

Ryan Lam, CFA

Head of Research

ryan.lam@shacombank.com.hk

+852 2841 5283

Instant Thoughts

26 July 2019

Game, Set and Match to Mr. Draghi

- **A constellation set of easing measures are said to be under scrutiny, “including ways to reinforce its forward guidance on policy rates, mitigating measures, such as the design of a tiered system for reserve remuneration, and options for the size and composition of potential new net asset purchases.”**
- **It seems like a homily, but this is as dovish as possible without actually putting fresh stimulus in place.**
- **The post-meeting statement itself is light on details. But that is the point. Nothing restrains the easing machine.**
- **We hence anticipate a 10bp rate cut with deposit tiering and a resumption of net asset purchases covering corporate bonds and sovereign debt in September.**
- **We are less certain about the prowess of its kitchen-sink policy. The economic disease had already metastasized. We prefer to fade any EUR rallies.**

The ECB meeting is the topic du jour in recent days. To confess, the job for central bank watchers is rather cozy those days – Betting on the dovish side is almost always rewarding.

Before the rate decision hit the headline, market had its healthy dose of skepticism whether Draghi, the outgoing ECB president, can rally the divided Governing Council behind. The cloud is now all lifted.

As if the summer in the Europe isn't hot enough, hawks finally show their ankles in a black-and-white statement: A constellation set of easing measures are said to be under scrutiny, “including ways to reinforce its forward guidance on policy rates, mitigating measures, such as the design of a tiered system for reserve remuneration, and options for the size and composition of potential new net asset purchases.”



上海商業銀行

SHANGHAI COMMERCIAL BANK

It seems like a homily to those who are not used to listening to policy talk. However, this is as dovish as possible without actually putting fresh stimulus in place. The decision to wind down QE programme in December – a decision forced upon Draghi by hawks – was a blunder. Draghi might now wear his stubbornness as a badge of honor and plays the “I-told-your-so” card to silence dissents.

Truth, the post-meeting statement itself is light on details. But that is the point. Nothing restrains the easing machine. Draghi’s intention is to lay the groundwork for another “whatever it takes” moment in September. We hence anticipate a 10bp rate cut with deposit tiering and a resumption of net asset purchases covering corporate bonds and sovereign debt in September.

While the timeline is carved in stone, we are less certain about the prowess of the kitchen-sink policy. It seems like every day brings us a new warning of economic misfortune for the EU. The ECB loses its magic because the cancer had already metastasized. Clearly, we prefer to fade any EUR rallies.



上海商業銀行

SHANGHAI COMMERCIAL BANK

Table 1: Strategy Performance Summary

Date	Key recommendations	Entry level*	Ex post performance (1-month)				
			Low	High	Period-end level	1-month return	
5-Jul-19	10:10	The theme of (HKD) normalisation will unfold yet again	7.7900	7.7883	7.8290	7.8173	0.4%
4-Jun-19	17:30	We see little value in chasing the AUD higher	0.6980	0.6833	0.7048	0.7021	-0.6%
22-May-19	15:50	The pound will test lower levels in the short run	1.2676	1.2512	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			13.2%	
^Citi Parker Global Currency Manager Index			Benchmark return^			-2.9%	
			Hit ratio			76.9%	

Source: Shanghai Commercial Bank

Recent Publications

He Who Laughs, Might Not Last	Jul 24, 2019
Handling Disappointment Right	Jul 18, 2019
Storm in a Beer Mug	Jul 5, 2019
Into the Murky Water	Jul 2, 2019
The Value of Nothing	Jun 28, 2019
Dr. Powell or: How I Learned to Stop Worrying and Love the Rate Cut	Jun 20, 2019
Draghi's Parting Gift	Jun 19, 2019
The Next Shoe to Drop	Jun 12, 2019
Expecting for an One-Two Punch	Jun 4, 2019
Run, Boris, Run!	May 28, 2019
Strike Four and You're Out!	May 22, 2019
A Farewell to Arms	May 17, 2019
You Can Still Sell in May	May 8, 2019
Infinity War	May 6, 2019
Shrug Off Insurance Cuts	May 2, 2019
Hold the Champagne	Apr 29, 2019
Why Diversification Is So Hard to Do	Apr 17, 2019
Peltzman Effect and HKD	Apr 10, 2019
Banging Head against a Brick Wall	Apr 3, 2019
Inverted, But what's Your Point?	Mar 26, 2019
Patience Rules	Mar 21, 2019
A Reflection on Modern Monetary Theory	Mar 18, 2019
Waiting for Godot	Mar 13, 2019
Sleepless in Frankfurt	Mar 8, 2019
Rinse and Repeat	Mar 6, 2019
Deal or No Deal	Feb 22, 2019
Be Water, My Friend	Feb 19, 2019
Tranquility before the Storm	Feb 12, 2019
First Do No Harm	Jan 31, 2019
Impasse Is the New Normal	Jan 30, 2019
The Known Unknown	Jan 23, 2019
May-hem	Jan 16, 2019
The Emperor Has No Clothes	Jan 14, 2019
Code Red	Jan 7, 2019



上海商業銀行

SHANGHAI COMMERCIAL BANK

Disclaimer - Investment Involves Risk

Investment involves risks, investors may be subject to substantial losses. The exchange rates of any currencies or the price and income of any securities, funds, bonds or other financial instruments described herein may fall as well as rise. Past performance should not be taken as an indication of future performance.

RMB is currently not freely convertible, the exchanges of RMB are subject to a daily limit imposed by Chinese and Hong Kong regulatory and supervisory authorities. RMB convertibility from offshore RMB (CNH) to onshore RMB (CNY) is a managed currency process subject to foreign exchange control policies of and restrictions imposed by the Chinese government. There can be no assurance that RMB will not be subject to devaluation at some point.

Any projections and opinions expressed herein are expressed solely as general market commentary and do not constitute investment advice or guaranteed return. Shanghai Commercial Bank Limited and its affiliates may trade for their own account in, may have a position in, all or any of the currencies, securities or investments mentioned in this document. Customers are advised to make an independent review and reach their own decisions regarding the economic benefits and risks of any transaction and the legal, regulatory, credit, tax and financial aspects of such transaction relating to their particular circumstances. Neither the information nor any opinions contained herein constitutes a solicitation or offer by Shanghai Commercial Bank Limited to buy or sell, whether as principal or agent, any currencies exchange, securities, funds, futures, options or other financial instruments or provide any service or investment advice.

Although the information herein contained is obtained or compiled from sources we believe to be reliable, Shanghai Commercial Bank Limited cannot and does not warrant the accuracy, validity, reliability, timeliness or completeness of any such information. Shanghai Commercial Bank Limited expressly disclaims any warranties of fitness for a particular purpose or duties of care and accepts no liability (whether in tort or contract or otherwise) for any loss or damages arising from any use of, or inaccuracies or omissions of the information. All information is provided "as is", and is subject to change without prior notice. The information herein contained may not be reproduced, distributed or published in any medium for any purpose without prior express written consent from Shanghai Commercial Bank Limited. The information herein contained has not been reviewed by the Hong Kong Securities and Futures Commission.



上海商業銀行
SHANGHAI COMMERCIAL BANK