

# Global Investment Weekly

2019.03.25



中國信託銀行  
CTBC BANK

# Market Calendar, 2019/3

	W1(3/1-3/8)	W2(3/10-3/15)	W3(3/17-3/22)	W4(3/24-3/29)
<b>DM</b>	Composite PMIs(1) RBA Meeting(5) Euro zone 4Q18GDP(7) ECB Meeting(7) US Nonfarm Payroll(8)	UK Parliament Vote (12~15) BOJ Meeting (15) US NFIB Small Business Optimism(12) EU27 New Car Registrations(15) US Consumer Confidence(15)	US NAHB Housing Market Index(18) Germany ZEW(19) EU/JP PMI(21) FOMC Meeting(21) BOE Meeting(21) Germany PMI(22) EU Summit(21~22)	US 4Q18GDP(28) IFO Expectation(25) US Durable Goods Orders(26) Brexit Deadline(29)
<b>EM</b>		China Social Financing(10) China Retail Sales And Industrial Output(10)	BOT Meeting(20) Taiwan Export Orders(20) BCB Meeting(20) CBC Meeting(21) CBR Meeting(22)	SARB Meeting(28)
<b>Sector</b>				
<b>Surprise</b>				
<b>Event</b>				
<b>Market Topic</b>		NPC/ CPPCC Commentary And Equity/FI/FX Strategy	Brexit Analysis	

# Equity/FX/FI Strategies Response To Policies, Elections And Geopolitics

## Policies (DM Central Bank)

- ✓ **FOMC: Slashed Rate Outlook, Ending QT In Sep, US Accelerated Into Late Cycle**
- ✓ **BOE: BOE To Hold, Brexit As The Key To Future Rate Decision**

## Key Events

- ✓ **UK Strategy: Higher Likelihood Of Brexit Deadlock After Extension**
- ✓ **ASEAN: Low Uncertainty Over SEA Elections, Equity Better Off In LT**

## Hot Topics

- ✓ **Energy: Geopolitics Affect 2Q19 Oil Price And Energy Sector**
- ✓ **SARB: SARB Officials' Attitude Determines 2Q19 Rate Hike Pace**
- ✓ **Bond Strategy: Overall EMEA Fundamental Concerns**
- ✓ **European Currencies: Dollar Momentum Slowed, European Currencies Stable In Short-term**

# Agenda

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## **Part I Macro and Market Review**

## **Part II Short-Term Focus and Strategy**

## Economic Data Release Review(3/14-3/21)

- Macro Data And Central Bank Policy Review:** This week's focus was central bank rate meetings, China real economy data and Europe confidence leading indicator. Fed surprisingly downgraded the rate outlook and to stop QT by Sep. US economy accelerated into the late stage of business cycle with inflation staying relatively low, extending the rate holding period in monetary policy for no hike this year. 10-yr treasury yield is expected to consolidate at low in 2Q19. BOJ was less dovish than Fed. Though both concerned external risks, BOJ believed domestic outlook was still in benign cycle of income and expenditure. But we think BOJ might downgrade 2021 outlook and inflation forecast in its Apr meeting, bringing easing expectation. China outlook was still weak but infrastructure in fixed assets investment has improved. With policy effects injecting to improve real economy, we expect outlook to bottom out in 2H19. In EU, inflation stays low but leading indicator has improved in ZEW survey expectations. As ECB holds low rate and implements new TLTRO to boost outlook, we maintain the EU outlook to bottom out in 2Q19.

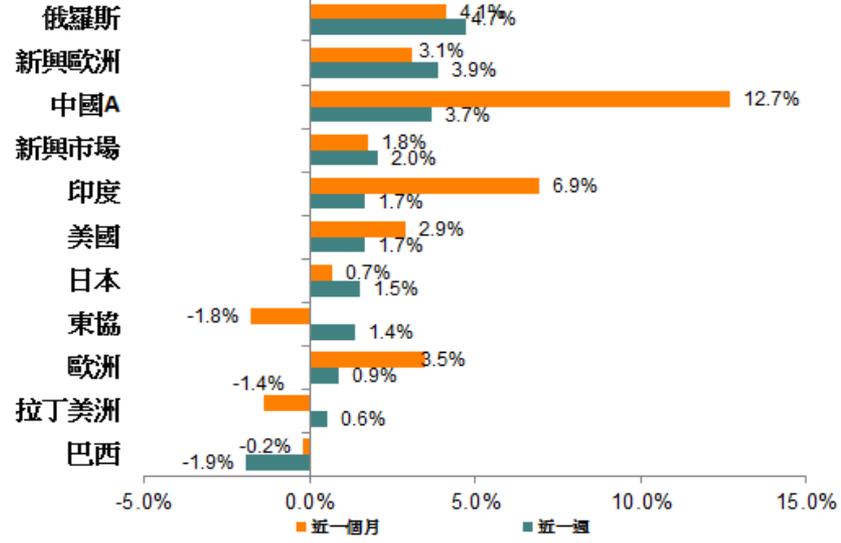
Release Date	Country	Economic Data	Period	Consensus	Actual	Prior
03/14/2019 10:00	CN	Fixed Assets Ex Rural YTD YOY	Feb	6.10%	6.10%	5.90%
03/14/2019 10:00	CN	Industrial Production YTD YOY	Feb	5.60%	5.30%	6.20%
03/14/2019 10:00	CN	Retail Sales YTD YOY	Feb	8.20%	8.20%	9.00%
03/15/2019 10:39	JP	BOJ Policy Balance Rate	Mar 15	-0.10%	-0.10%	-0.10%
03/15/2019 10:39	JP	BOJ 10-yr Yield Target	Mar 15	0.00%	0.00%	0.00%
03/15/2019 18:00	EC	CPI MOM	Feb	0.30%	0.30%	-1.00%
03/15/2019 18:00	EC	CPI YOY	Feb F	1.50%	1.50%	1.50%
03/19/2019 18:00	GE	ZEW Survey Current Situation	Mar	13	11.1	15
03/19/2019 18:00	GE	ZEW Survey Expectations	Mar	-11	-3.6	-13.4
03/19/2019 18:00	EC	ZEW Survey Expectations	Mar	--	-2.5	-16.6
03/21/2019 02:00	US	FOMC Rate Decision (Upper Bound)	Mar 20	2.50%	2.50%	2.50%
03/21/2019 02:00	US	FOMC Rate Decision (Lower Bound)	Mar 20	2.25%	2.25%	2.25%

Source: Bloomberg, Compiled by CTBC Bank, 2019/3/22

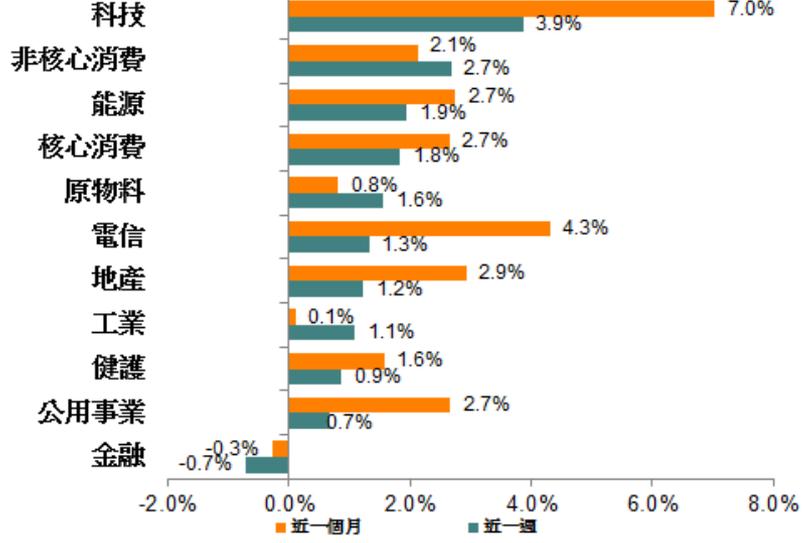
# Risk Appetite Rose Again, Global Equity Rallied

- Country:** Mar FOMC was dovish again, boosted market risk appetite, fueling global equity rally. In DM, US outperformed EU/JP. The YTD depressed Russia equity rebounded significantly last week with the aid of abundant liquidity, as the best performer. China and India were fueled by stimulus and election themes, attracting fund inflow. Brazil equity retraced to test 50DMA after refreshed new high, pending more reform information.
- Sector:** With easing external risks and super dovish FOMC, investor risk appetite surged, leading MSCI 11 sectors to rally. Tech sector was the best performer, rising 3.9% last week due to investment banks upgrading Apple after new product launch and motivating Micron financial results. Only the rate sensitive financial sector fell 0.7% as the weakest.

Global Equity Index Change



Global Sector Index Change



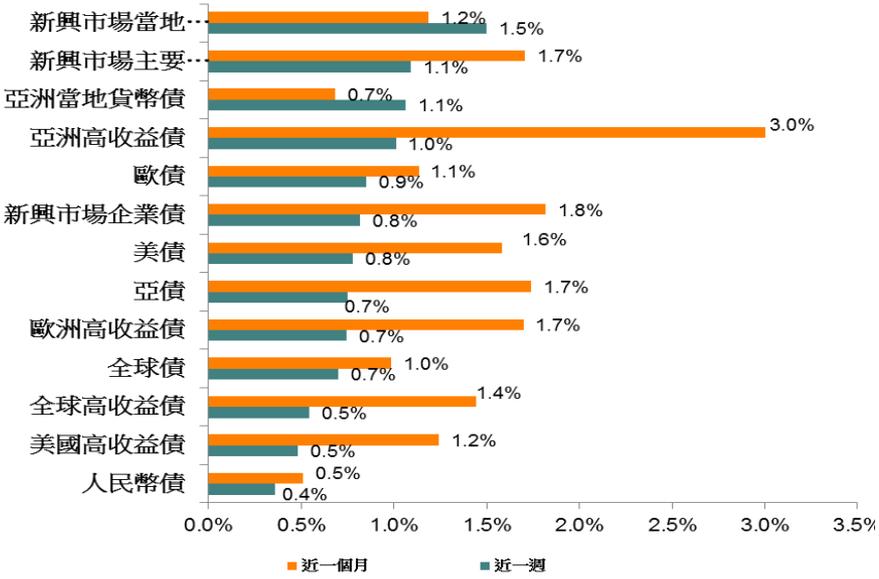
Source: Bloomberg, past month is for 2018/2/21~2019/3/21, past week is for 2019/3/14~2019/3/21.

Sector indices based on Morgan Stanley Capital International (MSCI) global 11 sectors.

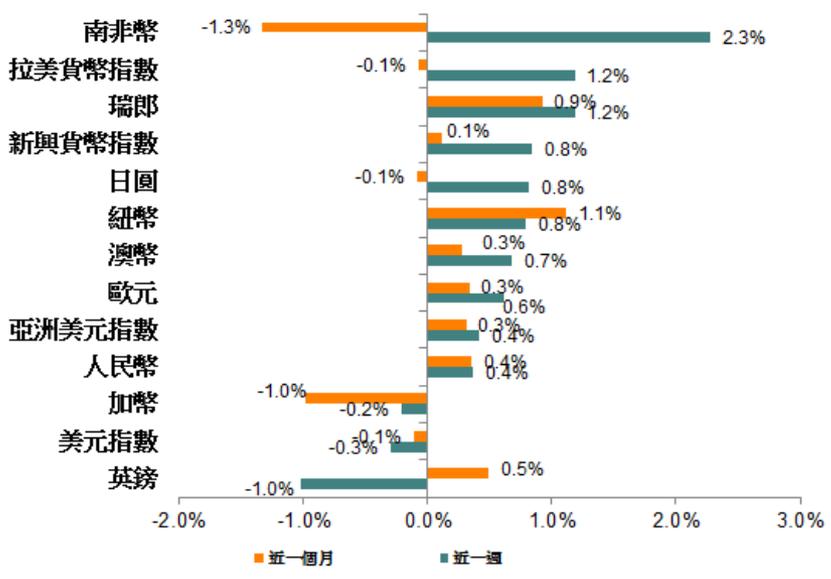
# Dovish Fed, EM Bonds And Currencies Outperformed In The Whole Week

- FI:** Fed's surprising dove motivated global bonds higher. US 10-yr treasury yield fell below 2.60%, leading outperformance of IGBs. Verizon announced it would launch 5G commercial network, boosting telecom IGBs to rose over 1%. EM major currency sovereign bonds rose 1.1%, better than corporate bonds. Brazil and Indonesia central banks also release easing signals, boosting bonds of these two countries to outperform in the market.
- FX:** Fed slashed rate outlook and announced QT would be ended this year. DXY fell slightly while the EM currencies were motivated after large prior corrections. ZAR rebounded 2.3% this week while LACI rebounded 1.2%. GBP once plunged after report of UK PM willing to accept no deal Brexit but rebounded later with Brexit extension, weakened 1%.

Global Bond Index Change



Global FX Change (Against USD)



Source: Bloomberg, past month is for 2018/2/21~2019/3/21, past week is for 2019/3/14~2019/3/21

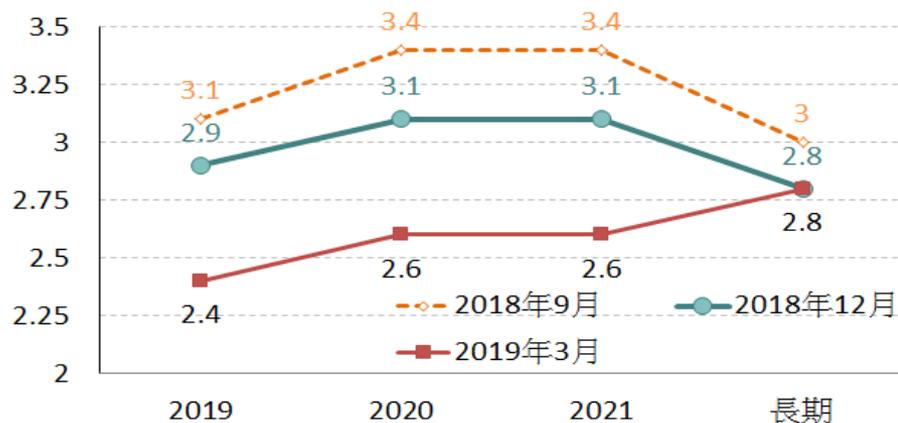
Note: Bonds take BAML Bond Index price change in the period. FX is against USD.

# Slashed Rate Outlook, Ending QT In Sep, US Accelerated Into Late Cycle

- Conclusion:** Fed officials slashed the rate policy outlook and would pause QT by Sep. US economy accelerated into the late stage of the business cycle. Treasury yields of all duration fell with 6-12 months duration yield all entering inversion and 10-yr yield breaching lows earlier this year to a 14-month new low, reflecting that US QT pause and current rate policy would be maintained for a longer period. We believe the risk of global outlook slowdown still persists. As described by the Fed, slowing Europe and China economic growth and contagion effect of Brexit risks could not be undermined. Current situation in the base case is still manageable. But US 1Q19 outlook fell significantly due to government shutdown and climate conditions. Feb Nonfarm payroll increased only 20k while consumption has shown signs of weakness. Transportation would depress inflation in 2Q19 due to base effect. With relatively low inflation, monetary policy would have more room to hold the rate unchanged. We adjusted our view on Fed monetary policy to holding rate unchanged the whole year at 2.25-2.5%. 10-yr treasury yield is expected to consolidate at low in 2Q19 with target price cut from 2.9% to 2.7% in 2Q19, 2.9% to 2.7% in 3Q19 and 3% to 2.9% in 4Q19.

## Largest Slash In Dot Plot Since 2012

聯準會官員利率點陣圖中位數



## Growth Slowdown Worse Than Expected

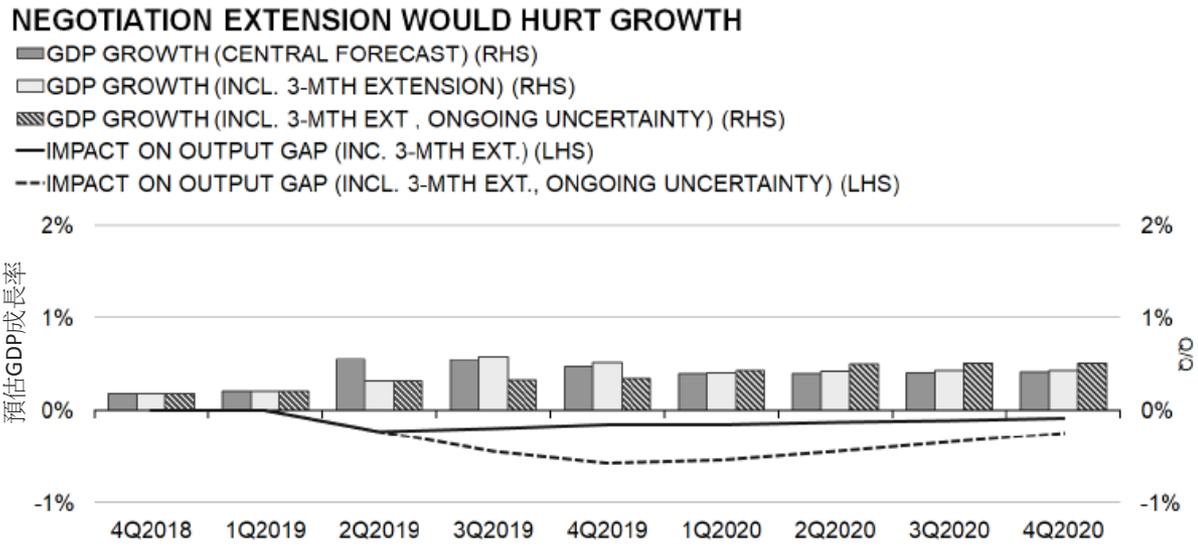
日期	前次 2019/1/31	本次 2019/3/21
利率	維持利率不變，有耐心的(Patient)	
投票	全數通過	
就業	強勁(strong)	維持穩健(solid)
成長	經濟成長穩健(Solid)	經濟成長放緩(slowed)
消費	強勁成長(grow strongly)	放緩(slowed)
投資	緩和上升(Moderate from rapid)	放緩(slowed)
通膨	市場衡量通膨降低	降低，受低油價影響
縮表	(記者會)準備調整縮表速度，因應市場需求(3.5兆)	9月停止縮表，5月公債由300降至150億，10月起MBS每月200億轉公債
外部	鑑於全球經濟及金融情勢以及通膨緩和(muted inflation)，委員會會耐心等待(Committee will be patient)	

Source: Fed, 2019/3/21, Compiled by CTBC Bank, 2019/3/21

# BOE To Hold, Brexit As The Key To Future Rate Decision

- **Brexit Uncertainty Disturbed Rate Hike Pace:** BOE held rate unchanged in Mar meeting as expected. Meeting minutes continued to state shocks of Brexit uncertainty such as sliding corporate investment and low confidence.
- **If Brexit Deadline Extended, Economic Shock About -0.2%:** According to Bloomberg, if Brexit is delayed 3 months, the 2019 GDP growth would reduce by 0.2%. And if the uncertainty persists, it would drag down GDP more severely. The BOE minutes also reiterated that UK economic outlook still depended on the nature and timing of Brexit. Regardless which eventual Brexit method, the corresponding rate decision could be a hike or a cut. After the meeting, interest rate futures market has indicated investors did not expect any hike this year. With the super dovish FOMC in the prior day, 10-yr GILTs yield fell 9.3 bps in a single day. 1.15% prior support might be turned into a resistant level.

## UK Economic Growth Shock If Brexit Delays 3 Months



## BOE 2019 Rate Hike Unlikely

目前隱含走向

日期	會議	計
	會議	計
	升息機率	降息機率
05/02/2019	0.0%	8.1%
06/20/2019	0.0%	11.4%
08/01/2019	17.4%	9.2%
09/19/2019	21.4%	8.7%
11/07/2019	6.4%	60.1%
12/19/2019	29.9%	22.4%
01/30/2020	22.4%	36.5%

Source: (L)Bloomberg, 2019/3/13, (R)Bloomberg, 2019/3/21

# Agenda

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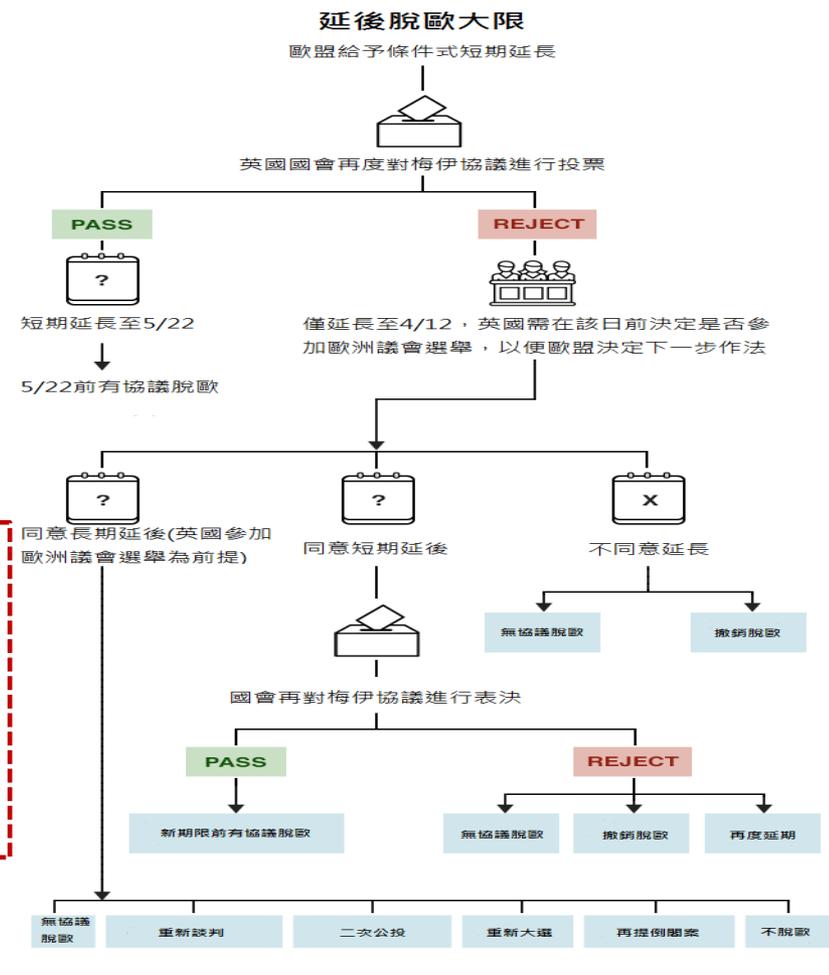
**Part I Macro and Market Review**

**Part II Short-Term Focus and Strategy**

# Higher Likelihood Of Brexit Deadlock After Extension

- EU Conditional Agreed To Brexit Extension:** EU summit on 3/21 conditional agreed the Brexit extension. If UK parliament could pass May Brexit deal next week, deadline would be extended to 5/22. If the deal did not pass UK parliament, EU required UK to inform whether it would participate in European Parliament election before 4/12 for EU to decide further action. Regardless long or short extension of Brexit, it is hard to reach consensus in parliament now, with higher chance of deadlock.

## EU Conditional Agreed To Brexit Extension



Deal Brexit

May packaging the extension length into Brexit deal increases the opportunity cost of Brexit MPs boycott. Brexit MPs in Conservatives might be forced to support the deal to avoid soft Brexit or no Brexit. **UK/EU equity could rebound.**

Extend Stay In EU

Some Brexit Conservatives believed extension could be opportunity for renegotiation or replacing the PM. Remain camp need not support May's deal to avoid no deal Brexit with extension. If this delay prolongs, with Brexit uncertainty still exists, probability of 2<sup>nd</sup> referendum and reelection increases, **UK/EU equity is to rebound before retracing.**

No Deal Brexit

Brexit extension did not rule out no deal Brexit. **If this surprise came true, UK/EU equity could plunge though this is the least likely scenario.**

# Low Uncertainty Over SEA Elections, Equity Better Off In Long-term

- SEA Ruling Parties Led In Poll:** Thailand would hold the 1st election after military assumed power. Poll showed military would get more than half of the seats (33% of seats would be appointed by them while 21.5% seats from election) so without surprise, ruling party would be reelected. Indonesia and India polls also showed ruling parties leading, so equity is unaffected.
- SEA Better off In Long-term:** When Sino-US tension intensified, SEA equity was the safe haven. As tension eased, capital flew to EM Asia part with lower base level. Long-term SEA enjoys supply chain shift, population benefit and geopolitical policies such as RCEP and EEC.

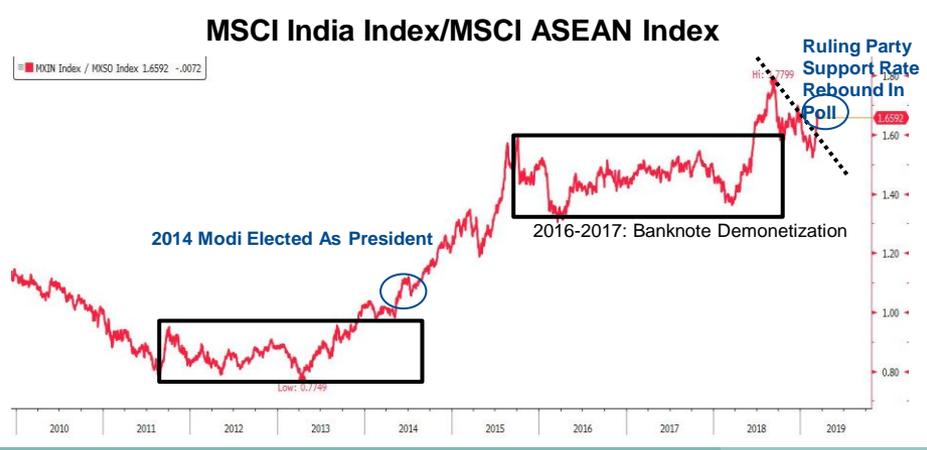
## As Sino-US Trade Tension Eases, SEA Strengthened



## SEA Polls Indicated Ruling Parties Reelected



## Modi Reelection Crucial To Indian Equity

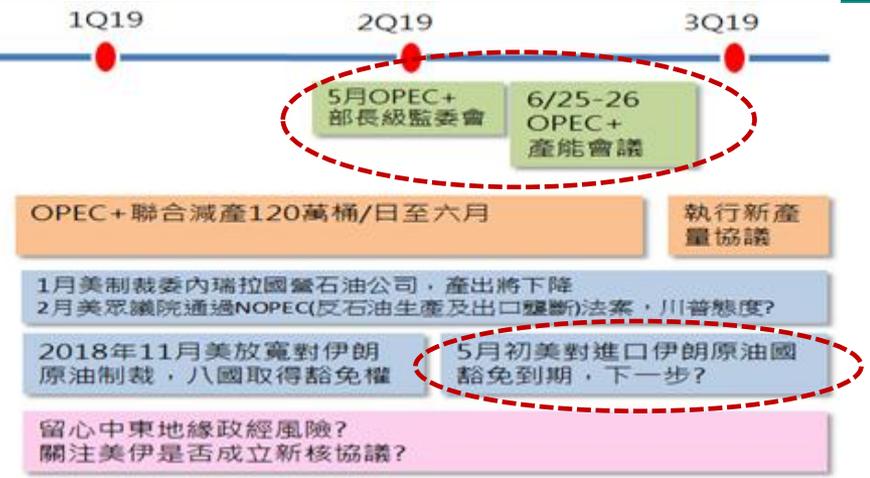


Source: Bloomberg, Media, Wikipedia, Compiled by CTBC Bank, 2019/3/19

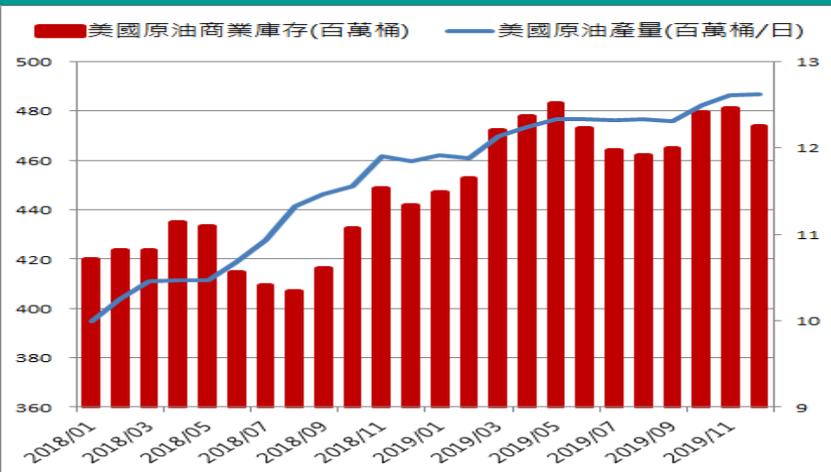
# Geopolitics Affect 2Q19 Oil Price And Energy Sector

- Expect 2Q19 Oversupply Narrows:** 2Q19 oversupplied due to US output increase and disappointing global demand growth, but 1. Venezuela sanction cuts its output, 2. OPEC planned to increase cut, 3. US rig count fell to delay 2Q19 output expansion pace, 4. Expect US to maintain current Iranian oil waiver in May, 5. Expect OPEC+ to respond to Trump oil policy and 3Q19 crude oil demand to reduce cuts in 2H19. We forecast 2Q19 Brent to be in \$62~70/barrel.
- If US Sanction Over Iran Intensified, Energy Sector Would Benefit:** Market expects MSCI Energy EPS has small negative growth in 2Q19. If sanction intensifies, oil price will rise so energy sector EPS forecast might be upgraded.

## 2Q19 Oil Price Affected By US, OPEC+ Policies



## 2Q19 US Oil Output And Inventory Increase



## US Waiver Of Iranian Oil Scenario Analysis

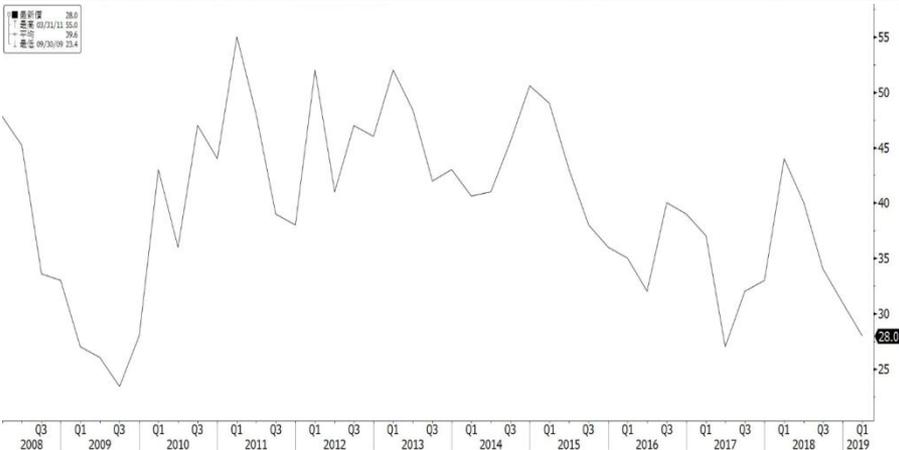
<b>Maintain Current Waiver</b>	If Brent is above \$65/barrel in early May, US is likely to maintain the current waiver, 2Q19 Brent target would be \$66/barrel
<b>Cut Waiver</b>	If Iran oil export reduces 150k-250k barrels/day, oil price could rise \$2/barrel
<b>Total Ban</b>	If Iran oil export reduces 500k barrels/day, oil price could rise \$5/barrel

Source: (Top Right)Bloomberg, OPEC, 2019/3/20, (Bottom Left)EIA, 2019/3, Compiled by CTBC Bank, 2019/3/20

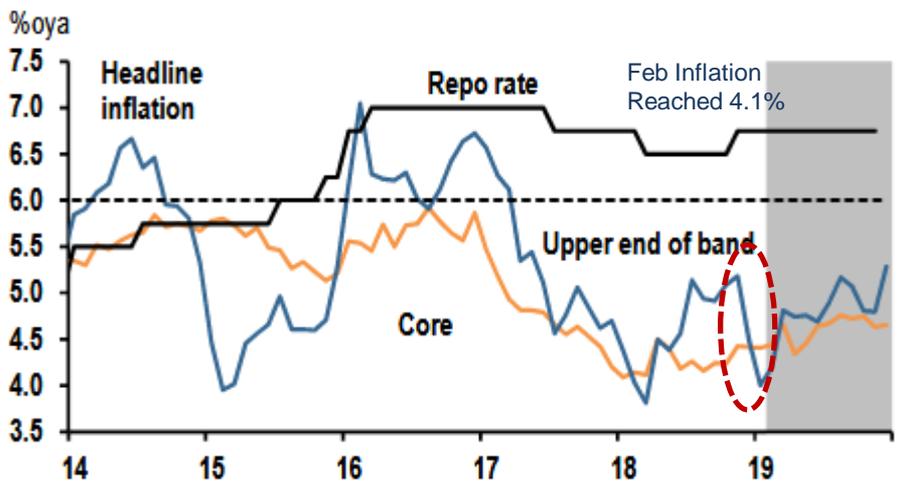
# SARB Officials' Attitude Determines 2Q19 Rate Hike Pace

- **SARB To Hold In Mar:** South Africa inflation has been milder than SARB's 4.5% target for two consecutive months. Domestic load shedding and strikes have hit corporate confidence so SARB dilemma between rate cut to boost economy and rate hike to curb inflation eased. With Moody's due to decide on SA sovereign rating at end of Mar, SARB is unlikely to act now.
- **Internal/External Changes:** 1H19 inflation might rise before retracing due to cigarette/alcohol tariff and rising gasoline price. Global central banks turned dovish so the attitude of prior hawkish SARB officials is the key.

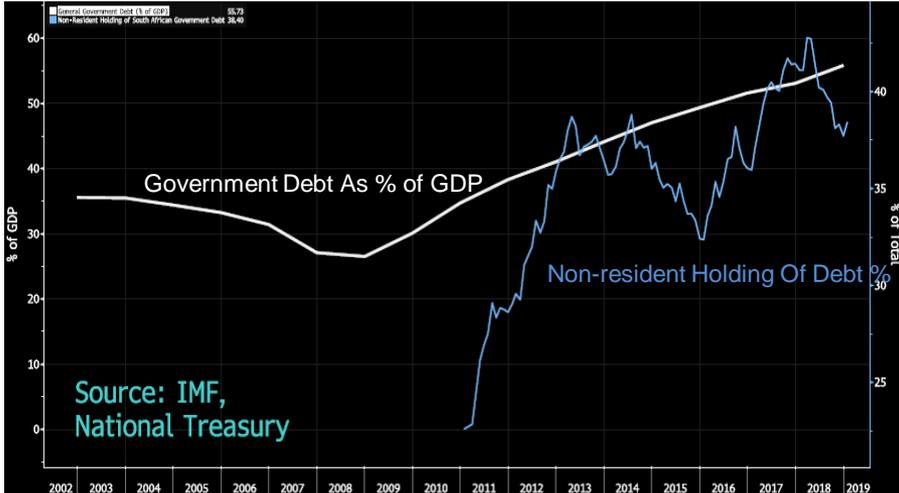
## SA BER Corporate Confidence Still Low In 1Q19



## Low SA Inflation Lowered Mar Rate Hike Chance



## High Government Debt A Major Concern

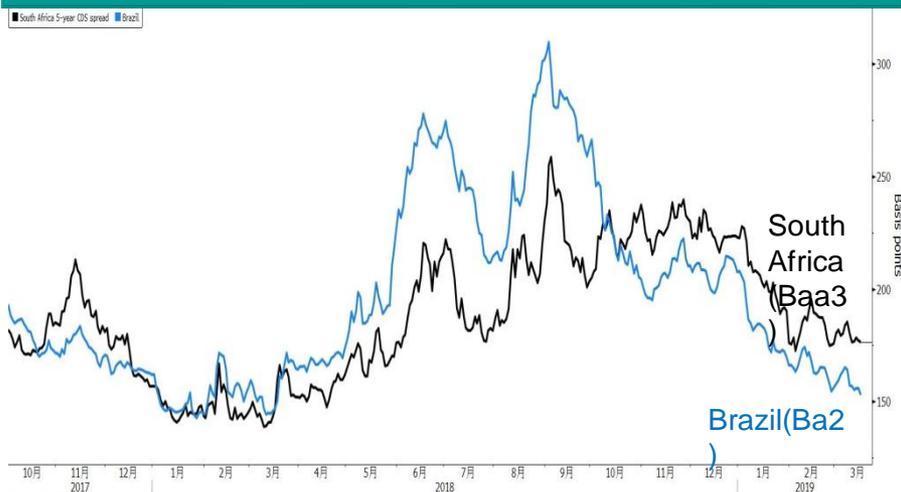


Source: (Top Right)Bloomberg, 2018/3~2019/3, (Bottom Left)JPM, 2019/3/15, (Bottom Right)Bloomberg, 2019/3/19

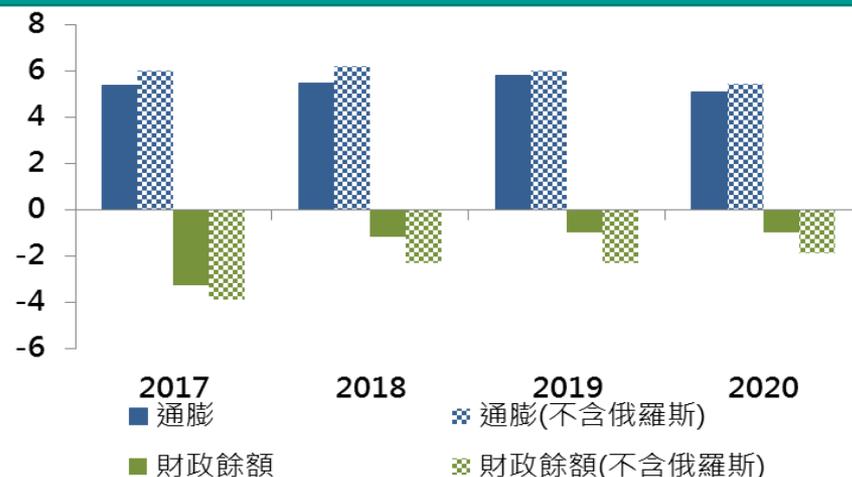
## High Political Risk In SA, Overall EMEA Fundamental Concerns

- Multiple Factors Affecting Investor Confidence On South Africa Bond:** South Africa bond fell against the overall EM bonds in the past week, reflecting investor concerns over load shedding and future corporate investments. Investors were also monitoring Moody's South Africa rating assessment report at the end of Mar. Its CDS has largely reflected the risk of downgrade, with limited impact on the bond market. However, South Africa parliament election is coming. With higher policy risk over central bank independence, Eskom problem and electricity tariff hike led inflation, land reform, foreign capital might continue to cut holdings of South Africa treasury, depressing its bond performance.
- EMEA Weakest In EM Bonds:** EMEA has some countries with better growth momentum but inflation rose at the same time, posing central banks with rate hike pressure. Countries such as Hungary and Poland are susceptible to the shock of weak Euro zone economy. EMEA countries (except Russia) have deteriorating fiscal deficits. With higher correlation of EMEA bonds with external environment and higher sensitivity to US rate hike, bond investment in this region should be cautious despite the relative yield advantage.

### South Africa CDS Higher Than Brazil YTD



### EMEA Face Inflation, Deficit Pressure

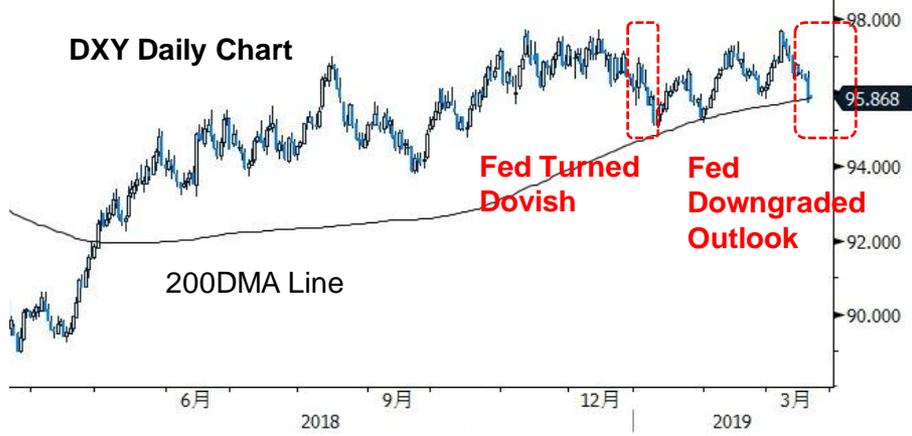


Source: (L)Bloomberg, Moody's Rating In The Bracket, 2019/3/19, (R)IMF & JPM, Compiled by CTBC Bank

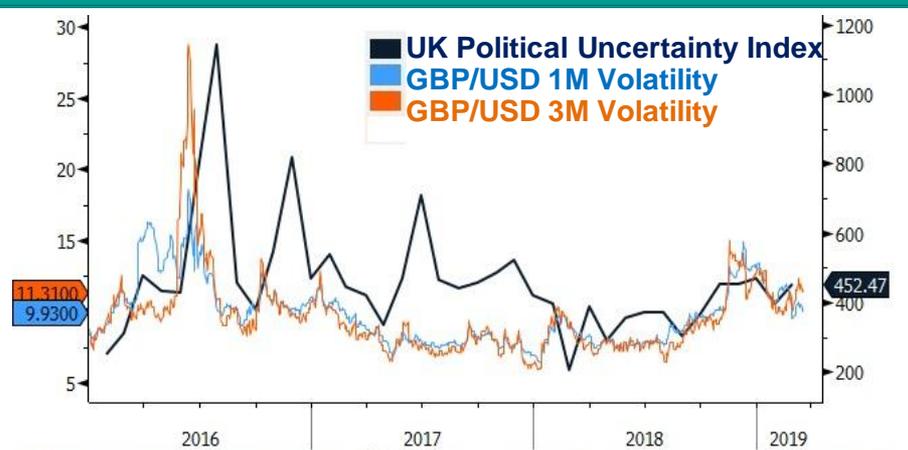
# Dollar Momentum Slowed, European Currencies Stable In Short-term

- Dollar Continued To Consolidate But At Lower Range:** Fed slashed its rate outlook with dot plot indicating no rate hike this year. QT would be slowed since May and paused in Sep. The overall FOMC was more dovish than market consensus so DXY broke 96 hurdle. We think dovish Fed would slow the dollar strength down. However, non-US economies such as China has some improvements but overall weakness while Euro zone economic data have not really recovered. As the non-US economies fundamentals have not followed up, their currencies appreciation momentum would be insufficient, supporting dollar strength. Overall dollar would continue to consolidate with the range slightly lower.
- European Currencies Outlook:** As dollar strength has slowed, EUR volatility is at recent year low while GBP volatility has retraced from earlier highs of the year. Brexit extension has reduced short-term negative factors of GBP so European currencies might rebound in short-term. GBP was hit as media reported UK PM might accept no deal Brexit but rebounded after UK proceeded with Brexit deadline extension. If the extension is to later than the end of Jun, EU would need to decide whether to allow UK to participate in EU Parliament election. Current news pointed to EU agreeing an extension until May or Apr. Though GBP would be stable in our base case, UK political uncertainty would increase the difficulty of GBP trading.

## Dovish Fed Depressed Dollar Momentum



## GBP Volatility Retraced, But Uncertainty Still High



Source: Bloomberg, 2019/3/21

## Target Price – Rates/FI

第二層	第三層	2019/3/21	2019Q2	2019Q3
美	美國聯邦基準利率(上緣)	2.50	<b>2.50</b>	<b>2.50</b>
	美國10Y	2.54	<b>2.70</b>	<b>2.70</b>
	巴西利率	6.50	<b>6.75</b>	<b>6.75</b>
歐	歐洲央行再融資利率	0.00	<b>0.00</b>	<b>0.00</b>
	德國10Y	0.04	<b>0.35</b>	<b>0.35</b>
	英國央行利率	0.75	<b>0.75</b>	<b>0.75</b>
	英國10Y	1.06	<b>1.35</b>	<b>1.30</b>
	南非政策利率	6.75	<b>6.75</b>	<b>6.75</b>
	南非2Y	7.10	<b>7.20</b>	<b>7.35</b>
	俄羅斯政策利率	7.75	<b>8.00</b>	<b>8.00</b>
亞	日本央行利率	-0.10	<b>(0.10)</b>	<b>(0.10)</b>
	日本10Y	-0.04	<b>(0.10)</b>	<b>(0.12)</b>
	中國存準率	13.50	<b>12.5</b>	<b>12.0</b>
	中國2Y	2.67	<b>2.50</b>	<b>2.45</b>
	台灣央行利率	1.38	<b>1.38</b>	<b>1.38</b>
	澳洲目標利率	1.50	<b>1.50</b>	<b>1.25</b>
澳洲10Y	1.88	<b>1.85</b>	<b>1.80</b>	
第二層	第三層	2019/3/21	2019Q2	2019Q3
成熟市場投資級債指數	全球投資級債	2.95	<b>3.30</b>	<b>3.14</b>
	美國投資級債	3.78	<b>3.99</b>	<b>3.99</b>
	歐洲投資級債	0.89	<b>1.20</b>	<b>1.08</b>
成熟市場高收益債指數	全球高收益債	5.99	<b>6.92</b>	<b>6.86</b>
	美國高收益債	6.33	<b>6.96</b>	<b>7.13</b>
	歐洲高收益債	3.51	<b>4.46</b>	<b>4.14</b>
新興主要貨幣主權債指數	新興主要貨幣主權債	5.69	<b>6.30</b>	<b>6.05</b>
新興主要貨幣企業債指數	新興主要貨幣企業債	5.69	<b>6.50</b>	<b>6.28</b>
	新興投資級債	4.14	<b>4.70</b>	<b>4.55</b>
	新興高收益債	6.90	<b>8.00</b>	<b>7.70</b>
新興當地貨幣債指數	新興當地貨幣債	6.29	<b>6.65</b>	<b>6.50</b>
	人民幣債	3.69	<b>4.05</b>	<b>4.20</b>
	亞洲當地貨幣債	4.84	<b>5.30</b>	<b>5.20</b>

Source: Compiled by CTBC Bank, 2019/3/15

## Target Price - Equity

第二層	第三層	2019/3/21	2019Q2	2019Q3
美	成熟市場股	2127.9	<b>2150</b>	<b>2000</b>
	美國	2854.9	<b>2900</b>	<b>2600</b>
	拉丁美洲	2835.1	<b>2800</b>	<b>3000</b>
	巴西	96729.1	<b>97000</b>	<b>103000</b>
歐	歐洲	3119.9	<b>2960</b>	<b>3100</b>
	英國	4020.5	<b>3800</b>	<b>3920</b>
	德國	11550.0	<b>11200</b>	<b>11900</b>
	新興歐洲	327.5	<b>292</b>	<b>312</b>
	俄羅斯	1237.7	<b>1100</b>	<b>1190</b>
亞	泛太平洋	160.8	<b>160</b>	<b>165</b>
	澳洲	6253.5	<b>6200</b>	<b>6500</b>
	日本	21608.9	<b>23000</b>	<b>23000</b>
	新興市場股	1069.7	<b>1020</b>	<b>1080</b>
	新興亞洲	541.4	<b>520</b>	<b>560</b>
	中國A	3101.5	<b>2800</b>	<b>3100</b>
	中國H	11544.1	<b>11000</b>	<b>12000</b>
	香港	29071.6	<b>27500</b>	<b>30000</b>
	台灣	10609.6	<b>10500</b>	<b>10650</b>
	韓國	2184.9	<b>2300</b>	<b>2350</b>
	印度	38386.8	<b>39550</b>	<b>39550</b>
成長型產業	東協	798.7	<b>820</b>	<b>820</b>
	科技	257.3	<b>250</b>	<b>260</b>
	非核心消費	250.4	<b>253</b>	<b>260</b>
利率型產業	工業	251.1	<b>255</b>	<b>259</b>
	金融	112.9	<b>104</b>	<b>107</b>
天然資源產業	地產	221.6	<b>205</b>	<b>210</b>
	能源	211.9	<b>203</b>	<b>207</b>
防禦型產業	原物料	254.4	<b>248</b>	<b>245</b>
	公用事業	138.3	<b>132</b>	<b>130</b>
	核心消費	231.7	<b>230</b>	<b>230</b>
	健護	249.3	<b>238</b>	<b>260</b>
	電信	70.0	<b>65</b>	<b>69</b>

Source: Compiled by CTBC Bank, 2019/3/15

## Target Price – FX/Commodity

第二層	第三層	2019/3/21	2019Q2	2019Q3
成熟國家	美元指數	96.495	<b>96</b>	<b>94</b>
	美元兌日圓	110.82	<b>112</b>	<b>110</b>
	歐元兌美元	1.1374	<b>1.14</b>	<b>1.17</b>
	美元兌瑞郎	0.992	<b>0.99</b>	<b>0.96</b>
	英鎊兌美元	1.3107	<b>1.34</b>	<b>1.32</b>
商品貨幣	澳幣兌美元	0.7112	<b>0.69</b>	<b>0.69</b>
	紐幣兌美元	0.6877	<b>0.66</b>	<b>0.65</b>
	美元兌加幣	1.3364	<b>1.34</b>	<b>1.35</b>
新興貨幣	美元兌台幣	30.816	<b>30.8</b>	<b>30.6</b>
	美元兌星幣	1.349	<b>1.35</b>	<b>1.34</b>
	美元兌人民幣	6.6993	<b>6.85</b>	<b>6.75</b>
	美元兌南非幣	14.2162	<b>13.8</b>	<b>13.5</b>
	布蘭特原油	67.54	<b>66</b>	<b>70</b>
	鐵礦砂	84.05	<b>78</b>	<b>80</b>
	黃金	1309.38	<b>1330</b>	<b>1350</b>

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