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Six Minute Strategy

Lessons from Down Under

October 2022

If you are a private investor, you should not act or rely on this document but should contact your professional advisor.



Australia - a financially robust sovereign nation

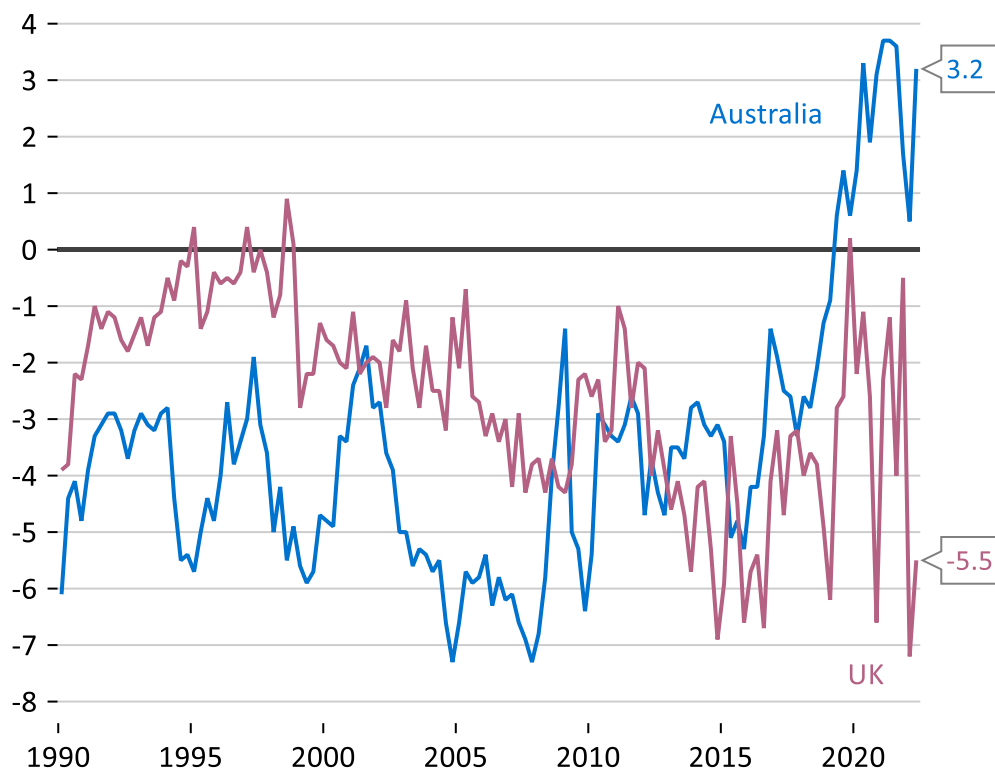


Australian current account improves while UK deteriorates



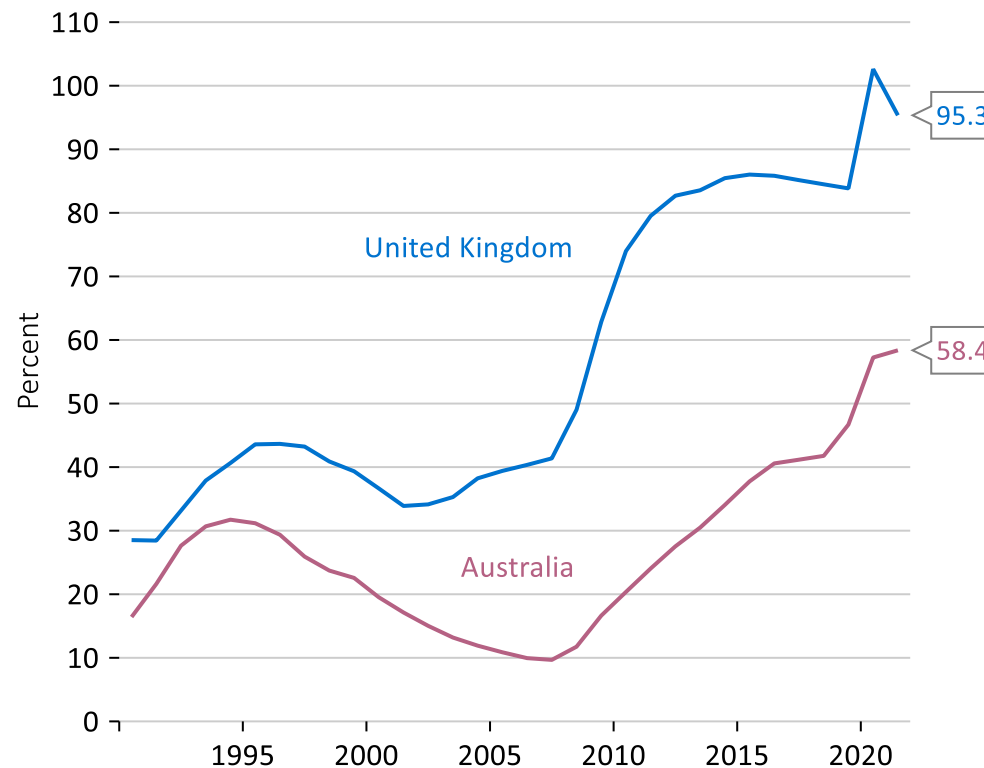
Debt to GDP ratio UK and Australia widens

Current Account as % of GDP



Source: Macrobond, 20.10.22

Government Debt to GDP (IMF)



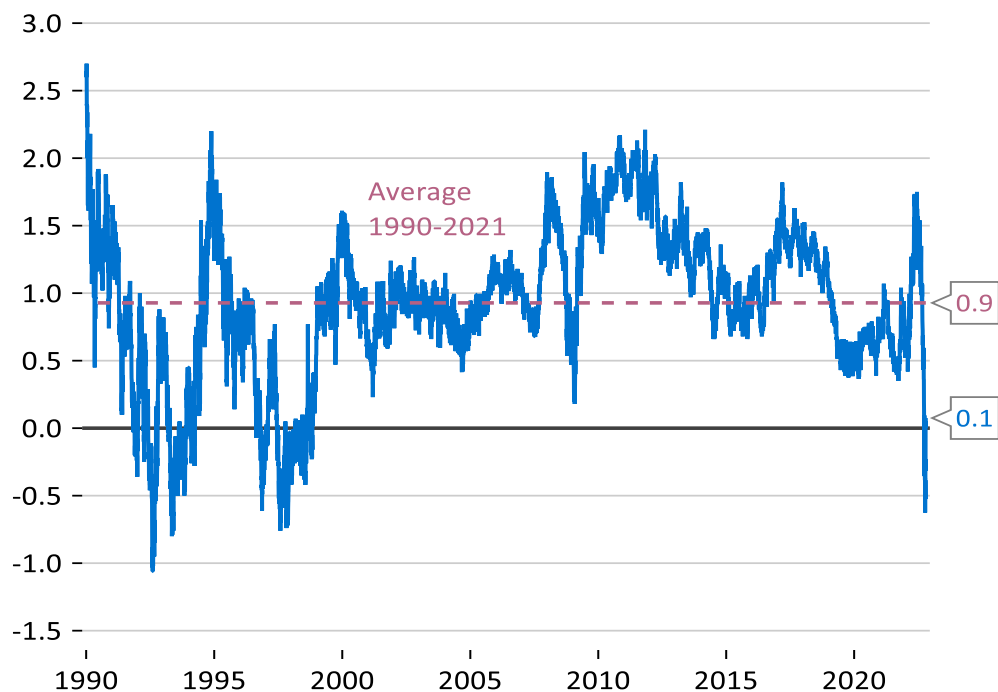
Source: Macrobond, 20.10.22

Australian govt bond have historically traded at a 1pp discount to the UK but recently narrowed and briefly traded at a premium



Australia - UK Govt bond spread narrows sharply

Australia-United Kingdom, 10 Year Government Bond Spread



Source: Macrobond, 20.10.22

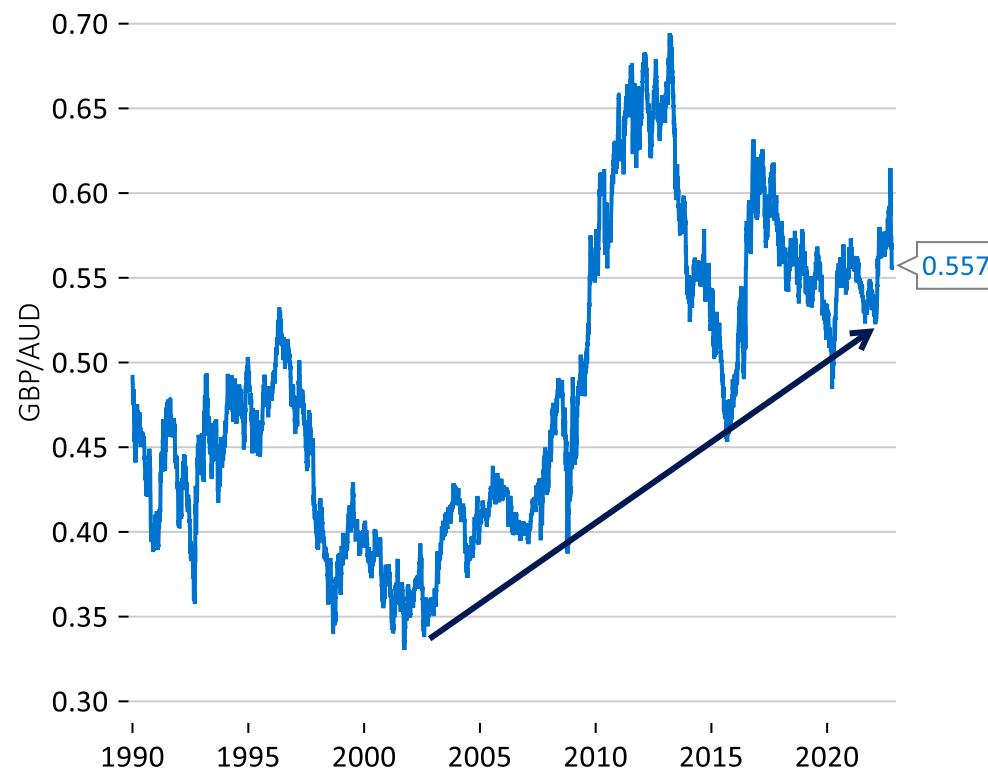
Australian Govt Bond Rating AAA

UK Government Bond Rating AA- (on negative watch)



Steady appreciation of Australian dollar vs GBP

GBP per AUD, FX Spot Rates



Source: Macrobond, 20.10.22

1. Budget U-turn - Start of a journey to UK fiscal credibility



Jeremy Hunt scrapped plans to cut taxes and reduced energy price subsidy period



UK medium-term fiscal plan - Oct 17 2022

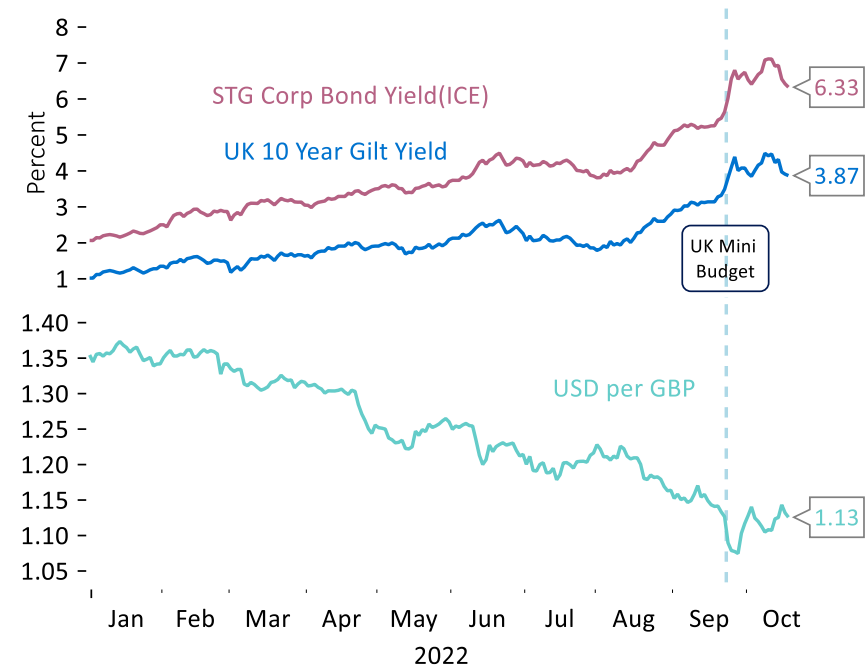
Policy (£bn)	2022-23	2023-24	2024-25	2025-26	2026-27
Re-instate plans to raise Corporation Tax to 25% from April 2023	+2.3	+12.4	+16.6	+17.6	+18.7
Suspend 1p reduction in the basic rate of income tax	0	+5.3	+5.9	+5.8	+5.9
Maintain additional rate of income tax	+2.4	-0.6	+0.8	+2.2	+2.1
Maintain 1.25 percentage point increase in dividends tax rates	0	+1.4	-1.0	+1.1	+0.9
Maintain 2017 and 2021 reforms to off-payroll working rules (also known as IR35)	0	+1.1	+1.4	+1.7	+2.0
Cancel VAT-free shopping scheme for non-UK visitors to Great Britain	0	0	+1.3	+2.0	+2.1
Cancel one year freeze to alcohol duty rates	+0.1	+0.5	+0.6	+0.6	+0.6
Total	+4.7	+20.1	+25.4	+30.9	+32.3

Source: HM Treasury, 17.10.22



UK financial indicators begin to stabilise

UK 10Y Gilt & Corporate Bond Yields & Sterling



Source: Macrobond, 20.10.22

‘No government can control markets, but every government can give certainty about the sustainability of public finances’

Chancellor Jeremy Hunt, 17 Oct 2022

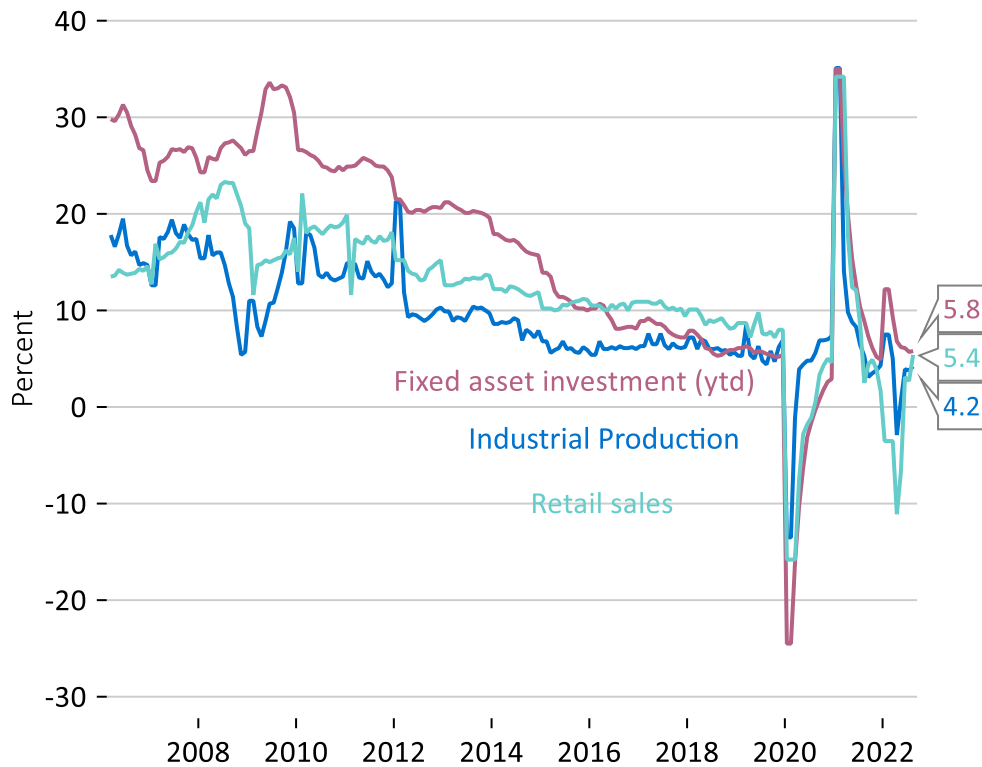
2. China growth challenged by lockdowns, energy and property

Chinese growth stalls – COVID restrictions, energy restrictions, property market



Chinese economy remains weak

Chinese Economic Data



Source: Macrobond, 20.10.22

“Slowing global demand poses downside risks to China’s strong exports, while consumers remain cautious of the property market”

Rio Tinto PLC Oct 2022 Q3 earnings report

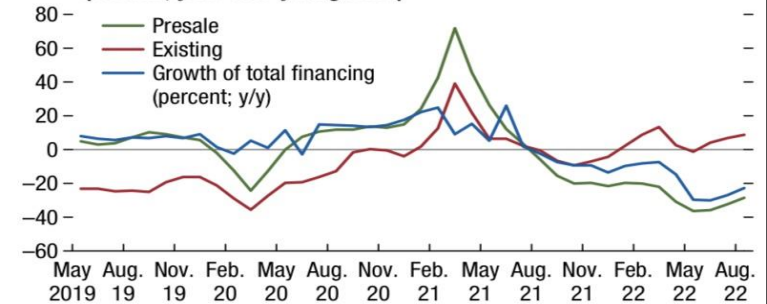


China housing risks could spread to the banking sector

Figure 1.16. China: Property Sector

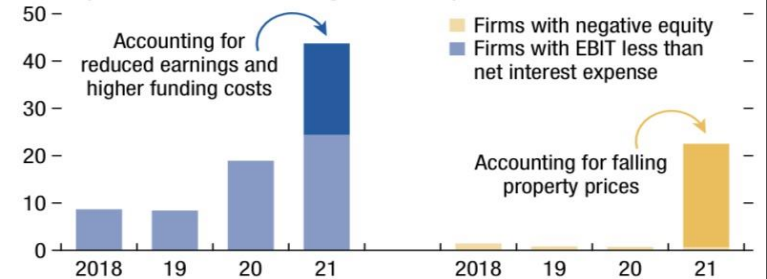
A key source of funding for property developers has dried up with the collapse in sales of presold homes during COVID-19 lockdowns.

1. Residential Real Estate Sales and Financing of Real Estate Investment (Percent, year-over-year growth)



Some property developers lack sustainable debt-servicing capacity and/or face solvency risk.

3. Real Estate Firms: Share of Firms at Risk (Percent of total risk-weighted assets)



High defaults and low recoveries on presold property mortgages could significantly impair bank capital ...

Source: IMF Global Financial Stability Report Oct 2022

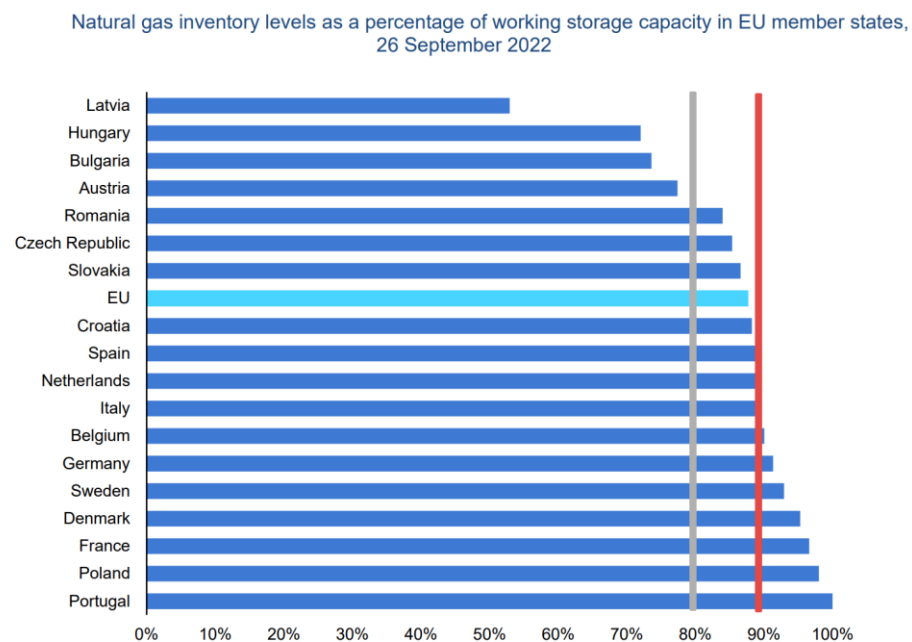
3. An orderly phase out of Russian gas in Europe is really possible

Longer term measures can be aligned with EU climate ambitions



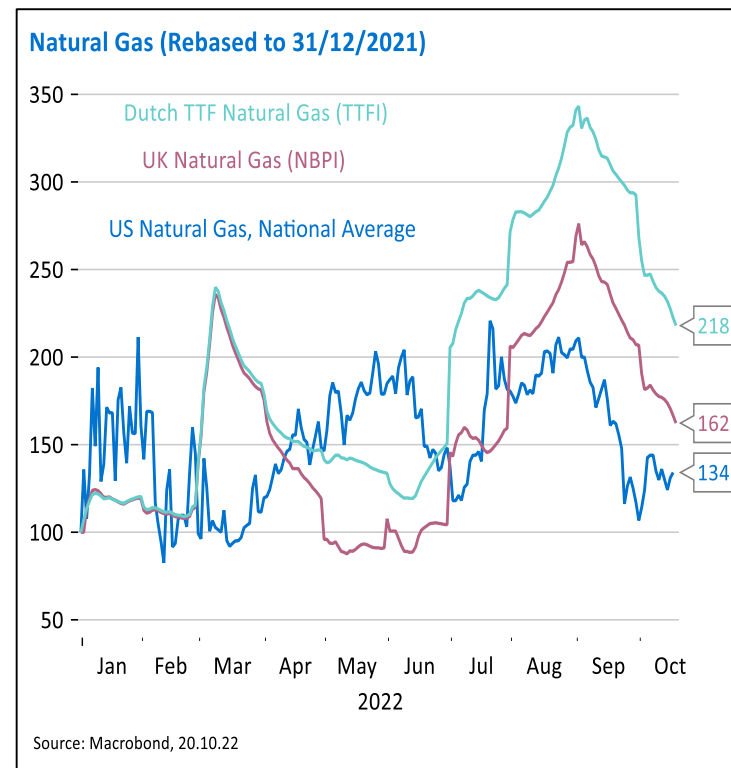
Measures to implement an accelerated and orderly phase out of Russian gas are lowering prices

EU gas inventory levels stood at 87% of their working storage capacity on 26 September 2022



Source: IEA analysis based on GIE (2022), [Aggregated Gas Storage Inventory](#).

IEA. CC BY 4.0



Source: Macrobond, 20.10.22

The share of Russian pipeline gas to the EU has already fallen from 40% pre-Ukraine War to 9% today.

Source: Ursula von der Leyen EU Sept 7 2022

Source: IEA Gas Market Report Q4 2022

Important information

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