



R&R Weekly Column
By Brunello Rosa



China's Real Estate Risks Are Endangering Global Growth

Last week, Evergrande, the largest Chinese property group with 1300 ongoing projects in 280 Chinese cities, [filed for bankruptcy protection in New York](#), using the so-called Chapter 15 process for foreign companies seeking recognition of their restructuring in the US. According to the petition, Evergrande is also pursuing parallel “schemes of arrangement” and restructuring, in the Cayman Islands, Hong Kong and in British Virgin Islands. This follows losses nearing 600bn yuan, i.e. around USD 80bn over the last two years, after having accumulated debt of around USD 330bn.

Evergrande has been in trouble for years. In December 2021, [it defaulted on its offshore debt](#), causing a liquidity crisis across China's real estate sector. That incident dragged down home prices, and that put further pressure on struggling developers, putting them at risk of default. Over the last couple of years, many of these developers have gone bankrupt. One of the groups that has been put at risk is [Country Garden, the largest private-sector property development group](#). Country Garden said it may lose around USD 8bn in the next six months.

The difficulties of the real-estate sector have forced [the People's Bank of China \(PBOC\), the Chinese central bank, to cut interest rates for the second time in three months](#). Last week, the PBOC lowered the rate on 401 billion yuan (USD 55.25 billion) worth of one-year medium-term lending facility loans to some financial institutions to 2.50%, from 2.65% previously. This could be the precursor to a cut of the 5-year loan prime rate, the rate on medium-term loans that is particularly relevant for real estate institutions, [which most analysts are expecting](#) this week. The central bank also injected 204 billion yuan through seven-day reverse repos, while cutting borrowing costs to 1.80%, from 1.90% previously.

China's real-estate troubles are reverberating through its economy, putting at serious risk the [5% GDP growth objective set by the CPP at the October 2022 congress](#), which was believed to be an “easy target” for the new premier Li Qiang for his first year on the job. A weakening of the Chinese economy would have impact on growth both in Asia and on the global economy. In Europe, for example, two export powerhouses, Germany and the Netherlands, have already experienced two consecutive quarters of negative growth, entering a technical recession.

Throughout all this, only the US economy seems to still be enjoying a robust performance, [with a 2.4% annualised rate of growth in Q2 2023](#), faster than the 2.0% recorded in Q1. US growth is being fuelled by consumer spending and resilient investment. While a deceleration is expected in the second half of the year, the US economy, in the absence of further shocks, may still experience the sort of “soft landing” that the US Federal Reserve has been pursuing for the last year and a half, during which time policy rates have been increased by over 5%. A shock from China may put at risk the performance not just of the US, but of the entire global economy.

Our Recent Publications

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Looking Ahead

The Week Ahead: PMIs To Fall In DMs; Consumer Sentiment To Decrease In US, While Rising Marginally In EZ And UK

In the US, in August, according to flash estimates, S&P Global Manufacturing PMI is seen increasing to 49.4 (p: 49.0), whereas Services PMI is likely to remain the same at 52.3. In August, Michigan consumer sentiment is expected to decrease to 71.1 (p: 71.6).

In the EZ, in August, according to flash estimates, HCOB Manufacturing PMI is seen increasing to 42.8 (p: 42.7), whereas HCOB Services PMI is likely to fall to 50.5 (p: 50.9). Composite PMI is expected to edge down marginally to 48.5 (p: 48.6). In August, consumer confidence is expected to rise to -14.3 (p: -15.1).

In the UK, in August, according to flash estimates, S&P Global/CIPS Manufacturing and Services PMIs are seen declining to 45 (p: 45.3), and to 50.8 (p: 51.5). Composite PMI is likely to decrease to 50.3 (p: 50.8). In August, GFK consumer confidence is likely to rise to -29 (p: -30).

The Quarter Ahead: Evergrande Seeks US Bankruptcy Protection; Ukraine-Russia War; ECOWAS Ready For Possible Intervention

China's Evergrande Group files for US bankruptcy protection. Troubled Evergrande company seeks bankruptcy protection as part of one of the world's biggest debt restructurings, amidst rising worries about China's property troubles affecting the economy. Evergrande defaulted on its huge debts in 2021 and has been working since then to renegotiate its agreements with creditors.

Ukraine – Russia war. According to the Ukraine's interior ministry, a theater and a university were targeted in attack in Chernihiv. Press reports said seven people were killed in the attack and 129 people were wounded. In the meantime, Zelenskyy met Sweden's PM, resulting in the signing of the agreement which will see Ukraine begin production of Sweden's CV90 combat vehicle.

The Economic Community of West African States (ECOWAS) 'D-Day' set for possible Niger intervention. West Africa's regional bloc declared it had agreed an "undisclosed" D-Day to start military intervention to restore democracy in Niger if diplomatic efforts fail. On July 26, military officers removed President Bazoum from power, ignoring pleas from the UN, ECOWAS and other entities to restore him to his position. As a result, the ECOWAS ordered a standby force to be assembled.

Last Week's Review

Real Economy: EZ QoQ GDP Advanced; Headline Inflation Fell, While Core Remained the Same In EZ And UK

In the US, in July, retail sales advanced by 3.2% y-o-y (c: 1.5%; p: 1.6%).

In the EZ, in Q2, according to preliminary estimates, GDP growth advanced by 0.3% q-o-q (p: 0.0%) and decelerated 0.6% y-o-y (p: 1.1%) as expected. In July, headline inflation cooled off to 5.3% y-o-y (c: 5.3%; p: 5.5%), while core inflation stayed unchanged at 5.5% y-o-y as expected. June's IP contracted by 1.2% y-o-y (c: -4.2%; p: -2.5%). ZEW Economic Sentiment Index increased to -5.5 (p: -12.2).

In the UK, in July headline inflation eased off to 6.8% y-o-y (c: 6.8%; p: 7.9%), while core inflation stood at 6.8% y-o-y (c: 6.8%). In June, the unemployment rate rose to 4.2% (c: 4.0%; p: 4.0%). In July, retail sales shrank by 3.2% y-o-y (c: -2.1%; p: -1.6%).

Financial Markets: Stock Prices Declined; Yields Edged Up; Dollar Index Increased, While Oil And Gold Prices Decreased

Market Drivers: Global growth worries and specifically China's troubles kept stock prices under pressure. Weakening economic activity and high debt levels in China's real estate sector intensified the concerns over the global economy. Regarding the UST yields, the latest Fed minutes suggested that the interest rates are likely to stay high for longer than previously expected, and as a result UST yields rose.

Global Equities: declined w-o-w (MSCI ACWI, -0.6%, to 668.35). The US S&P 500 index edged down (-2.1% w-o-w, to 4,369.71). In the EZ, share prices were down (Eurostoxx 50, -2.4% w-o-w, to 4,213.45). In EMs, equity prices moved down (MSCI EMs, -2.4%, to 973.86). Volatility fell to 18.10 (VIX S&P 500, 52w avg.: 21.5; 10y avg.: 18.5).

Fixed Income: w-o-w, the 10-year US Treasury yields rose (+9 bps to 4.25%). The 2-year US Treasury yields increased (+5 bps to 4.94%). The German 10-year bund yield is virtually unchanged (+0 bps to 2.62%).

FX: w-o-w, the US Dollar Index increased (DXY, +0.6%, to 103.33 EUR/USD -0.7%, to 1.1). In EMs, currencies decreased (MSCI EM Currency Index, -0.5% w-o-w, to 1,668.70).

Commodities: w-o-w, oil prices decreased (Brent, -2.3% to 84.82 USD/b). Gold prices declined w-o-w (-1.4% to 1,918.40 USD/Oz).



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The picture in the front page comes from [this website](https://www.rosa-roubini-associates.com)



Abbreviations, Acronyms and Definitions

a	Actual	LN	Northern League, Italy
AKP	Justice and Development Party, Turkey	MSS	Five Star Movement, Italy
ann.	annualized	m-o-m	Month-on-month
ARS	Argentinian Peso	mb	Million barrels
avg.	Average	mb/d	Million barrels per day
bn	Billion	MENA	Middle East and North Africa
BoC	Bank of Canada	MHP	Nationalist Movement Party, Turkey
BoE	Bank of England	mn	Million
BoJ	Bank of Japan	MPC	Monetary Policy Committee
bpd	Barrels per day	NAFTA	North-American Free Trade Agreement
bps	Basis points	NATO	North Atlantic Treaty Organization
BS	Balance sheet	OECD	Organization for Economic Cooperation and Development
c	Consensus	Opec	Organization of Petroleum Exporting Countries
C/A	Current account	p	Previous
CB	Central bank	P2P	Peer-to-peer
CBB	Central Bank of Bahrain	PBoC	People's Bank of China
CBK	Central Bank of Kuwait	PCE	Personal Consumption Expenditures
CBT	Central Bank of Turkey	PE	Price to earnings ratio
CDU	Christian Democratic Union, Germany	PM	Prime minister
CNY	Chinese Yuan	PMI	Purchasing managers' index
CPI	Consumer Price Index	pps	Percentage points
DJIA	Dow Jones Industrial Average Index	pw	Previous week
DJEM	Dow Jones Emerging Markets Index	QCB	Qatar Central Bank
d-o-d	Day-on-day	QAR	Qatari Riyal
DXY	US Dollar Index	QE	Quantitative easing
EC	European Commission	q-o-q	Quarter-on-quarter
ECB	European Central Bank	RE	Real estate
ECJ	European Court of Justice	RBA	Reserve Bank of Australia
EIA	US Energy Information Agency	RRR	Reserve Requirement Ratio
EM	Emerging Markets	RUB	Russian Rouble
EP	European Parliament	SWF	Sovereign Wealth Fund
EPS	Earnings per share	tn	Trillion
EU	European Union	TRY	Turkish Lira
EUR	Euro	UAE	United Arab Emirates
EZ	Eurozone	UK	United Kingdom
Fed	US Federal Reserve	US	United States
FOMC	US Federal Open Market Committee	USD	United States Dollar
FRB	US Federal Reserve Board	USD/b	USD per barrel
FX	Foreign exchange	UST	US Treasury bills/bonds
FY	Fiscal Year	VAT	Value added tax
GCC	Gulf Cooperation Council	VIX	Chicago Board Options Exchange Volatility Index
GBP	British pound	WTI	West Texas Intermediate
GDP	Gross domestic product	WTO	World Trade Organisation
IMF	International Monetary Fund	w	Week
INR	Indian Rupee	w-o-w	Week-on-week
IPO	Initial public offering	y	Year
IRR	Iranian Rial	y-o-y	Year-on-year
JPY	Japanese yen	y-t-d	Year-to-date
k	thousand	ZAR	South African Rand
KSA	Kingdom of Saudi Arabia	2y; 10y	2-year; 10-year



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