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# Instant Thoughts

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## Storm in a Beer Mug

- The painfully high carry and rolls due to IPO-related liquidity squeeze keeps a heavy tone on USD/HKD.
- But punitive carry profile can't be-all and end-all of this story. The spike in overnight HIBOR has itself been revealing. A combination of panic attack and short-covering is the smoking gun beyond the HKD rally.
- Two points are worth flagging here: 1) the danger zone of established stops is now well beyond us; and 2) sentiment is anything but irreversible.
- Our workhorse model estimates the impact of Budweiser's listing on HIBORs is in the same league as that of the prime rate hike last September. Back then, the hemorrhage contained only after USDHKD plunged by 400 pips. We contend that the pair will gravitate toward 7.78s and find its base there this time around.

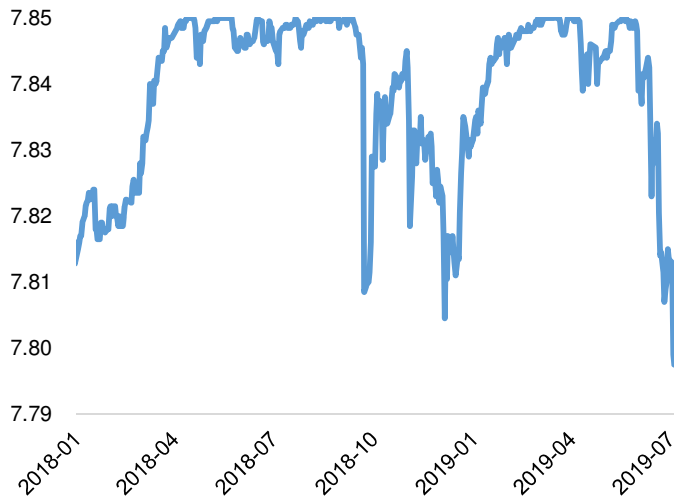
In an otherwise uneventful day, Hong Kong steals the spotlight, quite wryly, by a self-inflicted misery. After Budweiser APAC announced its ambitious fundraising plan, HKD rates has risen to exorbitant levels (Exhibit 1) without breaking a sweat. The painfully high carry and rolls (one-day carry for USD at -3bp) keeps a heavy tone on USD/HKD.



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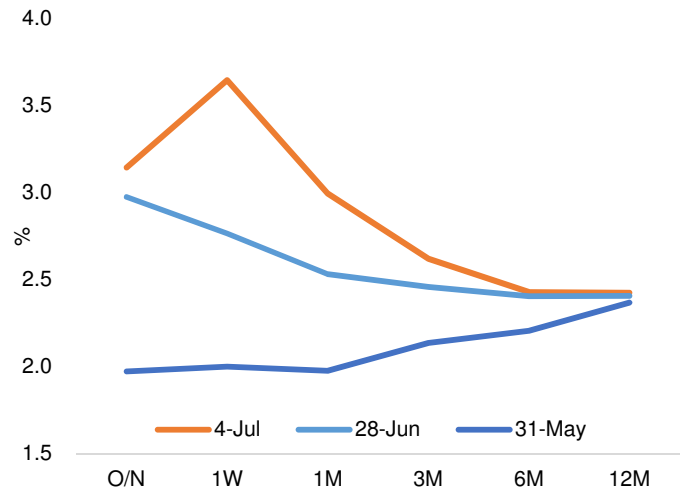
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Exhibit 1: USDKD



Source: CEIC, Shanghai Commercial Bank

Exhibit 2: HIBOR Curve



Source: HKAB, Shanghai Commercial Bank

But punitive carry and roll profile can't be-all and end-all of this story. This is at odd with the fact on ground: Overnight HIBOR surges as well (Exhibit 2). Fancy that: you have secured an overnight loan to finance an IPO debuting next week. You shouldn't throw your fist in the air because it is plain silly. The spike has itself been revealing – a combination of panic selling and short-covering is the smoking gun beyond the HKD rally.

We are not historian and wish not to immerse ourselves in the details of the unquantifiable. Two points are worth flagging here: 1) the minefield of established stops is now well beyond us; and 2) sentiment is anything but irreversible. Said differently, all factors merit attentions, just some more so than the others.

The steady 6-month HIBOR testifies the transient impact of IPO-related tightness. The old cliché 'the darkest hour is nearest dawn' comes to our mind. In time, dust will settle.

Speaking of wisdom, we live in the present. For now, our workhorse model estimates the impact of Budweiser's listing on HIBORs is in the same league as that of the prime rate hike last September. Back then, the hemorrhage contained only after USDKD plunged by 400 pips. If history is any guide, the pair will gravitate toward 7.78s and find its base this time around. Before long, the almost-mundane theme of normalisation will unfold yet again.

**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	0.7048	0.7021	-0.6%
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				<b>Total return</b>		<b>12.8%</b>	
^Citi Parker Global Currency Manager Index				<b>Benchmark return^</b>		<b>-4.1%</b>	
				<b>Hit ratio</b>		<b>76.0%</b>	

Source: Shanghai Commercial Bank

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