

U.S.- China tensions and the solution to Triffin's dilemma

Aidan Garrib

Head, Global Macro Strategy & Research
agarrib@paviliongm.com

strategy@paviliongm.com

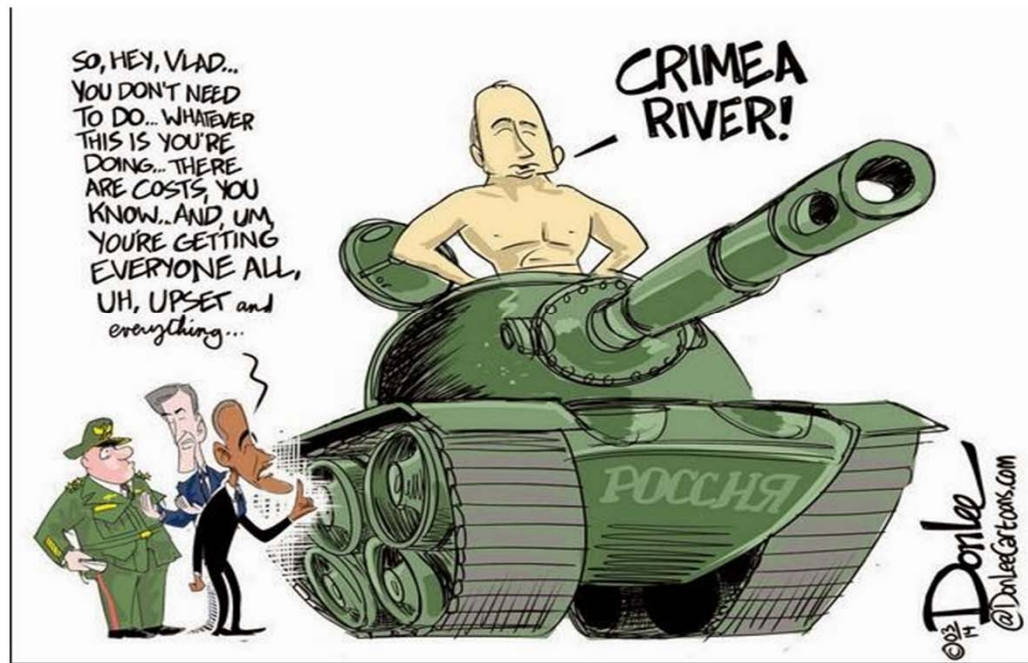
The Post-Bretton Woods system is fraying



EU announces legal entity to maintain business with Iran

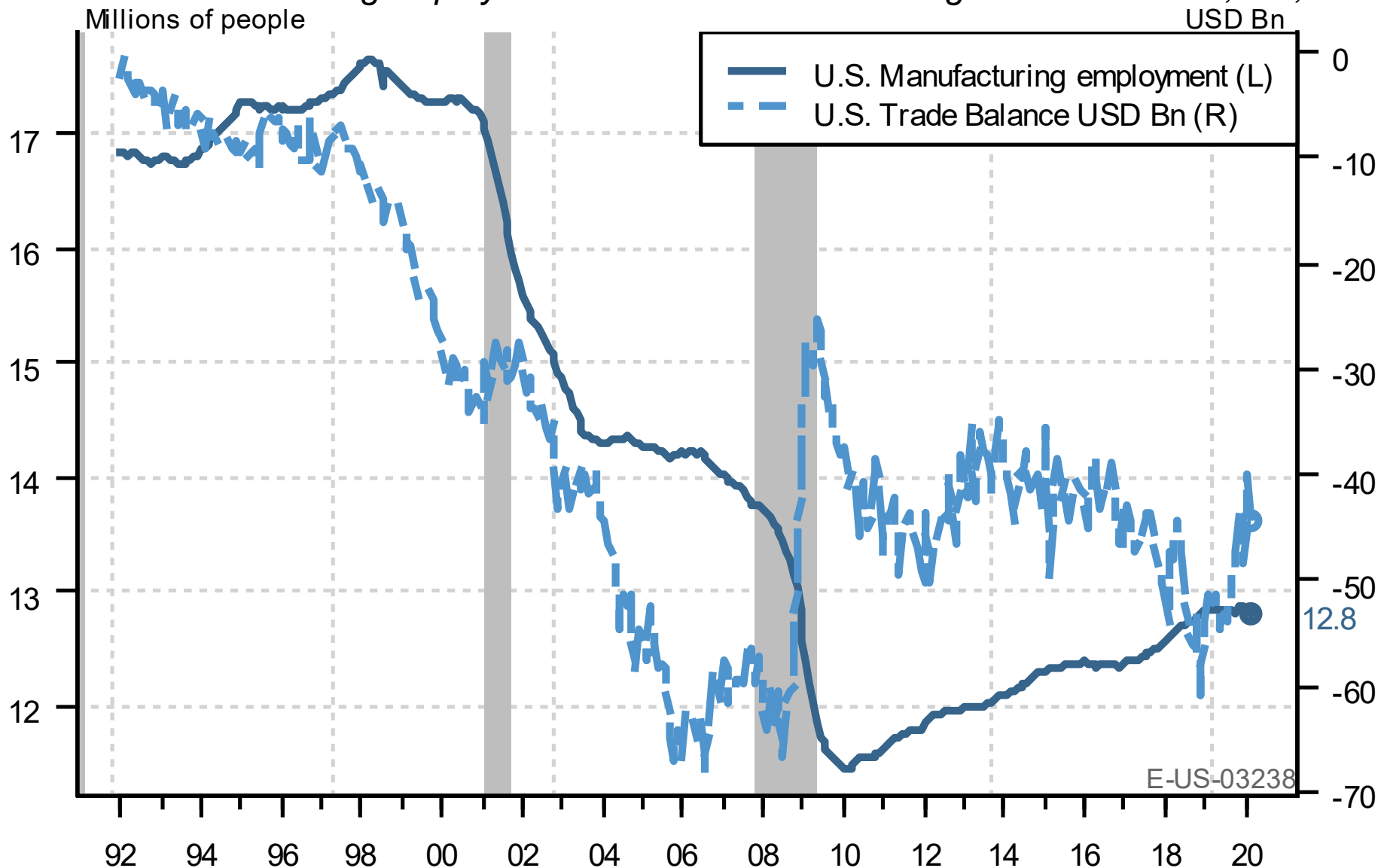


EU foreign policy chief Federica Mogherini (r), speaking alongside Iranian Foreign Minister Mohammad Javad Zarif (l), said the countries were still working out the technical details
AFP/Stéphanie LECOCQ



The Reserve Currency's price

U.S. manufacturing employment Mn vs. Trade balance goods & services, SA, USD Bn



Pavilion Global Markets (BLS, Census Bureau data via Bloomberg)

Shaded areas = U.S. recessions

They will be like us...They will replace us

China 2025: “The plan seeks to raise the domestic content of core components and materials to 40% by 2020 and 70% by 2025” - Center for Strategic and International Studies



Aviation & Aerospace



Agriculture



Electrical Power



New Energy Automotive



High-End Robotics



Next Gen Information
Technology



New Materials & Composites



Rail Transportation



Maritime Engineering



Biomedical & Advanced
Medical Equipment

Under Xi's reign, there is no more hope of convergence—that would have seen China become more open, more ruled by law and more democratic as it became wealthier, and its interests and political system ultimately converging with those of the West.

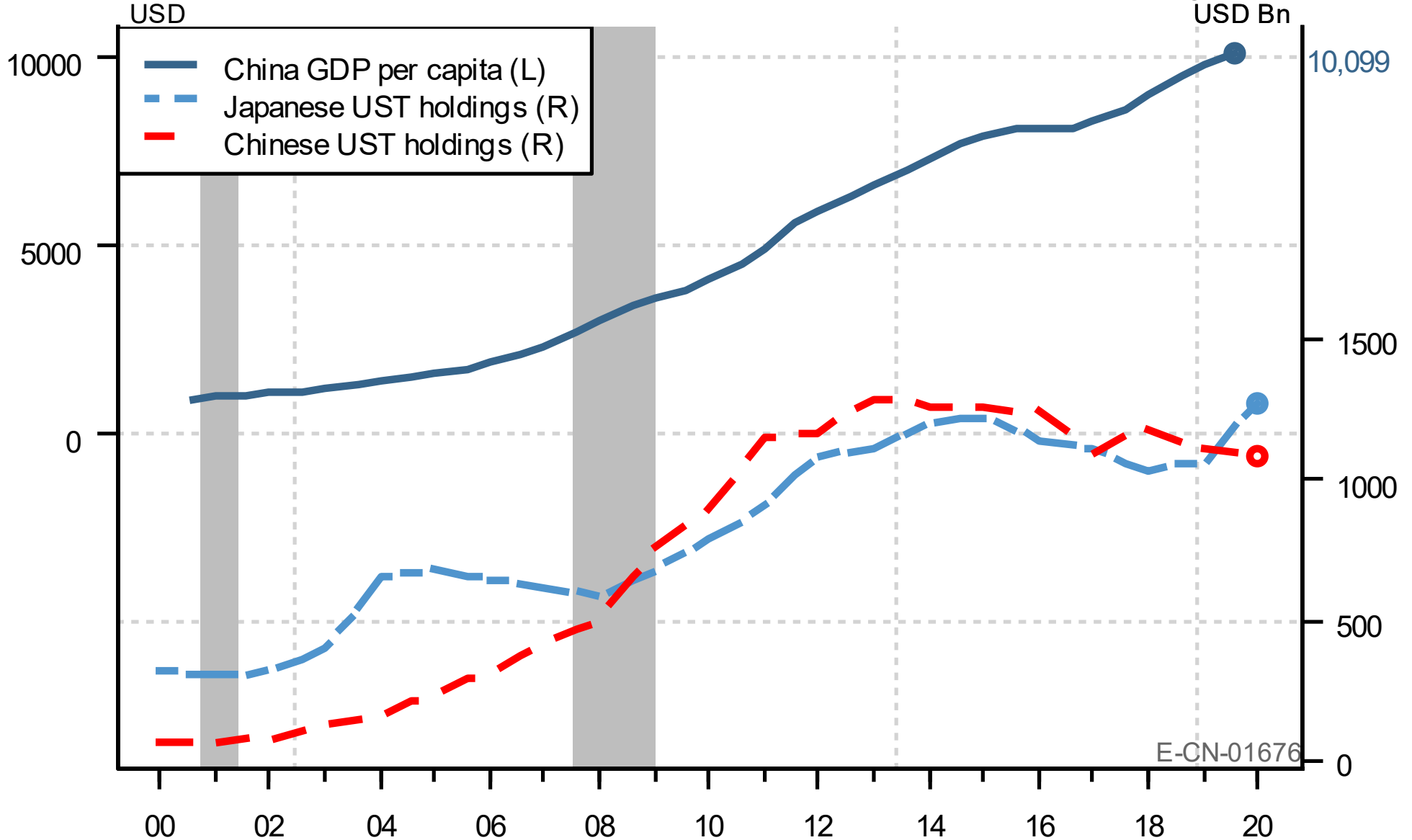
- Francois Godement.

Dir, Asia-Pacific, European Council on Foreign Relations

“China's intention through Made in China 2025 is not so much to join the ranks of high-tech economies like Germany, the U.S., South Korea and Japan, as much as replace them altogether.” – Lorand Laskai. Research Associate, Asia Studies, Council on Foreign Relations

At China's income levels, exports drive consumption

Chinese GDP per capita, USD vs. Chinese and Japanese UST holdings, USD Bn



Pavilion Global Markets (data via Bloomberg)

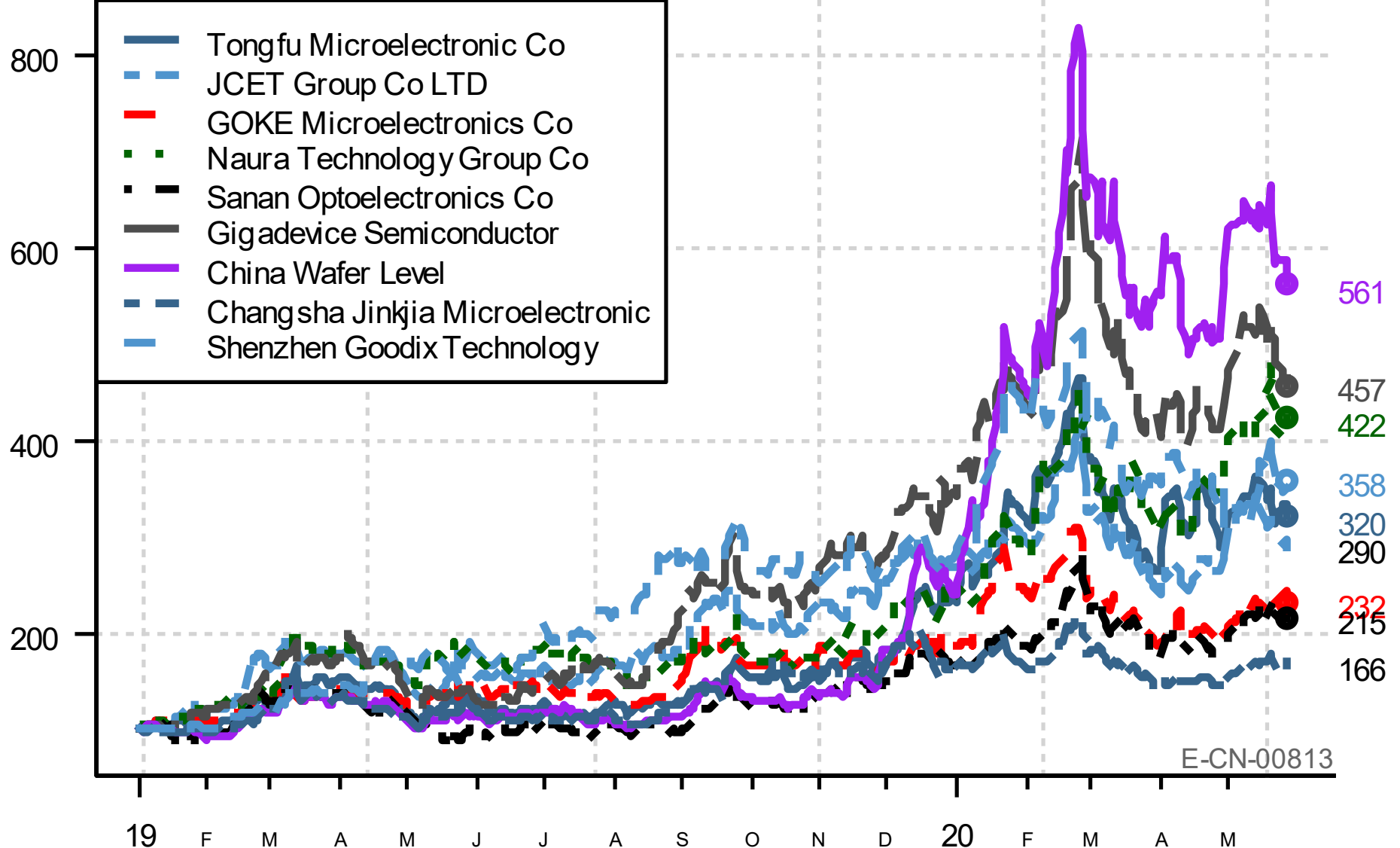
Shaded areas = U.S. recessions

E-CN-01676

The Big Fund makes Big Impacts!

China semiconductor stocks held by National Integrated Circuits Fund, rebased

Price index, rebased



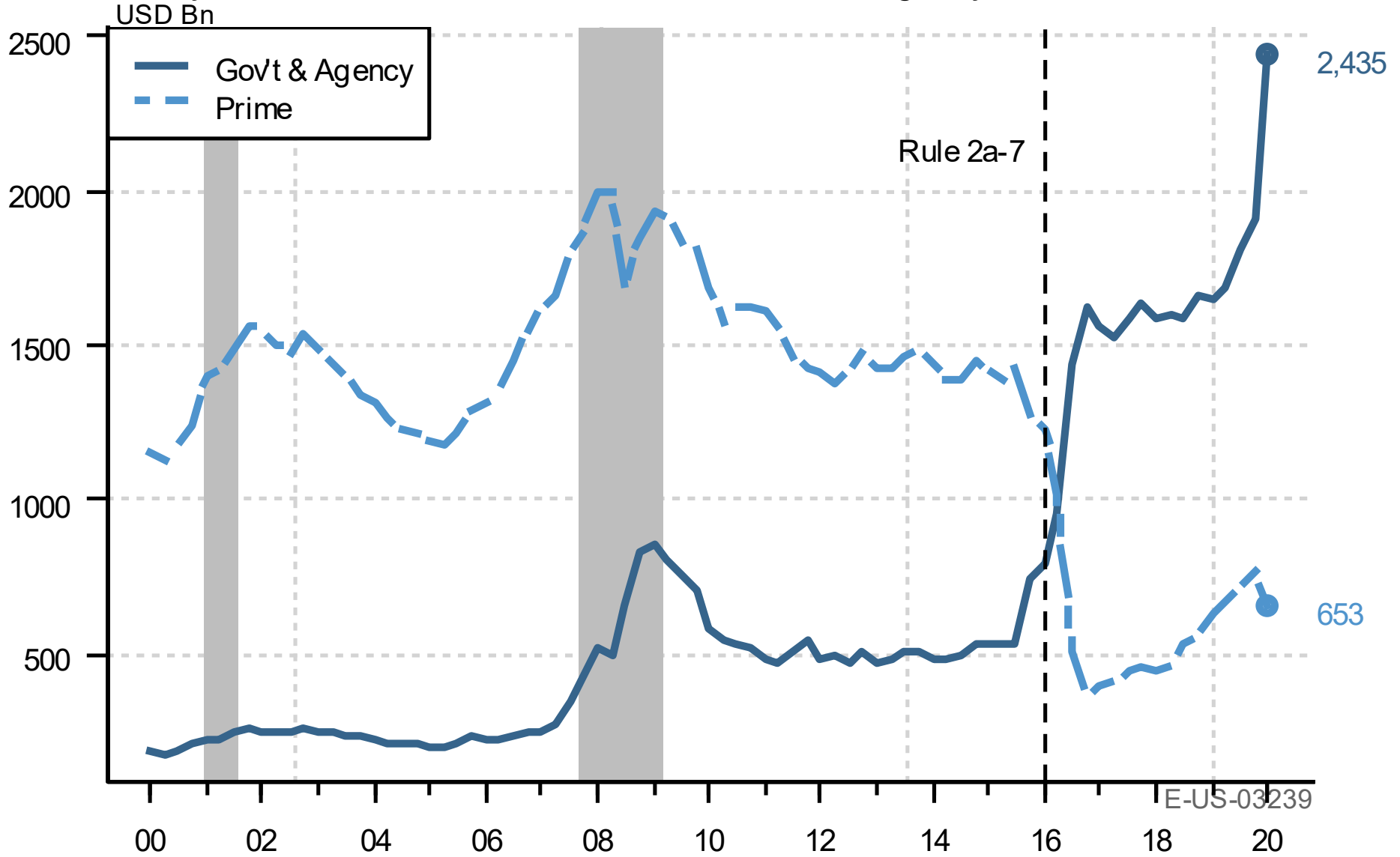
E-CN-00813

Pavilion Global Markets (data via Bloomberg)

Shaded areas = U.S. recessions

Captivating

Money market funds: net-assets: Government & Agency funds vs. Prime funds, USD Bn.



Pavilion Global Markets (ICI data via Datastream)

Shaded areas = U.S. recessions

U.S. Treasuries are the cheapest to deliver

OTC Derivative margin requirements and Collateral haircuts

Derivative Asset Class	Initial Margin (% of notional exposure)	Collateral type	Haircut (% of market value)
Credit: 0-2 yr duration	2.0	Cash in same currency	0.0
Credit: 2-5yr duration	5.0	High quality govt: <1yr residual maturity	0.5
Credit +5yr duration	10.0	High quality govt: 1-5yr residual maturity	2.0
Commodity	15.0	High quality govt +5yr residual maturity	4.0
Equity	15.0	High quality corp/covered: <1yr residual maturity	1.0
Foreign Exchange	6.0	High quality corp/covered: 1-5yr residual maturity	4.0
Interest rate: 0-2yr duration	1.0	High quality corp/covered: +5yr residual maturity	8.0
Interest rate: 2-5yr duration	2.0	Equities in major stock indices	15.0
Interest rate: +5yr duration	4.0	Gold	15.0
Other	15.0	Additional haircut due to FX mismatch	8.0

Pavilion Global Markets (data via BIS)

DISCLAIMER: This report was prepared for circulation to institutional and sophisticated investors only and without regard to any individual's circumstances. This report is not to be construed as a solicitation, an offer, or an investment recommendation to buy, sell or hold any securities. Any returns discussed represent past performance and are not necessarily representative of future returns, which will vary. The opinions, information, estimates and projections, and any other material presented in this report are provided as of this date and are subject to change without notice. Some of the opinions, information, estimates and projections, and other material presented in this report may have been obtained from numerous sources and while we have made reasonable efforts to ensure that that the content is reliable, accurate and complete, we have not independently verified the content nor do we make any representation or warranty, express or implied, in respect thereof. We accept no liability for any errors or omissions which may be contained herein and accept no liability whatsoever for any loss arising from any use of or reliance on this report or its contents.

© 2020 Pavilion Global Markets Ltd. All rights reserved. This report may not be reproduced, distributed or copied, in whole or in part, in any form, without the written consent of Pavilion Global Markets Ltd. Pavilion Global Markets Ltd. is a member CIPF.