

Flash note 27/10/2021

Alex Fusté

@AlexfusteAlex

alex.fuste@andbank.com

Daily Follow-Up: Noise in the REIT continue. Energy crisis normalizing.

Real Estate sector crisis. Some noise to continue. What's new?

- China real estate sector is eying grim in October according to early indicators: Real-time economic data in October showed an under-the-surface deterioration, with Real estate sales dropping again in the first few weeks of October. Other sectors (auto sales) also looked grim. These figures were offset by the buoyant export sector and strong imports.
- Another property developer misses payment on a dollar bond: Modern Land (1107.HK) said in a filing that it had not repaid principal and interest on its 12.85% senior notes that matured on Monday due to "unexpected liquidity issues". The stock remained suspended for the day. Regulator (NDRC) would meet with property firms carrying large dollar-denominated debts this week to take stock of their total issuance volume and repayment capability.

Central Bank: The PBOC is not being very active in managing this crisis and isolating the risk of contagion

- The China Securities Journal gave figures of the recent PBOC activity, noting liquidity injections corresponded only with seasonal tax payments and an acceleration in local bond issuance. This also means a lower likelihood of a RRR cut although signs of further slowing in the economy could put pressure on the PBOC to ease.
- Why is not being active? The answer could be either that the PBOC already considers that the risks are mitigated, or it maintains a passive attitude because it wants some companies (the most indebted ones), to suffer a punishment for not having been prudent.

Energy Crisis normalizing. Prices continue falling suggesting that problems with energy shortages are being fixed

- China coal futures continue under pressure: China coal futures fell down 7% from yesterday's close and are now off by around 40% from last week's peaks.
- The regulator (NDRC) said it continues studying a mechanism to stabilize coal prices in the long run. It also said it would investigate energy price index providers amid complaints that some have used false transaction prices, fabricated price data and manipulated price indexes.

- The NDRC will held a meeting with the coal industry association and major producers on Friday to discuss 'reasonable' prices and profit levels in the industry.
- China's crude oil output rose 3.2% y/y in September to a total of 16.61M tonnes; the rise was 0.9% higher than August (Xinhua).

New Covid-19 outbreak hitting the economy

- The city of Lanzhou in the country's north west has been placed in lockdown today after a Covid outbreak expanded on Monday. It has a population of around 4.3M people and is home to an oil refinery, metal plants and petrochemical complexes.
- China's new Covid flare ups hitting the country faster than ever. Covid outbreaks are flaring up at a faster rate than ever before, questioning how long the country can hold out with its zero-Covid strategy.
- Beijing expects new Covid outbreak to worsen in next few days as infection spreads (after 35 new cases were reported on Sunday, up from 26 on Saturday). There were now infections in 11 provinces and urged infected areas to adopt "emergency mode". Inner Mongolia and Gansu provinces were the worst infected provinces, but cases were found in Beijing too.
- Hong Kong's government has said it will stick to its zero-Covid strategy despite pleas from global banks to loosen its strict quarantine policy. It said that "other places that have opened have seen an increase in infections, hospitalizations and deaths. HK focus would be on reopening borders with mainland China.

Geopolitics: Beijing accuses Taiwan President of reviving two-state theory

- China-Taiwan tensions rose again, with relations between sides taking a downward step this month after Taiwan president Tsai Ing-wen said two sides are "not subordinate to each other".
- Allies described comments as "reiterating status quo", however Beijing interpreted the phrase as coming close to reviving "two-state" theory. Just recall how Taiwan president Tsai said in 2020 that Taiwan was already an "independent country" without having to declare it as so, but also has not forced the issue, allowing US, Japan and others to maintain its "strategic ambiguity" stance.
- US-China. US Treasury Secretary Yellen and Vice Premier Liu He have held their second phone call in four months. It was described as "pragmatic and constructive" by the Chinese side, The press noted that "the tone of the call was more positive than in June though little incremental progress was made on economic and trade issues".

Best