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China's reopening – impact on shipping

Marine Money Hamburg

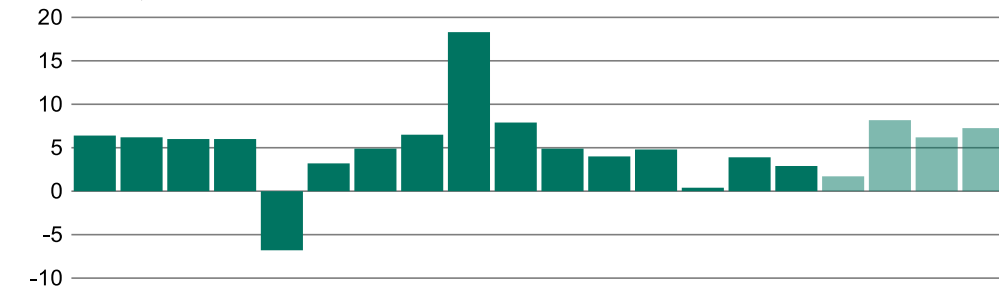
Economics

February 15, 2023

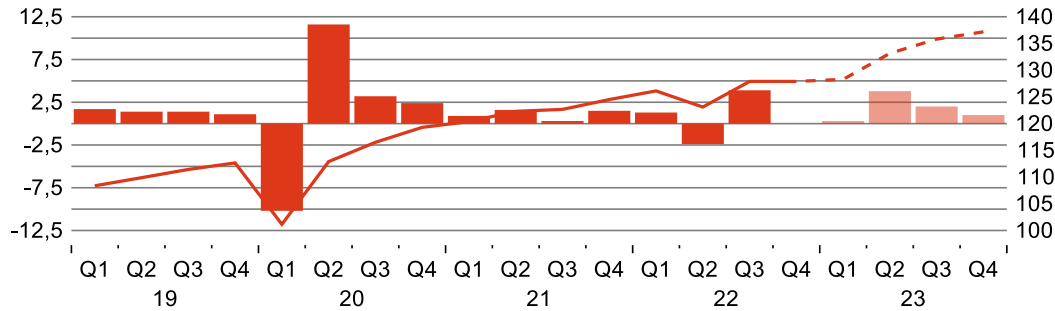
Dr. Cyrus de la Rubia

Good short term perspectives due to the opening up. Rebound this year of 5.8%. Will this be again a stimulus and investment driven recovery bringing China back on the pre-2020 growth track? Some metal prices ...

China GDP, YoY

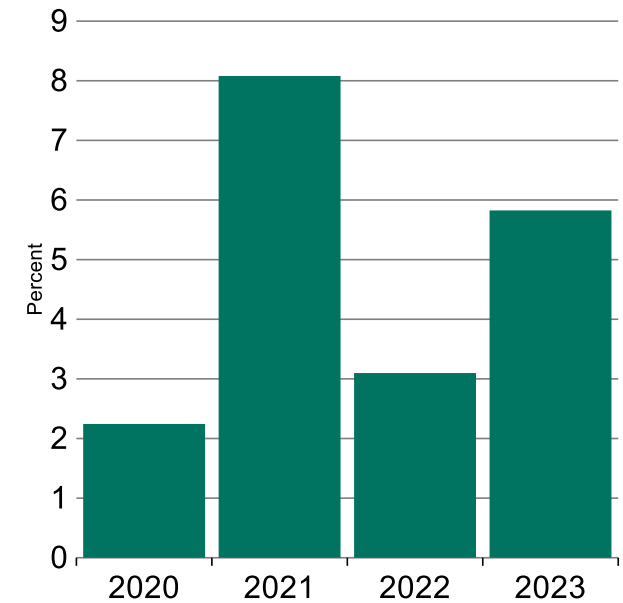


China GDP, QoQ



Source: Macrobond, Hamburg Commercial Bank Economics

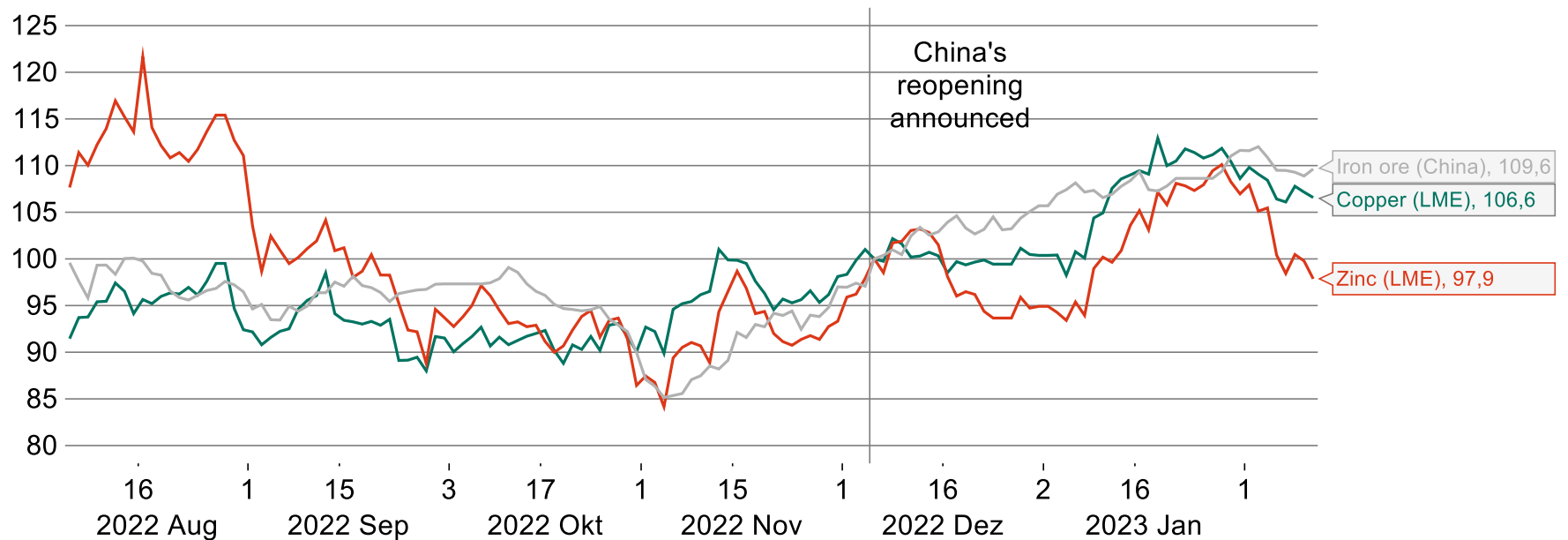
China, GDP, yearly change



Source: Macrobond, HCOB Economics

... seem to indicate this in a way. However, not all commodities ...

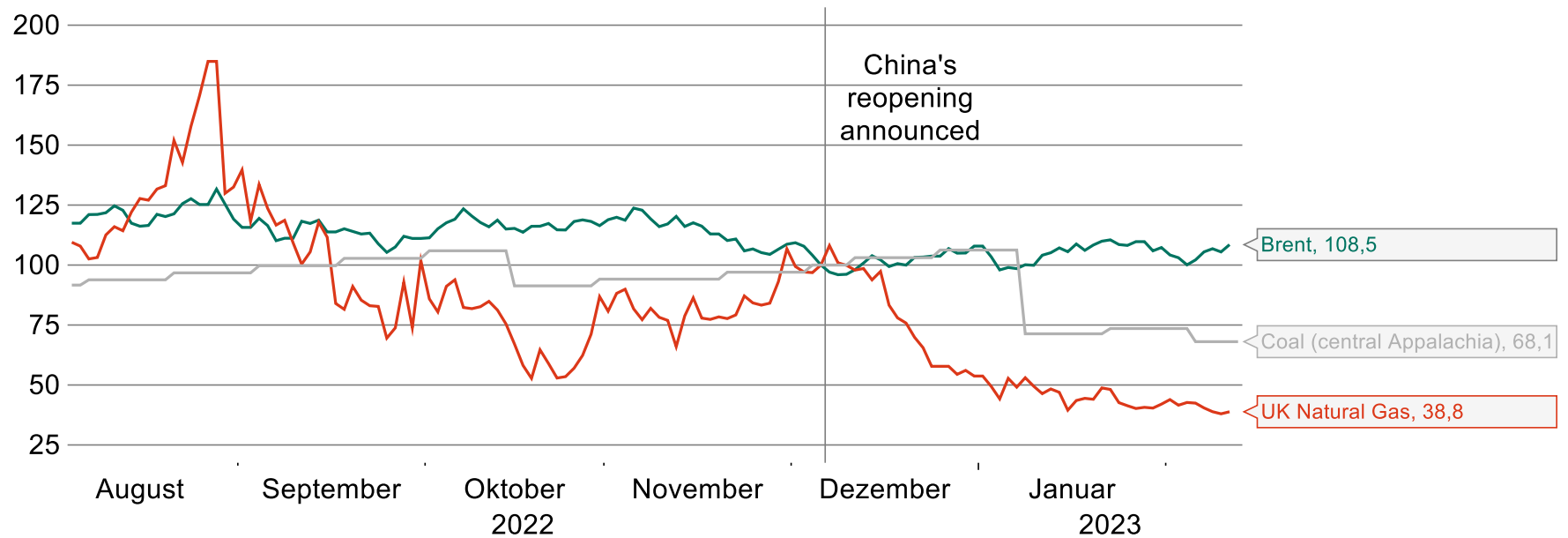
Metal prices, rebased (December 6, 2022 = 100)



Source: Macrobond, HCOB Economics, LME

... react as expected. Gas and coal prices are on the downturn. But oil is more stable. Indeed, the ...

Energy prices, rebased (December 6, 2022 = 100)



Source: Macrobond, HCOB Economics, ICE, EIA

**... rather aggressive OPEC and new announcements from Russia (cut of 500.000 barrels/day) could pave the way for higher energy prices.
Back to China: Why this time is different? Because ...**

Oil price (Brent), USD/Barrel, HCOB forecasts

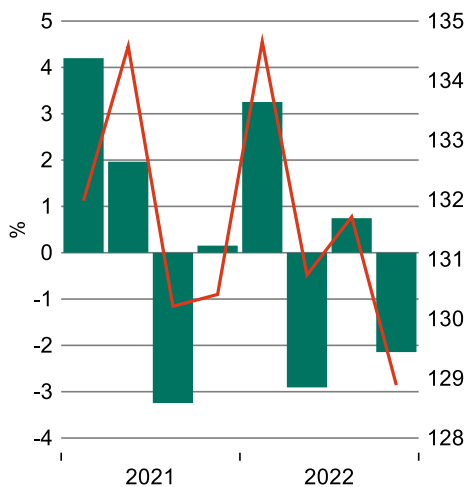


Source: Macrobond, HCOB Economics

... this won't be a public stimulus driven recovery, but a recovery which will be driven by pent up demand, with consumption and services taking most advantage. Indeed, ...

Services

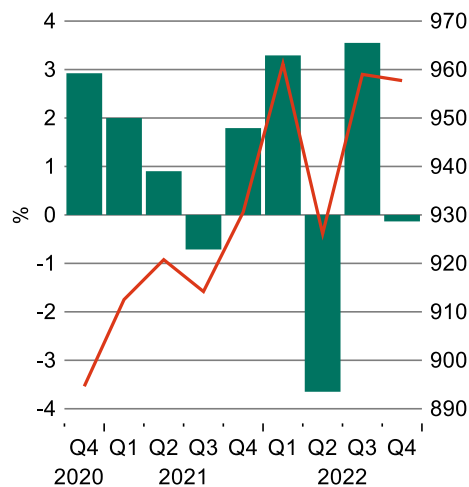
China, services, QoQ and index, own calculation



Source: Macrobond, HCOB Economics, China National Bureau of Statistics (NBS)

Industrial production

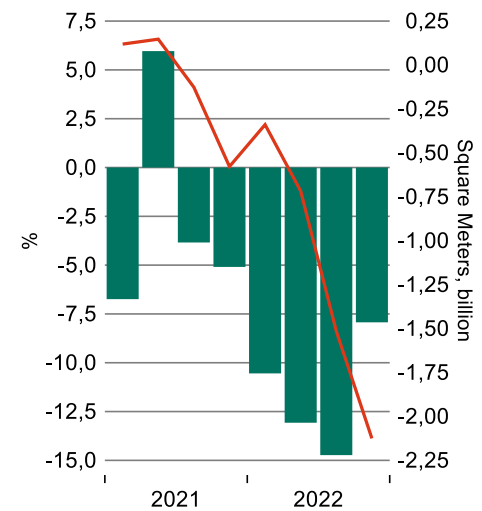
China, industrial production, QoQ and index, own calculation



Source: Macrobond, HCOB Economics, China National Bureau of Statistics (NBS)

Construction

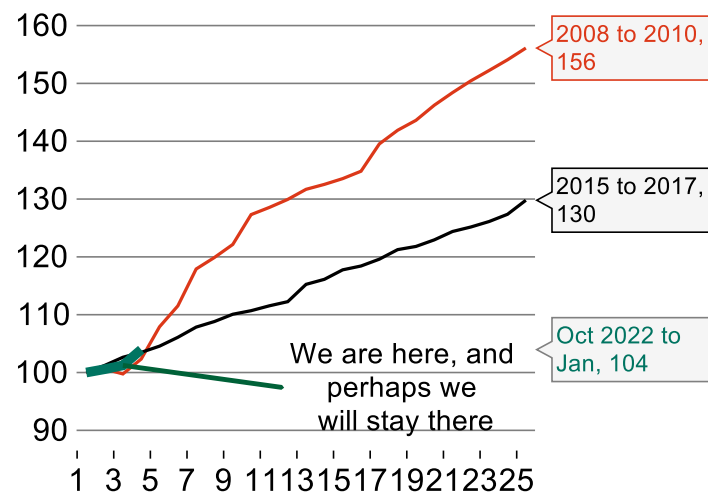
China, Construction Starts, QoQ and YoY, Area



Source: Macrobond, HCOB Economics, NBS

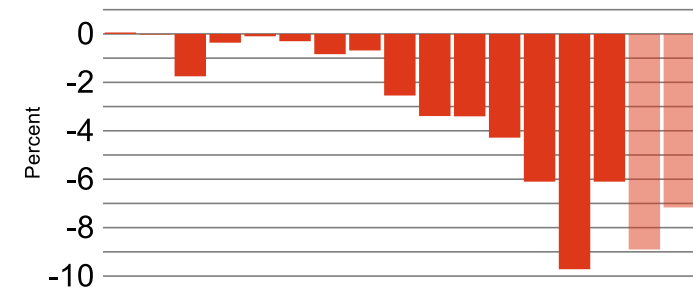
... looking at stimulus programs in the past, when banks were the main vehicles to push investments through generous loan extensions, we might be disappointed. So, what does this mean for shipping? It ...

Total loans in local currency, development in the wake of stimulus programs in 2008, 2015 and today, rebased to the start of the stimulus

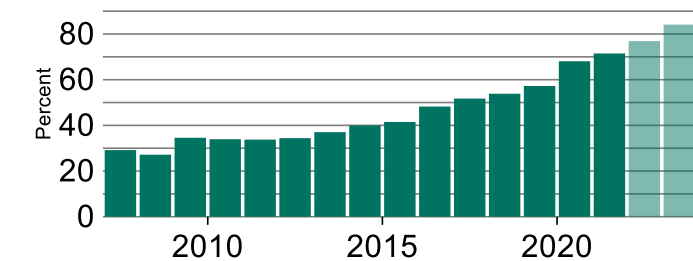


Source: Macrobond, HCOB Economics, PBoC

Budget balance in % of GDP



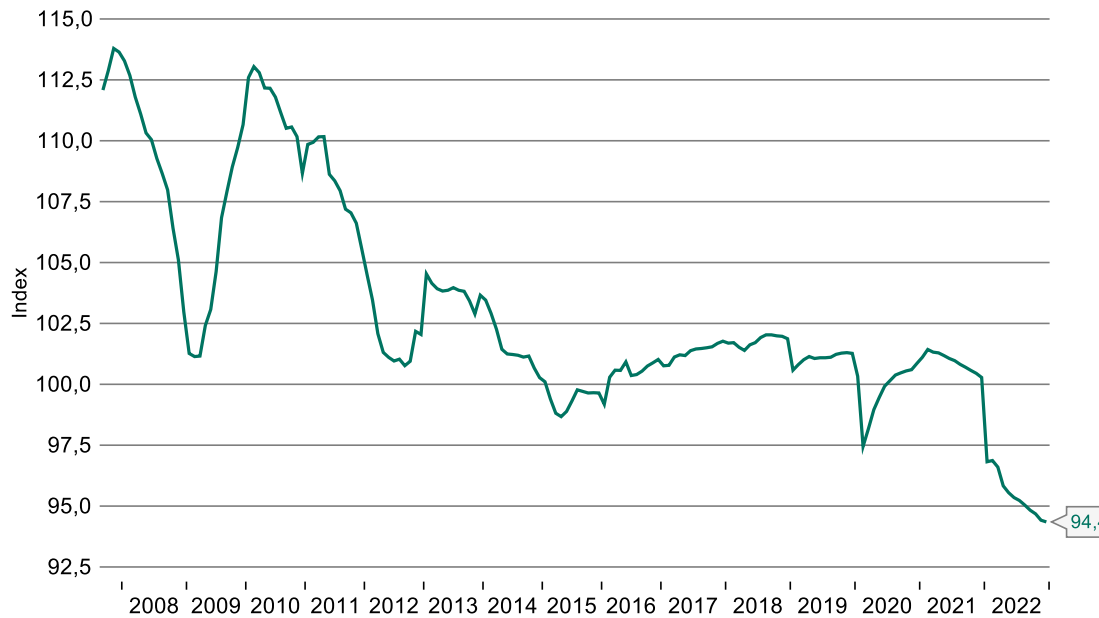
General government debt in % of GDP



Source: Macrobond, HCOB Economics, IMF

... means that we would probably see more demand for energy commodities and some support for bulker. Bulker will depend very much on what happens in property markets. The container sector, ...

China, Construction Indicators, National Real Estate Climate Index, Index, NBS

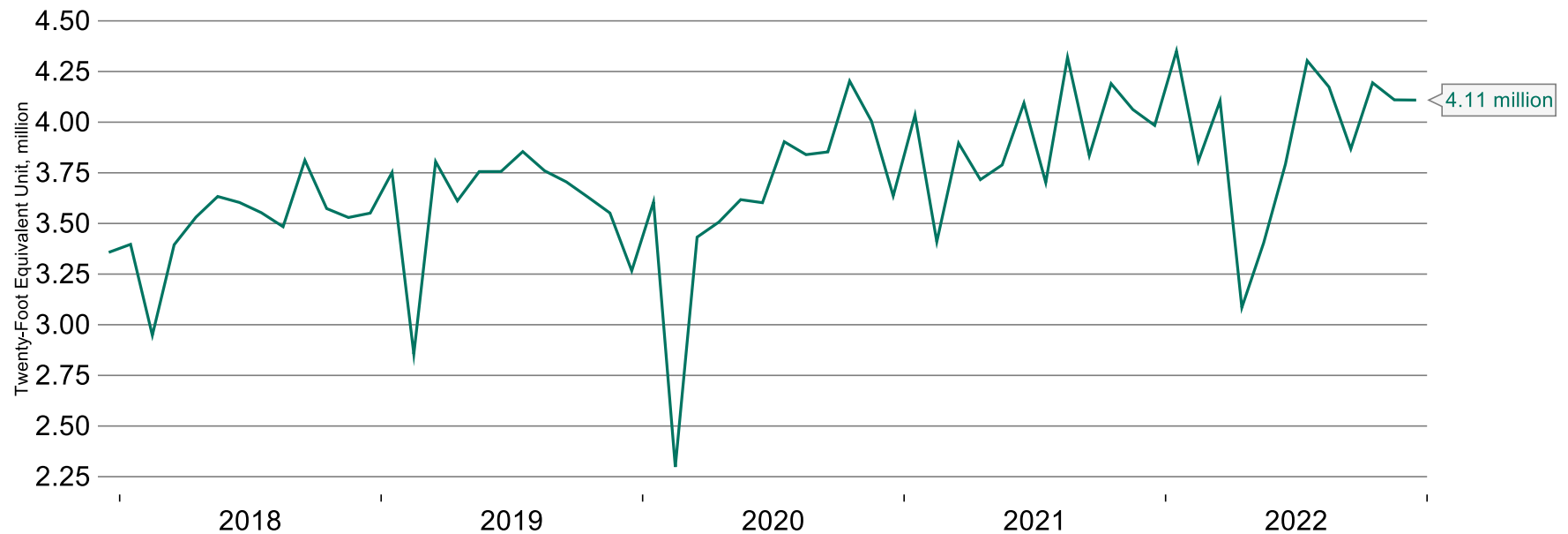


Source: Macrobond, HCOB Economics, NBS

Property sector seems to hit the bottom, which is probably a good point to start at for a recovery.

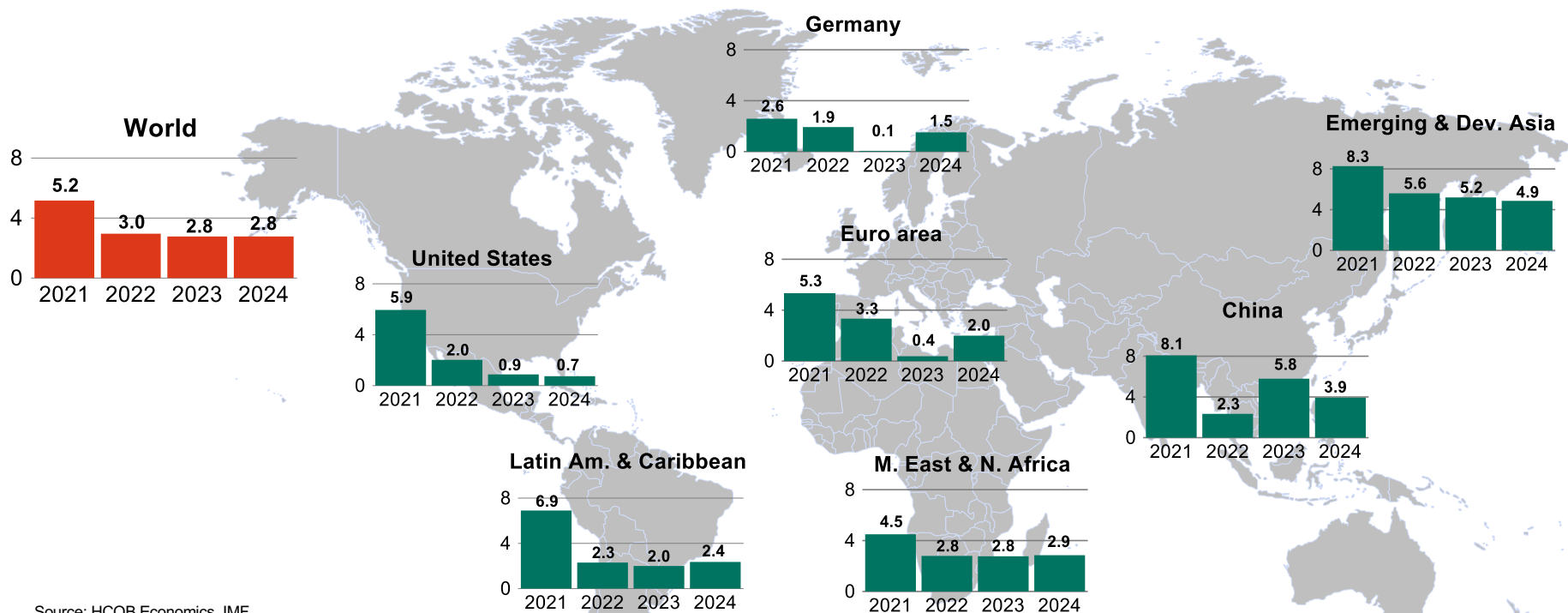
... is under pressure in terms of freight rates. Throughput, however, has recovered. Apart from that, the container sector is less about China, and more ...

Throughput of containers, million TEU and YoY change, Shanghai (December 2022)



Source: Macrobond, HCOB Economics, Shanghai Municipal Statistics Bureau

... about the world economy. We see some green shoots and upward risks to our forecasts. --- What about ...



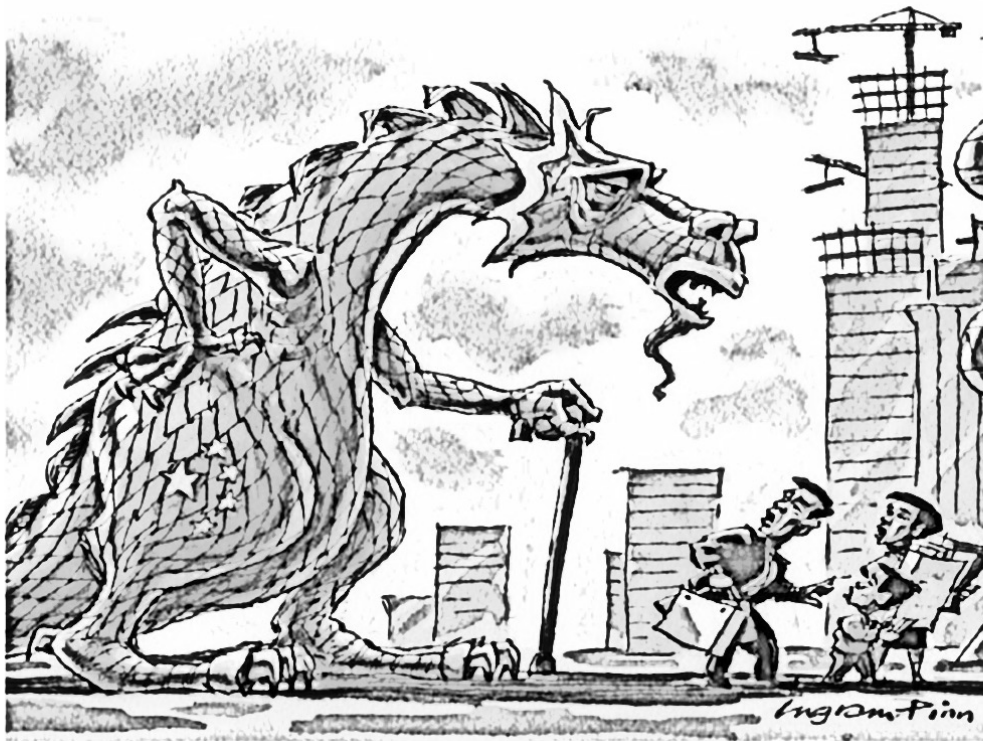
Source: HCOB Economics, IMF

... the perspectives for China beyond 2023? There is this challenge of China's economy ...

International Monetary Fund in its January 2023 publication:

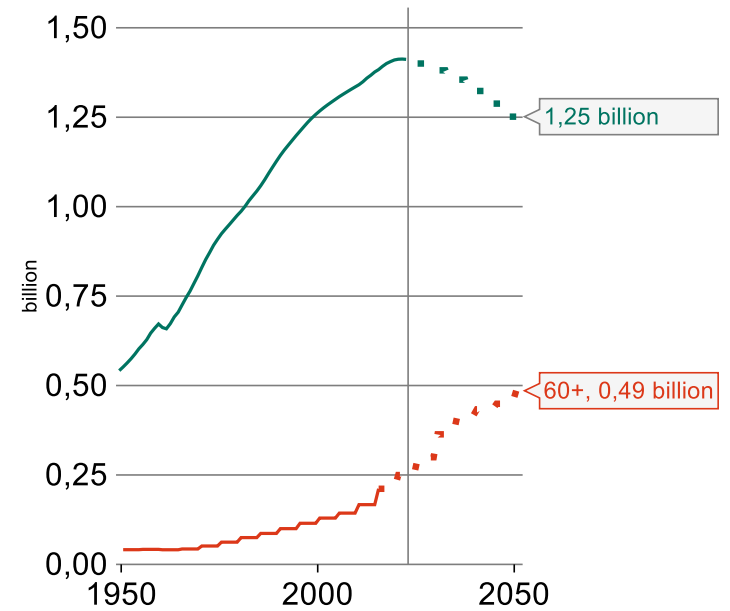
Growth in China is projected to rise to 5.2 percent in 2023, reflecting rapidly improving mobility, and to fall to 4.5 percent in 2024 before **settling at below 4 percent** over the **medium term** amid declining business dynamism and slow progress on structural reforms.

... probably getting old before becoming rich. This means, that China ...



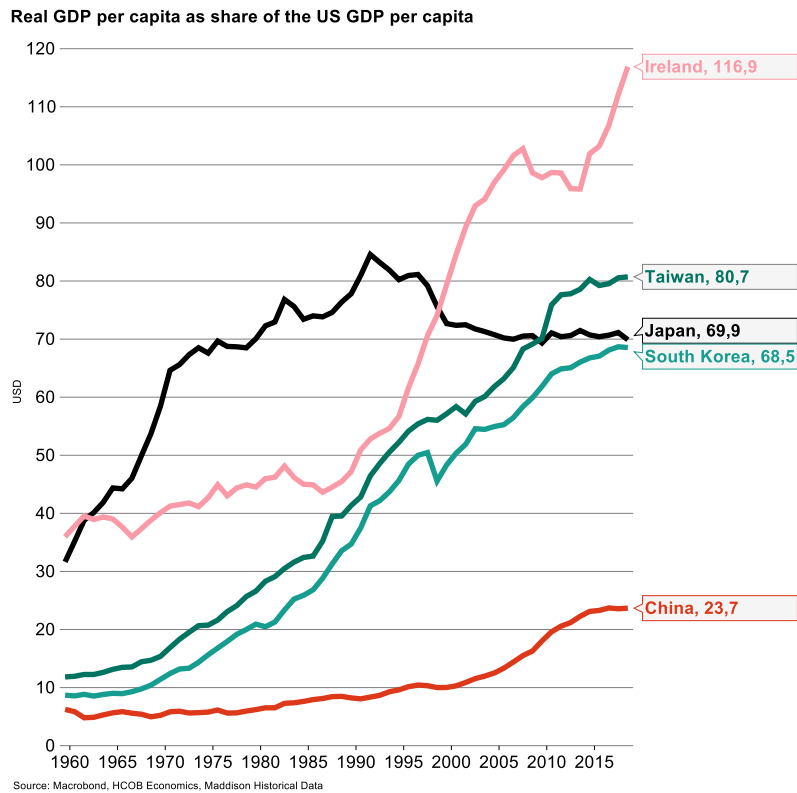
FT, modified by HCOB

China, population



Source: Macrobond, HCOB Economics, UNDESA, NBS

... may not succeed in copying the pace of South Korea, Taiwan or Ireland. This has to do not only with demographics, ...

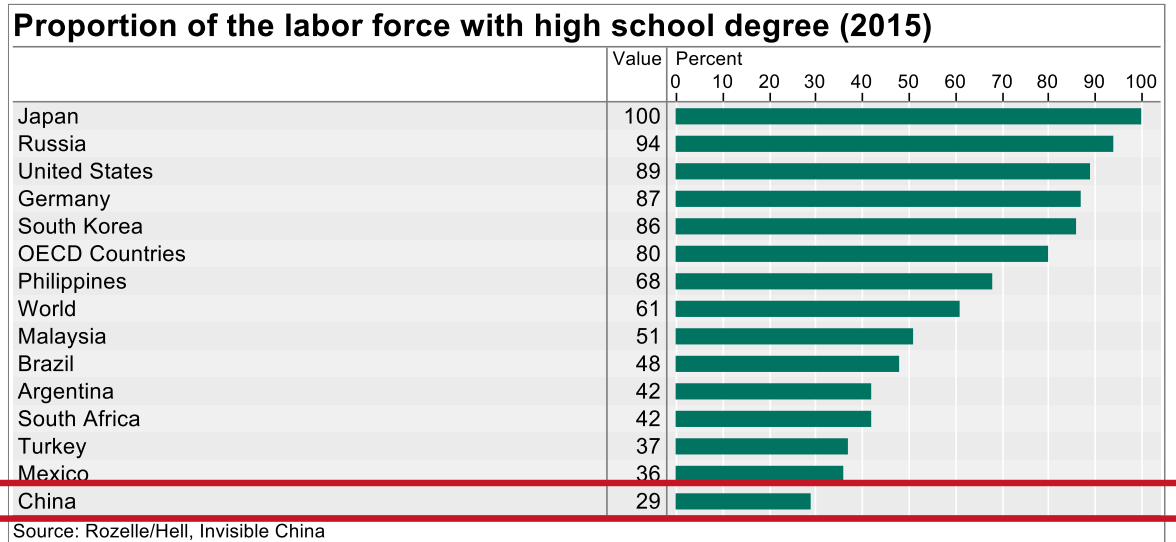


This is what China has been striving for, and it has been quiet successful, but

...

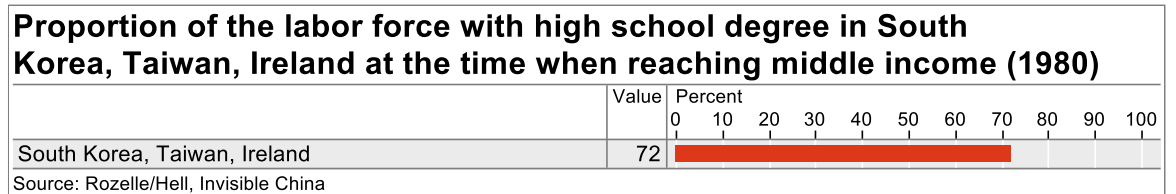
... it's still a long way and there are very probably too many obstacles

... but also very much with a lack of human capital.



When successful countries
**(Japan, South Korea,
Taiwan, Ireland)** had reached
the middle income territory,
their **high school degree**
proportion was at around **70%**.

China's today at around **30%**.



In a nutshell

- The **short term perspectives** for China are good, as the reopening means more consumer demand. Growth could well get to almost **6% this year** (after 3% in 2022).
- The rebound will **not be a public stimulus driven** one as we know from the past but instead consumer and services driven. Therefore, the impact on shipping will be in some ways different.
- Energy related shipping (**tanker, LNG, bulker with respect to coal**) should feel some positive impact from China's reopening
- **Bulker commodities** like iron ore could take advantage as it looks as if the **property sector** is not that far away from reaching the bottom.
- The **container sector** depends very much on the world economy and less from China's recovery.
- The **long term perspectives** of China are muted, which has to do with demographics and low educational level on average.

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