Q42018

QUARTERLY/OUTLOOK

By #**SAXO**STRATS

Q4 2018

CONTENTS:

EMERGING OR SUBMERGING MARKETS?

BY STEEN JAKOBSEN

While emerging markets were whacked this year, and EM assets are trading at a deep discount, a shift in growth leadership from the US to China could lead to a weaker US dollar, which would support commodities and EM again. Meanwhile the simmering trade war between the US and China heightens the risks for the global economy, and we are at a crossroads on several fronts: globalisation, geopolitics and economics.

It's been a tough year for emerging market (EM) investors, who have suffered poor returns on headwinds from the Federal Reserve's tightening of monetary policy and as rising global uncertainty from the US-China showdown on trade takes global prisoners.

EMs trade at an unprecedentedly deep discount to developed-economy assets. In statistical terms, EM equity market valuations are three standard deviations cheaper than the US stock market. There is another anomaly as well; as shown on the chart below, EM's P/E is also cheaper than the S&P 500, and massively so.

With such dramatic divergences in performance heading into the fourth quarter, it raises the question of whether this is a "valuation trap" or one of the biggest buy signals for EM in a long, long time.

Whatever the chart above does or does not say about EM assets, at least it argues we should underweight US equity exposure as, regardless of whether we face a sideways market, a market meltdown, or a new melt-up, mean-reversion should favour EM in relative terms, and could potentially reduce overall portfolio volatility because mean-reversion as a factor input is uncorrelated to momentum, which drives most valuations.

> AS CERTAIN AS WE ARE ABOUT THE US HAVING PEAKED, WE ARE LESS CERTAIN AS TO HOW SOON CHINA WILL REACH THE BOTTOM OF ITS DELEVERAGING PROCESS AND BEGIN TO EXPAND MORE FORCEFULLY AGAIN

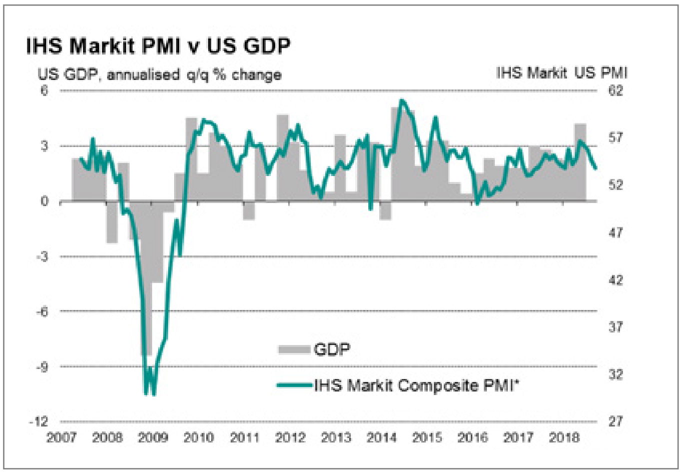
Whether to buy EM outright is a more difficult question as it will depend on how close we are to the end of the Fed's hiking cycle, and likewise whether the US dollar has peaked. But perhaps most importantly, EM could be driven by the timing of the relative recovery in China's asset markets.

We know that when the US growth outlook over the next six to 12 months is expected to outperform China, this could supposedly drive a stronger USD on additional policy tightening from the Powell Fed, thus

EMERGING OR
SUBMERGING MARKETS?

increasing funding costs for EM, which are heavily dependent on USD availability to drive their credit impulse. This source of stress and reduced growth in EM represents the dynamic for the last 18 months.

However, when there is cyclical change in growth



*MANUFACTURING PMI ONLY PRE-OCTOBER 2009.
SOURCE: IHS MARKIT, DATASTREAM

leadership from the US to China, it will lead to a weaker USD, which will support commodities and emerging economies again as the strong engines of EM restart and make EM competitive.

For now, we estimate that the US economy has peaked – the powerful expansionary cocktail of unfinanced tax cuts, repatriation of capital, and fiscal spending ramped up growth in the US, but these one-off effects will peter out as the year ends. Already the US housing market is showing signs of strain as the higher marginal cost of capital (the higher yield on mortgages, more specifically) is starting to have a material impact on future growth.

As certain as we are about the US having peaked, we are less certain as to how soon China will reach the bottom of its deleveraging process and begin to expand more forcefully again.
We have long said that the declining credit impulse – a shrinking rate of credit injection into the economy – forewarned a slowdown which has now materialised. Despite three moves by China to reduce its reserve requirement ratio (RRR) for banks and boost liquidity and lending, the Chinese banking system remains defensive. The overall plan for China was to reduce the shadow economy by transferring risks from the patchwork shadow lending market to the major banks, a plan that for now has yet to ignite further lending.

While US and Chinese growth is becoming more asynchronous, the trade war severely aggravates the risks for the global economy. Pitting the Trump administration's America First strategy against China's 2025 plan, both strategies seek further independence from their rival, which means less globalisation, less trade flow, and less sharing of ideas and best practices. The globalisation trend has not only stopped but reversed over the course of this year, and with the US midterm elections looming, we see no slowdown in this war of words for now or even after the November election.

The fact that anti-China rhetoric resonates with both President Trump's base and Democratic voters is a scary testament to the risks of a new cold war over trade and

THE NEXT QUARTER WILL EITHER SEE DAMPENING OF VOLATILITY BY A LESS AGGRESSIVE FED, MORE ACTIVE EASING IN CHINA AND A COMPROMISE ON THE EU BUDGET, OR A FURTHER ESCALATION IN THE TENSION IN ALL THREE AREAS

EMERGING OR SUBMERGING MARKETS?

technology breaking out. It's almost as if the US needs a new enemy to replace the old one, and it's a sign of insecurity more than strength.

To round things off, before the year is over we could see new elections being called in the UK (effectively a second Brexit vote), Italy (anti-EU/budget), Sweden (lack of political solutions), and a further widening of the divide in US politics.

We are clearly at a crossroads on many fronts: globalisation, geopolitics and economics. The next quarter will either see dampening of volatility by a less aggressive Fed, more active easing in China, and a compromise on the European Union budget... or a further escalation in the tension seen in all three areas. I would not bet against the latter into Q4, but I remain confident that we stand only a few months away from the beginning of a new easing cycle based on ugly realities, not the hope expressed by politicians and often market consensus.

I am the most optimistic I have been in years about the future, but only because things can hardly get any worse.

LET'S BE CAREFUL OUT THERE.

STEEN JAKOBSEN, CHIEF ECONOMIST & CIO

Steen Jakobsen first joined Saxo Bank in 2000 and has served as both Chief Economist and Chief Investment Officer since 2009. He focuses on delivering asset allocation strategies and analysis of the overall macroeconomic and political landscape as defined by fundamentals, market sentiment and technical developments in the charts.

FIND A PARACHUTE AS IMPACT IS CLOSE

BY PETER GARNRY

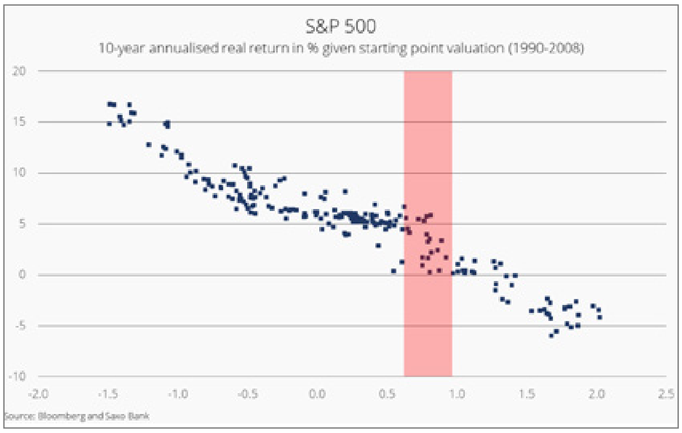
We remain defensive on equities, which entails equal-weighting stocks against bonds and keeping exposure tilted towards developed markets, excluding the US, though we see Chinese equities as a tactical buying opportunity. We have shifted to a more negative stance on software companies (growth stocks) due to their interest-rate sensitivity.

> MAKING THINGS WORSE FOR US EQUITIES, THERE ARE FINALLY ATTRACTIVE ALTERNATIVES DUE TO THE FED'S RECENT RATE HIKES

Throughout 2018 we have constantly said that investors should be defensive on equities and avoid the semiconductor and automobile industries due to the escalating trade war between the US and China. Valuations – especially in US equities, which are half of the global equities index – have reached levels where the risk-reward ratio is too low. Meanwhile, the Federal Reserve continues to normalise the Fed funds rate, communicating that rates are far from neutral. As the most important discount rate is lifted, it changes the dynamics, making growth stocks vulnerable and maybe setting the stage for a comeback in value stocks. Tactically, EM equities are a "buy" with Chinese equities in bear-market territory, but the overall equity bull market is coming to an end. Lastly, we present a way to deal with wild randomness in financial markets.

US EQUITIES NO LONGER ATTRACTIVE

Trump's America First policy and tax reform have been good for US financial markets, with US equities hitting new highs during the third quarter even though the rest of the global stock market is wobbling. The S&P 500 is valued at 21 times trailing earnings and provides a dividend yield of 1.8%. Measured across nine different valuation metrics, the S&P 500 is valued about 0.85 standard deviations above the average since 1990, making US stocks the most expensive since 2002 (excluding the January 2018 peak in valuation).



FIGUR 1
SOURCE: BLOOMBERG AND SAXO BANK

The 10-year annualised real return for the S&P 500 is negatively correlated to valuation, as Figure 1 shows, with the red area indicating the valuation range (in z-score) observed in 2018 on the S&P 500 across nine valuation metrics. As the data suggest, the likelihood is quite high that US equities will only achieve 0-1% in annualised real return over the next 10 years.

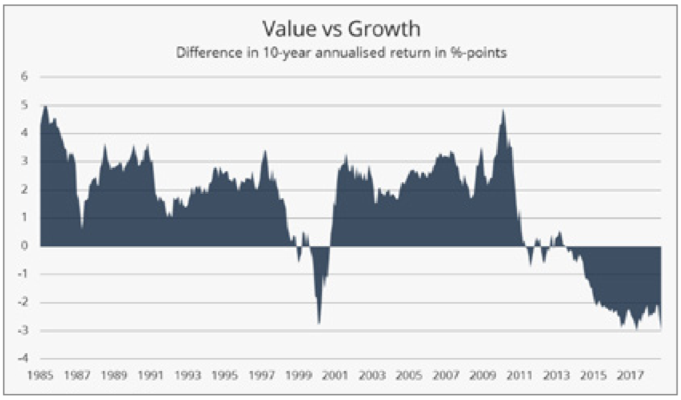
FIND A PARACHUTE AS IMPACT IS CLOSE

If inflation exceeds expectations, the outcome could be considerably worse.

Making things worse for US equities, there are finally attractive alternatives due to the Fed's recent rate hikes. For instance, 15-year mortgage bonds are at 4.03%, offering a more compelling risk-reward ratio than equities over the next two years. Downside variance is much lower in mortgages than equities, and equity prices will decline if the economy enters a new recession, while mortgages will be bid. If we experience ordinary markets with low growth and no recession in the next two years, the two asset classes may likely deliver the same real return.

WILL VALUE STOCKS BOUNCE BACK?

The past 10 years have been the worst period for value versus growth since 1985, as shown in Figure 2. In fact, the entire period after the global financial crisis (GFC) has turned the classic value premium versus growth upside down. The same analysis done on only US equities, however, shows a different picture where growth delivered outperformance against value throughout most of the 1990s, so the current drastic change in value premium is very much a developed market phenomenon.



FIGUR 2
MSCI WORLD VALUE NET TOTAL RETURN USD IS USED FOR VALUE AND
MSCI WORLD GROWTH NET TOTAL RETURN USD IS USED FOR GROWTH
SOURCE: BLOOMBERG AND SAXO BANK

TECHNOLOGY STOCKS COULD BE THE BIGGEST NEGATIVE SURPRISE IN EQUITY MARKETS AS INTEREST RATES ARE NORMALISED

What can explain the decline of value stocks? Except for the dot-com bubble, which had some unique characteristics, the obvious factor that changed after the GFC is that interest rates have been forced down by central banks in the developed world. Historically low interest rates create an environment with no alternative to equities, so risk-taking or yield chasing increases dramatically. This has likely forced growth stocks' valuation higher, creating a return premium over value in the period since the GFC. Value stocks are also heavily exposed to the materials, financials, and energy sectors, which have been through a depressive period since 2010, at least in the developed world as a whole.

In our third-quarter outlook, we argued that the technology sector is unique due to its high robust growth because of increasing sector weight from software companies exhibiting strong moats. In addition, the technology sector has low net debt levels, giving it the lowest interest-rate sensitivity of all sectors. At first glance, this is true, but further research has revealed a higher positive sensitivity to interest rates which should be a concern to investors who are overweight technology stocks.

Growth stocks have higher positive interest-rate sensitivity built into their valuation than value stocks because growth stocks get a larger portion of their present value from future cash flows in the terminal stage (cash flow model language for what happens five years from today). When the Fed raises the discount rate on cash flows, the present value of growth stocks' terminal value declines relatively more than the cash flow of value stocks which derive less of their present value from the terminal stage. Another way to think

FIND A PARACHUTE AS IMPACT IS CLOSE

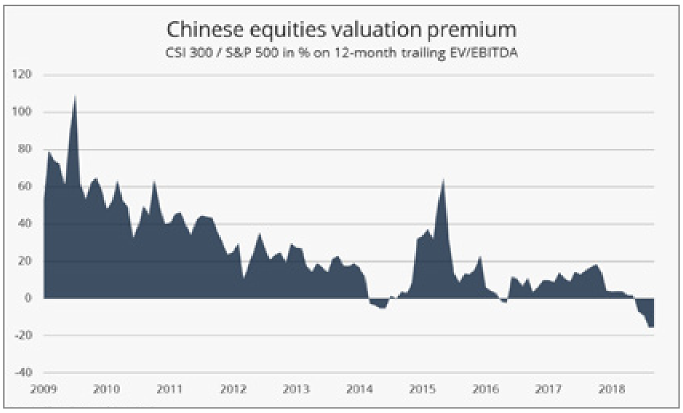
about growth versus value stocks is that growth stocks have longer duration and thus are more sensitive to the discount rate shifting upwards. If interest rates keep normalising, we would expect value stocks to stage a comeback against growth stocks. Technology stocks could be the biggest negative surprise in equity markets as interest rates are normalised.

ARE EMERGING MARKETS A BUY?

EM equities have had an annus horribilis, down 12% year-to-date and down 20% from the peak in January against developed markets, which are up year-to-date with US equities pulling ahead. The underperformance has been driven by a strong US dollar and higher US interest rates, which have increased foreign financial obligations and caused financial conditions to decline. Countries such as Turkey, Argentina, Russia, and Indonesia are examples of the pain that US rate normalisation is causing in EM.

In addition, oil prices are significantly higher in USD this year, but translated into local currency many EM countries have seen energy prices rise 50-100% during the past year, putting pressure on consumer spending. Lastly, the US-China trade war has added to EM woes as US tariffs on Chinese goods have sunk Chinese investor sentiment, with the CSI 300 Index down 15% YTD. Chinese equities are the biggest weight in the MSCI Emerging Market Index and therefore pivotal for EM equities.

Based on our expectation that US interest rates could continue to rise driven by the Fed's rate hikes and higher energy prices, we expect more pain in EM. However, China is a unique country with more financial ammunition to steer the economy out of its recent decline. The government has implemented significant monetary and fiscal stimulus, and recent credit data



FIGUR 3
SOURCE: BLOOMBERG AND SAXO BANK

suggest that the credit impulse (second derivative on credit) has recently turned positive. While the Chinese equity market has typically responded positively to stimulus, the ongoing US-China trade war makes the analysis and outcome more complex.

Despite this uncertainty, our view is that Chinese equities are tactically a buying opportunity, and especially in combination with an underweight position in US stocks. The valuation spread between Chinese and US equities since the GFC has gone from a high premium of 40-80% to -15% more recently, which is puzzling since economic forecasts suggest higher long-term growth rates in China than in the US.

FIND A PARACHUTE
AS IMPACT IS CLOSE

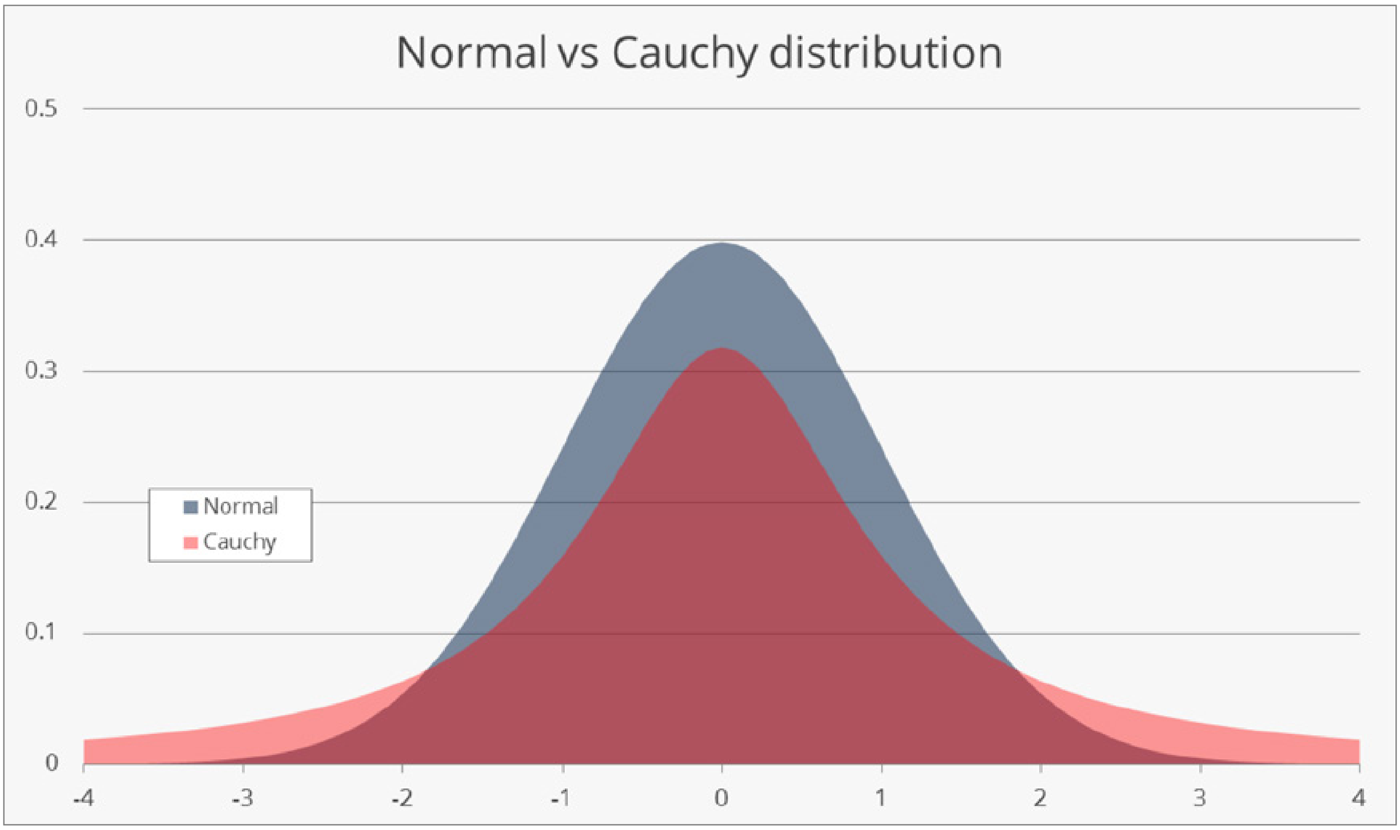


FIGURE 4
SOURCE: SAXO BANK

The market is clearly worried about the Chinese model, and it is putting a significant political risk premium on China's equity market as the trade war with the US has escalated. As shown in Figure 1, the starting point on valuation is a significant driver of future returns, so it is our conviction that Chinese stocks will begin to outperform US equities over the coming years.

WILD RANDOMNESS

The Polish-born polymath Benoit Mandelbrot argued many decades ago that financial markets are wrapped in wild randomness. This means that there is likely no stable distribution that fits financial and economic movements. The Cauchy distribution is an example of a wild distribution as it looks like the normal distribution but has very long tails, as shown in Figure 4; in fact, the distribution has no moments except for its mode (median).

Intelligent decisions that separate two agents' outcome all take place in the tails of the outcome distribution. Even children learn early in life to avoid tail-risk because severe incidents happen there, so children's survival function has the objective of avoiding tails. The same goes for investors. How an investor did during the 2008 meltdown (tail-risk) is what separates the winners from the losers (previous lucky winners caused by randomness).

FIND A PARACHUTE AS IMPACT IS CLOSE

If financial markets are indeed a Cauchy distribution, as Mandelbrot advocated, then we have no idea about the statistical moments in financial markets. Even worse, the tails are incredibly large, causing wild randomness. That means the probability that we will see a record shock movement in any given financial instrument is always higher than perceived by market participants. The record move in the VIX volatility index in February of this year was a complete shock to everyone because it made the Lehman Brothers collapse look like a normal event. Because no model had seen a move like that before, many speculators were wiped out, violating the most important law in risk management: avoid ruin.

Nassim Taleb has offered a solution to the problem of wild randomness. It's called the Barbell Strategy. In simple terms, investors should allocate around 85%, depending on one's risk-aversion, to short-term government bonds, potentially inflation-linked bonds, protecting the majority of their wealth. The remaining 15% should be allocated to wildly unexpected events through out-of-the-money options, investing in very high-risk small-cap stocks, private equity, venture capital, basically everything with a 1:10 risk-reward ratio.

Essentially the portfolio is split into two parts, with very different objectives: a hard, downside-only risk constraint and an aggressive allocation maximising the uncertainty of the result.

The Barbell Strategy is difficult to implement due to its negative carry in most months, but worth considering given that markets probably possess wild randomness and the world looks increasingly uncertain with the US-China trade war escalating, Italy's budget nightmare, a potential hard Brexit, and rising US interest rates.

OUR VIEWS

Except for altering our view on software companies (growth stocks) to a more negative stance due to the arguments presented above, our other views remain unchanged. Overweight the non-cyclical sectors, such as healthcare and consumer staples, and underweight the semiconductors and automobile industries due to the escalating trade war. Equities should still be equal-weighted against bonds, and equity exposure should be tilted towards EM, excluding the US (which should be underweighted), and tactically overweight Chinese equities; but stay negative on the rest of EM. Investors should also consider increasing the exposure to value stocks (factor tilting). Export-driven economies with large trade surpluses should also generally be underweighted.

PETER GARNRY, HEAD OF EQUITY STRATEGY
Peter Garnry joined Saxo Bank in 2010 and is the Head of Equity Strategy. In 2016 he became responsible for the Quantitative Strategies team, which focuses on how to apply computer models to financial markets. He produces trading strategies and analyses of the equity markets as well as individual company stocks, applying advanced statistics and models to beat the market.

NOTHING WILL END A STRONG USD FASTER THAN A STRONG USD

BY JOHN J HARDY

An old saying goes that nothing cures low oil prices faster than low oil prices, the idea being that supply is quick to dry up in weak oil markets because marginal producers rapidly cease production when their costs to produce a barrel of oil relative to the price received turn negative. In FX we have a similar setup as the fourth quarter gets under way: nothing will cure a strong US dollar more quickly than further dollar strength because the world simply can't afford a stronger USD for long – and if it can't, it won't.

> THE DIRECTION OF THE US DOLLAR REMAINS THE KEY DRIVER OF THE ACTION AS WE GO FROM THE LATE US MONETARY POLICY CYCLE TO POTENTIALLY THE END OF THAT CYCLE IN A MORE CONCENTRATED AND IMMEDIATE TIMEFRAME THAN THE MARKET OR THE FED ANTICIPATE

The US Treasury market set the investment world on edge in early October when long US Treasury yields climbed to new multi-year highs – the US 10-year benchmark cleared 3.13% for the first time in more than seven years, and the big 30-year T-bond yield passed the massive 3.25% level for the first time since early 2014, a level it had approached on no less than four occasions since late 2016. Driving the move was a spate of strong US data and Federal Reserve chair Jerome Powell suggesting that the Fed funds rate is "nowhere near neutral" in offhand comments. The reactivity of the US dollar to developments in US yields has been an on-again, off-again affair, but a sharp rise in US yields in late Q3, after strong wage inflation data were reported for August, resulted in a weaker dollar for much of September.

From here, whether rising US yields continue to squeeze global USD liquidity and especially emerging markets could depend on China's intentions for the renminbi. Regardless, if US rates and the USD both rise further, the first would quickly break the US markets and eventually the US economy, and both together would likely break the global economy, particularly the EMs that most indulged in USD-denominated borrowing via the Fed's zero interest-rate policy in the years after the global financial crisis.

For its part, China has vowed that it will not pursue such a course. This makes eminent sense on multiple fronts. First, a strong and stable yuan would help to deepen interest in settling China-bound trade in yuan, a key component of China's strategic One Belt, One Road policy mix. Second, China's current account is almost balanced at zero now after years of large surpluses as the country's consumption of imports – particularly energy – has grown more rapidly than its exports. A weaker currency would likely erode Chinese purchasing power of key imports faster than any growth in exports could offset it, particularly as Chinese exports move up the value chain, where the country isn't competing on price anyway.

NOTHING WILL END A STRONG USD
FASTER THAN A STRONG USD

We're entirely unsure how China will play its cards from here but lean towards China maintaining the value of its currency, which would be a key component in the USD turning lower sooner rather than later. Regardless, the rise in yields, most urgent now in the US, but showing signs of spreading to Europe and even Japan, is the dominant theme around the world, and a higher cost of capital will act as a strong headwind for global asset markets and eventually global growth via its effects on the credit cycle, with varying consequences for the currencies of developed and emerging markets.

WE LEAN TOWARDS CHINA MAINTAINING THE VALUE OF ITS CURRENCY, WHICH WOULD BE A KEY COMPONENT IN THE USD TURNING LOWER SOONER RATHER THAN LATER

CURRENCY OUTLOOK BRIEFS

Our main thesis is that the direction of the US dollar remains the key driver of the action as we go from the late US monetary policy cycle to potentially the end of that cycle in a more concentrated and immediate timeframe than the market or the Fed anticipates. The US dollar and US rates can only rise so far from here before something – or rather, more things – break. In Q3, we saw much of EM bending under the weight of a stronger USD and higher US rates, and the Turkish lira and Argentine peso suffered outright breaks while other current account weaklings in EMs like Indonesia and India were under severe pressure. If the USD does not weaken from here, we will move into a phase of default and USD-denominated debt repudiation that will mark first the end of the USD's 'Reign of Terror', and second a more profound search for global currency alternatives that is already under way.

USD – STRENGTH CAN'T LAST. US long yields have crossed the Rubicon in technical terms, and a further aggravated rise in yields cannot be excluded in Q4. But higher rates will eventually put the brakes on the US recovery, something that may be already happening as Q4 gets under way. This may be the quarter in which the USD finds a local top, if it hasn't already, and then is toppled into reverse as the market figures that the Fed has taken things too far. Timing is the chief risk as we must deal in probabilities and the risk that we are a quarter or more too early.

EUR – A REBOUND IN ORDER. The euro badly wants to rally from undervalued levels against the USD as the European Central Bank's quantitative easing policy draws to a close, even if it is doing so as the eurozone economy is likely set to weaken. It's doubly unfortunate for the eurozone to see global economic weakness as it is the single economic bloc with the largest current account surplus to the world, which makes it the most sensitive to the trajectory of global growth. But this does not necessarily mean that we will see a weak euro. After the populist surge of recent election cycles across Europe, and with the prospect of European Union parliamentary elections next May, it is rapidly time for EU politicians to counter the populist threat. In this case, to stand and fight would mean injecting fiscal stimulus, which Germany will inevitably open up for once its economy clearly comes under pressure. So rather than tight fiscal and easy monetary policy, we will see the EU moving toward tighter monetary policy and easier fiscal policy – a more currency-positive outcome. Yes, there is room for bumps along the way and another round or two of euro stress if Italy's 2019 budget problem isn't quickly settled in Q4, but once we get a core EU buy-in on easier fiscal policy, this could prove highly euro-positive.

NOTHING WILL END A STRONG USD
FASTER THAN A STRONG USD

JPY – EXPLOSIVE TWO-WAY VOLATILITY POTENTIAL. The yen is at a critical inflection point due to the 10-year Japanese government bond yield, the long end of the Bank of Japan's "controlled" yield curve, having reached its supposed BoJ control level at 15 basis points in early Q4. In theory, any further rises in global bond yields will not be absorbed by Japanese sovereign debt at both the 10-year and shorter maturities, and will have to be transmitted to the yen, as long as the BoJ defends the 10-year yield cap. But just how unmovable is the BoJ if yields continue to rise? In other words, where is the breaking point? Surely the BoJ knows that a breaking point is out there somewhere and such policy caps and floors and pegs are dangerous animals, as the Swiss National Bank's franc ceiling in 2015 and sterling's Exchange Rate Mechanism crisis in 1992 showed. The longer the BoJ commits to the cap and that cap is out of sync with rate rises elsewhere, the more violent the reaction will be when the BoJ finally caves on its commitment to this policy. With longer-dated JPY volatility cheap as Q4 gets underway, we like the idea of buying long-dated JPY upside volatility.

GBP – PATH TO BREXIT AFTER ALL? Sterling is entering Q4 on a strong note as the market is taking a more optimistic stance on Brexit after the Tory party conference saw a solid show of solidarity and the EU suggested that a "Canada+++" is still on the table if the two sides can figure out a solution to the thorny Northern Ireland border issue. Either way, the path to a potent sterling rally is only straight if a deal appears on the way that both sufficiently preserves UK sovereignty (i.e., does not resemble Prime Minister Theresa May's Chequers plan) and satisfies the minority government's tiny supporter – the Northern Ireland Democratic Unionist Party – when the deal eventually moves to a parliamentary vote. A failure to agree a plan would lead to ugly domestic political consequences and more likely a long delay to the negotiations, a new election and possibly even a second referendum. This latter scenario is more likely than a so-called no-deal Brexit.

CHF – TOO STRONG. The Swiss franc has been too strong for too long, and Q4 could be the quarter in which this is realised, with policy beginning to normalise around the DM world and the CHF in a very different place versus long-term levels relative to the rather weak JPY. CHF could be in for a particular rout if we do in fact see a Brexit breakthrough in Q4, which could drive a GBPCHF upside theme in the coming quarter and more.

CAD, AUD, AND NZD – DIVERGING PATHS. The Aussie is the single currency most used as a DM proxy for concerns over the Chinese side of the US-China showdown, and it has suffered a considerable devaluation together with its smaller cousin, the kiwi. As Q4 wears on, and if China maintains a convincing floor or better for the renminbi, positioning alone could drive a significant squeeze higher for the AUD, even if the credit cycle turning sour in Australia is a longer-term concern. The CAD could piggyback om USD strength as long as it lasts and then fade in relative terms against the other "G10 smalls" if and when the USD turns lower. We also like AUDNZD higher on a mean-reversion and relative central bank policy and interest-rate spread basis, unless China surprises with more CNY-negative outcomes.

NOTHING WILL END A STRONG USD
FASTER THAN A STRONG USD

NOK AND SEK – MEAN REVERSION TO CONTINUE. The Scandie central banks are on the move before the ECB, with a hike in the bag from Norges Bank and one potentially coming in December from the Riksbank. While NOK and SEK rallied in Q3, they are still perhaps the cheapest currencies in Europe. Thematic trades on normalising central bank policy could be CHFSEK and CHFNOK shorts as well as eventually USDSEK and USDNOK shorts and the more straightforward EURSEK and EURNOK shorts.

EM CURRENCIES – THE UGLY PRESENT VERSUS THE UGLY FUTURE. While EM currencies as a group could find some relief once USD strength fades and US rates (we assume) eventually peak, the cost of capital has risen for good and globally; cheap USD and even euro and yen funding will increasingly be a thing of the past. In other words, there is plenty of room for an accident or two in leveraged EM economies, particularly in those that have already been under pressure with their weak balance sheets, heavy exposure to foreign-denominated loans, and weak current account fundamentals – think Turkey, South Africa, Argentina, et cetera. But beyond the risk of a credit crunch for the most leveraged EMs, eventually we could see that those countries that are most leveraged to global growth are the ones that come under increasing pressure. These are the big current account surplus countries, the big exporting economies like South Korea, Thailand, and Singapore, for example (arguably the first and the last of these are not really EMs). For these Asian exporting powers, some of the weakness could be partly offset by a stable renminbi policy if that is the path China pursues.

JOHN HARDY, HEAD OF FX STRATEGY

John Hardy joined Saxo Bank in 2002 and has been Head of FX Strategy since October 2007. He focuses on delivering strategies and analyses in the currency market as defined by fundamentals, changes in macroeconomic themes, and technical developments.

CHINA OPENS THE CREDIT TAPS

BY CHRISTOPHER DEMBIK

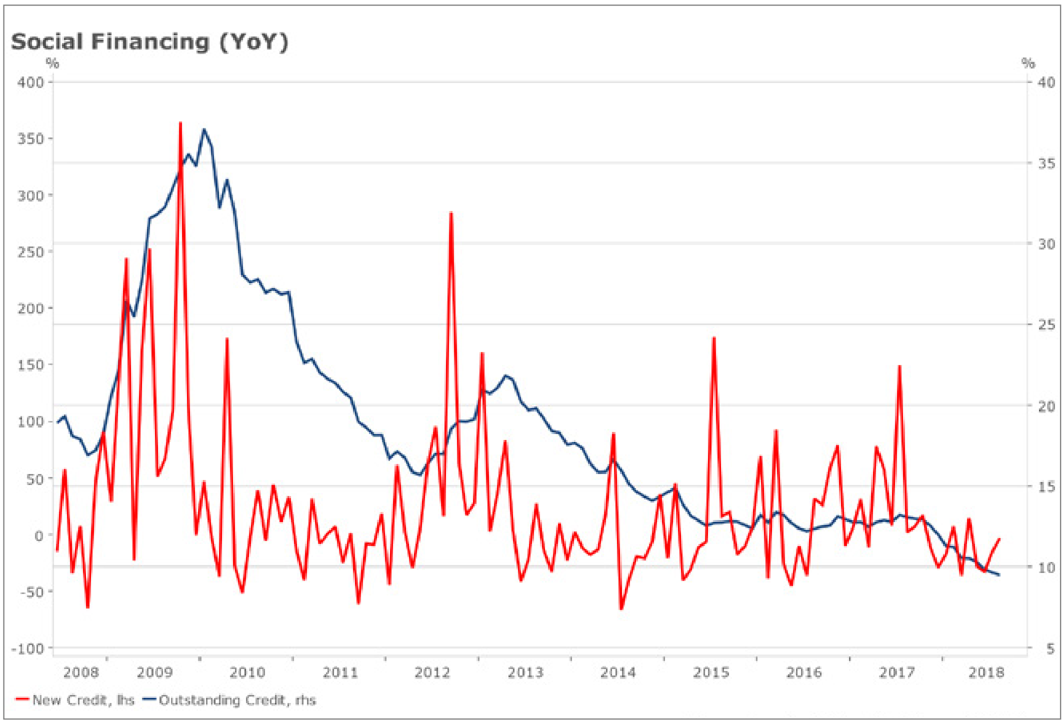
Since last May, when the trade war with the US intensified, China has shifted towards looser monetary policy and stimulus efforts. So far the biggest impact of easing is that it has contributed to boosting the credit impulse – a key driver of economic growth – back into positive territory.

At the end of 2017, the consensus embraced the "synchronised global growth" narrative. Nine months later, analysts are talking about the risk of recession in the US, growth forecasts are being revised downwards, and the global monetary picture is deteriorating.

As a consequence of the end of quantitative easing, central bank liquidity is falling into negative territory and monetary condition indexes are declining in major developed countries, except for the UK where a lower GBP exchange rate is bringing some support to the economy. Emerging market countries are already feeling the pain of a dollar liquidity squeeze, with funding costs rising – notably in countries most exposed to political risk.

PBOC TO FINE-TUNE POLICY

In this context, the Chinese economy is still performing surprisingly well, but the trade war with the US is starting to take its toll. If we look at social financing below, it seems that China's credit growth is still slowing. We could suppose that China has decided to maintain its deleveraging campaign despite the adverse effect of US tariffs.



SOURCE: MACROBOND, SAXO BANK RESEARCH & STRATEGY

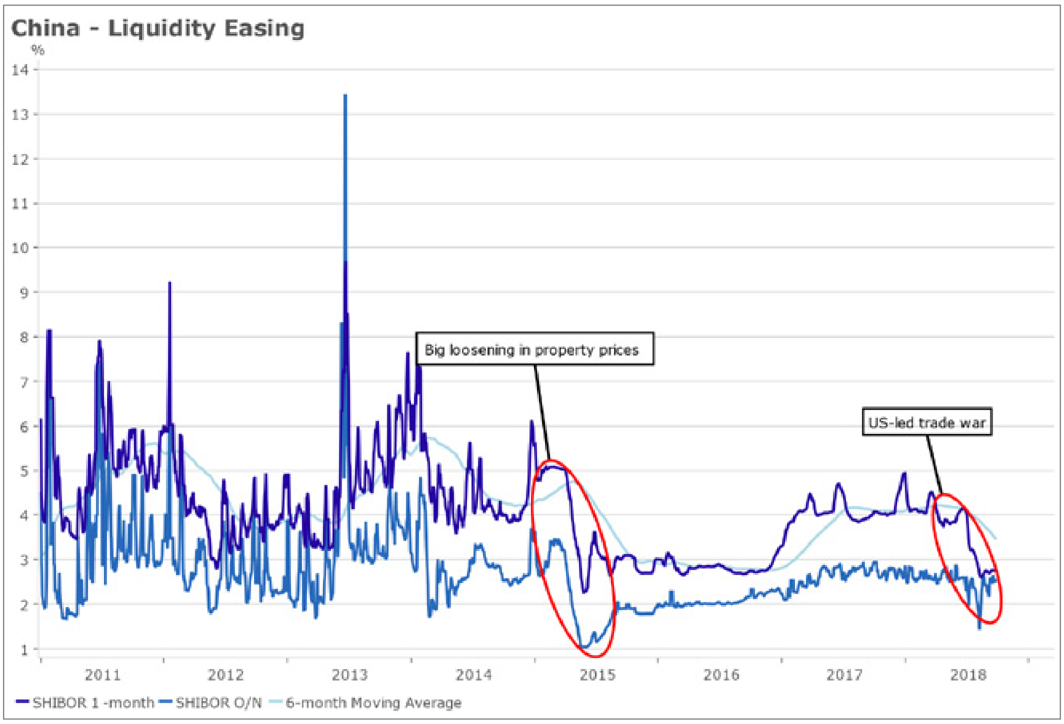
CHINA OPENS THE CREDIT TAPS

Digging into more credit data might tell another story. Since last May, when the trade war intensified, there has been a shift towards looser policy and stimulus efforts. Chinese markets were flooded with cheap central bank liquidity when the Shibor plunged, leading to a pick-up in credit growth.

Since last May, the amount of funding that the People's Bank of China has pumped into the banking system has surged by 15%, reaching a total of CNY 8.4 trillion, and local government debt has increased by 6% to CNY 17.6 trillion. In addition, total loans to non-banking financial institutions, which were in negative territory in previous years, were up by a stunning 52% year-on-year in August.

The difference between the measure of broad credit and narrow credit is explained by the fact that shadow banking continues to decline, resulting in flat growth of total finance, which is consistent with the policy goals of the Chinese government. Meanwhile, credit growth in traditional banking has been pushed up as part of a policy of fine-tuning to mitigate the consequences of trade war. This loosening bias is expected to last in the coming months if trade policy uncertainty persists.

The next step after monetary easing will certainly be a more proactive fiscal policy, targeting infrastructure investments in the second half of the year and potentially a big loosening in property prices, such as in the second quarter of 2015.



SOURCE:
MACROBOND, SAXO BANK RESEARCH & STRATEGY

> THE CHINESE ECONOMY IS STILL PERFORMING SURPRISINGLY WELL, BUT THE TRADE WAR WITH THE US IS STARTING TO TAKE ITS TOLL

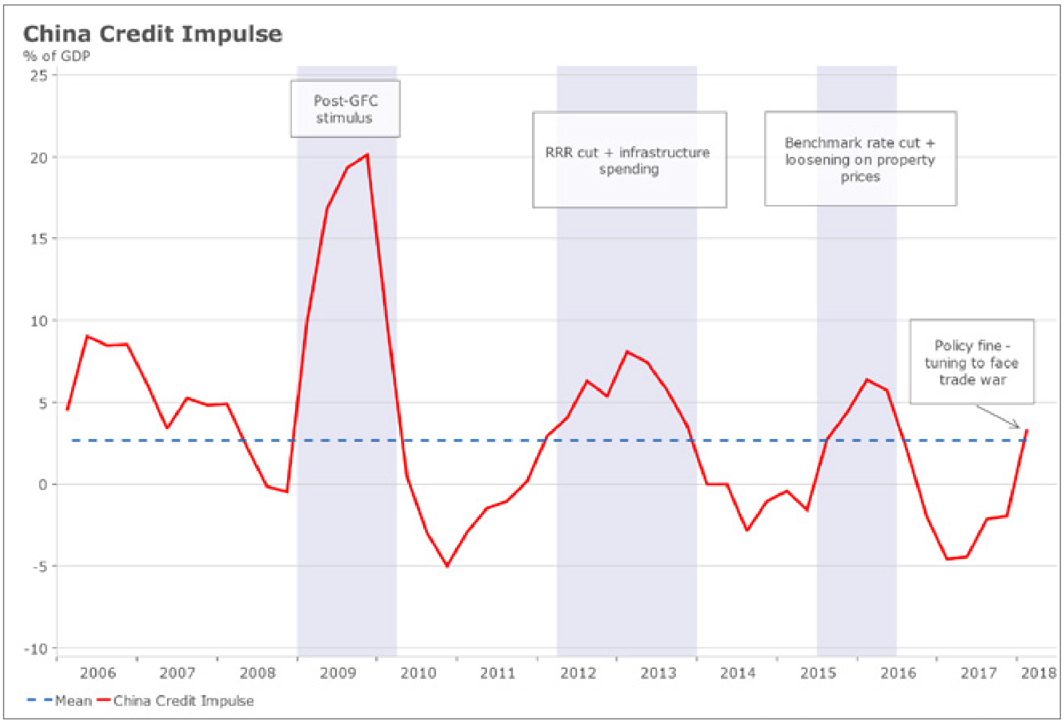
CHINA OPENS
THE CREDIT TAPS

Despite stronger credit data, China still has a long way to go due to diminishing returns from stimulus policies. Before 2008, on average, one unit of credit was needed to create one unit of GDP. Since the global financial crisis, China needs at least 2.5 units of credit to create one unit of GDP. To revive the economy, it will need to open the credit taps much more than it has done so far, which might fuel concerns about debt sustainability.

The Chinese debt problem is, however, very different than debt troubles in other countries. Households are minimally leveraged and the problem lies mostly in corporate debt. Since most corporates are state-owned, they benefit from implicit state backing, which seriously reduces the real extent of China's debt threat and ultimately reassures even the most sceptical investors.

CREDIT IMPULSE IS BACK

So far, the most significant impact of monetary easing is that it has contributed to push the credit impulse – the "change in the change" of credit and a key driver of economic growth – back into positive territory. Our last update indicates that credit impulse is running at 3.3% of GDP, slightly above its long-term average. Each time that credit impulse has been positive in China it has massively helped to support the local real estate market as well as China's GDP growth, and has precipitated important positive economic changes in EM countries and at the global level.



SOURCE:
MACROBOND, SAXO BANK RESEARCH & STRATEGY

CHINA OPENS THE CREDIT TAPS

The magnitude of the impulse is still very limited, but it should increase in the coming months and be sufficient to sustain local investment and expansion.

In previous phases of recovery, we have noticed that there is a high (0.6 out of one) correlation between credit impulse and house prices. Higher credit generation should hold up prices in first-tier cities, where prices have dropped into negative territory in percentage change terms, and in tier-two and tier-three cities where the slowdown has been more moderate. Since rising credit impulse leads house prices by three quarters, we can safely assume that a recovery will happen in 2019.

Considering that real estate represents about 50% of Chinese investments, it will boost GDP growth and lead to better data from next year.

TOO LITTLE, TOO LATE?

Since the GFC, if we had to pick only one reliable global macroeconomic variable, our choice would have been China's credit impulse. Over the past years, it has been the most significant driver of the global economy and should remain a key variable in the coming years as China's contribution to global growth is reaching 35% (matching that of the US, India, and the Eurozone put together).

China's global importance is likely to increase further as the US economy is succumbing to the siren song of protectionism and central bank liquidity injections are falling. In previous periods of lower liquidity or slowing growth, China acted as an adjustment variable by pushing credit upwards as in 2012-13, thereby mitigating the effects of the Fed's tapering. It seems that China is willing to step in to restimulate the economy once again.

The current divergence of monetary policy between China and the rest of the world may still represent a chance for the global economy.

The bottom line: China's move looks like it is too late and too little to offset looming risks as economic growth momentum has moved past its peak. China may be tempted to limit the expansion of credit so that it does not harm its efforts to cut back on shadow banking. Unless there is a change of policy from the other main central banks or massive fiscal stimulus in the developed economies, the so-called recovery will now fade much faster than many think.

THE MAGNITUDE OF THE IMPULSE IS STILL VERY LIMITED, BUT IT SHOULD INCREASE IN COMING MONTHS

CHRISTOPHER DEMBIK, HEAD OF MACRO ANALYSIS
Christopher Dembik joined Saxo Bank in 2014 and has been the Head of Macro Analysis since 2016. He focuses on delivering analysis of monetary policies and macroeconomic developments globally as defined by fundamentals, market sentiment and technical analysis.

IS CHINA **CHEAP?**

BY ELEANOR CREAGH

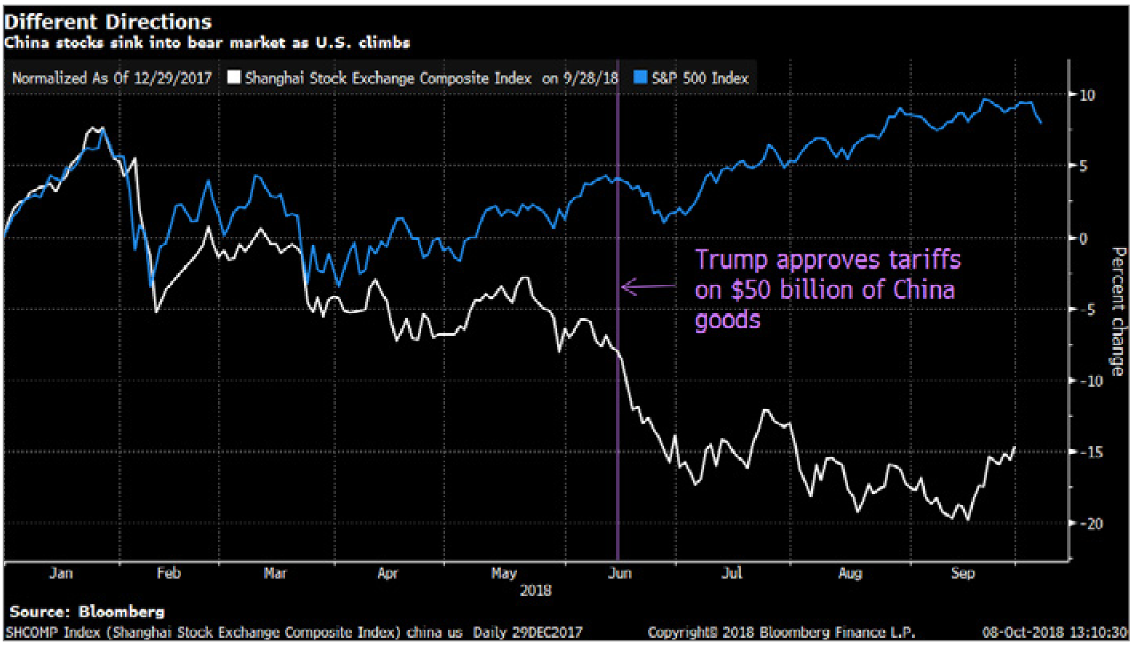
China's economic growth has slowed due to deleveraging and an emerging trade war with the US, but the Chinese government has stepped in to mitigate the consequences. Although an escalation of the trade war could spell another leg down, Chinese equities now look cheap and long-term investors should not lose sight of the opportunities.

At the start of this year – following the short volatility meltdown and corresponding equity sell-off, and given that the US expansion was late-cycle and European and emerging markets were to play catch up – the odds were stacked towards a rotation out of US equities. Enter President Trump's tax cuts, which have stimulated consumption and increased the repatriation of US funds, fuelling corporate buybacks. The subsequent trade war has exacerbated the strength of US assets as investors have sought refuge there given US outperformance and relative global uncertainty. In fact, US equities and cash have outperformed all other major asset classes year-to-date.

The Chinese equity market has been no exception, with the CSI 300 down 22% in local currency terms YTD.

The US-China trade war continues to escalate along with Washington's shifting perception of China. In a recent speech, US vice president Mike Pence indicated a new era of adversarial relations where China is no longer a strategic partner but a rising competitive power intent on US hegemonic decline. There remains some hope of keeping these powers aligned, however, as Trump and Chinese president Xi Jinping meet in late November at the G-20 summit.

Although a deal may be struck, the probability of this outcome seems low given the marked deterioration in diplomatic dialogue and the increasing probability of a new "cold war" fought via technological supremacy. So where does this leave Chinese equities?



SOURCE: BLOOMBERG

IS CHINA **CHEAP?**

We cannot blame the weakness entirely on the prospects of a trade war. At the outset of 2018, Chinese equities were clouded by the government's financial de-risking campaign and quasi-fiscal moderation. The economic growth model in China has long been dependent on credit. The world has never seen a country expand debt at such a rate and magnitude as China.

In the attempt to de-risk its economy, China embarked on a strict path to deleverage, with stringent financial regulation, shadow banking restrictions, and prevention of capital misallocation to nonproductive areas of the economy. Trade frictions have exacerbated the negative sentiment along with slowing economic growth, with negative externalities such as tightening US monetary policy and a stronger US dollar converging in a perfect storm and sending Chinese equity markets into a tailspin.

As deleveraging has started to take its toll, China's growth momentum has slowed. The Chinese government has stepped in to mitigate the less desirable consequences of deleveraging and the effects of a trade war on the economy. The pre-emptive measures already taken show a limited willingness to stomach lower growth given the elevated targets that have been set. A double-barrelled fiscal and monetary easing campaign has been implemented to counter an ailing economy. This year has already brought three reserve ratio requirement (RRR) cuts (with more expected), record medium-term lending facility liquidity injections, a fiscal stimulus package including CNY 65 billion in tax cuts, plus an infrastructure spending package, all aimed at boosting domestic demand.

Given the large equity market declines and indiscriminate sell-off already seen YTD, one could argue the growth slowdown and adverse trade war impact have already been priced in, leaving limited downside risk in the market. The question is: will current policy easing be enough of a positive catalyst to outweigh the tariff headwinds?

China's policy shift amounts to an easing bias, rather than a major stimulus effort. This has stabilised China's credit impulse back into positive territory (at 3.3% of GDP), slightly above its long-term average, as Saxo Bank's Christopher Dembik has noted. We estimate that growth in the third quarter may have slowed more significantly, and the impact of US-China trade tensions will become more tangible in the quarters ahead. So this easing bias is likely to be maintained in the fourth quarter with another RRR cut and targeted fiscal stimulus aimed at supporting exporters.

After the global financial crisis, China emerged as the largest single contributor to world growth, and as this engine shifts into gear again through policy changes we expect its positive effects to flow through to equity markets and support growth momentum in China. Although the policy efforts introduced so far do not amount to broad-based easing as seen in 2009, these measures should not be underestimated as they signal Beijing's readiness to support the economy, and the potential marginal impact can support the market.

THE US-CHINA TRADE WAR CONTINUES TO ESCALATE ALONG WITH WASHINGTON'S SHIFTING PERCEPTION OF CHINA

IS CHINA **CHEAP?**

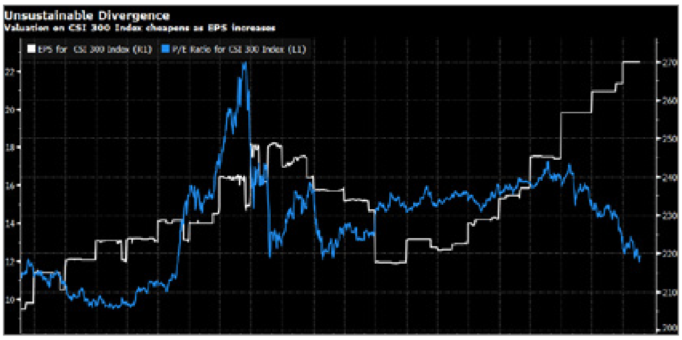
Chinese equity market valuations look “cheap”; the P/E ratio of the CSI 300 has fallen to 11.8x, more than one standard deviation from the three-year average. The CSI 300 index’s 12-month trailing EV/EBITDA ratio of 10.7x is cheap compared with 11.8x for global equities, so the risk-adjusted return looks attractive from a value basis.

With earnings per share forecasted to grow at an average of 12.9% over the next three years, a continuous decline in Chinese equities would seem unlikely. However, given the likelihood of a trade war escalation over the next few months, the Chinese equity market could experience another leg down. For longer-term investors, short-term market noise should not detract from the fundamental opportunity. The attractive valuations are indicative of the potential for future returns once the extremely negative sentiment mean-reverts.

Chinese market long-term opportunities exist within consumer-centric industries, healthcare, environmental services, e-commerce, and technology.

China is on a rapid path of change and has already advanced further than the western world has recognised. Since China started on the path to economic reform, it has solidified its position as one of the largest developing countries in the world with remarkable speed. China is currently a high middle-income economy, according to World Bank classifications. But with a focus on productivity growth, China hopes to transform into a high-income country. China has set out its plans to become a world superpower within the next 30 years, with the aim of restoring the country to a dominant position in the world order, reversing a decline in place since the 19th century.

The imperial ambitions and targets are demarcated in the industrial strategies laid out by China’s State Council.



CSI 300 VALUATION CHEAPENS AS EPS INCREASE (SOURCE: BLOOMBERG)

The first of these is “Made in China 2025”, which seeks to shift from export-led manufacturing to modernising the Chinese economy by boosting total factor productivity and maintaining innovation as a primary driver of economic growth to avoid the “middle-income trap”.

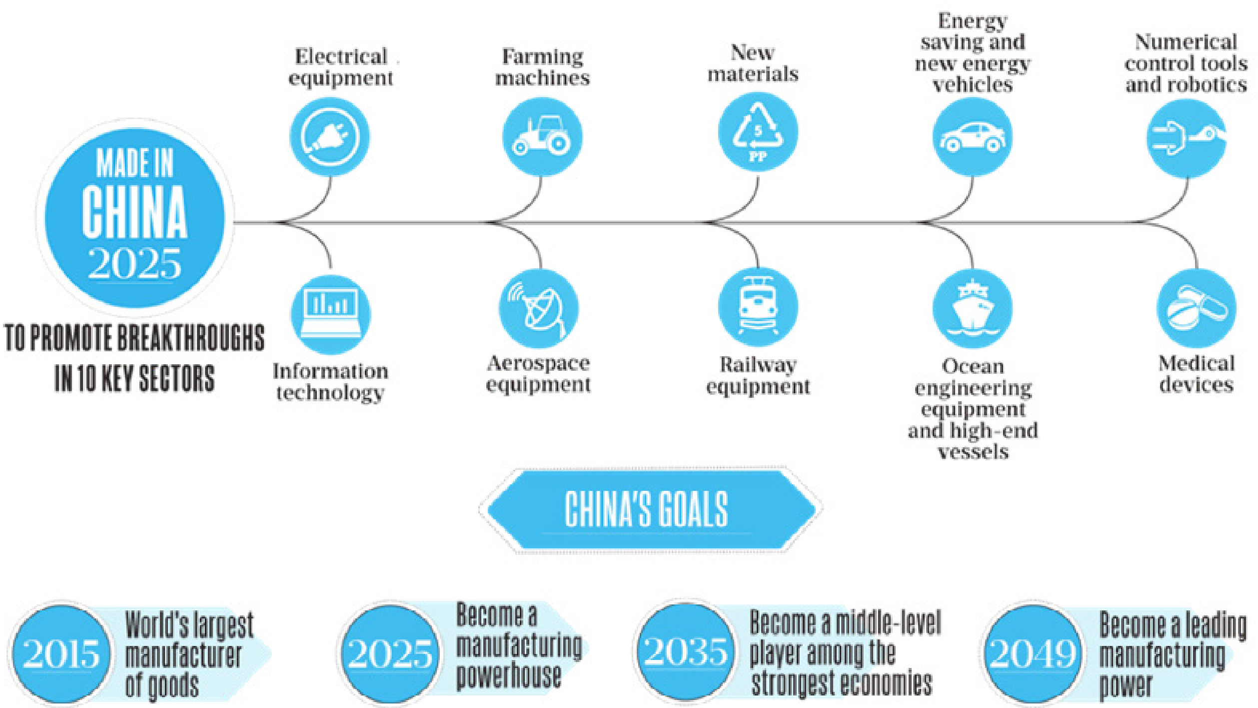
Whether or not the autocratic official targets or ambitions of technological independence are met, the underlying market conditions are aligned for at least partial success, with strong state support contributing to that success. Chinese companies already account for a large proportion of the global consumer electronics industry and overtook Japanese firms last year as the world’s second-largest filers of patents, according to the World Intellectual Property Organisation.

Current trends project that China will overtake the US as the largest filer of patents within three years. While it is undeniable that some of this intellectual property has been acquired through theft, China now leads the world as the country with the most academic papers on artificial intelligence, indicating that levels of original research are increasing. This underpins China’s motivation to economic modernisation.

OVERALL, THE CHINESE TECHNOLOGY SECTOR REMAINS EXCITING IN THE LONGER TERM

IS CHINA **CHEAP?**

CHINA GOALS, SOURCE: ONE ROAD RESEARCH



China is the world's second-highest spender on research and development. Last year, 48% of funding for AI start-ups globally was attributed to China, compared with 38% from the US.

AI is emerging as a transformational technology, and China has a unique advantage in the vast population that generates large volumes of hugely diverse data. McKinsey & Company forecasts that the total productivity effect of AI technologies could have a positive contribution to GDP growth of 0.8-1.4% annually, although the AI productivity dividend will probably not materialise immediately.

Ambitions to become a global leader in the AI supply chain, if successfully executed, would allow China to capture higher productivity growth as its GDP growth momentum slows, delivering a boost to economic activity.

However, targeting technological autarky will not be a smooth process. Even leveraging the power of state support, there is no guarantee the beneficiaries (local companies) will become high-quality or consistently profitable, even if they manage to outpace the US in technological supremacy. Nevertheless, the pace of technological advance is likely to surge under this policy framework, which is far more coherent and forward-looking than that of China's western counterparts.

So far this year, however, the Chinese tech sector has significantly underperformed its US equivalents. Although Chinese tech stocks represent some of the fastest-growing firms in the world, margin compression and slowing revenue growth are driving sentiment and will continue to do so in the short term. Overall, the Chinese technology sector remains exciting in the longer term.

The tech ecosystem has developed into interlocking networks, offering complementary services that create a powerful network effect. Given the sheer scale of the market, the ability to drive growth and boost profitability for investors should not be ignored. According to the China Internet Network Information Centre, China's online user base has increased to 800 million as of August 2018, and it still has room to grow. Internet world statistics show only 54.6% of the population in China is online, compared with 89% in the US.

IS CHINA **CHEAP?**

Regulatory ring-fencing and demographic shifts, along with the rapid rise of the Chinese middle class, have unleashed a wave of consumer engagement in China, resulting in a decade of hyper-digitisation from which the tech sector can benefit in the long term. Although tech is arguably at the forefront of the trade war, Chinese tech companies are generally more domestic-facing than their US counterparts, which generate around 45% of their earnings from the rest of the world. However, Chinese tech hardware companies may be vulnerable given the mounting pressure from the Trump administration to relocate supply chains out of China.

Within the healthcare sector, biotech and pharmaceuticals have been identified as industries slated to receive preferential state support to accelerate growth in areas such as predictive medicine, gene editing, and stem-cell research. Regulatory systems allow expedited approvals for innovative drugs, tax incentives, and government funding, not only from Beijing but also from local governments, contributing to sector growth rates. Companies that are beneficiaries of government R&D funding will maintain a significant pace of growth. Aside from state support, Chinese researchers enjoy the advantage of access to vast amounts of patient data that is unavailable in other countries. These vast and diverse data sets are crucial for applying AI and machine learning to human health, an area that many scientists worldwide believe is at the forefront of medical innovation.

Demographic shifts and a burgeoning economy have unleashed a wave of consumer spending in China, and this will continue in the coming years. Rising wages have led to a steady increase in China's gross national income (GNI) per capita. How does this translate into an equity-market portfolio? Aside from increasing discretionary spending on consumer staples, this presents an opportunity to invest in the long-term theme of Chinese domestic demand and consumer premiumisation. China's proportion of city dwellers is now similar to what the US had in 1940. Moreover, between 2009 and 2030 the country will add 850 million to its middle class, according to an OECD working paper, indicating that there are decades of above-average growth still to come.

This means the Chinese middle class will grow from 12% of its population in 2009 to 73% in 2030, boosting purchasing power and fuelling a consumption upgrade, with consumers moving up the value chain to more premium goods. Companies also benefit both in terms of growth and profit margins as the premium product upgrade usually generates higher profit margins. Increasing incomes and rising living standards are promoting lifestyle changes, causing an industry rotation out of industrials to consumer-centric industries like tourism, leisure, education, and e-commerce.

China accounts for about one third of global growth and plays an influential role in the global economy, yet Chinese equities are chronically underrepresented in investor portfolios. For investors, the short-term noise should not detract from the long-term prospects.

Whether or not China's official targets or technological independence goals are met, the underlying demographics leveraging a consumer-oriented millennial cohort and boosting proactive innovation are spurring change. It is fair to conclude that China is poised for an undeniable transition to a domestically focused, service-based economy presenting investment opportunities for those who seize China's "new economy".

ELEANOR CREAGH, MARKET STRATEGIST

Eleanor Creagh joined Saxo Bank in 2018 and serves as the bank's Australian Market Strategist, responsible for creating, implementing, and monitoring equity strategies and research for traders and investors, as well as developing quantitative models and customised mathematical frameworks for institutional clients. Eleanor holds a double major in Finance and Economics from the University of Sydney.

COMMODITIES: TRUMP, SANCTIONS, AND TARIFFS

BY OLE HANSEN

President Trump's trade war against China has left industrial metals reeling, while oil prices have risen sharply following the imposition of new sanctions on Iran. Uncertainties abound, not least of which is the full impact of the Iran sanctions and the size of the resulting production cut, which will determine what oil costs by year-end.

The direction of many major commodities will continue to be influenced by the decisions taken in Washington during the past six months. Apart from the weather, which has delivered challenges as well as opportunities across the agriculture sector, President Donald Trump's trade war with China and sanctions against Iran will keep setting the tone for the rest of the year.

The trade war, especially with China, shows no signs of easing. At least not before the November midterm elections, with Democrats generally favouring Trump's tough stance towards China. Accepting this fact, China has shown little interest in trying to find a solution before the US elections.

While growth- and demand-dependent commodities, such as industrial metals, have been left reeling, energy prices have risen sharply in response to the November introduction of US sanctions on Iran's oil trade.
With the risk of a prolonged trade war and rising oil prices due to sanctions, the global economy may struggle to maintain its long-held positive momentum.

The combination of rising energy prices and the hitherto strong dollar, not least against many emerging market currencies, will act as an unwelcome tax on consumers.

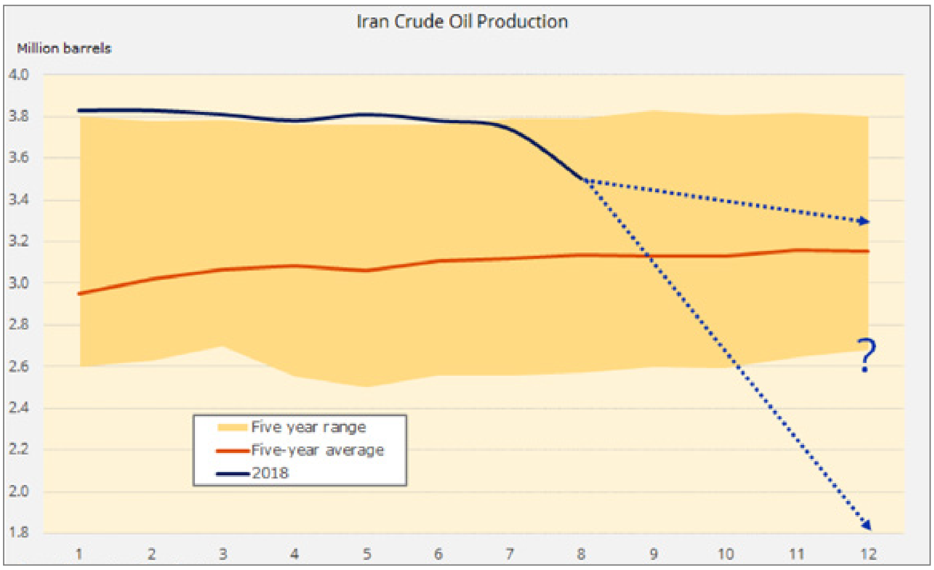
Adding to this we have rising interest rates in the US as the Federal Reserve continues to normalise its monetary policy. The combination of high external dollar debt, rising interest rates, a strong dollar, and rising oil prices carries the risk of slowing down growth prospects, especially in EM economies.

With this outlook in mind, we try to gauge the direction of crude oil and metal prices heading into the final quarter. While China's promises to cut taxes and increase (infrastructure) spending have supported a bounce in industrial metals, the outlook for oil is troubling.

At this stage, we simply do not know the full impact of sanctions on Iran, and whether the production cut ends up closer to 0.5 million or 2 million barrels/day will determine if oil costs closer to $70 or $100/barrel.

> WITH THE RISK OF A PROLONGED TRADE WAR AND RISING OIL PRICES DUE TO SANCTIONS, THE GLOBAL ECONOMY MAY STRUGGLE TO MAINTAIN ITS LONG-HELD POSITIVE MOMENTUM

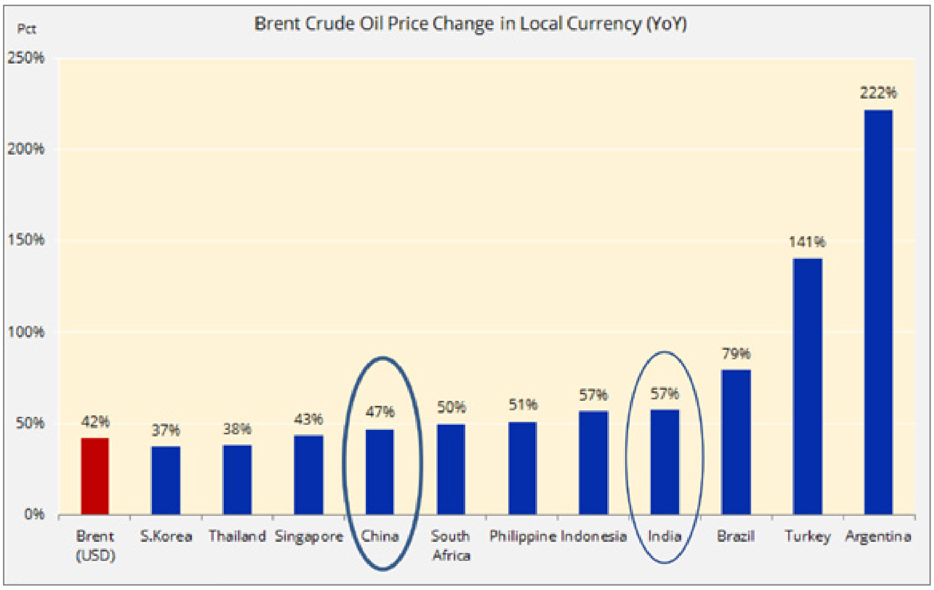
COMMODITIES: TRUMP, SANCTIONS, AND TARIFFS



SOURCE: BLOOMBERG AND SAXO BANK

While the negative impact of rising crude oil prices has yet to affect the 2019 demand outlook, there is no doubt that it will have an impact sooner rather than later. EMs led by China and India represent close to 90% of global demand growth, and the table below shows how much a barrel of Brent crude has risen during the past year in local currency.

India, which is on track one day to overtake China as the country with the highest demand growth, has seen the cost of Brent crude in rupees return to a level that prevailed between 2011 and 2014. During that time, the price in dollars averaged $110/b, some 33% higher than today. The potential spike above $90/b that some expect over the coming months would only accelerate the demand destruction, which ultimately would see oil turn lower again.



SOURCE: BLOOMBERG AND SAXO BANK

COMMODITIES: TRUMP, SANCTIONS, AND TARIFFS

> WHILE THE NEGATIVE IMPACT OF RISING CRUDE OIL PRICES HAS YET TO AFFECT THE 2019 DEMAND OUTLOOK, THERE IS NO DOUBT THAT IT WILL HAVE AN IMPACT SOONER RATHER THAN LATER

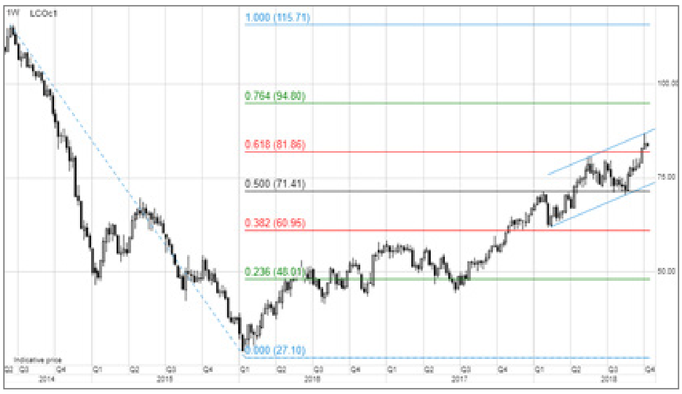
In the short term, however, falling supply from Iran and to a certain extent also Venezuela will continue to tighten the market. This development will increase the pressure on producers with spare capacity to produce more. Inadvertently, a drop in spare capacity would be viewed as price-positive given the reduced ability to react to an unforeseen future disruption.

However, given the negative impact of the current dollar strength, rising US interest rates and trade wars, we believe that the global economy is not able to cope with runaway oil prices. Although the US Energy Secretary has ruled out tapping into the country's Strategic Petroleum Reserves, an embattled Trump will not be pleased with the prospect of having to fight a midterm election with domestic gasoline prices up by one-third since his election victory in November 2016.

After cutting bullish oil bets by 41% from a record back in February until August, hedge funds have plenty of room to increase their oil exposure as long the technical and fundamental outlook supports it.

With normal supply-and-demand mechanisms being replaced by political interference, we refrain from issuing an end-of-year forecast for crude oil. We understand the reasons for the bullish sentiment, however, as the oil market reacts first and asks questions only later.

CRUDE OIL	
UPSIDE	DOWNSIDE
Geopolitical instability and sanctions cut supply by more than expected	Trade wars and EM slowdown reduce demand growth outlook
Shale oil production growth slows on rising cost pressures and bottlenecks in the delivery chain	The dollar continues its ascent as global growth slows and trade tariffs bite
Inflation hedge and backwardation attract demand from investors	Increased supply from non-Opec suppliers, such as Canada, Brazil, and Kazakhstan
The dollar resumes its weakness	



BRENT CRUDE OIL
SOURCE: SAXO BANK

OLE HANSEN, HEAD OF COMMODITY STRATEGY

Ole Hansen joined Saxo Bank in 2008 and has been Head of Commodity Strategy since 2010. He focuses on delivering strategies and analyses of the global commodity markets defined by fundamentals, market sentiment and technical developments.

TIME FOR EM CENTRAL BANKERS **TO PAY THE FED PIPER**

BY KAY VAN-PETERSEN

Just as with global macroeconomic conditions, you can run from the Federal Reserve, but you cannot hide. So emerging market central banks have no choice but to pay the piper and follow the Fed, which is now tightening. Let's take a look at macro prospects for four countries: Brazil, Indonesia, India, and China.

Those who join us on the weekly Macro Monday call know that I have been a US growth and inflationary bull as well as a Federal Reserve hawk for a few years now. Since the tail end of 2017, I have had the view that emerging market central banks were skewed towards hawkish surprises – whether they liked it or not. The two key standouts against this tide were Russia and Brazil, which were cutting rates to combat domestic problems. They have since stopped, and in Q3 the Russian central bank surprised everyone with a rate hike.

For many years, EM (alongside the rest of the world) has been drinking out of the punchbowl of record-low interest rates set by the Fed and a multi-year bear market in the US dollar. Over the past few years, this has structurally been reversing to a tipping point where it is now time to pay the piper. The Fed is like the global macroeconomy: you can run for a while, but you can't hide forever.

STRENGTH EQUALS WEAKNESS, AND WEAKNESS EQUALS STRENGTH

This is the key axiom of global macro. What performs beautifully in one regime (lower USD, lower US yields, low inflation, dovish Fed), struggles in another regime (higher inflation, more hawkish Fed, higher USD and US yields). This is a hard concept for portfolio managers, let alone policymakers, to digest. After all, most of us are hardwired to keep doing what was working and to extrapolate that into the future, until we either realise things are not working and we change tack (pain gets too much), or we blow up (are forced to change).

IT WILL BE CRUCIAL TO SEE WHETHER OR NOT CHINA STEPS UP THE STIMULUS, WHICH SO FAR HAS NOT BEEN SIGNIFICANT ENOUGH TO STOP THE PRESSURES ON EM

Let's take a look at four countries: Brazil, Indonesia, India, and China. This group jointly accounts for 42% of the world's population, but (for now) only 23% of global GDP. The structural demographics – especially the young populations of India and Indonesia, where most of the population is under the age of 25 – mean that multi-decade trends in consumer consumption will last through business cycles.

Apart from Brazil, these countries continue to grow at healthy clips, with India, Indonesia, and China seeing year-on-year GDP growth of 8.2%, 5.3%, and 6.7%, and with inflation seemingly contained in the former two. But it is important to distinguish between economic growth and challenges and the respective markets overlaying these economies.

TIME FOR EM CENTRAL BANKERS **TO PAY THE FED PIPER**

BRAZIL

(POPULATION 210M, ECO $2.1TRN, GDP +1.0%, CPI +4.2%, BRL 4.0504 -15% E-Q3, CB RATE 6.50%)

The only thing Brazilian investors have to smile about is that at least they have fared better than investors in Turkey and Argentina whose currencies were down 29% and 44% respectively by the end of Q3, when the BRL was down 15%. These are some of the challenges that EMs with twin deficits and heavy exposure to the USD and/or commodities run into. Brazil will be going into arguably its most important presidential election in recent history this quarter. Its past is littered with corruption (such as the 2015 "car wash" fiasco), inept policymakers, as well as one of the most generous and unsustainable government benefits schemes.
With inflation ticking up over the summer, we could see a more hawkish Central Bank of Brazil being forced to move despite the country's lacklustre growth and the unknown fiscal policies of the future government.

For contrarians or those looking for a partial hedge to their short EM exposure, São Paulo's Bovespa index is technically looking very strong at the 78,000-point levels, with lows having been set earlier in the year (around 69,000 in July); domestic equities could be telling us that the worst is over. The domestic allocation to equities from local fund managers is at multi-decade lows, so even a small domestic asset reallocation from bonds to equities could potentially put some serious tailwinds on the equities side. Key support should be the 100-day weighted moving average of 72,300. Lastly, for those positioned in BRL it is worth bearing in mind that the Mexican peso started to rally hard in the weeks leading up the presidential election earlier this year; since then it has not looked back. Additionally, the political uncertainty premium would disappear after the elections. Furthermore, while Brazil is in the EM current account deficit camp, it is at a more modest -1% to GDP.

Unlike South Africa, Brazil has also been through considerable pain for quite some time. As Saxo Bank's Christopher Dembik highlighted with respect to South Africa, tougher days may be coming given the country's "high current account deficit [and] low international reserves that are equivalent to five months' worth of imports."

> THE ONLY THING BRAZILIAN INVESTORS HAVE TO SMILE ABOUT IS THAT AT LEAST THEY HAVE FARED BETTER THAN INVESTORS IN TURKEY AND ARGENTINA

INDIA

(POPULATION 1.4BN, ECO $2.9TRN, GDP +8.2%, CPI +3.7%, INR 72.49 -8% E-Q3, CB RATE 6.50%)

A 1.4 billion-strong population with more than 50% of the country under the age of 25 cannot be ignored by long-term global macro investors. It is never a question of if you want to be long India – this is "baby China" – it's more when do you get long, and how much do you buy, as well as when should you hedge or lighten up. Higher energy prices (India is a net exporter), a stronger USD, and inflation that is ticking up, as well as a banking system that needs to be cleaned out, are factors complicating the short-term horizon for India. And let's not forget that it's been a huge beneficiary and favourite of EM capital allocations.

The fact that India has roughly the same population as China with China's economy being about five times bigger suggests that there is a big margin of safety in the long-term structural dynamics of India, despite the potential for near-term pain. Even if the economy only doubles in the next decade, there will be some remarkable opportunities for long-term investors.
For now, though, the monsoons have far from passed, and the Reserve Bank of India has a lot on its plate.

TIME FOR EM CENTRAL BANKERS **TO PAY THE FED PIPER**

INDONESIA

(POPULATION 270M, GDP $1.1TRN, GDP +5.3%, CPI +2.9%, IDR 14,903 -5% E-Q3, CB RATE 5.75%)

Again, Indonesia has young demographics that just cannot be ignored in the long term; close to 40% of the population is under the age of 20. While the Indonesian rupiah at 14,903 to the dollar is hitting levels not seen since the late 1990s Asian crisis due to the country's current account deficit of -3% and the aforementioned US factors, the economy is still growing at over 5.3%, inflation is at 2.9%, and Bank Indonesia was one of the first EM central banks to start hiking proactively from the second quarter of 2018. The bank has raised rates five times since May. The combination of higher oil prices (like India, Indonesia is a net importer) and a stronger USD suggests that inflation could still have some tailwinds behind it, which implies a hawkish path.

CHINA

(POPULATION 1.4BN, GDP $14.0TRN, GDP +6.7%, CPI +2.3%, CNH 6.87 -3% E-Q3, CB RATE 4.35%)

Context is always key, so I grin when people bemoan the weaker renminbi. After all, a 3% drop by the end of Q3 is nothing compared with the pain that Brazil, Turkey, and Argentina have been feeling.

A crucial Q4 uncertainty for China is whether relations with the US will pivot for the better after the US midterm elections in November. When it comes to the US and China, President Trump is the proverbial man with the hammer.

Through months of frustration between Beijing and Washington, China has played its cards well by advocating no talks with the US until after the midterms. It also has theta on its side as president Xi Jinping is party leader for life, whereas Trump may have six years in power at best and six months at worst. Beijing's game is very much a long game, while the US is tied to the four-year rat race of the presidential cycle, which is not conducive to making big long-term structural changes for the betterment of its citizens.

At the end of the day, even if the US puts 25% tariffs on $500 billion worth of Chinese goods, that would still only equal about 1% of overall Chinese GDP — painful, but far from devasting. The situation for those selling into China is, of course, different given the combination of their much smaller economies, higher reliance on China, and the fact that every 1% weakening of the yuan means a 1% tax on their exports to an economy that is also slowing down and looking inwards with the aim of becoming more self-sufficient.

It will be crucial to see whether or not China steps up the stimulus, which so far has not been significant enough to stop the pressures on EM (for example, August's new loan figures were worse than expected and PMIs, while still in expansion mode, are trailing down towards 50). The official line from the People's Bank of China will be that it is not interested in a weaker renminbi. Unofficially it is dampening the tariffs from Team Trump, and the degree of combativeness from the US will be symmetrical to the eventual weakness in CNH.

The most interesting and profitable aspect of the trade tariffs between the US and China is their unintended consequences in the long term. Washington wanted to curb China's 2025 plans, but the result is likely to be that Beijing moves those plans forward to 2022 or, in some cases, 2020.

Q3 FLASHBACK

In our last update, we suggested that we could see a weaker yuan; it was at about 6.426 to the dollar when we wrote our Q3 outlook piece. Now at the start of Q4, the yuan is around 6.87 though the 7.00 level remains uncleared (the high has been 6.9471). The only way this level will not be breached is if some miraculous turnaround occurs in US-China trade relations, which is highly unlikely given that it is to Trump and the Republicans' advantage to play the strongman card going into the midterm vote, especially now that he has

TIME FOR EM CENTRAL BANKERS **TO PAY THE FED PIPER**

structured a new North American trade deal (which has yet to be passed by Congress). A drop in US inflation or reversal in the Fed could also provide respite.

ASIA-PACIFIC GRAPEVINE

Regular listeners of our weekly Macro Monday cross-asset call will know that we flagged the Nikkei's bullish breakout from the low 23,000 levels. This breakout has potentially multi-decade implications with regard to levels, as the 26,700 level has not been seen since the early 1990s. Surprisingly, this has attracted little attention, as also is the case with the stealth move higher in USDJPY after the key technical break higher with a weekly close above 112.50.

From a macro perspective, the purer expression may be to expect higher Japanese government bonds due to three factors: 1) US rates pushing global yields higher, 2) the Bank of Japan gradually facing more pressure to pull back from excessive accommodation, and 3) Japan becoming more inclined to reach a trade deal with the US.

2018 GDP ESTIMATES AND RANKING TAKEN FROM STATISTICSTIMES.COM. POPULATION DATA TAKEN FROM WORLDOMETERSCOM. THE RETURNS ON THE CURRENCIES ARE TOTAL RETURNS AND TAKEN AS THE END OF Q3'18

KAY VAN-PETERSEN, GLOBAL MACRO STRATEGIST

Kay Van-Petersen joined Saxo Bank in 2014 as a Global Macro Strategist, based in Singapore. He focuses on delivering strategies and analyses across asset classes based on monetary & fiscal policies, global geopolitical landscapes as well as other macroeconomic fundamentals. He also takes into account market sentiment, technical and momentum factors, and corporate bonds with attractive risk and return.

FIXED INCOME:
PREPARING FOR THE SLOWDOWN

BY ALTHEA SPINOZZI

We expect three themes to threaten the tranquility of fixed-income investors in the final quarter of the year: persistent volatility in emerging markets, political tension in the European Union, and finally the constant tightening by the Federal Reserve which will start to destabilise US high-yield corporate spreads.

LEAVING A TROUBLED SUMMER BEHIND

We are emerging from a particularly eventful summer in the markets. We have seen the Argentine peso tumble, falling 50% year-to-date together with the Turkish lira which lost 38% of its value against the greenback, provoking a deep sell-off in sovereigns of these countries. Although things appear to have started to stabilise again, the reality remains alarming. Turkish political uncertainty continues to daunt investors, while in Argentina the $57.1 billion credit line provided by the International Monetary Fund may not be enough to pull the country out of its political and economic difficulties.

At the same time, tensions in Europe have been growing between Italy and the European Union over the 2019 budget. Many are wondering whether the colourful dialogue between the European Commission and the Mediterranean country is now really about the size of the deficit or about a deeper discontent that could drive Italy to take exceptional measures against the EU, possibly including a referendum to leave the economic community.

Finally, in the US we are continuously witnessing an overconfident Fed chair in the form of Jerome Powell, who continues to tighten the economy. However, although US interest rates are rising, US corporate spreads continue to trade tight, leaving many to wonder whether this is the next bubble that is destined to burst.

The fragility and contradictions of the financial market are starting to surface, and although credit spreads will be put under considerable stress in the fourth quarter, we believe that we will not see an overwhelming sell-off until the US economy slows and gradually moves into a recession. This should give investors plenty of time to assess their risks and position themselves for a possible downturn in 2019-20. The current market still provides opportunities, especially in the short part of the curve, and investors can use episodes of volatility to enter solid assets at a better price.

EM: DEBT BONANZA MUST END

From the financial crisis of 2008 until today, emerging markets have taken advantage of low interest rates and yield-deprived investors to issue more and more debt in hard currencies, the majority of which is in US dollars.

Unfortunately, with the USD remaining strong and the Fed continuing to hike interest rates, the EM world is walking a fine line, and the equilibrium can be upset by two main risks: *interest rate payments*, which are

> THE PERFORMANCE OF EUROPEAN SOVEREIGNS WILL BE PUT AT RISK BY THE DEMANDS OF THE ITALIAN GOVERNMENT TO THE EUROPEAN COMMISSION

FIXED INCOME: PREPARING FOR THE SLOWDOWN

becoming increasingly more complicated as local currencies are quickly devaluing against the USD, and *the refinancing of existing debt*, which is becoming more and more expensive as interest rates rise in the US, and is particularly impacting those countries with a preponderance of short maturities, such as Argentina.

The volatility that hit Argentina and Turkey this past summer is just the beginning. Although the sell-off had two very different causes (a currency crisis in the first case and a political hiccup with the US in the latter), the result was the same: a violent sell-off of the local currency together with sovereign and corporate debt issued by these countries. This implies that regardless of where pressure is applied (politically or economically), EMs have reached a peak, and now they can only go in one direction: down.

These events were alarming enough, but the most troubling part is that while the local currencies rebounded modestly (but stayed weak overall reflecting the fragile economic conditions of these countries), hard-currency sovereigns saw a robust rebound. This means that investors remain confident that episodes of volatility, such as those experienced over the summer, are fixable, isolated cases which represent buying opportunities. And now they are again putting their faith into the hands of the central banks that for years have propped up asset prices through their enormous balance sheets.

However, we believe it is wrong to assume that the low-volatility environment of the past few years will last indefinitely. The twin cases of Argentina and Turkey indicate that we might be approaching the end of the late economic cycle where more volatility is to be expected within the EM world.

A possible trade war could aggravate this event as a shift towards anti-globalisation measures could have serious repercussions for EM growth.

For all these reasons we are cautious towards EM until the end of the year.

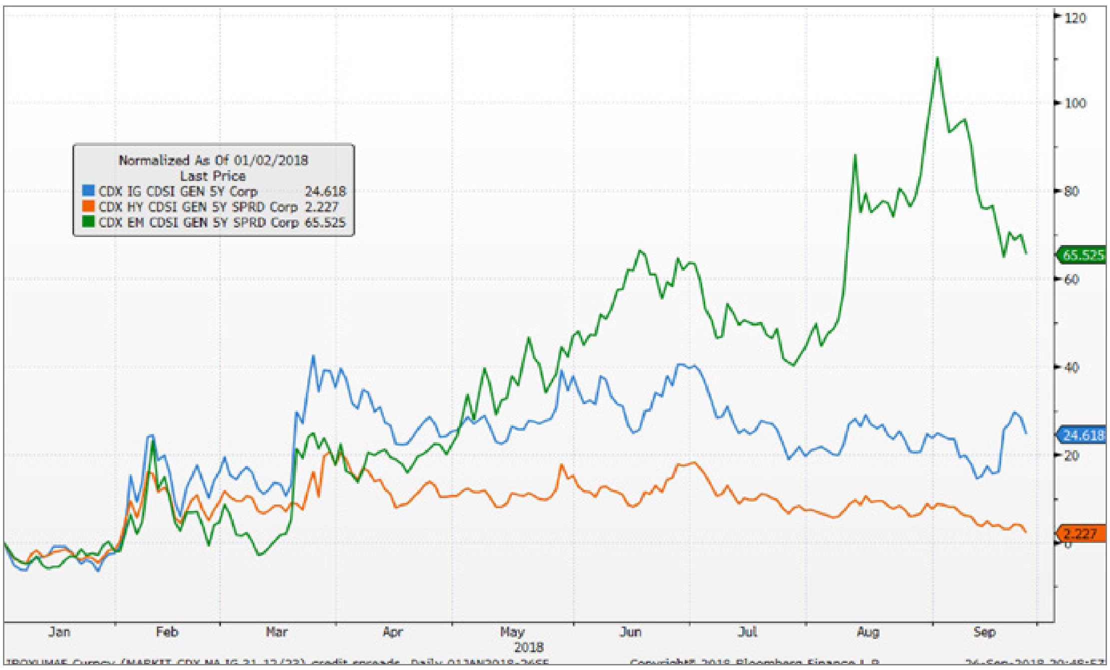


FIGURE 1: ORANGE: CDX EM; GREEN: CDX HY; BLUE: CDX IG. PERCENTAGE CHANGE SINCE BEGINNING OF THE YEAR. SOURCE: BLOOMBERG

FIXED INCOME: PREPARING FOR THE SLOWDOWN

ECB 'TIGHTENING LITE' AMID POLITICAL CRISIS

Finally, after years of quantitative easing, we see European Central Bank president Mario Draghi ready to slowly tighten the economy, confident that the euro area is recovering and that the support of the ECB is no longer needed. However, although economically things are better than before, political risks are arising from the same strategy that enabled the EU area to recover: austerity.

Populism in Europe represents a growing opposition to the austerity rules imposed by the European Commission, and this has come to represent the biggest threat to the euro area since the global financial crisis in 2008.

We believe that Q4 will see the performance of European sovereigns put at risk by the demands of the Italian government to the European Commission, which will not only be confined to discussion of the 2019 budget but could even see an escalation of tensions as Italy makes it clear that it is not willing to abide by Brussels' rules.

Ironically, it is just when the periphery needs the support of the ECB that Draghi is halving the bank's balance sheet, making movements in European sovereigns more intense. And even when an agreement is eventually reached on the Italian budget for 2019, Italian sovereigns will continue to be volatile as political tension with the EU will remain high.

In addition, if a downgrade from Moody's arrives at the end of October, then the widening of the spread between Italian BTPS and German bunds could provoke a wider sell-off in Italian corporates and on the periphery, most notably Greece and Spain.

Although the Italian government will be a tough cookie to deal with, we believe an 'Italexit' is not possible. The Italian economy is highly dependent on the euro area economy, and the single European currency complicates things regarding a possible exit. This makes it impossible for the parties to pursue this without losing the bulk of their voters, who would find themselves in a weaker position than they had while in the EU.

This is why a sell-off in the periphery constitutes a risk in the short term but an opportunity in the longer term. This space could provide interesting opportunities for yield-deprived investors as the value of quality bonds falls.

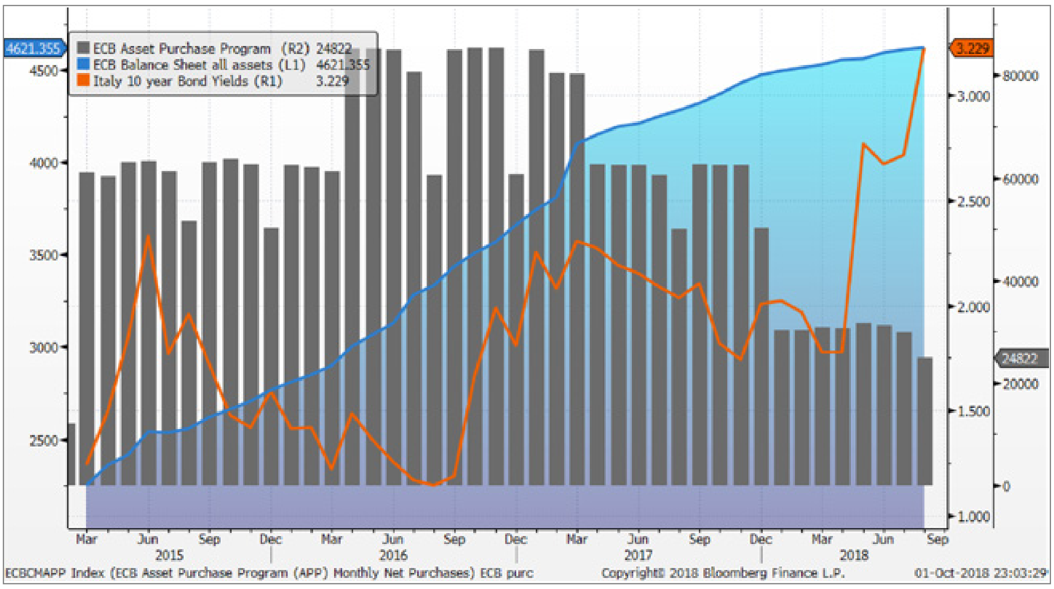


FIGURE 2: IN GREY, ECB ASSET PURCHASE PROGRAMME MONTHLY; IN BLUE: ECB BALANCE SHEET; ORANGE: ITALIAN 10-YEAR BTPS. SOURCE: BLOOMBERG.

FIXED INCOME: PREPARING FOR THE SLOWDOWN

US HIGH YIELD: TIME TO EXIT LONGER MATURITIES

As you can see from Figure 1, US high-yield spreads have widened the least of any in the investment-grade space and, of course, the EM space, making junk bonds the top performers in the fixed-income market since the beginning of year.

This can be explained by a combination of investors' confidence in the economy together with the fact that high-yield issuance is at its lowest level since 2010. But these are not good enough reasons to sit on riskier assets while interest rates are rising, and it is not yet clear how long the strong US economy will last before a recession comes. Just as in EM, here we see debt refinancing as the biggest risk facing weaker corporates at the moment.

Although we believe that the risks are not immediate, we think it is time for investors to reconsider their junk bonds exposure.

Current default rates are still below 3% for high-yield credits, and this outlook should not change this year or in H1 of next year, leaving short-term, high-yield corporate bonds attractive. Bonds with longer maturities are a different story. While the remainder of 2018 will be underpinned by solid growth thanks to Trump's policies, we can expect this to stop sometime next year as rising inflation will require the Fed to raise rates faster, producing a slowdown in the US economy.

> ALTHOUGH CREDIT SPREADS WILL BE PUT UNDER CONSIDERABLE STRESS IN THE FOURTH QUARTER, WE BELIEVE THAT WE WILL NOT SEE AN OVERWHELMING SELL-OFF UNTIL THE US ECONOMY SLOWS AND GRADUALLY TURNS INTO A RECESSION

We are negative on longer-term, lower-rated bonds, and believe that Q4 represents a perfect opportunity to reduce exposure in these instruments as valuations will remain supported by the current economic momentum, while the start of next year should already see a correction in this space (and a higher chance of defaults later in 2019), as Moody's indicated in a recent report.

FIGURE 3: BLOOMBERG BARCLAYS US CORPORATE HIGH YIELD AVERAGE OAS. SOURCE: BLOOMBERG

FIXED INCOME: PREPARING FOR THE SLOWDOWN

CONCLUSION

We expect the fixed-income market to stay volatile this quarter. But as the economic backdrop remains strong along with market sentiment, we can expect a rebound after various episodes of volatility. This does not mean that this represents an opportunity to enter new risky positions. As the economy moves into the final stages of the late economic cycle, periods of volatility are going to be normal before a bigger sell-off occurs. This is why we believe this is the perfect time to monetise riskier positions and re-evaluate current asset allocation.

In the long term, we are negative on EM and US junk bonds because as the US dollar remains strong, the economy is tightening and growth gradually slows, we can expect weaker EM to find themselves in a liquidity trap.

In the short term, we are also negative on sovereigns from the periphery which will also remain under stress as political and economic uncertainties arise in Europe. Italy will be a catalyst for a possible wider sell-off in this space as tensions remain at historic highs between the Mediterranean country and the EU. In the long term, however, we are positive on selected periphery banks and corporates which are repricing and trading more cheaply than their European counterparts due to the current political instability.

In short, we believe that Q4 is the perfect moment for investors to assess whether their strategy is sustainable in the medium term, and to start taking measures to navigate the late economic cycle once it slowly turns into recession.

ALTHEA SPINOZZI, FIXED INCOME SPECIALIST

Althea Spinozzi is a sales trader at Saxo Bank, and specialises in fixed income products within the global sales team. Spinozzi joined Saxo Bank in 2017 and maintains an active approach in bond trading focusing on maximising total return. Because of her background in leveraged debt, she is particularly focused on high yield and corporate bonds with attractive risk and return.

CRYPTOCURRENCIES: CHINA LEADS THE WAY

BY JACOB POUNCEY

Cheap electricity and plentiful manufacturing capacity in many emerging markets means they are playing an increasingly important role in the cryptocurrency mining industry. China's massive computing power makes it the undisputed leader of the sector, but other, smaller countries also have key roles.

> IN Q4, WE EXPECT EMERGING MARKETS WILL CONTINUE TO PLAY AN EVER-INCREASING ROLE IN THE GROWTH AND ADOPTION OF CRYPTOCURRENCIES

Emerging markets have a critical role in the cryptocurrency mining industry. This importance is due to the abundant manufacturing capacity and cheap electricity available in some emerging economies. China, by and large, plays a pivotal role in the industry. First, most of the manufacturers producing the specialised hardware that verifies and secures the largest cryptocurrency networks have most of their operations based in China. Second, China has the largest hash rate (or computing power) of any country. Most figures put China's contribution to the Bitcoin network at more than half of the world's mining capacity, meaning that most of the revenue from securing cryptocurrency networks flows to Chinese operators.

Additionally, with the recent IPO filings of the three largest cryptocurrency hardware manufacturers, the Hong Kong Stock exchange will allow investors access to 85% of the cryptocurrency mining hardware by revenue and exposure to almost 40% of the Bitcoin mining rewards, further solidifying China as the cryptocurrency capital concerning infrastructure access.[1]

Outside China, we see countries such as Vietnam and Venezuela outright banning the shipment of cryptocurrency mining hardware into their territories to try to control currency flows. A study earlier this year estimated the cost of mining a single Bitcoin in Venezuela at $532. This cost has likely increased given that the difficulty of producing a Bitcoin has more than doubled. Venezuelans and citizens in emerging economies are turning to cryptocurrencies to preserve value in the face of hyperinflation.

Some believe that cryptocurrencies are volatile and a poor store of value, while others in emerging economies under oppressive monetary regimes view cryptocurrencies as a mechanism to protect wealth and store value. Whether it be the need for a censorship-resistant store of value that cannot be confiscated like physical items, or whether it be a need for a relatively stable medium of exchange for day-to-day transactions, the use cases for emerging economies are often different from the ones for developed economies and stable financial markets.

1. THE EXACT REVENUE NUMBER AND HASH RATE LOCATION IS DIFFICULT TO PINPOINT DUE TO THE OPEN NATURE OF SOME OF THE LARGEST MINING POOLS. MINING POOLS ALLOW ANYONE REGARDLESS OF LOCATION TO JOIN AND BEGIN MINING, HELPING TO ENSURE A MORE CONSISTENT STREAM OF REVENUE FOR INDIVIDUAL MINERS.

CRYPTOCURRENCIES
CHINA LEADS THE WAY

In Q4, we expect that EM will continue to play an ever-increasing role in the growth and adoption of cryptocurrencies. China will continue to dominate the global mining order, despite the recent geographic diversification of domestic firms and the increase in competition from challengers abroad. During the next bull run, we expect continued exponential growth of the cryptocurrency mining market. The capital raised during the coming IPOs will give investors significant exposure to the cryptocurrency market and give the respective firms plenty of resources to continue developing new hardware. Additionally, the most distressed EMs seem to be the canaries in the coal mine. With uncertainty and geopolitical risk increasing, cryptocurrencies could rise again if the global monetary system is tested.

DURING THE NEXT BULL RUN, WE EXPECT CONTINUED EXPONENTIAL GROWTH OF THE CRYPTOCURRENCY MINING MARKET

JACOB POUNCEY, CRYPTO ANALYST

Jacob Pouncey first joined Saxo in 2017 as their go-to crypto guy. He has followed the cryptocurrency and blockchain space since 2013. Jacob focuses on delivering in-depth crypto market analysis. He has a deep understanding of the technology and fundamentals that drive the Crypto Asset space. Jacob tends to focus on medium and long-term indicators for market analysis.

NON-INDEPENDENT INVESTMENT RESEARCH DISCLAIMER

This investment research has not been prepared in accordance with legal requirements designed to promote the independence of investment research. Further it is not subject to any prohibition on dealing ahead of the dissemination of investment research. Saxo Bank, its affiliates or staff, may perform services for, solicit business from, hold long or short positions in, or otherwise be interested in the investments (including derivatives), of any issuer mentioned herein. None of the information contained herein constitutes an offer (or solicitation of an offer) to buy or sell any currency, product or financial instrument, to make any investment, or to participate in any particular trading strategy.

This material is produced for marketing and/or informational purposes only and Saxo Bank A/S and its owners, subsidiaries and affiliates whether acting directly or through branch offices ("Saxo Bank") make no representation or warranty, and assume no liability, for the accuracy or completeness of the information provided herein.

In providing this material Saxo Bank has not taken into account any particular recipient's investment objectives, special investment goals, financial situation, and specific needs and demands and nothing herein is intended as a recommendation for any recipient to invest or divest in a particular manner and Saxo Bank assumes no liability for any recipient sustaining a loss from trading in accordance with a perceived recommendation.

All investments entail a risk and may result in both profits and losses. In particular investments in leveraged products, such as but not limited to foreign exchange, derivates and commodities can be very speculative and profits and losses may fluctuate both violently and rapidly. Speculative trading is not suitable for all investors and all recipients should carefully consider their financial situation and consult financial advisor(s) in order to understand the risks involved and ensure the suitability of the situation prior to making any investment, divestment or entering into any transaction.

Any mentioning herein, if any, of any risk may not be, and should not be considered to be, neither a comprehensive disclosure or risks nor a comprehensive description such risks.

Any expression of opinion may be personal to the author and may not reflect the opinion of Saxo Bank and all expressions of opinion are subject to change without notice (neither prior nor subsequent). This communication refers to past performance. Past performance is not a reliable indicator of future performance. Indications of past performance displayed on this communication will not necessarily be repeated in the future.

No representation is being made that any investment will or is likely to achieve profits or losses similar to those achieved in the past, or that significant losses will be avoided.

Statements contained on this communication that are not historical facts and which may be simulated past performance or future performance data are based on current expectations, estimates, projections, opinions and beliefs of the Saxo Bank Group. Such statements involve known and unknown risks, uncertainties and other factors, and undue reliance should not be placed thereon.

Additionally, this communication may contain 'forwardlooking statements'. Actual events or results or actual performance may differ materially from those reflected or contemplated in such forward-looking statements. This material is confidential and should not be copied, distributed, published or reproduced in whole or in part or disclosed by recipients to any other person.

Any information or opinions in this material are not intended for distribution to, or use by, any person in any jurisdiction or country where such distribution or use would be unlawful. The information in this document is not directed at or intended for "US Persons" within the meaning of the United States Securities Act of 1993, as amended and the United States Securities Exchange Act of 1934, as amended.

This disclaimer is subject to Saxo Bank's Full Disclaimer available at www.home.saxo/disclaimer.

SAXO BANK A/S | PHILIP HEYMANS ALLÉ 15 | 2900 HELLERUP | DENMARK | TELEPHONE: +45 39 77 40 00 | WWW.HOME.SAXO