

JAPANESE BANKS AS A LEAD INDICATOR

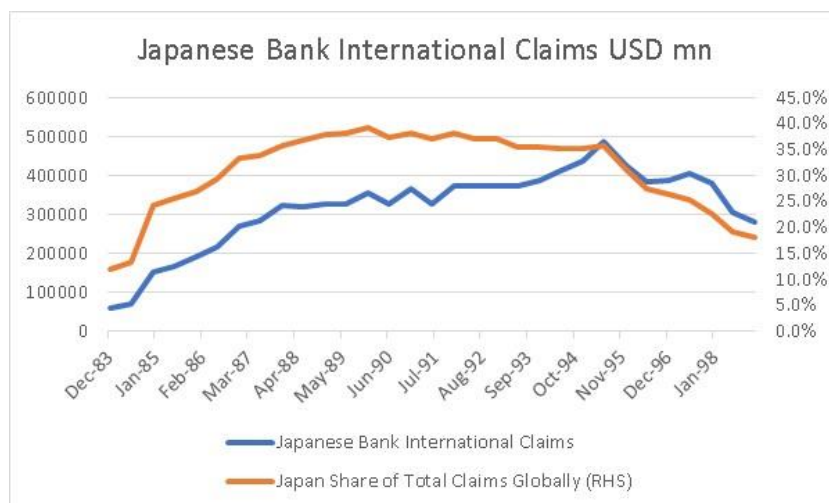


Russell Clark's
Market Views

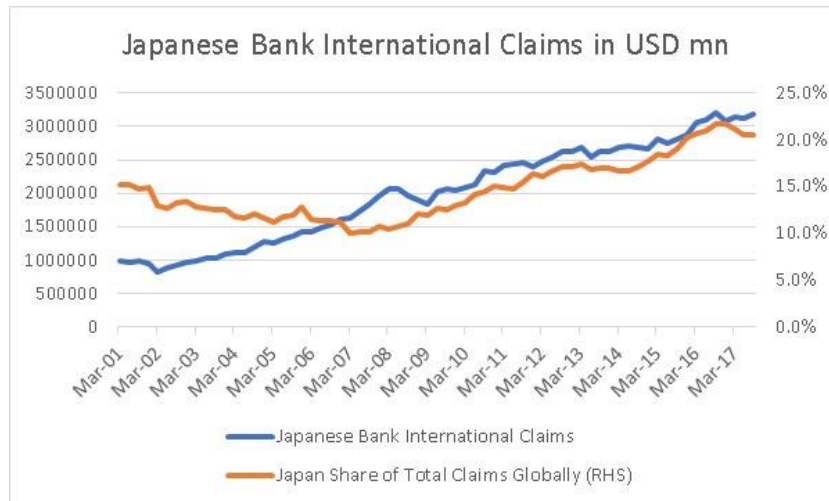
"After the financial crisis other banks withdrew from lending into international markets, and Japanese banks grew their share yet again. For context, Japanese claims of 3 trillion USD compare to 2 trillion for US banks. Or as a share of GDP, 60% for Japan, compared to 12% for the US."



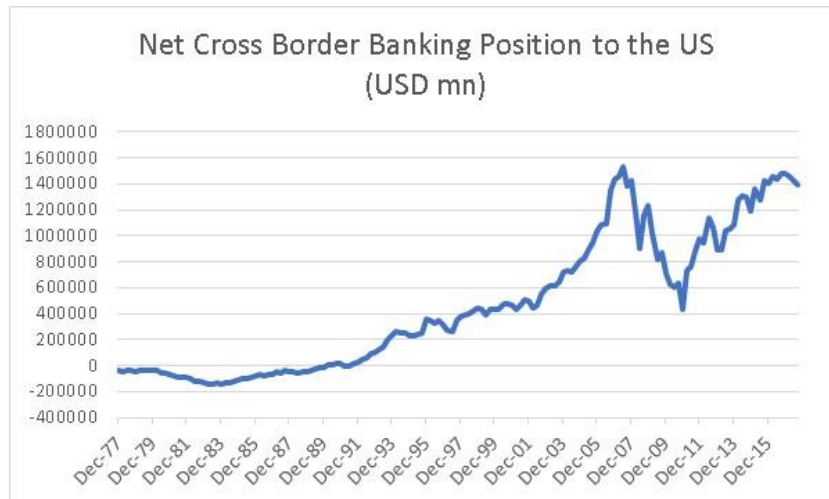
Japanese banks have a long and volatile history as the biggest international lender, because they recycle excess Japanese deposits back to the world economy. Using data from the Bank of International Settlements (bis.org) we can see how Japanese banks dominated international lending in the 1980's and early 1990's. At their peak Japanese banks were nearly 40% of all international claims, or 500 billion USD, in 1994. As the Japanese bust became more apparent, the Japanese banks began to reduce lending, which preceded the Asian financial crisis.



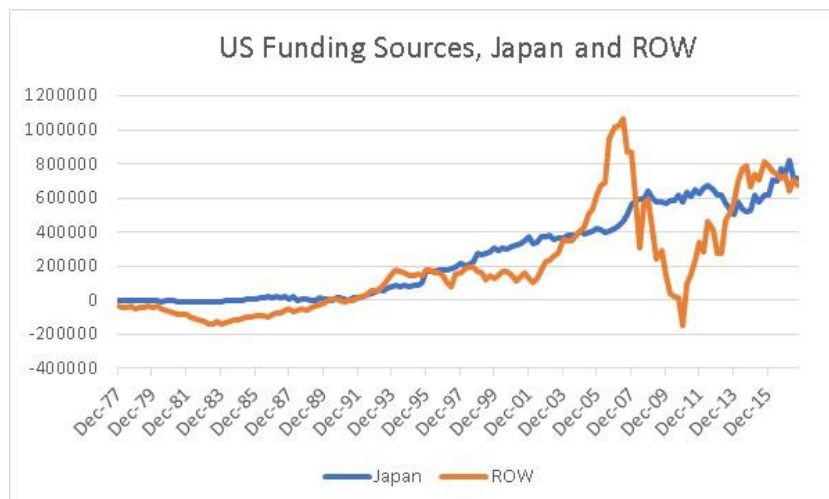
While Japanese banks have continued to grow international claims, their share of lending continued to drop until the global financial crisis. At this point other banks withdrew from lending into international markets, and Japanese banks grew their share yet again. For context, Japanese claims of 3 trillion USD compare to 2 trillion for US banks; or as a share of GDP, 60% for Japan, compared to 12% for the US.



The question then is to whom are the Japanese lending? As pointed out in previous notes, the US net international investment position has recently hit new all-time lows. When we look at the net bank position, we see that US net borrowing from the rest of the world has returned to its peak level seen before the financial crisis.



BIS data tracks the nationality of banks providing the funding for the US. Japan has tended to continually increase its net exposure to the US, while the Rest of World ("ROW") fluctuates dramatically.



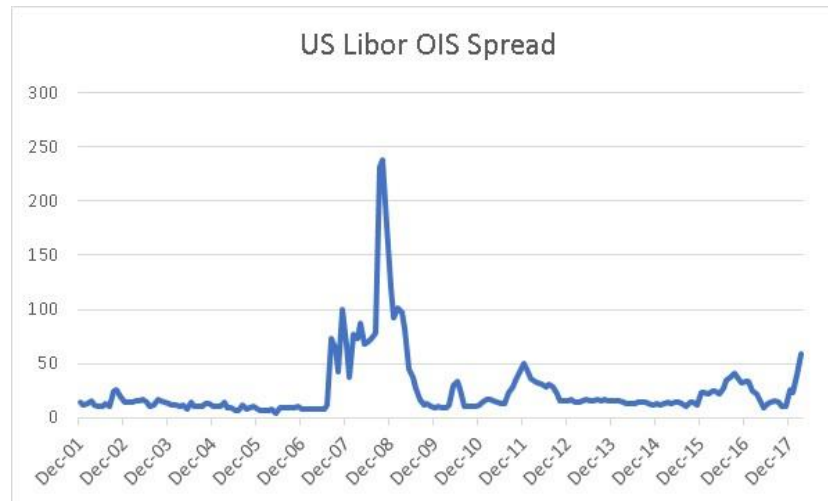
When Japanese banks begin to worry about lending, they often bring money home to put in the bond market. Downward moves in 30 year Japanese Government Bond (‘JGB’) yields have often coincided with pullbacks in lending.



Often international lending by Japanese banks is done on a spread basis, with the Japanese bank issuing local currency bonds to finance the lending. The bank needs to maintain good credit to sustain such lending. Hence Japanese bank credit default swaps (‘CDS’) can also be a good lead on Japanese overseas lending. The chart below takes Sumitomo Mitsui Banking Corp (‘SMBC’) as an example of this.



To my mind it seems that Japanese banks are beginning to pull funding from the US. Looking at the movement in JGBs and SMBC 5yr CDS, this would suggest that funding in the US banking systems should have become difficult in 2008, 2012 and 2016. A classic measure of US bank stress is the Libor – overnight indexed swap (‘OIS’) spread which reflects counterparty risk in US financials. Intriguingly, we can see that 2008, 2012, 2016 and now all show rising stress.



Given the extreme positioning in the net position of international lending, it seems likely to me that US funding conditions will continue to deteriorate.

INFORMATION

Issue Date: 30th April 2018
 Source: Bloomberg, unless otherwise stated
 Investor Relations: Samantha Dunn
 Email: info@horsemancapital.com
 Telephone: +44 (0)20 7838 7580
 Website: www.horsemancapital.com

Business and registered address: Horseman Capital Management Limited, 9 Chester Close, London SW1X 7BE, United Kingdom.
 Registered in England and Wales - Company number: 04034280

DISCLAIMER

This Market View has been prepared and issued by Horseman Capital Management Ltd (the "Firm") authorised and regulated by the Financial Conduct Authority. It has been approved as a financial promotion by the Firm and as such is intended **for professional clients and eligible counterparties only and is not intended for retail client use**. It is not intended for distribution to any country where such distribution or use would be contrary to local law or regulation.

This Market View is provided for information purposes only and should not be regarded as an offer to buy or sell any investments or related services that may be referenced herein. No guarantee is made as to the accuracy of the information provided which has been obtained from sources believed to be reliable. The view expressed in this Market View are the views of the portfolio manager at time of publication and may change over time. Nothing in this Market View constitutes investment, legal tax or other advice nor is it to be relied upon in making an investment decision. No recommendation is made positive or otherwise regarding individual securities mentioned herein. Past performance is not indicative of future performance. The price of investments can go up as well as down and can be affected by changes in the rates of exchange. The information contained in this document is strictly confidential and is intended only for the use of the person who has been provided the Market View by the Firm. No part of this Market View may be divulged to any person, distributed, resold and or reproduced without the prior written permission of the Firm.

Where "forward looking" information, including estimates, projections and subjective analysis and judgement are provided no representation as to the accuracy of such projections or estimates or that they may be realised. Certain assumptions used in formulating such "forward looking" information may differ materially from actual events or conditions.