

### THE GRASS IS GREENER



*“You know, the only reason you refuse to fight a duel with me, is because you think it’s too unconventional. Well, it’s not you know. It’s been accepted in every other century since David and Goliath. Yes, but in the twentieth century, it’s not only unconventional, it’s unheard of. Nonsense, it goes on all the time. What’s the*

of preferences. If not enough, the liberals of the Fdp (5%) may join too. Surely the Csu’s 37,3% is higher than some pre-vote projections but it is far off from the threshold of catastrophe that some sources of the Csu estimated at a 32%.

The grass is always greener on the other side, and Germany is on the other side. We too have a yellow-green government, where green stands for League. Nothing political. But Europe sees in the League a populist right party unconcerned with the budget’s rules while it considers Germany’s voting as an unexpected solution to solve the problem of the far right parties’ growth. Let’s not forget that behind all this there is a significant strength of the Csu. Now the equilibrium, even in Germany, seems more and more unstable, or rather, the Country is looking for new balancing solutions. But Merkel’s debacle has been avoided.

*Cold War but a duel. The two-party political system. Competitive enterprise, rival firms, human relationships, the Davis Cup, they’re all forms of dueling. Even fishing.*

Elections, like the markets, are often like a duel. Sometimes subtle and hidden, sometimes out in the open. Victor, in the movie, challenges his rival to a duel to win back his wife and deliberately gets wounded to regain her affection.

*From the movie: “The grass is greener” by Stanley Donen.*

Italy is challenging Europe to a duel. The aim seems to appear too big to fail, without dragging along the euros’ defeat. But markets aren’t like wives, they don’t like sentimentalism. Italy’s wound is spreading together with the spread, but up to 300 it is not considered hemorrhage yet. After, it is very dangerous.

During the weekend, 9,5 million Bavarians have been called to the election, Germany’s richest Landtag. The voters’ turn-out is almost 10 points higher than the last election’s, hitting the 72,4%.

The Christian Social Union (the Csu, Angela Merkel’s Csu twin and allied party) has reported its worse result since 1957, and for the second time since then isn’t going to have the absolute majority to govern Bavaria: it dropped from 2013’s 37% to Sunday’s 37%. It still is the main party but it is going to have to rule with a coalition that will almost surely prove to be problematic. A huge fall also for the Social Democratic party, the Spd: from 20,6% to 9,5%. The green Die Grünen, on the contrary, experienced a great surge, hitting almost the 18% (only five years ago they were at the 8,6%), whilst the Afd (Alternative for Germany), the far right party, starts off at a 10,7%. The most likely scenario is a “Bavarian” coalition between Csu and Freie Wähler, a party very strong at a local scale, that obtained the 11,6%

All this is happening in a context where another duel is being fought at a global scale: the USA against China, in a hot time like the United States midterm elections China participates at the duel without ever raising its voice but whispering to the market. A USA’s commission is assessing if it had been fiddling with the exchange rate in order to send the yuan up to 7.

Message received. To give an example, there are some Countries, like Ireland, that possess 300 billions worth Treasuries and the experts think that it is a Chinese trick to influence the markets without making it too obvious. But the message,

to those that are on the inside, is intentionally clear.

The United States Secretary of the Treasury stated that: “if China decides to sell its Treasuries, it is not something I am at all losing any sleep about. It’s a over a thousand billion dollars portfolio, it will be very costly for them”. It’s a duel on thin ice. The United States pain threshold has been touched. The 3,25% USA’s bond yield made Wall Street crash down of a 10%. The duel is now subtle. Trump seems to be willing to meet Xi Jinping at the next G20 in Argentina and to resume the dialogue. Meanwhile, the markets are worried about the yield’s increase. Also, the USA’s macro data aren’t shining as they used to. In September retailing went up for the ninth month in a row, but at a much slower pace than expected. This data, notified by the United States Department of Commerce, has been

rising of a 0,1% on a monthly basis, reaching 509 billion dollars. Analysts had foreseen a +0,7%. On a yearly basis, the growth reached the 4,7%. These are the reasons we have been expecting for a while now, to begin a correction after months of strong increases.

The grass is always greener but what is great about markets is that they don’t have any boundaries, giving you the chance to invest in every meadow you want, also next door’s. You don’t need a duel to win. You only need the conviction that not all meadows are the same and that even if today the market seems to fervently desire a correction, there always will be greener areas.



FOLLOW US ON AQA-CAPITAL.COM



[www.aqa-capital.com](http://www.aqa-capital.com)

#### Disclaimer

This commentary is issued by AQA Capital Limited (“AQA”). AQA is licensed by the Malta Financial Services Authority (“MFSA”) and qualifies as a UCITS Management Company and an AIFM in terms of the Investment Services Act (the “ISA”). AQA may also provide additional investment services. AQA is subject to the laws of Malta. For further information, on the services which AQA is authorised to offer, kindly view the MFSA website on [www.mfsa.com.mt](http://www.mfsa.com.mt). Any information, views and opinions published in this commentary is supplied solely for educational and information purposes and should not be considered as an offer, solicitation or recommendation for the purchase or sale of, or effect any financial transaction. The information contained in this commentary does not constitute investment advice, and should not be relied upon to make any investment decision. Furthermore, information contained in this commentary should not be considered as a consultation of any nature, including, consultation about legal or fiscal matters. AQA Capital Ltd. has not verified and consequently neither warrants the accuracy nor the veracity of any information, views or opinions appearing on this website. AQA has no liability to any person for any errors or omissions. The information contained in this newsletter is not to be relied upon by any person. No representation or warranty, whether express or implied, is made, and no liability whatsoever is accepted in relation thereto. Any information contained in the commentary may not be reproduced (either in whole or in part), reworded or copied without prior written consent of AQA.

#### Headquarters

6, Market Street, Floriana  
FRN1082 Malta  
Tel. +356 23479800

#### Italian branch

Via Cavallotti 8  
20122 Milano  
Tel. +39 02 36574500

[www.aqa-capital.com](http://www.aqa-capital.com)

[info@aqa-capital.com](mailto:info@aqa-capital.com)