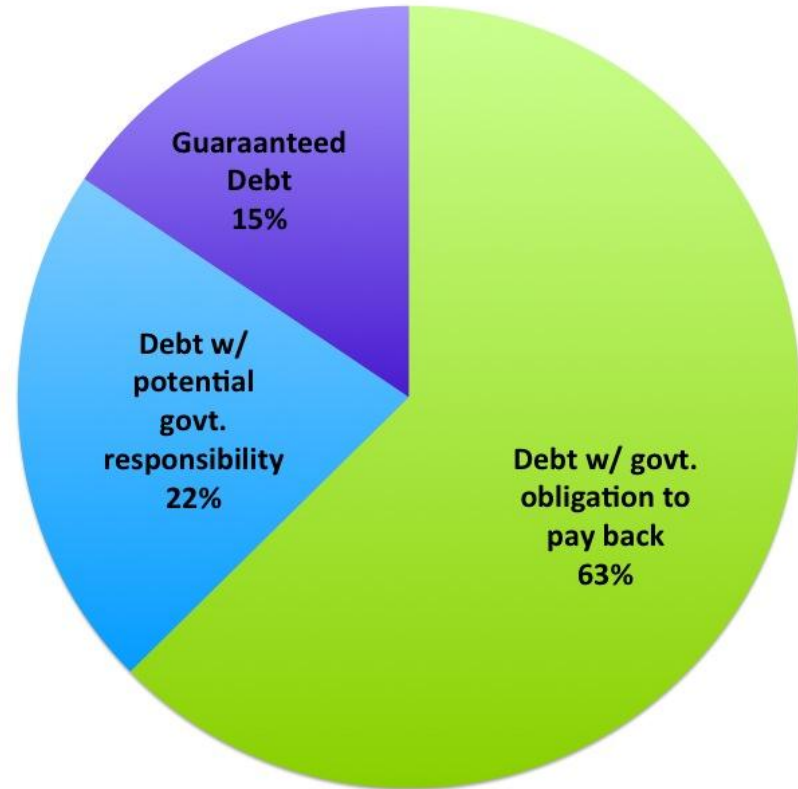
Local government debt grew 36-fold in 13 years!



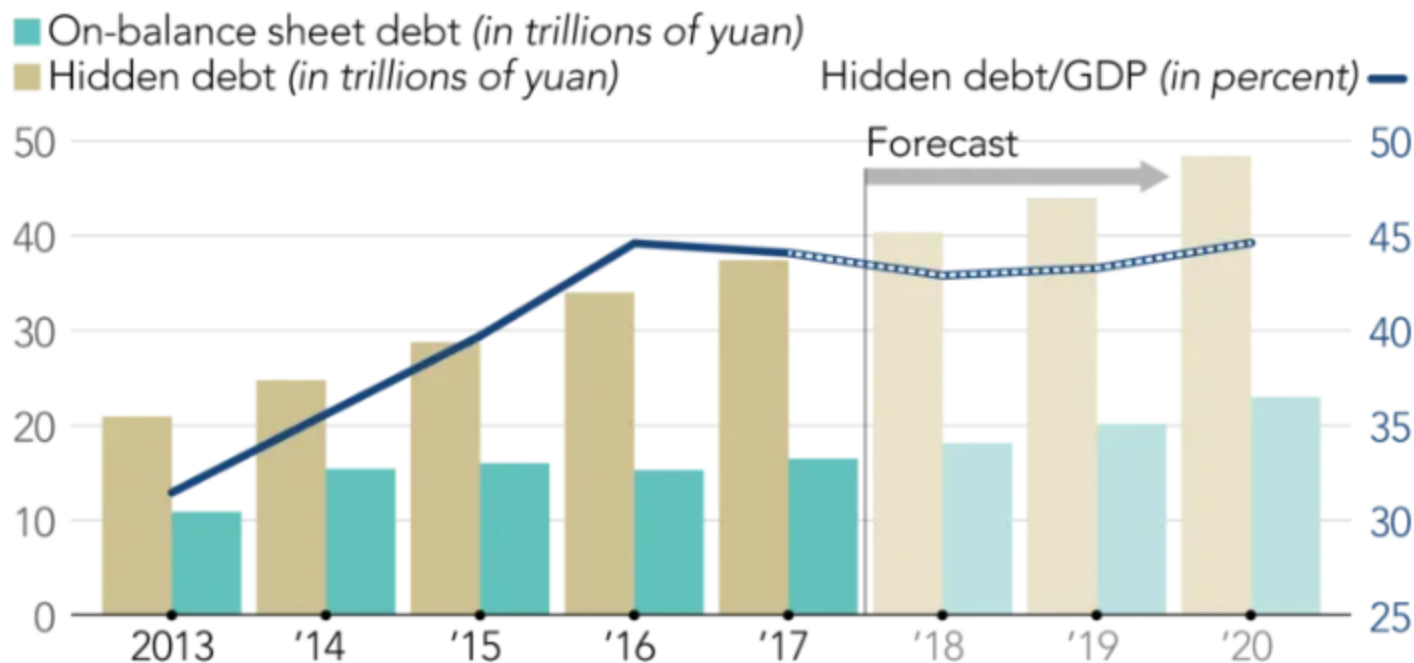
Source: China National Audit Office, SG Cross Asset Research/Economics

Direct borrowing by local governments is mostly restricted in China. In order to circumvent these restrictions, local governments have turned to affiliated organizations, such as local investment companies (LICs), to take on debt and finance projects. The result has been that local debts have become incredibly complex and difficult to track

Local Government Debt by Obligation



China's local and regional governments debt



Sources: Wind, Ministry of Finance, Various local government fiscal reports, S&P Global Ratings

GROWING

$$\text{GDP} = C + G + I + (E-I)$$

REAL ESTATE – 20-30%

NET EXPORTS
(Minimal Profit)

SALE OF PROPERTY
DEBT – RECOGNIZED
DEBT – HIDDEN (Government Banks)

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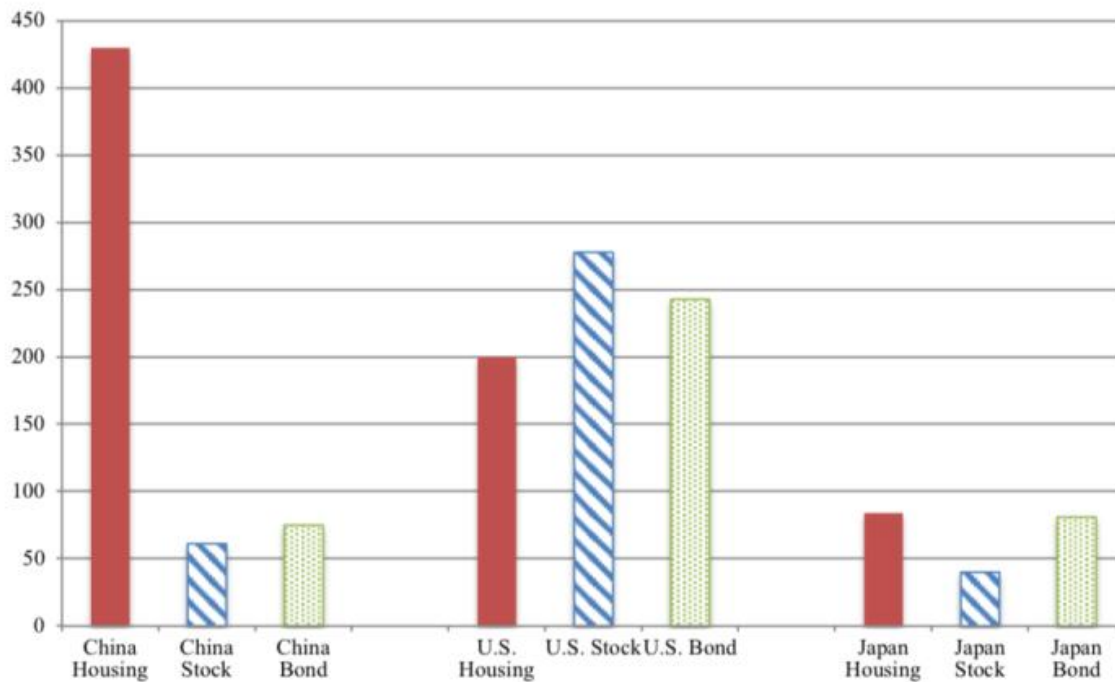
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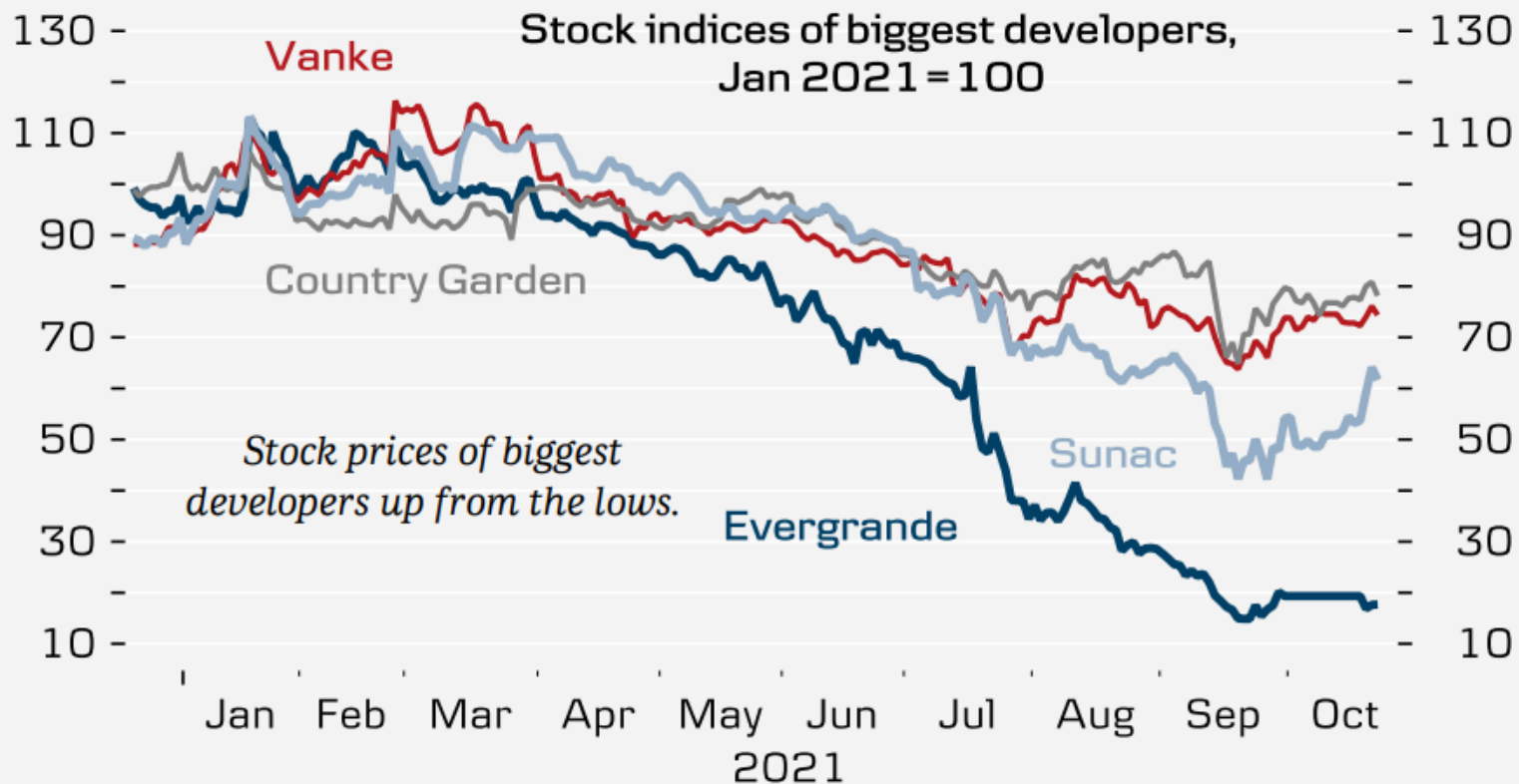


Figure 8. Valuation of Different Asset Classes in 2017 (trillion yuan)

This figure demonstrates the market valuation of housing, stock, and bond assets in China, U.S. and Japan, respectively.



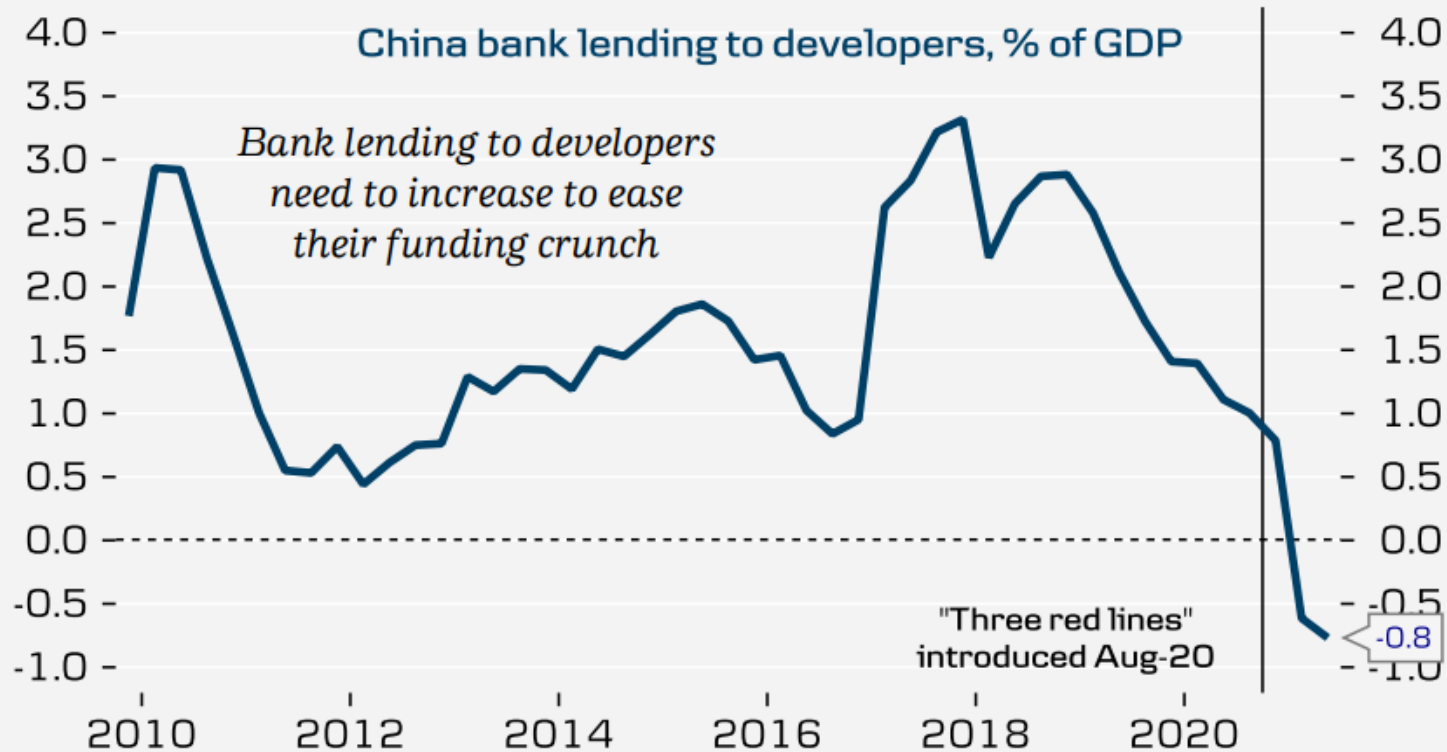
Stock price of the big developers



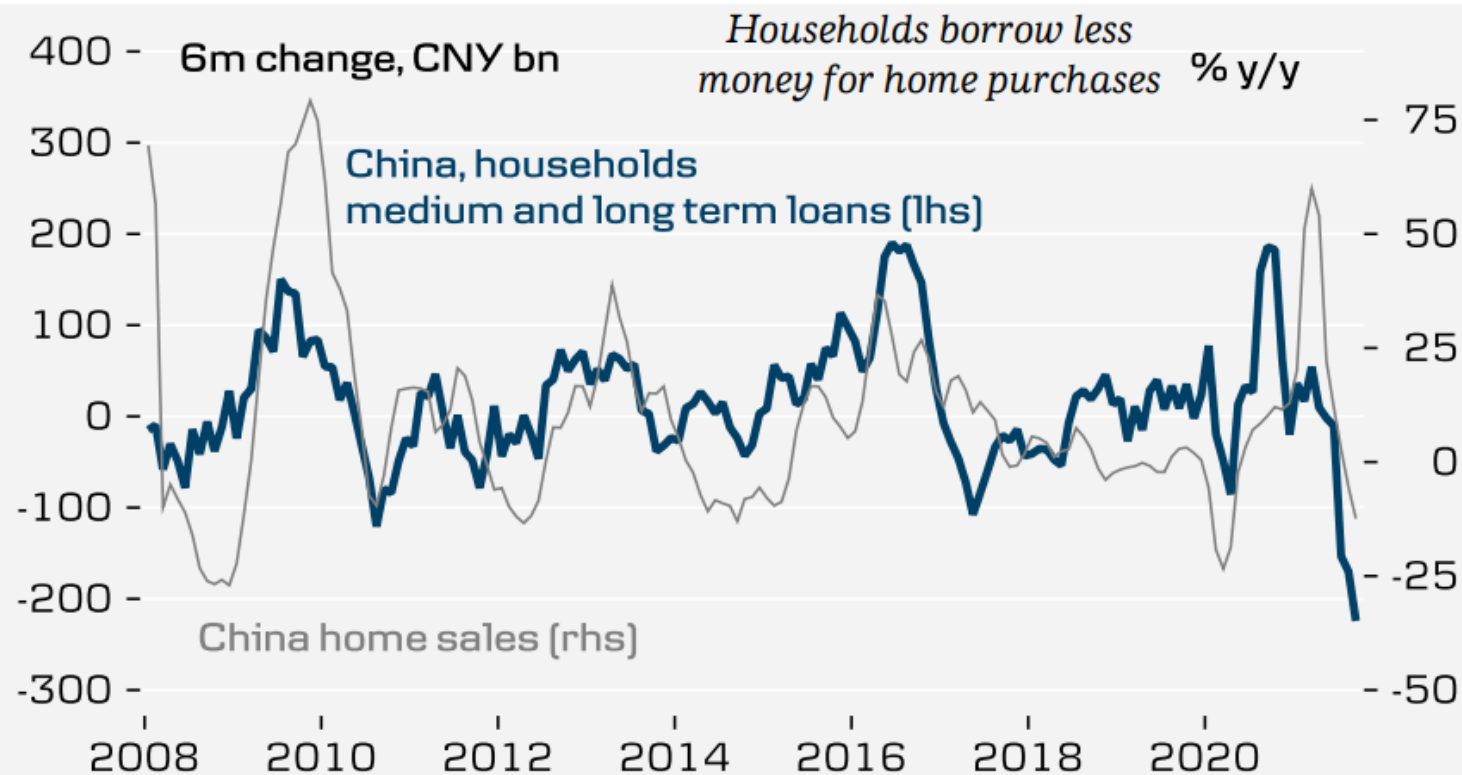
Source: Macrobond Financial, Bloomberg.

Note: Past or current performance is no guarantee of future performance.

Lending to developers



Lending to households



High yield market (dominated by developers)



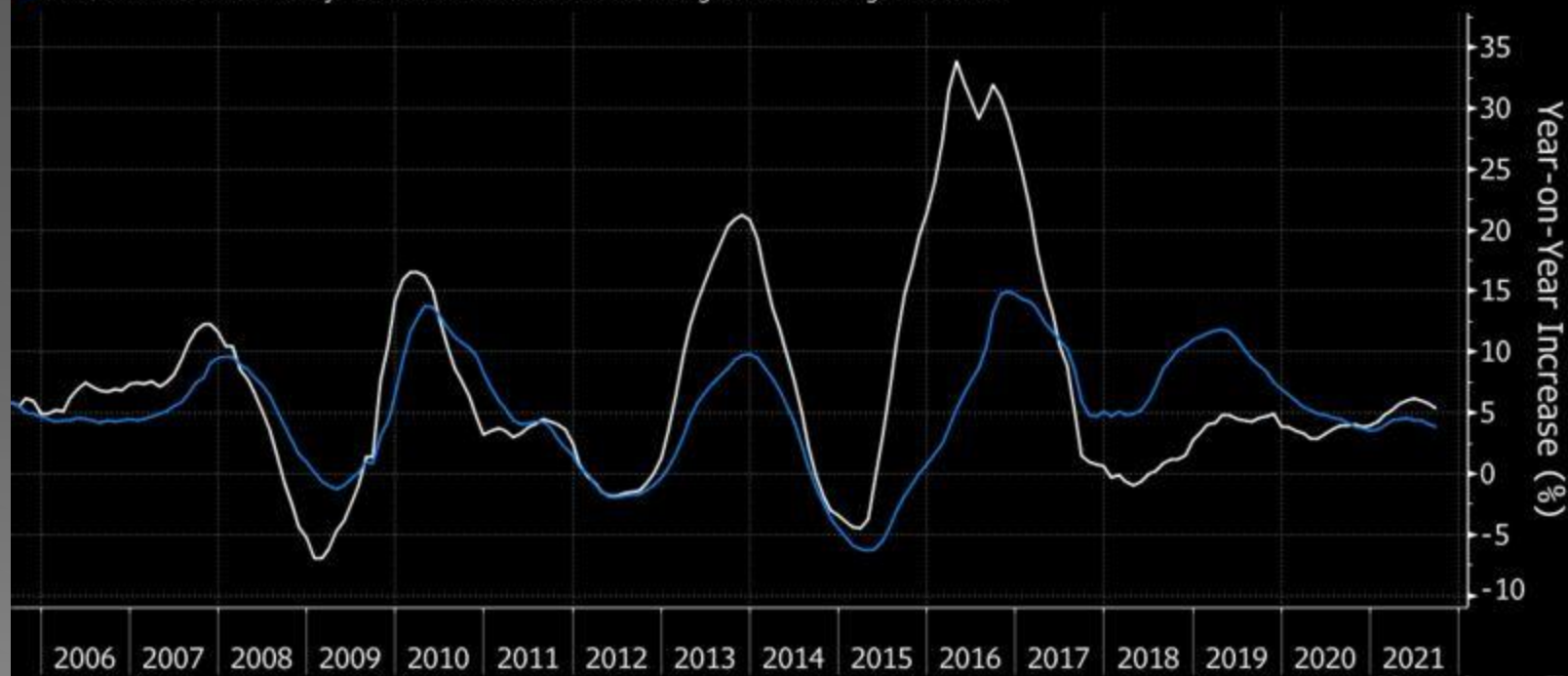
Source: Macrobond Financial, Bloomberg.

Note: Past or current performance is no guarantee of future performance.

Home Is Where The Money Is....

House price inflation has been reined in over the last five years

- China 1st Tier Cities Newly Built Commercial Residential Bldgs Price YoY Avg - Mid Price
- China 2nd Tier Cities Newly Built Commercial Residential Bldgs Price YoY Avg - Mid Price



Source: Bloomberg

Bloomberg

Property Debt Hits a Ledge

After steep declines real estate developers' bonds have staged a bounce

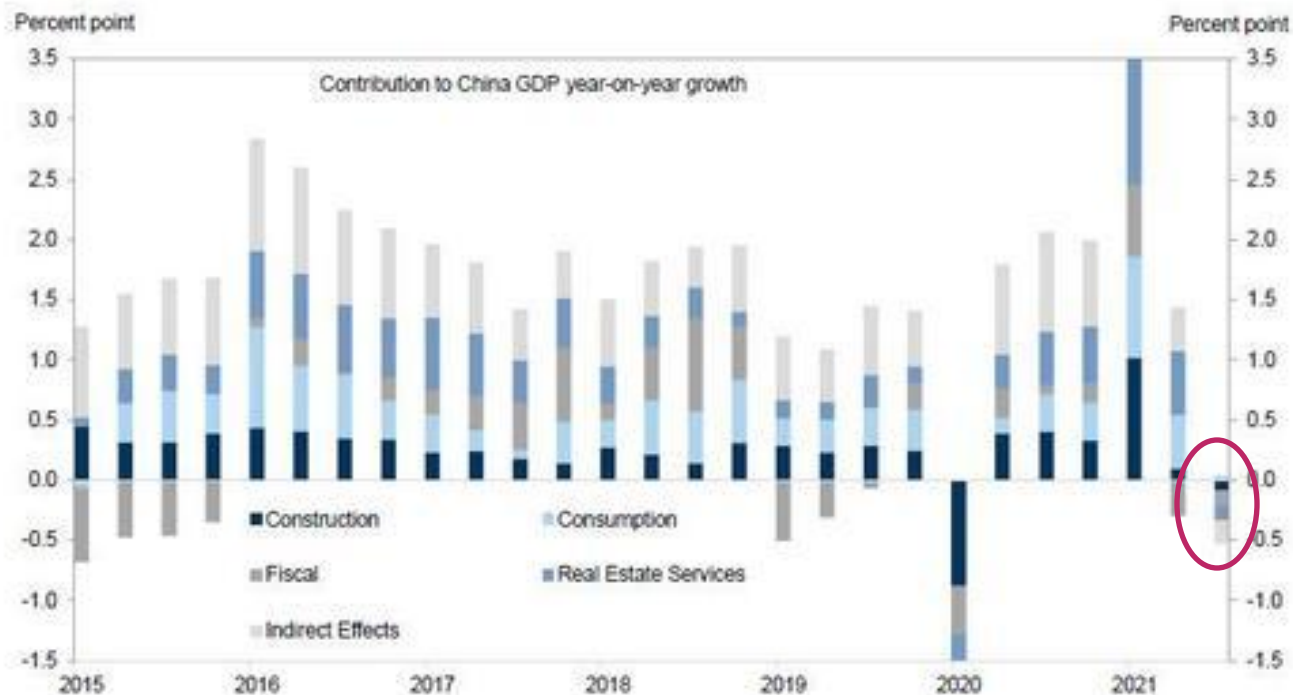
■ FTSE ABBI Property/Real Estate Developer China Issuers High-Yield in LCL terms - Last Price



Source: Bloomberg

Bloomberg

Exhibit 10: Contribution of housing to year-over-year GDP growth turned negative in Q3



Source: Haver Analytics, Goldman Sachs Global Investment Research

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XI JINPING'S "HARD SHIFT"

- Xi Jinping in 2013 was initially seen as just the latest in a series of technocrats
 - Would follow along with Deng Xiaoping's reforms.
 - It's "Capitalism with Chinese characteristics."
 - "It's okay to get rich as long as the country prospers."
- Xi Jinping's first speech in China after becoming president
 - He critical of the Soviet Union for being soft on perestroika.
 - "They should have crushed it when they had the chance!"
 - Xi then set up an institute to study the Soviet Union's collapse.
 - That was a red flag that he was going to be more hard-line than people thought.

XI JINPING'S "HARD SHIFT"

- Xi Jinping then went on to do an anti-corruption drive
 - Used the anti-corruption purge to sideline political rivals. People dismissed as a typical settling of scores that Chinese leaders do.
 - Cemented China as the regional superpower.
 - He punished more than a million party members - which has helped his popularity among some.
 - Clamped down on many emerging freedoms, increasing its state surveillance and censorship programs.

A couple of years later, he began talking in Puritanical terms about social issues.

- Nobody had cared about that stuff for 20 years.
- "Do what you want as long as you don't question the party!"

XI JINPING'S "HARD SHIFT"

- Xi Jinping next had the [book](#) collecting his speeches and writings,
 - People could be seen carrying around.
 - He started showing up in military events dressed in Mao jackets. This symbolism isn't lost in China.
- 2018 China allows Xi to remain 'president for life' as term limits removed.
 - Xi consolidated his political power as the party voted to enshrine his name and political ideology in the party's constitution - elevating his status to the level of its founder, Chairman Mao.
- The real switch then occurred in 2019
 - Started going after celebrities like Jack Ma [co-founder of Alibaba].
 - He was taking a much harder line on the "flowers of capitalism," if you will, than past presidents.
 - Xi Jinping thought is the ideology approved by the Communist Party last October. Officially, it is "***Xi Jinping Thought on Socialism with Chinese Characteristics for the New Era***".

XI JINPING'S "HARD SHIFT"

- With Xi's "New Thought on Socialism, all of this exploded into the open.
 - There's been initiative after initiative.
 - Redistributing wealth to the masses.
 - Going after other leaders.
 - Overlaid on top of this is the Evergrande saga.
- George Soros Speaks out Strongly in UK's Financial Times & US WSJ
 - "Mr. Xi believes Mao Zedong invented a superior form of organization, which he is carrying on: a totalitarian closed society in which the individual is subordinated to the one-party state. It is superior, in this view, because it is more disciplined, stronger and therefore bound to prevail in a contest."
 - "Relations between China and the U.S. are rapidly deteriorating and may lead to war. Mr. Xi has made clear that he intends to take possession of Taiwan within the next decade, and he is increasing China's military capacity accordingly."
 - "I consider Mr. Xi the most dangerous enemy of open societies in the world. The Chinese people as a whole are among his victims, but domestic political opponents and religious and ethnic minorities suffer from his persecution much more. "

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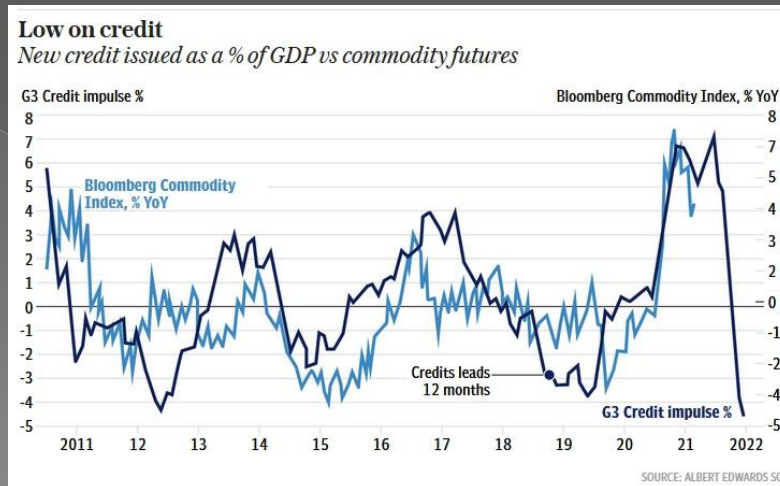
WHAT IS DRIVING THE SHIFT?

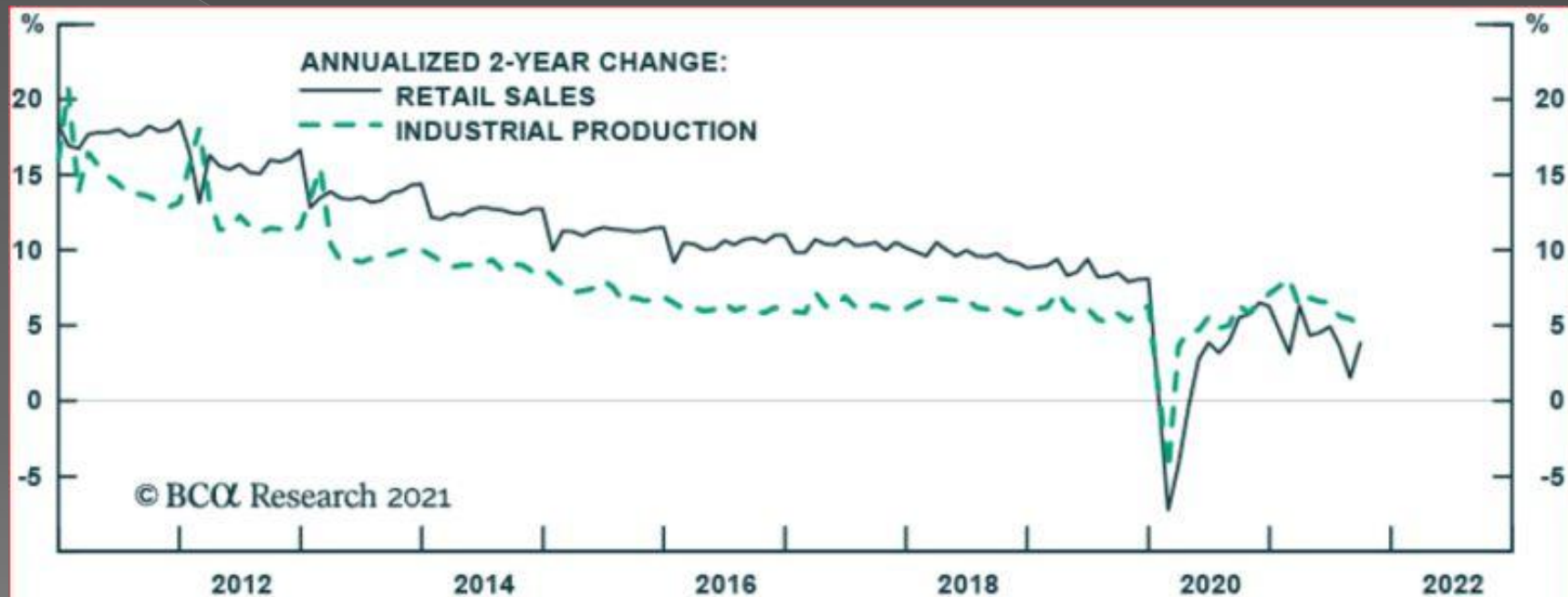
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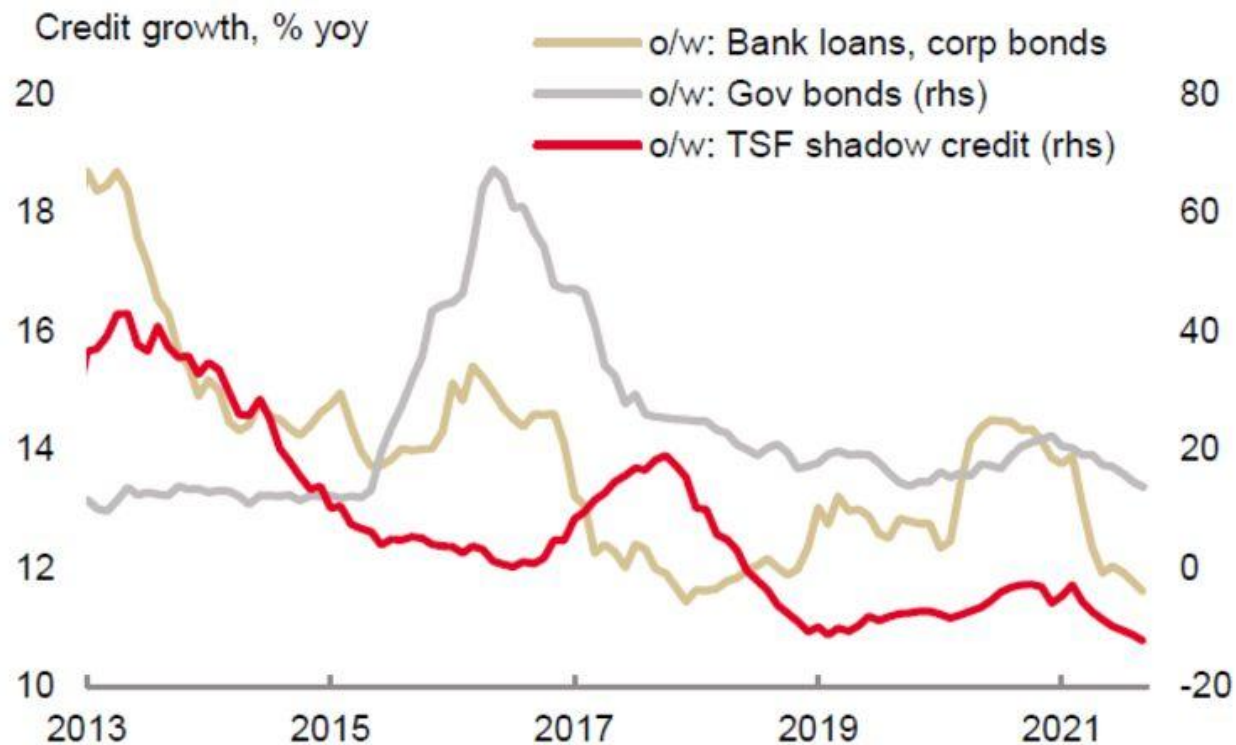
CHINESE 10Y SOVEREIGN DEBT!





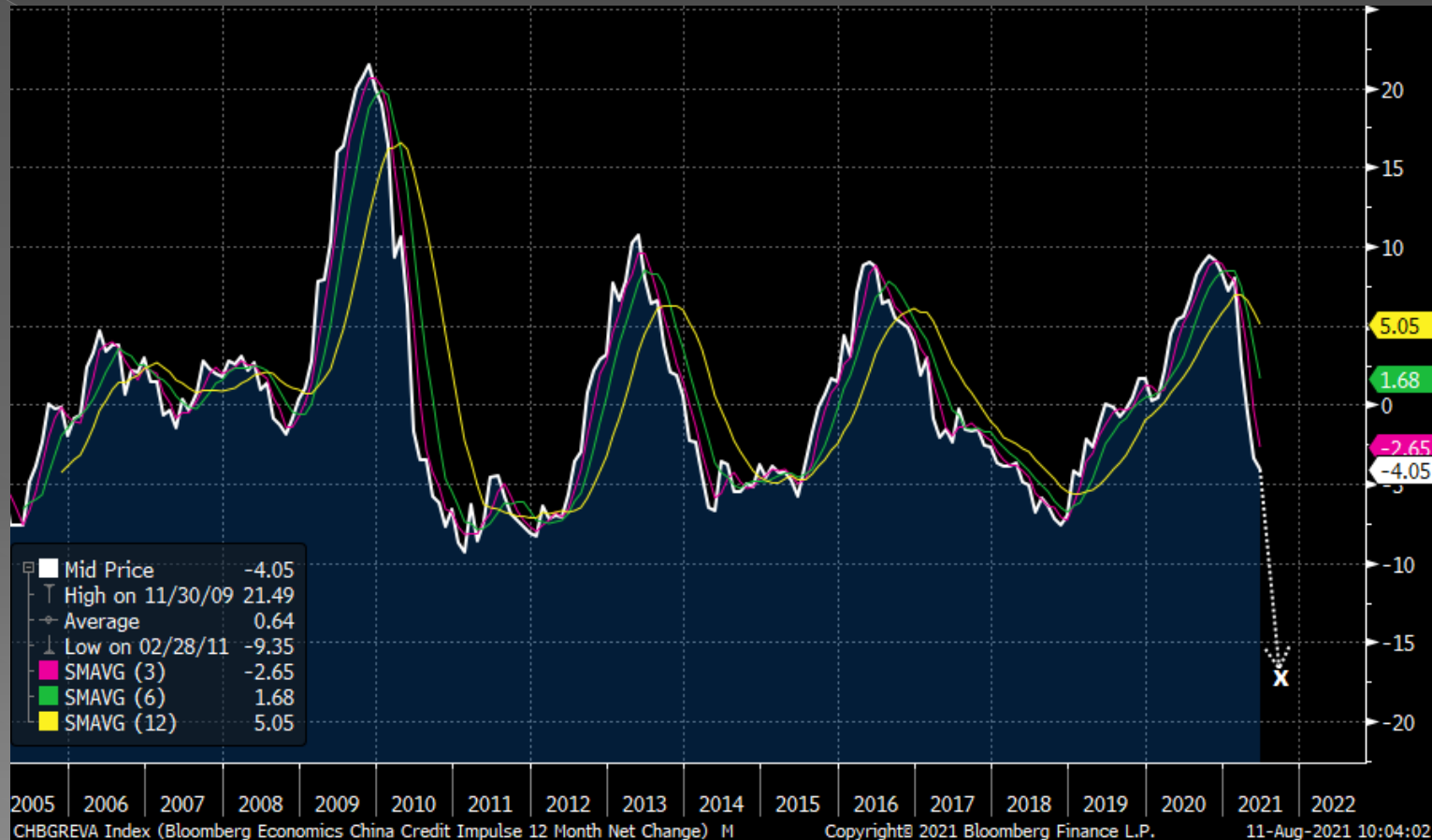
* SEASONALLY ADJUSTED. TRUNCATED AT -1% AND 3%, 2020 Q1 WAS -9.3% AND Q2 WAS 10.1%.

Credit growth



Source: PBoC, NBS, CEIC, SG Cross Asset Research/Economics

A CHINESE CREDIT IMPULSE SHOCK



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(A) (D)readful (R)un

Chinese ADRs have fallen massively out of favor in the U.S.

Normalized As Of 12/31/2001 ■ S&P/BNY Mellon China ADR Index (USD) / S&P 500 INDEX on 10/19/21



Source: Bloomberg

Bloomberg

The China Exposure Premium

Stocks with the greatest Chinese exposures have fallen badly this year

Normalized As Of 06/04/2002 ■ MSCI World with China Exposure Price USD Index / MSCI World Index



Source: Bloomberg

Bloomberg

Exhibit 1: Common prosperity and private sector crackdowns have had big impacts on Chinese equities, as well as US equities more recently

S&P 500 and Shanghai A Share price performance YTD

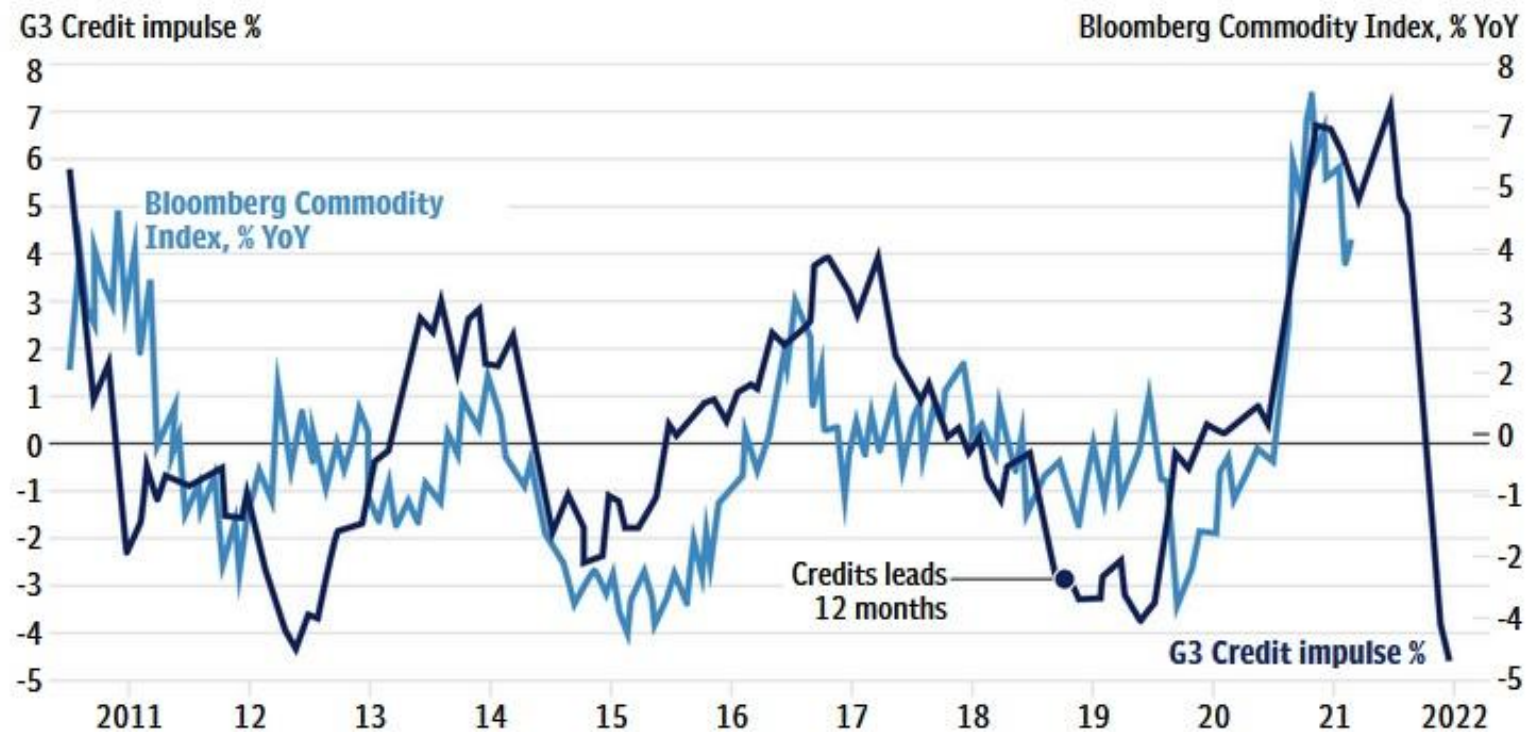


Source: Bloomberg, BofA US Equity & Quant Strategy

BofA GLOBAL RESEARCH

Low on credit

New credit issued as a % of GDP vs commodity futures



SOURCE: ALBERT EDWARDS SG

ADMINISTRATIONS CHANGE – BUT THE PRINTING NEVER DOES

DON'T WORRY, THEY WILL PRINT THE MONEY!

EVERYONE IS NOW IN PLACE & READY!!





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