Global market outlook

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Global growth is **slowing**...

Manufacturing PMI by region

Source: Bloomberg, UBS, as of 24 June 2019
US Nonfarm Payrolls weakening

US non-farm payrolls (‘000s)

6m total change, In thousands

Source: Bloomberg, UBS, as of Sept 2019
Global central banks back in **easing mode**

**Inflation below target for sustained period**

**Interest rates head lower**

**US Core PCE, %y/y**

- Target: 2.0%
- Core PCE: 1.6%

**10-year government bond yields (%)**

Source: JP Morgan, Bloomberg, UBS, as of Aug 2019

Charts and scenarios are for illustrative purposes only. Historical performance and forecasts are no guarantee for future performance. Please see important disclaimer at the end of the document.
Trade dispute: not just about China

Value of imports impacted by US tariffs, in USD bn

- ** Implemented **
  - Steel (25%) and aluminum (10%)
  - China: 50bn of imports at 25% (response to IP violations)
  - China: 25% tariff on 200bn of imports*

- ** Proposed **
  - China: targeting another 325bn of imports**
  - Autos: an up to 25% tariff on all foreign-built autos

*A 10% tariff was in effect starting 24 September 2018, but was raised to a 25% rate on 10 May 2019.
**Threatened but not yet implemented

Source: UBS, as of 17 June 2019
China: Seeking a balance between growth, stability and reform

Policy easing
- Keep liquidity ample
- Increase SME loans
- Facilitate local govt infrastructure projects

Paradoxes to manage
- Regulatory tightening vs re-leveraging
- SOE reforms vs growth
- Market opening vs capital controls

Beijing to avoid mistakes by Japan
- Over-stimulus is unlikely

China GDP growth has already halved since 2007 (%)

Macro leverage to rise again after stabilizing in 2016-18

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Slower growth: China is now a US$13.5 tn economy

We project China GDP growth to slow from 6.6% (2018) towards 6.2% (2019f) and 6.1% (2020F)
Asia: The global growth engine

Now ⅖th of global GDP and ⅔rd of global growth

Source: IMF, UBS, as of Aug 2019

*Excluding Japan, including AUS and NZ

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China onshore markets: Huge and untapped

A-share equity market: 2nd largest globally
Number of listed companies

- A shares: 3,624
- Hong Kong Main Board: 1,983
- H shares: 230

USD 7.5trn
USD 4.0trn
USD 1.6trn

CNY bonds: At USD11trn, 3rd largest globally
Size of China local currency bond market

- Mar-16: 35%
- Sep-16: 65%
- Mar-17: 35%
- Sep-17: 65%
- Mar-18: 35%
- Sep-18: 65%
- Mar-19: 35%

Note: H shares market cap (proxy using MSCI China ex. 5% A shares): USD 1.6tn

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Valuations for Asia are still cheap (Trailing P/B)

Source: Factset, UBS, as of July 2019
AxJ trades at 23% discount to US equities (12M FWD P/E)

Source: Factset, UBS, as of July 2019
USD: Likely to remain range-bound with upside risk

我们认为美元强势已见顶
We believe USD strength has peaked

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资料来源: 彭博, 瑞银, 截至2019年9月
EURUSD: Real yield differential matters

EURUSD forecasts: 1.12 (3M), 1.15 (6M), 1.17 (12M)

Source: Bloomberg, UBS, as of Sept 2019
USDCNY: Trading range of 7.1 – 7.40 likely

USDCNY forecasts: 7.4 (3M), 7.4 (6M), 7.3 (12M)

Source: Bloomberg, UBS, as of Sept 2019
AUD: Nearing a bottom vs the USD

AUDUSD forecasts: 0.69 (3M), 0.70 (6M), 0.71 (12M)

Source: Bloomberg, UBS, as of Sept 2019
Supply: OPEC production has fallen below 30mbpd

Voluntary cuts by Saudi Arabia and other GCC countries, together with involuntary cuts by the "fragile 3", have dragged output lower.

Source: Bloomberg, UBS, as of Sept 2019
Gold: Benefiting from uncertainty (6M target US$1600/oz)

Equity markets should stay volatile due to late-cycle dynamics and US-China tensions

Gold performs well when volatility (VIX Index) soars

Past performance may not be indicative of future results/trends

Source: Bloomberg, UBS, Date: September 2019
Gold Prices: Negatively correlated with real rates

Falling rates have strongly supported the gold price
Swinging 70s: Decade dominated by war & high oil prices

- 1970: US abandons Bretton Woods
- 1971: Yom Kippur War
- 1972: OPEC Embargo
- 1973: Vietnam invasion of Cambodia
- 1974: Soviet invasion of Afghanistan
- 1975: Sino - Vietnam war
- 1976: Cultural Revolution
- 1977: Average inflation rate of 7.6%
- 1978: Recession in 1970 and ‘74 to 75
- 1979: S&P 500 gained 15%

Source: Bloomberg, UBS, as of Jul 2019
Trade wars

"We have to stop following that white flag and start running up the American flag and turn and fight and make America number one again in international commerce so that American jobs are filled in this country"

Walter Mondale
Democratic party candidate, 1984

"….fix the Japanese like they’ve never been fixed before"

Tip O’Neil
Speaker of the House

"The US should have dropped four nuclear bombs on Japan, not just two"

Jack Brooks
Democratic Congressman
**Turbulent 80s: Trade tensions between US & Japan**

- **1980**: Recession - LatAm Sovereign Debt crisis
- **1981**: Reaganomics - FED Funds rate 20% in 1980
- **1982**: Recession from 1981 to ’82 - S&P 500 gained 228%
- **1983**: Plaza Accord
- **1984**: Black Monday
- **1985**: Junk Bond collapse
- **1986**: Lourve Accord
- **1987**: Pan-Electric Crisis
- **1988**: Iran – Iraq War
- **1989**: Savings & Loans crisis

Source: Bloomberg, UBS, as of Jul 2019
90s, 00s & 10s: Unraveling the Great Moderation

1990s: Globalization
- Asian Financial crisis
- Tequila crisis
- LTCM crisis
- Russian debt default

S&P 500: +329%

2000s: Global Financial Crisis
- Global financial crisis
- Eurozone crisis
- 911, 2nd Gulf War
- High commodity prices

S&P 500: -22%

2010s: Unprecedented QE
- Unprecedented QE by central banks
- Negative interest rates
- BREXIT
- Syrian crisis

S&P 500: +162%
Global investment trends over the past decades

1970s
- Oil embargo
- Surging inflation

1980s
- Rise of Japan
- Consumer goods innovation

1990s
- Globalisation
- Rise of mobile phones & Internet

2000s
- Developing markets boom
- Commodity supercycle

2010s
- Mobile internet
- Smartphone proliferation

2020s
- ESG
- Smart city

Source: Bloomberg, UBS, as of Jan 2019
The Greater Bay Area: Creating a *single* market

The **Greater Bay Area** seeks to capitalize on the region’s infrastructure and expertise in technology, advanced manufacturing, tourism and international finance by eliminating trade barriers, promoting cross-border business and eventually creating a single market.
Greater Bay Area: 4 key cities and ....

- Cluster of hyper-connected, 1st world cities with state-of-the-art infrastructure
- Comprises 4 key cities

Source: UBS CIO, as of July 2019
Greater Bay Area: ....7 node cities

- Cluster of hyper-connected, 1st world cities with state-of-the-art infrastructure
- Comprises 4 key cities and 7 node cities

Source: UBS CIO, as of July 2019
Greater Bay Area: Most affluent area in China

- Population of 70m people
- GDP of US$1.5tn, 12% of China’s GDP (2018)
- GDP per capita of US$21,000 or 2.5x of national average

Source: UBS CIO, as of July 2019
Greater Bay Area: Leveraging on each city’s strengths

<table>
<thead>
<tr>
<th>City</th>
<th>Positioning</th>
<th>Strategic Positioning</th>
<th>Key industries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hong Kong</td>
<td>Financial Centre</td>
<td>International aviation hub; global off-shore RMB centre; international asset &amp; risk management centre</td>
<td>Financial services; international arbitration;</td>
</tr>
<tr>
<td>Macau</td>
<td>Tourism, leisure &amp; entertainment</td>
<td>Global tourism &amp; entertainment hub; creative, global capital city</td>
<td>Tourism; International gaming; property; construction</td>
</tr>
<tr>
<td>Shenzhen</td>
<td>High Tech, R&amp;D, Innovation hub</td>
<td>Highly specialized innovation, R&amp;D, technology hub</td>
<td></td>
</tr>
<tr>
<td>Guangzhou</td>
<td>Advanced Manufacturing, trade &amp; logistics hub</td>
<td>Advanced manufacturing, trade &amp; logistics hub</td>
<td></td>
</tr>
<tr>
<td>7 node cities</td>
<td>Serves as the periphery of the Greater Bay Area; Mix of largely tier 3 &amp; 4 cities provide the labour, talent and resources to support the core of tier 1 and tier 2 key cities</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: UBS CIO, as of July 2019
Greater Bay Area: Strong growth potential

- GBA still trails the GDP/capita of major bay areas by wide margin
- Accelerate economic growth through:
  - Policy support
  - Improved connectivity
  - Greater capital flows
  - Optimized resource allocation

Source: CEIC, Citi Research, UBS Estimates
Greater Bay Area: Enhancing connectivity via infrastructure

Infrastructure projects to drive connectivity & integration within the Greater Bay Area

Source: UBS CIO, as of July 2019
Greater Bay Area: Enhancing connectivity

- Currently, it requires 12 working days to get 3 permits to drive from Zhuhai thru’ Macau to Hong Kong
- Mainland China has higher taxes than Hong Kong and Macau
- Chinese govt to roll out 8 measures to address the legal, tax, currency, immigration and customs differences between the 3 different jurisdictions
  - Transportation, logistics, and Infrastructure
  - Smart ID and immigration control
  - Telecommunication network
  - Digital payment and capital flows
  - Data availability and security
Greater Bay Area: Key growth area for China

Nominal GDP in CNY trillion

Source: CEIC, UBS Estimates as of Feb 2019
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