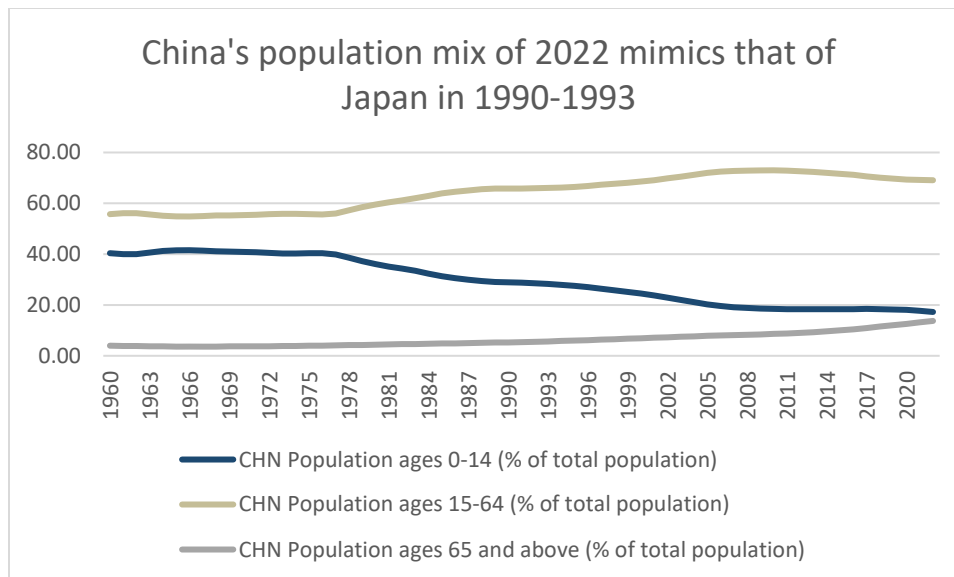


Is China's bubble bursting just as Japan's bubble did in 1990?

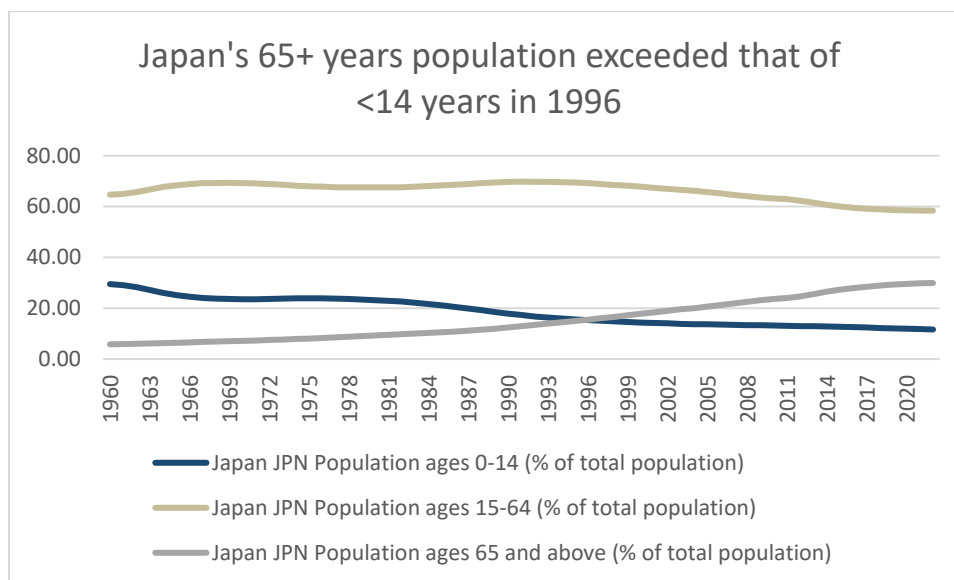
China vs. Japan: Population

When comparing China's population mix by age over time to that of Japan, it becomes clear that in 2022 China's population mix by age was most similar to that of Japan during the early 1990s. Back in 1989, Japan's stock market bubble burst and two years later in 1991 its real estate bubble burst. Real estate, like all other markets, is purely driven by demand and supply, and that is population growth and new house buildings. On the demand side, there is a clear deterioration to a degree that is very similar to Japan in the 1990s. On the supply side, there have been record housing starts in China over recent years just as population growth stalled. However, there has also been a strong urbanization, which requires new housing. Hence, the supply side is very difficult to estimate. We all have heard of China's ghost towns and China acted fast by demolishing unfinished buildings in 2021¹. And China's new housing starts has come down, halved over the last two years, and hence a deeper decline than in Japan in 1991/92. If Japan is a guide, new housing starts will accelerate again after the decline, but prices will continue declining.



Source: World Bank

¹ <https://twitter.com/monarchdiaries/status/1432358126888624129?s=20>



Source: World Bank

China's Population age mix in %

Population	2022
Population ages 0-14 (% of total population)	17.25
Population ages 15-64 (% of total population)	69.03
Population ages 65 and above (% of total population)	13.72

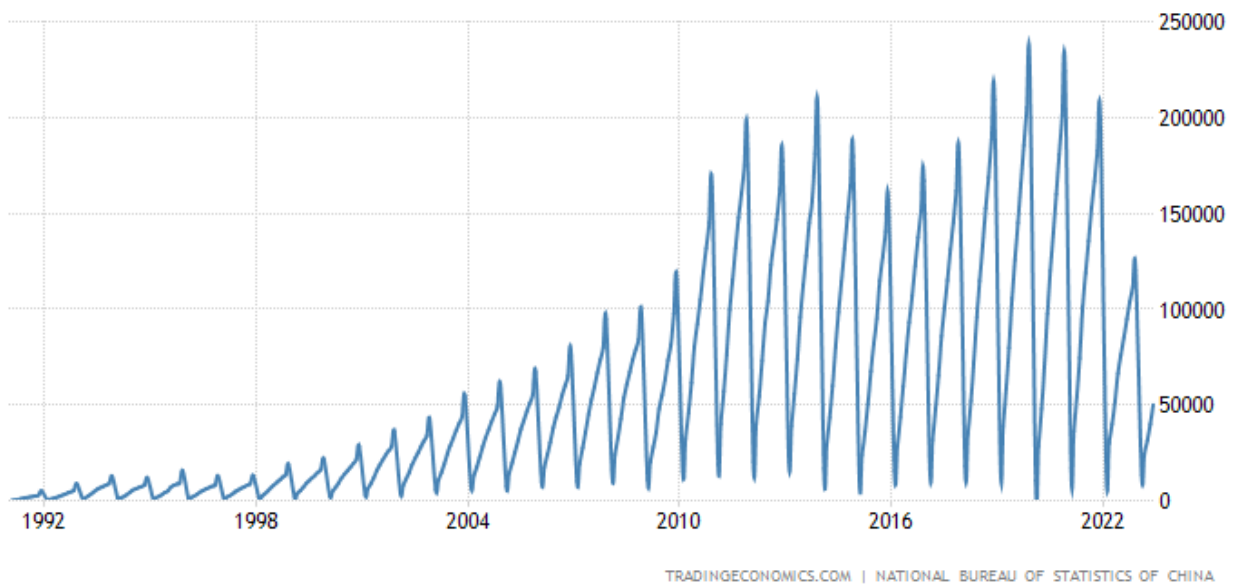
Source: World Bank

Japan's Population age mix in %

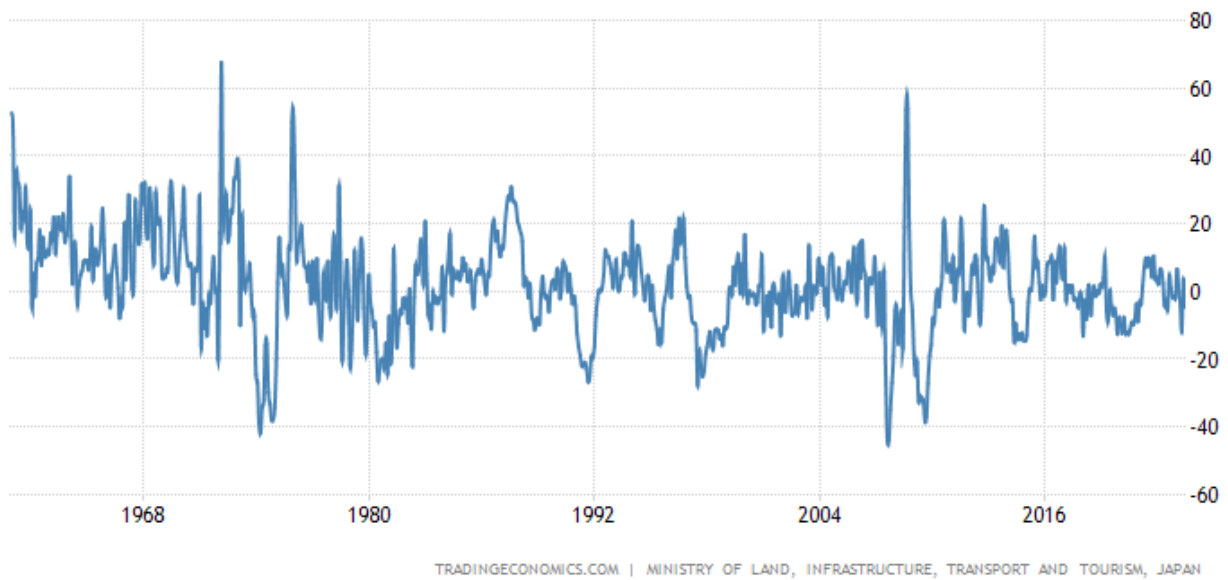
Population	1991	1992	1993
Population ages 0-14 (% of total population)	17.29	16.79	16.33
Population ages 15-64 (% of total population)	69.81	69.80	69.75
Population ages 65 and above (% of total population)	12.90	13.41	13.92

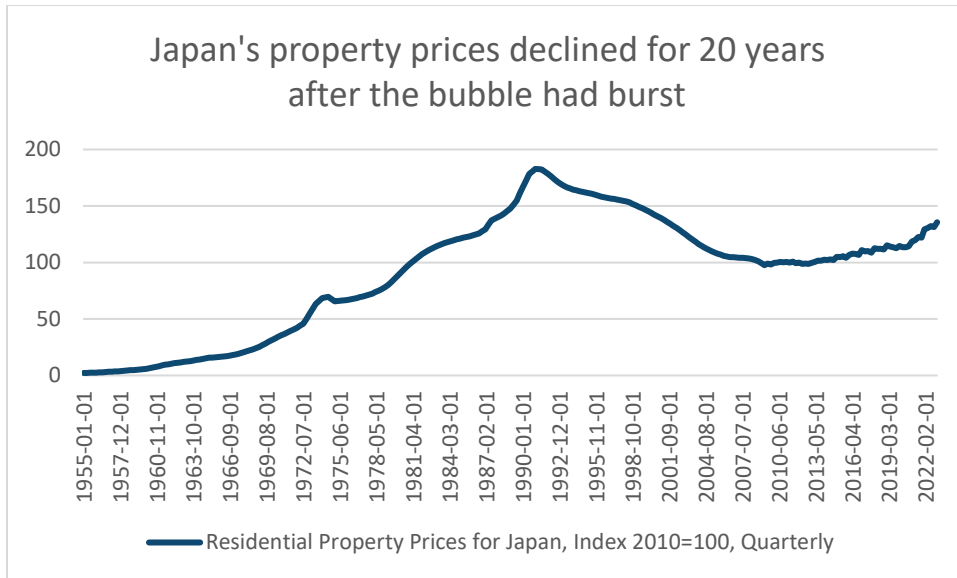
Source: World Bank

China Housing Starts

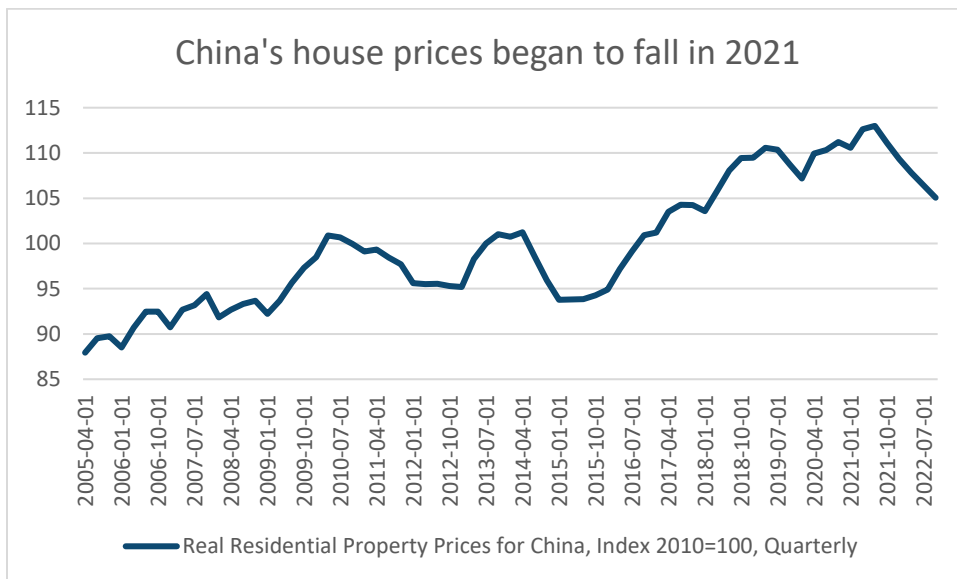


Japan Housing Starts





Source: FRED St. Louis



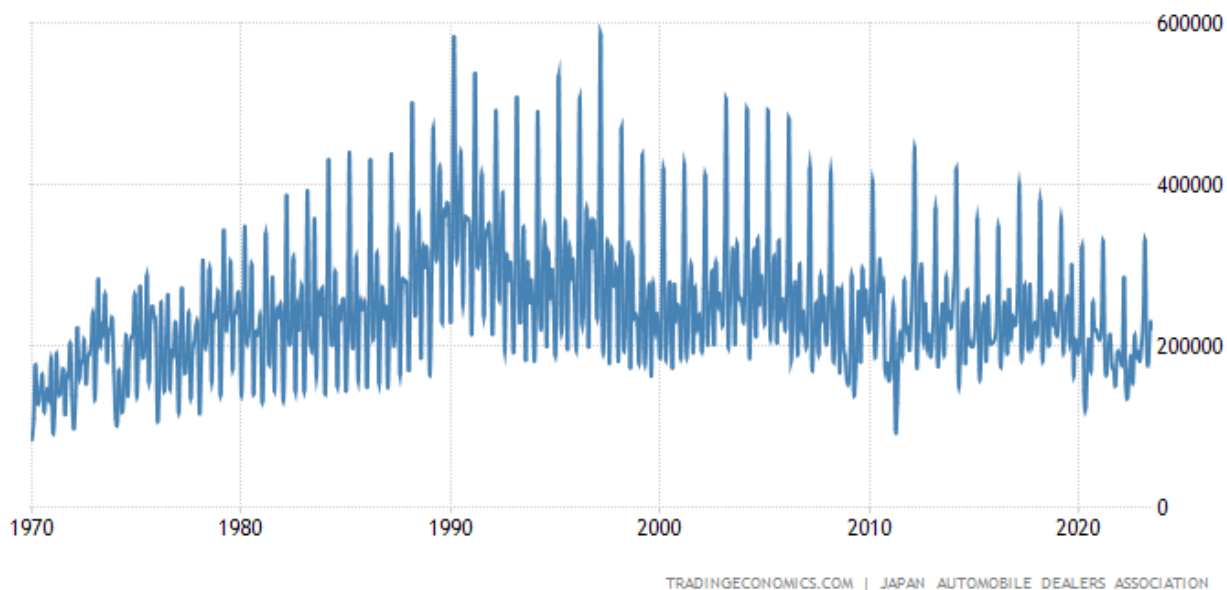
Source: FRED St. Louis

China vs. Japan: Automotive Sales

Japan's automotive registrations had its first peak in 1990 and its second peak in 1997. After the bubble has burst in Japan in 1990, automotive sales declined for two years before stabilizing and rebounding. China's automotive sales peaked in 2017/18 and stabilized at a lower level subsequently. This peak

coincided with the peak in global automotive sales, which have been hamstrung during the pandemic amidst the chip shortage. China automobile sales were 26.86mio units in 2022², which made up nearly 1/3 of global automobile sales. Hence, any slowdown in China automobile sales will have a big impact on total automobile sales worldwide. In comparison, Japan's share of global automobile sales was 16% in 1990 with a total figure of around 7.8mio vehicles sold compared to 47.8mio global vehicles sold. Japan's passenger cars have held up relatively well with 4-5mio annual sales. Freight cars, on the other hand, declined from a peak of over 3mio in 1989 to under 1mio in the recent decade³. For this reason, and due to the fact that the Chinese Communist Party is offering generous tax breaks worth \$72bn for electric vehicles over the next 4 years⁴, the impact of a major Chinese economic slowdown might not impact passenger car sales as much as feared. In addition, Japan levied a consumption tax of 3% in 1989, which also influenced the decline in car sales. Japan's passenger car sales peaked in 1990 at over 5mio and declined to a temporary low of 4.2mio in 1993. Apply these numbers to China and we face a decline of 4mio car sales over three years.

Japan's monthly automotive registrations

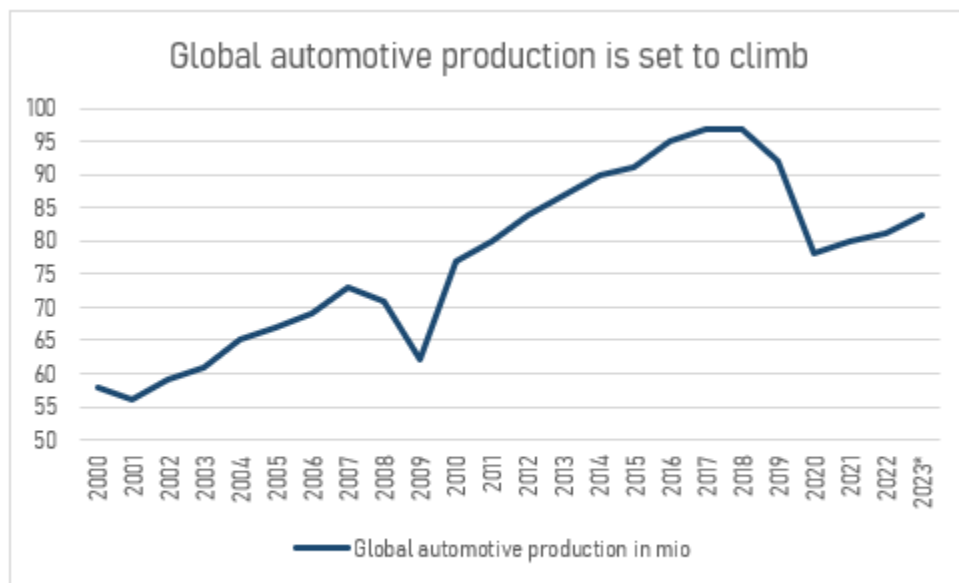
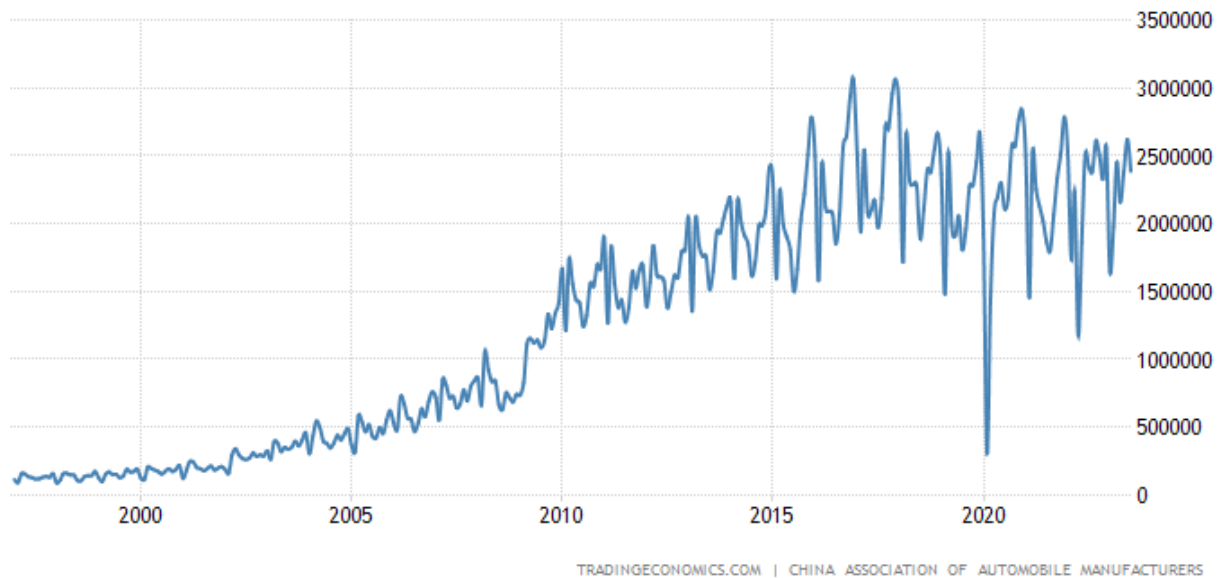


² <https://www.ceicdata.com/en/china/automobile-sales-annual/automobile-sales#:~:text=China%20Automobile%3A%20Sales%20data%20was,of%2026%2C274%2C820.000%20Unit%20for%202021.>

³ <https://piece-of-japan.com/investing/car/market-share.html>

⁴ <https://www.reuters.com/business/autos-transportation/china-announces-extension-purchase-tax-break-nevs-until-2027-2023-06-21/>

China's monthly automotive sales

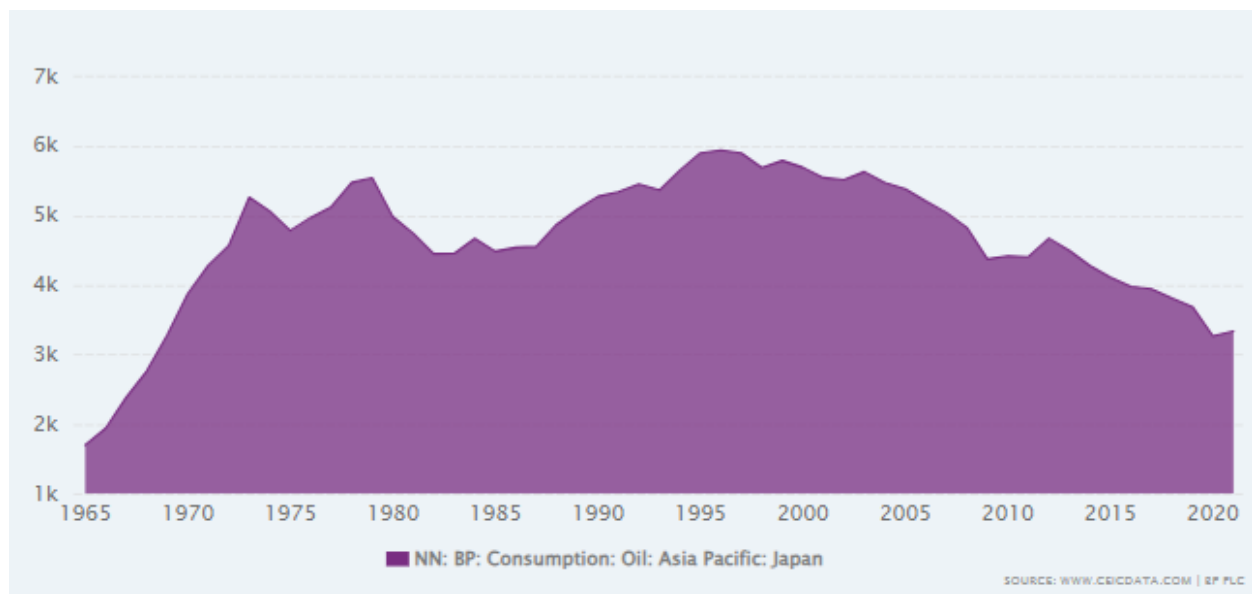


Source: S&P Global Mobility

China vs. Japan: Oil Demand

Similar to Japan, China has experienced strong export growth in electronics and is beginning to export automobiles as well. Different to Japan, however, China's export growth is partially coming from foreign companies setting up their production in China and using it as an export base. At its peak in 2005, nearly 60% of Chinese exports were from foreign enterprises⁵. This figure has come down to below 35% in 2021, a level last seen in the mid-1990s, although the absolute volume has grown. With the de-coupling of China beginning to manifest itself (apart from the automotive sector, there is little new manufacturing investment going to China according to CEO's of the world's top manufacturers), China's oil demand could decline as well. However, so far there is no indication that this is the case with 70% of the world's oil demand growth in 2023 coming from China⁶ - all this despite the major slowdown of the Chinese economy. Japan in the 1990s might be another good example, as oil demand per capita kept increasing in the 1990s, peaking in 1996. On the other hand, the fast adoption of electric vehicles could shift demand away from oil towards gas and coal.

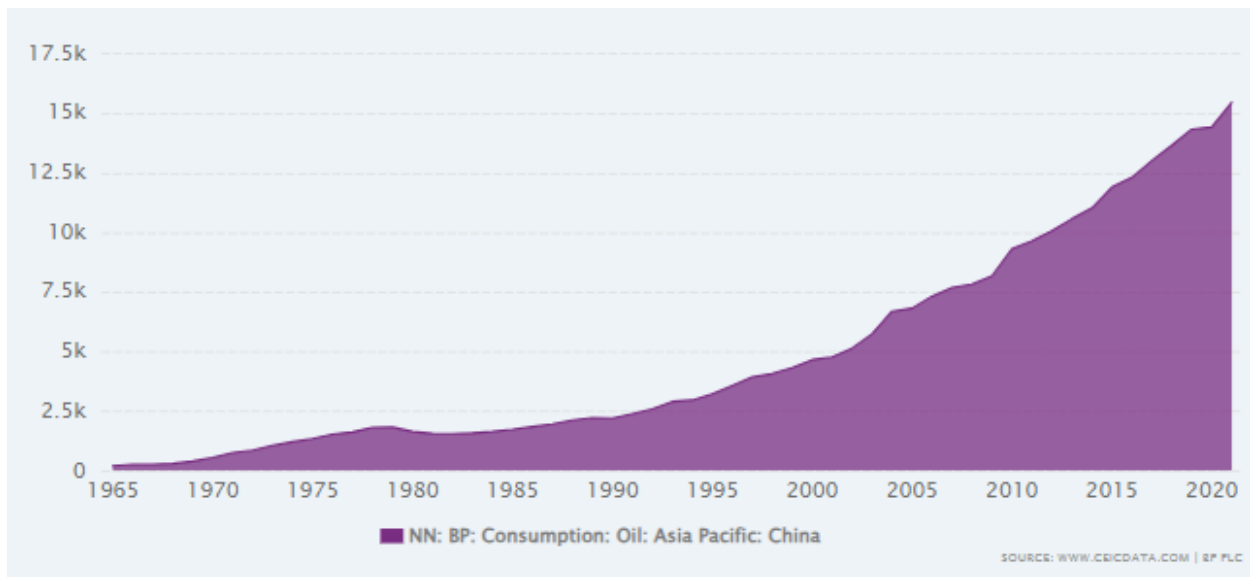
Japan's oil demand in 000 barrels of oil per day



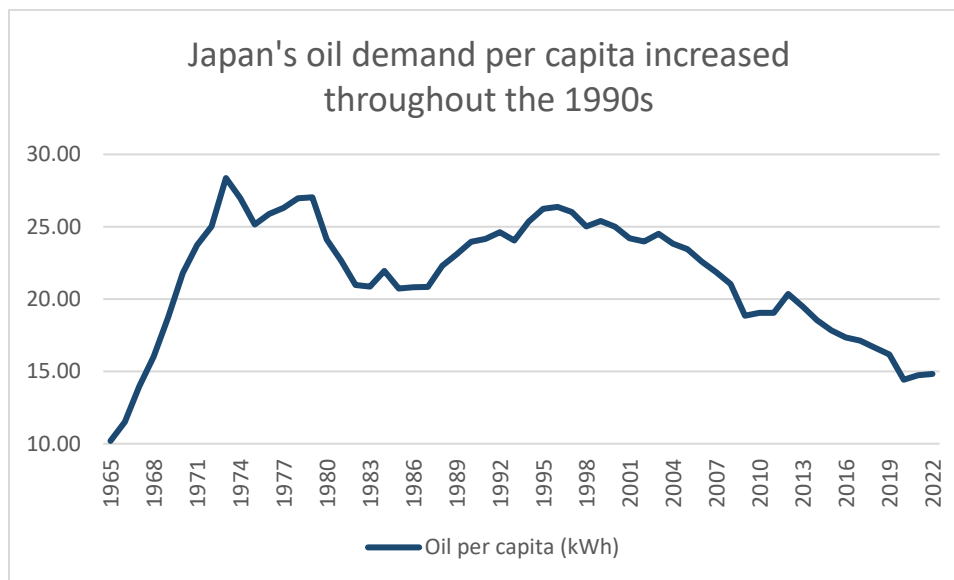
⁵ <https://www.statista.com/statistics/1288326/china-foreign-invested-companies-share-in-total-import-and-export/#:~:text=In%202021%2C%20approximately%2034.3%20percent,and%20has%20declined%20gradually%20t hereafter.>

⁶ <https://www.ft.com/content/69f9c007-153a-4e73-97ba-e384cc70b8e5>

China's oil demand in 000 barrels of oil per day



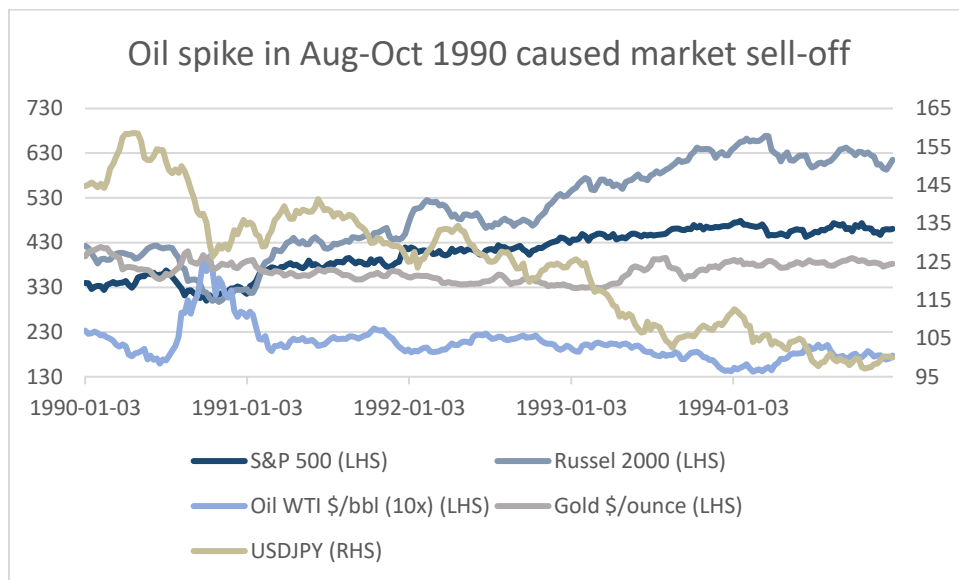
Japan's oil demand per capita increased throughout the 1990s



Source: Our World In Data

China vs. Japan: In Conclusion

The population age mix and changes therein are one-on-one Japan 1991 vs. China 2022. This explains how the Chinese real estate bubble has burst. At the same time, the US faced a trade war with Japan in the mid-1980s, which ultimately contributed to Japan's demise. The 1985 Plaza Accord led to a massive devaluation of USD, in particular vs. JPY. While there is no massive appreciation of the Chinese Yuan, rather the opposite, the trade war against China is led by investment embargos and import/export restrictions as well as tariffs. The economic malaise of Japan did not infect the US during the 1990s. Although the Iraq-Kuwait war caused oil prices to rally, sparking a market sell-off, contributing further to JPY appreciation, the US-Japan trade war has ultimately gone in the favour of the US. The economic decline of Japan from the 1990s could turn out to be a good playbook of the economic decline of China now. Commodities, such as oil, gas and even coal, appear to be resilient in such a scenario.



Source: FRED St. Louis



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