BCA Research

Geopolitical Strategy

Emerging Markets Strategy

Special Report

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US-Russia: No Reverse Kissinger (Yet)

- Theoretically the US could employ a "Reverse Kissinger" strategy – befriend Russia to isolate China or at least prevent the budding Russo-Chinese alliance.
- But Trump has made no headway in relations with Russia. Meanwhile Democrats now see engagement with Putin as a failure and will pursue a more aggressive policy.
- Competition in Europe's natural gas market underscores the broader Russo-American geopolitical confrontation. Russia will likely succeed in preserving its share in the European natural gas market in the medium term, but not in the long run.
- We remain overweight Russian equities and bonds relative to EM benchmarks, but will downgrade if Biden's election becomes a foregone conclusion.

In this Issue

01 The Failure Of Engagement
05 What Comes After Engagement?
08 Kissinger Reversed? Not Yet.
09 Direct Competition In Energy
13 Macro And Financial Market Implications

Investors do not need to wait for the US election verdict to assess the general trajectory of US-Russia relations. Some points are clear regardless of whether President Trump or former Vice President Joe Biden prevails:

- US-Russia engagement had mostly but not entirely failed between the fall of the Soviet Union in 1991 and President Trump's election in 2016.
- President Trump could not break free of the constraints of office and his administration has remained adversarial toward Russia despite his preference for deeper engagement.

Whether Democrats or Republicans take the White House in 2021, the result will be confrontation with Russia over the four-year term and likely beyond.

The geopolitical risk premium in the Russian ruble will rise relative to its current level. A Trump victory would reduce this risk, but only temporarily.

The Failure Of Engagement

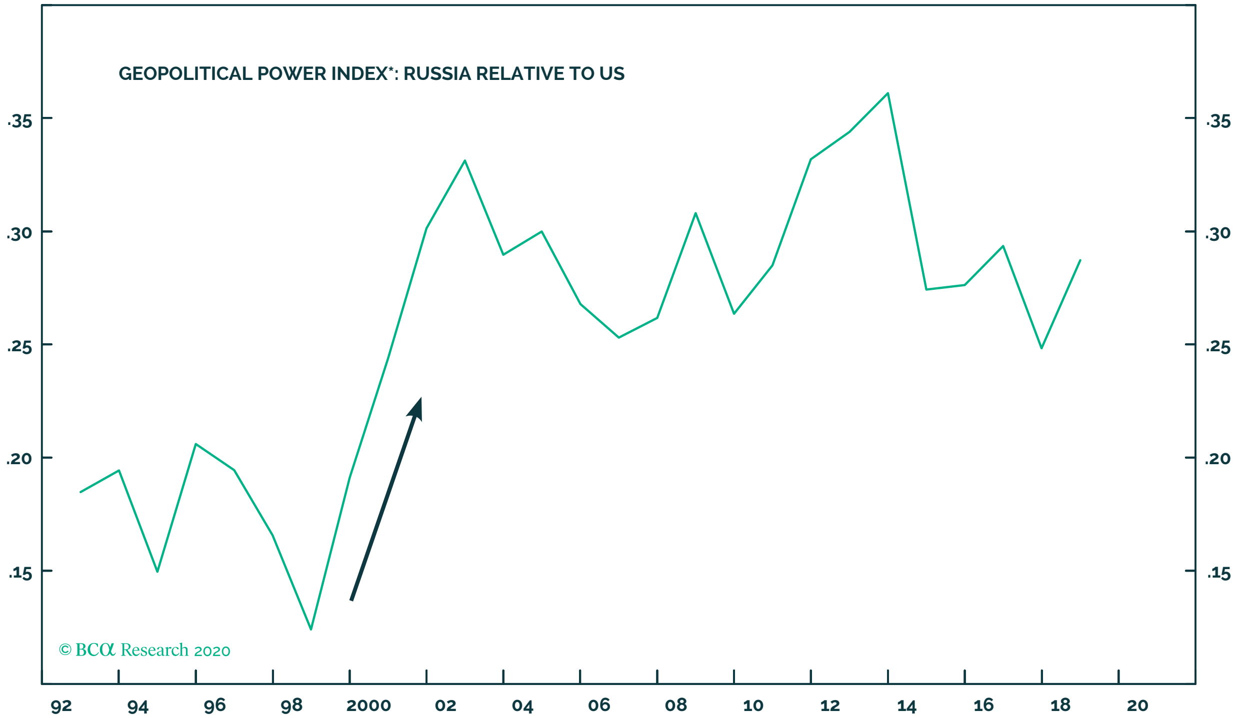
Russia's rise from the ashes of the Soviet Union can be illustrated by our Geopolitical Power Index – it shows Russia's rise relative to the US in terms of demographic, economic, technological, commercial, and military variables that make a nation strong (**Chart 1**).

Russia is a shadow of its Soviet self and lags far behind the US in raw capability.

Expect a Russo-American confrontation.

CHART 1

Russia Rose From Soviet Ashes, But Still Lags US



* MEASURED AS A COUNTRY'S RAW POWER BASED ON ITS POPULATION, THE SIZE OF ITS ECONOMY AND IMPORTS, MILITARY EXPENDITURE, ARMS EXPORTS, AND PRIMARY ENERGY CONSUMPTION. SOURCE: BCA CALCULATIONS.

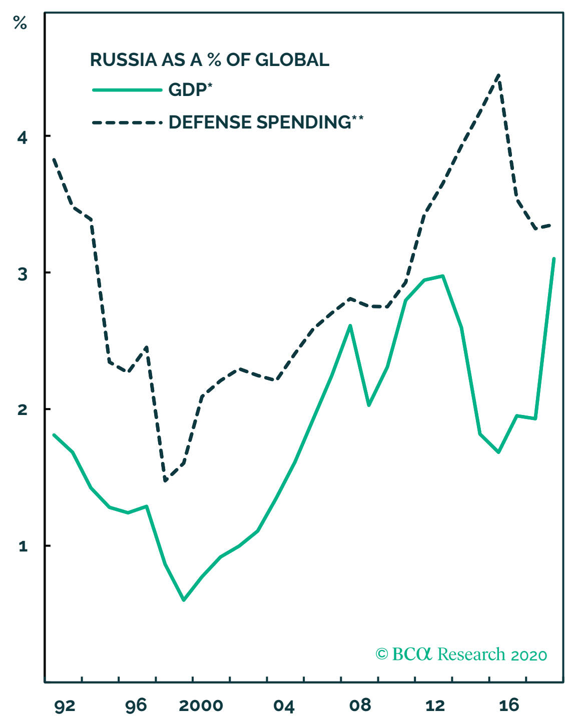
But its recovery from the chaos of the 1998 financial crisis, fueled by a global commodity bull market, has consisted of a systematic removal of domestic political constraints. It is politically unified under the personal rule of Putin, has reformed its economy and modernized its military, and has successfully pushed back against the US and the West in its sphere of influence.

Russia punches above its economic weight in the world by means of its military, which it has wielded opportunistically in Georgia, Ukraine, Syria, and Libya (**Chart 2**). Neither the US nor any other power was willing to fill the power vacuum in these locations.

The US and Russia have a fundamentally antagonistic relationship over influence in Europe and occasionally the Far East. They

CHART 2

Russia's Military Punches Above Its Economic Weight



* SOURCE: WORLD BANK; 2019 IS BASED ON IMF WORLD ECONOMIC OUTLOOK, APRIL 2020.
** SOURCE: SIPRI.

A Trump victory only temporarily reduces the rise in Russian geopolitical risk.

have little need to trade with each other. They are both large, independent commodity exporters and advanced weapon-makers separated by vast distances.

Russia is threatened by the US's military and technological superiority, its economic strength and newfound status as an energy exporter (see energy section), and its ability to undermine Russian legitimacy in the former Soviet sphere by promoting democracy.

Russia's advantage is that the US is internally divided by political factions. Putin's popular approval has benefited from his restoration of domestic order and Russia's standing as a great power. Successive American presidents have floundered under domestic partisanship and polarization (**Chart 3**).

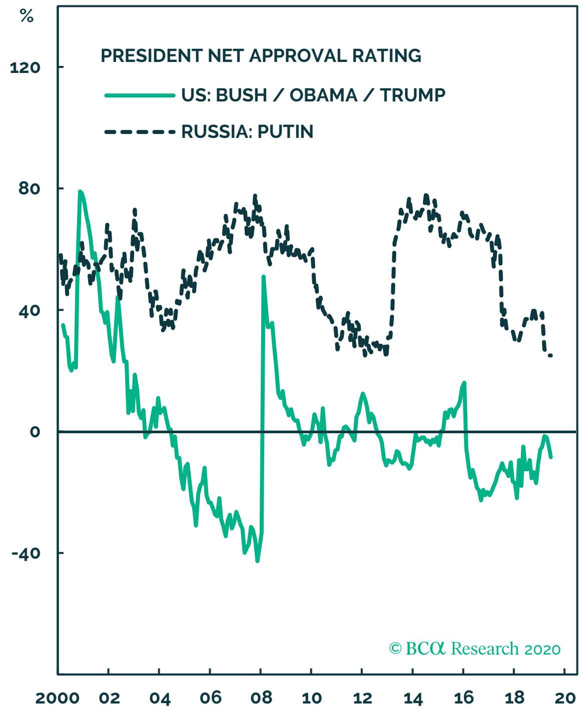
Attempts to "reset" relations have failed.[1] The Barack Obama administration's 2009-11 Reset, announced by Biden, saw several concrete compromises, including the New START treaty and Russia's joining the WTO. But the Bolotnaya Square protests in 2011-12, at the height of the Arab Spring, rekindled Moscow's fear that the US aimed to foment "color revolutions" not only in Russia's periphery but even in Russia itself.

Faced with losing its control over Ukraine's geopolitical orientation, Russia invaded parts of Ukraine and seized Crimea, the first military annexation of territory in Europe since World War II. The US and Europe applied extensive sanctions that last to this day and drag on Russian growth.[2]

[1] Michael McFaul, *From Cold War To Hot Peace: The Inside Story of Russia and America* (London: Penguin, 2018).

[2] International Monetary Fund, "Russian Federation: 2019 Article IV Consultation," IMF Country Report 19/260 (August 2019).

CHART 3
Russia Is Politically Unified, The US is Internally Divided



SOURCE: GALLUP AND LEVADA CENTER.

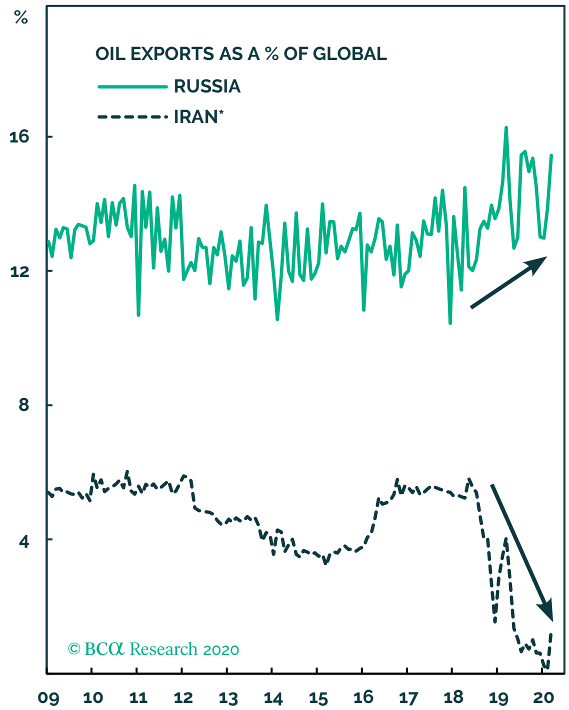
True, Moscow cooperated on the 2015 nuclear deal with Iran. Russia does not want Iran to get nuclear weapons. Yet this is not imminent. And Russia gained global oil market share when the US walked away from the deal and restarted sanctions (**Chart 4**). Either way, Iran survives as a Russian ally capable of exerting influence across the Middle East.

President Trump launched another attempt at engagement with Russia. If there is a strategic basis for this policy – i.e. if it is not just based in Trump's personal proclivities – then it is the idea of a "Reverse Kissinger" maneuver.

During the Cold War, the US befriended Maoist China in order to isolate the Soviet

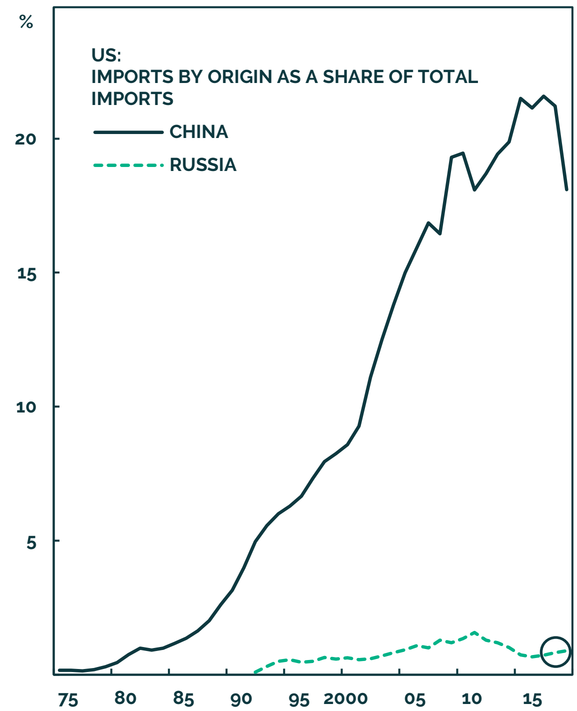
Russia's advantage is that the US is internally divided.

CHART 4
Russia's Oil Market Share Benefitted From Iran Sanctions



* NOTE: BLOOMBERG ESTIMATES FROM AUGUST 2018 ONWARDS.
SOURCE: JOINT OIL DATA INITIATIVE (JODI).

CHART 5
US-Russo Interests Are Not Complementary



SOURCE: IMF DIRECTION OF TRADE STATISTICS. © BCA Research 2020

Union. Today, with China posing the clear threat to US hegemony, the US could try to befriend Russia to isolate China or at least prevent the budding Russo-Chinese alliance.

The difference is that in 1972, American and Chinese interests were complementary. China wished to stabilize its borders and the US offered geopolitical relief as well as technology and knowhow. Today American and Russian interests are not complementary other than the political convenience of demonizing each other (**Chart 5**). The US offers Russia limited investment capital; Russia does not offer cheap labor or a vast consumer market.

The Trump administration's attempt to engage Putin has failed. Putin's declaration of a global oil market share war this year drove American shale oil companies into bankruptcy during an election year. Barring an "October surprise" engineered by Putin to get Trump reelected, their "alliance" is at best rhetorical and at worst a mirage.

Putin might favor Trump because he sharpens US internal divisions, or because he has an isolationist foreign policy preference, but Putin's actions so far in 2020 suggest a deeper strategic reality: Russia seeks to foment political turmoil in the US, not solidify either of the parties in power, as the latter could backfire against Russia.

Attempts to "reset" American-Russo relations have failed.

What Comes After Engagement?

Russia lacks the power to create a new world order, but it will continue to leverage its relative power to exercise a veto over affairs in the current global order, in which US influence is weakening. It can hasten the West's decline by sowing divisions within the West.

What happens when US polarization falls and a new political consensus takes shape? This would pose a major threat to Putin's strategic options. Thus it is relevant if Joe Biden wins the 2020 election with a strong majority and a full Democratic sweep of government.

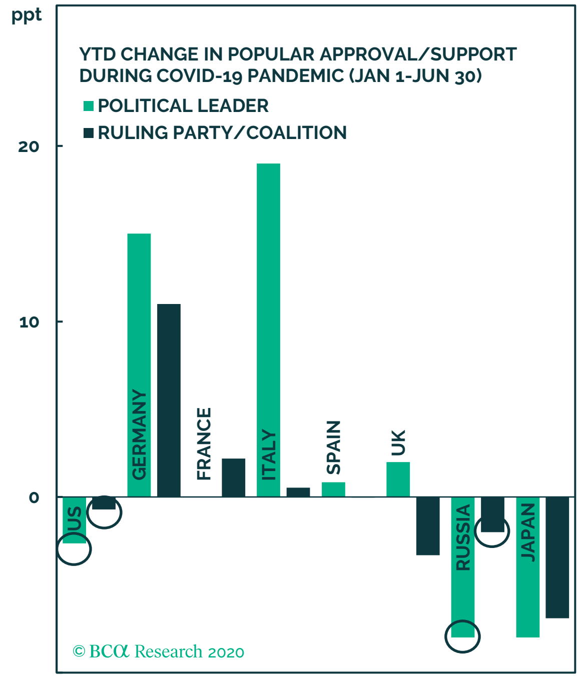
Presidents Trump and Putin, and their political parties, are among the worst performers amid the COVID-19 pandemic and recession (**Chart 6**). The implication is that Trump will lose the election and Putin will resort to time-tried techniques of confrontation with the West to restore his domestic support. Democrats will pursue a more aggressive policy toward Russia.

The Democrats harbor a deep vendetta against Russia over its interference in the 2016 election and will go on the offensive to prevent Russia from trying to undermine their grip on power again. They will also seek to deter Russia from further undermining American strategic interests.

Biden will try to revive NATO, expand US troop presence in eastern Europe, and promote democracy and human rights in Russia's periphery, using the Internet to launch a disinformation campaign against Putin's regime. Cyber warfare will escalate.

The silver lining for Russia is economic: Biden's policies will help to weaken the dollar and cultivate a global growth recovery. Biden will be less inclined to start disruptive Trump-style trade war with China that could permanently damage China's potential growth or global growth. Chinese imports are essential to propping up Russia's sluggish economy. In enabling commodity prices to recover, and reducing global policy uncertainty, Biden would inadvertently aid Russian recovery (**Chart 7**).

CHART 6
COVID-19 Dented Support For Trump And Putin

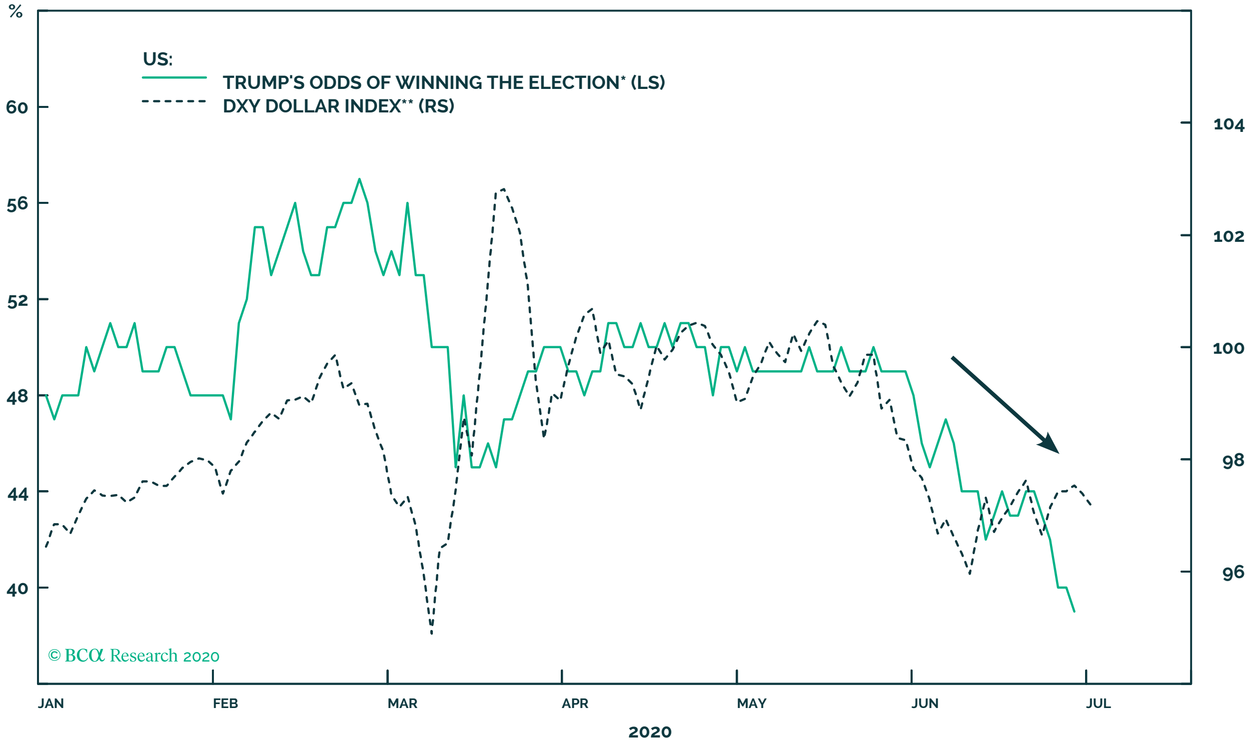


NOTE: DATA IS SHOWN AS THE AVEARGE OF THE LATEST MONTH AVAILABLE LESS THE FIRST MONTH OF 2020
SOURCE: VARIOUS POLLING AGENCIES.

Ultimately Russia is insecure because the US threatens to undermine its economy and political legitimacy both at home and in its strategic buffers. Putin has re-centralized control while shutting out foreign influence. This approach is not changing anytime soon given the recent constitutional changes to prolong Putin's rule till 2036.

Democrats will pursue a more aggressive policy toward Russia.

CHART 7
The Silver Lining Of A Biden Presidency For Russia Is A Weaker Dollar



* SOURCE: PREDICTIT.
** SOURCE: BLOOMGERG FINANCE L.P.

Preliminary reports claim that, with 65% of the public voting, these changes were ratified by 76% of the population.[3]

What changed is that the US is no longer as optimistic about engaging Russia. If anything, its internal divisions will encourage it to go on the offensive. Sanctions may well be expanded before they are eased, the Ukraine conflict could revive rather than simmer down, and new fronts in the conflict could widen, particularly in cyberspace. This is particularly the case if Biden wins the White House in November.

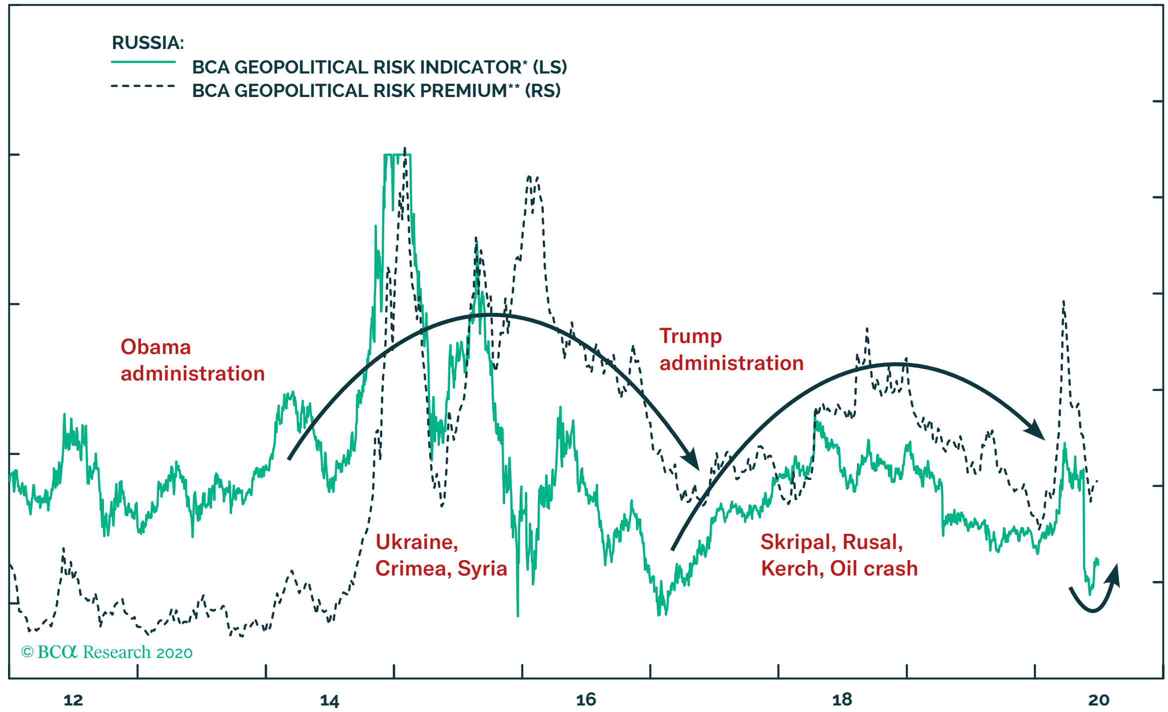
The structural, geopolitical risk premium of US-Russia conflict is priced into Russian assets, but there is room for a cyclical increase if Biden is elected. Our market-based Russian geopolitical risk indicators – which define geopolitical risk as excessive ruble weakness relative to its macro context – show that Russian risk is elevated because of COVID-19, but dropping. The US election should reverse this trend, unless Trump wins (**Chart 8**).

Alternative measures of political risk that utilize non-market variables support our qualitative assessment, such as the indicator provided by GeoQuant. The implication is that Russian political risk is higher than the market is pricing (**Chart 9**).

3 Ann M. Simmons and Georgi Kantchev, "Russians Vote for Overhaul That Could Keep Putin in Power Until 2036," *Wall Street Journal*, July 1, 2020.

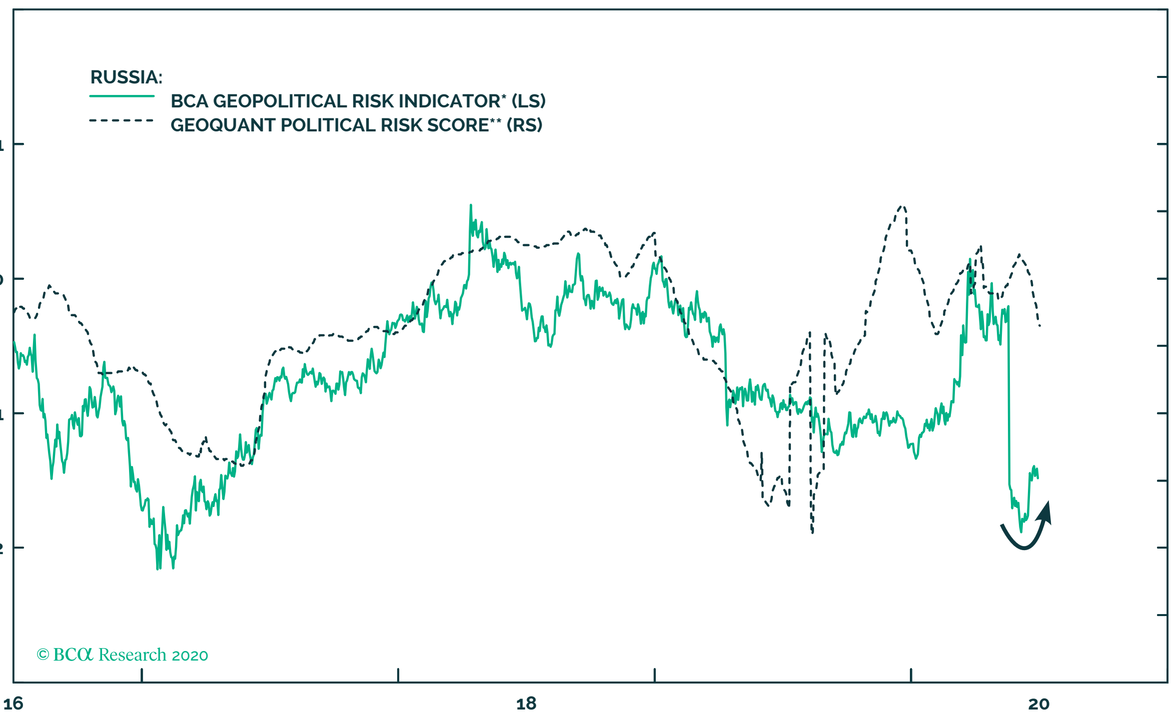
Russian geopolitical risk is underpriced, particularly if Biden wins.

CHART 8
Russian Geopolitical Risk Set To Increase Even If Trump Re-Elected



* BASED ON USD/RUB, CRB RAW INDUSTRIALS INDEX, RUSSIAN RETAIL SALES, AND TRADE-WEIGHTED US DOLLAR. TRUNCATED AT 4.
** BASED ON USD/NOK EXCHANGE RATE, RUSSIAN RELATIVE TO US CONSUMER PRICE INDEX, AND A TIME TREND.
SOURCE: BCA CALCULATIONS.

CHART 9
Market Is Underpricing Russian Political Risk



* BASED ON USD/RUB, CRB RAW INDUSTRIALS INDEX, RUSSIAN RETAIL SALES, AND TRADE-WEIGHTED US DOLLAR.TRUNCATED AT 4. SOURCE: BCA CALCULATIONS.
** SOURCE: BLOOMBERG FINANCE L.P.

A "Reverse Kissinger" is not achievable until Russia feels threatened by China.

Kissinger Reversed? Not Yet.

If Trump wins, could he not engineer a major détente with Russia?

In 2018 the US shifted its national defense strategy to emphasize that "the central challenge to US prosperity and security is the *reemergence of long-term, strategic competition*," arguing specifically that "it is increasingly clear that China and Russia want to shape a world consistent with their authoritarian model.[4]"

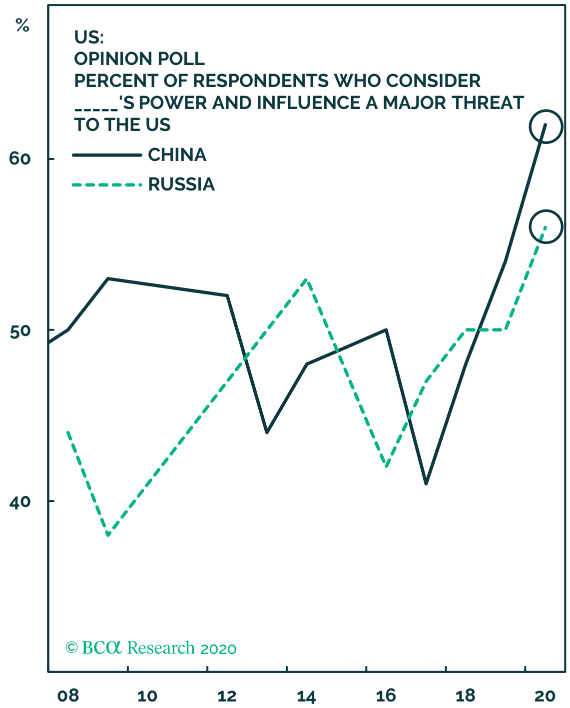
Yet US geopolitical power has declined such that taking an offensive approach to Russia and China simultaneously is not practicable.

If the US pursues the Reverse Kissinger strategy, then it will have to make major concessions to Putin's Russia. It would need to provide substantial sanctions relief, accept the Crimean annexation, allow a high degree of Russian influence in Donbass (Ukraine), abandon hopes of retribution for the 2016 election interference, ask for a return to the 2015 nuclear deal on Iran at best, and settle for arms control agreements that do not cover new technologies.

It is not clear that President Trump would concede this much in a second term, though in most cases he would have the power to do so. Yet Moscow cannot downgrade its cooperation with Beijing by much, since US-Russia détente never lasts long and China weighs more heavily in its economic calculus than the West's sanctions.

The Democrats, by contrast, are not prepared to make these concessions, particularly on 2016. They are more willing to pursue a gradualist approach in dealing with China, which they believe is less urgent due to shared economic interests.[5]

CHART 10
US-Russo Struggle Is Subordinate To US-Sino Conflict



SOURCE: SURVEY OF US ADULTS CONDUCTED MARCH 3-29, 2020, "US VIEWS OF CHINA INCREASINGLY NEGATIVE AMID CORONAVIRUS OUTBREAK," PEW RESEARCH CENTER.

If the US confronts Russia, then Russia will draw closer to China. The informal alliance between these two powers is well advanced. A closer association provides China with a better position in waging its long-term geopolitical competition with the United States.

Ultimately US grand strategy and public opinion will drive American presidents to take a harder line on China because it rivals the US in economic resilience and technology over the long run (**Chart 10**).

4 "Summary of the 2018 National Defense Strategy of the United States of America: Sharpening The American Military's Competitive Edge," Department of Defense, 2018.

5 Victoria Nuland, "Pinning Down Putin: How A Confident America Should Deal With Russia," *Foreign Affairs*, July/August 2020.

The US will solidify the trans-Atlantic alliance with Europe.

The conflict with Moscow will eventually be subordinate to the US-China struggle. But a "Reverse Kissinger" is not achievable until Russia feels threatened by China, either through its own weakness or Chinese strength.

A much stronger trans-Atlantic alliance, or much greater Chinese influence over East Asia and/or the Middle East, could trigger a shift in Russian strategy. We are not there yet.

Russia's cooperation with China will deepen, strengthening China's hand and making it all the more imperative for the United States to solidify the trans-Atlantic alliance with Europe. Otherwise the risk of a precipitous decline in American power will threaten global stability.

Bottom Line: US-Russian antagonism will continue for the foreseeable future. Russian geopolitical risk is underpriced, particularly if Biden wins the election. A Trump victory would offer only a temporary reprieve.

Direct Competition In Energy

Russia can offer low cost natural gas alongside an existing and projected (under construction) network of pipelines into Europe. This capability will help it to sustain and marginally increase its market share in Europe relative to the US in the medium term. In turn, this will help Russia secure vital revenues for its macro stability. Natural gas exports to Europe represent 2.5% of GDP or 9% of total exports.

In the long run, however, US LNG will challenge Russia's share in the European natural gas market. On the whole, the US sees Russia as an economic competitor in the European natural gas market and it will continue to disrupt Russian natural gas exports to Europe through sanctions and/or by other means.

A resulting market share war between the US and Russia will lead to low natural gas prices benefitting the consumer, Europe.

Competition in Europe's natural gas market underscores the broader geopolitical confrontation between the US and Russia. The following factors will shape heightened competition:

Escalating Competition For European Natural Gas Market

Europe will remain a major market for natural gas. The combination of falling domestic production, steady consumption growth and the ongoing structural shift to cleaner sources of energy will require greater imports of natural gas (**Chart 11**). Critically, Europe's natural gas consumption might rise faster than its GDP making this market attractive to energy producers.

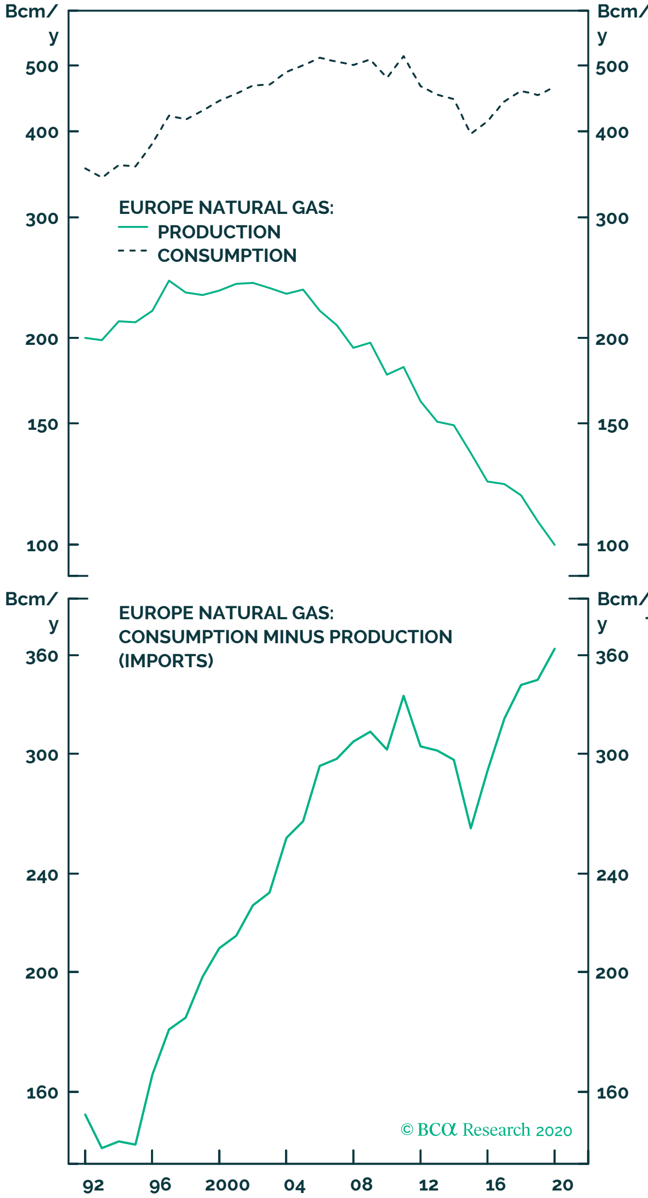
According to the IEA, Europe's consumption of natural gas will continue to grow at a steady rate over the next 5 years. In a nutshell, European policymakers are promoting cleaner energy such as natural gas over coal and nuclear energy. This push will facilitate rising demand for natural gas.

Yet, European natural gas production is expected to drop by 40%, driven by field closures in the Netherlands and the UK. As such, the diverging gap between falling production and steady consumption opens up a space for both Russian and US natural gas exports into the continent.

Competition in Europe's natural gas market underscores the Russo-American geopolitical rivalry.

CHART 11

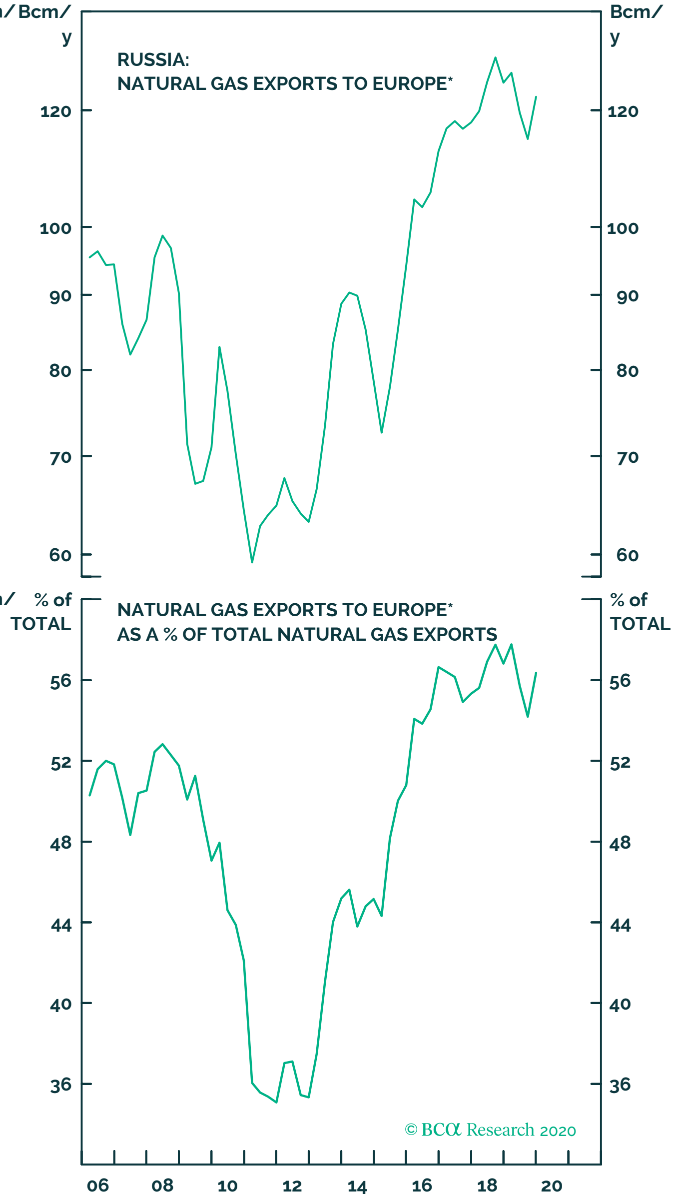
Europe's Nat Gas Imports Will Continue Growing...



NOTE: ALL SERIES ARE IN LOG SCALE.
SOURCE: BP STATISTICAL REVIEW.

CHART 12

...Allowing Russia To Grab Market Share



* INCLUDES EXPORTS TO AUSTRIA, GERMANY, FRANCE,NETHERLANDS, POLAND, UK & ITALY.

Russia Natural Gas Strategy:

Russia and its largest natural gas producer, Gazprom, are aiming to increase their share in the European market from their current 36% to 40% (**Chart 12**).

More specifically, Russia's latest 2035 strategy (known as ES-2035) reaffirms its two-pronged strategy: (i) continue to provide low-cost natural gas to Europe and Asia through pipelines and (ii) developing LNG export capacity for exports to the Far East.

Russia's natural gas export capacity to Europe is set to surge.

TABLE 1
Russia's Pipeline Export Capacity

RUSSIAN NATURAL GAS PIPELINE (EXCLUDING UKRAINE)	EXPORT CAPACITY (IN BCM)	STATUS
Nord Stream I	55	Operational
Nord Stream II	55	Operational in 2021
Turkstream	31.5	Started construction in January 2020
Yamal-Europe Pipeline	32.9	Operational
Blue Stream	16	Operational
Total	**190.4**	

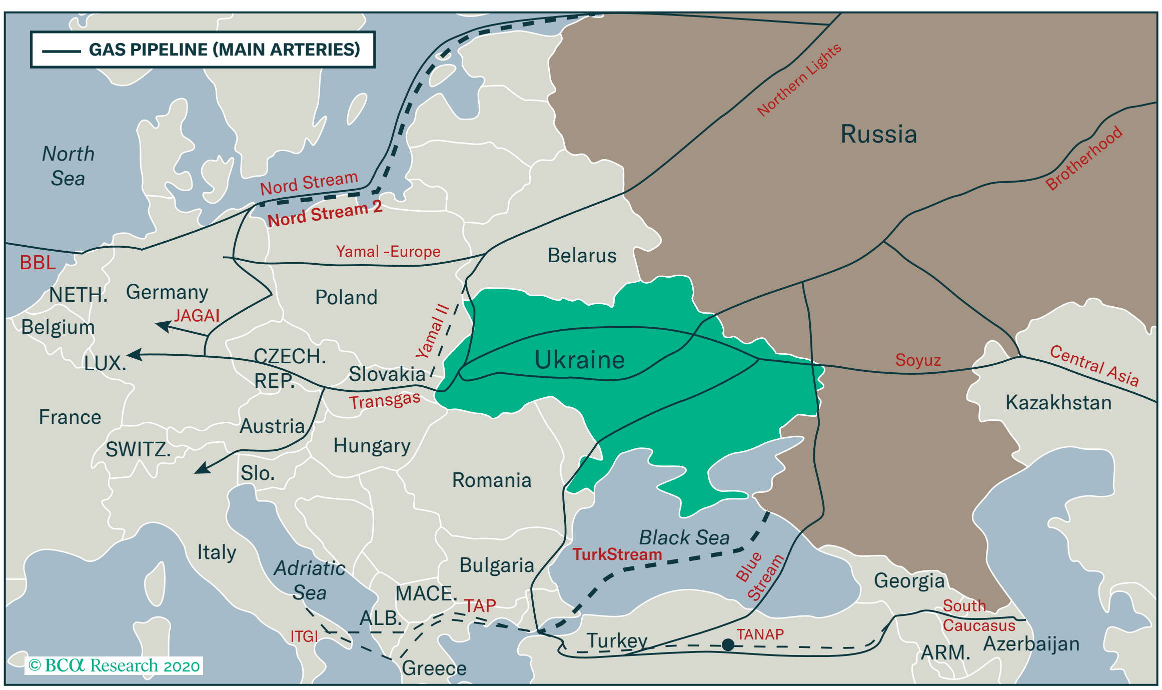
SOURCE: GAZPROM.

Pipelines: Russia's export capacity to Europe is set to increase to 190 Bcm/y by 2022 excluding existing transit routes passing through Ukraine (**Table 1**). Two new sources of pipeline routes will be the Nord Stream2, coming online by the end of this year, and Turk Stream, expected to come online by 2022. These pipelines will have an export capacity of 55 Bcm/y and 31.5/y Bcm, respectively (**Map 1**).

Meanwhile, pipeline capacity through Ukraine will remain 140 Bcm/y. Ultimately, Russia has been determined to diversify its natural gas transit routes despite pressures from the US.[6]

[6] The US has tried to stop Russia's expansion of pipelines into Europe in the past. Evidenced from both Kennedy and Reagan administration policies directed towards the building of the Friendship oil pipeline in the 1960s and the Brotherhood gas pipeline in the 1980s, respectively. In response, Russia began developing its own technological capacity through import substitution, hurting western firms in the process.

MAP 1
Russia's Latest Pipelines Bypass Ukraine



SOURCE: S&P GLOBAL PLATTS.

Russia will preserve its share of the European nat gas market in the medium term ...

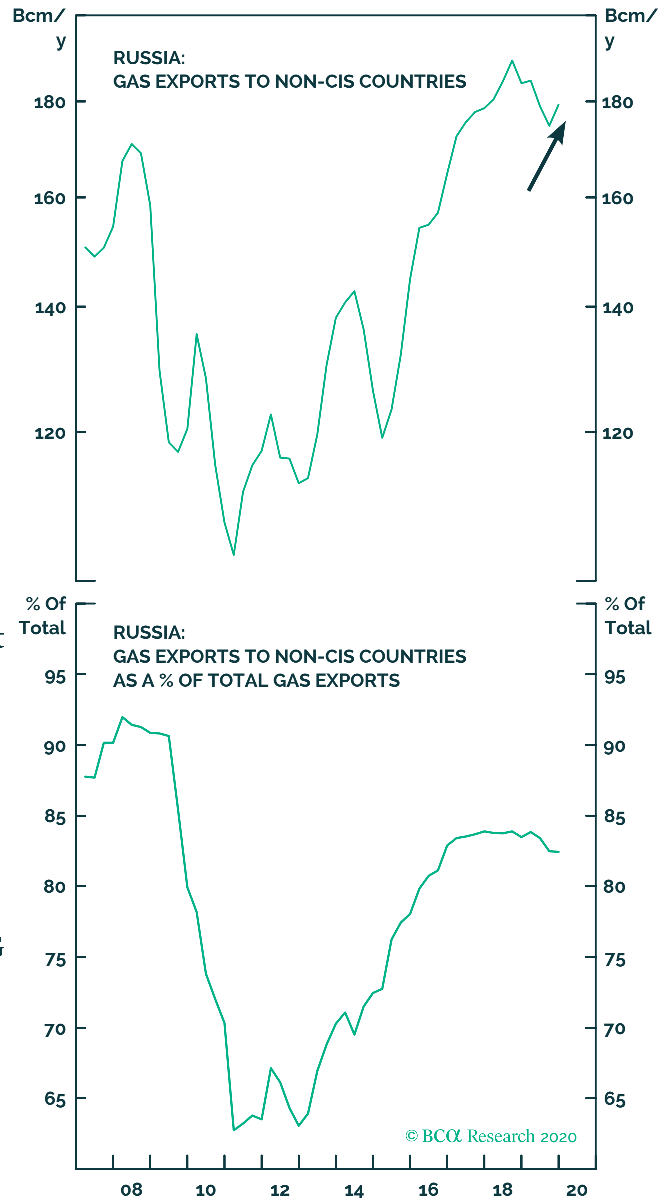
In addition, Gazprom natural gas production for transport *via* pipeline is expected to increase by 35% to 983 Bcm in the next 15 years. The European market is essential to Russia's export revenues, as it currently represents 56% of Russia's total gas export volumes compared with 83% total export to non-CIS countries (**Chart 13**).

Lastly, regarding natural gas pricing, Gazprom will continue to move away from oil-indexed long-term contracts to shorter-term spot market contracts. This change of tack will cause deflation in Gazprom's export prices to Europe but will preserve Russia's market share in its strategic European market.

LNG: Russia will continue to be one the top four LNG producers alongside Qatar, Australia and the US. According to the latest estimates by the IEA, Russian exports of LNG, currently at 39 Bcm, are set to expand by 20% by 2025. The development of the Yamal peninsula into a major natural gas and LNG hub will allow Russia to produce close to 110 Bcm of LNG by 2035, which will constitute 16% of its overall current gas production. This will lead to continued LNG exports to various markets, particularly Europe, which consumes 50% of Russia's LNG exports.

Imported technology from Europe and external financing from China have allowed Novatek, Russia's second largest natural gas producer, to become the leader in production and exports of LNG. Russia is also investing heavily in liquefaction. It is now fifth globally in liquefaction capacity. There are currently $21 billion in pre-final investment decision (FID) from the LNG Artic 2 in the Yamal that will increase its liquefaction capacity by over 200% by 2026.

CHART 13
Russian Natural Gas Exports To Non-CIS Countries



SOURCE: FEDERAL CUSTOMS SERVICE.

Lastly, it is estimated that 70-80% of total commodity exporters' costs are sourced locally and are in rubles due to the import substitution policy adopted by Moscow in 2015. This will alleviate cost pressures arising from a potentially weaker ruble in exploiting the Yamal reserves.

... But not necessarily in the long run.

US Needs To Find A Market For Its LNG:

US produces 920 bcm/y of natural gas but consumes only 830 bcm/y. The rest is available for export. The need to export rising excess of natural gas output puts the US in direct competition with other natural gas exporters such as Russia.

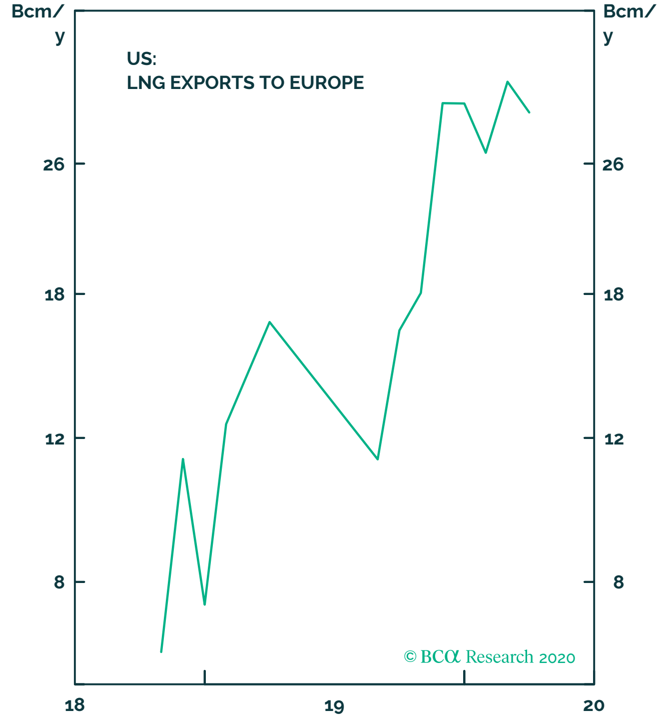
In the medium term, an oversupplied market alongside the COVID-19-induced demand shock in Europe will reduce European natural gas demand, hurting both the US and Russia. US LNG might lose market share in the European market to Russia due to falling production arising from capex cuts and bankruptcies in the US natural gas sector.[7]

Yet, in the long run, Europe's geopolitical ties with the US and strategic interest in diversifying away from Russia make US LNG an obvious area of cooperation. The Trump-Juncker agreement in July 2018 led to a 300% increase in US LNG exports to Europe before the COVID-19 pandemic (**Chart 14**). Since coming into effect, the agreement also resulted in a doubling of EU utilization of LNG regasification capacity, from 30% to close to 60% in early 2020 and is expected to continue expanding in the years to come.

Bottom Line: Russia will likely succeed in at least preserving its share in the European natural gas market in the medium term, but will be challenged by US LNG in the long run.

[7] "U.S. natural gas giant Chesapeake Energy goes bankrupt," CBC, June 29, 2020.

CHART 14
US LNG Exports To Europe To Rise



SOURCE: EIA.

Macro And Financial Market Implications For Russia

Heightened confrontation with the US and new sanctions on Russia will materialize if Biden wins the presidency. All else constant, this is unfavourable for Russian asset prices.

It should be noted, however, that *years of fiscal conservativism, tight monetary policy, a prudent and pro-active bank regulatory stance as well as some success in import substitution have given Russia the capacity to offset negative external shocks by easing macro policy:*

- Russia has one of the lowest public debt-to-GDP ratios among the largest

A Biden presidency is negative for Russian assets, but Russia has room to ease policy.

CHART 15
Russia: Low Public Debt Burden

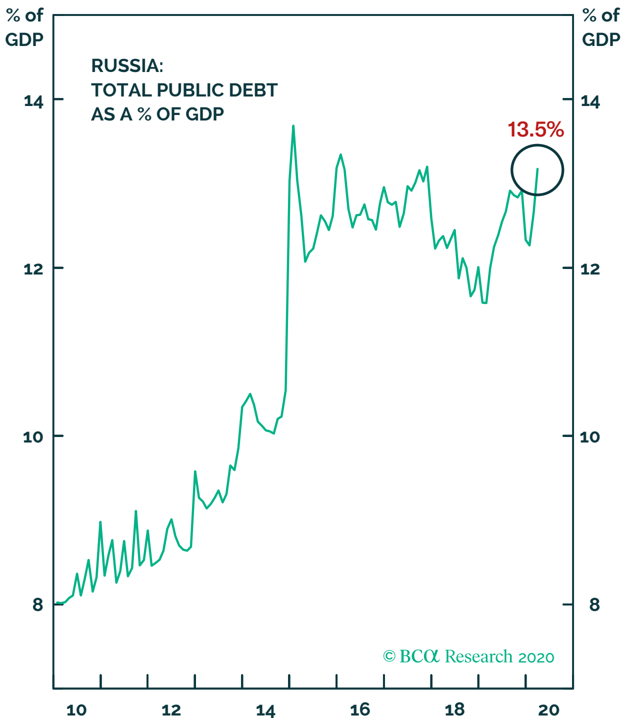
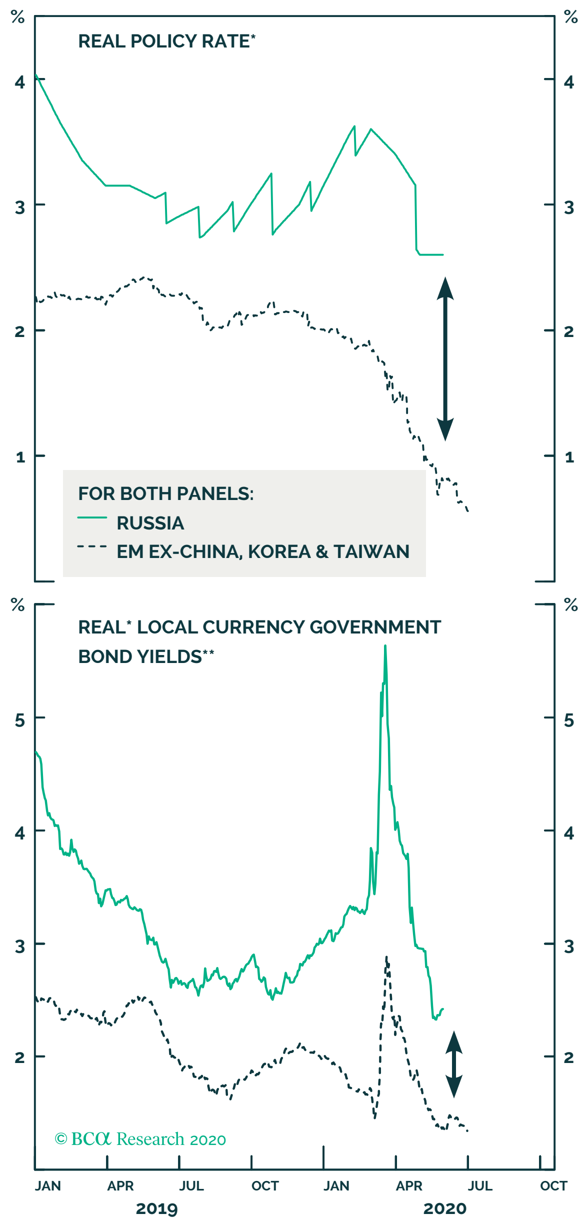


CHART 16
Russian Real Rates Offer Value



* DEFLATED BY CORE CPI.
** SOURCE: J.P. MORGAN CHASE & Co.

countries in the world. Its total public debt stands at 13.5% of GDP (**Chart 15**). Its external public debt is at a mere 4% of GDP.

As in many other countries, Russia's fiscal deficit is widening sharply due to the pandemic and low oil prices. However, we expect the primary and overall fiscal deficits will be only 4.25% and 5% of GDP in 2020, respectively.

So far, at 3.5% of GDP, the announced fiscal stimulus in response to the pandemic has been small by global standards. Russia has room to boost fiscal expenditure substantially this year and in the coming years to offset negative external shocks.

- The Central Bank still has room to reduce interest rates further. The real policy rate is 2.5% compared with 1% for EM ex-China, Korea and Taiwan (**Chart 16**, top panel).

Russia's local currency government bond yields offer value: their real yield is 2.5% compared with the EM GBI benchmark real yield of 1.5% (**Chart 16**, bottom panel).

Stay overweight Russian assets relative to EM unless Biden's election becomes a foregone conclusion.

The Central Bank of the Russian Federation will refrain from QE-type policies (i.e., public debt monetization). This is a plus for the ruble relative to other EM currencies where central banks are engaged in QEs.

- Bank lending rates remain extremely elevated in Russia and local currency credit penetration is reasonably low (**Chart 17**). Companies and banks' external indebtedness has declined from $1,200 bn in 2014 to $900 bn currently.

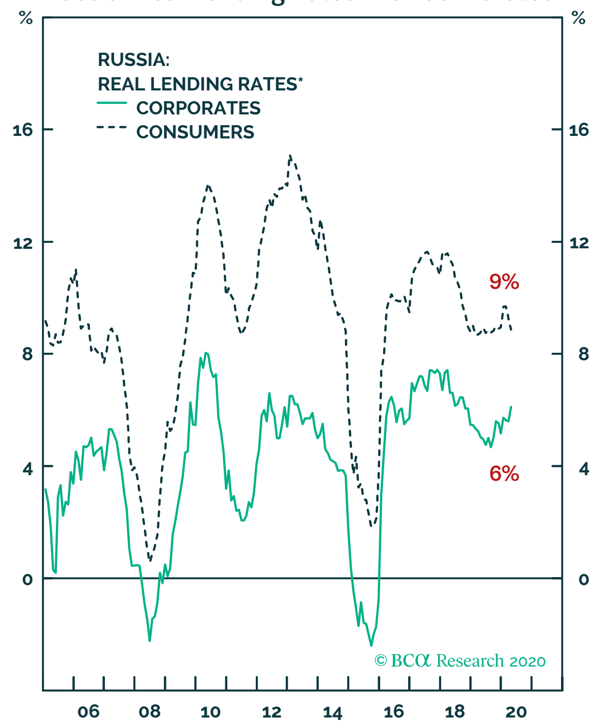
  Authorities have cleaned up the banking system. The number of banks has dropped from 1000 in 2010 to 430. Banks have written down and provisioned for a large amount of loans. All of these reduce Russia's vulnerability to negative shocks.

- Finally, pressured by US and EU sanctions, Russia has been moderately successful in import substitution as we discussed in a previous report. The nation has expanded its productive capacity, especially in agriculture and some other industries.

  As a result, it now has more room to deploy fiscal and monetary stimulus to boost demand that will be satisfied by domestic rather than foreign output. In short, fiscal and monetary stimulus will not cause the currency to plunge.

  On the negative side, the outlook for productivity growth remains lukewarm. Russia's long-term economic outlook will be characterized by relative stability but low growth, as has been the case in recent years.

CHART 17
Russia: Real Lending Rates Are Too Elevated!



* DEFLATED BY CORE CPI.
SOURCE: THE CENTRAL BANK OF THE RUSSIAN FEDERATION.

Combining our geopolitical and macro analysis, two conclusions stand out. First, we remain overweight Russian equities as well as both local currency and US dollar bonds relative to their EM benchmarks. If Trump stages a comeback over the next four months, which is not impossible, then the geopolitical risk premium will continue to fall. Trump would offer a reprieve in tensions for a year or two.

... But downgrade if Biden's election becomes a forgone conclusion.

Second, the US election threatens this view because Joe Biden is currently heavily favoured to beat Trump and if he does, he is likely to impose fresh sanctions on Russia, possibly as early as 2021. Therefore, if Biden's election becomes a foregone conclusion, we will downgrade Russian assets.

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Open Trades & Positions

Open Tactical Recommendations

TRADES	INCEPTION LEVEL	INITIATION DATE	CLOSED LEVEL	CLOSED DATE	RETURN	COMMENTS
Fixed Income						
Long US 10-Year Treasuries	39.81	May 1/20			-0.51%	
Equities						
Long Malaysia / Short Emerging Markets Equities	0.2935	Jan 17/20			3.68%	
Long S&P Health Care Equipment / Broad Market	0.563	Jun 03/19			0.67%	
Currencies						
Short 'EM Strongman Basket' (PHP, TRY, BRL) Vs. EM Currencies Excluding PHP, TRY, BRL	0.45748	May 1/20			0.54%	
Long JPY/USD	0.0092	May 24/19			1.71%	

NOTE: RETURN AS OF JULY 2, 2020.

Open Strategic Recommendations

TRADES	INCEPTION LEVEL	INITIATION DATE	CLOSED LEVEL	CLOSED DATE	RETURN	COMMENTS
Fixed Income						
Long Indian Local Currency Bond/ Short Em Bonds	100	Jun 19/20			0.31%	
Long AAA-Rated US Municipal Bonds Vs. 10-Year Treasuries	85.5545	Apr 24/20			2.95%	
Long US Investment Grade Corporate Bonds VS. Duration-Matching Treasuries	105.021	Mar 27/20			10.47%	
Commodities						
Long Brent Crude Oil	24.92	Mar 27/20			68.86%	
Long Gold	1495.65	Dec 06/19			21.33%	
Equities						
Long BCA Rare Earth Basket	10.11	Jun 26/20			0.61%	
Long Global Stocks Relative To 30-Year Us Treasuries	100	Jun 26/20			3.78%	
Long Indian Pharmaceuticals / Short EM Pharmaceuticals Equities	0.674	Jun 18/20			-0.64%	
Long BCA US Infrastructure Basket / Short MSCI US	0.0974	Apr 24/20			0.87%	
Long ISE Cyber Security Index / Short S&P 500 Info Tech Sector	0.2692	Apr 24/20			2.07%	
Long Korea / Short Taiwan Equities	0.8077	Mar 27/20			-1.66%	
Long S&P 500 Aerospace And Defense / Short MSCI ACW	2.40	Dec 08/16			-8.93%	
Currencies						
Short CNY/USD	0.14482	May 31/19			2.40%	
Indicies						
Long China Play Index/Short MSCI Global*	0.041	Apr 24/20			2.37%	

NOTE: RETURN AS OF JULY 2, 2020.
* INCLUDES CHINESE IRON ORE PRICES IN US DOLLAR TERMS, SWEDISH INDUSTRIAL EQUITIES IN US DOLLAR TERMS, BRAZILIAN EQUITIES IN US DOLLAR TERMS, AUD/JPY, AND EM HIGH-YIELD BOND DENOMINATED IN USD. NOTE: METHODOLOGY CHANGE IN CALCULATING TRADE RETURN IMPLEMENTED ON FEBRUARY 19, 2019.

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