



CHINA & AUSTRALIA AT WAR

Agenda

- Background
- China decoupling from Australia
- Investment Outlook



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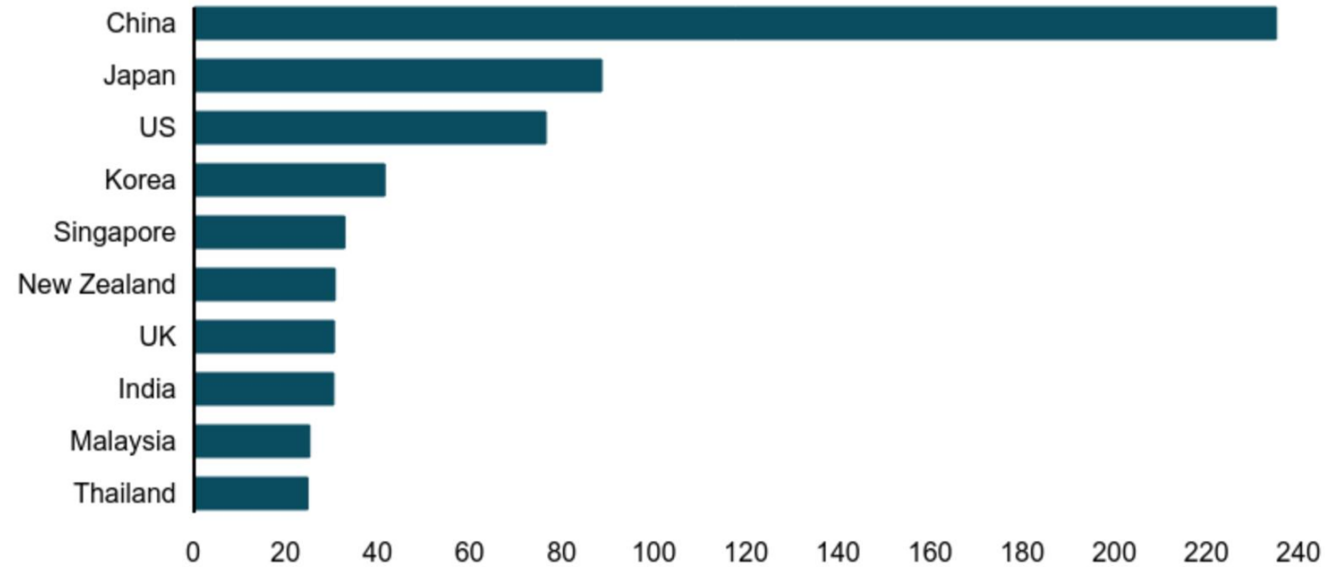
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Background:

Australia's 10 biggest trading partners

2018-2019

■ Figures show billions of Australian dollars



Source: Australian Department of Foreign Affairs and Trade

BBC



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China Decoupling:

TABLE 36: AUSTRALIA'S MERCHANDISE TRADE WITH CHINA (a)(b)
(A\$'000)

Rank Commodity	2016-17	2017-18	2018-19	% growth	
				2017-18 to 2018-19	5 year trend
Top merchandise exports					
Total merchandise exports	95,559,946	106,532,509	134,696,309	26.4	9.5
1 281 Iron ores & concentrates	51,536,670	50,118,585	63,119,904	25.9	3.8
2 343 Natural gas	5,438,000	9,118,000	16,636,000	82.5	92.3
3 321 Coal	11,160,274	13,114,545	14,117,230	7.6	13.5
4 971 Gold	2,319,486	2,938,191	5,071,856	72.6	307.3
5 268 Wool & other animal hair (incl tops)	2,439,761	2,975,343	2,855,473	-4.0	11.6
6 283 Copper ores & concentrates	1,479,045	2,663,980	2,201,150	-17.4	6.0
7 011 Beef, f.c.f.	746,648	1,004,604	1,750,338	74.2	14.3
8 287 Other ores & concentrates	688,202	1,243,082	1,654,947	33.1	-6.6
9 098 Edible products & preparations, nes	1,337,093	1,715,574	1,617,503	-5.7	68.5
10 682 Copper	1,221,445	1,108,913	1,458,816	31.6	-10.8
11 278 Crude minerals, nes	559,502	1,414,972	1,425,759	0.8	75.6
12 285 Aluminium ores & conc (incl alumina)	1,018,962	1,165,761	1,372,184	17.7	17.3
13 112 Alcoholic beverages	600,942	1,008,157	1,186,851	17.7	45.5
14 542 Medicaments (incl veterinary)	804,028	855,722	1,041,972	21.8	32.5
15 246 Wood in chips or particles	692,223	785,558	975,869	24.2	..
16 333 Crude petroleum	678,008	606,251	952,443	57.1	..
17 012 Meat (excl beef), f.c.f.	341,767	624,047	943,022	51.1	11.5
18 043 Barley	1,416,926	1,536,445	915,397	-40.4	-0.4
19 263 Cotton	463,822	705,492	900,545	27.6	-9.5
20 057 Fruit & nuts	318,187	422,258	827,779	96.0	65.0
988 Confidential items of trade	3,130,226	3,302,779	5,155,764

China targeting commodities in red



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RCEP Trade Deal:

Trade Surplus Countries:

China
Indonesia
Japan
Malaysia
South Korea
Singapore
Thailand
Vietnam

Trade Deficit Countries:

Australia
New Zealand
Philippines

Not Shown: Brunei, Laos, Cambodia, Myanmar



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China Decoupling:

- Initial bans and embargos seemed to be designed to send Australia a message to fall in line
- Bans last month look more like China decoupling from Australia
- “Leaked” talking points this week seem to be suggesting a extreme position
- Hard to see reconciliation



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Investment Outlook

Clash of Titans?

Key positive factors

- Government stimulus
- Low probability of US tax hikes
- Earnings very good: The recently
- Inequality to increase

Other positive factors

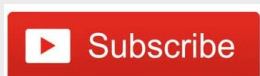
- Bankruptcies limited
- Evictions limited
- Mortgage repayment holidays
- Wage growth very low
- Capital efficiency
- Low oil prices
- Vaccine hope
- Policy certainty
- Structural change in industries leading to cost efficiencies

Key negative factors

- Virus in Northern Hemisphere
- Valuation
- Latent bankruptcies
- Low genuine credit growth

Other negative factors

- Short term gap in US economic conditions
- Inequality longer-term effects
- Effects gradually rolling off
- Structural change in industries leading to weak demand
- Cycle
- Demand weak
- Australian stimulus badly targeted



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Coming up:

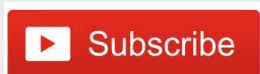
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next

Thursday, 26th November 2020



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