



Basis Points – November 9, 2021

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Above the Fold

China's Real Estate Problem Intensifies

The world's second-largest economy has been dealing with its own real estate bubble for some time now. While most Americans struggle to find inventory to live in, China's speculators built hundreds of thousands of empty would-be residences. Ironically, government policies and initiatives to spur economic growth actually incentivized and, in fact, strongly motivated this rampant over-building and speculation to keep China's gross domestic product (GDP) growing. And since investors have only seen the housing market go up, they work to acquire as many apartments as they can believing this "sure-thing" investment will continue to reap rewards. Unfortunately, these trends cannot continue and the communist nation is facing its first bout with real estate price declines in six years.

To make things worse, this meteoric expansion and speculation brought with it tons of leverage, both at the consumer and developer level. And with this bubble starting to burst (ironically, along with regulators' help), Chinese developers are defaulting heavily on their bonds. Yields on the ICE BofA index of Chinese junk bonds eclipsed 25% last week, a level not seen since the height of the Great Recession. The collective face value of the bonds in this index are \$112 billion alone. Goldman Sachs estimates that nearly \$200 billion in junk bond debt is outstanding. As real estate sales continue to fall in China, the question is how this mess will shake out and potentially reverberate globally. Beijing has some tough decisions to make as it seeks to slow speculation without destroying its own economy.

Three Things

1. *Crypto Investors Lose at Squid Game* – A ring of scammers created a fake cryptocurrency based on the wildly popular Netflix series Squid Game. Unfortunately, traders who bought the illegitimate cryptocurrency lost a total of \$3.3 million. The token traded for a short period, climbing nearly 3,000% before the creators “ghosted” investors, leaving their purchases worth \$0.
2. *Bill to Bring Increased Inflation, Logistical Improvements* – Manufacturers surveyed expect the new \$1.2 trillion infrastructure bill to drive the prices of maintenance equipment and construction supplies higher, but see longer-term easing of supply chain bottlenecks as transportation hubs and shipping routes improve. Unfortunately, the benefits will almost certainly come after an extended period of added cost increases and increased backlogs as the money flows into the hands of related industries.
3. *It's a Good Time to Be a Pilot* – Major U.S. airlines are set for the biggest hiring spree in more than 30 years. As travelers return to the skies and carriers struggle to re-up on workforces slashed during the pandemic, FAPA.aero estimates that American carriers are on track to hire roughly 4,200 new pilots this year and over 9,000 in 2022.

Did You Know?

“Mr. Gorbachev, Tear Down This Wall!”

President Ronald Reagan made this plea to General Secretary of the Communist Party of the Soviet Union, Mikhail Gorbachev, on June 12, 1987, during his Berlin Wall Speech. Though the speech had little media coverage at the time, the phrase became widely popular after the Berlin Wall, which separated East and West Germany, was finally opened on this day in 1989. Construction of the barbed wire and concrete wall began in August 1961 to keep western “fascists” from entering the socialist eastern state. But its real, primary objective was to prevent mass defections of citizens from east to west.

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