

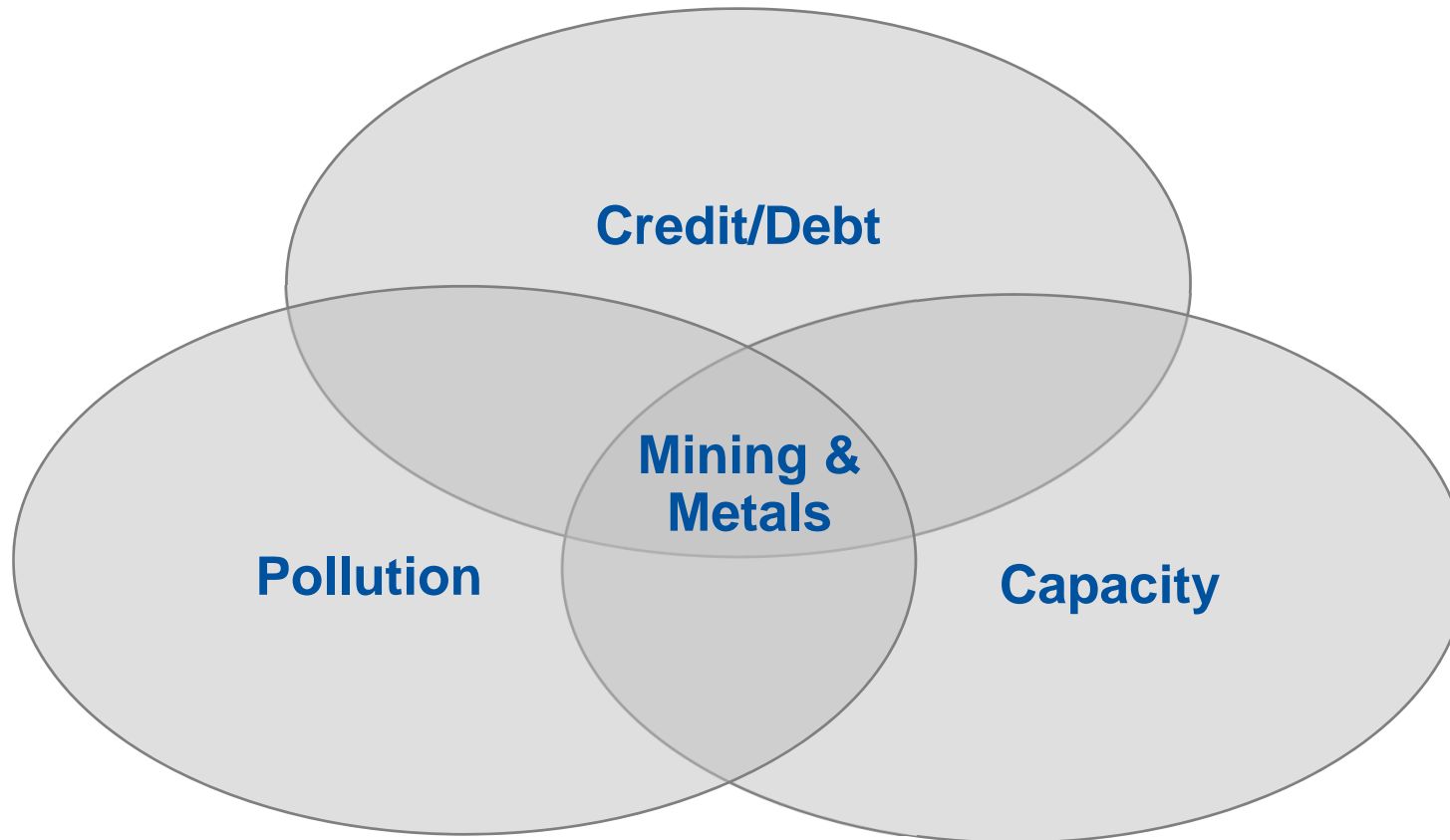


# China's outlook following the 19<sup>th</sup> Party Congress

Society of Business Economists, 4<sup>th</sup> December 2017

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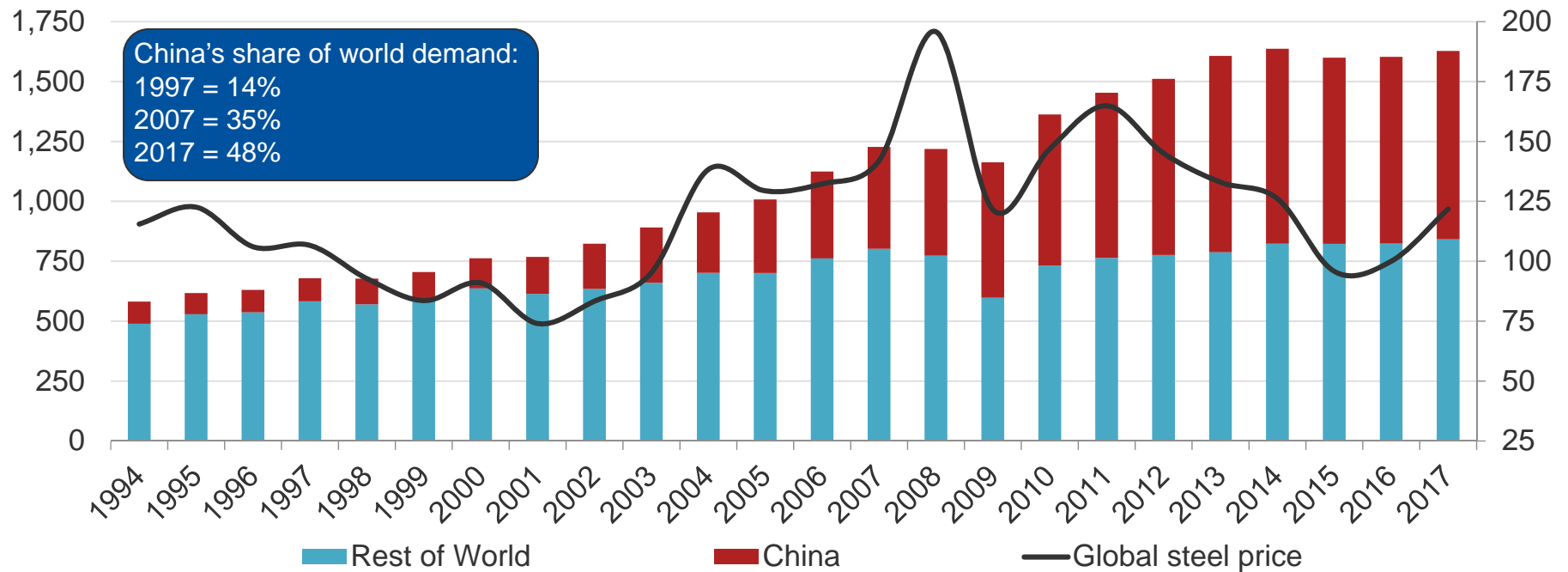


## Rapid, investment-intensive growth means China dominates global metals markets...

### World steel demand and real price

Apparent consumption of hot-rolled finished steel, millions of tonnes

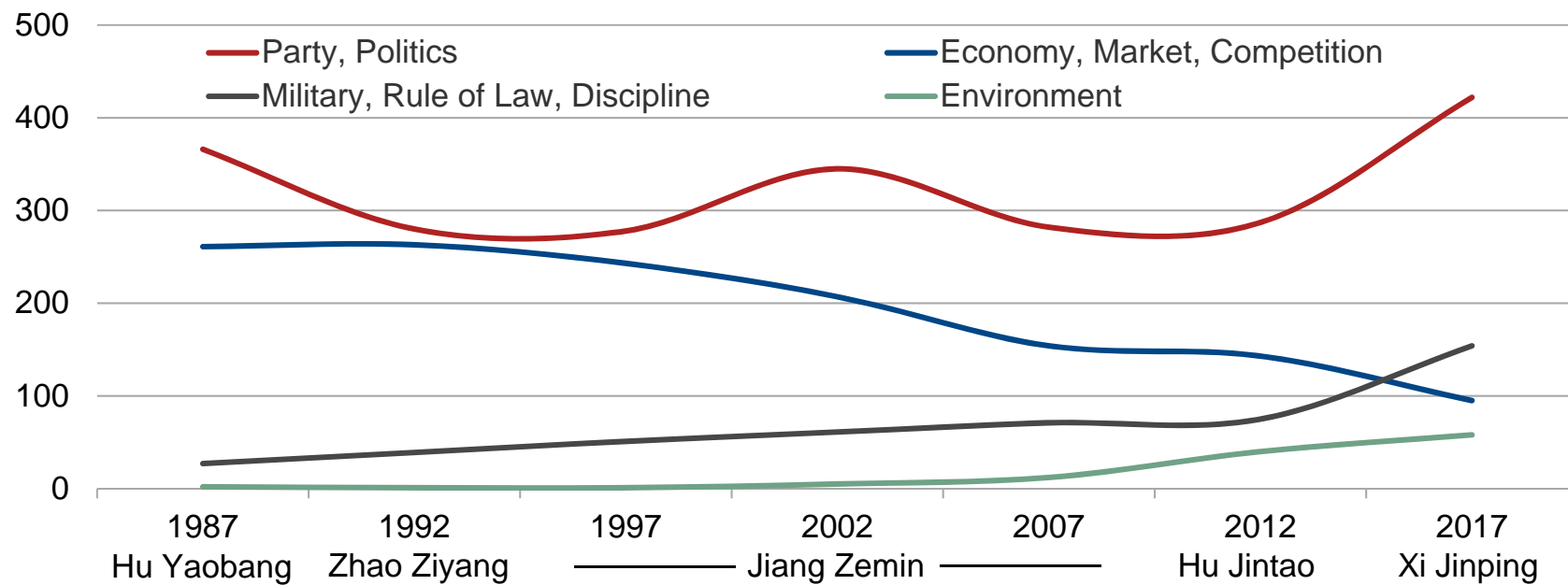
2016 = 100



Data: CRU. Steel price is CRU's global steel price index (CRUspi), deflated by the US GDP deflator

## ...but the economy is not the priority in President Xi's "New Era"

Number of occurrences of words and phrases in Congress Presidential opening speeches

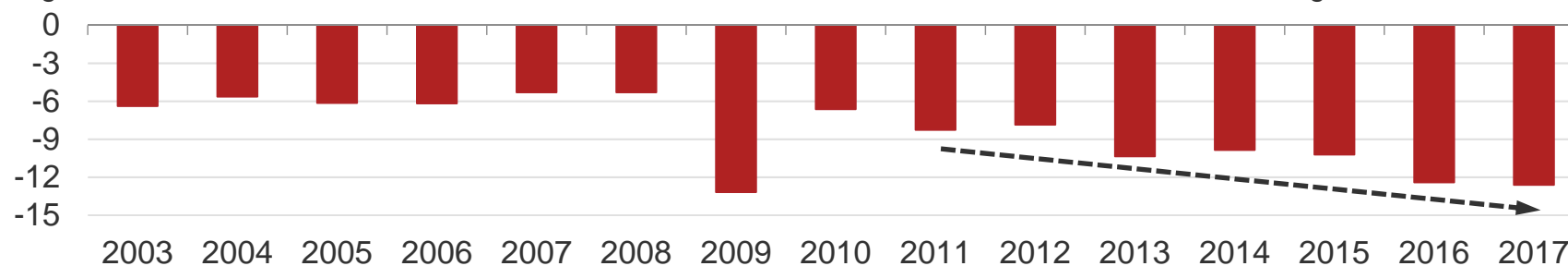


Data: Capital Economics, CRU

## Fiscal policy and debt accumulation is unsustainable and must change...

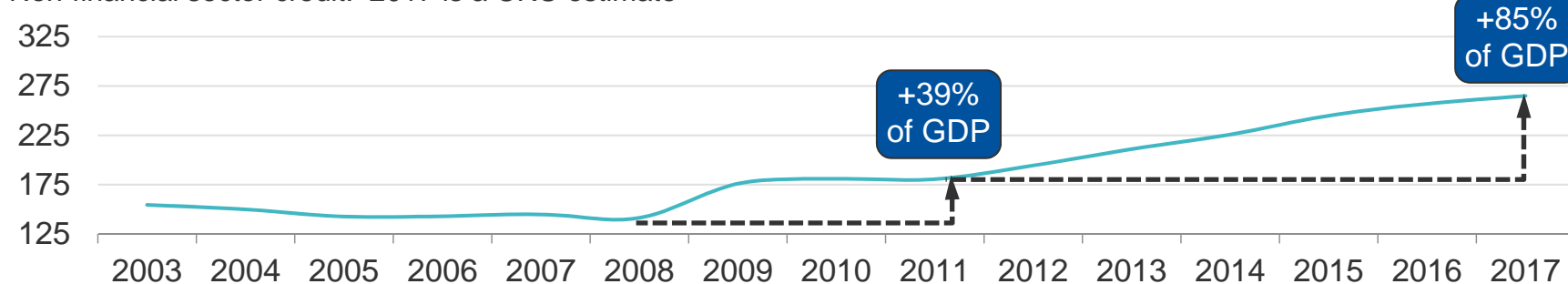
### Government fiscal balance, % of GDP

Augmented deficit, which includes central and local on and off-balance sheet revenues and borrowing



### Credit share of GDP, %

Non-financial sector credit. 2017 is a CRU estimate

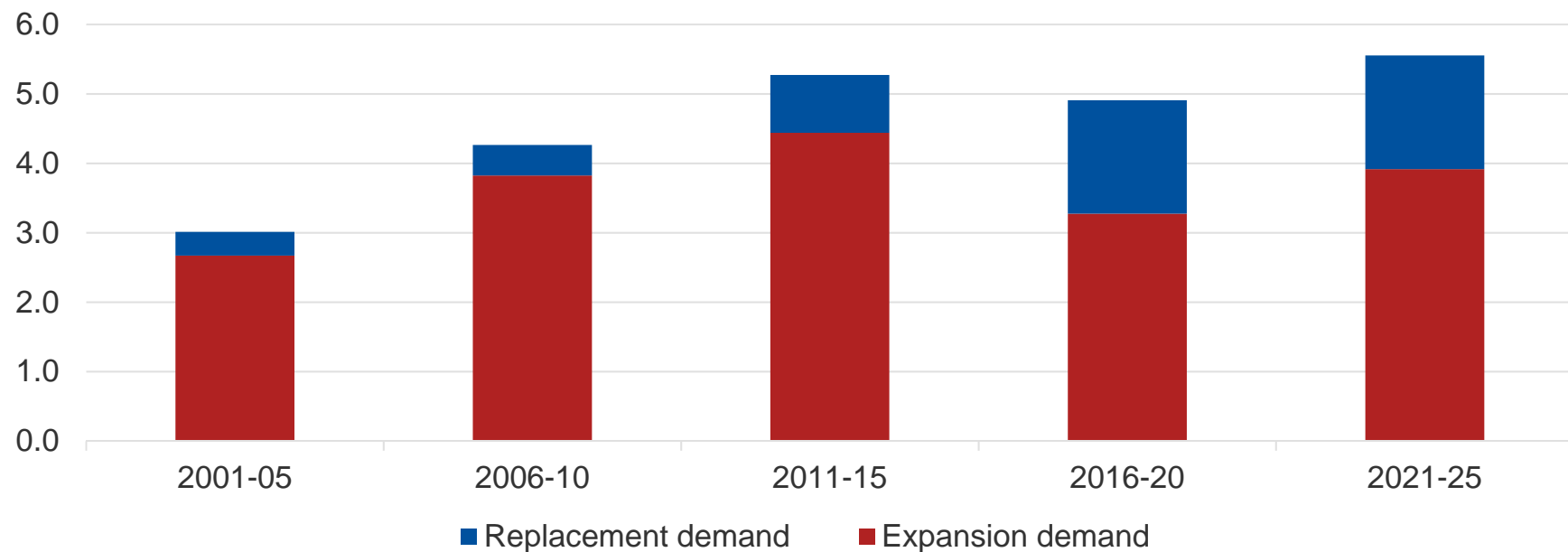


Data: IMF, BIS, CRU

## ...a tightening policy stance will hit investment and construction...

### Chinese residential completions: by type of demand

Billions of metres squared

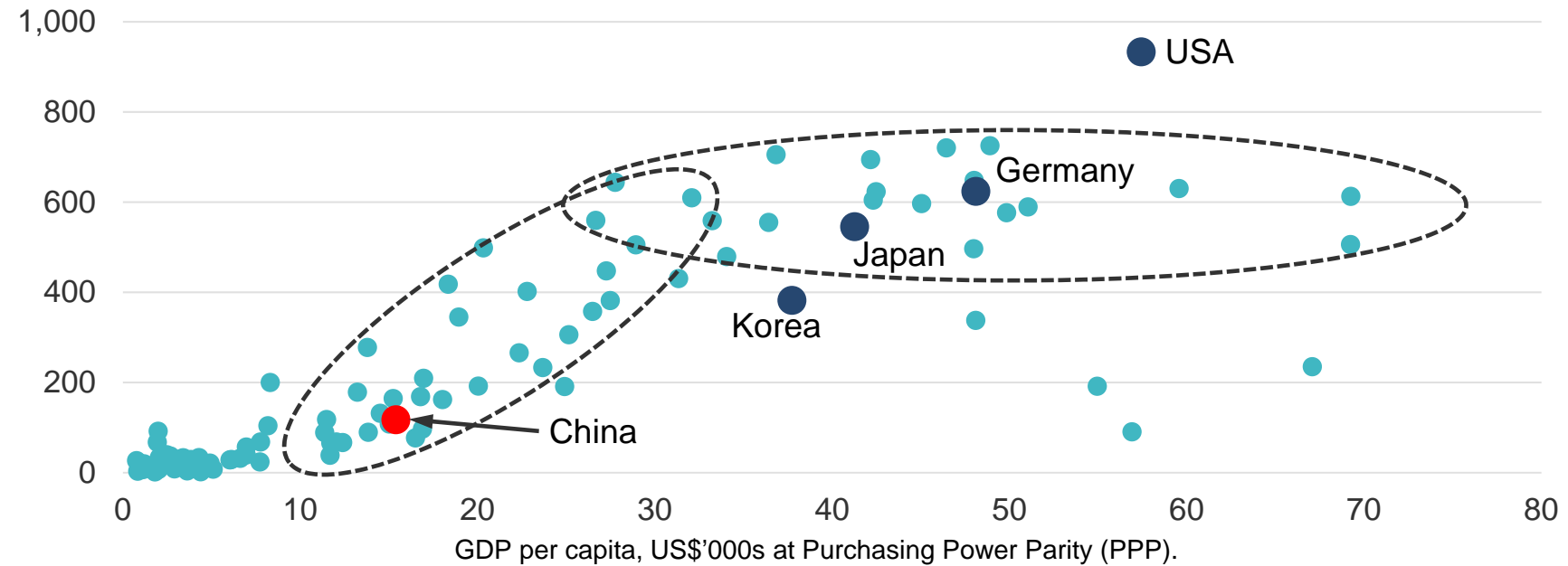


Data: CRU. Urban residential completions only.

## ...but other metal consuming sectors still have growth potential

### Car ownership versus GDP per capita

Ownership: cars per thousand people of driving age

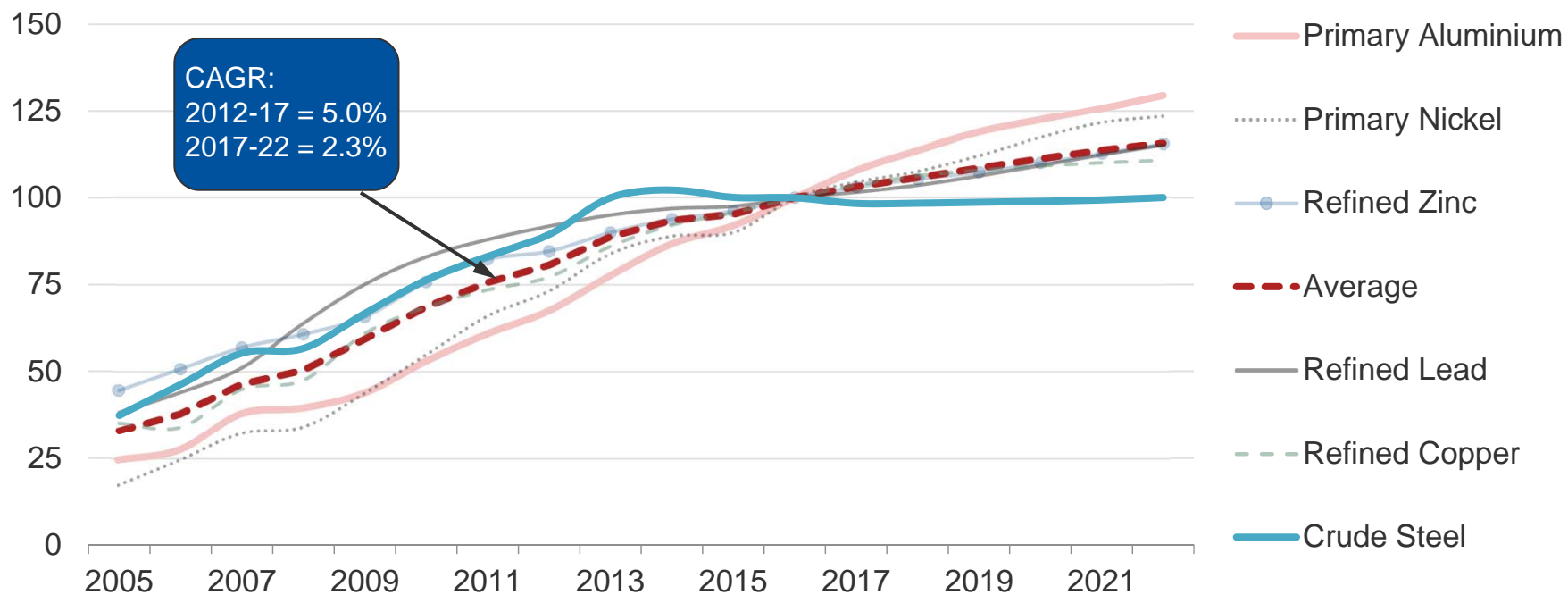


Data: LMCA, OICA, IMF, CRU. In North America, "Cars" include light trucks for personal use.

## Metals demand growth will slow, with end-use sector exposure a differentiator

### Chinese metal demand

Apparent consumption, 2016 = 100

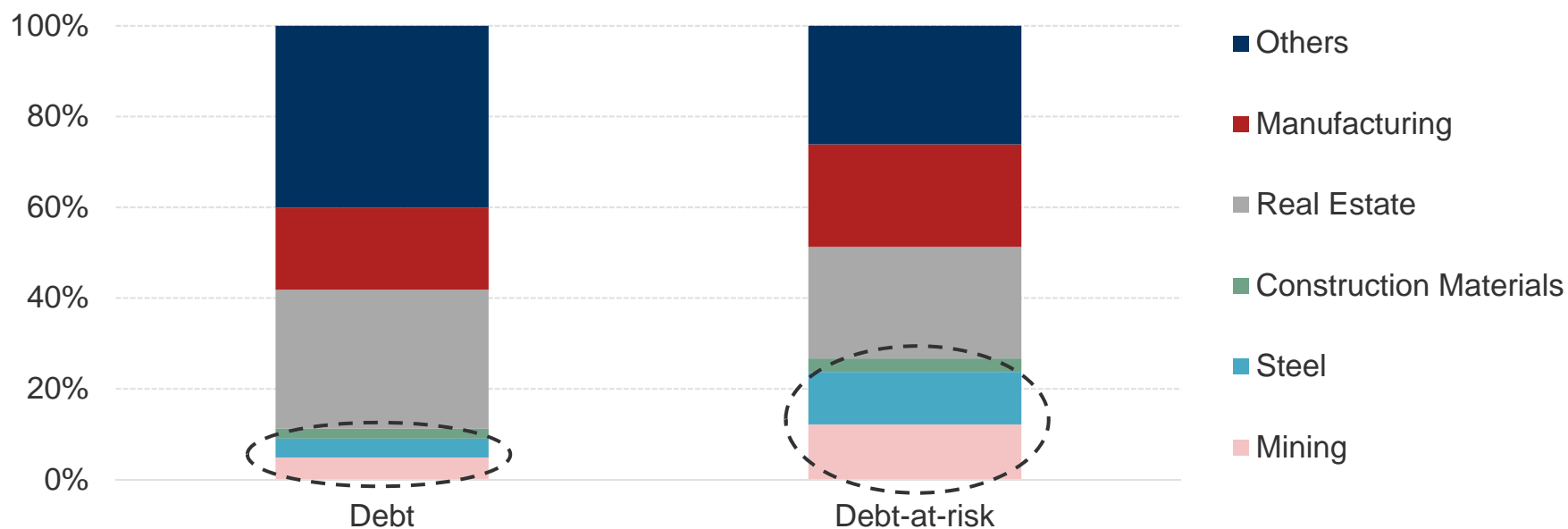


Data: CRU. Average is an unweighted average of the indices for the six metals.



## High debt and weak profits put mining and steel at the centre of default worries in 2015 and 2016...

Corporate debt and debt-at-risk by sector in 2015, shares of totals (%)



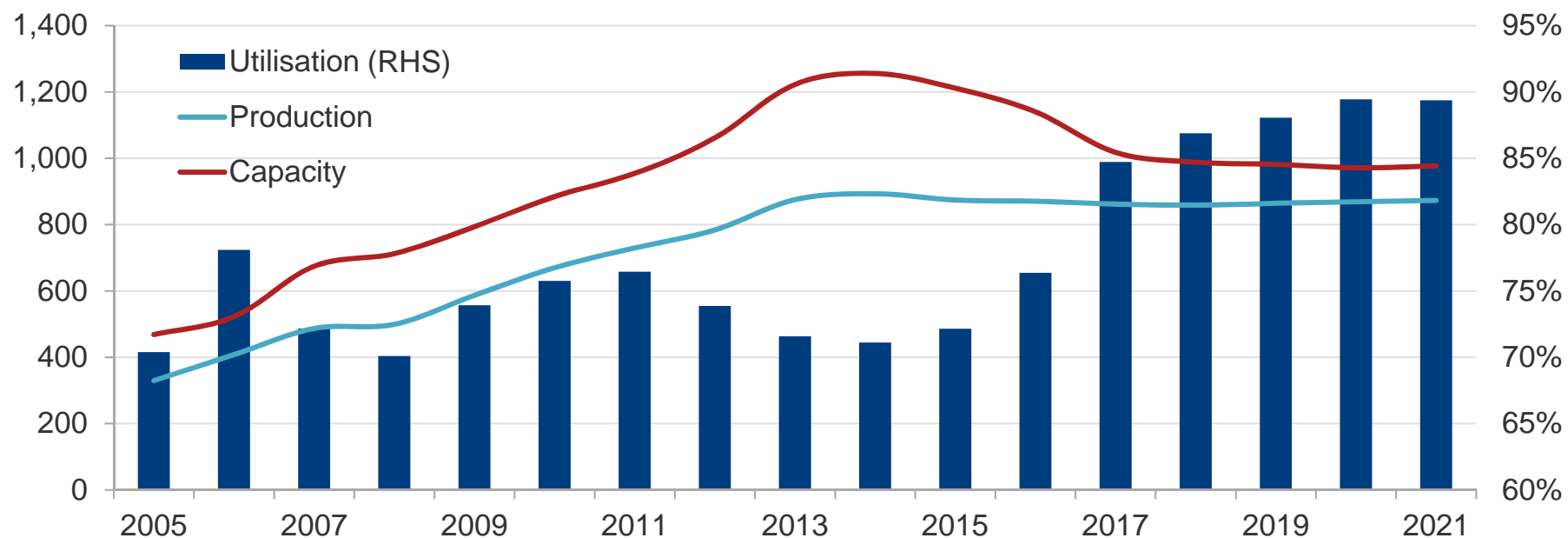
Note: Non-financial firms only. Debt-at-risk defined as debt of corporates with ratio of EBITDA to interest expense of less than 1.

Data: IMF Financial Stability Report, April 2016, CRU

## ...the government is enforcing massive capacity cuts, boosting profitability

### Carbon steel production, capacity and utilisation rates

LHS: Chinese carbon crude steel capacity/production, Mt/y; RHS: Implied utilisation, %

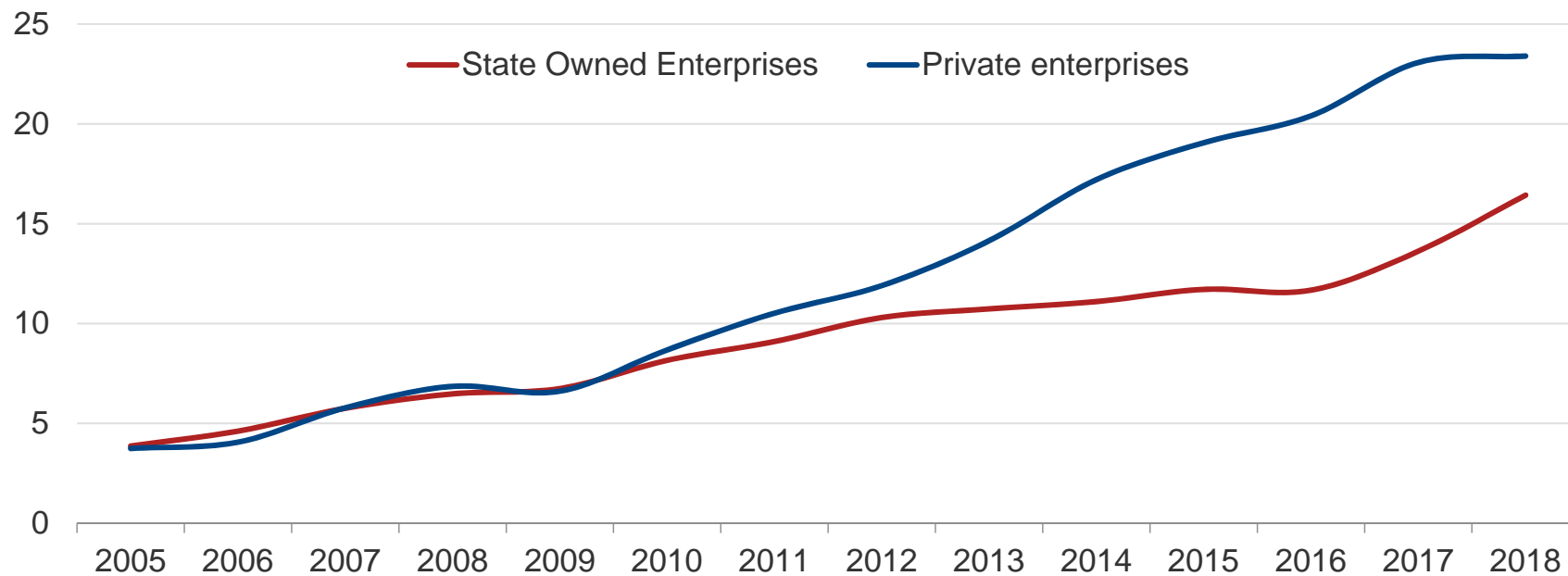


Data: CRU

## The government is prioritising SOEs at the private sector's expense...

### China primary aluminium production by ownership type

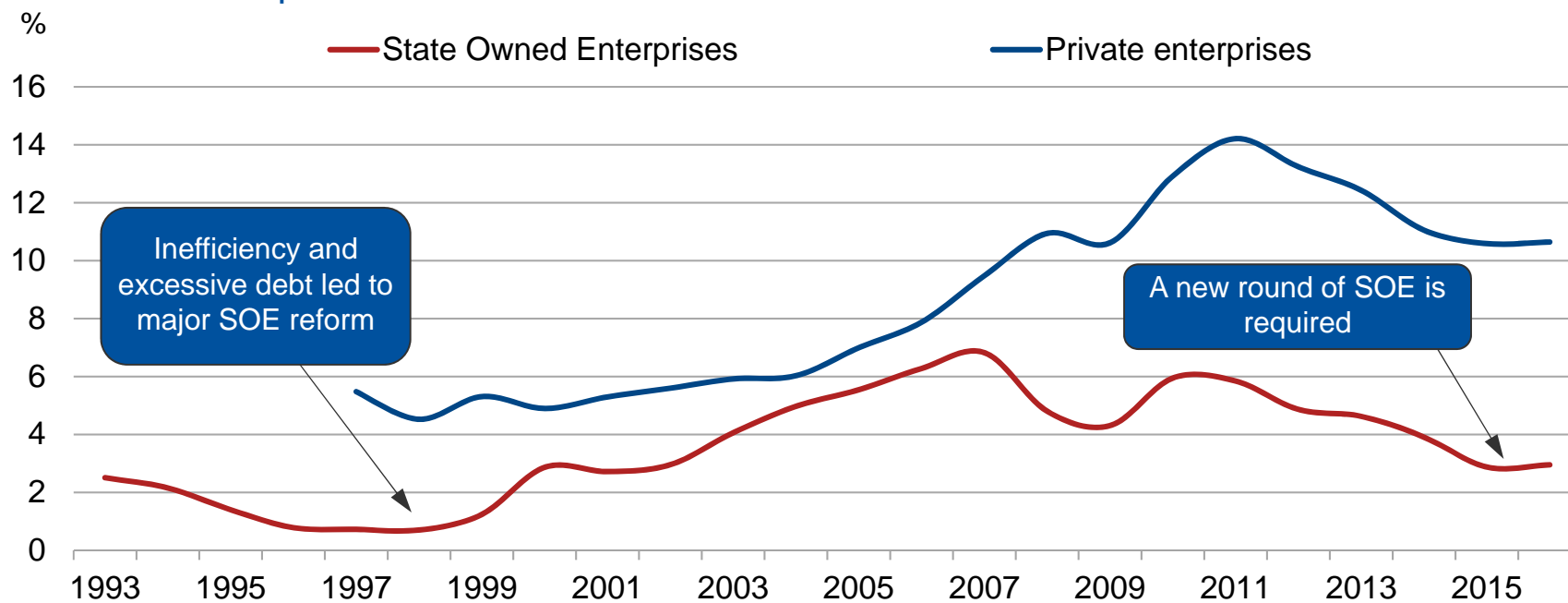
Millions of tonnes



Data: CRU

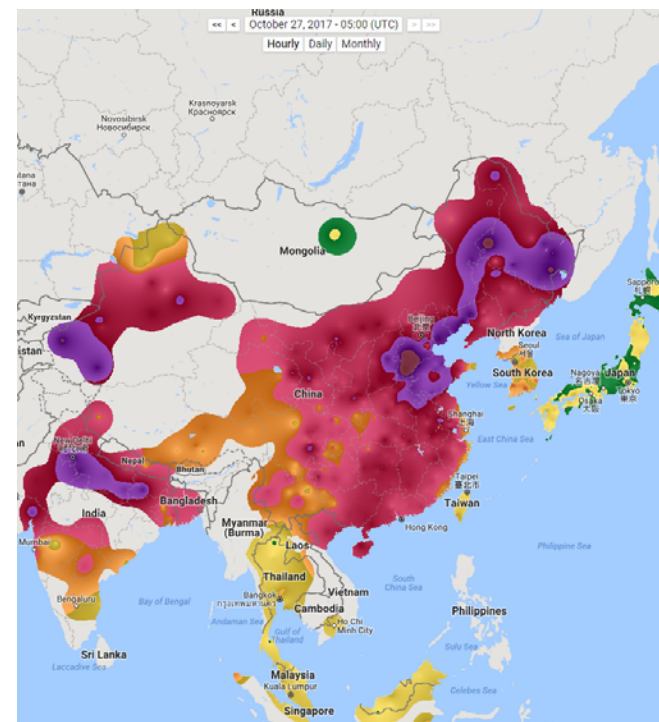
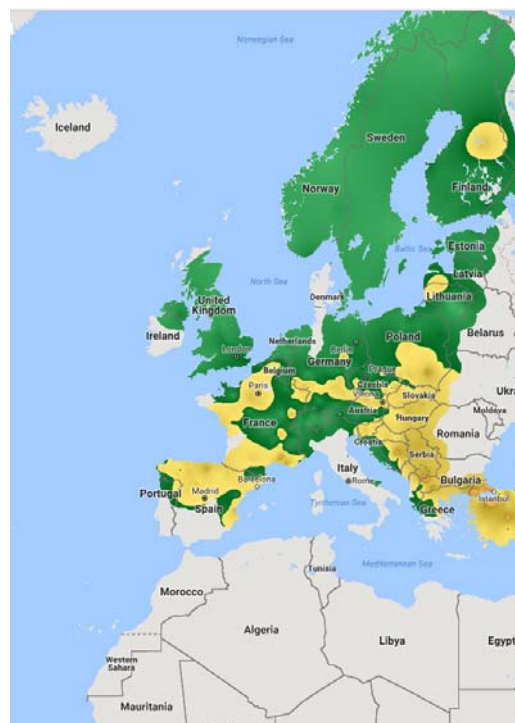
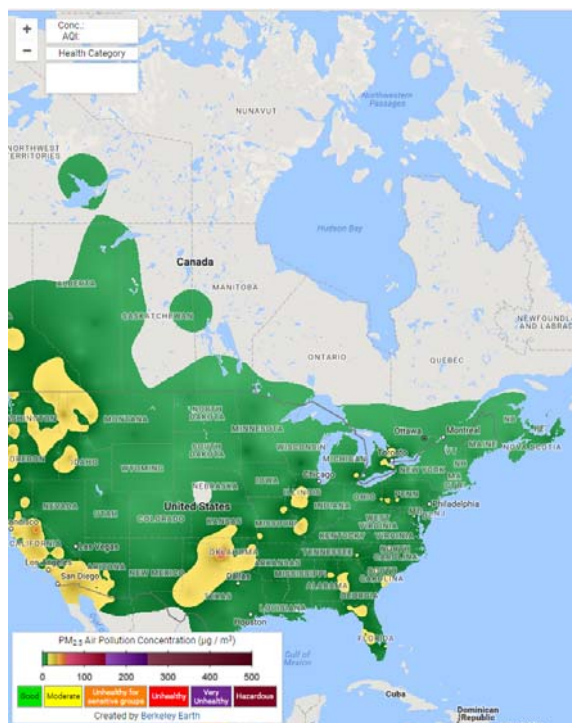
## ...which points to lower economy-wide returns on assets

### Industrial enterprises return on assets



Data: CRU

## Pollution is a severe problem and is influencing policy, such as winter output cuts



Source: <http://berkeleyearth.org/air-quality-real-time-map/>

## Conclusions

The Communist Party's priority is to remain in power

Action is being taken on pressing issues...

...but symptoms are being treated, not causes

Expect evolution of economic policy, not revolution

## Contacts



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