

Hello Everyone

***"Government doesn't solve problems--- it subsidizes them." Ronald Reagan***

President Reagan was right...and his sentiment crosses international lines. The Chinese government seeks to control everything--- and their economy is beginning to suffer as a result.

Today's missive will look at some Chinese data....and then speculate how it is affecting our relationship with the Middle Kingdom.

I hope you find it illuminating.

Signed, Your Getting-The-House-Ready-For-Winter Financial Advisor,

Greg

## **KKOB 10.21.2019 Cold War With China**

**Bob:** So, Greg, we have spent the last couple of weeks talking about the stresses in the banking system, but today we are going to the other side of the globe. You want to look at stresses inside China, right?

**Greg:** Right. And, since the world is so financially interconnected... things there affect us here. So, here are three quick recent headlines from the Middle Kingdom:

- **"Worst Slump In A Generation": China Auto Sales Continue Historic Collapse**
- **Shanghai Housing Sales Plunge**
- **Panic Behind The Scenes: China's Capital Outflows Are Soaring**

**Bob:** But wait, I thought China was booming. If car and real estate sales are down, that can't be good.

And I'm not really sure what capital outflows means, but I think I'd rather have inflows than outflows.

**Greg:** I agree. OK, let's start with cars and houses and then I'll get to capital flows.

Bob, car sales in China have been down 15 out of the last 16 months. That's a long losing streak. It indicates weakness among Chinese consumers. Their government is blaming a slowing economy, the trade war with us, and stricter emission standards.

Oh, and the tensions between the US and China have patriotic Chinese avoiding American products like GM cars & Apple phones. Thus, General Motors reported third quarter deliveries in China were down 18%, and we all know Apple isn't highly regarded over there.

Anyway, moving on to real estate....

As background, something called "**Golden Week**" in China just ended---- and your listeners need to think of Golden Week as a week of Black Fridays...except the Chinese go shopping for real estate. Well this year, Shanghai real estate sales during Golden Week were down 86%!

They blamed tightened mortgage lending ---and the US-China trade war---for the sales collapse.

That brings us to capital flows. Bob, "capital flows" is just a fancy term for money moving to make investments. And, guess what? Money is moving out of China...fast. \$131 billion dollar's worth left in the first half of this year alone. The reason? The Chinese government is compensating for the tariffs by devaluing their currency.

Now, Bob, imagine you are Chinese, and you know your currency will buy 10% less one month from now. Wouldn't you try to get your money out?

**Bob:** Of course. I'd look for ways to buy land, or a house, or stocks outside my country.

So, this is why—in recent years-- we've seen so many Chinese buyers scooping up real estate in the US and Canada. Right?

**Greg:** Right...and even though China has tried to put the clamps on that practice...money is leaking out anyway.

**Bob:** Sure. Money always finds a way. Anyway, it seems to me the common denominator for all this is the trade war. And, frankly, I don't see how we resolve this. I mean, the dispute has been going on for over a year---- and both sides seem to be digging in.

**Greg:** I agree. Trust has broken down. We don't trust them to not steal our intellectual property and technology. And they see us trying to contain their growing economic, financial, and military power.

Oh, and when the Chinese inserted spy chips into the mother boards of the Department of Defense servers, that didn't help matters much.

**Bob:** Right. It's pretty hard to cut a deal with someone who is undermining your ability to defend yourself. And didn't we also find those spy chips on US Navy ships?

**Greg:** We did. And that's why I am amazed the stock market has been moving with every little rumor about a trade deal. To me, without trust, any deal eventually signed won't be worth much regardless.

**Bob:** OK. So, where do you see all this going?

**Greg:** I believe investors must recognize we are in a new Cold War with China. The battlefield is economic ----and specifically the tech sector.

Now, many people think this is good for tech stocks. I used to think that too, but not so much now. Anyway, I know I'm out of time, so let's pick up on this theme next week and I'll explain my reasoning.

**Bob:** Sounds good. How do people reach you?

**Greg:** My number is 508-5550. Or go to my website at [zanettifinancial.com](http://zanettifinancial.com)

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