



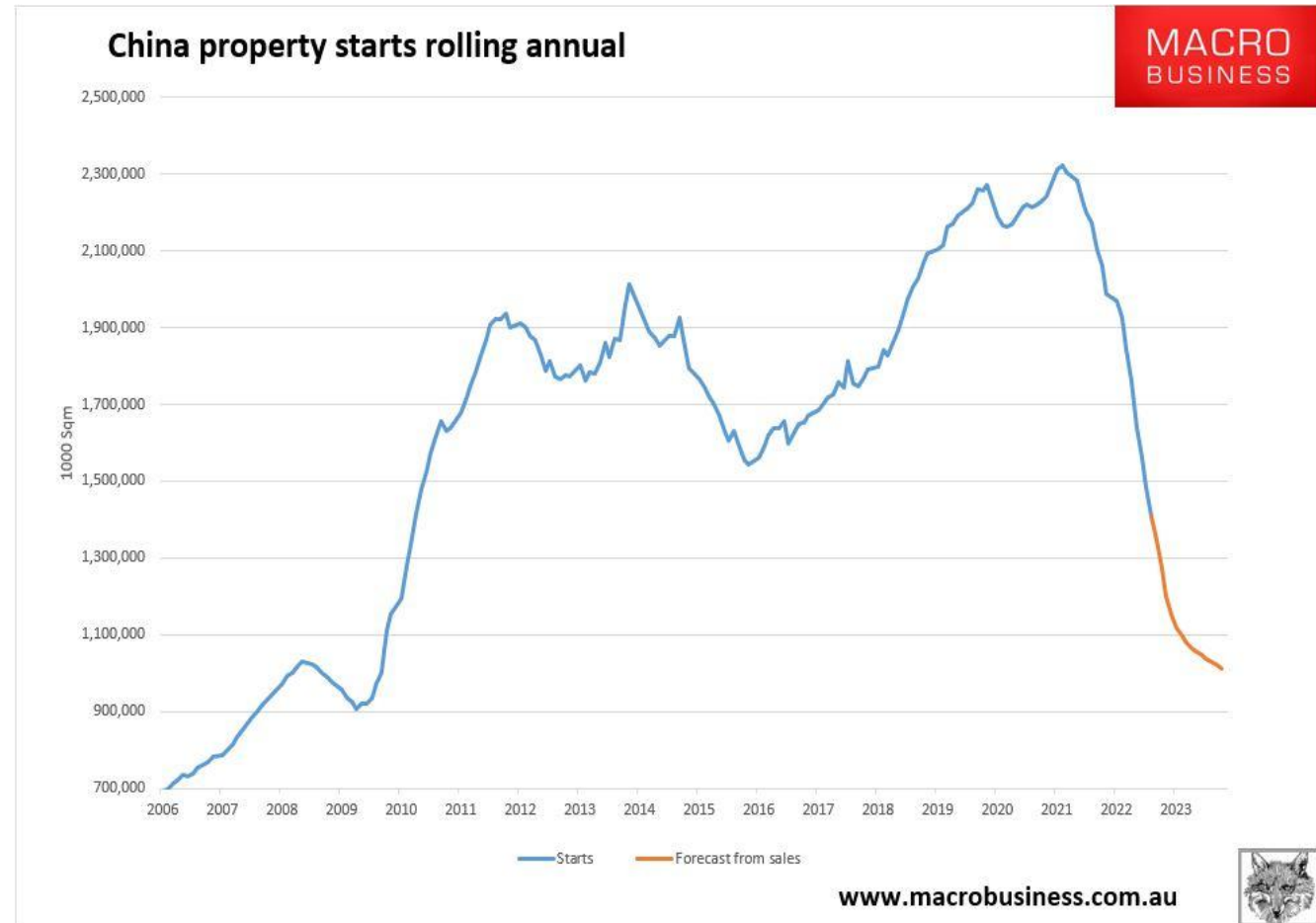
CRASH OF THE CENTURY: THE END OF CHINESE PROPERTY

Crash of the century: Chinese property

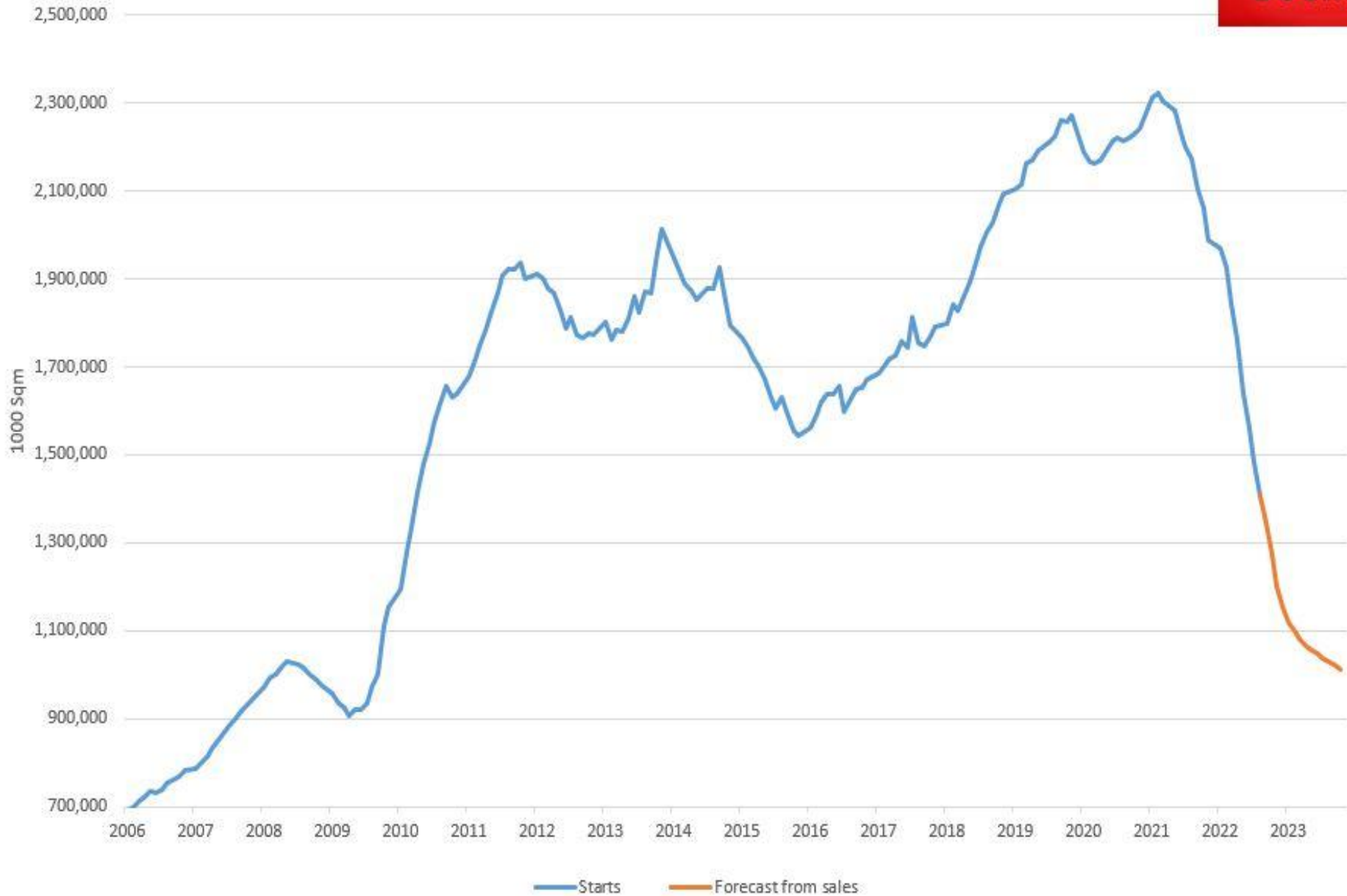
- Highway to hell
- Economic fallout
- Markets fallout
- Political fallout

Highway to hell

- Crash outstripping all forecasts:
starts -44% YOY & -65% PTT, land sales -53% YOY, latest sales down -24% YOY
- No save coming: post-Congress;
three red lines; zero-COVID; liquidity trap
- How far will it go?
- Banking system problems?
- Demographics of doom



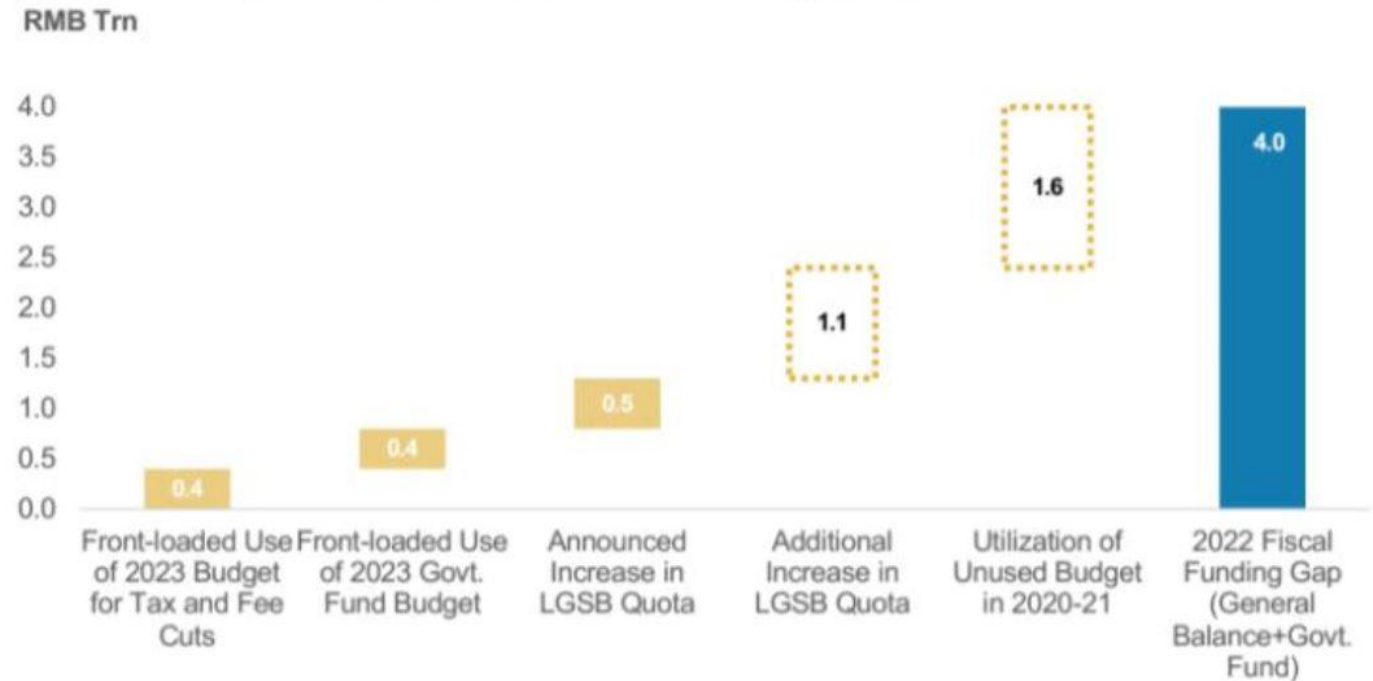
China property starts rolling annual



Economic fallout

- 30% of activity hobbled
- Liquidity trap and impossible trinity
- Infrastructure offset using up fiscal headroom
- Trade shock next
- China going ex-growth
- Immense deflation
- Banking crisis?

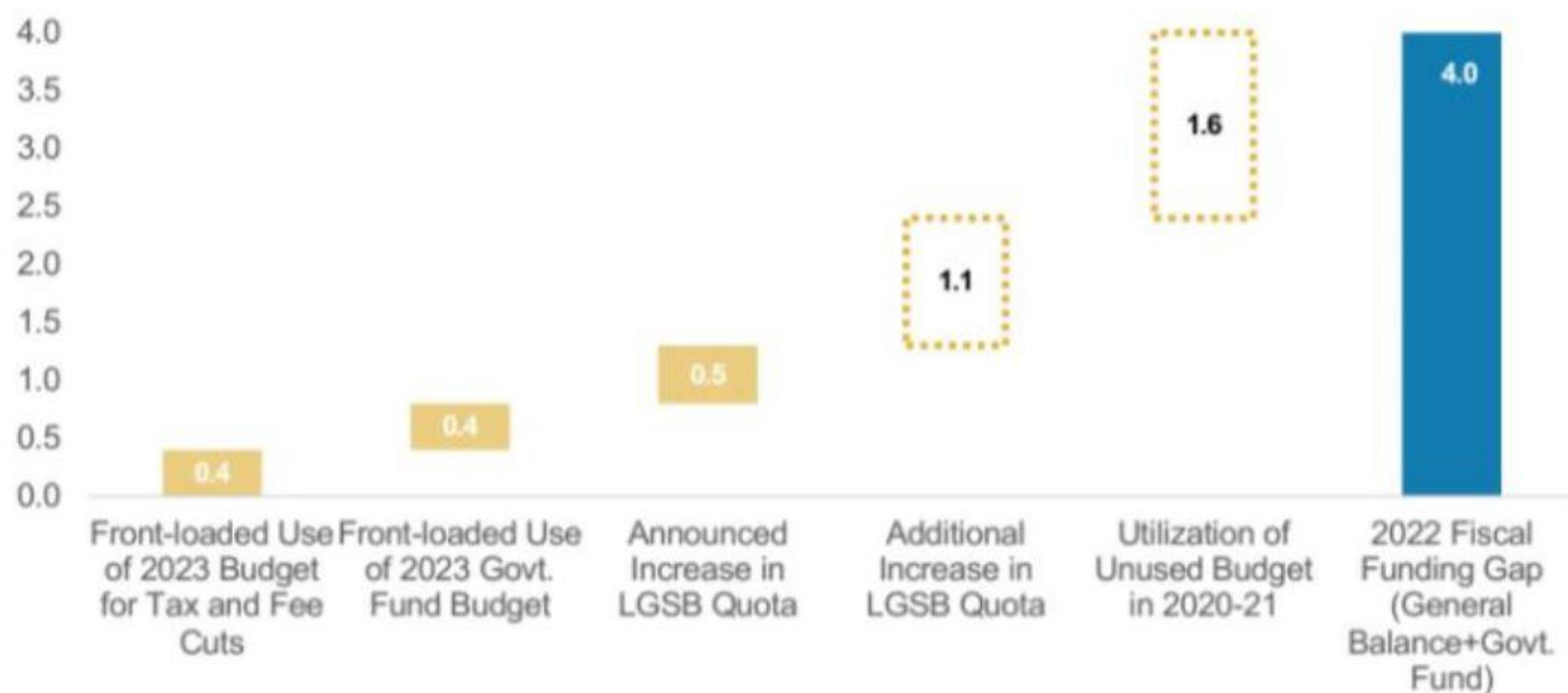
Exhibit 2: Beijing is using its spare fiscal reserves to meet this year's Rmb4trn funding gap



Source: CEIC, MoF, Morgan Stanley Research estimates

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RMB Trn



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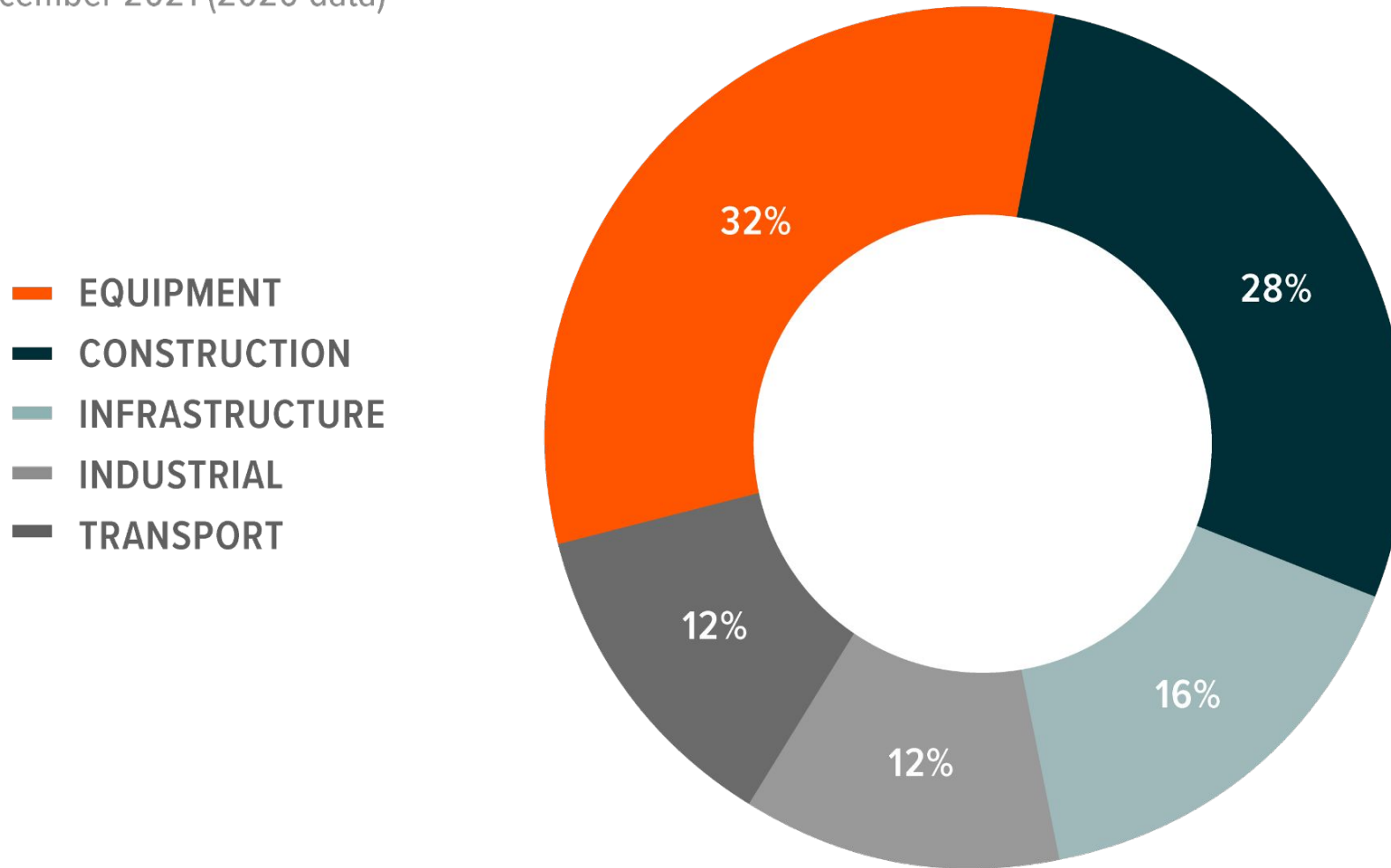
Markets and political fallout: Iron ore

- Iron ore doomed: held up up by 100mt idled recycling, infrastructure pig in the python. Manufacturing investment to follow trade down in 2023. Property falls ahead another 100mt in lost demand. All EAF will have to shut or BOF curtailment
- No international offset
- Supply to rise as Ukraine and India limits absorbed. 50mt more in 2023. 70mt in 2024
- Coking coal same but COVID supportive for now

Markets and political fallout: Copper

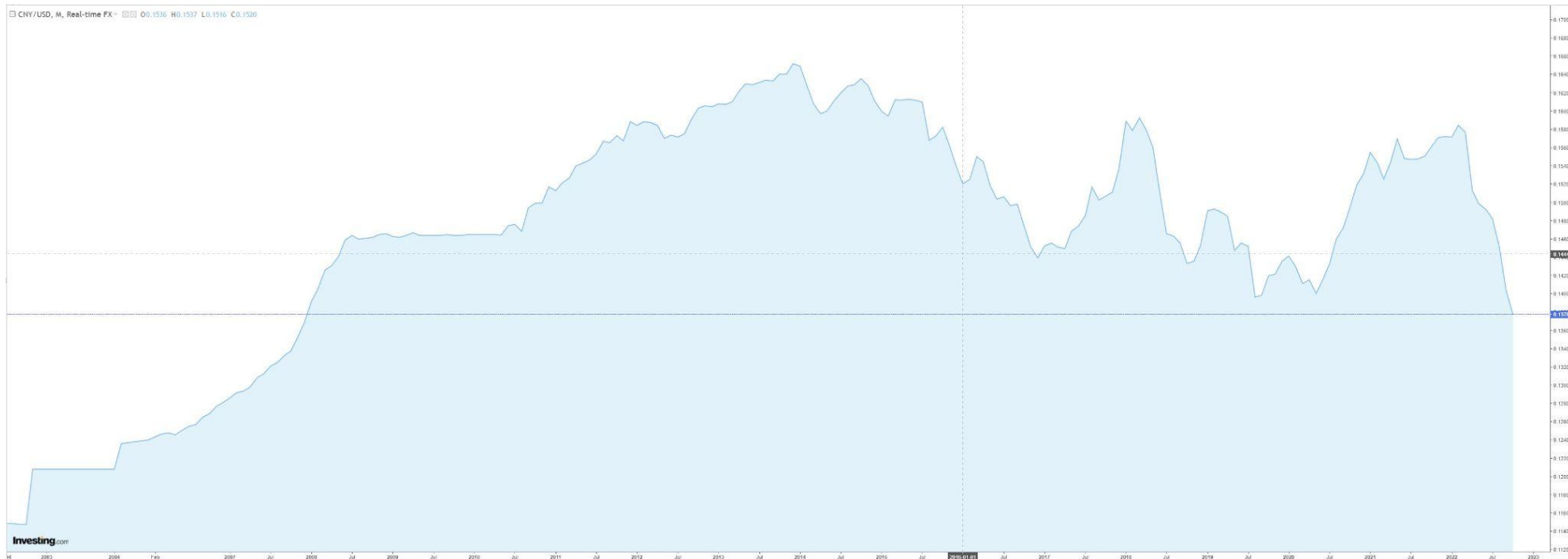
COPPER BY END-USE SECTOR

Source: International Copper Study Group, The World Copper Factbook 2021, 30 December 2021 (2020 data)



Markets and political fallout: Rise of the tyrant

- zero-COVID may have to end. Vaccinations not ready until mid-2023
- Political bellicosity doom loop as economy slows, Xi becomes more aggressive leading to capital flight
- Falling CNY and external crisis risk as Fed hikes



Viewer question of the week:

Is this the big one for China?

Drop your answers in the comments