Investment Research — General Market Conditions

14 November 2017

Research China

The housing party is over

- We now see very clear signs that the Chinese housing market is slowing: October home sales growth stayed in negative territory and PMI construction for October was at the lowest level since March 2016.

- The declining activity comes on the back of a long range of tightening measures starting mid-2016 fuelling a sharp decline in credit growth.

- We look for a continued slowdown of Chinese housing over the next 12 months as credit tightening continues and there is no sign of an easing of the policy. Weaker housing is main reason why we expect a moderate slowdown in the overall Chinese economy.

- Low inventories of houses will serve as a buffer and should ensure that this does not turn into a 'hard landing' in construction – as we witnessed in 2015 when housing inventories were elevated.

- The construction slowdown is expected to weigh on global metal prices and we forecast small declines. China will move from an inflationary global force over the past two years to a deflationary force again.

- Nordic export companies exposed to the Chinese construction sector should expect weaker growth rates in 2018 following two robust years in 2016 and 2017. Nevertheless, the slowdown of housing is desirable to ensure a soft landing now rather than a hard landing later.

On the following pages, you will find our new housing chart pack with more details.

Credit growth at the lowest level since early '09 – points to more slowing

Source: Macrobond Financial, Danske Bank, Bloomberg

Recent PMI's underline a picture of slowdown

Source: Macrobond Financial, Danske Bank

Tightening measures in Chinese housing over the past year

➢ Higher down payment for home buyers – especially second home buyers

➢ Higher mortgage rates

➢ Crackdown on illegal finance of down payment via consumer loans

➢ Restrictions on lending to property developers

Source: Macrobond Financial, Danske Bank

Recent China research

China leading indicators – Signs of a peak (again), 2 November 2017

Flash Comment China: New leadership points to continuation – but no successor for Xi Jinping, 25 October 2017

Flash Comment China: Xi Jinping lays out path of further reform and opening, 18 October 2017

China outlook: Moderate slowdown and CNY stabilisation, 13 October 2017

CNY outlook: Stabilisation versus USD, weaker versus EUR, 6 October 2017

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Important disclosures and certifications are contained from page 4 of this report.
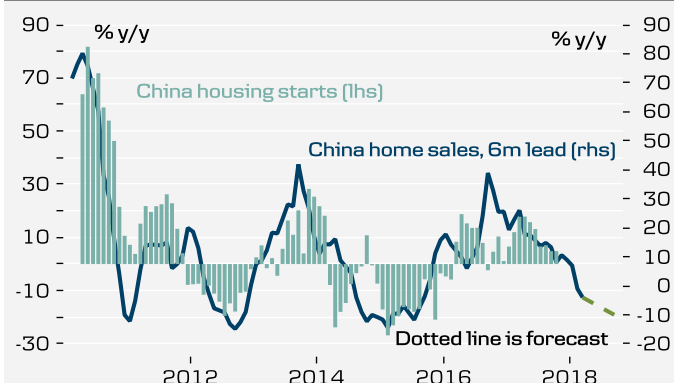
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China housing chart overview

A rise in yields (policy tightening) is feeding into home sales
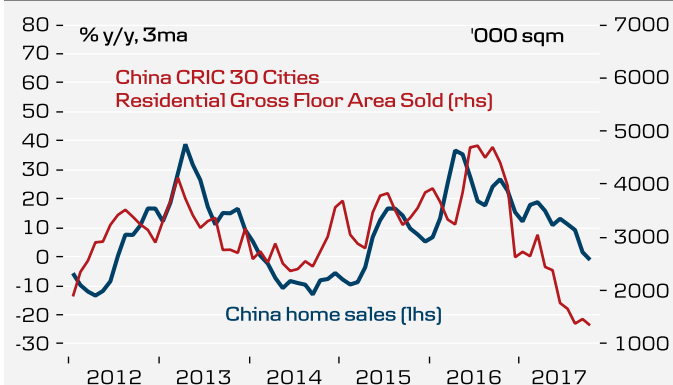

Source: Macrobond Financial, Danske Bank, Bloomberg

Weaker home sales lead housing starts by six months

Source: Macrobond Financial, Danske Bank, Bloomberg
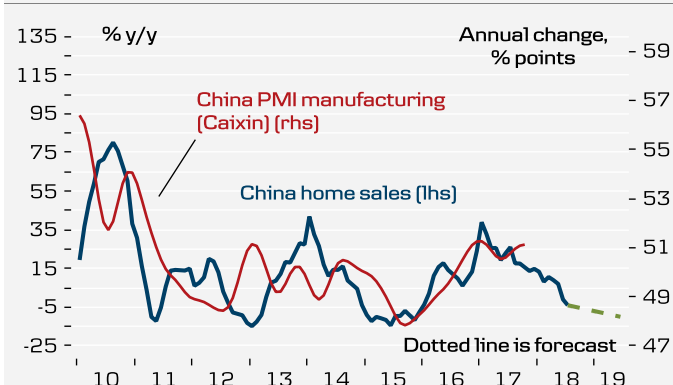
CRIC 30-city sales data confirm slowdown

Source: Macrobond Financial, Danske Bank, Bloomberg

Medium- to long-term household lending shows same picture
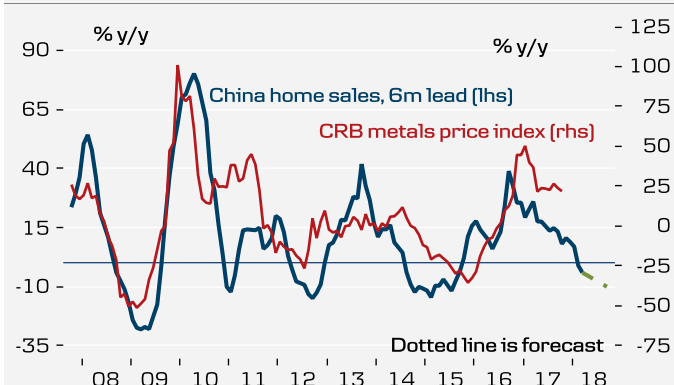

Source: Macrobond Financial, Danske Bank, Bloomberg

Slowdown in housing to feed through to PMI manufacturing
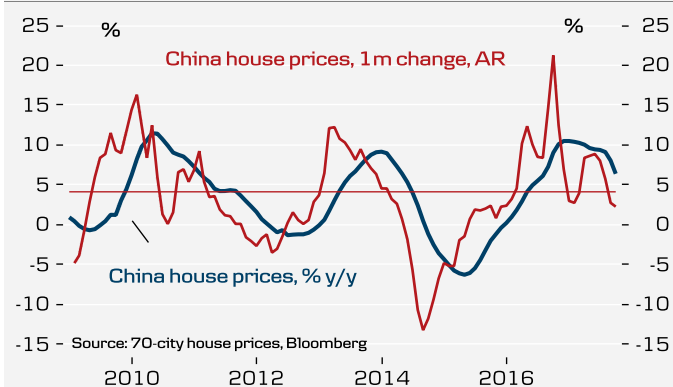

Source: Macrobond Financial, Danske Bank, Bloomberg

### Metal prices to cool as Chinese housing slows

Source: Macrobond Financial, Danske Bank, Bloomberg

Danske Bank

House price inflation moving lower

%
China house prices, 1m change, AR
China house prices, % y/y
Source: 70-city house prices, Bloomberg

Source: Macrobond Financial, Danske Bank, Bloomberg

Weaker demand for steel weighs on iron ore – also a reflection of anti-pollution production curbs starting to weigh

CNY/ metric ton
Index
China Caixin PMI manufacturing (rhs)
Iron ore future (lhs)

Source: Macrobond Financial, Danske Bank, Bloomberg
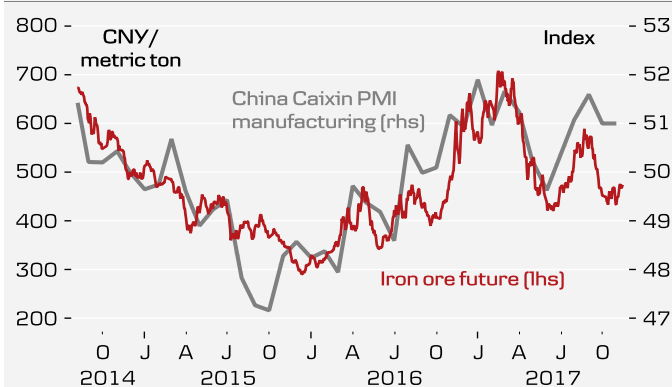
Housing inventories low relative to sales – provides some cushion to the construction sector

Ratio
Housing inventory to sales ratio (NBS)
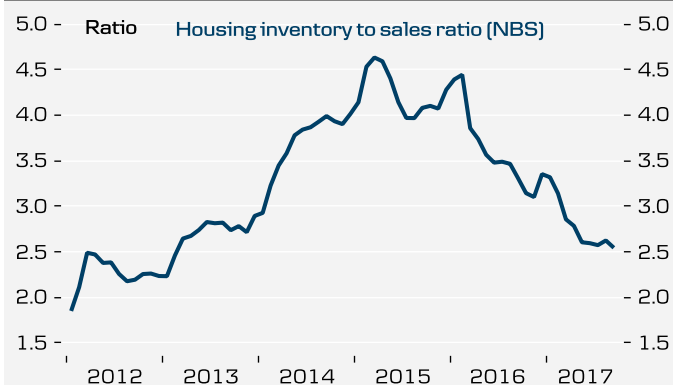
Source: Macrobond Financial, Danske Bank, NBS

Glass production levelling off

% y/y
% y/y
China, building materials, plate glass

Source: Macrobond Financial, Danske Bank

Steel production off the highs

% y/y, 4wa
Index
China steel production (weekly)
China PMI man. (Caixin)
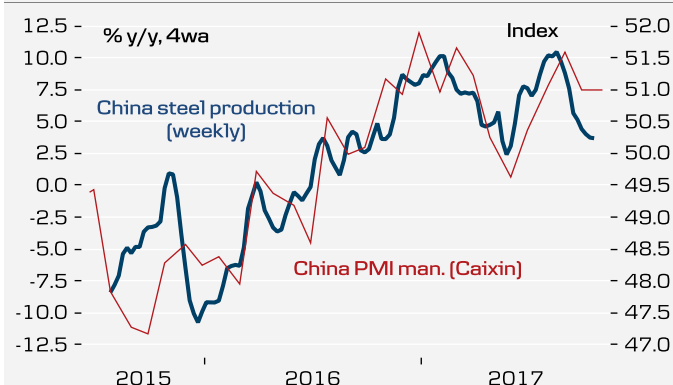
Source: Macrobond Financial, Danske Bank

Cement production growth in negative territory

% y/y, 3ma
% y/y, 3ma
China cement production

Source: Macrobond Financial, Danske Bank

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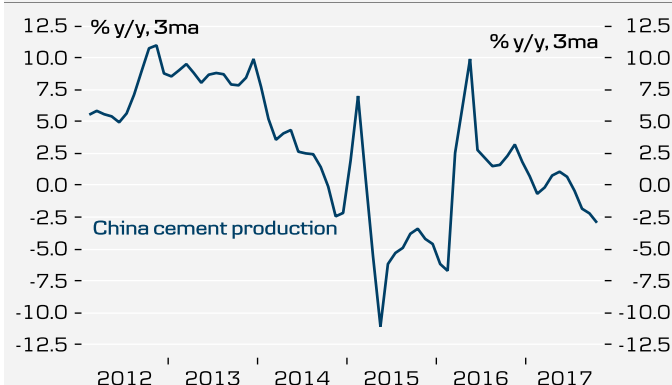
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