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Chartered Financial Planner

Booms & Busts Report

What happens when much of your income is going to service loans and interest?
You stop borrowing.

Of whom or of which country am I referring?

You're probably wrong.

This is the July 2024 Booms & Busts Report. I publish these, free, every two months.
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In this edition of The Booms & Busts Report:

- ***Our client's performance quarterly update on our Homepage***

- ***Aw'roight, me old Choina***

- ***Housing market***

Enjoy the Summer!

China

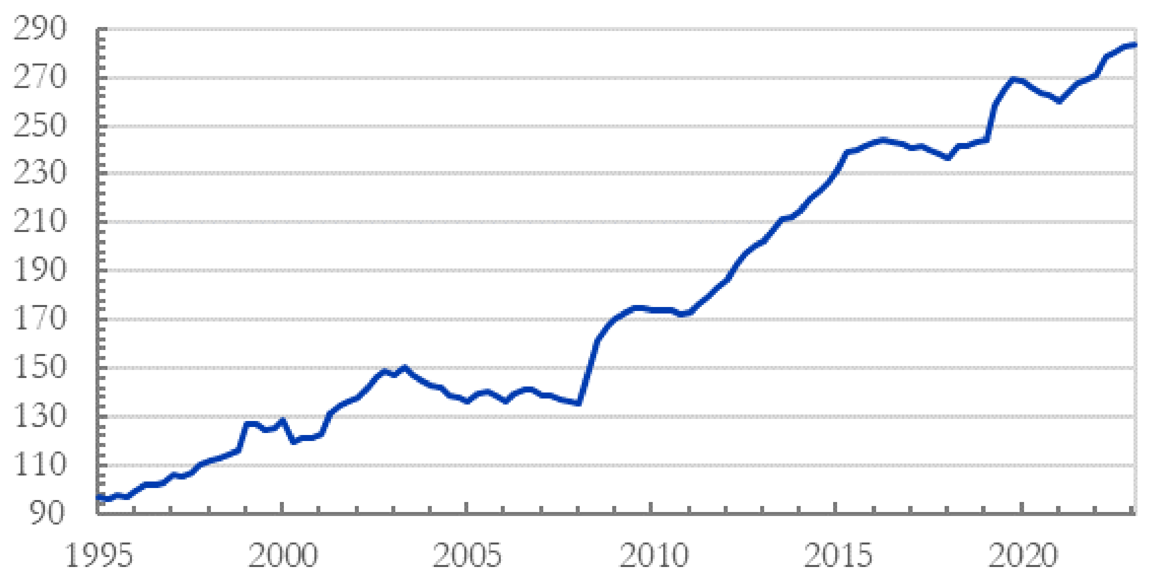
In Sterling terms, the Chinese stock market is down 30-40% since 2021.

The central bank, the People's Bank of China (you have to laugh), according to its website ‘pursues a managed floating exchange rate regime based on market supply and demand with reference to a basket of currencies’. So, it manages the currency. It is not free floating.

The target, prescribed by law, is for the PBOC to ‘maintain the stability of the currency value’. And yet it has fallen in value some 15% in recent months.

Perhaps they're losing control of the currency...

China Non-Financial Debt-to-GDP (%)

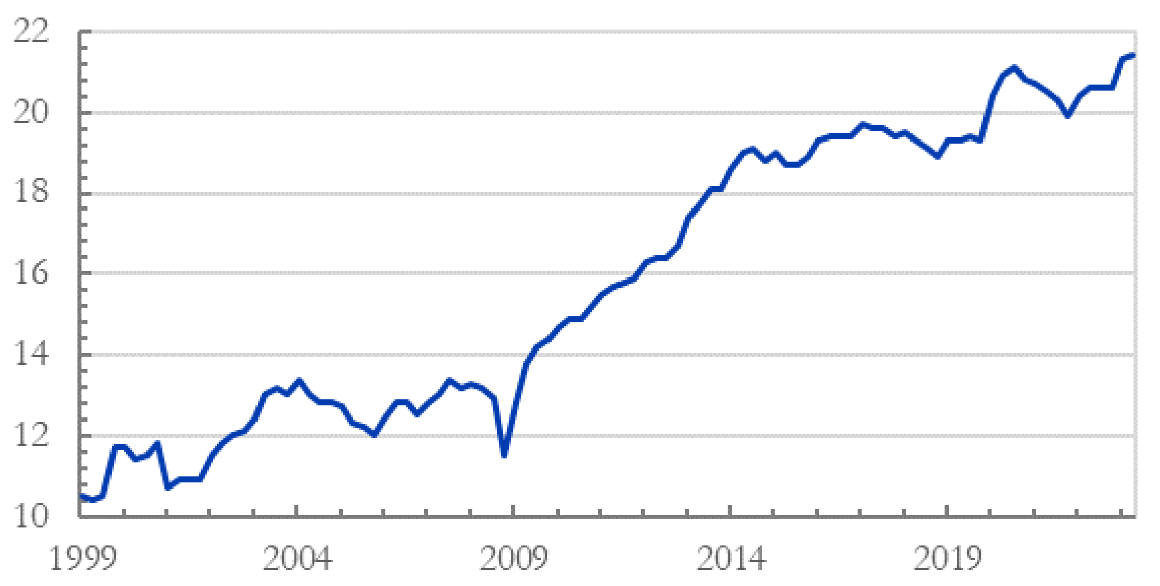


Source: BIS

Nominal Chinese GDP growth has slowed and economic growth has been sustained by adding ever more debt.

And the **debt service ratio** keeps ever rising. *The proportion of China's **private sector income,** required **to service debt,** marches ever higher.*

China Private Sector Debt Service Ratio (DSR) (% of income)



Source: BIS

For comparison:

In 2007, China's DSR was 13.2%. The US was 18.5%.
By 2023, China's DSR had soared to 21.4%. The US fell to 15.4%.

China has needed to sustain economic growth and the only way it could do that was by borrowing more and more and more.

In 2007, India's DSR was 13.3%. End of 2023: 11.5%.

Whereas China's debts have risen from 135% of GDP in 2007 to, as at 2023, 285% (an enormous rise), India's debts rose from 170% of GDP to 185%. A small rise in 16 years.

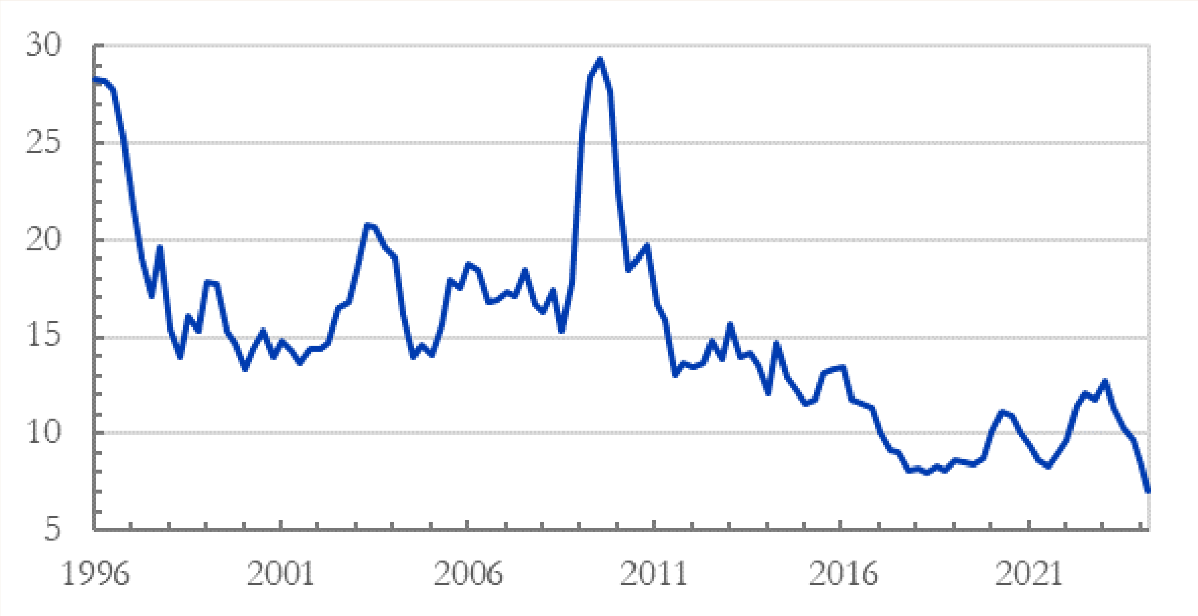
India is MUCH stronger than China. ('Everywhere' is, practically.)

Chinese debt soars to maintain the currency fix. And to keep on growing the economy.
Is it a 'my other car is a Porsche' thing? Ego? 'We have a strong currency. We are strong.'

The problem is you can't spend more and more of your income just on servicing debts.

Especially as global rates have risen (soared).

China M2 (money supply) (% change yoy)



Source: Bloomberg

Bank lending has slowed, dramatically, because the numbers no longer add up. If people and businesses can't pay the costs of borrowing - because they're already maxed out or because they can't be profitable, with such high borrowing costs - then they will not borrow... even if the CCP mandates the banks to lend, lend lend. Which they are doing.

The only way that money supply will rise is if the CCP hands money out like confetti - as the West did in 2020 through 2023... which created huge inflation...

'Oh, I've just been handed £50k. I'll buy lots of stuff.'

'Oh, our sales are through the roof. Oh, the import prices have soared. Oh well, we will just have to raise our prices...'

Inflation is created by politicians and bureaucrats. It doesn't just happen. In fact, the natural state is deflation, due to technology, free markets etc.

Remember there are at least some 60,000,000 built and unsold homes in China. SIXTY. MILLION.
They can't sell. 'No one' can borrow to buy.

So, they can't build more as they won't sell. **20-30% of the second largest economy: toast. On top, gradually, manufacturing leaving China for other parts.**

Shall I repeat that?

Foreign investment into...

China collapsing.

India, Mexico and Vietnam soaring.

So, China may be falling into a debt deflation. And much, much larger even than Japan's, 30 year depression, from the late 1980s...

To avoid it, the Yuan will have to devalue. TINA. There is no alternative.

At first, it will cause huge global deflation.

It will then suck in (to China) huge inflation via imports (of much more expensive inputs) as China will be buying with a weaker currency.

So what?

1. China's lower currency will make its exports even cheaper, initially. Great for Western consumers. Terrible for the ultra rich parasites, bureaucrats, monopolists and oligopolists aka globalists. Short to medium term.

Would you want to hold your hard-earned investments in a country where the currency is going to crash? And the risk of a major cold war with China is clear. Just like Russian assets, they will become values at £0. Most professionally managed portfolios have a sizeable exposure to China / Hong Kong. We hold nothing there.

The manufacturing countries' in competition as well as Western countries will hate the currency crash, as they will be at a severe price disadvantage. And it will create a global deflationary shock, which is likely to be harshly negative global stocks and commodities.

2. Cue national protectionism and second round inflation. Huge inflation as, increasingly, China is closed to global trade. Terrible for consumers. Great for the ultra rich parasites, monopolists, oligopolists and bureaucrats.

Alongside, expect The Euro to fall (maybe end, in its current form), medium to long term, as the EU, increasingly, breaks apart, as nationalism grows in power.

The US Dollar should soar, relative to other currencies.

3. Expect the 'traditional' assets for investing, namely, stocks, bonds and property, to perform poorly, long term. Higher inflation and rates. Just like the 1950s through the 1970s...

(Remember when you or your parents could buy a 3 bed house in London on one salary and no BOMAD? You are actually adamant that that's impossible to return.

And that will be your long term financial downfall.)

If/when China devalues we could have a short, sharp major fall in global stocks.

It could be by 2025.

Housing update (It's many folks' favourite subject because a) much ego and wealth is invested in one's home(s)' value and b) the game we play is I say housing is crashing and you say no, it's not.)

New **buy-to-let (B2L) statistics** from UK Finance:

The value of new B2L lending was £6.3bn in Q4 2023, **down 55.4% on the year.**

Down 55% year on year?! So B2Lers are heading for the floodgates. I've been saying so for well over a year.

The number of loans in arrears of more than 2.5% of debt more spared to 13,570. Nearly 15,000 mortgages in arrears by months. And that's after a year of the banks looking away. Now the election is done, they are no longer looking away.

There were 500 repossessions, up 56% on the year.

And that's just B2L.

According to Savills research, overall, the total value of the UK new home mortgage lending contracted by 21% in the year to March 2024, on the back of ... [much]... lower levels of market activity. This has taken it back to £342bn, its size of five years ago. A fifth lower than five years ago? With higher house prices and population?

At the height of the mini housing market boom it temporarily peaked at £521bn. Quite a fall, since the 2 or 3 years ago. As I have been saying for well over a year.

England and Wales house sales

2023 was abysmal, relative to recent years.

In fact, only 36% of homes marketed last year, sold last year. Only 36%.

Yes, but not our area...

It's always somewhere else isn't it?

The market in 2023 and 2024 and 2025 is not 2021 or 2022. If you must sell and can't, it's the asking price. You've allowed yourself to be duped, by branded agents, that your property is worth a lot more than it is. How great you felt when you heard that number.

After you bounce back from a fallen ego, I suggest trying to sell through an agent with his/her name on the door. It's their reputation at risk. They'll do you the best job, normally.

The US housing market is at least as bad.

It is much cheaper to rent than buy. So why buy? (I know rents have been rising a bit, still, but I imagine the relationship is similar in GB.)

Renting Vs Buying

Good luck out there

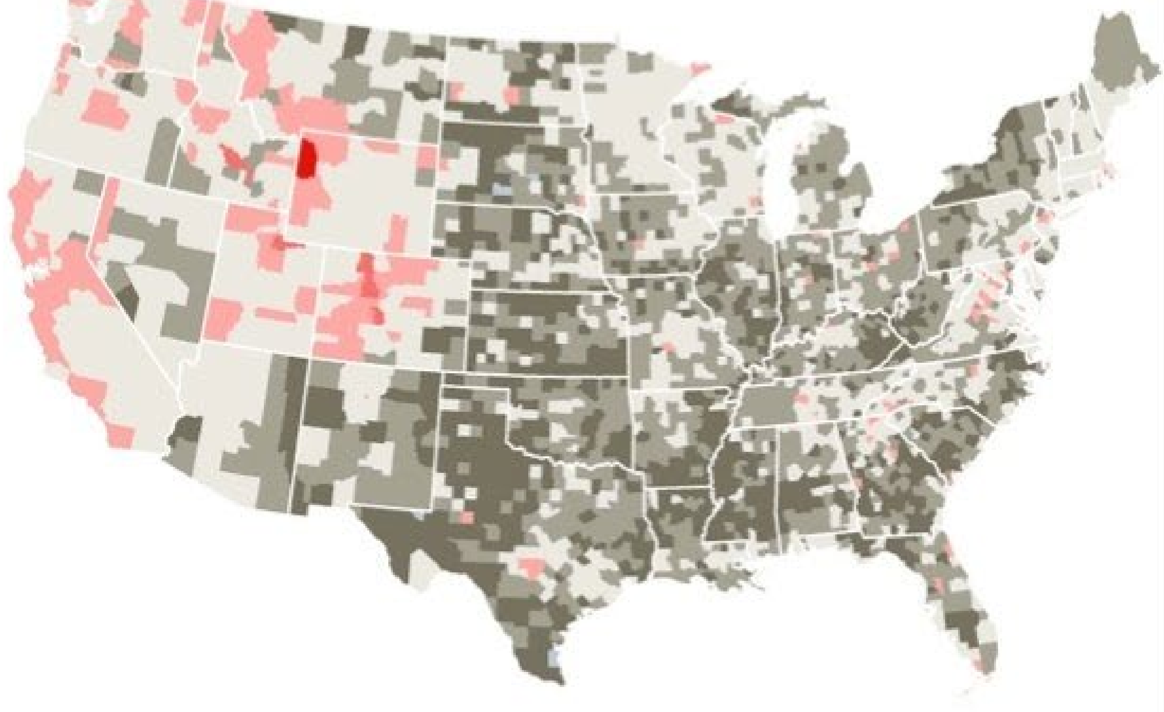
United States, cost of buying v renting a property*

Cheaper to buy | Cheaper to rent

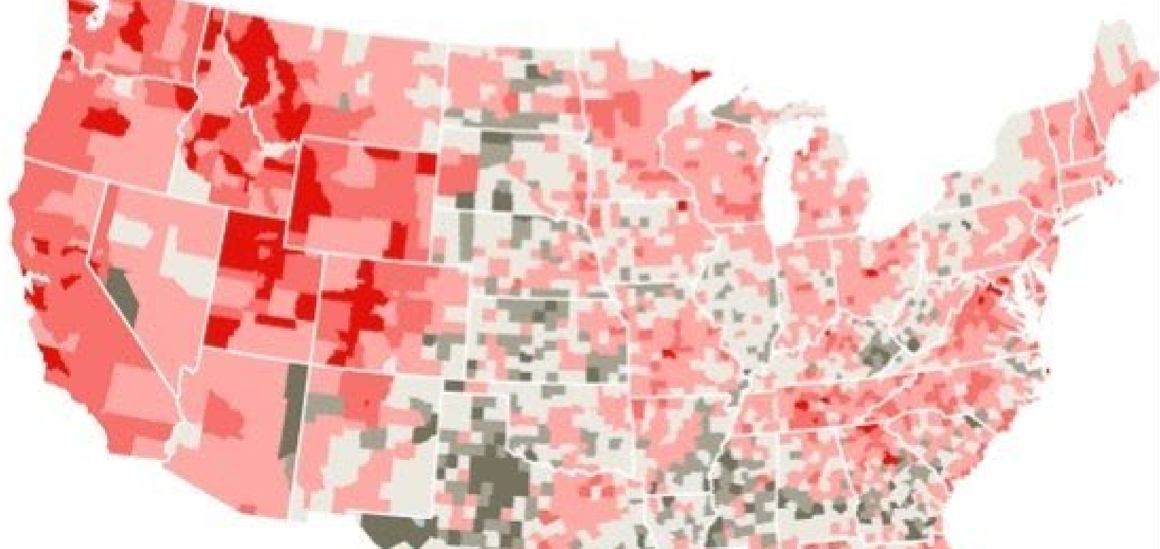
2x | 1.5x | Equal | 1.5x | 2x

No data

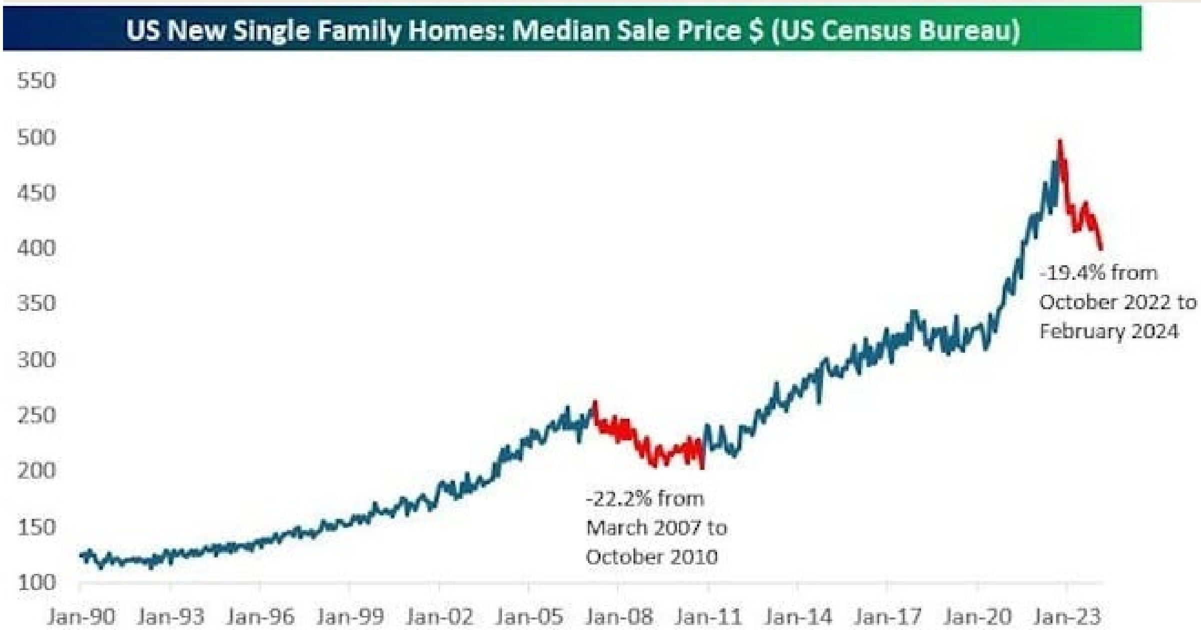
2020



2023



Number of single family homes sold



Almost as big a fall as the 2008 housing collapse. And we're only two years in. There's - I believe - at least another two years to go.

On both sides of the Pond new build numbers have collapsed. (Not an exaggeration.) The market is abysmal. Thus, prices will fall. A lot.

What's that? The Bank of England cut the rate today?
And The Federal Reserve will likely cut next month?

Aye, from 5.25/5.5% to perhaps 4.5/4.75% by next year. Two words. Big. Deal.

When you have read all the shilling from the media, the banks and the developers et al, wake me up when nothing has actually changed / improved.

I advise private clients on Wealth Advice and Later Life Financial Advice (paying for Care Fees) all over GB and, indeed, on four continents.

“We advise you based on what we would do, were we in your shoes, given what we know."

Call me personally to see how I can help you. No obligation.

I think most folk do not realise the sizeable risks - and opportunities - in investment markets.
They will. But will they have benefitted or lost from the decisions made?

Thank you for reading. I hope you found it interesting and, perhaps, useful.
If you have any queries over any of the issues raised, just call me or email by clicking *here*.

With kind regards

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