

EM Spotlight

JOHCM Emerging Markets Opportunities Fund



James Syme
Senior Fund Manager

This note starts with an apology for writing about China for the second consecutive month, but events there do seem to justify it. It is clear, at the time of writing, that a) the attempt to contain the coronavirus spread in China is going to have a very significant impact on economic data and corporate results, and b) the scale of the impact is very unclear and most commentators are just guessing.

We do not have any unique source of information regarding the Chinese economy and its implication for Chinese financial markets. As per our process, though, we believe that levels and trends in shorter-term economic data are generally underappreciated by equity investors. This note aims to focus on some of the data series that we believe will be important to understand growth and activity levels in the Chinese economy. It is important to note, when looking at all Chinese data, that the first quarter includes the Spring Festival (Lunar New Year), which is highly disruptive to calendar month data. The 2019 New Year was in February but 2020's is in January, for example.

In terms of sources, firstly there are Chinese government-related media sources. These include the Global Times (a news service run by the Chinese Communist Party's People's Daily news organisation), and the Xinhua News Agency (the official Chinese state press agency). For example, a Global Times article published on 3rd February opened 'The novel coronavirus outbreak in China is expected to harm economic growth by at least two percentage points during Q1 2020, according to forecasts.' The CCP expects Q1 to be bad; this is not an exercise in managing market expectations on anything.

Car sales are often an important metric of domestic demand in middle-income economies, and China has high quality vehicle sales data released in the second week of the following month. This has to be taken in the context of the economic cycle (and also the possible realisation of 'peak car' in urban China), with year-on-year car sales negative since mid-2018, but the next few months' figures will be an important guide.

Trade data is highly useful. Import data (in both US dollar and Chinese yuan, we prefer the dollar data) also comes in in the second week of the month. Like the car sales data series, this had shown clear signs of a recovery in the December numbers, and the size of any reversal will be key. Similarly, China takes 25.1% of Korean and 23.9% of Taiwanese exports. Korean preliminary export data (released around the 22nd of the month, covering the first 20 days of that month) are particularly advanced. The January print showed a continuation of the recovery that began in October 2019. The February release, due 21st February, will be another important sign.

Other data released on a timely, monthly basis include rail, air, toll road and port volume metrics (for example, train passengers departing Beijing in the first 21 days of the Spring Festival travel rush were -11% year-on-year). Classic economic data that must also be considered include PMI surveys and credit and loan volume data (we have written extensively on the importance we place on credit and loan data in EM in general and in China in particular).

Some of the less reliable higher-frequency data sources include Leading Economic Indicators (LEIs), commodity prices and market moves. LEIs are infamous for correlating with market moves, but if we consider, for example, the OECD China LEI, it has six underlying constituents, one of which is... the Shanghai Stock Exchange. Similarly, it is too easy to construct a process which notes the rising price of a commodity, extrapolates strong demand in China for that commodity, and then buys the shares of the producers of that commodity which have already benefited from the rising product price.

Ultimately, we believe that monthly top-down economic data is generally overlooked by equity investors focused on quarterly or semi-annual bottom-up corporate results. We expect this process to be of significant advantage in the next few months in China, as the impact of the coronavirus plays out.

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