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Hedges only cost money...(?)

1 messaggio

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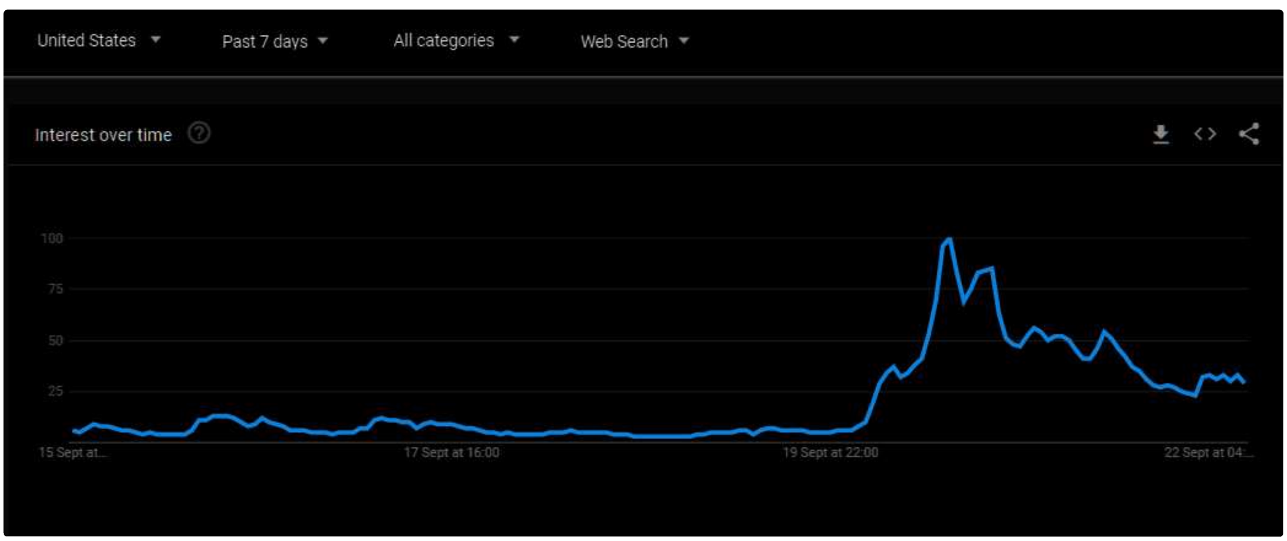
Repeat after me: "don't buy protection when you have to, buy it when you can"

One of the more painful charts this week. First the explosion and the crowd chasing extremely rich protection, and then the implosion of VIX, from 28.66 to 20.87 as the crowd once again has to puke protection because: "bro hedges only cost money".

Refinitiv

The Evergrande fade

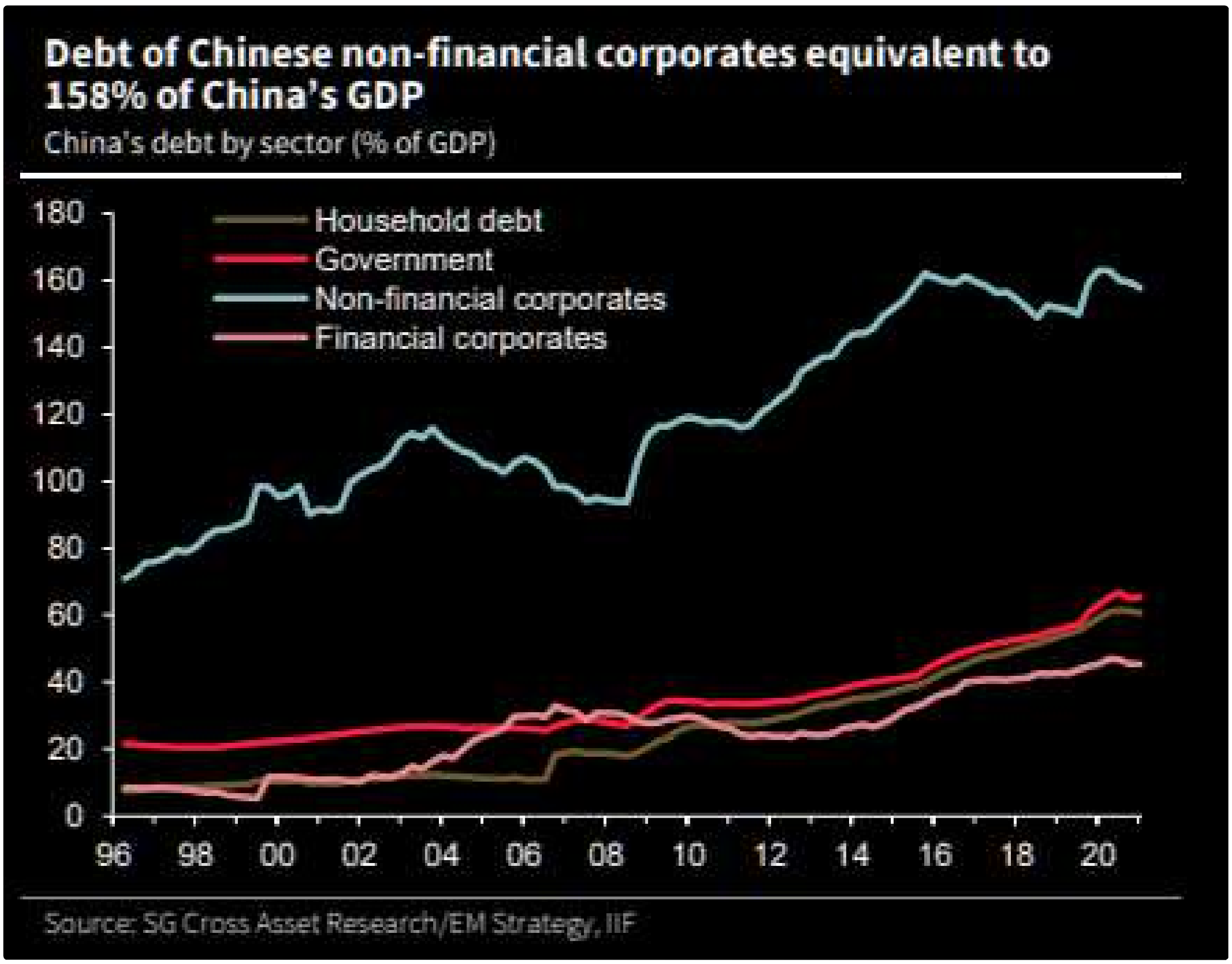
Google trends of searches on Evergrande (US) fading the "hype" quickly.
Time to move on, or is this a slow motion Lehman?



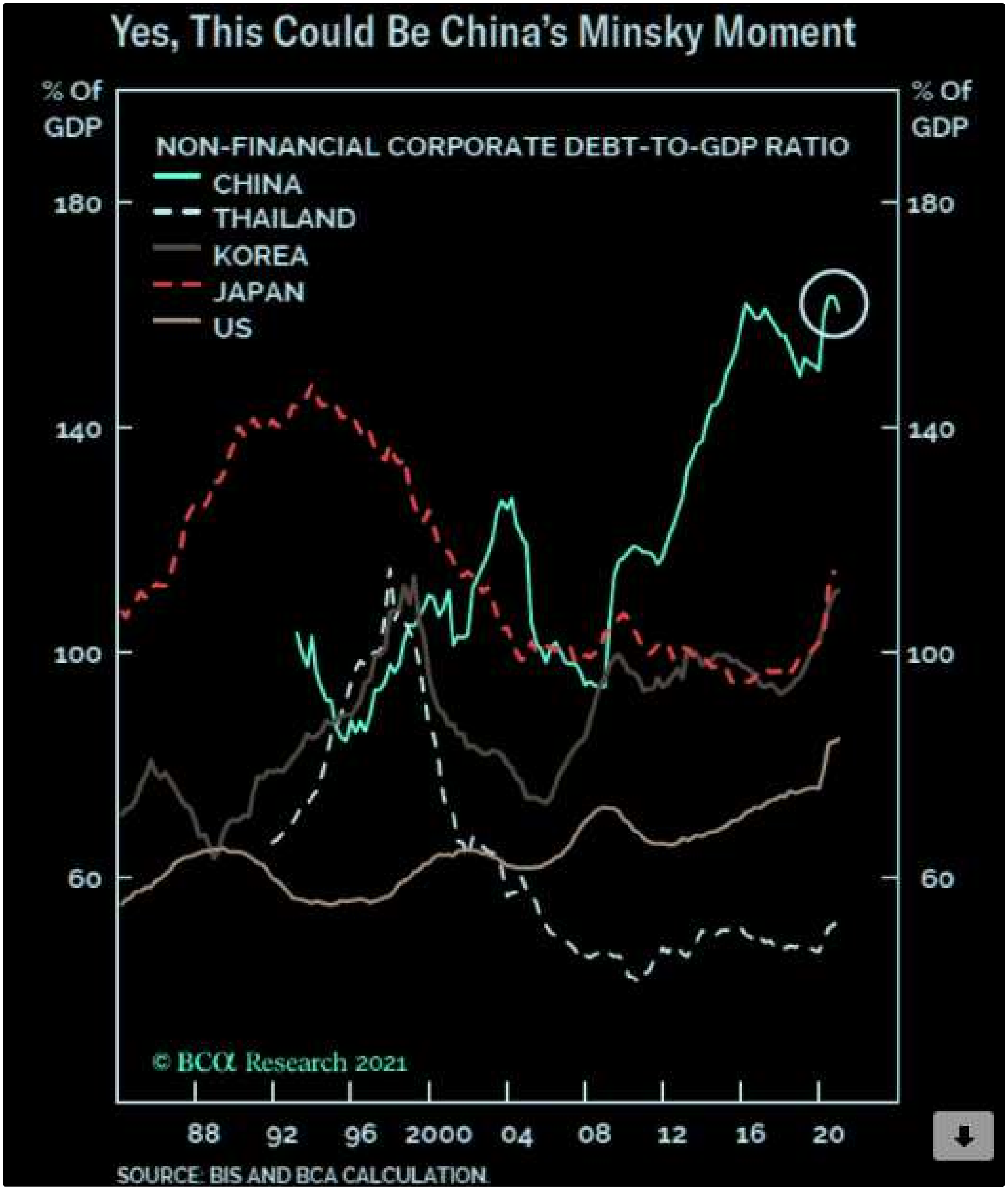
Google

China's Minsky or not?

Nobody knows, but there is definitely a lot of leverage in the system to consider. Much more than Japan ever had.
Soc Gen on the matter:
"The repercussions from Evergrande's prospective collapse will likely contribute to China's ongoing economic deceleration, which in turn anchors global growth and inflation, and casts a pall over commodity prices".
The investment bank also notes: Debt owed by China's non-financial corporates amount to 158% of GDP, dwarfing the average EM corporate debt ratio of 63.5% of GDP.
Irrespective of how China decides dealing with Evergrande, it will most likely be a very long process...so buying all that protection (VIX) after the house started burning will probably be a painful trade.



Soc Gen



BCA Research/Authers

Haven't seen this roll over in China since the great tech reversal

Mainland Chinese markets reopened today with relatively small moves, major indexes down around 0.5% (no surprise as the A50 futs have been trading during the past 2 days).
Interesting to note is the fact Chinese margin trading debt has "rolled over". Haven't seen such a sharp reversal since mighty Chinese tech started the big reversal.
Watch this indicator of "speculation" closely...

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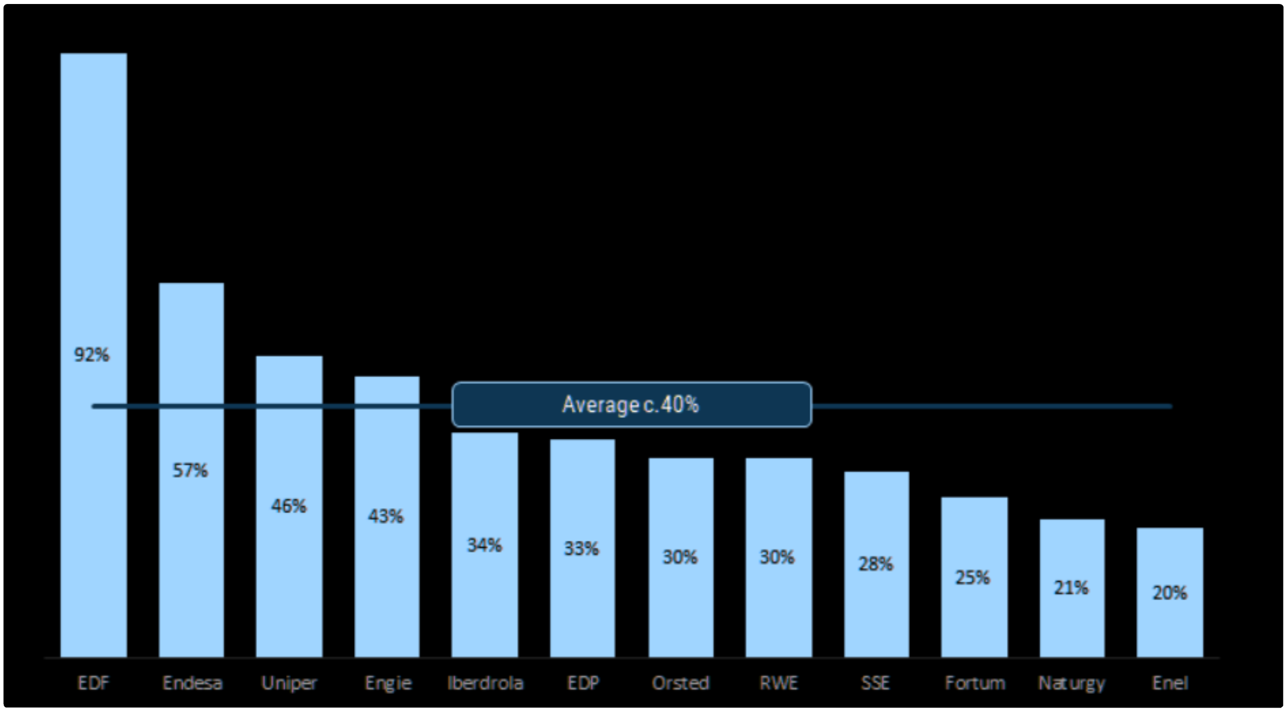
What does the higher power prices mean for the power companies?

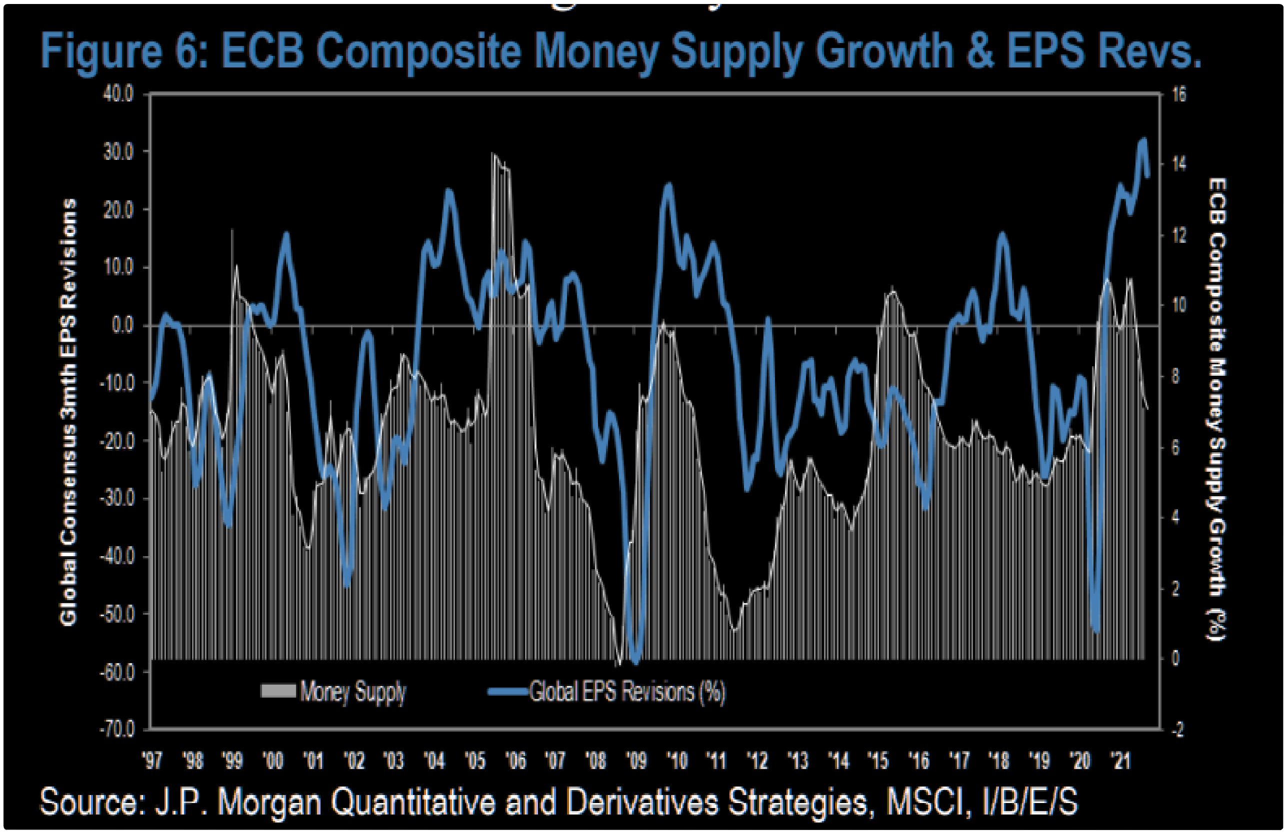
Marking to market power prices (to c.€90/MWh) would suggest c.40% upside risk to 2022 underlying EPS for the main generators, and +25% by 2023-24 assuming normalized gas prices. Chart shows companies' potential upside to 2022 EPS (GSe) from marking to market power prices (percentage)



Goldman

Macro drivers suggest EPS downside

JPM Quant: "we believe some macro drivers have a stronger ability to forecast changes before they are commonly understood by the market. We have learnt over time that the profile of some indicators have a strong link with changes in the profit landscape. We highlight two indicators below: 1) Money supply growth, and 2) Order to Inventory data from manufacturing surveys"



JPM Quant

JPM Quant

The Evergrande dip play

Bullish base metals/mining?
XME has been severely punished over past sessions (it has an approx 50% correlation to FXI).
China stands for some 50% of global demand when it comes to base metals, and the property sector represents 20-30% of total Chinese demand according to JPM.
The investment bank argues that a key catalyst could be a restarting of Chinese stimulus, which should be supportive for Chinese assets, especially the related commodities.
XME is down to the lower part of the range.
The question do you go for the XME as the derivative play on a possible restart of Chinese stimulus, or do you choose outright FXI (and use elevated vols for some extra yield enhancement)?
MS on the subject:
"Beijing may initiate a managed debt restructuring of a troubled property developer in the coming week, followed by policy easing in October to contain spillover to the broader economy."

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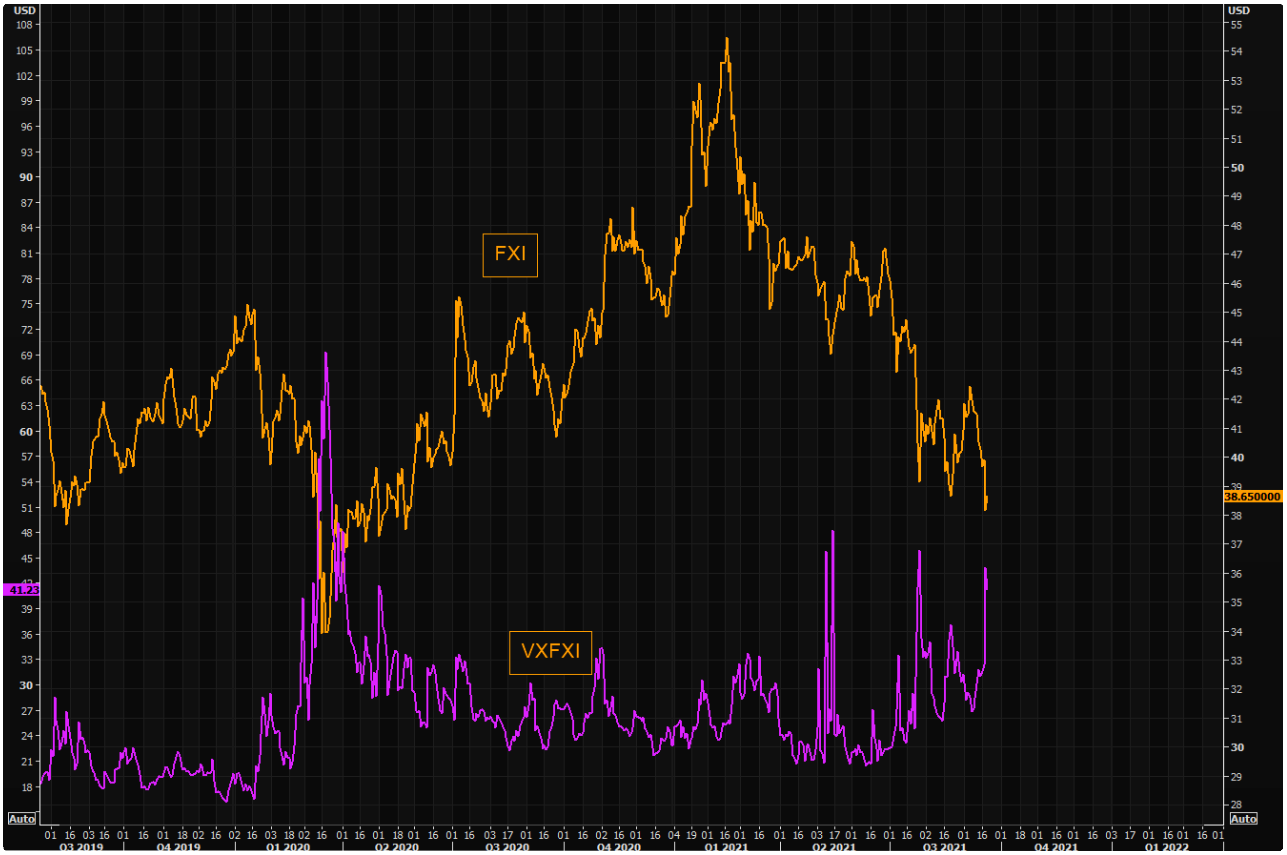

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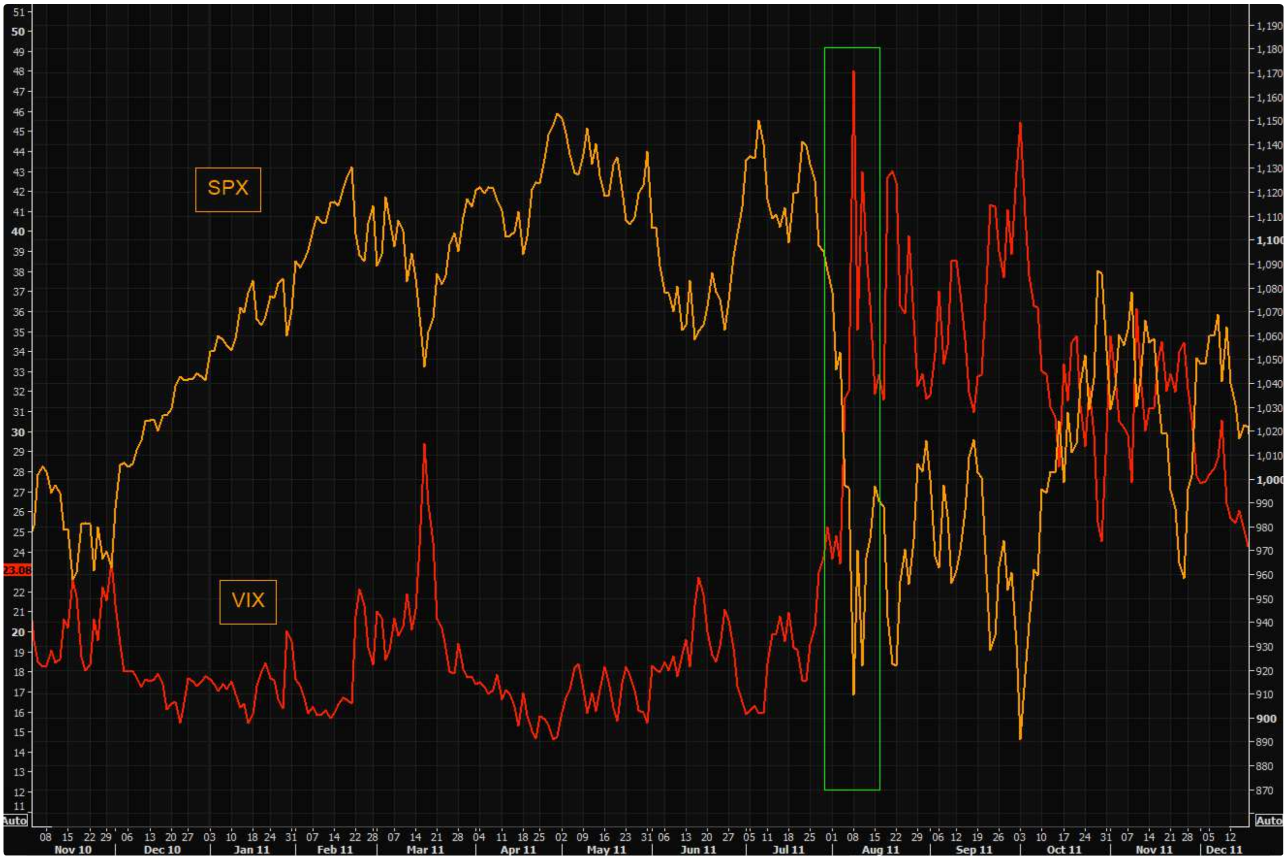
Debt ceiling - what if...?

Below a few points via Washington Post worth reviewing;
1, If US fails to hike the debt ceiling a default would be triggered
2, A default = sovereign credit downgrade
3, Credit downgrade = equities crushed by up to 33%, wiping out $15tn of household wealth
4, Cost of debt would spike, economy would suffer big and US would lose up to 6mn jobs...unemployment would go from 5% to 9%
5, Drop dead date Oct 20
6, Everybody remembers 2011...despite the deal reached 2 days before the debt ceiling deadline it was the S&P downgrade that saw equities plunge and VIX explode
Let's see if they manage the situation better this time around...last time was a mess...
Full article here.



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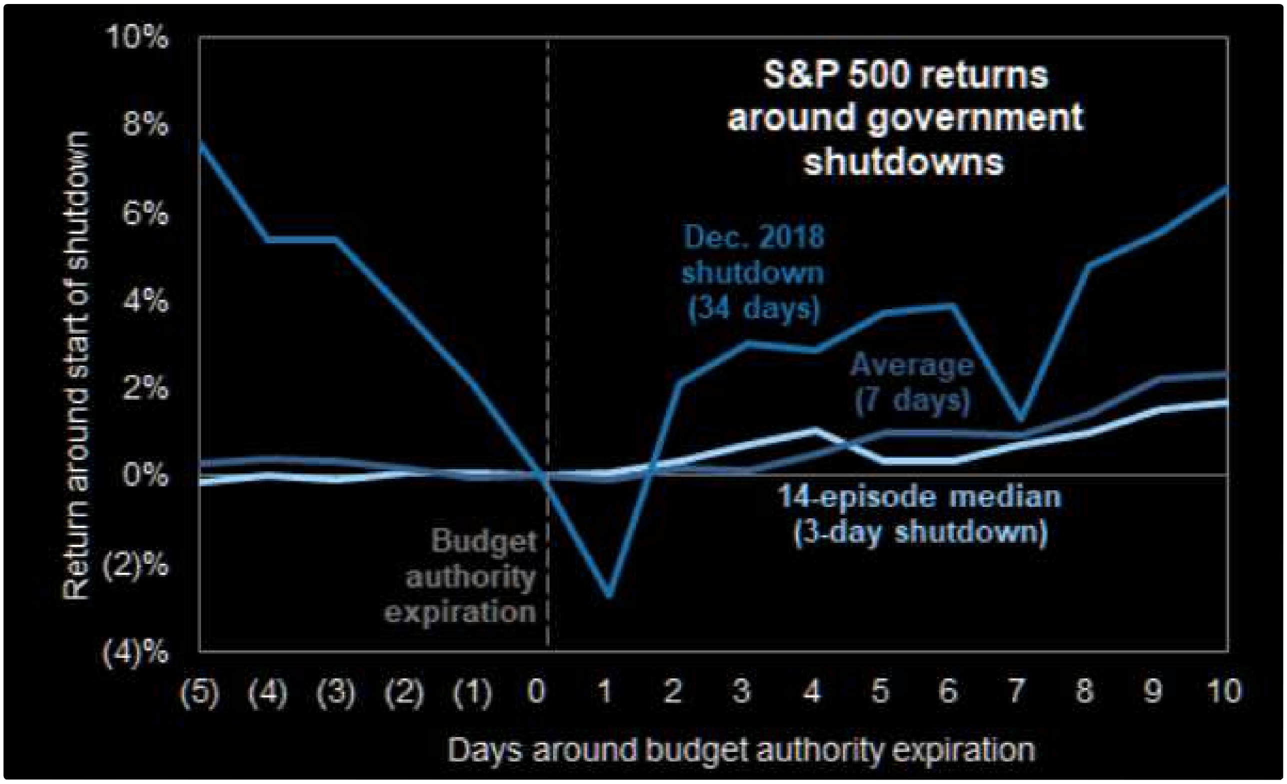
S&P 500 returns around government shutdowns since 1980

History shows that US government shutdowns generally have not meaningfully impacted equity returns. In the 14 government shutdowns since 1980, the S&P 500 generated median returns of -0.1% on the dates of budget authority expiration, 0.1% during the shutdown periods, and 0.3% on the dates of resolution. One notable exception was the most recent federal shutdown in December 2018, when the S&P 500 fell 2% on the spending authority expiration date. However, this decline was likely driven primarily by investor concerns about Fed tightening.



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Remember the weak dollar logic?

DXY reversed the initial move lower post the FOMC (tapering "express" coming up) and is approaching the huge 93.5 level. We are moving towards the upper part of the consolidation, and we have to admit, this move feels slightly different compared to other times we have tried the range extremes. 93.5 is the line in sand to watch.
Second chart shows the DXY (inverted) vs SPX. The gap is becoming very wide.
Third chart shows the DXY (inverted) vs BCOM index. "They" price commodities in dollars...and a strong dollar matters.

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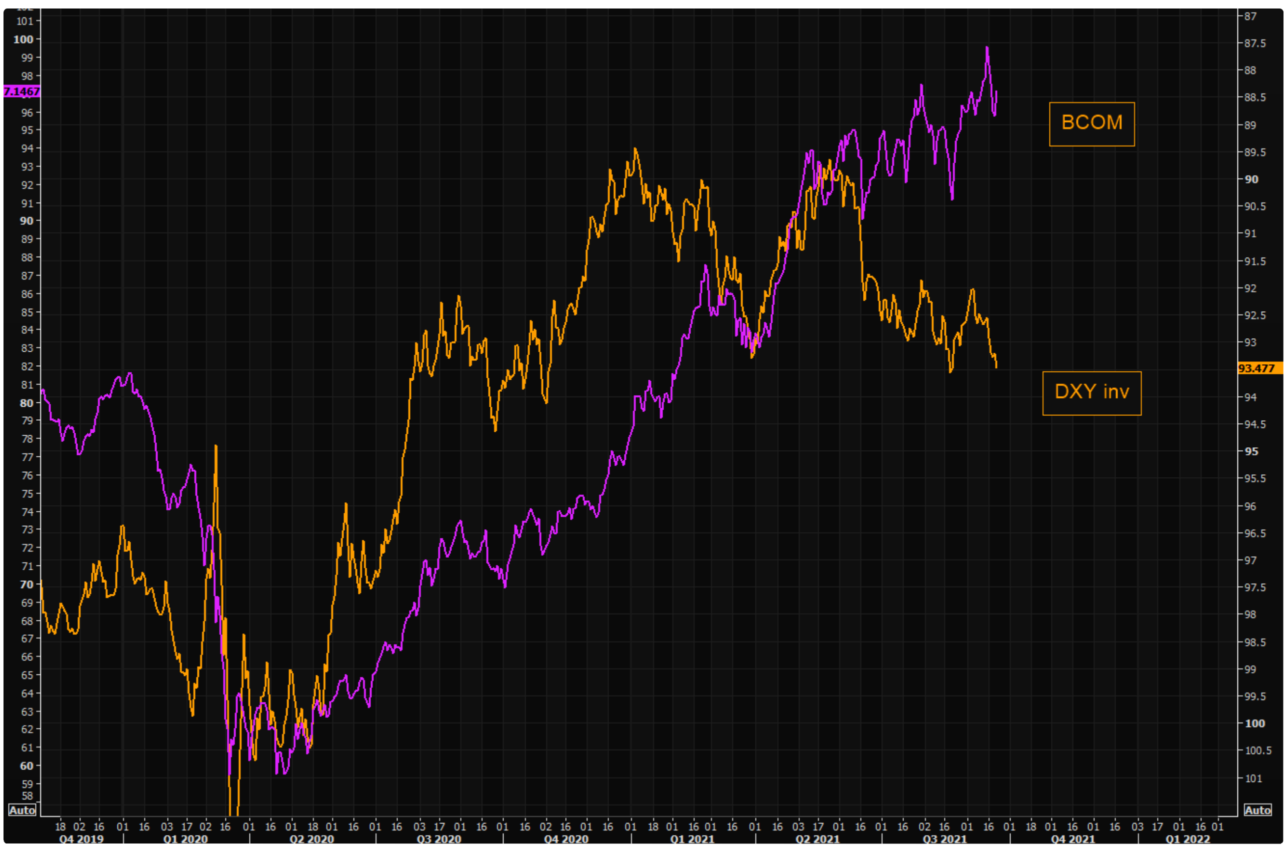

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