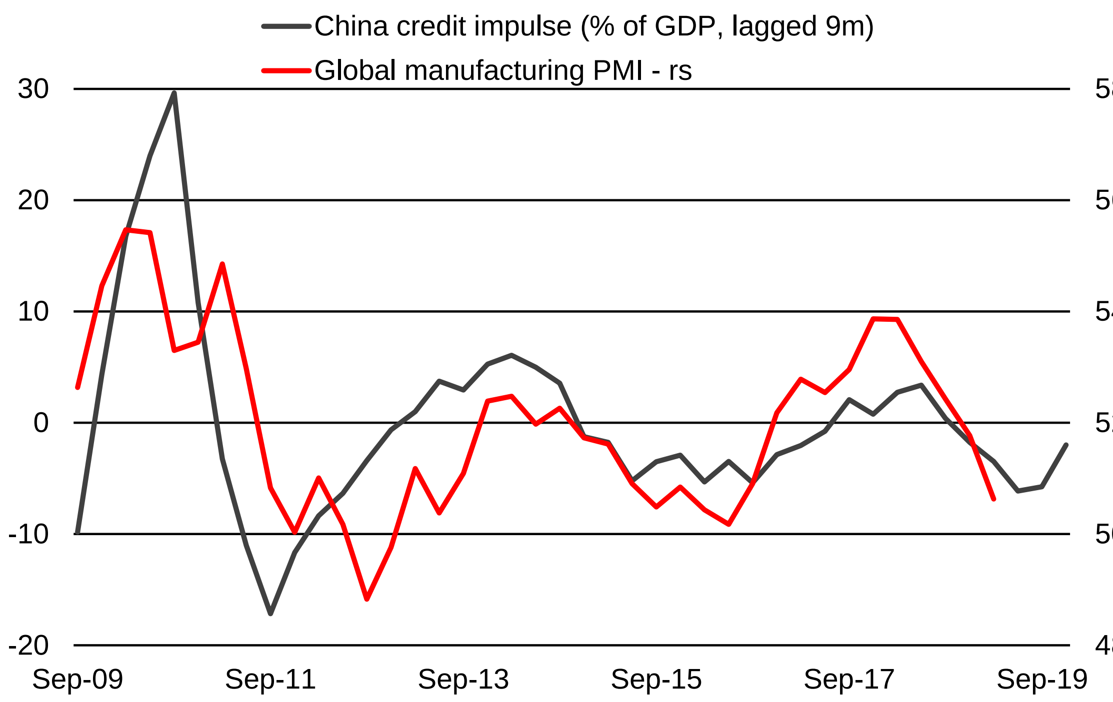
# We are all dancing to the Chinese credit cycle




Source: BIS, Markit, PBoC, UniCredit Research

- "When America sneezes, the world catches a cold" is a common phrase used to describe the importance of the US economy for the world economy. However, our *Chart of the Week* shows that in fact the world economy has been dancing to the tune of the Chinese credit cycle over the last decade. Indeed, whenever the Chinese ramp up credit growth[1], the world economy (proxied here by the Global manufacturing PMI) picks up with a lag of around nine months. The latest upturn in China's credit cycle suggests the Global PMI is about to stabilise and then recover somewhat, justifying recent talk of "green shoots".

- The Chinese economy is now a major driver of the world economy through trade linkages (direct and indirect), FDI and asset prices. Indeed, for many countries China is their largest trade partner, particularly "other Asia" but also the US[2]. China is the second largest trade partner for the Eurozone, just behind the US. Although China's integration with the global financial system remains limited, a shock in China has a significant impact on advanced-country asset prices through risk sentiment.

- Over the last year, China has stimulated credit again to support growth, including via a series of PBoC cuts to the reserve requirement ratio and various tax cuts. As a result, China's GDP growth stabilized at 6.4% in 1Q19. In our view, and consistent with the chart, a modest rebound in global trade in the remainder of the year seems likely. We continue to expect a more pronounced slowdown in global growth in 2020, as the US economy slows and China is unlikely to come to the rescue again. Indeed, China's debt remains high and the planned fiscal stimulus has been frontloaded compared to its budget plans for the year.

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[1] The credit impulse is the 4-quarter change in net new credit, expressed as a % of GDP. We use BIS data on credit to the non-financial sector and extend the series using PBoC data on total social financing (TSF) through March 2019. TSF is a broad measure of financing that includes shadow banking.

[2] Based on IMF DOTS data, China accounts for 17% of US goods trade (much higher than the 11% share of US goods trade accounted for by the Eurozone).

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