

U.S. Macroeconomic Conditions: Implications for Global Derivatives Markets

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28 May
2014

**11th Shanghai Derivatives Market
Forum**

Outline

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- **Macroeconomic Outlook: Forecasts for 2014 to 2016**
 - ▣ United States, BRICS, EMEA and China
- **Macroeconomic Outlook: Forecasts for Q2' 14 to Q2' 15**
 - ▣ United States, China vs. U.S.A
- **Changes in Financial Conditions from May' 13 to May' 14**
 - ▣ United States and Euro Area
- **U.S. Monetary Policy: Federal Reserve rate changes**
- **Commodity Price Forecasts**
 - ▣ Price Discovery role of exchange traded derivatives
 - ▣ Food vs. Energy
- **Market Impact Analysis: Informational efficiency of equity markets**
- **Financial Markets : Past, Present & Future**
- **Conclusion: Noteworthy Issues to Watch**

U.S. Macroeconomic Outlook : 2014 to 2016

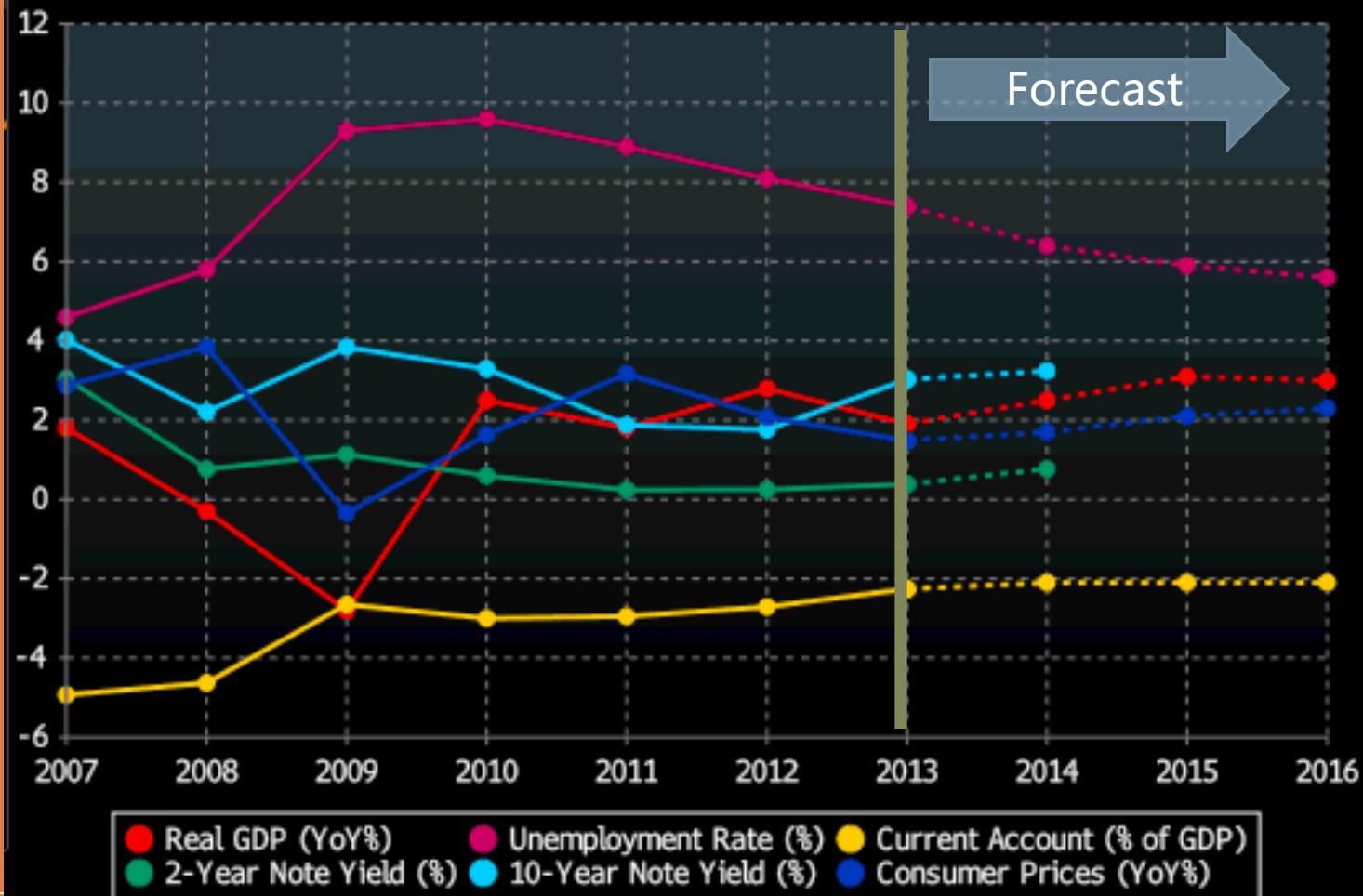
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Macroeconomic Forecasts

Decrease in
Unemployment

Increase in
GDP growth

Modest Increase in
Inflation



Implication
for
US

Source: Bloomberg

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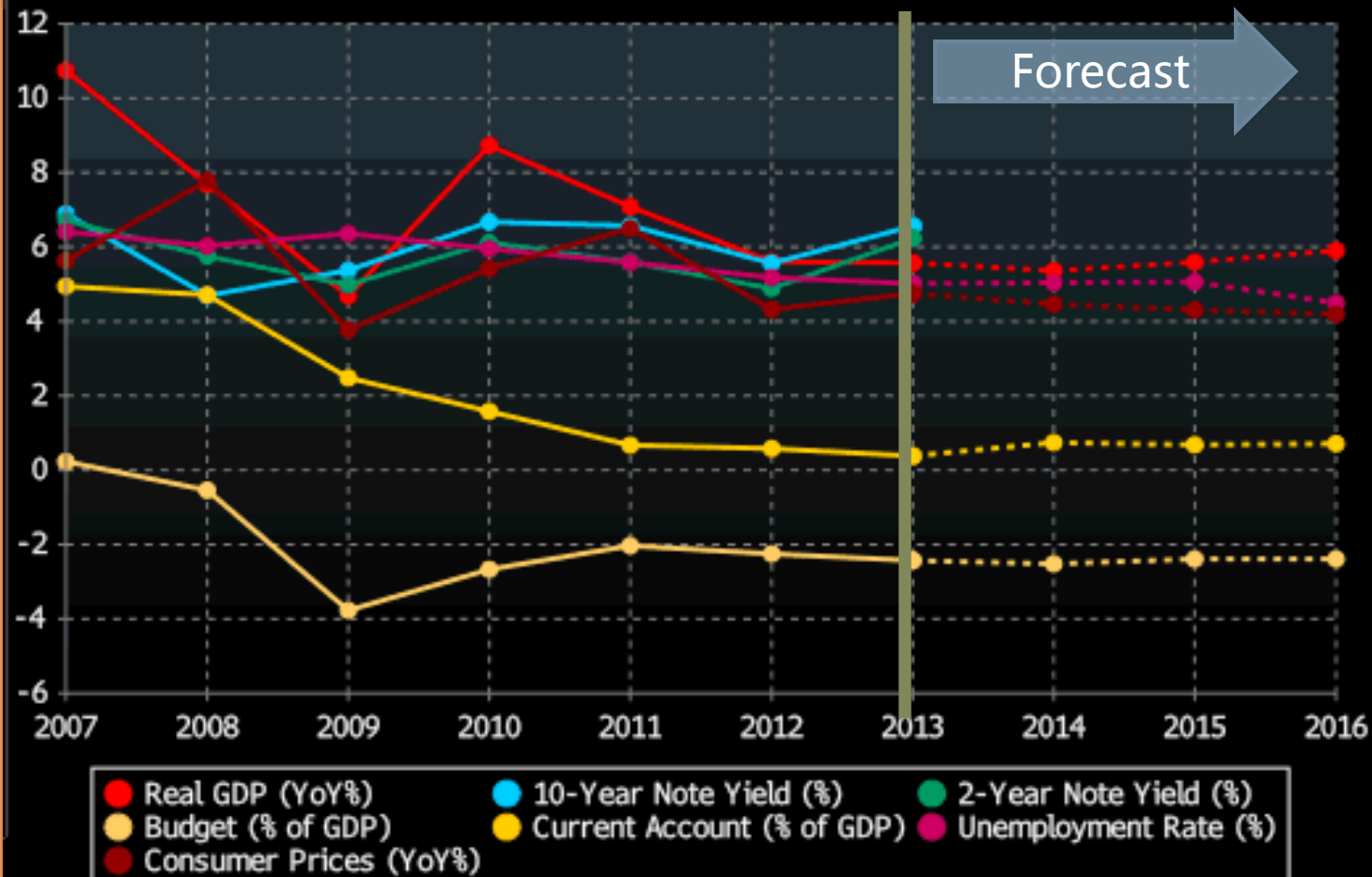
BRICS Macroeconomic Outlook : 2014 to 2016

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Macroeconomic Forecasts

Brazil,
Russia
India,
China
South
Africa

Relatively flat
growth,
inflation and
unemployment



Source: Bloomberg

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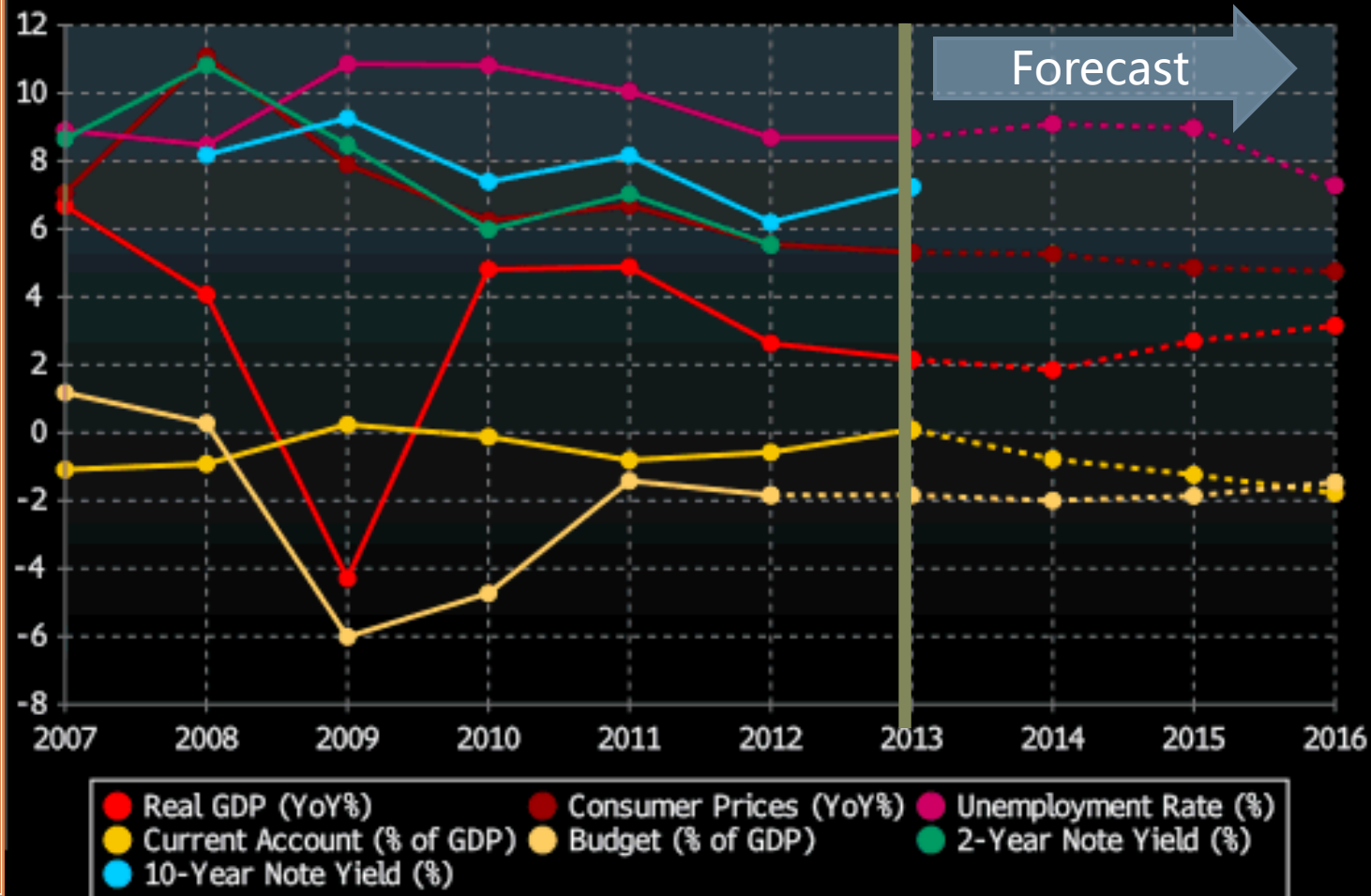
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EMEA Macroeconomic Outlook : 2014 to 2016

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Macroeconomic Forecasts

Eastern
Europe
Middle
East, Africa
Modest
increase in
GDP growth,
decrease in
unemployment
compared
to BRICS



Source: Bloomberg

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China Macroeconomic Outlook : 2014 to 2016

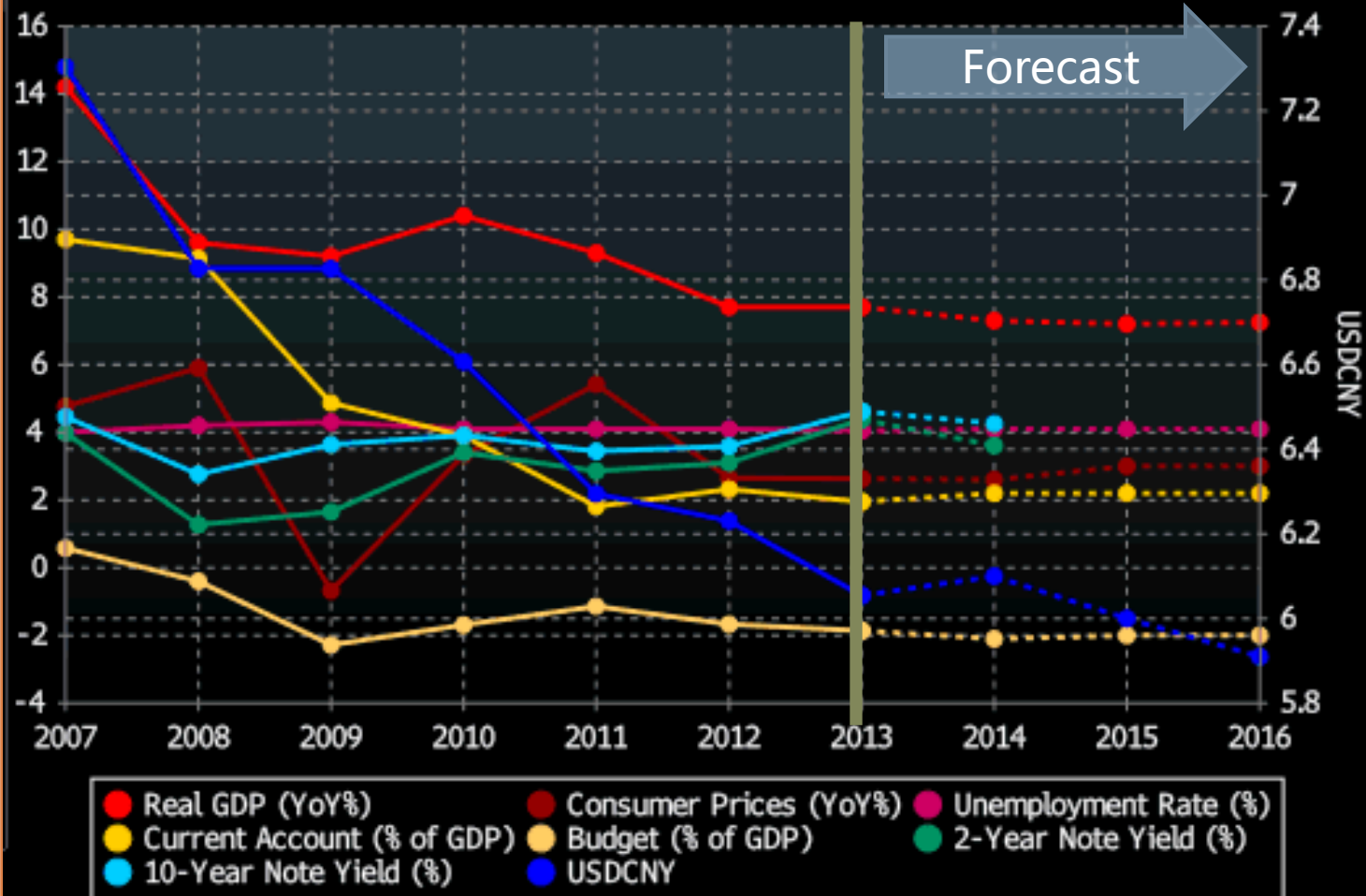
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Macroeconomic Forecasts

China

To continue higher than average GDP growth while maintaining steady inflation & unemployment.

USDCNY



Source: Bloomberg

Ahmet Karagozoglu, Hofstra University,
USA

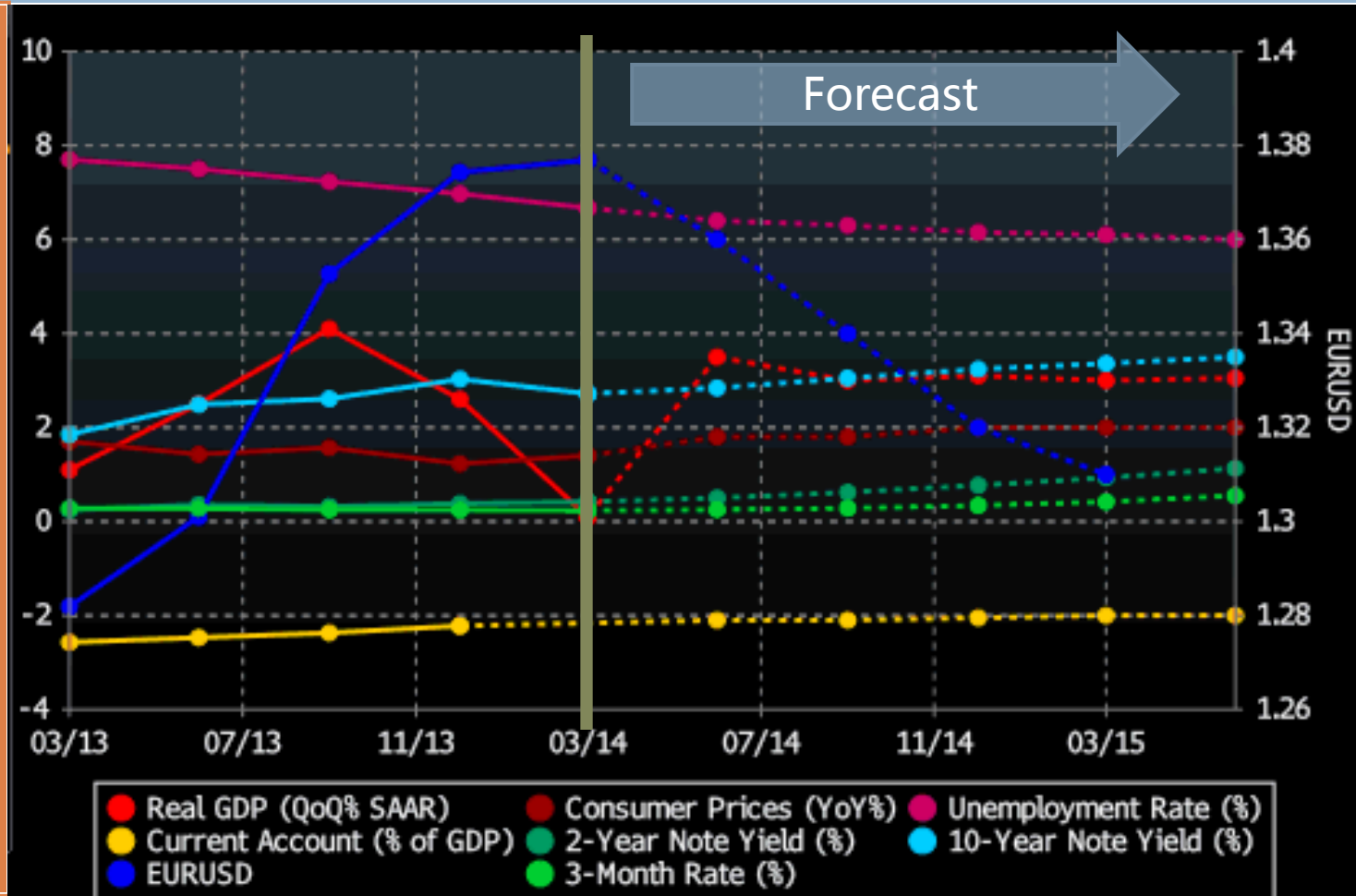
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U.S. Macroeconomic Outlook : next 5 quarters

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Macroeconomic Forecasts
EURUSD
 US Dollar to appreciate
 Decrease in Unemployment
 Slower Interest
 Modest Increase in Short to Medium term



Source: Bloomberg

China vs. U.S. Macroeconomic Outlook : Q2' 14 to Q2' 15

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Macroeconomic Forecasts

GDP Growth

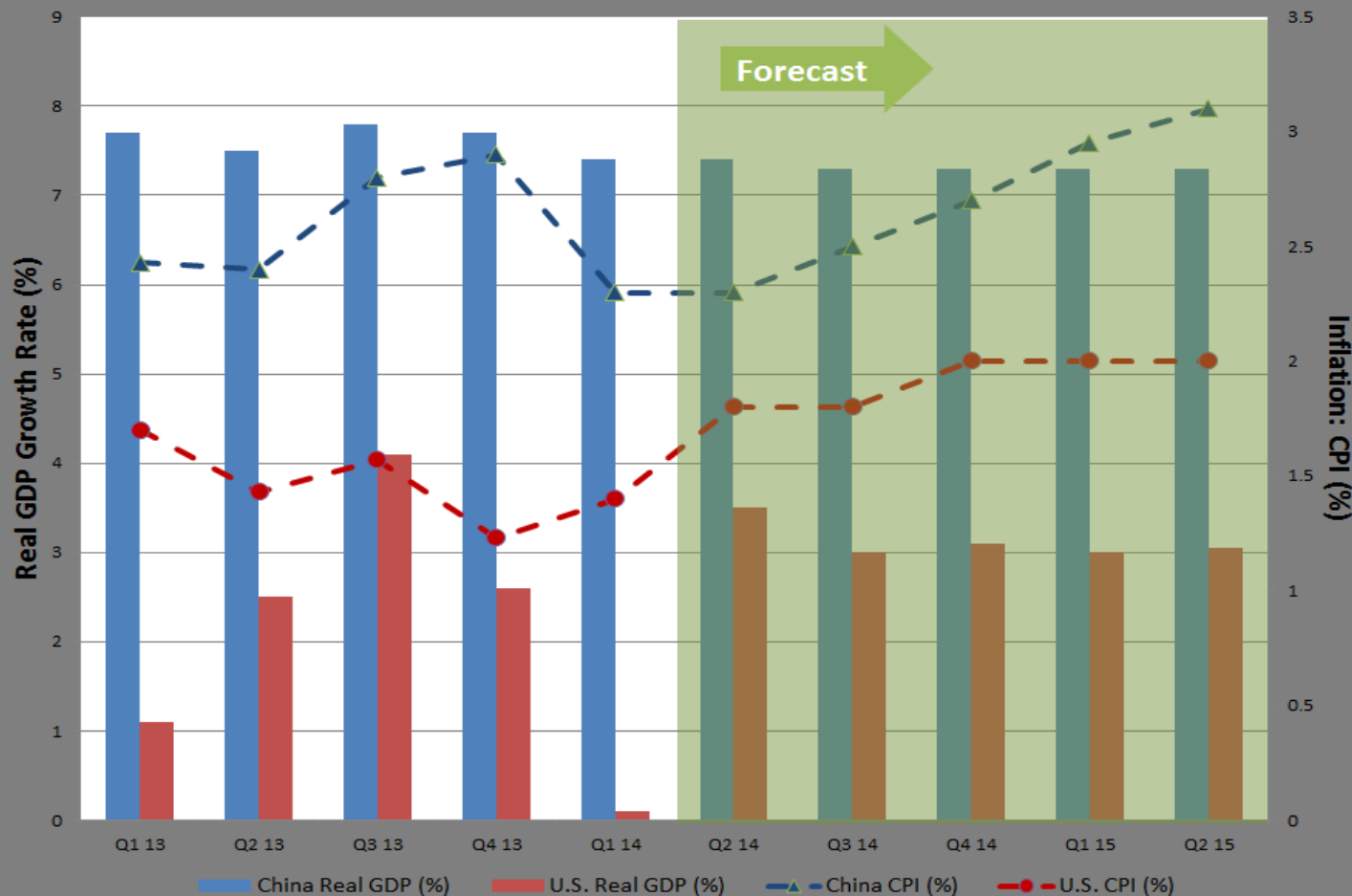
Relatively
stable

(Average %)
China : 7.32
U.S. : 3.15

Inflation

Upward
sloping
(Slope)

China : 0.82



Source: Bloomberg

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U.S. Financial Conditions improved : May' 13 to May' 14

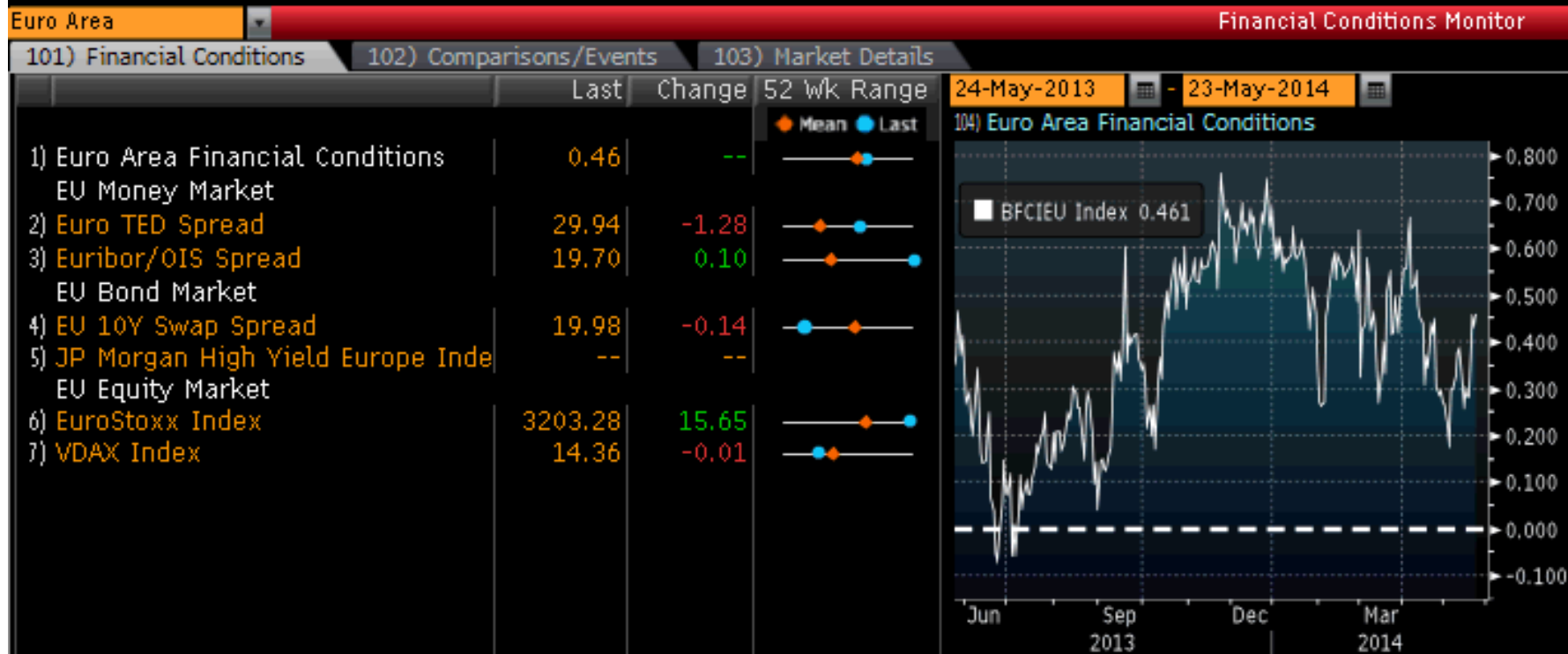
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Significant increase in Stock Market (S&P 500), very low Volatility in Equity Market (VIX)
Credit & term spreads are below 52week averages, low yield volatilities.

Euro Area Financial Conditions : May' 13 to May' 14

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Stock Markets increased but not as much as in the U.S., relatively low volatility

Mixed results for credit & term spreads. Improvements are not as pronounced as in U.S.

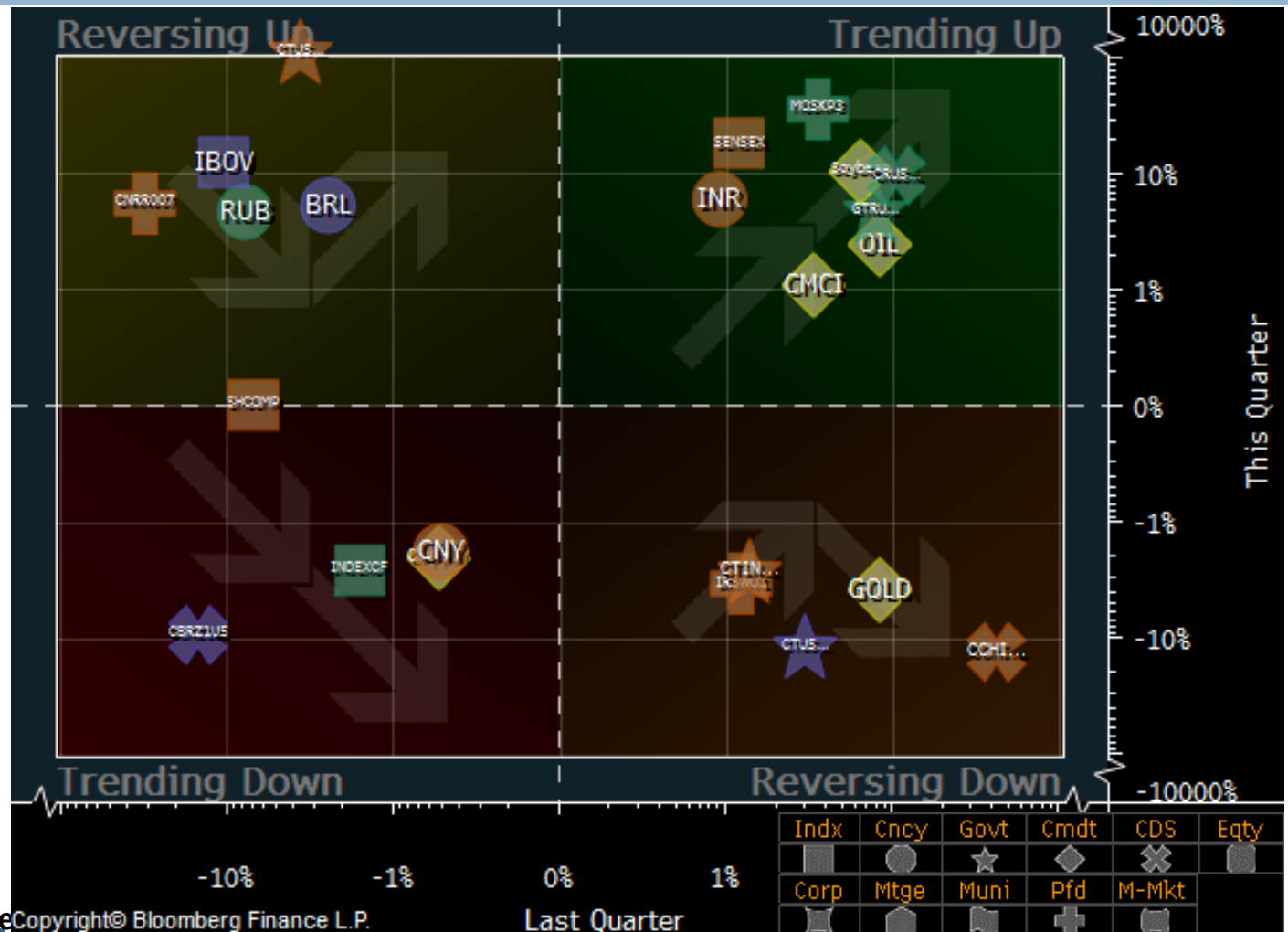
Source: Bloomberg
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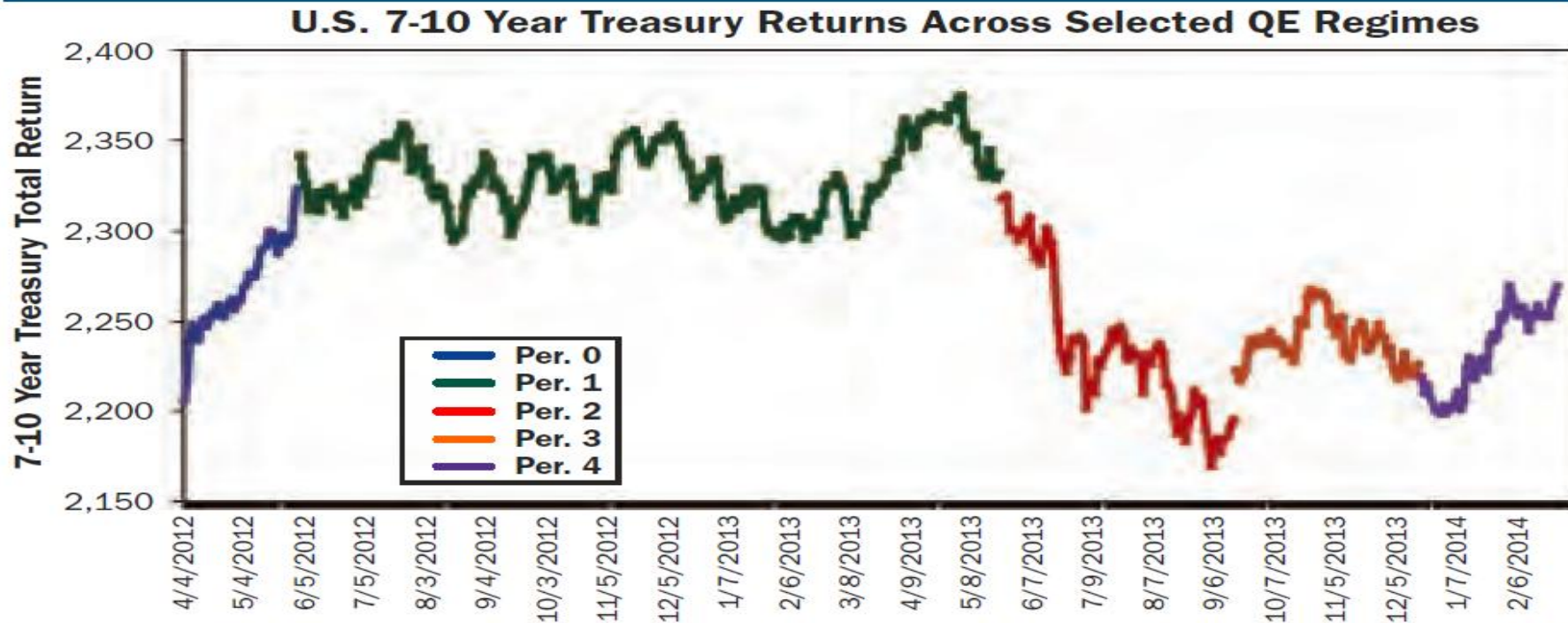
BRICS Quarterly Trend Analysis

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U.S. Monetary Policy : QE Regimes Apr' 12 to Feb' 14

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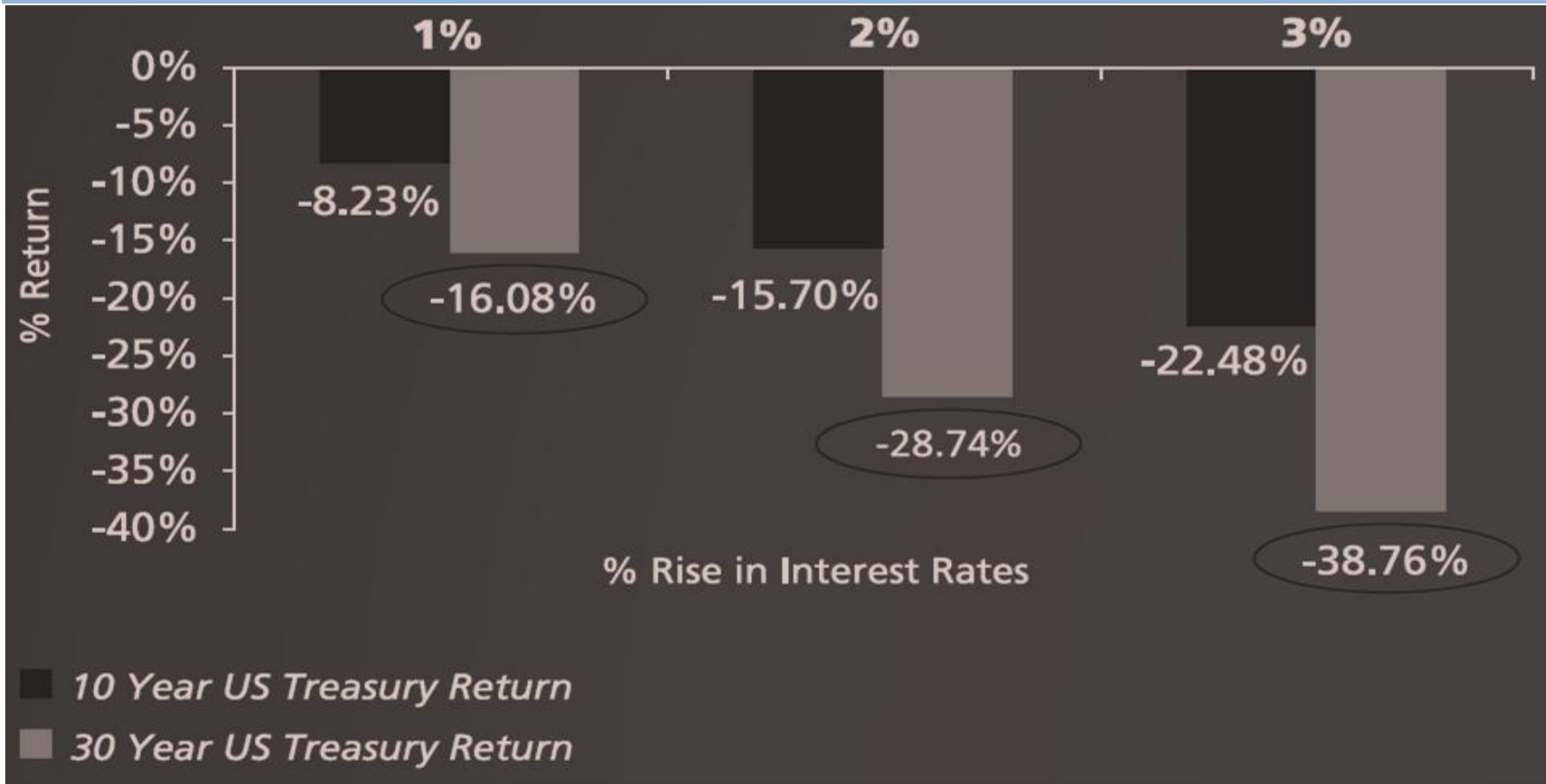


Period 0: April 4 – June 1, 2012, **Period 1:** June 4, 2012 – May 21, 2013
Period 2: May 22 – Sept. 17, 2013, **Period 3:** Sept. 18 – Dec. 17, 2013
Period 4: Dec. 18, 2013 – Feb. 27, 2014

Source: Bloomberg

Potential Impact of Fed Rate Increase on Treasury Returns

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Source: Bloomberg Calculated 31 Oct 2013

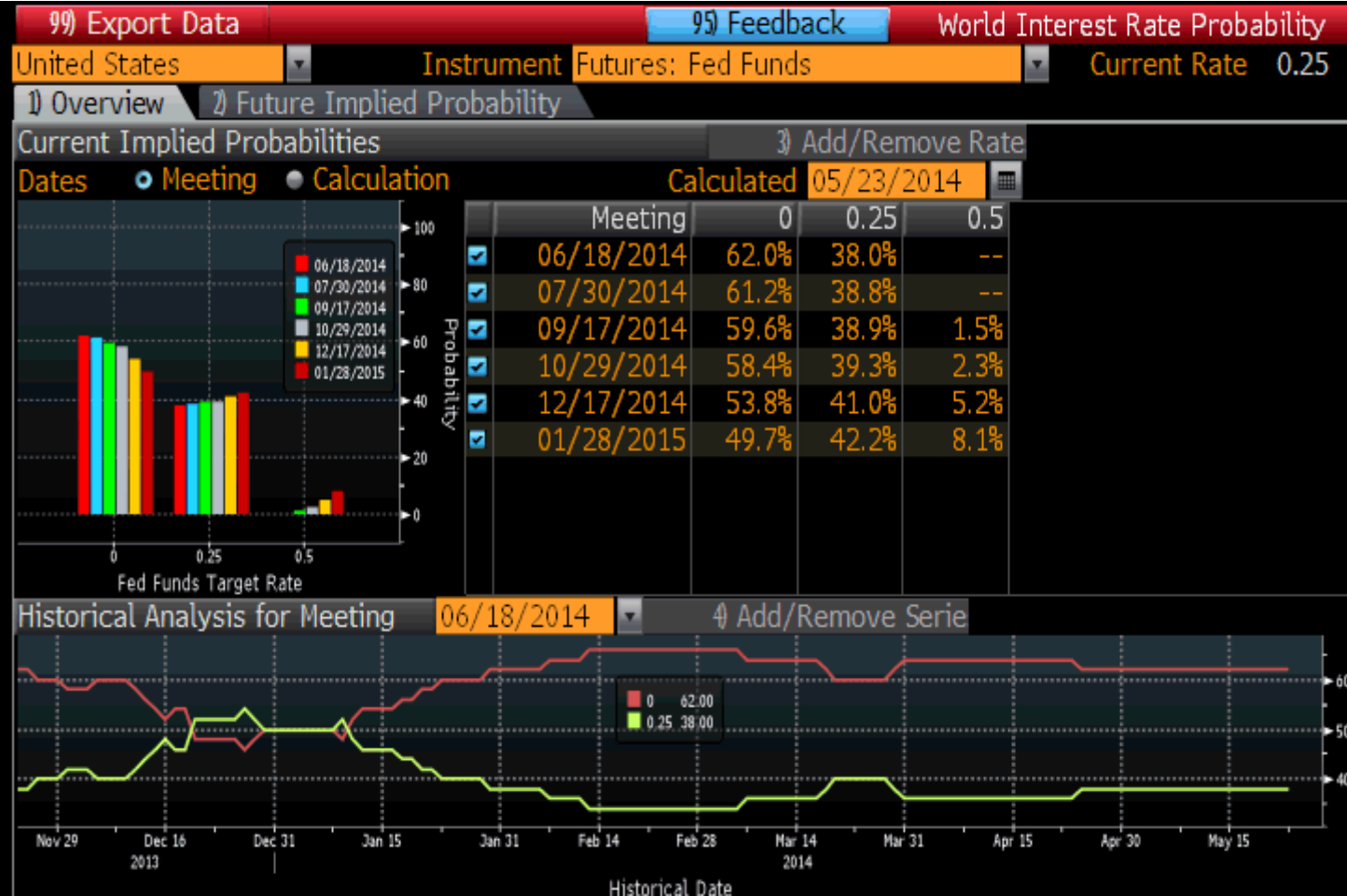
U.S. Monetary Policy : Fed rates Jun' 14 to Jan' 15

14

U.S. Federal Reserve Interest Rate Forecasts
Current Implied Probability of Rate Changes

QE Bond Purchases ?? Monetary Policy to continue with

low rates, USA higher



Source: Bloomberg

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Commodity Derivatives Markets

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□ **Commodity Price Forecasts**

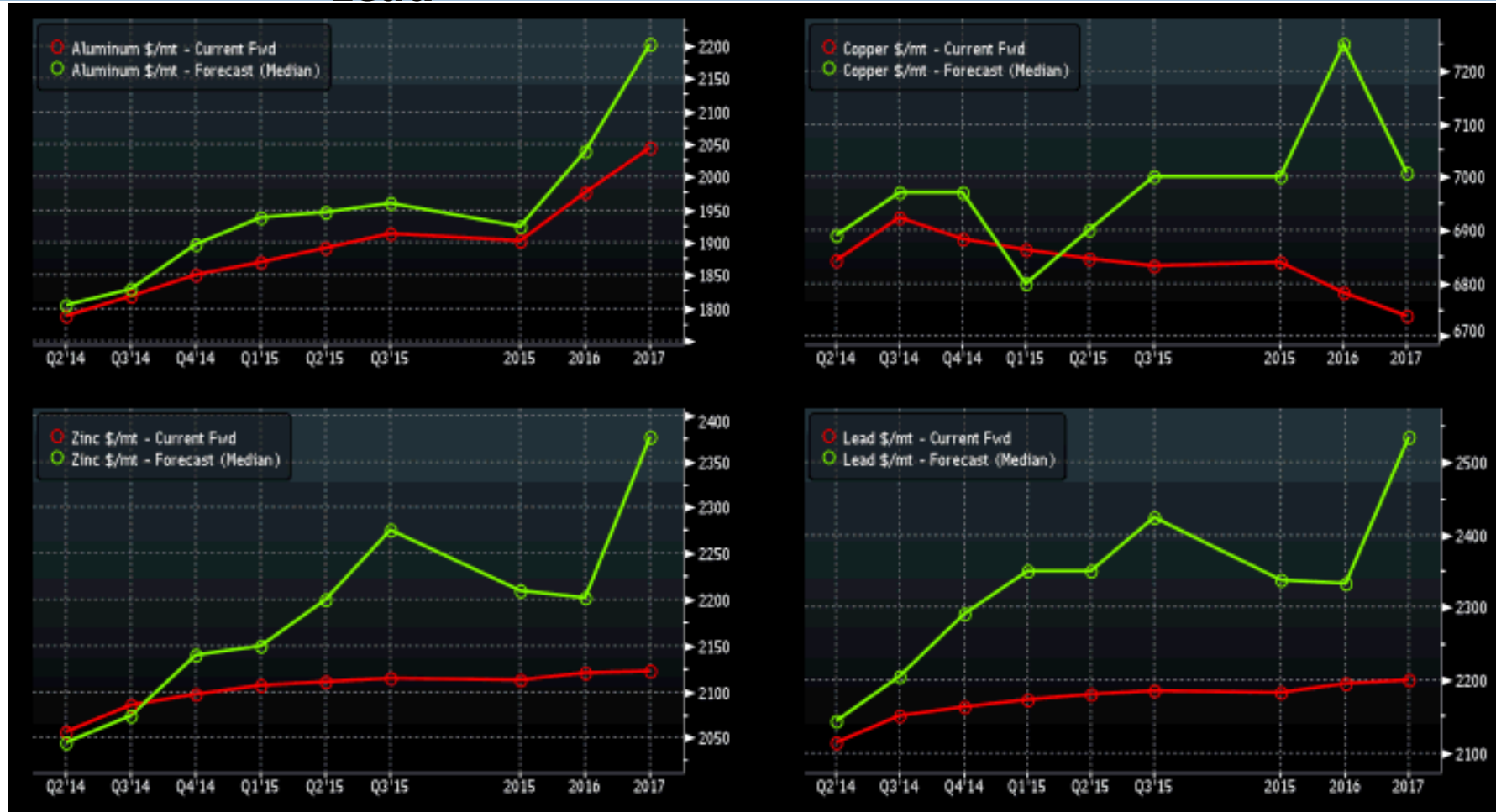
- ▣ Price Discovery role of exchange traded derivatives
- ▣ Longer horizon forecasts based on liquid extended contract months
 - Demand & Supply
 - Hedging Demand & Supply of Speculative trading
- ▣ Econometric and/or fundamental analysis based forecasts
- If short to medium horizon forecasts of derivatives markets and analysts “do not agree” , market efficiency maybe adversely affected by excess speculative trading/positions.

□ **Market Impact Analysis** (example from two equity markets)

Commodity Price Forecasts: **Derivatives** vs. **Analysts**

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Metals: Aluminum, Copper, Zinc and Lead



Source: Bloomberg
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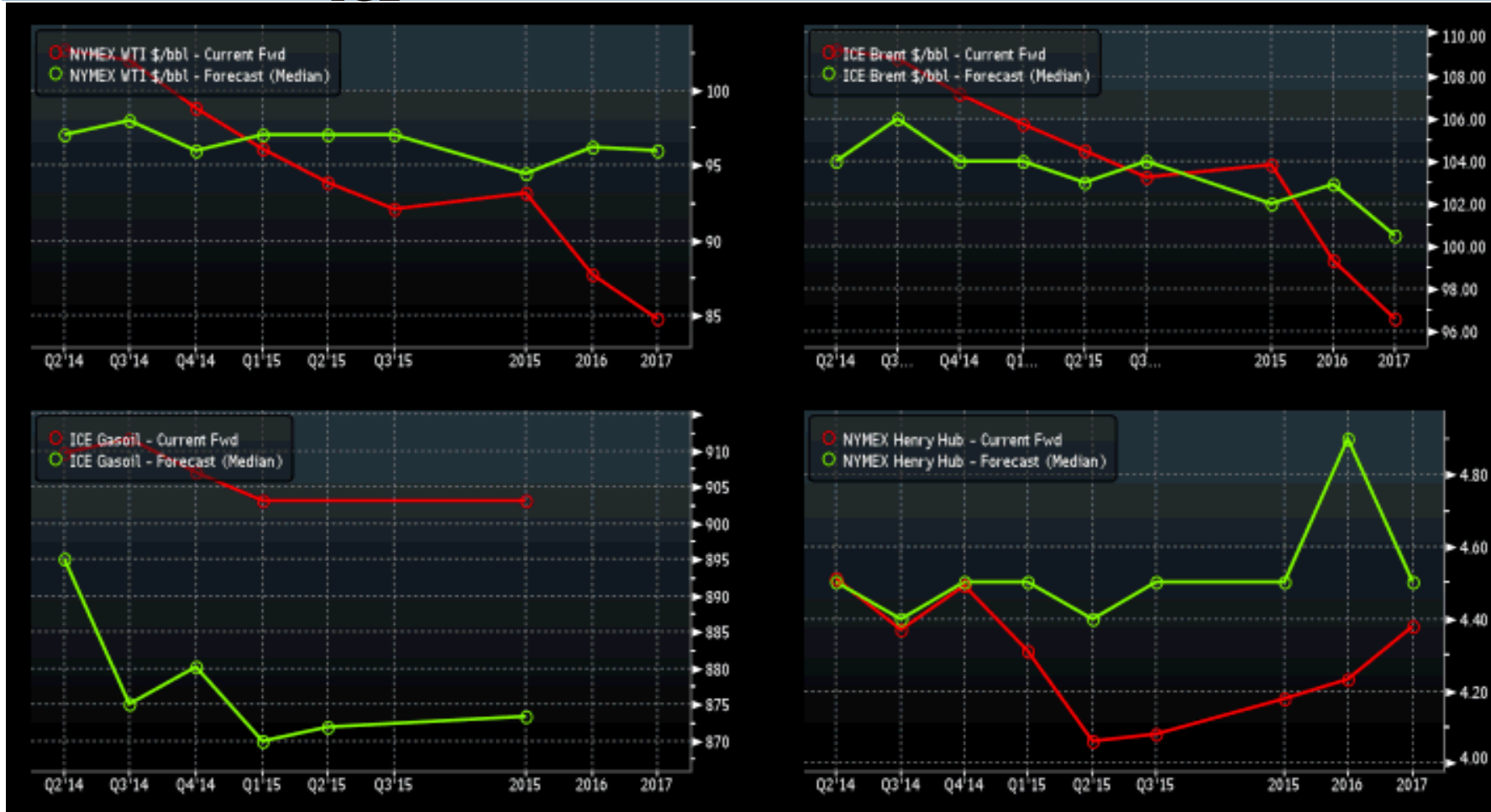
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Commodity Price Forecasts: **Derivatives** vs. **Analysts**

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Energy: Oil Price Forecasts NYMEX vs ICE



Source: Bloomberg
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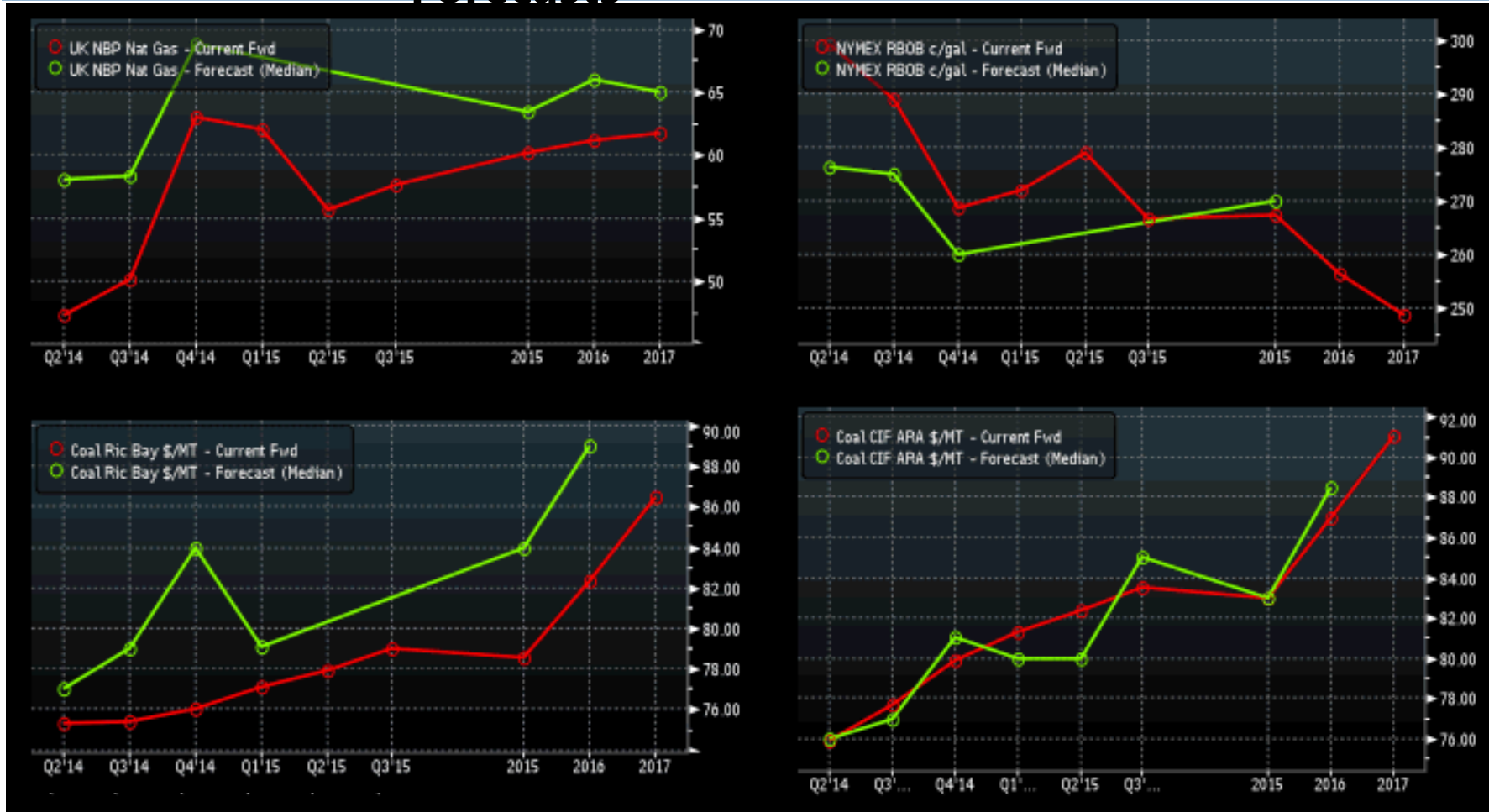
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Commodity Price Forecasts: **Derivatives** vs. **Analysts**

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Energy: Gas and Coal Forecasts



Source: Bloomberg
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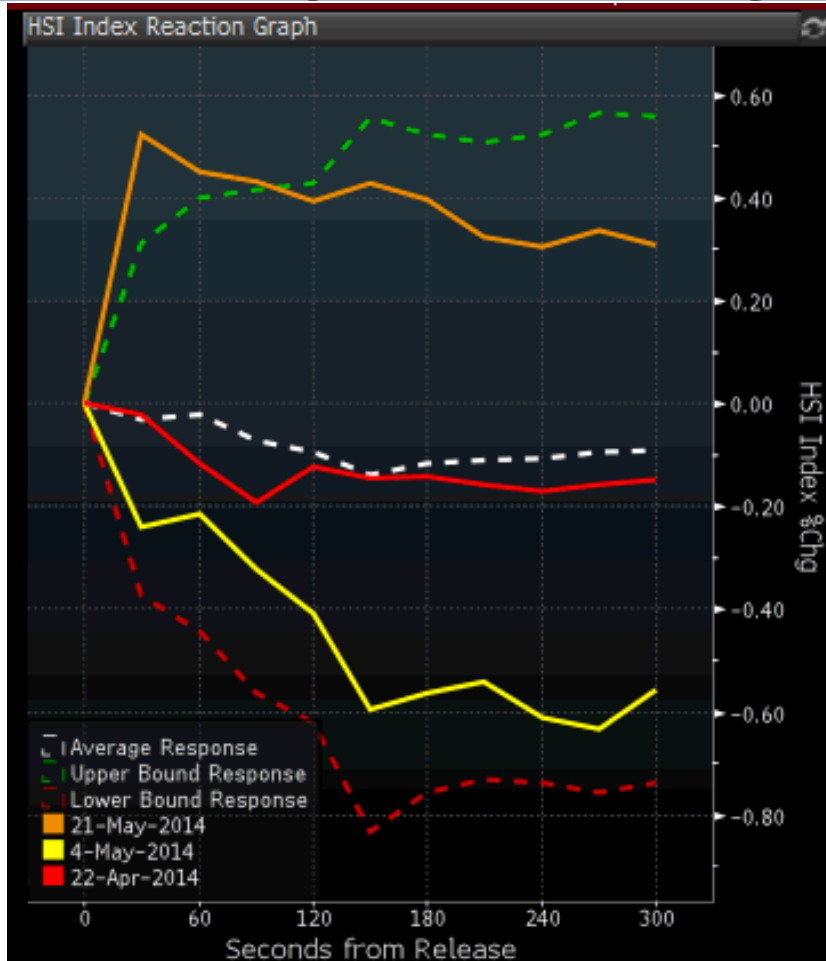
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Market Impact Analysis : HSI reaction to news

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5 minutes following HSBC China Manufacturing PMI Release 30 minutes following HSBC China Manufacturing PMI Release



Source: Bloomberg
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Commodity Derivatives : Food vs. Energy

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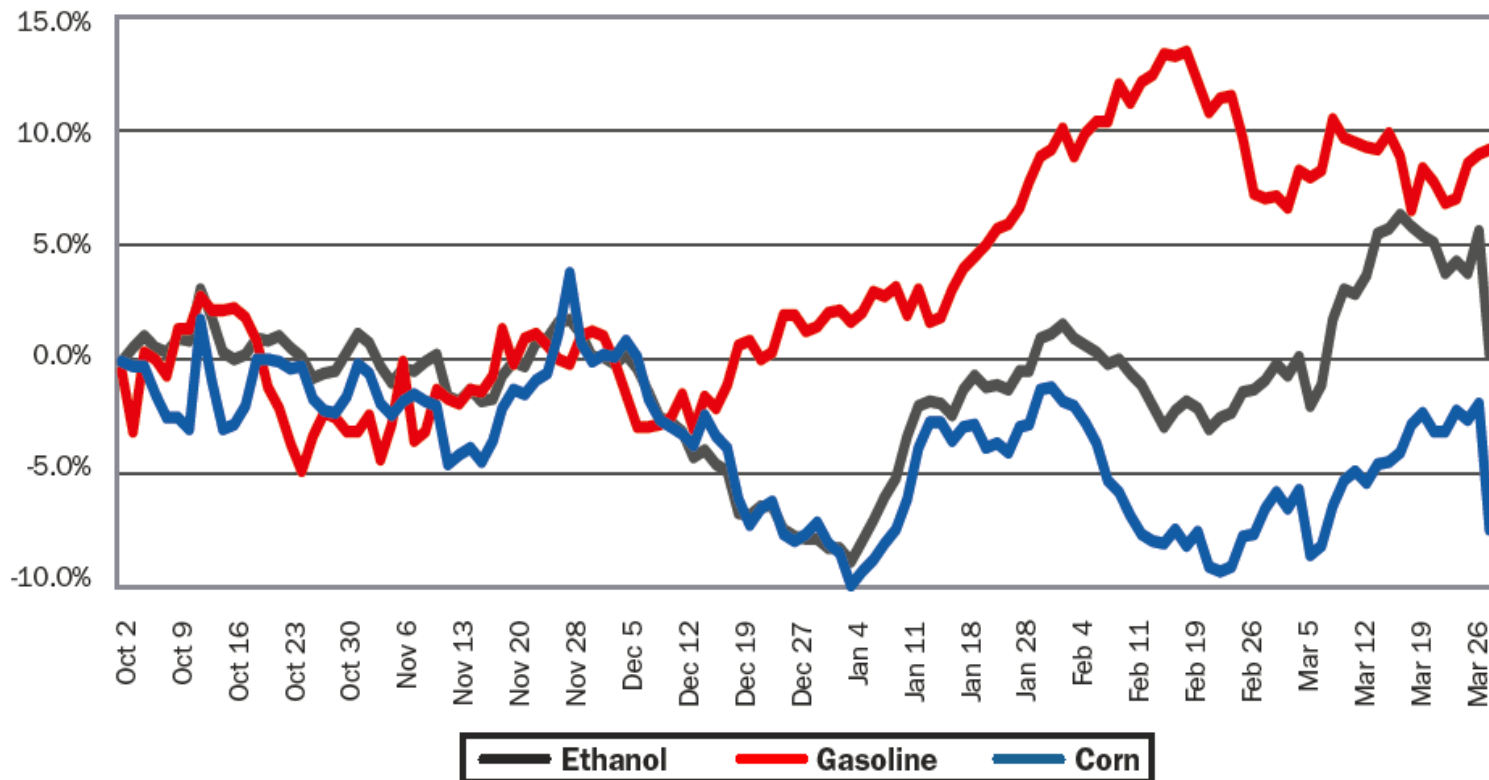
**Energy,
Agricultural
&
Alternative
Fuels**
Food vs.
Energy

**As gasoline
price
increases
Ethanol
and Corn
prices**

diverge!

Source: Barchart.com

Ethanol, gasoline and corn
(June 2013 futures cumulative % changes)



Corn : Consumption vs. Export

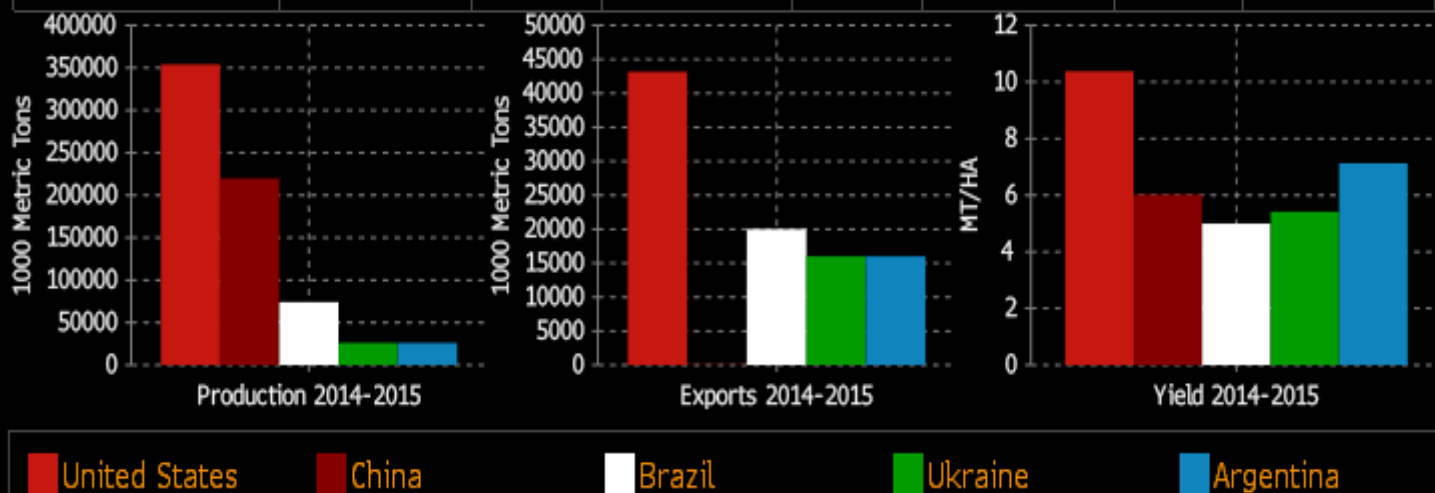
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As fossil fuel prices increase corn exporting countries may reduce exports to process corn into ethanol for domestic or exporting alternative fuel.

Global macroeconomic and regulatory factors impact relative prices

Crop Calendar : Balancesheet Summary

Commodity	Corn		1000 Metric Tons				
Country	Production		Export		Yield(MT/HA)		Crop Calendar
	2014-2015	YoY (%)	2014-2015	YoY (%)	2014-2015	YoY (%)	
United States	353,965	0.07	43,182	-10.53	10.38	4.07	Sep-Aug
China	220,000	1.04	100	0	6.03	-0.06	Oct-Sep
Brazil	74,000	5.71	20,000	0	5	5	Mar-Feb
Ukraine	26,000	-15.86	16,000	-15.79	5.42	-15.42	Oct-Sep
Argentina	26,000	8.33	16,000	0	7.12	-2.05	Mar-Feb



Source: Bloomberg

Corn Production & Consumption: China vs. U.S.A.

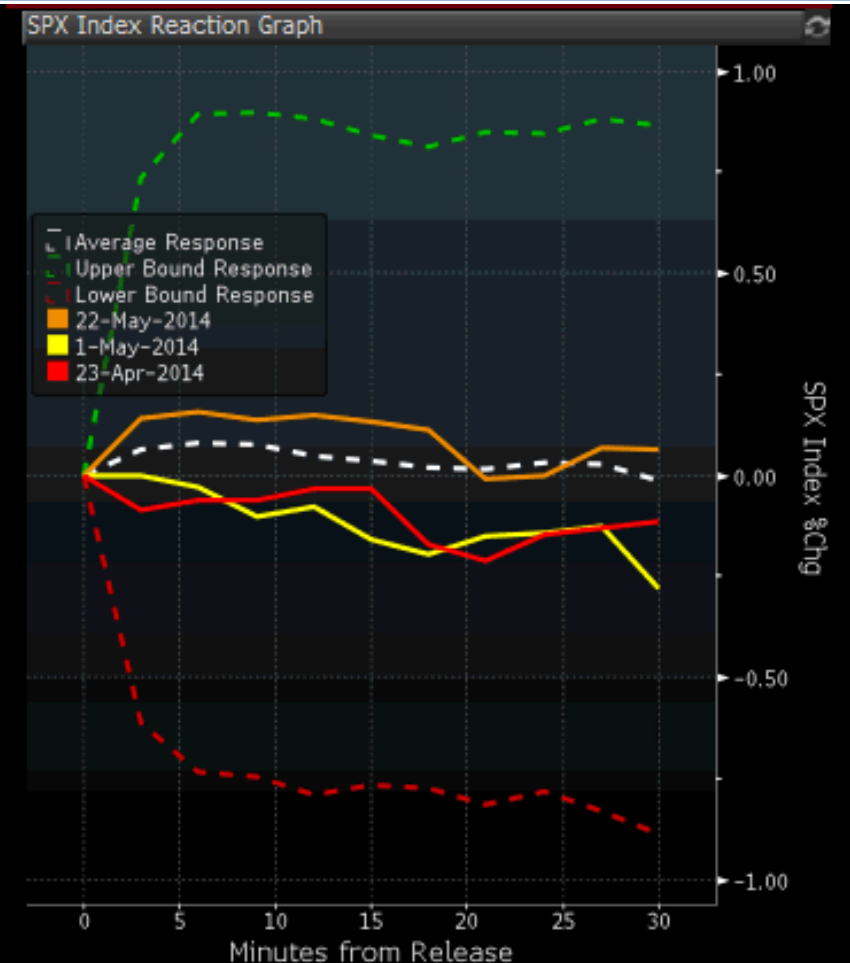
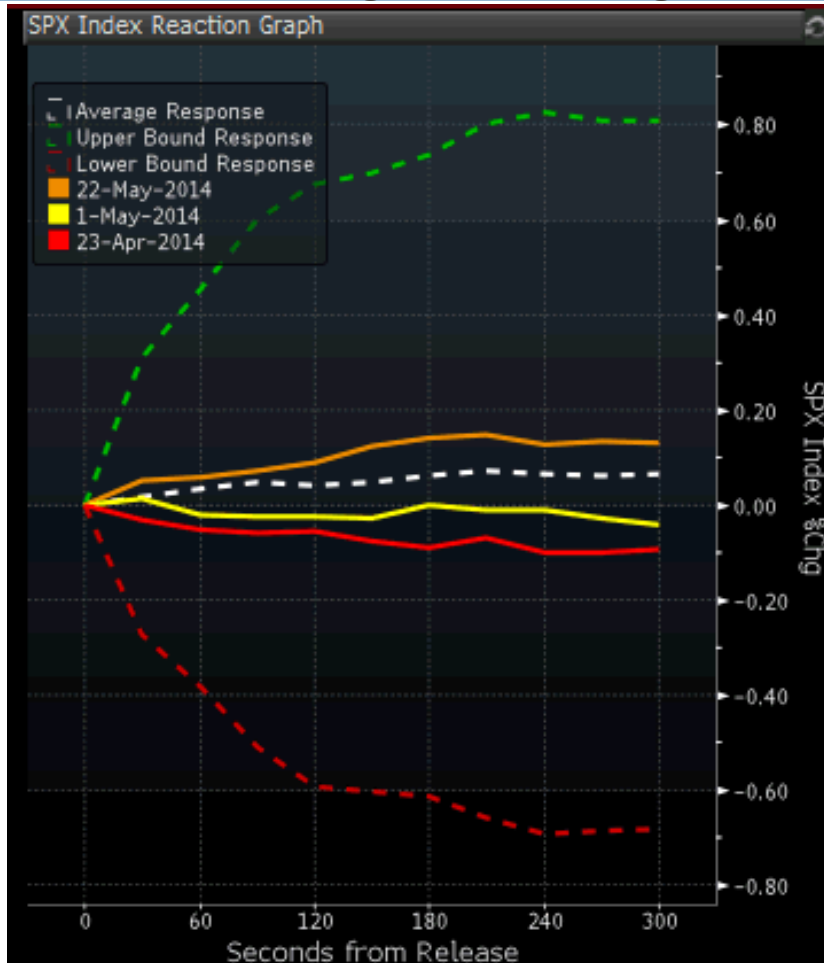
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Market Impact Analysis : S&P 500 reaction to news

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5 minutes following Manufacturing PMI Release 30 minutes following Manufacturing PMI Release



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Global Markets : Past, Present & Future

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- **Continued Effects of Recent Crisis** (already 5 to 6 years ago)
 - ▣ Recovery vs. Growth : Financial sector vs. Macroeconomics
 - ▣ Changes in the landscape of financial institutions and trading:
 - Commercial Banks, Hedge Funds, Investment Banks and Sovereign Funds
 - Central clearing of OTC instruments: Exchange Traded vs. OTC
- **Consolidation of exchanges & technology**
 - ▣ Cross-country mergers (U.S. and European exchanges)
 - ▣ Cross-asset classes (stock and derivatives exchanges)
 - ▣ Direct Market Access (DMA), Algorithmic Trading (Algo), High Frequency Trading (HFT)
- **Regulation, Regulation, Regulation**

Conclusion: Noteworthy Issues to Watch

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- **Financialization of commodity markets**
 - Hedge funds' and banks' participation (potential excess speculation)
 - Proposals to further regulate position limits for hedge funds, banks, i.e. speculators
- **Banks' investment in physical commodities**
 - Proposed regulation to limit bank ownership of physical commodities
 - Numerous banks pulling out of investing in physical commodities, e.g. Bank of America, Barclays, Deutsche Bank and JPMorgan Chase
- **Potential of OTC clearing houses to be the new “too-big-to-fail”**
- **Recent episodes of “price fixing” in underlying assets**
 - Regulation in reaction to LIBOR rate manipulation and London Gold fix

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Thank You!

谢谢!

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