

## China is on the move

## Global Matters Weekly

12 February 2024

– Matt Connor — *Investment Analyst*

Over 13 years ago an episode of US sitcom *The Office* aired in which Michael Scott tried to raise the alarm surrounding China's impending global dominance, and in 2023 China dominated a new market – Electric Vehicles. In the final quarter of 2023<sup>1</sup> Chinese Electric Vehicle (EV) manufacturer BYD outsold the western incumbent Tesla, to become the world's top selling electric carmaker.

With BYD leaving Western carmakers as roadkill, other Chinese firms like Geely (which owns Volvo, Polestar, & Lotus) are breathing down the necks of long-standing European and American brands such as Volkswagen and General Motors and are already larger than neighbours South Korea's Hyundai and Japan's Nissan. Xiaomi, a Chinese tech company known for its mobile phones is steering into the space, a decision that Apple and Google have contemplated over for many years.

In 2017 BYD only produced 420,000 cars (mainly internal combustion engines), so what has led to the rapid ascension? There has been a massive amount of state support from China to help homegrown manufacturers with generous subsidies totalling over \$50bn, along with billions of dollars in financing via cheap loans and equity stakes. The state support coupled with China's domination in the production of lithium-ion batteries, a key component for an EV, has helped Chinese firms gain economies of scale and pricing advantages over western counterparts in the Chinese market. China is the biggest market for carmakers, with foreign brands enjoying a 50% market share of the domestic Chinese car market. When it comes to EVs however, domestic manufacturers dominate, with <sup>2</sup>Chinese brands holding an 80% share within EVs according to UBS.

“Chinese EVs can be much cheaper than their Western counterparts giving them a route to increasing market share in Europe and the US “

Chinese brands often have better technology, with new models updated frequently to reflect changing tastes, a desire for better infotainment systems, and thanks to the economies of scale they now enjoy, Chinese EVs can be much cheaper than their Western counterparts giving them a route to increasing market share in Europe and the US by offering better technology for cheaper. BYD is looking to expand its European production capacity, adding to its existing factory in Hungary to counter moves by European governments to impose tariffs. The same is happening in Mexico, with Chinese carmakers scouting production locations to find a way around the USA's punitive import tariffs.

It would seem that CEOs of Western carmakers have been asleep at the wheel when it comes to their new competition. For how long European marques such as Volkswagen and BMW can keep on relying on their brand allure remains to be seen. A recent study by ALD Automotive<sup>3</sup> found 86% of UK respondents said that brand was not a primary consideration, with drivers valuing price and reliability above all else.

As EV sales begin to moderate in the UK after a very inflationary couple of years<sup>4</sup>, it will be interesting to see whether consumers start to switch to the cheaper Chinese brands to do their bit for the environment – leaving the traditional brands in the rearview mirror.

### Source:

<sup>1</sup>BYD overtaking Tesla — <https://www.theguardian.com/environment/2024/jan/02/chinas-byd-overtakes-tesla-as-top-selling-electric-car-seller>

<sup>2</sup>Economist article (includes Market share figures) — <https://www.economist.com/leaders/2024/01/11/an-influx-of-chinese-cars-is-terrifying-the-west>

<sup>3</sup>ALD Automotive — [https://brokernews.co.uk/business-drivers-dont-care-about-brand-says-new-ald-leaseplan-report/#:~:text=It%20found%20that%2086%25%20\(nearly,consideration%20for%20choosing%20a%20car.](https://brokernews.co.uk/business-drivers-dont-care-about-brand-says-new-ald-leaseplan-report/#:~:text=It%20found%20that%2086%25%20(nearly,consideration%20for%20choosing%20a%20car.)

<sup>4</sup>UK EV Sales moderating — <https://www.theguardian.com/environment/2024/jan/05/electric-car-sales-in-uk-flatline-prompting-calls-for-vat-cut>

## The Marketplace

- Global equities returned 1.1% last week
- Most major indexes saw gains over the week, with the benchmark US Index reaching new highs and breaching the 5,000 threshold for the first time
- Brent crude rose 6.3% last week to \$82.2 a barrel after

- Israel rejected a ceasefire offer from Hamas and reports that the US may be looking to strengthen enforcement of sanctions against Iranian oil
- Gold fell 0.8% last week to \$2024.3 per ounce.

## Market Focus

### US

- US equities rose by 1.4% last week
- The US Treasury Department issued a record \$42 Billion of 10-year treasury notes, calming fear that record borrowing levels would push borrowing costs higher
- the Labor Department lowered its initial estimate of December consumer inflation, from 0.3% to 0.2%
- Service sector PMI hit a 4-month high, jumping to 53.4 in January from 50.5 in December
- At a weekend presidential rally, Trump said he would “encourage” aggressors to do whatever the hell they want” with Nato countries that fail to pay their dues, which has prompted immediate condemnation from the White House. A spokesman called the comment “appalling and unhinged”, saying it was “encouraging invasions of our closest allies by murderous regimes”

### Europe

- European equities rose 0.4% last week
- Senior European Central Bank (ECB) officials continued to warn against cutting interest rates too early

### UK

- UK equities fell 0.6% last week
- The Services PMI reading came in at 54.3 in January, beating estimates of 53.8
- UK Halifax house price index year-on-year for January increased 2.5%.

### Asia/Rest of The World

- Global emerging market equities returned 0.8% last week
- Chinese equities rose 2.9% last week, despite being closed Friday for Chinese New Year
- China’s CPI fell 0.8% (-0.5% expected) in January, its fastest decline since 2009, while PPI dropped to -2.5% (-2.6% expected) for the 16th straight month
- Asian markets saw muted trading volumes as many markets across the region are closed for holidays, with investor sentiment looking ahead to US inflation data for clues as to any changes in Fed Policy.

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Asset Class/Region	Currency	Currency returns			
		Week ending 9 Feb. 2024	Month to date	YTD 2024	12 months
<b>Developed Market Equities</b>					
United States	USD	1.4%	3.8%	5.5%	24.6%
United Kingdom	GBP	-0.6%	-0.7%	-1.9%	-0.5%
Continental Europe	EUR	0.4%	0.0%	2.0%	9.3%
Japan	JPY	0.7%	0.3%	8.1%	32.1%
Asia Pacific (ex Japan)	USD	0.7%	1.7%	-3.2%	-4.2%
Australia	AUD	-0.7%	-0.5%	0.7%	6.4%
Global	USD	1.1%	2.4%	3.6%	19.5%
<b>Emerging markets equities</b>					
Emerging Europe	USD	0.0%	1.7%	4.0%	32.1%
Emerging Asia	USD	1.0%	2.6%	-2.8%	-3.6%
Emerging Latin America	USD	0.0%	0.0%	-4.8%	22.2%
BRICs	USD	1.7%	2.0%	-3.8%	-7.2%
China	USD	2.9%	3.0%	-7.9%	-26.3%
MENA countries	USD	1.2%	1.6%	1.8%	8.4%
South Africa	USD	-2.3%	-3.7%	-9.2%	-10.9%
India	USD	-0.2%	0.4%	0.7%	22.4%
Global emerging markets	USD	0.8%	2.0%	-2.7%	-0.3%
<b>Bonds</b>					
US Treasuries	USD	-0.8%	-1.1%	-1.4%	1.2%
US Treasuries (inflation protected)	USD	-0.6%	-1.4%	-1.2%	1.1%
US Corporate (investment grade)	USD	-0.8%	-1.2%	-1.1%	4.2%
US High Yield	USD	0.2%	0.2%	0.2%	9.3%
UK Gilts	GBP	-0.9%	-1.8%	-4.1%	-3.1%
UK Corporate (investment grade)	GBP	-0.6%	-1.1%	-2.2%	2.6%
Euro Government Bonds	EUR	-1.0%	-1.6%	-2.0%	2.3%
Euro Corporate (investment grade)	EUR	-0.6%	-1.1%	-1.0%	4.4%
Euro High Yield	EUR	-0.1%	-0.2%	0.7%	7.9%
Japanese Government	JPY	-0.4%	0.2%	-0.6%	-0.4%
Australian Government	AUD	-0.7%	-0.5%	-0.4%	1.7%
Global Government Bonds	USD	-0.9%	-1.6%	-3.3%	-1.3%
Global Bonds	USD	-0.9%	-1.5%	-2.7%	1.1%
Global Convertible Bonds	USD	0.3%	0.4%	-1.7%	2.0%
Emerging Market Bonds	USD	-0.2%	-0.2%	-1.5%	6.0%

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<b>Property</b>					
US Property Securities	USD	0.2%	0.8%	-3.4%	-0.7%
Australian Property Securities	AUD	0.4%	2.1%	3.5%	8.8%
Asia Property Securities	USD	-0.4%	-1.5%	-7.1%	-12.9%
Global Property Securities	USD	-0.3%	-0.6%	-4.4%	-1.7%
<b>Currencies</b>					
Euro	USD	0.0%	-0.6%	-2.5%	0.3%
UK Pound Sterling	USD	0.1%	-0.7%	-1.0%	4.0%
Japanese Yen	USD	-0.5%	-2.0%	-5.7%	-12.2%
Australian Dollar	USD	0.2%	-1.2%	-4.6%	-6.3%
South African Rand	USD	-0.6%	-2.0%	-4.1%	-6.8%
Swiss Franc	USD	-0.8%	-1.7%	-4.1%	5.2%
Chinese Yuan	USD	0.0%	-0.3%	-1.3%	-5.7%
<b>Commodities &amp; Alternatives</b>					
Commodities	USD	1.3%	-0.8%	0.8%	-1.4%
Agricultural Commodities	USD	0.6%	0.3%	1.8%	1.1%
Oil	USD	6.3%	0.6%	6.7%	-2.7%
Gold	USD	-0.8%	-1.2%	-1.9%	8.3%

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