

"MAY YOU LIVE IN INTERESTING TIMES"

- CHINA IN THE 2020s -

Confucius or Not Confucius

James Morton

Wednesday 15th September 2021

President Xi's China

A 100 years since the founding of the Chinese Communist Party



- **Overall Objectives**

1. Communist Party Control
2. A Moderately Prosperous Society (and more equal)
3. A Cleaner Country



- **Key Policy Priorities**

1. SOE Reform
 - CPM on Board of all SOEs
2. Levelling up
3. A comprehensive menu of environmental initiatives and regulations



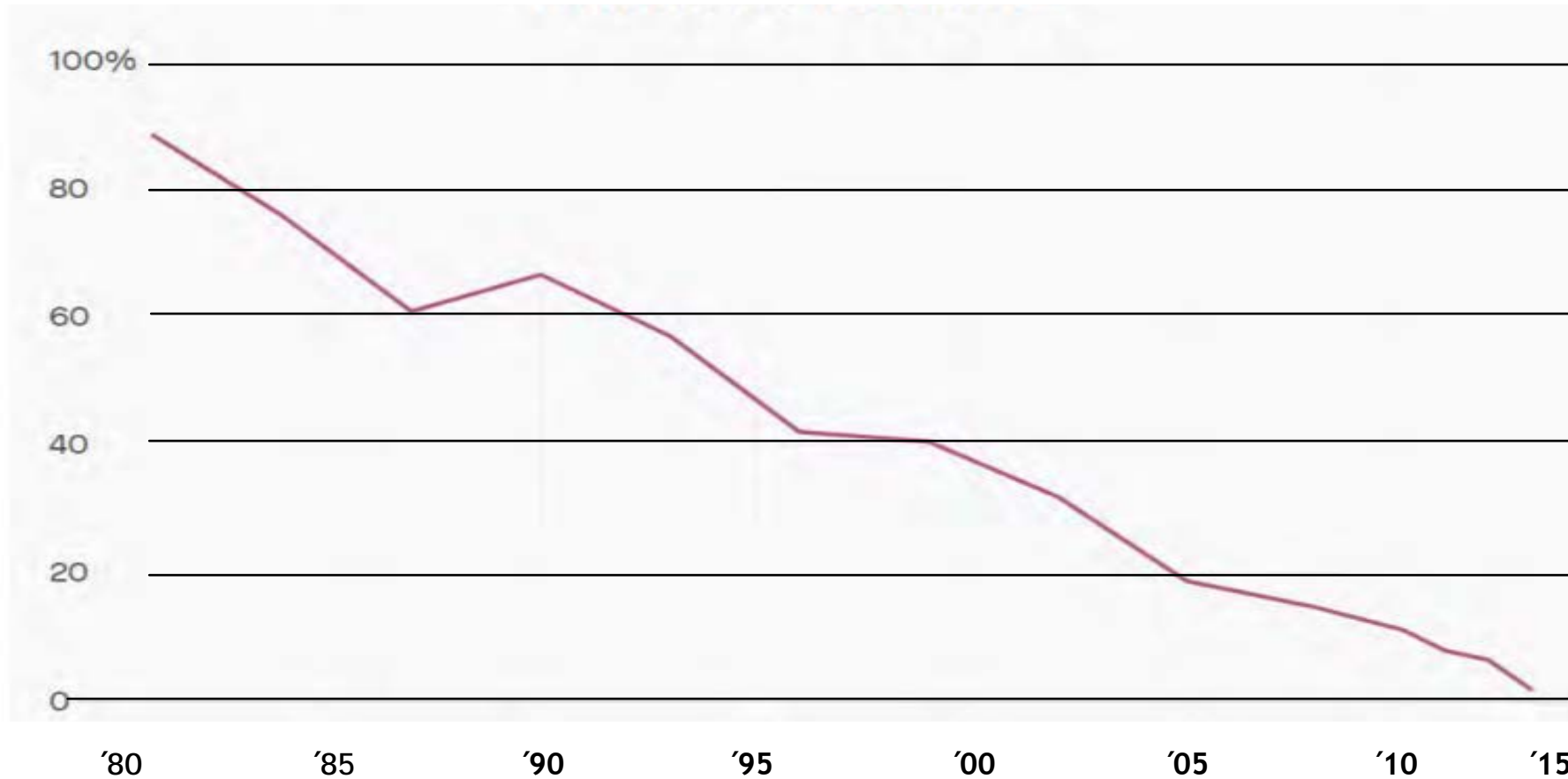
- **Signature Initiatives**

1. One Belt, One Road/
Regional Comprehensive
Economic Partnership
2. Greater Bay Area
3. Made in China 2025

China has Changed, is Changing and will Continue to Change

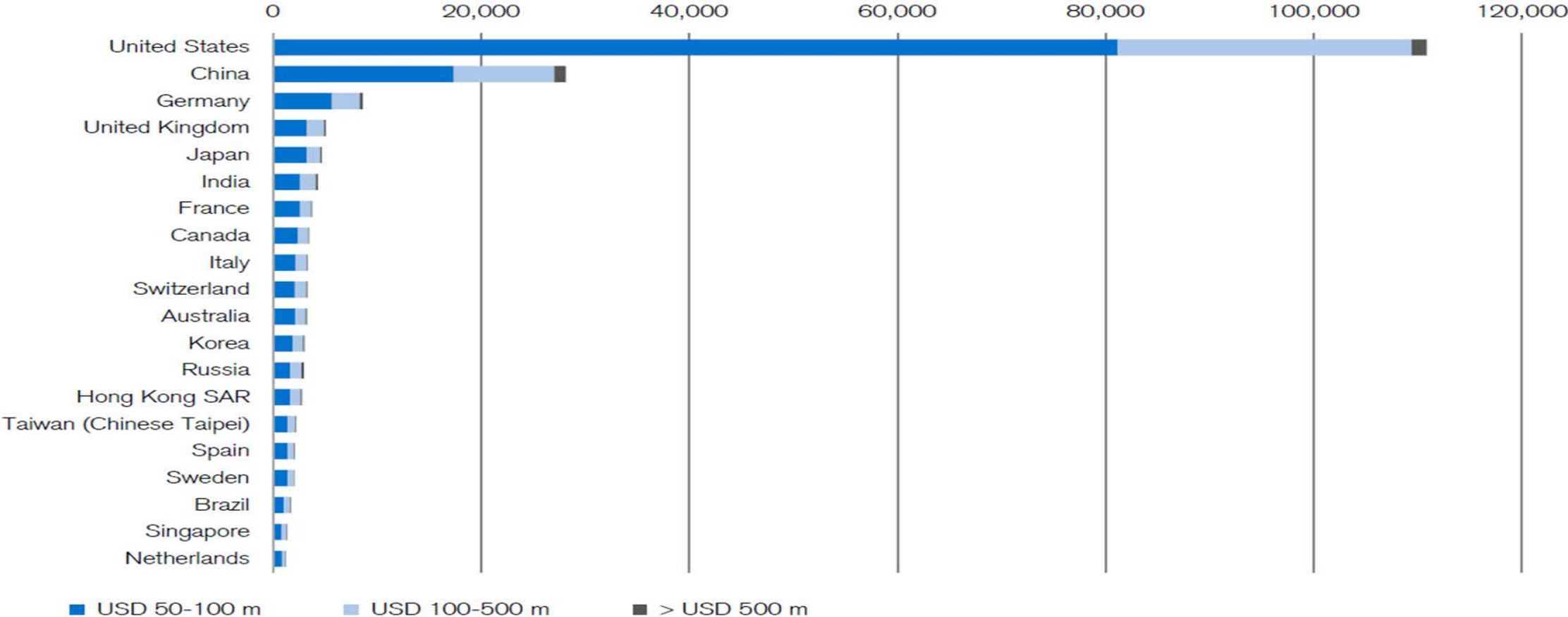
- Poverty is disappearing/more rich people
- Declining population/workforce
- Slowing money supply growth
- The Li Keqiang Index stabilizing (ex-COVID)
- Investment balance is shifting
- Shift in Foreign Investor concerns
 - Currency
 - Inflation
 - Regulation

China's Poverty Rate (1980 - 2015)



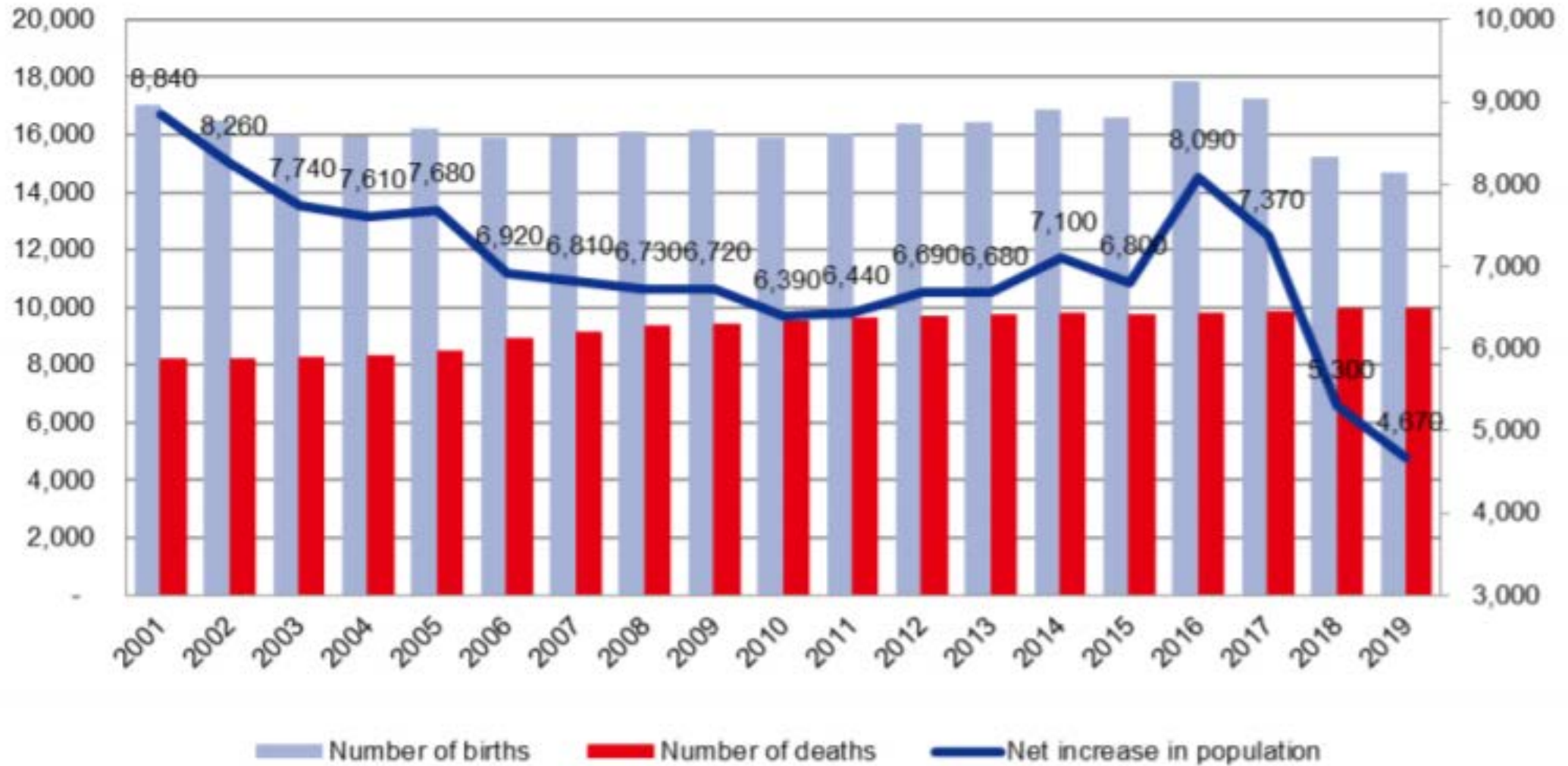
Source: World Bank

Ultra High Net Worth Individuals (2020)



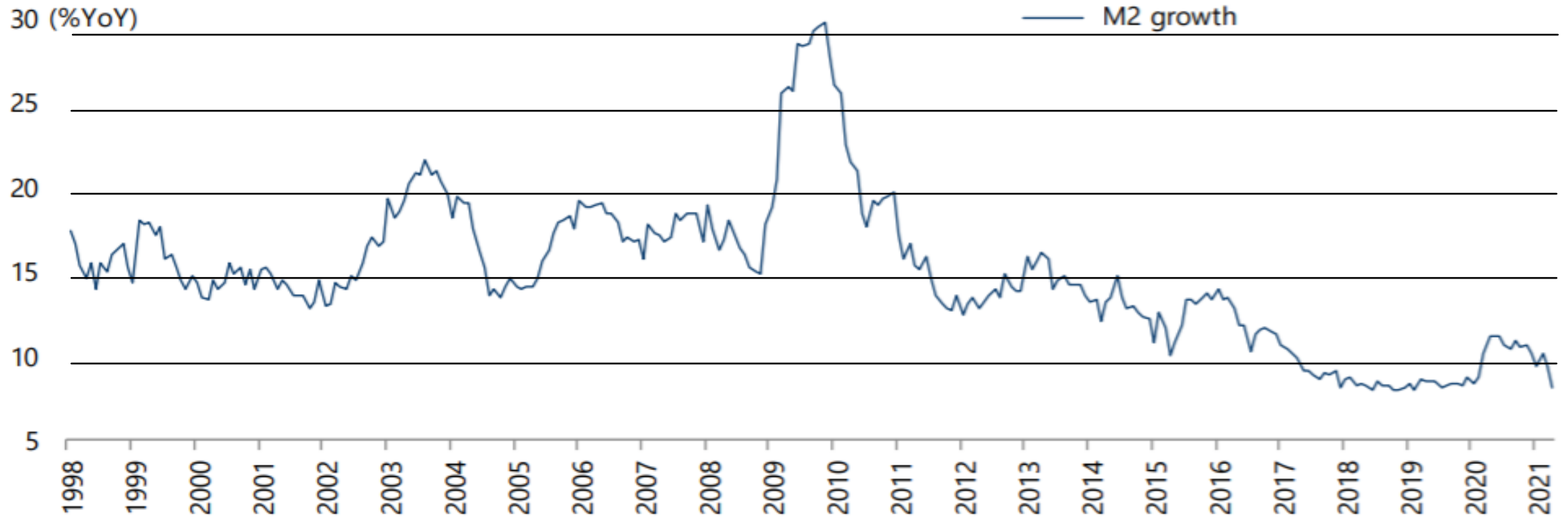
Sources: James Davies, Rodrigo Lluberas and Anthony Shorrocks, Credit Suisse Global Wealth Databook 2021

Changes in China's Population



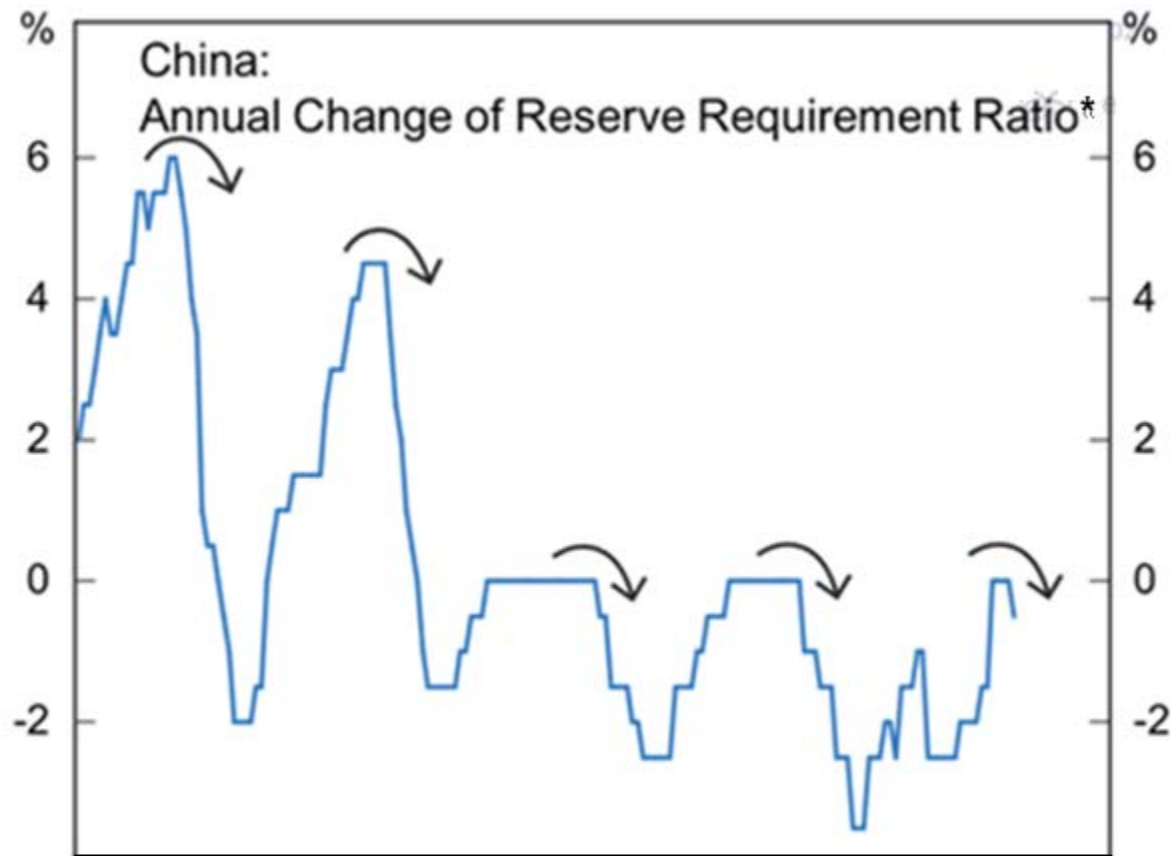
SOURCES: CGIS RESEARCH, WIND

Growth in Chinese Money Supply (1998-2021)

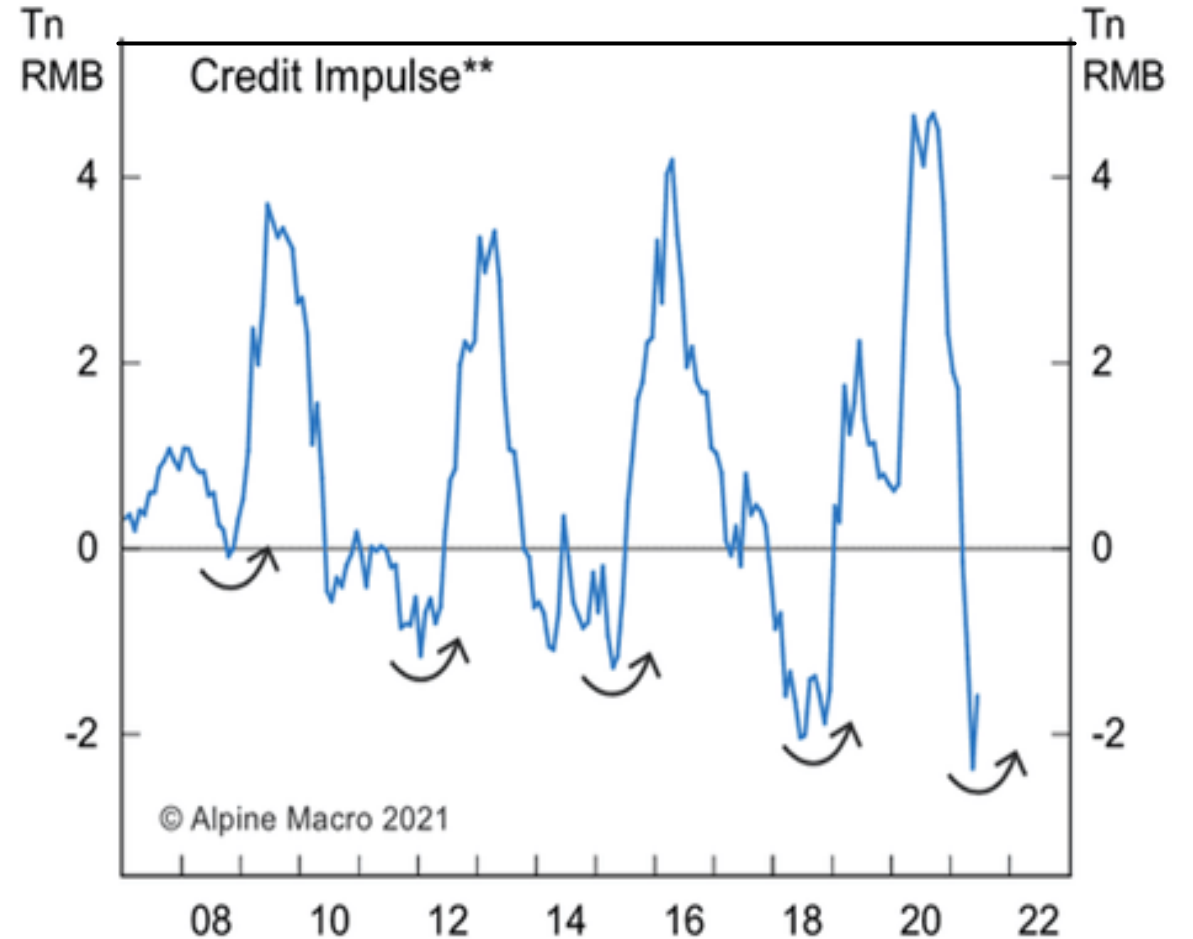


Sources: CEIC Data, PBOC

RRR Cuts Boost Credit Cycle



Source: Alpine Macro

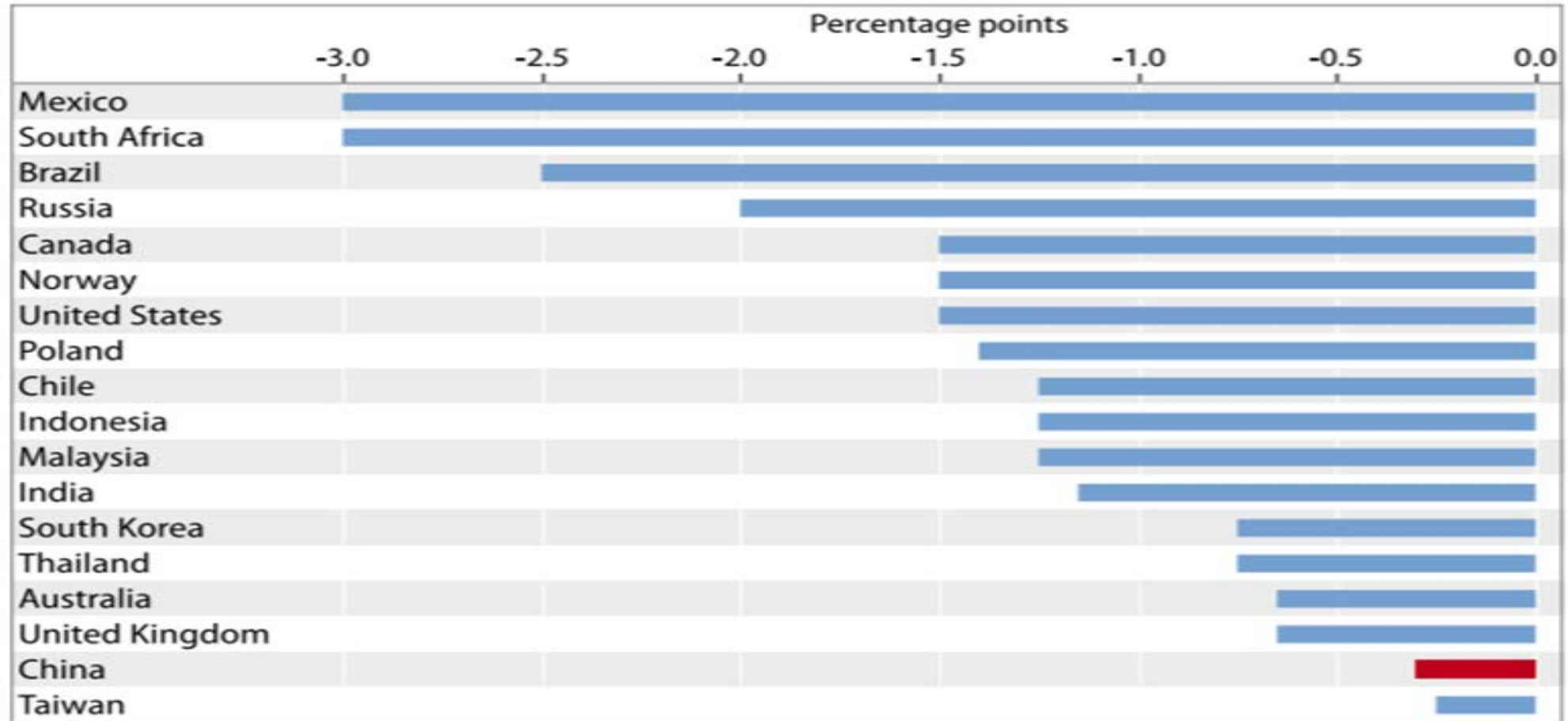


*For large financial institutions

**Alpine Macro proprietary indicator

Global monetary easing in the Year of COVID

Cumulative cuts in central bank policy rates in 2020



Sources: Gavekal Dragonomics/Macrobond

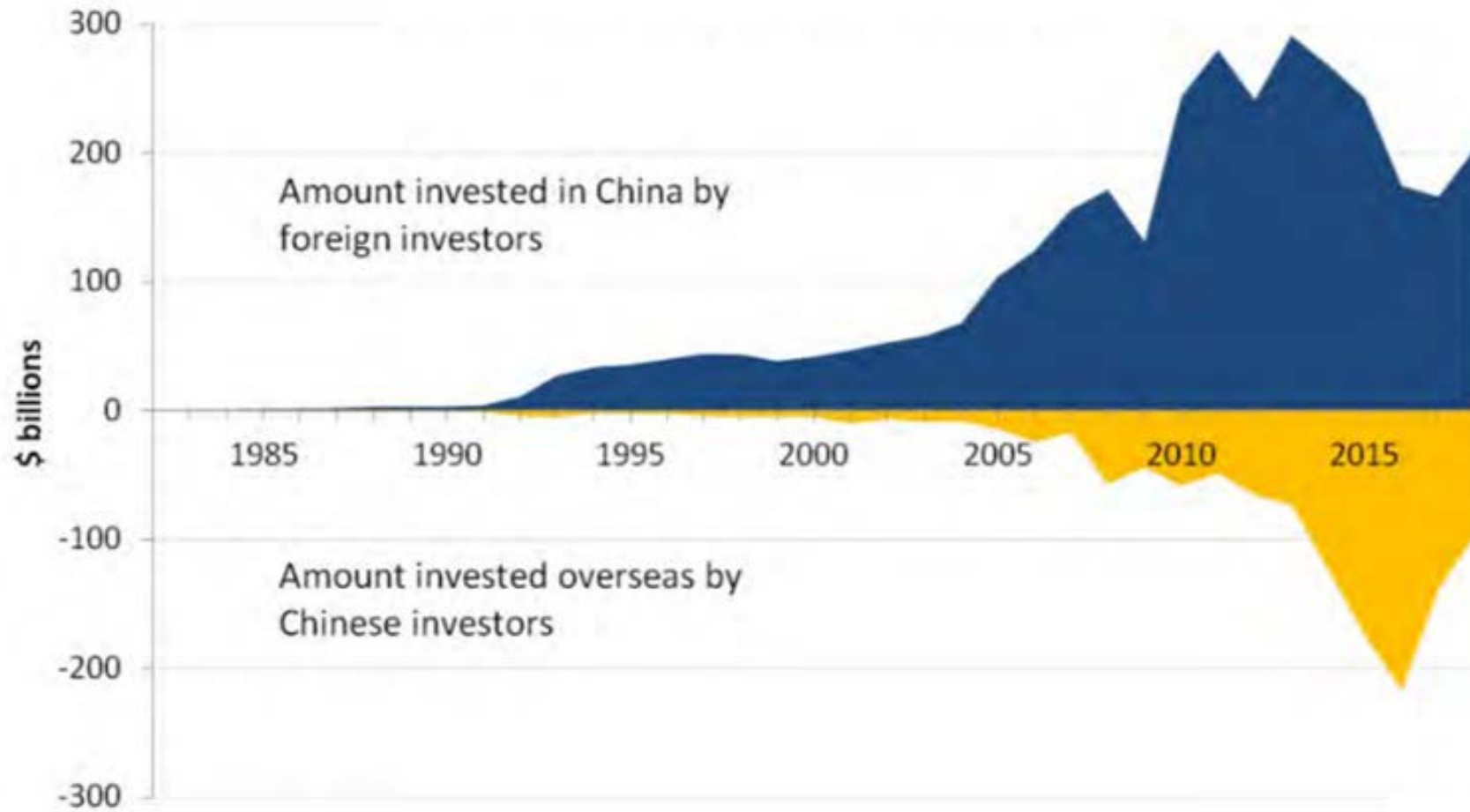
Li KeQiang Index (2005-2021)



Sources: [Bloomberg](#), [Jefferies](#)

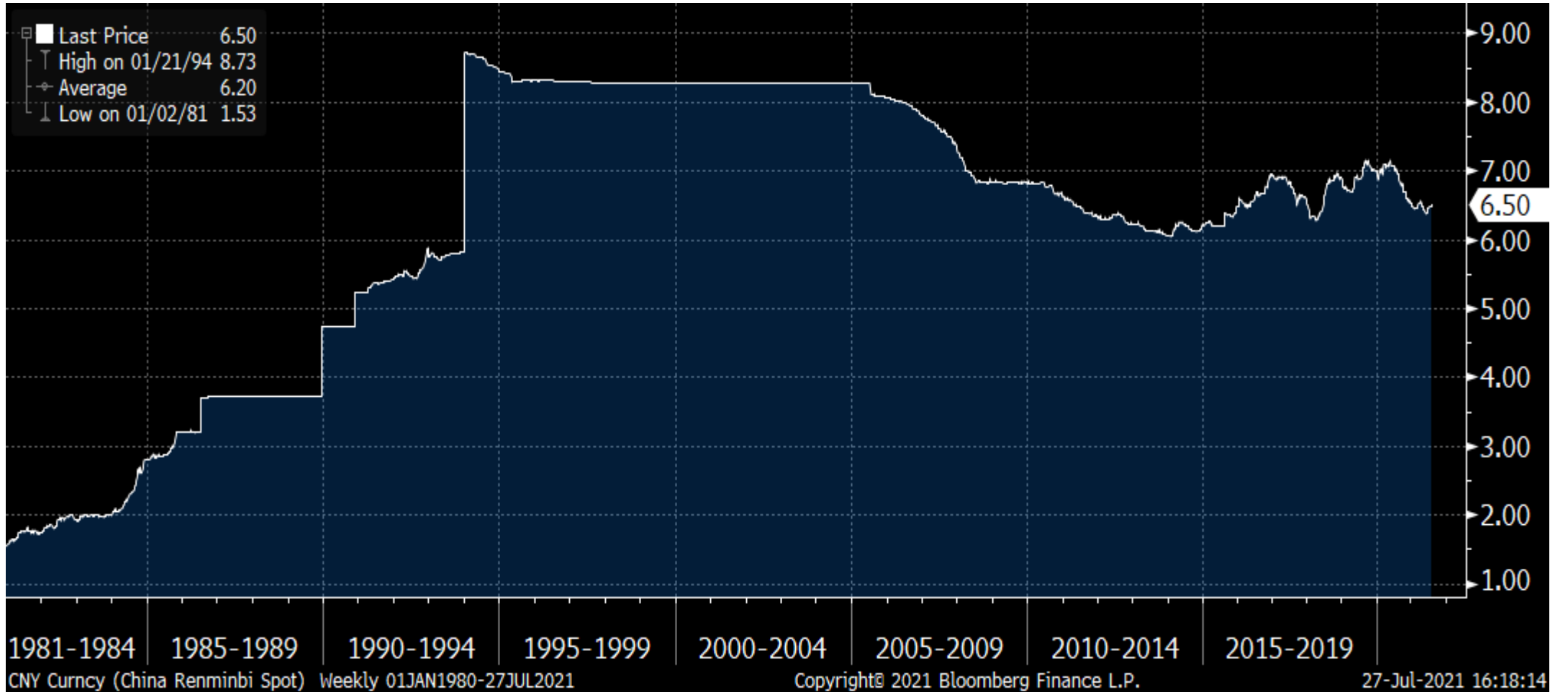
Note: The index measures 40% in outstanding bank loan growth rate, 40% in electricity production and 20% in railway freight volume in terms of y-y growth rate

China's Investment Flow (1980-2019)

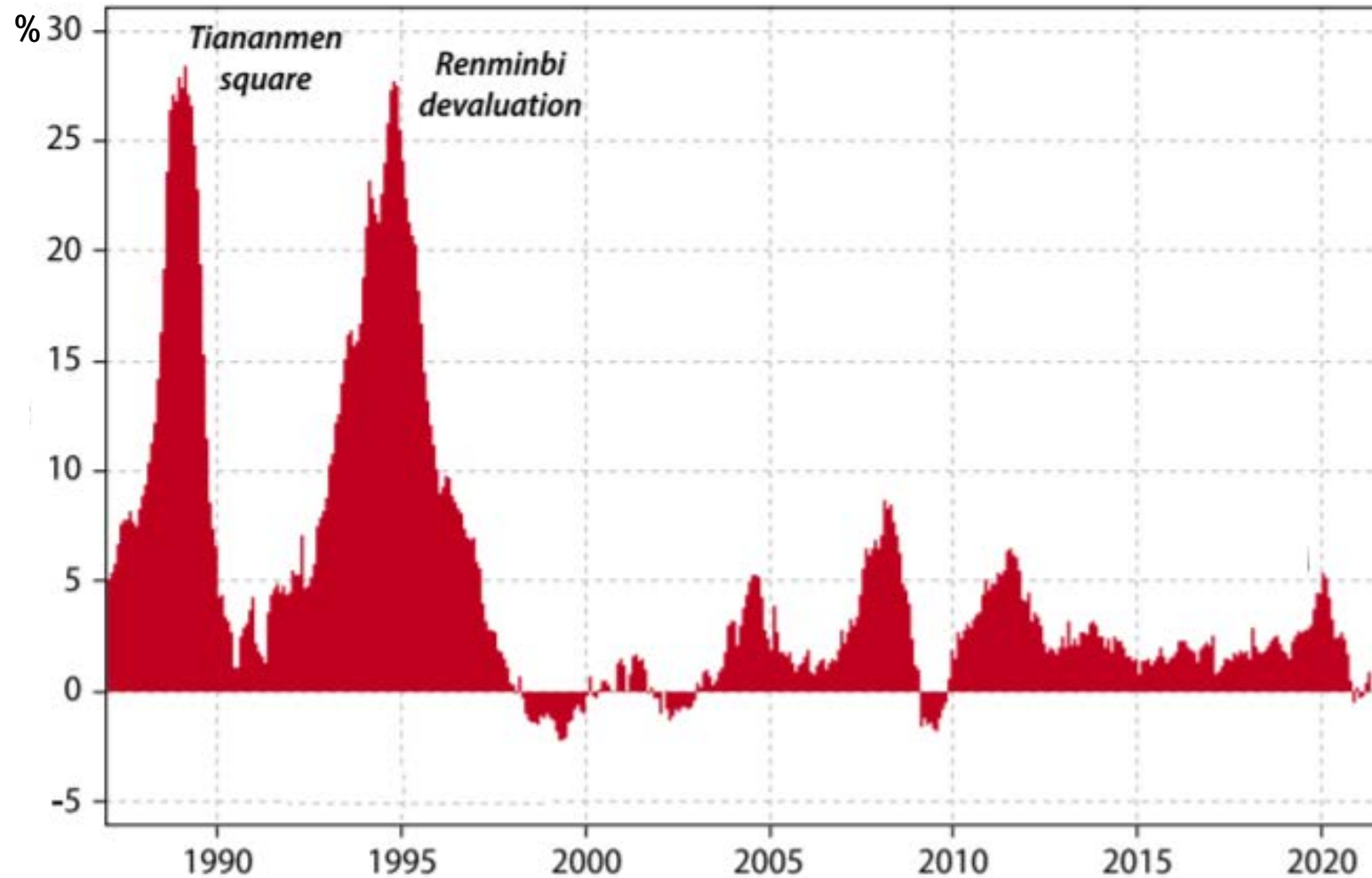


Sources: IMF, UNCTAD

Renminbi/US\$: (1980 - 2021)



Chinese Inflation : CPI (1985 to 2021)



Sources: **Gavekal Research/Macrobond**

Investing in Chinese Financial Assets in 2021

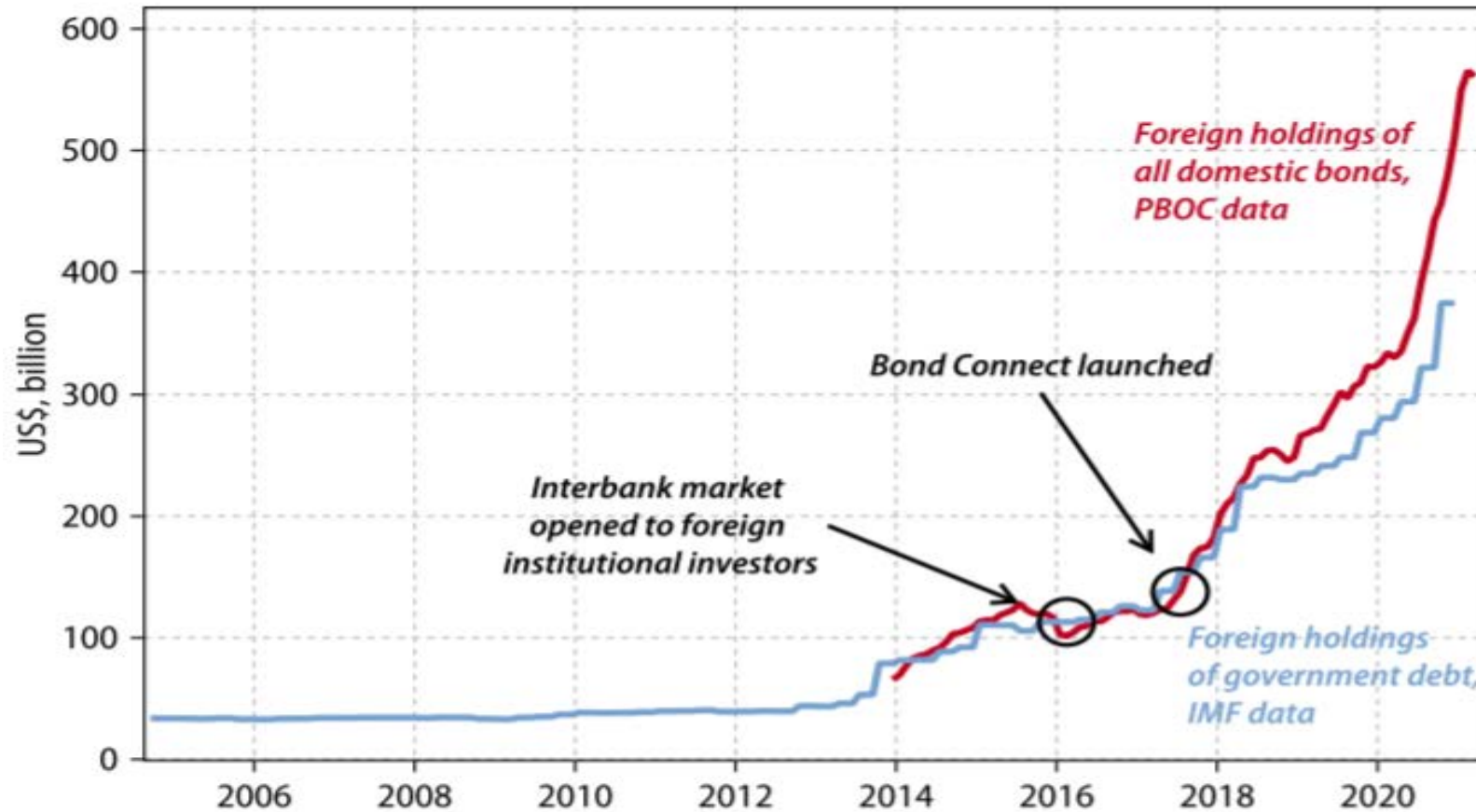
THE THREE CONNECTS

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graph TD; A[THE THREE CONNECTS] --> B[Bonds]; A --> C[Equities]
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Bonds

Equities

Foreign Investment in Chinese Bonds



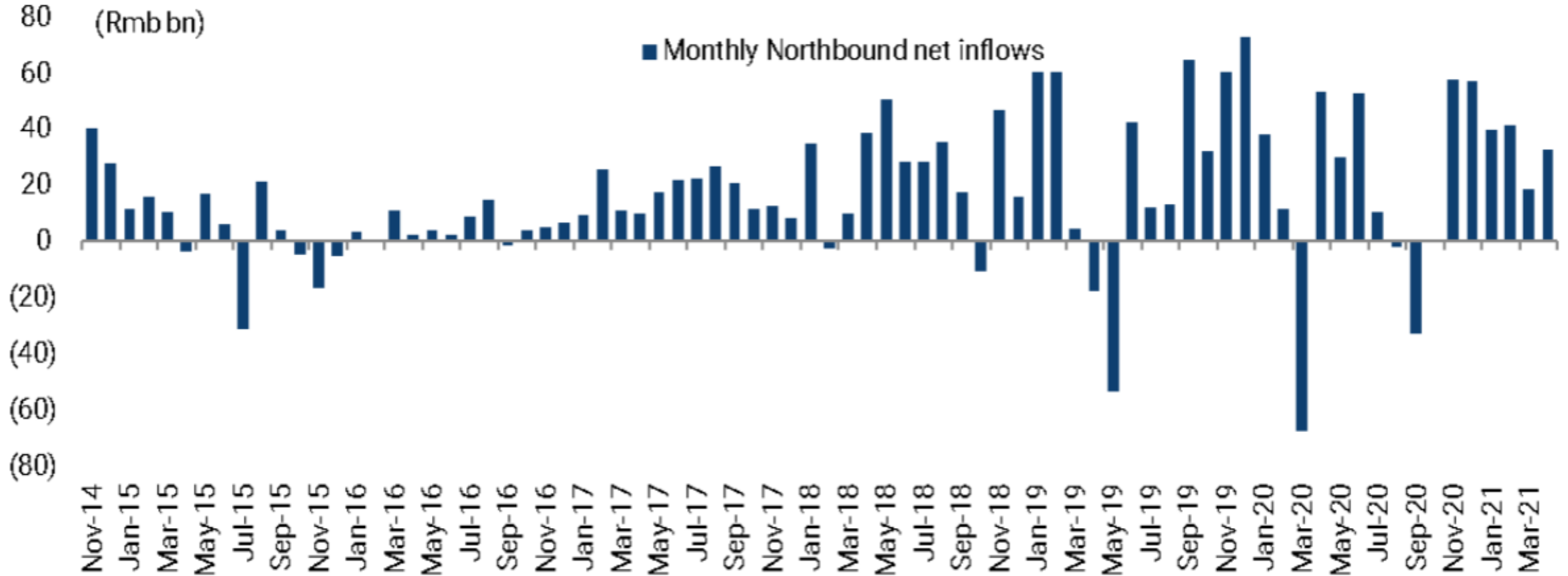
Sources: **Gavekal Dragonomics/Macrobond**

Five-year Government Bond Yield: The US vs China (2002-2021)



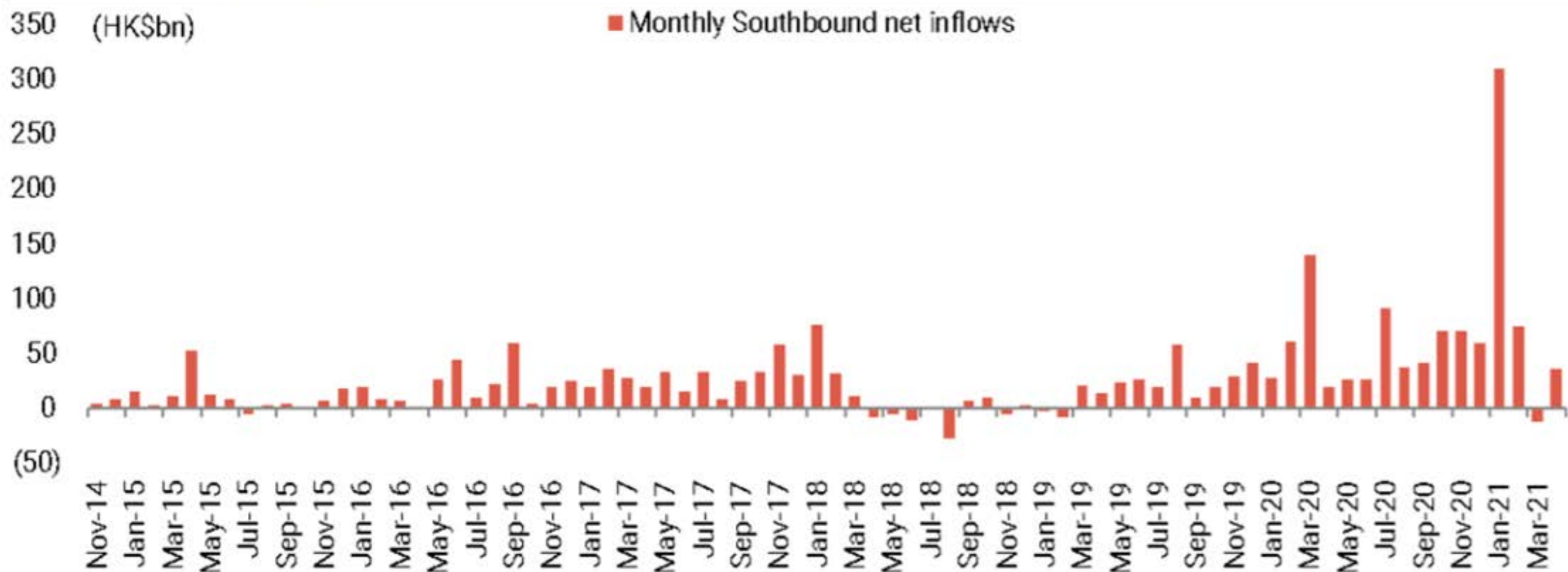
Sources: Gavekal Research/Macrobond

Hong Kong Stock Connect Northbound (2014-2021)



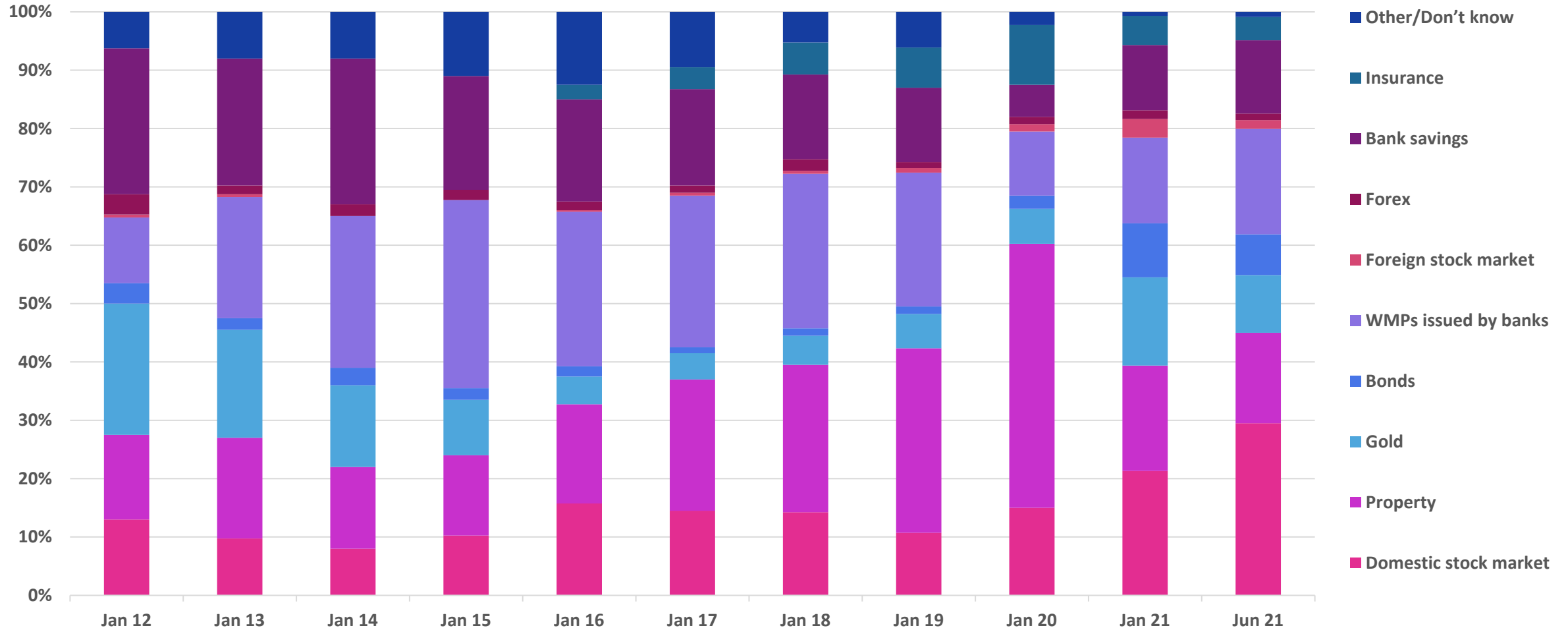
Sources: Bloomberg, HKEx

Hong Kong Stock Connect Southbound (2014-2021)



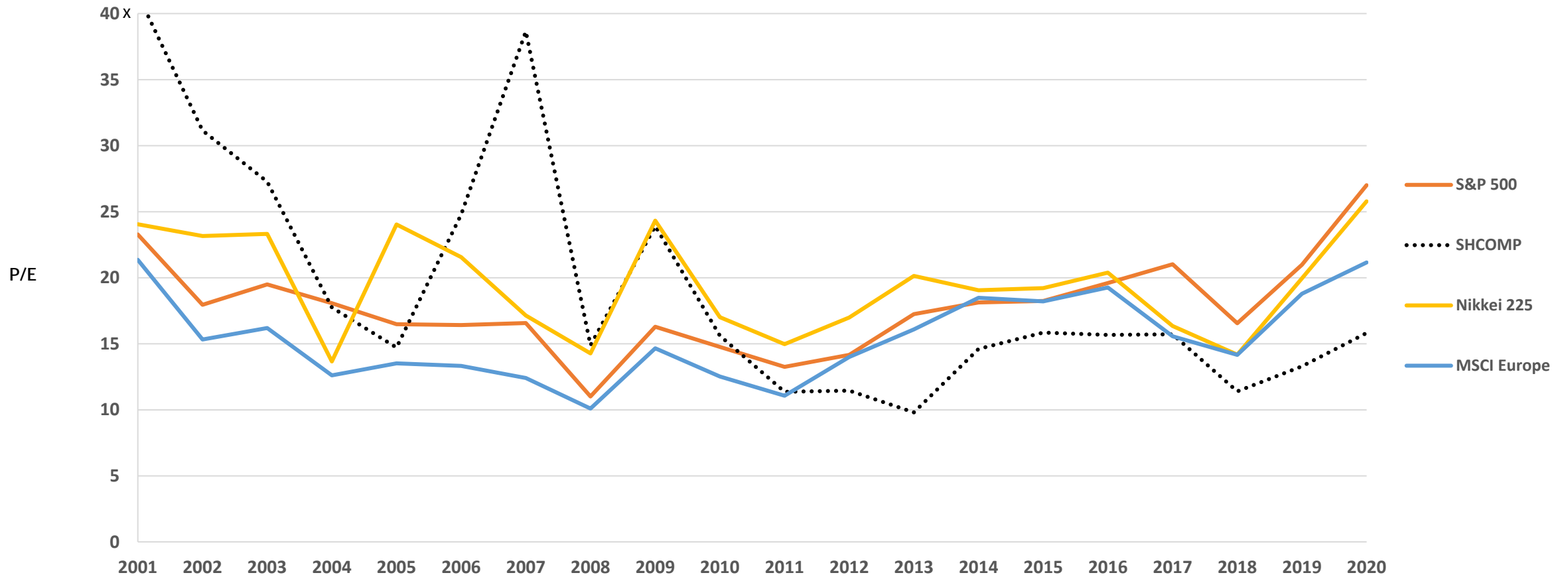
Sources: Bloomberg, HKEx

Chinese Investor Preferences



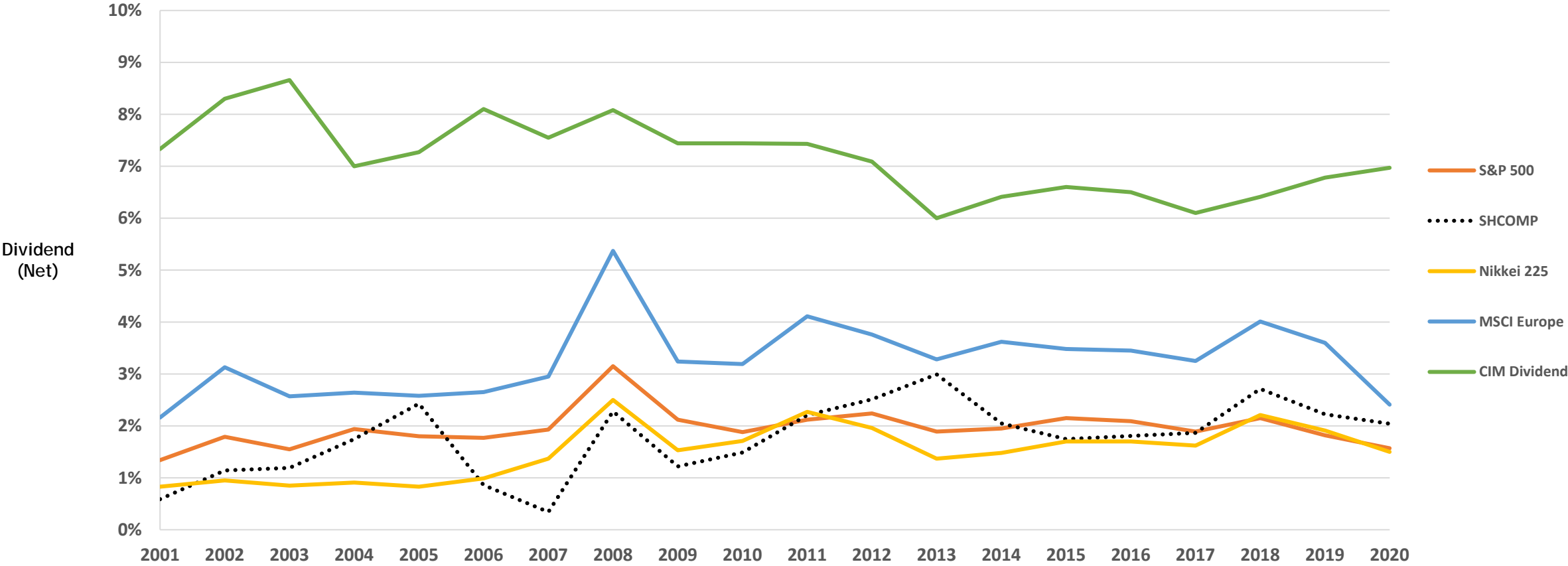
Source: China Reality Research

Relative Earnings Multiples : Chinese Equities vs ROW (2001 - 2020)



Source: Bloomberg

Relative Yield : Chinese Equities vs ROW (2001 - 2020)



Source: Bloomberg

Policy Priorities Drive Portfolio Positions

Past

- Construction/Infrastructure
- Exporters
- Basic Products
- “P” Chips
- Growth companies
- Foreign Listings/Technologies

Present (and near-term future)

- Project Management/Services
- Domestic Consumption
- Mass Luxury
- Reforming SOEs
- Consolidators
- Heading Home/Approved Technologies