Global Investment Weekly

2018.12.10

中國信託銀行
CTBC BANK

Market Calendar, 2018/12

	W1(12/3-12/7)	W2(12/10-12/14)	W3(12/17-12/21)	W4(12/24-12/28)	W5(12/31)
DM	Manufacturing PMIs(1) RBA Meeting(5) Eurozone GDP(7) US Nonfarm Payroll(7)	Euzozone ZEW(7) ECB Meeting(13) Japan Tankan(14) Markit PMI(14)	US NAHB Builder Confidence (17) Germany IFO Confidence (17) Fed Meeting (20) BOE Meeting(20) BOJ Meeting(20)	US Housing Price(26) US Consumer Confidence(27) Japan Inflation(28) Japan Retail Sales(28)	
EM	Brazil Industrial Output(4)	Brazil Rate Decision(12) Russia Rate Decision(14) China Loans(14)	Brazil 4Q18 Inflation(12) CBC Meeting(20) BI Meeting(20)	Russia PMI(12)	China Manufacturing PMI(31)
Sector	OPEC Meeting(6)		EU/US Holiday Sales		
Surprise Event		Concerns About US Yield Curve Inversion			
Market Topic		Trump-Xi Deal For A 90-Day Truce, Asian Equity/FX			

Source: Compiled by CTBC Bank, 2018/12/7

US Yield Inversion, Trump-Xi Meeting, Central Bank, Higher Volatility

OPEC

- ✓ Energy: OPEC Meeting Scenario Analysis

US Yield Inversion

Impact On Monetary Policy And Equity/FI:

- ✓ Monetary Policy: Inversion Signals Outlook Peaking
- ✓ US Equity: US Treasury Yield Curve Inversion, Cautious About Equity Volatility
- ✓ Rate-Sensitive: Financials Fluctuate With Politics, Earnings Fall After Peaking
- ✓ US HYB: US Treasury Yield Fell But IGB Interest Rate Risk Persists

Major Central Bank Meeting

Impact On Monetary Policy And Equity/FI/FX:

- ✓ ECB/Euro: Weak Euro Persists, Focus On ECB Dec Meeting
- ✓ Brazil/Russia Meeting And Equity/FI Analysis: Brazil/Russia Not Hiking Rates In Dec, Normalize In Medium/Long Term, Favoring Brazil/Russia Equity
- ✓ EM Bond: EM Tightening Remains, But Correlations With US Treasury Yield Vary

Trump-Xi Meeting

- ✓ Asian Equity: Sino-US G20 Meeting Discrepancy, SEA As Strategic Investment
- ✓ Macro: Japan Non-Mfg Might Beat Mfg, China Outlook Still Weak
- ✓ CNY: CNY Short Squeeze After Trump-Xi Meeting, Monitoring US Deal Details

Source: Compiled by CTBC Bank, 2018/12/07

Agenda

Part I Macro and Market Review

Part II Short-Term Focus and Strategy

Economic Data Release Review(11/30-12/6)

- **Macro Data:** US Nov ISM manufacturing index was much better than consensus, reaching 59.3. The main contributors came from new orders surging to 62.1 and excellent employment, indicating strong overall domestic demand in 4Q. However, due to trade war, import/export related indices were all disappointing. ISM indicator level implied US 4Q economic growth might reach 2.5%, slowing slightly next year though. RBA maintained cash rate at 1.5%. It stated the low rate level would be accommodative to Australian economy. We expect Australia economic growth at 3.5% this year and the following year with inflation rising to 2.25% next year. However, RBA reiterated the falling property price would depress household spending, a risk faced by economic growth. Overall RBA statement was similar to previous meeting. As inflation is still at the lower half of RBA's 2%~3% range, we expect rate hike to be at the end of next year.

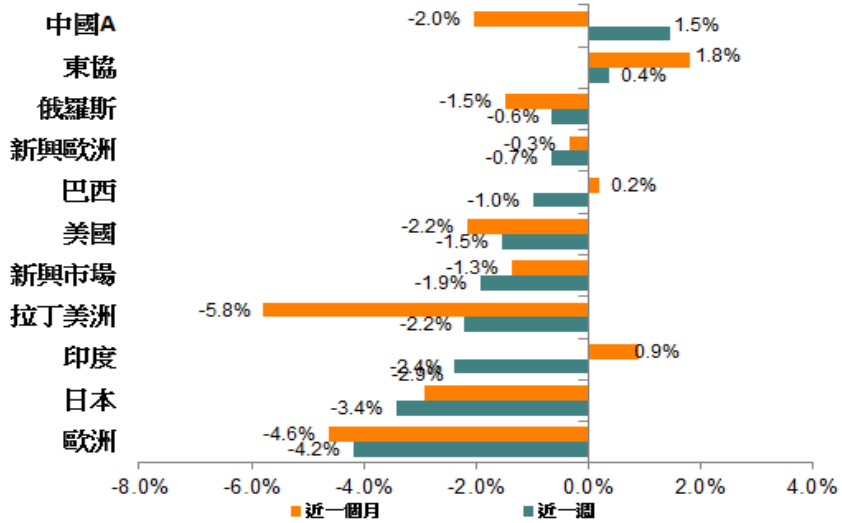
Release Date	Country	Economic Data	Period	Consensus	Actual	Prior
11/30/2018 09:00	CH	Composite PMI	Nov	--	52.8	53.1
12/03/2018 17:00	EC	Markit Eurozone Mfg PMI	Nov F	51.5	51.8	51.5
12/03/2018 23:00	US	ISM Manufacturing	Nov	57.5	59.3	57.7
12/04/2018 11:30	AU	RBA Cash Rate Target	Dec 4	1.50%	1.50%	1.50%
12/04/2018 17:30	SA	GDP YOY	3Q	0.50%	1.10%	0.40%
12/05/2018 08:30	JN	Nikkei Japan PMI Composite	Nov	--	52.4	52.5
12/05/2018 09:45	CH	Caixin China PMI Composite	Nov	--	51.9	50.5
12/05/2018 18:00	EC	Retail Sales YOY	Oct	2.00%	1.70%	0.80%
12/06/2018 03:00	US	US Federal Reserve Beige Book				
12/06/2018 15:00	GE	Factory Orders WDA YOY	Oct	-3.10%	-2.70%	-2.20%

Source: Bloomberg, Compiled by CTBC Bank, 2018/12/6

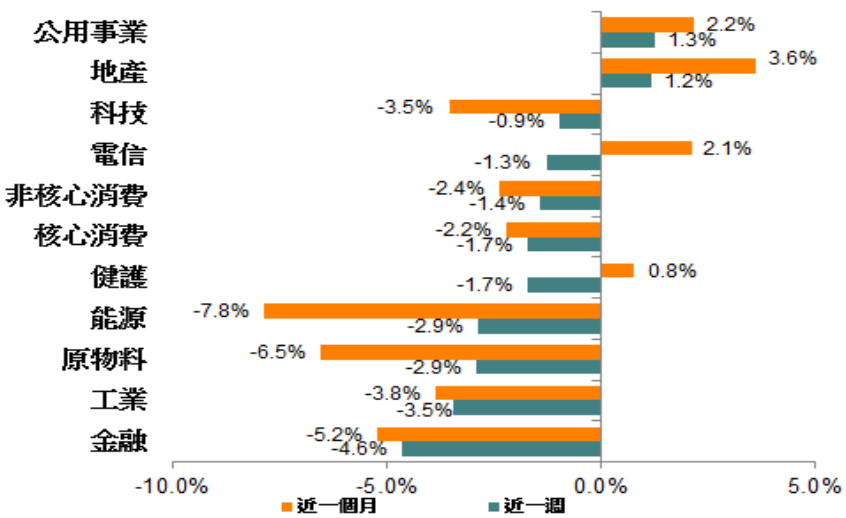
Trump Economy Losing Steam? Incident Volatility Corrected Risk Assets

- **Country:** All global major indices fell in the past week. Sino-US conflicts arose after the seemingly peaceful G20 Sino-US summit outcome turned uncertain while Huawei CFO arrested for violation of Iran sanction. The once boosted confidence was dumped again with the equities. But notably, EM index did not breach its bottom in volatile market.
- **Sector:** Sectors largely fell in past week and past month but the high dividend yield real estate and utilities were relatively resilient. Financials performed the worst in the past week with Sino-US trade talk, Brexit, US 3y-5y yield curve inversion, Eurozone and Australia outlook weakening, dragging down the Financials Index to 4.6%. In the past month, Energy performed worst because OPEC output cut might be less than market expectation. With OPEC failed to reach a deal to curb production, crude oil market oversupply persisted so Energy sector fell 7.8% for the month.

Global Equity Index Change



Global Sector Index Change



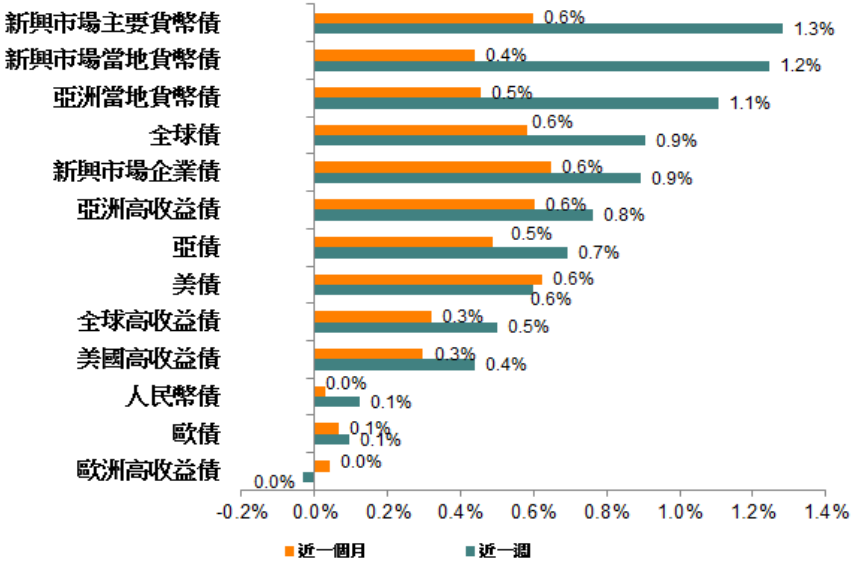
Source: Bloomberg

Take index price change in the period. Past month is for 2018/11/6~2018/12/5, past week is for 2018/11/29~2018/12/5

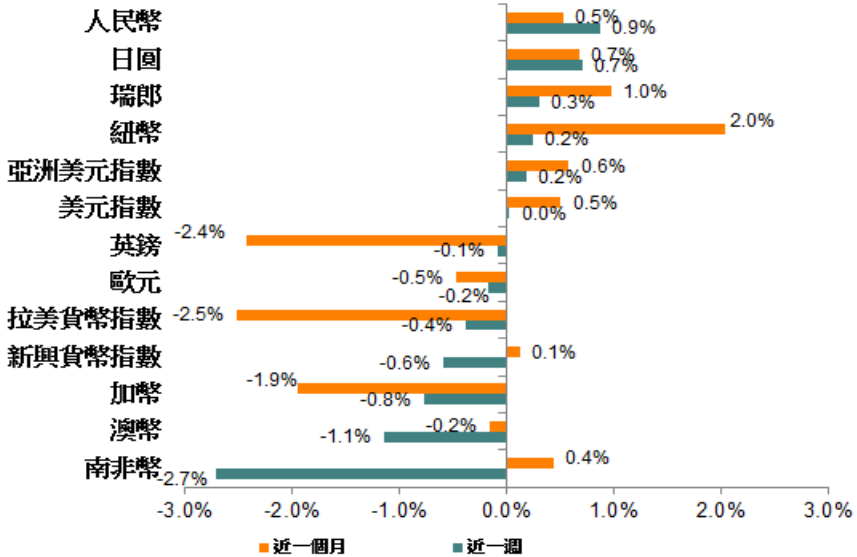
US Yields Fell, Asian FX Stabilized, Asian Bonds Outperformed

- **FI:** US treasury yield slid and overall corporate bond indices stabilized. Utilities and Transportation outperformed among US IGBs, with yield spread only widening 5 bps. EM sovereign bond index rose with Asian treasuries such as South Korea and India outperformed and EM Europe treasuries such as Turkey underperformed. We should avoid local currency EM Bonds in countries with weak economic and political institutions.
- **FX:** G20 Summit once boosted market sentiment with CNY surging after the news of US-China truce in trade war. However, financial markets turbulence resurfaced, maintaining DXY at about 97, recouping earlier gains of CNY and favoring JPY due to risk aversion. The risk sensitive AUD and ZAR which have risen significantly before, largely corrected in the past week.

Global Bond Index Change



Global FX Change (Against USD)



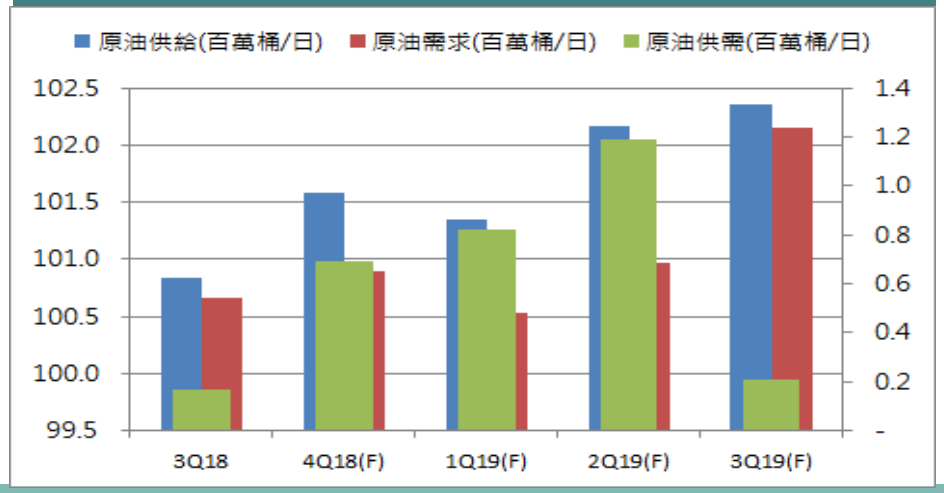
Source: Bloomberg

Bonds take BAML Bond Index price change in the period. FX is against USD. Past month is for 2018/11/6~2018/12/5, past week is for 2018/11/29~2018/12/5

OPEC Meeting Scenario Analysis

- **OPEC Tends To Maintain Market Balance, Output Cut In Stages:** OPEC meeting scenario analysis is provided below. We favored scenario two, but 1. countries were divided on the extent of output cut, 2. Trump's reluctance for higher oil price while US has the goods on Saudi, 3. waiver of Iran Sanction expires April 19 but room for further cut in Iranian export limited, 4. Qatar would exit OPEC in 2019(Takes up 1.9% of total OPEC output, only 30,000 barrel/day in 2016 output cutting plan) with limited direct impact but might cause contagion to shake the organization, 5. Canada announced 325,000 barrel/day output cut to save local energy producer since Jan 19 due to high inventory and low local oil price, with reduction decreasing monthly until year end, boosting Brent by $0~$3/barrel. Considering factors above, scenario three chance increases when OPEC states it would maintain market balance, to cut output in stages. Oil price might still fall due to US output expansion, Trump intervention, implementation failure, economic slowdown and stronger dollar.
- **If Output Cut Below 1 Million Barrel, Energy Sector Under Pressure In 1H19:** If output cut is less, market might downgrade 2019 earnings of Energy sector, with its earning growth YOY falling quarterly.

Without Output Cuts, 2019 Crude Oversupplies



12/6 OPEC Meeting Scenarios (HL Prices)

Prices Exclude $0~$3/Barrel Premium From Canada Cut

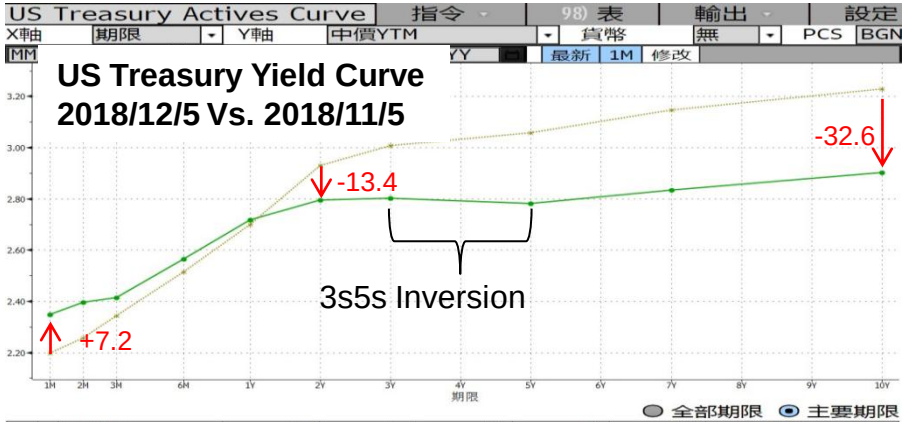
布蘭特油價(美元/桶)	4Q18	1Q19	2Q19
【情境一】減產140萬桶以上	↗68	↗68	↗65
【情境二】減產100~140萬桶	↗65	↗65	↗62
【情境三】維持油市平衡，漸進式減產，初期50~70萬桶/日	↘58	↘58	↘55
【情境四】不減產	↘47	↘50	↘47
EIA預估平均值(2018.11)	76	71	73
投資機構平均值	75	74	73

Source: (L)EIA, 2018/11, (R)Bloomberg, 2018/12/4, Compiled by CTBC Bank
Note: EIA is US Energy Information Administration

Yield Curve Inversion Signals Outlook Peaking, US Quarterly Rate Hikes

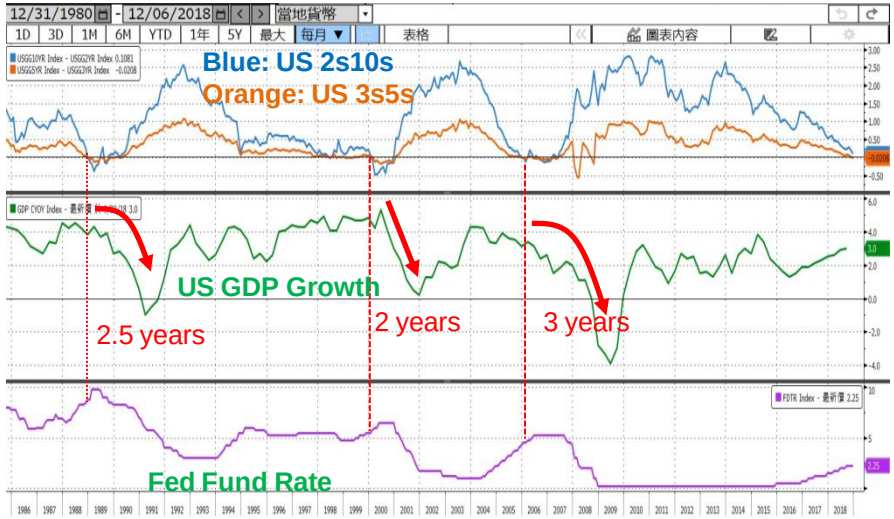
- **Yield Curve Commentary:** Powell, under political pressure, adjusted the wordings about neutral rate from " a long way from neutral" to "just below a range of estimates of neutral". However, the rise of short-term yields in the past month(Bear flatten) indicated bond investors did not think rate hikes would change within a year. In long-term yields, the yield curve inversion in 3s5s has made the headline. Medium to long term risk asset investors seemed to be provided with only two options of "tightening during stable economic growth" or " pause as economic slowdown". This outlook depressed the risk premium of holding treasuries maturing 3 years or above, unless further fiscal spending or tax cut reverse the trend.
- **Conclusion:** The overall economic outlook supports Fed rate hike to continue, expecting 2s10s yields to flatten or invert in 2H19 and maintaining 10-yr treasury yield view of 1Q19 = 3.2%, 2Q19 = 3.5%, 3Q19 = 3.6%. Reasons for rising yields include 1. demand: Fed exit amount of $600B, 2. supply: expansion of fiscal spending and tax cuts, 2019 bond issuance would reach $1.27 trillion while US fiscal deficit increase $900B(+15.5%), 3. positive outlook: employment and wage growth could feedback positively to support growth above potential, raising inflation in 2H19, 4. Tariff increases inflation.

Yield Curve Starts To Reflect Outlook Concerns



曲線ID	1W	3M	1Y	2Y	3Y	5Y	10Y
11) I25 最新		2.414	2.718	2.796	2.801	2.781	2.903
12) I25 1M		2.342	2.698	2.930	3.008	3.056	3.229
13) I25 (最新-1M)		7.2	2.0	-13.4	-20.7	-27.5	-32.6

Outlook Peaking Before Falling After Inversion



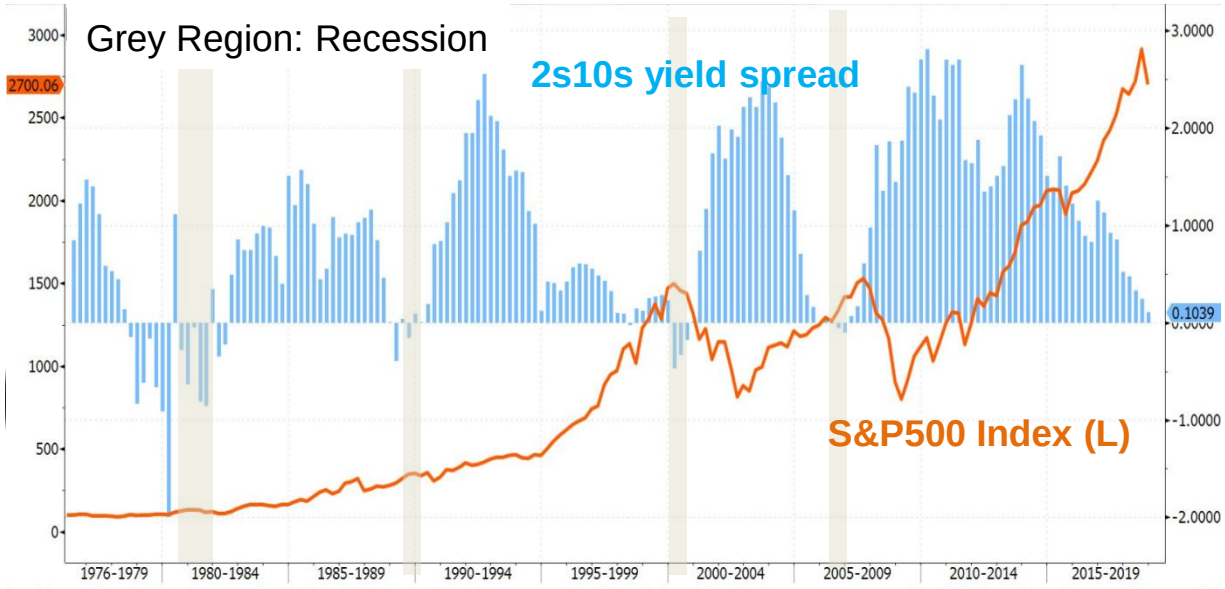
Source: Bloomberg, 2018/12/5

Note: 3s5s = yield spread of 3-yr and 5-yr treasury, 2s10s = yield spread of 2-yr and 10-yr treasury

US Treasury Yield Curve Inversion, Cautious About Equity Volatility

- **US Yield Inversion Hit Equity:** On Tuesday(12/4), US 3s5s yield curve inverted while 2s10s yield spread narrowed to 10 bps, causing market concern over recession and hitting S&P500 by over 3%. G20 rally came to a pause, failing to stay above 200-day MA. Theoretically, 3-yr and 5-yr treasuries are both medium-duration, not indicative when inverted. But Fed attitude swung since Oct so market expressed disbelief towards Fed's rate hike plan and tried to influence its next move.
- **Historically, Inversion Is Still Some Time From S&P500 Peaking:** Yield curve inversion is not sufficient condition for economic recession. US corporate earnings are stable with shares repurchases continuing. No sign indicates the bull of US equity is over. Historically, yield curve inversion was avg. 12 months from S&P500 peaking though cautious about volatility.

Impact Of Inversion On Equity: Historically, Inversion Was Avg. 12 Months From S&P500 Peaking



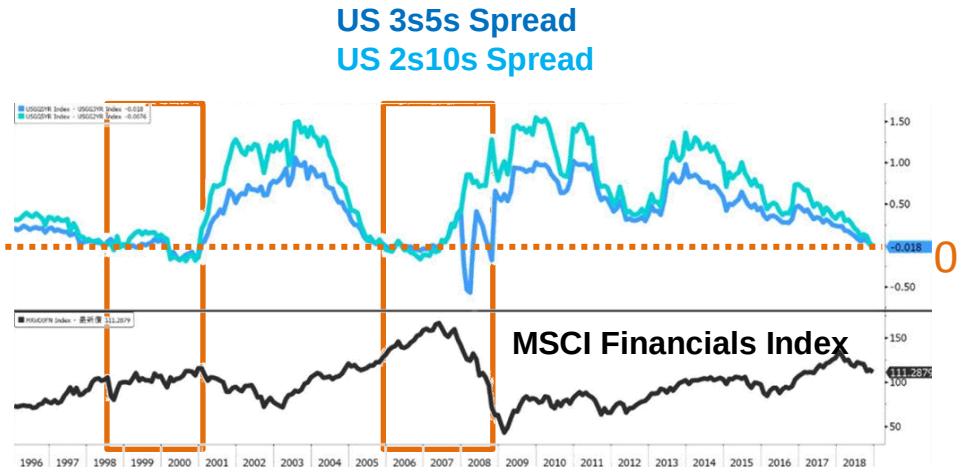
Recession Period	Months Between Inversion And S&P500 Peaking
1980/1~1980/7	16
1981/7~1982/11	2
1990/6~1991/3	16
2001/3~2001/11	6
2007/12~2009/6	20
Average	12

Source: Bloomberg, 2018/12/6

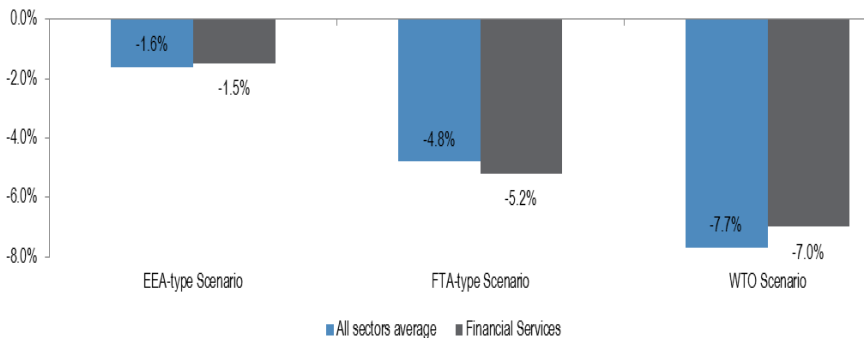
Financials Fluctuate With Politics, Earnings Fall After Peaking

- **MSCI Financials Fluctuate With Politics, Rebound Would Be Mild:** Market sentiment was very volatile with political events, good or bad, emerging. US 10-yr treasury yield has fallen below 3% with 3s5s inverted, hitting financial sector of major countries. In recent volatility, transaction-based banks such as GS and MS breached new low while other interest-income based Financials still supported at the prior bottom of this year.
- **MSCI Financials Earnings Risk Persists After Peaking Medium-term:** In previous 3s5s inversion, global financials index was not necessary to fall immediately. Therefore it is crucial whether the factors of the fall YTD improved or deteriorated. In the recent PMIs, US was strong while Australia and Eurozone weakness continued, especially Italy falling into contraction for two consecutive months. UK outlook has improved but Brexit parliament vote is on 11th. According to scenarios by BOE, no deal Brexit would hit UK Financials the most. Global outlook slowdown concern is detrimental to financial transactions and service income. Sliding loan demand would slow interest income growth. With technical bear in sight, we believe MSCI Financial Index rebound would be mild with medium term earnings slowdown negative to MSCI Financial Index.

Financials Need Not Fall Immediately After Inversion



No Deal Brexit Hits UK Financials Most

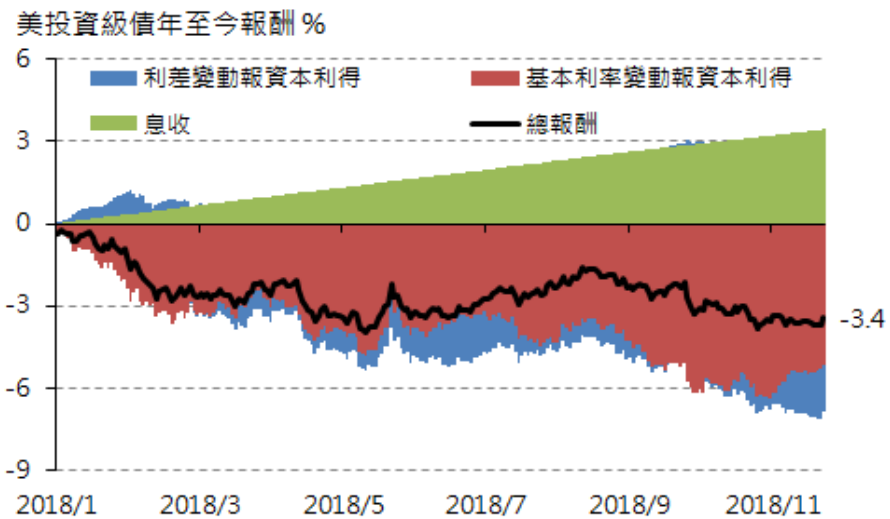


Source: (L)Bloomberg, 2018/12/4, (R)UK Government, 2018/1, Compiled by CTBC Bank, 2018/12/5

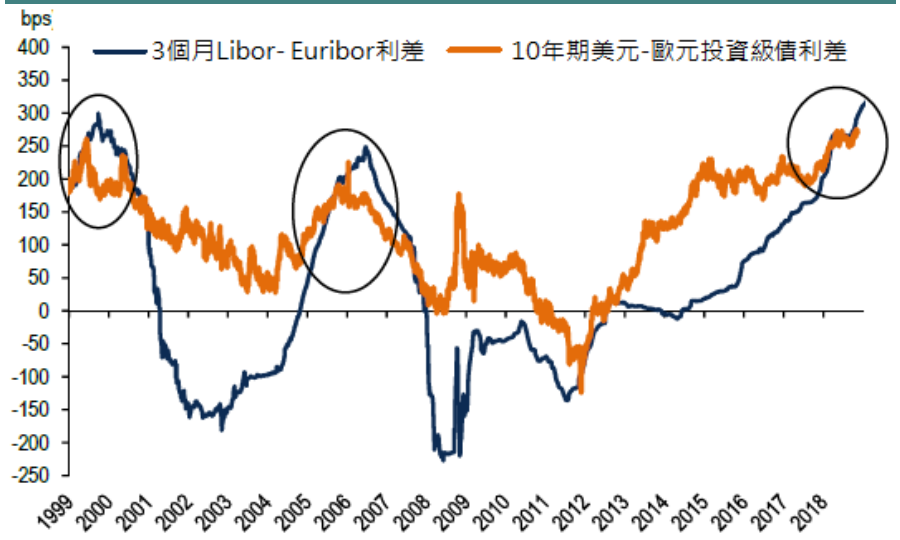
US Treasury Yield Fell But IGB Interest Rate Risk Persists

- **US 10-yr Treasury Yield Fell Below 3%, IGB Stable But Risk Persists:** US 10-yr treasury yield has fallen from the peak of 3.2% to 3%. However, breaking down the return of US IGB YTD, rising base rate led to negative index return. Furthermore, US fiscal expansion next year could raise US treasury yields while Fed QE tapering might cause supplies of treasuries and MBS increase, crunching out AAA rated IGB issuance. Avoid long duration IGB 1H19.
- **Rising Hedging Cost Might Push Up US Treasury Yield:** Hedging cost might be another factor leading to rising US treasury yield. USD hedging cost (3M Libor- Euribor) is over 3% while US/EU 5-yr IGB yield spread is only 3.2%, i.e. US IGB's relative value is only 0.2% after hedging. Assuming US/EU hedging cost rise to 3.5% in one year while US/EU corporate bond yield spread stays the same, US corporate bonds become relatively less attractive. Considering ample room for US yield to rise and hedging cost not falling, short duration IGB with HYB could balance credit and interest risk.

Rising US Base Rate Contributes To Weak IGB



USD Hedging Cost Pushed US IGB Yield Up



Source: ICE Data Indices, BAML, 2018/12/3, Compiled by CTBC Bank

Agenda

Part I Macro and Market Review

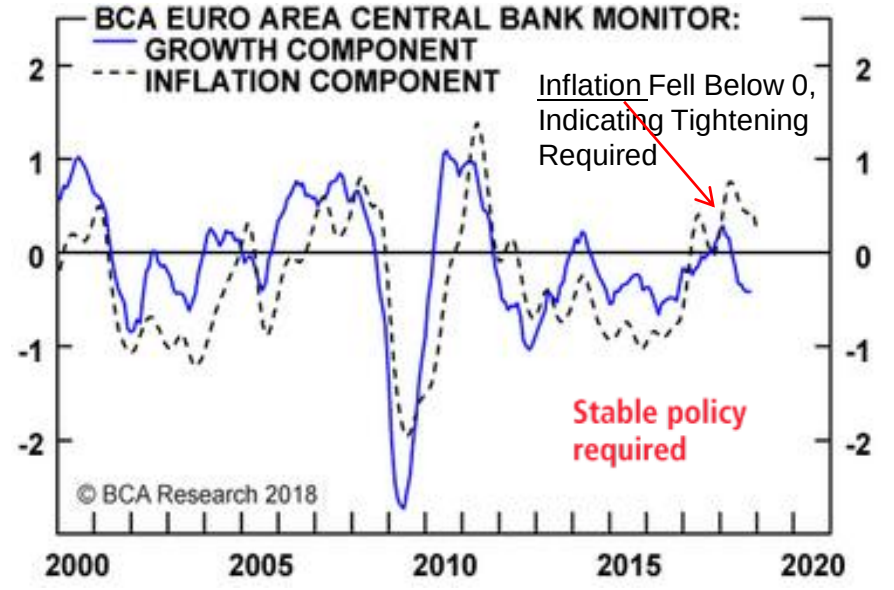
Part II Short-Term Focus and Strategy

Four Major Investor Focuses On ECB Dec Meeting

- **Four Major Focuses:** There are four focuses for ECB Dec meeting: 1. announcing the end of QE, the timeframe and implementation of reinvestment strategy, 2. adoption of new capital key, 3. new round of TLTRO to inject banking liquidity, 4. any amendment for " interest rate to remain at their present levels at least through the summer of 2019".
- **Critical "Summer" For Rates/FX:** Though outlook concerns increased in 2H18 with meeting minutes mentioning economy's "uncertainty and vulnerability", decision makers still stated economic expansion and rising inflation pressure, especially the later as the key focus of ECB(right chart). Therefore, recent speeches by both governor Draghi or deputy governor all pointed to consistency of monetary policy without any changes in the baseline. However, this meeting would include forecast of 2021, opening the window for officials to amend prior views. If the wording "summer" no longer appears, it indicates ECB rate hike would be delayed, positive to bond prices and negative to rates.

Targeted Longer-term Refinancing Operations

ECB Monitored Inflation More Than Growth

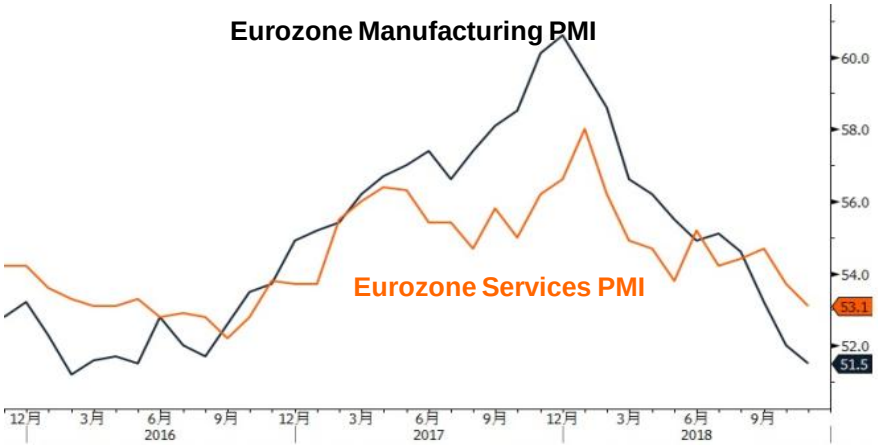


Source: (L)FT, 2018/8/6, (R)BCA, 2018/11/6

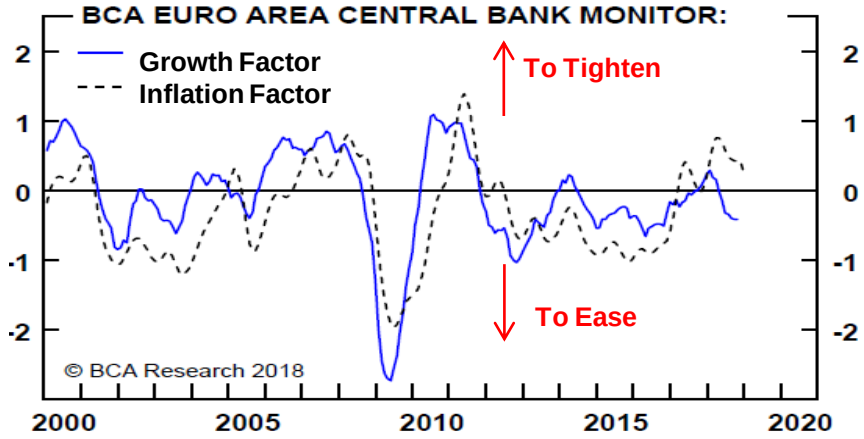
Weak Euro Persists, Focus On ECB Dec Meeting

- **Weak Eurozone Economic Data Limits Euro Rebound By Year End:** The Euro weakness in the past month was mainly due to surprisingly weak Eurozone economic data and political disturbance of Italian budget problem. If Italian budget problem could be resolved by year end, eliminating one risk factor, Euro could rebound so we maintain the baseline of Euro rebounding slightly by year end. But Eurozone economic data did not improve in 4Q as expected with falling manufacturing and services PMIs. Euro rebound could not persist without apparent economic recovery so correction risks persist.
- **Message In ECB Dec Meeting Crucial:** Due to weak economic data, market started to speculate whether ECB would ease again. We think though Eurozone economic slowed down, there is no downward trend formation. With inflation recovered, according to BCA's central bank monitoring indicator, the easing needs is not as urgent as 2014-2015 so ECB is unlikely to change the plan of ending QE by year end. The most probable action would be TLTRO to provide banking liquidity. We think TLTRO is relatively neutral to Euro, not depressing it as strongly as rate cuts or QE. But if Dec meeting releases the news of rate hike delay, Euro would maintain at the current low level for a longer time.

Eurozone Outlook Slowdown Persists



Growth Pro-Easing, Inflation Pro-Tightening

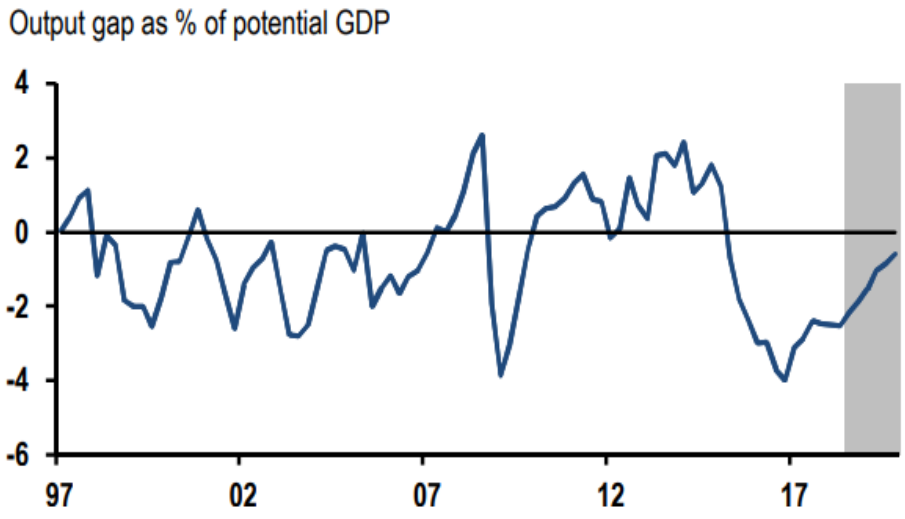


Source: (L)Bloomberg, 2018/11/27, (R)BCA Research, 2018/11/6

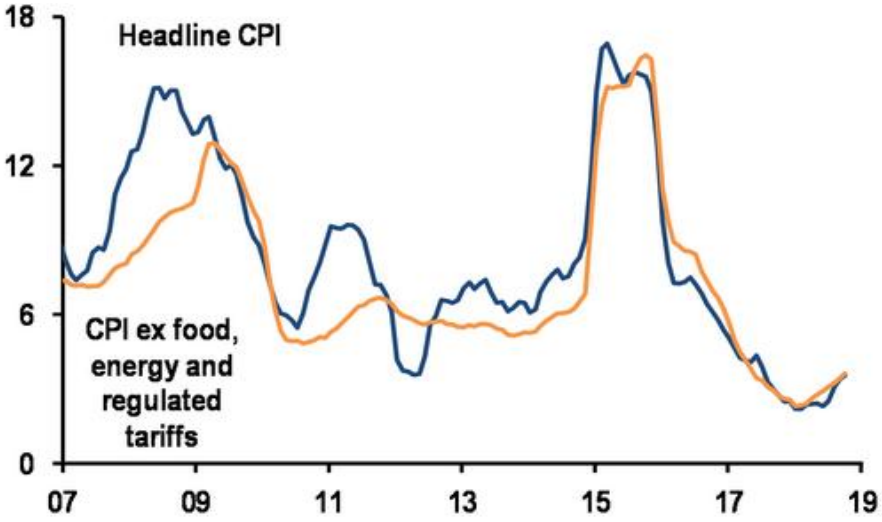
Brazil/Russia Not Hiking Rates In Dec, Normalize In Medium/Long Term

- **Brazil Central Bank Not Yet To Hike:** 3Q18 growth was at 1.3%, higher than 0.7% of 2Q18. Brazil economic growth is expected to recover with 2.6% and 3.2% in 1Q19/2Q19 respectively. Consumer confidence rebounded rapidly after Oct election with services PMI the largest monthly surge since 2013/1. Manufacturing improved with 77% of companies expanding capacity in NTM. Nov inflation was at 4.39%, slightly lower than central bank target of 4.5% so no hike for Dec. Brazil output gap depresses inflation, with inflation expectation at 5% in 2019 and rate hike expected in mid-2019.
- **Russia Would Not Hike Rate Now:** Sep rate hike was for financial stability when RUB depreciated during the middle of the year with sanction threats. Central bank surprisingly hiked rate to curb inflation expectation. Though Nov rate meeting was hawkish, overall food and oil impact in Oct inflation data diminished while consumer inflation expectation fell from 10.1% to 9.3%, taking the overall inflation towards target 4% after 2019. We expect central bank to maintain rate at 7.5% while monitoring the overall environment of 1H19 before decision making.

Brazil Output Gap Depresses Inflation



Russia Inflation Rose Slightly, Not A Threat Yet

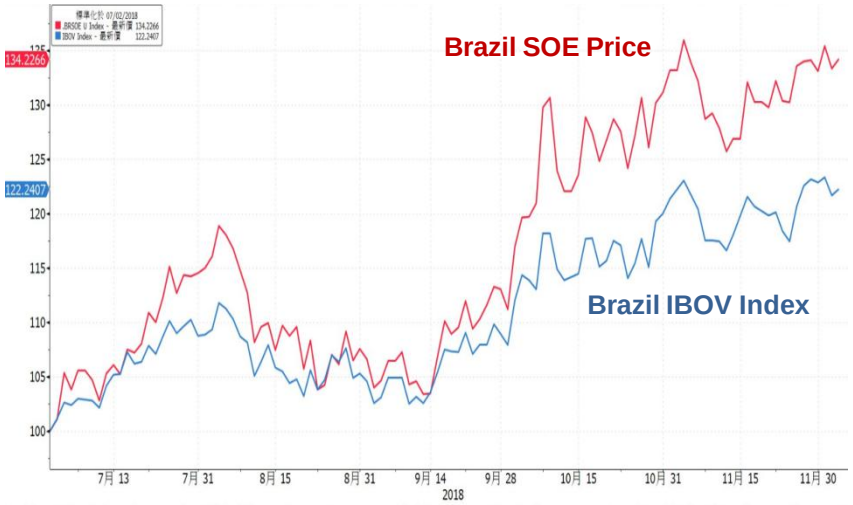


Source: (L)JPM, 2018/11/30, (R)JPM, 2018/11/7

Brazilian Equity Could Replicate 2014 India Modi Reform Rally

- **Brazil President-elect Promised Reduce SOE Intervention, Favored By Market:** Far-right president-elect Bolsonaro promised to reduce intervention on SOEs, favoured by the market, boosting the performance of SOEs such as Petrobras, Electrobras, CEMIG and CSN. Net capital inflow to Brazil equity has reached $0.8~$0.9B in the past month, second only to China. Its capital flow YTD has turned from negative to positive with investor optimism.
- **Brazil Equity Could Replicate 2014 India Modi Reform Rally:** After election, Brazil IBOV index continued to consolidate at the high with bullish technicals. W-bottom has formed with price rally in sight. Brazil is in the cyclical recovery. Low real rate, easy financial condition and improved business confidence after election support corporate investment expansion. Consumption and investment could boost 2019 corporate earnings, favoring Brazil IBOV index. 1Q19 Brazil pension reform and privatization is at focus for a 2014 India-Modi like long-term reform rally.

SOE Outperformed With Reduced Intervention



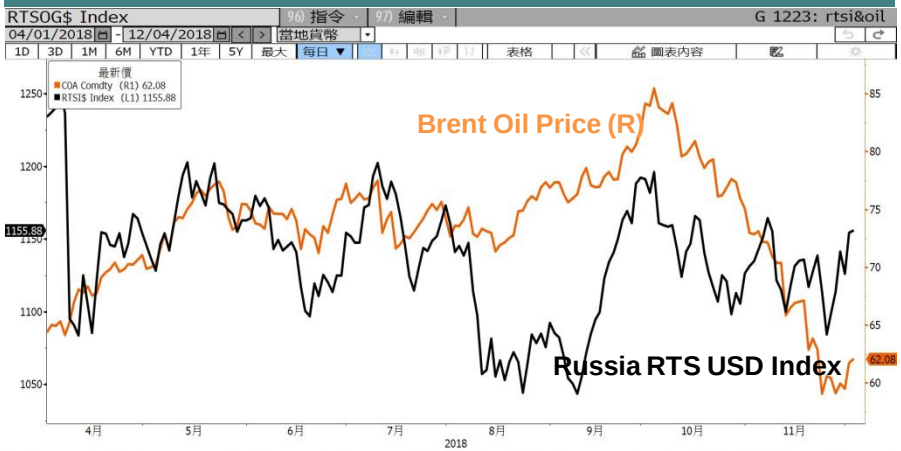
Brazil IBOV W-Bottom Formed, Rally In Sight

Source: Bloomberg, 2018/12/6

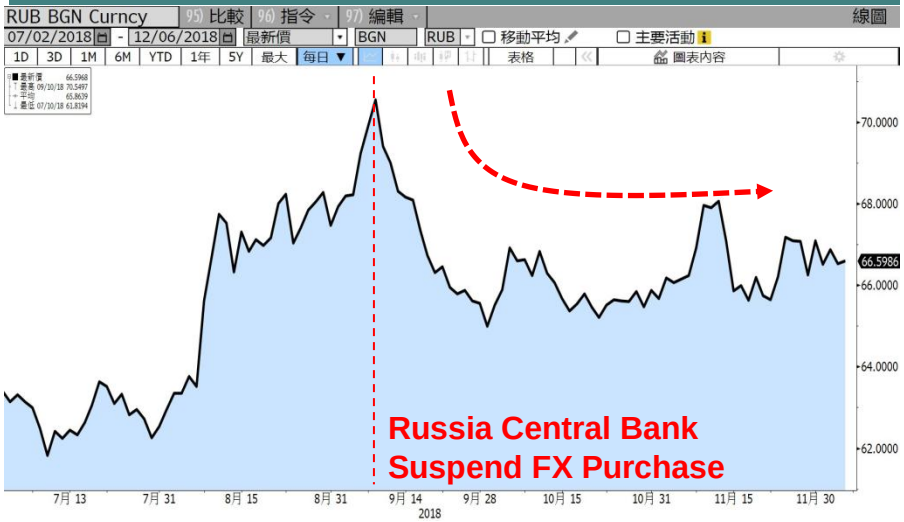
Russia Equity Could Be Motivated By Oil Price Rebound

- **RUB Stabilized After Russia Central Bank Suspended FX Purchase:** Market expects Russia central bank monetary policy meeting on 12/14 to maintain current rate, little impact on equities. RUB stabilized recently as exporters remitted for tax and Russia central bank suspended dollar purchase in FX market, supporting RTS USD index.
- **Russia Equity Might Rebound With Oil Price:** Russia equity was hit by volatile oil price recently but remained supported mainly because market was positive to Russia corporate earnings. Its equity could rebound with oil price.

Russia Equity Rebounded With Brent



Ruble Stabilized After FX Purchase Suspension



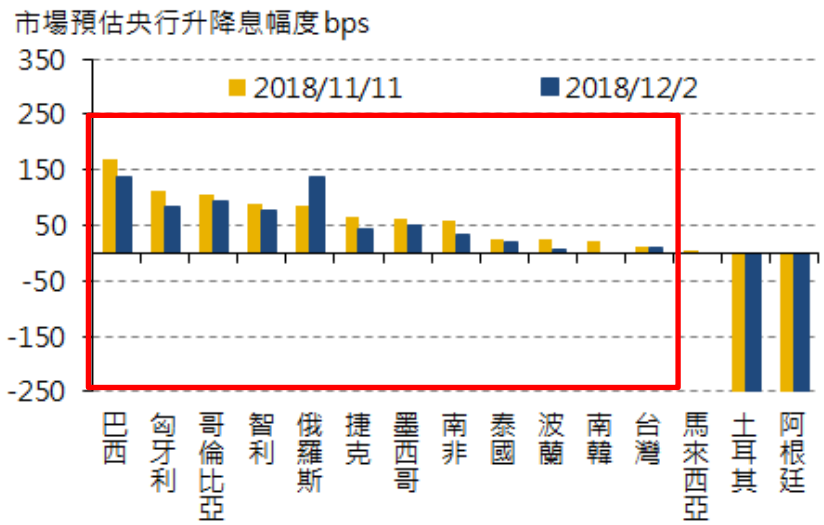
Market Positive On Russia Corporate Earning

資料來源：右上、右下、左下：Bloomberg，中國信託商業銀行整理，2018/12/06

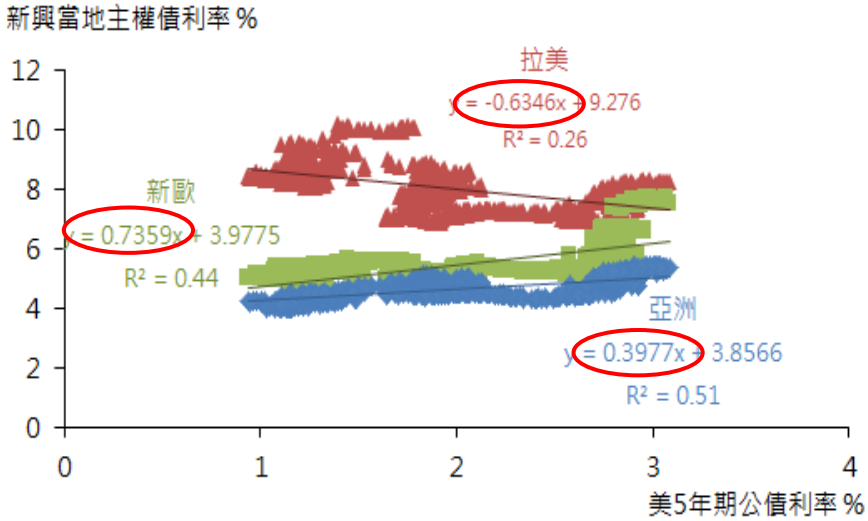
EM Tightening Remains, But Correlations With US Treasury Yield Vary

- **Expect EM Tightening Remains:** Recently some EM countries' rate hike paused due to FX rebound and stable prices and local currency EM bond index stabilized as well. However, market still expects some EM central bank to hike rates. Considering the stable FX and lower oil price reducing imported inflation, most countries' expected rate hike magnitude narrowed, except more Russia hikes to curb food inflation, favoring local currency bond index in the short-term.
- **US Treasury Yield Fell, But Correlations With EM Local Bond Indices Vary:** Since Fed rate hike from 2015, the correlations between US 5-yr treasury yield and LatAm local bond is negative while that of Asia and EM Europe is positive. As US treasury yield might rise next year, we prefer LatAm high credit quality countries such as Brazil in short-term. When US treasury yield falls in long-term, we prefer highly correlated Asia local bonds for capital gain.

Rate Hike Room Exists For Most EM Countries



Correlation Between US Treasury Yield And EM



Source: ICE Data Indices, BAML, 2018/12/5, Compiled by CTBC Bank

Sino-US G20 Meeting Discrepancy, SEA As Strategic Investment

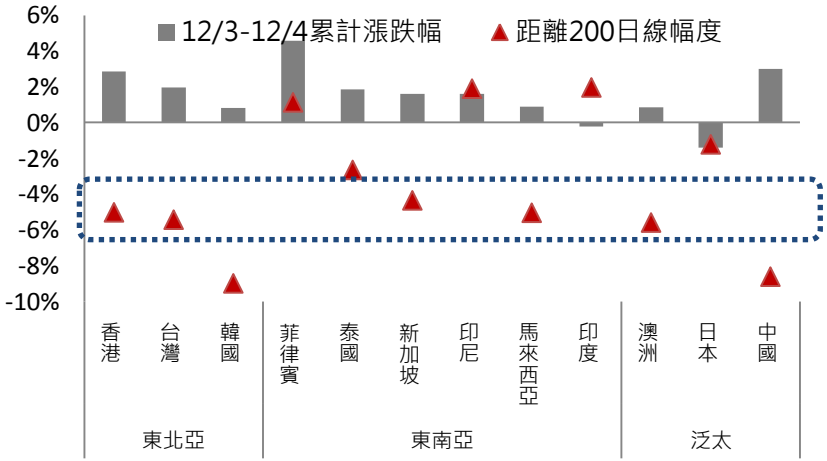
- **Sino-US G20 Results Still Uncertain:** After G20, US delayed the tariff hike on $200B Chinese imports and granted 90 day negotiation period, surprised the market. However, news releases from both parties have many discrepancies, diminishing the positivity of final results.
- **Sino-US tension Motivates SEA FDI:** SEA has geographical and cost advantage. FDI to Thailand and Philippines have grown 48% and 31% YOY. The longer Sino-US conflict continues, the more FDI to SEA would be.

Discrepancy Besides Tariff Truce

美方新聞稿	中方新聞稿
2000億美元中國商品關稅將不會在1/1上調	2000億美元中國商品關稅將不會在1/1上調
若協議未在90天內達成，關稅將提升至25%	90天期限未提
未提	兩位領導人都要求他們的團隊加快談判，努力取消所有關稅並達成互利、雙贏的協議
美中將立即就強制技術轉讓、知識產權保護、非關稅壁壘和網路盜竊進行談判	中美雙方將協力達成貿易問題上的共識
中國會採買大量農、能源、工業及其他產品	中國會進口更多美國商品
中國即將重新開放美國農產品進口	未提
習近平會重新考慮Qualcomm及NXP合併交易	未提
未提	美中雙方領導人將在未來適合時間互訪
中國將芬太尼指定為受控物質	中國將加強對芬太尼的監管，修改藥物規則
美、中與北韓將進一步為無核的朝鮮半島努力	中國支持美國和朝鮮領導人的另一次會晤
"一個中國"政策未提	美國同意持續尊重"一個中國"的政策
市場准入未提	美中同意增加市場准入

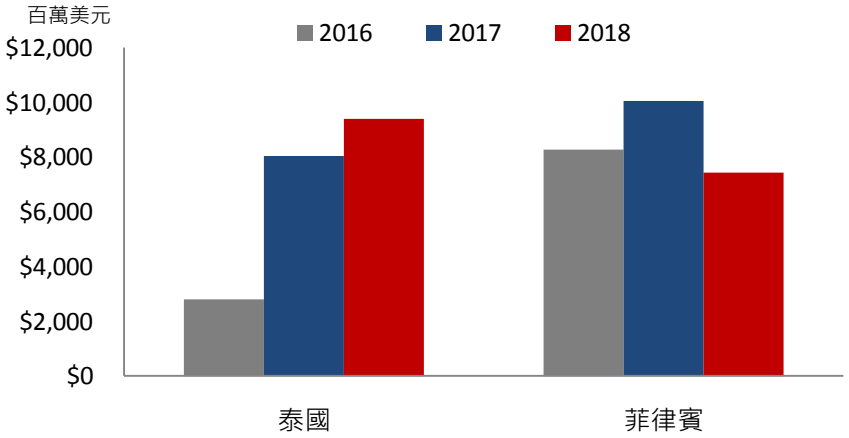
Some SEA Indices Are Above 200-Day MA

Index Return



Thailand/Philippines YTD FDI Growth 48%/31%

Foreign Direct Investment

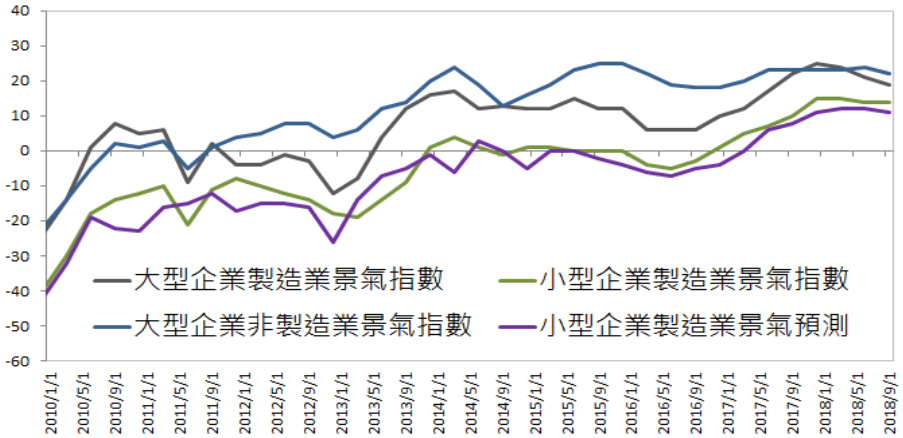


Source: (Bottom Left)Bloomberg, 2018/11/21, (Top Right)Compiled by CTBC Bank, 2018/12/5, (Bottom Right)Bank of Thailand and Bangko Sentral Ng Pilipinas
Note: 2018 Data Thailand Jan-Sep, Philippines Jan-Aug

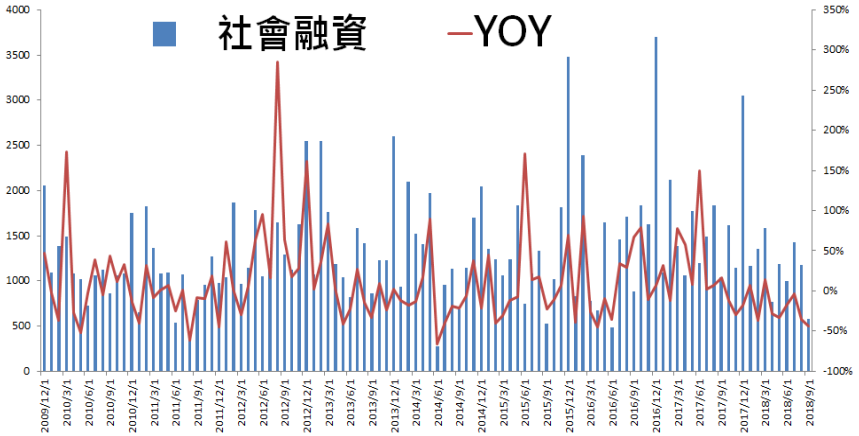
Japan Non-Mfg Might Beat Mfg, China Outlook Still Weak

- **Short-term Trade Conflict Depressed Japan Corporate Confidence:** BOJ is going to release 4Q corporate Tankan Survey(Tankan). With falling Japan Manufacturing PMI and Reuters Japan survey confidence, we expect Japan 4Q large manufacturer outlook diffusion index (DI) might slide. Non-manufacturing is not optimistic but its fall would be milder.
- **Weak China Outlook:** Social financing and infrastructure are worth noting. Authority cut RRR in Oct, with window guidance by PBOC, China Nov social financing should improve MOM. But considering weak business confidence, funding demand might only improve mildly though Nov infrastructure growth could extend the rebound from last month. China is facing internal and external pressures (External: trade war, Internal: funding plight) so authority promotes growth stabilization policy to alleviate downside risk. Monetary easing would not be massive with only 100~150 bps RRR cut in NTM. Fiscal policy such as tax and fee cuts would be the major stabilizing force. We expect slow and delayed

Japan Tankan Might Fall, Non-Mfg Beats Mfg



China Loan Statistics Might Improve But Mild

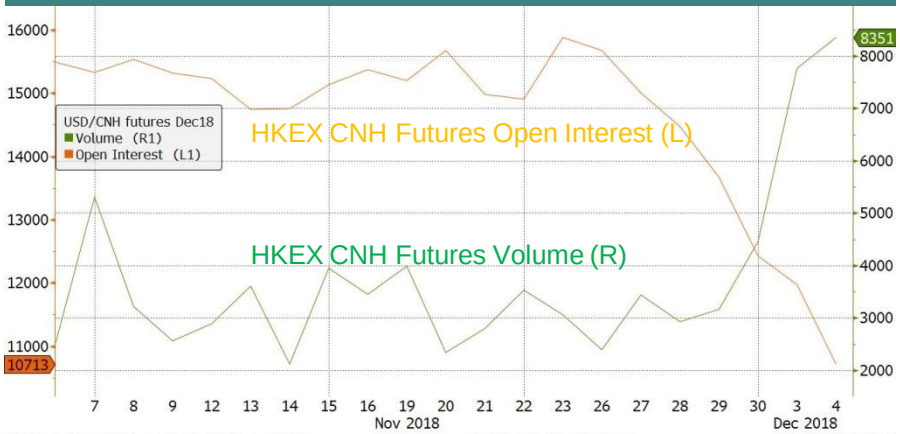


Source: (L)Bloomberg, 2010/1~2018/9, (R)Bloomberg, 2009/1~2018/10

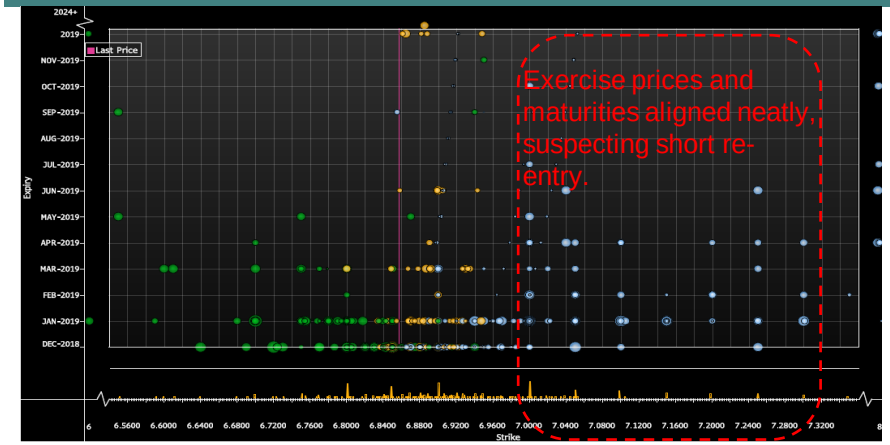
CNY Short Squeeze After Trump-Xi Meeting, Monitoring US Deal Details

- **China Won If Not Lost:** US always played the offensive party in Sino-US trade war due to its outstanding outlook, pressing China with tariff since May. Therefore if US did not gain substantially for the truce, it might imply its judgment on future outlook turned dim, leading to a possible end of trade war with US compromising. Current White House news release seems to suggest a similar deal as the May agreement, causing short squeeze in CNY. The current USD/CNY of below 6.9 level partially reflect the market expectation of Sino-US compromises.
- **Monitor US Deal Details:** China usually declined to comment on deal details so source of information mainly came from US. Currently Trump's Tweets were largely confirmed by China while details from Washington were downright confusing. Details to monitor include: 1. Will China lower/remove tariff while US keeps it 2. Will US give up demands on Made-In-China 2025. The first point confirms US gains in the deal, assessing their relative negotiation position. Made-In-China 2025 is still viewed as core interest by China. As long as US does not declare to give up the demand, it could be an escalation point. Options market after G20 showed CNY short sellers bet on "breaking 7" in the next escalation.

CNH Futures Shorts Crowded To Cut Position



CNY Option Short Position Re-entered After G20



Source: (L)Bloomberg, 2018/12/05, (R)Bloomberg, 2018/12/01~2018/12/05, Compiled by CTBC Bank

GENERAL DISCLAIMERS:

1. This document and the investments and/or products referred to herein are for information only and do not have regard to your specific investment objectives, financial situation or particular needs.
2. This document and the investments and/or products referred to herein should not be construed as any recommendation for you to enter into the investment briefly described above and this document must be read with CTBC's General Terms and Conditions including without limitation Risks Disclosure Statements, Supplemental Terms and Conditions and such terms and conditions specified by CTBC from time to time.
3. You are advised to exercise caution in relation to this document. If you are in any doubt about any of the contents of this document, you should obtain independent professional advice from a licensed or exempt financial adviser before making your commitment to invest in the investments and/or products referred to herein.
4. If you choose not to seek advice from a licensed or exempt financial adviser or such other independent professional, you should carefully consider whether investment in the investments and/or products referred to herein is suitable and appropriate for you taking into consideration the risks and associated risks.
5. The final terms and conditions of the proposed investment in the investments and/or products referred to herein will have to be set out in full in the definitive trade confirmation between CTBC and you.
6. CTBC does not guarantee the accuracy or completeness of any information contained herein or otherwise provided by CTBC at any time. All of the information here may change at any time without notice.
7. CTBC is not responsible for any loss or damage suffered arising from this document.
8. CTBC may act as principal or agent in similar transactions or in transactions with respect to the instruments underlying the transaction.
9. Until such time you appoint CTBC, CTBC is not acting in the capacity of your financial adviser or fiduciary.
10. Investments involve risks. Past performance figures, predictions or projections are not necessarily indicative of future or likely performance. Actual performance may differ from the projections in this document.
11. Any references to a company, financial product etc is used for illustrative purpose and does not represent our recommendation in any way.
12. Any scenario analysis is provided for illustrative purpose only and is no indication as to future performance and it does not reflect a complete analysis of all possible scenarios that may arise under an actual transaction. All opinions and estimates given in the scenarios are illustrative and do not represent actual transactions.
13. The information in this document must not be reproduced or shared without our written agreement.
14. This document does not identify all the risks or material considerations that may be associated with you entering into of the transaction and the transaction period you wish to consider.
15. This document does not and is not intended to predict actual results and no assurances whatsoever are given with respect thereto. It does not present all possible outcomes or takes into consideration all factors that may affect or influence the transaction.
16. This document is based on CTBC's understanding that you have inter alia sufficient knowledge, experience and access to professional advice to make your own evaluation and choices of the merits and risks of such investments and you are not relying on the CTBC nor any of our representatives or affiliates for information, advice or recommendations of any sort whatsoever.
17. You should have determined without relying on CTBC or any of our representatives or affiliates for information, advice or recommendations of any sort whatsoever, the economic risks and merits as well as the legal tax and accounting aspects and consequences of the transaction and that you are able to fully assume such risks.
18. CTBC accepts no responsibility or liability whatsoever for any loss of whatsoever nature suffered by you arising from the use of this document or reliance on the information contained herein.
19. CTBC may have alliances with product providers for which CTBC may receive a fee and product providers may also receive fees from your investments.
20. The following exemptions under the Financial Advisers Regulations apply to the CTBC and its representatives:
    (1) Regulation 33(1) – Exemption from complying with section 25 of the Financial Advisers Act ("FAA") when making a recommendation in respect of (a) any designated investment product (within the meaning of section 25(6) of the FAA) to an accredited investor; (b) any designated investment product (within the meaning of section 25(6) of the FAA) that is a capital market product, to an expert investor;
    (2) Regulation 34(1) – Exemption from complying with section 27 of the FAA when making a recommendation in respect of (a) any investment product to an accredited investor; (b) any capital markets product to an expert investor or (c) any Government securities;
    (3) Regulations 36(1) and (2) – Exemption from complying with sections 25, 26, 27, 28, 29, 32, 34 and 36 of the FAA when providing any financial advisory service to any person outside of Singapore who is (a) an individual and (i) not a citizen of Singapore; (ii) not a permanent resident of Singapore; and (iii) not wholly or partly dependant on a citizen or permanent resident of Singapore; or (b) in any other case , a person with no commercial or physical presence in Singapore.