

China Business Forecast Report Q3 2014

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Abstracts

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Core Views

Beijing faces an increasingly challenging landscape in which to implement its planned economic reforms, as a rapidly cooling national property market is an increasingly salient threat to China's slowing economy. The prospect of a vicious cycle of falling property prices and lower economic growth is becoming increasingly likely in our view, and we maintain our core real GDP growth forecast of 7.1% for 2014.

Beijing's efforts to stimulate China's slowing economy have thus far been extremely targeted in comparison with previous packages, including a relatively small-scale rail package as well as a programme aimed at cutting taxes for small and medium sized businesses. Given government rhetoric regarding the country's slowing growth rate, as well its massive economic imbalances, we do not envisage largescale fiscal stimulus measures over the coming quarters. Instead, we believe that a continued roll-out of measures targeted at specific industries is the likely path forward.

The Chinese government's case against former Politburo Standing Committee member Zhou Yongkang represents a major shift away from past precedent in Chinese politics. Likewise, we note that the targeting of Zhou, along with the purge of former State-owned Assets Supervision and Administration Commission boss Jiang Jiemin, reflect a growing tide against high level state-owned enterprise bosses, and we see this bolstering the economic reform credentials of president Xi Jinping.

Major Forecast Changes

In line with our long-held expectations, the Chinese yuan's appreciatory trend came to a

halt at the beginning of this year. While we believe that the currency's most aggressive depreciation is now behind it, we note that central bank policy as well as market forces suggest that the yuan will likely end 2014 slightly weaker than its current level before stabilising over the long-term. As such, we have downgraded our end-2014 forecast to CNY6.3500 from CNY6.2000 previously.

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The Chinese government's case against former Politburo Standing Committee member Zhou Yongkang represents a major shift away from past precedent in Chinese politics, as such high-ranking officials have long been considered safe from prosecution. Likewise, we note that the targeting of Zhou, along with the purge of former State-owned Assets Supervision and Administration Commission boss Jiang Jiemin, reflect a growing tide against high level state-owned enterprise bosses, and we see this bolstering the economic reform credentials of president Xi Jinping.

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Major Challenges Over The Coming Decades

China faces myriad economic, social and environmental challenges over the coming decades that could seriously test the Communist Party of China's ability to govern. The best-case scenario for any eventual political transition would entail an elite-led liberalisation of the authoritarian system, while the worst-case scenario would involve a violent change of regime.

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Beijing faces an increasingly challenging landscape in which to implement its planned economic reforms, as a rapidly cooling national property market is an increasingly salient threat to China's slowing economy. Even as the prospect of a vicious cycle of falling property prices and lower economic growth becomes more likely, however, we once again note that the government will be unwilling and unable

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Beijing's efforts to stimulate China's slowing economy have thus far been extremely targeted in comparison with previous packages, including a relatively small-scale rail package as well as a programme aimed at cutting taxes for small and medium sized businesses.

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In line with our long-held expectations, the Chinese yuan's appreciatory trend came to a halt at the beginning of this year. While we believe that the currency's most aggressive depreciation is now behind it, we note that central bank policy as well as market forces suggest that the yuan will likely end 2014 slightly weaker than its current level before stabilising over the long-term.

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