ECB Contact Group Market update

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1. Topics of discussion in the FX market
2. Topics of discussion in the FX market excluding Election and Covid Related Themes.

Source: Refinitiv Datastream, HSBC FX Research. "We use a Machine Learning Process to extract key words in Reuters articles. Our data range is from 1 January 2020 to 5 November 2020. We scanned nearly 21000 FX articles.
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
Percentage of legislation enacted by party in the White House

Shaded areas mark clean sweep

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

Source: Predictit.org, Bloomberg, HSBC
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
8. The EUR is in focus too

ECB references to the exchange rate have been rising lately

Source: Bloomberg, HSBC
9. China’s economic recovery is broadening

China’s recovery is broadening from production to consumption

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

Source: Bloomberg, HSBC

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

Foreign bond inflows, USD bn

Net Stock Connect flows

Stock Connect flows, USD bn

Inflows to China

Outflows from China

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

- Sept 2015 first introduction of reserve charge
- May 2017 first introduction of CCF
- Sept 2017 first cut of reserve ratio to zero
- Jan 2018 first cut of CCF to neutral
- August 2018 re-application of reserve charge + CCF
- Oct 2020 cut reserve ratio to zero again

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 USDCNH and Reuters for USDHKD, USDSGD and USDTHB

Weekly median primary* top-of-book spreads during Asia hours

Spread (bps)

Jan-20  Feb-20  Mar-20  Apr-20  May-20  Jun-20  Jul-20  Aug-20  Sep-20  Oct-20  Nov-20

USDCNH  USDHKD  USDSGD  USDTHB
16. Traded volume

Weekly total traded volume* (millions of USD) during Asian Hours

Source: HSBC

*On EBS, Reuters, Hotspot, Currenex, LMAX, ParFX, Gain GTX and FXall
17. Intraday traded FX volume

Average intraday traded volume* profiles between 2020.01.06 and 2020.11.06

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