

# 2020 World Economic Outlook

## - U.S.-China Conflict Continues, World Economy Stagnates -

*(Original Japanese version put out on December 20, 2019)*

**Marubeni**

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**Marubeni Research Institute**

# 1. World

## Simultaneous Slowdown in U.S., China, Euro Zone, Japan, Global Economy Stagnates in 2020

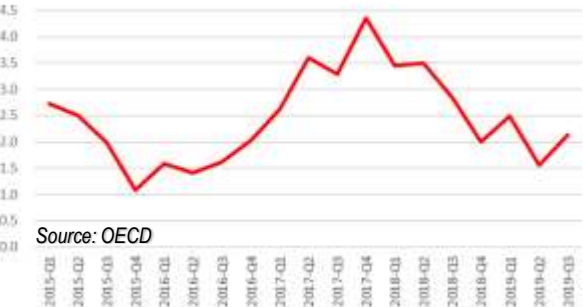
- The world economy began to stagnate in 2019 and should continue to do so in 2020 with simultaneous economic slowdowns in the U.S., China, Euro Zone and Japan.
- The U.S. is approaching the end of its economic expansion, while China decelerates as it transitions to a period of more stable growth. U.S.-China friction continues to heighten uncertainty in the global economy with capital investment slumping as a result. Although there was somewhat of a breakthrough in the U.S.-China trade war with a partial agreement from trade talks in December 2019, the battle for technological supremacy and between free market and state capitalism is intensifying meaning the heretofore interdependence between China and the U.S. may not fully recover. On the other hand, if U.S.-China relations improve unexpectedly it would be a boon to the global economy (recovery in manufacturing demand) and give rise to a more optimistic scenario.
- Such technological innovation as digitalization and decarbonization are advancing, however, still lack the power to propel and support the world economy. For the time being, investment in new technology will rapidly expand at the same time investment in conventional technology is being reduced. Stimulus measures in the major economies are likely to remain limited due to either cautious stances or domestic opposition.
- Given the continued stagnation of the world economy, business opportunities will likely be found in rapidly growing small/medium size emerging economy countries and in undervalued assets.

▽ Trade/New Orders Drop Sharply (vs. prior year %, PMI of 50 = no change)



Source: IMF

▽ G7 Investment Slows From 2018 (vs. prior year %)



Source: OECD

▽ World Economic Outlook (2019 estimate, 2020-21 forecast, vs. prior year %)

|                                 | Share | Actual |      |      | Main Scenario |      |      | Optimistic Scenario |      |      |
|---------------------------------|-------|--------|------|------|---------------|------|------|---------------------|------|------|
|                                 |       | 2018   | 2016 | 2017 | 2018          | 2019 | 2020 | 2021                | 2019 | 2020 |
| <b>World</b>                    | 100.0 | 3.4    | 3.8  | 3.6  | 2.9           | 3.1  | 3.2  | 3.0                 | 3.4  | 3.6  |
| <b>Advanced Economies</b>       | 40.8  | 1.7    | 2.5  | 2.3  | 1.7           | 1.5  | 1.6  | 1.7                 | 1.7  | 1.8  |
| US                              | 15.2  | 1.6    | 2.4  | 2.9  | 2.3           | 1.9  | 1.8  | 2.4                 | 2.1  | 2.0  |
| Euro Zone                       | 11.4  | 1.9    | 2.6  | 2.0  | 1.2           | 1.1  | 1.2  | 1.2                 | 1.4  | 1.5  |
| Japan                           | 4.1   | 0.5    | 2.2  | 0.3  | 0.9           | 0.2  | 1.0  | 0.9                 | 0.5  | 1.4  |
| Japan (fiscal year)             | 4.1   | 0.9    | 1.9  | 0.3  | 0.6           | 0.6  | 0.7  | 0.7                 | 1.0  | 1.1  |
| UK                              | 2.2   | 1.8    | 1.8  | 1.4  | 1.2           | 1.0  | 1.2  | 1.2                 | 1.4  | 1.5  |
| <b>Newly Emerging Economies</b> | 59.2  | 4.6    | 4.8  | 4.5  | 3.7           | 4.1  | 4.2  | 3.9                 | 4.6  | 4.7  |
| China                           | 18.7  | 6.7    | 6.8  | 6.6  | 6.1           | 5.8  | 5.5  | 6.1                 | 5.9  | 5.6  |
| India                           | 7.7   | 8.2    | 7.2  | 6.8  | 5.0           | 5.0  | 5.5  | 6.1                 | 7.0  | 7.4  |
| ASEAN 5                         | 5.5   | 5.0    | 5.3  | 5.2  | 4.8           | 4.8  | 4.9  | 4.8                 | 4.9  | 5.2  |
| Central/Eastern Europe          | 7.2   | 1.8    | 3.9  | 3.1  | 1.8           | 2.4  | 2.3  | 1.8                 | 2.5  | 2.5  |
| Russia                          | 3.1   | 0.3    | 1.6  | 2.3  | 1.1           | 1.6  | 1.4  | 1.1                 | 1.9  | 2.0  |
| Central/South America           | 7.5   | -0.6   | 1.2  | 1.0  | -0.3          | 1.1  | 1.7  | -0.2                | 1.7  | 2.3  |
| Middle East/North Africa        | 6.4   | 5.4    | 1.7  | 1.1  | 0.1           | 2.4  | 2.8  | 0.1                 | 2.7  | 3.0  |
| Sub-Saharan Africa              | 3.0   | 1.4    | 3.0  | 3.2  | 3.0           | 3.5  | 3.5  | 3.2                 | 3.6  | 3.7  |

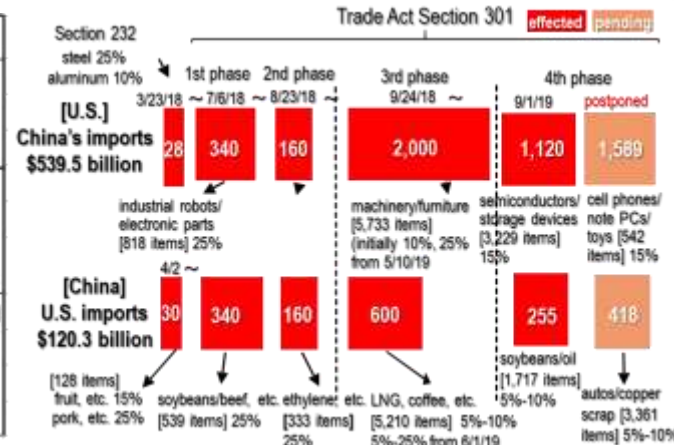
Source: Marubeni Research Institute

# 2. Main Points ① U.S. Protectionism, U.S.-China Battle Over Technology Supremacy: Decided/Undecided U.S. Trade Policy Factors

## Trade Negotiation-Related Action/Events

|      | U.S./China Related   | Japan/U.S./Europe, Other                |
|------|--|---|
| 2018 | 7/6 Additional tariffs 1 <sup>st</sup> phase                 | 3/23 Steel/aluminum tariffs (partial)   |
|      | 8/23 Additional tariffs 2 <sup>nd</sup> phase                | 11/30 USMCA agreed on                   |
|      | 9/24 Additional tariffs 3 <sup>rd</sup> phase                | 12/30 TPP11 goes into effect            |
| 2019 | 9/1 Additional tariffs 4 <sup>th</sup> phase part 1          | 9/26 Japan-U.S. Trade Agreement         |
|      | 12/15 4 <sup>th</sup> phase part 2 postponed                 | 10/18 European aircraft subsidy tariffs |
|      | 12/26 Foreign telecom equipment regs public comment deadline | 12/10 Amendments to USMCA agreed on     |
| 2020 | 2/13 CFIUS new regs enforcement deadline                     | 1/1 Japan-U.S. trade agreement effected |
|      | 2/16 Huawei general license expires                          | 1/14 Tariff hearings against France end |
|      | 3/5 China's Nat. People's Congress                           | 6/10 G7 Summit                          |
|      | 11/21 G20 Summit   | 11/6 U.S. presidential election         |

## Additional U.S. and China Tariffs (as of 12/13/2019)



## U.S. Investment/Export Restrictions

|                        |   |
|------------------------|---|
| Investment Regulations | Strengthen the authority of the Committee on Foreign Investment (CFIUS) over companies with important technology, infrastructure and individual expertise by mandatory screening of investments involving critical technology, etc., even if it is a non-controlling investment. On the other hand, a "white list" of exempted ally countries and companies is expected to be put in place. |
| Export Regulations     | Newly emerging technologies and core technologies are subject to regulation. The Commerce Department is currently drafting a definition of emerging technologies focusing on AI, advanced materials and so on. Technology subject to export restrictions will also be subject to investment restrictions, which may increase the barriers to investing in start-ups, etc.                   |

## Issues Besides U.S.-China

|             |   |   |
|-------------|---|---|
| U.S.-Europe | Trade Talks   | Agreed to commence talks in July 2018, but no progress has been made  |
|             | Aircraft  | After years of battling at the WTO over aircraft subsidies, the U.S. will impose retaliatory tariffs on the EU as WTO rules in its favor. However, EU says it may fight back with tariffs of its own in 2020. |
|             | Digital Taxation  | Retaliatory tariffs declared on France's digital tax. Italy, Austria and Turkey also potential targets.   |
| Other       | Expanded steel/aluminum tariffs, additional tariffs on autos, currency manipulation designation, investment/export restrictions |   |

## Decided/Undecided U.S. Trade Policy

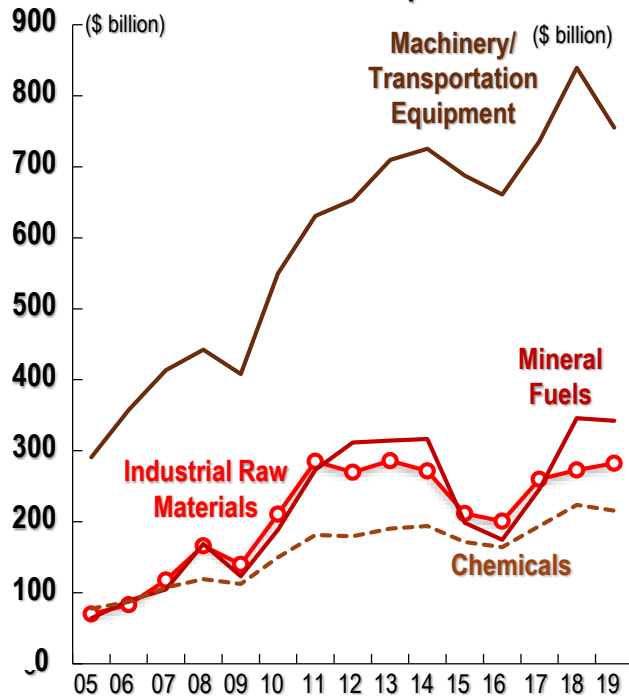
- Amendments favored by the Democrats to New NAFTA (USMCA) agreed on, with the trade agreement likely to take effect by mid-2020.
- A partial first stage agreement being reached in the U.S.-China trade war which includes Chinese imports and U.S. agricultural products. Whether a second stage agreement can be reached is still uncertain, however, any reduction in tariffs will be a plus for the world economy.
- Conversely, the overall U.S.-China conflict will be prolonged over the quest for technological superiority related to security concerns.
- The U.S. is in the process of tightening investment and export regulations through legislation. And, while this is a negative for U.S. business, U.S. uncertainty will fade as the details of the regulations come out. On the other hand, rules on the public use of foreign telecom equipment and sanctions on individual companies remain unclear.
- China is also considering a blacklist of foreign companies and excluding their PCs and operating systems. There is a risk that Japanese companies could become caught between this U.S.-China crossfire.
- ▣ **Continued U.S. protectionism is a concern**
- U.S. protectionism is starting to spread to such other regions as Europe and Southeast Asia.
- Additional tariffs on autos is being held as a trump card by the Trump administration.

(Source: Marubeni Research Institute)

### 3. Main Points ② Effects of a Chinese Economic Slowdown: Significant Negative Impact on Overseas Economies, Resource Markets

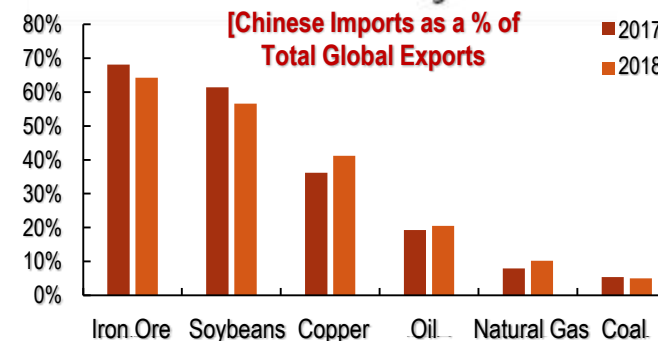
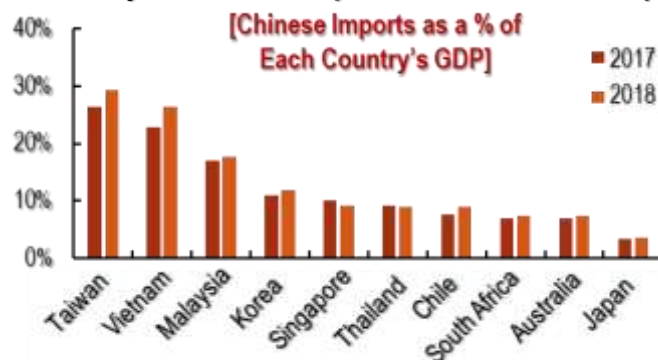
- Promotion of import substitution for machinery, equipment and intermediate goods will lead to sluggish growth in overseas exports to China and the impact on countries with high dependency on exports to China will be large.
- China's is implementing a policy aimed at structurally correcting excessive dependence on investment and the manufacturing sector. The decline in natural resource and raw material imports will cause resource prices to fall.
- Capital outflow regulations have been tightened with China's outward foreign direct investment sharply down from its peak in 2016. It is also unlikely that investment in One Belt, One Road will expand due to the deteriorating situation between China and the U.S.
- In terms of such economic stimulus measures as fiscal expenditures, rather than public investment in infrastructure projects that consume overseas capital goods and materials, the government is focusing on such things as tax cuts aimed at promoting domestic consumption with overseas exports being more limited than before. So, to capture Chinese growth, investment in China will be necessary.

▽ China's Main Imports



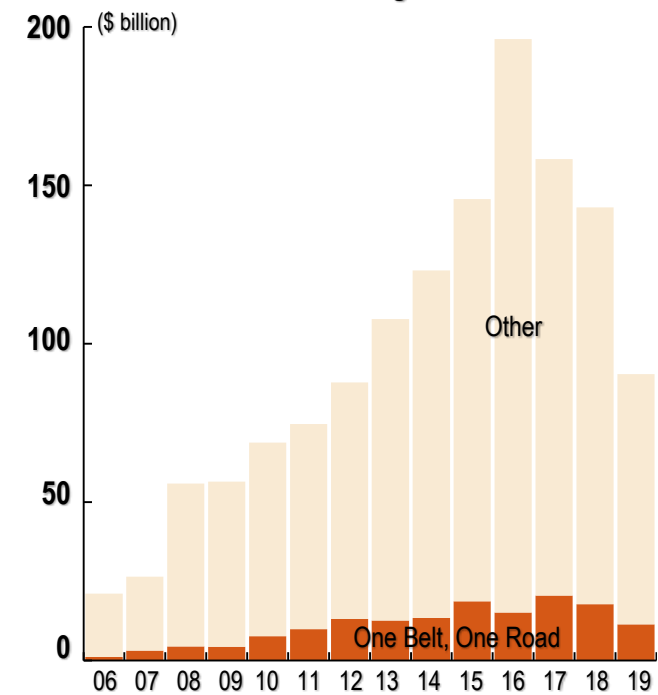
Sources: China National Bureau of Statistics, CEIC. 2019: Jan. to Oct. annualized

▽ Some Major Countries Dependence on Chinese Imports



Source: WIND

▽ China's Outward Foreign Direct Investment

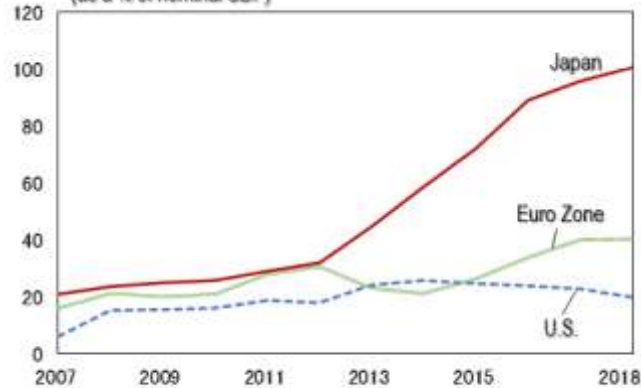


Sources: China National Bureau of Statistics, CEIC. 2019: Jan. to Oct. annualized

# 4. Main Points ③ Narrowing Monetary/Fiscal Buffers: Insufficient for the Next Shock

## ▽ Scale of Central Banks' Balance Sheets

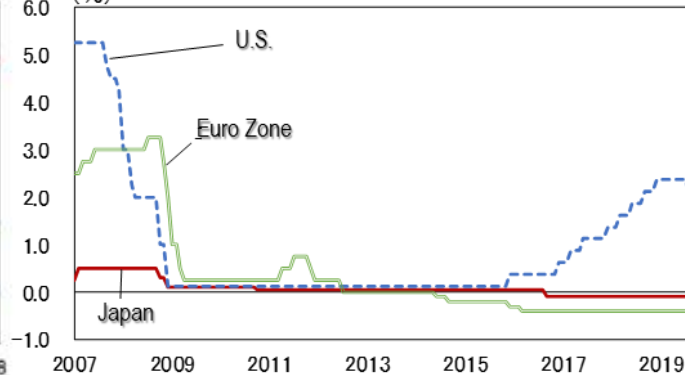
(as a % of nominal GDP)



Sources: Each country's central bank, Eurostat, CEIC

## ▽ Policy Interest Rates

(%)



Source: BIS

### □ Monetary Policy: Limited mitigation options

- BOJ assets have reached 100% of GDP. The ECB announced in Sept. 2019 it would resume asset purchases. Also, in Sept. 2019, the FRB announced it was ending its downsizing of assets.

- Mitigation measures in the case of a shock are limited. The BOJ and ECB have already implemented minus interest rates, so there is little room for further cuts. The FRB also has less room to cut rates compared to past shocks.

### □ Fiscal: Room for expansion, but unlikely to be carried out

- Following the Lehman Shock government debt of the major advanced countries, except for Germany, greatly expanded. So, certain constraints have been placed on future fiscal expenditures.

- Despite the current limits of quantitative easing, given this low interest rate environment there have been demands for investment in infrastructure, however, officials have been taking a cautious approach fiscal spending.

- With Germany's economy now stagnant, international institutions and German industry have been calling for more fiscal spending. However, the current government persists in maintaining a fiscal surplus.

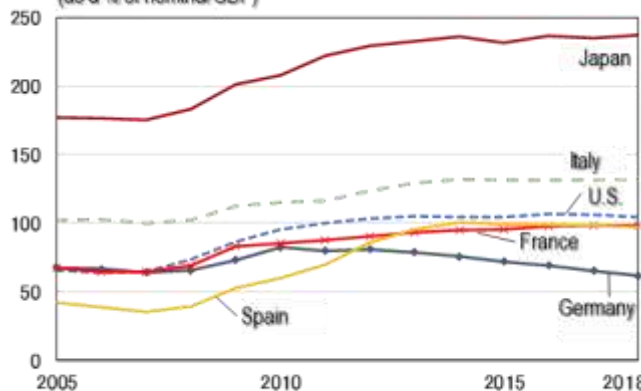
- Under the Trump administration, the U.S. fiscal deficit has increased significantly due to increased spending, etc. With a presidential election coming in the fall and a Republican controlled Senate and a Democratic controlled House, meaning little bipartisan support, it will be difficult for the Trump administration to increase fiscal spending.

- In Japan, the administration has actively expanded fiscal spending, however, the effects on the economy have been limited.

- Although current perception is low, there is concern that interest rates will rise due to less confidence in government bonds along with the increased worry of an economic slowdown.

## ▽ Government Debt Balance

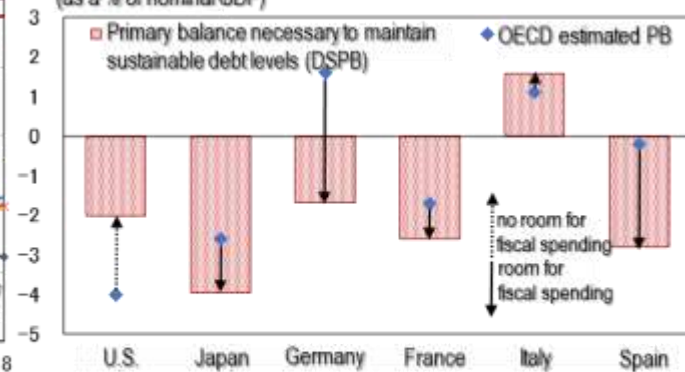
(as a % of nominal GDP)



Source: World Bank

## ▽ Fiscal Outlook (2019)

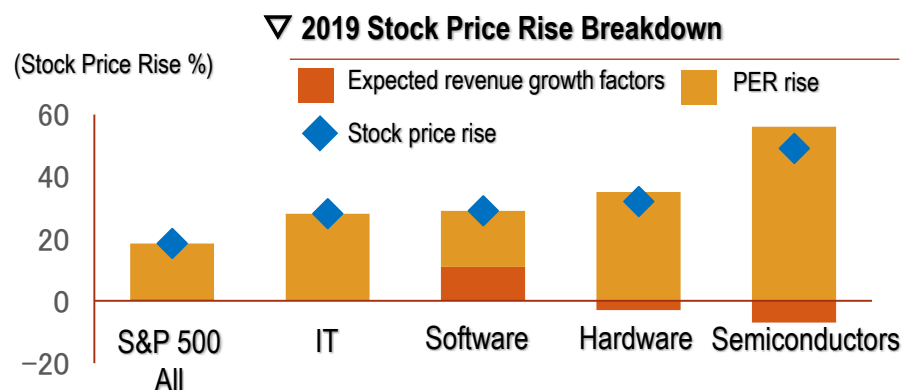
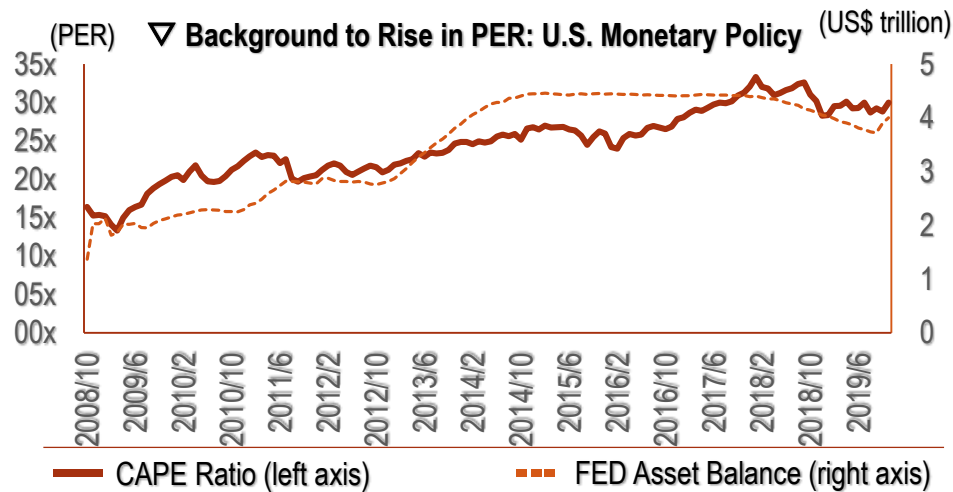
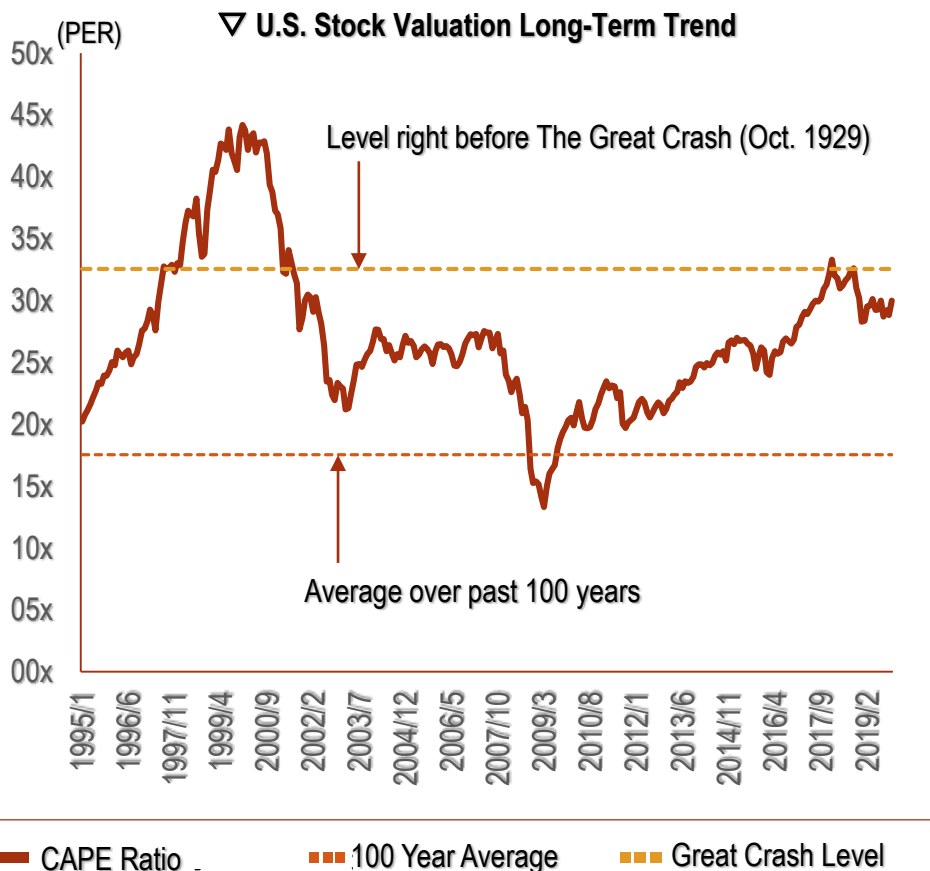
(as a % of nominal GDP)



Sources: OECD, World Bank, Kose, Kurlat, etc.

# 5. Main Points ④ Background to Skyrocketing U.S. Stock Market: FRB Monetary Easing Has Boosted Stock Prices

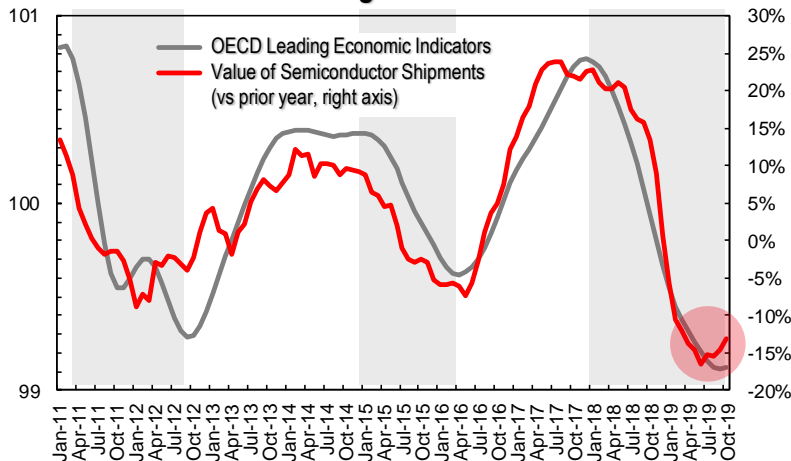
- U.S. stock market values have risen, along with the FRB's asset purchases, far above historical averages.
- Looking at the current stock market trend, the rise in stock prices is not based on the expected growth in earnings of companies.



Sources: Yale School of Management "Online Data Robert Schiller", Board of Governors of the Federal Reserve System "Factors Affecting Reserve Balances", Bank of Japan "Financial System Report"  
 Note: The price-to-earnings ratio (PER) is used as an indicator, after adjusting for business cycles, for the long-term evaluation of the stock market.

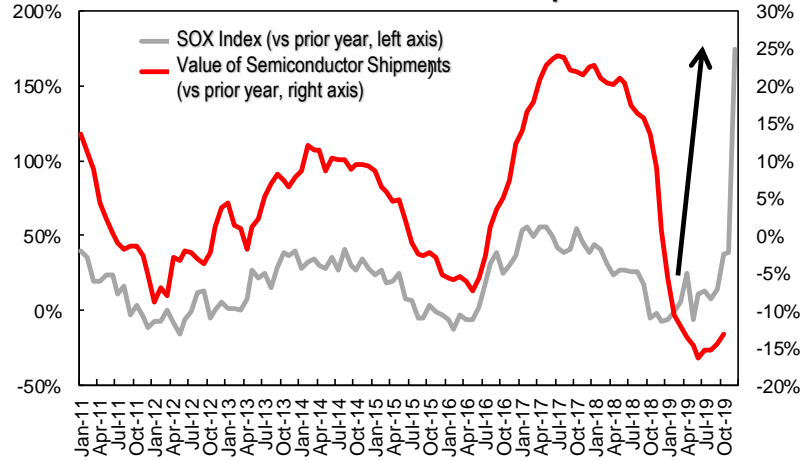
# 6. Main Points ⑤ Economy and Semiconductor Market: Semiconductor Shipments Bottom Out, Main Economic Indicators Show Signs of Bottoming Out

▽ Value of Semiconductor Shipments/  
OECD Leading Economic Indicators



Sources: OECD, WSTS, Refinitiv

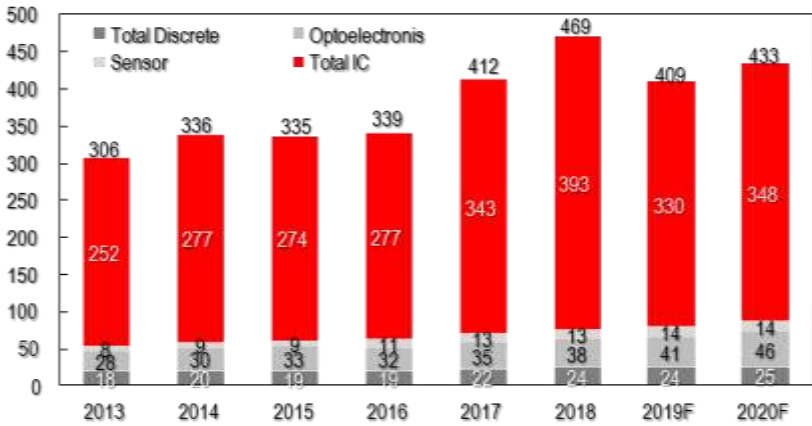
▽ SOX Index (Philadelphia Semiconductor Stock Index)/  
Value of Semiconductor Shipments



Sources: OECD, WSTS, Refinitiv

- Global semiconductor sales were down in 2019 on a year to year basis, due to the economic slowdown caused mostly by U.S.-China trade friction. However, this downward trend seems to have bottomed out.
- The world economy tends to fall roughly in line with the semiconductor cycle (repeating peaks and valleys every two years) with the world's leading economic indicators also showing signs of bottoming out.
- The SOX Index (Philadelphia Semiconductor Stock Index), which is often a predictor of semiconductor demand, was up 40% in Oct. 2019 compared to the previous year. Also, in many countries demand for base stations and smartphone terminals are expected to rise in 2020 with the launch of 5G technology and along with a recovery in data center-related investment are positive signs.
- On the other hand, although semiconductor sales are recovering, in absolute terms they still haven't reached 2018 levels, so some people are taking a cautious stance toward a full recovery.

▽ Global Semiconductor Sales and Outlook



Source: WSTS

▽ Example of Semiconductors Used in 5G Smartphone



Samsung Galaxy S10 plus  
Main Memory 12 GB (DRAM)  
Storage 1 TB (NAND)

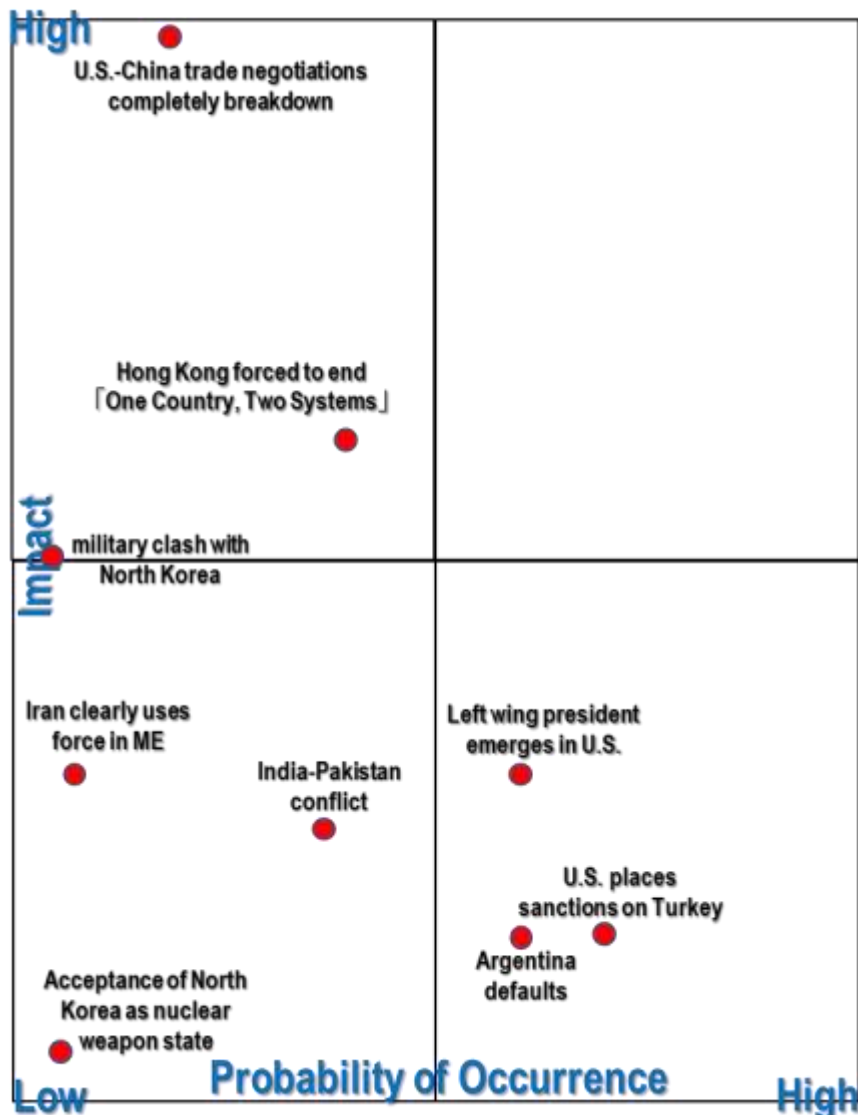
▽ 5G Commercialization Status by Country

- 2018 U.S., Korea
- 2019 UK, South Africa, Italy
- 2020 Japan, Germany, Switzerland, China, Russia, Australia, India, Argentina, Mexico, Saudi Arabia
- 2021 Brazil

Sources: Samsung, Nikkei Shimbun

# 7. The Consequences of Tail Risk

## Focus on U.S. Presidential Election, Hong Kong and U.S.-China Trade Negotiations



### Risk Factor Details

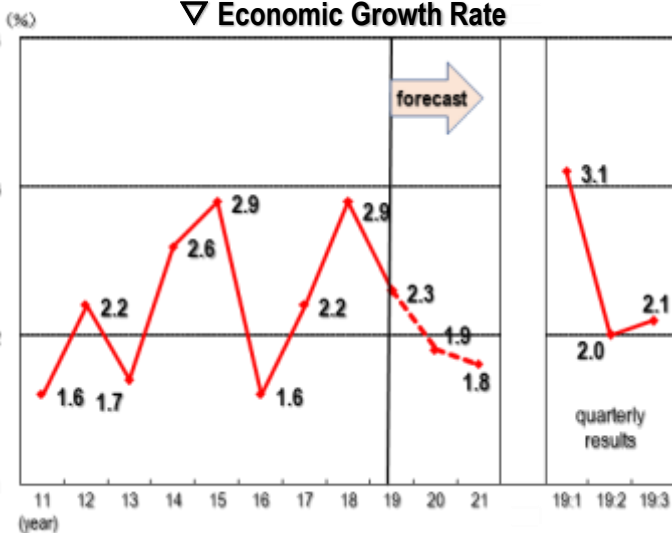
- U.S.-China trade negotiations breakdown**
    - U.S.-China dialogue breaks off, sanction battle
  - End to "One Country, Two Systems" forced on Hong Kong**
    - China's political pressure on Hong Kong increased
  - Military clash with North Korea**
    - North Korea, U.S. go to war
  - Left wing president emerges in U.S.**
    - Radical leftist democrat wins in U.S.
  - U.S. hits Turkey with sanctions**
    - Syria invasion, introduction of Russian weapons
  - Argentina defaults**
    - Negotiations with IMF breakdown
  - Iran clearly found to use force in ME**
    - Iran's official military engages in combat
  - India, Pakistan conflict**
    - India unable to control its own people's use of force
  - NK recognized as nuclear weapon state**
    - President Trump agrees to stalemate
- 
- U.S.-China trade negotiations breakdown**
    - Trade and investment plunge due to sharp drop in business confidence
  - Hong Kong forced to end "One Country, Two Systems"**
    - Both U.S., China invoke sanctions
  - Military clash with North Korea**
    - Business confidence drops sharply, trade/investment plunge
  - Left wing president emerges in U.S.**
    - Market reacts unfavorably to corporate tax rise
  - U.S. places sanctions on Turkey**
    - Lira plunges, shocks to other emerging economies
  - Argentina defaults**
    - Shocks spread to other emerging economies
  - Iran officially use force in ME**
    - Global business confidence drops, oil prices skyrocket
  - India, Pakistan conflict**
    - Business confidence falls, fears over nuclear war
  - NK accepted as nuclear weapon state**
    - Drastic change in security framework, other new nuclear powers emerge



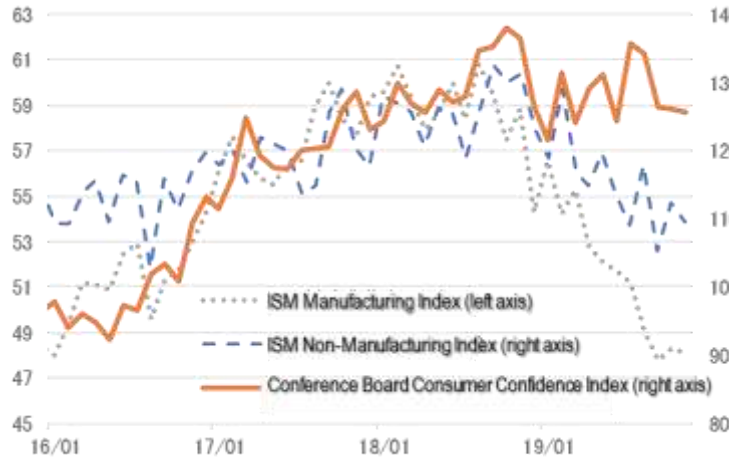
# 8. U.S.

## Growth of Just Under 2%, Hotly Contested Presidential Election

▽ Economic Growth Rate



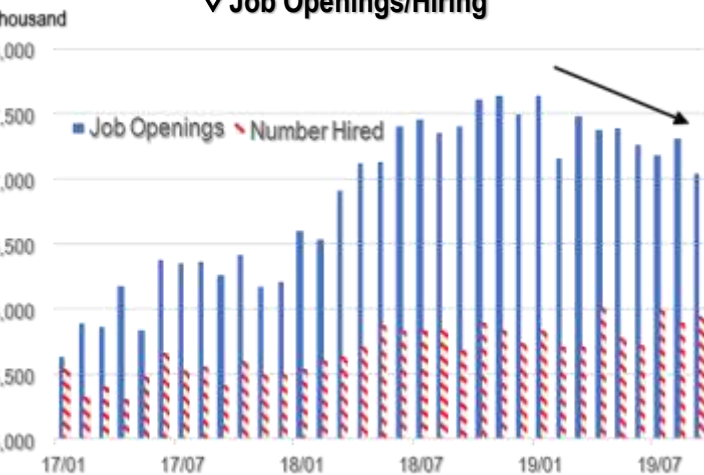
▽ Business Sentiment/Consumer Confidence



Sources: U.S. Bureau of Economic Analysis (BEA), Consensus Forecast, IMF

Sources: ISM, Conference Board

▽ Job Openings/Hiring



▽ 2020 Leading U.S. Presidential Candidates

| Party | Name/Position                              | Birthdate | Assessment  | Polling        |
|-------|--|-----------|---|----------------|
| Rep   | Donald J. Trump<br>current President       | 1946      | Is the incumbent, but with an approval rating of less than 50%                | approval 44.1% |
| Dem   | Joe Biden<br>Former Vice-President         | 1942      | Leading Democratic candidate, although gap with other candidates is narrowing | vs Trump +9    |
|       | Bernie Sanders<br>Senator                  | 1941      | Much of his support comes from young people, but worries over his health      | vs Trump +8    |
|       | Elizabeth Warren<br>Senator                | 1949      | Emphasizes taxing the wealthy, initial strong support has leveled off         | vs Trump +7    |
|       | Pete Buttigieg<br>South Bend Mayor         | 1982      | As a young moderate his support is growing                                    | vs Trump +5    |
|       | Michael Bloomberg<br>Former New York Mayor | 1942      | Announced end of Nov., his wealth gives him abundant campaign funds           | vs Trump +6    |

Sources: Approval rating: Real Clear Politics, Real Clear Politics, Trump vs Democratic candidate polls: Quinnipiac University

□ U.S. economy to slow further

- The U.S. economy continues to expand on the back of strong personal consumption, however, due to the trade war and China downturn, capital investment and exports are slowing. Government spending will likely not increase significantly due to the current fiscal situation.
- Business sentiment began deteriorating in 2019. On the other hand, in contrast to business sentiment, consumer confidence remains high. Job openings though, which had been rising until the end of 2018, have been trending downward.
- Commercial real estate prices have been climbing and the amount of loan-backed securities has grown. Stocks have also been moving moderately upward. Although concern over a mini-bubble arising cannot be completely written off, given the health of financial institutions, corporate cash flows and growing GDP, the U.S. does not seem to be in dangerous waters yet.

□ Presidential election to be a close battle

- Trump's campaign is focused almost solely on his base aiming to replicate 2016 without relying on independent voters.
- The Democratic primaries look to be hotly contested. Former Vice-President Joe Biden is leading, but 37-year old Mayor Pete Buttigieg has been climbing in the polls. Opinion polls show that all the candidates would win in a one-on-one faceoff against President Trump.
- Trump likely to be acquitted (over Ukraine issue) in the Senate after being impeached in the House.

# 9. Europe

## Lacks Strength Due to Sluggish External Demand, Little Hope for Fiscal Stimulus

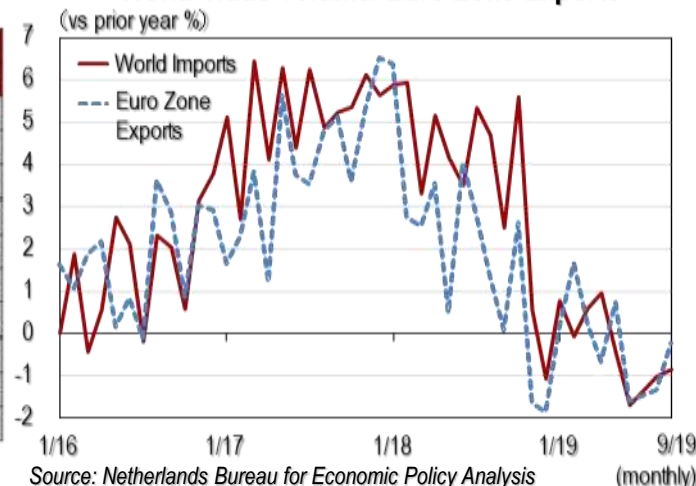
### ▽ Economic Forecast

(vs prior year %)

|                           | 2016 | 2017 | 2018 | 2019<br>estimate | 2020<br>forecast | 2021<br>forecast |
|---------------------------|------|------|------|------------------|------------------|------------------|
| Euro Zone GDP Growth Rate | 1.9  | 2.6  | 2.0  | 1.2              | 1.1              | 1.2              |
| Private Expenditure       | 1.9  | 1.8  | 1.4  | 1.2              | 1.3              | 1.2              |
| Inflation Rate            | 0.2  | 1.5  | 1.8  | 1.2              | 1.1              | 1.4              |
| Germany GDP Growth Rate   | 2.1  | 2.8  | 1.5  | 0.5              | 0.4              | 0.9              |
| France GDP Growth Rate    | 1.0  | 2.4  | 1.7  | 1.3              | 1.2              | 1.2              |
| Italy GDP Growth Rate     | 1.4  | 1.8  | 0.7  | 0.2              | 0.4              | 0.5              |
| Spain GDP Growth Rate     | 3.0  | 2.9  | 2.4  | 2.0              | 1.6              | 1.6              |
| UK GDP Growth             | 1.9  | 1.9  | 1.4  | 1.2              | 1.0              | 1.2              |
| Private Expenditure       | 3.6  | 2.2  | 1.6  | 1.2              | 1.0              | 0.7              |
| Inflation Rate            | 0.6  | 2.7  | 2.5  | 1.9              | 2.0              | 1.8              |

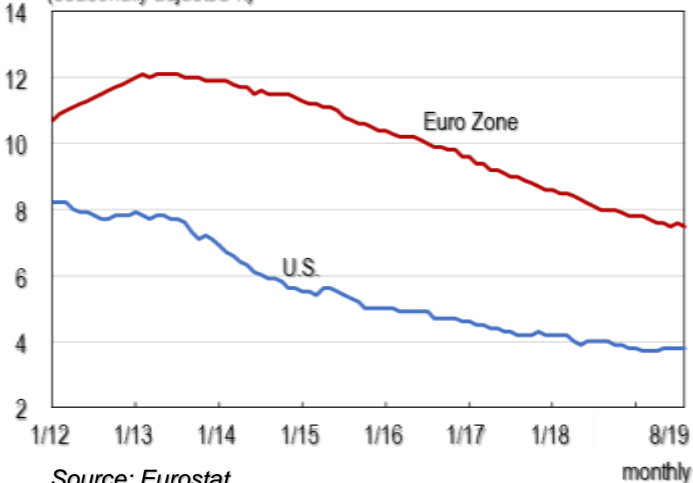
Source: Marubeni Research Institute

### ▽ World Trade Volume/ Euro Zone Exports

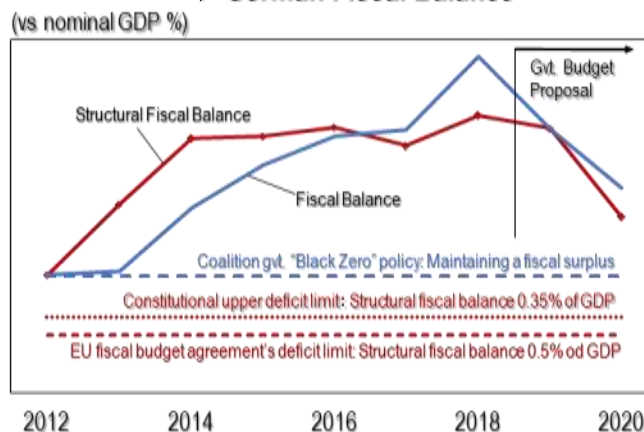


### ▽ Euro Zone/U.S. Unemployment Rates

(seasonally adjusted %)



### ▽ German Fiscal Balance



### □ Economy: Bottoms out but lacks strength

- External demand was sluggish in 2019 due to a slowing Chinese economy, a slack auto market and general uncertainty over the world economy. A decline in Germany's manufacturing industry has greatly depressed the Euro Zone economy.
- In 2020, strong employment in the Euro Zone should continue to bolster domestic demand with the manufacturing industry likely bottoming out. However, economic momentum will be modest as a full-ledged recovery in external demand is not expected. Risk factors are a further slowing of the Chinese economy and an increase in tariffs by the U.S. (autos, etc.).
- Victory in the UK general election by the ruling Conservative Party led by Prime Minister Johnson has led to the decision to leave the EU by the end of January 2020. The risk of an economic slowdown due to a withdrawal without an agreement has lessened.

### □ Large-scale fiscal spending expectations in Germany

- International institutions have called for major fiscal action by Germany, however the current administration is set on maintaining a fiscal budget surplus (Black Zero). A future policy change is possible depending on the government coalition at the time, however, in the short term the possibility is small.
- In the event of an abandoning of Black Zero and significant fiscal expenditure, annual spending could reach 12 billion euros (0.35% of GDP), however, taking into account a lower growth rate (0.1%-0.2%) the actual amount might come to around 5 billion euros.

# 10. China

## Slowdown Continues, Government Stance Tolerant, Cautious Economic Measures

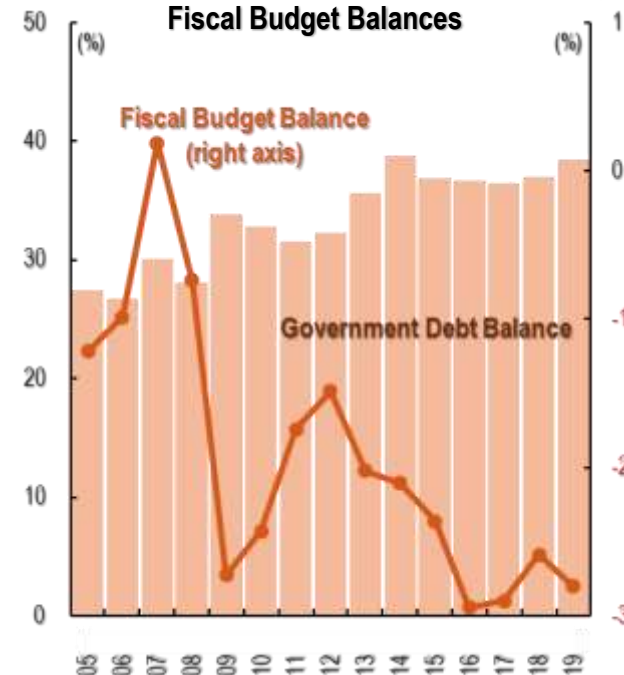
- The Chinese government has been extremely cautious about carrying out large-scale economic measures, so the growth rate will be allowed to fall below 6% as a matter of course. The largest downside risk is the trade war. The government has been carefully taking measures while assessing the effects. The government is maintaining policy room for potential large fiscal spending, interest rate cuts and removal of real estate purchase regulations, etc.
- The core CPI, which excludes fresh food, has been slowing, however, the CPI rose to its highest level in 8 years due to soaring pork prices caused by the deadly effects of African swine fever. Pork, which is a popular national food, accounts for 2.4% of the CPI (0.4% in Japan). The current pork crisis is the largest in Chinese history and could take years to be resolved while possibly acting as a drag on interest rate cuts. In terms of fiscal stimulus, the government is taking a guarded approach focusing on fiscal discipline except in the case of such emergencies as a large economic crisis.
- Such structural problems as excessive debt and production facilities remain, so large scale fiscal spending will be used a last resort to avoid a hard landing where the growth rate falls below 5.0%.

### ▽ China's Main Economic Indicators

| (vs. previous year, %) |                           | 2017  | 2018  | 2019  | 2020  | 2021  |
|------------------------|---------------------------|-------|-------|-------|-------|-------|
| <b>GDP</b>             |                           | 6.8   | 6.6   | 6.1   | 5.8   | 5.5   |
| Demand Items           | Retail Sales              | 10.2  | 9.0   | 8.0   | 7.8   | 7.5   |
|                        | Fixed Asset Investment    | 7.2   | 5.9   | 5.0   | 5.3   | 5.2   |
|                        | Exports                   | 7.9   | 9.9   | -2.0  | -5.0  | -7.0  |
|                        | Imports                   | 16.1  | 15.8  | -5.0  | -5.0  | -5.0  |
| Fiscal                 | Fiscal Deficit Ratio      | -2.9  | -2.6  | -2.8  | -2.9  | -2.8  |
| Industry               | Vehicle Sales (million)   | 28.88 | 28.08 | 25.50 | 23.00 | 25.00 |
|                        | New Housing Starts (area) | 5.3   | 2.2   | 0.8   | 1.0   | 1.0   |
|                        | Crude Steel Production    | 3.0   | 6.6   | 6.0   | -1.0  | -1.0  |
| Commodity Imports      | Crude Oil                 | 10.2  | 10.2  | 10.0  | 5.0   | 2.0   |
|                        | Iron Ore                  | 4.9   | -1.0  | -1.0  | -2.0  | -2.0  |
|                        | Soybeans                  | 14.8  | -7.8  | -8.0  | -5.0  | -5.0  |

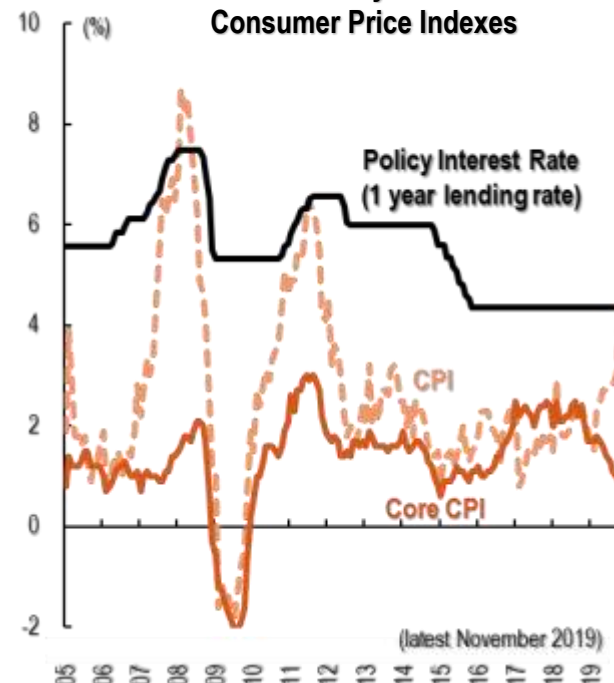
Source: CEIC, from 2019 Marubeni Research Institute

### ▽ China's Government Debt (% of Nominal GDP) / Fiscal Budget Balances



Sources: China National Bureau of Statistics, China Ministry of Finance  
Note: 2019 estimate based on actual data, local govt. hidden debt recorded

### ▽ China's Policy Interest Rate/ Consumer Price Indexes

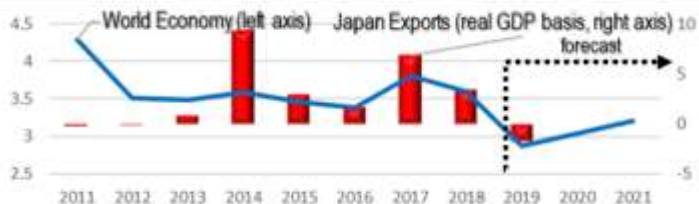


Sources: People's Bank of China, China National Bureau of Statistics, CEIC

# 11. Japan

## Consumption Tax Downside Countered With Support Measures

### ▽ Japan Exports Fall as World Economy Slows (vs prior year %)



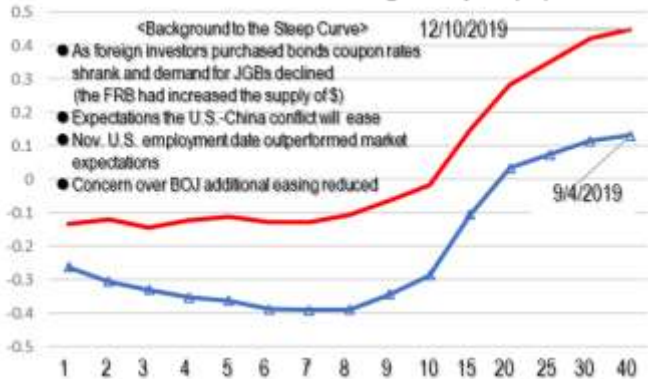
Sources: Marubeni Research Institute, IMF, Cabinet Office

### ▽ Deteriorating Exports Impact Investment/ Business Sentiment

|                          | 18Q1 | 18Q2 | 18Q3 | 18Q4 | 19Q1 | 19Q2 | 19Q3 | 19Q4 | 20Q1    |
|--------------------------|------|------|------|------|------|------|------|------|---------|
| Real GDP Growth Rate     | -0.5 | 0.5  | -0.6 | 0.3  | 0.6  | 0.5  | 0.4  | -    | -       |
| Personal Consumption     | -0.3 | 0.3  | -0.2 | 0.2  | 0.2  | 0.6  | 0.5  | -    | -       |
| Capital Investment       | -0.1 | 2.3  | -3.4 | 3.0  | -0.2 | 0.9  | 1.8  | -    | -       |
| Exports                  | 0.8  | 0.7  | -1.8 | 1.2  | -2.1 | 0.5  | -0.6 | -    | -       |
| Business Sentiment Index | 24   | 21   | 19   | 19   | 12   | 7    | 5    | 0    | U (est) |

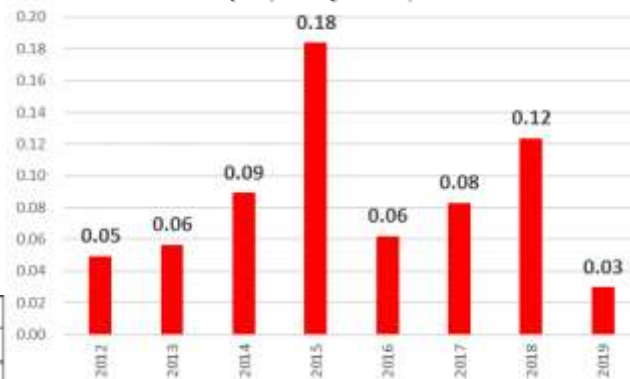
(Sources: Cabinet Office, BOJ'S Tankan Business Confidence Survey/Manufacturing Industry DI)

### ▽ Yield Curve Growing Steeper (%)



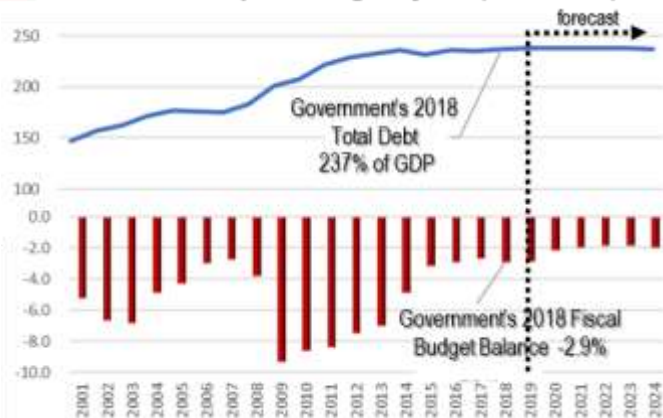
Source: Ministry of Finance

### ▽ Inbound Growth Contribution to GDP (vs prior year %)



Source: Cabinet Office

### ▽ Basic Surplus Long Way Off (vs GDP %)



Source: IMF

### □ Current situation: Slowing external demand offset by domestic demand

- Exports fall due to a slowdown in the world economy. Uncertainty, led by the U.S.-China trade war, makes it difficult for business to make investment decisions, affecting capital investment.
- However, compared to the Lehman Shock the Japanese economy's resilience to deterioration in external demand has improved. Unless GDP-based exports decrease by 1% compared to the previous period, GDP should remain positive on an annual basis (a recession is when there are two quarters of minis growth compared to the previous quarters).

### □ Outlook: Consumption tax backsliding countered by support measures

- New economic support measure taken (aiming to increase the growth rate by slightly less than 1% in 2019-20) to counter the potential ill effects from the consumption tax increase
- If monetary easing is required, the next move is to dig a little deeper (lower) into short-term interest rates.

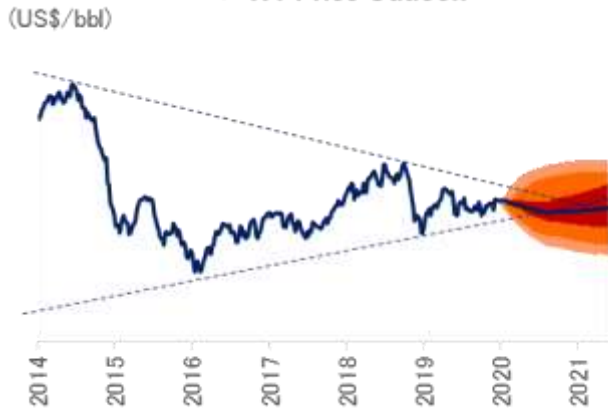
### □ Risk: U.S. trade war, other

- U.S. China trade war
- Reduced scope for implementing monetary and fiscal measures
- Fiscal deterioration. The ratio of total government debt to GDP is stable as the nominal growth rate is greater than the nominal interest rate. However, a basic budget surplus needed to halt the increase in the debt balance will not be achieved.
- Long-term decline in the potential growth rate. 足 At present a rise potential growth rate depends on people (number) and money (amount).

# 12. Crude Oil Price Outlook

## Oversupply Concern and OPEC Plus Production Cuts/Geopolitical Risks

▽ WT Price Outlook



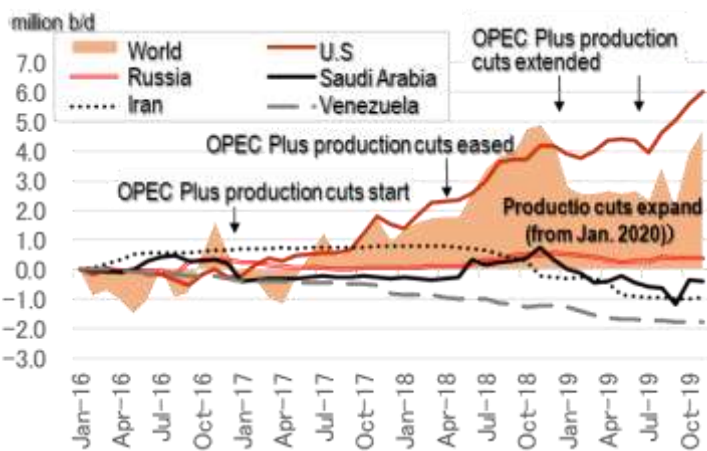
Sources: Refinitiv, Marubeni Research Institute

▽ World Oil Supply and Demand Balance



Source: EIA "Short Term Outlook December 2019"

▽ Crude Oil Production (Jan. 2016 = 0)



(Sources: OPEC, EIA, Refinitiv, Marubeni Research Institute)

▽ High Uncertainty

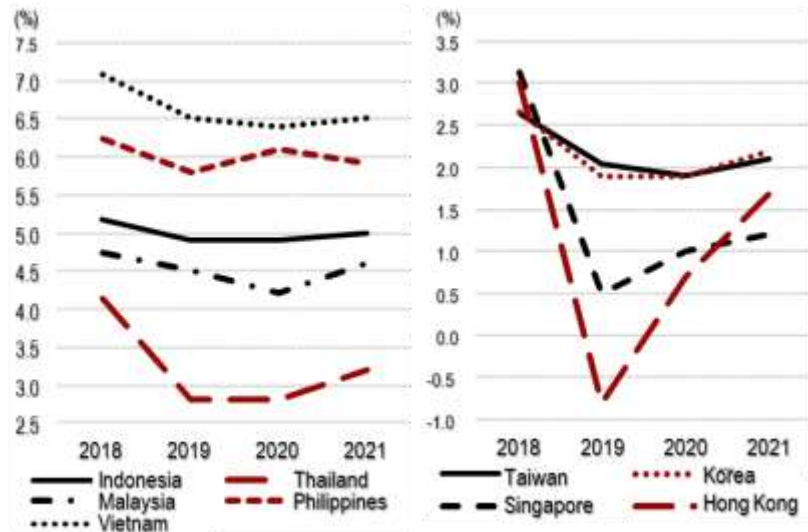
|                   |  |
|-------------------|--|
| Supply Rises      | <ul style="list-style-type: none"> <li>■ U.S. Shale Production Increases → Pace of increase slows?</li> <li>■ World Economic Slowdown → Demand downward revision?</li> </ul>   |
| Demand Suppressed | <ul style="list-style-type: none"> <li>■ Prolonged U.S.-China Trade Friction → Quick solution a plus for demand</li> </ul>   |
| Supply Suppressed | <ul style="list-style-type: none"> <li>■ OPEC Plus Production Cuts → Fears over discord, disarray</li> </ul>   |
| Demand Rises      | <ul style="list-style-type: none"> <li>■ Middle East Geopolitical Risks Grow → U.S.-Iran conflict, (nuclear deal fallout) U.S. military withdrawal, attacks on oil facilities, fiscal deterioration due to low oil prices</li> </ul> |

□ Downward pressure on oil prices slightly predominant

- Crude oil prices have been momentarily rising and falling, but are converging at around \$60 per barrel.
- There will be an easing in the supply and demand balance as corrections to increased production in the U.S. and the world economic slowdown take place. And, although OPEC Plus production cuts and geopolitical risks will continue, downward pressure on prices should slightly predominate.
- OPEC Plus has decided to expand production cuts from 2020, however, there are differences between Saudi Arabia, which wants to aggressively cut production, and other members. Although the degree of compliance with the production cuts is high, the burden on Saudi Arabia is the highest as it has reduced its production by more than twice its quota.
- OPEC has agreed with Russia to exempt condensate (extremely light crude) from production cuts, so it is unlikely that Russia will face a substantial reduction in oil production.
- U.S. shale oil production will increase, however, the EIA predicts the pace will slow.
- Middle Eastern geopolitical risks are always a disruptive factor in oil prices. Of special concern is the conflict between the U.S. and Iran (JCPOA fallout).
- Except for Qatar and Kuwait, all the other oil-producing Middle Eastern countries need an oil price above \$60 p/b to maintain a fiscal balance. A continued drop in oil prices could lead to instability in the region..
- The attack on Saudi oil facilities in Sept. 2019 revealed the vulnerabilities in Middle Eastern oil supply and fears over the effect these same risks have on prices.

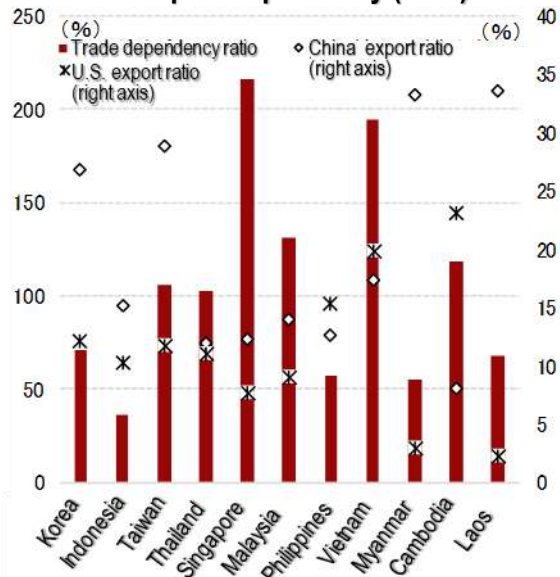
# 13. ASEAN/Korea/Taiwan/Hong Kong Dependence on China High, Slowdown

▽ Real GDP Growth Rate



Source: Marubeni Research Institute

▽ Export Dependency (2018)



Source: CEIC

Note: Trade dependency = Total imports + exports/nominal GDP

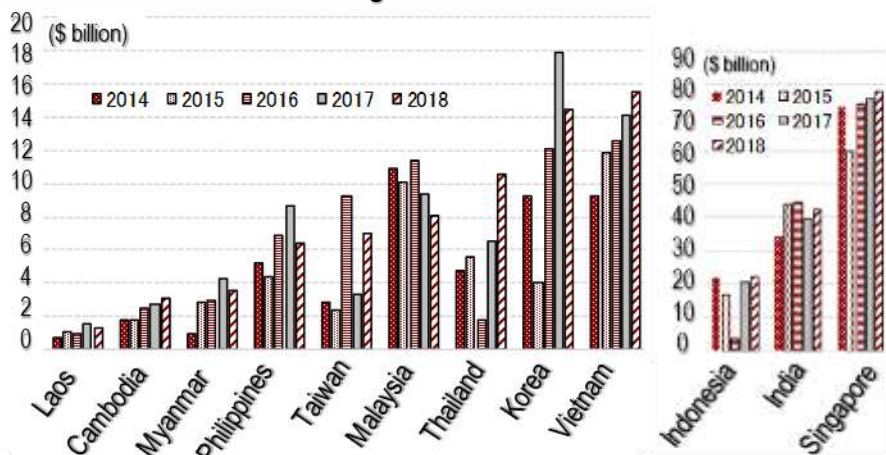
□ Economic slowdown in relatively strong Asia

- Even Asian countries that have maintained strong economies saw slowing in 2019. Following on rate cuts in the U.S. these economies began to carry out monetary easing,
- Currently, as a result of the U.S. China trade war and China slowdown, countries highly dependent on China have come under economic pressure.
- Korea and Taiwan are highly reliant on exports to China and the global semiconductor market. Hong Kong faces negative growth due to political turmoil.
- The newer ASEAN countries though continued to maintain high growth. However, Myanmar and Laos are greatly dependent on exports to China, while Vietnam and Cambodia are exceedingly reliant on exports to the U.S.
- National elections in Indonesia, Thailand and the Philippines largely ended without complications. From 2020 the focus will be on possible ruling party leadership changes related to the Korean general election (April 2020), the Singapore general election in 2021 and the Malaysian general election in 2022.

□ RCEP carried over to 2020

- In terms of RCEP (Regional Comprehensive Economic Partnership) it was suggested that with India's withdrawal that the agreement might be abandoned in 2019, however, negotiations for an economic zone with a GDP of about \$27 trillion and a population of 3,6 billion remain ongoing.

▽ Inward Foreign Direct Investment



Source: CEIC

▽ Interest Rates

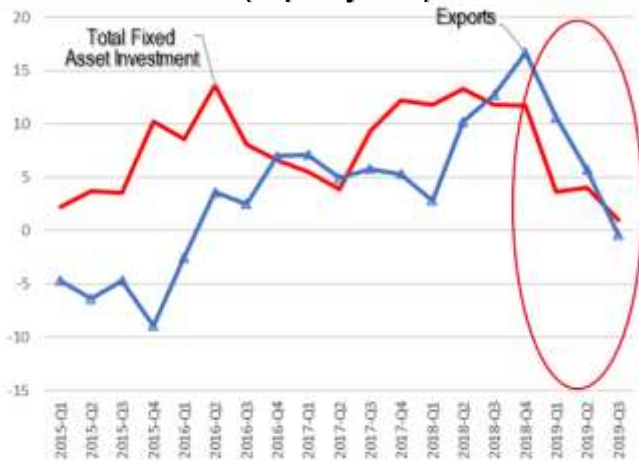
|             | Policy Interest Rate (%) |         |                |
|-------------|--------------------------|---------|----------------|
|             | 12/2018                  | 12/2019 | times rate cut |
| Indonesia   | 6.00                     | 5.00    | 4              |
| Thailand    | 1.75                     | 1.25    | 2              |
| Malaysia    | 3.25                     | 3.00    | 1              |
| Philippines | 4.75                     | 4.00    | 2              |
| Vietnam     | 6.25                     | 6.00    | 1              |
| Korea       | 1.75                     | 1.25    | 2              |
| Taiwan      | 1.375                    | 1.375   | 0              |

Source: Refinitiv

# 14. India

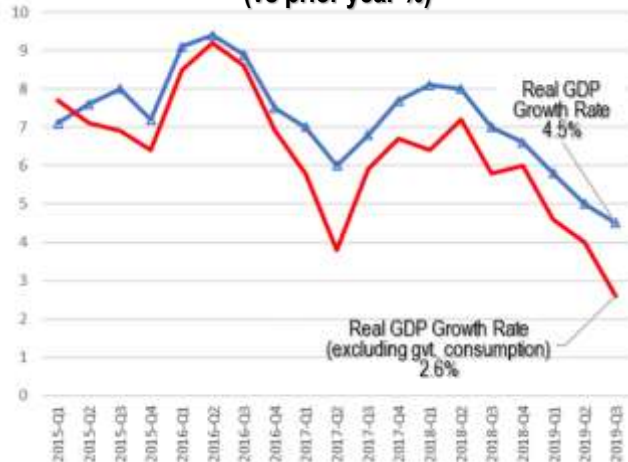
## Worries Recession Will Lead to Domestic Turmoil and Friction Abroad

### ▽ Investment/Exports Slowed in 2019 (vs prior year %)



Source: India Ministry of Statistics and Programme Implementation

### ▽ Excluding Gvt. Consumption Growth Rate 2.6% (vs prior year %)



Source: India Ministry of Statistics and Programme Implementation

### □ Current situation: Effects of fiscal/monetary policies not yet complete

- In the July-Sept. quarter of 2019, real GDP growth slowed for the 6<sup>th</sup> consecutive quarter to +4.5% compared with the previous year, the slowest growth in six and a half years. Behind this is the global economic slowdown and a domestic credit crunch caused by problematic bad loans largely by state-owned banks (many of the borrowers are from the infrastructure and steel industries).
- On the demand side, investment and exports are down. In the July-Sept. period of 2019 growth, excluding government consumption, was +2.6% year-on-year.
- The central bank has cut interest rates at 5 consecutive monetary policy meetings (6.5% → 5.15%), and no effects from the government's economic stimulus measures in Aug.-Sept. are yet evident.

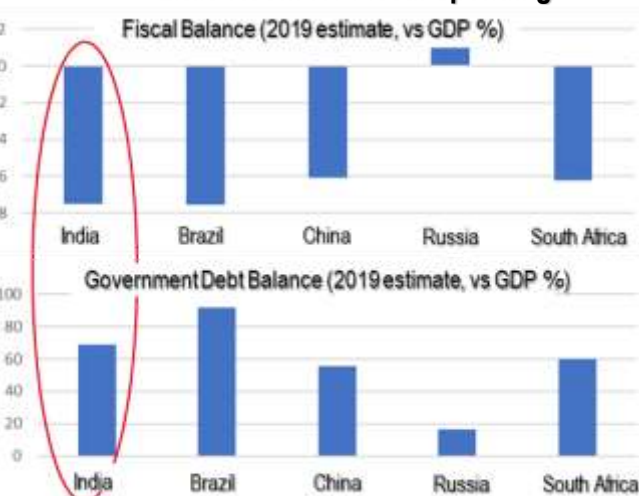
### □ Outlook: Effects of monetary easing to emerge in 2020

- India's fiscal budget is rigid (90% of expenditure are recurring items), so a large-scale fiscal injection and early solution to the bad debt problem is unlikely.
- With the ongoing U.S.-China trade war, expectations for an early recovery in the world economy is small.
- The monetary easing steps taken in 2019 should begin to take effect in 2020 with the economy moderately recovering.
- The Bangladesh/Bhutan economies are comparatively solid.

### □ Risks: Populism, Nationalism

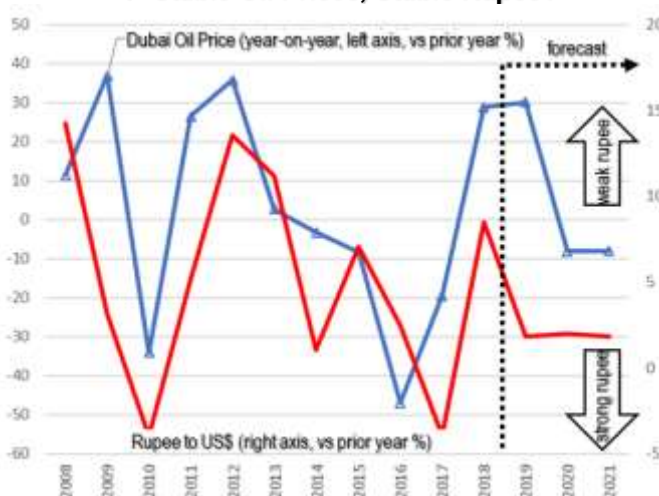
- Domestic turmoil caused by Hindu supremacism
- Nationalistic friction with China, Pakistan
- Protectionism (withdrawal from RCEP)

### ▽ Little Room for Fiscal Spending



Source: IMF

### ▽ Stable Oil Prices, Stable Rupee?

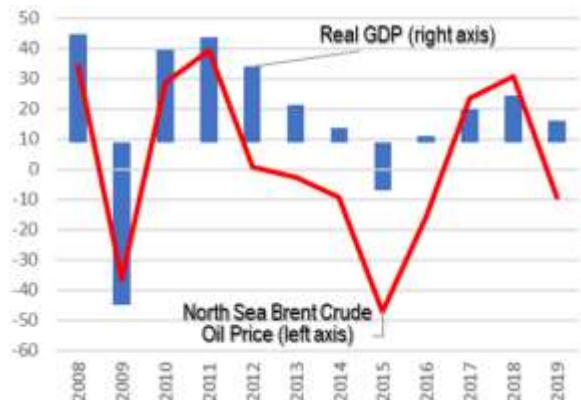


Source: IMF

# 15. Russia/Eastern Europe

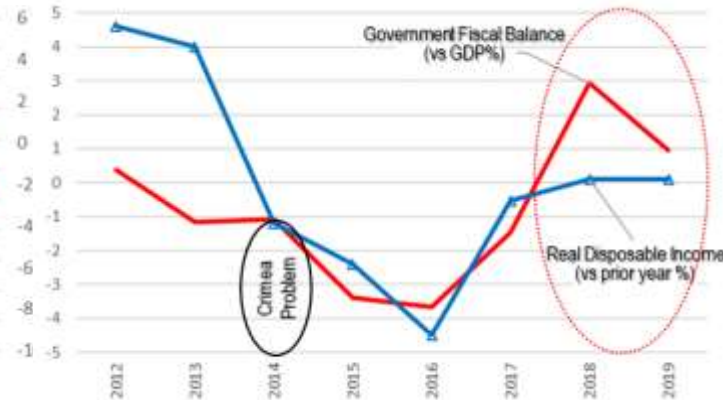
## Russia: Improving Via Monetary, Fiscal Policy/Eastern Europe: Continued Expansion of Domestic Demand Expected

▽ Russia: Strong Oil Price Impact (vs prior year %, 2019 estimate)



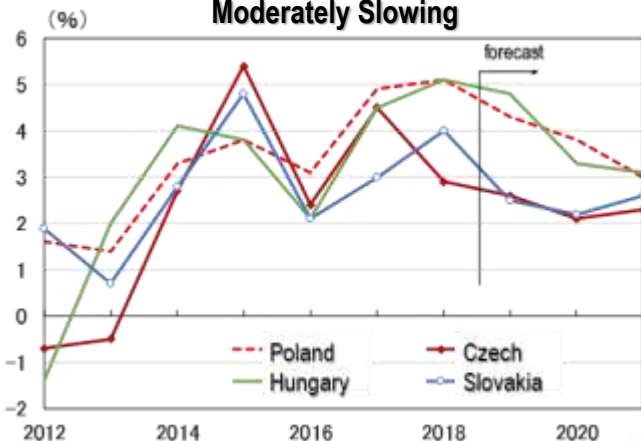
Source: IMF

▽ Russia: Fat Government, Lean Citizenry (2019 estimate)



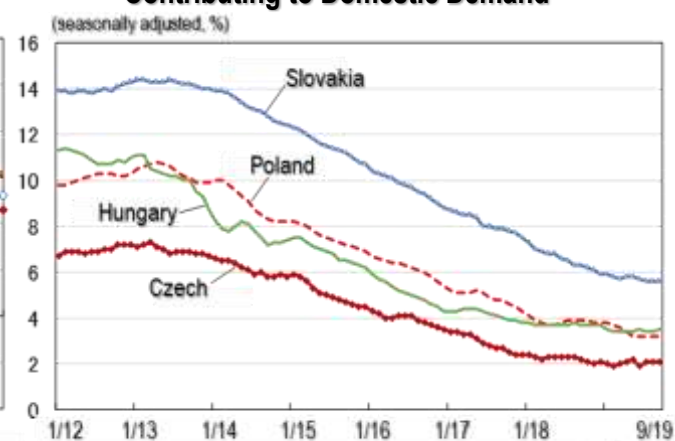
Sources: IMF, Russian Federal state Statistics Service

▽ Eastern Europe: Real GDP Growth Rate Moderately Slowing



Source: OECD

▽ Eastern Europe: Unemployment Historically Low, Contributing to Domestic Demand



Source: Eurostat

### <Russia>

- ▣ **Current situation: Sluggish growth due to falling oil prices**
  - With the slowdown in the global economy oil prices have fallen and external demand has weakened leading to low growth.
  - The Russia government has accelerated fiscal consolidation (tax collection, etc.) in preparation for a shock. As a result, despite a shortage of labor real disposable income has not risen.
- ▣ **Outlook: Improving through monetary and fiscal policies**
  - With the global economic slowdown, OPEC oil production cuts and sluggish oil prices, there is little expectation for external demand.
  - The economy should pick up in 2020 due to monetary easing and fiscal spending.
  - Risks include dropping oil prices, stronger sanctions, Chinese recession and public discontent.

### <Eastern Europe>

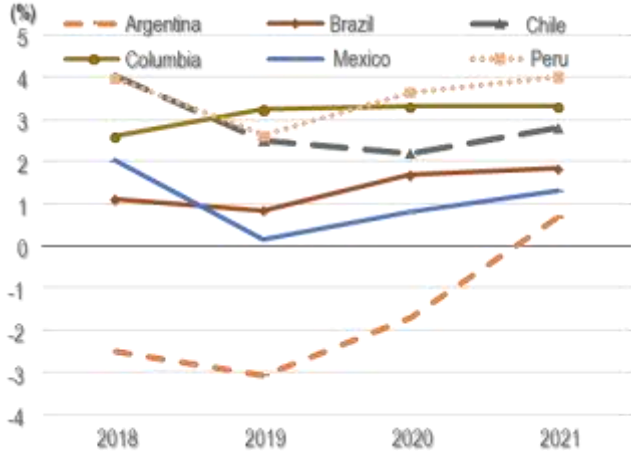
- ▣ **Current situation: Robust employment boosting domestic demand**
  - Against a backdrop of tight labor markets, unemployment in the 4 Visegrad countries has been at historically low levels. Nominal wages have increased by more than 5% (Hungary more than 10%), which is much higher than the 2%-3% rise in consumer prices, thus strongly contributing to the boost in domestic demand.
- ▣ **Outlook: Consumer market expanding despite sluggish growth**
  - Eastern Europe, which has gained attention as a manufacturing base, has seen exports slack off due to sluggish external demand. Also, growth will slow as EU subsidies are decreased. It will likely become more and more attractive as a consumer market going forward.



# 16. Latin America

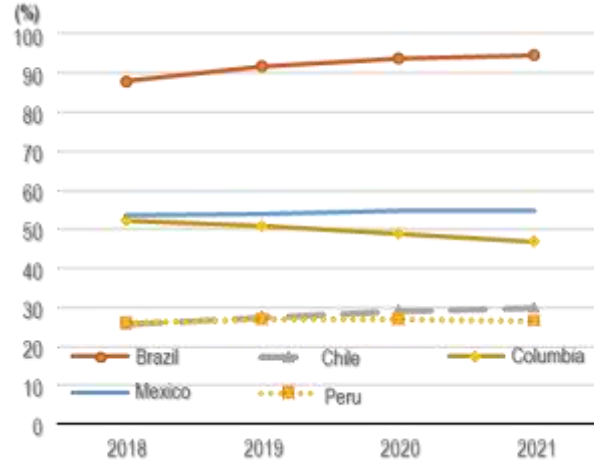
## Fragile Political, Economic Base

### ▽ Main Country Economic Growth Rates



Sources: IMF, Marubeni Research Institute

### ▽ Government Debt Balance (vs GDP)



Source: IMF

Note: Argentina excluded as they are in the process of making a new budget

### ▽ Main Country Situation



Source: Marubeni Research Institute

### ▽ Political Calendar

|         |   |
|---------|---|
| Jan. 26 | Peru Parliamentary Elections                  |
| March   | Bolivia Presidential Election                 |
| April   | Chile Constitutional Referendum (tentative)   |
| Oct.    | Chile, Brazil Local Elections                 |
| In 2020 | Venezuela Parliamentary Elections (undecided) |

Source: Marubeni Research Institute

### □ Political and economic unrest in Latin America

- The government or president was replaced in all six major countries in the region in 2018-2019. As a result of the serious dissatisfaction with the previous governments, the new governments have also been facing political and economic turmoil since their inception.
- In Brazil, despite long-awaited pension reform by the Bolsonaro administration, relations between the administration and parliament are poor. The economy had been slowing but is now on a recovery track.
- In Mexico, the AMLO administration has enjoyed high approval ratings since the launch of its policy of generous handouts for households. The economy has cooled off, mainly in the mining sector and in terms of major public spending, and may be on the brink of a recession.
- For Argentina, the focus is on negotiations between the new Fernandez government, launched on Dec. 10, and the IMF over their debt situation.
- In Colombia, the Duque administration is under pressure from general strikes against the government that began in Nov.
- In Chile too, the Sebastian government has come under pressure from large-scale demonstrations that began in Oct. However, the economic impact is not expected to be significant.
- In Peru, President Vizcarra has taken measures against corruption gaining high approval ratings in the process.

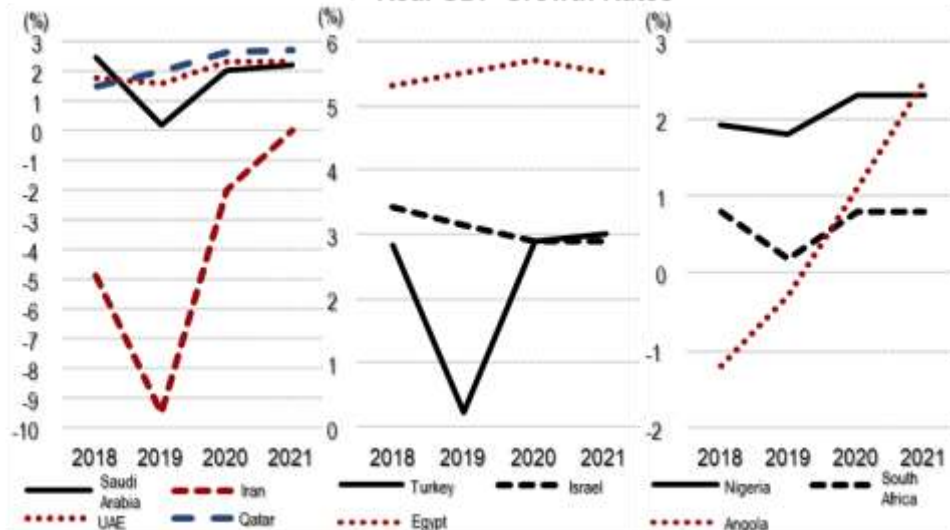
### □ Venezuela's situation

- Although the economic crisis continues, the opposition movement has stalled allowing the Maduro administration to survive. One question is whether the U.S. administration will strengthen sanctions to gain support from Venezuelan immigrants ahead of the U.S. election?

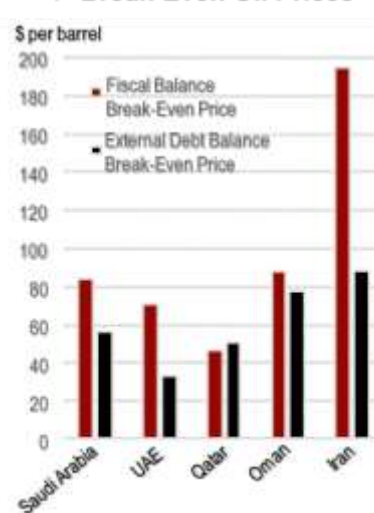
# 17. Middle East/Africa

## Lack of Economic Buoyancy Continues

▽ Real GDP Growth Rates



▽ Break-Even Oil Prices



Source: IMF

▣ Middle East: Unstable financial situation due to sluggish oil prices

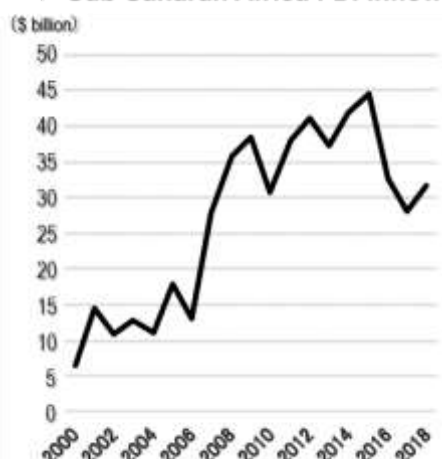
- As oil prices slump, Middle Eastern economies continue to lack buoyancy.
- Most countries are focused on fostering non-oil-related industries and diversifying their revenue base through such measures as VATs (introduced in 2018). With low interest rates worldwide, such countries as Saudi Arabia and the UAE are seeing capital inflows, however, other countries such as Bahrain, Iran, Iraq and Oman have little fiscal strength and are seen to be facing tough economic circumstances.
- Although direct conflict between Saudi Arabia and Iran has been avoided so far, proxy wars continue in such places as Yemen and remain a worry for the Middle East.
- In Turkey, political intervention in monetary policy and diplomatic friction pose downside risks..
- In Egypt, the presidential term was extended and political stability seems to have been achieved, however, there are fears of a dictatorship emerging.

▽ Basic Indicators

|              | Current Account Balance (vs nominal GDP %) |      | Fiscal Balance (vs nominal GDP %) |      | Government Debt (vs nominal GDP %) |      | Consumer Price Index (%) |      |
|--------------|--|------|-----------------------------------|------|------------------------------------|------|--------------------------|------|
|              | 2019                                       | 2020 | 2019                              | 2020 | 2019                               | 2020 | 2019                     | 2020 |
| Saudi Arabia | 4.4  | 1.5  | -6.1                              | -6.6 | 23.2                               | 28.4 | -1.1                     | 2.2  |
| Iran         | -2.7                                       | -3.4 | -4.4                              | -5.0 | 30.7                               | 28.8 | 35.7                     | 31.0 |
| UAE          | 9.0  | 7.1  | -1.6                              | -2.8 | 20.1                               | 20.3 | -1.5                     | 1.2  |
| Qatar        | 6.0  | 4.1  | 7.0                               | 6.9  | 53.2                               | 48.0 | -0.4                     | 2.2  |
| Turkey       | -0.6                                       | -0.9 | -4.6                              | -4.7 | 30.1                               | 30.8 | 15.7                     | 12.6 |
| Israel       | 2.4  | 2.5  | -3.7                              | -3.8 | 61.9                               | 62.8 | 1.0                      | 1.3  |
| Egypt        | -3.1                                       | -2.8 | -7.6                              | -7.0 | 84.9                               | 83.8 | 13.9                     | 10.0 |
| Nigeria      | -0.2                                       | -0.1 | -5.0                              | -4.7 | 29.8                               | 31.4 | 11.3                     | 11.7 |
| South Africa | -3.1                                       | -3.6 | -6.2                              | -6.7 | 59.9                               | 64.2 | 4.4                      | 5.2  |
| Angola       | 0.9  | -0.7 | 0.8                               | 0.1  | 95.0                               | 89.9 | 17.2                     | 15.0 |

Source: IMF

▽ Sub-Saharan Africa FDI Inflows



Source: UNCTAD

▣ Africa: Low Resource Prices and Credit Ratings Risk

- Resource prices, droughts and growing debt continue to be headwinds facing many of Africa's economies.
- Nigeria is facing such issues as delays to structural reform and security problems, while there is concern in South Africa over fiscal pressure and possible credit rating downgrades to state-owned firms. Angola has suffered from negative growth for 4 straight years, however, with support from the IMF there are signs the economy is bottoming out.

# 18. 2020 Major Political/Economic Event Dates

## U.S. Presidential Election, UK Exit from the EU

### ▽ Country/Region Specific

| Date                | Region          | Event   |
|---------------------|-----------------|---|
| January 1           | Asia/N. America | Japan-U.S. trade agreement goes into effect         |
| January 1           |                 | Paris agreement starts                              |
| January 1           | Latin America   | Ecuador withdraws from OPEC                         |
| January 11          | Asia            | Taiwan presidential and legislative elections       |
| January 24-30       | Asia            | Chinese new year holidays                           |
| January 31          | Europe/CIS      | Bank of England Governor Carney retires             |
| end of January      | Europe/CIS      | UK leaves the EU (planned)                          |
| March 3             | North America   | Super Tuesday presidential primaries in U.S.        |
| March               | Asia            | China's National People's Congress                  |
| April 15            | Asia            | Korea's 21 <sup>st</sup> National Assembly election |
| May 17              | Latin America   | Dominican Republic presidential election            |
| July 5              | Japan           | Tokyo governor's election                           |
| July 13-16          | North America   | U.S. Democratic National Convention (Milwaukee)     |
| July 24-September 6 | Japan           | Tokyo Olympics/Para-Olympics                        |
| August 24-27        | North America   | U.S. Republican National Convention (N. Carolina)   |
| September           | Asia            | Hong Kong Legislative Council election              |
| November 3          | North America   | Voting in U.S. presidential election opens          |
| November 4          | North America   | U.S. officially withdraws from Paris Agreement      |
| mid-December        | Asia            | China Central economic Work Conference              |

### ▽ International Meetings, Summits, etc.

| Date             | Region        | Event   |
|------------------|---------------|---|
| January 21-24    |               | World Economic Forum, Davos, Switzerland                            |
| March 18-22      | Latin America | Inter-American Development Bank Annual Meeting, Columbia            |
| April 17-19      |               | IMF/World Bank Bi-Annual Meeting, Washington D.C., U.S.             |
| April            | Asia          | 36 <sup>th</sup> ASEAN Summit, Vietnam                              |
| May 2-5          | Asia          | 53 <sup>rd</sup> Annual Asian Development Bank Meeting, Korea       |
| May 13-14        | Europe/CIS    | 29 <sup>th</sup> Annual EBRD Meeting, London, UK                    |
| May 25-29        | Africa        | Annual African Development Bank Meeting, Ivory Coast                |
| May              |               | World Health Organization Assembly, Geneva, Switzerland             |
| <b>June 8-11</b> |               | <b>WTO Ministerial Conference , Astana, Kazakhstan</b>              |
| June 10-12       |               | G7 Summit, U.S.   |
| July 2-3         | Asia          | 5 <sup>th</sup> Annual Asia Infrastructure Bank Meeting, China      |
| July             |               | BRICS Summit, St. Petersburg, Russia                                |
| September 2-5    | Europe/CIS    | Eastern Economic Forum, Vladivostok, Russia                         |
| September        |               | 75 <sup>th</sup> Session of the UN General Assembly, New York, U.S. |
| September        | Asia          | Boao Asia Forum   |
| October 16       | Europe/CIS    | CIS Summit. Uzbekistan  |
| October 16-18    |               | IMF/World Bank Bi-Annual Meeting, Washington D.C., U.S.             |
| November 13      | Asia          | APEC Summit, Kuala Lumpur, Malaysia                                 |
| November 21-22   |               | G20 Summit, Riyadh, Saudi Arabia                                    |
| November         | Asia          | 37 <sup>th</sup> ASEAN Summit, Vietnam                              |

Note: Black letters are annual or bi-annual events, Bold red letters are other than that

Sources: Various announcements and media reports

|         |   |   |
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