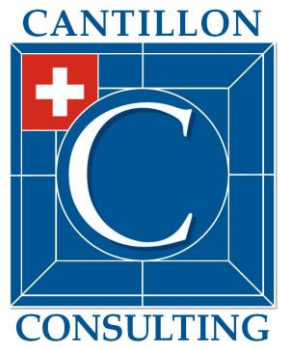


Money, Macro & Markets

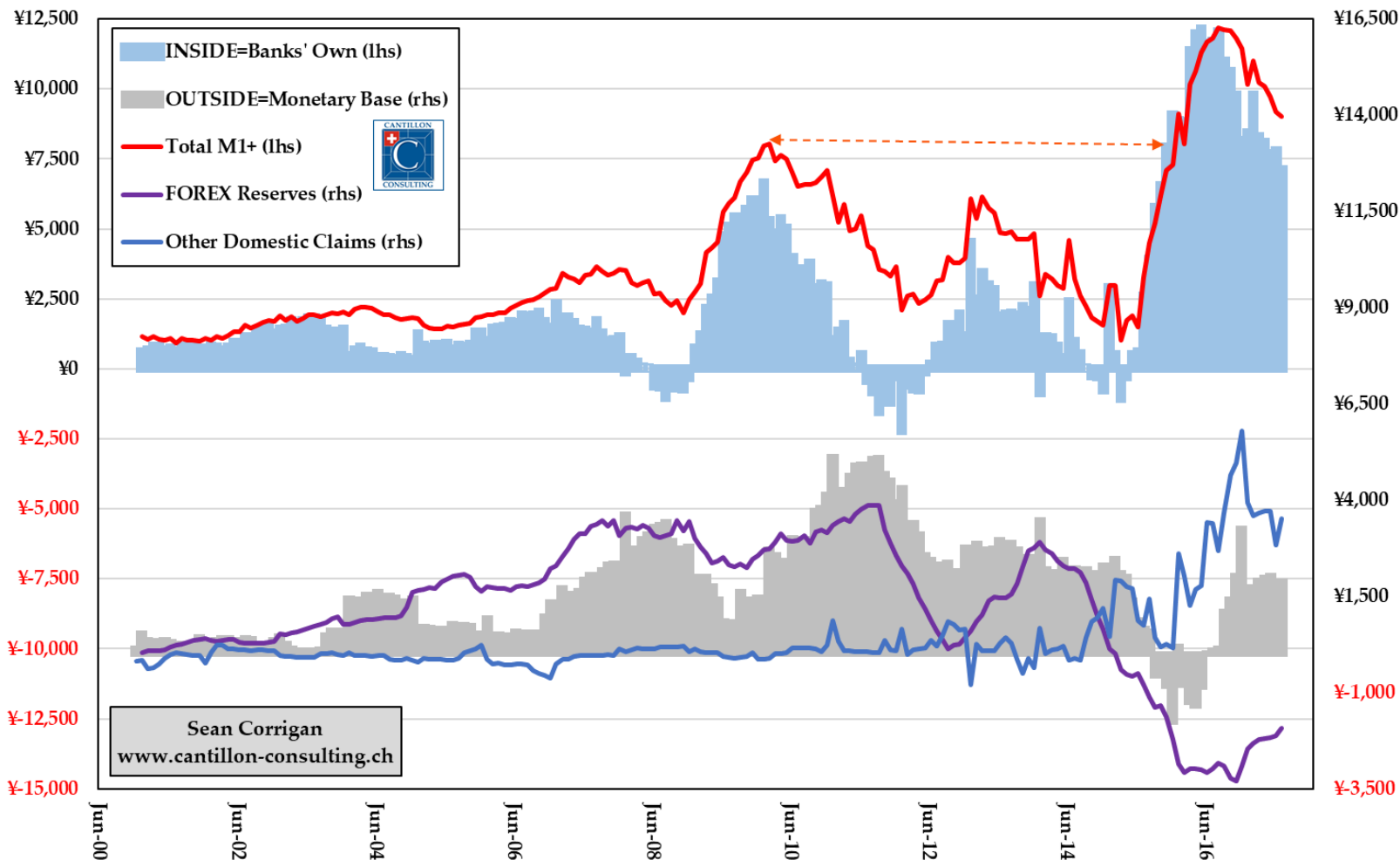
Monday, Aug 21st

Sean Corrigan



China: Is the tide turning?

China Inside & Outside Money: M1+ & PBoC Assets, YOY, blns: Source - PBoC



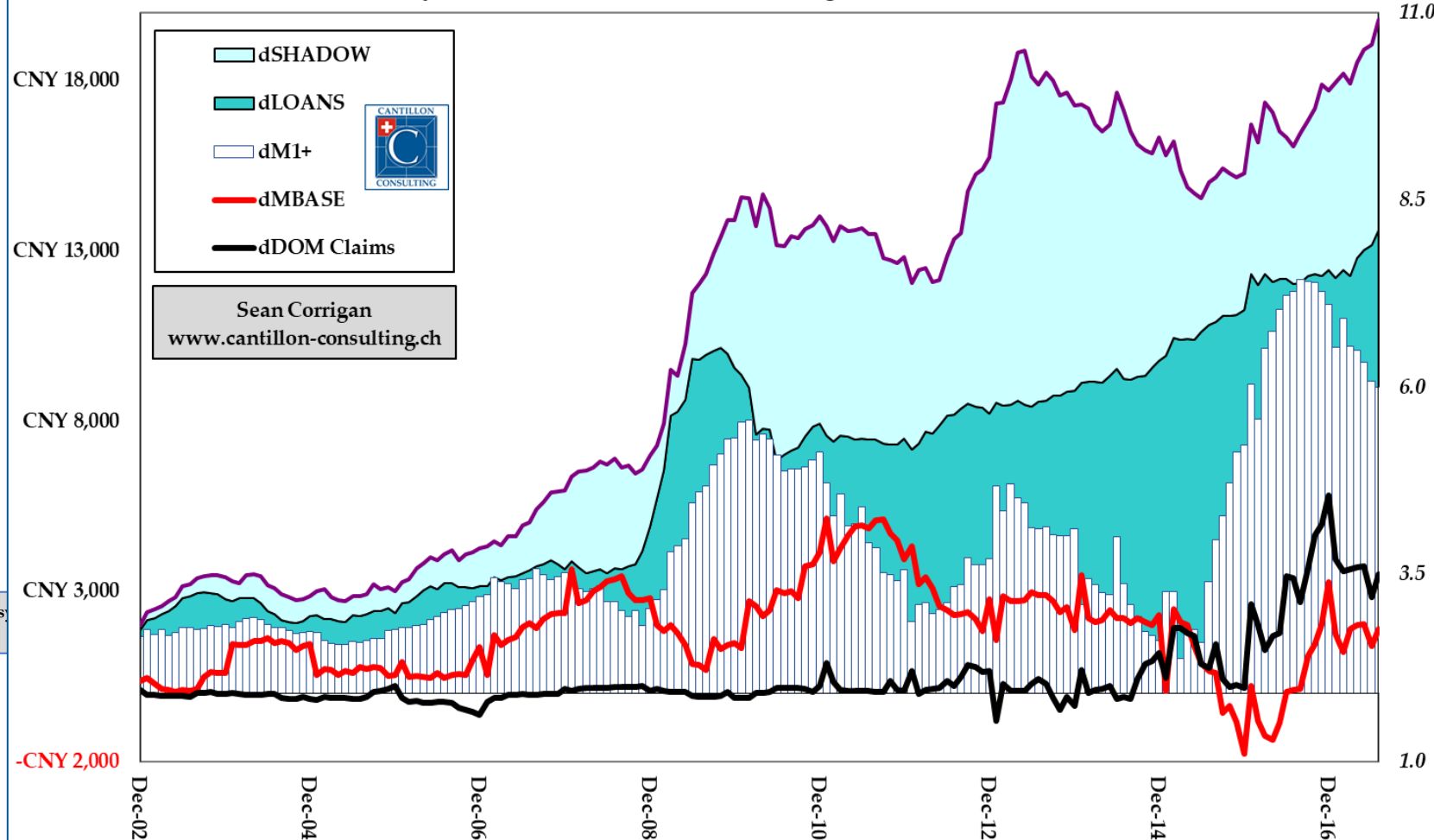
When China first started losing forex reserves in the latter half of 2014, the impact was initially to shrink the monetary base and so to tighten domestic conditions. Before long, however, the PBoC began countering the drain by adding copious amounts of liquidity (the steep rise in the 'other claims' category, q.v.) - particularly once the stock bubble collapsed 2 years ago.

Spurred on by this, banks' own money creation efforts hit unheard-of heights, swelling M1+ by no less than CNY1 trillion-a-month in the run-up to last summer.

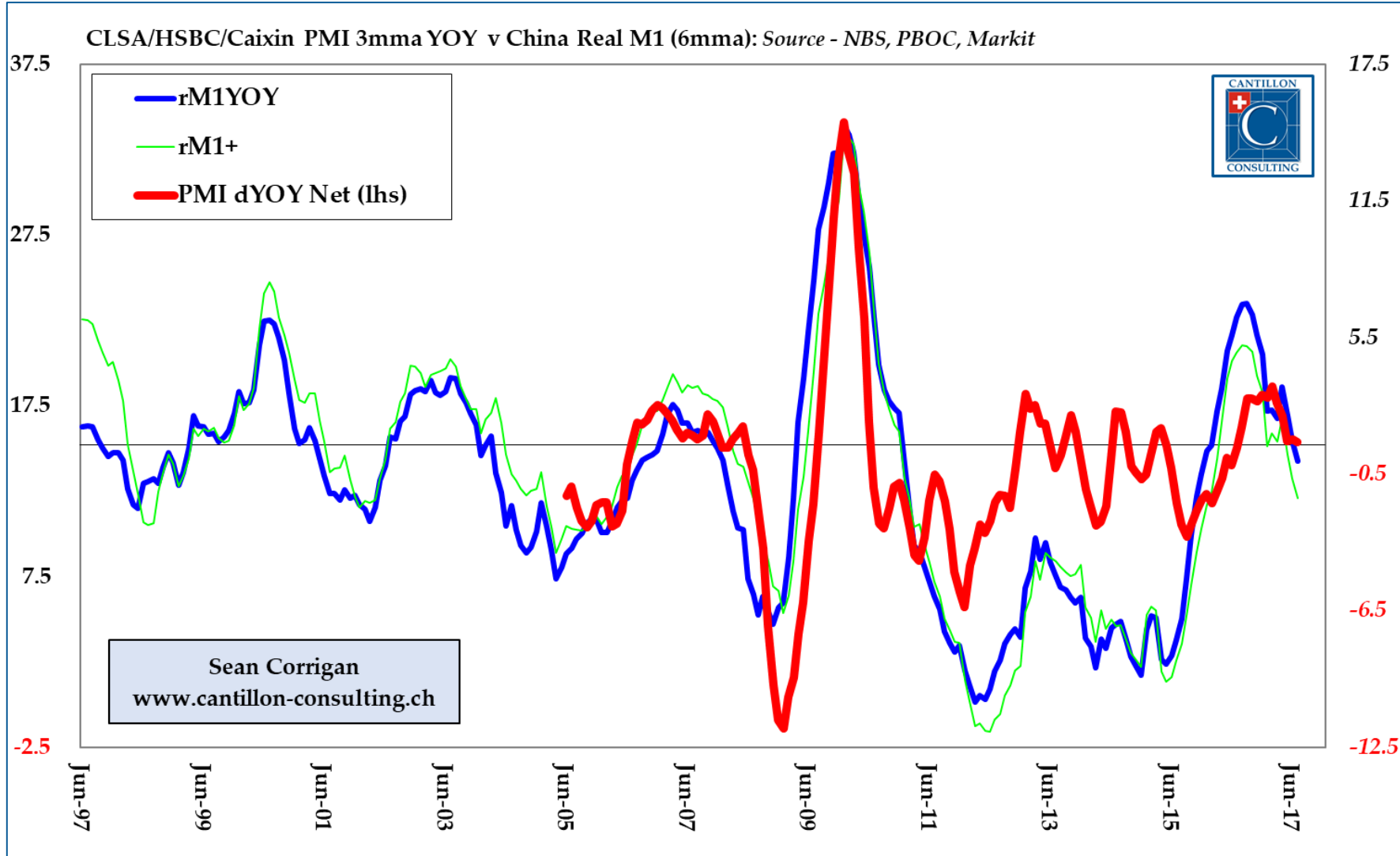
Commodity prices responded in due course; producer prices in general surged with them and – perhaps of greatest import – the real estate bubble expanded ever more rapidly.

Though still elevated, note that the magnitude of such additions is now dwindling (ergo the percentage change is falling even more dramatically).

China Cumulative Money & Credit Additions, 12mos running, blns: Source - PBOC



Here, we add to the previous chart a look at what has been happening on the asset side of bank balance sheets (as well as beyond that, out in the 'shadow' system). Note that, at last year's peak, **ALL** new loans were generating M1 holdings. i.e., **NOTHING** was being devoted to savings, only to what are implicitly transactional accounts. When credit expansion cannot generate even ex-post, 'forced' savings to mitigate its impact, the price inflationary impact is at its greatest. Recent months, however, have seen a partial cooling as M1 additions have lessened. The fact that the pace of both loan and shadow increments has simultaneously increased, means that other sources of funds are being utilized to a greater degree, notably those originating from foreigners, the bond market, and the PBOC itself.

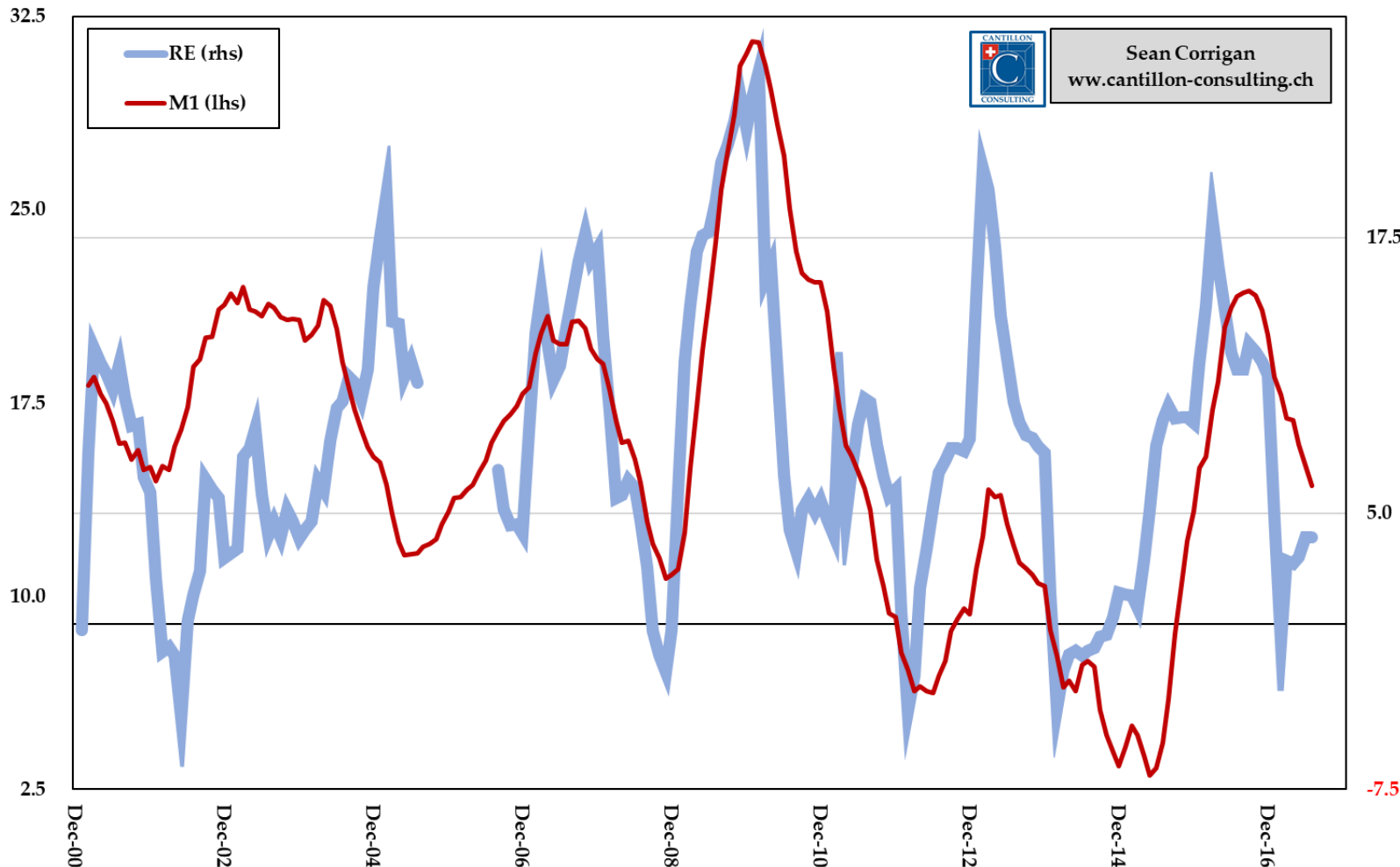


As the deceleration has progressed, the PMI has shown its expected downward response. In due course, company revenues - and ultimately profits - will follow if this is long maintained.

Greater recourse to receivables financing (funded partly by recourse to shadow finance) can delay full recognition of this awhile, but it cannot fail to impair either the magnitude or the quality of earnings as it works through the economy.

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China RE CNY/m2 v M1+, 3mma YOY: Source - NBS, PBOC



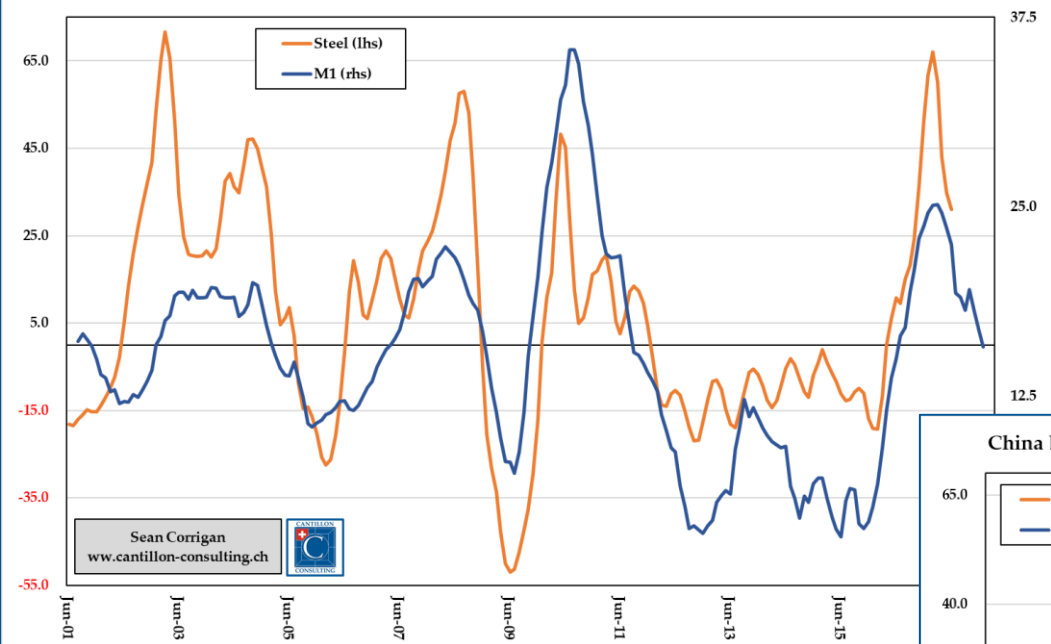
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In constructing this series of residential real estate prices, we are well aware of the annoyingly variable impact of the Lunar New Year, as well as issues regarding the homogeneity of coverage in the official statistics. We are also fully cognizant of the noise created by the incessant ‘macro-prudential’ meddling which is applied to China’s property markets.

That said, we think this is reasonably representative of the broader trends, especially in more recent years when – once again – the link to the laxity or tightness of monetary conditions is only too evident.

One thing to note: the likely causality is that the urge to buy property encourages banks to lend and the new credit granted to that end *then* ends up swelling new, re-spendable money on the other side of the ledger as a result.

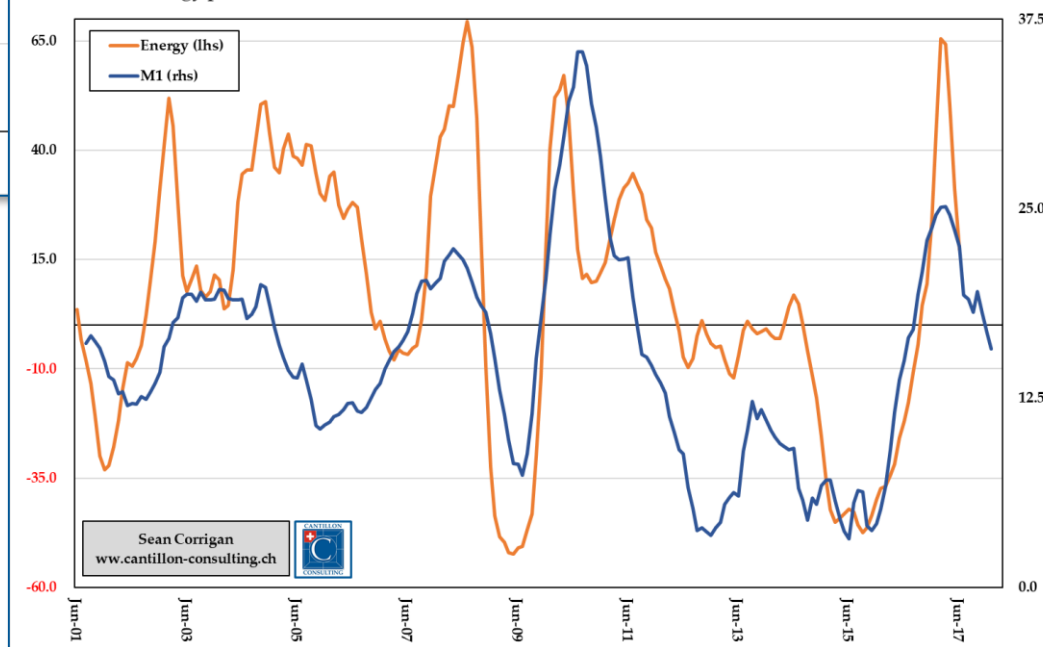
China Steel price t+6 v M1, 3mma YOY: Source - CRU, PBOC



China Base Metals price t+6 v M1, 3mma YOY: Source - IMF, PBOC



China Energy price t+6 v M1, 3mma YOY: Source - IMF, PBOC



It is hard to argue that these trends do not continue to play a determining role in industrial commodity pricing, especially in that kind of all speculative contracts, steel rebar.

Follow the money!

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