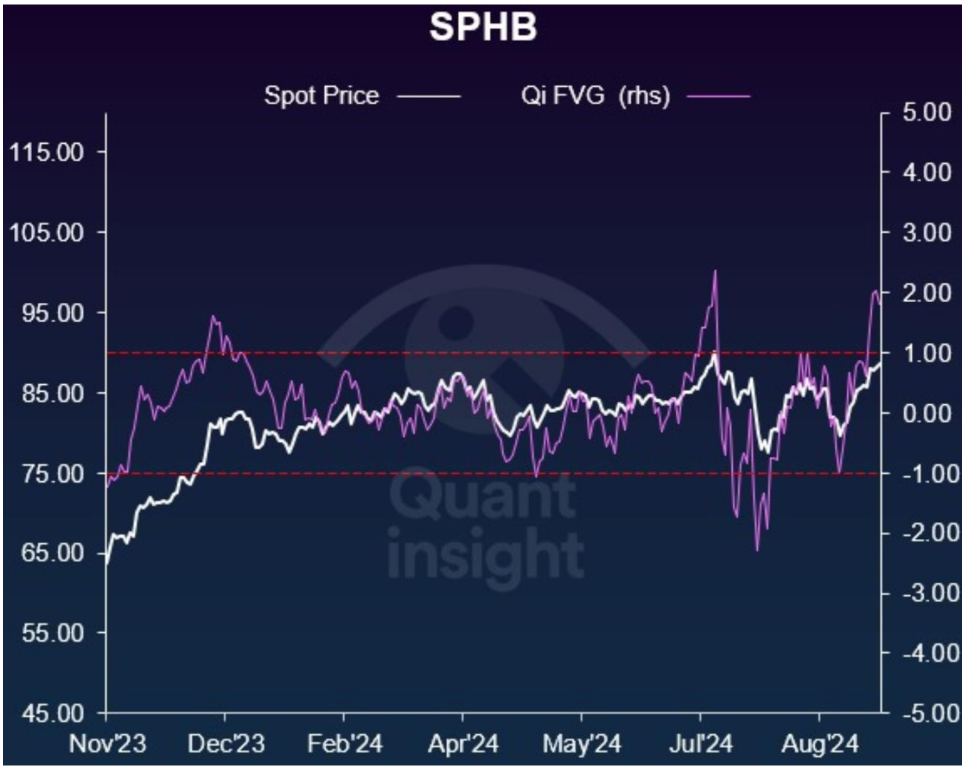
Qi MacroVantage

September 26th, 2024

1. Time for a **high beta breather**
2. **Shanghai Composite**: From > 1 sigma cheap to now **at Qi fair value – focus on model momentum**
3. **AUDUSD –** an efficient way to **fade** the **China hype**
4. **URA** – Qi says **over-exuberance**
5. **Yen – more to come?**

1. Time for a high beta breather



Weakness in the dollar combined with recent higher US rates speaks to higher inflation expectations. However, on Tuesday the Conference Board's measure of US consumer confidence unexpectedly sank from 105.5 in August to 98.7 in September - the bottom of its range over the past two years. Rates ended that session lower, while equities have so far determined that the data isn't a problem (NVDA caught a bid).

Further, we note the majority of companies remain in the corporate blackout periods for buybacks. That window will only end in a month, as we get even closer to the election. Seasonally, earnings revisions also start to slow down as we approach the end of the full year, with lack of guidance as yet on next year.

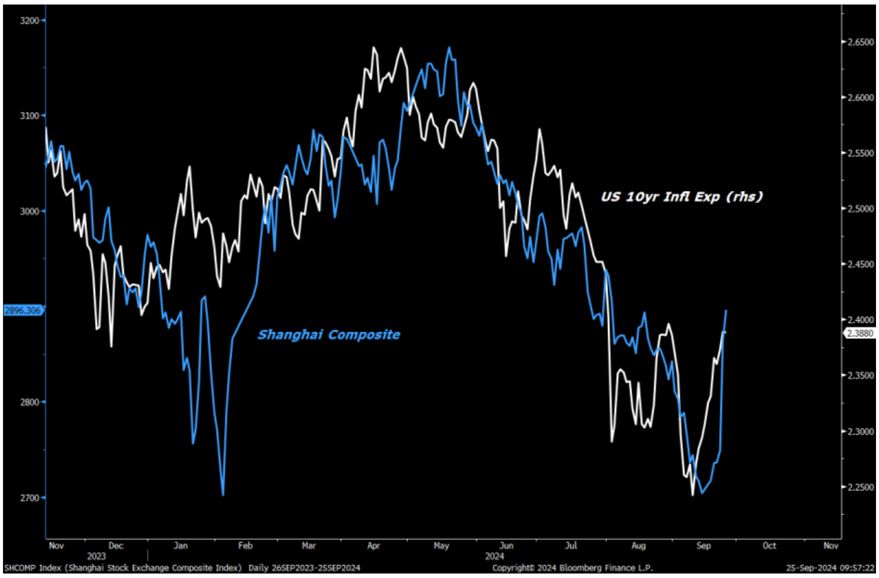
What does Qi say: SPY is +0.6 sigma above Qi model fair value; IWM +0.9 sigma and Dow +0.8 sigma. **SPHB (the S&P500 high beta ETF) is +1.8 sigma on the ST model and +1.3 sigma on the LT model!**

Further, the size of the S&P 500's sensitivities to financial condition factors i.e. credit spreads, real dates, dollar etc. is diminishing – a sign, markets are less afraid of macro vol shaking them off course.

So would we be bullish here? No, Qi would say US risk is showing some signs of ST complacency and due a breather.

2. Shanghai Composite: From > 1 sigma cheap & now back to Qi fair value – focus on model momentum

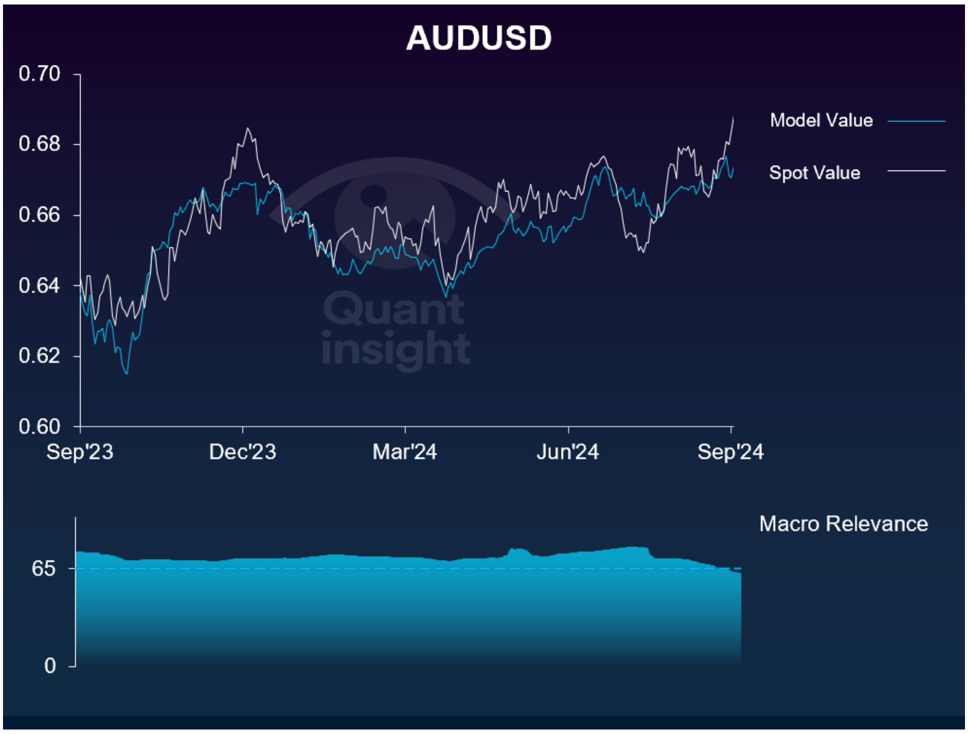
The policy put has been struck again. Qi's macro-warranted model price for the Shanghai Composite has actually been rising over the last 3wks. Only post the FOMC did the spot price of the index follow suit. See the chart above. By Monday's close the spot price was 1.2 sigma below the Qi model price. As at time of writing, this gap has now been closed. Therefore, from here it is all about whether Qi model price momentum can be sustained.



Note how through this period macro explanatory power of the index has remained high and steady – macro matters - and no surprise to learn that US inflation expectations, copper and global GDP growth are among the top 3 drivers of the index. Empirically, you can see this above.

Above, we look at the rolling 3mth % change in the Qi modal price i.e. model momentum. Since Jan-18, model momentum measured in this way has spent more time negative than positive (55% of time). However, momentum has turned from the lower end of the range. Given the implicit policy put, it would be seen as a failure if this “trade” did not support momentum to the upper end of the range over the next few months.

3. AUDUSD – an efficient way to fade the China hype

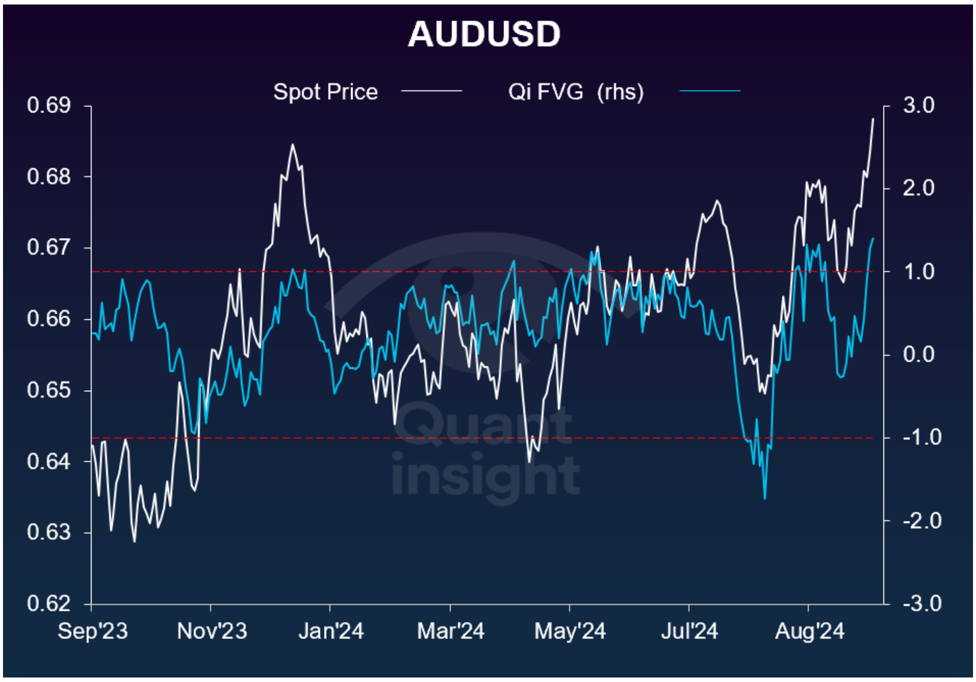


After this week's news about the stimulus package, all the classic China plays rallied hard including AUDUSD FX. But Qi's macro-warranted model value barely budged.

The rally in copper & other China proxy factors were positives for model value. But Aussie is also sensitive to European factors which have been an offsetting drag.

AUDUSD is negatively sensitive to credit spreads and while US High Yield sits near the tights, European credit (both Itraxx XOver & FinSub) have widened notably this week.

Similarly, the cross is sensitive to European sovereign spreads which have taken fright from the move in OATs. In short, **fears around French politics and the budget situation have worked to negate this week's optimism around China**.



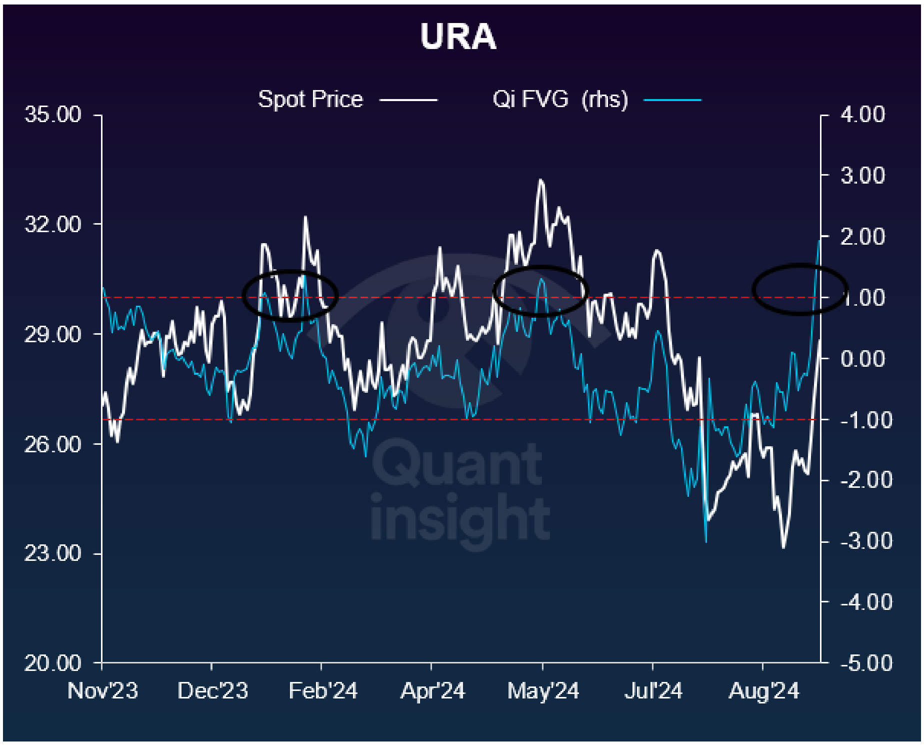
Back tests show using the current +1.2 sigma rich FVG as a bearish signal has a 64% hit rate. The other way to test whether the Fair Value Gap mean reverts the correct way is to check the 1y correlation between FVG and spot price. The chart above shows a strong correlation with rich FVGs doing a job of marking local highs in AUDUSD.

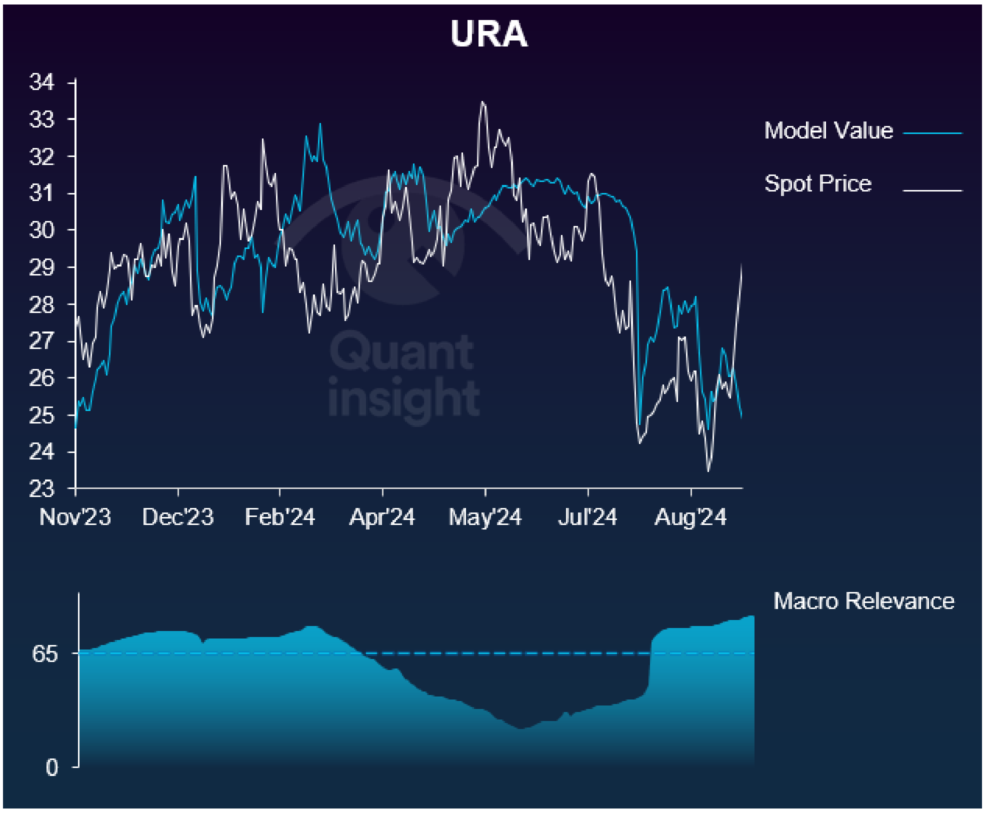
For many there's a tradeable bounce to play for in China. On Qi, SHCOMP offers a more efficient vehicle for that. At these levels, risk-reward suggests **AUDUSD is a better trade for the Chinese sceptics looking for a way to fade the rally.**

Quant insight

4. URA – Qi says over-exuberance

Over the last two weeks, URA (ETF tracking performance of companies involved in uranium mining / production of nuclear components) has rallied over 20%. Helping drive that rally has been two-fold 1/ news of AI datacentres being powered by nuclear 2/ the announcement by a consortium of banks at NYC climate weeks in support of the goal of tripling nuclear power by 2050.


URA
Spot Price
Qi FVG (rhs)
35.00
32.00
29.00
26.00
23.00
20.00
4.00
3.00
2.00
1.00
0.00
-1.00
-2.00
-3.00
-4.00
-5.00
Nov'23
Dec'23
Feb'24
Apr'24
May'24
Jul'24
Aug'24


URA
Model Value
Spot Price
34
33
32
31
30
29
28
27
26
25
24
23
Nov'23
Dec'23
Feb'24
Apr'24
May'24
Jul'24
Aug'24
Macro Relevance
65
0

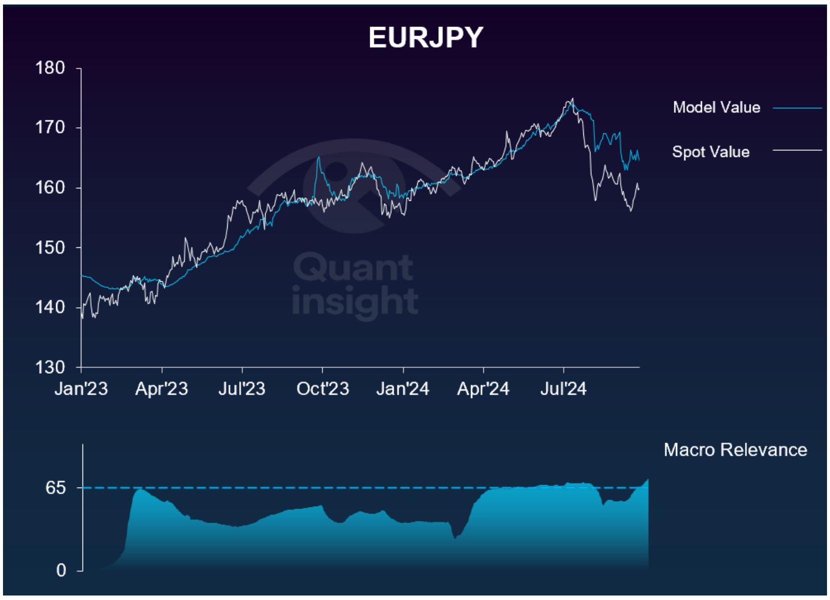
The rally has led to URA being +1.95 sigma rich to Qi's model value, among the highest dislocations in recent years – model value has simply not kept up pace with the rally. See the chart above – the last few times we have seen such as extension, it was time to tactically fade.

```
In [6]: FVG_Back_Test(['URA'],1.9,0.25,0,'2009-01-01','2024-09-25',['Short'],'Long Term')
Out[6]:
```

	Results
Hit Rate	80.000000
Avg. Rtrn	1.144501
Ann. Rtrn	10.866537
Median Rtrn	4.457414
Avg. Max Gain	5.591028
Avg. Max loss	-10.942284
Avg. Holding Period	27.800000
Median Holding Period	29.000000
No. of Trades	5.000000
Avg. Win	5.991588
Avg. Loss	-18.243847
Win/Loss	0.328417

Since 2009, there are have been only 5 times where URA has been at +1.9 sigma rich to Qi's model value. Going short on 4 out of those 5 events delivered a positive return. See above.

5. Yen – more to come?



Qi's Fair Value Gap for EURJPY hit a low of almost 2 sigma on Friday 13th September. Spot EURJPY bottomed the next business day, Monday 16th.

Since then the cross has rallied over 3%. That move has narrowed Qi's FVG to -0.9 sigma; but that still means EURJPY sits 2.6% below where macro conditions say it "should" trade.

Moreover, this was not an isolated story. The Yen was uniformly rich versus *all* its G10 peers on Qi's models at that time. The Watchlist on the left shows how all Yen crosses were between one and two standard deviations cheap to model two weeks ago.

Model Name	Confidence(%)	Val Gap	Val Gap (σ)
CADJPY	71%	-6.60%	-1.95
EURJPY	67%	-6.09%	-1.91
NOKJPY	52%	-6.58%	-1.84
CHFJPY	23%	-3.70%	-1.70
NZDJPY	68%	-5.56%	-1.59
SEKJPY	63%	-4.26%	-1.49
GBPJPY	70%	-4.75%	-1.31
USDJPY	76%	-4.78%	-1.19
AUDJPY	86%	-3.60%	-0.93

Model Name	Confidence(%)	Val Gap	Val Gap (σ)
NOKJPY	54%	-3.46%	-1.00
CADJPY	72%	-3.09%	-0.94
EURJPY	74%	-2.22%	-0.74
CHFJPY	21%	-1.37%	-0.68
USDJPY	78%	-2.53%	-0.66
GBPJPY	70%	-1.51%	-0.46
NZDJPY	69%	-1.16%	-0.35
SEKJPY	66%	-0.65%	-0.24
AUDJPY	87%	0.94%	0.26

Today, the profile is the same but the Watchlist on the right shows how FVGs have compressed. AUDJPY for example, is back at model value. CADJPY was the cheapest cross at 2 sigma cheap to macro; today the FVG sits at -0.9 sigma.

There is major political risk coming up in the shape of tomorrow's LDP election result. A hawkish pick of leader (and future Prime Minister) would be a potential catalyst for a Yen rally. But, from a purely macro perspective, two weeks ago the message was the Yen looked rich relative to prevailing macro conditions. The FVGs are less extreme but it's the same conclusion today.