

# China real estate update: Country Garden's latest blow!

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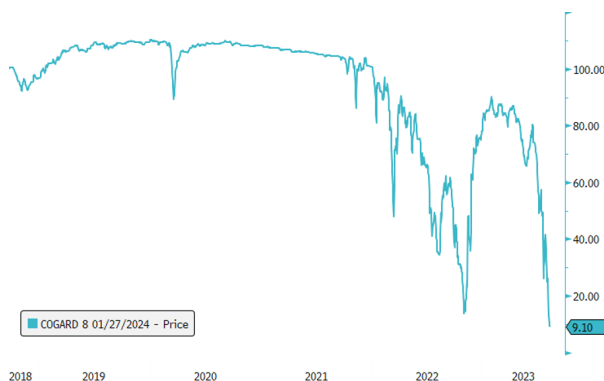
## Introduction

It's been a challenging summer for the Chinese real estate market, as the difficulties faced by Chinese developers continue to cast a shadow over the industry. In this update, we delve into recent events and their consequences, including the unexpected turmoil surrounding Country Garden, while also shedding light on the sector.

## Country Garden's unforeseen turmoil

At the forefront of recent developments was the unexpected upheaval within Country Garden, a stalwart of China's real estate market. Despite its reputation as one of the largest and most secure developers in the nation, Country Garden missed a coupon payment on its U.S. dollar bonds for the first time in its history. This was further compounded by a projected multibillion-dollar loss in the first half of 2023. While boasting a credible financial reporting structure and substantial cash reserves, Country Garden's vulnerability lies in its significant exposure to smaller, struggling cities. This positioning intensifies its challenges, especially as the company grapples to achieve the monthly sales needed to sustain projects. This prompted questions from foreign investors, who hold around \$10 billion in dollar bonds, regarding potential recovery rates and the timeline for navigating this crisis. The repercussions extended beyond the company itself, significantly impacting the broader real estate sector and high-yield market.

**Chart 1: Bond price of the Country Garden USD bond maturing within 5 months.**

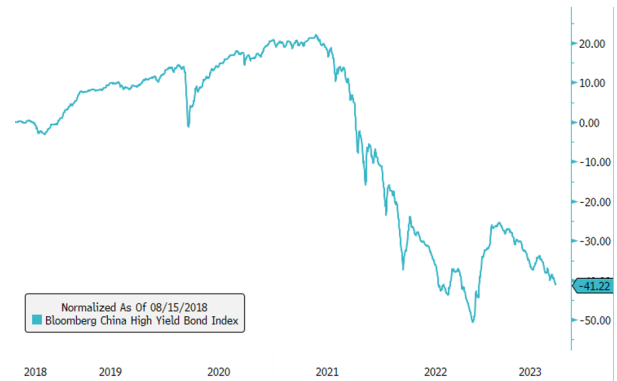


Source: Bloomberg

## Marketwide ramifications

The repercussions of the Country Garden crisis reverberated throughout the industry, highlighting the vulnerabilities of even the most established developers. This event not only raised concerns about the stability of the sector's strongest companies, but also led to a market-wide reassessment of risk. As a result, average prices for Chinese high-yield dollar bonds fell sharply, underlining investors' heightened caution.

**Chart 2: 5-year Performance of China High Yield bonds**



Source: Bloomberg

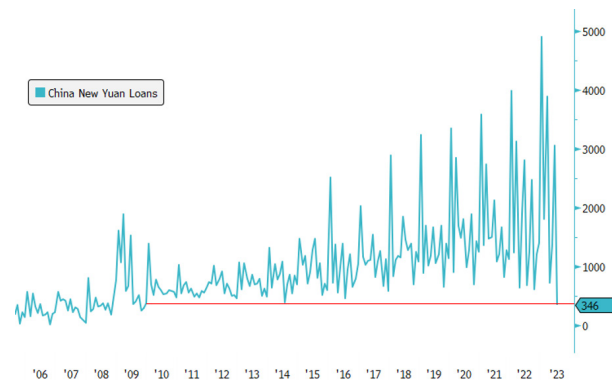
## Support from People's Bank of China

Amidst the challenges, some relief has been sought from the People's Bank of China (PBOC). In mid-July, the Politburo signaled its intention to provide increased support to the real estate sector, alongside commitments to boost consumption and address local-government debt concerns. However, these initiatives fell short and early August, the PBOC took a step further by announcing plans to enhance private-sector funding support following discussions with property executives. While these actions are noteworthy, the absence of a substantial demand stimulus from the PBOC has left some industry insiders skeptical about the sector's imminent recovery.

## Looking ahead

The Chinese real estate sector remains entrenched in an unbreathable environment. The turmoil surrounding Country Garden has underscored the sector's fragility, while the broader market continues to grapple with declining bank loans and significant drops in contract sales. Despite some supportive measures from the PBOC, concerns loom about the efficacy of these actions in the absence of a robust demand stimulus.

**Chart 3: Total new loans in China fell to their lowest level since 2009**



Source: Bloomberg

## Conclusion

Once again, China's real estate sector is faced with an overwhelming wave of challenges in part due to Country Garden's financial difficulties and the broader struggles faced by Chinese developers. The market's response to these events has triggered a comprehensive reassessment of risk, resulting in a decline in average dollar high-yield bond prices. In spite of efforts by the PBOC to fortify the sector, skepticism prevails regarding their effectiveness of their measures. The Chinese real estate market appears trapped in an adverse cycle, demanding substantial time and concerted efforts from Chinese authorities to revive, even a semblance of positive momentum. In the interim, investors must brace themselves with patience and determination as they navigate the impending restructuring initiatives.

## For further information

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