Strategy

JefMacro Weekly—Raising GDP to 5.2%, The Institutionalisation of Bitcoin

December 20, 2020

Key Takeaway

With another stimulus package on horizon, Aneta raises her '21 GDP forecast to 5.2%, fastest since '84. Zervos has more conviction on longer-term dis-inflationary pressure, translating into raising long-term real rate of return on capital. GREED & fear thinks Bitcoin is NOW investable for institutional investors, has added a position in his portfolios. Brad highlights $ short position is at EXTREME, however potential for currency wars in '21 looms larger.

David Zervos—I have more conviction on my longer-run dis-inflationary views. It also raises my projections for longer-run real rates of return on capital. The lower inflation risks mean that the Fed can keep risk-free real rates at the front end extremely low for an even longer amount of time, but the real-rate term structure should steepen out sharply with the higher expected productivity growth coming down the pike.

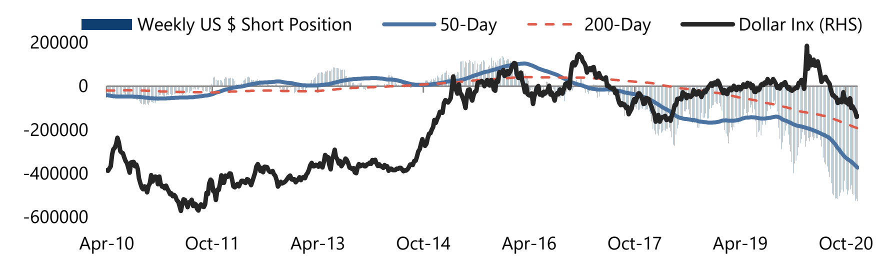
GREED & fear—Bitcoin has become investable for institutions and with prominent investors and institutional investors declaring that they have bought it. Bitcoin has now become part of the system with opportunities for retail investors to buy into via quoted vehicles. Gold bugs have to face up to the real risk that risk averse capital, which would have otherwise gone to gold to hedge the ongoing currency debasement in G7 will now go to Bitcoin. This DOES NOT mean that GREED & fear is going to give up on gold.

Aneta Markowska—We expect inflation to surprise to the downside next year even as growth surprises on the upside. Without "substantial progress" on the inflation front, the Fed will maintain QE at the current pace through '21, with tapering unlikely until '22.

Sherif Hamid—As we've highlighted in recent weeks, the convexity in low quality credit is historically poor, with the duration to worst of the CCC and lower universe in the low 2-year range vs a duration to maturity close to 4 years. We continue to believe that at the current market level, investors are reaching for the last pennies at this point.

Brad Bechtel—USD sentiment is extremely bearish at the moment with the USD short position into '21 the MOST consensus I have ever seen. However, the real surprise this week came through the US naming the Swiss and Vietnamese as currency manipulators. This boils down to yet another cycle of this currency war concept, games that have been going on since the GFC. This could be a reason why Bitcoin has exploded higher.

The boat is tilted to one side, as we see a record level of dollar bears



Source: Bloomberg; CFTC Commitment of Traders; Jefferies

The JefMacro Weekly is an accumulation of this week's best Macro research.

Happy holidays from the Jefferies Macro Team; we will be back in 2021.

Aneta raised her '21 GDP forecast to 5.25%

US GDP Forecasts	1Q21	2Q21	3Q21	4Q21	2021
New	**4.7**	**7.4**	**5.5**	**3.1**	**5.25**
Old	2.5	7.2	5.4	3.1	4.5

Source: Jefferies

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^Prior trading day closing price unless otherwise noted.