

January 30, 2020

Coronavirus, the US Election and the Markets

While the coronavirus will probably dominate the markets over the near term, it is not completely unrelated to the coming US election. First of all, a major component of President Trump's reelection platform is a strong US economy with expanding job opportunities, and a serious undermine of the global economy because of the virus in China would probably reduce odds of reelection. If there is a major slowdown in the Chinese economy, it could exempt China from its commitments to purchase US agricultural products, which

could result in voters thinking the Phase 1 trade deal was not a policy "win." The markets might also assume that a significant lead in the polls by a Democratic candidate, particularly a moderate one, might mean the US will step back from tariffs and accept the status quo.

In looking further forward, we make some general assumptions that we hope will be perceived as politically unbiased and widely-held views of the markets.



As can be seen from the tables on page 2, here are a lot of events that could boost volatility as the election approaches. However, that volatility could peak if/when a candidate develops a significant lead. Therefore, traders should refer to the timing dates and the delegate counts from each primary and watch the running totals for the Democrats into their convention. Vice President Biden's lead in many national polls reduces the chances that a progressive candidate (Senators Warren or Sanders) will receive the nomination. Mayor

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Bloomberg and Tom Steyer will have little impact in Iowa or New Hampshire, but they may gain more traction with voters by Super Tuesday.

There is a chance that no candidate will receive enough delegates for a first-ballot nomination. If that happens, it would result in a brokered convention that could lead to a wild card candidate receiving the nomination.

While the Democratic nominee will be a key element, an outside, surprise event could be the Supreme Court's decision on one or both lawsuits challenging the constitutionality of the Electoral College going against the popular vote. That decision could come in around June 30.

In the meantime, the polarization of policy initiatives may be most significant in modern history, with the question of the debt, capitalism, the size of the US government, immigration, trade battles with India, Europe and the UK, taxation levels, regulation, climate, and US involvement in Iraq and Iran all potentially impacted by on the outcome of the election.

Ahead, it will be difficult to envision the impact on grain and livestock markets with the mix of the election, the China Phase 1 trade deal and the coronavirus. China has agreed to spend \$40 billion on US agricultural products this year, but if President Trump falls behind in the polls, they may not feel the need to reach this target. The agreement is very flexible on the timing of the purchases so with the virus issues, China could take their time before booking needs. The slow buying pace is bearish.

In 2017, China purchased nearly \$24 billion of US agricultural products, so reaching the \$40 billion level will be very difficult.

ELECTION VOLATILITY

Timing Dates	Factors
Feb 3 Iowa Caucus	Dem Debate - Who Can Win, Foreign Policy, Impeachment
Feb 11 New Hampshire	Most Important Issues Polls
Mar 3 Super Tuesday - 14 States including CA	Immigration, Health, Jobs, Security, Climate, Deficit, Guns
Mar 17 FL, AZ, OH, IL	Polls Biden beats Trump
Apr 7 WI	Polls Trump Loses except USA Today
Apr 28 PA, NY	Post Convention Flip Dems
June 30 Supreme Court	Major or Minor
July 13-16 Dem Convention	Trump More Aggressive or Less?
Aug 24-27 GOP Convention	Biden Ramps-up, Trump Tones Down
Sept 29 Pres Debate SB	Outcomes: Sweep, Same, Reversal
Oct 7 VP Debate	Clinton 232, Trump 306
Oct 15 Debate Ann Arbor	
Oct 22 Debate Nashville	

TAKE ACTION IN 2020

Forget Price versus History. Forget What You Want
Take What You Can Get or Manufacture
Rally from Cheap Levels More Likely Than From Normal/High
Horse Race on any Weather/Other Rally - Sell Cash
Expanded 2020 Put Selling
Ag Calls Cheap - Protect that Outlay with Short Futures
Drones, Genetics, Equipment, Computers, Taxes - Better Hedges
Real Shift Away from Coal
Treasury Normalization
Old Dog in the Old World or Wolf in the New World?

Traders have been very skeptical that they will reach this goal.

The record value of US farm goods sold to China was \$29 billion in 2013. There have been estimates by consultancy groups indicating that China might be able to reach the goal by importing 45 million tonnes of US soybeans this year. This would beat the previous record of 33.6 million from 2016.

As part of the Phase 1 deal, purchases will be made at market prices. Market conditions may dictate the timing of purchases within any given year. Again, this leaves China with plenty of flexibility. With

the coronavirus uncertainties, a South American harvest coming, and short-term pork shortages, China may wait well into this marketing year before booking grain.

Potential Developments

- Senate votes to remove Trump (unlikely).
- Senate votes not to remove (likely).
- No vote to remove, but significant public disdain for both parties.
- Failure of the Iraqi government.
- Kim Jong Un goes rogue to regain world attention.
- Extensive military operations against Iran.
- China experiences a recession.
- Last minute presidential entries from either Secretary Clinton or Senator Romney.
- A Biden revelation that dooms his election effort.
- A shift away from the extreme left by the Democrats after a nominee is determined.
- A Biden nomination followed by a series of major gaffes.
- Excessive and unpopular Trump military action.
- Aggressive Trump tax and spend efforts.
- A surprisingly resilient US jobs market.
- Euro zone becomes new front in trade wars.
- Aggressive personal attacks by Democratic primary candidates against each other come back to haunt them in the election.

Items to Note as of January 30

- Depending on the polls, Biden is generally leading, with Sanders in second or in the lead.
- Warren has lost significant ground, which may indicate a shift back toward the center by all Democrats.
- The impeachment trial has not run its course as fast as expected by the GOP, but it could be done by January 31st.
- The last Democrat debate focused on “beating Trump” instead of primary voter issues.
- Poll-designated voter issues, in no particular order: healthcare, jobs, national security, climate change, distribution of income, race relations, education, gun policy and LGBT rights.
- Is the top issue for Democratic voters is electability, that is finding candidate that has the best chance to beat Trump?

Markets That Could Be Impacted Ranked in Order Sensitivity

- Equities
- Treasuries
- US Dollar
- Currencies
- Gold
- Soybeans
- Corn
- Livestock
- Coal, Natural Gas and Petroleum

Suggested Trading Strategies

- 1) Expensive: **BUY** a June E-mini S&P futures, then **BUY** 2 June E-Mini S&P 3100 puts. On an extension of the bull market, look to take profits in the futures as a way to finance a portion of the long puts in an attempt to hold the puts until expiration. The combination should not be held intact after May 15th.
- 2) **BUY** a June Bond 159-00 put by itself or as a hedge of trade #1.
- 3) Aggressive, knowledgeable, well capitalized traders could look to **SELL** strangles on volatility flare-ups.
- 4) **BUY** a June E-mini S&P out of the money put if you think Warren or Sanders will be the nominee.
- 5) If it looks like Trump will win, China will need to make a run at buying \$40 billion in US agricultural products. Consider **BUYING** out of money calls in hogs, soybeans and corn, as current expectations for demand are well short of the level needed to reach the goal.

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