



July 6th, 2020

MARKETS

Three things...one thing

As Gordon Gekko once famously, or infamously said, "...for want of a better word, greed is good. Greed is right, it works, it clarifies." And to misquote the Bard of Wall Street, greed apparently never sleeps, either. China's main index, the CS 300 gapped up about 1% this morning, on its way to closing up some 5.7%. In the past 4 trading sessions into the new quarter, the CS 300 is up more than 12%, more than triple the S&P's 3.4% rise. And let's not even talk about the Dow's 1% gain over that time. To give credit where it's due, both US indices are up about 1.5% each today, and the day has hardly started. Analysts are talking about how China NEEDS a bull market, to build out its digital economy, boost its regional influence, and carry out its absorption of Hong Kong, eliminating the second of the two systems altogether. This comes in the face of multiple reasons to expect a pullback rather than a rally, including:

- The UK's Culture Minister said today that the decision to allow Huawei's a role in building out the UK's 5G network is not "fixed in stone". The decision was made in January to allow the somewhat controversial firm to play a part in the UK's efforts to bring high speed broad band to every corner of the UK. That decision may be reconsidered, what with the US' virulent opposition to anything Chinese, and to Huawei in particular (not saying that opposition is not well-founded)
- India reaffirmed today it is reviewing about 50 investment proposals from Chinese firms. The new rules were announced in April, and require that all investments into, based in neighboring countries must first be reviewed and approved by the Govt. This applies to both new schemes and additional funding in existing projects.
- The US has sent two naval carrier groups into the disputed South China Sea, seeming to match China's similar war-games in the same Sea. DoD spokespersons have denied this is a tit-for-tat response. Carrier groups

USS Nimitz & USS Ronald Reagan are both conducting exercises in the S. China Sea to support a free and open Indo-Pacific.

FOREIGN EXCHANGE

The dollar is sharply weaker this morning with the DXY dollar index down 0.463 to 96.706. Equities in the US are higher following Chinese equities in a global risk on move as markets shrug off the increase in virus cases around the world. It seems strange to say that this risk rally emanated from China. India passed Russia becoming the third largest outbreak of the pandemic globally. Australia which seemed to have the outbreak under control saw its two most populous states close borders with Victoria. Victoria locked down 9 public buildings with 3,000 people to try and contain the pandemic. Israel's PM Netanyahu said Israel is in a state of emergency while Iran and Indonesia recorded their deadliest days yet. In the EU only a few new infections are being reported. In Germany the 7-day average has fallen below 400 again after having risen to over 600. Chinese equities rose 5% driven by hedge funds covering short positions. The US Congress is on recess which will set up a flurry of activity in late July to pass the Phase 4 stimulus package. Enhanced unemployment benefits will expire at the end of July; however, income support will likely be continued through some combination of a partial extension, gov't hiring bonuses and direct stimulus checks. State and local gov'ts are also expected to receive aid. The euro is trading up 0.7% to 1.1330, as investors use the currency to trade the weaker dollar scenario. Asian emerging markets are doing better as the offshore Chinese yuan trades higher by 0.7% to 7.0180 on the improved outlook. The Brazilian real and Mexican Peso are both trading better against the dollar up 0.6% and 0.9% respectively. The S. African rand and Turkish lira have not been able to participate and are pretty much unchanged against the dollar. It will be a quiet week regarding economic releases in the US with the jobless claims on Thursday getting the most attention.

- The Turkish lira is little changed at 6.8640. Turkish inflation accelerated faster than expected to 12.6% y/y in June while core inflation rose to 11.6% (expectation 10.3%). Inflation in Istanbul published earlier saw inflation rise to 13%. The central bank of Turkey skipped cutting rates this month and removed a sentence from its statement that inflation development was in line with projections. It is difficult to square the inflation figures with the central bank's target for year-end inflation to be 7.4%. The June reading of the core CPI translates to a 1.6% seasonally adjusted m/m change, which when annualized come to near 21%. Some of the increase in core inflation has to do with lira depreciation and the imposition of higher tariffs on many import items. There is a large disconnect between what the central bank sees and what is in fact happening. Turkey's real interest rates are now deeply negative. The Turkish lira after recovering from record lows seems to have found a floor at the 6.85 level. This is not expected to last, and one can see the lira depreciating and likely notching new record lows. Turkey's involvement in Libya could risk further sanctions. There are two groups fighting for control of Libya the GNA (Gov't of National Accord) and the LNA (Libyan National Army). The LNA has been supported by the UAE, Russia and

Egypt and has made significant advances with their support. The GNA has been able to turn back the GNA offensive with Turkey's help. The GNA and LNA are now mobilizing forces around the cities of Misrata and Sirte. Egypt has warned that any Turkish backed effort to take Sirte; which the LNA has captured in January could lead its army to directly intervene.

GLOBAL MARKETS

- US & European markets are following the China's lead in today's rally, although it seems that all markets are in danger of getting "lapped" by the front running Chinese markets. Nonetheless, ex-Australia, it's impossible to find a market that is not in hyper risk-on mode.
- Needless to say, global bond markets are also in risk-on mode. US and Chinese bonds are carrying the load on this however, with 10-year TRaasuries adding 4-bp to retake 0.70%, while 10-year Chinese bonds are up 12-13 basis points, in the wake of the massive rallies in Chinese and Hong Kong.

OTHER NEWS

The following is an excerpt from Fredrick Douglass' 4th of July speech, delivered July 5th, 1852. It is widely viewed as one of the greatest Independence Day speeches in our history, and one that bears reading/hearing again. The complete text may be found at: <http://masshumanities.org/programs/douglass/>)

What have I, or those I represent, to do with your national independence? Fellow-citizens, pardon me, allow me to ask, why am I called upon to speak here to-day? What have I, or those I represent, to do with your national independence? Are the great principles of political freedom and of natural justice, embodied in that Declaration of Independence, extended to us? and am I, therefore, called upon to bring our humble offering to the national altar, and to confess the benefits and express devout gratitude for the blessings resulting from your independence to us? Would to God, both for your sakes and ours, that an affirmative answer could be truthfully returned to these questions! Then would my task be light, and my burden easy and delightful... ..
But such is not the state of the case.

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