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# Instant Thoughts

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## Two Wrongs Don't Make a Right

- **The only thing that can arrest the ruthless slump of the US Treasury yields appears to be fiscal stimulus. Enter Trump and his cronies. The Trump administration has begun to toy with the idea of “Tax Cuts 2.0” since last week.**
- **We won't let our guard down though. Firing the fiscal cannon on capital gain tax reduction is largely misguided. Jump-starting the bond yields requires the US saving less, which would be a tall order because wealthy people who least need the money tend to save more.**
- **If Trump wants to cut tax to ease tariff-inflicted damage, why not just cut the tariffs at the first place? Trump's reticence is easy to surmise. Learning from mistakes and changing lanes are never options for him. Bond traders should know better than to bundle their fortune with Trump again.**

Summer, which is supposed to be a peaceful season, has erupted in a blaze of tariff escalations. The only thing that can arrest the ruthless slump of the US Treasury yields appears to be fiscal stimulus. Enter Trump and his cronies. Some might view them as something of saviors, as the populist administration has begun to toy with the idea of “Tax Cuts 2.0” last week, with a capital tax cut as its centerpiece. Is it a watershed-in-the-making for finger-itchy traders to take advantage of?



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To put it mildly, we won't let our guard down because of that. Firing the fiscal cannon on capital gain tax reduction is largely misguided. How so? Jump-starting the bond yields requires the US saving less collectively, which would be a tall order because the loaded who least need the money tend to save more. Rich people, after all, siphon off the most investment income.

What about the “trickle-down” effect? Nothing is more closely related to make-believe than the “trickle-down” effect. The overwhelming evidence debunk the claim that Trumpian tax cuts were translating into immediate bonuses of ordinary wage earners. Tax benefits go straight either into the wallets of corporate or affluent class. Period.

An important — if little-noticed — point is that tariffs are themselves taxes as well. So if Trump wants to cut tax to alleviate tariff-inflicted damage, why not just cut the tariffs at the first place?

Trump's reticence is easy to surmise. Learning from mistakes and changing lanes are never options for him. Rather than meticulously playing the long game with his trading partners, Trump seems care more about proving his ill-advised ideas were right all along. More or less similar to the way we're addressing environmental issue, delusion is THE solution to problems. Bond traders should know better than to bundle their fortune with Trump again.



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**Table 1: Strategy Performance Summary**

Date		Key recommendations	Ex post performance (1-month)				
			Entry level*	Low	High	Period-end level	1-month return
1-Aug-19	11:15	Skeptical about just how much juice is left in the dollar rally.	98.81	97.93	98.93	97.67	1.2%
24-Jul-19	10:15	Sterling is likely to be an outcast	1.2434	1.2016	1.2520	1.2256	1.5%
5-Jul-19	10:10	The theme of (HKD) normalisation will unfold yet again	7.7900	7.7883	7.8354	7.8300	0.5%
2-Jul-19	17:30	There is nothing compelling about the current AUD rally	0.6990	0.6788	0.7076	0.6790	2.9%
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%
*Entry level recorded at the time of publication, if not stated otherwise					<b>Total return<sup>#</sup></b>	<b>18.9%</b>	
#Since August 2018					<b>Benchmark return<sup>#^</sup></b>	<b>-0.2%</b>	
^Citi Parker Global Currency Manager Index					<b>Hit ratio<sup>#</sup></b>	<b>79.3%</b>	

Source: Shanghai Commercial Bank

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