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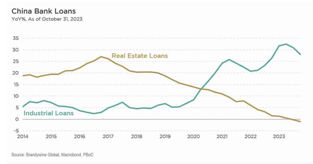


Chart of the Moment: Will China's Two-Track Economy Hit a Dead End?

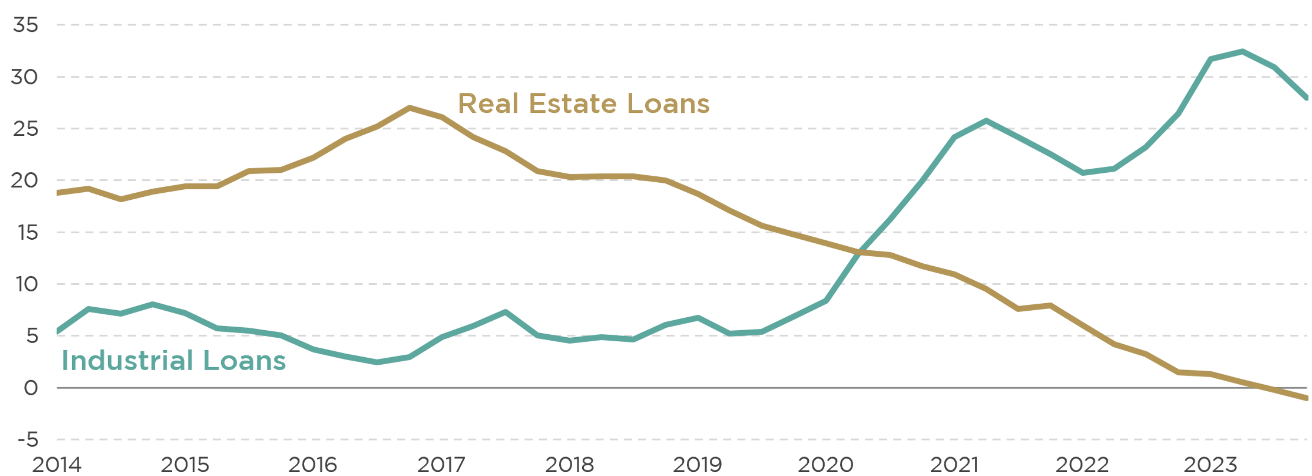
Tracy Chen, CFA, CAIA |

As this chart shows, China is running a dual-track economy. On one side, industrial policy is driving manufacturing investment higher by focusing on import substitution and exports. On the other side, policymakers have yet to stabilize the property market to minimize the drag on economic growth. As a result, property investment is down.

The Chinese government is reaffirming its industrial policy by focusing on "new productive forces" to ensure self-sufficiency in high-end manufacturing, advanced technology, and renewable energy with a more sustainable development model. However, these sectors face overcapacity issues and potential backlash from export destination countries. Furthermore, this policy is likely to drive deflation and a supply imbalance. Meanwhile, if China does not bail out any property developers, the sector is unlikely to bottom anytime soon. China's property sector recovery likely will be a long, drawn-out process, suppressing growth and further extending deflationary risks. If these forces continue, we would expect rates to remain lower for longer, providing a tailwind for Chinese government bonds.

China Bank Loans

YoY%, As of October 31, 2023



Source: Brandywine Global, Macrobond, PBoC

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