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Quilter Investors

Between the lines

September 2023

China acts on stalling economy

Chinese policymakers recently announced modest new stimulus measures designed to support the country's currency and economy after a pattern of weakening macroeconomic data suggested GDP growth targets would not be met.

People's Bank of China
Credit: undefined undefined/iStock.

What does this mean for investors?

When China abolished its highly-restrictive Covid-19 policy six months ago, analysts expected it would drive an economic resurgence, but this has simply not happened. Instead, China has recorded slowing retail sales growth, weakened infrastructure investment, and falling prices, with annual CPI running at -0.3% in July. This has all cast doubt over China's ability to meet its 2023 GDP growth target of 5%.

To stimulate growth, the People's Bank of China (PBoC) lowered its interest rate twice in August and announced targeted measures to support financial markets and the property market. However, analysts are concerned that the announced size and extent of the stimulus will not be enough to meet both the scale and complexity of China's economic problems.

Key takeaways

- China is struggling with a property market downturn, heavy levels of debt, and weak consumer spending.
- In response, China's central bank has intervened in a measured way through fresh financial stimulus.
- There is concern additional monetary support will be needed due to the scale of China's economic trouble.

Japanese growth returns

Driven by a revival in automobile exports, Japan's GDP grew at an annualised rate of 6% in the second quarter. Inflation remains above 3%, which suggests the country is successfully moving beyond its two-decade struggle with deflation to reliably stimulate price increases.

What does this mean for investors?

Japan has been a disappointing market for investors for multiple decades. Despite hosting many leading global brands, the stock market has struggled with low valuations and corporations focusing less than their Western peers on creating shareholder value. This is now changing; reforms are encouraging firms to take a greater interest in maximising share prices and positive inflation figures are generating economic growth. The weakened yen is also supporting exports, whilst naturally, making imported goods more expensive.

Although the Bank of Japan (BoJ) is loosening its yield curve control approach – purchasing variable amounts of government bonds or other financial assets to target interest rates at a certain level – it has not yet ended. The policy has been a major factor in the yen reaching its lowest level, in real terms, since the 1970s, raising the possibility of further government intervention to support the currency. The weak yen has meant that while equity market returns have been strong, with the MSCI Japan Index gaining 25.3% so far this year to the end of August, these returns fall to 7.8% in sterling terms.

Key takeaways

- Japan's economy is growing, and its equity market is increasingly attractive to foreign investors.
- A weakened yen helps the Japanese economy, but it may be near the point where currency support is needed.
- The BoJ maintains a yield curve control approach, which kept interest rates very low despite rising inflation.

Rising oil prices might frustrate inflation measures

Oil prices have crept back to up to $88 a barrel, as falling inventories have combined with supply cuts to impact prices. While weakness in global manufacturing has prevented prices rising significantly further, daily demand is exceeding supply.

What does this mean for investors?

Oil prices have been creeping back up due to a combination of factors. Over the past year, the US has sold down half of its strategic petroleum reserve amid efforts to reduce inflation. OPEC+ production has also fallen to its lowest level since August 2021 while global oil demand has reached record highs. The latter has been driven by air travel, power generation and Chinese petrochemical companies diversifying into oil-derived chemicals, such as polyester, plastic packing, and auto parts.

Higher oil prices will have an impact on global supply chains. Should they continue, it may hamper the efforts to bring inflation back to target levels, as well as add a further hit to consumers. However, it would, of course, be a boon to oil and gas companies, which make up just over 13% of the MSCI UK Index.

Key takeaways

- Oil prices have risen due to reduced supply and greater demand.
- The impact of higher oil prices on global supply chains could frustrate efforts to bring down inflation.
- Oil and gas companies are likely to benefit from this rise in prices.

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