The Man Who Bet Against Enron Is Now Betting Against China

Description

Jim Chanos is one of the world's best-known hedge fund managers, having famously bet against Enron before its historic bankruptcy. Now he's got his eyes on a new target: China.

So, why is Mr. Chanos so confident in his latest bet? And how should you respond as an investor?

The problems with China

For years China has had a "growth at all costs" mentality, one that has seen massive building funded mainly by credit. Now that approach is finally starting to catch up with the country.

The problem centres on debt—China simply has too much of it. The federal government doesn't have too much; it's only about 65% of GDP. But far more debt is held by local governments, who have borrowed heavily for new building projects, as well as the banks. All told, total debt, including national, local, and corporate borrowings, stands at 290% of GDP. And Mr. Chanos believes this number will be 400% in just a few years, which is about what we've seen in Greece.

More recently, the spotlight has been on China's stock market, which is in free-fall mode. Investors who had borrowed heavily to buy stocks are now selling at a frantic pace, and government interventions so far haven't been enough.

How should you respond?

To answer this question, let's first take a look at how Mr. Chanos is making his bet.

Rather than betting against Chinese companies directly, Mr. Chanos is focusing his efforts on businesses that sell their products to China. In plain English, this means commodity-focused companies, and there are plenty of them in Canada. You should be very careful before buying any of these names.

Among large Canadian companies, the one with the most exposure to China is **Teck Resources Ltd.** (TSX:TCK.B)(NYSE:TCK). Teck's main product is coking coal, which depends heavily on the steel market. And steel is very dependent on China, perhaps more so than any other commodity.

Copper producers such as **First Quantum Minerals Ltd.** (TSX:FM) and **Hudbay Minerals Inc.** (TSX:HBM)(NYSE:HBM) are also affected. Both companies are growing very ambitiously, so a downturn in the copper price would throw a big wrench in their business plans (as well as their stock prices).

Oil producers are also badly affected, although there are more factors affecting the oil price.

Is there a way to profit off of this?

Most of us have never shorted a stock before. So, is there any way to make money off of this?

Well, if China does fall hard, it will badly affect many emerging markets. In response, investors will likely cash out of these markets and buy U.S. dollars with the proceeds. So, if you want to bet against China, one good way is to bet on the greenback. And the best way to do this is to buy some high-quality U.S. stocks.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

1. NYSE:HBM (Hudbay Minerals Inc.)
2. NYSE:TECK (Teck Resources Limited)
3. TSX:FM (First Quantum Minerals Ltd.)
4. TSX:HBM (Hudbay Minerals Inc.)
5. TSX:TECK.B (Teck Resources Limited)

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