

## FX Insight

# A Fengshui Spin on FX for 2020

### Year of the Metal Rat

We tap into Fengshui for its interpretation on the fate of some currencies in the Year of Metal Rat 2020. We focus especially on the five elements (Earth, Water, Fire, Wood, Metal) and their relationships to know which currencies are likely not in their elements and which are the ones that can thrive.



#### Key Takeaways:

- Metal nourishes Water. Year of the Metal Rat (Water) should see less geopolitical conflicts, more harmony.
- Year of the Metal Rat can be more advantageous for Water Snake China President Xi Jinping vs. prev. years.
- Metal Weakens Earth Dog Trump and he is less likely to pick fights with other nations compared to 2018-2019.
- Both Greenback (USD) and Redback (CNY) may not perform.
- Trade should be revived as trade in general is waterborne. Water-associated tourism should also be revived. Pro-cyclical currencies gains for KRW, TWD, SGD, NZD and AUD should be sustained. Tourism should see gains for THB, TWD, IDR, PHP.
- Metals may not outperform, offsets trade-related AUD gains.
- Water Controls Fire and fuel-linked MYR, CAD may not find support there.

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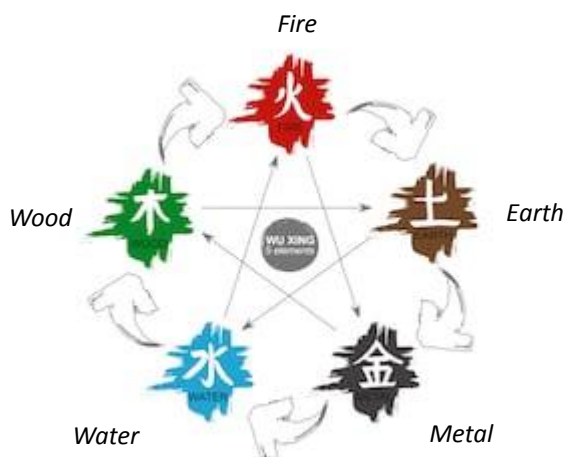
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Kindly note that FX views expressed in this note does not constitute any change in house view. This is meant to be a novel take on FX outlook in anticipation of the *Year of the Metal Rat*.

## The Five Elements in Chinese Metaphysics (五行)



## Geopolitical Conflicts in 2019

The Year of the Earth Boar 2019 was marked by quite a number of geopolitical tensions including US-China trade war, Japan-South Korea spat and tariff-related conflicts between EU and the US. 2020 is classed as the year of the Metal Rat. The rat is Water element by nature. In the Five Element theory of the Chinese Metaphysical studies, Metal nourishes Water and thus, compared to the year of the Earth Pig (2019), 2020 could see more harmony and there are already signs of that as the Year of the Metal Rat nears with US-China already eyeing a deal (or rather a partial one).

While the race for technology dominance is unlikely to end and US-China tension will still remain, we think that the year 2020 could be a year that should be more advantageous for Xi Jinping relative to 2018-2019.

## Trump and Xi Jinping

The US and China are now led by Trump (the Earth Dog) and Xi Jinping (the Water Snake) respectively. The trade war officially started in mid-2018. For the past two years, the Earth element (Year of the Earth Dog in 2018 and Year of the Earth Pig in 2019) allowed the US Earth Dog Trump to have the upper hand in negotiations as Earth contains China's Xi Jinping, the Water Snake according to the Controlling/Destructive Cycle.

Controlling/Destructive Cycle (as shown by the arrows in the graphic above that form a star within the five elements)

*Wood dominates Earth*

*Earth dominates Water*

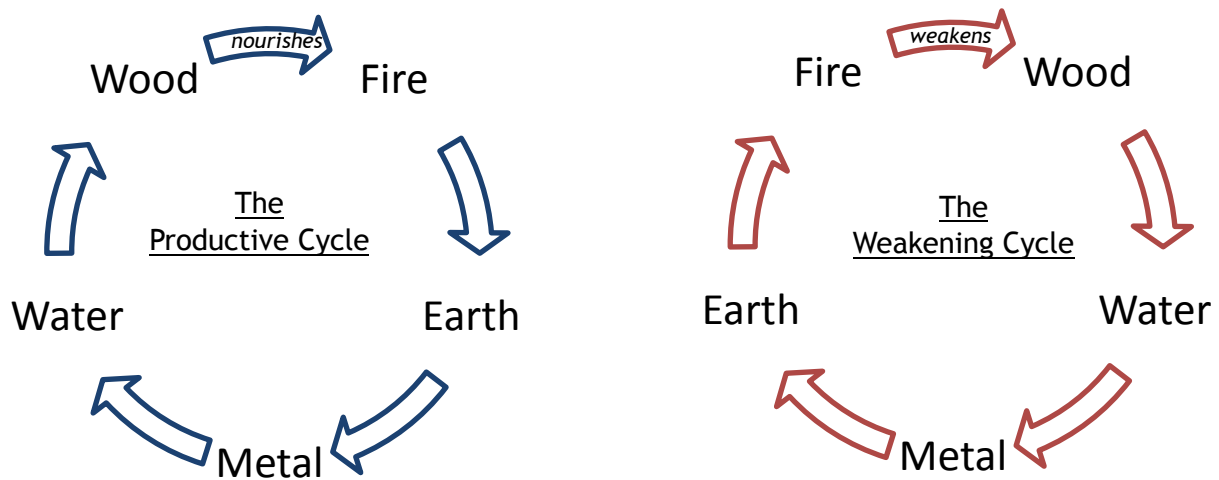
*Water dominates Fire*

*Fire dominates Metal*

*Metal dominates Wood*

In the Year of the Metal Rat however, this could change. As we have noted before, Metal nourishes Water and the Year of the Metal Rat could be supportive and productive for Xi Jinping (Water Snake), allowing him a higher chance of dismantling the tariffs that US has imposed on China accumulatively in past several months and that seems to be already the case for the widely anticipated deal.

In addition, Trump (Earth Dog) that has thrived rather well in the past two years, could be weakened by Metal according to the Weakening Cycle. Having a metal element to weaken the Earth Dog that is Trump underscores the likelihood that this could be a year that would see less international discord between the US and other countries.



### Greenback And Redback



The USD is also known as the Greenback while the RMB is sometimes casually known as the Redback. Green is the colour of Wood and Red, the colour of Fire.

In a year of the Metal Rat (Water), Metal controls wood (USD) and Water controls Fire (RMB). **Both Redback and Greenback will not be able to outperform this year. Stay out of these two currencies in 2020.**

We take advantage of longer history of the USD to support our research. Since 1972, we noticed that the USD tends to outperform in years of the rat depending on the accompanying element of the year. The Year of the Wood Rat in 1984 saw an exceptional performance of the USD as Water nourishes Wood (Rat) and USD, the greenback is a symbol of wood. There is no record of USD performance for the last Year of the Metal Rat in 1960. Hence, it is up to us to interpret this without the help of data. While the water element (Rat) is there to nourish the USD (wood), the

metal element controls/controls the greenback as well. Hence, we anticipate a lackluster year for the USD relative to other Rat years.

### Trade Revival



Water-associated industries should thrive in the year of the Metal Rat including trade. This goes in line with our house view for a recovery in Trade and our view that trade-linked currencies such as KRW, TWD, SGD and to some extent AUD, NZD should see sustained gains. A partial trade deal between the US and China is also written in the stars and likely signed. Water-associated tourism should pick up as well which could bring about fatter current account surplus through the services account for tourism-dependent countries. Stronger tourism flows should benefit THB, TWD, IDR and PHP.

### General Economy Outlook

The year of the Earth Pig saw plenty of easing by major central banks including the Fed, PBoC, RBI, BI, BSP, RBA, RBNZ, etc. However, global growth is still slower this year. Liquidity remains stagnant (water is contained by earth) and not fully utilized as investment and corporate decisions were thwarted by immense uncertainties brought about by trade conflicts between US and China, US and EU and to some extent Japan and South Korea. However, we see some signs of shifting in this aspect as Lagarde takes over as the Chief of ECB and governments all over the world have come to a realization that monetary easing could be near its limits and fiscal expenditures need to be stepped up. This bodes well as a more harmonious environment (relatively less geopolitical conflicts) coupled with more productive action from the government could stimulate growth.

### Plantation-Dependent Currencies

Rat (Water) nourishes Wood but Metal cuts Wood according to the Controlling Cycle. Plantation-dependent countries like Indonesia and Malaysia may not outperform. Gains for IDR and MYR may thus be mediocre.

### **Metal in the Year of the Metal Rat**

Metals have done well for 2019 as the Year of the Earth Pig favoured the element. Gold, Silver and Palladium surged this year as the Earth element produces gains for these precious Metals although the Pig (Water) negated the metal gains thereafter. The fortunes of Metals may be further dulled in 2020 where the earth element diminishes and without the support of the Earth, Metals may not see as much gains while the Rat (water) continues to weaken Metals in general, crimping the recovery for the AUD.

### **Little Support for Oil-linked MYR and CAD**

Insofar, the studies of the Five Elements have been mostly supportive of our view. We are disappointed to find that fire element would be curbed by the Rat (water). That could mean that the oil-linked currencies such as the MYR and CAD may not be able to find much support for this year.

### **In a Nutshell**

To conclude our first ever Fengshui FX edition, we realized that the five elements of the Chinese metaphysics also supports our house view of 1) broad USD softness; 2) some RMB TWI weakness; 3) gains for trade-linked currencies such as TWD, KRW, SGD.

*We welcome any feedback on our Fengshui thoughts.*

*Merry Christmas and Prosperous New Year Ahead!*



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