THE National Investor

Feb. 2, 2024 ***<u>You can get information anywhere. Here, you get KNOWLEDGE</u>.*** **COMMENTARY**

THE NEW "LEHMAN MOMENT" FOR GLOBAL MARKETS

Evergrande's now-official Bankruptcy Sets the Table for Potentially Years of Turmoil

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The below is excerpted/adapted from the January 30, 2024 issue of The National Investor:

EVERGRANDE MOVES FROM UNOFFICIAL TO *OFFICIAL* BANKRUPT; LET THE (DEFLATIONARY?) GAMES BEGIN!

"Enough is enough" said Hong Kong Judge Linda Chan on Monday in ordering the remainder of once-global powerhouse Evergrande to be officially liquidated. As Michael Bow writes, carried by *Yahoo! Finance* (see https://finance.yahoo.com/news/chinese-property-giant-evergrande-ordered-041336508.html), this "…(sets) up a multibillion-dollar battle between Western creditors and Chinese authorities." **<u>READ THIS ARTICLE IN ITS ENTIRETY FOR THE FULL IMPLICATIONS.</u>**

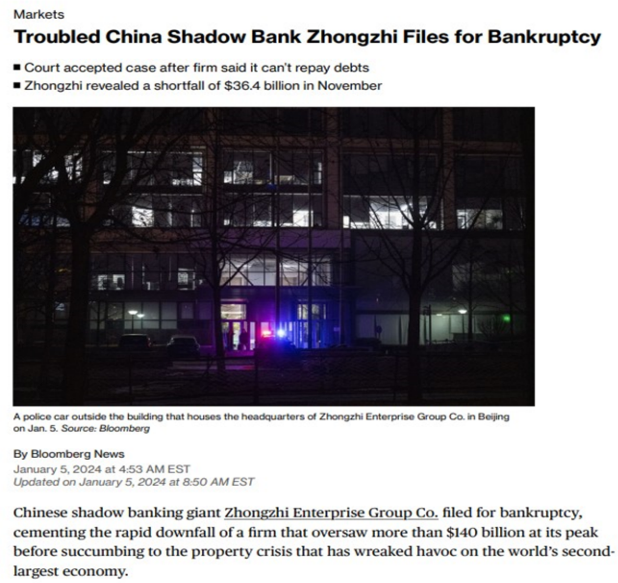
As I have covered during this whole saga, Chinese authorities have since the start of Evergrande's issues sought to control its epic unraveling themselves; a "marketized default" as it was termed. **But time and the laws of mathematics have caught up even with the command-and-control Chinese system**. Though many an investor hair cut has been doled out along the way and some assets disposed of at fire sale prices, the poster child for the all-time, globe-leading debt binge couldn't be kept propped up any longer.

So what's left of Evergrande must now be formally *and judicially* liquidated. And especially with most of the creditors being outside China, as Bow painstakingly (and *ominously*) lays out, this sets us up not only for a potential rolling financial crisis, but major escalations in China v. the West angst to boot.

The scale of the financial part of this as Bow reports it—that made even Yours truly gasp—is that **Evergrande's remaining public equity as of Monday's trading halt, etc. was worth some $275 million *against a debt load still of $328 BILLION*.**

How do you say "Lehman Moment" in Mandarin?

As I have been pointing out for a while—and notwithstanding the regular drivel from the usual suspects about how China is about to replace the U.S. as the key global hegemon, with its own gold-backed currency (and/or the anchor for a BRICS one), blah blah—people with any sense haven't been able to get *out* of Chinese markets fast enough. Evergrande is but the biggest and most frightening example of a much more widespread debt crisis in the country, with many others biting the dust (but one more example at right of the others.)



Markets

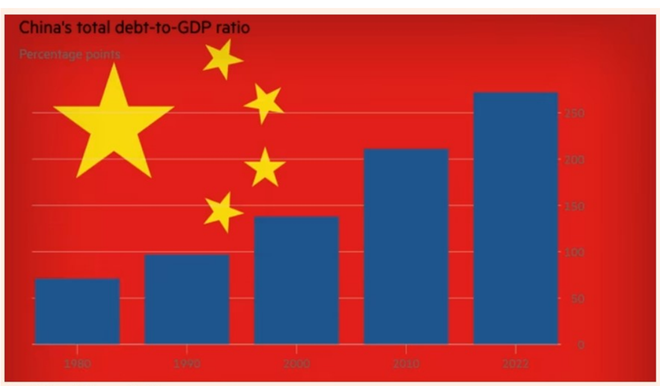
Troubled China Shadow Bank Zhongzhi Files for Bankruptcy

- Court accepted case after firm said it can't repay debts
- Zhongzhi revealed a shortfall of $36.4 billion in November

A police car outside the building that houses the headquarters of Zhongzhi Enterprise Group Co. in Beijing on Jan. 5. *Source: Bloomberg*

By Bloomberg News
January 5, 2024 at 4:53 AM EST
Updated on January 5, 2024 at 8:50 AM EST

Chinese shadow banking giant Zhongzhi Enterprise Group Co. filed for bankruptcy, cementing the rapid downfall of a firm that oversaw more than $140 billion at its peak before succumbing to the property crisis that has wreaked havoc on the world's second-largest economy.



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The sheer size of the debt monster (by most accounts the *total* debt-to-GDP ratio, including shadow banks, is well over 300%, ignominiously leading all others) seems to finally be beyond Chinese authorities' ability to manage it. Somehow or other, the International Monetary Fund (in actually *upgrading* its global growth forecasts for 2024) thinks China will grow at 4% this year on top of better than 5% reported in 2023.

Yet even if those numbers are legitimate, they won't be nearly enough to service debts and keep trouble at bay. Even the last couple rounds of reserve interest rate cuts and plans for cash injections into the stock market have only slowed the bleeding somewhat; not stopped it. The debt monster simply got WAY too big.

At this point, the only question is whether China continues to settle into a "lost decade" or two a la Japan after its epic financial orgies peaked in 1989…*or plunges into a vortex of bad debt chain reactions that leads to a more spectacular financial crisis.*

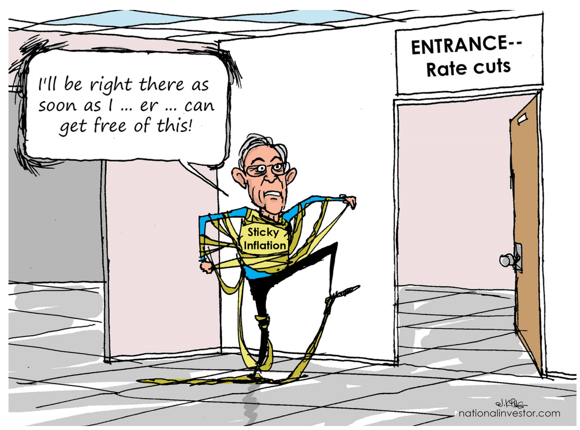
Hope for the former; if the latter (and it's hard not to mull the possibilities given how much debt needs to be extinguished due to Evergrande alone) China for a while will drag everyone else into the abyss to one extent or another. It might still be at long last that a Chinese debt debacle is the trigger for the next wave of global markets' deflation after all…

Following up these comments, I joined *The Prospector News'* Michael Fox for his podcast to add to all the dizzying moving parts of **Evergrande's more deliberate unwinding still to come**: and the myriad, *dizzying* sets of market, economic, political, geopolitical, trade and other implications. The Bow article linked above does a fair job of laying out a lot of this minutiae as well.

The podcast can be listened to HERE: [The Fed and Evergrande China Threaten to Turn Economic Carts Upside Down (youtube.com)]

As we discuss, this whole mess is likely to unravel—and beset global markets, the geopolitical balance of power, intensified wrestling over many commodities/technologies and their control—for *years* to come. There are reasons to believe (hope?) that we *won't* have such a sharp, sudden collapse as happened following the Lehman Brothers' bankruptcy back in September, 2008. Instead, it's more likely than not that all this will play out over an extended period of time.

For just a bit prior to focusing on that main event, Mike and I covered this past week's Fed meeting as well where—as many of us expected—"Fire Marshall Jay" pushed back on the idea of any *near-term* cuts to his bank's benchmark federal funds rate. And I reiterate on that front why (and given this morning's still-strong employment numbers reported and a DOUBLING of expected wage gains) Powell is not kidding.



Indeed (and this bears watching) about the only thing likely to force the Fed to ease sooner will be if:

1. Evergrande/China come unglued at a quicker pace and/or

2. The unfolding renewed (?) crisis for regional and commercial banks begins to gather more steam as well (here again—*another* story you've possibly missed if you've been paying more attention to political circuses, Taylor Swift conspiracy theories, et al.)

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