

December 6, 2017

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GEOPOLITICAL STRATEGY

SPECIAL REPORT

2018 Key Views, Part I: Five Black Swans

- › Geopolitical risks were overstated in 2017, but have now become understated;
- › If Donald Trump becomes an early “lame duck” president, he will seek relevance abroad;
- › This could mean a protectionist White House, or increased geopolitical tensions with Iran and North Korea;
- › North Korean internal stability could come into question as economic sanctions begin to bite;
- › Political risks in the U.K. and Italy could rise with markets overly complacent on both;
- › Emerging markets, particularly Brazil and Mexico, will see renewed political risk.

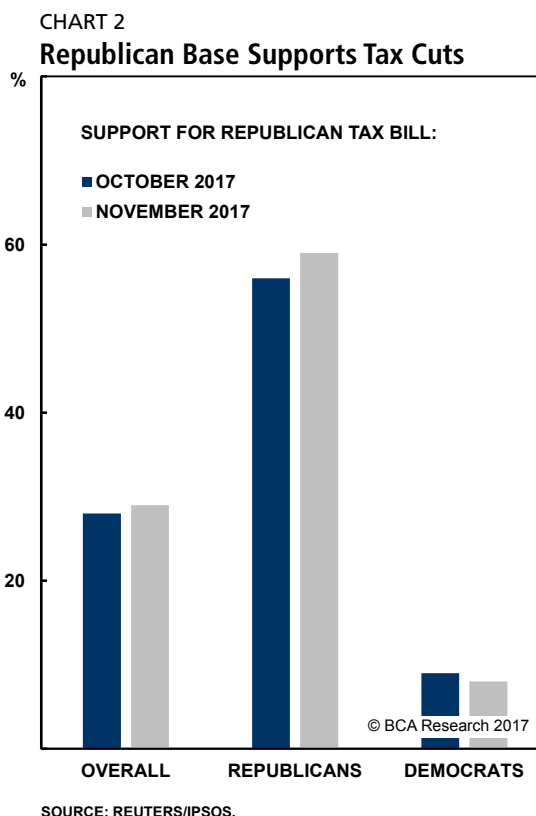
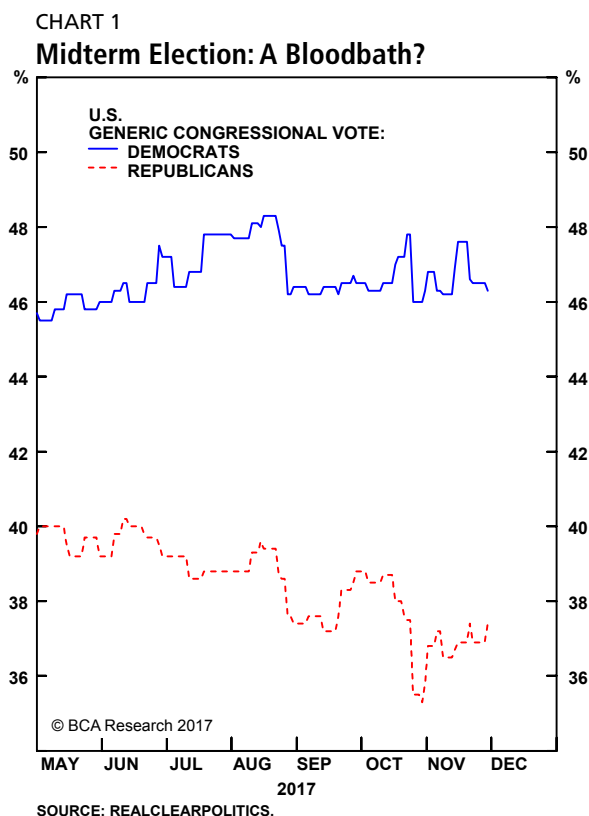
Buoyant global growth, political stability in Europe, and steady policymakers’ hands in China have fueled risk assets in 2017. As the year draws to a close, investors also have tax cuts in the U.S. to celebrate.

Our high conviction view that tax cuts would happen – and that they would be fiscally profligate – is near the finish line.¹ In making this call, we ignored the failure to repeal Obamacare, the “wisdom” of old “D.C. hands,” and direct intelligence from a source inside the White House circle who swore tax reform would be revenue neutral. Throughout the year, BCA’s *Geopolitical Strategy* remained confident that the GOP would ignore its fiscal conservative credentials and focus on the midterm elections.² That election is increasingly looking like a bloodbath-in-the-making for the Republican Party (**Chart 1**).

¹ Please see BCA *Geopolitical Strategy*, “U.S. Election: Outcomes & Investment Implications,” dated November 9, 2016, and “Constraints & Preferences Of The Trump Presidency,” dated November 30, 2016, available at gps.bcaresearch.com.

² Please see BCA *Geopolitical Strategy*, “Reconciliation And The Markets – Warning: This Report May Put You To Sleep,” dated May 31, 2017, “How Long Can The ‘Trump Put’ Last?” dated June 14, 2017, and “Is King Dollar Back?” dated October 4, 2017, available at gps.bcaresearch.com.

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What of the latest opinion polls showing that the tax cuts are unpopular with half of all Americans? The polls also show that a solid one-third of all Americans remain in support of the Republican plan (**Chart 2**). We suspect – as do Republican strategists – that those are the Republicans who vote in midterm elections. Given the atrociously low turnout in midterm elections – just 36.4% of Americans voted in 2014 – Republicans need their base to turn out in November. The tax cuts are not about the wider American public but the Republican base.

As we close the book on 2017, we look with trepidation towards 2018. Our main theme for next year is that the combination of economic stimulus from the tax cuts in the U.S. and structural reforms in China will create a U.S.-dollar-bullish policy mix that will combine into a headwind for global risk assets, particularly emerging market equities.³ However, in this report, we focus on some of the more exotic risks that investors may have to deal with.

In particular we focus on five potential “black swans” – low probability, high market-impact events – that are neither on the market’s radar nor the media’s.

³ Please see BCA *Geopolitical Strategy*, “*Geopolitics – From Overstated To Understated Risks*,” dated November 22, 2017, available at gps.bcaresearch.com.

When domestic constraints rise, U.S. presidents seek relevance abroad.

To qualify for our list, the events must be:

- **Unlikely:** There must be less than a 20% probability that the event will occur in the next 12 months.
- **Out of sight:** The scenario we present should not be receiving media coverage, at least not as a serious market risk.
- **Geopolitical:** We must be able to identify the risk scenario through the lens of our geopolitical methodology. Genuinely unpredictable events – such as meteor strikes, pandemics, crippling cyber-attacks, solar flares, alien invasions, and failures in the computer program running the simulation that we call the universe – do not make the cut.

Black Swan 1: Lame Duck Trump

“Lame duck” presidents – leaders whose popularity late in their term has sunk so low that they can no longer affect policy – are said to be particularly adventurous in the foreign arena. While this adage has a spotty empirical record, there are several notable examples in recent memory.⁴ American presidents have few constitutional constraints when it comes to foreign policy. Therefore, when domestic constraints rise, U.S. presidents seek relevance abroad.

President Trump may become the earliest, and lamest, lame duck president in recent U.S. history. While his Republican support remains healthy, his overall popularity is well below the average presidential approval rating at this point in the political cycle (**Chart 3**). Based on these poll numbers, his party is likely to underperform in the upcoming midterm election (**Chart 4**). A Democrat-led House of Representatives would have the votes to begin impeachment, which we would then consider likely in 2019. As we have argued in our “impeachment handbook,” the market impact of such a crisis would ultimately depend on market fundamentals and the global context, not political intrigue.⁵

President Trump’s political capital *ahead* of the midterm elections is based on his ability to influence Republican legislators. Despite low overall poll numbers, President Trump can use the threat of endorsing primary challengers against conservative peers in Congress to move his agenda in the legislature. He has effectively done this with tax cuts. However, the day after the midterm elections, President Trump’s own numbers will matter for the GOP. Given that President Trump will be on the ballot in the 2020 general election, his low approval numbers with non-Republican voters will hang

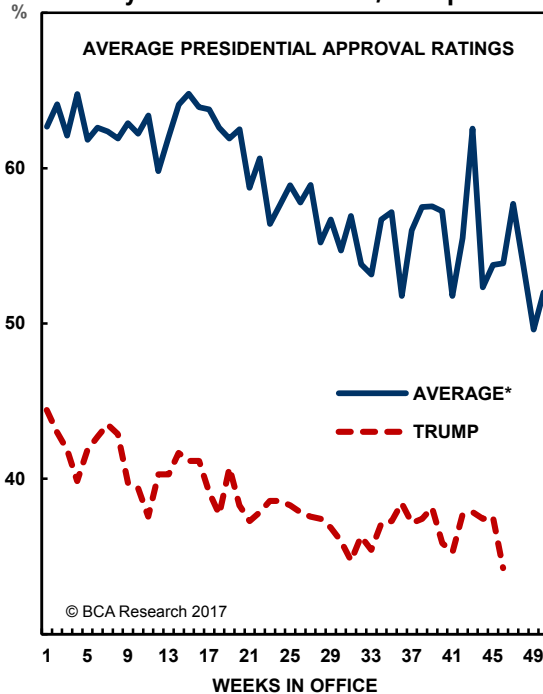
⁴ President Clinton launched the largest NATO military operation against Yugoslavia amidst impeachment proceedings against him while President George H. W. Bush ordered U.S. troops to Somalia a month after losing the 1992 election. Ironically, President George H. W. Bush intervened in Somalia in order to lock in the supposedly isolationist Bill Clinton, who had defeated him three weeks earlier, into an internationalist foreign policy. President George W. Bush ordered the “surge” of troops into Iraq in 2007 after losing both houses of Congress in 2006; President Obama arranged the Iranian nuclear deal after losing the Senate (and hence Congress) to the Republicans in 2014.

⁵ Please see BCA *Geopolitical Strategy*, “Break Glass In Case Of Impeachment,” dated May 17, 2017, available at gps.bcaresearch.com.

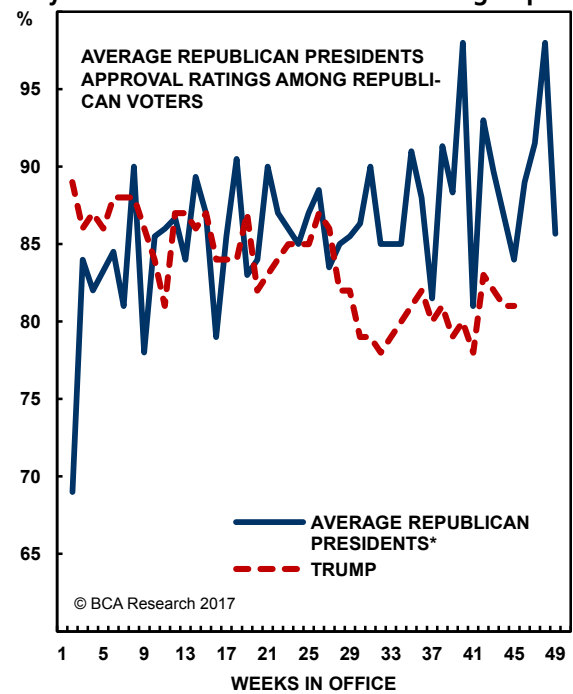
President Trump may become the earliest, and lamest, lame duck president in recent U.S. history. While his Republican support remains healthy, his overall popularity is well below the average presidential approval rating at this point in the political cycle.

CHART 3

The Day After The Midterms, Trump's Overall Popularity Will Matter More Than That Among Republicans



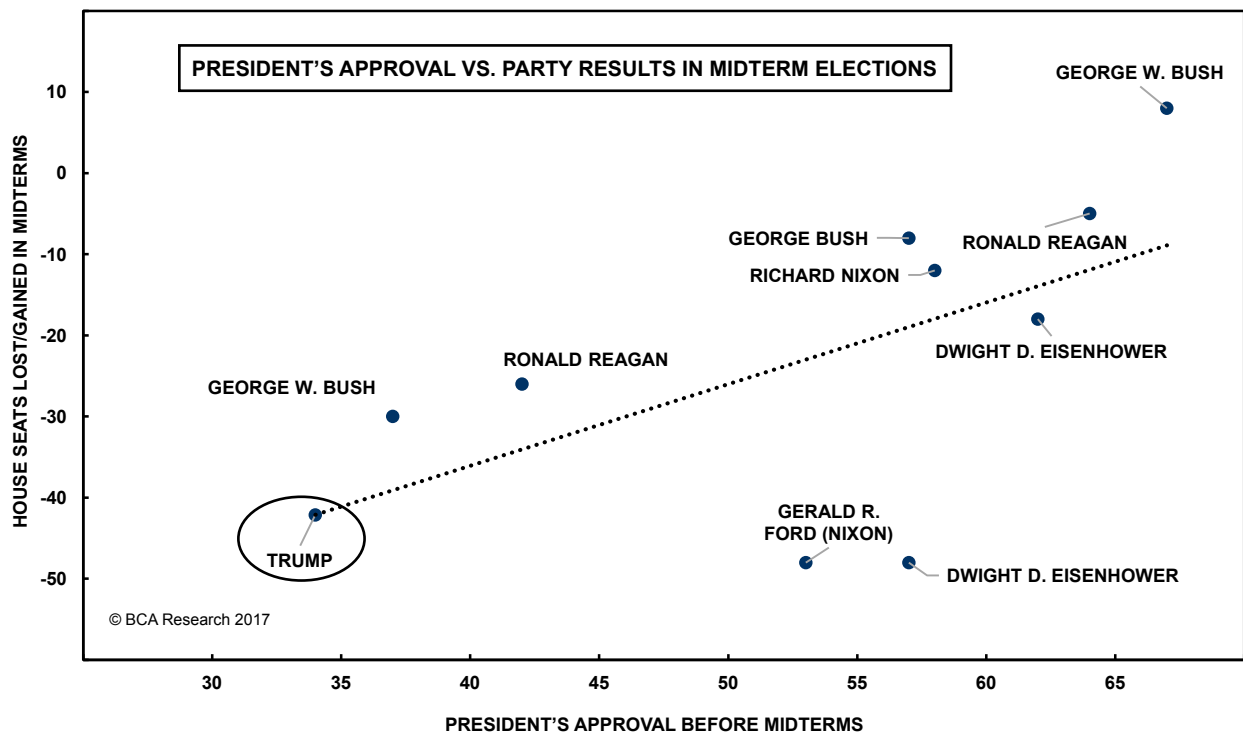
* INCLUDES OBAMA, BUSH, CLINTON, BUSH SR., REAGAN, CARTER, NIXON, KENNEDY, AND EISENHOWER. PRESIDENTS FORD AND JOHNSON ARE EXCLUDED BECAUSE THEY WERE NOT INAUGURATED. SOURCE: GALLUP AND THE AMERICAN PRESIDENCY PROJECT, UNIVERSITY OF CALIFORNIA.



* INCLUDES BUSH JR., BUSH SR., REAGAN, NIXON, AND EISENHOWER. PRESIDENT FORD IS EXCLUDED BECAUSE HE WAS NOT INAUGURATED. SOURCE: GALLUP.

CHART 4

Trump Is Becoming A Liability For The GOP



Neither the North Korean situation nor the trade deficit has seen substantial improvement.

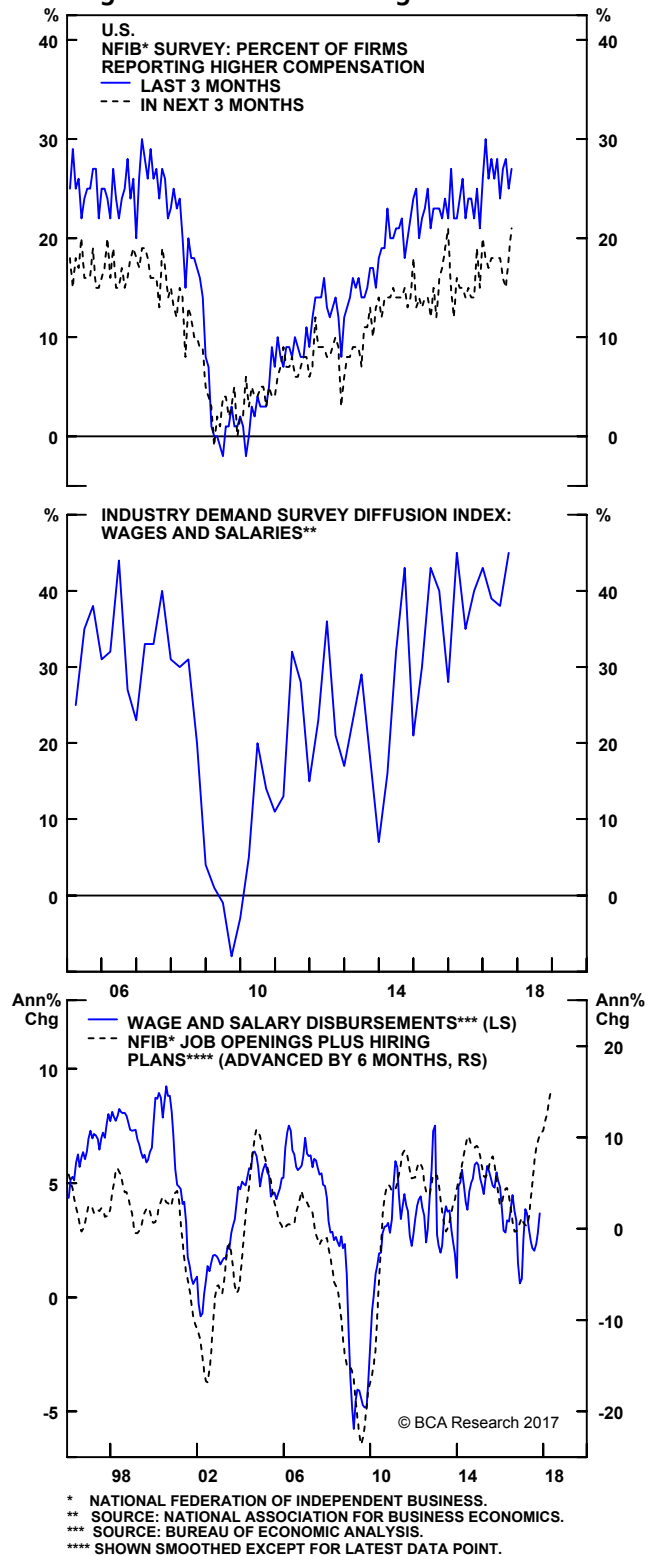
like an albatross around the party's neck. This is a serious issue, particularly given that 22 of the 33 Senators up for reelection in 2020 will be Republican.⁶

Robust economic growth and a roaring stock market have not boosted Trump's popularity so far. At the same time, a strong economy ready to translate into higher wages is about to be "pump-primed" by stimulative tax cuts (**Chart 5**). We would expect the result to be a stronger dollar, which should keep the U.S. trade deficit widening well into Trump's second year in office. At some point, this will become a sore political point, given Trump's protectionist rhetoric and his administration's focus on the trade balance as a key measure of U.S. power.

What kind of adventures would we expect to see President Trump embark on in 2018? There are three prime candidates:

- **China-U.S. trade war:** The Trump administration started off with threats against China and then proceeded to negotiations. However, neither the North Korean situation nor the trade deficit has seen substantial improvement, and a lame duck Trump administration would be more likely to resort to serious punitive actions. Even improvements on the Korean peninsula would not necessarily prevent Washington from getting tougher on Beijing over trade, as the Trump administration will be driven by domestic politics. Investors should carefully watch whether the World Trade Organization deems China a "market economy," which

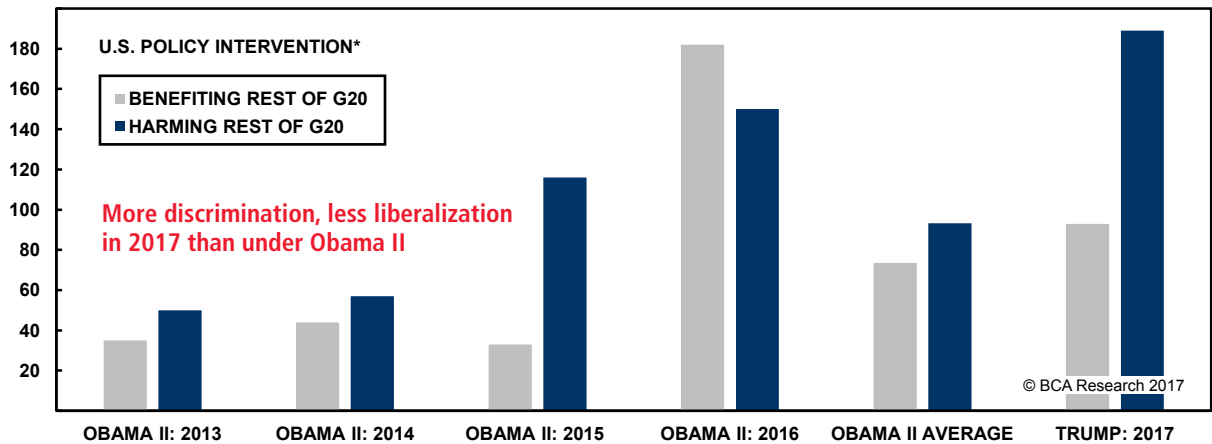
CHART 5

Wage Pressures Are Building

⁶ Particularly vulnerable, in our view, will be Cory Gardner (R, Colorado), Joni Ernst (R, Iowa), Susan Collins (R, Maine), and Thom Tillis (R, North Carolina).

Empirical evidence suggests that the Trump administration has picked up the pace of protectionist rulings.

CHART 6
Trump: Game Changer In U.S. Trade Policy?



* TOTAL NUMBER OF TIMES G20 COMMERCIAL INTERESTS AFFECTED BY U.S. POLICIES IMPLICATING CROSS-BORDER COMMERCE REPORTED BETWEEN JANUARY AND JULY OF EACH YEAR.

NOTE: THE DATA ONLY INCLUDES G20 COMMERCIAL INTERESTS AFFECTED BY POLICY ACTIONS BETWEEN JANUARY AND JUNE OF EACH YEAR DUE TO THE FACT THAT DATA COLLECTION FINISHED ON JUNE 24, 2017.

SOURCE: EVENETT, SIMON J. AND JOHANNES FRITZ, "WILL AWE TRUMP RULES?," DATED JULY 3, 2017, AVAILABLE AT GLOBALTRADEALERT.ORG/REPORTS/42.

could trigger a U.S. backlash, and whether the various investigations by U.S. Trade Representative Robert Lighthizer and Commerce Secretary Wilbur Ross result in anti-dumping and countervailing duties being imposed more frequently on specific Chinese exports. Thus far, the empirical evidence suggests that the Trump administration has picked up the pace of protectionist rulings (Chart 6). Notably, the Trump administration claims that the Comprehensive Economic Dialogue has "stalled," and it is reviving deeper, structural demands on Chinese policymakers.⁷

- **Iran Jingoism:** Rumors that Secretary of State Rex Tillerson may be replaced by CIA Director Mike Pompeo – who would be replaced at the CIA by Senator Tom Cotton – can only mean one thing: the White House has Iran in its sights. Both Pompeo and Cotton are hawks on Iran. The administration may be preparing to shift its focus from North Korea, where American allies in the region are urging caution, to the Middle East, where American allies in the region are urging aggression. Investors should watch whether Tillerson is removed and especially how Congress reacts to President Trump's decision on October 15 to decertify the Iran nuclear agreement (also called the Joint Comprehensive Plan of Action or JCPOA). The Republican-controlled Congress has until December 15 to reimpose sanctions on Iran that were suspended as part of the deal, with merely a simple majority needed in both chambers. However, President Trump will also have an opportunity, as early as January, to end waivers on a slew of sanctions that were not covered under the JCPOA.

⁷ U.S. Treasury Under Secretary for International Affairs David Malpass recently claimed that high-level talks had "stalled" and re-emphasized the U.S.'s structural complaints: "We are concerned that China's economic liberalization seems to have slowed or reversed, with the role of the state increasing ... State-owned enterprises have not faced hard budget constraints and China's industrial policy has become more and more problematic for foreign firms. Huge export credits are flowing in non-economic ways that distort markets." The growing presence of Communist Party cells within corporations is another important structural concern that puts the administration at loggerheads with China's leaders. Please see Andrew Mayeda and Saleha Mohsin, "US Rebukes China For Backing Off Market Embrace," *Bloomberg*, November 30, 2017, available at www.bloomberg.com.

**Risk premium
for oil prices
should rise in
2018.**

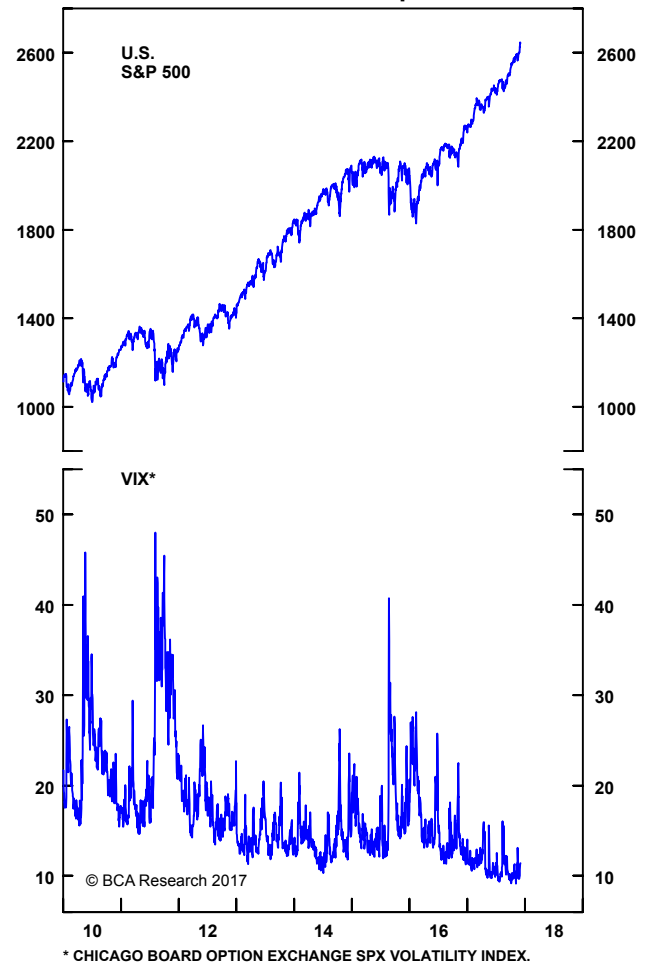
- **North Korea:** It would be natural to slot North Korea as first on our list of potential foreign policy adventures for President Trump. However, it does not really fit our qualification of a black swan. North Korea is not “out of sight.” Additionally, President Trump has already broken with the tradition of previous administrations by upping the pressure on Pyongyang. In fact, a North Korean black swan would be if President Trump succeeded in breaking the regime in Pyongyang. To that scenario we turn next.

Bottom Line: Geopolitics has not affected the markets in 2017, with risk assets reaching record highs and the VIX reaching record lows (**Chart 7**). This was our view throughout the year and we called for investors to “buy in May and have a nice day” as a result of our analysis.⁸ We do not see this as likely in 2018. The Trump administration has no credible legislative agenda after tax cuts. We expect Congress to stall as we enter the summer primary season and for the GOP to lose the House to the Democrats. President Trump is an astute political analyst and will sense these developments before they happen. There is a good chance that he will attempt to sway the election and pre-empt his lame duck status with an aggressive foreign policy.

Investment implications are twofold. First, we continue to recommend an equally weighted basket of Swiss 10-year bonds and gold as a portfolio hedge.⁹ Second, risk premium for oil prices should rise in 2018. Not only is the supply-demand balance favorable for oil prices, but geopolitical risks are likely to rise as well.

CHART 7

2017 Goldilocks: S&P 500 Up, VIX Down



⁸ Please see BCA *Geopolitical Strategy*, “Buy In May And Enjoy Your Day!” dated April 26, 2017, available at gps.bcaresearch.com.

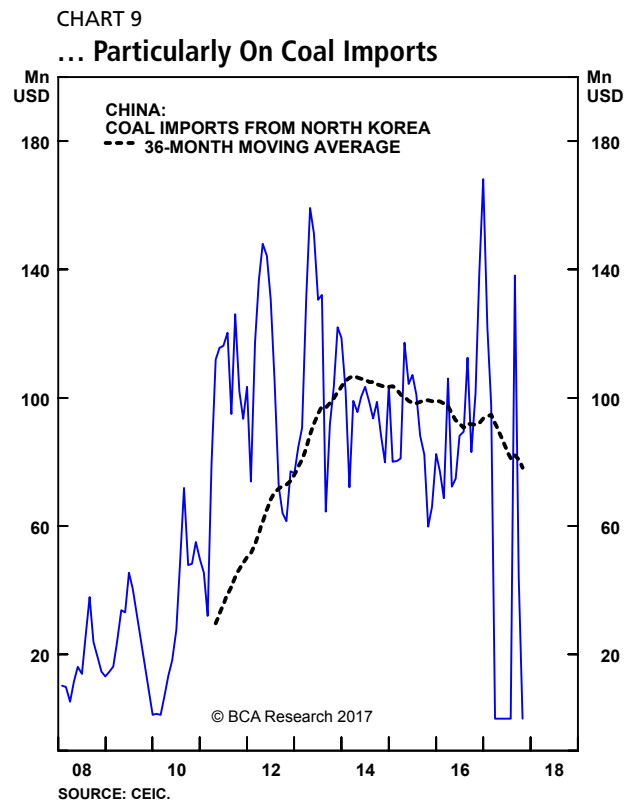
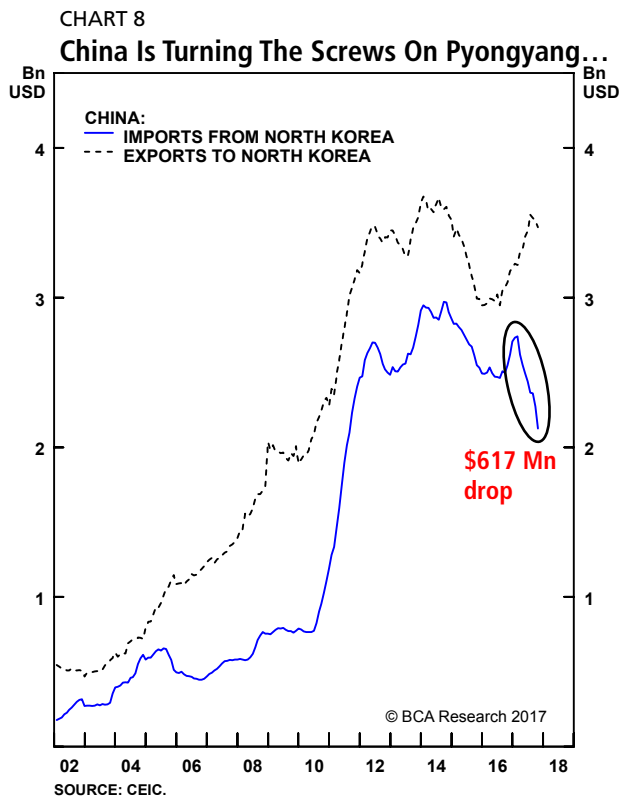
⁹ Please see BCA *Geopolitical Strategy*, “Can Pyongyang Derail The Bull Market?” dated August 16, 2017, available at gps.bcaresearch.com.

China has upped the economic pressure on Pyongyang.

Black Swan 2: A Coup In Pyongyang

Our colleague Peter Berezin, BCA's Chief Global Strategist, has suggested that a *coup d'état* against Supreme Leader Kim Jong-un could be a black swan trigger that spooks the markets.¹⁰ While Peter used the scenario as a tongue-in-cheek way to weave Kim into a narrative that tells of a late 2019 recession, we have long raised North Korean *domestic politics* as the true Korean black swan.¹¹ Here we entertain Peter's idea for three reasons.¹²

First, China has upped the economic pressure on Pyongyang. Under Kim Jong-un, the North Korean state has attempted some limited economic "opening up," namely to China. But the attempt to finalize the nuclear deterrent has delayed an already precarious process. There has now been a \$617 million drop in Chinese imports from the country since the beginning of the year (**Chart 8**), with coal imports particularly affected (**Chart 9**). China has also pulled back on tourism. Meanwhile, North Korea's imports of Chinese goods have risen, which suggests that the country's current account balance may be widening. At some point, if these trends continue, Pyongyang will run out of foreign currency with which to purchase Chinese and Russian imports.



¹⁰ Please see BCA *Global Investment Strategy*, "A Timeline For The Next Five Years: Part II," dated December 1, 2017, available at gis.bcaresearch.com.

¹¹ Please see "North Korea: From Overstated To Understated" in BCA *Geopolitical Strategy*, "Strategic Outlook 2016: Multipolarity & Markets," dated December 9, 2015, available at gps.bcaresearch.com. A notable coup attempt occurred in 1995-96 in North Hamgyong; something like a coup attempt may have occurred in 2013; and defectors from North Korea have reported various stories of plots and conspiracies against the regime.

¹² After all, Peter predicted that Donald Trump would be a serious candidate for the U.S. presidency back in *September 2015!*

Pyongyang could miscalculate and create a crisis from which it cannot deescalate.

Second, Pyongyang is well aware of pressures against the regime. The assassination of Kim Jong-nam – the older half-brother of Kim Jong-un – in February of this year sent a message to the world, but especially to China, which kept Kim Jong-nam around as an alternative to the current Kim. That Pyongyang went to the extreme lengths of poisoning Kim Jong-nam with VX nerve agent in a foreign airport suggests that Kim Jong-un is still worried about threats to his rule.¹³ If Beijing's economic sanctions continue to tighten in 2018, the military could conceivably see the Supreme Leader's aggressive foreign policy as a risk to regime survival.

Third, Pyongyang could miscalculate and create a crisis from which it cannot deescalate. A provocation that disrupts international infrastructure and commerce or kills civilians from the U.S. or Japan could trigger a downward spiral. For instance, an attack against international shipping in the Yellow Sea or Sea of Japan by North Korean submarines would be an unprecedented act that the U.S. and Japan would likely retaliate against.¹⁴ We could see the U.S. following the script from *Operation Praying Mantis* in the Persian Gulf in 1988 – the largest surface engagement by the U.S. Navy since the Second World War. In that incident, the U.S. sunk half of Iran's navy in retaliation for the mining of the guided missile frigate *USS Samuel B. Roberts*. In the case of North Korea, this would primarily mean taking out its approximately 20 *Romeo*-class submarines and an unknown number of domestically-produced – Yugoslav-designed – newly built submarines.

Such a conflict is not our baseline case, but we assign much higher probability to it than an all-out war on the Korean Peninsula. How would Pyongyang react to the sinking of its submarines?

Our best case is that the regime would do nothing. The leadership in Pyongyang is massively constrained by its quantifiable military inferiority. True, North Korea has around 6 million military personnel – about 25% of the total population is under arms – but unfortunately for Pyongyang, this large army is arrayed against one of the most sophisticated defenses ever constructed by man: the Demilitarized Zone (DMZ). To support its ground forces, North Korea would have at its disposal only about 20-30 Mig-29s. Countering two dozen jets would be South Korea's combined 177 F-15s and F-16s, plus American forces that would vary in size depending on how many aircraft carriers were deployed in the vicinity. Given that a single American aircraft carrier holds up to 48 fighter jets, North Koreans would quickly find themselves fighting a losing battle.

Which is why they may never initiate one. If Kim Jong-un insists on retaliation, the military could remove and replace him with, for instance, his 30-year old sister, who has recently risen in party ranks, or his 36-year old brother Kim Jong-chul, who is apparently not entirely uninvolved in the regime despite living an unassuming life in Pyongyang.

¹³ Still worried, that is, even after Kim Jong-un's supposed "consolidation of power" in 2013-14 when he executed his influential and China-aligned uncle, Jang Song Thaek, and purged the latter's faction. There were reports of rogue military operations at that time. With low troop morale reported by North Korean defectors, the possibility of insubordination cannot be ruled out.

¹⁴ A North Korean submarine sank the South Korean corvette Cheonan in 2010, and North Korean artillery shelled two islands killing South Korean civilians later that year, but these attacks were still within the norm of North Korean provocations. The two countries are still technically at war and have contested maritime as well as land borders.

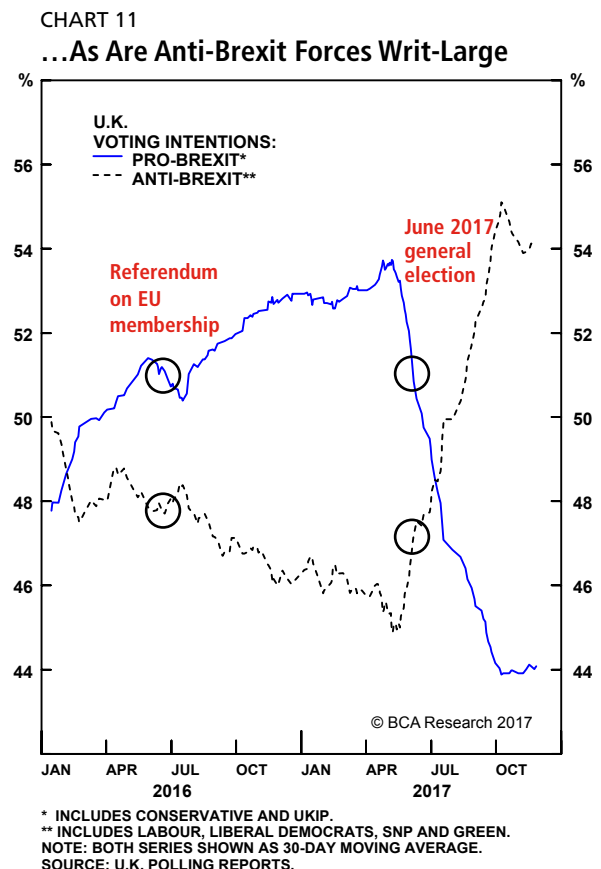
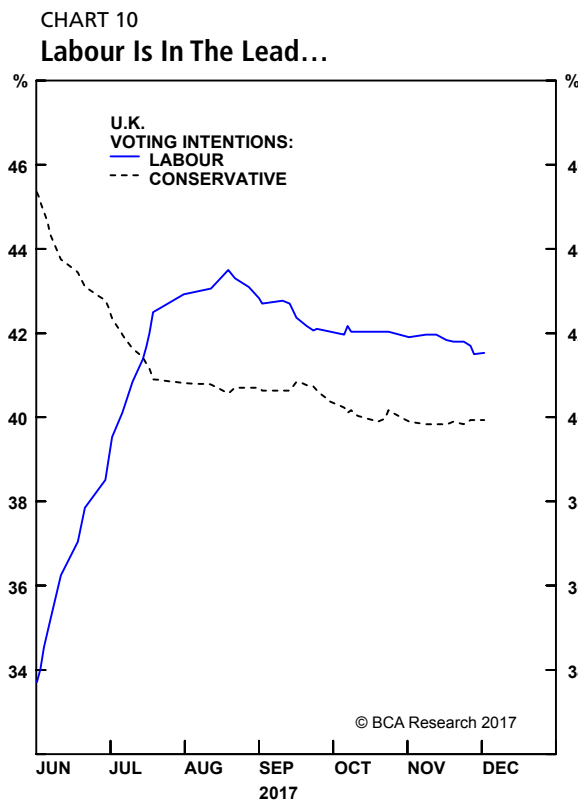
Latest polls suggest that “Bremorse” has set in.

What would a regime change mean for the markets? It depends on whether it is successful or not. An unsuccessful coup could lead to a massive purge and likely a total break in Pyongyang’s relations with the outside world, including China. This would seriously destabilize North Korea’s decision-making. The global community would have to begin contemplating a total war on the Korean peninsula. Alternatively, a successful coup could lead to temporary volatility, yet long-term stability. The military regime in the North may even be open to reunification over the long term, depending on how U.S.-China relations evolve.

Bottom Line: China does not want to cripple North Korea or throw a coup. But it is cooperating with sanctions and could therefore trigger one by mistake. At least two regimes have collapsed in the past when facing the pincer movement of economic sanctions and American military pressure – South Africa’s apartheid regime in 1991 and Slobodan Milošević’s Yugoslavia in 1999. Kim Jong-un could face a similar fate, particularly if China applies excessive economic pressure.

Black Swan 3: Prime Minister Jeremy Corbyn

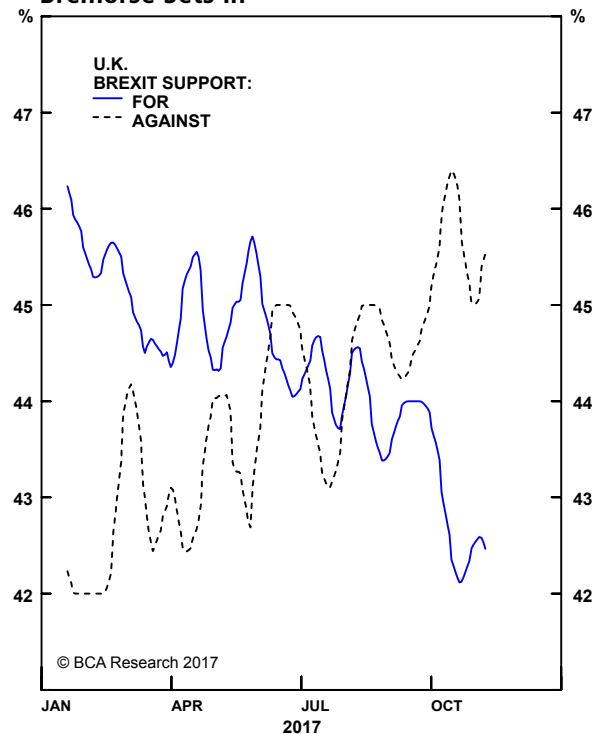
There is no election scheduled in the U.K. for 2018, but if one were to be held the ruling Tories would be in trouble (**Chart 10**). In fact, the combined anti-Brexit forces are currently in a solid lead over the pro-Brexit parties, Conservatives and the U.K. Independence Party (UKIP) (**Chart 11**).



A clear majority in the U.K. thinks that Brexit was a bad idea.

What could trigger such an election? Ultimately, the final exit deal may prompt a new election. More immediately, the ongoing negotiations over the status of the Irish border would be a prime candidate. As our colleague Dhaval Joshi, head of BCA's *European Investment Strategy* noted recently, Prime Minister Theresa May's government is propped up by the Northern Irish Unionists to whom May has promised that there will be no hard border between Northern Ireland and the Republic of Ireland. This will likely create a crisis as the EU negotiations may inadvertently threaten the Good Friday peace agreement. The Northern Ireland Unionists will not tolerate the border moving to the Irish Sea. This would effectively take Northern Ireland into the EU customs union and single market, and out of the U.K.'s domestic trading zone. It would also embolden Scotland's push for single market access. In essence, the Tory government may collapse because of differences within the U.K.'s "three kingdoms" before it even has the chance to collapse over differences with the EU.¹⁵

CHART 12

Bremorse Sets In

THE QUESTION ASKS "IN HINDSIGHT, DO YOU THINK BRITAIN WAS RIGHT OR WRONG TO VOTE TO LEAVE THE EU?"
NOTE: BOTH SERIES SHOWN AS A 15-DAY MOVING AVERAGE.
SOURCE: WHAT UK THINKS.

The market may cheer a Labour-Scottish National Party (SNP) coalition government, a potential winner of an early election, as it would mean that a new referendum on the U.K. leaving the EU could be held. The latest polls suggest that "Bremorse" (remorse for Brexit) has set in, as a clear majority in the U.K. thinks that Brexit was a bad idea (**Chart 12**). However, we suspect that it would take Prime Minister Jeremy Corbyn several months, if not over a year, before he called such a referendum. First, Corbyn is on record supporting a soft Brexit, not a new referendum, and he has only just begun to adjust this position. Second, a soft Brexit is far more difficult to achieve than the hard Brexit of Prime Minister Theresa May since it requires the U.K. to subvert its sovereignty in significant ways (i.e., accepting EU regulation) in order to access the EU Common Market. Third, the most politically palatable way to re-do the referendum is to put a U.K.-EU deal up to the people to decide, which means that Corbyn first has to spend a long time negotiating that deal.

The market may be disappointed to find out that PM Corbyn is not willing or able to put the question of the U.K.'s EU exit up to a vote right away. Instead, the market would have to deal with Corbyn's economic policies, which are markedly left-wing. Corbyn harkens back to the *110 Propositions pour la France* of French President François Mitterrand, if not exactly to the ghastly 1970s of the U.K.'s own history. A brief sample platter of Labour's proposals under Corbyn includes:

¹⁵ Please see BCA *Geopolitical Strategy*, "[Strategic Outlook 2017: We Are All Geopolitical Strategists Now](#)," dated December 14, 2016, available at gps.bcaresearch.com.

Corbyn is not kidding about socialism.

- Increasing the U.K. corporate tax rate to 26% from 20%;
- Increasing the minimum wage;
- Forcing companies not to out-source operations;
- Nationalizing public infrastructure companies.

How should investors play a Corbyn victory? We think that the U.K. pound would likely rally on a higher probability of reversing Brexit. However, this “no Brexit” rally would quickly dissipate as PM Corbyn reiterated his promise to fulfill the democratic desire of the population to exit the EU. While Corbyn’s negotiating team set to work on getting a better Brexit deal out of Brussels, the market would quickly turn its attention to the reality that Corbyn is not kidding about socialism.¹⁶ The result would be a selloff in the pound.

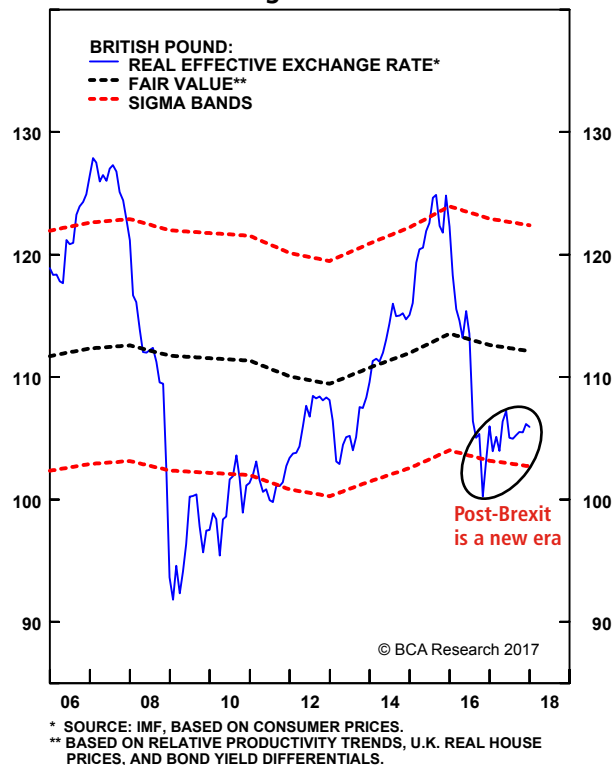
Bottom Line: BCA’s *Foreign Exchange Strategy* has pointed out that the pound remains well below its fair value (**Chart 13**). However, as BCA’s chief FX strategist Mathieu Savary points out, the valuation technicals may be misleading as the currency has entered a new economic, trade, and political paradigm. A Corbyn premiership is not clearly positive for Brexit, while opening up a completely different question: is the U.K. also exiting the free-market, *laissez-faire* paradigm that it has helped lead since May 1979?

Black Swan 4: Italy Is A Black Swan Hiding In Plain Sight

The spread between Italian and German 10-year government bonds has narrowed 72 basis points since April, suggesting that investors have grown comfortable with the risks associated with the Italian election due by May (**Chart 14**). There are three reasons why we agree with the market:

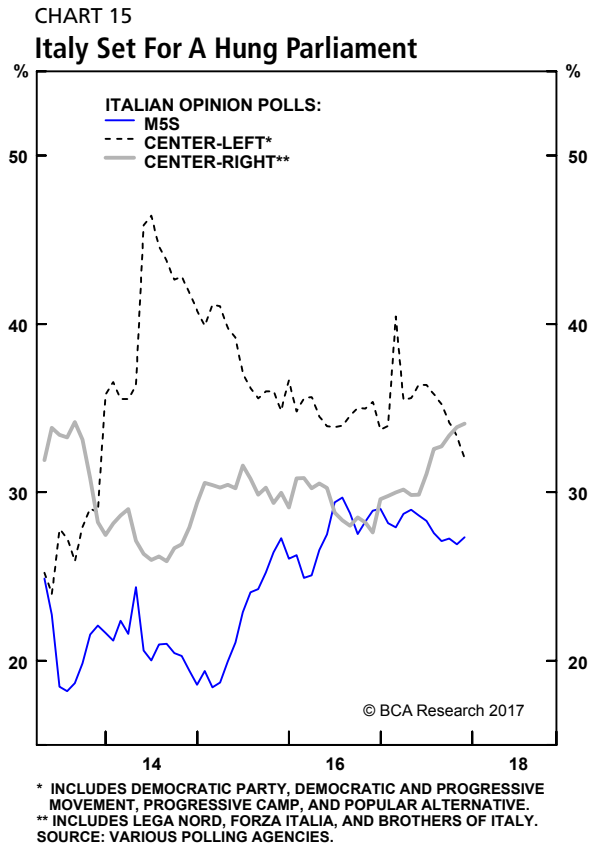
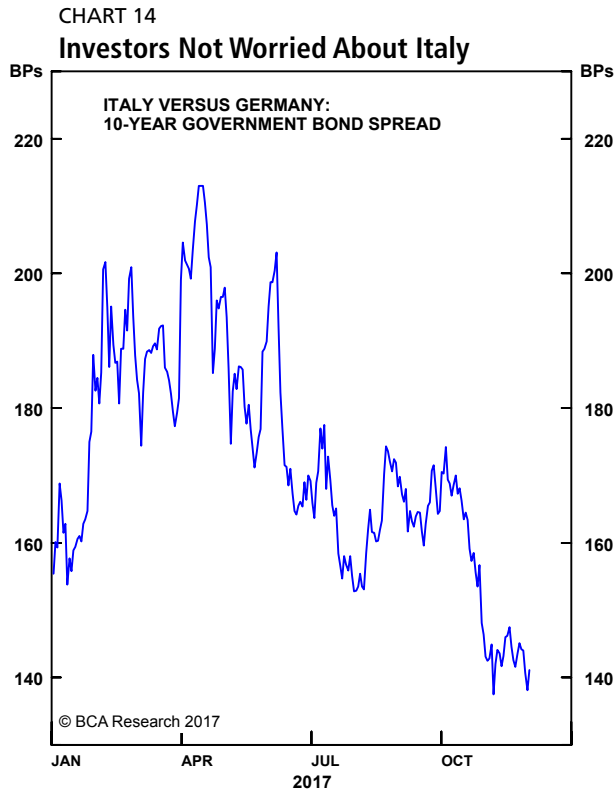
- New electoral rules passed in October make it highly likely that a center-right alliance will take shape between the *Forza Italia* of former Prime Minister Silvio Berlusconi and the mildly Euroskeptic *Lega Nord*. These two could form a government alone, or in a grand coalition with the center-left Democratic Party (PD) (**Chart 15**).

CHART 13
Pound Valuation Reflects Post-Brexit Paradigm



¹⁶ To help investors get ready for a Corbyn premiership, we thought his appearance on President Nicolás Maduro’s weekly radio show would be a good place to start: https://www.youtube.com/watch?v=7eL8_wtS-0I

Investors have grown comfortable with the risks associated with the Italian election due by May.



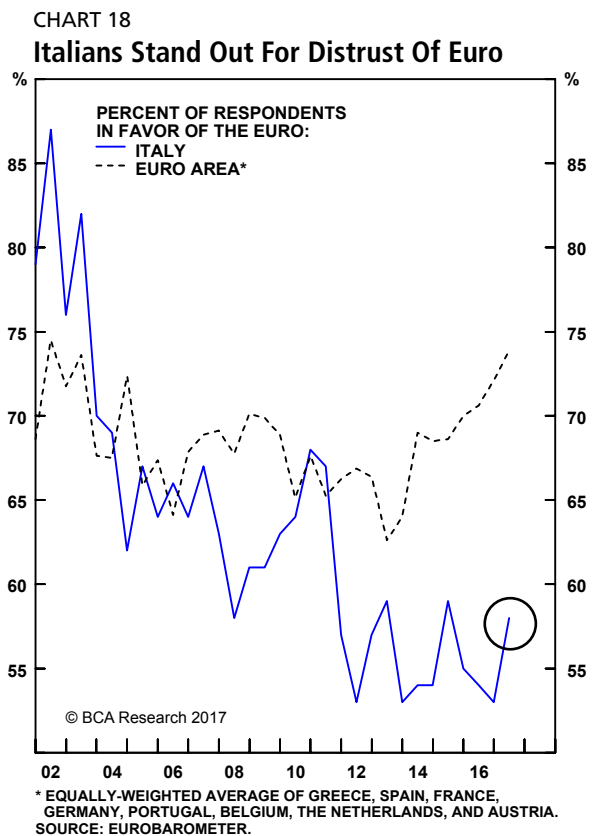
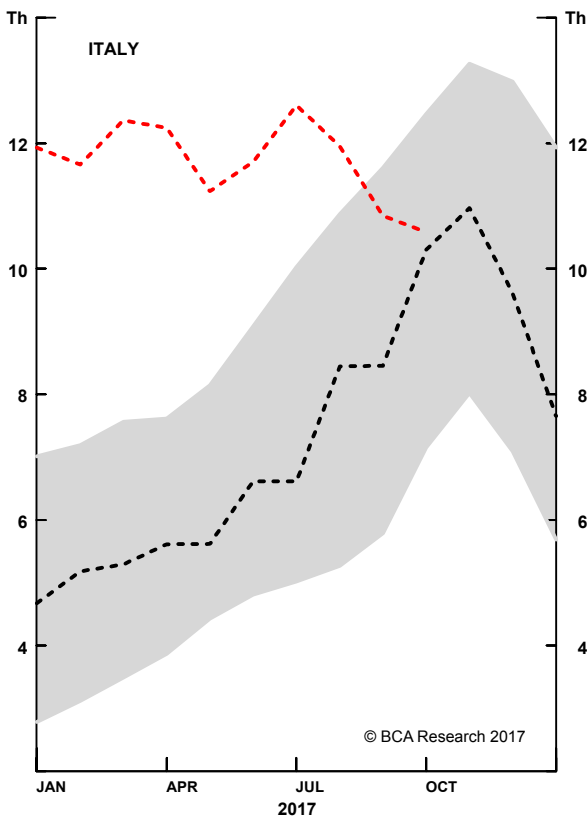
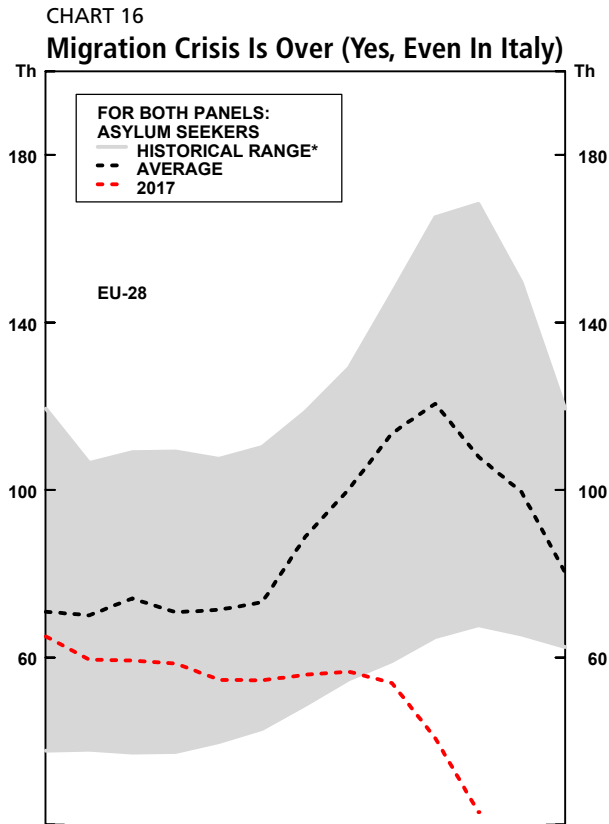
- Both *Lega Nord* and the anti-establishment Five Star Movement (M5S) have moved to the center on the questions of European integration and membership in the currency union;
- The European migration crisis is over and its supposedly constant impact on Italy is waning (**Chart 16**). Meanwhile, Italy's economy is on the mend, with its banking sector finally following the Spanish trajectory with a drop in non-performing loans (**Chart 17**).

That said, we continue to warn clients that the underlying support for the common currency is lagging in Italy. The support level is just above 55%, despite a strong rally in the rest of the Euro Area (**Chart 18**). Similarly, over 40% of Italians appear confident in the country's future outside of the EU (**Chart 19**).

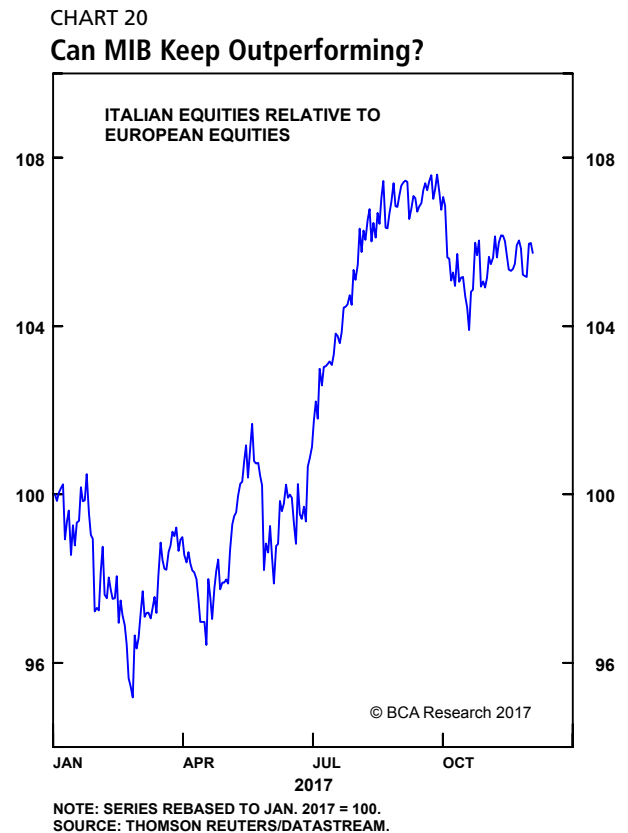
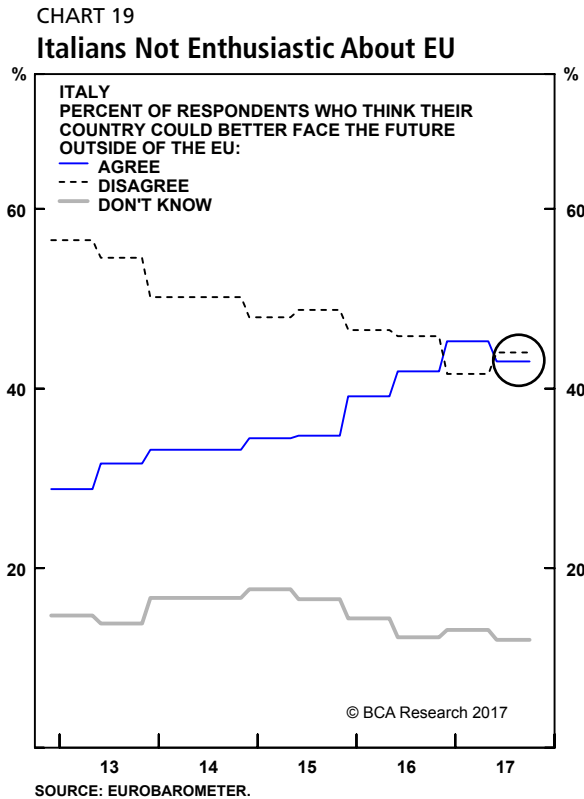
Our baseline case is that Italian elections will produce a weak and ineffective government, though crucially not a Euroskeptic one. How could we be wrong?

Easy: one of the three reasons why we agree with the market could shift. For example, M5S could alter its pledge to remain in the Euro Area and surprisingly win on a Euroskeptic platform. Why would the party do something like that? Because it makes sense!

The underlying support for the common currency is lagging in Italy.



Italian election risk is completely unappreciated by the markets.



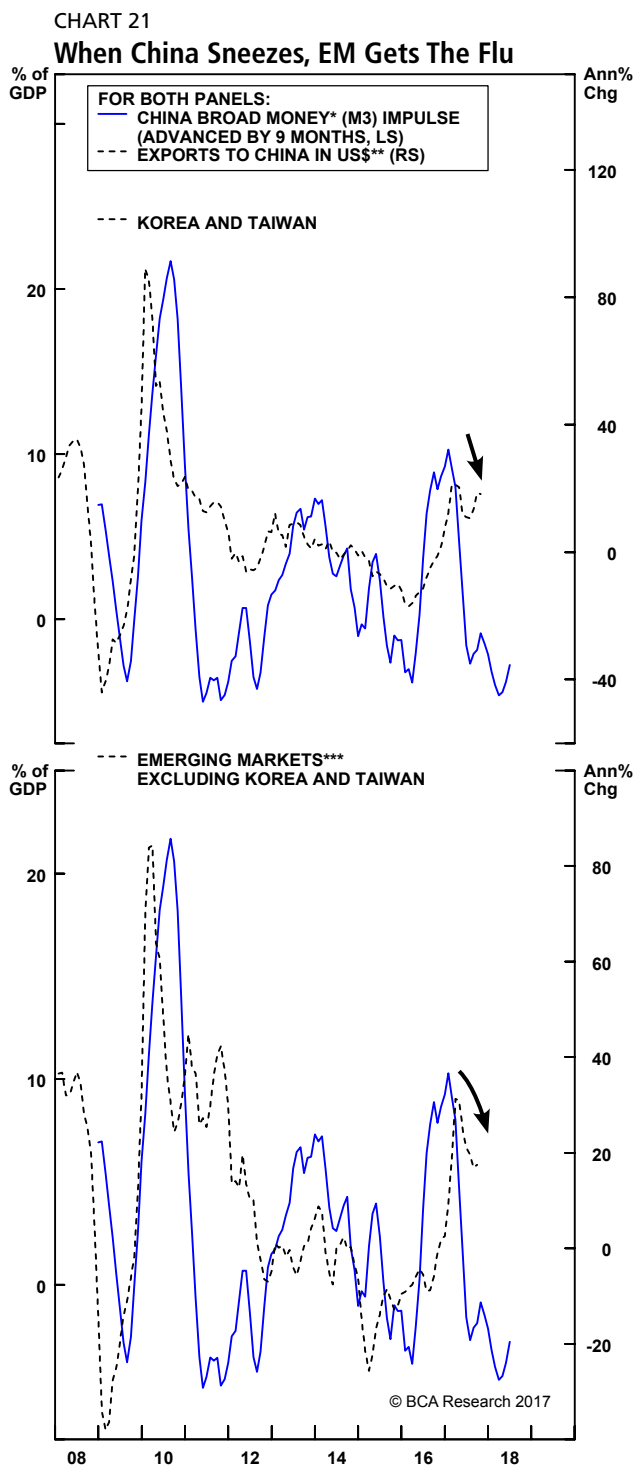
Polls are already showing that M5S's recent moderation on the euro is not paying political dividends, with its support sharply sliding since the summer. With power quickly slipping out of reach for the party, why wouldn't they put a down-payment on the next election by trusting the underlying trend in opinion polling and investing in a Euroskeptic platform that might pay political dividends in the future? If we think that this strategy makes sense based on the data, then the M5S leadership might as well.

Another scenario is a major terror attack perpetrated by recent migrants from North Africa. Italy has been spared from radical Islamic terror. As such, the country may not be as desensitized to it as other European nations. A strong showing by *Lega Nord* and the far-right *Fratelli d'Italia* could force *Forza Italia* to move to the right as well.

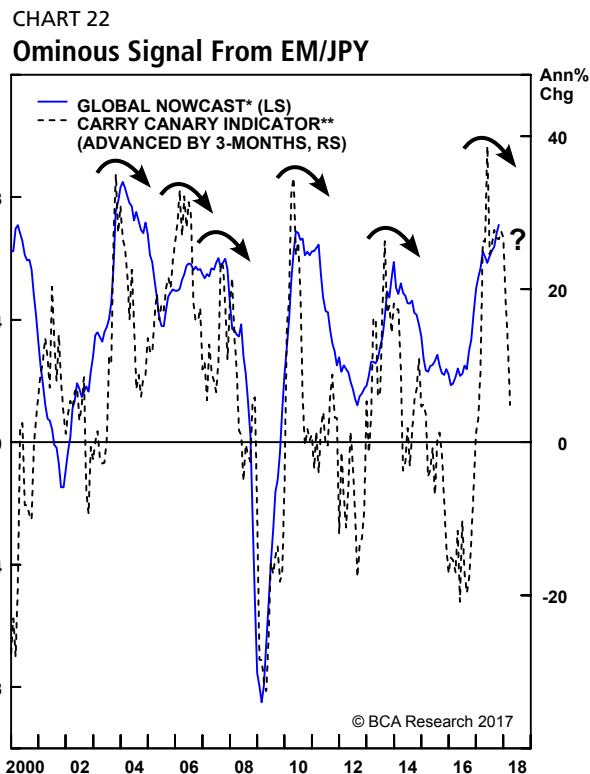
On our travels, we have noticed that few investors want to talk about Italy. There is wide acknowledgement of the structural trends pointing to a rise of Euroskepticism in the country, but also an appearance of consensus that this is a problem for a later date. We agree with this consensus, but our conviction is low.

Bottom Line: Italian election risk is completely unappreciated by the markets. The country's equity market is one of the best performing this year (**Chart 20**), while government bonds are pricing in no political risk as the election approaches. We believe that shorting both would present a good hedging opportunity.

Chinese policy-induced credit contraction will be negative for emerging markets.



* BCA CALCULATION: AGGREGATE OF NON-FINANCIAL INSTITUTION & HOUSEHOLD DEPOSITS, OTHER FINANCIAL CORPORATION DEPOSITS, AND OTHER LIABILITIES.
SOURCE: PBOC STATISTICS OF COMMERCIAL BANKS.
** SHOWN AS A 3-MONTH MOVING AVERAGE.
*** INCLUDING BRAZIL, CHILE, MEXICO, COLOMBIA, PERU, INDIA, INDONESIA, MALAYSIA, PHILIPPINES, THAILAND, RUSSIA, CZECH REPUBLIC, POLAND, HUNGARY, TURKEY, AND SOUTH AFRICA.



* BASED ON ISM NEW ORDERS-TO-INVENTORY RATIO, U.S. INTERMODAL FREIGHT CARLOADS, U.S. HIGH-YIELD OAS FOR INDUSTRIALS, EUROPEAN BUSINESS CONFIDENCE, JAPANESE BUSINESS CONFIDENCE FOR SMALL/MEDIUM-SIZED ENTERPRISES, CHINESE FINANCIAL CONDITIONS, KOREAN EXPORTS, BALTIMORE DRY INDEX, GLOBAL EARNINGS-TO-INVENTORY RATIO, AND GLOBAL INDUSTRIALS/CONSUMER STAPLES RELATIVE EQUITY PERFORMANCE.
** AVERAGE TOTAL RETURN OF RUB/JPY, ZAR/JPY AND BRL/JPY. REBASED TO 100 ON JANUARY 2000.

Black Swan 5: Bloodbath In Latin America

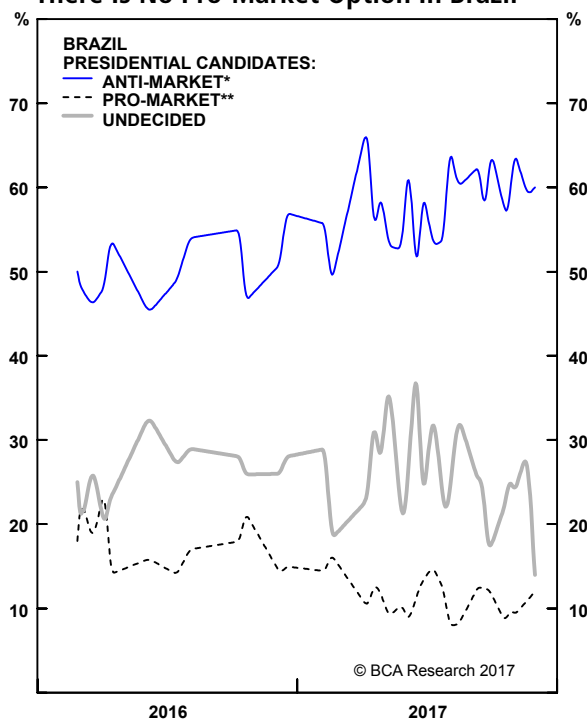
Our last black swan risk is not really a black swan to us but a forecast we believe will happen. As we outlined last month, we fear that Chinese policy-induced credit contraction will be negative for emerging markets, as BCA's *Emerging Markets Strategy* data asserts (**Chart 21**). BCA's *Foreign Exchange Strategy* has pointed out in its latest missive that its "Carry Canary Indicator" – performance of EM/JPY crosses – is signaling that a sharp deceleration in global growth is coming in Q1 2018 (**Chart 22**).¹⁷ Latin America (especially Chile, Peru, and Brazil) is the region most exposed to the combination of a slowing China and a China-induced drop in commodity prices.

¹⁷ Please see BCA *Foreign Exchange Strategy*, "Canaries In The Coal Mine Alert: EM/JPY Carry Trades," dated December 1, 2017, available at fes.bcaresearch.com.

If the “median voter” in Brazil supported reforms, the current Temer administration would have passed them already.

CHART 23

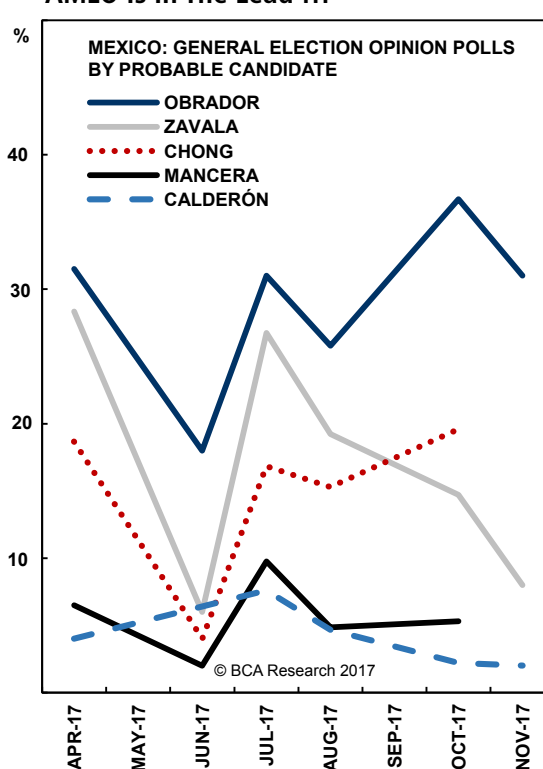
There Is No Pro-Market Option In Brazil



* INCLUDES MARINA SILVA, LUIZ LULA, AND JAIR BOLOSONARO.
 ** INCLUDES GERALDO ALCKMIN AND CIRO GOMES.
 SOURCE: VARIOUS POLLING AGENCIES.

CHART 24

AMLO Is In The Lead ...



SOURCE: VARIOUS POLLING AGENCIES.

From a political perspective, this is most negative for Brazil and Mexico. Both countries hold elections in 2018, with the Mexican election further complicated by the ongoing NAFTA renegotiations. We believe that the future of NAFTA hangs in the balance, with a high probability that the Trump administration will decide to abrogate the deal.¹⁸

Currently, anti-market political forces are in the lead in both countries. In Brazil, no pro-market candidate is leading in the polls (**Chart 23**). In fact, anti-market options have a 48% lead on the centrists. Granted, there are ten months until the election, but we are skeptical that the Brazilian population will change its mind and support reformers. If the “median voter” in Brazil supported reforms, the current Temer administration would have passed them already.

In Mexico, anti-establishment candidate Andrés Manuel López Obrador (also known as AMLO) is leading in the polls (**Chart 24**), as is his new party Morena (**Chart 25**). If Morena wins the most seats in the Mexican Congress, it will be more difficult for the opposition parties to combine to counter it.¹⁹

¹⁸ Please see *BCA Geopolitical Strategy and Global Investment Strategy*, “NAFTA – Populism Vs. Pluto-Populism,” dated November 10, 2017, available at gps.bcaresearch.com.

¹⁹ Please see *BCA Geopolitical Strategy and Emerging Markets Strategy* “Update On Emerging Markets: Malaysia, Mexico, And The United States Of America,” dated August 9, 2017, available at gps.bcaresearch.com.

We do not think the EM rally is sustainable in 2018.

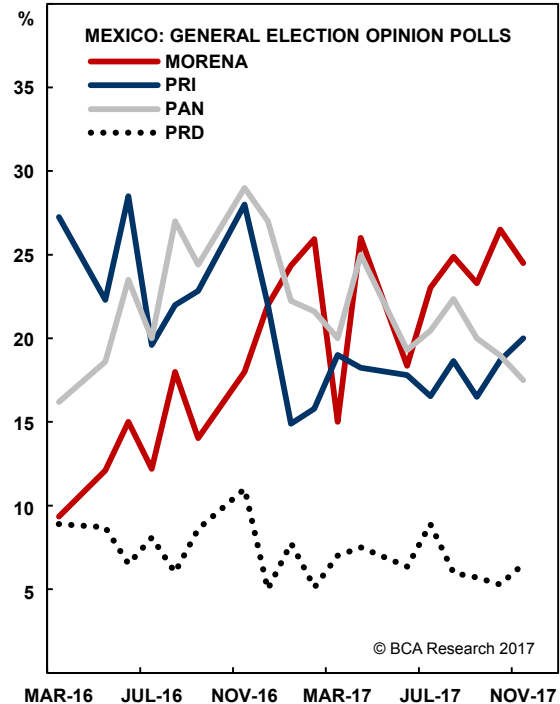
In 2017, we argued that politics were not a tailwind for EM asset performance. Instead, investors chased yield in the favorable economic context of Chinese economic stimulus, low developed market yields, and a weak U.S. dollar. In reality, politics was just as dire in much of EM as it was in prior years of asset underperformance, but the surge of global liquidity in 2018 masked the problems.

We do not think the EM rally is sustainable in 2018. As the global economic and market context shifts, investors will start paying attention. Suddenly, political problems will enter into focus. Here we argue that Brazil and Mexico are likely to be the main targets of portfolio outflows, but a strong case could be made for South Africa and Turkey as well.²⁰

Bottom Line: Political risk in Latin America will return.

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Chief Geopolitical Strategist
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CHART 25
...As Is Morena



SOURCE: VARIOUS POLLING AGENCIES.

²⁰ Please see BCA *Geopolitical Strategy*, “[South Africa: Crisis Of Expectations](#),” dated June 28, 2017, and “[Turkey: Military Adventurism And Capital Controls](#),” dated December 7, 2016, available at gps.bcaresearch.com.

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We Read (And Liked) ... *Inside China's Shadow Banking: The Next Subprime Crisis?*

Just as black swans refer to low-probability, high-impact risks, gray rhinos, as defined by Michele Wucker, refer to high-probability, high-impact risks. The idea of the “gray rhinoceros” went viral this summer after China’s Communist Party mouthpiece, *The People’s Daily*, published an editorial in mid-July warning that the country’s financial regulators needed to maintain a “sense of urgency” in combating financial risks. They warned “both against the ‘black swan,’ but also against the ‘gray rhinoceros,’ [as] all kinds of risk signs cannot be taken lightly.”

China’s propaganda chiefs wrote this editorial the week after the National Financial Work Conference, an important congregation of China’s top financial authorities and other policymakers that occurs once every five years and sets the trajectory for financial regulation and reforms. This year’s meeting made the significant conclusion that China’s various financial regulators needed to be better controlled by the central bank, better coordinated amongst each other, and more effective in tackling the build-up of systemic financial risks in the economy. It was the culmination of a wave of policy tightening that began in October 2016 in the property sector, expanded in December 2016, and intensified in April with a special Politburo meeting.

That gray rhinos are *obvious* entails that much has been written about them already. This is certainly true of Chinese financial risks. So to get a better understanding of China’s attempt to tackle its financial gray rhinos, we thought we would turn to an earlier account of the problem: Joe Zhang’s *Inside China’s Shadow Banking: The Next Subprime Crisis?*¹ Despite the alarmist title, this short book is insightful, not over-argued, and provides a useful primer in shadow banking and a helpful benchmark given the explosive growth in the sector both before and after the book’s publication in 2014.

Joe Zhang is a corporate exec and editorialist with a background in prominent investment banks and an early stint in China’s central bank. The book is more engaging than one might expect of an extended analysis of China’s shadow sector because it mixes this analysis with Zhang’s personal memoir about his venture as chairman of Wansui Micro Credit in Guangzhou from 2011-12.

Zhang’s style is admirably frank. Responding to criticisms that microcredit should focus on alleviating poverty rather than making profits, he responds, “Microcredit is just a business, like any other business. Does it hurt the poor? I don’t know. But an equally funny question is, does a department store make consumers poorer?”

His candor is especially an asset when it comes to dealing with the realities (I should say disappointments) of China’s centrally planned economy and constant promises of deeper market-oriented reform. Speaking to a group of college graduates, Zhang warns, “in the 1980s, the government made us believe that liberalization of interest rates and, indeed, the Renminbi was only 5 years away. Those five years have never ended. The five-year targets have become constant rolling targets.”

The book does not really answer the question in the subtitle, whether China faces a subprime crisis. Instead it argues that the real dangers lie in the country’s ballooning corporate leverage, within the property sector and local governments, and that shadow banking compounds these risks because developers and local government financing vehicles are the biggest users of it.

The gist of the argument is structural and as relevant today as in the heady days of the credit splurge when Zhang ran his microcredit firm: shadow banking is a symptom, not a cause, of China’s financial

¹ Honolulu: Enrich Professional Publishing, 2014, 166 pages.

disease. Financial repression is the cause. Nominal wage growth is much higher than underlying labor productivity. Excessive state control of interest rates entails the suppression of deposit rates beneath the long-term inflation rate. Negative real rates drive savers into the property market and alternative investments. State control of lending rates prevents small, risky and private firms from accessing credit. The shadow sector thus emerges to mediate between the vast savings looking to escape inflation and these underprivileged firms.

As a result, a “dual credit market” has emerged, one for formal and privileged borrowers, the other for informal underdog borrowers. A war between regulators and financial innovators has also emerged, with regulators often thwarting themselves because of overlapping and inefficient bureaucracy, while also squelching small business growth and innovation.

The solution, if the government wishes to support SMEs, savers, and disadvantaged borrowers (i.e. all those who suffer from excessive money and credit because they lack real assets that are appreciating with inflation) is for the People’s Bank of China to embark on a genuine rate hike cycle, reining in money growth, dis-inflating the economy and cutting back on the waste of resources. “Unfortunately,” Zhang admits, “rising unemployment rates will be a by-product.”

There’s the rub. China needs to tighten policy without inducing a recession and wave of unemployment that would jeopardize stability and Communist Party supremacy.

This is where Zhang’s book becomes relevant to today, a time when the central bank and financial regulators are addressing the very lack of coordination that Zhang identifies, and are preparing to upgrade their coordinated campaign against excessive liquidity, leverage, and financial innovation. The centralizing and pro-state aspect of this campaign is undoubtedly repugnant to Zhang, even as the gradual liberalization of interest rates and tightening of monetary conditions is necessary in his view.

The critical question lies in the state’s tolerance for pain. Has anything changed? One of Zhang’s key assumptions is that China’s collective leadership model is inherently risk averse. “No one great man or great entity can force the necessary changes. It will require national consensus.” After Xi Jinping’s extraordinary consolidation of power since 2012, however, this model has evolved. If it is true, as Xi and his top economic planners have acknowledged, that China’s financial stability is a national systemic risk, then it cannot be assumed that China’s talk of financial tightening, this time around, is merely talk.

Either way, Zhang should get the credit both for spotting the gray rhino early on and describing it clearly and accurately for those of us trying to understand the ramifications of the state’s attempt to regulate and regularize it in 2018. He runs the gamut of the formal and informal financial sector, explaining the mechanics of non-bank entities, like pawnshop lenders, microcredit firms, trust companies, and guarantee companies, and their relations with local governments and larger state-owned commercial banks. And while he cannot avoid the alphabet soup of Chinese finance – AMCs, P2P lenders, IPOs, WMPs, etc – in each instance he clarifies rather than obscures the inner workings of the system.

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GEOPOLITICAL CALENDAR

DATE	COUNTRY	EVENT	IMPORTANCE
THREE MOST IMPORTANT EVENTS FOR DECEMBER:			
DEC 8, 12, 2017	U.S.	U.S. BUDGET, DEBT CEILING, AND SPECIAL ELECTION	HIGH
The Republicans are in the process of negotiating a joint tax bill between the two legislative houses even as they seek a continuing resolution to fund the government in lieu of 2018 fiscal appropriations. The debt ceiling is unlikely to be breached because neither party could withstand the public backlash if the federal government failed to deliver on social payments. But a partial government shutdown could ensue, particularly if the Democrats insist on resolving the status of "Dreamers," illegal immigrants who came to the U.S. as children, ahead of the March 2018 deadline that Trump has given Congress on the matter. Meanwhile, the Alabama special election on Dec. 12 could see the Republican majority in the Senate reduced to a single seat if scandal-tainted Roy Moore loses to Democratic challenger Doug Jones. A GOP loss could jeopardize the tax bill if it has not passed by Jan. 3, 2018.			
DEC 12, 2017	U.S., IRAN, ISRAEL	CONGRESS TO DECIDE WHETHER TO REIMPOSE IRAN SANCTIONS	HIGH
President Trump on Oct 13 decertified Iran's full implementation of the 2015 nuclear agreement under the U.S.'s Iran Nuclear Agreement Review Act. This gave Congress 60 days to determine whether to impose new sanctions. Congress may demur from new sanctions. The bigger question is whether Trump will use unilateral executive action to scrap the agreement, which would significantly increase geopolitical risks in the Middle East. Trump could also shift the U.S.-recognized capital of Israel to Jerusalem on Dec. 11, setting off a firestorm in the Muslim world.			
DEC 2017	CHINA	CENTRAL ECONOMIC WORK CONFERENCE	HIGH
The annual economic meeting sets targets and policies for the year ahead. This is the first such meeting after President Xi Jinping's consolidation of power and reaffirmation of his "reform" agenda at the 19th National Party Congress. The question is not whether the GDP growth target will be lower, but whether there will be one at all. Also, will credit and monetary policies tighten up? Finally, will any leaks about other reform priorities for 2018 trickle out of the meeting -- such as financial regulation, property curbs, local government debt controls, SOE restructuring, or a new raft of overcapacity cuts?			
DEC 6, 2017	GCC, QATAR	RESULT OF GULF COUNTRY SUMMIT ON QATAR EMBARGO	MEDIUM
DEC 9, 2017	INDIA	GUJARAT STATE ELECTION DUE	HIGH
DEC 11, 2017	US, ISRAEL, PALESTINE	TRUMP MAY RECOGNIZE JERUSALEM AS CAPITAL OF ISRAEL	HIGH
DEC 12, 2017	FRANCE, WORLD	INTERNATIONAL CLIMATE SUMMIT	MEDIUM
DEC 12-13, 2017	U.S.	FEDERAL RESERVE OPEN MARKET COMMITTEE MEETS	HIGH
DEC 14, 2017	EURO AREA	ECB GOVERNING COUNCIL HOLDS MONETARY POLICY MEETING	HIGH
DEC 14-15, 2017	U.K., EU	EUROPEAN COUNCIL MEETING; SECOND DEADLINE FOR FIRST-PHASE BREXIT TALKS	HIGH
DEC 16-20, 2017	SOUTH AFRICA	RULING ANC'S ELECTIVE CONFERENCE TO CHOOSE NEW LEADERS AND PARTY CHAIR	HIGH
DEC 20-21, 2017	JAPAN	BOJ MONETARY POLICY COMMITTEE MEETS	HIGH
DEC 31, 2017	U.K.	BREXIT PRINCIPLES AGREED WITH EU (TENTATIVE DEADLINE)	HIGH
DEC 31, 2017	U.S.	TAX BILL PASSES CONGRESS (TENTATIVE DEADLINE)	HIGH
DEC 31, 2017	U.S., CANADA, MEXICO	TENTATIVE DEADLINE FOR NAFTA RENEGOTIATION	HIGH
DEC 31, 2017	GREECE, EU, IMF	TENTATIVE DEADLINE FOR IMF TO DECIDE ON FURTHER GREEK BAILOUT PARTICIPATION	HIGH

DATE	COUNTRY	EVENT	IMPORTANCE
2018	BAHRAIN	PARLIAMENTARY ELECTIONS (UNSCHEDULED)	LOW
2018	THAILAND	PARLIAMENTARY ELECTIONS; RETURN TO CIVILIAN RULE	HIGH
2018	BRICS, SOUTH AFRICA	TENTH BRICS SUMMIT TO BE HELD IN JOHANNESBURG	LOW
2018	SLOVENIA	GENERAL ELECTION	LOW
JAN 22, 2018	JAPAN	BOJ MONETARY POLICY COMMITTEE MEETS	HIGH
JAN 25, 2018	EURO AREA	ECB GOVERNING COUNCIL HOLDS MONETARY POLICY MEETING	HIGH
JAN 28, 2018	FINLAND	PRESIDENTIAL ELECTION	LOW
JAN 30, 2018	U.S.	FEDERAL RESERVE OPEN MARKET COMMITTEE MEETS	HIGH
FEB 2018	CUBA	NATIONAL ASSEMBLY ELECTION (UNSCHEDULED)	MEDIUM
FEB 8, 2018	EGYPT	EARLIEST DATE OF PRESIDENTIAL ELECTION; MAY 8 IS DEADLINE	HIGH
FEB 9-25, 2018	SOUTH KOREA	WINTER OLYMPICS, PYEONGCHANG	HIGH
MARCH 8, 2018	EURO AREA	ECB GOVERNING COUNCIL HOLDS MONETARY POLICY MEETING	HIGH
MARCH 9, 2018	JAPAN	BOJ MONETARY POLICY COMMITTEE MEETS	HIGH
MARCH 11, 2018	COLOMBIA	PARLIAMENTARY ELECTION DUE	MEDIUM
MARCH 17, 2018	AUSTRALIA	SOUTH AUSTRALIA STATE ELECTION	LOW
MARCH 18, 2018	RUSSIA	GENERAL ELECTION	HIGH
Russian President Vladimir Putin's re-election is a foregone conclusion, so the real question is whether the election will usher in any policy shifts, such as domestic economic reforms or improved relations with Europe or the U.S.			
MARCH 20, 2018	U.S.	FEDERAL RESERVE OPEN MARKET COMMITTEE MEETS	HIGH
MARCH 22-23, 2018	EU	EUROPEAN COUNCIL MEETING	HIGH
MARCH 27, 2018	COLOMBIA	PRESIDENTIAL ELECTION	MEDIUM
APRIL-MAY 2018	HUNGARY	PARLIAMENTARY ELECTION DUE	MEDIUM
APRIL-MAY 2018	IRAQ	GENERAL ELECTION DUE	HIGH
APRIL 8, 2018	JAPAN	BOJ GOV KURODA TERM EXPIRES	HIGH
His reappointment is legal and likely, although not standard. Deputy governors Kikuo Iwata and Hiroshi Nakaso are also up for a possible second term.			
APRIL 13-14, 2018	OAS, PERU	EIGHTH SUMMIT OF THE AMERICAS TO BE HELD IN LIMA	LOW
APRIL 26, 2018	EURO AREA	ECB GOVERNING COUNCIL HOLDS MONETARY POLICY MEETING	HIGH
APRIL 26, 2018	JAPAN	BOJ MONETARY POLICY COMMITTEE MEETS	HIGH
MAY 2018	LEBANON	PARLIAMENTARY ELECTIONS (UNSCHEDULED)	LOW
MAY 2, 2018	U.S.	FEDERAL RESERVE OPEN MARKET COMMITTEE MEETS	HIGH
MAY 3, 2018	U.K.	LOCAL ELECTIONS	MEDIUM
MAY 8, 2018	EGYPT	PRESIDENTIAL ELECTION DUE	HIGH
Egypt is a major power in the Middle East and a potential geopolitical "black swan." It is still struggling to maintain stability in the wake of the Arab Spring, the coup that brought General Sisi to power, and the fanning out of ISIS fighters after their defeat in Syria. Badly needed structural economic reforms are also imposing pain on the populace.			

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DATE	COUNTRY	EVENT	IMPORTANCE
MAY 20, 2018	ITALY	GENERAL ELECTION DUE	HIGH
Italian elections are the highest probability risk to European integration at the moment. Italian opinion polling reveals that Italians are the most skeptical of the euro, and most optimistic about life outside the EU, than any EU member other than the U.K., which of course is leaving the common market. Moreover, the anti-establishment Five Star Movement is neck-in-neck with the ruling Democratic Party, though it has moderated somewhat on euro membership. We do not think Italy will ultimately leave, but the elections will have a messy result. Eventually a market riot may be necessary to snap Italy back into the union.			
MAY 27, 2018	COLOMBIA	PRESIDENTIAL ELECTION	MEDIUM
MAY 28, 2018	INDIA	KARNATAKA STATE ELECTION DUE	MEDIUM
JUNE 2018	INDONESIA	LOCAL ELECTIONS (UNSCHEDULED)	MEDIUM
JUNE 2018	SOUTH KOREA	LOCAL ELECTIONS	MEDIUM
JUNE 5, 2018	PAKISTAN	GENERAL ELECTION EARLIEST DATE (DUE BY SEPT 3)	MEDIUM
JUNE 8-9, 2017	G7, CANADA	G7 SUMMIT AT CHARLEVOIX, QUEBEC	MEDIUM
JUNE 13, 2018	U.S.	FEDERAL RESERVE OPEN MARKET COMMITTEE MEETS	HIGH
JUNE 28, 2018	CHINA, HK, BRI	BELT AND ROAD INITIATIVE (BRI, OBOR) SUMMIT IN HONG KONG	MEDIUM
JUNE 28-29, 2018	EU	EUROPEAN COUNCIL MEETING	HIGH
JULY 1, 2018	MEXICO	GENERAL ELECTION	HIGH
The Mexican election in 2018 will be a watershed moment. The top two candidates are the former wife of ex-President Felipe Calderon, Margarita Zavala, and the left-wing firebrand Andres Manuel Lopez Obrador, better known by his acronym AMLO. A return of the center-right PAN to power, which Zavala represents, would be market-positive. However, we do not think that AMLO would necessarily be a negative. While he is riding the wave of anti-Trump sentiment, Obrador lacks support in the legislature for any truly dramatic policy changes. The question for investors, however, is whether PAN can get enough seats in congress to effect and implement pro-market reforms.			
JULY 7, 2018	AFGHANISTAN	GENERAL ELECTION	LOW
JULY 11-12, 2018	NATO, BELGIUM	NATO SUMMIT IN BRUSSELS	MEDIUM
JULY 26, 2018	EURO AREA	ECB GOVERNING COUNCIL HOLDS MONETARY POLICY MEETING	HIGH
JULY 29, 2018	CAMBODIA	GENERAL ELECTION	MEDIUM
JULY 30, 2018	JAPAN	BOJ MONETARY POLICY COMMITTEE MEETS	HIGH
JULY 31, 2018	U.S.	FEDERAL RESERVE OPEN MARKET COMMITTEE MEETS	HIGH
AUG 4, 2018	AUSTRALIA	SENATE ELECTION (EARLIEST)	MEDIUM
AUG 24, 2018	MALAYSIA	GENERAL ELECTION DUE	HIGH
Malaysia has seen the rise of a vibrant opposition movement for the first time in its history over the past ten years, but the opposition has had bad luck with the election calendar. Under Prime Minister Najib Razak, the ruling Barisan Nasional coalition is regaining its dominant position and cracking down on dissent. The next general election will witness a challenge to Najib from the ruling coalition's erstwhile heavyweights, but Najib is likely to prevail. Despite his government's many ills, the recovery of commodity prices, and Najib's structural reforms, bode well for the country relative to other emerging markets.			

DATE	COUNTRY	EVENT	IMPORTANCE
SEPT 2018	ZIMBABWE	GENERAL ELECTION DUE (UNSCHEDULED)	LOW
SEPT 3, 2018	PAKISTAN	GENERAL ELECTION DUE	MEDIUM
SEPT 9, 2018	SWEDEN	GENERAL ELECTION	MEDIUM
SEPT 13, 2018	EURO AREA	ECB GOVERNING COUNCIL HOLDS MONETARY POLICY MEETING	HIGH
SEPT 18, 2018	JAPAN	BOJ MONETARY POLICY COMMITTEE MEETS	HIGH
SEPT 25, 2018	U.S.	FEDERAL RESERVE OPEN MARKET COMMITTEE MEETS	HIGH
OCT 2018	ISRAEL	MUNICIPAL ELECTIONS	LOW
OCT 2018	U.K., EU	BREXIT TALKS TO CONCLUDE (TENTATIVE DEADLINE)	HIGH
Venezuela has descended into chaos since the death of strongman Hugo Chavez and the oil price slump of 2014. The socialist, military-backed regime has deprived the legislature of its authority since the sweeping opposition victory in 2015. The timing of the election lies in question. Oil production is likely to continue slipping while domestic unrest will continue to escalate.			
OCT 7, 2018	BRAZIL	GENERAL ELECTION	HIGH
Brazil has witnessed the worst recession in a century and the impeachment of President Dilma Rousseff. Now her successor, interim President Michel Temer of the Brazilian Democratic Movement Party, is engulfed in corruption allegations and political recriminations. This election could potentially recapitalize the political system, enabling badly needed structural reform, or it could see the country go further down the road of economic populism.			
OCT 18, 2018	VENEZUELA	GENERAL ELECTION DUE	HIGH
OCT 18-19, 2018	EU	EUROPEAN COUNCIL MEETING	HIGH
OCT 25, 2018	EURO AREA	ECB GOVERNING COUNCIL HOLDS MONETARY POLICY MEETING	HIGH
OCT 31, 2018	JAPAN	BOJ MONETARY POLICY COMMITTEE MEETS	HIGH
NOV 2018	THAILAND	MILITARY JUNTA PLANS TO HOLD ELECTIONS, RETURN TO CIVILIAN RULE (TENTATIVE)	
NOV 6, 2018	U.S.	MIDTERM ELECTION	HIGH
A major test for the Trump administration and congressional Republican majorities, given the problems of scandal and policy misfires. The Senate is set to favor Republicans in this election cycle, and Democrats in Trump's blue swing states are up for re-election, so Democratic strategy, the youth vote, and the staying power of Trump's electoral base will be put to the test.			
NOV 8, 2018	U.S.	FEDERAL RESERVE OPEN MARKET COMMITTEE MEETS	HIGH
NOV 24, 2018	TAIWAN	LOCAL ELECTIONS (ALTERNATELY DEC 1)	MEDIUM
NOV 24, 2018	AUSTRALIA	VICTORIA STATE ELECTION	LOW
NOV 30 - DEC 1, 2018	G20, ARGENTINA	G20 SUMMIT IN BUENOS AIRES	MEDIUM
DEC 13, 2018	EURO AREA	ECB GOVERNING COUNCIL HOLDS MONETARY POLICY MEETING	HIGH
DEC 13-14, 2018	EU	EUROPEAN COUNCIL MEETING	HIGH

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DATE	COUNTRY	EVENT	IMPORTANCE
DEC 18, 2018	U.S.	FEDERAL RESERVE OPEN MARKET COMMITTEE MEETS	HIGH
DEC 19, 2018	JAPAN	BOJ MONETARY POLICY COMMITTEE MEETS	HIGH
DEC 31, 2018	LIBYA	PARLIAMENTARY ELECTIONS DUE (TENTATIVE)	MEDIUM
2019	SOUTH AFRICA	GENERAL ELECTION DUE	HIGH
2019	INDIA	GENERAL ELECTION DUE	HIGH
2019	ARGENTINA	GENERAL ELECTION DUE	HIGH
2019	QATAR	LEGISLATIVE ELECTION DUE	MEDIUM
2019	GREECE	GENERAL ELECTION DUE	HIGH
2019	CHINA, BRI	SECOND BELT AND ROAD SUMMIT DUE	MEDIUM
JAN 7, 2019	INDIA	MADHYA PRADESH STATE ELECTION DUE	MEDIUM
JAN 20, 2019	INDIA	RAJASTHAN STATE ELECTION DUE	MEDIUM
FEB 16, 2019	NIGERIA	GENERAL ELECTION DUE	MEDIUM
MARCH 31, 2019	UKRAINE	PRESIDENTIAL ELECTION (GENERAL ELECTION DUE IN 2019)	MEDIUM
APRIL 17, 2019	INDONESIA	GENERAL ELECTION DUE	HIGH
MAY 18, 2019	AUSTRALIA	SENATE ELECTION DUE	MEDIUM
OCT 21, 2019	CANADA	GENERAL ELECTION DUE	HIGH
NOV 2, 2019	AUSTRALIA	GENERAL ELECTION DUE	MEDIUM
NOV 3, 2019	TURKEY	GENERAL ELECTION DUE	HIGH
NOV 5, 2019	ISRAEL	GENERAL ELECTION DUE	HIGH

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