Harry's Take

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Chinese Stocks Close to Ominous Break as Cities Struggle With Debt

The sixth-tallest skyscraper in the world, the China 117 Tower in Tianjin (14 million), rivals anything Dubai, Hong Kong, or New York has to offer. There's only one problem. It hasn't been finished yet and is becoming an eyesore, a glaring testament to China's unprecedented overbuilding bubble. Large sections are notably unfinished, and other derelict towers surround it.

Borrowing for such infrastructure expansion typically is financed locally through the cities with implicit national government guarantees. The bonds from these local projects are now 40% of the total corporate bond market for China. These unofficial, local channels of borrowing, called local government financing vehicles (LGFVs), are estimated at 50T yuan, or about $7.5T. China's cities are struggling more and more with this massive debt load, which now has little to no demographic growth to support it, and that's with 22%+ of all houses and office buildings in China standing empty.

Consider this huge demographic problem: China has THE WORST demographic trends in the emerging world by far, worse than for many more-urban, maturing developed countries. The Chinese Spending Wave peaked forever in 2011, as I have shown many times in the past! In fact, East Asia has the worst demographic trends in the world. Japan was the first developed country to peak in demographics, in 1996, and South Korea is peaking now.

China's Shanghai Composite Close to Making Ominous Break at ~2,850

Source: Investing.com

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And look at how close China is to the line in the sand for its stock market, which peaked way back in late 2007 at 6,124 and is projected to fall to 1,000, as I have been forecasting for a long time… and that fall is just getting closer and closer. The break down from this great triangle pattern would hit around 2,850-2,860 if the Shanghai broke its last low of 2,864 from late October 2022. That would lead to a charge toward that 1,000 target, likely within a year or a bit more, which would represent a 70% crash from the recent highs of 3,337 on March 7, down 86% from the all-time high in 2007.

The likely scenario is that rising defaults and stalls like this one in real estate infrastructure building will trigger the next fall in stocks, breaking the very significant technical support and causing Chinese and international investors to panic and sell further… And next thing you know, China's Shanghai Composite will be heading toward 1,000 fast! That would set off a panic in everything, especially real estate purchases and new contracts for building.

And that's how China will become the straw that breaks the global bubble's back!

Harry

Got a question or comment? You can contact us at info@hsdent.com.