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Monthly Insights

14 October 2020

Putting Two and Two Together

- We have spotted two episodes during which the odds in favour of Biden presidency spiked instantly.
- By taking a 20-minute snapshot of the market movement right after the breaking news, we can filter out noises and hence tease out the underlying views if Trump is removed from the Resolute Desk.
- Let sleeping dogs lie, Mr. Market yelled. Trump's defeat will subject US equities to slaughters, bringing most major currencies down with him. Japanese yen seems the only exceptional asset to prosper once Biden elected.
- Timing isn't everything, it's the only thing. Before the decisive day on Nov 3, we prefer to long JPY and USD to express risk aversion, and stay aside chasing the blue-wave-fueled rally in stocks.



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Theme Article

Historian Thomas Carlyle once contended, “The history of the world is but the biography of great men.” Keeping our noses to corporate’s earning reports and technical charts misses a crucial question – who will be the America next President.

The election itself may not be quite as confusing as Brexit, yet it is confusing enough. Biden’s and Trump’s takes on tax concessions is poles apart – Trump are rushing ahead with his tax-cutting agenda, while Biden vows to roll it back. But their views are not as different as it first appears. Biden is never a zealot committed unwaveringly to balance the books, and likely remains so. Touted as a re-imagination of capitalism, the Democratic candidate is pushing for a spending blowout with a 13-digit price tag, that even the U.S. President known for his profligacy is reluctant to countenance.

Who the market would prefer if they are all Keynesian now? It seems anybody guess.

Follow the money

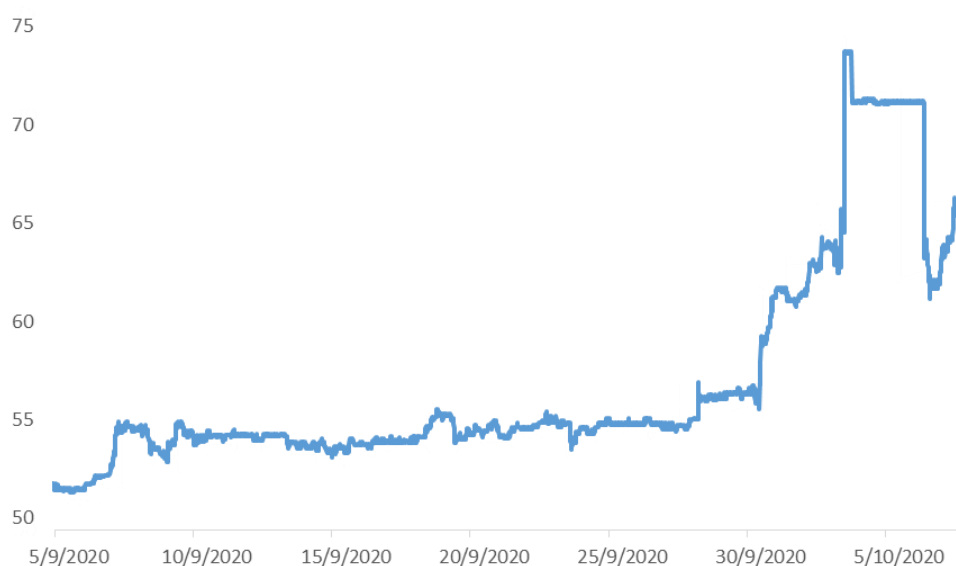
The goddess of fortune spins her wheel behind a curtain. With enough attentive observations though, we can peek through the curtain.

Cutting through knots, we have spotted two episodes, as shown in Exhibit 1, during which the odds in favour of Biden presidency spiked instantly. The first spike rooted from his well-timed wit in presidential debate on Sep 29, while the second was driven by Trump’s life-threatening COVID diagnosis on Oct 2. The beauty of taking a 20-minute snapshot of the market movement right after the breaking news is that, we are able to filter out noises and tease out the underlying views if Trump is removed from the Resolute Desk.



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Exhibit 1: Odds for Biden's Win



Source: Bonus.com, Shanghai Commercial Bank

To illustrate, in the aftermath of Trump's confirmed infection, betting odds on Biden presidency jumped up by 9.0 percentage points alongside a 1.8% decline of S&P 500. Given Biden's current winning odds at around 68.7%, S&P 500 would drop by 6.3% ($=31.3/9 \times 1.8$) in the event of a landslide victory for Biden. We then re-run the entire calculation for the first presidential debate and average the results out. Repeated reiteration allows us to draw the contours of financial world under Biden presidency (Exhibit 2).

Exhibit 2: Estimated Market Levels Under Biden's Victory

	Sensitivity to Every ppt Change in Biden's Chance to Win		Current Level	Biden's Victory
	First Presidential Debate (%)	Trump was tested positive (%)		
GBPUSD	-0.05	-0.02	1.2936	1.2769
EURUSD	-0.04	-0.02	1.1746	1.1633
AUDUSD	-0.08	-0.04	0.7166	0.7022
NZDUSD	-0.04	-0.04	0.6659	0.6567
USDJPY	-0.03	-0.07	105.43	103.58
USDCAD	0.05	0.02	1.3142	1.3288
USDCHF	0.01	0.01	0.9151	0.9185
USDCNH	0.03	0.01	6.7400	6.7899
S&P 500	-0.22	-0.20	3,512	3,267

Source: Bloomberg, Bonus.com, Shanghai Commercial Bank

Perhaps Americans don't really blame Trump for their economic ruin; or Americans did look him down with disdain, just that they are also unnerved by his refusal to commit to a peaceful transfer of power. Either case, let sleeping dogs lie, Mr. Market yelled. What the numbers appear to suggest, Trump's defeat will subject US equities to slaughters, and for good or ill, bringing most major currencies down with him. Japanese yen seems the only exceptional asset to prosper once Biden elected.

In an era of rock-bottom rates, it's never been more tempting to take extra risk for yield enhancement. But timing isn't everything, it's the only thing. Before the decisive day on Nov 3, we prefer to long JPY and USD to express risk aversion, and stay aside chasing the blue-wave-fueled rally in stocks.



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UK

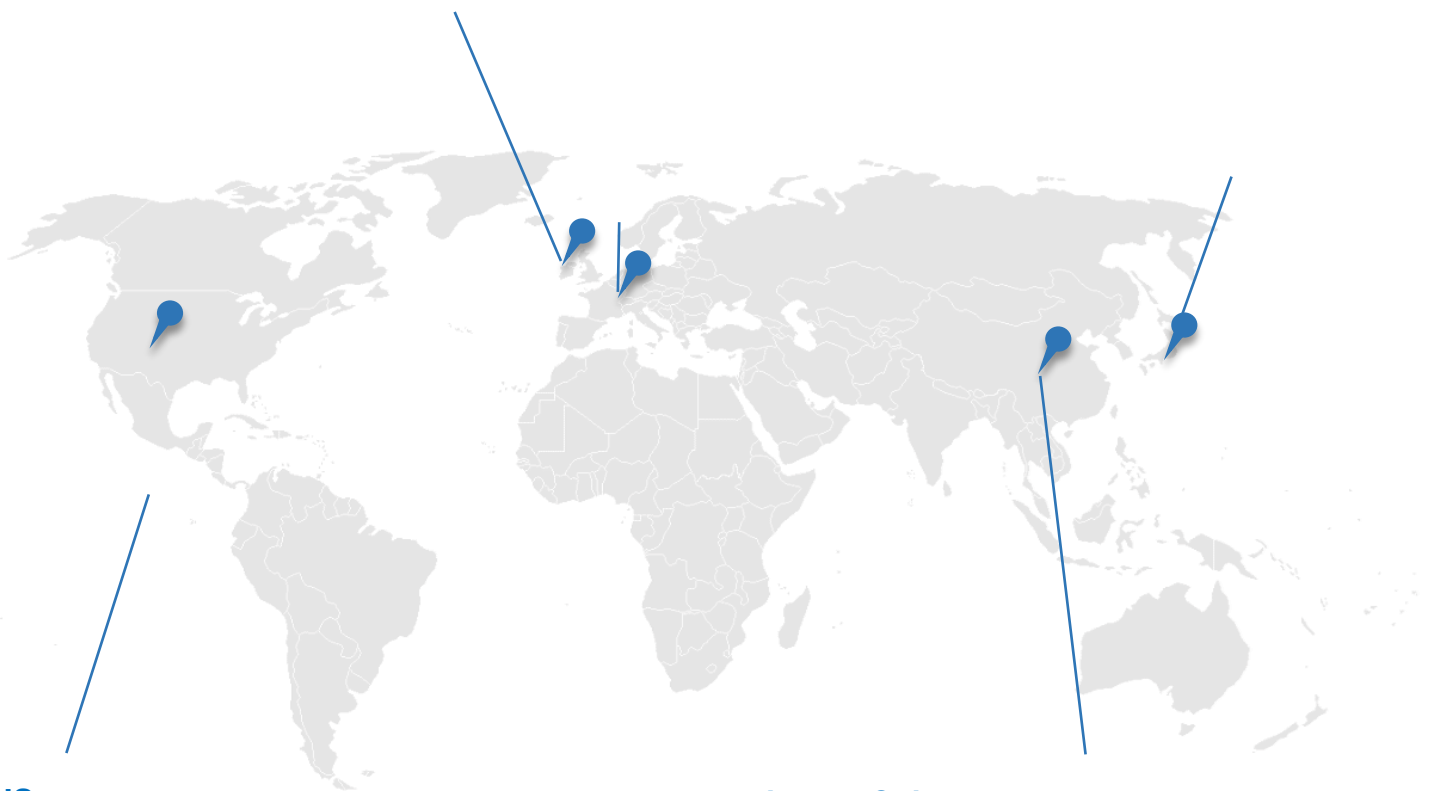
The replacement of furlough scheme with a short-time working scheme leave us concerned.

EU

September PMIs suggest that recovery is running out of steam. Coupled with German VAT cut, those pushing for the reflation theme will find themselves disappointed.

Japan

Retail sales have largely returned to pre-COVID levels. As infections are likely to rise again with the onset of winter, further improvement is expected to be modest.



US

Less than a month away from Election Day, Biden's commanding lead, including the margin in toss-up states, remains consistently solid. The question is whether litigation would keep the outcome unsettled for days or weeks.






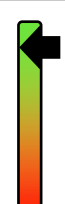





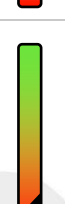


Mainland China




Data from Golden Week revealed tourist attractions were running close to maximum capacity. That supports the narrative for more catch-up in consumption in the second half.



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Foreign Exchange Outlook

 USD	Overweight Neutral Underweight		<p>The greenback lost traction as fiscal stimulus hopes refuse to go away. We are however a little wary. The political headwinds against a comprehensive bill remain stiff, never mind a vaccine will unlikely be approved this year.</p>
 EUR	Overweight Neutral Underweight		<p>Despite a surge in infection cases, market has been piling into EUR longs after the wash-out September. The positioning is a tad too crowded and the air gets thinner. Devoid of fresh catalyst, the tug-of-war will most likely persist and we are looking to play the range.</p>
 GBP	Overweight Neutral Underweight		<p>Sterling's near-term path depends on progress in Brexit talks. While the Canada-style trade deal may not be as great as Conservatives claimed, the mood music remains somewhat optimistic. The talk of walking away is probably empty threat. The GBP should remain a buy on dips.</p>
 RMB	Overweight Neutral Underweight		<p>Investors are turning sanguine on China en masse following the White House's approval of TikTok's deal. Incoming data is likely to confirm that the recovery is broadening. As more investors will be "stopped in" to the long RMB trade, there is potential for the current rally to pick up speed.</p>
 JPY	Overweight Neutral Underweight		<p>Yen remains beholden to risk sentiment, and COVID is also going to play a big role into the winter. We struggle to see how Sugaonomics can keep yen soft.</p>
 AUD	Overweight Neutral Underweight		<p>Dips have remained shallow since Aussie holders remain largely impervious to any bad news. It certainly raised a red flag, especially after announcement of fiscal bazooka. Caution is warranted for a neck-to-neck presidential election in the US.</p>
 NZD	Overweight Neutral Underweigh		<p>RBNZ's preparations for tiered negative rates have evidently been stepped up. A switch from having a positive to a negative sign in policy rate could have material psychological impact.</p>

 >1% within 3 months
 +/-1% within 3 months
 <-1% within 3 months



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Table 1: GDP Growth and Rates Forecasts

	GDP growth (% YoY)				Key policy rate (% yearend)			
	2017	2018	2019	2020F	2017	2018	2019	2020F
US	2.2	2.9	2.3	-3.2	1.25-1.50	2.25-2.50	1.75-2.00	0.00-0.25
Eurozone	2.4	1.8	1.2	-5.0	-0.40	-0.40	-0.50	-0.50
UK	1.8	1.4	1.4	-4.0	0.50	0.75	0.75	0.10
Japan	1.9	0.8	0.7	-5.0	-0.10	-0.10	-0.10	-0.20
China*	6.9	6.6	6.1	1.5	4.35	4.35	4.35	4.35
Hong Kong^	3.8	3.5	-1.2	-5.8	5.00	5.125	5.125	5.125

*1-year lending rate, ^Prime rate

Source: Bloomberg, Shanghai Commercial Bank

Table 2: Foreign Exchange Outlook

	Yearend target		
	Current	2019	2020F
EUR/USD	1.18	1.12	1.17
GBP/USD	1.30	1.33	1.29
USD/JPY	106	109	107
USD/CNH	6.74	6.96	6.70
AUD/USD	0.72	0.70	0.73
NZD/USD	0.66	0.67	0.67

Source: Bloomberg, Shanghai Commercial Bank



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Table 3: Strategy Performance Summary

Date	Key recommendations	Ex post performance (1-month)					
		Entry level*	Low	High	Period-end level	1-month return	
8-May-20	08:25	The CNH sellers will re-gain the upper hand	7.0886	7.0651	7.1961	7.0733	-0.2%
30-Jan-20	11:03	The indiscriminate bid for the dollar could remain uninterrupted	98.03	97.36	99.91	98.14	0.1%
20-Jan-20	4:00	We remain stubborn buyers on dips for GBP	1.3000	1.2908	1.3228	1.2921	-0.6%
18-Jan-20	0:00	We remain stubborn buyers on dips for CAD	1.3070	1.3044	1.3302	1.3223	-1.2%
13-Dec-19	11:25	The pair (GBP) will meet strong resistance above 1.35	1.3466	1.2905	1.3466	1.3033	3.3%
30-Oct-19	11:40	Yet more strength for the pound	1.2863	1.2772	1.2970	1.2925	0.5%
23-Oct-19	11:05	Dips (in pound) are buy into	1.2848	1.2772	1.2970	1.2846	0.0%
26-Sep-19	8:30	Dollar shorts are swimming against the tide	98.94	98.85	99.67	98.66	-0.3%
16-Sep-19	09:55	We recommend to re-load yen long exposure	107.77	106.48	108.89	108.69	-0.8%
13-Sep-19	10:55	We see some upside in EUR/USD in the short run	1.1066	1.0880	1.1108	1.1042	-0.2%
1-Aug-19	11:15	Skeptical about just how much juice is left in the dollar rally	98.81	97.22	99.02	98.81	0.0%
26-Jul-19	10:45	We prefer to fade any EUR rallies	1.1148	1.1030	1.1243	1.1140	0.1%
24-Jul-19	10:15	Sterling is likely to be an outcast	1.2434	1.2016	1.2520	1.2256	1.5%
5-Jul-19	10:10	The theme of (HKD) normalisation will unfold yet again	7.7900	7.7883	7.8354	7.8300	0.5%
2-Jul-19	17:30	There is nothing compelling about the current AUD rally	0.6990	0.6788	0.7076	0.6790	2.9%
4-Jun-19	17:30	We see little value in chasing the AUD higher	0.6980	0.6833	0.7048	0.7021	-0.6%
22-May-19	15:50	The pound will test lower levels in the short run	1.2676	1.2512	1.2759	1.2723	-0.4%
8-May-19	14:15	The idea of sell (AUD) in May still looks appealing to us	0.7023	0.6865	0.7023	0.7000	0.3%
2-May-19	11:00	Dollar spike is more than flashes in the pan	97.60	97.04	98.13	97.76	0.2%
29-Apr-19	10:00	The BoC might deliver something for bears to get their teeth into	1.3458	1.3378	1.3505	1.3488	0.2%
9-Apr-19	19:00	It could take weeks for the USD/HKD to revert back to 7.85	7.8423	7.8324	7.8494	7.8483	0.1%
21-Mar-19	10:50	Playing the high-carry USD from the long side	95.88	95.74	97.52	97.39	1.6%
13-Mar-19	10:20	The resolution in sight warrants holding a GBP long position	1.3084	1.3081	1.3381	1.3090	0.0%
8-Mar-19	10:35	EUR/JPY is a cleaner expression of the EUR-bearish view	124.86	123.85	127.45	124.99	-0.1%
19-Feb-19	9:10	Underweighting the dollar and staying nimble	96.83	96.29	97.71	96.48	0.4%
12-Feb-19	9:10	For HKD bear, it is the Trojan horse you want to smuggle in	7.8470	7.8470	7.8500	7.8500	0.0%
31-Jan-19	10:40	The USD will going on struggling	95.26	95.16	97.16	96.06	-0.8%
30-Jan-19	10:10	We have interest in chasing GBP higher	1.3094	1.2779	1.3335	1.3293	1.5%
16-Jan-19	11:20	The GBP remains a buy-in-dip play	1.2845	1.2839	1.3217	1.2905	0.5%
		*Entry level recorded at the time of publication, if not stated otherwise	Total return[#]			18.3%	
		[#] Since August 2018	Hit ratio[#]			67.5%	

Source: Shanghai Commercial Bank

Recent Publications

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Things Are Never as Good or as Bad as You Think 	Sep 29, 2020
Never Too Late 	Sep 23, 2020
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