Reading the Chinese Dragon -- the Impact on the Global Economy

by Jim Edwards via bruce - Business Insider *Tuesday, Oct 20 2015, 3:13am*
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> To put it simply, as far as the west is concerned, we're in for it, by that I mean a massive recession. China is eminently readable and only fools and economists not interested in divulging the truth would state otherwise.

The very clear indicators are everywhere, particularly the amount, billions of dollars, leaving China at speed; that's Chinese smart money, principally that of the so-called 'princelings,' that are acutely aware of the slowing Chinese economy.

Most of that money is directed to stable investments in safe western nations, including Australia, where companies fronting for the princelings are buying exclusive properties, on Sydney harbour's elite frontage, the hinterlands and in Melbourne to a lesser extent, for prices that stagger locals. Indeed, China's richest man recently purchased the property of a well-known elite family without taking the trouble to see, let alone inspect it, such is China's panic to move huge funds offshore, but why? You do not need to work for a mega-bank to understand, China's economy is about to trough and that means global recession, so fasten your seatbelts, roundeyes.

Local and most western media reports are intentionally misleading the public, though some have inferred the not so difficult to understand reality of a major global downturn, precipitated by China's falling growth rate.

Interesting story and Stats from Business Insider follows:

China Is Making A New 5-Year Plan And It'll Decide The Fate Of The Global Economy
by Jim Edwards

Between October 26 and October 29, the 18th Central Committee of the Communist Party of China will hold its 5th annual "Plenary Session," and announce the country's 13th Five-Year Plan.

That might sound like a bunch of Mao-ist gobbledook to most of us in the West, but if you're interested in where the global economy is heading next, this is The Big One.

China will use the plenum to set its GDP growth rate for the next five years.

And if delegates start talking about any number lower than 7%, you can expect markets and projections to tank planet-wide.

You might think this won't affect you because you're not Chinese. Wrong. China represents 32% of all global GDP growth, and about 30% of global capital expenditures, according to Credit Suisse. In other words, If China sneezes, the rest of us will get pneumonia.

Here is the context: Over the last five years, China has promised to deliver GDP growth of around 7%. But growth in China has slowed recently and many economists have begun to suspect that China's self-reported GDP numbers are basically lies. Andrew Garthwaite, an analyst at Credit Suisse, last week said in a note to investors that China's real growth rate may be as low as 3% — or 400 basis points below where premier Li Keqiang says it is.

At Business Insider, we've been tracking as much data as we can find that suggests China is nowhere near 7% growth. One example: The price of cement — the one thing you need to build anything and everything — has dropped 25% in the last two years.

Now, people are used to the idea that China isn't telling the truth about its real growth. So they discount the number. But if the next Five-Year Plan were to name a number lower than 7, then everyone's discounted models would be racked down one notch as well, to compensate.

And that is a lot of models, at a lot of companies. The global mining giant Glencore, for instance, is really banking on continued demand from China for copper, another material you need if you're building anything:

The price of copper could collapse, and Glencore's stock with it, if China says something like, "Actually, we're not gonna make 7% for the next few years ... sorry guys!"

Two analyst teams at two investment banks put out notes last week that said China is the scariest thing on their radars. Here is Andrew Garthwaite and his team at Credit Suisse:

China concerns: China was the number one topic [of concern among clients]. The currency and PMIs were seen as key barometers. Clients agree that 'real' data (even on the consumer side) are consistent with just 3-4% GDP growth. China has never faced a downturn when it has been this large (32% of global GDP growth and c30% of global capex) and has had such excess in investment, credit and real estate.

And this is Hak Bin Chua and the team at Merrill Lynch:

We worry about the next phase: the leverage channel where the financial difficulties faced by commodity-related (e.g., Glencore) or leveraged-China companies could set off a contagion which could hurt the rest of Asia via bank exposures. Recessions or downturns accompanied by banking problems are often far deeper and last longer. The debt-linkages remain a tail-risk but the tail is probably getting fatter.

To sum all that up in plain English:

- China's economy is slowing.

- The demand for things like Glencore's copper has collapsed over the last five years.
- Everyone is worried about banks that have loaned money, or have credit default swaps, where the value of those bets is dependent on underlying assets like copper.
- If it all goes wrong, this may trigger a recession.

According to Citi global chief economist Willem Buiter, that recession is "likely" and "global."

And yes, there is a chart describing that, from Credit Suisse. Note that sentiment roughly tracks global GDP:

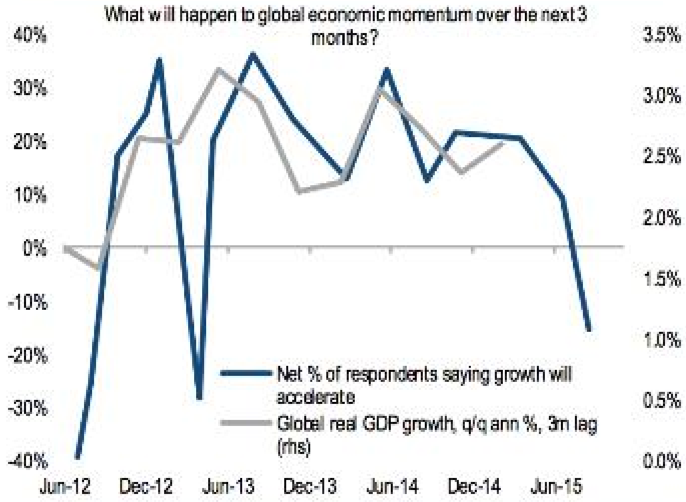
So! What will the Chinese Communist Party do next? Unfortunately, they're likely to add angst to the mystery by NOT naming a new target GDP number.

It's a guessing game, according to Deutsche Bank chief economist Zhiwei Zhang:

While there are still uncertainties on the growth target in the 13th Five-Year Plan, people’s expectations seem to have zeroed in on two possibilities, 7 percent or 6.5 percent. Currently we believe that the likelihood of keeping 7% growth target is slightly higher than cutting it to 6.5%. The two possible targets will have very different implications on policy outlook. If the target is set at 7%, we believe the government will have to maintain its loose policy stance and do more easing. As a result, the leverage of the economy will continue to rise. On the other hand, if the growth target is set at 6.5%, it means the government will tolerate slower growth to allow more space for structural adjustments. In this case, we expect there will be less stimulus efforts by the government.

The problem with that is, we won't know how much trouble we're in until it's too late.

Figure 1: Optimism on global growth was near to the lowest level our survey has on record



Source: Credit Suisse Global Equity Strategy Investor Survey (September)

http://uk.businessinsider.com/china-5-year-plan-global-gdp-recession-2015-10

Jungle Drum Prose/Poetry. http://jungledrum.lingama.net/news/story-1933.html