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Instant Thoughts

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Into the Murky Water

- **No small feat, the Reserve Bank of Australia delivered its first back-to-back easing since European debt crisis of 2012 today.**
- **The RBA watered down their easing bias by adding a tweak - they will adjust policy only “if needed”. We believe the RBA has reached exhaustion and will stay on hold for the months to come.**
- **Commodity bloc currencies are enjoying its time in the sun post G20. But the door to trade war closes opens another one. A shallow easing path in the US and slow-burning tension with the Iran should keep the topside capped. There is nothing compelling about the current AUD rally. Serenity now.**

The Reserve Bank of Australia (RBA) geared up for another dose of monetary propellant. Following the initial rate cut last month, the policy rate in Australia was cut again by 25bp today, to a new record low of 1%. No small feat, the Bank delivered its first back-to-back easing since European debt crisis of 2012.

Charting into uncharted territory, bears might spin this story as evidence that the RBA is mimicking the ECB playbook – they are doing “whatever it takes” to head off trade shock. We’re not yet convinced though. The RBA watered down their easing bias by adding a tweak - they will adjust policy only “if needed”. Judging the urgency of a rate cut is, as ever, more art than science, but the first pickup in Australian house prices since late 2017 and the 3% rise in the minimum wage from 1 July should have sealed the case. We believe the RBA has reached exhaustion and will stay on hold for the months to come.



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Either way, traders took it in stride. Commodity bloc currencies are enjoying its time in the sun post G20. Bear in mind though, the door to trade war closes opens another one. Anything short of a 50bp rate cut in July FOMC meeting seems likely to cause USD to spike. Slow-burning tension with the Iran should keep the topside capped. All in all, there is nothing compelling about the current AUD rally. Serenity now.



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Table 1: Strategy Performance Summary

Date		Key recommendations	Entry level*	Ex post performance (1-month)			
				Low	High	Period-end level	1-month return
4-Jun-19	17:30	We see little value in chasing the AUD higher	0.6980	0.6861	0.7014	0.6982	0.0%
22-May-19	15:50	The pound will test lower levels in the short run	1.2676	1.2563	1.2759	1.2723	-0.4%
8-May-19	14:15	The idea of sell (AUD) in May still looks appealing to us	0.7023	0.6865	0.7023	0.7000	0.3%
2-May-19	11:00	Dollar spike is more than flashes in the pan	97.60	97.04	98.13	97.76	0.2%
29-Apr-19	10:00	The BoC might deliver something for bears to get their teeth into	1.3458	1.3378	1.3505	1.3488	0.2%
9-Apr-19	19:00	It could take weeks for the USD/HKD to revert back to 7.85	7.8423	7.8324	7.8494	7.8483	0.1%
21-Mar-19	10:50	Playing the high-carry USD from the long side	95.88	95.74	97.52	97.39	1.6%
13-Mar-19	10:20	The resolution in sight warrants holding a GBP long position	1.3084	1.3081	1.3381	1.3090	0.0%
8-Mar-19	10:35	EUR/JPY is a cleaner expression of the EUR-bearish view	124.86	123.85	127.45	124.99	-0.1%
19-Feb-19	9:10	Underweighting the dollar and staying nimble	96.83	96.29	97.71	96.48	0.4%
12-Feb-19	9:10	For HKD bear, it is the Trojan horse you want to smuggle in	7.8470	7.8470	7.8500	7.8500	0.0%
31-Jan-19	10:40	The USD will going on struggling	95.26	95.16	97.16	96.06	-0.8%
30-Jan-19	10:10	We have interest in chasing GBP higher	1.3094	1.2779	1.3335	1.3293	1.5%
16-Jan-19	11:20	The GBP remains a buy-in-dip play	1.2845	1.2839	1.3217	1.2905	0.5%
12-Dec-18	10:30	Fate will smile upon the GBP once again next year	1.2513	1.2473	1.2862	1.2844	2.6%
14-Nov-18	11:00	We prefer to sell the EUR into rallies	1.1304	1.1263	1.1437	1.136	-0.5%
14-Nov-18	11:00	We prefer to sell the GBP into rallies	1.3010	1.2485	1.307	1.2627	3.0%
9-Nov-18	10:30	The resurgence of the USD will continue	96.7	96.08	97.7	96.7	0.0%
8-Oct-18	11:20	USD/CNY remains a buy-in-dip play	6.9036	6.8725	6.9769	6.9320	0.4%
3-Oct-18	16:30	A re-test of the lows (for EUR) around 1.1450 is on the radar	1.157	1.1306	1.1617	1.14	1.5%
21-Sep-18	15:00	USD/HKD to hit 7.83 in October	7.8100	7.8033	7.8423	7.8423	0.4%
13-Sep-18	9:50	We prefer to trade GBP on the long side	1.2960	1.2927	1.3294	1.3168	1.6%
30-Aug-18	12:30	A re-test of the 1.30 handle could be on the cards	1.2920	1.2892	1.3224	1.293	0.1%
27-Aug-18	17:00	The fragile political backdrop remains a cause of concern for holding AUD	0.7320	0.7088	0.7362	0.7230	1.2%
23-Aug-18	11:00	The USD will feel bid once again	95.3	93.84	95.71	94.2	-1.2%
15-Aug-18	11:00	JPY won't be our first choice to seek asylum	111.3	109.84	112.14	112	0.6%
*Entry level recorded at the time of publication, if not stated otherwise				Total return		13.4%	
^Citi Parker Global Currency Manager Index				Benchmark return^		-4.1%	
				Hit ratio		76.0%	

Source: Shanghai Commercial Bank



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