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Instant Thoughts

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If You Can't Beat Them, Join Them

- The Fed announced its first rate cut in over a decade this morning. What comes next is the bigger question.
- Powell's confused demeanor in his presser, instead of the lifeless statement, comes under our radar. He didn't seem convinced by the trade war argument himself, noting that trade policy tensions "have returned to a simmer."
- The motivation beyond today's move is really "a stitch in time saves nine". Simple as that. To borrow Francois Mauriac's poem, Powell loves rate cut so much he's glad there are multiples of it. We still expect another 25bp cut at its September meeting.
- The market didn't buy dollar on back of some newfound value, the market simply got ahead of itself for a 50bp cut in July. With positioning less-stretched, we are skeptical about just how much juice is left in the dollar rally.

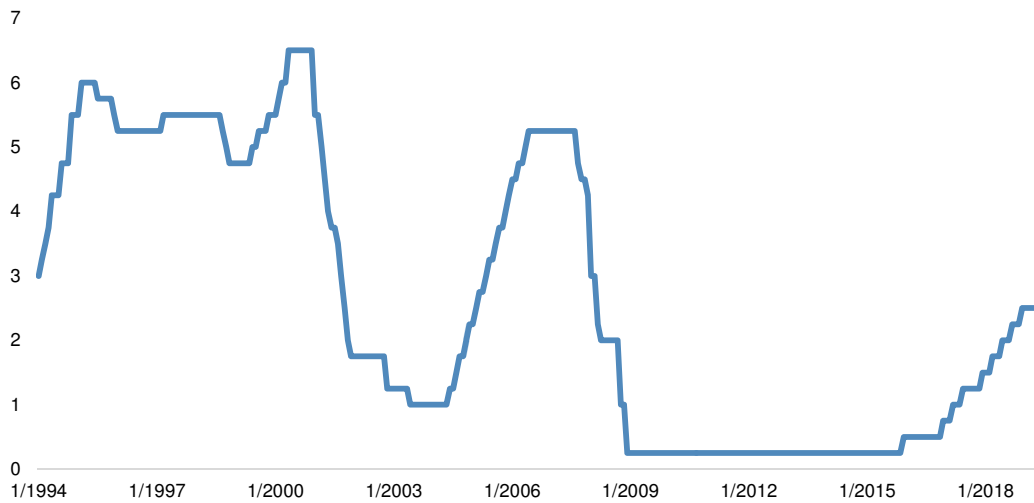
The Fed officials might have announced its first rate cut in over a decade this morning (Exhibit 1), but it was, frankly, more like post-mortem. Its fate was sealed weeks before, however momentous it was. The dovish turns taken collectively by the RBA, RBNZ and ECB, as well as the unflinching market expectation for rate cut, forced the Fed to join the global-easing party.



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Exhibit 1: Fed Funds Target Rate (%)



Source: US Fed, CEIC, Shanghai Commercial Bank

No clear game plan on display

What comes next is the bigger question. Powell's confused demeanor in his presser, instead of the lifeless statement, comes under our radar.

If you didn't do it in June, why should you do it now? Powell defended his decision in a rather ham-fisted way, putting a litany of threats such as muted inflation and trade uncertainty in the firing lines. He took no mental note that the inflation is low for structural reasons that central banks can't rectify. And he didn't seem convinced by the trade war argument himself, noting that trade policy tensions "have returned to a simmer." At one stage the Fed Chair was being asked "so what are you saying?" You can tell his red face was beaded with sweat.

At the end, the motivation beyond today's move is really, in our view, "a stitch in time saves nine". Simple as that. His characterization of today's rate cut as a "mid-cycle adjustment to policy" is the codeword for a repetition of 95- and 98-style insurance cuts. To borrow Francois Mauriac's poem, Powell loves rate cut so much he's glad there are multiples of it. We still expect another 25bp cut at its September meeting.



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So who dares win?

Market are bidding USD en masse. Going dollar long here would be a brave move, but is it a case of who dares wins?

Here's a sober note: the market didn't buy dollar on back of some newfound value – mid-cycle adjustments in 1995 & 1998 were worth 75bp, not drastically different from current market pricing – the market simply got ahead of itself for a 50bp cut in July. With positioning less-stretched, we are skeptical about just how much juice is left in the dollar rally.



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Table 1: Strategy Performance Summary

Date		Key recommendations	Entry level*	Ex post performance (1-month)			1-month return
				Low	High	Period-end level	
24-Jul-19	10:15	Sterling is likely to be an outcast	1.2434	1.2101	1.2520	1.2132	2.5%
5-Jul-19	10:10	The theme of (HKD) normalisation will unfold yet again	7.7900	7.7883	7.8290	7.8275	0.5%
2-Jul-19	17:30	There is nothing compelling about the current AUD rally	0.6990	0.6828	0.7076	0.6851	2.0%
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	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

^Citi Parker Global Currency Manager Index

Total return 17.8%

Benchmark return[^] -2.0%

Hit ratio 78.6%

Source: Shanghai Commercial Bank



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