

FX Market Developments Q4 2019

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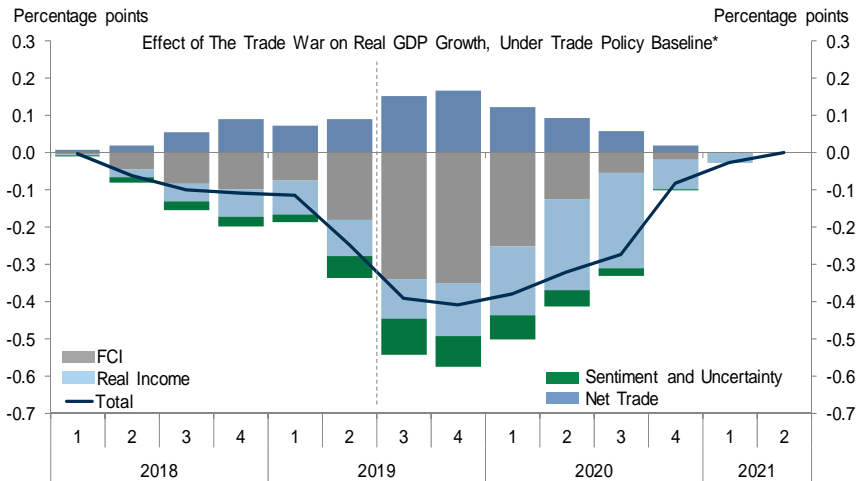
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November, 2019

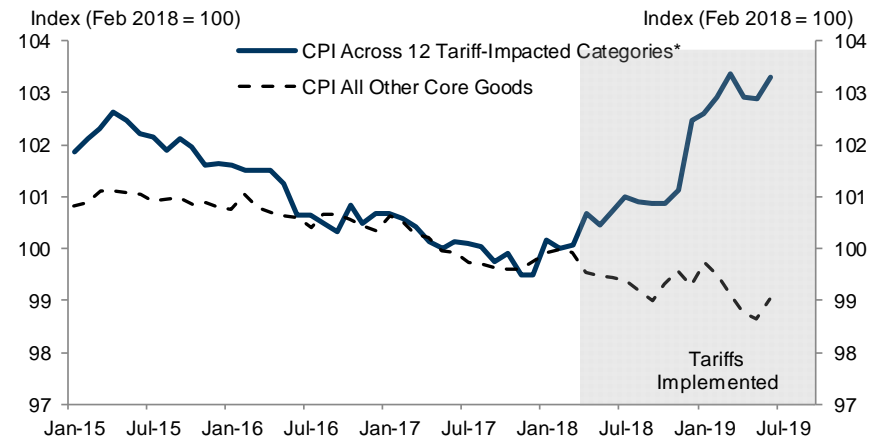
- 1. Trade**
- 2. China**
- 3. USA and DXY**
- 4. Europe & UK**
- 5. Positioning**
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Trade

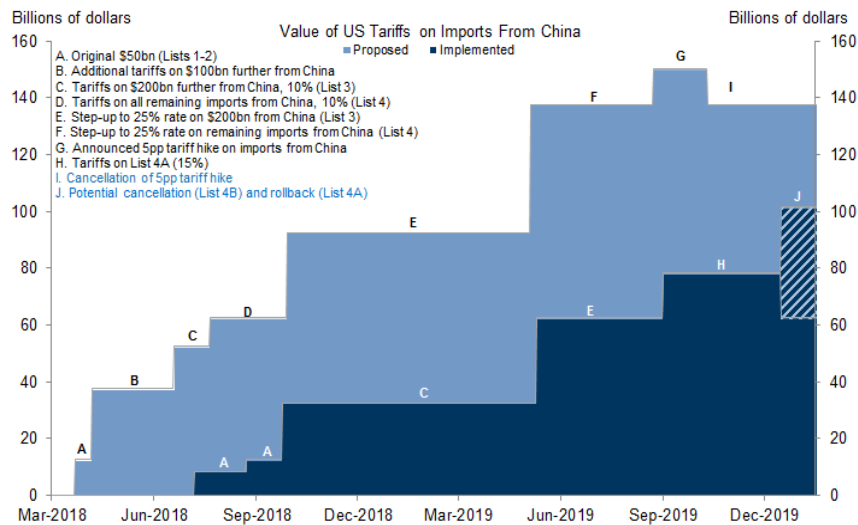
Tariffs: cause and effect



*Assumes a 10-15% tariff on \$160bn of remaining Chinese imports from list 4B, but no further escalation.



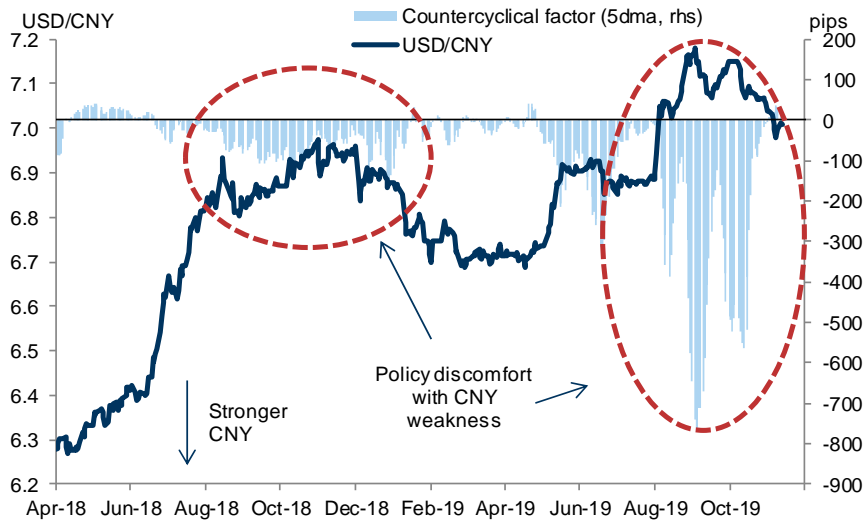
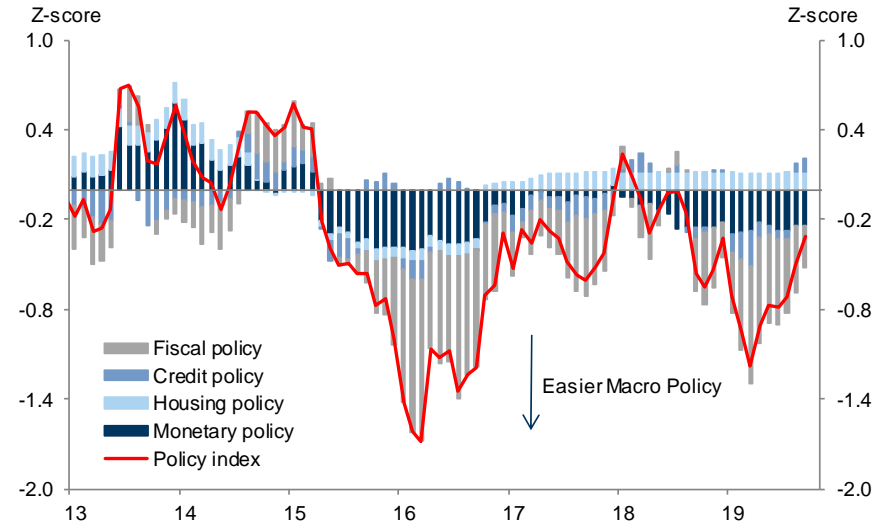
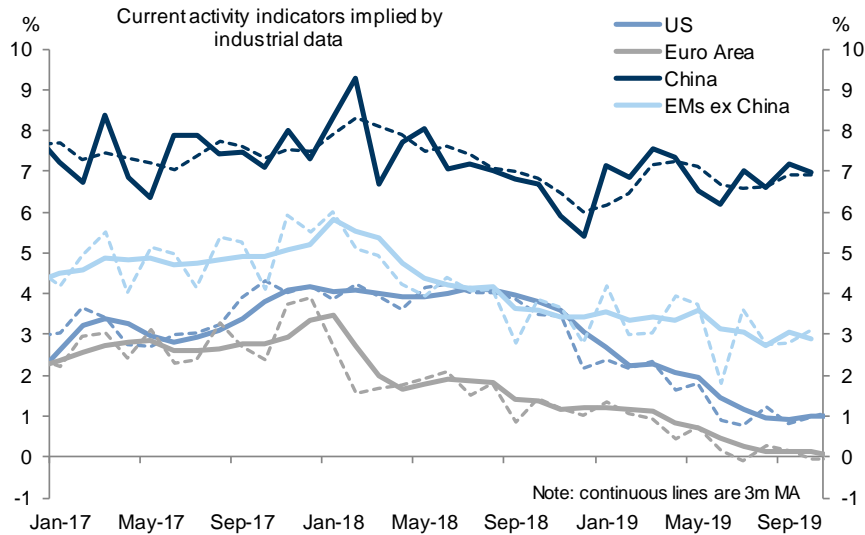
*Includes laundry equipment and other appliances, furniture, bedding, and floor coverings, auto parts, motorcycles, and sport vehicles, housekeeping supplies, and sewing equipment and materials. Weighted by CPI relative importance.



- US imposed tariffs are impacting growth lower...
- ...and prices higher
- ...possibly leading to greater willingness to roll them back

China

Reduced policy response

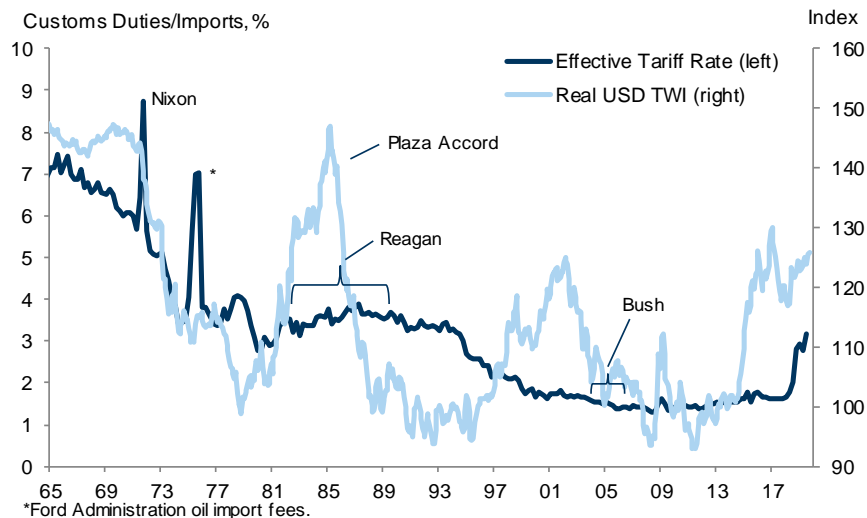
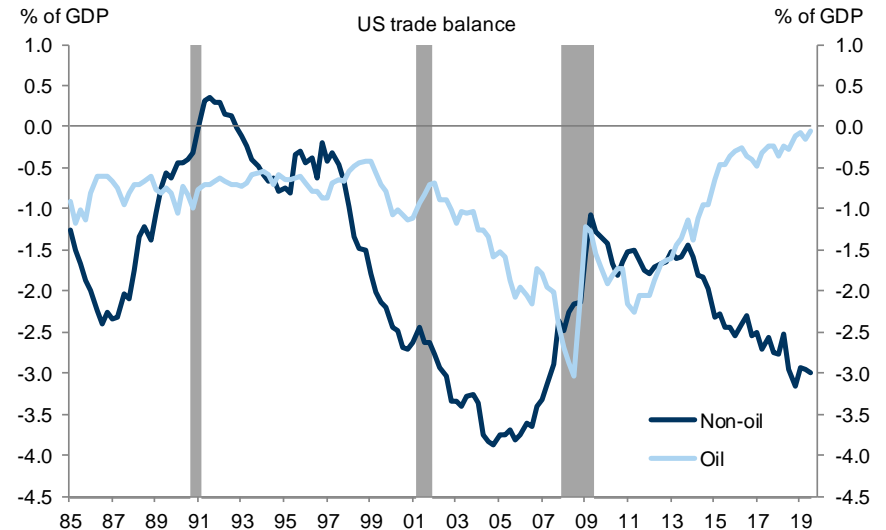
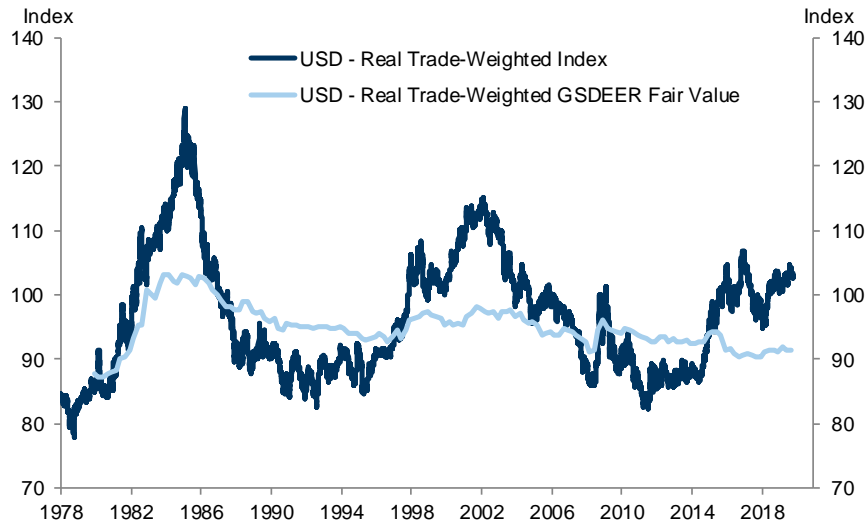


- China CAI's showing signs of stabilisation...
- ...despite a reduced policy response ...
- ...whilst FX policy continues to favour stability

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USA and DXY

Rotating risks

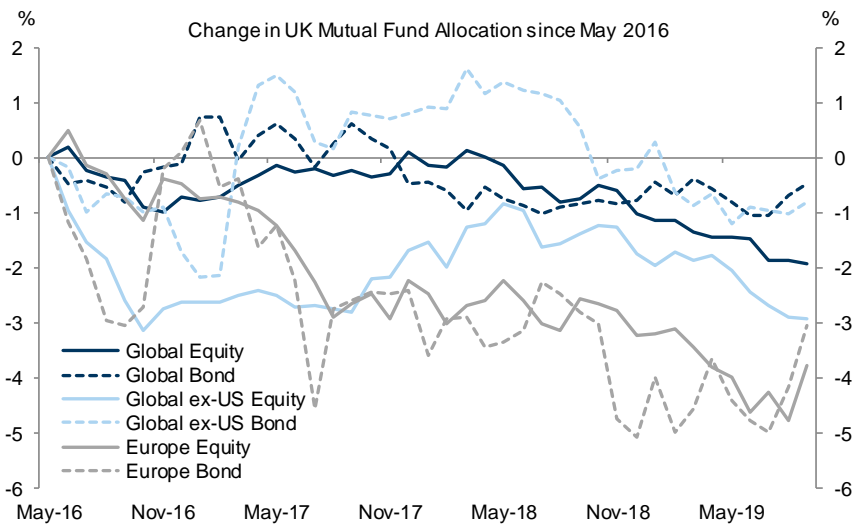
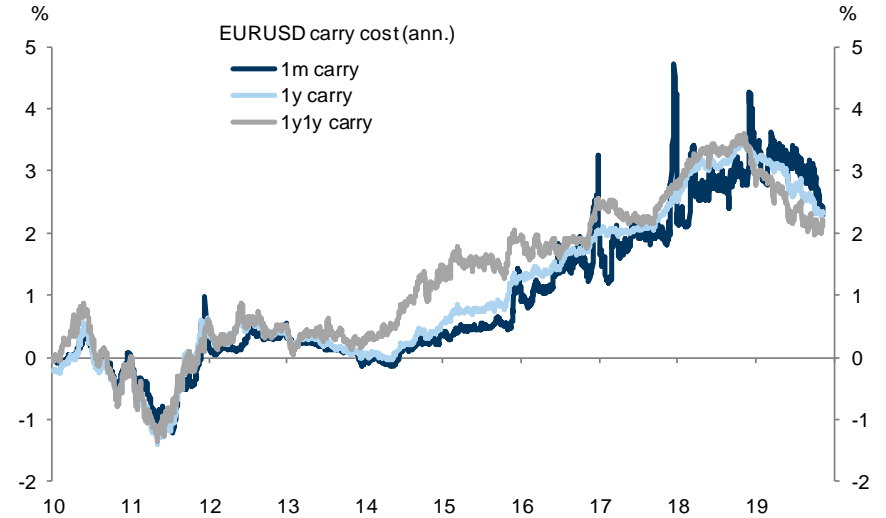
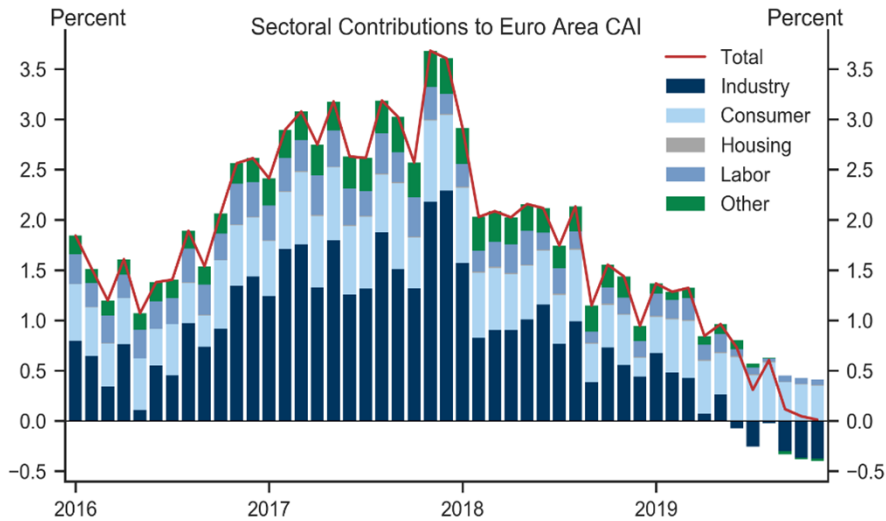


- FX valuation metrics show the USD being expensive...
- ...but it can remain so for extended periods of time
- Severity of slow down in non-oil exports in C/A has been masked by fall in oil imports due to shale

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Europe and UK

Industrial malaise and Brexit risk premium

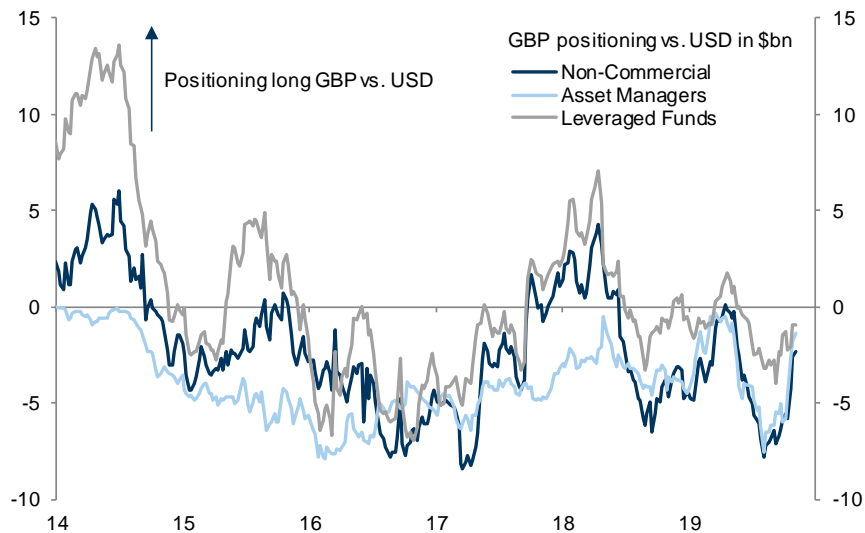
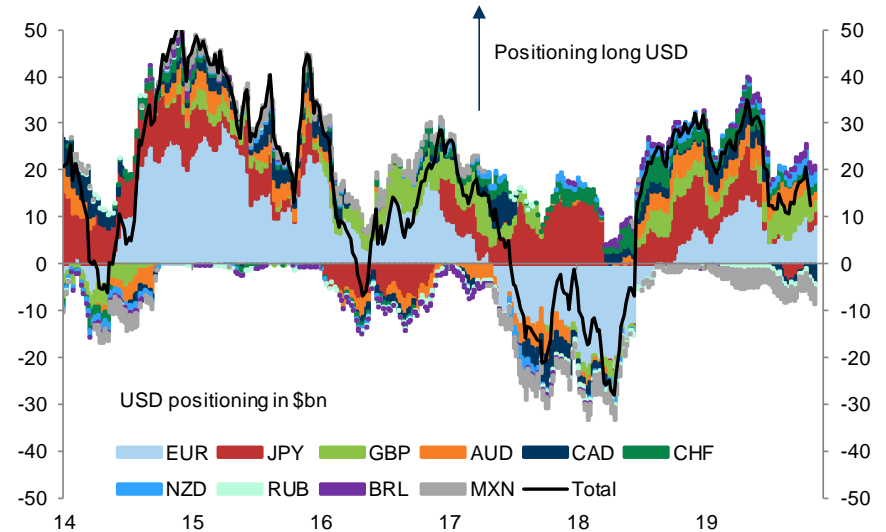
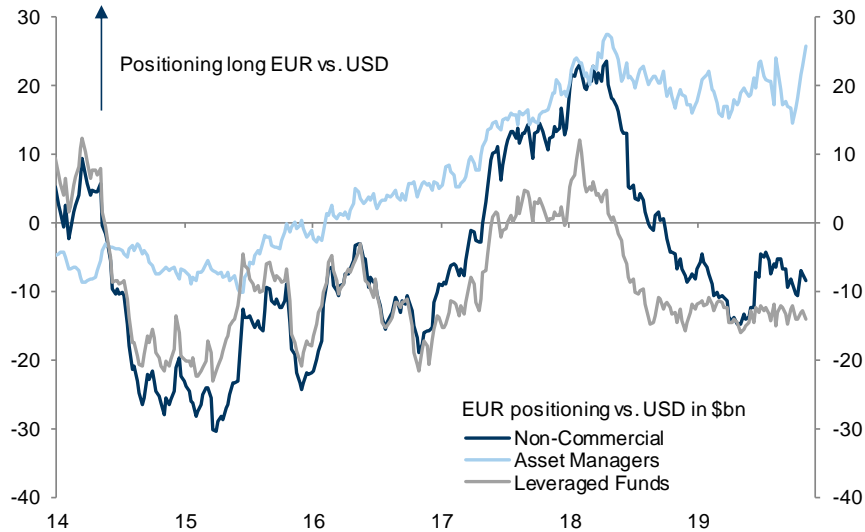


- European slowdown largely focused on manufacturing sector
- Headwind of carry cost slowly diminishing
- UK assets remain a structural underweight

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Positioning

Corrections under way, but much further to run

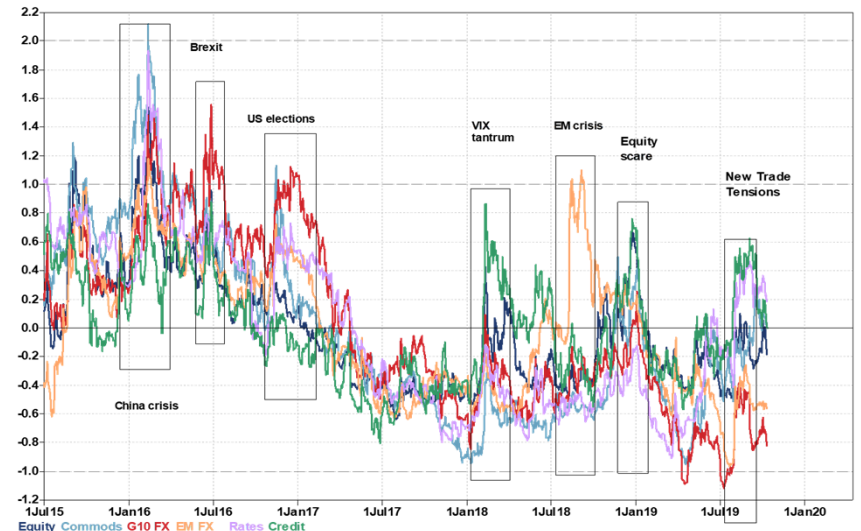
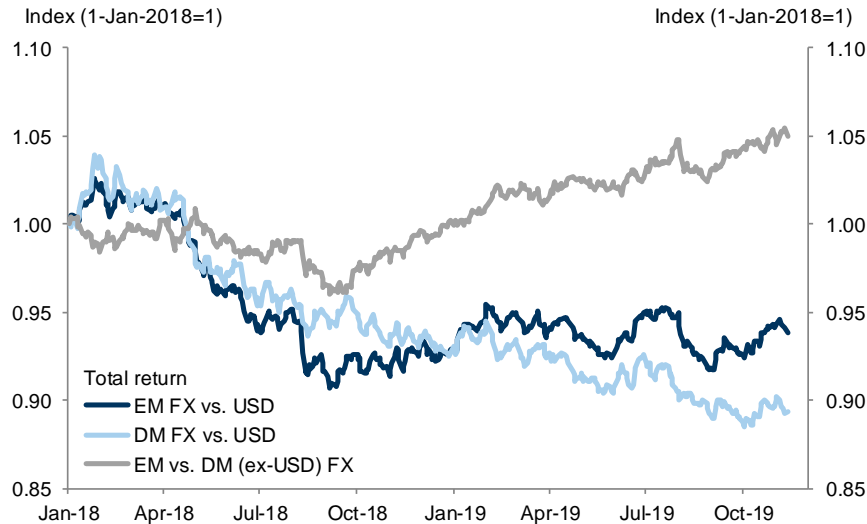


- Non-Commercial positions maintain EUR shorts
- EUR still represents largest proportion of USD positioning
- GBP positioning remains underweight

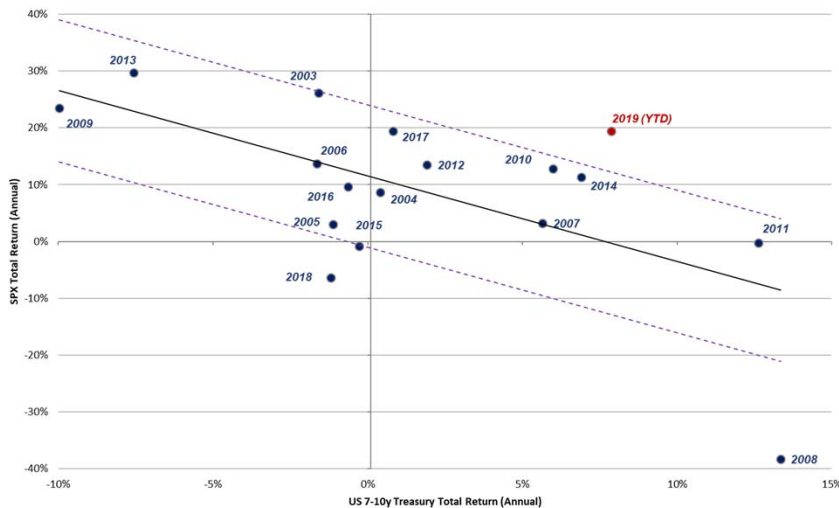
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Valuations / performance

USD too strong, volatility too low, EMFX not weak



6-month implied normalized average vols



- EMFX performance has been better than implied versus the USD
- G10 FX vol stands out as being notably low
- Equities and bonds have both outperformed, a repeat will be difficult

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