Capital Markets Strategy
Essential inCights for the C-Suite

Chart of the Day

China's GDP growth rate, which averaged 9% in the 20 years from 1999-2019, is expected to drop more than 50% to an average of 4% area in the decade ahead from 2020-2030, and to 3% area in the decade that follows from 2030-2040.

In our view, China is unlikely to play its historical role as a counter-cyclical buffer for the global economy in the current cycle. In recent decades, when the global economy slowed down, China sharply increased policy stimulus, lifting "all boats" around it that were high beta to China growth (from SE Asian and European economies to energy and industrial metals markets). In our view, this is less true today, and in future cycles.

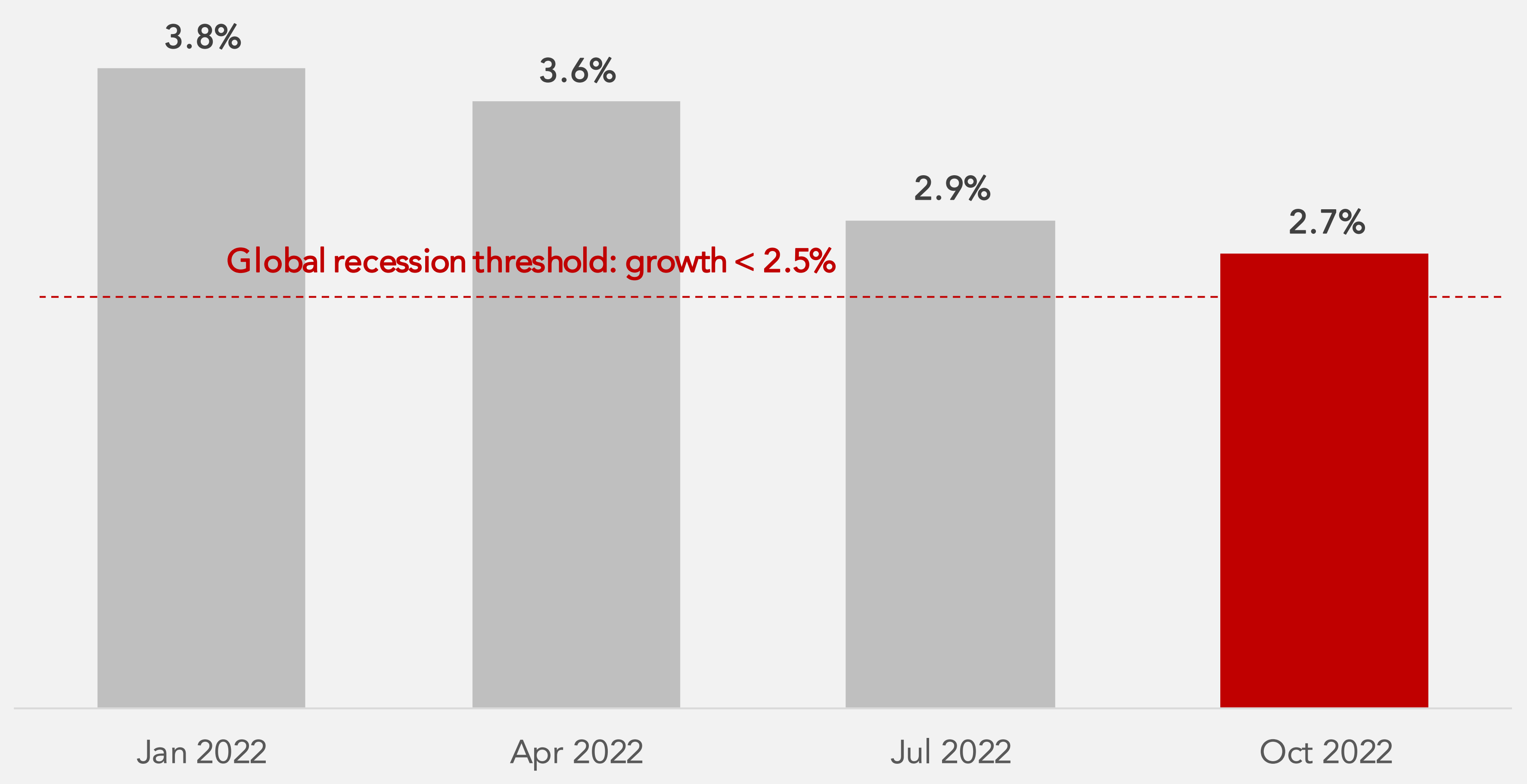
For one, China has its own litany of domestic growth challenges including a sizable commercial real estate crisis, a tepid Chinese consumer and a slowing export sector. **Secondly,** Chinese state media has made a concerted effort to dispel any suggestion that the Government will lift its zero COVID policy at the 20th National Party Congress which begins this Sunday, October 16. Given the low vaccination rate among its large and vulnerable elderly population, as well as "ideological" and "social control" policy positions, a relaxation of China's highly restrictive zero COVID policy appears unlikely anytime soon, or even before the end of 2023.

Thirdly, China under Xi Jinping has become more focused on the "quality" and "security" of economic growth than the "rate" of growth itself. Resilient and domestically driven 4-5% growth is more important than the more externally dependent investment and export driven growth rates of years ago. **Fourth,** policymakers have been more reticent to unleash excessive stimulus "this time" given China's rising debt burden across commercial real estate, SOEs and local governments. **Lastly,** demand in China's economy has been less responsive to the modest monetary and fiscal easing currently underway.

The implications for the global economy and markets are profound. China is unlikely to mitigate rising recession risk in the 1H 2023, nor is China likely to be the catalyst for a robust global recovery in the 2H 2023. Australia, Taiwan, Germany and South Korea are among those countries most exposed to China's slowdown, as evidenced by Australia's dovish 25 bps rate hike one week ago. Commodities most reliant on China growth in recent decades, such as oil and industrial metals, are also vulnerable, and likely factored into OPEC's larger than anticipated 2 m/b/d supply cut announced last week.

With its 4th downward revision this year, the IMF projects that the global economy will grow at 2.7% in 2023, just avoiding the 2.5% global recession threshold, though adding that they expect 1/3 of the global economy to contract this year or next. By comparison, we remain more concerned and believe that the global economy will likely enter its 7th recession since WW2 sometime in the 1H of 2023.

IMF 2023 global GDP growth forecast revisions, y/y



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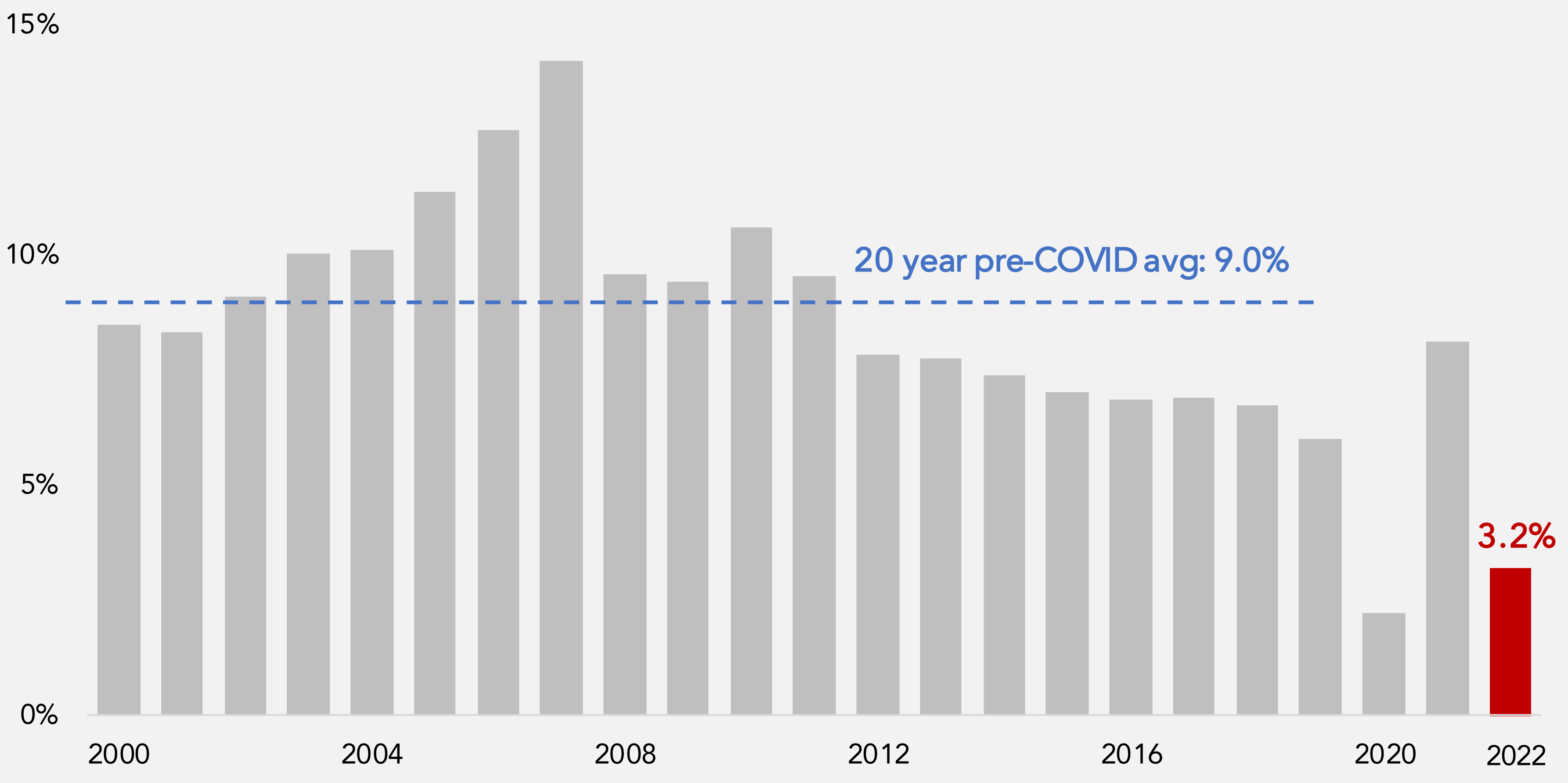
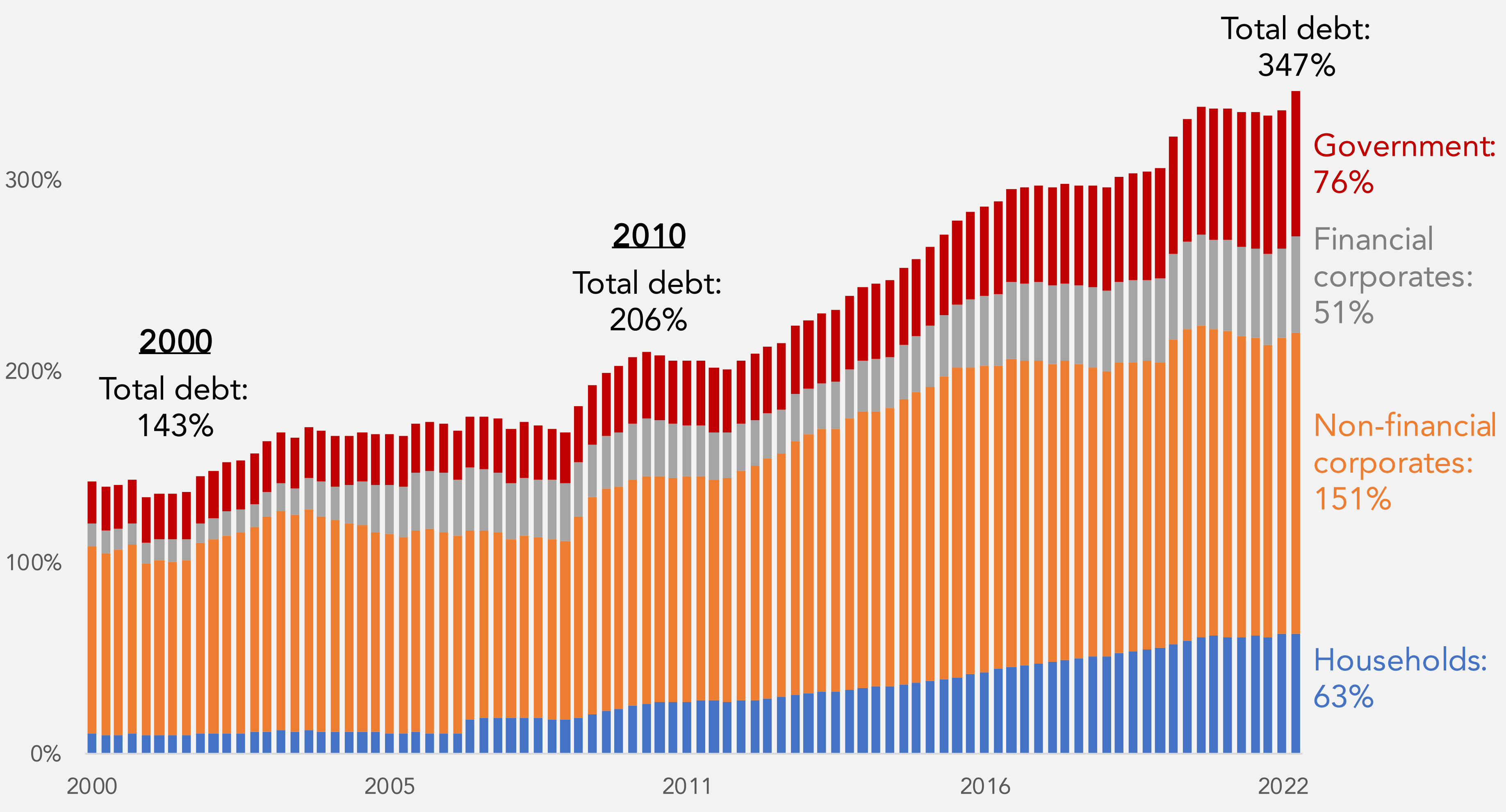
China GDP growth, y/y



China's policymakers have been more reticent to unleash excessive stimulus "this time" given China's rising debt burden across commercial real estate, SOEs and local governments.

Chinese debt as a % of GDP, by sector



Source: (1) IMF. (2) Oxford Economics. (3) IIF, Global Debt Monitor. Data as of October 11, 2022.

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"Macro stability isn't everything, but without it, you have nothing."