PeaQ News
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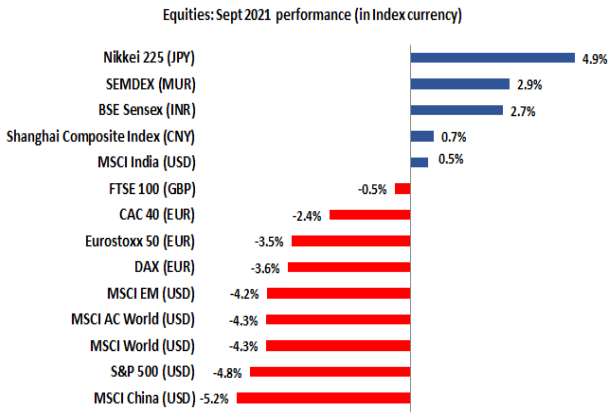
MARKET SUMMARY



- Most global equity markets suffered a setback over the month of September on the back of inflation worries, supply constraints and hawkish stance of central banks.
- The ECB left its main interest rates unchanged but will slow down the pace of net asset purchases under its pandemic emergency purchase program due to improved economic and financial conditions. The BoE maintained its main interest rate unchanged but said the case for higher interest rates "appeared to have strengthened" due to inflation. The US Fed will be focusing on their taper timetable as more Fed officials expect an increase in interest rates next year.
- The US averted a default by a last-minute legislation to suspend the US debt ceiling and for a short-term funding to avoid a partial federal shutdown and keep the government funded until December 3, 2021.
- On the political front, Germany's elections resulted in a fractured vote requiring a coalition after Chancellor Merkel's 16-year reign at the helm. In Japan, Fumio Kishida became the leader of the ruling party LDP and this gives him a nearly certain path to succeed Yoshihide Suga as Japan's prime minister as the LDP-led coalition has a majority in Parliament.
- China stayed in the limelight as it continued its regulatory crackdown and announced a blanket prohibition on all cryptocurrency transactions and mining. Driven by rising demand for electricity, rising coal and gas prices and strict targets to cut emissions, China is putting pressure on many companies which missed energy consumption targets. There is major uncertainty as to whether Evergrande, one of the largest and most heavily indebted property developers in China, will default or be bailed out by the government, and whether this will have any contagion effect.
- The local Mauritian equity markets were buoyed by encouraging corporate financial reports, dividend pay-out of major companies and the imminent full re-opening of borders; this pushed prices higher and the SEMDEX passed the 2,000 level.

LIBOR TRANSITION

LIBOR History

- The London Interbank Offered Rate (LIBOR) is the reference rate at which major banks can borrow short-term funds from one another on an unsecured basis in the interbank market.
- Its origin goes back to 1969 when Greek banker Minos Zombanakis arranged an $80 m floating rate syndicated loan for the Shah of Iran. Mr Zombanakis was working at Manufacturers Hanover Trust Company (now part of JP Morgan Chase). However, it was in the 1980's that LIBOR started to gain traction with the increasing use of interest-based instruments such as interest rate swaps and forward rate agreements.
- In 1986, the British Banker's Association (BBA) officially launched the LIBOR as the benchmark rate with 3 official currencies at the start (USD, JPY, GBP).
- On January 31, 2014, the responsibility for administering LIBOR was handed over to the Intercontinental Exchange Benchmark Administration.
- Today, LIBOR is determined daily for 5 currencies (USD, GBP, EUR, CHF, and JPY) with 7 different maturities for each currency (Overnight, 1 week, 1 Month, 2 Months, 3 Months, 6 Months, and 12 Months) resulting in the publication of 35 individual rates.

LIBOR Scandal

- An international investigation carried out in 2012 revealed that several global financial institutions colluded to manipulate LIBOR rate for financial gain, especially during the financial crisis.
- Between 2012 and 2015, multiple banks and brokers including Barclays, UBS, RBS, ICAP, Rabobank, Martin Brokers, Lloyds and Bank of Scotland and Deutsche Bank were fined over £757m by the Financial Conduct Authority (FCA) for their roles in manipulating LIBOR and EURIBOR.
- The LIBOR scandal triggered calls for the reform of the LIBOR setting system.

LIBOR Cessation

- The FCA officially announced on March 5, 2021, the future cessation or loss of representativeness of the 35 LIBOR rates with the following timeline:

LIBOR	TENORS	RESULTS
CHF	All	Permanent cessation after Dec 31 2021.
EUR	All	Permanent cessation after Dec 31 2021.
JPY	Overnight, 1w, 2m, 12m	Permanent cessation after Dec 31 2021.
JPY	1m, 3m, 6m	Loss of representativeness after Dec 31 2021. From Jan 1 2022 to Dec 31 2022, LIBOR settings to be published on a synthetic unrepresentative basis. After Dec 31 2022, publication will cease.
GBP	Overnight, 1w, 2m, 12m	Permanent cessation after Dec 31 2021
GBP	1m, 3m, 6m	Loss of representativeness after Dec 31 2021. **Potential LIBOR publication after Dec 31 2021 on a synthetic, unrepresentative basis.*
USD	1w, 2m	Permanent cessation after Dec 31 2021.
USD	Overnight, 12m	Permanent cessation after June 30 2023.
USD	1m, 3m, 6m	Loss of representativeness after June 30 2023. **Potential LIBOR publication beyond June 30 2023 on a synthetic, unrepresentative basis.*
**Publication of synthetic LIBOR is contingent on subsequent FCA consultation*		

- Due to 'tough legacy' contracts, both within and outside the UK, that contain no fallbacks or inappropriate fallbacks that would be difficult to amend by the time the relevant LIBOR panels cease, the FCA has proposed a synthetic rate to support an orderly wind-down.

The Way Forward

- To ensure a smooth transition from LIBOR, policy makers and market participants are encouraging financial institutions to converge on alternative reference rates.

Jurisdiction	Alternative Reference Rate	Introduction Year	Administrator	Overview
US	Secured Overnight Financing Rate (SOFR)	2017	Federal Reserve Bank of New York	Broad measure of the cost of borrowing cash overnight collateralized by Treasury securities.
UK	Sterling Overnight Index Average (SONIA)	1997	Bank of England	Average of the interest rates paid by banks to borrow sterling overnight from other financial institutions and other institutional investor.
Switzerland	Swiss Average Rate Overnight (SARON)	2009	SIX Exchange	Overnight interest rate of the secured money market for Swiss franc.
Japan	Tokyo Overnight Average Rate (TONAR)	2016	Bank of Japan	Transaction-based benchmark for the uncollateralized overnight call rate.
Euro Area	Euro Short Term Rate (€STR)	2019	European Central Bank	Wholesale euro unsecured overnight borrowing costs of banks in the euro area.

INVESTMENT THEME:

THE FUTURE IS ELECTRIC

Trends in the electric vehicle (EV) segment

- The total global number of electric passenger cars (BEVs - battery electric vehicles), PHEVs (plug-in hybrid electric vehicles), FCEVs (fuel cell electric vehicles)) on the road increased from approximately 17K in 2010 to 10.2m as at the end of 2020, representing a CAGR of 89.2%.
- According to the International Energy Agency (IEA), under the Sustainable Development Scenario (SDS) which is fully aligned with the Paris Agreement, the global number of EV cars on our roads is expected to increase from 10.2m in 2020 to 204.2m in 2030 (representing an increase from 0.9% to 12.8% of the road vehicle fleet).

Several factors are expected to boost the sales of EVs:

1. Regulations, policies, and campaigns

- The European Commission (EC) aims to reach net-zero greenhouse gas emissions by 2050 - Internal Combustion Engine (ICE) phase out timeline depicts the targeted dates by governments for phasing out completely ICE passenger cars.

2. Purchase subsidies

- Governments are offering incentives such as subsidy programmes for the purchase of EVs although these subsidies will phase out over the coming years.
- In April 2020, China announced the extension of its national subsidy program for new energy vehicles i.e., BEVs, PHEVs, FCEVs for 2 years from end of 2020 to end of 2022.

3. Improvement in battery density and cost

- BloombergNEF's annual battery price latest survey revealed that Lithium-ion battery pack prices, which were above $1,100 per kilowatt-hour in 2010 decreased drastically to $137/kWh in 2020. It is estimated that in 2023, average prices will hover around $100/kWh - the indicative threshold level at which automakers would be able to manufacture and sell EVs at the same price and with similar margin as ICE vehicles in some markets.

4. Charging infrastructure

- Under the SDS, the IEA forecasts EV charging outlets available for public use worldwide will increase from 1.3m in 2020 to about 25.4m in 2030 - it is projected that China, Europe, and US would then have approximately 10.8m, 7.3m and 1.7m public recharging stations respectively.

5. Commitments from automakers

- Several major automakers have disclosed their electrification plans.

Automaker	Target
Toyota	Toyota's goals is to sell annually more than 5.5m electrified vehicles globally by 2030, including annual sales of more than 1m zero emission vehicles (BEVs and FCEVs).
VW	VW is planning that at least 70% of all its unit sales in Europe will be all-electric vehicles by 2030 (i.e. more than 1m vehicles) and shares of electric vehicle sales in China and North America will be at least 50% in 2030.
Honda	Honda has set key targets to boost the sales of BEVs and FCEVs within its overall unit sales in major markets such as North America and China to 40% by 2030, to 80% by 2035, and then to 100% by 2040. In Japan, EV/FCV unit sales ratio targeted will be 20% by 2030, 80% by 2035 and 100% by 2040
BMW	BMW aims to deliver 10m BEVs on the road within the next 10 years. By 2030, sales of BEVs will account for 50% of its global sales.
General Motors	By mid-decade, GM intends to sell 1m EVs per year in its 2 largest markets – North America and China. The company has set 2035 as a target date for phasing out the sale of gasoline and diesel powered vehicles.
Ford	Ford expects 40% of its global sales to be fully electric by 2030.
Tesla	Tesla produced and delivered 500k EVs in 2020 - Company expects to achieve 50% average annual growth in vehicle deliveries over a multi-year horizon.

- Although we are in the early stages of EV adoption, EVs could represent a $7 trn global market opportunity between 2021 and 2030, and $46 trn between 2021 and 2050.

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Source: Bloomberg, SEMDEX, MSCI, IEA, BloombergNEF, ICCT, SNE Research, Toyota, VW, Honda, GM, Tesla, WSJ, Federal Reserve Bank of New York, Bank of England, SIX, Bank of Japan, PWC, ICE Benchmark Administration, FCA.