

McVEAN

Trading & Investments, LLC

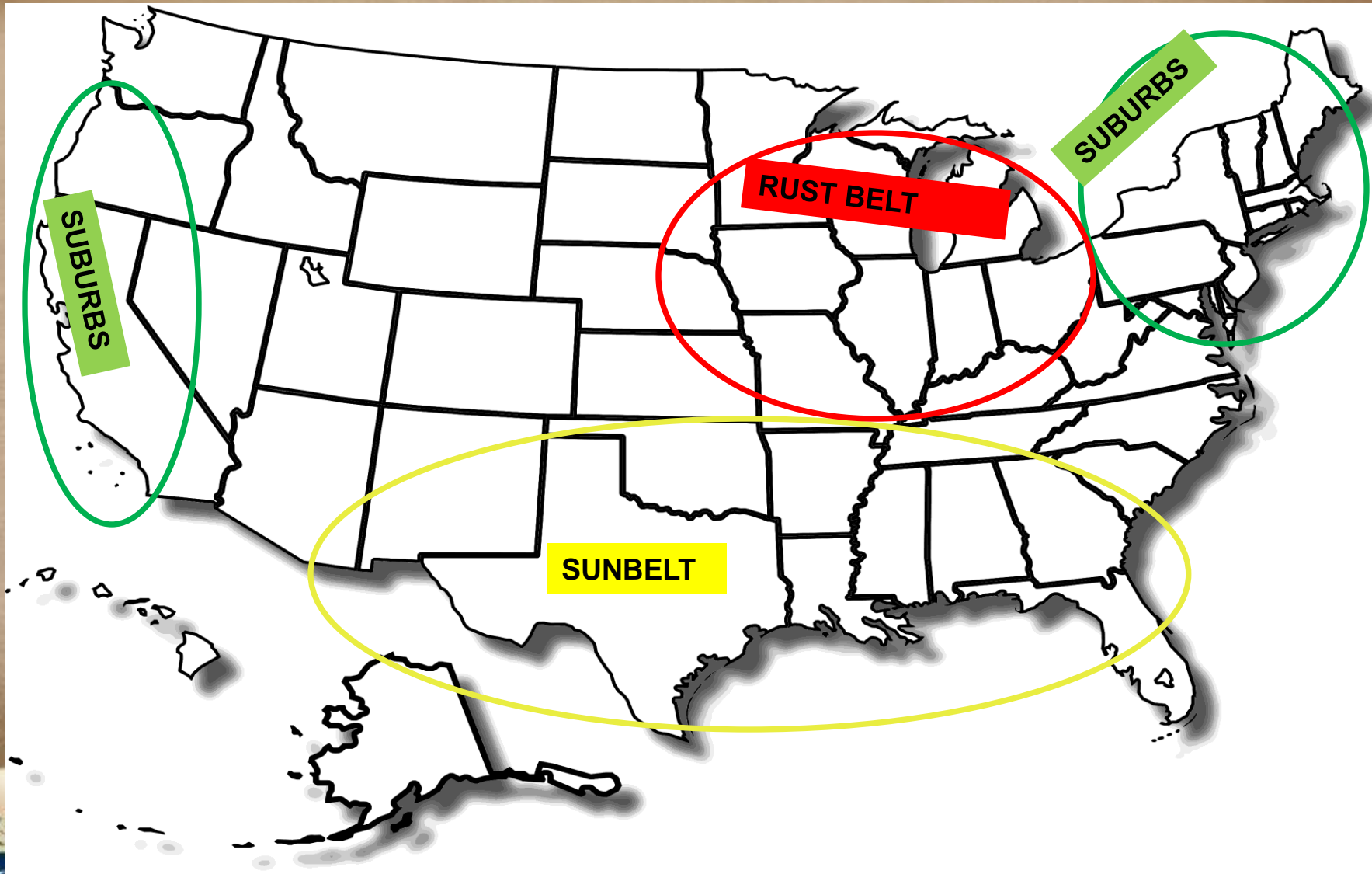
CHINA OUTLOOK

**ATLANTA, GA
AUGUST 28, 2019**

Michael Drury

Chief Economist
McVean Trading and Investments, LLC

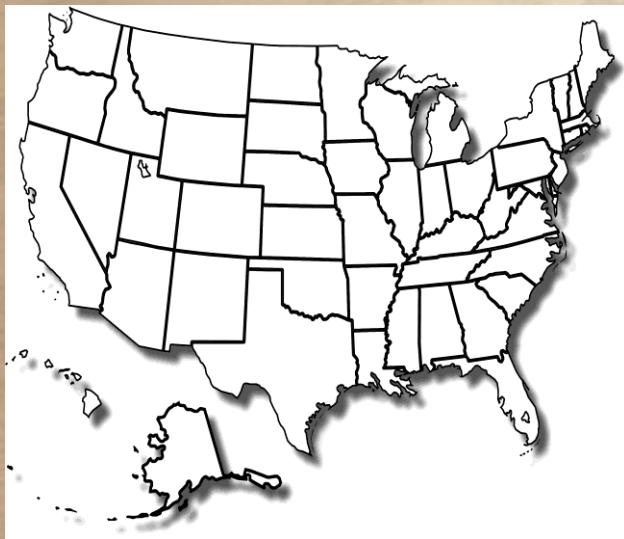
U.S. NATIONAL ECONOMY CIRCA 1982



Past Performance Is Not Necessarily Indicative Of Future Results.

GLOBAL ECONOMY TODAY

SUBURBS



RUST BELT

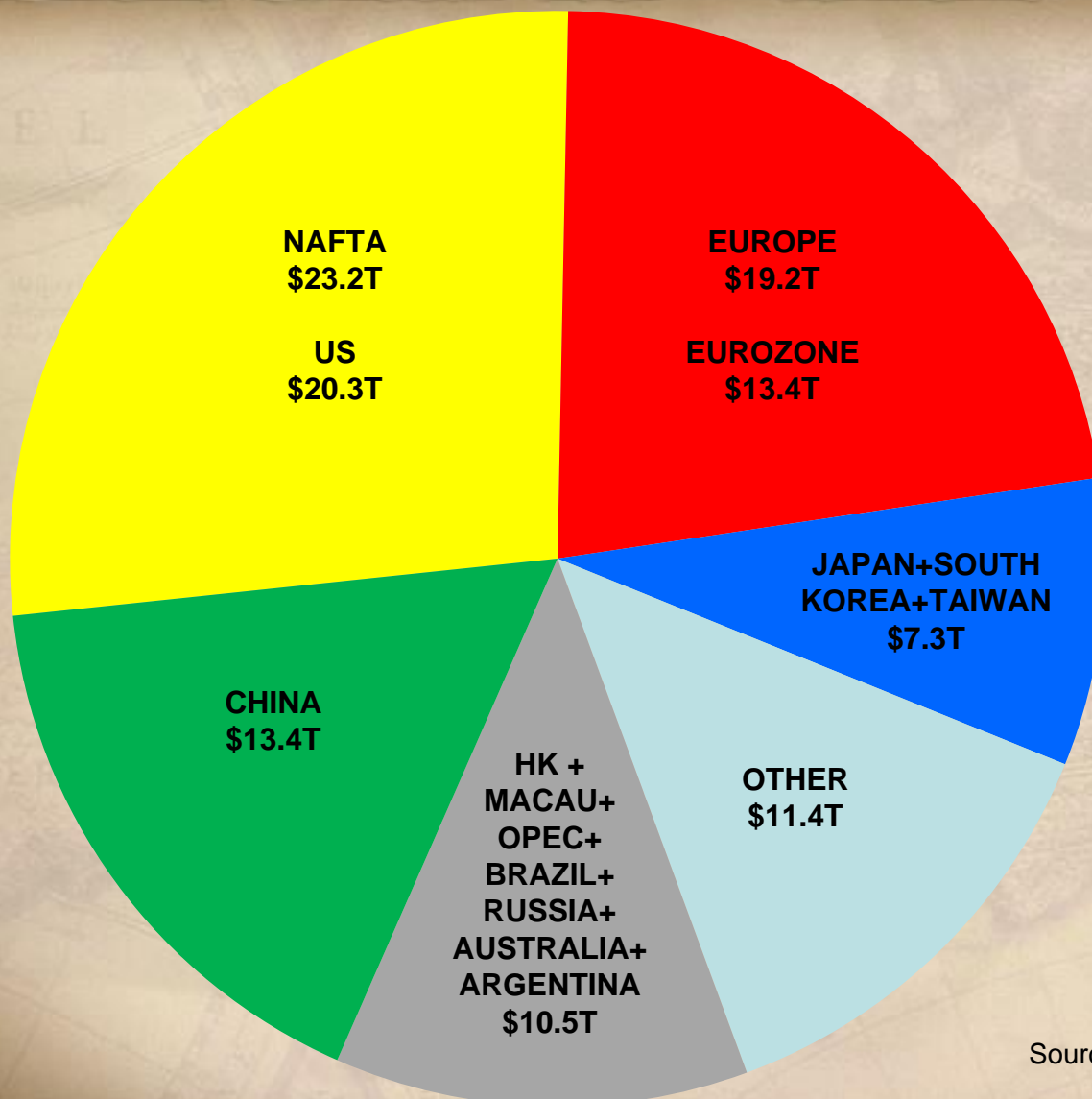


SUNBELT



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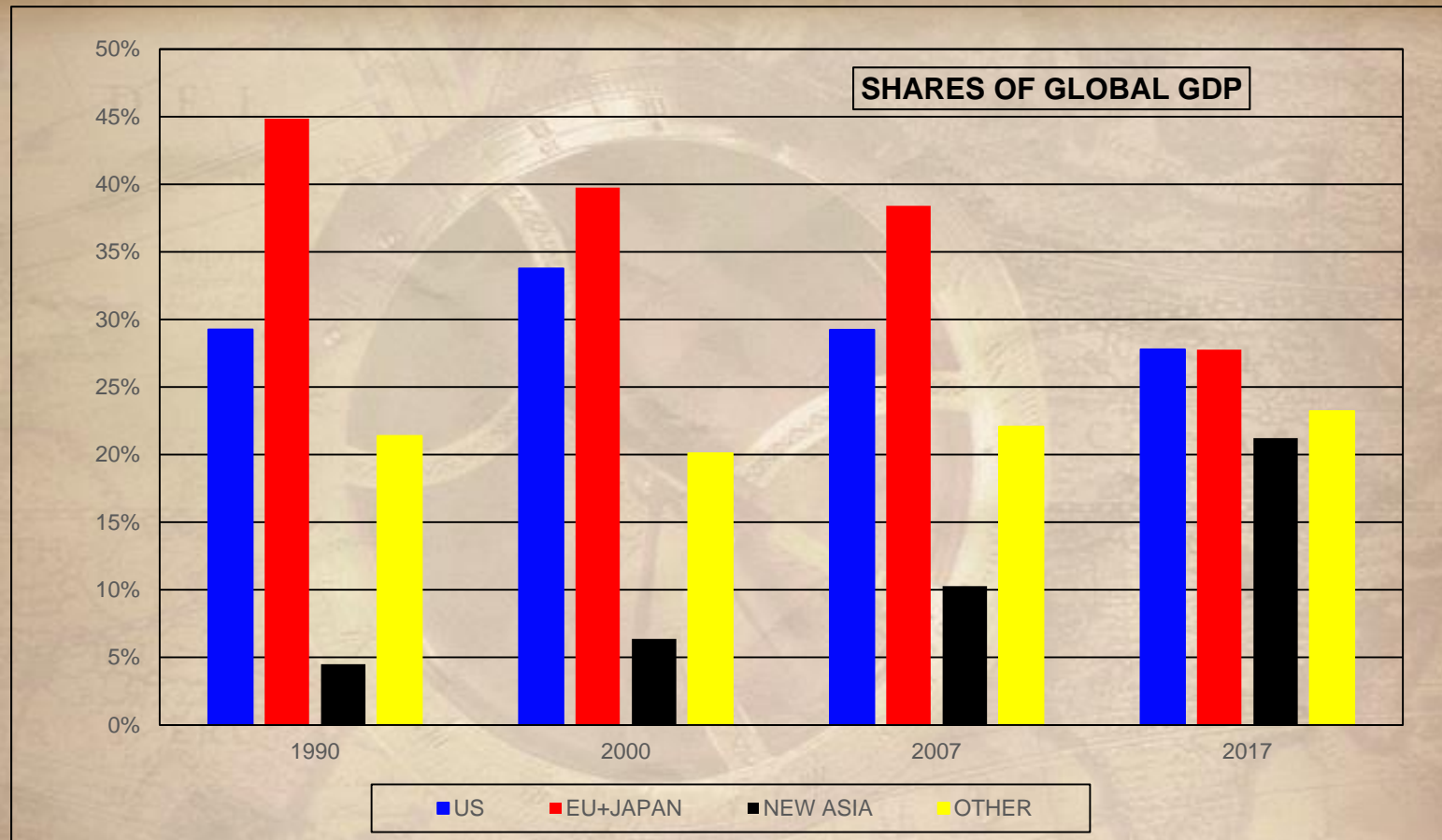
2018 GLOBAL GDP \$86.0 TRILLION



Source: IMF/McVean



SHARES OF GLOBAL GDP



Source: IMF/McVean

US TRADE BALANCE AS A % OF GDP

4 QTR AVERAGE



Q2 2019

DURABLES UNLIKELY TO CAUSE A RECESSION

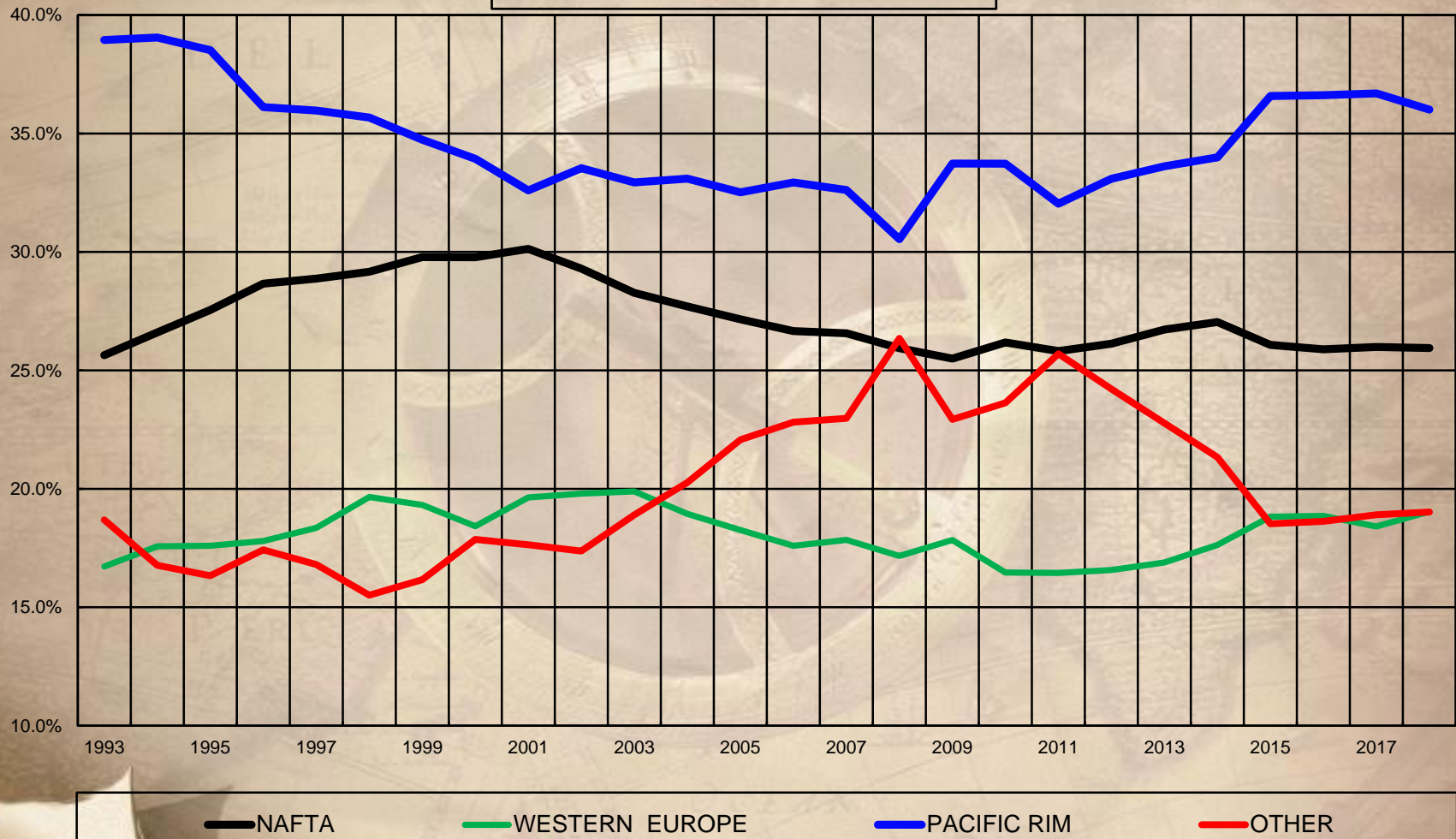
DURABLES SHARE OF NOMINAL GROSS DOMESTIC PRODUCT



Q2 19

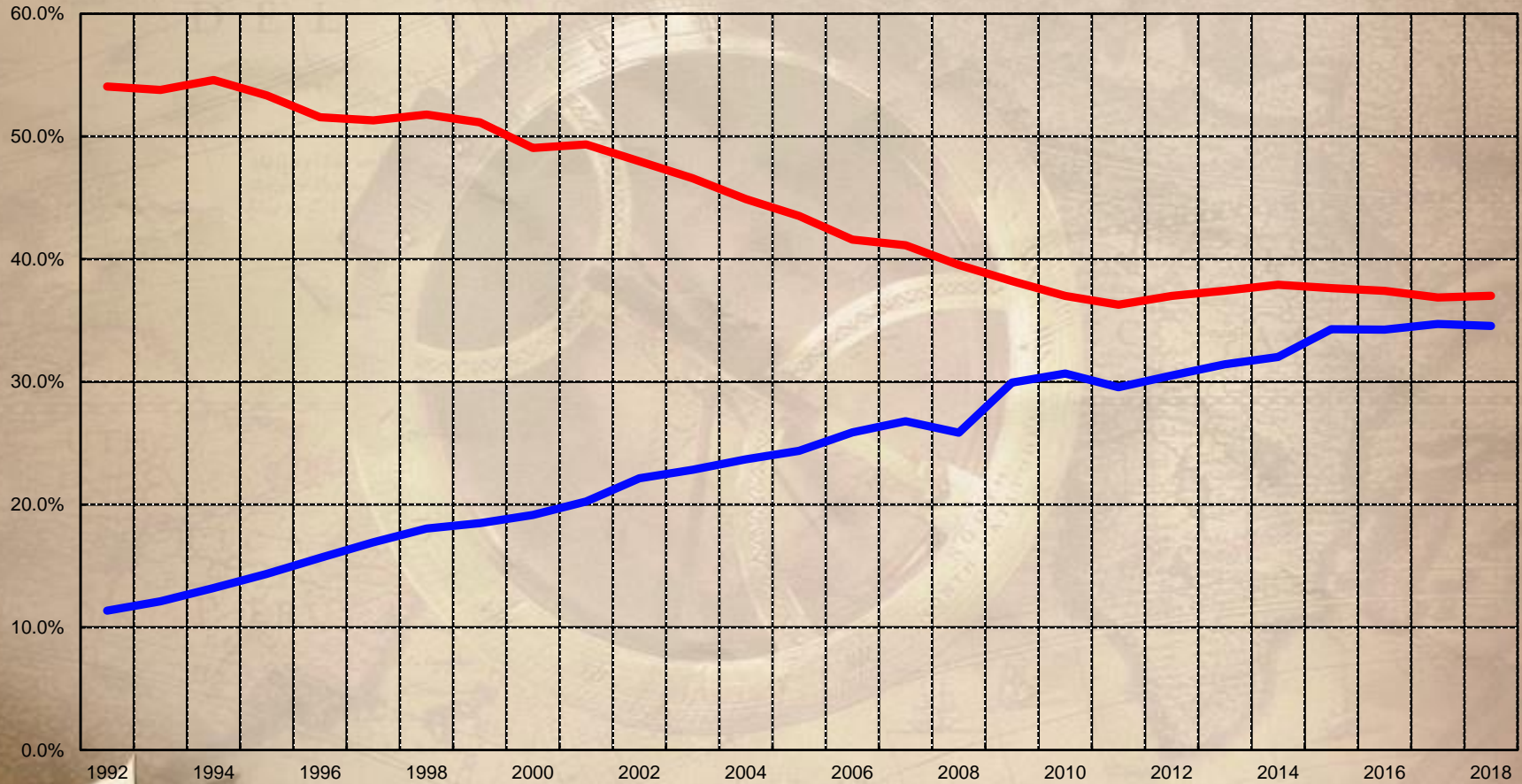
NAFTA AND WTO HAD LITTLE EFFECT ON TRADE

SHARE OF US IMPORTS



CHEAPER IS WHAT DRIVES IMPORTS

SHARE OF US IMPORTS



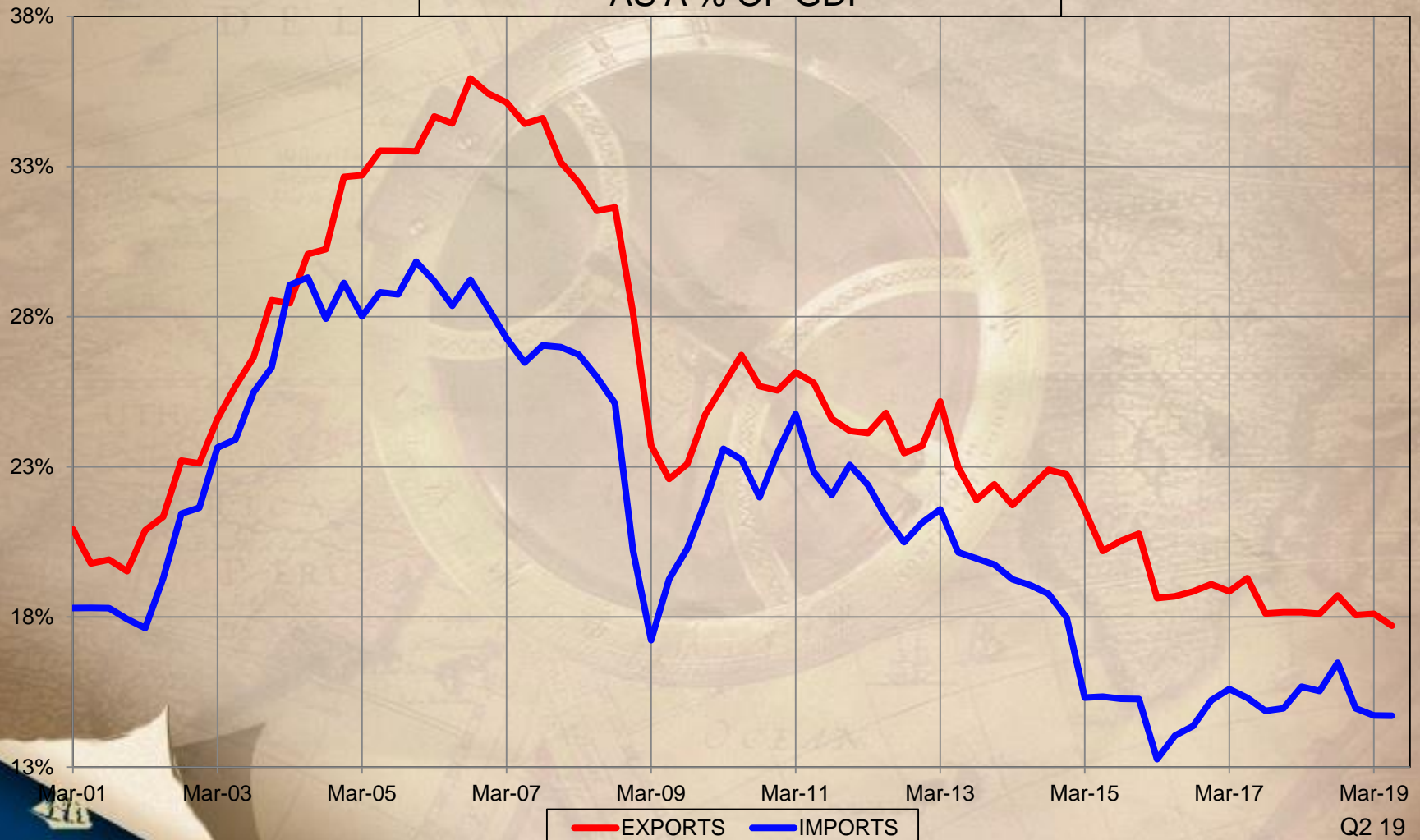
— CHINA & MEXICO

— CANADA, JAPAN & EUROPE



CHINA SHIFTS TO DOMESTIC FOCUS

**CHINESE EXPORTS VS IMPORTS
AS A % OF GDP**

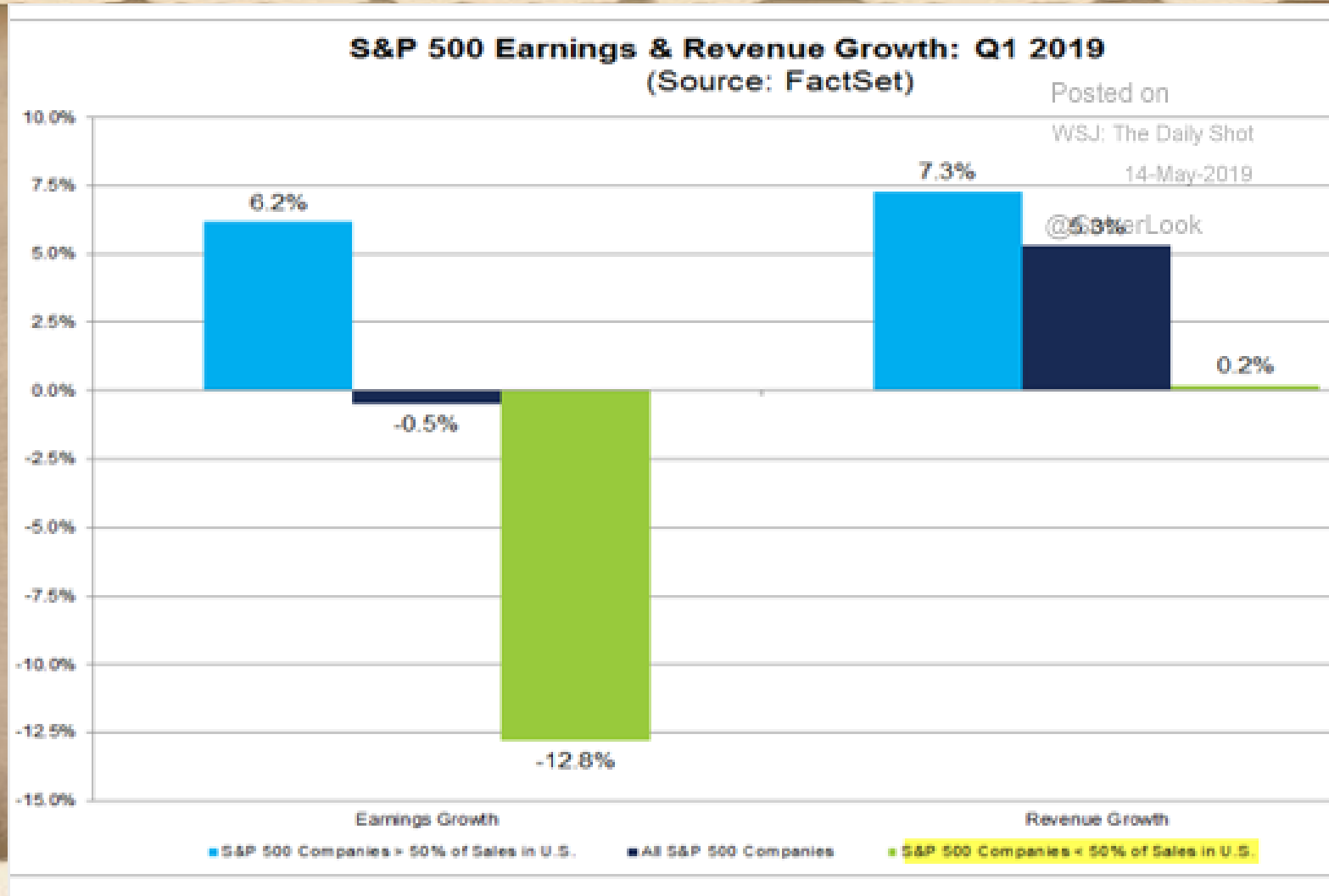


Past Performance Is Not Necessarily Indicative Of Future Results.

PRIVATE SECTOR BEARS THE BURDEN



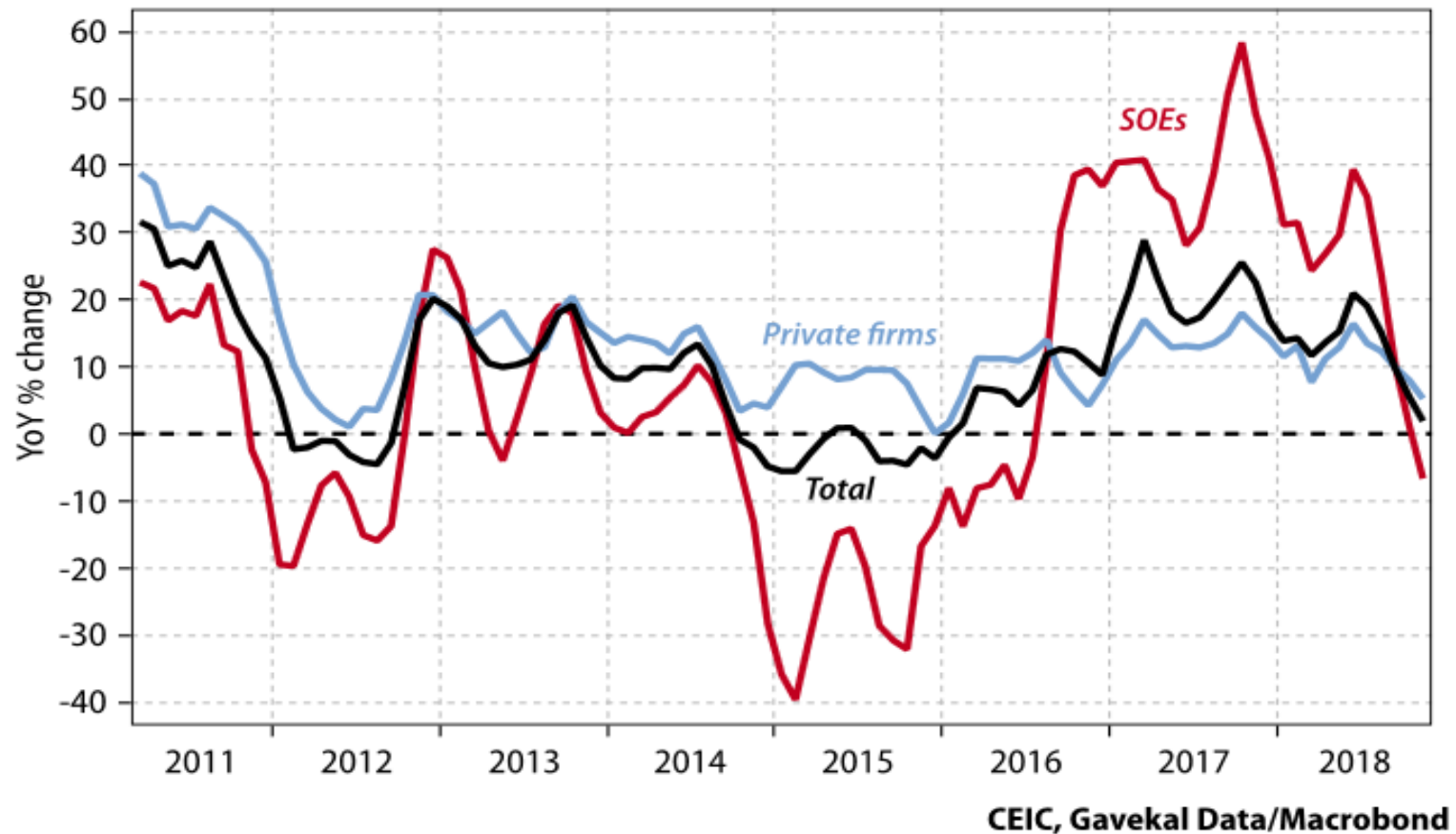
US FIRMS THAT DEPEND ON FOREIGN SALES ARE ALREADY HURTING



SOE PROFIT ARE CHINA'S SAFETY NET

SOE profit growth is decelerating sharply

Industrial profits by firm ownership, 3mma

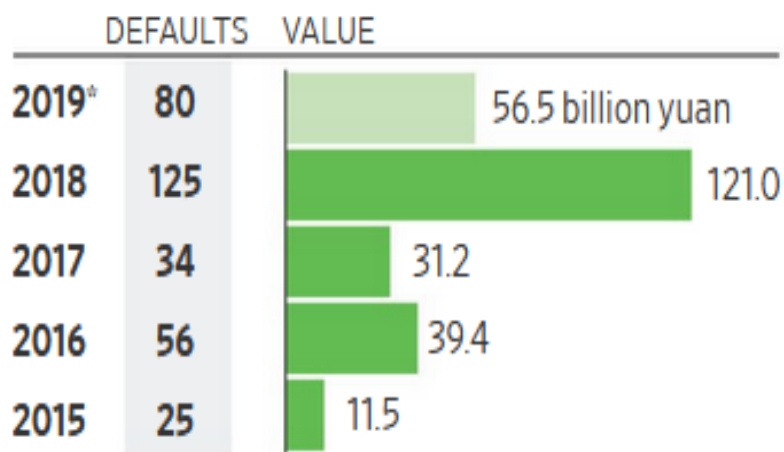


CHINA IS INTRODUCING RISK INTO THE SYSTEM

Broken Vows

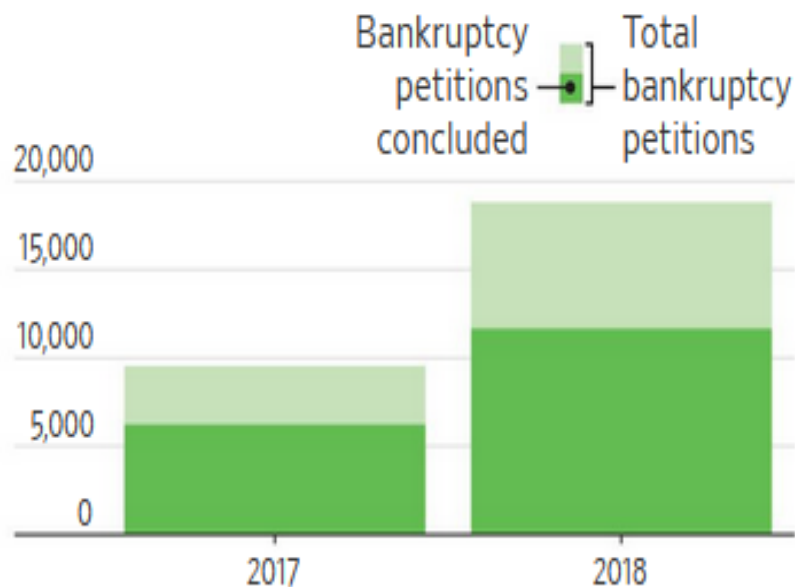
More companies in China can't repay.

Bond market defaults



*Data as of June Note: 10 billion yuan=\$1.4 billion
Sources: Wind (defaults); Supreme People's Court

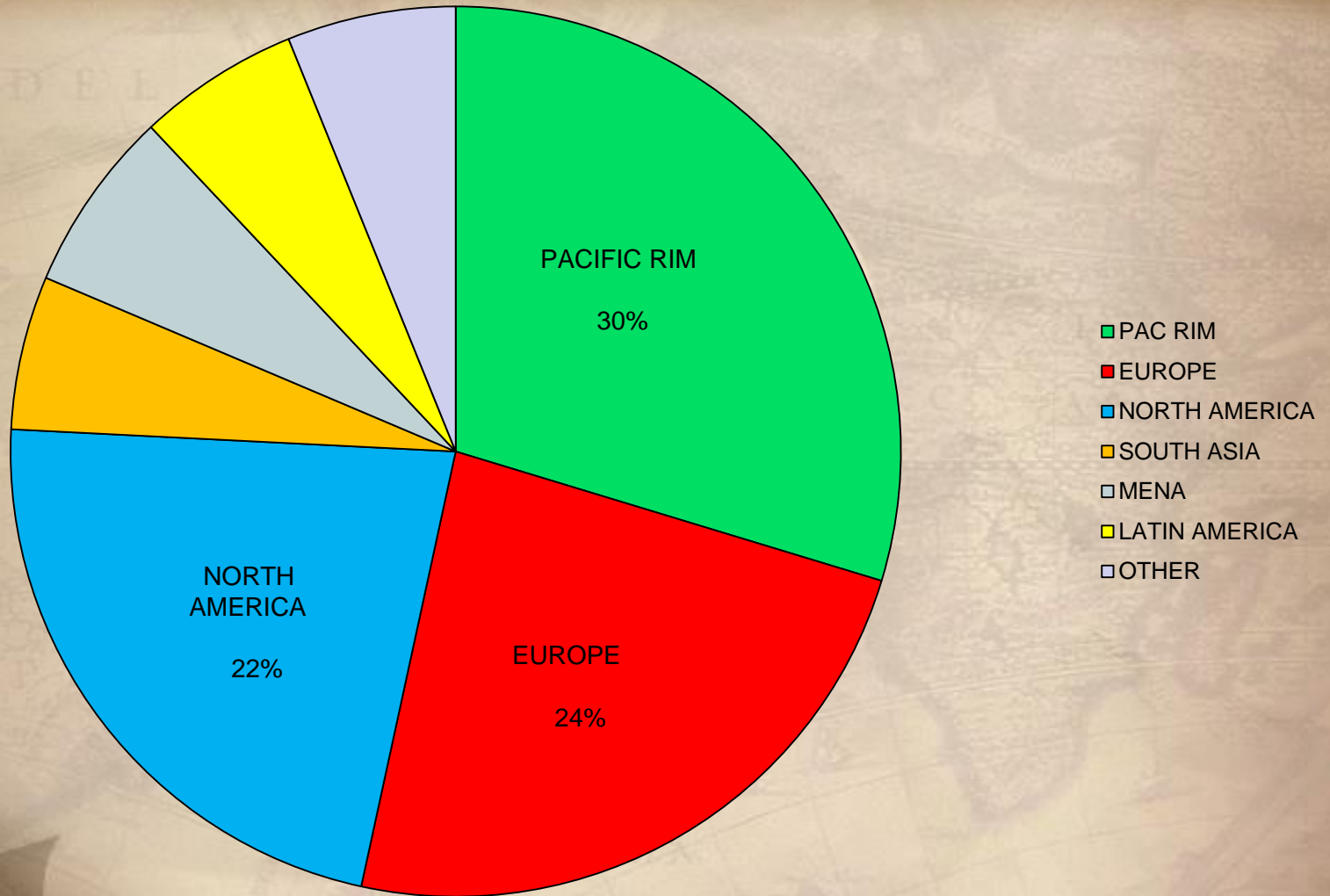
Number of bankruptcy petitions filed



Source: Wall Street Journal

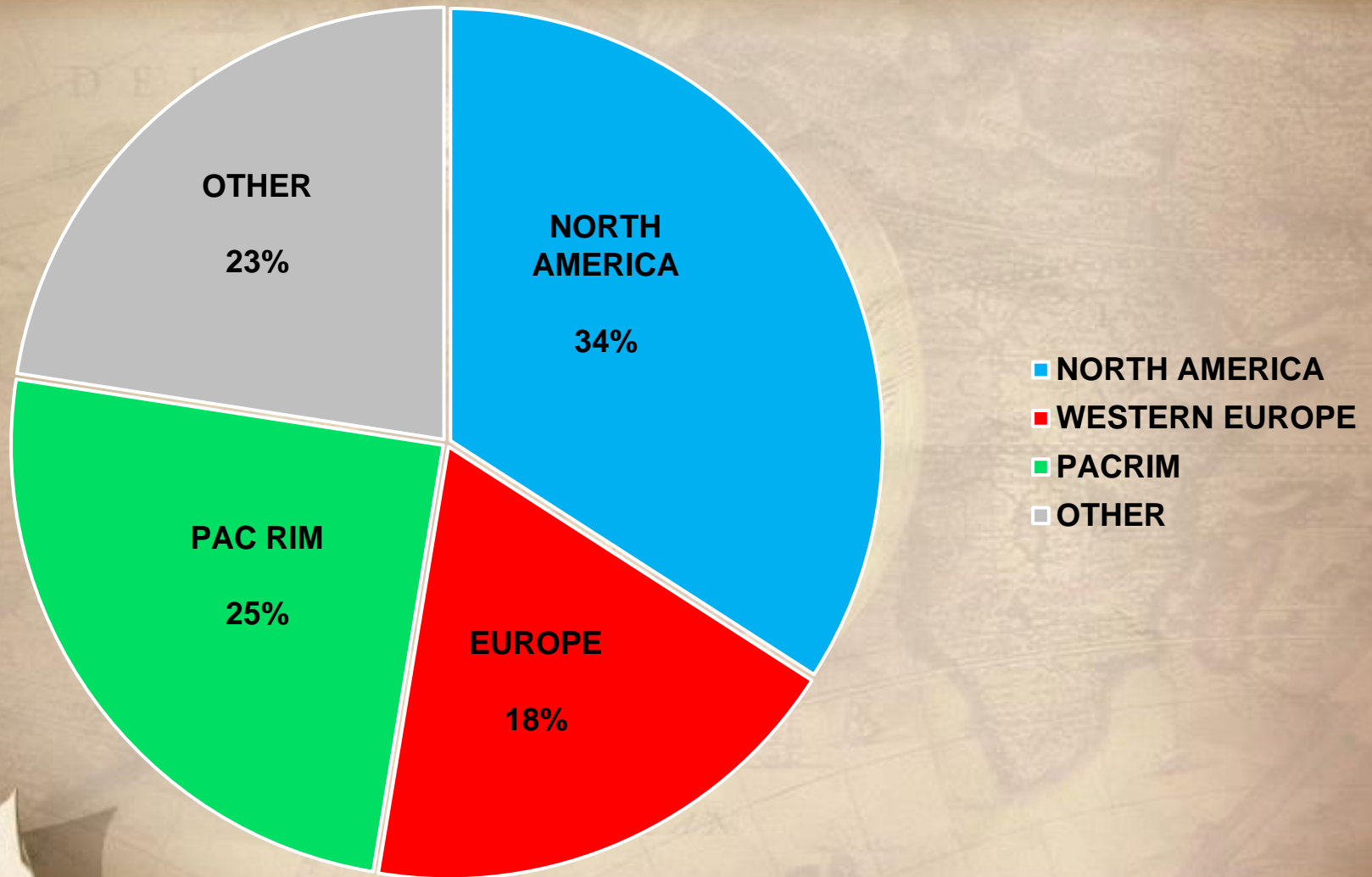
2016 CHINA + HONG KONG EXPORT PIE

\$2.0 TRILLION



2016 US EXPORT PIE

\$1.5 TRILLION

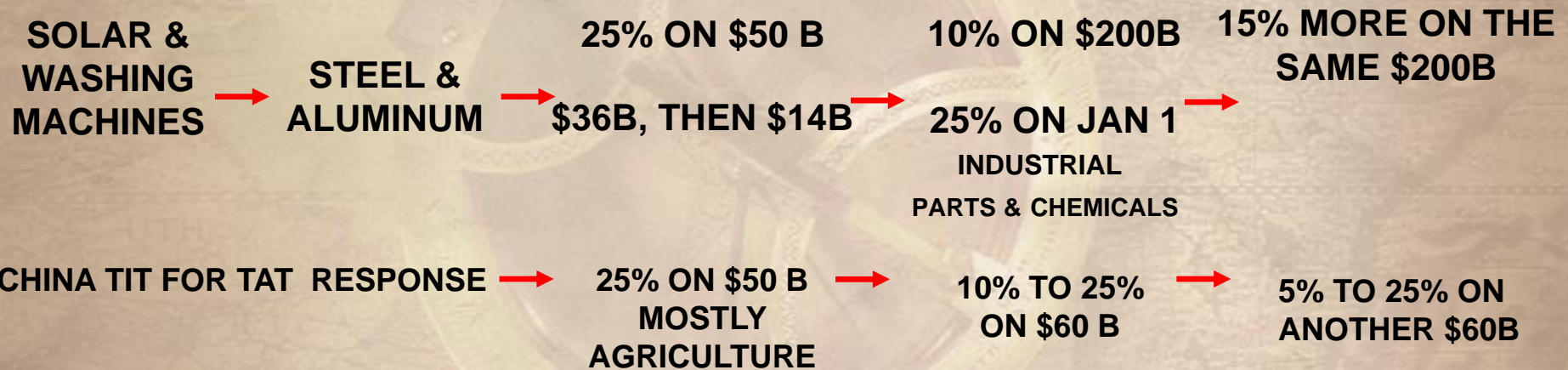


Past Performance Is Not Necessarily Indicative Of Future Results.

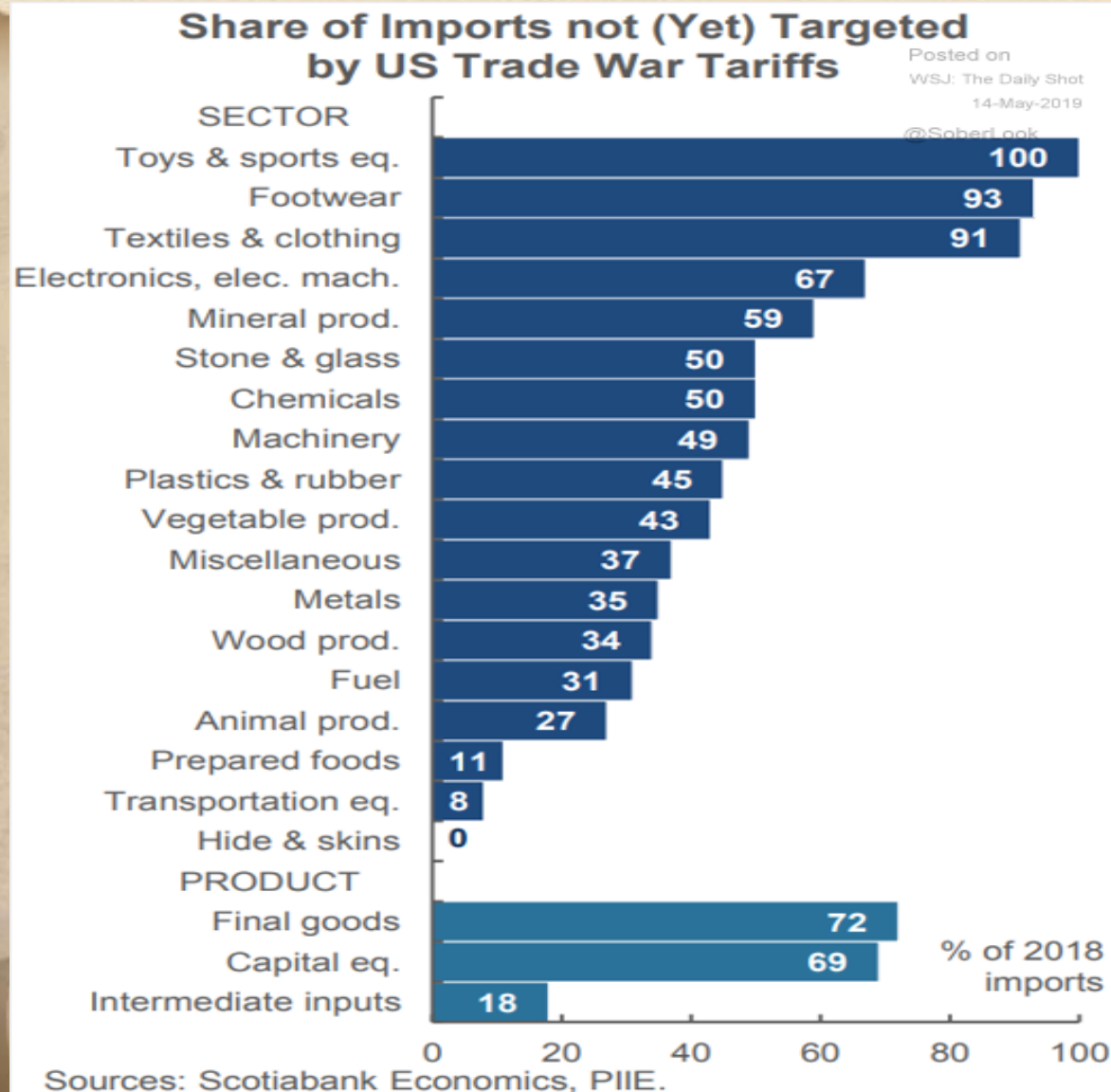


THIS IS THE TARIFF ROUND CHINA FEARED MOST

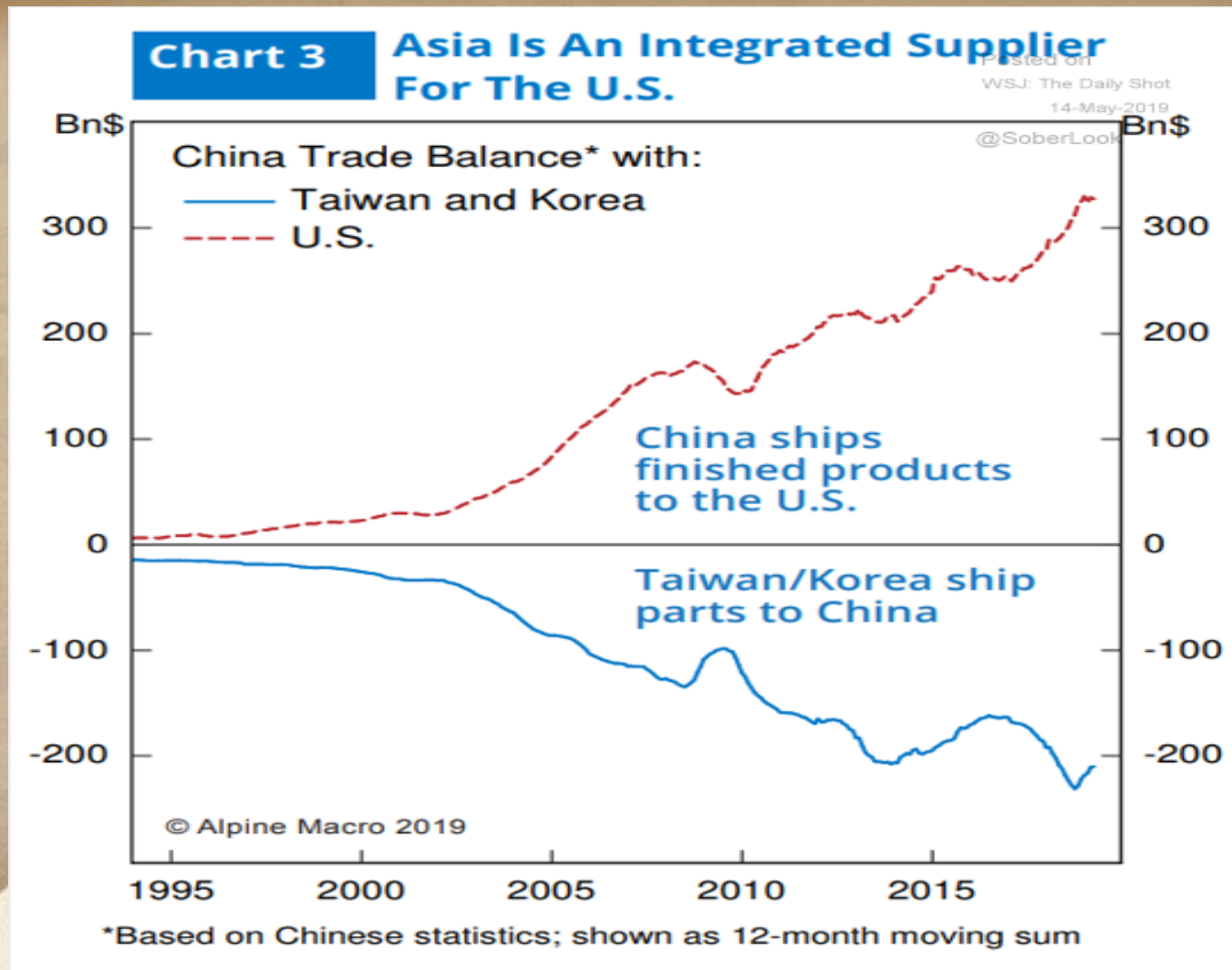
YOU START WITH THE LOW HANGING FRUIT



FURTHER TARIFFS WILL LIFT US PRICES



THE NEXT \$325 B LANDS OUTSIDE CHINA



CURRENT EXPORTERS OF INDUSTRY

	PER CAPITA	POPULATION	GDP
	INCOME	(MILLIONS)	(BILLIONS)
US Northeast	70541	63948	4511.0
US West	67881	52704	3577.6
US Midwest	56477	58673	3313.7
US Resource	56042	63631	3566.0
Germany	48669	82439	4012.2
US South	48621	88340	4295.2
France	42930	65481	2811.1
U.K.	42260	66959	2829.7
Japan	40105	126855	5087.5
Italy	34349	59217	2034.0
South Korea	32046	51339	1645.2
Spain	31059	46441	1442.4
Taiwan	25535	23758	606.7
Saudi Arabia	23186	34141	791.6



CURRENT IMPORTERS OF INDUSTRY

	PER CAPITA INCOME	POPULATION (MILLIONS)	GDP (BILLIONS)
Greater Shanghai	15567	159695	2485.9
Argentina	14462	45102	652.3
Southeast China	14160	155938	2208.0
Poland	13821	38028	525.6
Russia	10955	143896	1576.4
JinJingJi + SD	10889	211207	2299.9
Turkey	10537	82962	874.2
Brazil	9895	212393	2101.6
Malaysia	9755	32454	316.6
Mexico	9318	132328	1233.0
Chongqing+Hubei+Shaanxi	9087	127037	1154.4
Liaoning+Jilin	8159	71233	581.2
Hunan+Jiangxi	7212	113815	820.9
Venezuela	6890	32780	225.9
Henan+Anhui	6853	156758	1074.2
Peru	6731	32934	221.7
Sichuan	6654	82330	547.9
Thailand	6590	69306	456.7
Colombia	6379	49850	318.0
South Africa	6179	58065	358.8
West China	5860	65736	385.2
Guangxi+Guizhou+Yunnan	5701	131157	747.7
Iran	5289	82821	438.0

Past Performance Is Not Necessarily Indicative Of Future Results.

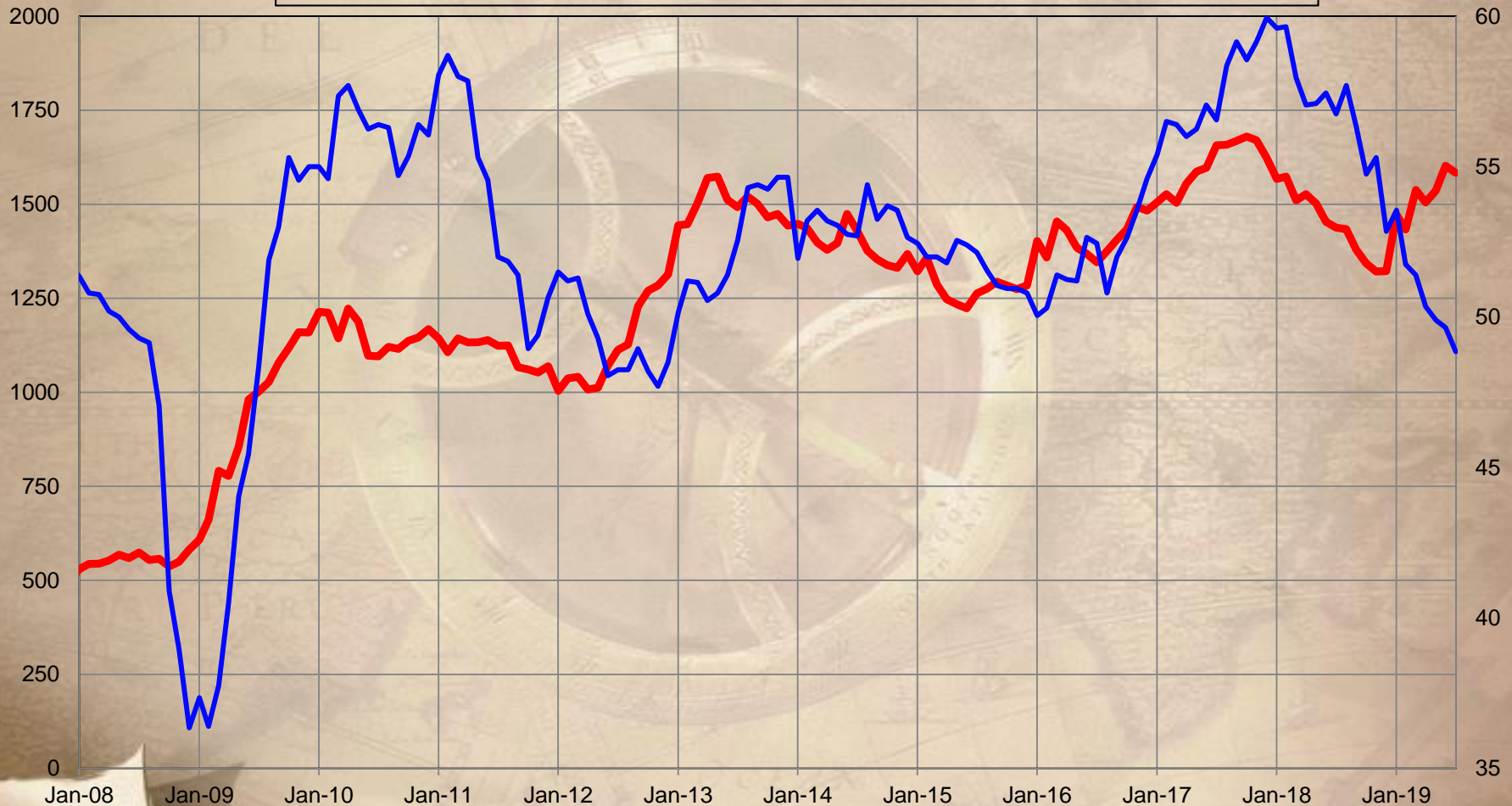
NEXT GENERATION FOR INDUSTRY

	PER CAPITA INCOME	POPULATION (MILLIONS)	GDP (BILLIONS)
Indonesia	3876	269536	1044.7
Dehli & Haryana	3457	42139	146
Philippines	2976	108106	321.7
Egypt	2501	101169	253.0
Maharashtra	2500	112374	281
Telangana	2500	35287	88
Viet Nam	2354	97429	229.3
Karnataka	2400	61095	147
Tamil Nadu	2300	72147	166
Kerala	2300	33406	77
Gujarat	2200	60440	133
Andhra Pradesh	2000	84581	169
Nigeria	1994	200962	400.7
Kenya	1702	52215	88.9
Bangladesh	1602	168066	269.2
Pakistan	1541	204596	315.3
Myanmar	1264	54336	68.7



CHINA CREDIT LEADS THE WORLD ECONOMY

CHINA SOCIAL FINANCING VS US & EUROPEAN PMI



CHINA SOCIAL FINANCING (12 MO AVERAGE)

AVERAGE OF EUROPE & US PMI (3MO AVG)

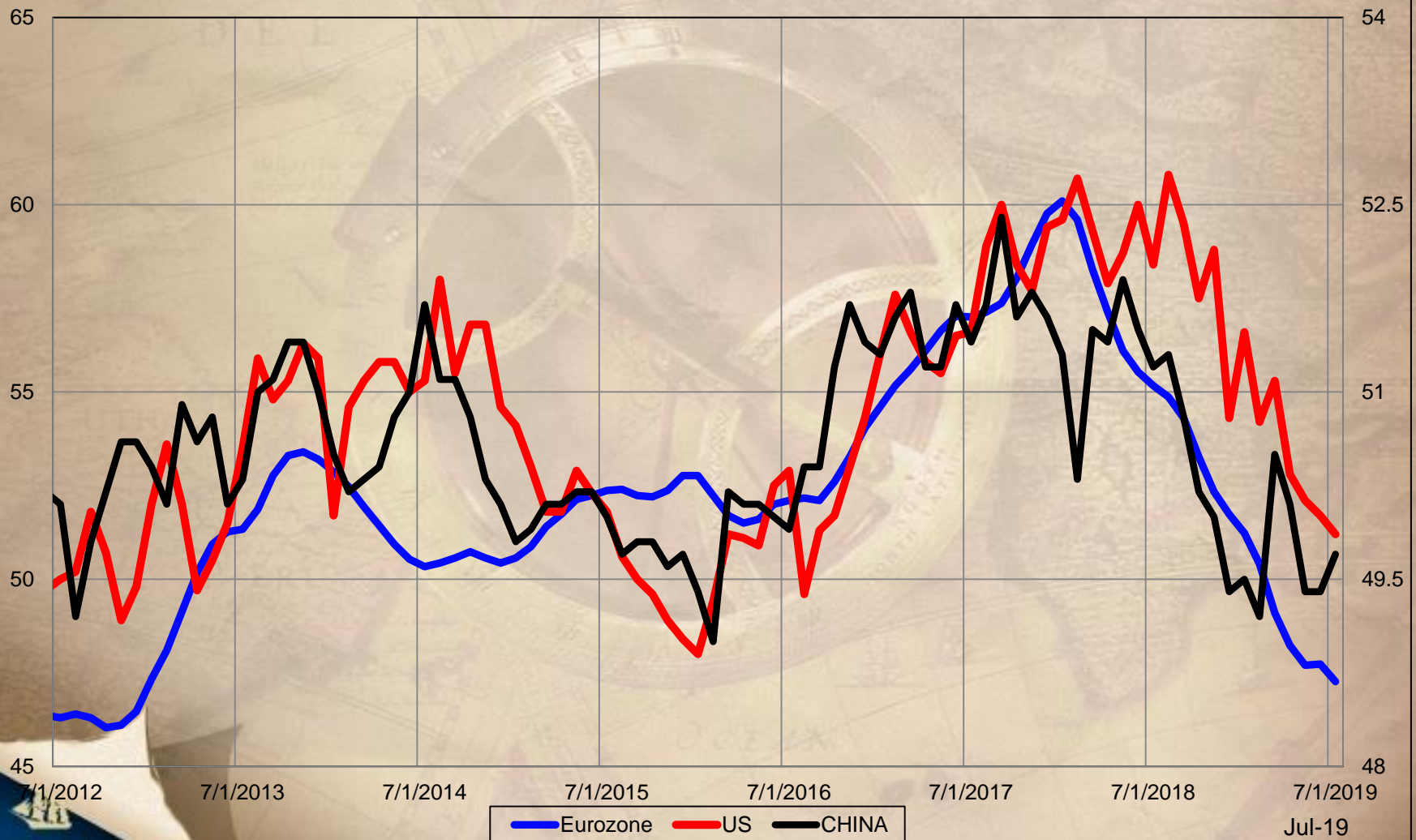
July-19

CHINA FISCAL STIMULUS IS BECOMING A FLOOD

- Infrastructure -- mostly high speed rail -- raised by \$80 billion
- Middle class income taxes and new deductions for key services
- Lowered interest rates and reserve requirements
- Pulled forward \$220 billion in state government lending
- Small business loans increased
- Tariffs reduced (even for US) and export rebates increased
- Promised \$300 billion in stimulus at National Congress
- Cut VAT from 1% to 3% depending on product
- \$45 billion in new tax and fee reductions passed on April 15th
- Changed definition of prime rate to lower costs for SME
- Cumulative over 4% of GDP since mid-2018

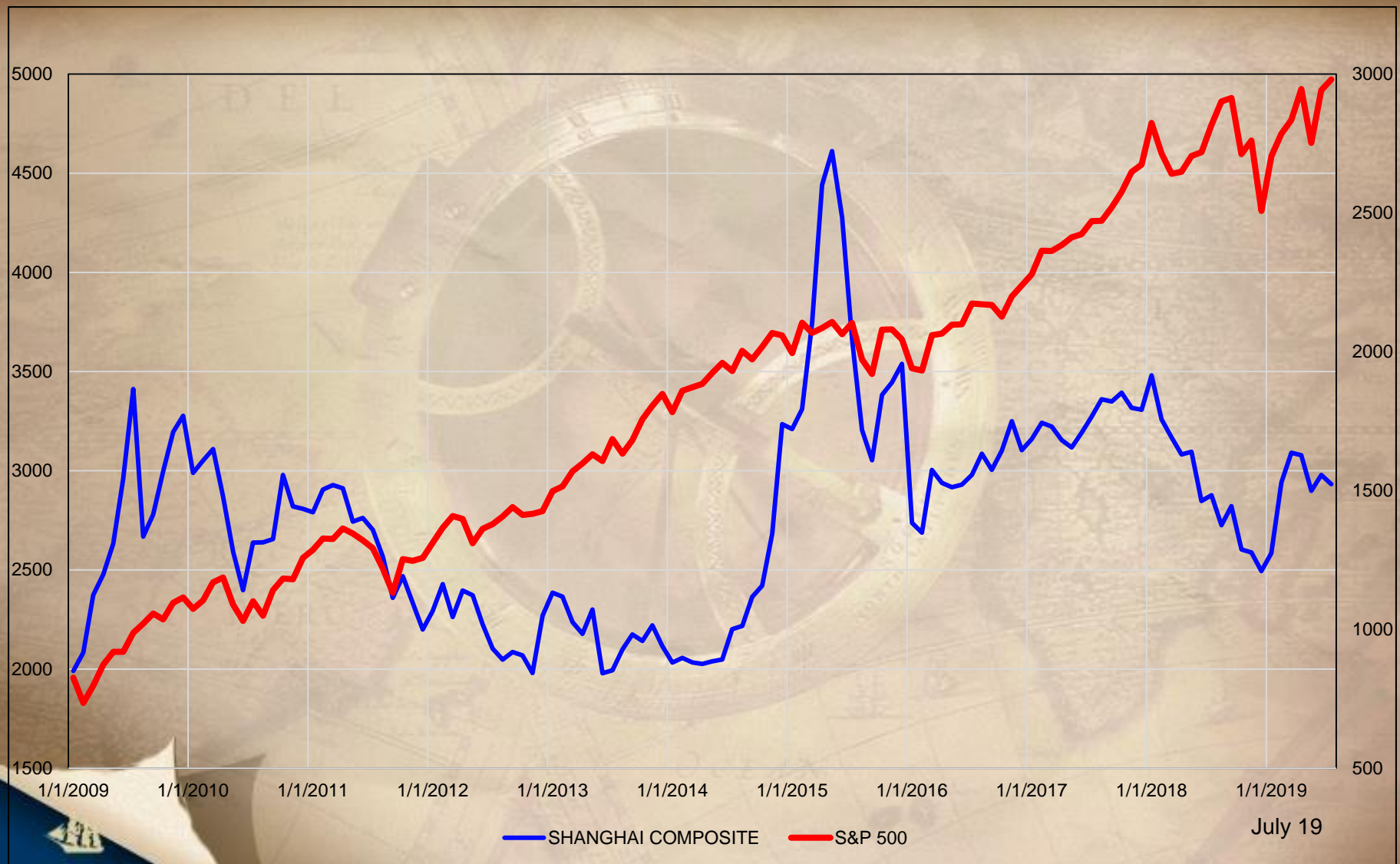
CHINA LEADS THE GLOBAL MANUFACTURING

China, Eurozone and US PMI



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CHINA & US EQUITIES ARE REBOUNDING

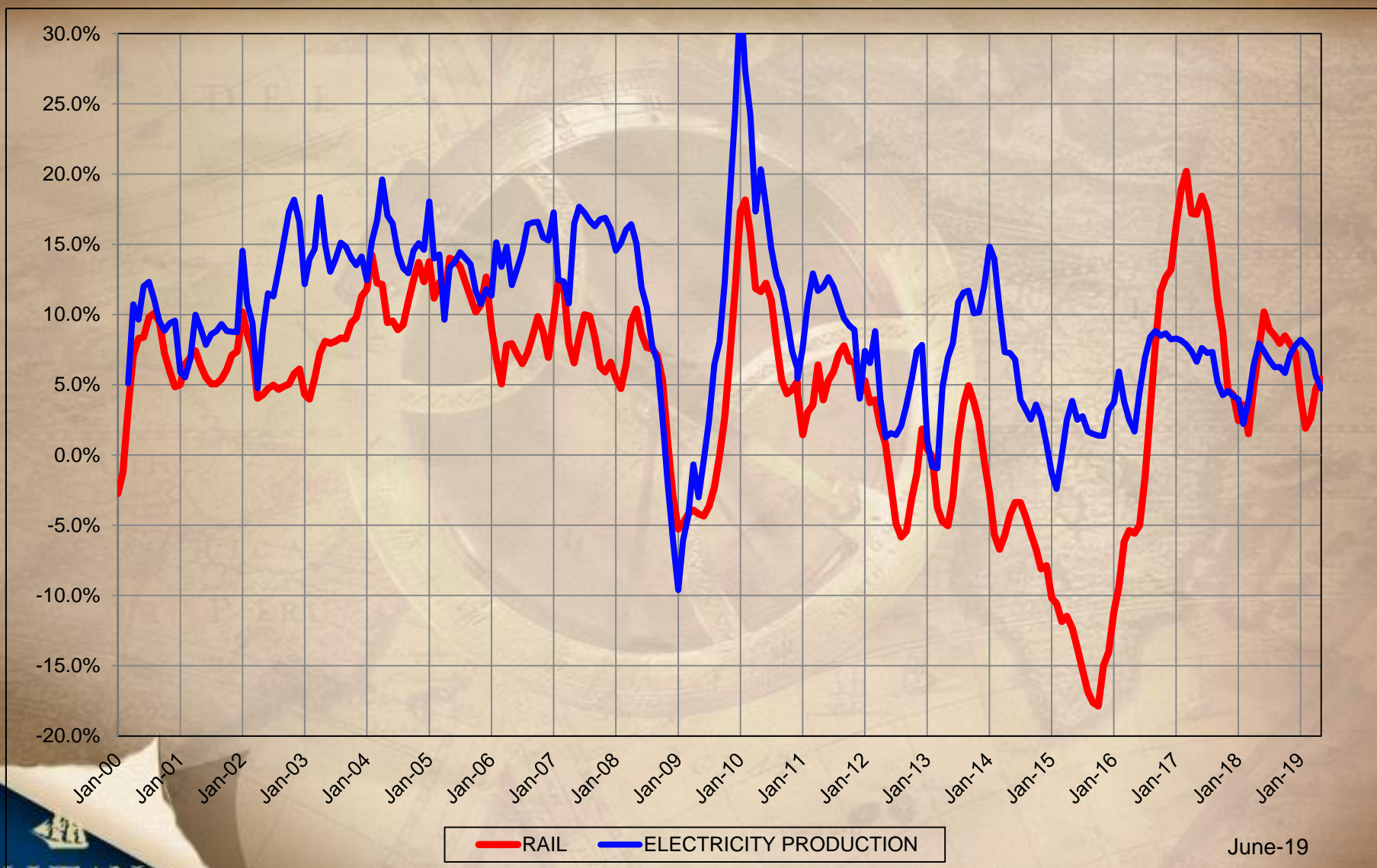


— SHANGHAI COMPOSITE — S&P 500

July 19

CHINESE RAILROAD FREIGHT VS ELECTRICITY PRODUCTION

3 MONTH AVERAGE % CHANGE FROM YEAR AGO 3 MONTH AVERAGE

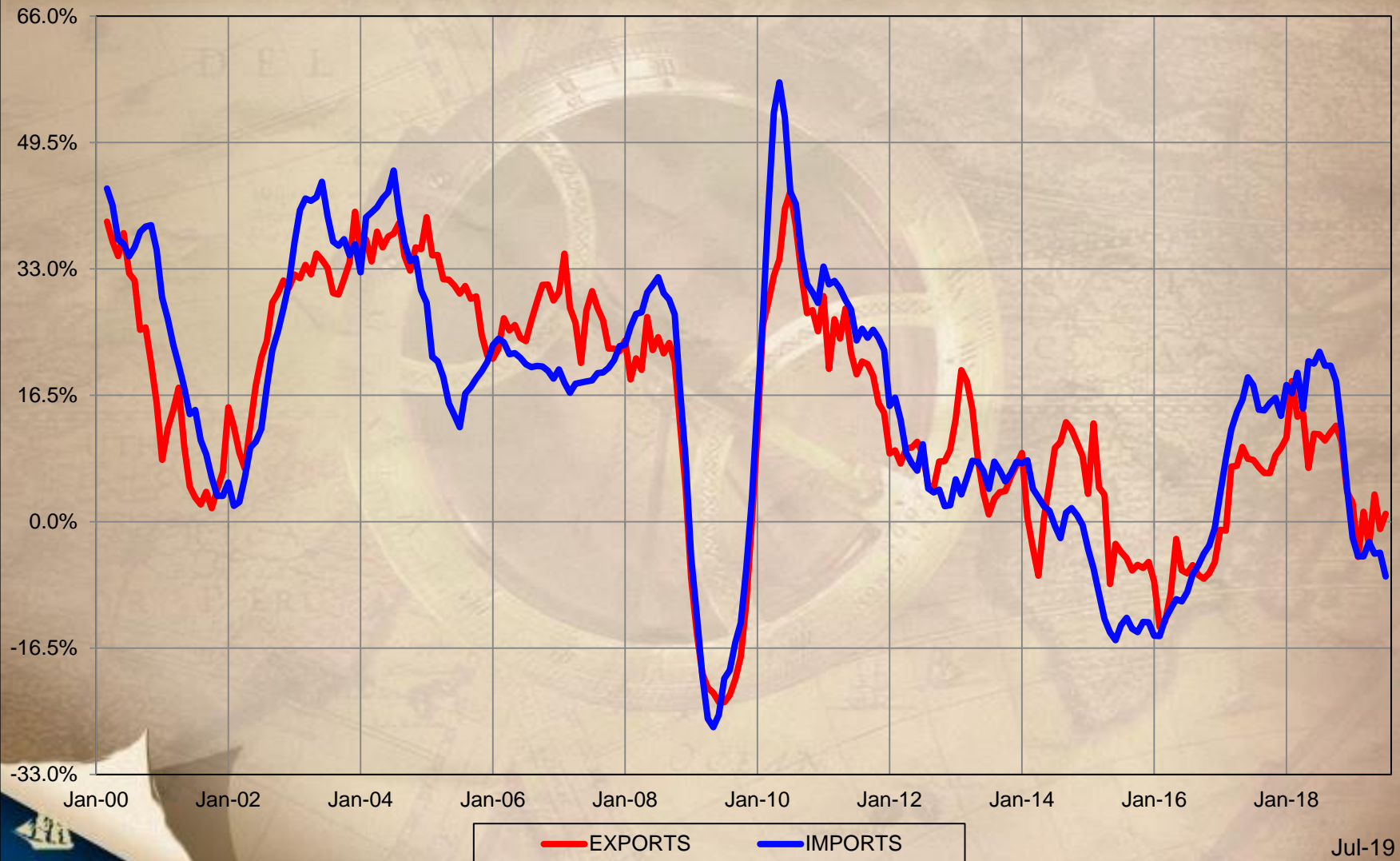


June-19

Past Performance Is Not Necessarily Indicative Of Future Results.

CHINA EXPORTS VS IMPORTS

6 MONTH AVERAGE %CH FROM 6 MONTH AVERAGE YEAR AGO



Past Performance Is Not Necessarily Indicative Of Future Results.

CHINESE PPI IS BOTTOMING



Jul-19

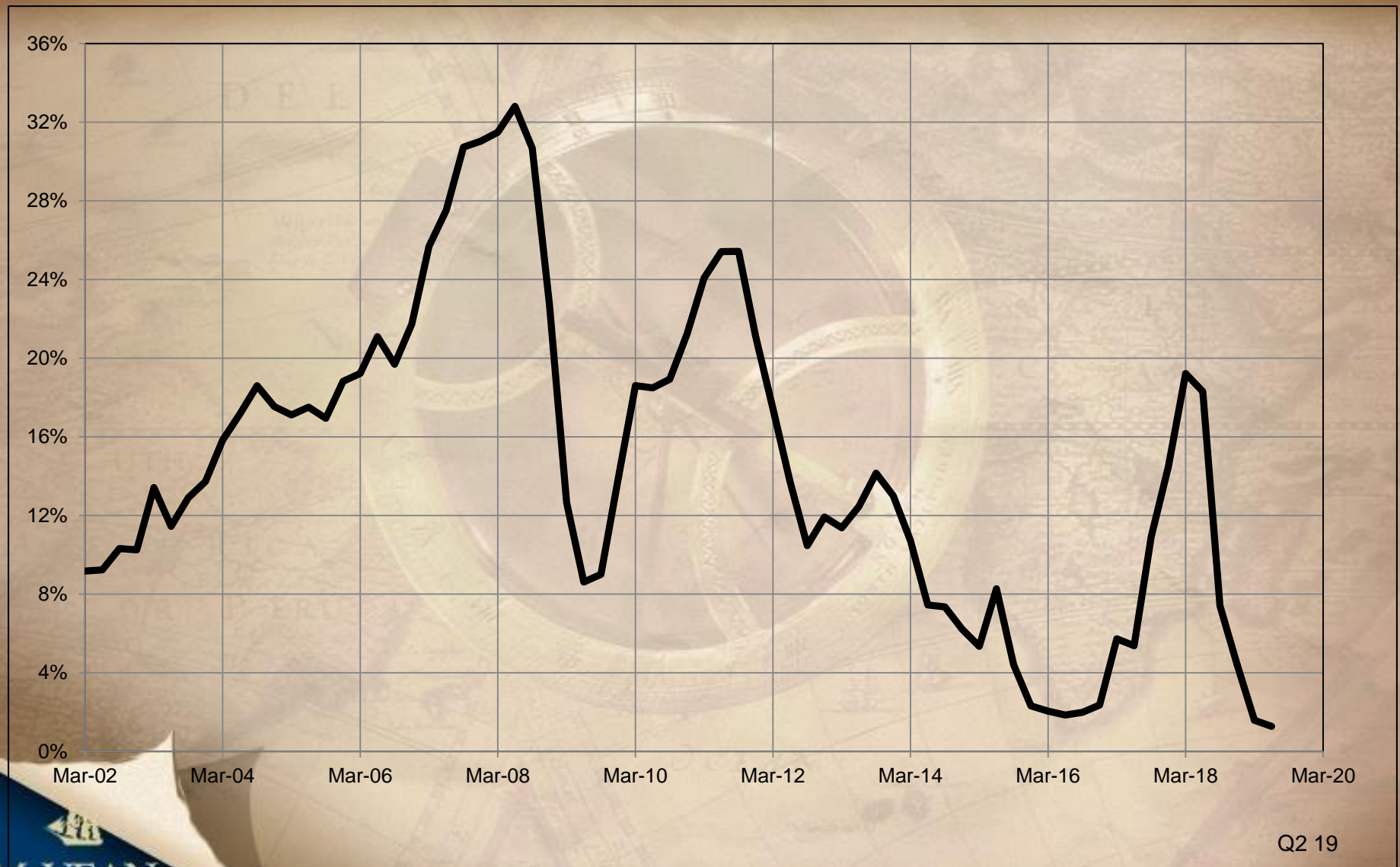
MANAGING THE FREE FLOATING YUAN



Past Performance Is Not Necessarily Indicative Of Future Results.

CHINA NOMINAL GDP GROWTH IN US\$

CURRENT QUARTER % CHANGE FROM YEAR AGO



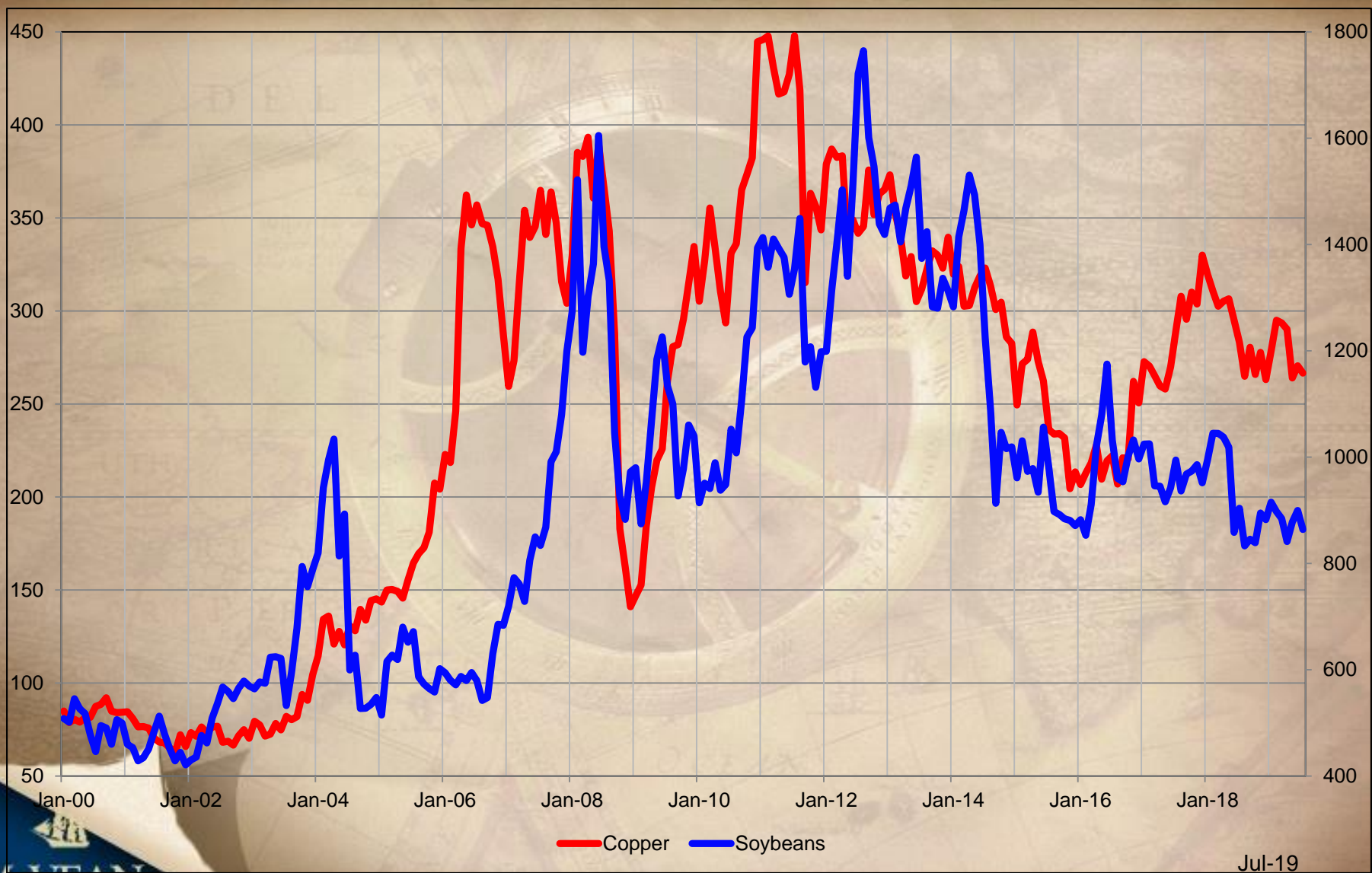
Q2 19

CRUDE OIL



Past Performance Is Not Necessarily Indicative Of Future Results.

COPPER VS SOYBEANS



Past Performance Is Not Necessarily Indicative Of Future Results.