**Asia's Day in the Sun**

Looking back at central bank and government actions during 2008/09, the West, led by the US, was very vocal in its monetary and fiscal activities with streams of support packages from TARP to TALF. However, it was the Chinese response Q1 of 2009, that really shook the world, with a package of approximately 3 times that of the US on a GDP ratio basis. Here we are 11 years later and the US has again been very vocal and shot its bullets, with 100bps of rate cuts and a 50-65% equity rally off the lows [note it is mechanically unlikely for these two things to repeat]. With the US alienating many Chinese companies one would be naïve to not expect a Chinese response, and not necessarily a directly adversarial one. As we head into Q4 and 2021, we think the focus should now move to Asia where there is still substantial rates fire power, recovering growth and huge beneficiaries of the emerging reflationary pulse, along with under owned markets and far more inefficiencies and edge to construct trades.

This year has been turbulent but amongst all the noise, there is a familiar ***narrative*** at play, which has been the primary driver of equity prices for the last decade - the pace of liquidity. ***Low and stable rates with massive monetary and fiscal expansion have helped raise many financial asset prices to new highs.*** We at Reminiscent Capital would like to share with investors that ***we are finding growing evidence that a narrative shift is occuring once again***. The significant government support seen, combined with rising stock prices in retail loved names, has helped confidence, and assisted in a demand recovery. Reflationary signs are starting to emerge, and ***that price leadership being seen in DM assets could start to shift towards Asia, and from real assets like gold and silver to reflationary real assets like copper and creditor currencies like the yen***. These themes are not fully appreciated by the market and may have substantial upside.

Whilst the current US political environment may cause uncertainty for a few more months yet, when it does gradually decline, the historical analog shows that investors may start to gain confidence in investing in markets outside of the US once again i.e. EM and in this case likely Asia (otherwise known as going out the risk curve). Combine this with a new declining USD cycle, near record stock market valuation differentials between Asia and the US, extremely low positioning from foreigners in markets like Taiwan and Korea, structural demand from foreigners into Chinese equities and the bond market, plus increasing inflationary forces causing money flows to shift to more value orientated assets, ***all point towards significant upside risk for Asian assets.***

**Reminiscent believes there is a familiar playbook to follow, and is focussing on the following themes:**

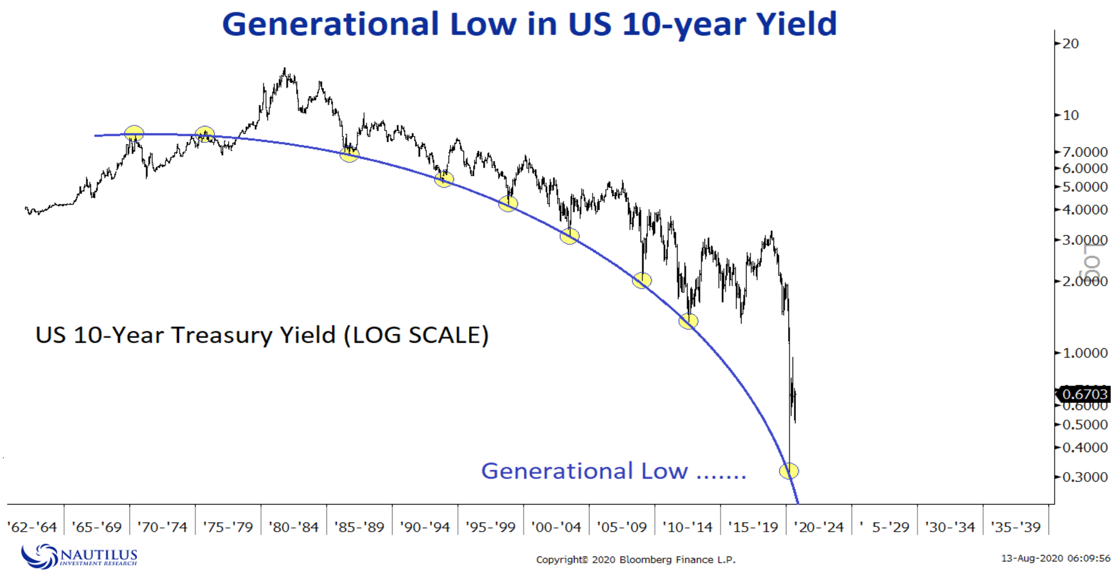
Long China via CSI300, and being paid as much as 8% to do so. Potential relative value vs SPX;

1. Long Japanese Yen;
2. Long AUDUSD and vs the New Zealand Dollar, playing commodity view and also divergence of central bank policies;
3. The ability of Asian central banks to reduce rates further, namely China and India;
4. Long Gold and Copper, as money leaves Fiat we have called it a "Fiat Flee" and reflation for copper;
5. The Nikkei and a foreign positioning led rally, plus increasing support from onshore;
6. The significant underpositioning in Kospi and TWSE, and what could cause a change in the tide.

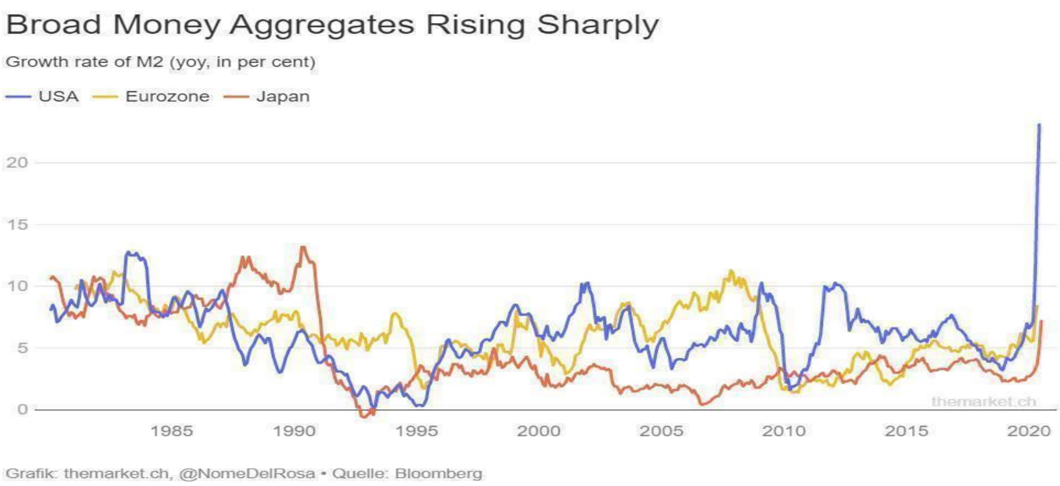
Please see in the following pages a more detailed walk through of how we have come to this conclusion:

## How did we get here?

Low and stable rates with vast money printing and record fiscal stimulus, combined with a new Fed policy of "rear-view inflation targeting".



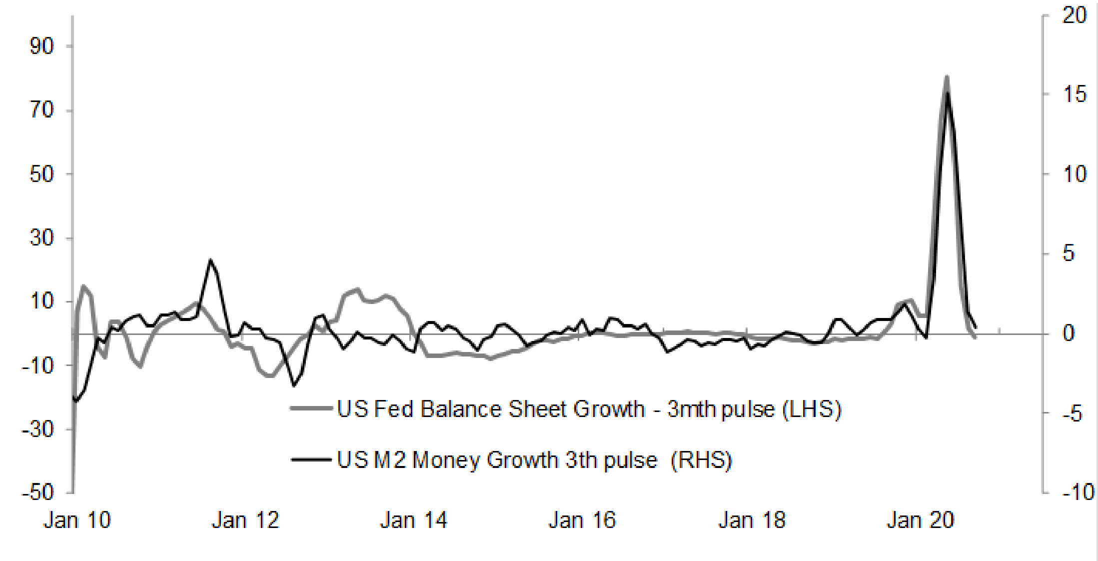

*Source: Nautilus Investment Research*




*Source: themarket.ch, Bloomberg*

**Is there evidence emerging of a CHANGE in narrative emerging? Yes**

When looking at balance sheet growth, one can observe the money pulse is starting to flatten out.



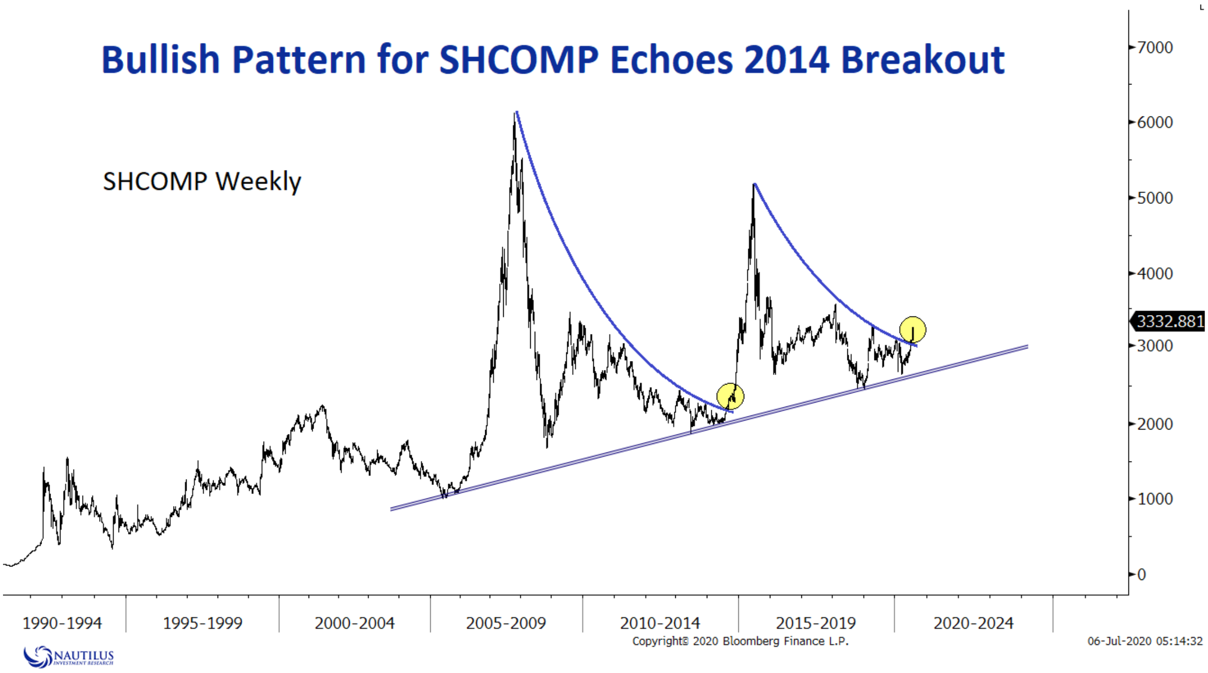

*Source: ANZ*

Chinese internal economic data has not only shown continued signs of recovery and its external data is also rebounding sharply:

Shanghai Freight Making New highs:


*Source: ADMACRO*

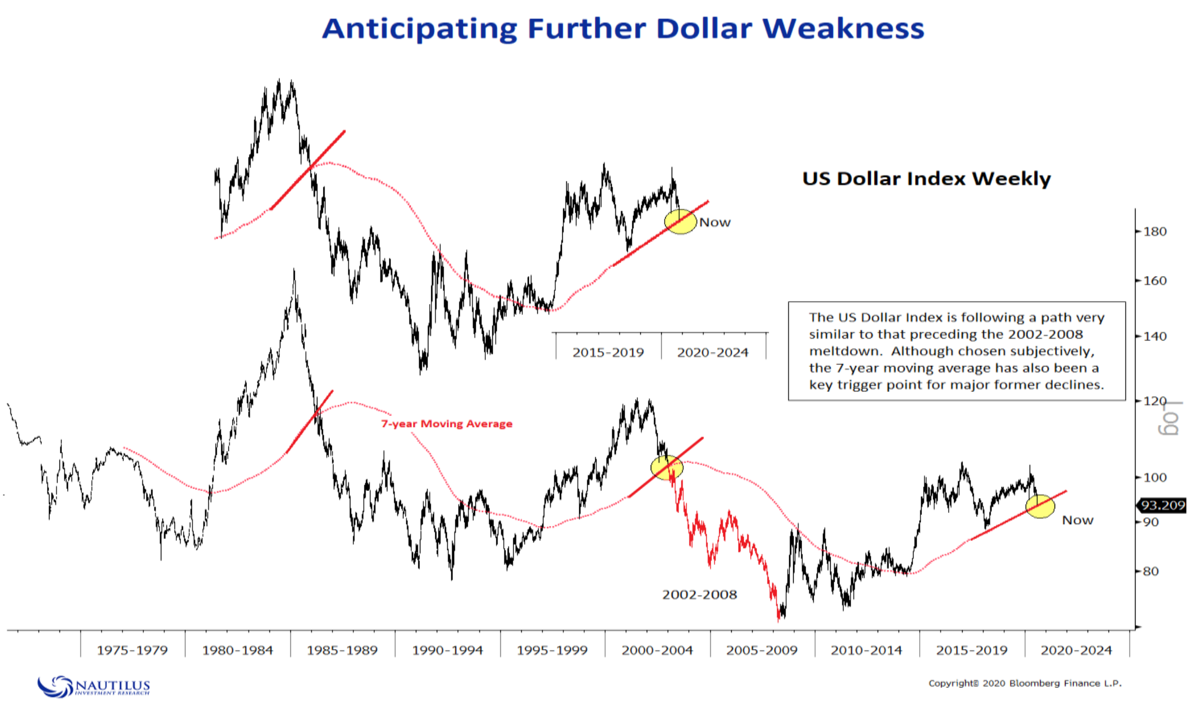
The Chinese have steadily increased social financing but have not flexed their financial muscle yet and with the upcoming plenum, along with a massive 300bp of rates firepower, plus a potential 1.2trillion inflow in coming years from the MSCI bond index inclusion, it is time to focus on the Chinese Equity market. Price action is starting to be reminiscent of the past, and we are paying attention. Combined with broadly supportive policy from the government, plus an increasing lack of alternatives for onshore investors given where bank deposit rates are and the ongoing government efforts to curb property speculation, we think mainland interest will continue to grow.


*Source: Nautilus Investment Research*

*…Dr Copper is also giving its approval of reflation demand:*

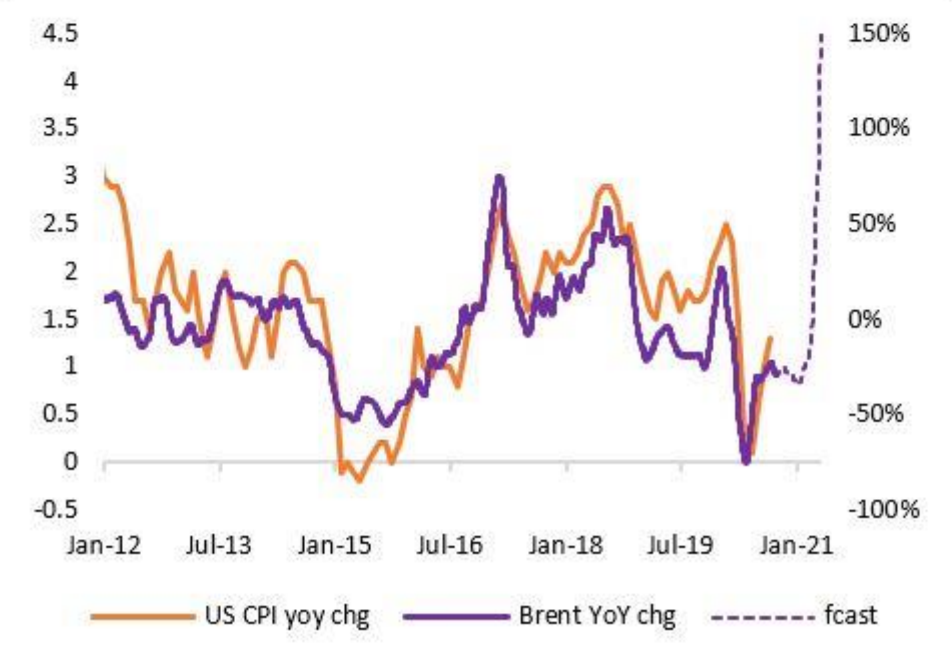

*… which is likely assisted by a weaker USD*




*Source: Nautilus Investment Research*

**And Oil !**

Chart 7: Oil base effects will make 2021 a reflationary year




*Source: Bloomberg, Vanda*

… ***which when comparing to the historical analogue, paints a compelling picture for Asia equities and FX***

MSCI EM and Asian Dollar index.


*Source: Bloomberg*

*… **and it's a positive when smart investors are buying into the broader reflationary theme:***

When Mr Buffet buys Japanese Holding Companies with large exposures to Resources, and we see a significant copper breakout, plus record flooding of liquidity from monetary and fiscal, it has the hallmarks of a move in capital in coming quarters from deflation themes to inflation linked.

*….**which is also starting to show up in reflationary currencies like AUD***


***…. All of which points to the question, 'are we going to see significant inflows to the region when confidence starts to return? We think the odds are skewed to YES'***

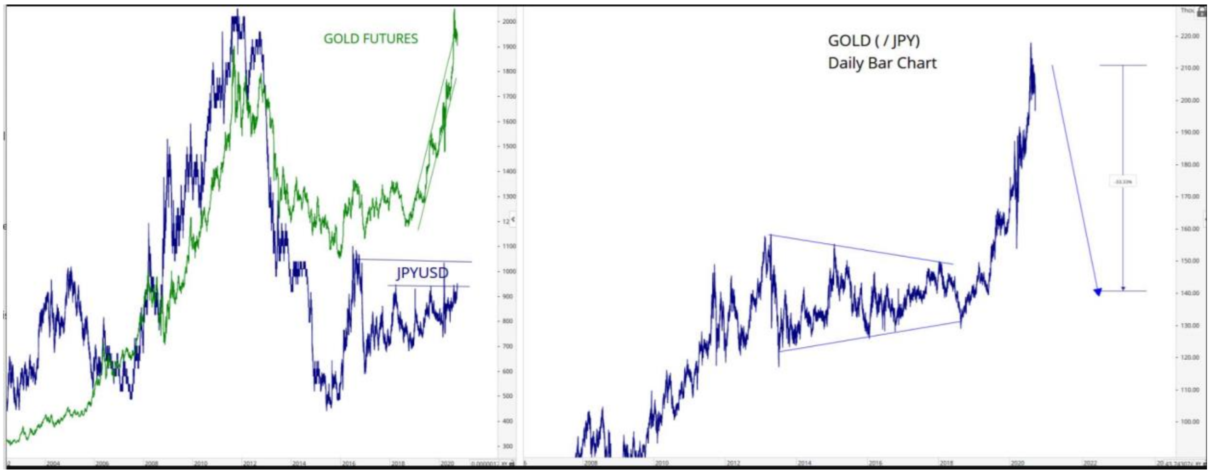
Equity Flows: Some of the heaviest outflows seen in a decade this year in several Asian equity markets

| Country | Date | Daily | WTD | MTD | QTD | YTD | 12M |
|---|---|---|---|---|---|---|---|
| Asia | | Mln | Mln | Mln | Mln | Mln | Mln |
| China | 06/30 | | | 39,589.7 | 78,032.7 | 47,048.8 | 108,063.8 |
| India | 09/23 | -527.3 | -807.4 | 4.5 | 7,253.3 | 4,811.8 | 12,370.4 |
| Indonesia | 09/24 | -33.5 | -112.9 | -898.7 | -1,744.4 | -2,783.0 | -3,002.4 |
| Japan | 09/11 | | -8,440.1 | -8,330.9 | -14,745.0 | -80,837.4 | -54,361.4 |
| Malaysia | 09/24 | 10.1 | -54.7 | -315.0 | -1,271.9 | -5,062.3 | -5,890.6 |
| Philippines | 09/24 | -6.0 | -32.9 | -232.3 | -617.5 | -1,943.3 | -2,352.7 |
| S. Korea | 09/24 | -195.7 | -414.5 | -872.4 | -2,442.4 | -24,122.1 | -26,416.5 |
| Sri Lanka | 09/24 | -2.8 | -6.2 | -32.8 | -91.4 | -203.0 | -252.8 |
| Taiwan | 09/24 | -1,530.0 | -2,489.1 | -1,926.9 | -3,840.8 | -22,682.3 | -15,512.3 |
| Thailand | 09/24 | -40.6 | -174.6 | -498.3 | -1,708.3 | -8,508.1 | -9,926.7 |
| Vietnam | 09/24 | -5.4 | 3.1 | 116.8 | -61.9 | -163.6 | -346.6 |

*Source: Bloomberg*

The ongoing 'Fiat Flee' should be supportive for real assets like gold and creditor currencies like the Yen with a relative leadership being taken by the yen as a strong possibility.

That relative leadership is nowhere near priced !




*Source: TAG*

We look forward to sharing specific implementation methods and thoughts with investors and encourage you to reach out to us and the Pinnacle distribution team.

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