

QUANTCUBE TOP NEWS

Newsletter - September 30, 2020



THE GLOBAL ECONOMY SLOWLY RECOVERING FROM COVID-19

- ▶ US ELECTIONS PREDICTIONS
- ▶ INTERNATIONAL TRADE, AND THE WINNER IS ...
- ▶ FRENCH INFLATION



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ECONOMICS VIEWS WITH HIGH FREQUENCY MACRO DATA

Based on high-frequency macro data provided by QuantCube Technology : we do not see any country with significant positive YoY growth but some acceleration coming from China, Germany and Australia :

- China international trade has turned positive on Aug 17, 2020 to reach a YoY change of +2.7% on Sep 29, 2020 from a low of -16.7% on May 16, 2020. At the industrial production level, after a strong acceleration from mid-May to mid-July, our proprietary data based on our internal satellite data - Sentinel 5P - analytics indicate a recent downtrend in cities such as Shanghai and Beijing while cities such as Qingdao, Wuhan and Guangzhou still maintaining a positive trend. Our Chinese news analytics team has released a negative sentiment on steel production with information such as a total inventory of rebar and wire rod has increased YoY of 64.3% to reach 10.4 million tons from 4.1 million tons.



QuantCube International Trade data
quoted in WSJ on Sep 20, 2020

- Australia international trade experienced a strong acceleration from a YoY value of -28.9% on July 24, 2020 to +0.8% on September 21, 2020 but with the risk of reversal since the latest value is -1.7% on Sep 29, 2020.
- Germany 30-day YoY GDP Growth has turned positive on Aug 2, 2020 to reach +0.4% on Sep 29, 2020 with an acceleration of industrial production this last month and YoY Consumption change of -0.4% on Sep 29, 2020. We favor a faster 30-day measure of YoY GDP Growth rather than a 90-day for this current period.
- US International trade is still quite weak with a YoY change of -12.6% on Sep 29, 2020. At the port level, YoY change of +9.0% for the Long Beach Port on the US West Coast, -11% for Houston Port and -15% in New York Port. It shows that international trade has accelerated mostly on the US West Coast with Asian countries. Further economic developments will be impacted by the U.S. elections.
- The acceleration of Covid-19 in France has a direct impact on the consumption, with a local maximum of -0.9% on Sep 3, 2020 to a YoY value of -1.6% on Sep 29, 2020. In addition we have noticed very low inflation environment with deflationary risk.

US ELECTIONS PREDICTIONS

QuantCube Technology has developed an **innovative methodology** aiming at predicting the US 2020 presidential elections by combining **high-frequency macroeconomic data** and **social media sentiment analysis models**. We notice that the 90-minute debate between Biden and Trump has not impacted our results significantly.

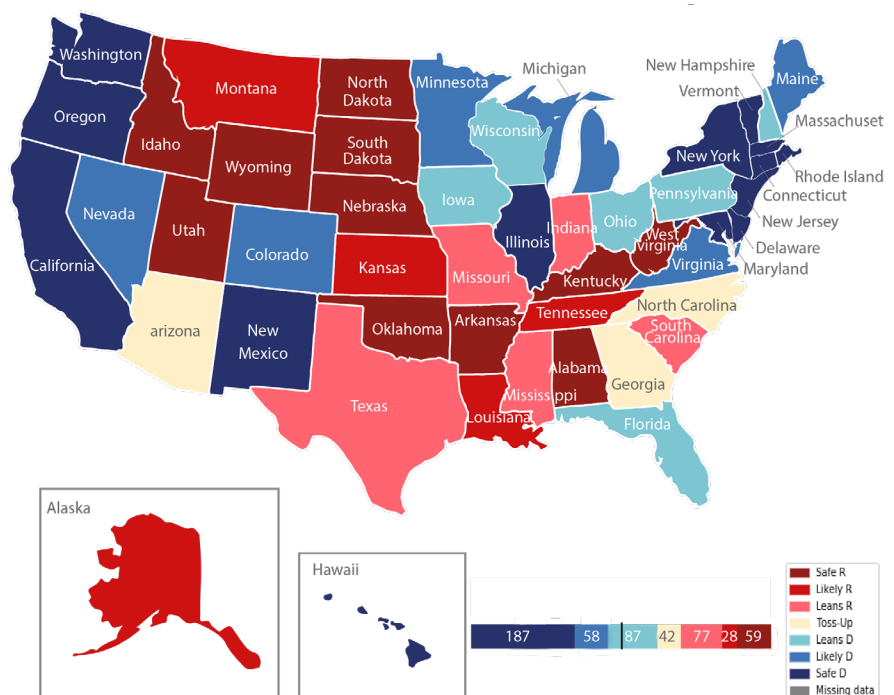
Even though QuantCube Technology has been involved in social media analytics for more than 6 years, including the prediction of Trump election 4 years ago by anticipating the reversal point one week before the election. QuantCube’s team strives its best to have the most accurate model, especially by leveraging of **new available datasets** such as **high frequency macro data**.

As James Carville, a Bill Clinton’s 1992 political campaign strategist said, ‘it’s the economy, stupid’, implying that it is necessary to have a strong economy when a candidate wants to be reelected for a second term. This has been confirmed by our analytics demonstrating that **GDP and private consumption** were the economic variables explaining most of the variance of the vote based on Principal Component Analysis. As a consequence, taking into account the economic evolution in real time is necessary to **capture “rational” variables** explaining the votes. However, economic data is necessary but not sufficient.

The addition of those high frequency macro data is very complementary to our experience in **social media analytics**. Indeed, social media analytics capture the **“emotional” aspect** of the vote by analyzing the reactions to important campaign events.

Afterwards, those two models have been mixed. As Election Day gets closer, we expect candidates to have a higher impact on emotions and economic issues will have a smaller importance. Therefore, the mix-model will have a **dynamic weight** taking into account the date of the Election, with a higher weight for the social media model than high-frequency macro data model.

Based on our proprietary model, we predict a Joe Biden’s victory at the national vote having 54,4 % of the votes vs. 45.6% for Trump. However, as the 2016 Presidential Election taught us, the candidate who gets the most votes at the national level is not necessarily the one who wins the election (Hillary Clinton got 48,1 % of the national vote, 2 points ahead of Trump but she lost three key states - Wisconsin, Michigan and Pennsylvania).



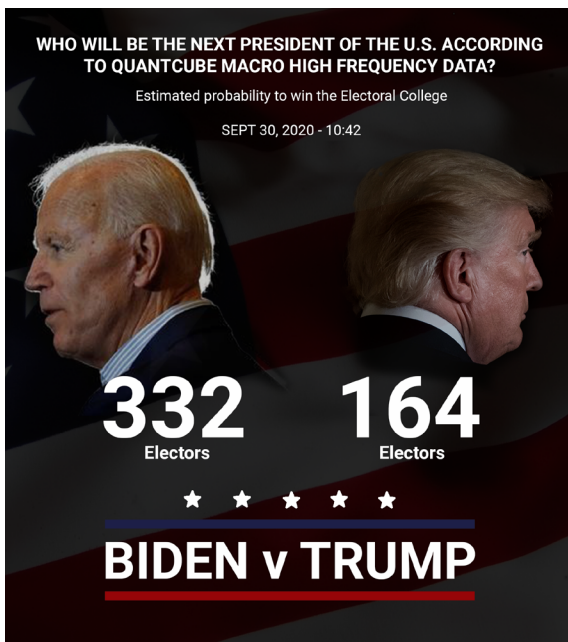
US ELECTIONS PREDICTIONS

As of today, we predict that the democratic candidate **Joe Biden would win the election with 332 electors while Trump would get 164**. Three States - Arizona, North Carolina and Georgia - representing **42 electoral votes are undecided**.

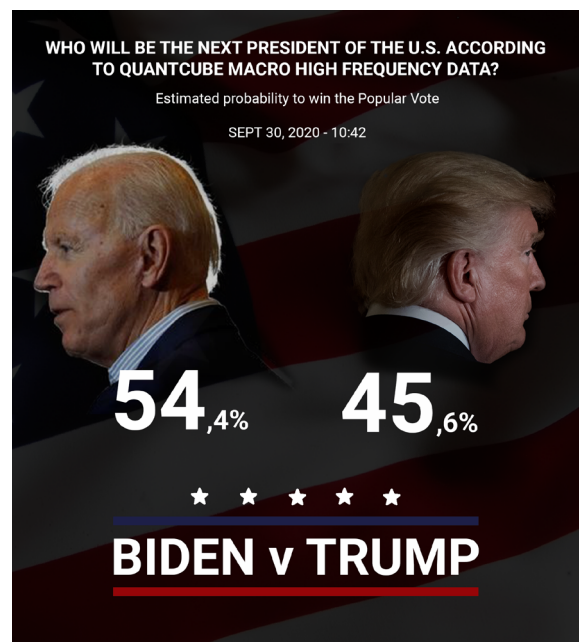
Compared to Clinton in 2016, Biden’s win comes from the fact that **Biden manages to carry the Rust Belt states** (Wisconsin, Michigan, Pennsylvania) and even threatens some republican strongholds like Georgia or Arizona, states that voted for a democratic candidate once in the last 68 years. As a consequence, we expect Biden to have the support of democratic states that made Trump’s 2016 victory as well as to threaten some States where the democratic candidate usually has very few chances to win.

Compared to many institutes, **it is worth noting that we estimate that Joe Biden carries some significant probability to win uncertain states like Iowa, Ohio and Florida**. This is mainly due to Trump’s Covid19 handling in addition to the economic crisis within those states.

By analyzing the content of the information, we notice that Biden benefits from Trump’s coronavirus handling, events mobilizing the democratic electorate in key states like Ruth Bader Ginsburg’s death and her replacement, Trump’s tax controversy or racial movements across the country. In addition, those events combined with the recurrent controversies triggered by Trump such as the refusal to agree on a peaceful transition or the mail-il fraud allegation keep reinforcing Biden’s vote intentions.



Estimated probability to win the Electoral College



Estimated probability to win the Popular Vote

There are still two upcoming presidential debates to come besides unexpected releases or news that could have major impact on the emotional component of the predictions. Because of those reasons, the result of the Elections Day could change over time.

INTERNATIONAL TRADE: AND THE WINNER IS ...

International trade has been widely affected by the Covid-19 crisis through the disruptions of supply chains and the drop in global demand. However, there is evidence of heterogeneity in the pace of the recovery, especially when comparing China and the US. China was the first impacted economy at the very beginning of 2020 but now **China seems to have fully recovered as regards international trade** and stands at its 2019 level.

QuantCube Technology real-time index is showing that the YoY growth of Chinese international trade went positive (+0.5%) at the end of September.

At the same time, the **US international trade is still lagging behind**, its current level being 12% below the one from one year ago. The trade war initiated by the U.S. in 2018 in order to reduce its trade deficit with China seems in fine to be more beneficial to China during this Covid period.

Actually, it looks like China went back to its **“old-style” growth model** relying more on international trade rather than domestic demand, in order to strongly support GDP growth in the near term. The question is to know whether this is really the end of the rebalancing in the engines of Chinese growth or if this new regime of growth will be only short-lasting.

Enclosed below is a focus on international trade in China and in the US, with a focus on the most important ports in each country showing different YoY growth.



QuantCube International Trade Index - Los Angeles, USA



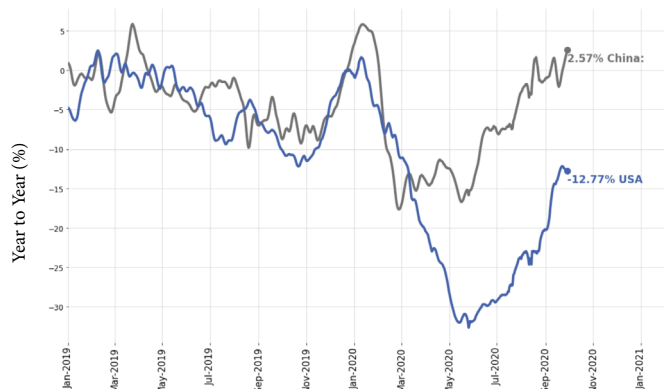
QuantCube International Trade Index - Houston, USA



QuantCube International Trade Index - Ningbo-Zhoushan, China



QuantCube International Trade Index - Shenzhen, China



QuantCube International Trade Index - China vs USA

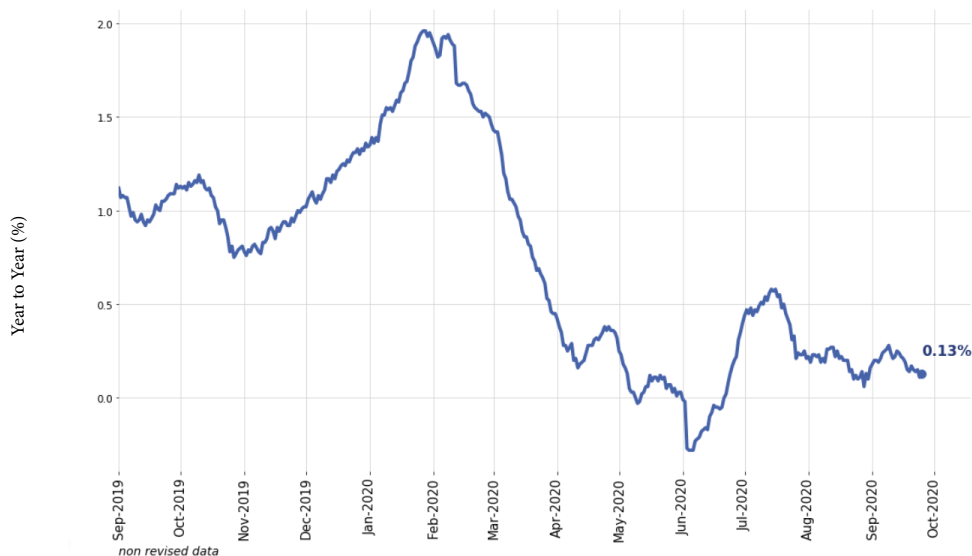
FRENCH INFLATION

Latest official data points out that French inflation is going down, reaching 0.2% in August 2020 after 0.8% in July: this figure was already predicted by QuantCube and mentioned at some recent macro conferences!

This drop is fuelled by a slowdown in food prices and a drop in manufactured goods prices. This downward movement started in February 2020, mainly reflecting global downward pressures on prices due to a compression of demand in the aftermath of the Covid recession. Household incomes have been largely protected by governmental measures to support the economy, but the underlying uncertainty related to health issues led to a large increase in precautionary savings and lower overall consumption. With Covid-19 extending in France, we have already noticed a reversal in the daily consumption index data hitting -1.6% on Sep 29, 2020.

QuantCube French Inflation Index highlights this decline since February and estimates the current inflation at September 29, 2020, close to 0.1%. Interestingly, this inflation index has shown a period of negative inflation during June 2020, then a bounce-back until mid-July and since then the inflation is progressively slowing down. This evolution is worrying and raises the issue of **deflation risks** by the end of the year against a background of low demand, both domestic and external, and an appreciation of the euro with respect to the U.S. dollar by about 10% since the end of March.

QuantCube CPI Inflation Index - France



Company Background

Founded in 2013, QuantCube Technology is a fintech startup specialized in Alternative Data Analytics for Economic Intelligence. QuantCube Technology aims to provide to financial institutions actionable global macro smart data through its economic intelligence platform. Our focus is especially on real-time predictive analytics, commonly called Macroeconomic Nowcast.

QuantCube has built up one of the largest datalake in the financial industry. Relying on the most advanced AI techniques and high performing computing machines, we are able to estimate in real time major macroeconomic variables such as economic growth, employment market, inflation, international trade or consumer expenses with very high correlation with official numbers.

Our team has proven expertise on AI analytics such as multilingual Natural Language Processing to analyze different economic and financial texts, Deep Learning for Satellite data analytics or machine learning techniques on structured data such as maritime traffic, meteorological data, and other numerous data sources.

QuantCube is also involved in advanced scientific publications with governmental agencies, academic institutions and major leading corporates in different sectors of the economy.

QuantCube Technology is backed by two major institutional investors : Moody's Investor Services and Five Capital -a joint venture between CDC International (Caisse des Dépôts) and Kingdom Holdings.

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