Revised V, U and L-Shaped Recoveries

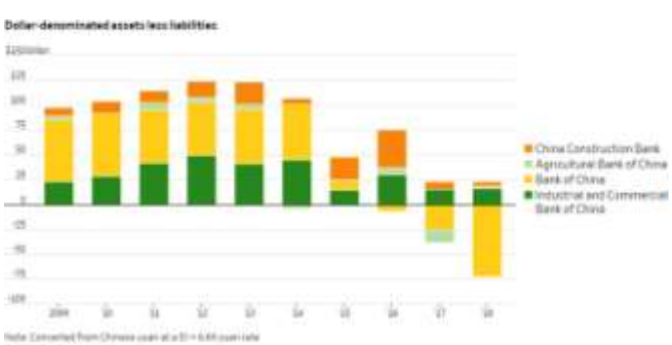
		V-Shaped Recovery Covid-19 Gone in 6 Months (30%)		U-Shaped Recovery Covid-19 Suppressed in about a Year (30%)		L-Shaped Recovery Covid-19 Drags on for 18+ Months (40%)	
Type	**Index**	Current Shock	Revised Shock	Current Shock	Revised Shock	Current Shock	Revised Shock
Equity	S&P500 Index	-10%		-35%		-20%	-40%
Bond	CBOE Interest Rate 10-Year T-N	49.25%		-100%		-25.37%	
Forex	USDCNY	2.2%	7.1%	19.82%	21.4%	5.72%	35.7%
Commodity	Brent Crude	-0.24%		-28.17%		-12.21%	

Analysis

We are revising our predictions for the V/U/L-shaped recovery scenarios. China is currently facing funding concerns, therefore our predictions regarding USDCNY under the V/U/L shaped recovery scenarios have changed.

Chinese average monthly exports declined $15bn to $177bn since the outbreak of COVID-19 began. It's been estimated that the combined effects of export declines and domestic economic contraction can put as much as 200m jobs at risk. With the additional and necessary expenses on food and medical supplies, its inflow of foreign currency is falling behind its outflow. Moreover, it is wildly rumored that, although China is rich in foreign assets (including collaterals held against its BRI loans, such as mineral rights), its state-owned commercial banks are suffering from dollar liquidity challenges, forcing its central bank to pledge its US Treasury holdings as collaterals to help them avoid punishing margin calls. China's unencumbered foreign reserves may be as low as USD 200 ~ 400bn. This situation may force its central bank to devalue its currency as one way to balance inflow against outflow.

Thus, we predict that under V-shaped recovery USDCNY will range in 7.5. In an extended U-shaped recovery, as in a second wave in the US, USDCNY will drop by as much as 8.5. In the L shaped recovery USDCNY may drop to as much as 9.5, unless there is an effective way for China to rebalance its inflow and outflow in a recovering global economy.



The major Chinese commercial banks once had more dollar assets than liabilities. Not anymore.

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June 2020

Revisiting April 2020 Opinions

OUR OPINIONS IN APR 2020	LATEST UPDATES
1. The Emerging scenario in N. Korea is that Kim's uncle to be deputized to the Military, his sister deputized to Politburo, and older brother deputized to the intelligence apparatus. If N. Korea's situation does not deteriorate further, the Moon Govt will lean towards China as before, while Japan will struggle with a massive fiscal hole from the Olympics.	Kim Jo-Yong appears to have raised her profile and tightened her grip on the family stronghold, as tensions flare with South Korea, despite Kim Jung-Un recently backing down. Samsung Electronics puts an IC plant in Xian into operation as planned, which indicates S. Korea’s attitude towards China despite the immense pressure to side with America.
2. China threatens to impose economic sanctions on Australia, declaring that Australia “will feel more pain”, if it supports America in a ‘new cold war’. Eventually, Canada, NZ, France, Italy, etc. will fall in line. China will renegotiate mineral rights as B&R collaterals in Africa but will still get some concessions. Underweight big mineral exporters to China like BHP, Vale.	China imposed an 80.5 percent tariff on Australian barley imports from 19 May. Australia is the biggest barley supplier to China, exporting about A$1.5 bn to A$2 bn worth a year, more than half its exports. It seems to be that the EU and the rest of the Five Eyes have taken a softer stance against China.
3. China has been dramatically purchasing and stocking food for the Chinese people in response to COVID-19. Farmers regions and producers have faced additional challenges due to locust swarms that have consumed crops and politically driven price control.  A customer wearing a face mask buys flour at a supermarket on May 12, 2020 in Taiyuan, Shanxi Province of China.	China has an outstanding official food reserve which can support 1.4 billion people for more than a year. Questions have been raised however as to the accuracy of those figures especially given the frequency of warehouse fires during audits. Moreover, due to the manic stockpiling of supplies caused by Covid-19, the Chinese government will be forced to import more to maintain the national food reserve. Statistics show that meat imports in China during the first 4 months of the pandemic soared 82% compared to last year, with food prices rising 14.8% as well. There are also considerable downside risks for food producers. The largest locust swarm in decades poses a significant threat to food security across East Africa, the Middle East, and in parts of South Asia. This poses a huge risk to China’s strategy of stocking food during the current pandemic as they are major suppliers of food (especially rice) to China. Additionally, politically driven price control prevents the market from returning to equilibrium, which in turn worsens the food shortage, as supply and demand are being artificially determined and manipulated.

4. Reduce financials with significant exposure to SMEs and real estate.	With substantially less resilience towards steep economic downturn than large corporations, SMEs say they will be forced to close permanently without financial support from the government. The real estate market also appears to be struggling. Factors such as social distancing, job losses, restrictions on lending and home sales have declined drastically across all markets compared to 2019.
5. Choose value-adding tech and biotech bets, especially those solving urgent problems and operating in locations with manageable political uncertainties, e.g. Taiwan, Singapore, S. Korea, Japan, Germany, and Switzerland.	With an urgent need to save the nation's GDP, value-added industries have become absolutely essential. A number of biotech firms have captured their values, while tech companies in Taiwan and South Korea have experienced a recent market surge.
6. Organically reduce US exposure to minimize currency devaluation risk; with $3T and eventually more to be printed.	The U.S. dollar has fallen and is believed to "certainly crash" under immense pressure from the US fiscal deficit, heavy government borrowing and interest rates near zero, according to former chairman at Morgan Stanley, Stephen Roach, from mid-May.
7. Slowly increase allocation to physical commodities facing scarcity that do not require large storage costs or deliveries.	From Apr, major gold ETF +7%, silver ETF +18%, oil ETF +46%.
8. Bonds switch to higher yield sub segments targeted by central bank buying programs.	Central banks in the US, Europe and emerging markets, launched the bond repurchase program successively to create a central "put" in that market. Investors will enjoy the high yield but with lower risk of default thanks to the temporary government guarantees.

Research Disclaimer:

The material in this report is based on currently available public information that we consider to be reliable. However, we do not represent it as accurate and complete and should not be relied upon as such.

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Contact

Email
enquiries@hedgespa.com

Phone
+65 9183 1492

Twitter
@HedgeSPA