



RBC Global
Asset Management

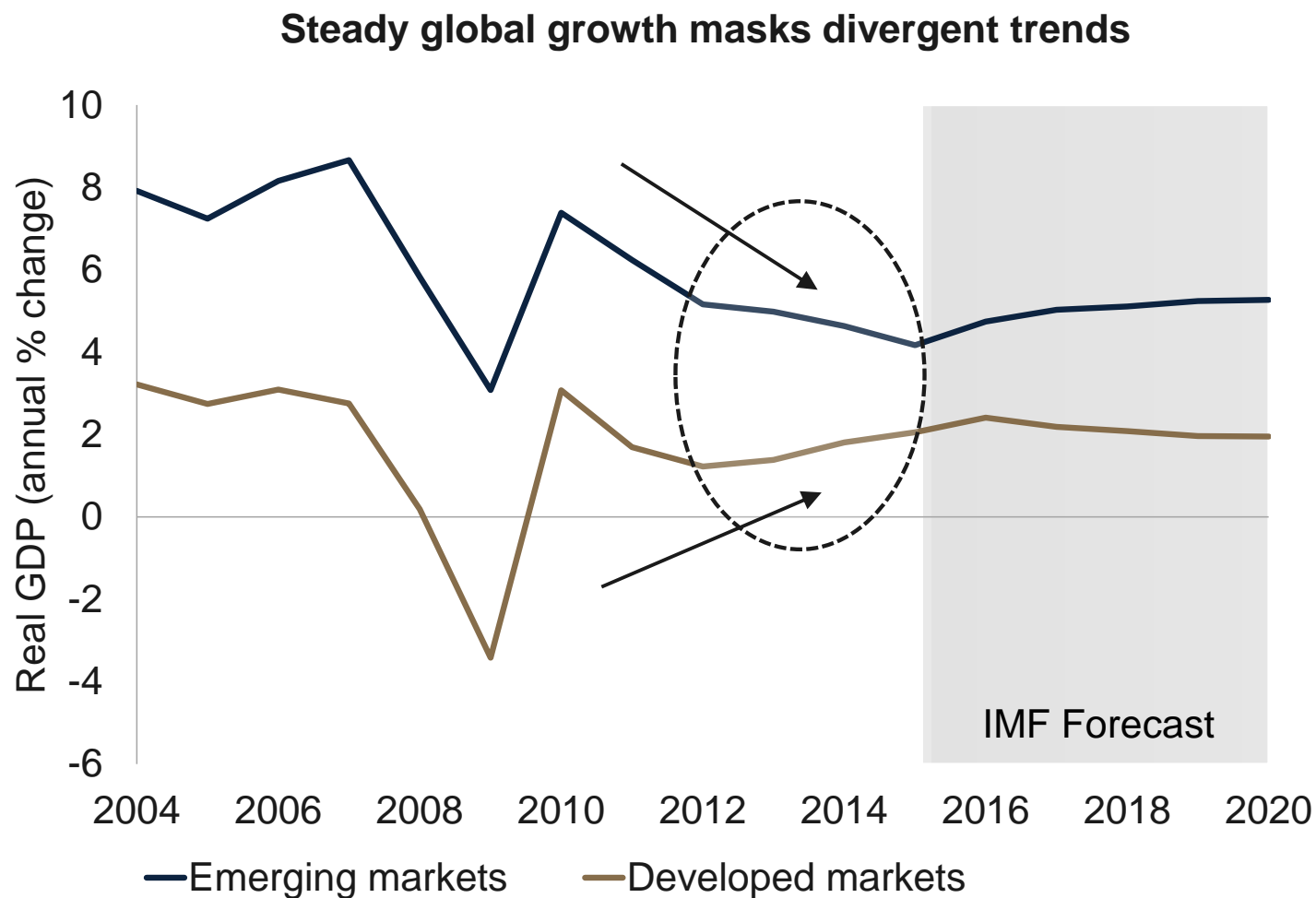


Oil, China and the Economic Outlook

September 2015

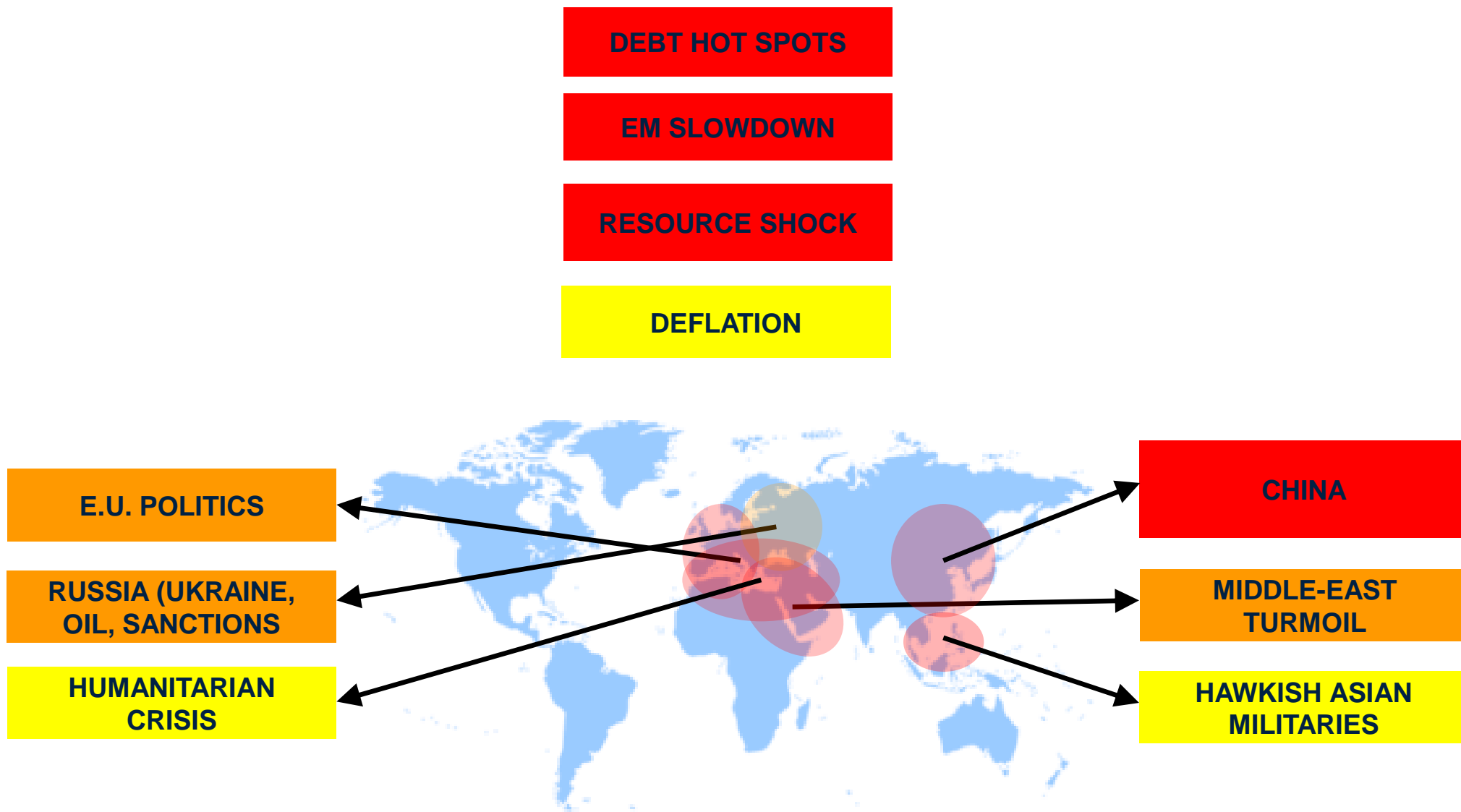
Presented by:
Eric Lascelles, Chief Economist

Global growth: Improving DM, Worsening EM



Source: IMF, Haver Analytics, RBC GAM

Substantial downside risks



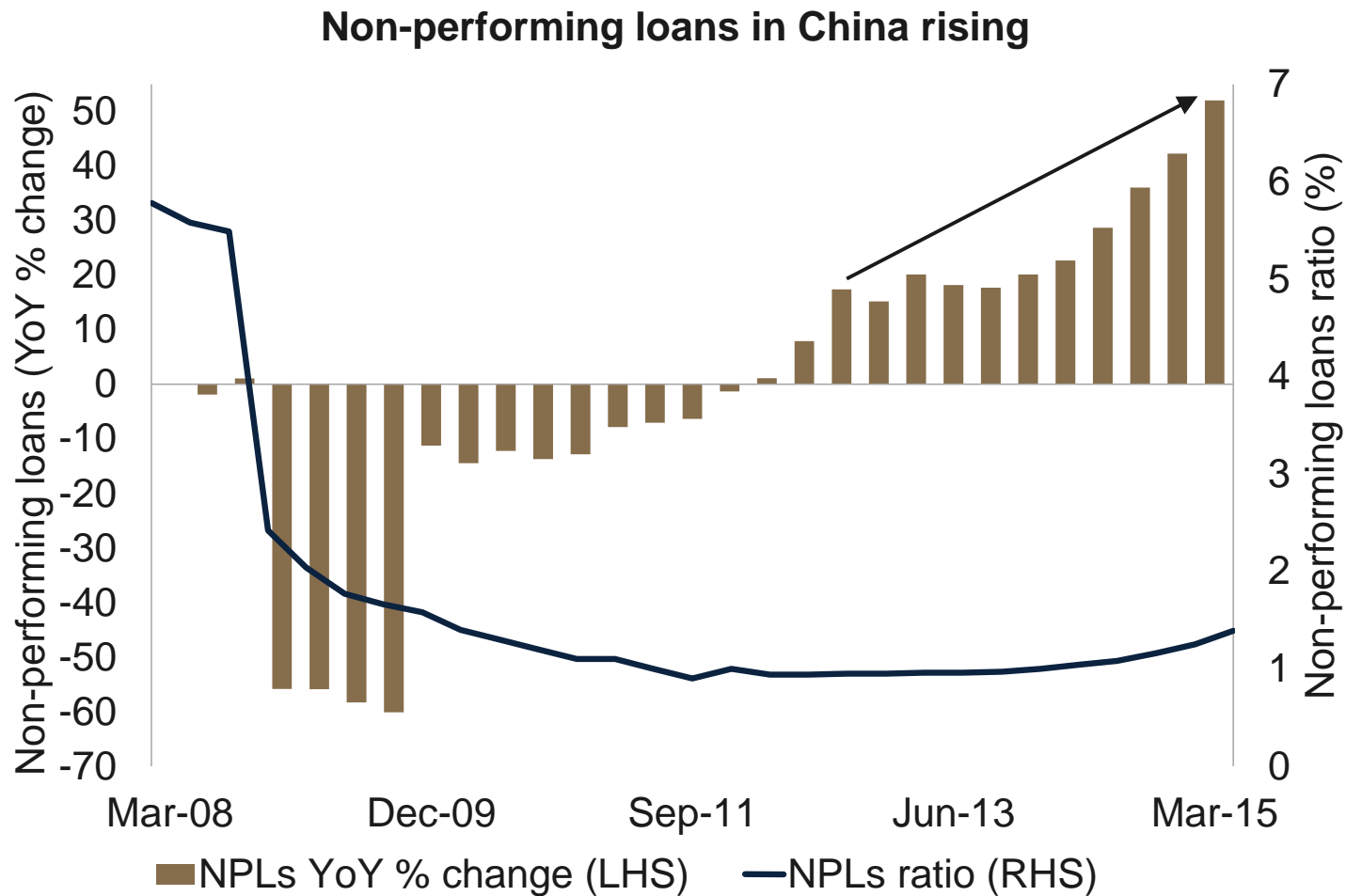
Source: RBC GAM

Four Chinese complications, two overrated



Source: RBC GAM

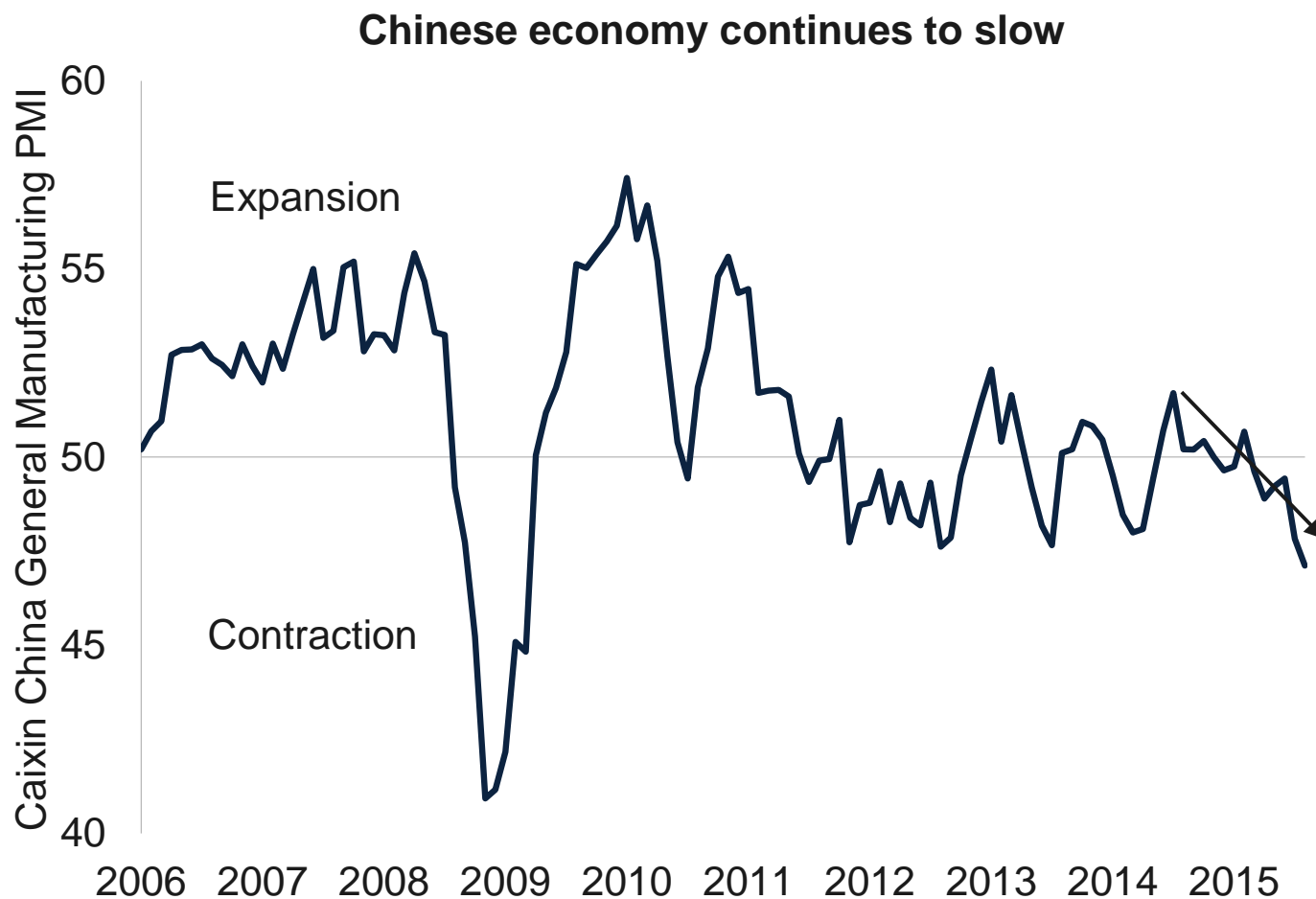
Rapid growth in China non-performing loans a concern



Note: Non-performing loans (NPLs) of commercial banks.

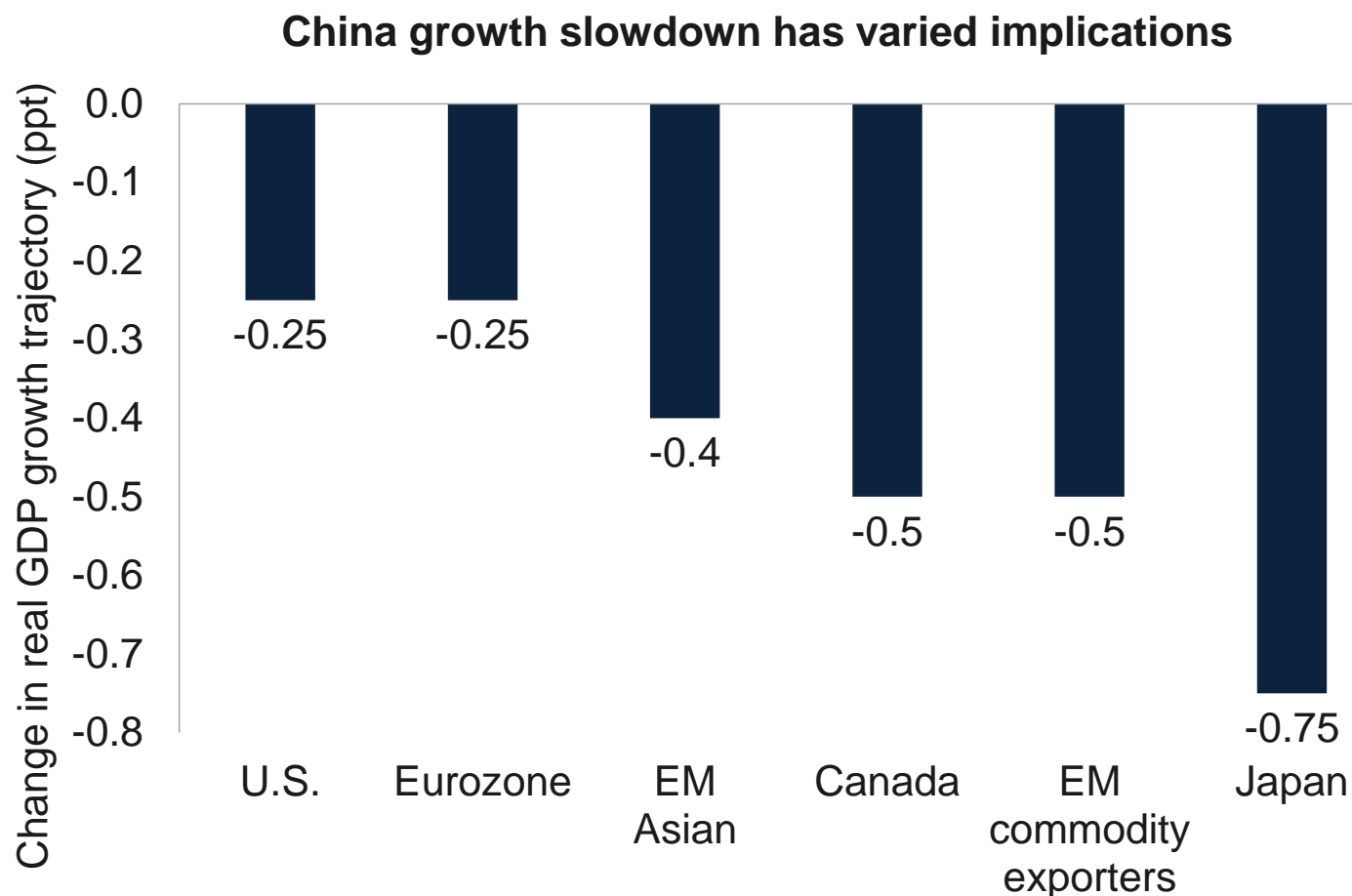
Source: China Banking Regulatory Commission, Haver Analytics, RBC GAM

China experiencing turbulence on way to soft (slower) landing



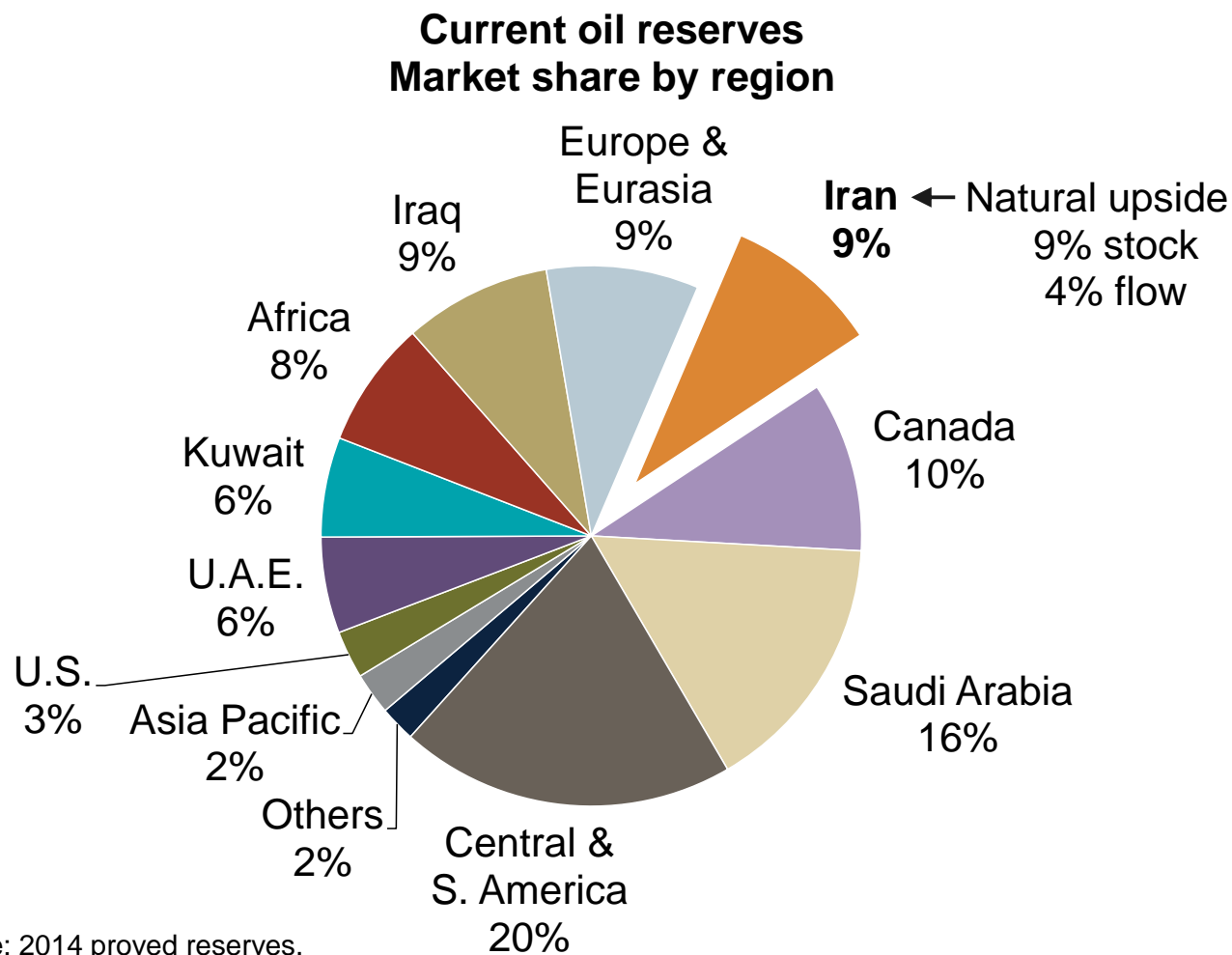
Note: PMI refers to Purchasing Managers Index, a measure of economic activities.
Source: Caixin, Markit, Haver Analytics, RBC GAM

China's contagion effect on other countries

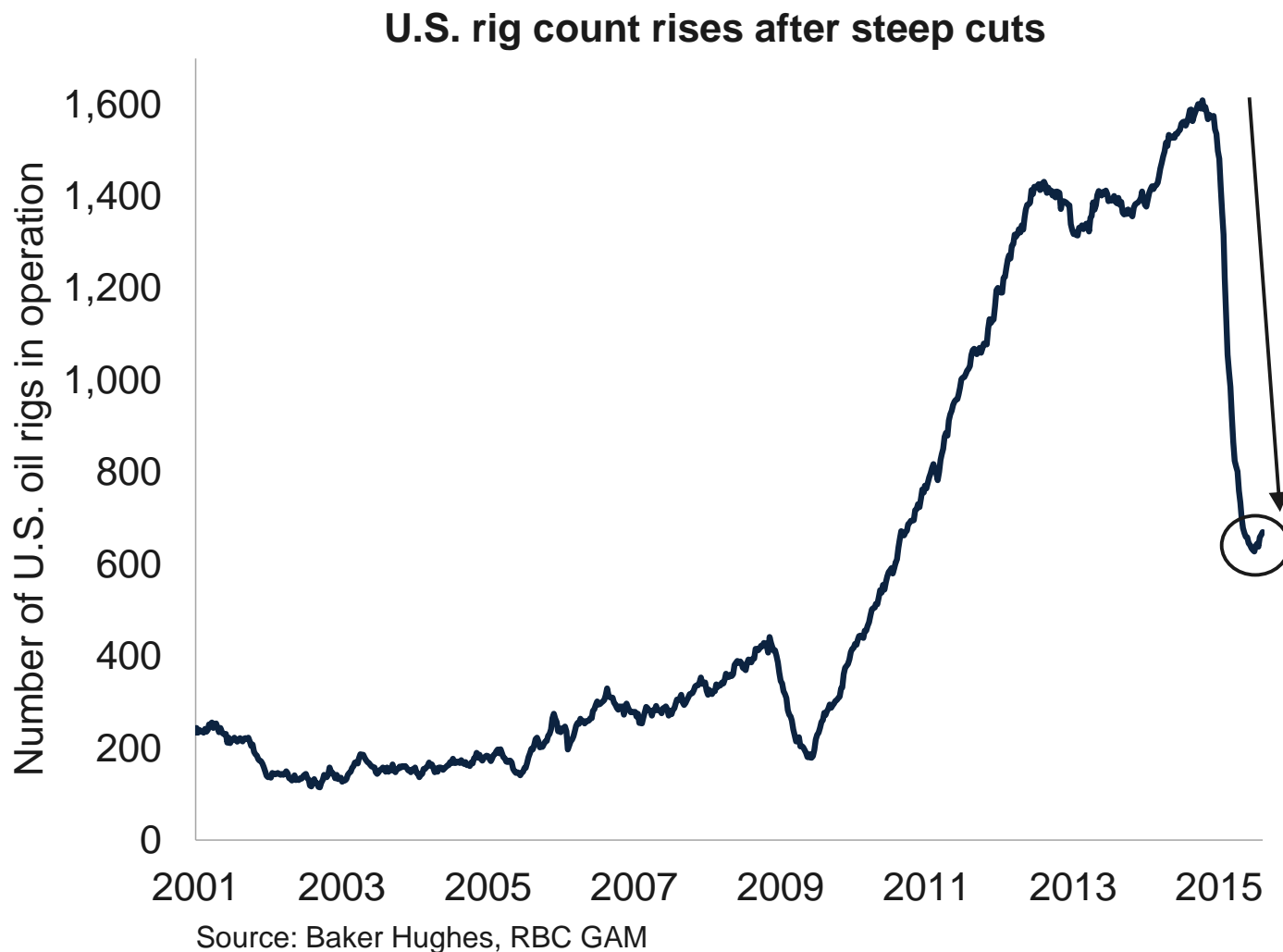


Note: Impact of 1 ppt reduction in China GDP on real GDP growth over subsequent year. Brazil is used as a proxy for EM commodity exporters. India is used as a proxy for EM Asian countries. Source: IMF, RBC GAM

Iranian oil production set to rise as sanctions are lifted

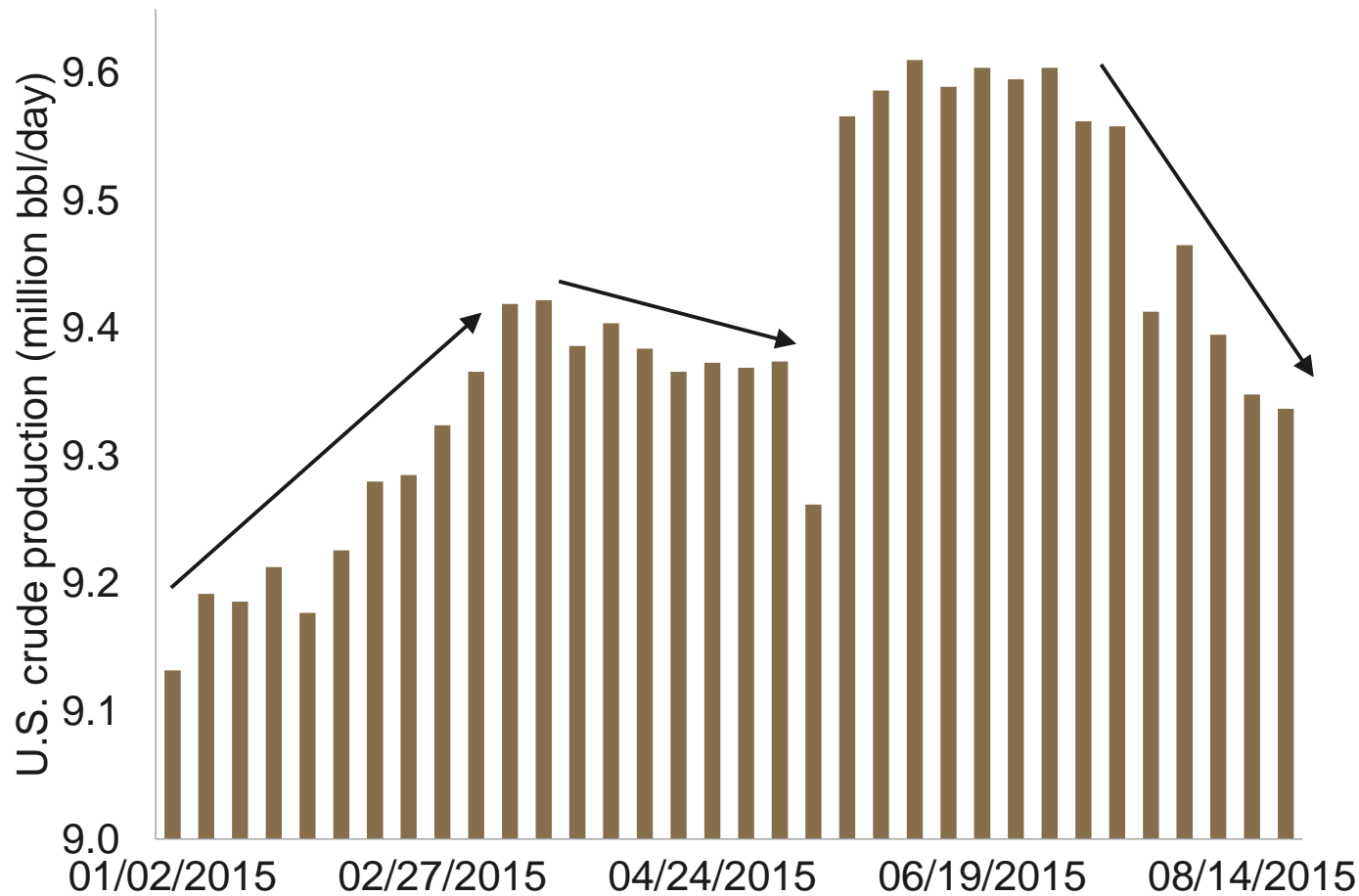


U.S. oil exploration no longer falling



U.S. crude production finally starting to turn

U.S. crude oil production trending down

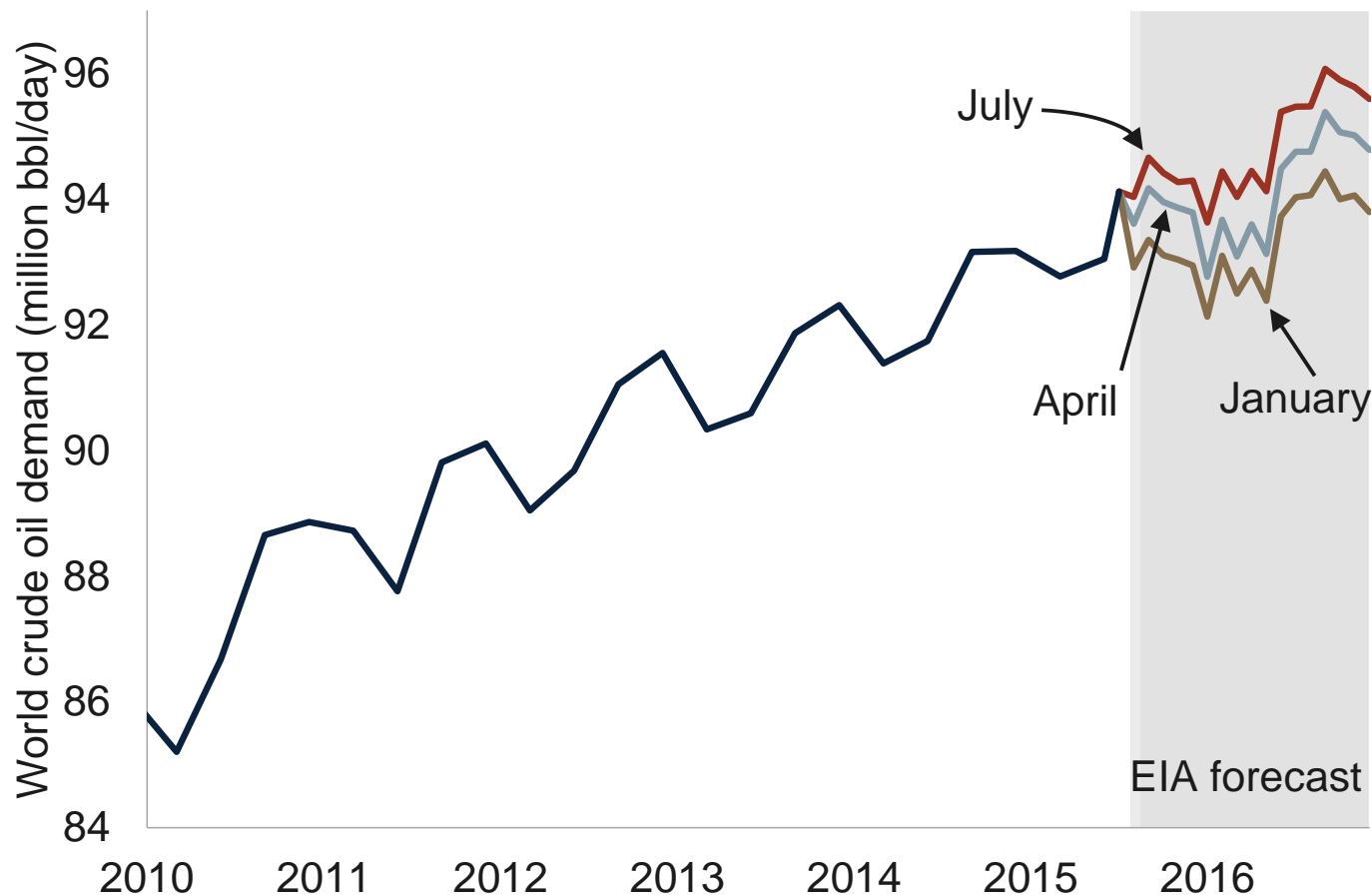


Source: EIA, Haver Analytics, RBC GAM



Global oil demand forecasts continue to rise

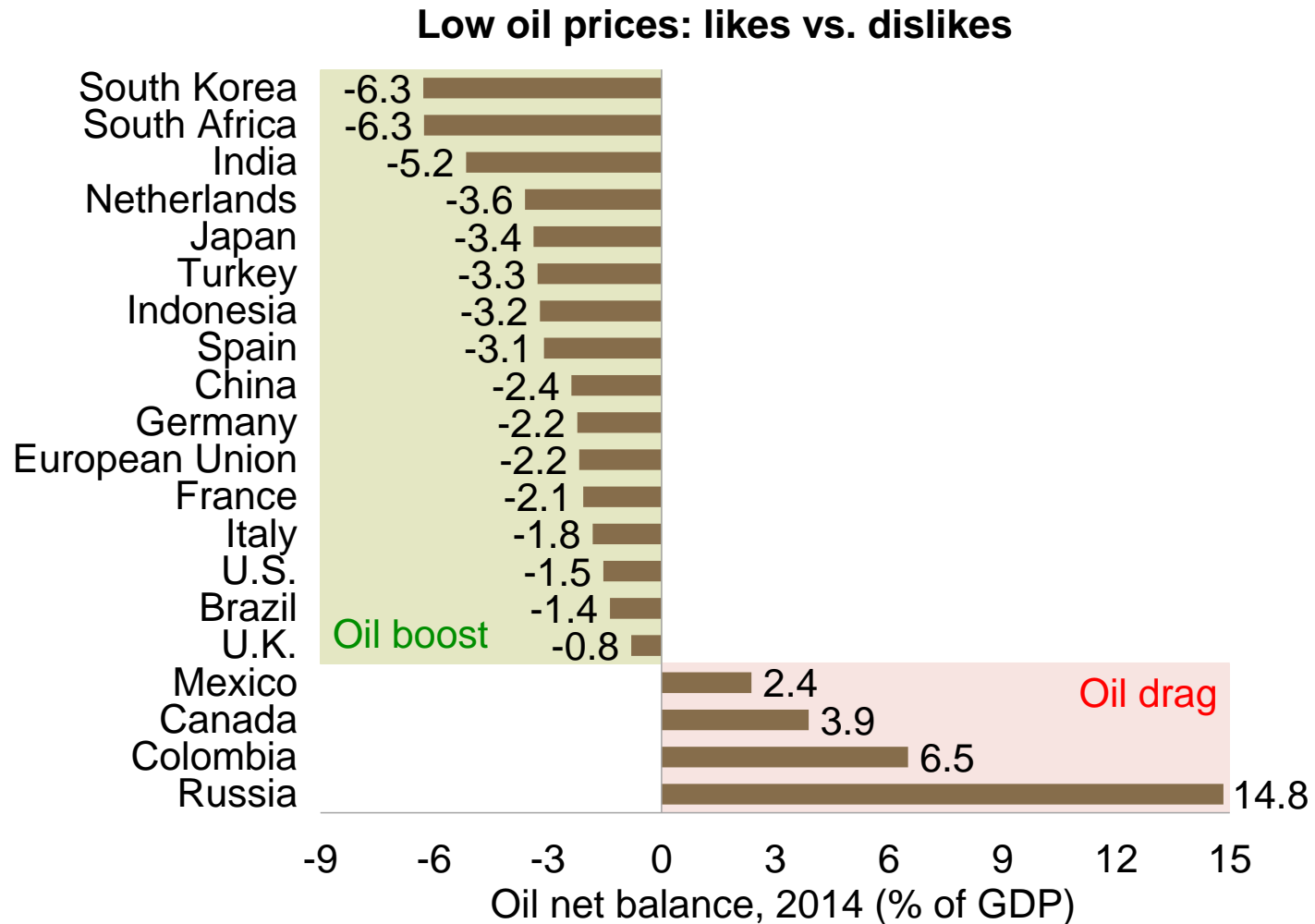
World oil demand forecasts revised upward



Source: EIA, Bloomberg, RBC GAM



Low oil winners and losers



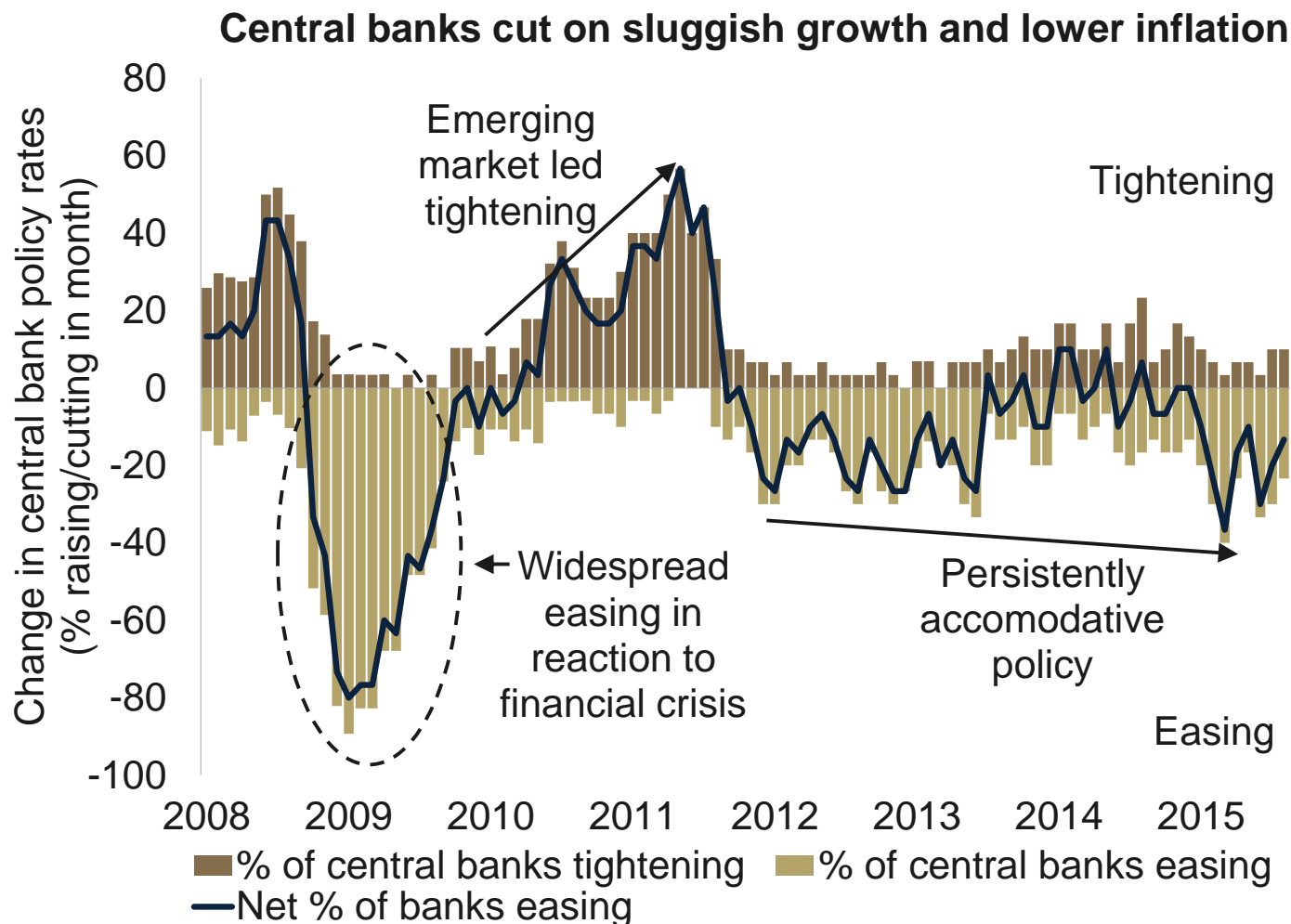
Source: BP Statistical Review of World Energy 2015, Haver Analytics, RBC GAM

Inflation to remain weak given latest commodity turn



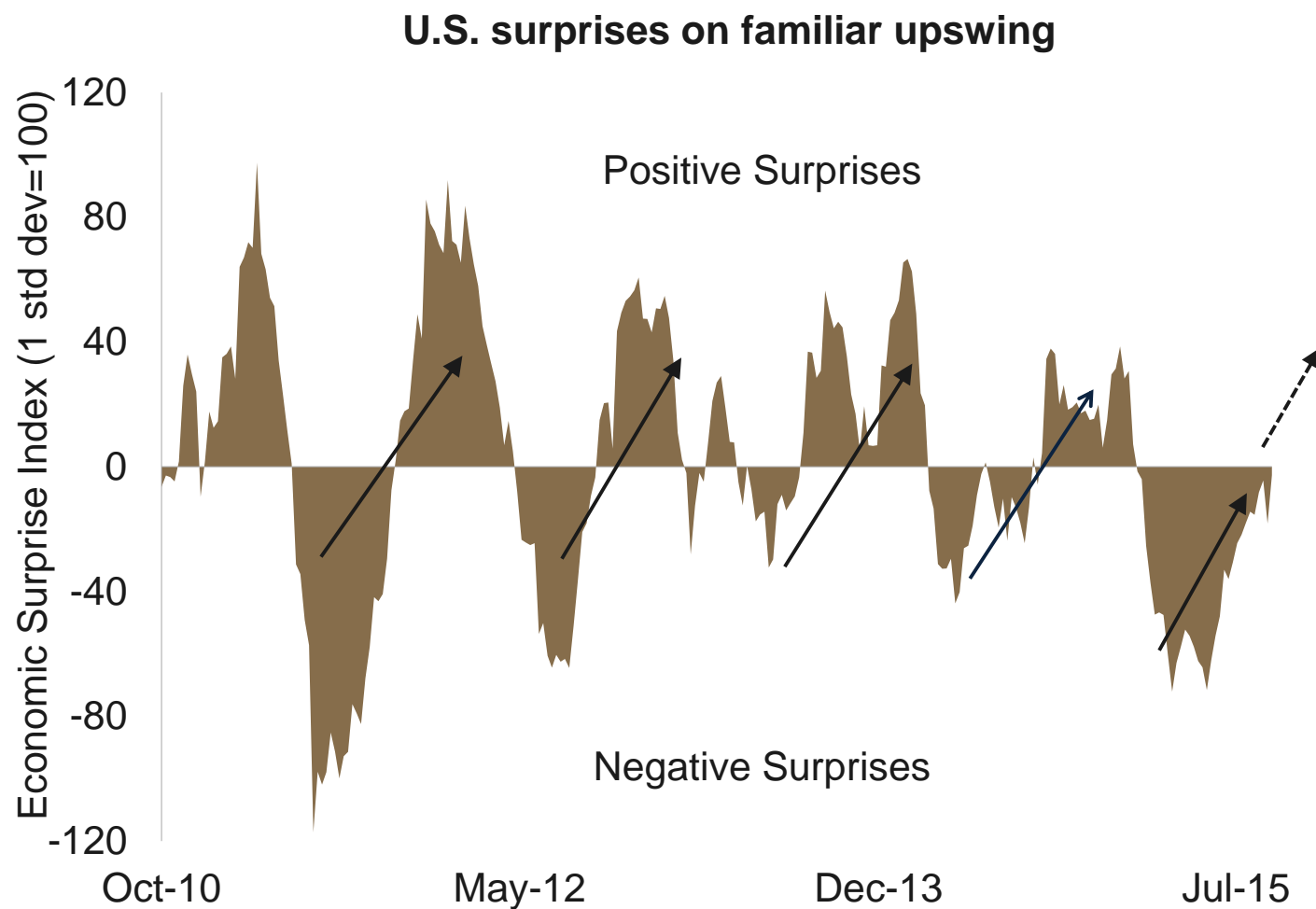
Source: Bloomberg, RBC GAM

Easy money era could rev up again



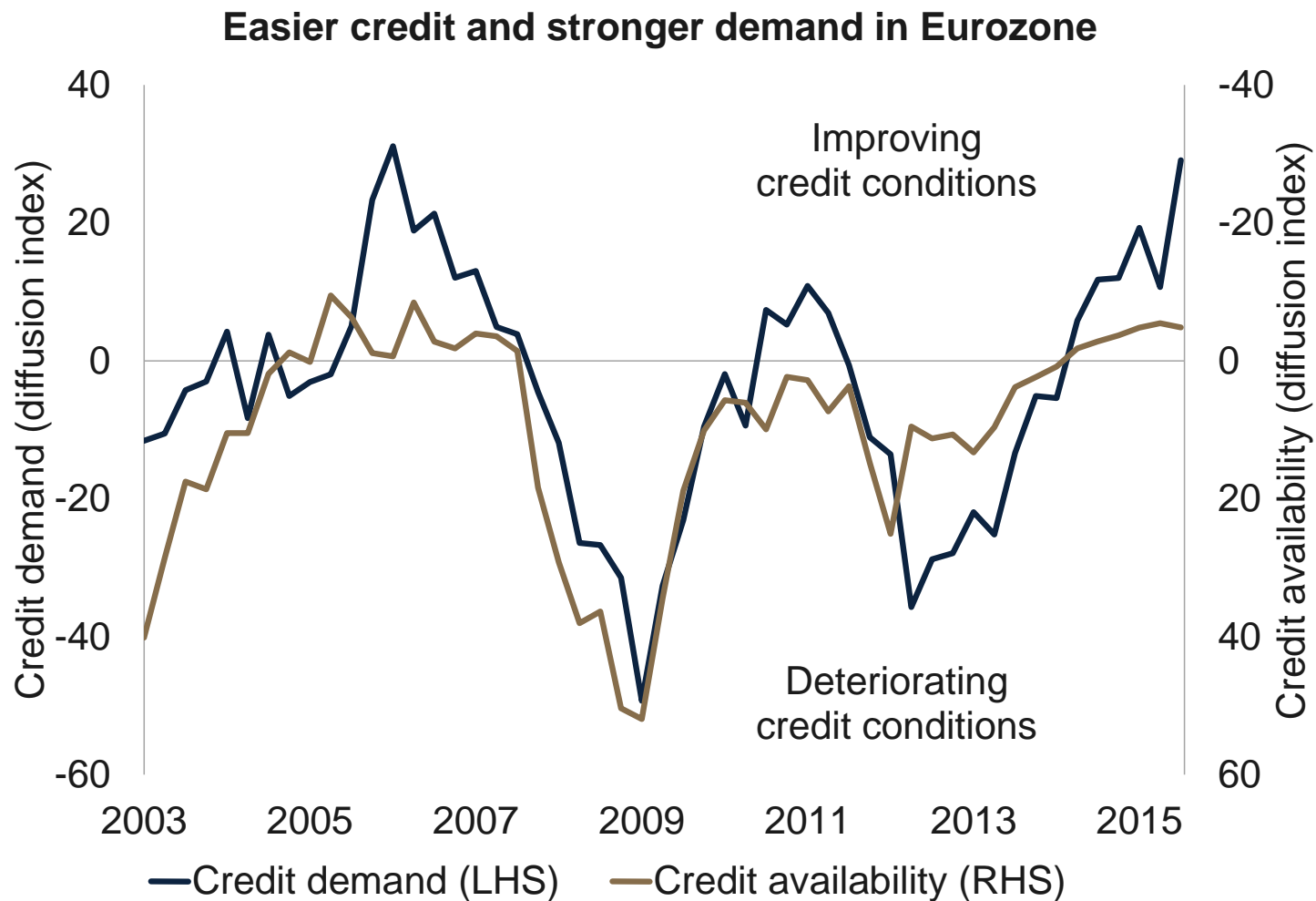
Note: Based on policy rate for 30 countries. Source: Haver Analytics, RBC GAM

U.S. economic surprises may continue to improve



Source: Citigroup Economic Surprise Index, RBC GAM

Improving Eurozone credit conditions are good for growth



Source: European Central Bank, Haver Analytics, RBC GAM



Japan reforms offer some promise

Labour

- Efforts underway to reduce two-tier nature of labour market
- Underutilized pools of potential workers being tapped

Governance

- Tokyo Stock Exchange mandates independent directors on boards
- Shareholder activism comes to Japan

Trade

- Trans-Pacific Partnership implementation now likely

Source: RBC GAM



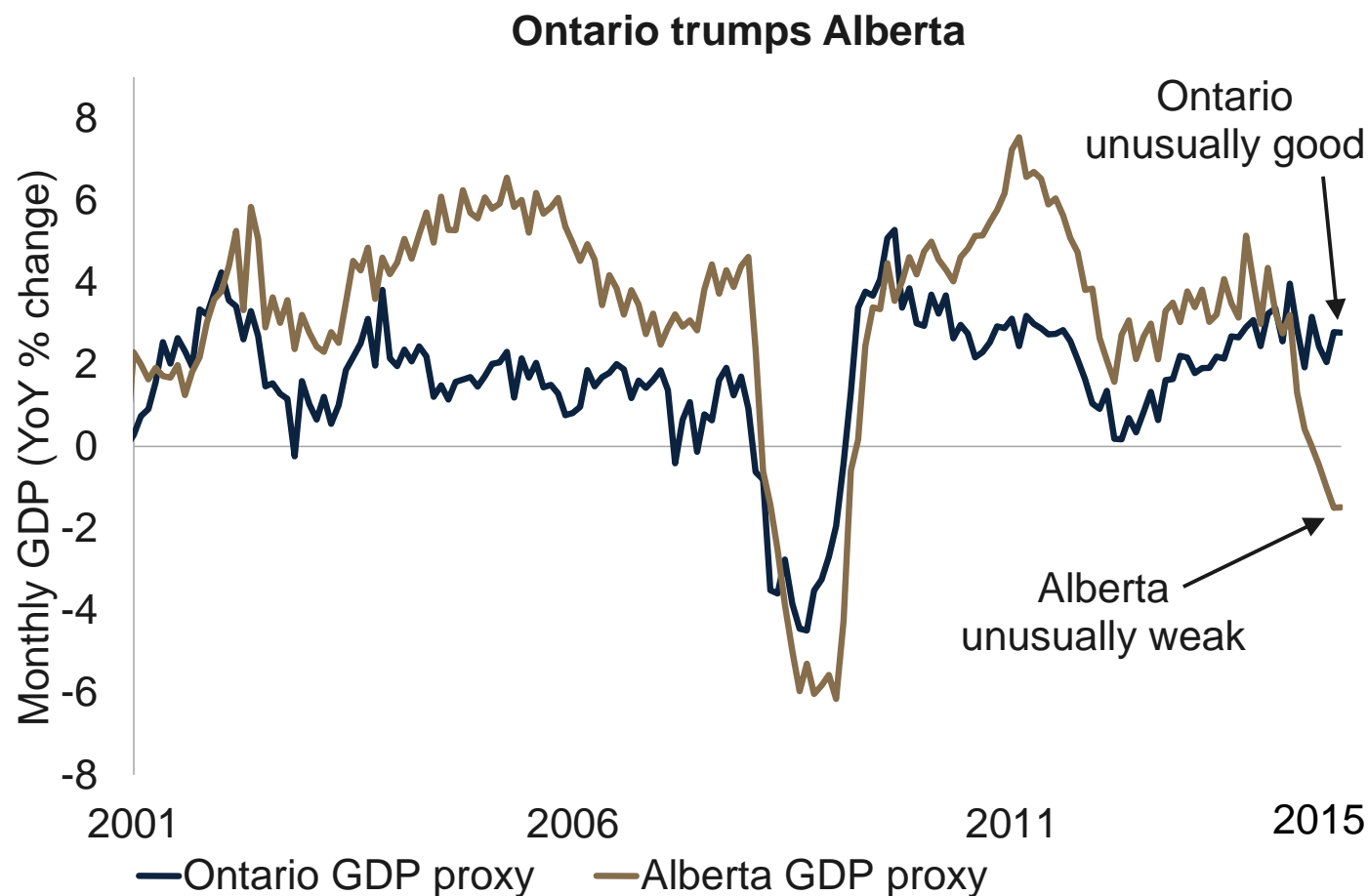
Canadian leading indicators show enduring slump

Glum outlook for Canadian economy



Note: Composite constructed using four leading indicators from surveys on Canadian businesses. Source: CFIB, Haver Analytics, RBC GAM

Cheap oil drives provincial wedge



Note: Monthly provincial GDP estimated from available monthly economic variables, combined via principal component analysis and then regressed against annual provincial GDP. Source: Haver Analytics, RBC GAM

Canadian business investment has collapsed



Source: Haver Analytics, RBC GAM

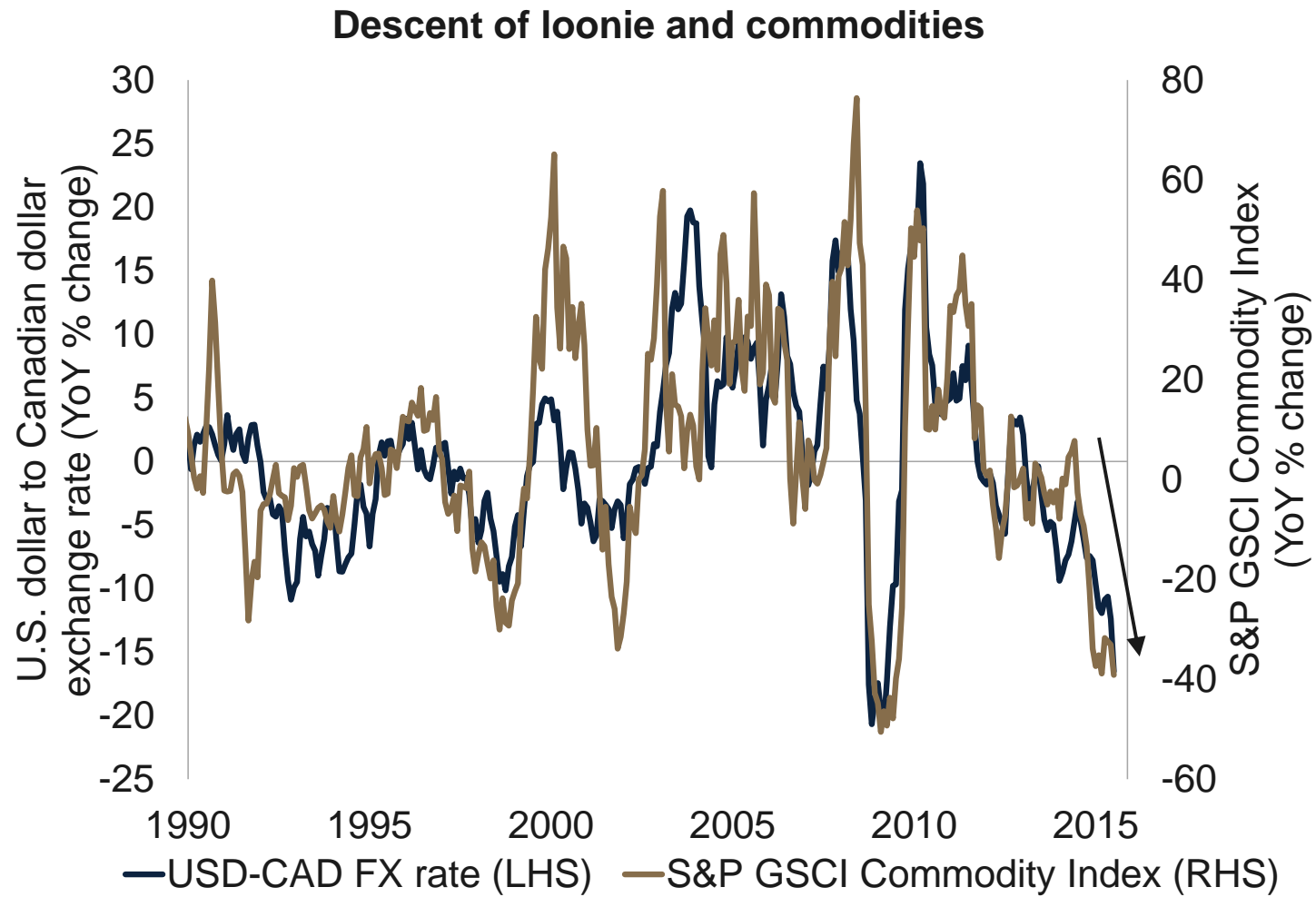


Canadian employment surprisingly solid



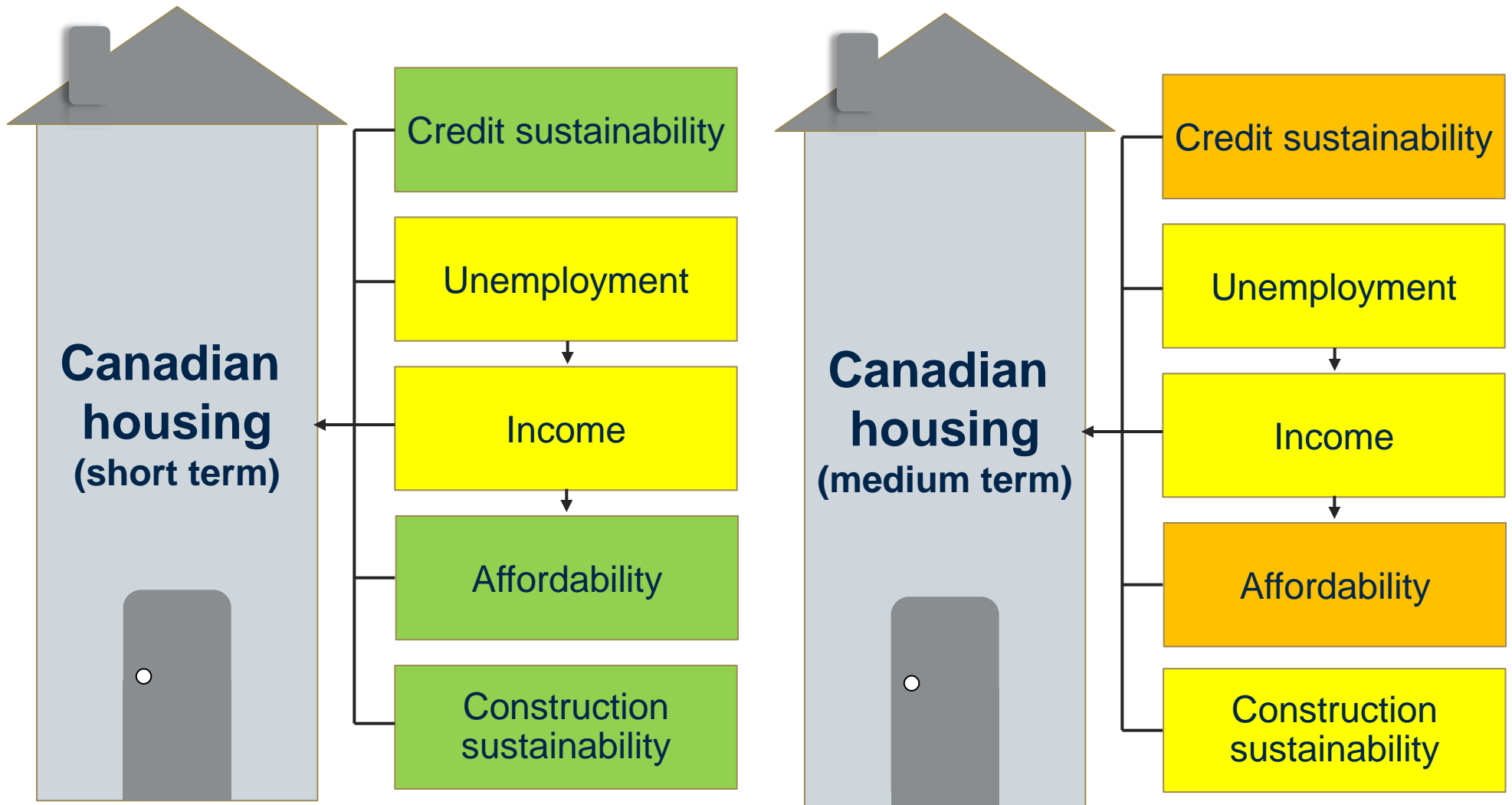
Note: Employment change adjusted by full-time and part-time employment data.
Source: Statistics Canada, Haver Analytics, RBC GAM

Canadian dollar weakness to persist



Source: Bank of Canada, S&P, Haver Analytics, RBC GAM

Canadian housing challenges mount later



Source: RBC GAM

Vetting debt hot spots

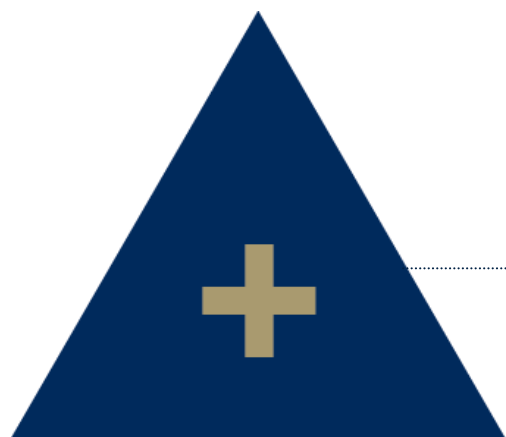
| | Near-term risk (0-2 years) | Medium-term risk (3-10 years) | Long-term risk (>10 years) | Global significance |
|--------------------------------|-------------------------------|----------------------------------|-------------------------------|------------------------|
| 1) Developed-world public debt | Normal | Elevated | High | High |
| 2) Greek public debt | High | High | Elevated | Low |
| 3) Japanese public debt | Normal | Elevated | Elevated | Medium |
| 4) External debt | Elevated | Normal | Normal | High |
| 5) Corporate debt | Elevated | Elevated | Normal | High |
| 6) Chinese credit | High | High | Elevated | High |
| 7) Oil-oriented debt | Elevated | Normal | Normal | Low |
| 8) Housing exuberance | High | Elevated | Normal | Low |

Source: RBC GAM

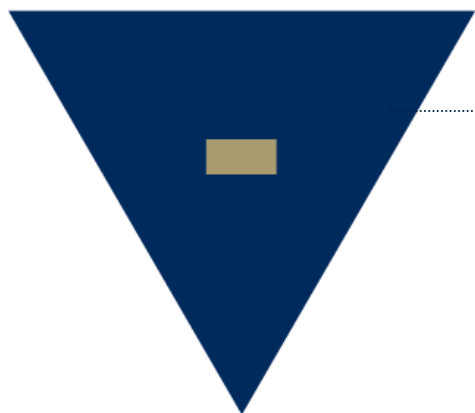
What is a “normal” yield?



Competing bond market forces



%



- Expectation of GDP, CPI recovery
- Expectation of reduced monetary stimulus
- Rising risk appetite
- FX reserve drawdown
- Mean reversion
 - inflation expectations
 - real yield
 - term premium

- Low policy rates/large c.b. balance sheets
- Shrinking fiscal deficits
- Slow growth, low inflation
- Other, lesser factors:
 - Substitution effect
 - Interest rate repression
 - Shortage of safe assets
 - Ageing population

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