

20th January 2021

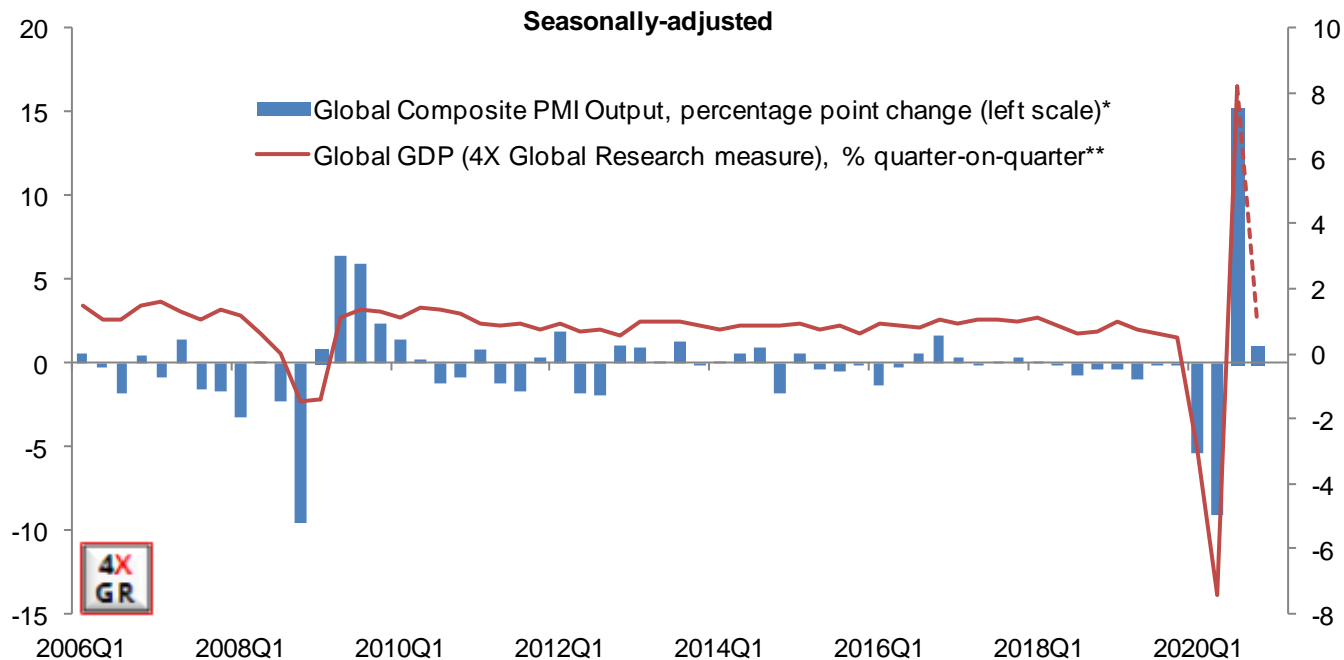
4X Global Research Presentation

***Olivier Desbarres
Director***

***Big Picture:
Global GDP growth, CPI
and asset price inflation***

Global GDP growth collapse in Q4 2020

- Global GDP growth collapsed to around 1% qoq in Q4 from >8% qoq in Q3 based on global composite PMI data.

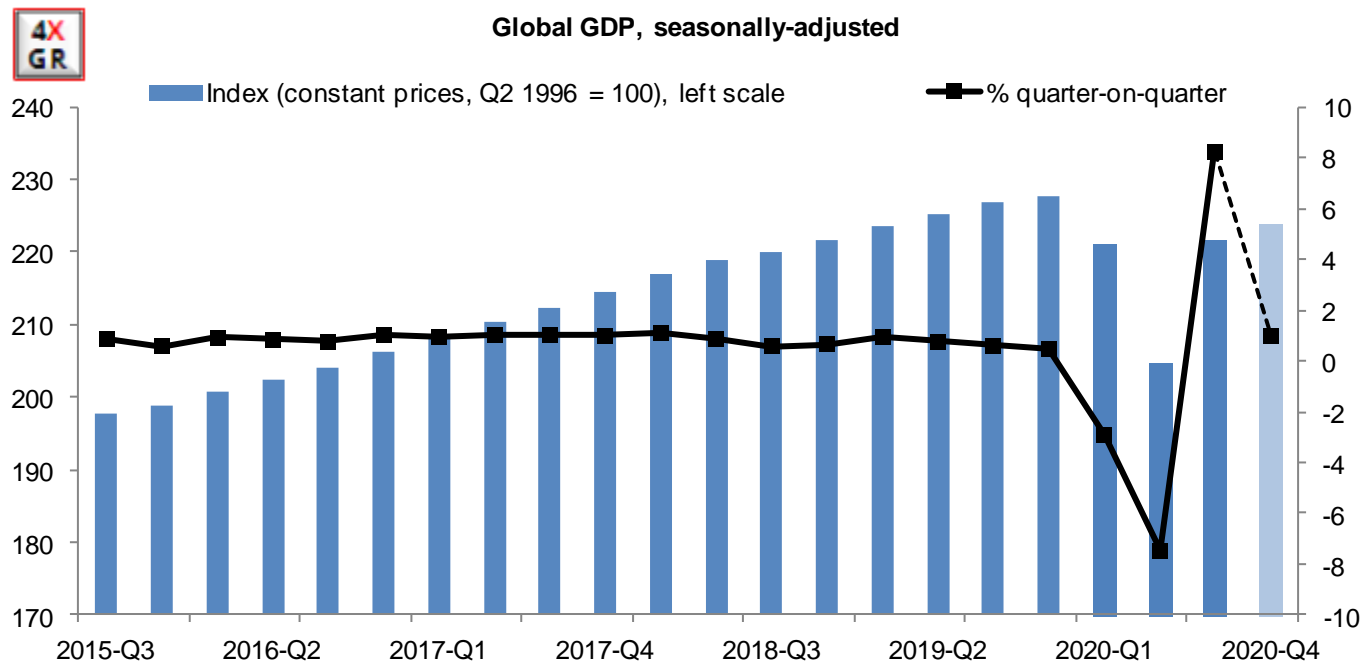


Source: 4X Global Research, IHS Markit/JP Morgan, IMF, national statistics offices, OECD

Note: *Weighted average of Global Manufacturing Output Index and Global Services Business Activity Index; ** Using IMF country weights, Q4 2020 is 4XGR estimate

“Permanent” loss of global output

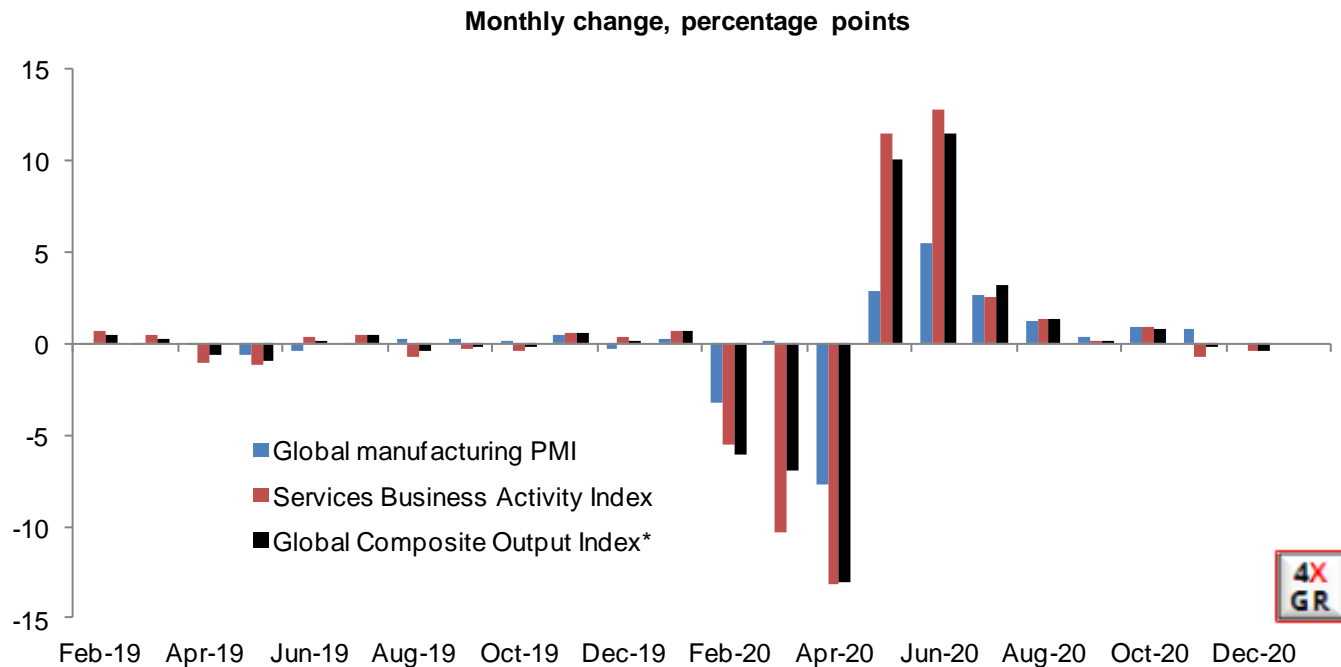
- Global GDP in Q4 2020 about 1.8% below Q4 2019 level, 4% below “trend” level
- Global GDP contracted about 3.6% in 2020, vs “only” 0.5% in 2009



Source: 4X Global Research, IHS Markit/JP Morgan, IMF, national statistics offices, OECD

Services hit hardest

- Modest pick-up in growth in October, sharper slowdown in Nov-Dec, particularly in services sector as national lockdowns re-instated

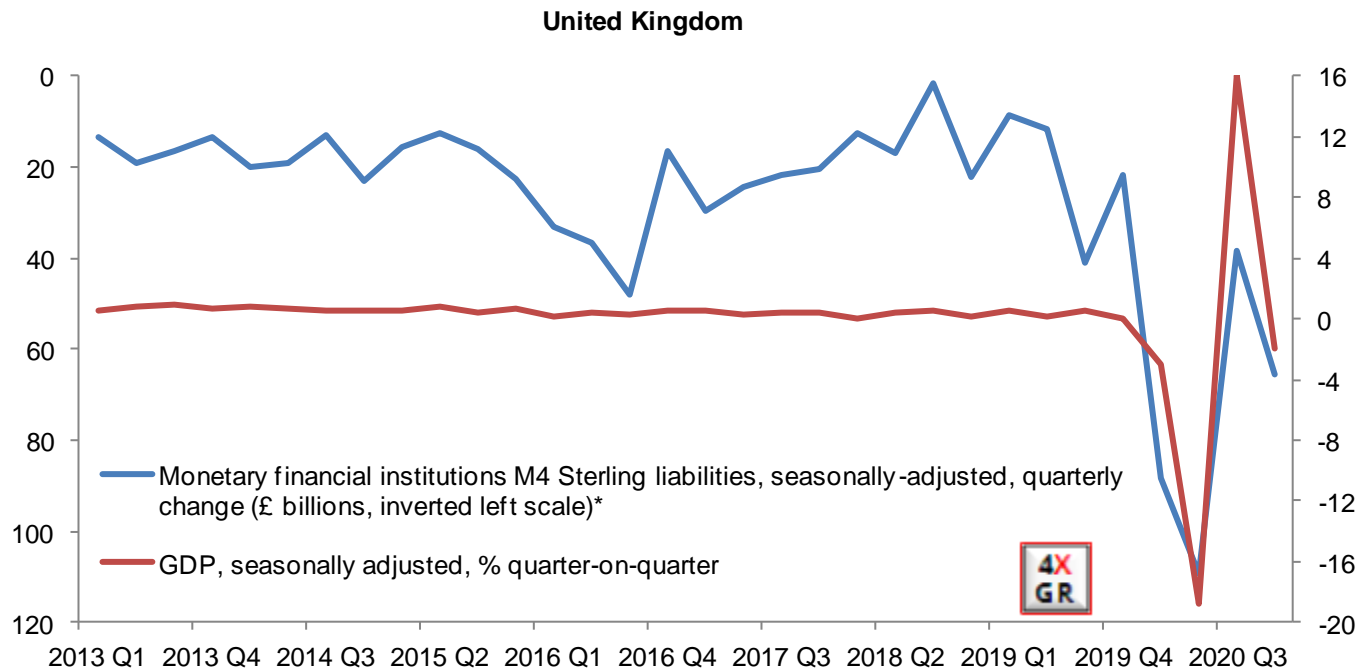


Source: 4X Global Research, IHS Markit/JP Morgan

Note: *Weighted average of Global Manufacturing Output Index and Global Services Business Activity Index

Savings, not spending or (real) investment

- Ultra-loose monetary and fiscal policies, but lockdowns have limited opportunities for households to spend and corporates to invest. Saving rates have spiked.
- UK private-sector cash balances rose £282bn in March-Nov and individuals repaid (net) £17bn of consumer credit.

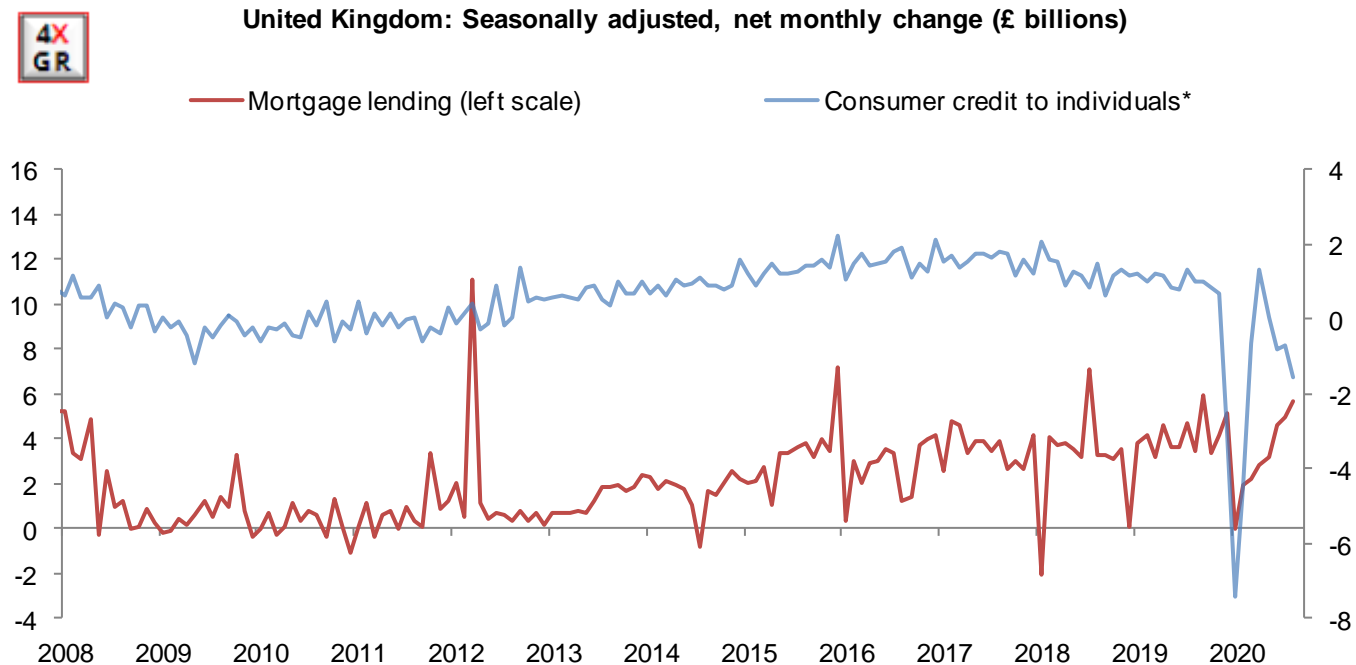


Source: 4X Global Research, Bank of England, Office of National Statistics

Note: Latest data point is October-November 2020; * Includes household sector, private non-financial corporations and other financial corporations excluding intermediaries

UK: Repaying loans, borrowing to buy property

- Stamp duty cut has added fuel to domestic property market

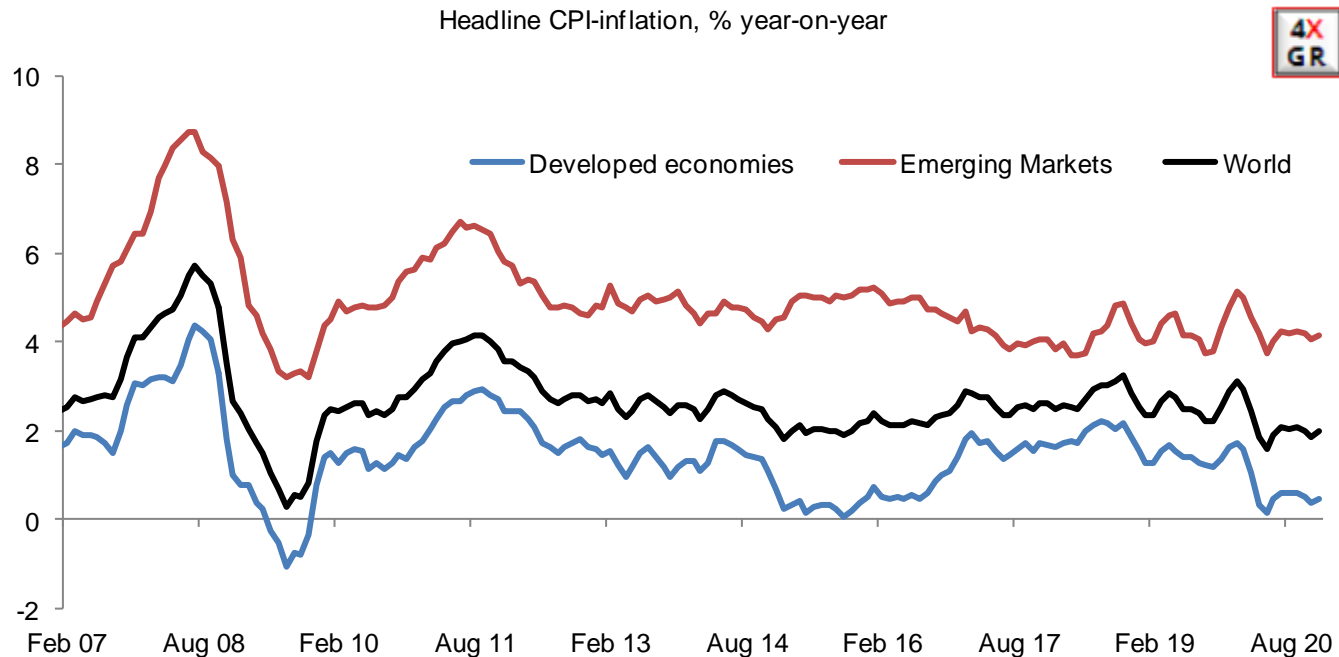


Source: 4X Global Research, Bank of England

Note: * Excludes student loans

Global CPI-inflation likely to remain low for now

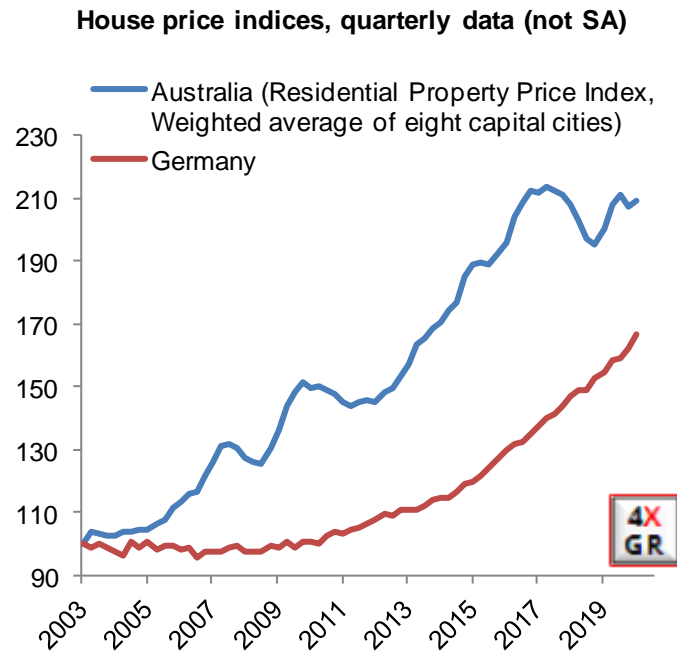
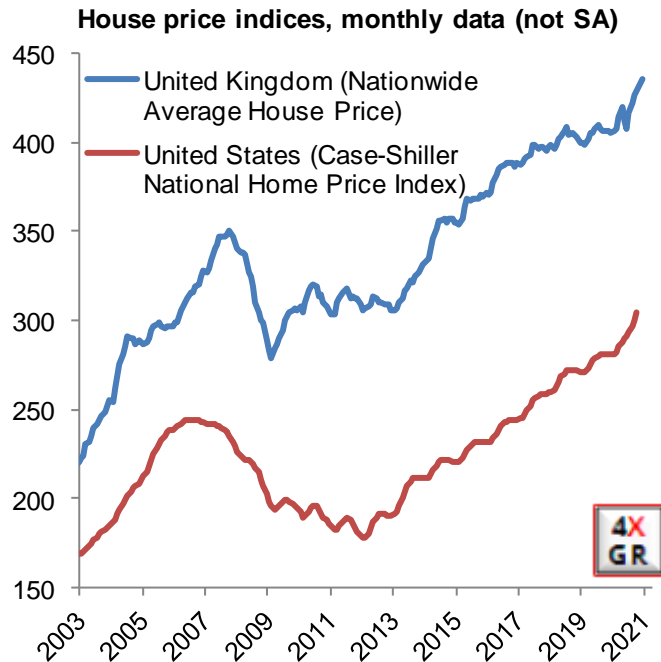
- Global headline CPI-inflation low and stable (2%) and unlikely to rise much until populations vaccinated, lockdowns and social distancing restrictions lifted and pent-up consumer demand unleashed.



Source: 4X Global Research, World Bank

But asset price inflation rampant

- Cash not saved (or used to repay debts) has found its way into equity and property markets. Domestic policies have exacerbated trend.



Source: 4X Global Research, Australian Bureau of Statistics, Case-Shiller, Destatis, Nationwide

China

China = 40% of world GDP growth in Q4

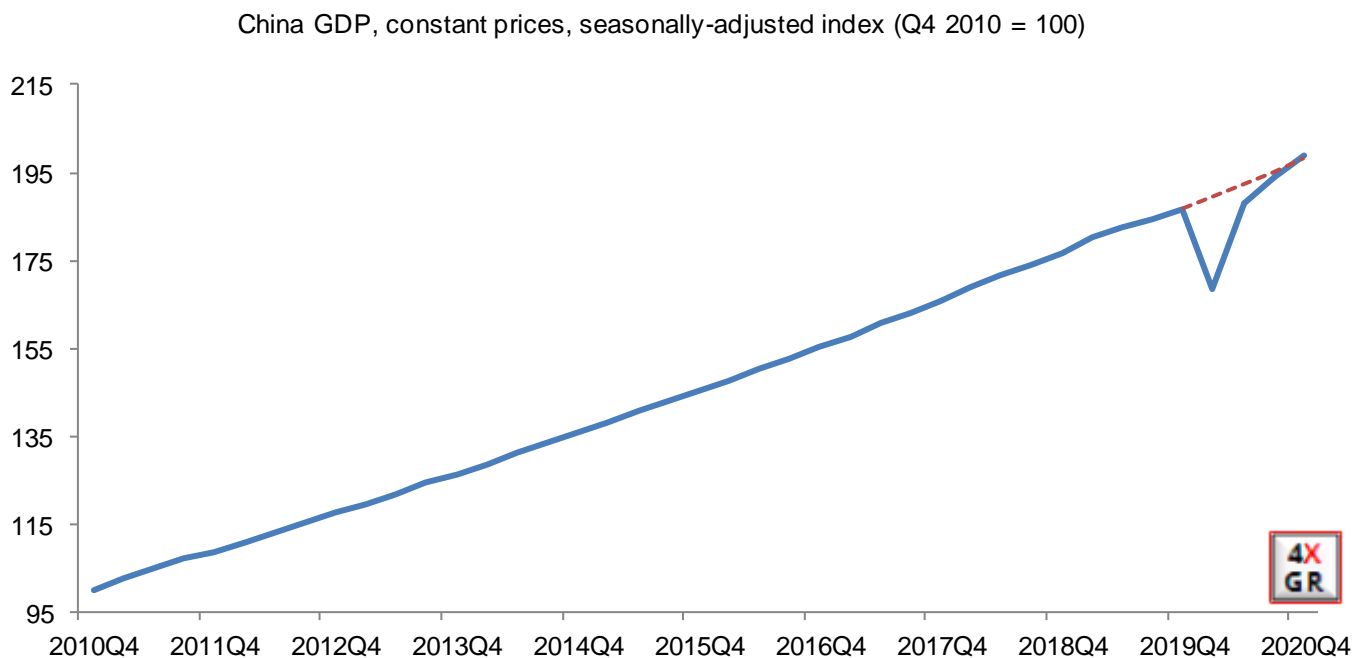
- China GDP growth (SA) 2.6% qoq in Q4 2020, 2.3% in full-year 2020.
- China contributed about 40% of world growth in Q4.



Source: 4X Global Research, IMF, national statistics offices, OECD

Chinese GDP back on “trend”

- GDP growth +6.5% year-on-year in Q4 2020.

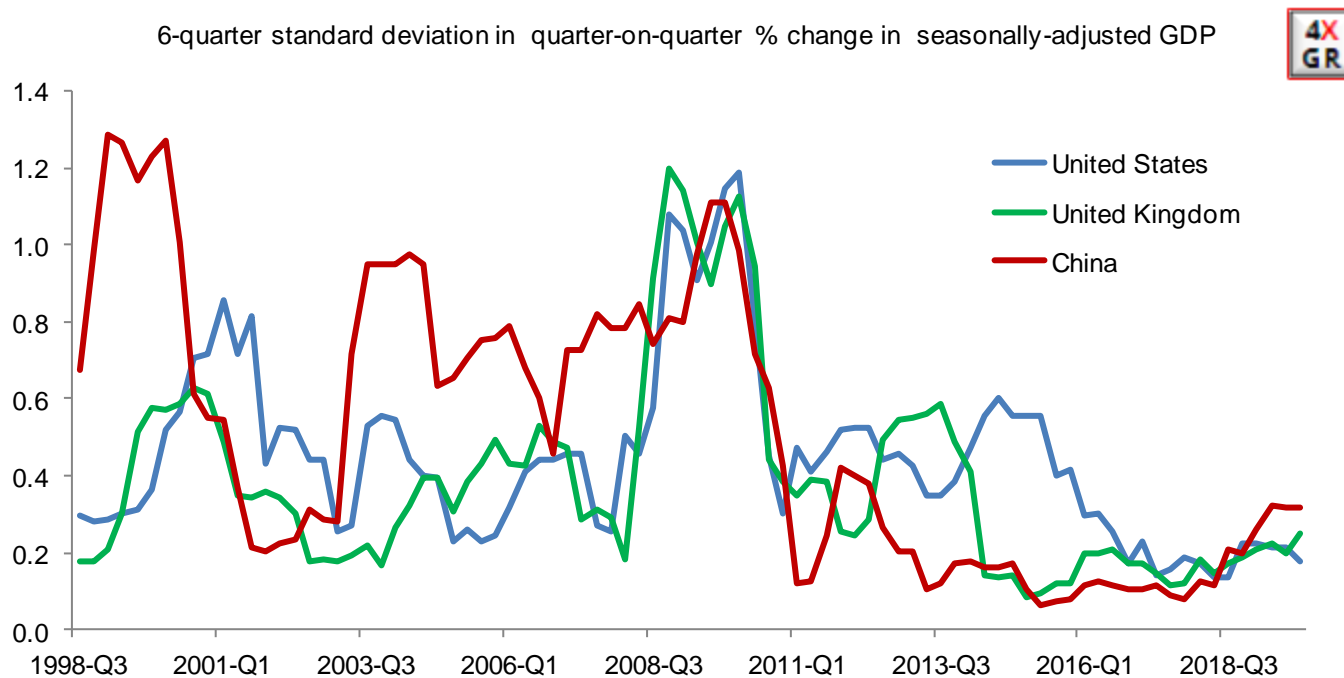


Source: 4X Global Research, National Bureau of Statistics of China, World Bank

Note: Red line is trendline and assumes that Chinese GDP would have continued to rise by 1.5% qoq in Q1, Q2 and Q3 and Q4 2020.

Chinese growth less volatile until recently

- Between 2010 and 2019 volatility in GDP growth in China collapsed and was consistently been below volatility in US and UK. Volatility in volatility of Chinese GDP growth near zero between 2015 and 2018.



Source: 4X Global Research, National Bureau of Statistics of China, UK Office of National Statistics, US Bureau of Economic Analysis

Shape of Chinese GDP recovery broadly “true”

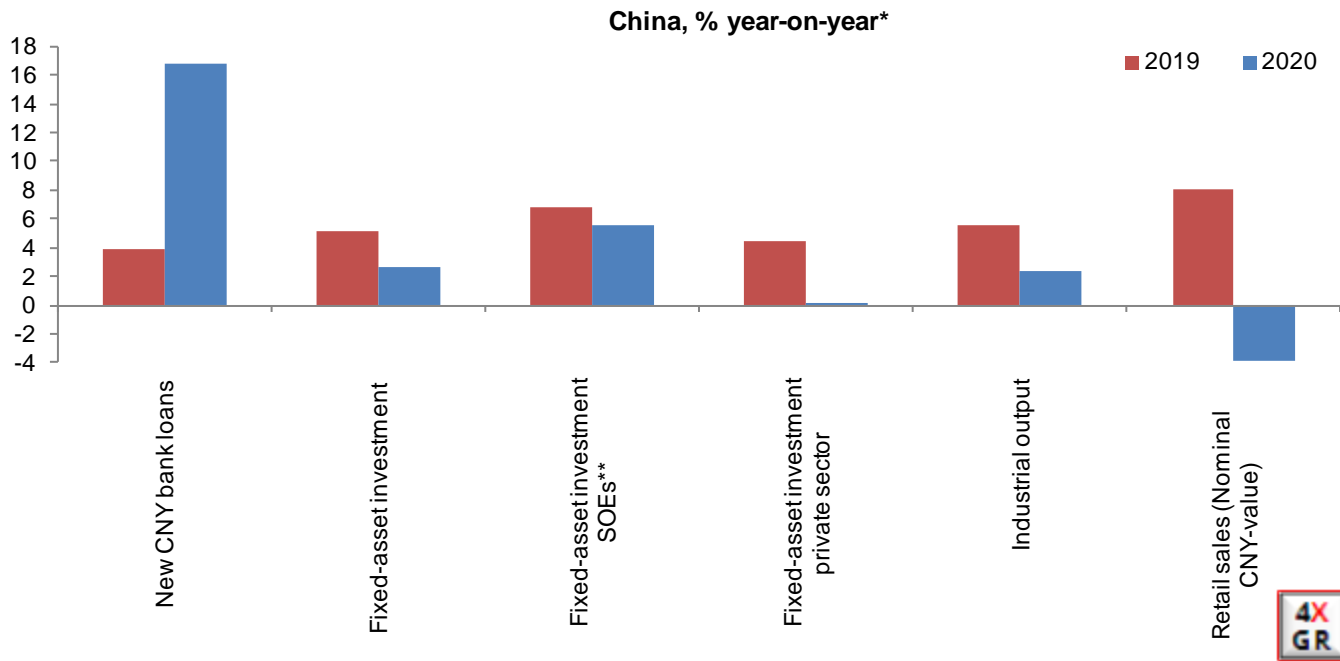
- Official Chinese GDP data likely “smoothed” but economy has matured and policy-makers have more levers at their disposal than US and UK counterparts, including government infrastructure spending and PBoC’s control of Renminbi.
- Chinese quarterly GDP data broadly reflect general trend (if not level) in growth.



Source: 4X Global Research, National Bureau of Statistics of China, Caixin/HSBC

“Old” levers of Chinese growth back in play

- China could not prevent 9.7% qoq GDP collapse in Q1 but relied on “old” levers of growth in Q2-Q4: bank lending to large corporates, government infrastructure spending and external trade.
- Medium-term plan of boosting domestic consumption growth has taken back-seat.



Source: 4X Global Research, National Bureau of Statistics of China

Note: * Data for Fixed Asset Investment and industrial output are for January-November; ** state-owned/controlled enterprises

China's export boom

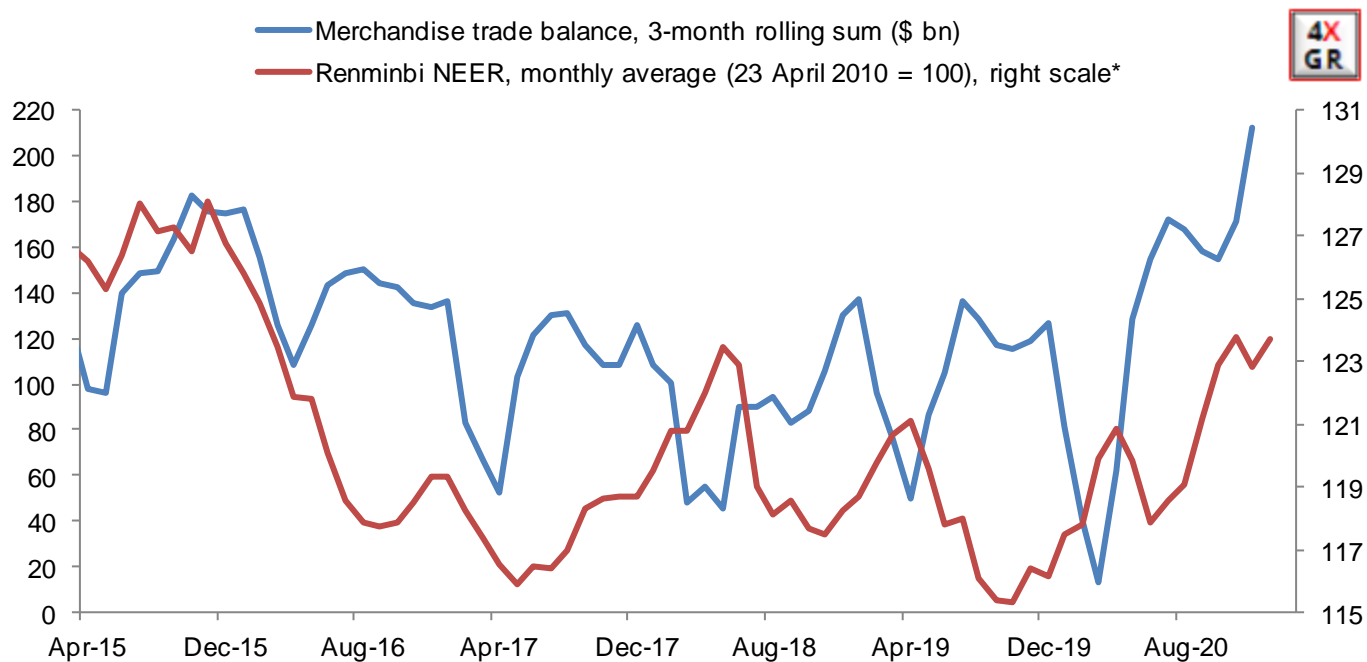
- \$-value of exports of goods +18% yoy in December, +4% in 2020.
- \$-value of imports of goods +6.4% yoy in December, -0.6% in 2020.



Source: 4X Global Research, National Bureau of Statistics of China

CNY appreciation modest given trade surplus ...

- Renminbi Nominal Effective Exchange Rate (NEER) has appreciated but by less than implied by China's external trade surplus.

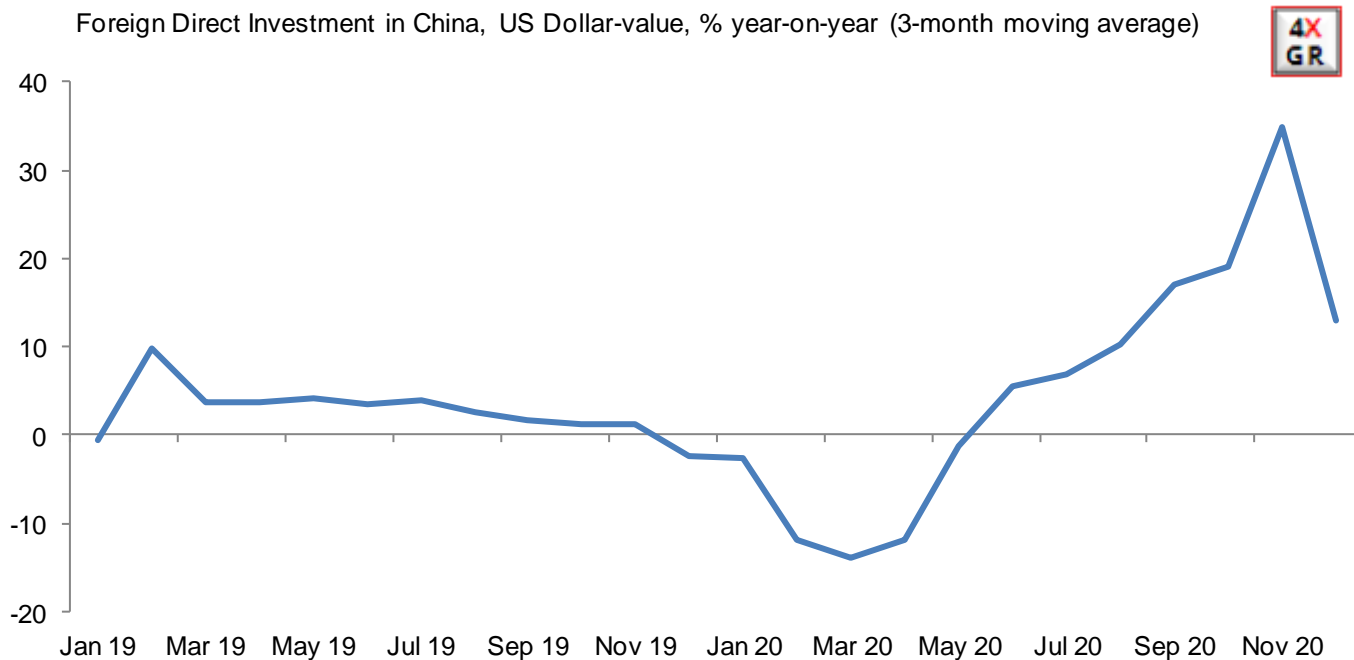


Source: 4X Global Research, investing.com, National Bureau of Statistics of China

Note: * Last data point is average Renminbi Nominal Effective Exchange Rate for 1-19 January 2021

...and surge in FDI and other inflows

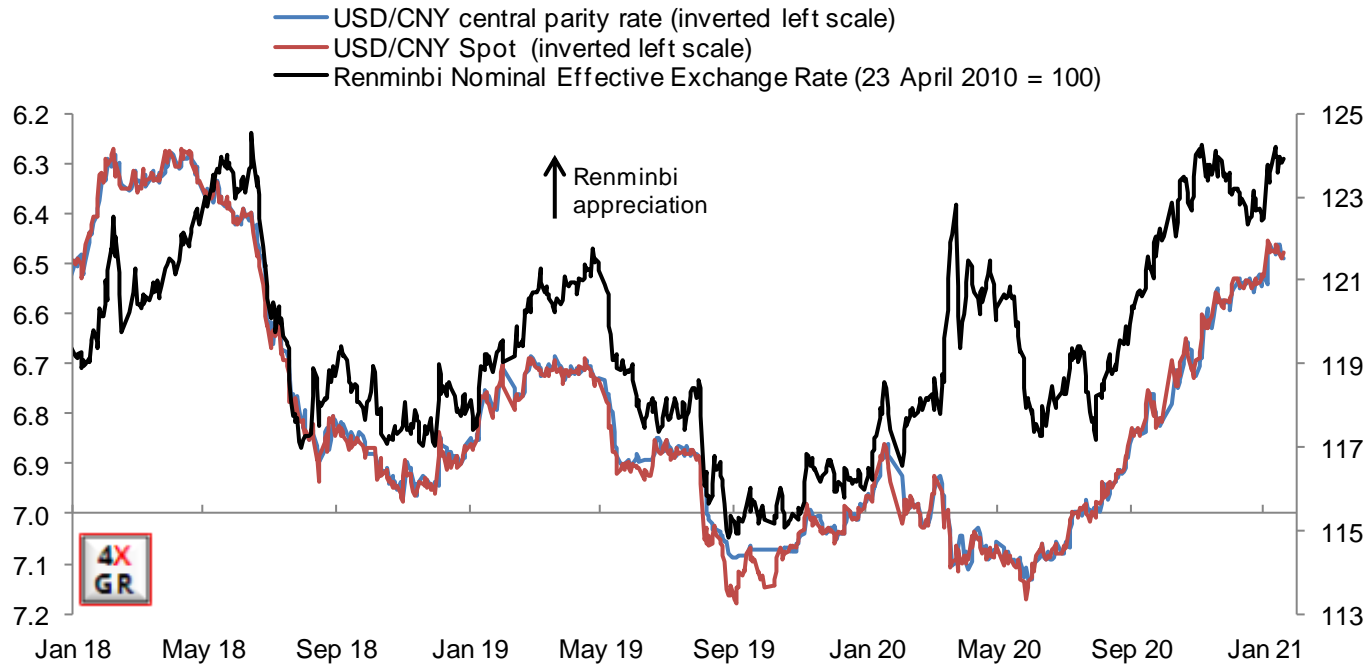
- Foreign direct investment and portfolio and hot-money inflows in China attracted by strong domestic growth story.



Source: 4X Global Research, People's Bank of China

PBoC capping Renminbi upside...

- People's Bank of China daily USD/CNY fix suggests PBoC capping volatility and Renminbi appreciation. NEER in 1.6% range since mid-October.



Source: 4X Global Research, investing.com, China Foreign Exchange Trade System

...to maintain competitiveness, minimise deflation

- PBoC goals likely to maintain export competitiveness (and increase market share of global trade) and minimize deflationary pressures.




Source: 4X Global Research, National Bureau of Statistics of China

United States

US GDP growth slowdown – Households

- Less confident consumers faced with decline in personal disposable income cutting spending on goods & services.


United States Macro Indicators 	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21
Core CPI-inflation, % year-on-year	2.1	1.4	1.2	1.2	1.6	1.7	1.7	1.6	1.6	1.6	
Core PCE-inflation, % year-on-year	1.7	0.9	1.0	1.1	1.3	1.4	1.5	1.4	1.4		
US Dollar Nominal Effective Exchange Rate, % change in monthly average **	5.0	2.7	-0.4	-2.5	-0.4	-1.1	-0.5	-0.1	-1.4	-1.7	-0.3
Personal Consumption Expenditure (PCE), constant prices, seasonally-adjusted, % month-on-month	-6.5	-12.3	8.5	5.9	1.2	0.9	1.1	0.3	-0.4		
Retail sales, constant prices, seasonally-adjusted, % month-on-month*	-8.0	-14.3	18.1	8.0	0.9	1.1	1.6	-0.1	-1.4	-0.8	
Personal disposable income, constant prices, seasonally-adjusted, % month-on-month	-1.4	15.6	-4.8	-1.8	0.5	-3.3	0.6	-0.8	-1.3		
Non-Farm payrolls, seasonally-adjusted, change (thousands)	-1,373	-20,787	2,725	4,781	1,761	1,493	711	654	336	-140	
Conference Board consumer confidence index	118.8	85.7	85.9	98.3	91.7	86.3	101.3	101.4	92.9	88.6	

Source: 4X Global Research, Conference Board, Federal Reserve, Institute of Supply Management, investing.com, US Bureau of Economic Analysis, US Bureau of Labour Statistics, US Census Bureau

Note: *US Dollar-value of retail sales deflated by headline PCE-inflation; ** Data till 19 January 2021

US GDP growth slowdown – Corporates

- Corporates confronted with declining demand have slowed hiring and investment

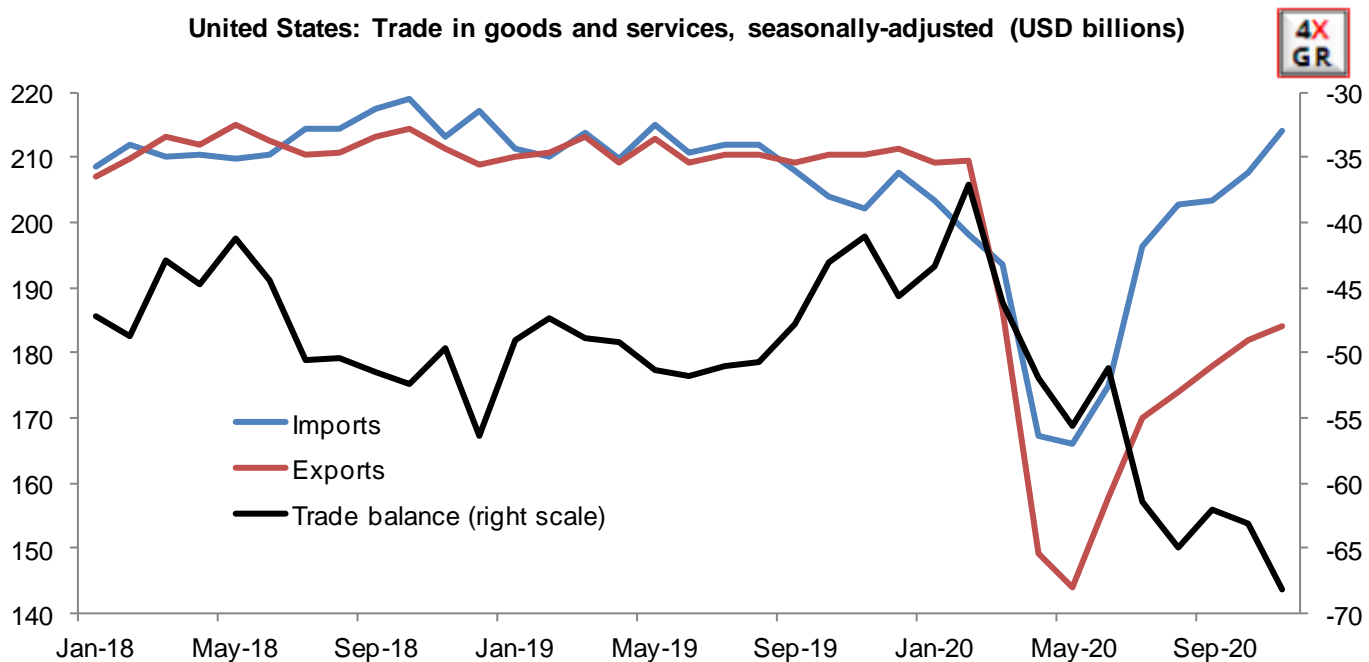
United States Macro Indicators 	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21
Manufacturing output, seasonally-adjusted, % month-on-month	-5.0	-15.8	3.8	7.7	4.2	1.4	0.1	1.3	0.8	0.9	
ISM manufacturing PMI, seasonally-adjusted, percentage point change	-1.0	-7.6	1.6	9.5	1.6	1.8	-0.6	3.9	-1.8	3.2	
ISM non-manufacturing PMI, seasonally-adjusted, percentage point change	-4.8	-10.7	3.6	11.7	1.0	-1.2	0.9	-1.2	-0.7	1.3	
Durable goods orders, seasonally-adjusted, % month-on-month	-16.7	-18.3	15.0	7.7	11.8	0.4	2.1	1.8	0.9		
New orders for non-defense capital goods excluding aircrafts, seasonally-adjusted, % month-on-month	-1.3	-6.6	1.5	4.3	2.6	2.4	1.9	1.6	0.4		
Goods & services trade balance, seasonally-adjusted, \$ bn	-46.1	-51.9	-55.6	-51.2	-61.4	-64.9	-62.1	-63.1	-68.1		
New privately-owned housing units started ("Housing Starts"), seasonally-adjusted, % month-on-month	-19.0	-26.4	11.1	21.9	17.5	-7.7	4.7	6.3	1.2		
S&P 500, % month-on-month **	-12.5	12.7	4.5	1.8	5.5	7.0	-3.9	-2.8	10.8	3.7	1.2

Source: 4X Global Research, Conference Board, Federal Reserve, Institute of Supply Management, investing.com, US Bureau of Economic Analysis, US Bureau of Labour Statistics, US Census Bureau

Note: ** Data till 19 January 2021

Record US trade deficit despite weaker Dollar

- US goods and services trade deficit at all-time high (\$68.1bn in November) due to export collapse despite Dollar's slide since mid-May.
- US struggling to compete internationally despite gain in currency competitiveness. Stain on President Trump's track record given pledge to redress trade imbalances.



Source: 4X Global Research, 4X Global Research, US Bureau of Economic Analysis

US GDP growth – Headwinds & Tailwinds

➤ Headwinds:

- External trade not responding to weaker Dollar;
- Impact of weak global GDP growth (even if US reasonably closed economy);
- President Biden introducing far tougher social distancing measures to arrest climb in Covid-19 cases and deaths. European experience not encouraging.

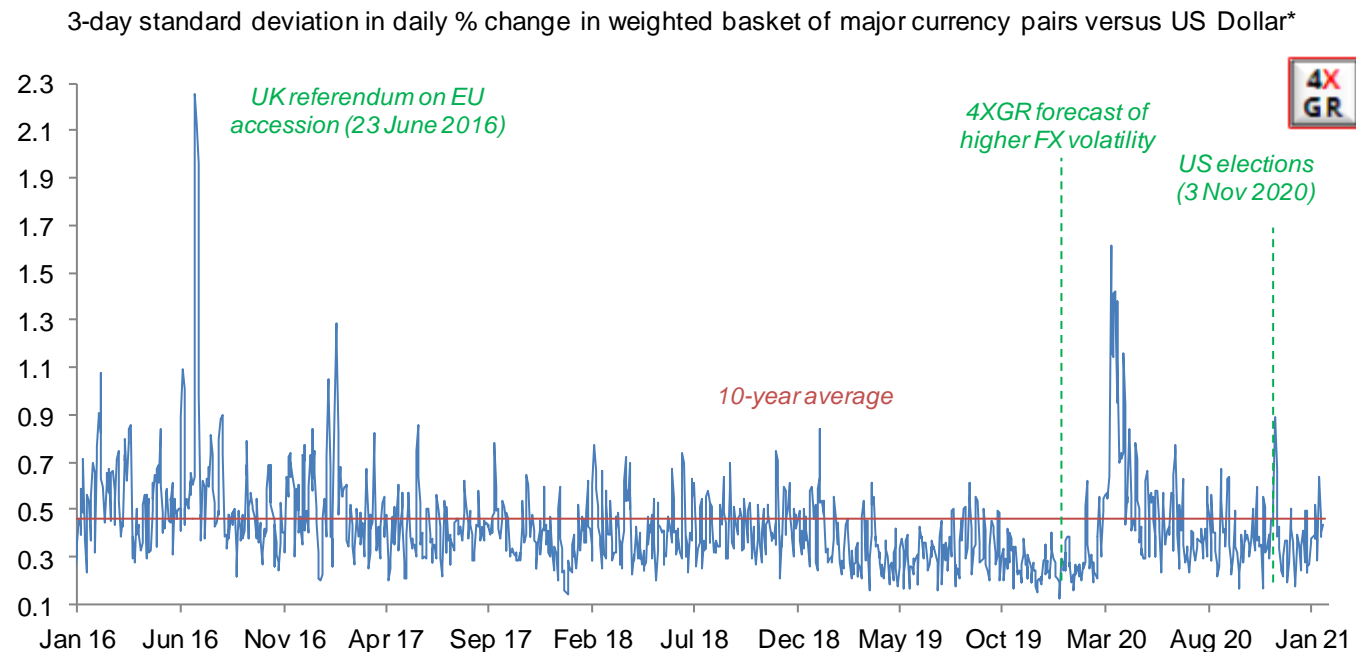
➤ Tailwinds:

- Recently approved \$900bn fiscal stimulus package.
- Modest (4.3% of GDP) compared to first package (10.6% of GDP) but scope for increase under Democrat presidency and Congress.

FX

Global FX volatility low

- Global FX volatility below its 10-year average following brief spike post US elections

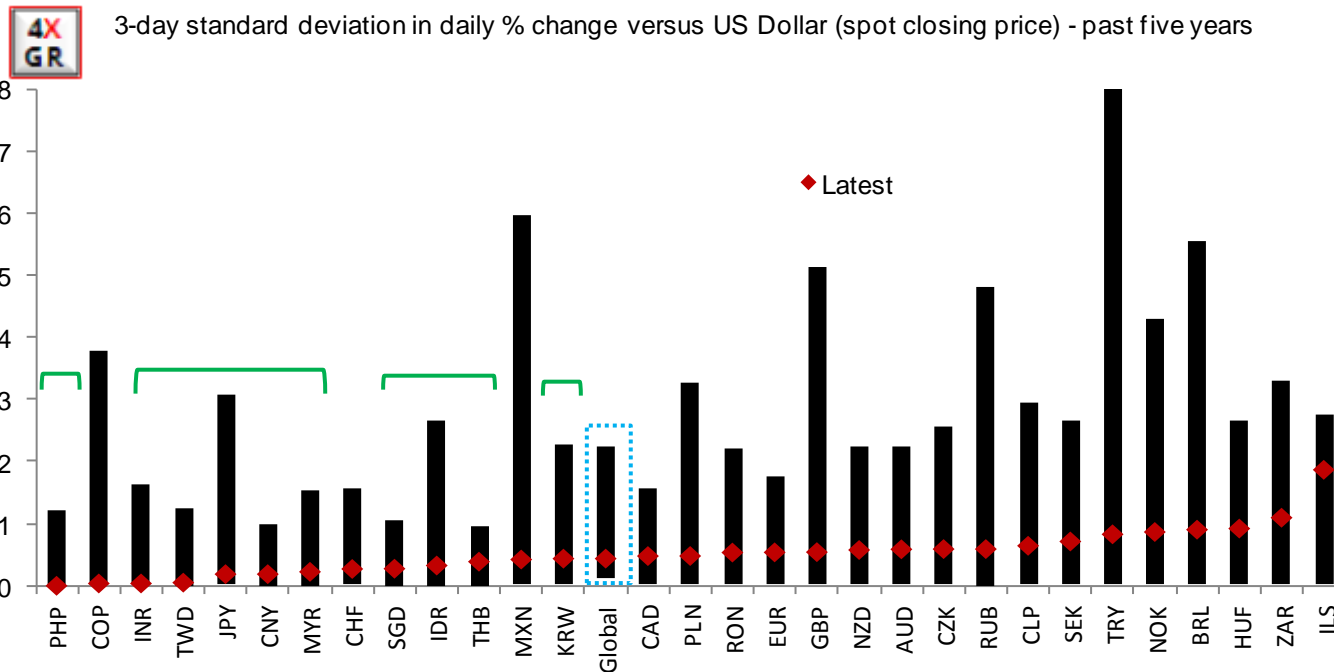


Source: 4X Global Research, BIS, investing.com

Note: Basket weighted by currency-pair turnover in 2016; currency pairs versus US Dollar are AUD, CAD, CHF, DKK, EUR, GBP, JPY, NOK, NZD, SEK, ARS, BRL, CLP, COP, MXN, CZK, HUF, PLN, RON, RUB, ZAR, TRY, ILS, CNY, IDR, INR, KRW, MYR, PHP, SGD, TWD and THB.

Volatility in Asian currencies very low...

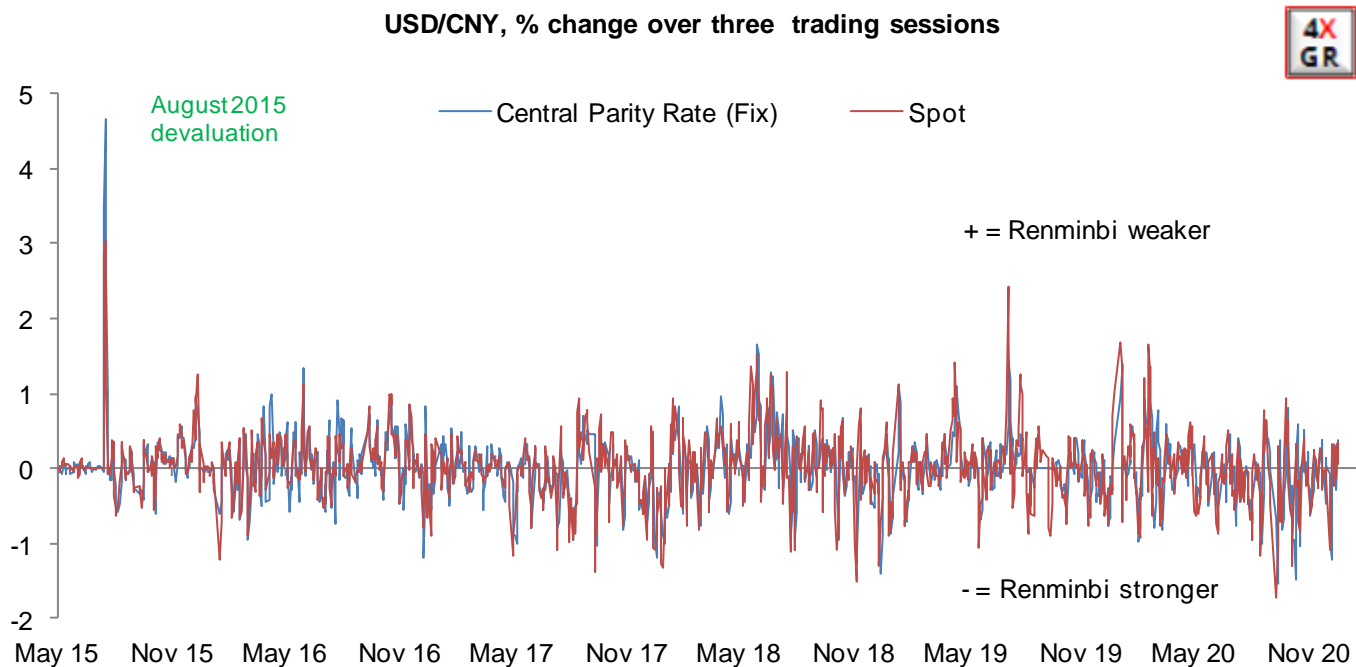
- Volatility in Dollar/Asia exchange rates remains very low, including for high-yielding Indonesia Rupiah and Indian Rupee.
- Non-Japan Asian central banks willing and able to credibly intervene in FX markets to minimise currency volatility and “smooth” exchange rates vs Dollar and Renminbi (currencies of their largest trading partners and creditors).



Source: 4X Global Research, BIS, investing.com

...thanks partly to modest daily USD/CNY moves

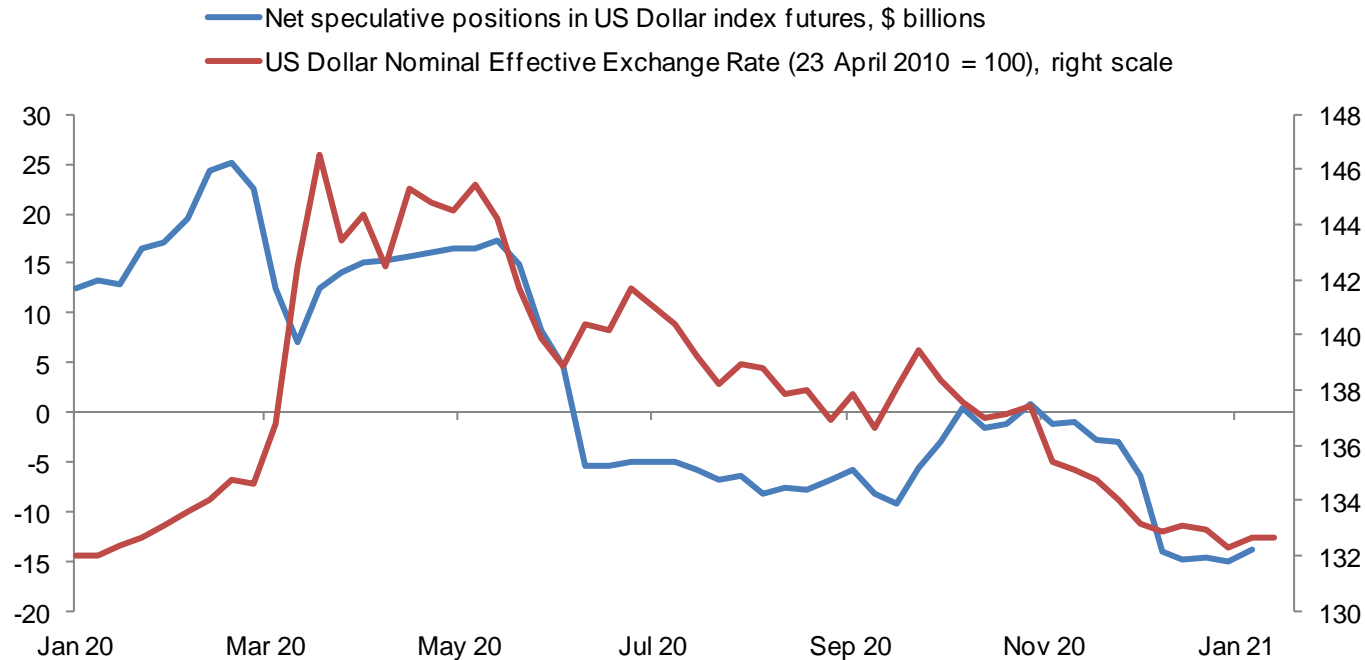
- People's Bank of China (PBoC) has intentionally, in our view, kept tight leash on USD/CNY, contributing to muted volatility in NJA currencies versus Dollar.



Source: 4X Global Research, China Foreign Exchange Trade System, investing.com

Dollar bears out in force since May

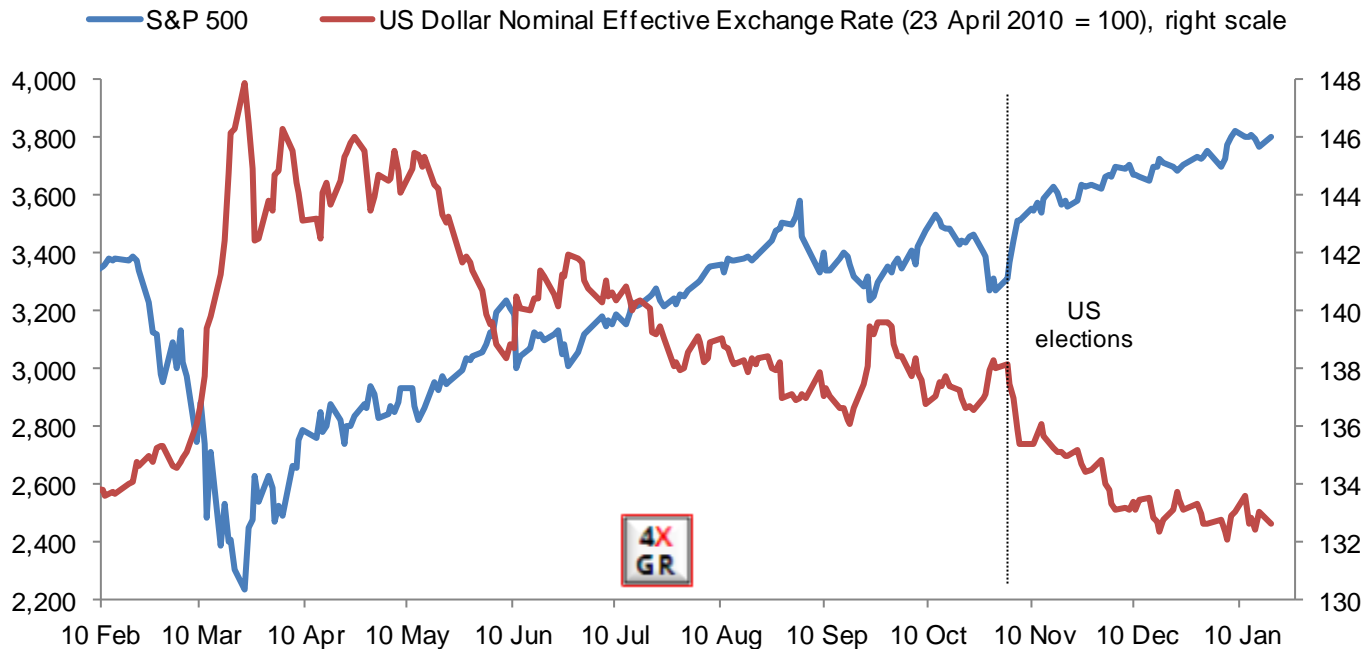
- Net short Dollar speculative positions likely factor behind Dollar depreciation between May and early December.



Source: 4X Global Research, Commodity Futures Trading Commission, Federal Reserve, investing.com

Reserve managers likely driver of USD weakness

- Central banks and Sovereign Wealth Funds likely diversified out of “safe-haven” USD into other reserve currencies (EUR, GBP, AUD, CAD, NZD) in face of buoyant global risk appetite, attractive FX valuations and concerns about real value of USD assets



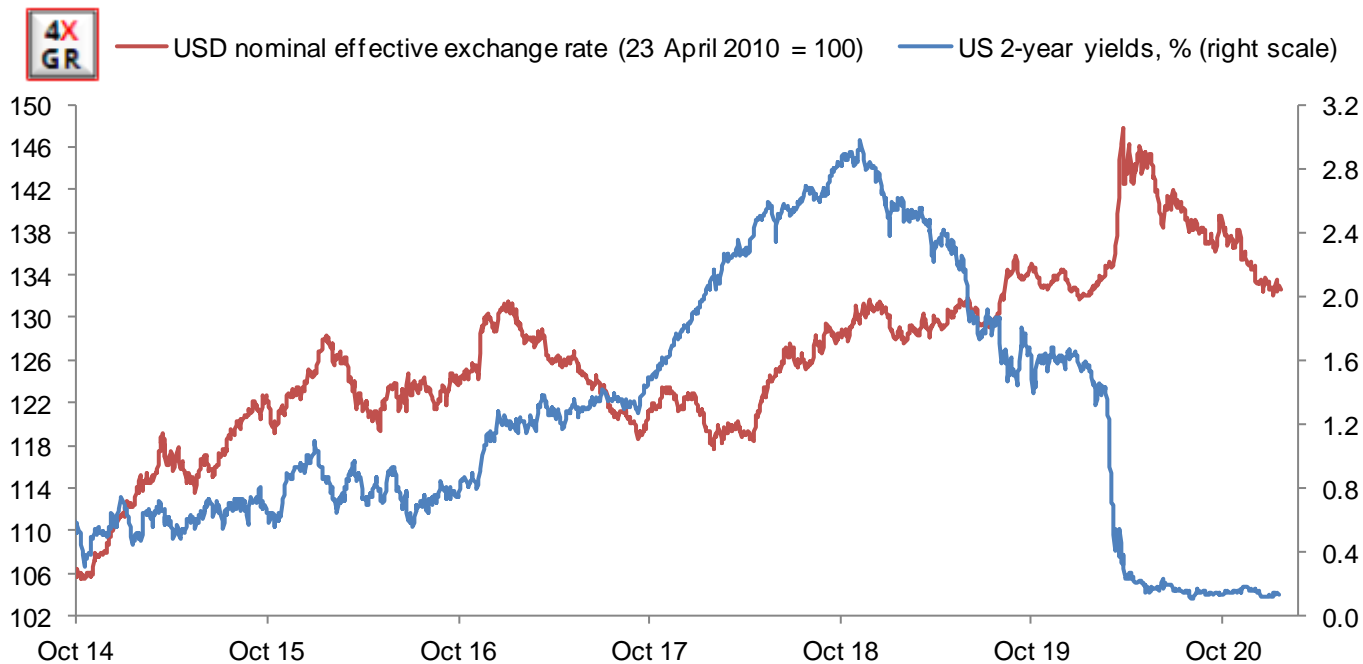
Source: 4X Global Research, Federal Reserve, investing.com

Policy matrix seen as Dollar-negative

- Consensus view that Democratic administration will fuel large US twin deficits and expectations of higher domestic inflation while Federal Reserve will keep policy rates on hold near-term (asymmetric inflation target).

Erosion in real Dollar carry

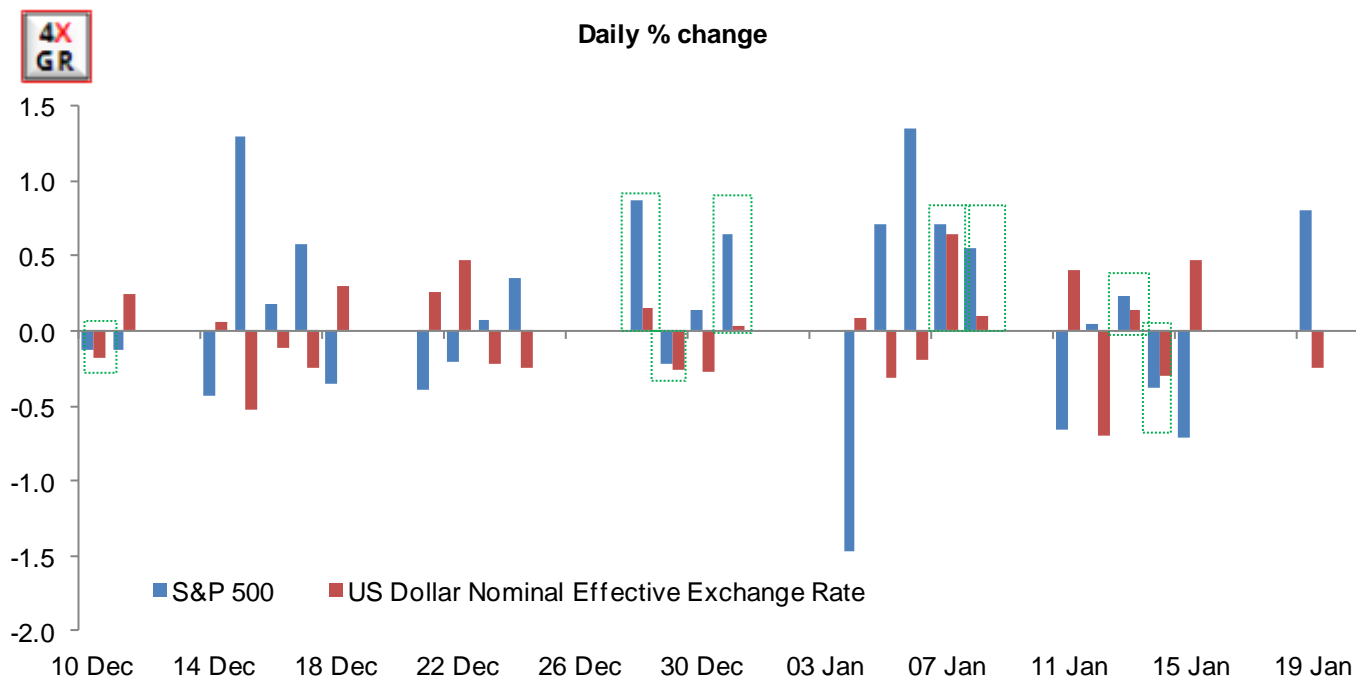
- Low nominal Treasury yields and rise in inflation expectations equates to erosion in expected real USD carry.



Source: 4X Global Research, Federal Reserve, investing.com

But Dollar stable in past six weeks

- Net short Dollar speculative positions stable since mid-December.
- Dollar NEER broadly unchanged from six weeks ago in narrow range of just 1.3% despite 3.6% gain in S&P 500. Inverse correlation has somewhat broken down.
- Reserve diversification process likely stalled due partly to stretched FX valuations.



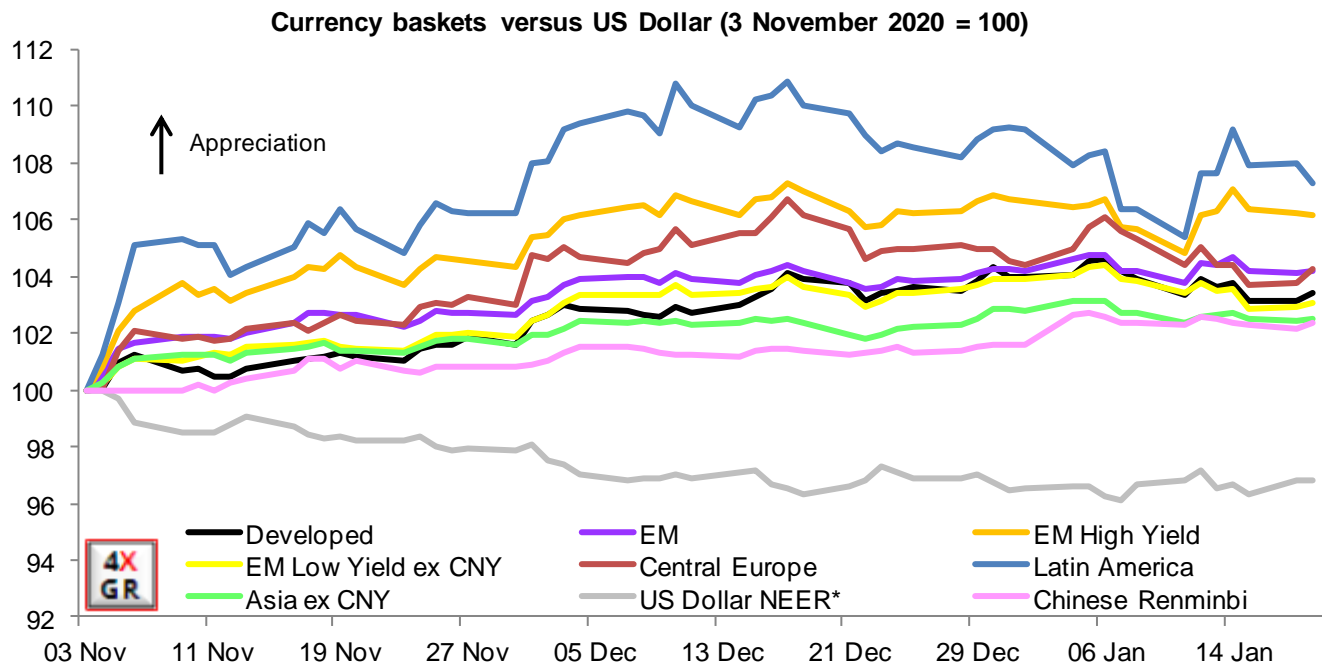
Source: 4X Global Research, Federal Reserve, investing.com

Rotation rather than diversification

- Rotation between other reserve currencies, including move out of Euros into Sterling.
- GBP/EUR cross at 8-month high (1.129) with uptrend due in part to relative pace of vaccination in the United Kingdom versus Eurozone.

Emerging market currency rally...

- EM currencies benefited from pick-up in global confidence, buoyant global risk appetite and expectations of rebound in global growth in aftermath of US elections, outperforming developed market currencies

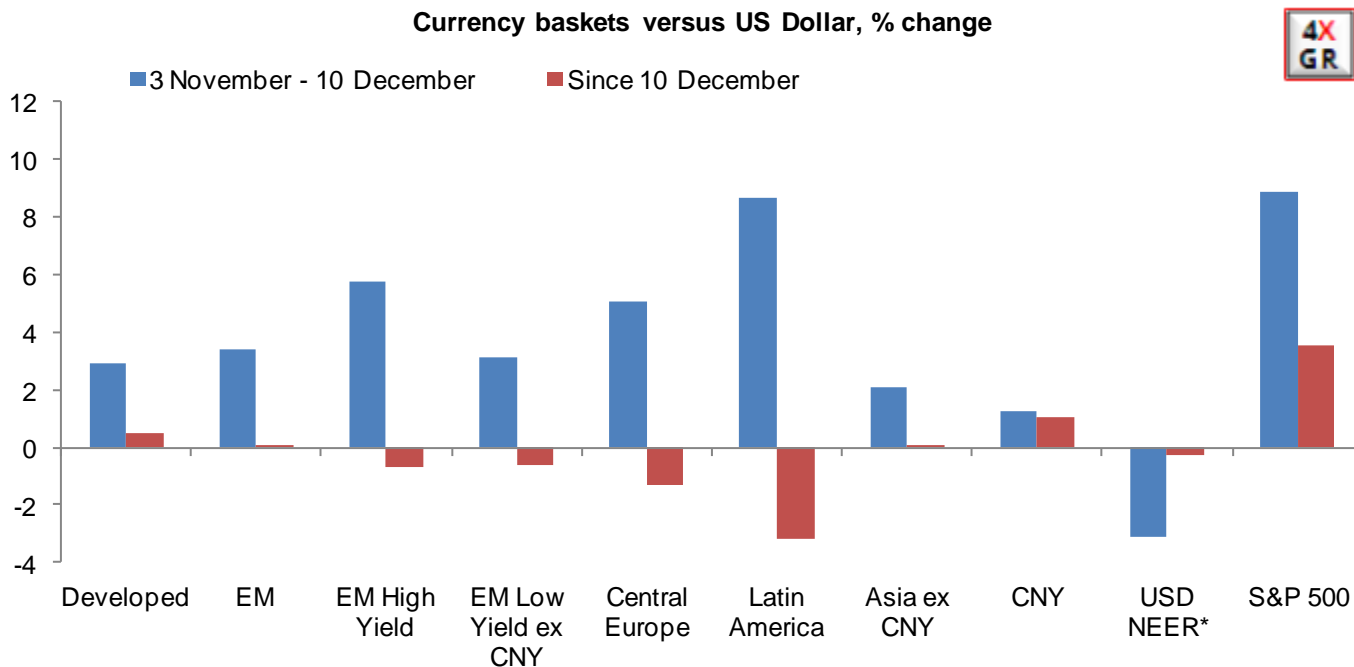


Source: 4X Global Research, Federal Reserve, IMF, investing.com

Note: Developed is GDP-weighted basket of AUD, CAD, CHF, DKK, EUR, GBP, JPY, NOK, NZD and SEK; Central Europe is GDP-weighted basket of CZK, HUF, PLN and RON; EM Low Yield exc CNY is GDP-weighted basket of CLP, CZK, HUF, ILS, KRW, MYR, PHP, PLN, RON, SGD, THB and TWD; Asia ex CNY is GDP-weighted basket of IDR, INR, KRW, MYR, PHP, SGD, THB and TWD; EM is GDP-weighted basket of African, Emerging Asian and European, and Latin American currencies; Latin America is GDP-weighted basket of BRL, CLP, COP and MXN; EM High Yield is GDP-weighted basket of BRL, COP, IDR, INR, MXN, RUB, TRY and ZAR.

...has run out of steam

- But EM currencies broadly flat vs Dollar since 10 December (despite modest 1% Renminbi appreciation), with Central Europe and Latam currencies posting losses, in line with our view that EM currencies still prone to sharp sell-offs.



Source: 4X Global Research, Federal Reserve, IMF investing.com

Note: USD NEER is US Dollar Nominal Effective Exchange Rate

FX Outlook

- Dollar depreciation may not resume for another couple of months, until it becomes clearer that matrix of loose US fiscal policy but still low US interest rates will likely (further) dent Dollar's attractiveness.
- Slow start of vaccination process in many major developed and EM economies could delay rebound in global confidence and GDP growth and cap EM currency gains.
- Resumption in Dollar depreciation unlikely to be as broad-based as in Nov/early Dec when 31 major currencies vs Dollar.
- Markets will pay greater attention to domestic factors, including valuations and potentially monthly seasonal patterns, when picking their winners and losers.

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Fixed Income Research & Macro Strategy reports

Dollar – Diversification, rotation and valuations (18th January 2021)

Biden's trump cards and challenges (12th January 2021)

Monthly currency seasonality: Down and out? (4th January 2021)

Forecast review: USD, CNY, EM & global growth (21st December 2020)

Sunday bloody Sunday (11th December 2020)

Far more to Renminbi than USD/CNY cross (8th December 2020)

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