

# Global Investment Weekly

2019.05.06



中國信託銀行  
CTBC BANK

# Market Calendar, 2019/5

	W1(5/1-5/4)	W2(5/5-5/11)	W3(5/12-5/18)	W4(5/19-5/25)	W5(5/26-6/1)
<b>DM</b>	US ISM(1) Composite PMIs(2) BOE Meeting(2) US FOMC(2) US Nonfarm(5)	RBA Meeting(7) RBNZ Meeting(8)	Germany ZEW(14) US Retail Sales(15)	EU/JP PMI(23) Japan 1QGD(15)	BOC Meeting(29)
<b>EM</b>	Composite PMIs(1)	China Import/Export(8) BCB Meeting(8) Brazil Inflation(10)	China Apr Financing/ Investment Data(15)	SARB Meeting(23)	China NBS PMI(31) India 1QGD(31)
<b>Sector</b>		Development After Iran Sanction Waiver Expiry			
<b>Surprise Event</b>					
<b>Market Topic</b>		US Equity Financial Results			

## Easing Improved Outlook, Cautious On Fundamental/Price Divergence

### Central Bank & FX/FI

- ✓ **RBA: Low Inflation Vs. Strong Employment, RBA 2Q19 Rate Cut Chance High**
- ✓ **AUD: AUD Weakness Continues Amid Rate Cut Sentiment**
- ✓ **Brazil: Inflation Moderate, BCB To Continue Low Rate Policy**
- ✓ **DXY: DXY Retraced After New High, Consolidation Continues**

### Market Strategy

- ✓ **US Equity: Better-than-expected Earnings Boosted Equity To New High, Cautious On Correction**
- ✓ **EM Bonds: Strong DXY Hit Local Currency Bonds, Major Currency Sovereign Stable**

### Surprise Topics

- ✓ **Energy: OPEC+ Decision Affects 2H19 Oil Price**
- ✓ **Commodity: Recovering Demand, Positive On 2Q19 Commodity**

# Agenda

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

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

## Economic Data Release Review(4/25-5/1)

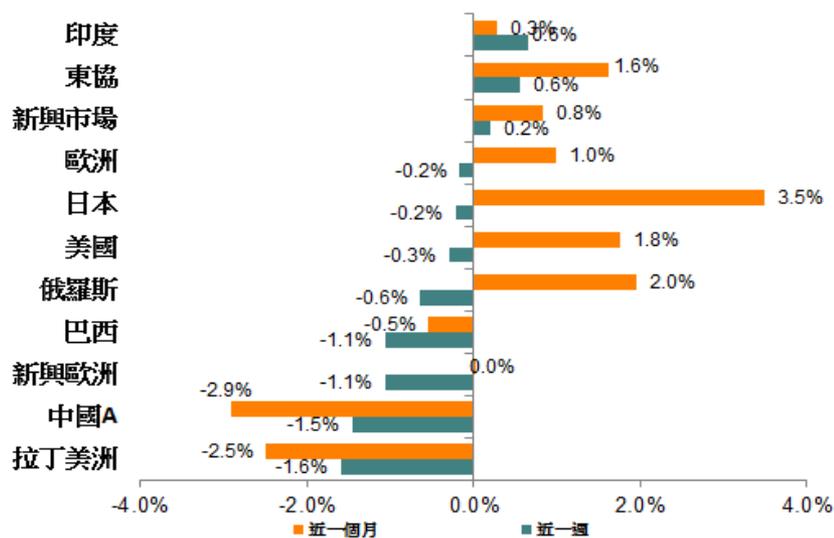
- Macro Data:** Major data this week centered around central bank meetings, leading indicators and demand related data. DM and EM central banks all kept rates and easing bias unchanged. BOJ amended forward guidance, explicitly committing very low rates at least through spring 2020. Low inflation allowed central banks to monitor the outlook longer, consistent with some leading indicators improved but with shaky foundation. Korea Apr export growth slid less than prior month. China Apr NBS manufacturing PMI retraced to 50.1. Its prior improvement was exaggerated by CNY timing mismatch. But trade talk progress and easy funding supported outlook. US new trade talks halted traders and manufacturers and weakened manufacturing. US ADP employment surged 275k. Strong labor market would pressurize higher wages, leading to 2% inflation target. Fed chairman Powell speech lowered market speculation on rate cuts.

Release Date	Country	Economic Data	Period	Consensus	Actual	Prior
04/25/2019 11:27	JP	BOJ Policy Balance Rate	Apr 25	-0.10%	-0.10%	-0.10%
04/25/2019 15:16	ID	Bank Indonesia 7D Reverse Repo	Apr 25	6.00%	6.00%	6.00%
04/26/2019 18:30	RU	Key Rate	Apr 26	7.75%	7.75%	7.75%
04/29/2019 20:30	US	Personal Consumption	Mar	0.70%	0.90%	--
04/30/2019 09:00	CN	Manufacturing PMI	Apr	50.5	50.1	50.5
05/01/2019 08:00	KR	Export YOY	Apr	-5.90%	-2.00%	-8.20%
05/01/2019 20:15	US	ADP Employment Change	Apr	180k	275k	129k
05/01/2019 22:00	US	ISM Manufacturing	Apr	55	52.8	55.3
05/02/2019 02:00	US	FOMC Rate Decision(Upper Bound)	May 1	2.50%	2.50%	2.50%
05/02/2019 02:00	US	FOMC Rate Decision(Lower Bound)	May 1	2.25%	2.25%	2.25%

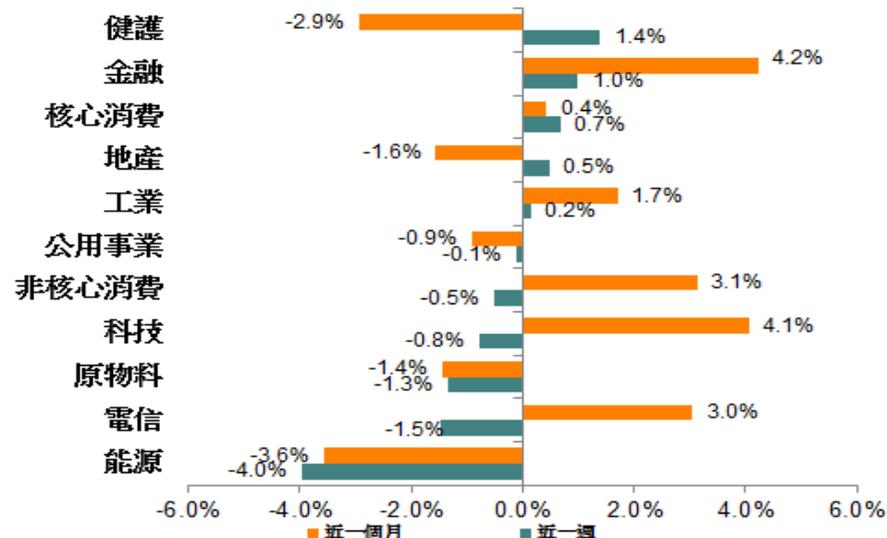
# Easing Expectation, Economic Data And Financial Results Dominated

- Country:** May FOMC lowered rate cut expectation with rising Fed funds rate and tightening liquidity so US equity corrected from historical high. Europe equity was boosted earlier this week by better 1Q19 GDP and Pro-EU PSOE winning Spanish election. But later of the week, market easing expectation depressed by Fed chairman Powell speech and ISM data disappointment hit market sentiment while falling oil price dragged energy sector down. EM Asia rose slightly at 0.6% but A shares performed relatively weak, falling 1% prior Labor Day long holiday.
- Sector:** Sector performance this week was affected by financial results. Healthcare relatively outperformed with good financial results from mega players Merck and Pfizer. Oil price and energy sector fell as Trump demanded OPEC+ to boost output while US crude inventory increased more than expected. Telecom was weak due to disappointing results.

## Global Equity Index Change



## Global Sector Index Change



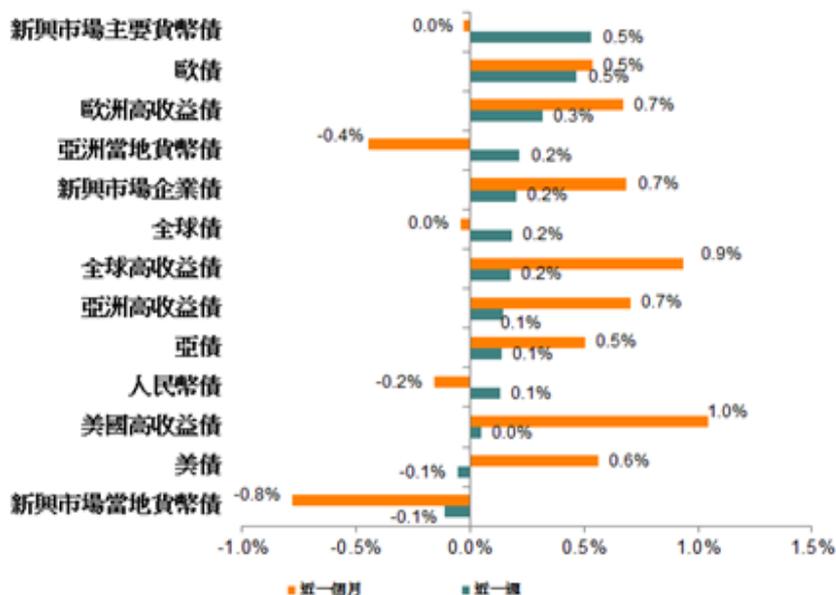
Source: Bloomberg, past month is for 2018/4/2~2019/5/2, past week is for 2019/4/26~2019/5/2.

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

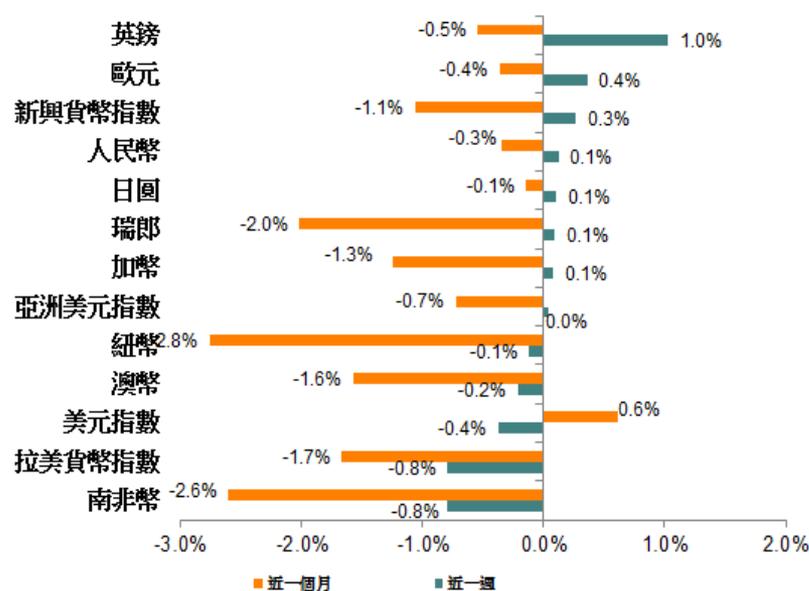
# DXY Retraced, EU Corporate Bonds Benefited From Liquidity And FX

- FI:** EU corporate bonds were stable, benefiting from return enhancement due to liquidity injected by ECB and risk aversion costs. EM major currency bond yield slid 4 bps from last week. EM Europe and Asia relatively outperformed. Local currency bonds were lagging behind due to FX volatility.
- FX:** DXY retraced slightly of -0.4% this week so European currencies gained rebound momentum. GBP rose 1% due to progress in Brexit agreement. EM currencies were overall stable but LatAm and ZAR were relatively weak. South Africa election would be held on 5/8. Market concerned the current ruling party might not gain sufficient simple majority seats, dampening ZAR performance.

## Global Bond Index Change



## Global FX Change (Against USD)



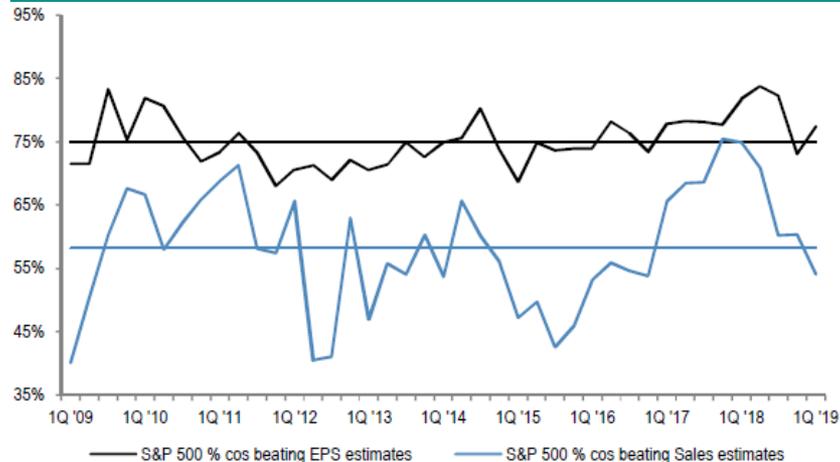
Source: Bloomberg, past month is for 2018/4/2~2019/5/2, past week is for 2019/4/26~2019/5/2

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

# Better Results Boosted Equity To New High, Cautious On Correction

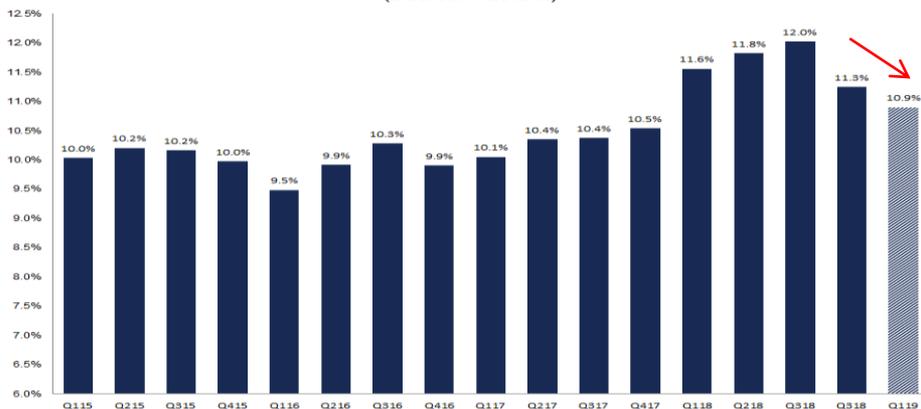
- Better 1Q19 Earnings Boosted Equity To New High:** Till 4/26, 46% of S&P500 composite members released financial reports with 76% of them having profits beating consensus, higher than historical average. But the proportion of revenue outperformance was lower than historical average.
- Corporate Net Profit Margins Slid In 2<sup>nd</sup> Quarter, Cautious On Correction:** S&P500 1Q19 net profit margins slid in 2<sup>nd</sup> quarter. IT, Telecom and energy slid the most YOY due to higher costs. Only utilities was the only sector with positive growth. As revenue growth slowed, room for earning management shrank. The peak of EPS growth has passed while price was at new high so we caution on correction risk.

## Better 1Q19 Earnings, Equity New High



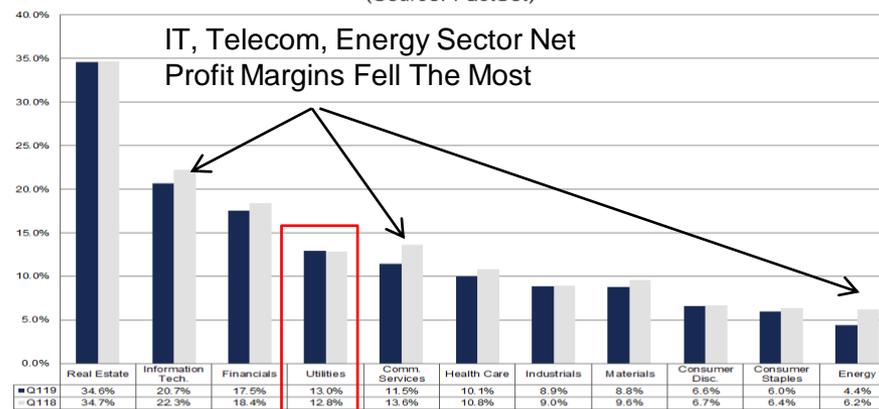
## 1Q19 S&P500 Net Profit Margin Slid In 2<sup>nd</sup> Quarter

S&P 500 Net Profit Margins: Q115 - Q119  
(Source: FactSet)



## Only Utilities Net Profit Margin Rose YOY

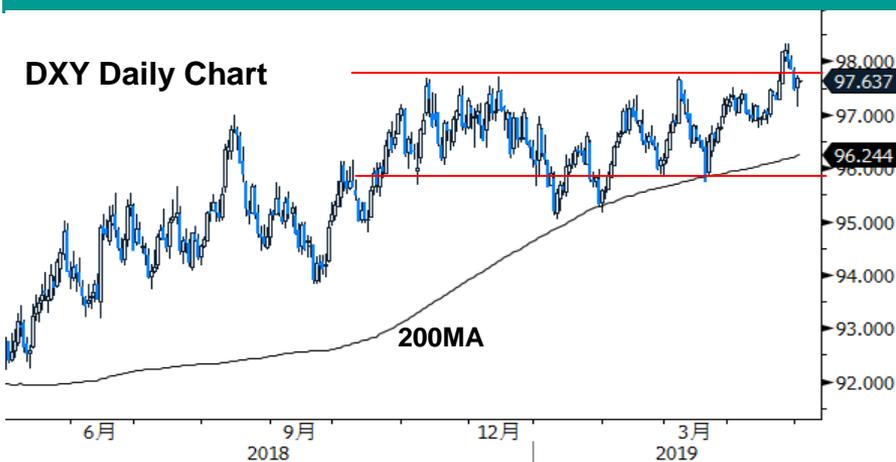
S&P 500 Sector Net Profit Margins: Q119 vs. Q118  
(Source: FactSet)



## DXY Retraced After New High, Consolidation Continues

- DXY Retraced After New High:** DXY breached the YTD consolidation range higher to above 98 in the absence of major ECB/Fed news in late Apr. The stronger dollar might reflected relatively stable US economy. Notably US 1Q GDP growth rate QOQ released at 3.2%, much higher than market consensus. With 1Q US GDP growth usually underperforming, this data was stellar. But DXY rally ended shortly after the release. Disappointing US Apr ISM manufacturing PMI also hit DXY to some extent.
- DXY Consolidation At The High Unlikely To Change:** Fed on 5/1 maintained policy rate unchanged and cut IOER by 5 bps. In the press conference after FOMC, Fed chairman Powell stressed both rate hikes and rate cuts were unlikely at the moment, correcting current over-dovish market expectation(interest rate futures market implied a possible rate cut this year). Powell also pointed out that current low inflation was transitory so DXY rebounded after Powell speech. Overall, though DXY has breached higher, we still believe the upside for DXY would be limited before Fed resumes rate hike. But non-US DM economies have not demonstrated clear recovery, supporting DXY to consolidate at the high.

### DXY Retraced, Consolidation Continues



### US Manufacturing Slid, So Did Euro Zone



# Agenda

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**Part I Macro and Market Review**

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

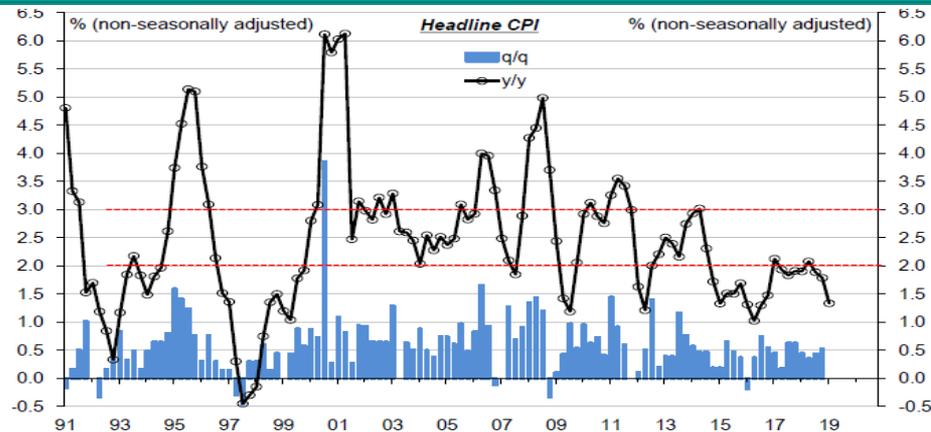
# Low Inflation Vs. Strong Employment, RBA 2Q19 Rate Cut Chance High

Australia Benchmark Rate			
Upward	Downward	2Q19 3Q19	1.25% 1%
Deviation	Realized	Quant	Voluntary

**Reason:** Though recent Australia economic data had some bright sides as employment exhibit stability with Mar employment addition surged. However, 1Q19 inflation data were surprisingly low, much worse than government expectation. Low inflation might open the rate cut window of RBA in 2Q19. Though RBA might hold due to the outperforming employment data, we expect soonest in May and latest in Jun, RBA would cut the rate to 1.25%.

■ **Apr RBA Minutes Hinted Rate Cut Scenario Coming:** Apr RBA minutes pointed out that if the rise in inflation halted while unemployment gradually rose, it could not rule out the possibility of rate cut. Australia 1Q19 CPI growth YOY was only 1.3%, back to the low of early 2016, lower than RBA forecasted target range of 2%~3% for 18 consecutive quarters. But another constraint for rate cut was strong Australia labor market. Mar it had added 25.7k employment, mainly motivated by full-time positions. Based on assessment of both inflation and employment, the prior Jul rate cut would be brought forward to 2Q19 while RBA might reserve another rate cut in 3Q19 depending on the impacts.

## Low Inflation Increased RBA Rate Cut Likelihood



## Australia Mar Employment Added 25.7K

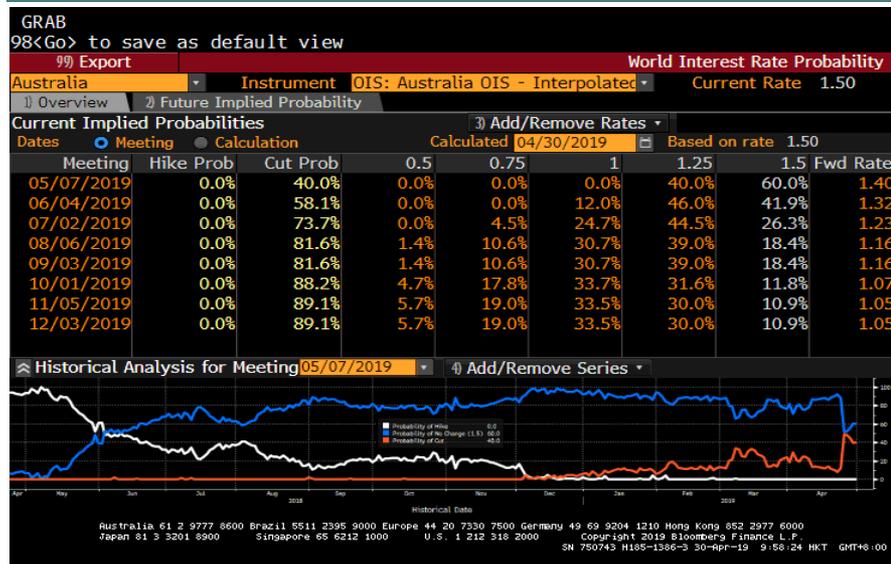


Source: (L)UBS, 1991/1~2019/3, (R)Bloomberg, 2015/4~2019/3

# AUD Weakness Continues Amid Rate Cut Sentiment

- Rate Cut Expectation Depressed AUD:** Australia 1Q19 CPI YOY was 1.3%, lower than prior 1.8%. CPI was one of the important economic indicators RBA focused on. RBA previously believed strong employment data would boost future inflation but CPI data released could make RBA to be more dovish. Several IBs also assigned 1~2 RBA rate cuts after the data release. RBA forecasted housing investment to be negative to growth and its fall 'might tail off sooner and faster than earlier projected' with profound slowing risk in the next 1 to 2 years. Considering both internal and external factors, market expectation of RBA rate cut increased. On the other hand, Australia household debt ratio was high. With housing price slowing, RBA would be more likely to hold. The prior strength of AUD was due to the positive Sino-US trade talk. But fundamentally, CPI and housing still hindered growth. We still believe in overall weak AUD in 2019.

## RBA Rate Cut Probability Surged



## Australia CPI Weaker Than RBA Target



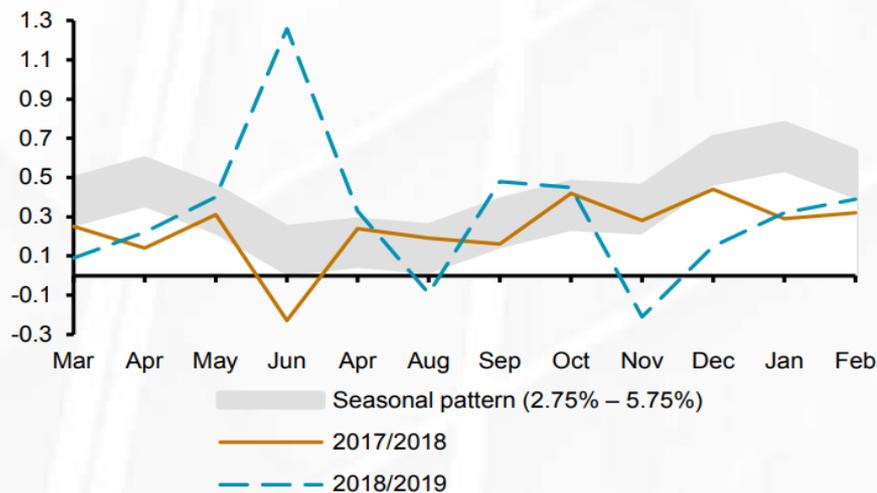
## Inflation Moderate, BCB To Continue Low Rate Policy

- 2019 Growth Downgrade + Slowing Inflation:** BCB downgraded 2019 growth from 2.4% in Dec 18 to 2%. Reasons of downgrade were mainly internal: 1. Brumadinho accident reduced mining output so export growth downward revised from 5.7% to 3.9%. 2. Soybean output was affected by drought. 3. Tertiary industry was also hit by slowing mining growth. BCB 3/26 statement indicated base effect could boost inflation to reach recent high in Apr/May. At the same time, seasonal effects showed 1H usually would be the peak of inflation. 2Q/3Q inflations were seasonally low. Current inflation is slightly higher than 2019 target of 4.25% but still within the 1.5% range so it is still manageable.
- Rate Meeting:** BCB is expected to maintain its rate at historical low of 6.5% unchanged on 5/9. Though Mar CPI surprisingly rose to 4.58% of 25-month high. Inflation seasonal pattern would turn moderate in 2Q-3Q. BCB could continue its current monetary easing policy.

### Inflation Seasonal Pattern

Figure 1.31 – IPCA – Seasonal pattern

Monthly % change



### 1Q19 Growth Slowed More Than Expected

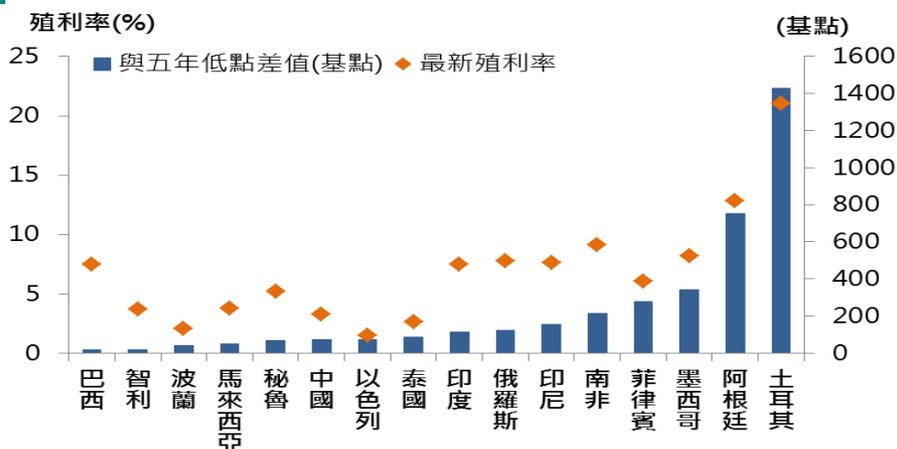


# Strong DXY Hit Local Currency Bonds, Major Currency Sovereign Stable

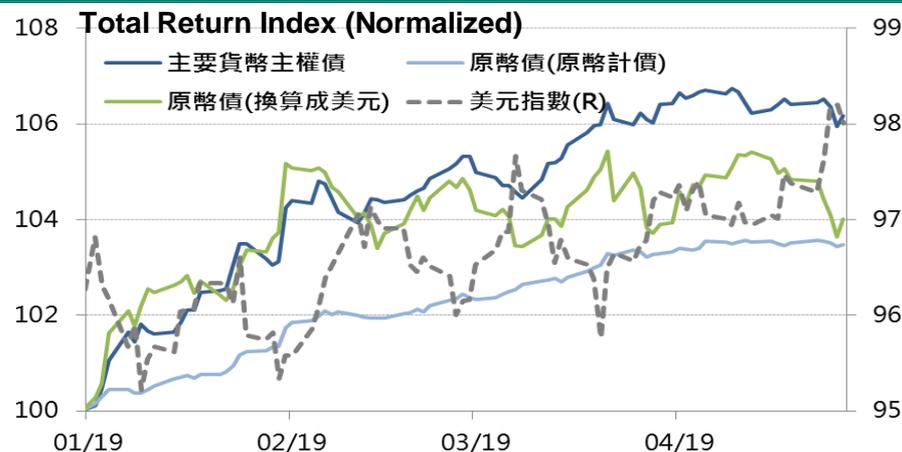
■ **Monetary Easing Expectations Depressed EM Bond Yield:** Started by DM countries, monetary easing has spread to EM. Though Brazil and Russia might hold their stand, India, Indonesia and Mexico might even cut their rates, dampening yield. Most EM yields are currently not far from 5-yr low. Though Turkey and Argentina yields have reached double digits. They also faced larger economic and political risks with negative real yield. We do not recommend to chase the market.

■ **Cautious On Higher Volatility Of EM Local Currency Bonds:** Effect of strong dollar started to affect EM bonds performance with fund inflow into EM bonds falling to YTD low. EM currencies volatility also started to amplify. It was mainly because 1. US/EU trade conflict uncertainty could shock the financial markets. 2. Global economy was still weak though it is bottoming. Low volatility environment of EM currencies might change. 3. EM currencies and AUD were highly correlated while AUD was very weak at the moment. EM major currency sovereign could have better risk-adjusted return under the environment of strong dollar.

## Multiple EM Bond Yields Approached 5-yr Low



## FX contribution To Local Currency Bonds Lower

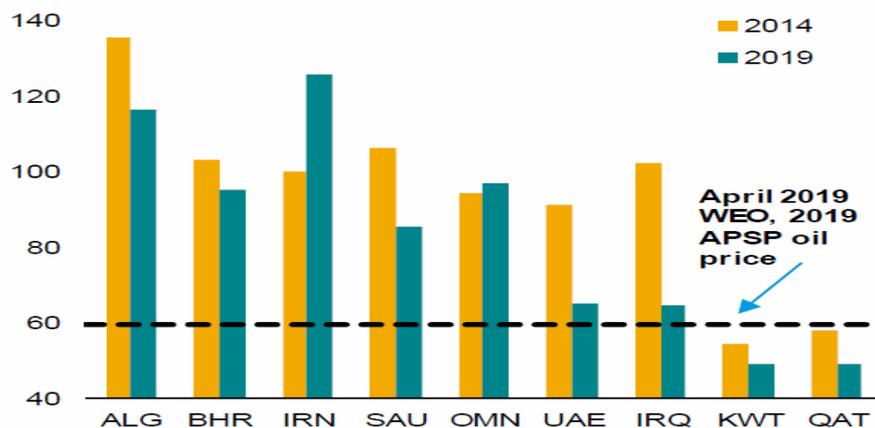


Source: ICE Data Indices, 2019/4/26, Compiled by CTBC Bank

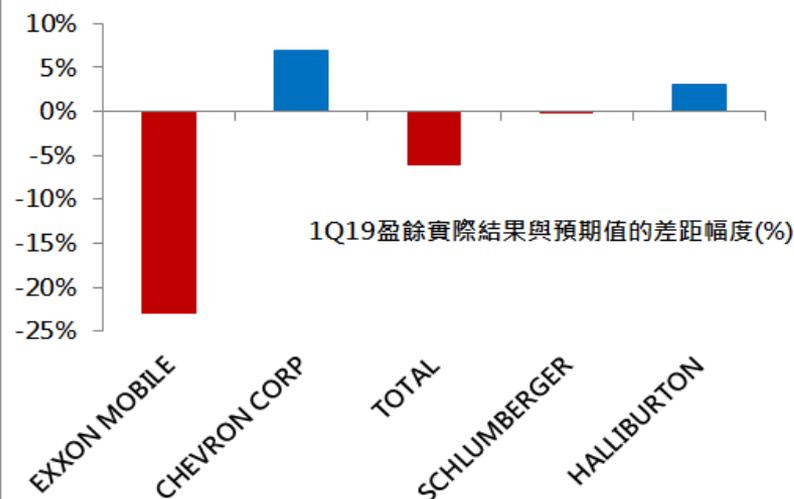
## OPEC+ Decision Affects 2H19 Oil Price

- 1Q19 Energy Sector Mixed:** Major difference was from downstream refinery cornered by petro inventory. We expect global exploration would be more than North America with growth in crude oil output and higher refinery profit. 2Q19 oil price would be kept at high so energy sector results would have YOY growth. We are positive on 2Q19 energy sector.
- Market Speculation On OPEC+ Decision:** We previously expect extension of Iran sanction waiver and OPEC output cut. But US ended the waiver, shocking oil price. Saudi still has motivation for higher oil price but 3Q19 crude seasonal demand rises. As Iran/Venezuela export falls and Russia unwilling to cut, OPEC+ might suspend cuts. Brent would fall \$5~10 by end of Jun. We expect Brent at \$66~75 in 2Q19.

### Middle East Fiscal Breakeven Oil Price High

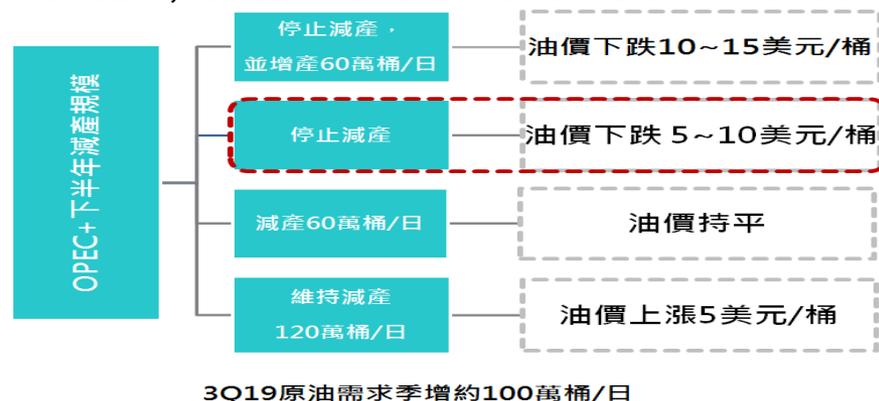


### Released Energy Results Of 1Q19 Mixed



### OPEC+ Scenario Analysis: Likely To Stop Cut

2019/5/19, 2019/6/25~6/26: OPEC+ 3Q19 Cut Conclusion?



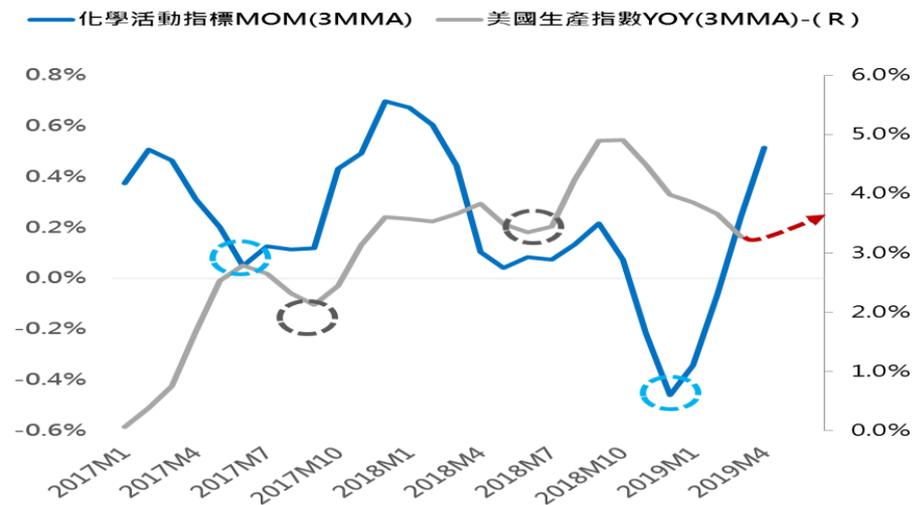
Source: (Top Right, Bottom Right) Bloomberg, 2019/4/29, (Bottom Left) IMF, 2019/4, Compiled by CTBC Bank, 2019/4/30

Note: OPEC+ refers to 14 OPEC members and additional 10 Non-OPEC nations

## Rising Demand, Positive On 2Q19 Commodity Sector

- Supply And Strong Dollar Hit Commodity Price And Equity Price:** Market concerned higher supply due to Brazil Vale Brucutu resumption. But Vale would keep sales cut of 70M tons due to climate restricting transportation. US DOJ Investigated Glencore for corruption and money laundering last Jul which was joined by CFTC end of Apr. Its refinery suspension cut copper output by 3%, hitting its share price.
- Downstream Demand Returns, Positive On 2Q19 Commodity:** Chemicals 1Q19 sales/margin slid due to off season and narrow spread. But 2Q19 downstream demand and higher capacity utilization would boost industrial gas in 1H19. Mining undersupply benefits copper price while iron ore price would be high in 2Q19 despite downside pressure.

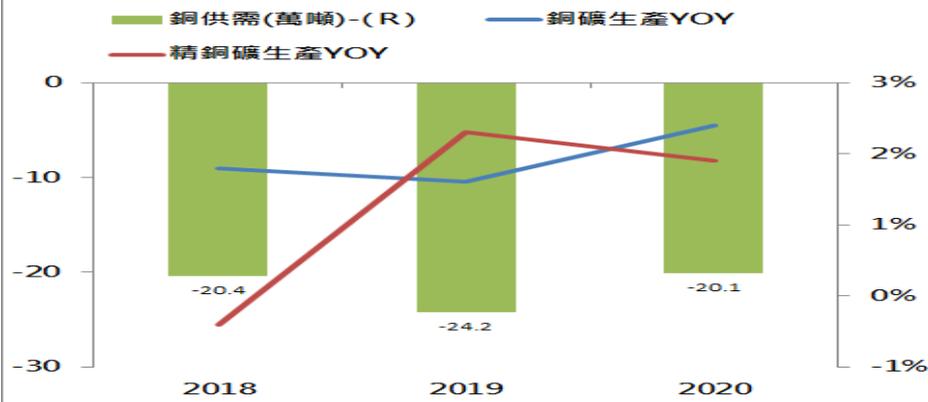
### Chemical Activities Leading Indicator Recovers



### China Iron Ore Inventory Fell, Supporting 2Q19 Price



### Copper Mining Growth Slower Than Refinery



Source: (Top Right)American Chemistry Council, 2019/4, (Bottom Left)Bloomberg, 2019/4/29, (Bottom Right)Cochilco, 2019/4, Compiled by CTBC Bank, 2019/4/30

## Target Price – Rates/FI

		spot price	目標價	目標價
第二層	第三層	2019/5/2	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	0.03	<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	1.19	<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	6.83	<b>7.20</b>	<b>7.35</b>
	俄羅斯政策利率	7.75	<b>7.75</b>	<b>7.75</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	2.90	<b>3.00</b>	<b>3.10</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>1.25</b>	<b>1.00</b>
	澳洲10Y	1.79	<b>1.85</b>	<b>1.80</b>
第二層	第三層	Yield	目標價	目標價
2019/5/2			2019Q2	2019Q3
成熟市場投資級債指數	全球投資級債	2.86	<b>3.30</b>	<b>3.14</b>
	美國投資級債	3.70	<b>3.99</b>	<b>3.99</b>
	歐洲投資級債	0.73	<b>1.20</b>	<b>1.08</b>
成熟市場高收益債指數	全球高收益債	5.87	<b>6.92</b>	<b>6.86</b>
	美國高收益債	6.15	<b>6.96</b>	<b>7.13</b>
	歐洲高收益債	3.31	<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	5.83	<b>6.10</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	5.74	<b>6.30</b>	<b>6.28</b>
	新興投資級債	4.02	<b>4.40</b>	<b>4.55</b>
	新興高收益債	7.15	<b>8.00</b>	<b>7.70</b>
新興當地貨幣債指數	新興當地貨幣債	6.42	<b>6.65</b>	<b>6.50</b>
	人民幣債	3.71	<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, 2019/5/2

: TP Adjustment

## Target Price - Equity

第二層	第三層	spot price 2019/5/2	目標價 <b>2019Q2</b>	目標價 <b>2019Q3</b>
美	成熟市場股	2161.1	<b>2150</b>	<b>2000</b>
	美國	2917.5	<b>2900</b>	<b>2600</b>
	拉丁美洲	2713.7	<b>2800</b>	<b>3000</b>
	巴西	95527.6	<b>97000</b>	<b>103000</b>
歐	歐洲	3178.2	<b>2960</b>	<b>3100</b>
	英國	4033.0	<b>3800</b>	<b>3920</b>
	德國	12345.4	<b>11200</b>	<b>11900</b>
	新興歐洲	318.4	<b>292</b>	<b>312</b>
	俄羅斯	1238.1	<b>1100</b>	<b>1190</b>
亞	泛太平洋	162.6	<b>160</b>	<b>165</b>
	澳洲	6430.0	<b>6200</b>	<b>6500</b>
	日本	22258.7	<b>23000</b>	<b>23000</b>
	新興市場股	1079.0	<b>1020</b>	<b>1080</b>
	新興亞洲	549.6	<b>520</b>	<b>560</b>
	中國A	3078.3	<b>2800</b>	<b>3100</b>
	中國H	11556.7	<b>11000</b>	<b>12000</b>
	香港	29944.2	<b>27500</b>	<b>30000</b>
	台灣	11004.5	<b>10500</b>	<b>10650</b>
	韓國	2212.8	<b>2300</b>	<b>2350</b>
	印度	38981.4	<b>39550</b>	<b>39550</b>
成長型產業	東協	807.9	<b>820</b>	<b>820</b>
	科技	267.8	<b>250</b>	<b>260</b>
	非核心消費	260.7	<b>253</b>	<b>260</b>
利率型產業	工業	259.1	<b>255</b>	<b>259</b>
	金融	118.0	<b>104</b>	<b>107</b>
	地產	219.6	<b>205</b>	<b>210</b>
天然資源產業	能源	202.5	<b>215</b>	<b>207</b>
	原物料	252.8	<b>265</b>	<b>255</b>
防禦型產業	公用事業	135.8	<b>132</b>	<b>130</b>
	核心消費	233.6	<b>230</b>	<b>230</b>
	健護	240.7	<b>238</b>	<b>260</b>
	電信	71.5	<b>65</b>	<b>69</b>

Source: Compiled by CTBC Bank, 2019/5/2

## Target Price FX/Commodity

		spot price	目標價	目標價
第二層	第三層	2019/5/2	2019Q2	2019Q3
成熟國家	美元指數	97.832	<b>96</b>	<b>94</b>
	美元兌日圓	111.51	<b>112</b>	<b>110</b>
	歐元兌美元	1.1172	<b>1.14</b>	<b>1.17</b>
	美元兌瑞郎	1.0191	<b>0.99</b>	<b>0.96</b>
	英鎊兌美元	1.3032	<b>1.32</b>	<b>1.32</b>
商品貨幣	澳幣兌美元	0.7	<b>0.69</b>	<b>0.69</b>
	紐幣兌美元	0.6618	<b>0.66</b>	<b>0.65</b>
	美元兌加幣	1.3475	<b>1.34</b>	<b>1.35</b>
新興貨幣	美元兌台幣	30.905	<b>30.8</b>	<b>30.6</b>
	美元兌星幣	1.3626	<b>1.35</b>	<b>1.34</b>
	美元兌人民幣	6.735	<b>6.85</b>	<b>6.75</b>
	美元兌南非幣	14.5353	<b>13.8</b>	<b>13.5</b>
原物料	布蘭特原油	70.65	<b>75</b>	<b>70</b>
	鐵礦砂	94.9	<b>90</b>	<b>85</b>
	黃金	1270.63	<b>1330</b>	<b>1350</b>

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