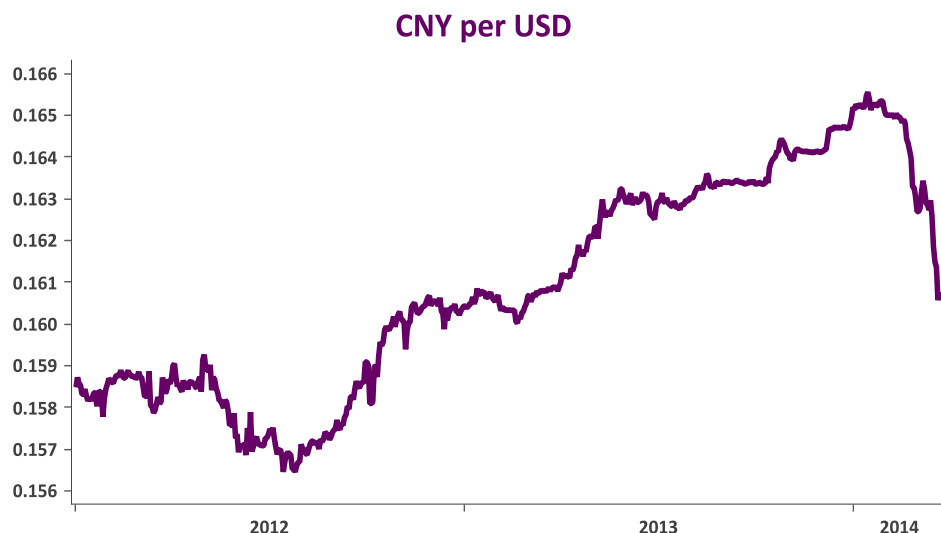


China: desperately seeking growth drivers

How bad has the Chinese economy gotten to warrant such a firm reaction by Chinese authorities in recent weeks?

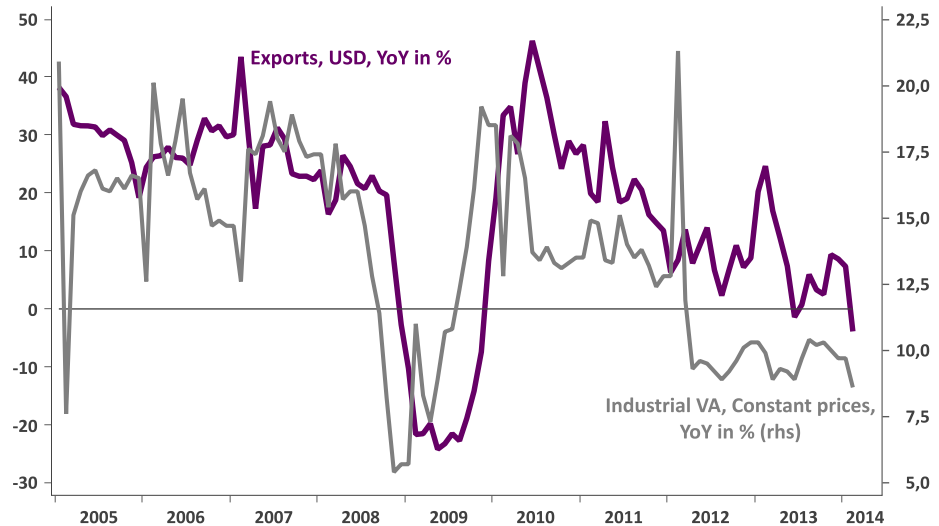
Since mid-January, the People's Bank of China has orchestrated a 3% fall in the yuan. Our suspicions of a shift in currency policy are being confirmed (for more information on this topic see: ["Shift afoot in China?" published on February 28, 2014](#)) and if such a move was intended to spark volatility to discourage capital inflows the strategy has certainly been successful. And the movement could well continue because China seems to be in disarray as it faces a major problem: mopping up excess private debt in the economy while maintaining growth. It is a tall task and growing evidence suggests that the 2014 GDP growth target of 7.5% is becoming less and less credible.



Sources: RichesFlores Research, Macrobond

Judging by the most recent indicators, the economic deterioration has picked up in recent months as attempts to root out shadow banking have had increasingly visible repercussions on the domestic economy.

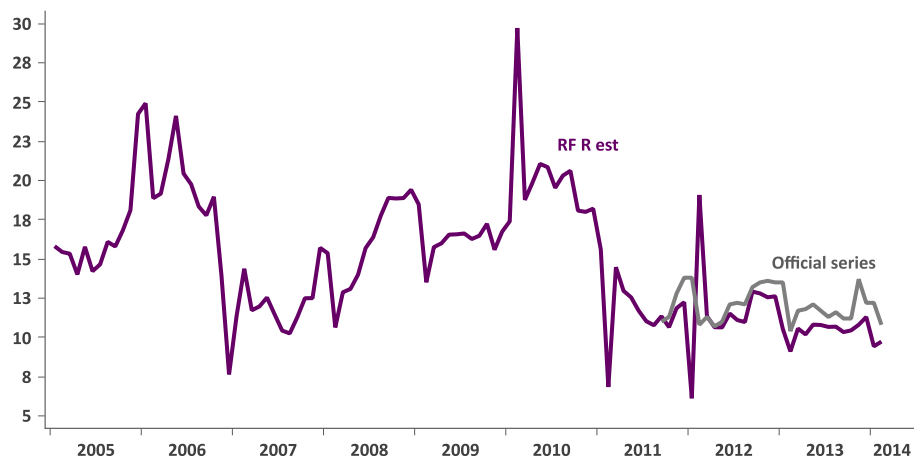
Manufacturing Exports and Industrial Production



Sources: RichesFlores Research, Macrobond

It appears the government is poised to loosen lending conditions so banks will lend to certain key sectors of the local economy, particularly home builders. Therein lies the crux of the problem: these measures fly in the face of the authorities' goal of encouraging deleveraging.

Annual Growth in Retail Sales, Constant Prices



Sources : RichesFlores Research, Macrobond

Against such a backdrop, what other choice do the Chinese have but to look beyond their borders for growth? Probably none. The likelihood of a drop in the yuan thus looks increasingly likely.

Véronique Riches-Flores
contact@richesflores.com

RichesFlores Research is an economic and financial research provider. We produce international economic analysis and forecasts, as well as research on broader short-, medium-, and long-term trends in the global economy.

As an R&D entity certified by the Ministry of Higher Education and Research, RichesFlores Research is eligible for the research tax credit (Crédit d'Impôt Recherche) for the years 2013, 2014 and 2015.

RichesFlores Research is a transparent company, with the databases and information resources we need to remain fully independent and objective. Because RichesFlores Research is not an investment service provider and does not sell financial products, we can offer clients added confidence in the independence and objectivity of our assessments, recommendations, and advice.

This document is provided for information purposes only. It is not and should not be construed as investment advice, or as an offer or solicitation of an offer to buy or sell securities. It contains strictly confidential information intended only for the use of the individual or entity to which it is addressed. This document may not be disclosed to any third party without the express written consent of RichesFlores Research.

This research and its content are the sole property of RichesFlores Research. They may not be reproduced without the express consent of RichesFlores Research and without indication of the source and date thereof.

RichesFlores Research makes no warranty, express or implied, nor assumes any legal liability or responsibility for the accurateness, completeness, or usefulness of the research, conclusions, data, and assessments available on this website.

The content of this website does not constitute a contract and is non-binding. It is not and should not be construed as investment advice or as an offer or solicitation of an offer to buy or sell securities.

Véronique Riches-Flores, contact@richesflores.com