

Flash note
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China – Daily Follow Up

Evergrande, Real Estate & HY

- **PBOC Governor said that authorities can contain risks from Evergrande posed to the Chinese economy and financial system.** He said the company's liabilities were spread across hundreds of entities in the financial system so there is not much concentration. He added the rights and interests of creditors and shareholders will be fully respected however Beijing is also trying to protect consumers and homebuyers.
- **Evergrande CEO in Hong Kong for restructuring and sale talks:** China Evergrande CEO Xia Haijun has been in Hong Kong for more than two months holding talks with investment banks and creditors over possible restructuring and asset sales. Efforts to divest assets have not yet yielded much success.
- **Hong Kong financial watchdog launches probe into Evergrande's accounts:** Hong Kong's Financial Reporting Council is to launch an investigation into Evergrande's 2020 accounts. The inquiry includes its PwC audit because it had concerns about the adequacy of reporting on whether Evergrande could continue operating as a going concern.
- **China home sales slump 17% y/y as Evergrande crisis deters buyers:** Home sales by value slid 16.9% in September y/y, following August's 19.7% drop. Investment in Real Estate also slid (-3.5% y/y), the first time since the onset of the pandemic investment fall. Articles point out that the sales slump could lead to a vicious cycle by worsening cash shortages at developers, forcing them to offer larger discounts. "No one is buying new properties because they are getting afraid," Helen Qiao, chief Greater China economist at Bank of America Corp, said in an interview on Bloomberg Television. "So we could see further downside on the economy."

Energy Crisis:

- **China Coal prices surge again as early cold weather pressures demand and no significant increase yet in output data:** China's northern provinces have seen the first snowfalls of winter as temperatures dipped 10C in a few days. As a result, authorities in some affected provinces have brought forward the start of their heating season when local governments fire-up additional power plants to keep

homes warm. Coking coal and coke futures both jumped 9% in Beijing to record highs on stagnating output data. Zhengzhou commodity exchange's most traded thermal coal future price rose Monday to a fresh record high, with shorter-term contracts trading even above, also at record high.

- **China's energy crisis threatens lengthy disruption to global supply chains:** FT reported this week end how factory owners in China and their global customers have been told to prepare for power supply disruptions to “become part of life”. In Guangdong province, as many as 150K companies were hit by energy shortages last month with local officials warning rationing would probably continue.

Economy slows more than expected: China GDP came softer than expected:

- Q3 GDP expanded 4.9% y/y versus consensus 5.2% (and far below the 7.9% in Q2).
- This translated into q/q terms means an expansion of just +0.2% q/q (against consensus +0.5% and prior +1.3%).
- Industrial production rose 3.1% y/y in September (below consensus of +3.9% and far below last month's reading of +5.3% in August).
- Fixed asset investment grew by just 7.3% y/y YTD vs consensus 7.8% and 8.9% in Jan-Aug.
- Infrastructure investment was up shy by 1.5% (so the government did not help to offset the fall in activity)
- Several categories are now in decline, led by steel products, cement and autos.
- Q3 capacity utilization fell to 77.1%, declining from 78.4% in Q2.
- The retail side was the only providing good news, as retail sales rose by 4.4% y/y in September, ahead of consensus 3.5% and 2.5% in August

We keep our cautious stance on this economy and its risky assets.

Best