



# ECB Contact Group Market update

CURRENCIES – November 2020



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CURRENCIES

GLOBAL

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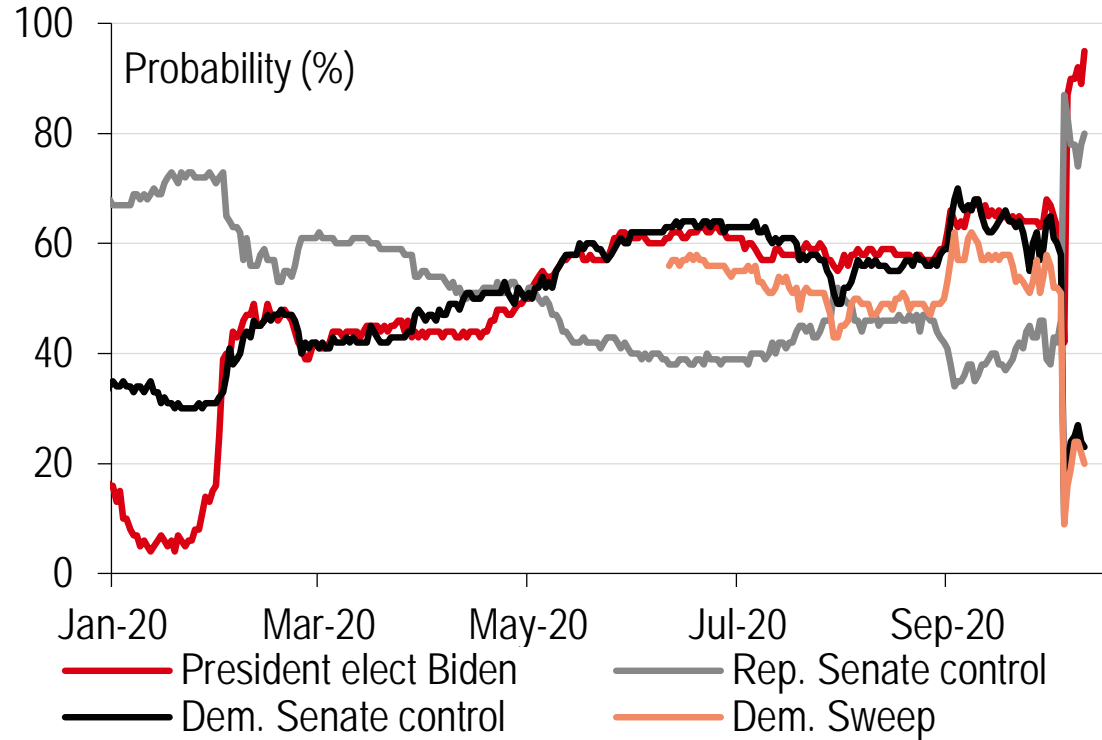
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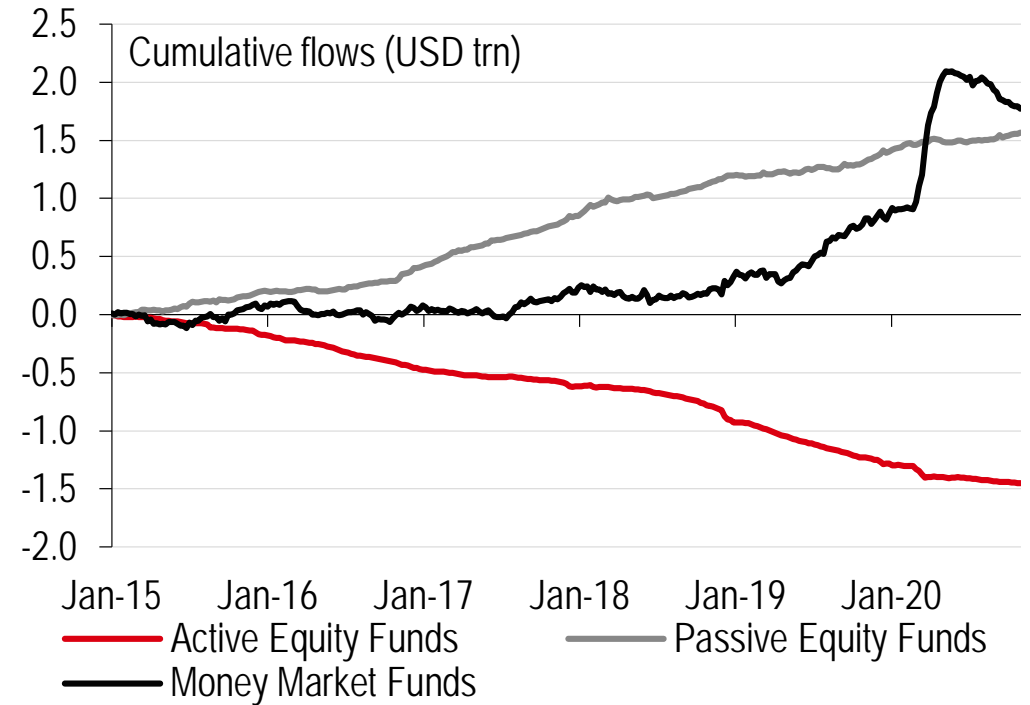


### 3. The US election – now what?

Probability of Republican Senate control has shifted higher



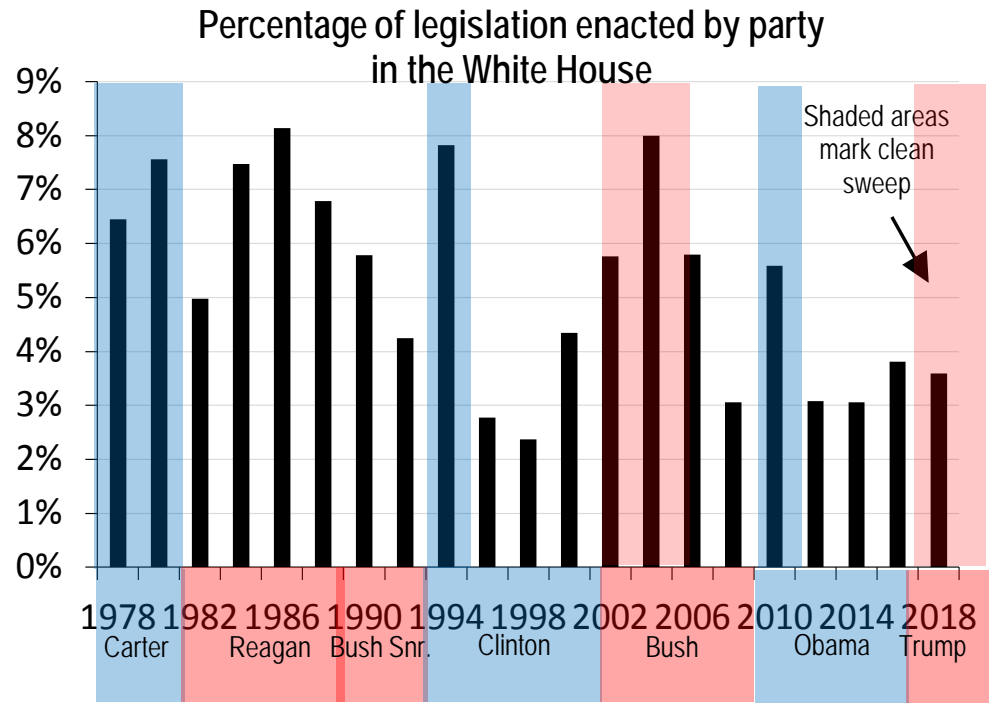
Lower volatility in financial markets should boost fund flows into risky assets



Source: Bloomberg, Predictt, EFPR, HSBC

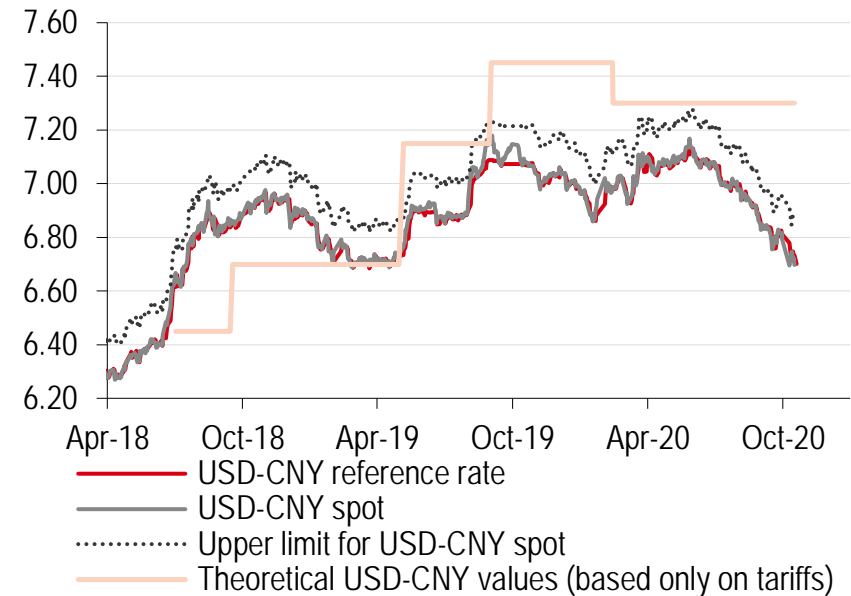
## 4. Biden – policies and China

Clean sweeps usually see greater legislation passed but  
not always



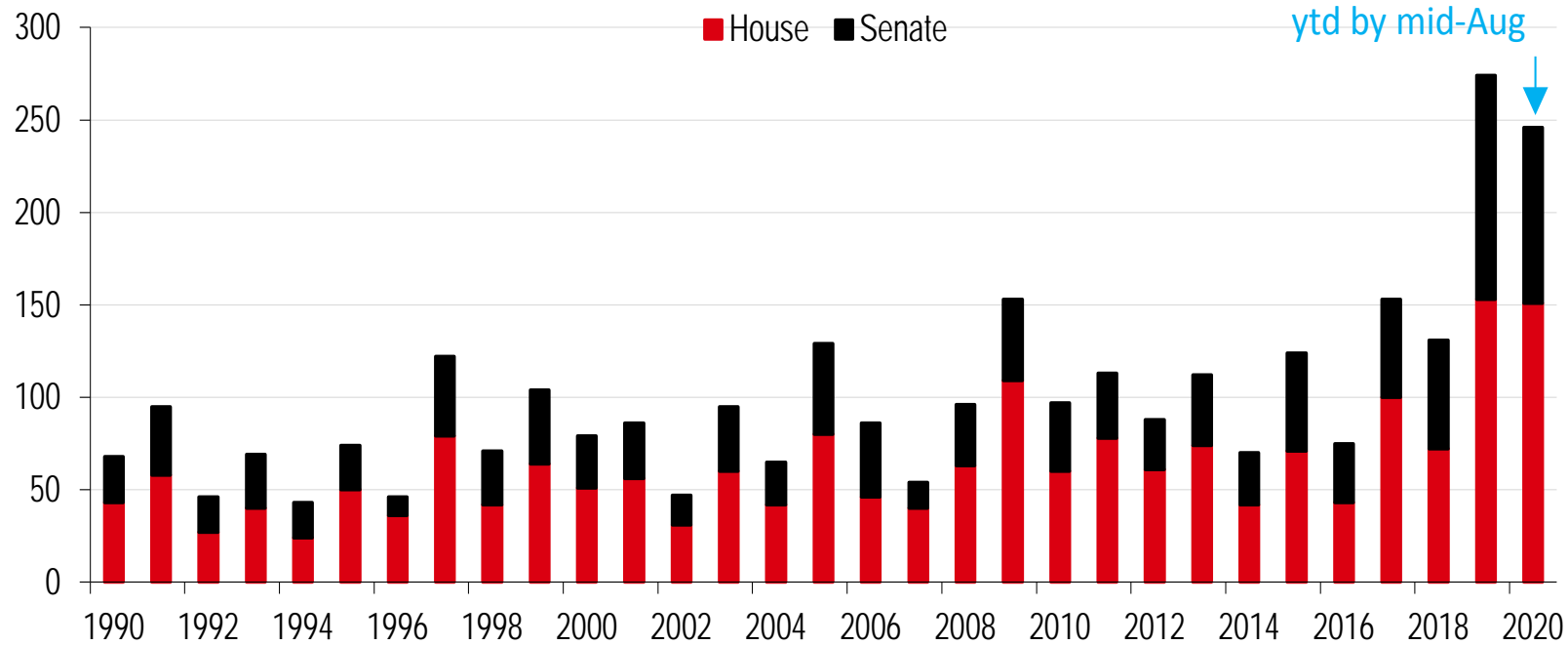
Source: Predictit.org, Bloomberg, HSBC

Implied tariffs on China and USD-CNY;  
lower tariffs could boost the CNY



## 5. US-China tensions to persist

Number of China-related legislative proposals and resolutions introduced into US Congress



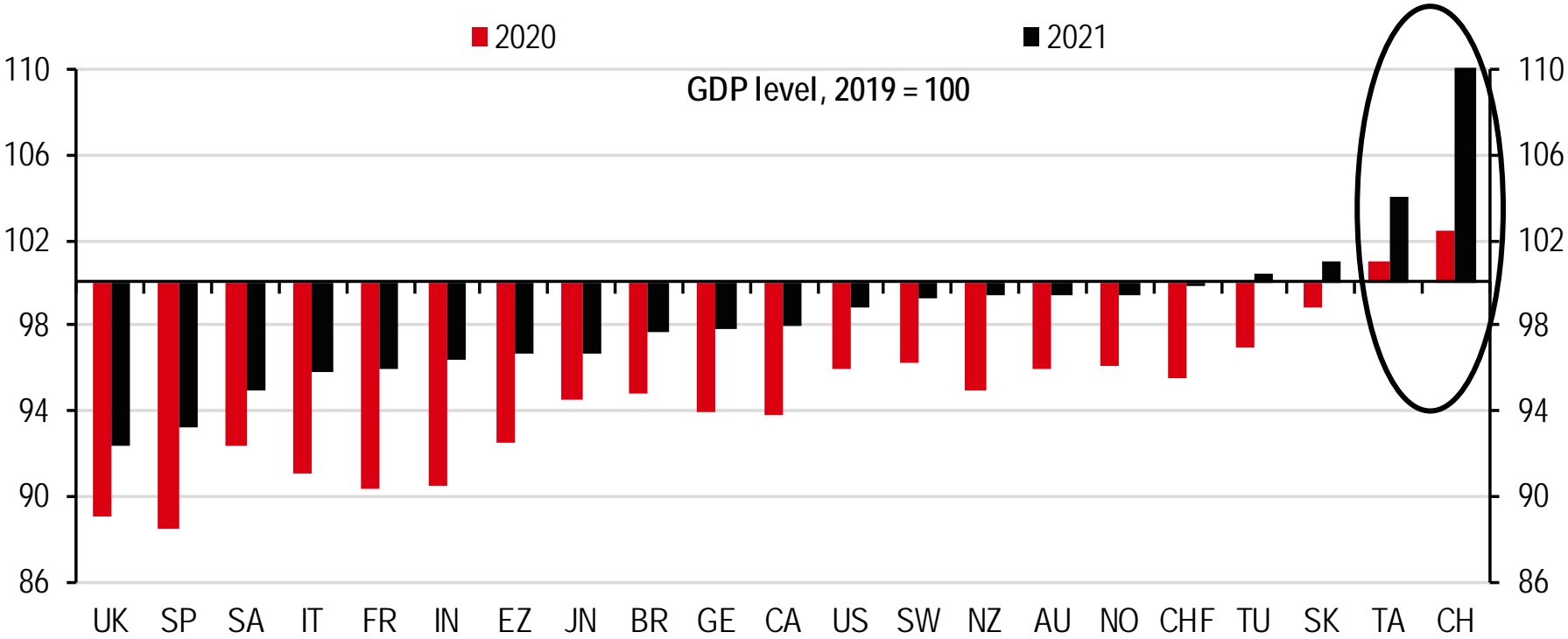
...annualized from mid-August, 2020 China legislative proposal on track to rise 30% over 2019

Source: US Congress, HSBC



# 6. The scarring from Covid & the recovery

Economic scarring set to be less evident in low debt countries and the US

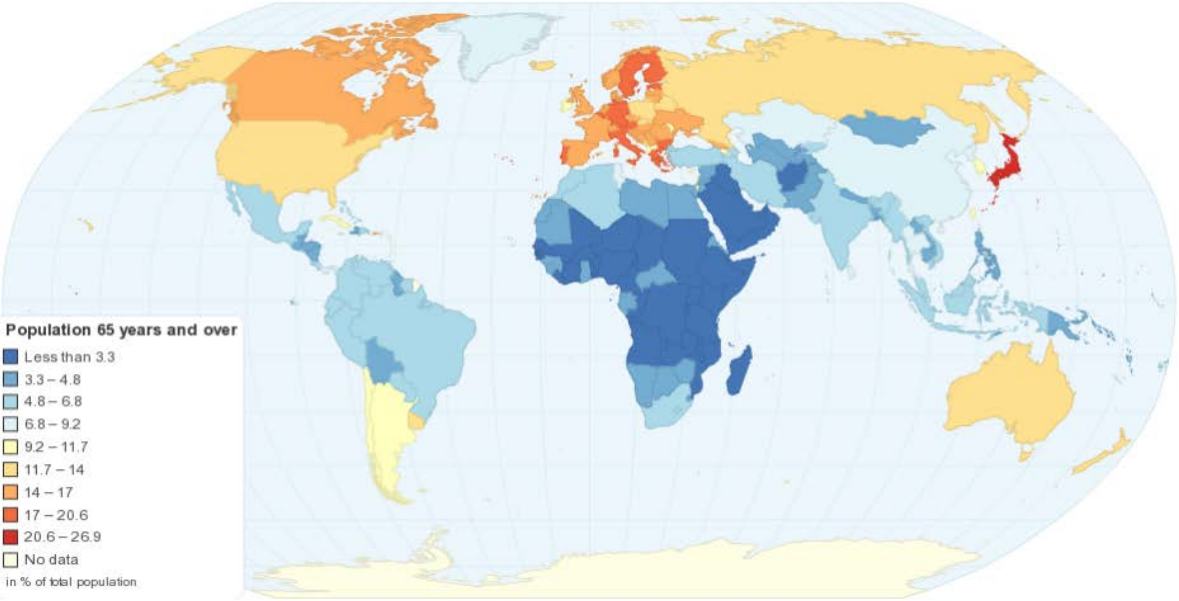


Source: Bloomberg, HSBC

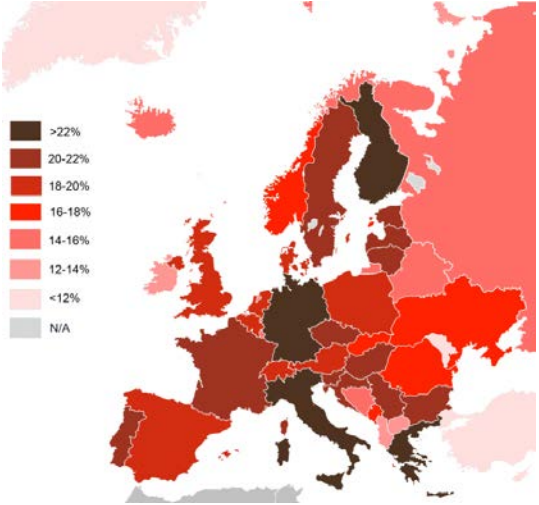


# 7. The Demographic Investment Story

Global look at populations > 65 years



A closer look at Europe

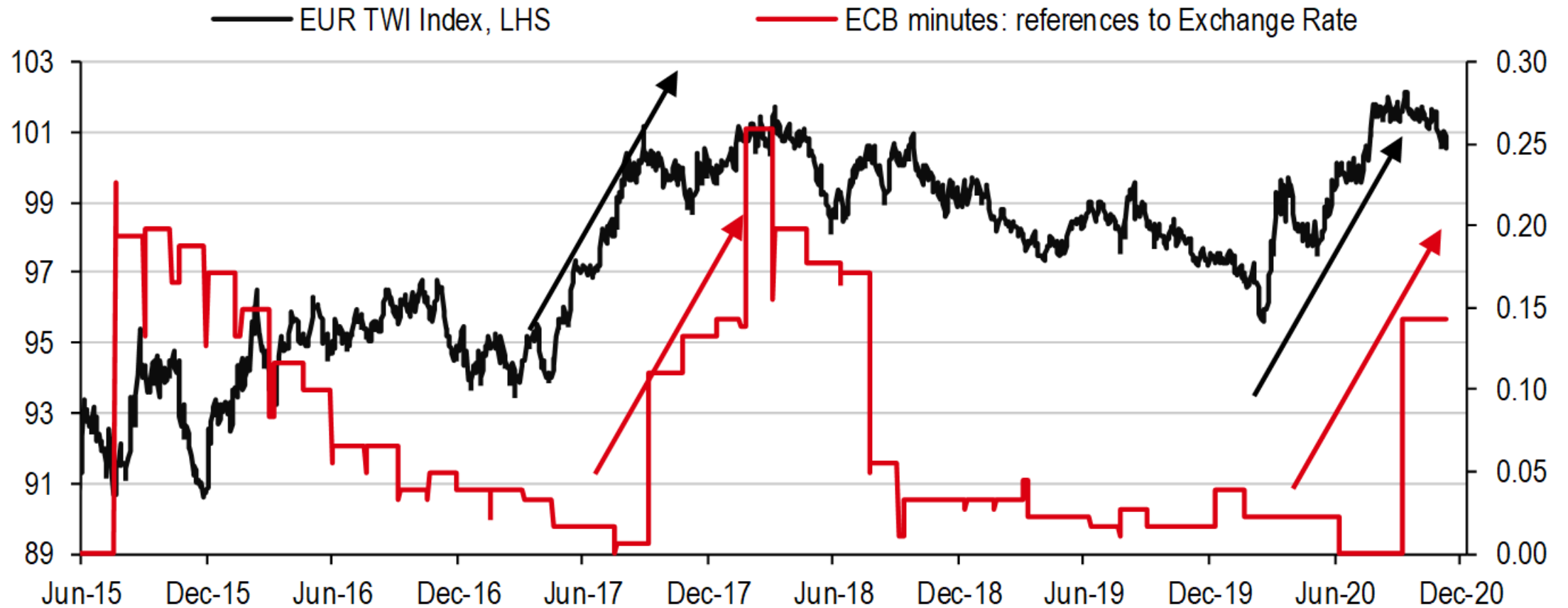


Sources: <http://chartsbin.com/view/1239>  
[https://en.wikipedia.org/wiki/Ageing\\_of\\_Europe](https://en.wikipedia.org/wiki/Ageing_of_Europe)



## 8. The EUR is in focus too

ECB references to the exchange rate have been rising lately

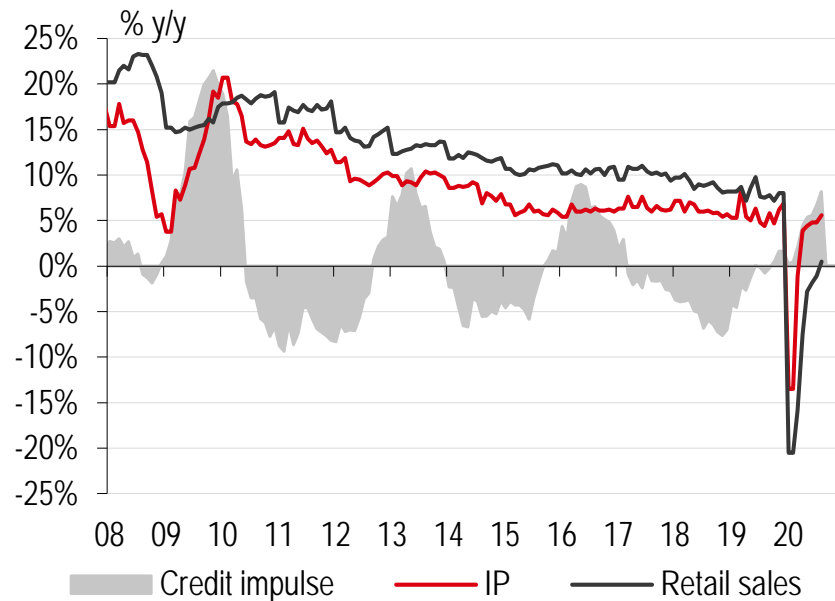


Source: Bloomberg, HSBC

# China & the RMB

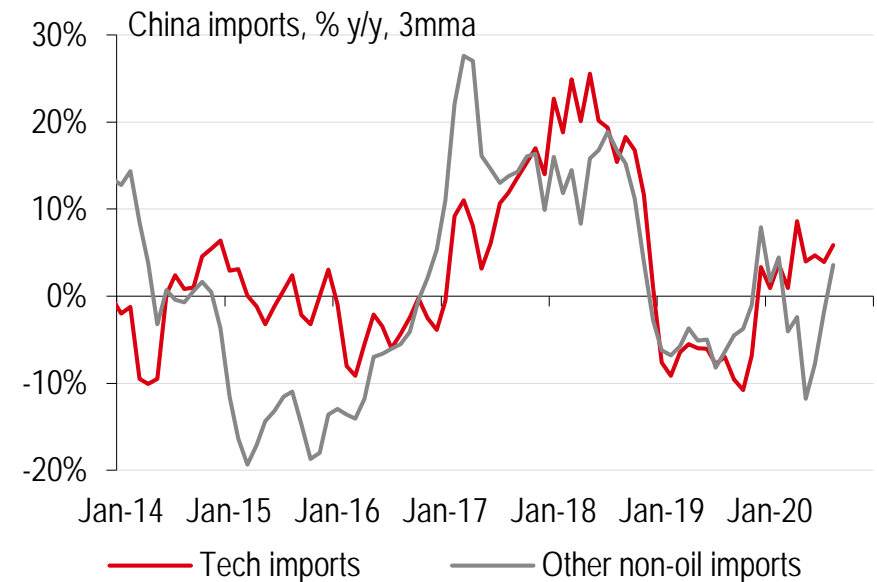
## 9. China's economic recovery is broadening

China's recovery is broadening from production to consumption



Source: Bloomberg, HSBC

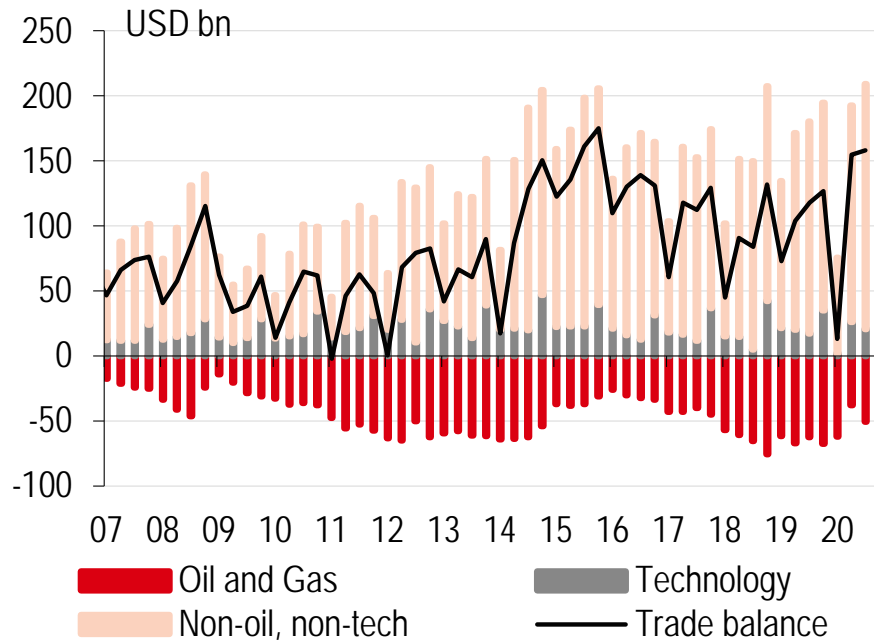
China's import demand is also broadening from tech-led to include other products



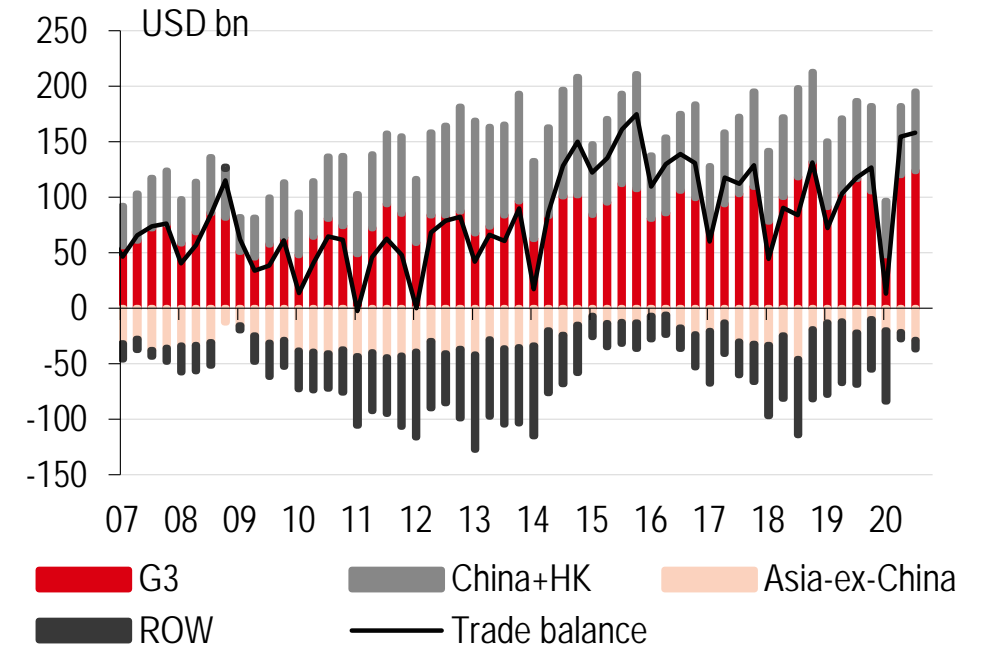
Source: CEIC, HSBC

# 10. RMB – a strong current account position

## China's trade surplus is very wide



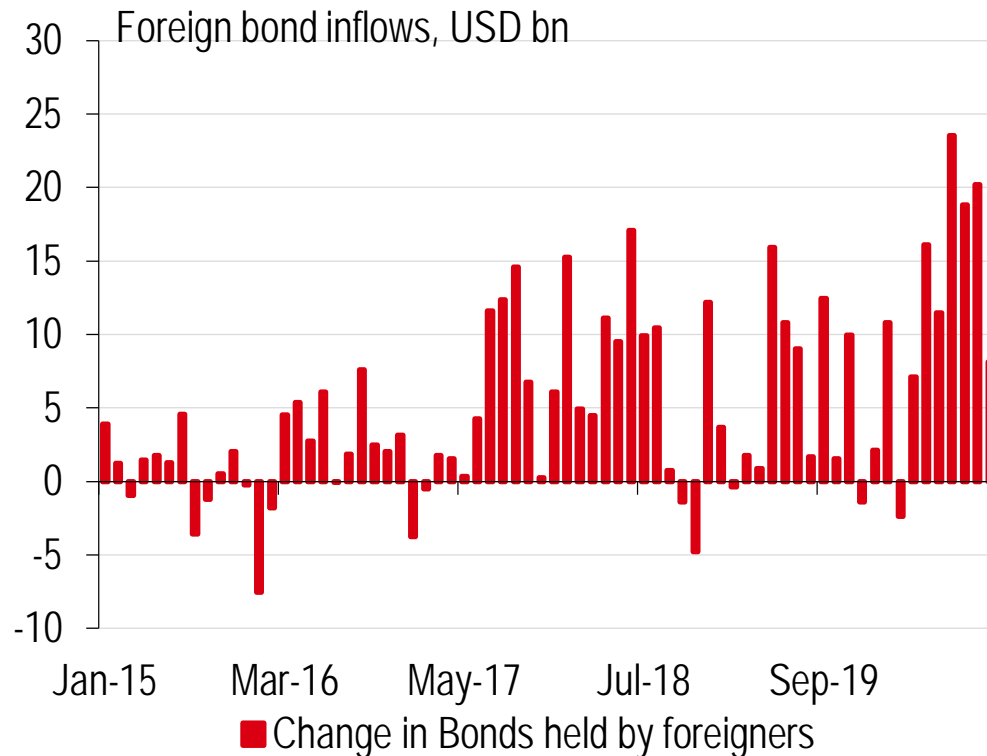
## Strong exports to 'G3'



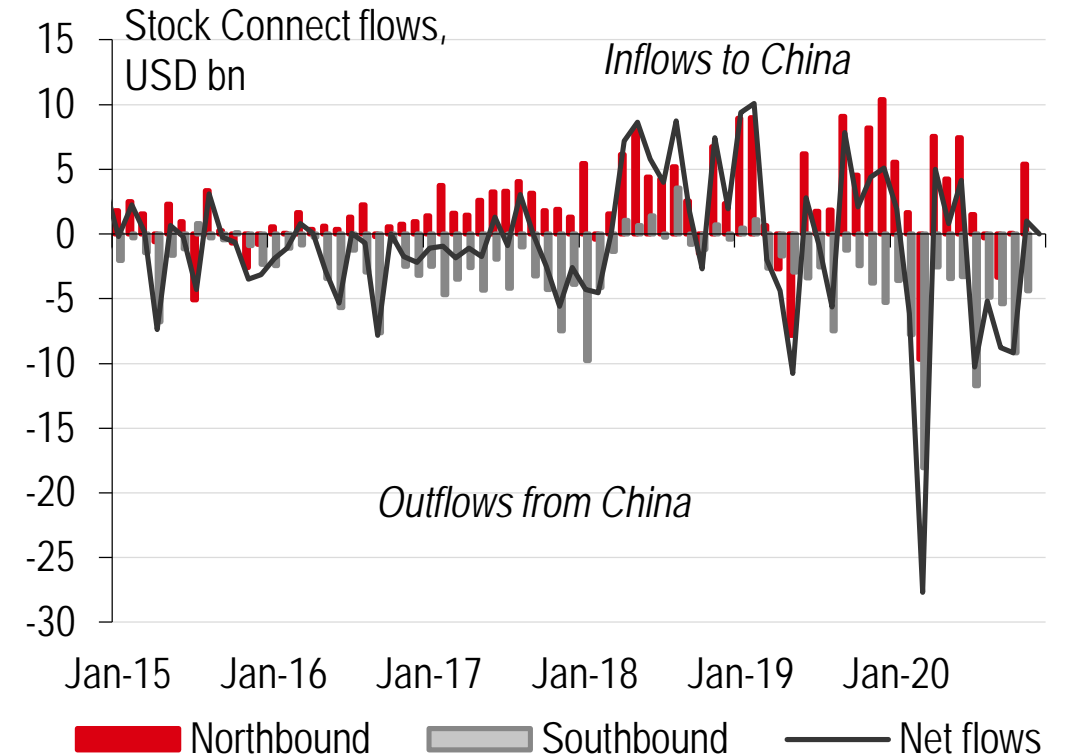
Source for both charts: CEIC, HSBC

# 11. RMB – More sensitive to portfolio flows

Foreigners' bond investments have increased due in part to index inclusion



Net Stock Connect flows

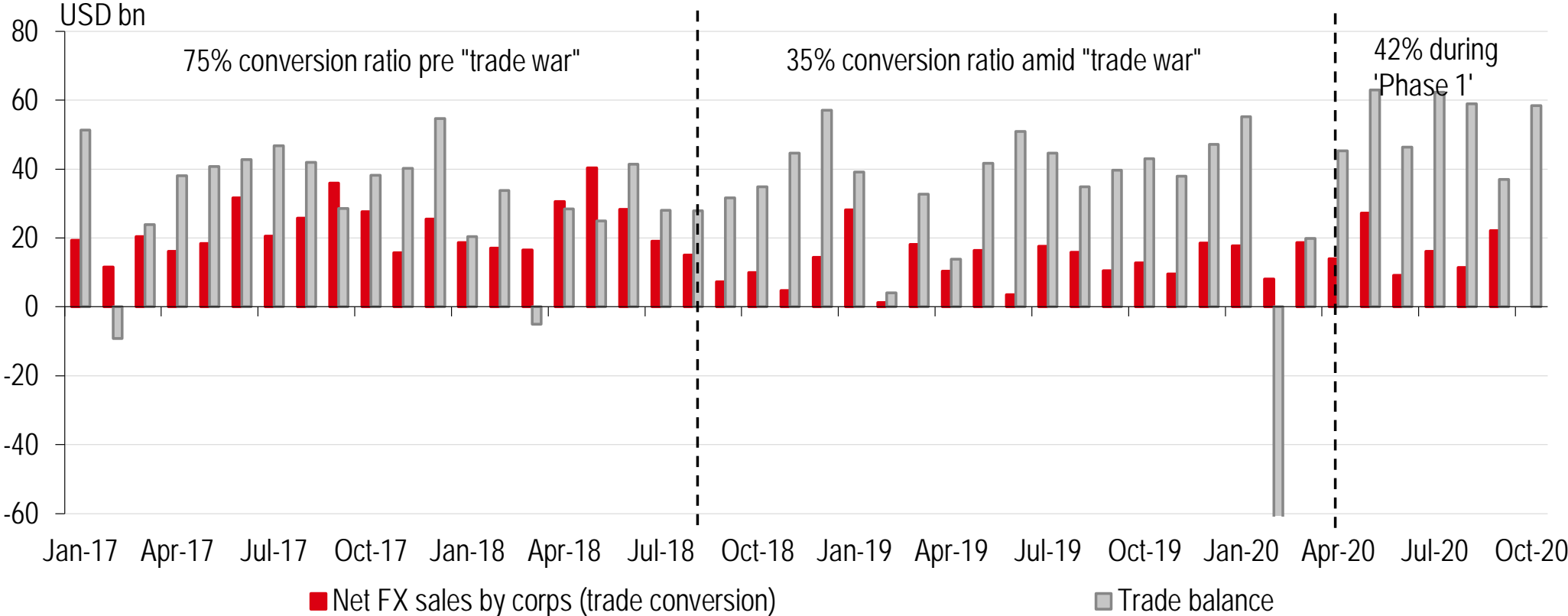


Source for both charts: CEIC, HSBC



# 12. Chinese corporates & hoarding USDs

Net FX settlement for goods trade purposes in China

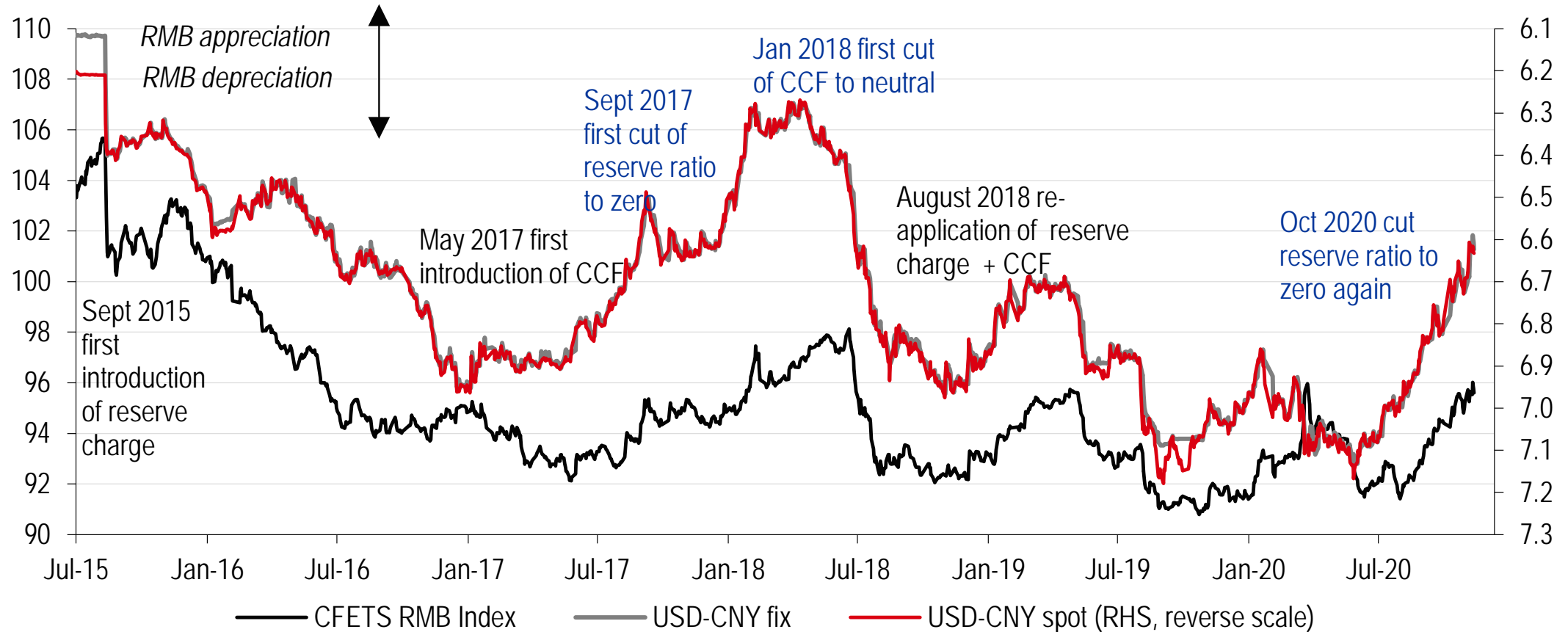


Source: CEIC, HSBC



# 13. History of the PBoC's counter cyclical FX policy tools

## Guiding the RMB without direct intervention

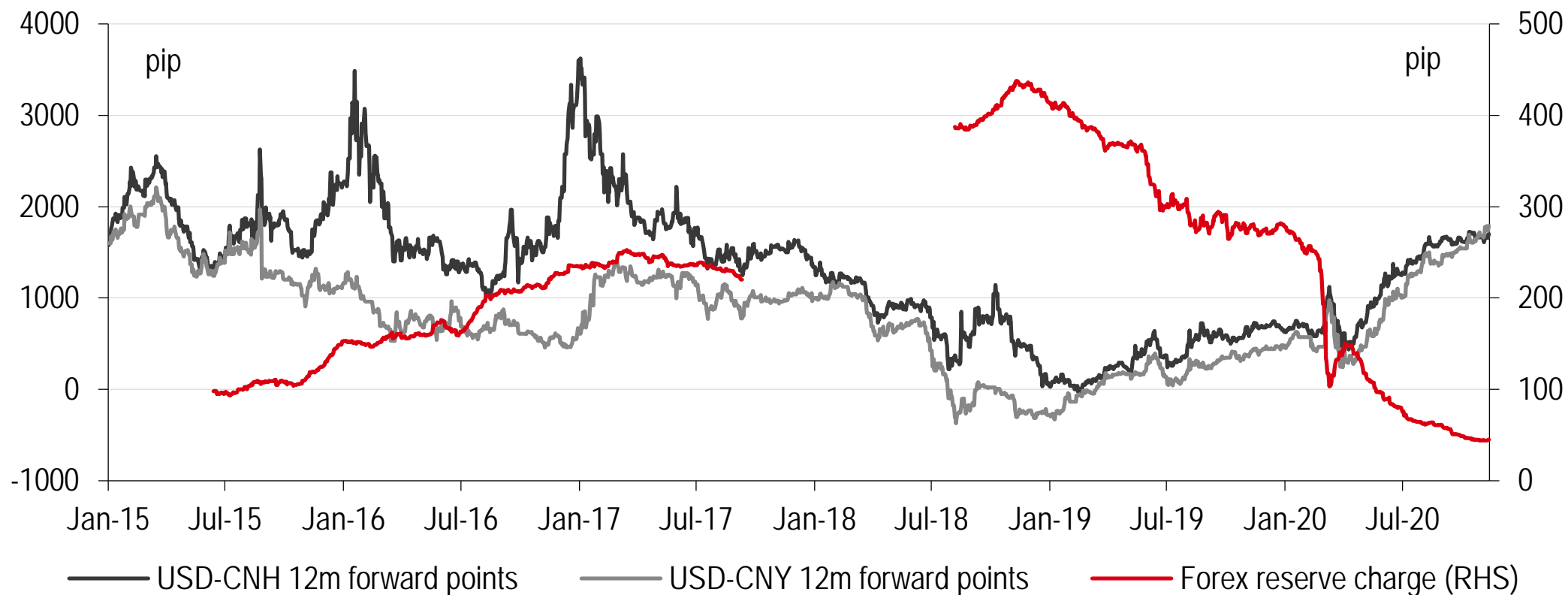


Source: Bloomberg, HSBC



# 14. History of CNH and onshore CNY FX points and effective cost of 20% reserve charge

Reserve charge is adjusted according to FX flow condition

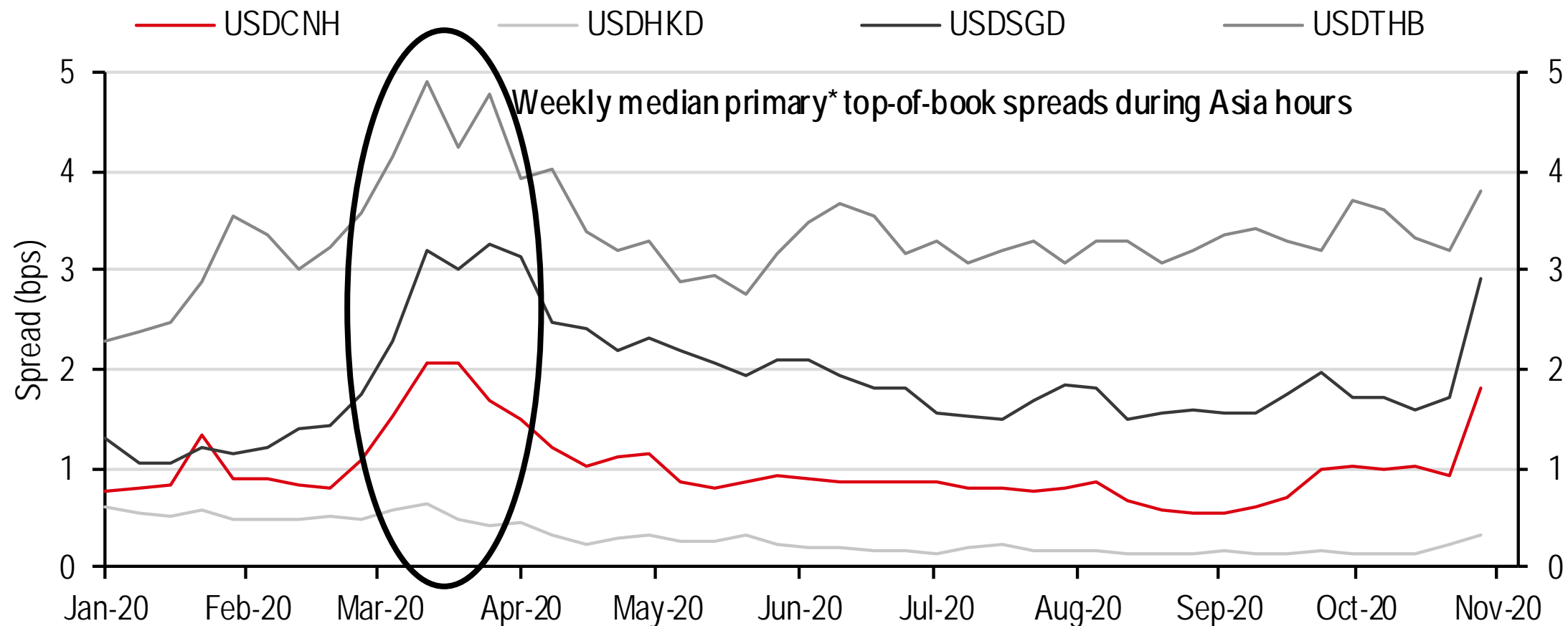


Source: Bloomberg, HSBC \*Note: The red line represents, for example, the additional cost of buying the one-year USD forward onshore with the 20% reserve charge; **for instance, the additional cost on 1y RHS outright forward is currently around 50pip (20%\*35\*6.70), assuming 1y US libor at 35bp.**



# Asia FX liquidity

## 15. Top-of-book spreads during Asia hours

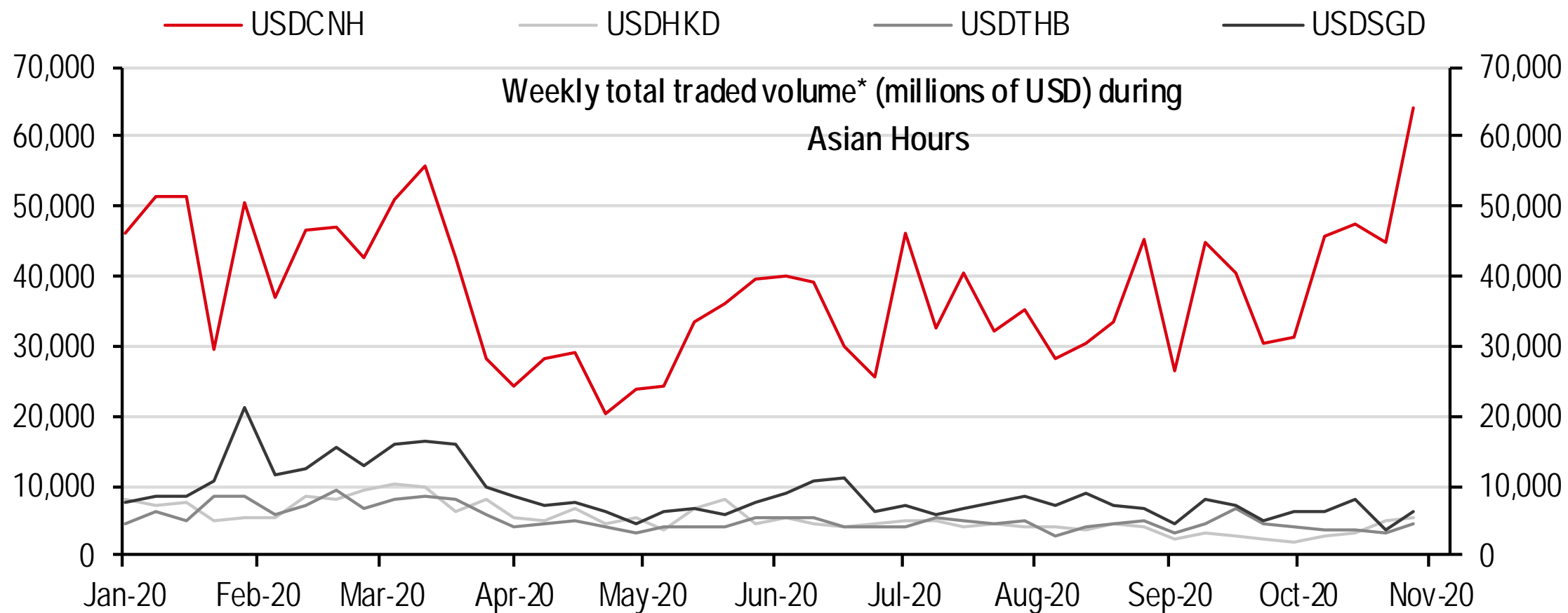


Source: HSBC,

\* EBS for USD/CNH and Reuters for USD/HKD, USD/SGD and USD/THB



## 16. Traded volume

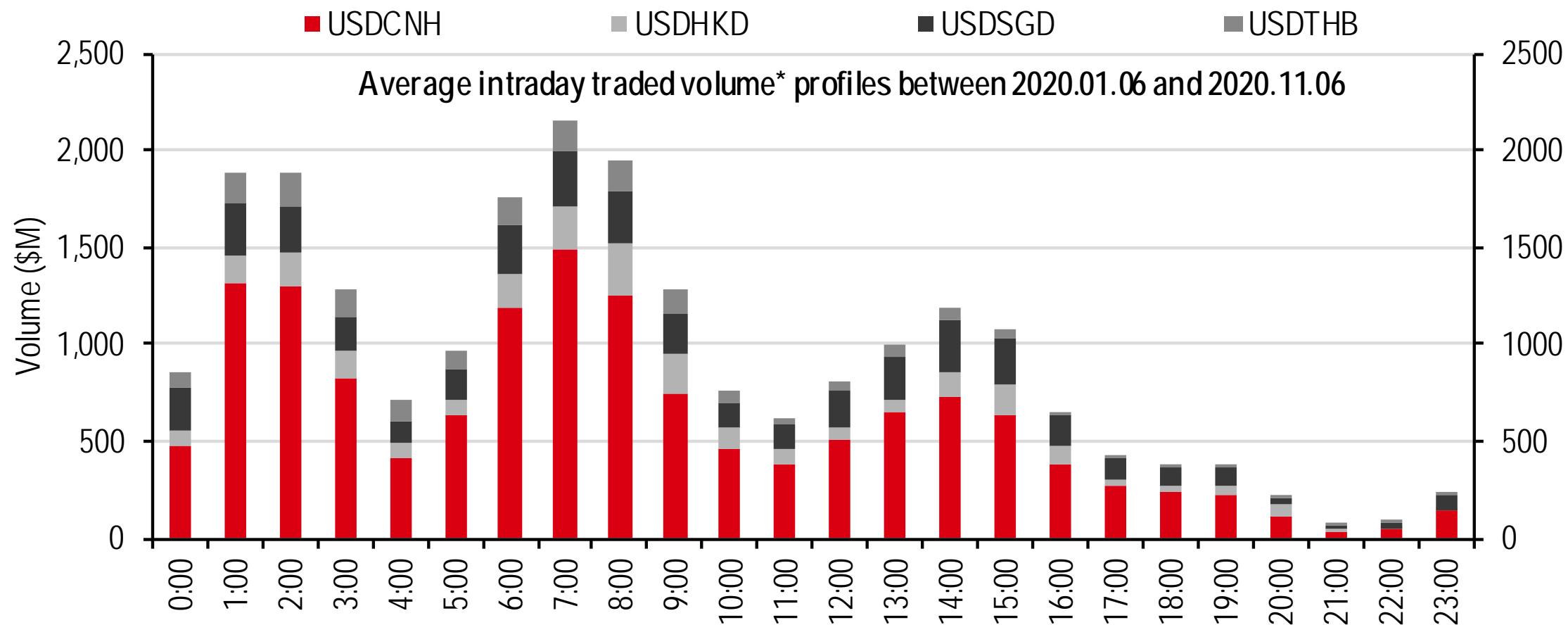


Source: HSBC

\*On EBS, Reuters, Hotspot, Currenex, LMAX, ParFX, Gain GTX and FXall



## 17. Intraday traded FX volume



Source:

\*On EBS, Reuters, Hotspot, Currenex, LMAX, ParFX, Gain GTX and FXall



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