

FX – What clients think: Informal survey responses

- More than 50% of clients think that a narrow US-China pact is more than 75% priced in
- More than 60% see less than a 15% chance of a hard Brexit; 34% see GBP north of 1.35 on a deal
- Almost 33% see a hawkish Fed on 30 October versus 5% dovish
- More than 55% see President Trump's re-election probability above 53%
- Almost 90% see the DXY weaker if a Democrat wins the presidential election

What clients expect

We sent out a survey to clients and colleagues on 28 October to gauge what they think about key asset market and macroeconomic themes. We also queried SC colleagues. Below is a quick summary of responses so far (65 external, 34 internal). Taking the questions together, good news on a limited trade deal and Brexit is viewed as largely, but not fully priced in. However, clients worry that the FOMC will send a hawkish signal at its 30 October meeting, possibly by changing the Statement text to remove the "act as appropriate" phrasing. There is weak conviction that the EUR may have turned the corner, and considerable conviction that a Democratic presidential election win could bring a much weaker USD.

Steve Englander

+1 212 667 0564

Steve.Englander@sc.com

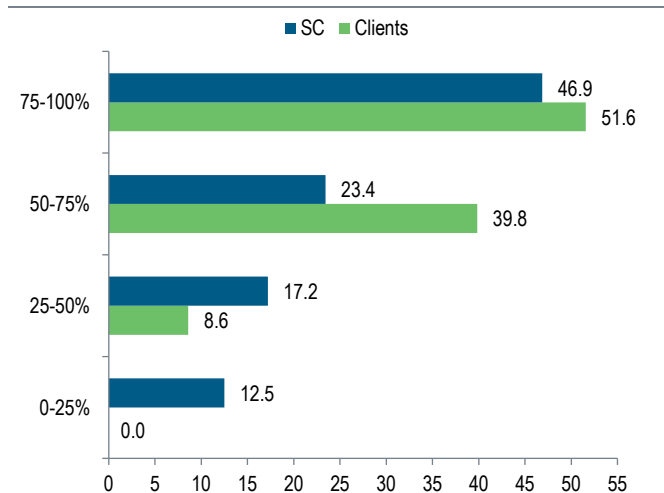
Head, Global G10 FX Research and North America Macro Strategy

Standard Chartered Bank NY Branch

1. How much is a narrow trade deal (limited to agriculture, limited tariff rollback and other modest changes) priced into equities and exchange rates?

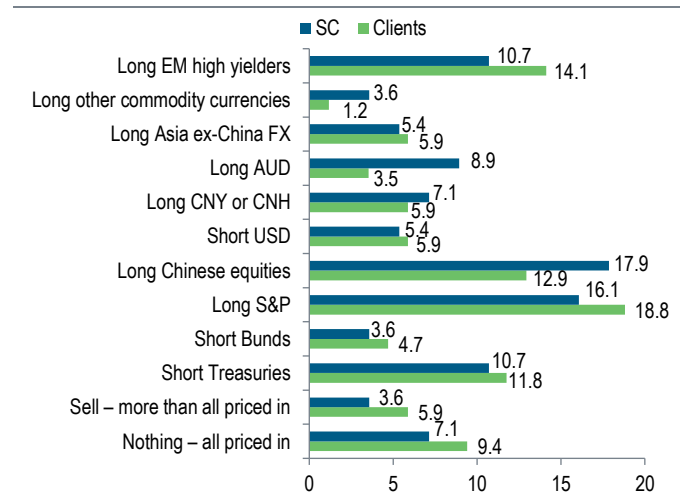
Half of our client respondents see a narrow US China trade deal as more than 75% priced in; only 10% consider it less than 50% priced in (Figure 1). By contrast, about 30% of SC colleagues see the trade deal as less than 50% priced in. The S&P is up about 5% from early October lows and UST 10Y yields are up 30bps. Using 75% as an estimate of how much is priced in suggests 1-2% more on equities and maybe 10bps higher on USTs, assuming the moves are wholly driven by the likelihood of a small deal.

Figure 1: How much is a narrow trade deal (limited to agriculture, limited tariff rollback and other modest changes) priced in equities and exchange rates?



Source: Standard Chartered Research

Figure 2: If the narrow deal is formalised, what is the best position to own? (Choose up to two positions)



Source: Standard Chartered Research

If you are in scope for MiFID II and want to opt out of our Research services, please [contact us](#).

Important disclosures and analyst certifications can be found in the Disclosures Appendix

All rights reserved. Standard Chartered Bank 2019

Issuer of Report Standard Chartered Bank NY Branch

<https://research.sc.com>



2. If the narrow deal is formalised, what is the best position to own? (Choose up to two positions)

On a deal, a wide variety of assets will likely appreciate (Figure 2). Among clients and SC colleagues, the assets thought most likely to appreciate are US equities, EM high yielders, and China's equities. USTs are expected to sell off. About 16% of SC colleagues saw the AUD, CNY and CNH as most attractive, about double the client share. Both among clients and SC colleagues, somewhat over 10% thought the deal was fully priced in or had overshot.

3. What is the risk of a hard Brexit over the next year?

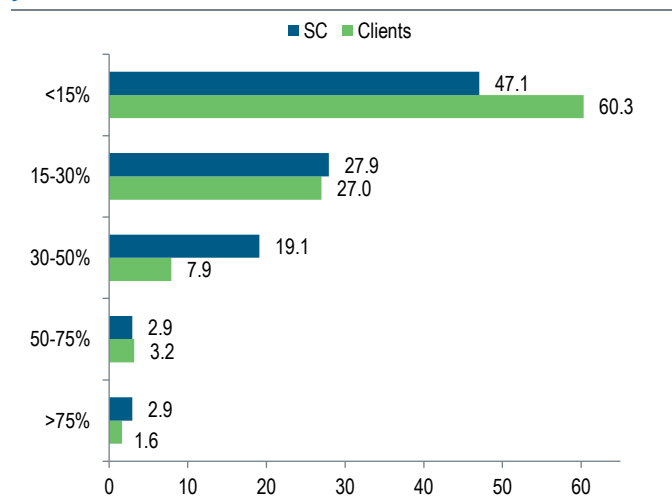
4. Where will GBP trade in six months if there is some negotiated Brexit deal?

More than 60% of clients saw a hard Brexit risk as less than 15% (SC 47%), with a further 25-30% seeing hard Brexit as a 15-30% risk. Almost 35% of clients saw the GBP above 1.35 on a deal and 48% trading in a 1.30-1.35 range (Figure 3). Both clients and SC colleagues see near 85% probability that the GBP trades above 1.30 on a negotiated deal. On 29 October, we recommended a long GBP position on the view that a hard Brexit has become extremely unlikely ([ACT: Buy GBP-USD](#)).

About 25% of SC colleagues see more than a 30% chance of a hard Brexit vs, 12% of clients. For those who see significant risk of a hard Brexit, there are some attractive downside GBP opportunities.

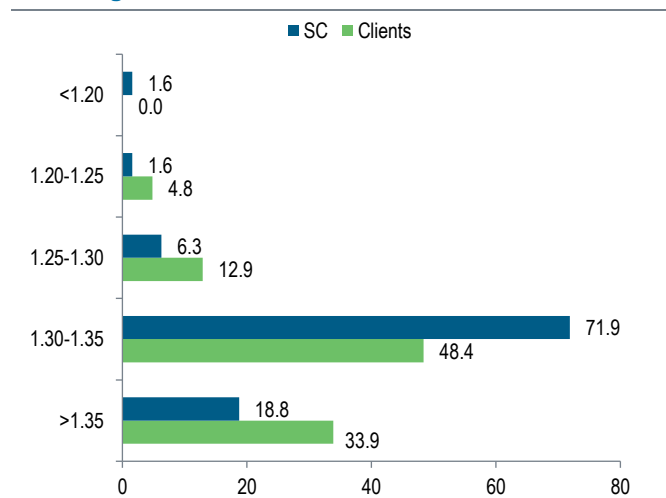
5. Markets now price in about a 30-35% probability of a December FOMC cut, and close to 100% for a cut in October. On 30 October, do you think the Fed will be neutral, hawkish or dovish relative to this market pricing?

Figure 3: What is the risk of a hard Brexit over the next year?



Source: Standard Chartered Research

Figure 4: Where will GBP trade in six months if there is some negotiated Brexit deal?



Source: Standard Chartered Research



6. Do you expect the FOMC to modify the phrase “will act as appropriate to sustain the expansion”? Will a change be viewed as hawkish relative to current pricing?

About 60% of clients and SC colleagues expect the Fed to be neutral relative to market pricing (which is unsurprising). However, the split between hawkish and dovish skews among clients was 33% hawkish, 5% dovish (Figure 5). This matches our anecdotal perception that clients are going into the FOMC meeting with a hawkish skew. For SC colleagues the risk distribution was more symmetrical: 19% expected a hawkish surprise, 22% a dovish surprise.

The key Statement decision is whether the FOMC keeps “will act as appropriate” and how markets will react if this phrase is weakened. More than 75% of clients expected the recent phrasing to stay and 64% saw a change in phrasing as hawkish (Figure 6). Less than 15% of clients thought the FOMC could change the phrasing without it being viewed as hawkish.

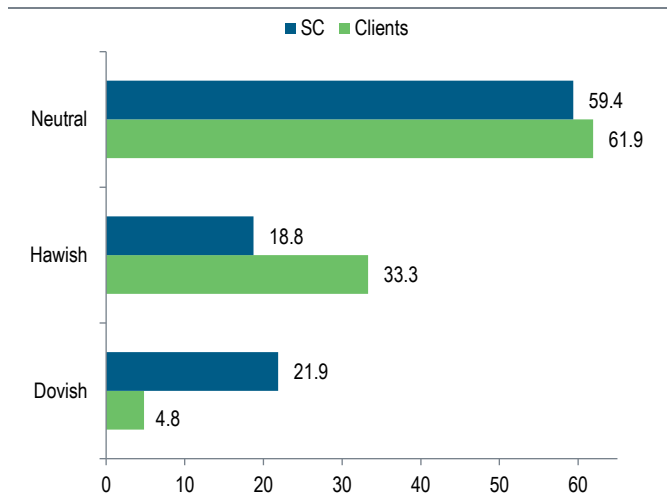
7. Online political trading markets give President Trump a 42% chance of re-election? What is Your subjective probability of re-election?

8. How will the DXY (the USD index) trade if the most likely Democrat (your subjective view) wins?

More than 55% of clients see the probability of President Trump being re-elected as above 53%, of which 25% saw a more than 60% chance of re-election. 21% of clients were in our toss-up range (48-52% re-election probability). SC colleagues saw slightly higher probability than clients that President Trump would be re-elected (Figure 7).

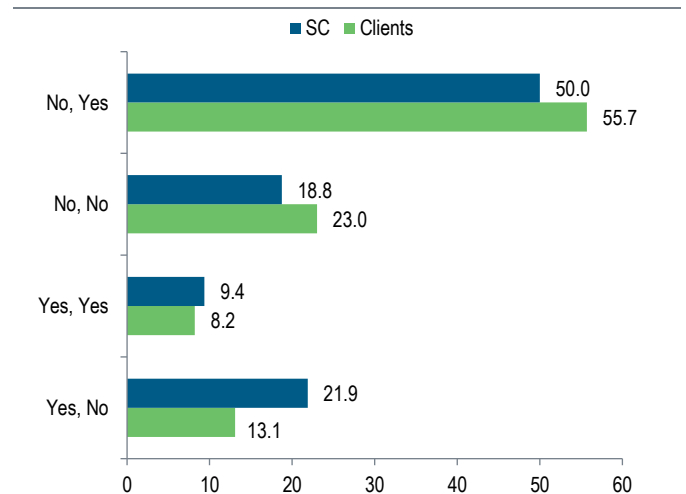
There was a strong client consensus that the DXY would weaken if a Democrat won (we did not distinguish among Democrats). Almost 40% of clients thought the USD would drop 5% or more and 34% 2-5% (Figure 8). Notwithstanding the higher probability that SC colleagues assigned to Trump’s re-election, they were slightly less pessimistic on the USD if he lost. Among SC colleagues, 50% thought the DXY would fall by 2% or more versus 74% of clients.

Figure 5: Markets now price about 30-35% probability of a Dec FOMC cut, and close to 100% for a 30 Oct cut; in Oct, do you think the Fed will be neutral, hawkish or dovish relative to this market pricing ?



Source: Standard Chartered Research

Figure 6: Do you expect the FOMC to modify ‘will act as appropriate to sustain the expansion’? Will a change be viewed as hawkish relative to current pricing?

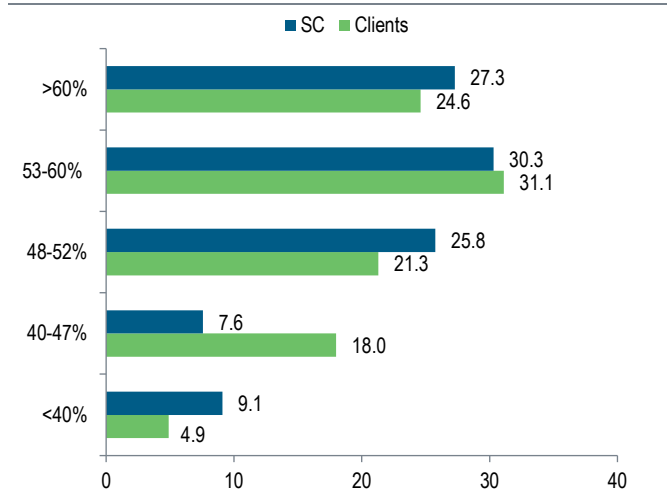


Source: Standard Chartered Research

9. Do you think the EUR has seen its cyclical low?

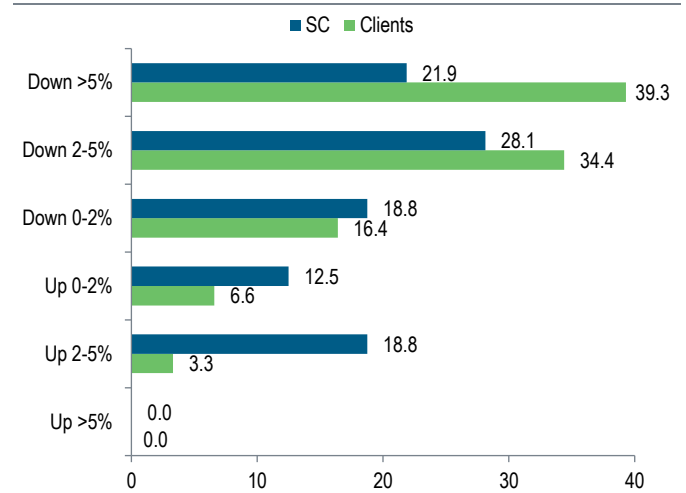
Over 60% of clients and SC colleagues thought we have passed the EUR cyclical low (Figure 9). Treating the September low of 1.0899 as the bottom, options markets price in a c.44% risk that the EUR will not trade below this level over the next year and a 35% chance that it will not trade below the level over the next two years, so there is some correspondence between the survey and market pricing. This also matches anecdotal client discussions – there is a perception that some EUR negatives are being removed, but not much conviction that the EUR is on a definitive upward trend.

Figure 7: Online political trading markets give President Trump a 42% chance of re-election. Your subjective probability of re-election is:



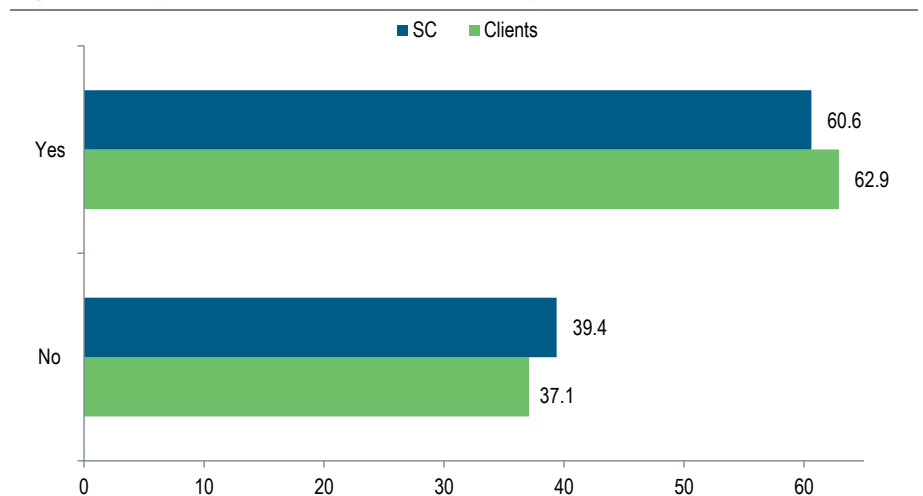
Source: Standard Chartered Research

Figure 8: How would the DXY trade if the most likely Democrat (your subjective view) wins?



Source: Standard Chartered Research

Figure 9: Do you think the EUR has seen its cyclical low?



Source: Standard Chartered Research



Disclosures appendix

Analyst Certification Disclosure: The research analyst or analysts responsible for the content of this research report certify that: (1) the views expressed and attributed to the research analyst or analysts in the research report accurately reflect their personal opinion(s) about the subject securities and issuers and/or other subject matter as appropriate; and, (2) no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendations or views contained in this research report. On a general basis, the efficacy of recommendations is a factor in the performance appraisals of analysts.

Global Disclaimer: Standard Chartered Bank and/or its affiliates ("SCB") makes no representation or warranty of any kind, express, implied or statutory regarding this document or any information contained or referred to in the document (including market data or statistical information). The information in this document, current at the date of publication, is provided for information and discussion purposes only. It does not constitute any offer, recommendation or solicitation to any person to enter into any transaction or adopt any hedging, trading or investment strategy, nor does it constitute any prediction of likely future movements in rates or prices, or represent that any such future movements will not exceed those shown in any illustration. The stated price of the securities mentioned herein, if any, is as of the date indicated and is not any representation that any transaction can be effected at this price. SCB does not represent or warrant that this information is accurate or complete. While this research is based on current public information that we have obtained from publicly available sources, believed to be reliable, but we do not represent it is accurate or complete, no responsibility or liability is accepted for errors of fact or for any opinion expressed herein. This document does not purport to contain all the information an investor may require and the contents of this document may not be suitable for all investors as it has not been prepared with regard to the specific investment objectives or financial situation of any particular person. Any investments discussed may not be suitable for all investors. Users of this document should seek professional advice regarding the appropriateness of investing in any securities, financial instruments or investment strategies referred to in this document and should understand that statements regarding future prospects may not be realised. Opinions, forecasts, assumptions, estimates, derived valuations, projections and price target(s), if any, contained in this document are as of the date indicated and are subject to change at any time without prior notice. Our recommendations are under constant review. The value and income of any of the securities or financial instruments mentioned in this document can fall as well as rise and an investor may get back less than invested. Future returns are not guaranteed, and a loss of original capital may be incurred. Foreign-currency denominated securities and financial instruments are subject to fluctuation in exchange rates that could have a positive or adverse effect on the value, price or income of such securities and financial instruments. Past performance is not indicative of comparable future results and no representation or warranty is made regarding future performance. While we endeavour to update on a reasonable basis the information and opinions contained herein, we are under no obligation to do so and there may be regulatory, compliance or other reasons that prevent us from doing so. Accordingly, information may be available to us which is not reflected in this document, and we may have acted upon or used the information prior to or immediately following its publication. SCB is acting on a principal-to-principal basis and not acting as your advisor, agent or in any fiduciary capacity to you. SCB is not a legal, regulatory, business, investment, financial and accounting and/or tax adviser, and is not purporting to provide any such advice. Independent legal, regulatory, business, investment, financial and accounting and/or tax advice should be sought for any such queries in respect of any investment. SCB and/or its affiliates may have a position in any of the securities, instruments or currencies mentioned in this document. SCB and/or its affiliates or its respective officers, directors, employee benefit programmes or employees, including persons involved in the preparation or issuance of this document may at any time, to the extent permitted by applicable law and/or regulation, be long or short any securities or financial instruments referred to in this document and on the SCB Research website or have a material interest in any such securities or related investments, or may be the only market maker in relation to such investments, or provide, or have provided advice, investment banking or other services, to issuers of such investments and may have received compensation for these services. SCB has in place policies and procedures and physical information walls between its Research Department and differing public and private business functions to help ensure confidential information, including 'inside' information is not disclosed unless in line with its policies and procedures and the rules of its regulators. Data, opinions and other information appearing herein may have been obtained from public sources. SCB expressly disclaims responsibility and makes no representation or warranty as to the accuracy or completeness of such information obtained from public sources. SCB also makes no representation or warranty as to the accuracy nor accepts any responsibility for any information or data contained in any third party's website. You are advised to make your own independent judgment (with the advice of your professional advisers as necessary) with respect to any matter contained herein and not rely on this document as the basis for making any trading, hedging or investment decision. SCB accepts no liability and will not be liable for any loss or damage arising directly or indirectly (including special, incidental, consequential, punitive or exemplary damages) from the use of this document, howsoever arising, and including any loss, damage or expense arising from, but not limited to, any defect, error, imperfection, fault, mistake or inaccuracy with this document, its contents or associated services, or due to any unavailability of the document or any part thereof or any contents or associated services. This document is for the use of intended recipients only. In any jurisdiction in which distribution to private/retail customers would require registration or licensing of the distributor which the distributor does not currently have, this document is intended solely for distribution to professional and institutional investors. This communication is subject to the terms and conditions of the SCB Research Disclosure Website available at <https://research.sc.com/Portal/Public/TermsConditions>. The disclaimers set out at the above web link applies to this communication and you are advised to read such terms and conditions / disclaimers before continuing. Additional information, including analyst certification and full research disclosures with respect to any securities referred to herein, will be available upon request by directing such enquiries to scgr@sc.com or clicking on the relevant SCB research report web link(s) referenced herein. MiFID II research and inducement rules apply. You are advised to determine the applicability and adherence to such rules as it relates to yourself.

Country-Specific Disclosures – This document is not for distribution to any person or to any jurisdiction in which its distribution would be prohibited. If you are receiving this document in any of the countries listed below, please note the following:

United Kingdom and European Economic Area: SCB is authorised in the United Kingdom by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. This communication is directed at persons Standard Chartered Bank can categorise as Eligible Counterparties or Professional Clients (such persons being the target market of this communication following Standard Chartered Bank's target market assessment) under the Markets in Financial Instruments Directive II (Directive 2014/65/EU) ("MiFID II"). In particular, this communication is not directed at Retail Clients in the European Economic Area (as defined by MiFID II). Nothing in this document constitutes a personal recommendation or investment advice as defined by MiFID II. **Australia:** The Australian Financial Services Licence for Standard Chartered Bank is Licence No: 246833 with the following Australian Registered Body Number (ARBN: 097571778). Australian investors should note that this communication was prepared for "wholesale clients" only and is not directed at persons who are "retail clients" as those terms are defined in sections 761G and 761GA of the Corporations Act 2001 (Cth). **Bangladesh:** This research has not been produced in Bangladesh. The report has been prepared by the research analyst(s) in an autonomous and independent way, including in relation to SCB. THE SECURITIES MENTIONED IN THIS REPORT HAVE NOT BEEN AND WILL NOT BE REGISTERED IN BANGLADESH AND MAY NOT BE OFFERED OR SOLD IN BANGLADESH WITHOUT PRIOR APPROVAL OF THE REGULATORY AUTHORITIES IN BANGLADESH. Any subsequent action(s) of the Recipient of these research reports in this area should be subject to compliance with all relevant law & regulations of Bangladesh; specially the prevailing foreign exchange control regulations. **Botswana:** This document is being distributed in Botswana by, and is attributable to, Standard Chartered Bank Botswana Limited, which is a financial institution licensed by Bank of Botswana under Section 6 of the Banking Act CAP 46:04 and is listed on the Botswana Stock Exchange. **Brazil:** SCB disclosures pursuant to the Securities Exchange Commission of Brazil ("CVM") Instruction 598/18: This research has not been produced in Brazil. The report has been prepared by the research analyst(s) in an autonomous and independent way, including in relation to SCB. THE SECURITIES MENTIONED IN THIS REPORT HAVE NOT BEEN AND WILL NOT BE REGISTERED PURSUANT TO THE REQUIREMENTS OF THE SECURITIES AND EXCHANGE COMMISSION OF BRAZIL AND MAY NOT BE OFFERED OR SOLD IN BRAZIL EXCEPT PURSUANT TO AN APPLICABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS AND IN COMPLIANCE WITH THE SECURITIES LAWS OF BRAZIL. **China:** This document is being distributed in China by, and is attributable to, Standard Chartered Bank (China) Limited which is mainly regulated by China Banking and Insurance Regulatory Commission (CBIRC), State



Administration of Foreign Exchange (SAFE), and People's Bank of China (PBoC). **Hong Kong:** This document (except any part advising on or facilitating any decision on futures contracts trading) is being distributed in Hong Kong by, and any part hereof authored by an analyst licensed in Hong Kong is attributable to, Standard Chartered Bank (Hong Kong) Limited 渣打銀行(香港)有限公司 which is regulated by the Hong Kong Monetary Authority. Insofar as this document advises on or facilitates any decision on futures contracts trading, it is being distributed in Hong Kong by, and any part hereof authored by an analyst licensed in Hong Kong is attributable to, Standard Chartered Securities (Hong Kong) Limited 渣打證券(香港)有限公司 which is regulated by the Securities and Futures Commission. **India:** This document is being distributed in India by Standard Chartered Bank, India Branch ("SCB India"). SCB India is a branch of SCB, UK and is licensed by the Reserve Bank of India to carry on banking business in India. SCB India is also registered with Securities and Exchange Board of India in its capacity as Merchant Banker, Depository Participant, Bankers to an Issue, Custodian, etc. For details on group companies operating in India, please visit https://www.sc.com/in/india_result.html. **Indonesia:** Standard Chartered Bank, Jakarta Branch is a banking institution duly registered with and supervised by the Indonesian Financial Service Authority. The information in this document is provided for information purposes only. It does not constitute any offer, recommendation or solicitation to any person to enter into any transaction or adopt any hedging, trading or investment strategy, nor does it constitute any prediction of likely future movements in rates or prices or represent that any such future movements will not exceed those shown in any illustration. Future changes in such laws, rules, regulations, etc., could affect the information in this document, but SCB is under no obligation to keep this information current or to update it. Expressions of opinion are those of SCB only and are subject to change without notice. **Japan:** This document is being distributed to Specified Investors, as defined by the Financial Instruments and Exchange Act of Japan (Act No.25 of 1948, known as "FIEA"), for information only and not for the purpose of soliciting any Financial Instruments Transactions as defined by the FIEA or any Specified Deposits, etc. as defined by the Banking Act of Japan (Act No.59 of 1981). **Kenya:** Standard Chartered Bank Kenya Limited is regulated by the Central Bank of Kenya. The information in this document is provided for information purposes only. The document is intended for use only by Professional Clients and should not be relied upon by or be distributed to Retail Clients. **Korea:** This document is being distributed in Korea by, and is attributable to, Standard Chartered Bank Korea Limited which is regulated by the Financial Supervisory Service and Financial Services Commission. **Macau:** This document is being distributed in Macau Special Administrative Region of the Peoples' Republic of China, and is attributable to, Standard Chartered Bank (Macau Branch) which is regulated by Macau Monetary Authority. **Malaysia:** This document is being distributed in Malaysia by Standard Chartered Bank Malaysia Berhad only to institutional investors or corporate customers. Recipients in Malaysia should contact Standard Chartered Bank Malaysia Berhad in relation to any matters arising from, or in connection with, this document. **Mauritius:** Standard Chartered Bank (Mauritius) Limited is regulated by both the Bank of Mauritius and the Financial Services Commission in Mauritius. This document should not be construed as investment advice or solicitation to enter into securities transactions in Mauritius as per the Securities Act 2005. **New Zealand:** New Zealand Investors should note that this document was prepared for "wholesale clients" only within the meaning of section 5C of the Financial Advisers Act 2008. This document is not directed at persons who are "retail clients" as defined in the Financial Advisers Act 2008. NOTE THAT STANDARD CHARTERED BANK (incorporated in England) IS NOT A "REGISTERED BANK" IN NEW ZEALAND UNDER THE RESERVE BANK OF NEW ZEALAND ACT 1989, and it is not therefore regulated or supervised by the Reserve Bank of New Zealand. **Pakistan:** The securities mentioned in this report have not been, and will not be, registered in Pakistan, and may not be offered or sold in Pakistan, without prior approval of the regulatory authorities and/or relevant governmental statutory body(ies) in Pakistan. **Philippines:** This document may be distributed in the Philippines by Standard Chartered Bank (Philippines) ("SCB PH"), which is regulated by Bangko Sentral ng Pilipinas (telephone no.: +63 708-7701, website: www.bsp.gov.ph). This document is directed to Qualified Buyers as defined under Section 10.1 (L) of Republic Act No. 8799, otherwise known as the Securities Regulation Code ("SRC"), other corporate and institutional clients only. SCB PH does not warrant the appropriateness and suitability of any security, investment or transaction that may have been discussed in this document with respect to any person. Nothing in this document constitutes or should be construed as an offer to sell or distribute securities in the Philippines, which securities, if offered for sale or distribution in the Philippines, are required to be registered with the Securities and Exchange Commission unless such securities are exempt under Section 9 of the SRC or the transaction is exempt under Section 10 thereof. **Singapore:** This document is being distributed in Singapore by SCB Singapore branch (UEN No.:S16FC0027L) and/or Standard Chartered Bank (Singapore) Limited (UEN No.: 201224747C) only to Accredited Investors, Expert Investors or Institutional Investors, as defined in the Securities and Futures Act, Chapter 289 of Singapore. Recipients in Singapore should contact SCB Singapore branch or Standard Chartered Bank (Singapore) Limited (as the case may be) in relation to any matters arising from, or in connection with, this document. **South Africa:** Standard Chartered Bank, Johannesburg Branch ("SCB Johannesburg Branch") is a Registered Credit Provider in terms of the National Credit Act 34 of 2005 under registration number NCRCP4. **Thailand:** This document is intended to circulate only general information and prepare exclusively for the benefit of Institutional Investors with the conditions and as defined in the Notifications of the Office of the Securities and Exchange Commission relating to the exemption of investment advisory service, as amended and supplemented from time to time. It is not intended to provide for the public. **UAE:** For residents of the UAE – Standard Chartered Bank UAE does not provide financial analysis or consultation services in or into the UAE within the meaning of UAE Securities and Commodities Authority Decision No. 48/r of 2008 concerning financial consultation and financial analysis. **UAE (DIFC):** Standard Chartered Bank, Dubai International Financial Centre (SCB DIFC) having its offices at Dubai International Financial Centre, Building 1, Gate Precinct, P.O. Box 999, Dubai, UAE is a branch of Standard Chartered Bank and is regulated by the Dubai Financial Services Authority ("DFSA"). This document is intended for use only by Professional Clients and is not directed at Retail Clients as defined by the DFSA Rulebook. In the DIFC we are authorized to provide financial services only to clients who qualify as Professional Clients and Market Counterparties and not to Retail Clients. As a Professional Client you will not be given the higher retail client protection and compensation rights and if you use your right to be classified as a Retail Client we will be unable to provide financial services and products to you as we do not hold the required license to undertake such activities. **United States:** Except for any documents relating to foreign exchange, FX or global FX, Rates or Commodities, distribution of this document in the United States or to US persons is intended to be solely to major institutional investors as defined in Rule 15a-6(a)(2) under the US Securities Exchange Act of 1934. All US persons that receive this document by their acceptance thereof represent and agree that they are a major institutional investor and understand the risks involved in executing transactions in securities. Any US recipient of this document wanting additional information or to effect any transaction in any security or financial instrument mentioned herein, must do so by contacting a registered representative of Standard Chartered Securities North America, LLC, 1095 Avenue of the Americas, New York, N.Y. 10036, US, tel + 1 212 667 0700. WE DO NOT OFFER OR SELL SECURITIES TO U.S. PERSONS UNLESS EITHER (A) THOSE SECURITIES ARE REGISTERED FOR SALE WITH THE U.S. SECURITIES AND EXCHANGE COMMISSION AND WITH ALL APPROPRIATE U.S. STATE AUTHORITIES; OR (B) THE SECURITIES OR THE SPECIFIC TRANSACTION QUALIFY FOR AN EXEMPTION UNDER THE U.S. FEDERAL AND STATE SECURITIES LAWS NOR DO WE OFFER OR SELL SECURITIES TO U.S. PERSONS UNLESS (i) WE, OUR AFFILIATED COMPANY AND THE APPROPRIATE PERSONNEL ARE PROPERLY REGISTERED OR LICENSED TO CONDUCT BUSINESS; OR (ii) WE, OUR AFFILIATED COMPANY AND THE APPROPRIATE PERSONNEL QUALIFY FOR EXEMPTIONS UNDER APPLICABLE U.S. FEDERAL AND STATE LAWS. Any documents relating to foreign exchange, FX or global FX, Rates or Commodities to US Persons, Guaranteed Affiliates, or Conduit Affiliates (as those terms are defined by any Commodity Futures Trading Commission rule, interpretation, guidance, or other such publication) are intended to be distributed only to Eligible Contract Participants as defined in Section 1a(18) of the Commodity Exchange Act. **Zambia:** Standard Chartered Bank Zambia Plc (SCB Zambia) is licensed and registered as a commercial bank under the Banking and Financial Services Act Cap 387 of the laws of Zambia and as a dealer under the Securities Act, No. 41 of 2016. SCB Zambia is regulated by the Bank of Zambia, the Lusaka Stock Exchange and the Securities and Exchange Commission.

© 2019 Standard Chartered Bank. All rights reserved. Copyright in third party materials is acknowledged and is used under licence. You may not reproduce or adapt any part of these materials for any purposes unless with express written approval from Standard Chartered Bank.

Document approved by
Suki Cooper
Precious Metals Analyst

Document is released at
21:13 GMT 29 October 2019