

WORLD WAR THREE

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ASIANOMICS GLOBAL INVESTMENT STRATEGY

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Recommendation	30-Nov-13	28-Apr-17	Performance
Long gold	XAU = US\$1253/oz	XAU = US\$1268/oz	+1.2%
Long India	BSE 500 = 7598	BSE 500 = 12979	+74.6%
Recommendation	28-Nov-14	28-Apr-17	Performance
Long Emerging Asia, Short Developed Countries	Long AG16X = 687.3 Short AD08X = 466.9	Long AG16X = 705.2 Short AD08X = 508.9	-6.4%
Recommendation	30-Nov-16	28-Apr-17	Performance
Short European financials, Long Indian financials	Short MXEU0FN = 60.5 Long MXIN0FN = 6523.6	Short MXEU0FN = 69.6 Long MXIN0FN = 7935.9	+6.6%
Short Sterling	GBPUSD=US\$1.249/£1	GBPUSD=US\$1.294/£1	-3.6%
Recommendation	31-Mar-17	28-Apr-17	Performance
Long Asia Ex-Japan, Short S&P 500	Long MXASJ = 582.0 Short SPY US = 235.7	Long MXASJ = 594.2 Short SPY US = 238.1	+1.1%

Source: Asianomics Group

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THE LOOMING CONFLICT BETWEEN GENERATIONS

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- The rich countries in particular have been facing a demographic time bomb since the turn of the century
- The numbers of old dependents are rising in many regions of the world, including North Asia. Paying pensions is a problem
- The clock has started ticking faster on the bomb since the financial crisis. Growth is underperforming just when it needs to outperform. The US grew at just 1.6% YoY in 2016, 2.9% in nominal terms
- Add in growing government debt and the public sector payload and we have a looming crisis over the next decade
- For investors though, Asia as a whole is a silver lining

RICH COUNTRIES AGEING RAPIDLY

The working population is shrinking relative

	Total population (m)	Female fertility rate	Old age pop'n (65+) to working age (15-64), %	
	2016	2014	2016	2050
United States	323.1	1.9	23.0	36.9
United Kingdom	65.4	1.8	28.0	42.2
Germany	82.5	1.4	32.6	58.6
France	64.7	2.0	31.4	46.3
Spain	46.5	1.3	28.8	69.5
Japan	127.0	1.4	44.5	70.9
South/Southeast Asian average (ex Singapore)	---	---	10.8	28.4

Source: UN, World Bank and Haver Analytics

RICH COUNTRY GROWTH RATES STRUGGLING

Nominal growth rates are disastrous

REAL GDP GROWTH RATE AVERAGES, %, 1971 - 2016

	1971-2016	2010-2016
US	2.8	2.1
UK	2.2	2.0
Germany	2.0	2.0
Japan	2.6	1.5

Note: Germany is taken as a proxy for the EU. No data back to 1971 is available for the block as a whole

Source: Asianomics Group, Haver Analytics

NOMINAL US\$ GDP GROWTH RATE AVERAGES%, 1971 - 2016

	1971-2016	2010-2016
US	6.4	3.7
UK	7.2	1.6
Germany	7.1	0.4
Japan	8.0	-0.3

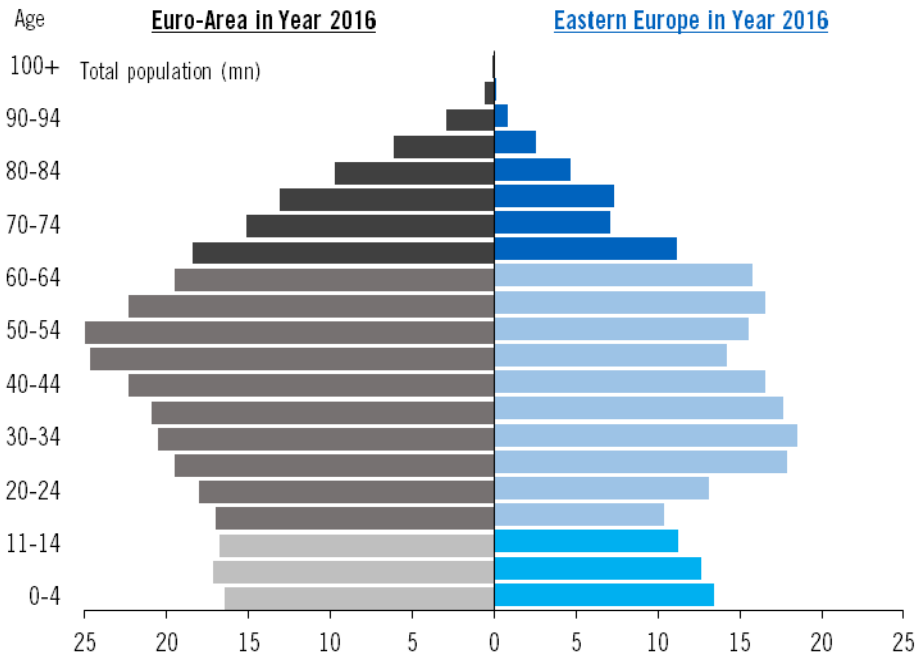
Note: Germany is taken as a proxy for the EU. No data back to 1971 is available for the block as a whole

Source: Asianomics Group, Haver Analytics

EUROPE'S DEMOGRAPHICS ARE THE WORST

No help coming from Eastern integration either

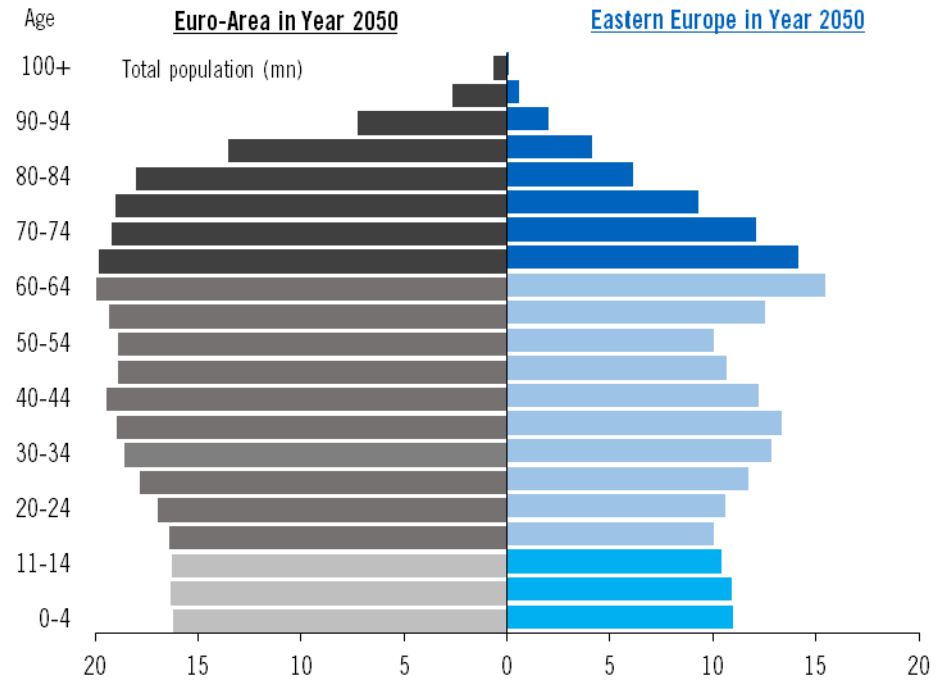
DEMOGRAPHIC PROFILES IN EUROPE, 2016



Note: Euro Area: France, Germany, Italy, Spain, Sweden, UK / Eastern Europe: Czech, Hungary, Poland, Romania, Russia, Slovakia

Source: Asianomics Group, UN

DEMOGRAPHIC PROFILES IN EUROPE, 2050



Note: Euro Area: France, Germany, Italy, Spain, Sweden, UK / Eastern Europe: Czech, Hungary, Poland, Romania, Russia, Slovakia

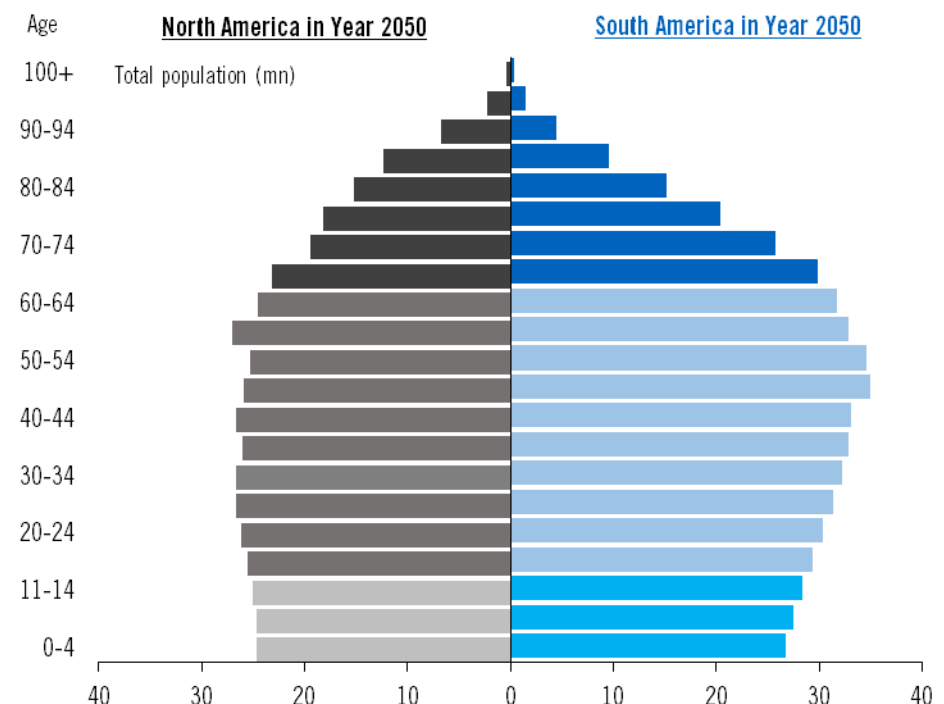
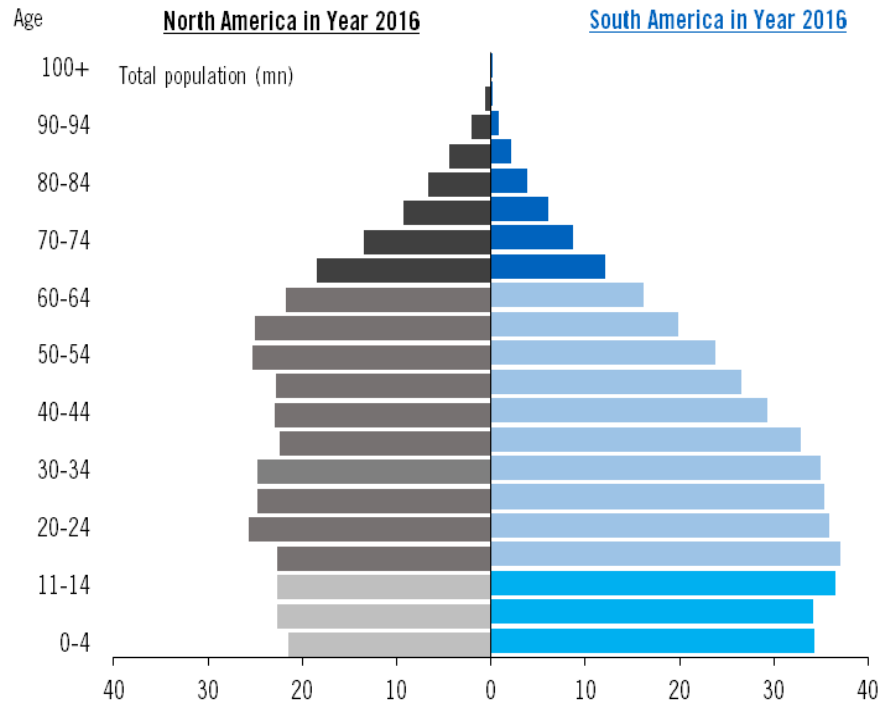
Source: Asianomics Group, UN

THE AMERICAS ARE BETTER NOW

But they worsen sharply over the coming 30 years

DEMOGRAPHIC PROFILES IN N.AMERICA & S.AMERICA, 2016

DEMOGRAPHIC PROFILES IN N.AMERICA & S.AMERICA, 2050



Note: North America: Canada, United States/ South America: Argentina, Brazil, Colombia, Mexico

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Source: Asianomics Group, UN

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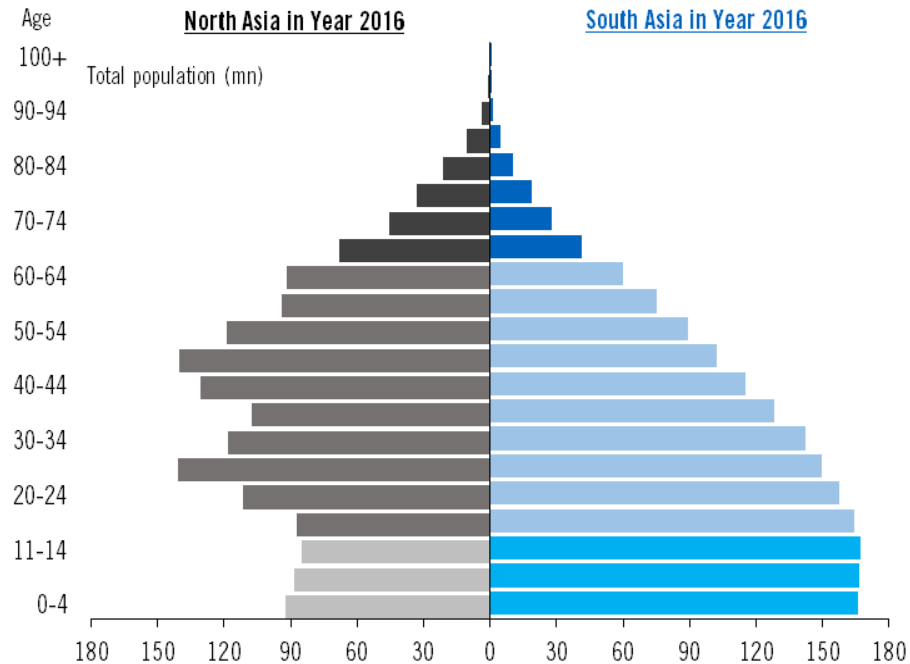
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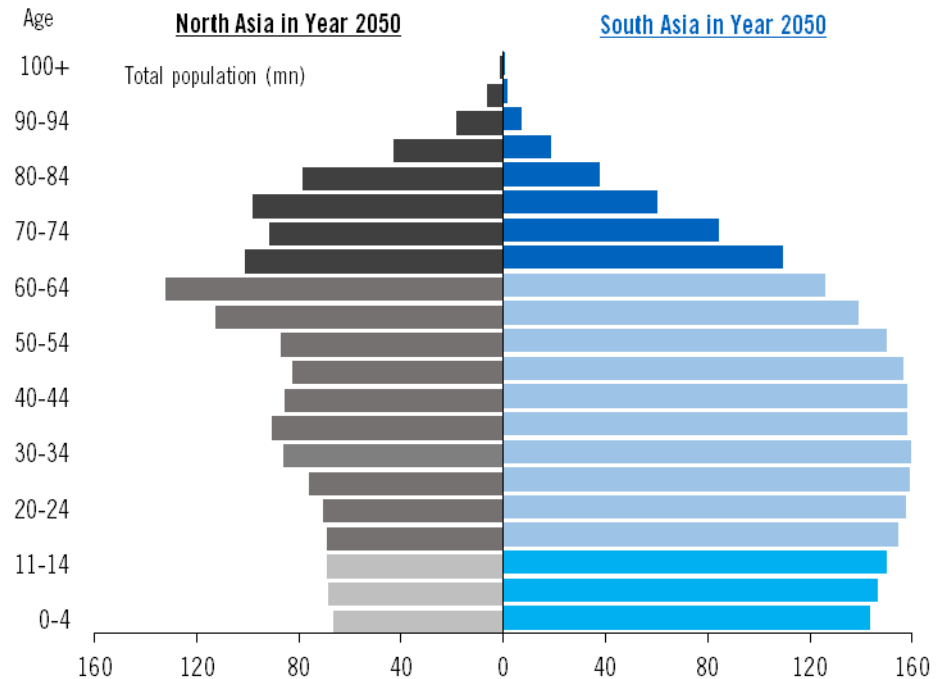
ASIA IS THE ANSWER

South and Southeast Asia are the escape routes

DEMOGRAPHIC PROFILES IN ASIA, 2016



DEMOGRAPHIC PROFILES IN ASIA, 2050



Note: North Asia: China, Japan, Korea, Taiwan, Hong Kong / South Asia: India, Indonesia, Malaysia, Philippines, Thailand

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TIME IS STILL ON ASIA'S SIDE

And so are fertility dynamics

	Total population (m), 2016	Female fertility rate, 2014	Old age pop'n (65+) to working age pop'n (15-64), %, 2016	Old age pop'n (65+) to working age pop'n (15-64), %, 2050
North Asia				
China	1382.7	1.6	13.8	46.7
Hong Kong	7.4	1.2	21.6	64.6
Japan	126.8	1.4	44.5	70.9
Korea	50.6	1.2	18.7	65.8
Taiwan	23.5	1.1	17.2	71.2
South/Southeast Asia				
India	1311.1	2.4	8.8	20.5
Indonesia	258.7	2.5	7.9	21.3
Malaysia	31.7	1.9	8.7	25.3
Philippines	103.2	3.0	14.5	17.0
Singapore	5.6	1.3	17.0	61.6
Thailand	65.9	1.5	15.2	52.5
Vietnam	91.7	2.0	9.9	34.1
Australia	24.2	1.9	23.2	37.3

Source: UN, World Bank

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ASIAN GROWTH HAS HELD UP WELL

Although nominal dollar growth is not uniformly strong

EMERGING ASIA REAL GDP GROWTH RATE AVERAGES, %

	1971-2016	2010-2016
China	9.6	8.1
India	5.6	7.1
Indonesia	6.0	5.6
Korea	7.1	3.5
Malaysia	6.4	5.4
Philippines	4.1	6.3
Taiwan	6.8	3.6
Thailand	5.6	3.6

EMERGING ASIA NOMINAL US\$ GDP GROWTH RATE AVERAGES, %

	1971-2016	2010-2016
China	11.6	12.3
India	8.4	8.4
Indonesia	11.8	7.7
Korea	12.5	6.7
Malaysia	10.6	5.7
Philippines	6.4	9.0
Taiwan	10.8	4.5
Thailand	9.8	5.7

Note: For China real growth data is only available from 1979.

Source: Asianomics Group, Haver Analytics

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NORTH ASIA HAS RECOGNISED THE POTENTIAL

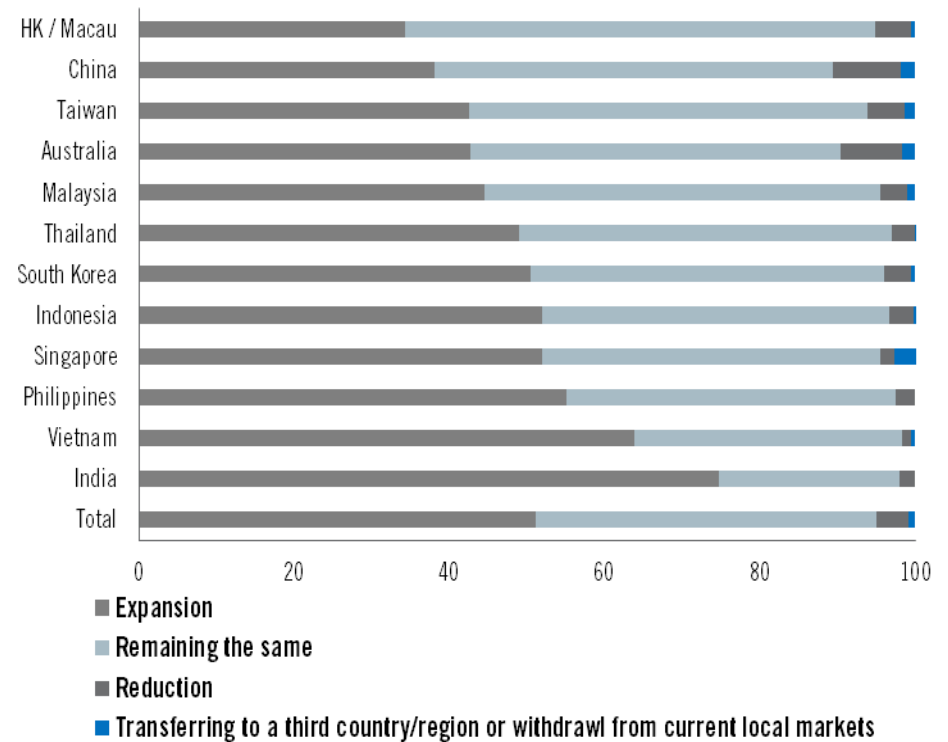
The race is on for North-South integration

ASEAN FDI FLOWS, US\$ BN

Country/Region	2011	2012	2013	2014	2015
China and Hong Kong	12.1	11.2	11.7	16.8	12.8
Japan	9.7	21.2	24.8	15.7	17.6
Korea	1.7	1.6	4.3	5.8	5.7
Taiwan	2.3	2.8	1.4	3.3	2.8
North Asia total	25.8	36.8	42.2	41.6	38.9
Europe and the US	38.8	20.9	31.7	39.7	33.8
Total	97.5	115.5	124.9	130.0	120.8

Source: www.asean.org

JETRO: JAPANESE COMPANY EXPANSION PLANS



Source: JETRO

THE ELEPHANT IN THE ROOM

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- Government and total debt levels as a % of GDP have generally worsened since 2007
- 20% of the workforce in rich countries are in the public sector. Denmark and Norway it is 35%. Japan and Korea 8%.
- Government debt, pensions, social security and public sector salaries ALL have to be paid for by the private sector
- The larger the public sector and the failure to revive private employment, the heavier the wagon that fewer and fewer people are available to pull (http://www.americanthinker.com/articles/2009/02/the_wagon_analogy.html)

- *Asianomics Special Report No. 2/2017, Asia and Dollar Credit – An Update*, 29 March.
- Concerns about a repeat of the Asian Crisis following US dollar debt build up are wide of the mark.
- Short-term external debt well covered by international reserves in all countries except Malaysia.
- External balance fundamentals are now supportive of Asian currency appreciations, not depreciations.
- Debt is not a problem and there is no chance of a re-run of the 1997 Asian Crisis.

ASIA EXTERNAL DEBT DYNAMICS

There is no comparison between 1997 and now

	External debt outstanding, bn US\$		External debt increase, %		Short-term debt to foreign reserves, %	
	2Q97	4Q16	1Q91-2Q97	1Q09-4Q16	2Q97	4Q16
China	130.9	933.0	141.1	177.1	12.7	22.1*
India	94.7	456.1	9.0	103.1	18.3	24.9
Indonesia	136.3	317.0	71.4	110.0	188.9	37.9
Korea	161.6	380.9	307.1	24.7	286.1	29.1
Malaysia	47.2	210.1	177.6	109.0	71.5	99.4
Philippines	50.7	74.8	56.5	14.6	134.5	20.2
Taiwan	33.6	172.2	75.0	108.5	25.1	36.8
Thailand	109.7	131.4	191.0	86.1	140.7	32.2
Vietnam**	21.8	71.9	-6.4	117.3	111.6	38.5
Asia	786.5	2747.4	98.5	100.6	57.2	26.5

Source: Haver Analytics, Asianomics Group

Note: * Short-term external debt data for China were discontinued as at end-2014. In calculating the percentages in the last column above we have assumed that short-term debt as a percentage of total debt remained constant to 3Q15. If anything, this is likely to overstate China's short-term debt position given developments in policy and the external reserve position since August 2015.

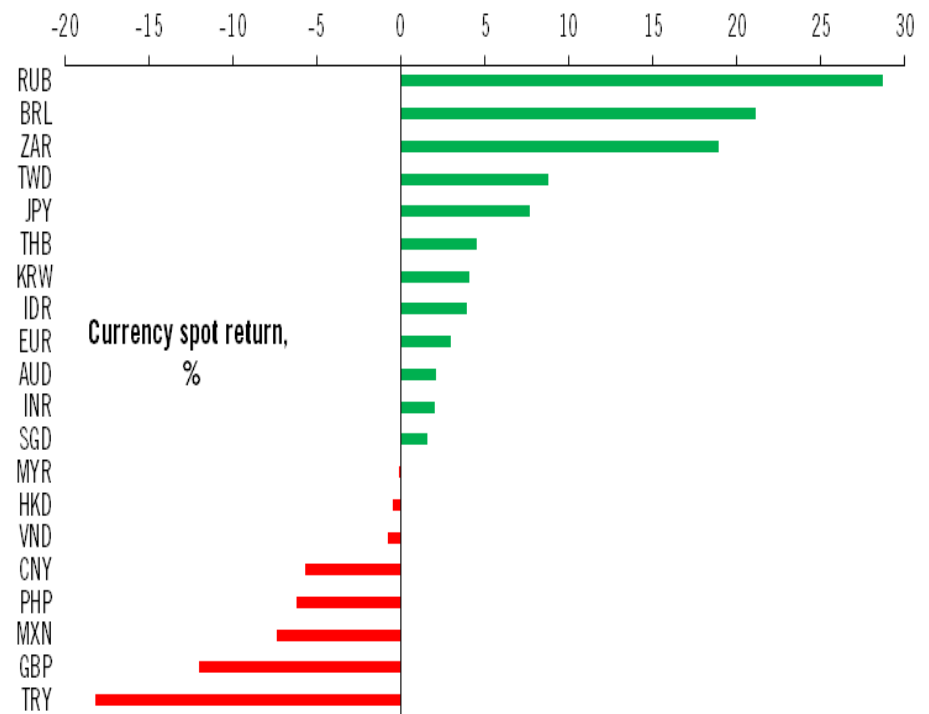
Asia's currencies among the world's top performers

CURRENT ACCOUNT BALANCE, 1996 AND 2016

Current account balance as a % of GDP		
	1996	2016
China	0.8	1.8
India	-1.2	-0.5
Indonesia	-2.8	-1.8
Japan	1.4	3.7
Korea	-4.0	7.0
Malaysia	-4.1	2.0
Philippines	-4.3	0.2
Singapore	14.4	19.1
Taiwan	3.8	13.4
Thailand	-8.0	11.5
Vietnam	-8.2	4.2

Source: Asianomics Group, Haver Analytics

CURRENCIES AGAINST US\$ SINCE 1 JAN 2016



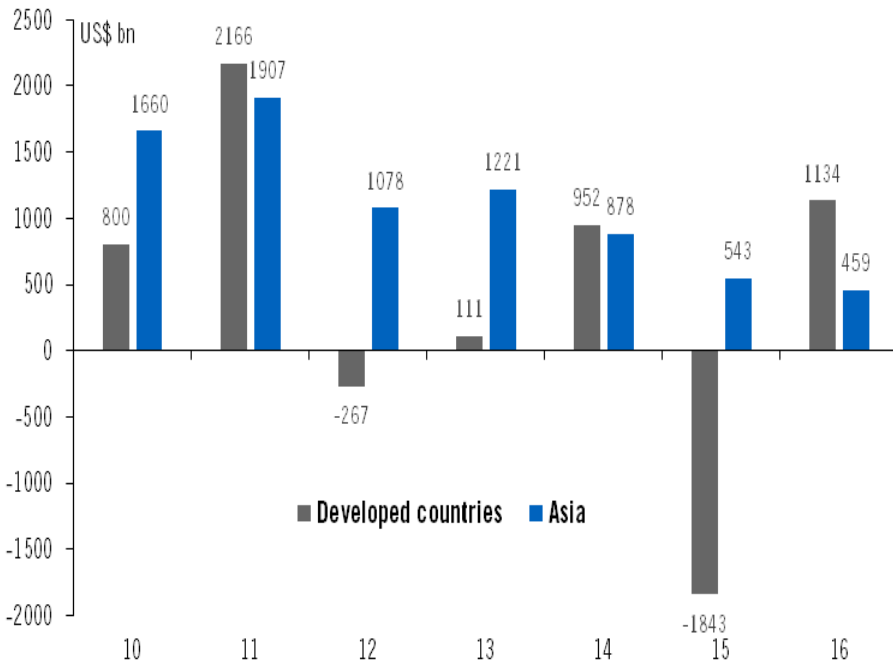
Note: As of end-May 2017

Source: Bloomberg, Asianomics Group

BEGGAR-THY-NEIGHBOUR WAS ON PAUSE MOST OF 2016

Dollar-denominated global growth was positive in 2016

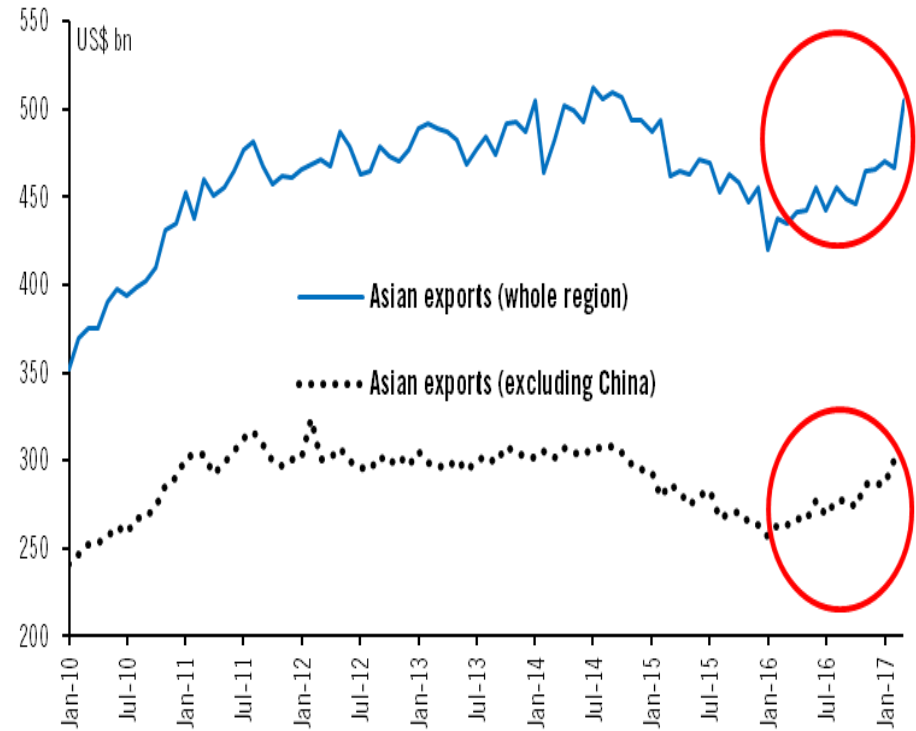
CONTRIBUTION TO GLOBAL NOMINAL GDP



Note: Developed countries comprise US, Euro-area, Japan and UK;
Asia comprises China, India, Indonesia, Malaysia, Philippines and Thailand

Source: Asianomics Group, Haver Analytics

ASIAN EXPORTS, WHOLE REGION AND EX-CHINA



Source: Asianomics Group, Haver Analytics

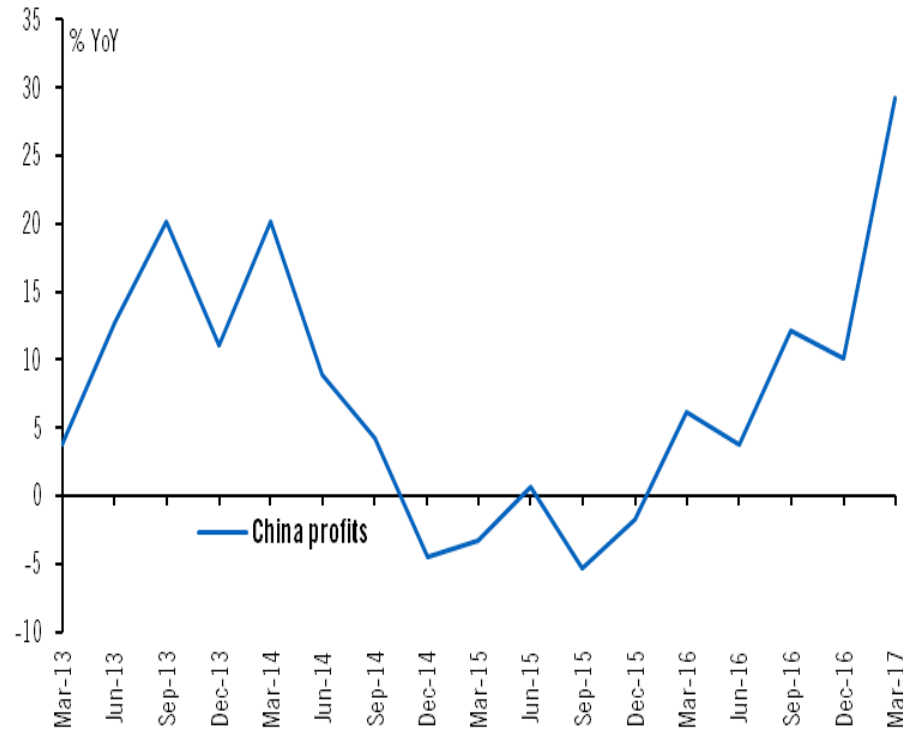


- *Asianomics Country Report No. 5/2017, **China: The Bull Among Us**, 10 April.*
- The Chinese economy had a hard landing in 2014/15. Corporate revenues fell, activity indicators were negative and credit injections were weak.
- In 2016 activity indicators turned up. The credit impulse increased but was not excessive.
- We are in a multi-year upcycle. Growth is better and the renminbi is stabilising.

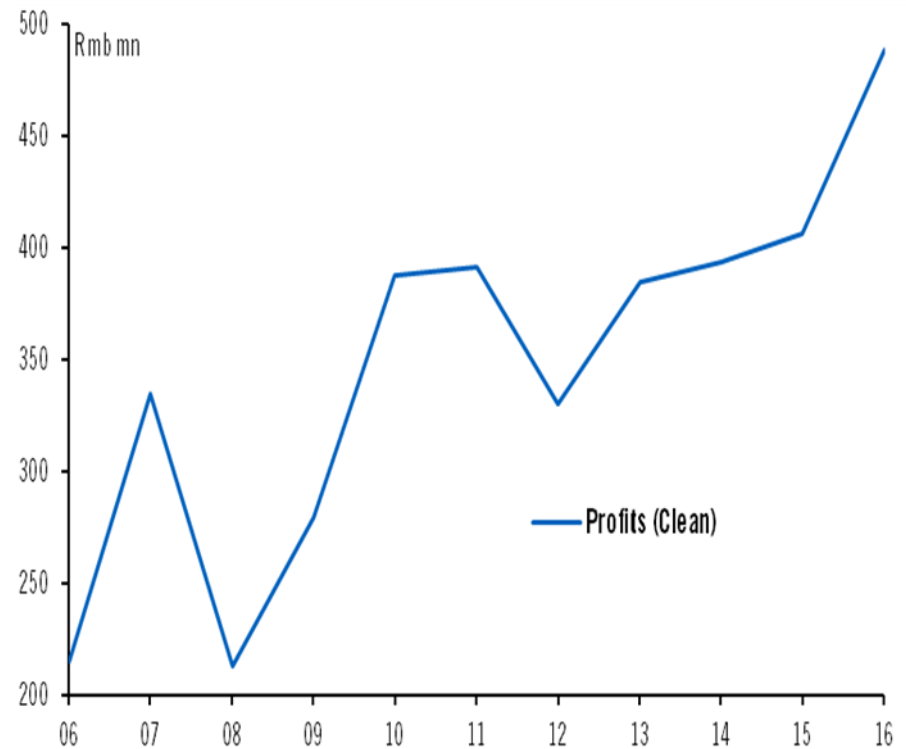
BROAD-BASED RECOVERY IN PROFITABILITY

Industrial enterprises and listed companies picking up

CHINA INDUSTRIAL ENTERPRISE PROFITS



CHINA LISTED COMPANY PROFIT RECOVERY



Source: Haver Analytics, Asianomics Group

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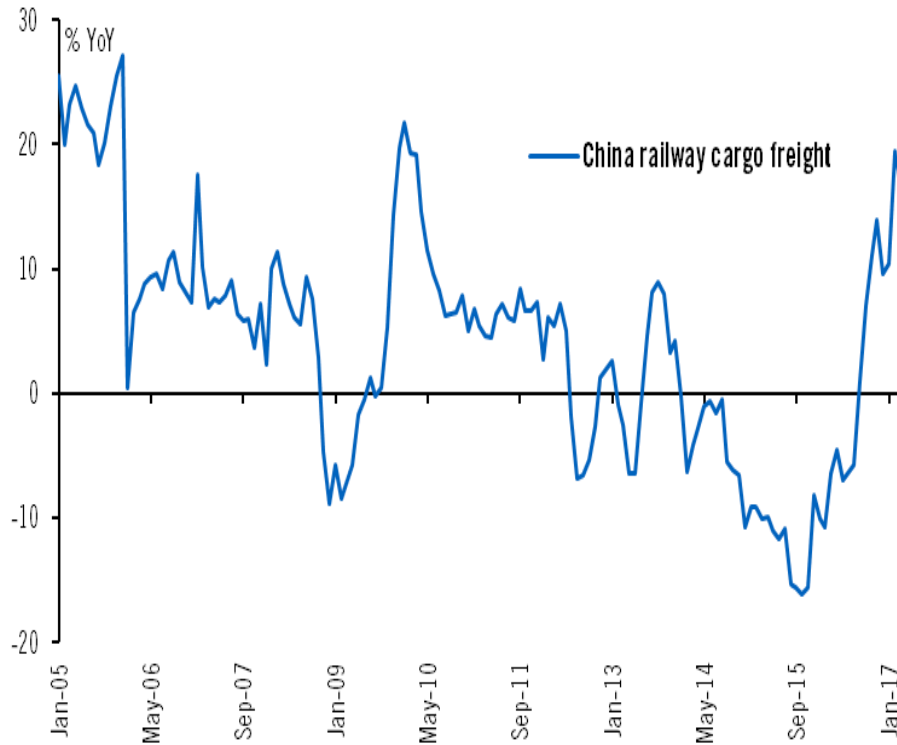
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THE 2015 RECESSION HAS GIVEN WAY TO BOOM

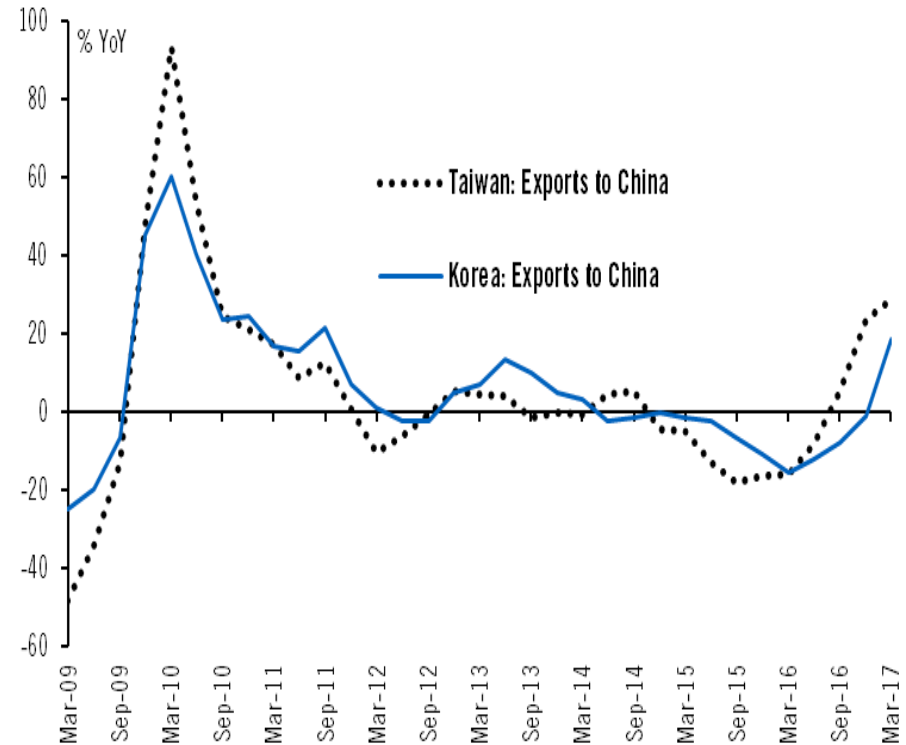
Indicators show general upswing from mid-2016

RAILWAY CARGO FREIGHT GROWTH



Source: Haver Analytics, Asianomics Group

TAIWAN AND KOREA EXPORTS TO CHINA



Source: Haver Analytics, Asianomics Group

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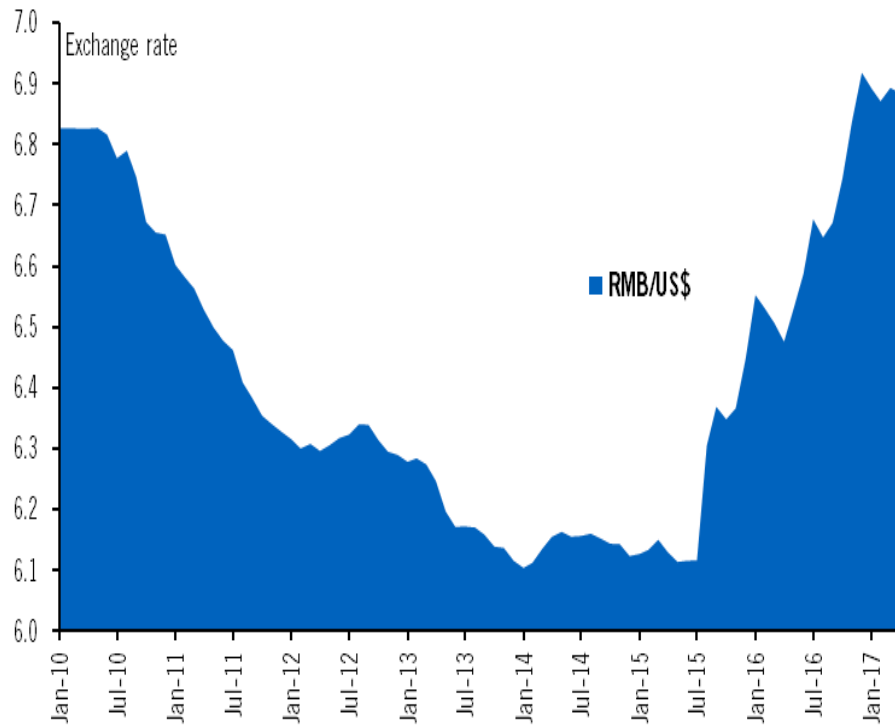
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RENMINBI CORRECTION OVER, RATES NORMALISING

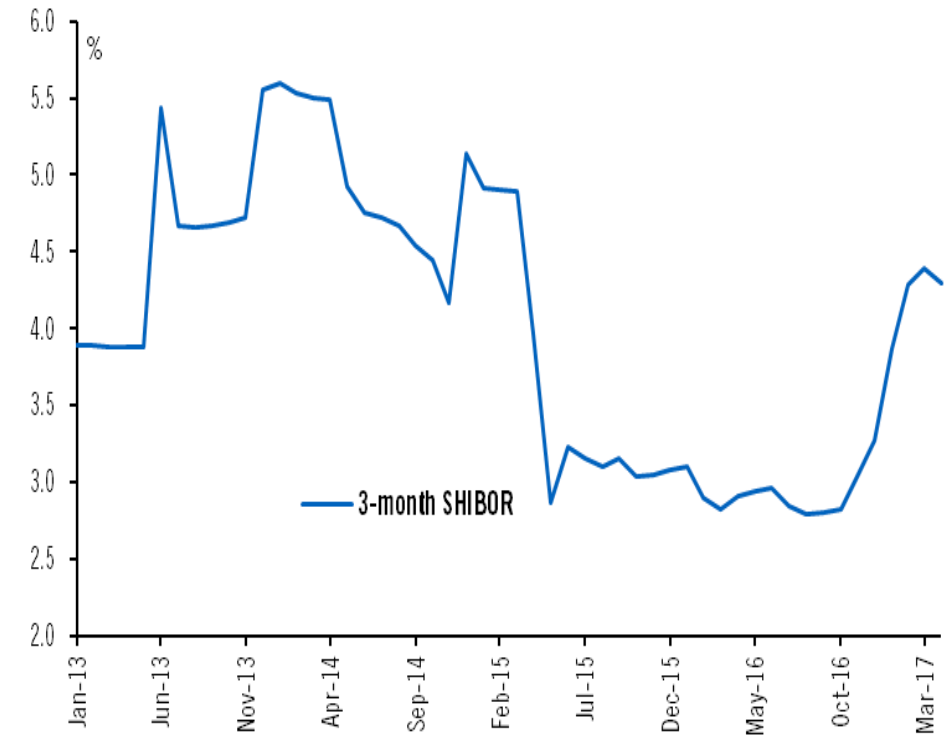
Fundamentals support the renminbi from here

RMB/US\$ EXCHANGE RATE



Source: Haver Analytics, Asianomics Group

SHANGHAI 3-MTH INTERBANK RATE



Source: Haver Analytics

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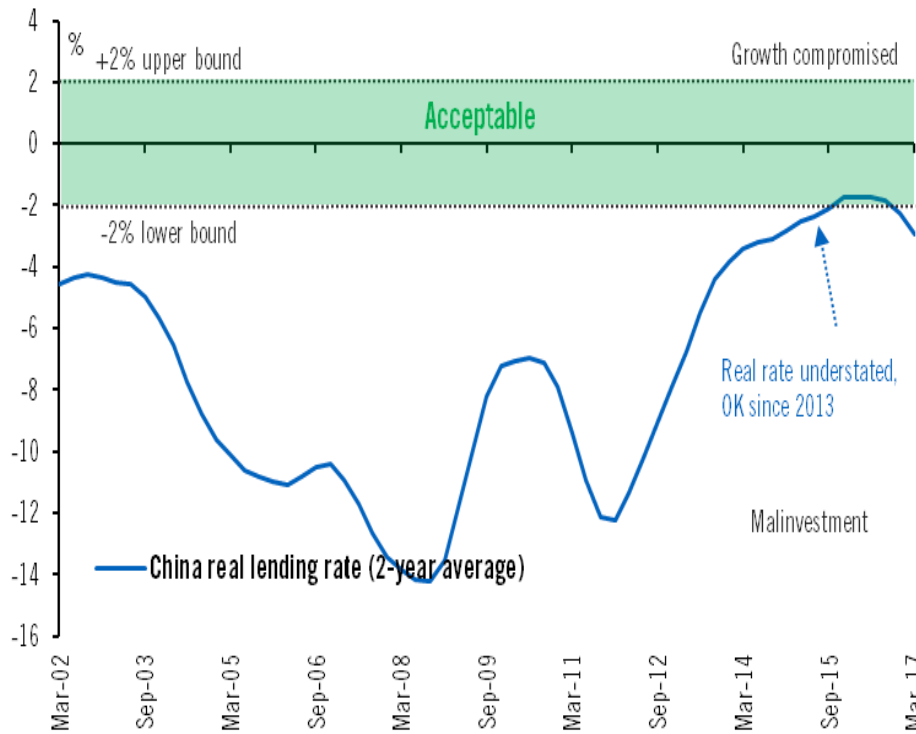
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REAL RATE SIGNAL MORE APPROPRIATE

Better signals to companies and banks

REAL LENDING RATE



Source: Asianomics Group, Haver Analytics

CONSUMER CONFIDENCE



Source: Haver Analytics, Asianomics Group

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