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FX

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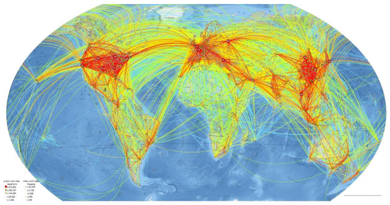


Guess what % of global airports are in the USA vs. in China.

Answer is at the end.

Current Views

Flat

China and the best Fed bets

China

The Evergrande story will be hard to trade in the short-run, but it's clear the authorities are having some success in slowing their ginormous real estate sector. This looks like an important global deflationary headwind. It's not a contagion story; it's a *bad for growth* story.

This related (and prescient) August 2020 piece by Rogoff and Yang is worth a read. Here's the abstract.

> China's real estate has been a key engine of its sustained economic expansion. This paper argues, however, that even before the Covid-19 shock, a decades-long housing boom had given rise to severe price misalignments and regional supply-demand mismatches, making an adjustment both necessary and inevitable. We make use of newly available and updated data sources to analyze supply-demand conditions in the fast-moving Chinese economy. The imbalances are then compared to benchmarks from other economies. We conclude that the sector is quite vulnerable to a sustained aggregate growth shock, such as Covid-19 might pose. In our baseline calibration, using input-output tables and taking account of the very large footprint of housing construction and real-estate related sectors, the adjustment to a decline in housing activity can easily trim a cumulative 5-10 percent from the level of output (over a period of years).

This chart from the paper is pretty awesome and there are many others. Worth a look.

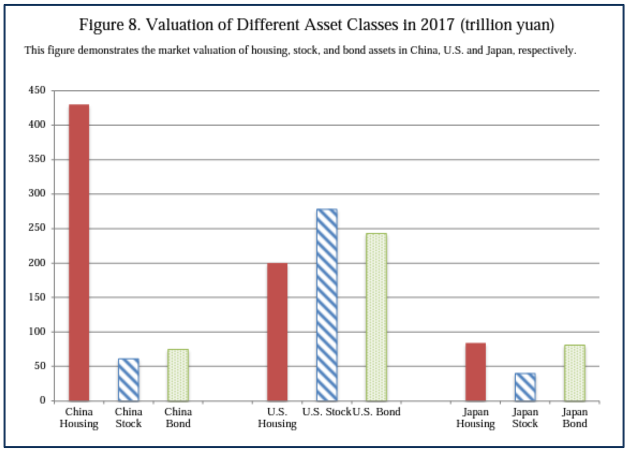


Figure 8. Valuation of Different Asset Classes in 2017 (trillion yuan)

This figure demonstrates the market valuation of housing, stock, and bond assets in China, U.S. and Japan, respectively.

Anything that did well in the commodity supercycle or reflation 2021 cycle (AUD, BHP, FCX, iron ore, rebar, etc.) is going to be unfun to own, even at these discounted prices. Some of this situation is priced in as the slowing credit impulse was flagged as far back as March 2021, but the aggressiveness of the variety of policy maneuvers coming out of China certainly was not.

USDCNH

I am neutral dollar for now as I think the setup for the Fed is symmetrical and it's better to go in flat and open-minded. Therefore, I'm taking the tiny profits in the USDCNH and going to flat (see sidebar, as always).

Best Fed bets

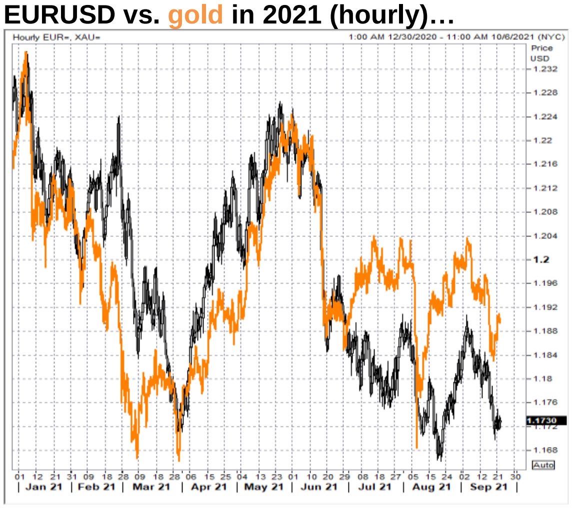
If we get a 2022 median hike, that's a meaningful hawkish surprise. Yes, there is almost a hike priced in, but rates markets always add some risk premium so we would see a decent front end move if the median 2022 dot shows hike.

If that happens, I think short AUDUSD or GBPUSD are the best plays. AUD because of the China slowdown story and its failure to squeeze yesterday and GBPUSD because people are caught long on a bad narrative (more below on GBP).

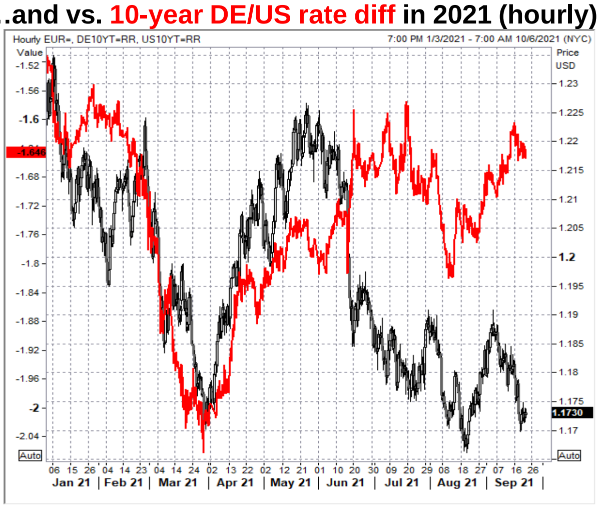
If we get a very low 2024 dot, long EURUSD should work as that pair looks low compared to normal short-term fair value indicators like rate differentials, BTPs, and gold. EURUSD has been in a 1.1660/1.1920 range for the last three months, so you are buying fairly close to support. A series of increasingly huge supports come into play below there (1.1650 and the epic 1.1600 low from election night).

Don't forget about the German election this weekend.

EURUSD vs. gold in 2021 (hourly)…



…and vs. 10-year DE/US rate diff in 2021 (hourly)



Charts courtesy of Refinitiv

Cable

There was an interesting debate going on last week as the BoE story unfolded. Nominal rates in the UK are going up on what looks like more orthodox Bank of England policy from here. On the other side of the pros&cons ledger though, the government is talking in more austere tones on fiscal, and real rates and a possible energy hit are the real story in the UK. It has a whiff of stagflation or bad inflation and so the initial reaction (buy GBP!) has now turned (sell GBP!). To me, the second move (sell GBP!) makes more sense.

Ripping nominals aren't bullish if you are worried about growth and real rates don't come along for the ride.

Have a fully operational day.

good luck ⇅ be nimble

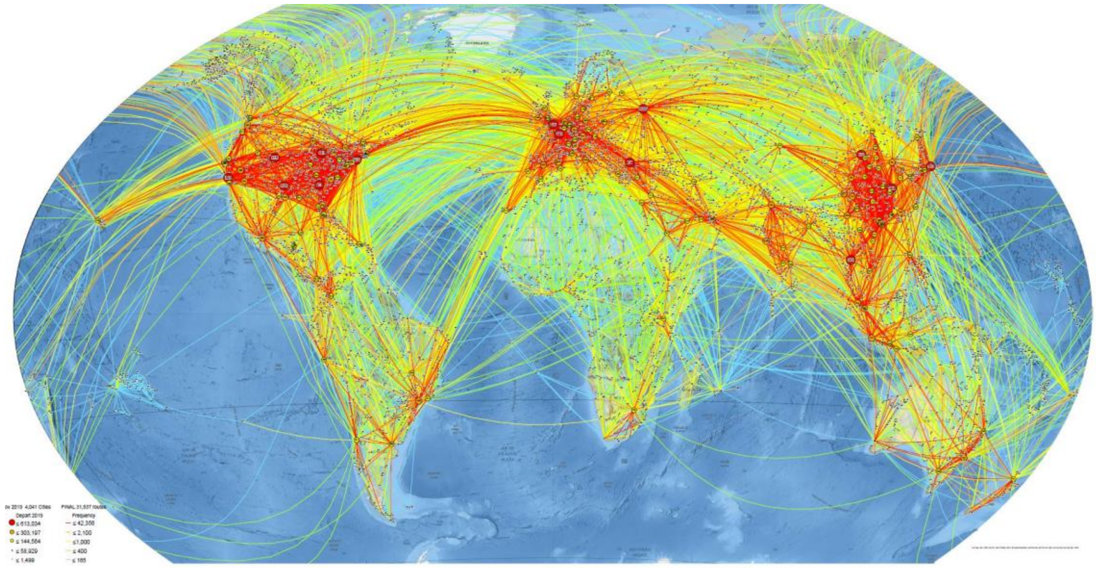
Even knowing that private air travel is not very common in China, it's hard to understand the disparity between countries here. Especially China and USA.

Countries with the most operational airports

Country	Number of airports	Percentage of global total
United States	13,513	33%
Brazil	4,093	10%
Mexico	1,714	4%
Canada	1,467	4%
Russia	1,218	3%
Argentina	916	2%
Bolivia	855	2%
Colombia	836	2%
Paraguay	799	2%
Indonesia	673	2%
Papua New Guinea	561	1%
Germany	539	1%
China	507	1%
Chile	481	1%
France	464	1%
United Kingdom	460	1%

I checked the data from multiple sources, including CIA Factbook so it seems correct but it is so surprising that I almost can't believe it. Explanations welcome.

Global air traffic flow



https://gis.icao.int/gallery/

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