

## Ryan Lam, CFA

Head of Research

ryan.lam@shacombank.com.hk

+852 2841 5283

# Instant Thoughts

2 August 2019

## War and Peace

- Trump announced last night to levy 10% tariffs on the last USD300 billion tranche of Chinese imports, effective September 1. Third time's a charm, Trump must have murmured.
- We contend that the third round of protectionism is as fruitless as in the past. Burdened by historical baggage, Chinese can't budge under gunboat diplomacy. And Jay Powell is not slow-witted. If the Fed acquiesces to Trump's bullying, Trump will pull down the tariff threat to juice the market for 2020.
- What now? Keep your eyes on the S&P500. If it is any comfort, Trump did not bat an eyelid to give up his previous wagers following bloodlettings in stock market. No mean cheerful though, the S&P500 is now a whisker shy of its record high (~2.4%).
- As Immanuel Kant put it, "out of the crooked timber of humanity, no straight thing was ever made". Buckle up.

Economics is often dismissed as dismal science for its disheartening prediction power. But compared to political scientists, we feel like genius, a sort of.

Against the widely-shared judgment by diplomatic experts that Trump would look for a "win" into 2020, the US President, who has never prized consistency as a virtue, announced last night to levy 10% tariffs on the last USD300 billion tranche of Chinese imports, effective September 1.



上海商業銀行

SHANGHAI COMMERCIAL BANK

What caused such a stir? The Chinese officials, for one thing, came to the negotiating table empty-handed, and worse still, a hardened stance on the coveted agriculture purchases. Fanning the flame, a 25bp Fed cut is not enough to sate Trump's rapacious appetite for currency devaluation.

Third time's a charm, Trump must have murmured. We contend that the third round of protectionism is as fruitless as in the past. Burdened by historical baggage, Chinese can't budge under gunboat diplomacy. And Jay Powell is not slow-witted. If the Fed acquiesces to Trump's bullying, Trump will pull down the tariff threat to juice the market for 2020. We can't be the only one figured out Trump's ultimate game.

So, what now? Keep your eyes on the S&P500. If it is any comfort, Trump did not bat an eyelid to give up his previous wagers following bloodlettings in stock market (Exhibit 1). No mean cheerful though, the S&P500 is now a whisker shy of its record high (~2.4%). And the hurdle to back down should be higher this time, since all low-hanging fruits are already picked and the remaining involves hard-to-resolve national security issues.

#### Exhibit 1: Ebb and Flow of Trade Talk

	S&P's Correction	Duration
1 <sup>st</sup> round (Mar-May18)	-7.8%	2 months
2 <sup>nd</sup> round (Aug-Dec18)	-10.1%	4 months
3 <sup>rd</sup> round (July19-?)	-2.4% (Jul-to-date)	?

Source: Shanghai Commercial Bank

As Immanuel Kant put it, "out of the crooked timber of humanity, no straight thing was ever made". Buckle up.



上海商業銀行  
SHANGHAI COMMERCIAL BANK

**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	1.2112	2.7%
5-Jul-19	10:10	The theme of (HKD) normalisation will unfold yet again	7.7900	7.7883	7.8290	7.8223	0.4%
2-Jul-19	17:30	There is nothing compelling about the current AUD rally	0.6990	0.6828	0.7076	0.6806	2.7%
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** 18.6%

**Benchmark return**<sup>^</sup> -1.2%

**Hit ratio** 78.6%

Source: Shanghai Commercial Bank



上海商業銀行  
SHANGHAI COMMERCIAL BANK

For Personalized Service

## Recent Publications

If You Can't Beat Them, Join Them	Aug 1, 2019
Game, Set, and Match to Mr. Draghi	Jul 26, 2019
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



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



上海商業銀行  
SHANGHAI COMMERCIAL BANK

has not been reviewed by the Hong Kong Securities and Futures Commission.



上海商業銀行  
SHANGHAI COMMERCIAL BANK