

Economic Situation and Strategy

7 November 2024

Political tremors in the West - and what is China doing?

This week could not have been more eventful. Donald Trump has won the presidential election in the USA. His resounding return to the White House is causing widespread uncertainty and concern, particularly with regard to geopolitical tensions and potential economic consequences. At the same time, the coalition government in Germany collapsed, leading to further instability and political turmoil in the heart of Europe. It is still too early to assess the long-term implications for the economy and stock markets. In this edition of “Economic Situation and Strategy”, we therefore turn our attention to China - the country that has always been a preferred opponent in Trump's foreign policy.

From growth engine to problem child

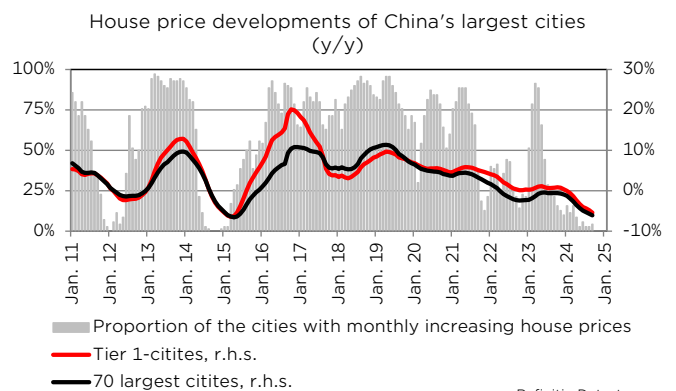
China, once the engine of the global economy with impressive growth rates, is now facing considerable economic challenges. Average annual growth rates of more than eight percent have long been outdated. This rapid growth was mainly driven by a strong focus on exports. However, cracks have recently begun to appear in this economic model. For a long time, it was considered a recipe for success. The one-sided focus on exports is now proving to be the Achilles heel of the Chinese economy, as it is susceptible to global market changes and geopolitical tensions.

The Chinese economy has recently grown more slowly than at any time since the beginning of 2023. According to the statistics office, gross domestic product grew by 4.6% in the last quarter, 0.1 percentage point less than in the previous quarter. The latest economic data reveals a significantly weaker development than expected. The

hoped-for economic recovery following the lifting of the strict Covid-19 measures proved to be short-lived. The government's growth target of a good five percent does not appear realistic on average over the next few years; instead, growth of two to three percent is expected.

Real estate crisis

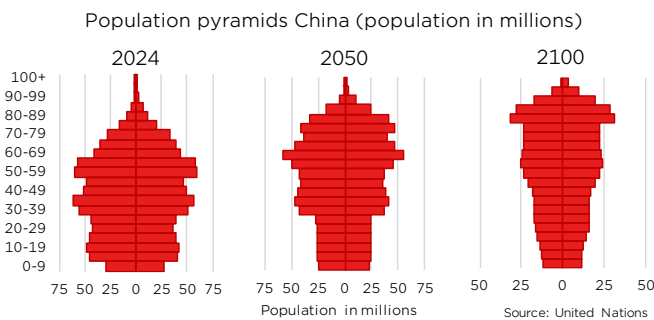
For decades, China's economy was based on a booming real estate sector. Construction projects and urban development were important drivers of growth, with real estate accounting for around a quarter of gross domestic product. Now the foundations are crumbling: falling property prices, high levels of debt and the failure of large construction groups such as Evergrande are threatening the stability of the entire sector.



The core cause is debt. Many construction companies that relied on growth through borrowing are now no longer able to service their debts. Although the Chinese government stepped in to mitigate the risk by tightening credit guidelines, the measures came rather late. Across China, cities are becoming ghost towns as demand stagnates and many buyers stop paying for unfinished apartments.

Shrinking population

China is facing not only economic but also structural problems. The high level of debt limits the scope for extensive government economic stimulus programs. China is also facing major demographic challenges. Despite the abolition of the one-child policy, China's population has been shrinking since 2022 and the birth rate has fallen to a record low of 6.39 births per 1,000 people. According to United Nations forecasts, China's population will shrink from the current 1.4 billion to 1.3 billion in 2050 and to less than 800 million in 2100.

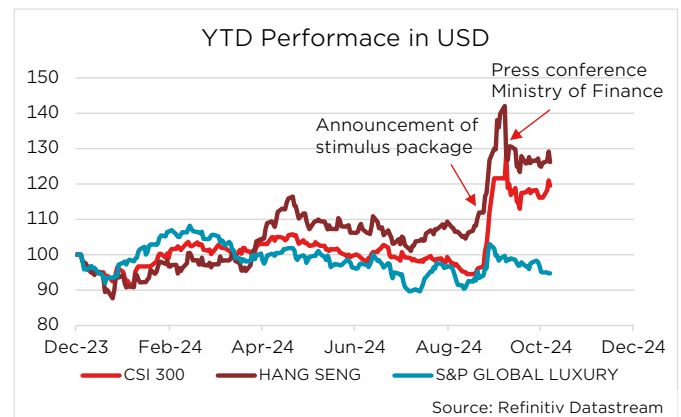


China has announced new measures to support families in the face of falling birth rates and marriages. The government plans to establish a “new culture of childbearing and marriage”. The planned measures include improving medical care, housing subsidies and parental leave arrangements, privileges when buying a home for families with several children and more accessible childcare and healthcare services. According to estimates, the program could cost between 250 and 500 billion yuan (approx. 35-70 billion US dollars) annually. In view of these factors, it can be assumed that China's growth rates will decline significantly in the coming years.

Monetary policy as a panacea?

At the end of September 2024, the Chinese central bank announced extensive economic measures, including interest rate cuts to stimulate the real estate market. These announcements led to a short-term rally on the Chinese stock markets, with the CSI 300 Index and the Hang Seng Index recording significant gains. However, this was followed by an abrupt drop on October 9 (after the end of the “Golden Week” holiday week), with the CSI 300 Index in Ruan falling by 7.1% - the biggest one-day loss

since 2020. The Ministry of Finance's press conference three days later was unable to dispel the uncertainty surrounding the package of measures, as although some concrete monetary policy stimulus was mentioned, the two main problems facing the Chinese economy - the real estate sector and weak consumption - were addressed, but not with concrete solutions. The measures announced include a 0.5 percentage point reduction in the minimum reserve ratio for banks, a reduction in the key interest rate for one-year loans from 2.3 to 2.1 percent and announced interest rate cuts for current real estate loans.



China's economic situation remains tense despite an extensive stimulus package. The stimulus package is intended to boost growth and support the real estate sector in particular, but we doubt whether these measures are sufficient to solve the structural problems of the Chinese economy. In addition, rising public debt and the limited financial resources of local governments are weighing on long-term stability.

Donald Trump's return as US president is further exacerbating the uncertainties. Punitive tariffs that have already been announced could put further pressure on China's export sector and hamper the intended recovery. While the Chinese government remains optimistic that the stimulus package can stabilize the economy, its actual effectiveness remains to be seen against the backdrop of global tensions. Trump's tough trade policy could significantly dampen China's growth prospects and put further pressure on the economic situation as a whole.

Dr. Rebekka Haller

Market data

Stock markets	As of	Change versus				
	08.11.2024 11:05	01.11.2024 -1 week	07.10.2024 -1 month	07.08.2024 -3 months	07.11.2023 -1 year	29.12.2023 YTD
Dow Jones	43729	4,0%	4,2%	12,8%	28,0%	16,0%
S&P 500	6007	4,9%	5,5%	15,5%	37,2%	25,9%
Nasdaq	19269	5,6%	7,5%	19,0%	41,3%	28,4%
DAX	19257	0,0%	0,8%	9,3%	27,1%	15,0%
MDAX	26557	0,2%	-0,7%	9,6%	5,8%	-2,1%
TecDAX	3387	1,7%	1,4%	4,7%	13,9%	1,5%
EuroStoxx 50	4818	-1,2%	-3,1%	3,2%	16,0%	6,5%
Stoxx 50	4302	-1,4%	-3,4%	-0,2%	11,1%	5,1%
SMI (Swiss Market Index)	11844	-1,0%	-1,4%	0,0%	12,0%	6,3%
Nikkei 225	39500	3,8%	0,4%	12,6%	22,4%	18,0%
Brasilien BOVESPA	129682	21628,5%	21096,0%	1,7%	8,7%	21477,6%
Indien BSE 30	79494	6888,8%	6888,8%	0,0%	22,4%	7237,0%
China CSI 300	4104	85,7%	87,1%	22,8%	13,4%	102,5%
MSCI Welt	3787	3,5%	2,9%	12,3%	31,2%	19,5%
MSCI Emerging Markets	1141	1,6%	-3,7%	8,6%	18,7%	11,4%
Bond markets						
Bund-Future	131,42	3592	3592	-270	109	3526
Bobl-Future	118,42	-1322	-1502	58	183	-1880
Schatz-Future	106,70	-1149	-1233	42	154	-1258
3 Monats Euribor	3,05	211	211	-61	-92	212
3M Euribor Future, Dec 2024	2,81	-9234	-9234	-17	-25	-9160
3 Monats \$ Libor	3,16	0	-25	-220	-246	-72
Fed Funds Future, Dec 2024	4,50	168	161	9	-2	220
10 year US Treasuries	4,29	-8	27	34	-28	43
10 year Bunds	2,38	-2	14	17	-24	38
10 year JGB	0,99	5	10	11	12	37
10 year Swiss Government	0,40	-673	-667	-5	-77	-671
US Treas 10Y Performance	559,08	-0,3%	-1,4%	-8,6%	-1,1%	-1,1%
Bund 10Y Performance	106,69	0,1%	-0,1%	-81,1%	-80,1%	0,1%
REX Performance Index	448,76	-95,2%	-95,4%	-0,2%	3,0%	-94,7%
IBOXX AA, €	3,09	-4	4	-13	-75	2
IBOXX BBB, €	3,55	-5	0	-19	-110	-20
ML US High Yield	7,42	-11	7	-46	-153	-37
Commodities						
MG Base Metal Index	432,69	0,4%	-3,5%	10,8%	14,4%	10,7%
Crude oil Brent	74,64	1,5%	-7,0%	-5,3%	-8,7%	-3,9%
Gold	2686,90	-2,1%	1,7%	11,9%	36,8%	30,1%
Silver	3470,66	6,1%	4,0%	12763,8%	15291,0%	16,7%
Aluminium	31,74	-3,0%	0,1%	-98,6%	-98,6%	30,9%
Copper	2661,72	3,6%	0,6%	-69,2%	-67,1%	13,5%
Iron ore	105,22	-76,6%	-76,7%	3,5%	-16,5%	-76,5%
Freight rates Baltic Dry Index	1451	5,3%	-23,9%	-14,5%	-6,9%	-30,7%
Currencies						
EUR/ USD	1,0777	#DIV/0!	#DIV/0!	-1,3%	0,9%	#DIV/0!
EUR/ GBP	0,8314	-23,6%	-24,3%	-3,3%	-4,3%	-24,8%
EUR/ JPY	164,06	19496,3%	19449,6%	2,1%	2,0%	18832,5%
EUR/ CHF	0,9389	-99,4%	-99,4%	-0,2%	-2,5%	-99,4%
USD/ CNY	7,1580	-93,0%	-93,6%	-0,3%	-1,7%	-94,8%
USD/ JPY	152,94	0,0%	3,2%	4,3%	1,7%	8,4%
USD/ GBP	0,77	631096,4%	640858,7%	-1,8%	-5,1%	596830,9%

Source: Refinitiv Datastream

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