



UBS Investment Research

China's Impact On the World

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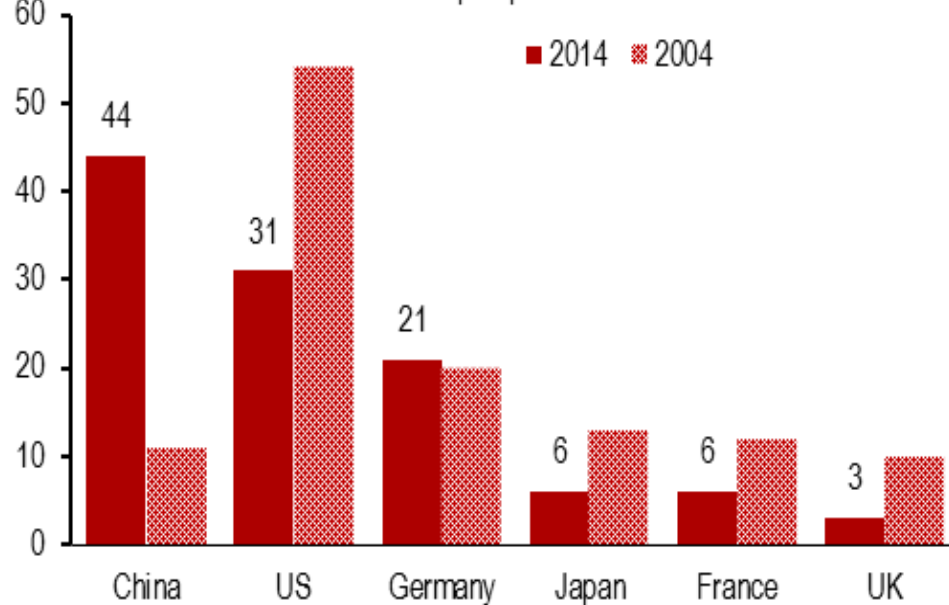


Main channels of China's impact

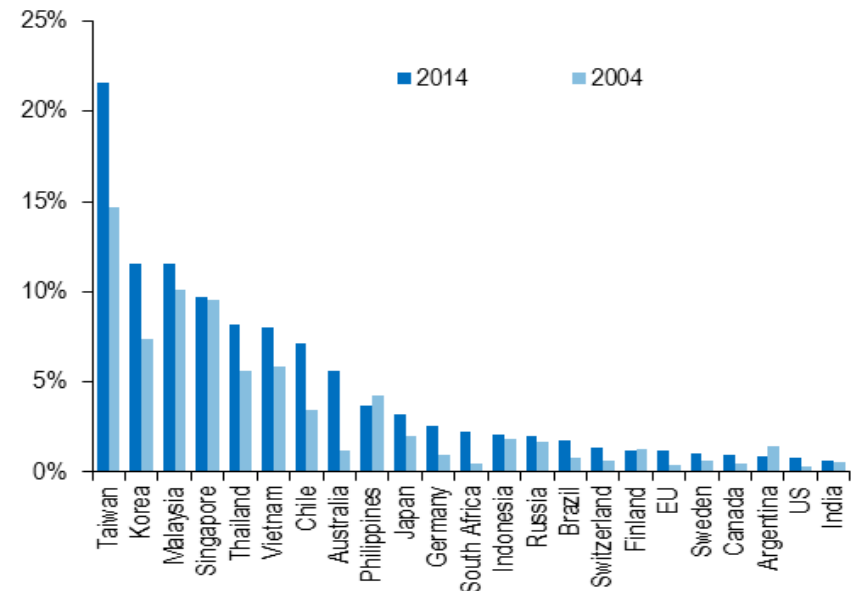
- Trade
- Commodity prices
- Financial linkage
- Market contagion

China is the top export market for many countries

of countries for which China is the top export market

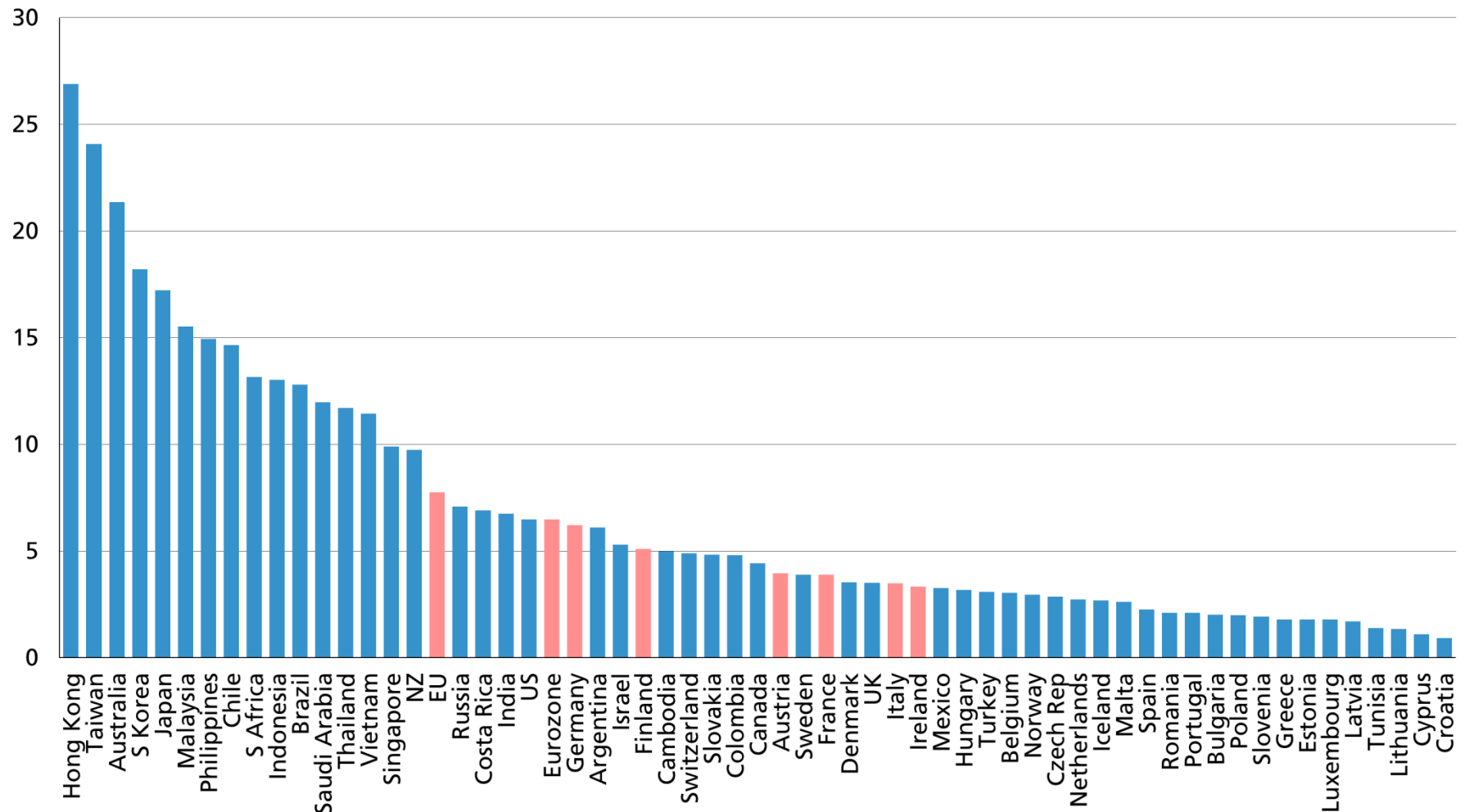


Exports to China as a % of GDP



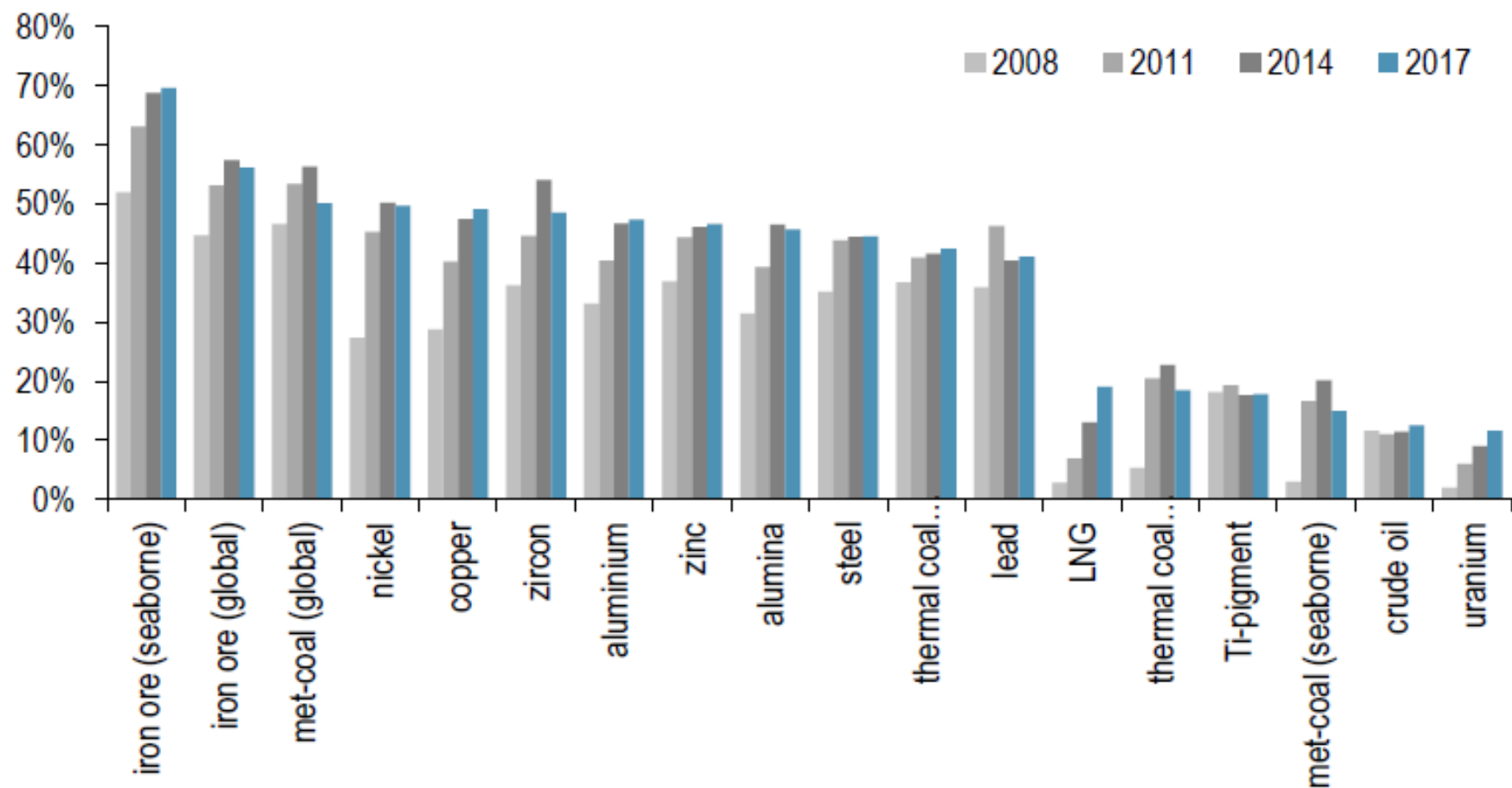
Source: IMF DOT, UBS estimates

Final Eurozone & Global exports to China (% total exports)



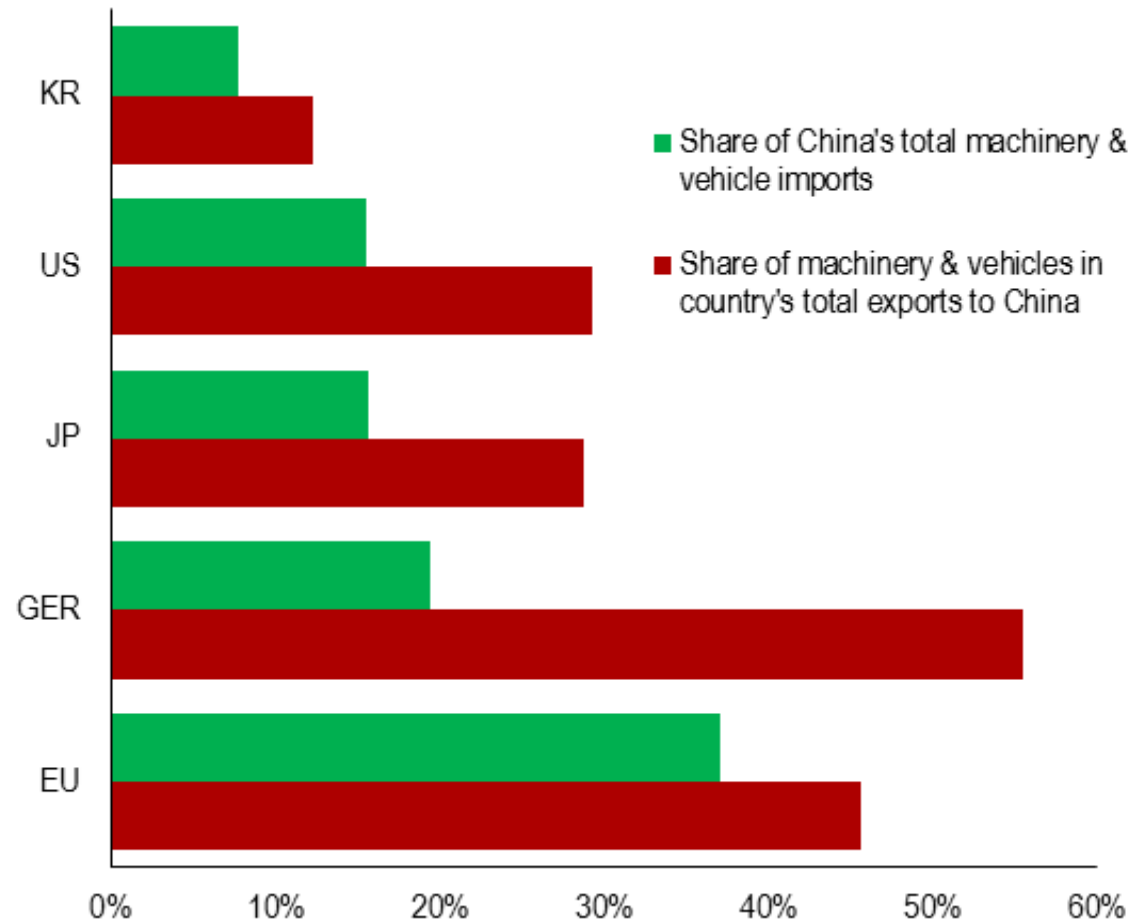
Source: OECD Trade in Value Added (TiVA) 2011 Dataset, latest available June 2015. *Final exports includes indirect trade flows.

China's % share of global commodity demand



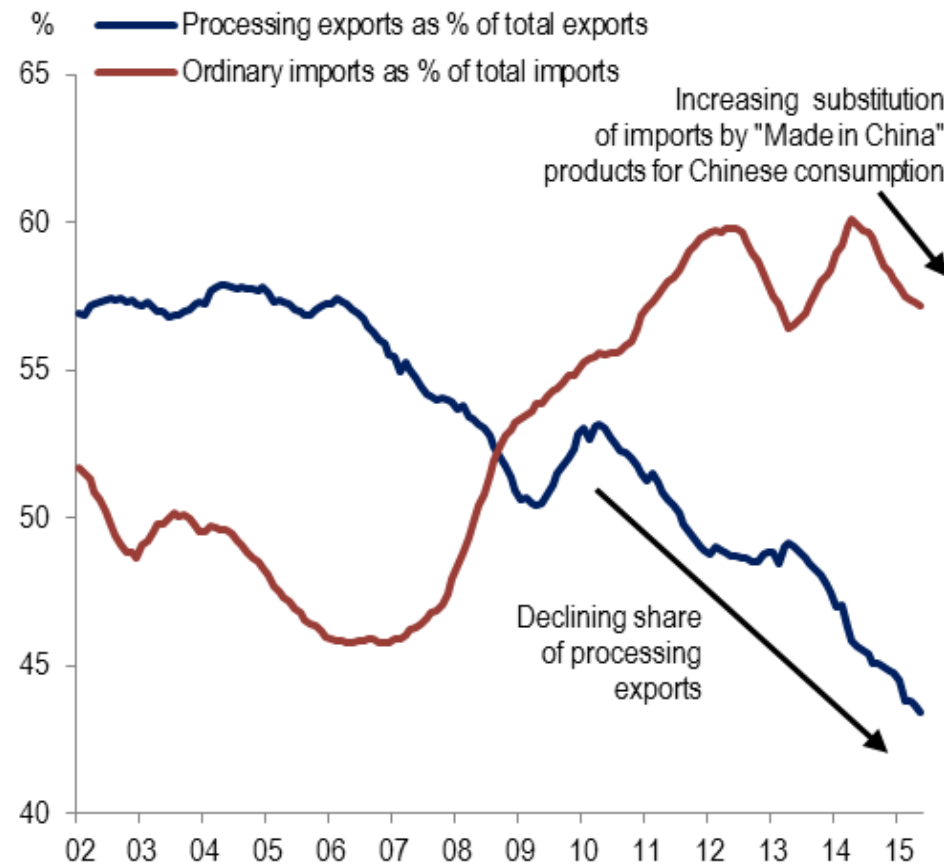
Source: Wood-Mackenzie, WBMS, CRU, McCloskey's, Tex Report, AME, Platts, Bloomberg, UBS estimates

Beyond commodities: developed economies' exposure to Chinese domestic demand



Source: CEIC, UBS estimates

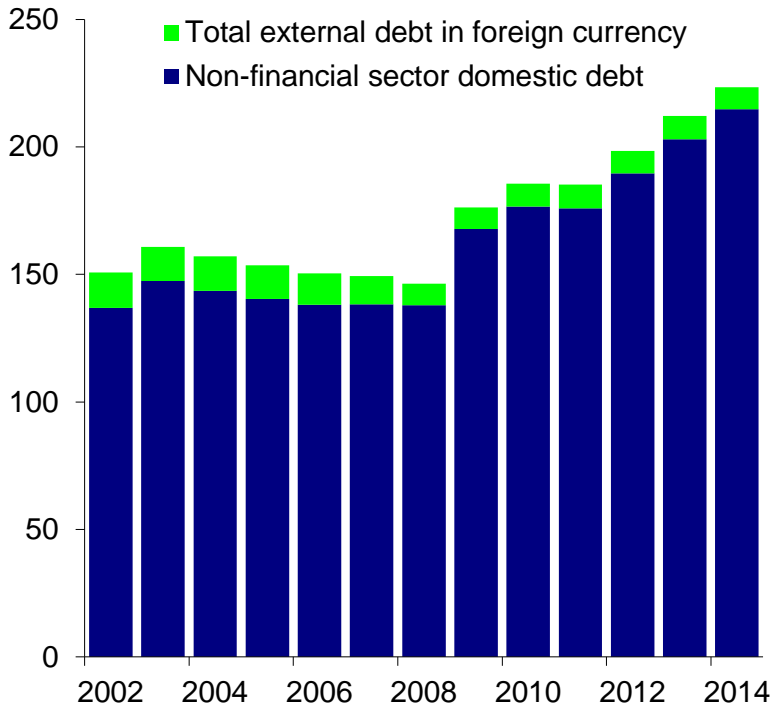
China's own upgrading will also affect global trade pattern



Source: CEIC, UBS estimates

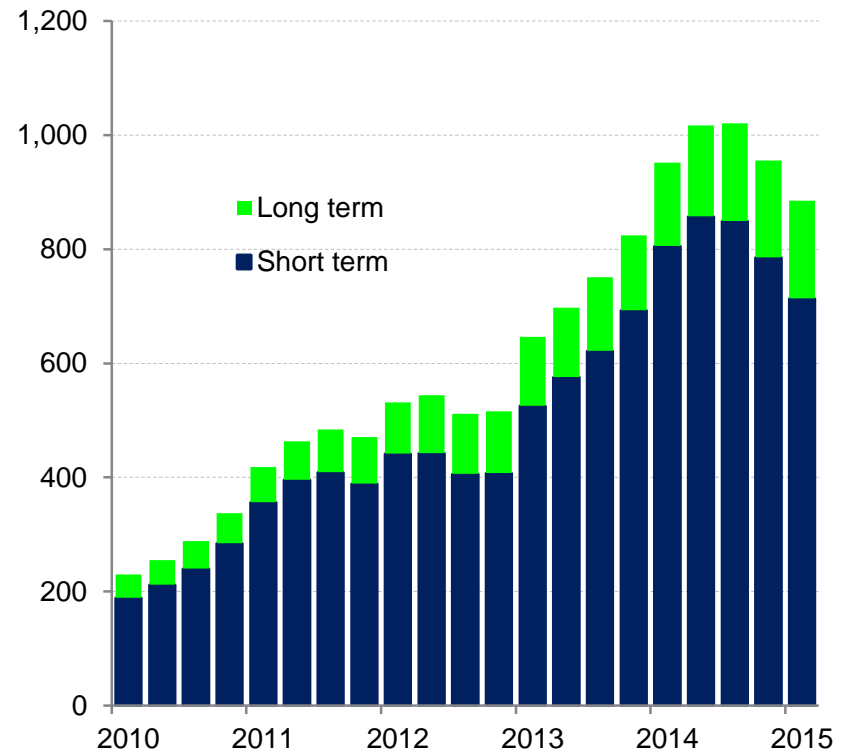
Overseas banking exposure to China

Gross debt (% of GDP)



Source: CEIC, Haver, UBS estimates

BIS reporting banks' international claims on China (USD bn)



Impact of a China hard landing

- Trade linkage and commodities are the main channels of contagion
 - HK, Taiwan, Korea, Asean, Latam, Australia, Japan, EU, US
 - Commodity prices
- Equities: de-rating more important than revenue impact
- Rates: Falling US-Europe yield gap, wider high yield spread
- FX: EM currencies weakens further

China worst case – impact on Asia

Real GDP growth	2015e	2016e	2016e Worst case scenario
China	6.9	6.2	4.0
Hong Kong	2.0	1.0	-3.5
Singapore	1.7	1.5	-2.5
South Korea	2.6	2.4	-1.5
Taiwan	1.1	2.4	-2.5
Malaysia	4.6	4.0	-2.5
Thailand	2.7	3.3	-2.0
Indonesia	4.7	4.9	3.0
Philippines	5.5	5.5	0.0
India	7.1	7.6	4.0
Japan	0.7	1.3	-0.5
Asia ex Japan	5.4	5.1	2.0

Source: CEIC, UBS estimates

China worst case – impact on commodity prices

	2016e Base case scenario	2016e Worst case scenario	Difference
Copper	250	160	-36.0
Aluminum	74	60	-18.9
Nickel	5.5	4.1	-25.5
Gold	1250	1250	0.0
Iron Ore	52	35	-32.7
Thermal	56	38	-32.1

Source: CEIC, UBS estimates

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