The China Rambler

An Occasional Letter On Topics Of Interest To China Investors

Issue #20 "Seek Truth From Facts" **Jun. 1st, 2026**

In this edition: China - turning Japanese? I really don't think so. Grinflation. Trump-Xi -Squid. How we're all HK planners now. Shenzhen - Go. China Oilfield Services #02883 - 'Pass'. Why an old friend, China Shenhua #01088, and I had to part. The vexatious cost of credit and how the prognostication of a long-dead economist is giving me the willies.

China – Turning Japanese?

China, along with most of the world, has an ageing population. It also has a depressed property market and has allowed debt, particularly at the government level, to rise rapidly. Many have noticed similarities between these conditions and Japan for much of the last 35-years; a period over which Japan's economy has wheezed forward mostly absent animal-spirits. So that's where China's heading? Quick answer: no.

Similarities are not that similar and there are big differences between Japan then and China now that reassure me China will progress in spite of headwinds. Consider as follows:

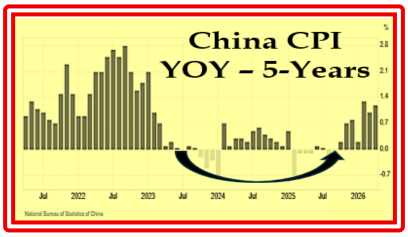
1. **Deflation.** Japan had it and couldn't fix it. Prices for many goods today are the same as when I lived there in the 80's. China's inflation is picking up (more below).
2. **Government Heft.** Japan's government is notoriously weak and has struggled for consensus and a recovery plan, forever. China's government is notoriously strong.
3. **Growth Slack.** Japan's capacity peaked long ago. Hence the lack of response to fiscal pump priming. China's economy is still a big underperformer relative to potential.
4. **Strong Banks.** Japan's banks ran amok in the '80s and have never recovered. China's banks are brick-outhouse strong and are showing signs of strengthening.
5. **Inflated Stock Market Legacy.** Japanese stocks peaked at the end of '89 and have only recovered recently. China isn't facing a similarly enervating long-ache.
6. **Strategic Grasp.** Japan's government didn't see the crash coming and has fiddled hopelessly in the aftermath. China's planners are firmly in the driving seat.

Japan's inability to wrangle its economy in recent decades has been a problem compounded by institutional ennui, an absence of urgency and weak government.

In China a persistent leitmotiv of private sector ambition coupled with government sector determination continues to whip and drive the economy along. Which doesn't strike me as being similar to Japan, in any way; at all.

Gr-inflation?

Inflation with slow growth, where developed markets seem headed, is 'stagflation'. China, conversely, is growing smartly as modest inflation returns; a happy combo. Growth *plus* inflation, 'Grinflation'?



That Xi-Trump Summit In Full – Damp Squid*?

I prepared the picture to the right shortly after talks wound up. On reflection the summary may be too harsh. Taiwan wasn't thrown under the bus, human rights, Hong Kong and Xinjiang all stayed off the table, and cordiality prevailed. The fact the U.S.'s mercantile interests were so comprehensively represented perhaps explains this more recumbent posture? Whatever, it wasn't a *bad* outcome. As Mr. Churchill said, 'Meeting jaw to jaw is better than war'. [*Yes, I know, it's 'damp squib', I just like this better.]

Hong Kong – *OUR* First Five Year Plan

China's 5-year plans have been a cornerstone of their success, and the Hong Kong government intends to adopt the habit. The process will include a public consultation in which I and fellow citizens will be asked to contribute. Our good ideas will, no doubt, be considered and incorporated if appropriate. Welcome to Hong Kong. Safe streets, low taxes, small government and now a direct say in policymaking. Could it be the absence of many of these conditions that explains unhappiness in so much of the rest of the world? Just a thought.

Hong Kong's Chief Executive Mr. John Lee would soon like to hear our suggestions.

Shenzhen – Miracle? Marvel? Dynamic Harbinger?

Five days in the city last month was a blast. Henceforth I won't be responding to China critics who haven't been for a while or the more noisome who never have. A visit to Hong Kong, soon to be Shenzhen-South, must now include a day or four in this city. The scale, vitality and dynamism is impossible to put into words. If you live in Europe, commiserations, you live in the past. If you live in the U.S., congratulations, you live in the present. If you live in Shenzhen, felicitations, you live in the future. Miracle? Marvel? Dynamic Harbinger? All of these, and more; go, soonest.

Shenzhen Bay Culture Square

Stockwatch: #02883 China Oilfield Services Limited

Summary of a recent closer look

Basically: Market cap.: c. U$1.85bn, PE: 8.9x, Yield 4.0%, PB: 0.7x. Avg. daily TO (3m) U$2.4m. Business: de facto subsidiary of CNOOC #00883 who control 50.8% of the stock. The company supports oil and gas exploration via renting drilling and other rigs, supplying marine support via self-owned vessels and providing other technical and ancillary services.

Listed in Hong Kong in 2002 at H$1.68, HODL-ers would have achieved a nice return. Last H$7.90. An A-share was subsequently listed that trades at a substantial premium.

A look at gearing and BVPS trends in the last decade ❶ justify, to a large extent, the stock's surge in the last year. The recent pull-back reminds it's sensitive to oil and gas prices.

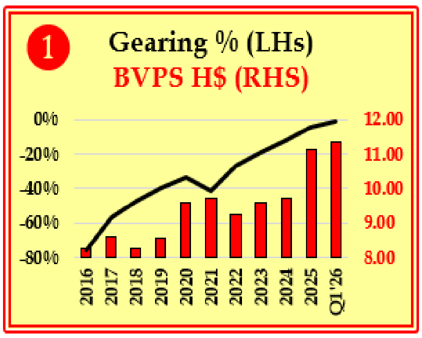
Despite the sea-change in balance sheet structure the company remain parsimonious dividend payers ❷. SOEs are getting more generous though, perhaps they'll take the hint?

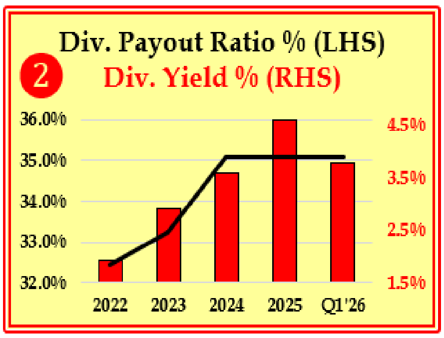
ROE and NPAT margins have improved in recent years but continue to reflect a business which is mostly (a guess only) a price taker operating in very competitive businesses ❸**.**

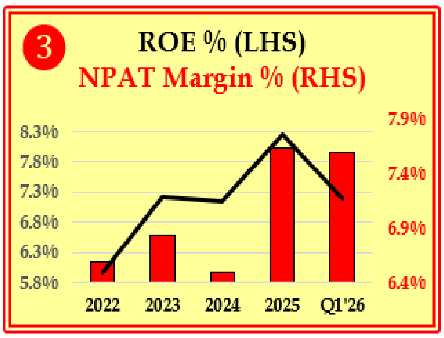
Not to like: Recent trends have been encouraging but look back farther to when oil and gas prices were much lower, to see how dependent their fortunes are on this pricing. Most business comes from China where 'National Service' probably negatively affects margins.

To like: This *is* a more valuable entity than that of a few years past. Parent support guarantees business and management are demonstrably capable and prudent. Rain or shine this company will be around a decade hence and to know that is worth something.

Would I buy them? Probably not. I can't see an obvious mis-pricing or path to more significant value accretion. The reason I took a closer look is probably the same reason others got excited a few months back i.e. higher oil prices with the prospect of them being stronger for longer. But what if oil prices fall back to U$70/barrel? I'm no expert but that possibility seems as likely as them going to U$120/barrel which suggests an uninteresting each-way bet. If the yield were higher, the payout more generous, the PB and/or PE lower I'd be more interested. For that to happen though either the market or their business would have to be having some kind of conniption, and in that event other opportunities would most likely present more attractive alternatives.







How’s My Investing?

Performance summary, review of recent trading etcetera

May — YTD, Performance:	**-2.8% — +3.3%**
Performance Since Inception (Nov. ‘24):	**+29.1%**
Cash Percentage of Portfolio:	**20%**

You Can Never Be Too Rich, Or Too Thin

To the apocryphal advice above I’d add ‘..and you can never have too much cash’. I sold China Shenhua #01088 last month after a multi-year ride from the low teens. It’s still a good company but I can’t find more than H$33~H$35 of value in the stock which made the sale, at a little under H$50, a no-tears happy ending to the journey. This took my cash balance to 20% and I’d like it to be higher. I’m especially troubled by two issues. Videlicet:

The Price Of Credit

The price of credit, usually expressed as an interest rate, fell from around 1982 to 2022. Corporate and government borrowers have, for decades, been accustomed to the future cost of money being lower; but this is changing. This is a problem for some of the world’s largest companies, the U.S. hyperscalers (and adjacent friends), who have of late become bond market users. Moreover, inflation seems to be returning and a long period where a conspiracy of low inflation and cheap credit prevailed is over. This matters, and we may just be at the beginning of an adjustment cycle. These are not China-problems but there’s no way China stock prices won’t occasionally reflect volatility in asset prices elsewhere. Therefore, a war-chest in anticipation of (unfair) wallops ahead seems self-evidentially prudent.

That Irving Fisher Feeling

Mr. Fisher was a highly respected economist and thinker prior to the great crash of 1929. He self-shredded his reputation saying, on October 16th, 1929, days before the crash that began on October 24th, stocks had "reached what looks like a permanently high plateau." Last month I was starting to have thoughts on much the same lines.

The AI-and-related boom is real, surely? Real money is going into capex; real products are being created, and companies and individuals are paying real money to acquire them. A powerful recursive bull-case presents itself; but I’m sceptical of such water-tight analysis and history teaches us to be wary when compelling arguments like this circulate.

Mr. Fisher would have done well to remind himself; you can also never be too cautious.

Datawatch

Key Releases In The Last Month

Four Two Two

Trade : Apr. exports +14.1% (Mar. +2.5%), imports +25.3% (Mar. +27.8%). Suggestive of an economy reaccelerating.

Prices : Apr. CPI +1.2% (Mar. +1.0%), PPI +2.8% (Mar. +0.5%). Seventh monthly CPI rise; PPI highest since July 2022.

Credit : Apr. M2 +8.6% (Mar. +8.5%), Outstanding Loan Growth +5.6% (Mar. +5.7%). O/S loan growth [Yet] another record low.

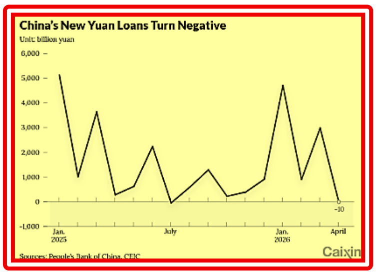
Consumption : Apr. retail sales +0.2% (Mar. +1.7%). A closer look at the detail failed to reveal mitigating factors. A straight-up bad print.

Industrial Activity : Apr. +4.1% (Mar. +5.7%). Growth is growth but this was disappointing as a pick-up seemed previously in progress.

New Home Prices : Apr. -3.5% (Mar. -3.4%). This was the sixth month of accelerating declines. Check this out in more detail here.

Business Confidence : May Mfg. PMI 50.0, down from 50.3, non-mfg. 50.1, up from 49.4. Mixed messages.

New Lending Negative in April : This only happened before in July '05 and July '25. Property-battered consumers must still be de-leveraging. Govt. and corporate bond financing increased which helped the aggregates; but consumers are urgently needed back in the mix.



That wraps it up for May. What's here isn't advice or recommendation, it's what I've been up to, how I'm looking at the world and a small piece of the market puzzle which, combined with yours, I hope may be of some use.

"He who receives an idea from me, receives instruction himself without lessening mine; as he who lights his taper at mine, receives light without darkening me". Thomas Jefferson.

Good Luck with ***your*** investing. Feedback please to me at nial@nialgooding.com