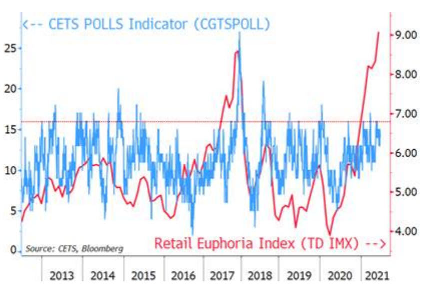
You would have no doubt read plenty of headlines over the past 48 hours with regard to the China price action and the extended reach that imposing on a broad range of industries. I've attached a great summary from my colleague, Mikey Tan, on his thoughts regarding liquidation and potential walk back by the government given some undesirable side effects that may transpire, but in the meantime there was something that caught my attention after the close yesterday that may yet get ensnared in the local politics.

On TSLA's earnings call last night, they mentioned their Shanghai manufacturing plant*a lot*, thanks to the fact that it now accounts for **all of their foreign exports** until the Austin and Berlin plants come online. In fact, they mentioned Shanghai so much that it got me thinking about how reliant TSLA may have become on China's benevolence in allowing a US car company to operate, manufacture, and sell during a time of strained foreign relations*. As per any other time I've talking about TSLA within the '**Bizarro Chronicles**', I pretend to be no expert on the stock and instead stick to parts of the EV supply chain that are easier to understand (*namely lithium*), but given the obvious reliance on China from both a selling and manufacturing perspective, it was inevitable that the two headlines yesterday could collide… so the below chart may, or may not surprise you:

Before we speculate as to all the variables that go into each of these charts, the correlation going back to 2014 is 85%, and the R-square is 73% so the relationship is somewhat irrefutable over a long period of time. And even if we just look at the year-to-date stats, since we could argue TSLA has become decoupled thanks to SPX inclusion, the correlation is still a healthy 64%. The hard bit is obviously '*why*' given TSLA clearly did not always have a China plant, nor was it selling a large amount of vehicles in the overseas markets. I loathe to dive too deep into spurious connections on the basis of just one chart, and I am not specifically taking a stab at the iconic car company, but the relationship may ultimately stem from both China VIEs and TSLA sharing a large community of retail investors and/or a source of retail structured products.**That reflects the real spillover risk to developed markets from these China moves, in my view**. Margin lending, RSPs, cushioned collars, and anything else that may trigger liquidation events across portfolios is the threat to seemingly unrelated stocks within the US, which is why the above chart to me is so interesting**: TSLA is the talismanic retail stock, so if for whatever reason it is yet to get caught up in these latest Chinese moves then it would represent a larger threat to US equity risk, in my view, especially when retail length to equities has never been this high.**



Any thoughts on this topic are welcome.

Alty

**would it not seem somewhat ironic that China would look to punish their own billionaires, and let a US one operate without egregious constraints at the same time?*

Alexander Altmann

Head of US Equity Trading Strategy

Office +1 212 723 1999

All charts/data sourced from CETS, Bloomberg and Citi, unless otherwise indicated.

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