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# Instant Thoughts

**19 September 2019**

## The Race Is On

- **The Fed delivered a 25bp cut today despite the US economy hums along.**
- **Chair Powell refused to repeat his well-discussed phrase of “mid-cycle adjustment” and merely replied that he leaves his “eyes open” and the Fed is “very data dependent”. It’s his way to keep the prospect of more easing in place.**
- **Six out of ten voters, by our count, favor one more rate cut this year. So ignore the chatter this Fed is “divided”. The central bank will cut its rate again – most likely December – when their chips are down.**
- **The double-negative from a dovish Fed and abating China-US trade tensions are underway. So why is USD rising? Carry, on this cratered planet, is king.**

Rate cut is now a deeply fashionable idea, and infighting doesn’t stop the Fed from being a fan of it. Riding roughshod over dissents like Rosengren (Boston) and George (Kansas City), the Fed delivered a 25bp cut today despite the US economy hums along. Bullard (St Louis) even desired a 50bp cut.

### So much for “insurance cuts”

The FOMC statement staring at us is a bit boring. The announcement was almost a Siamese twin of its July version, retaining its pledge to “act as appropriate to sustain the expansion.”

Then a journalist raised many eyebrows by asking if the recent move is a “mid-cycle adjustment”, a code word for the 75bp “insurance cuts” in 1995-96 and 1998. Powell is more politically savvy this time. Offering no drama, he refused to repeat that catch-



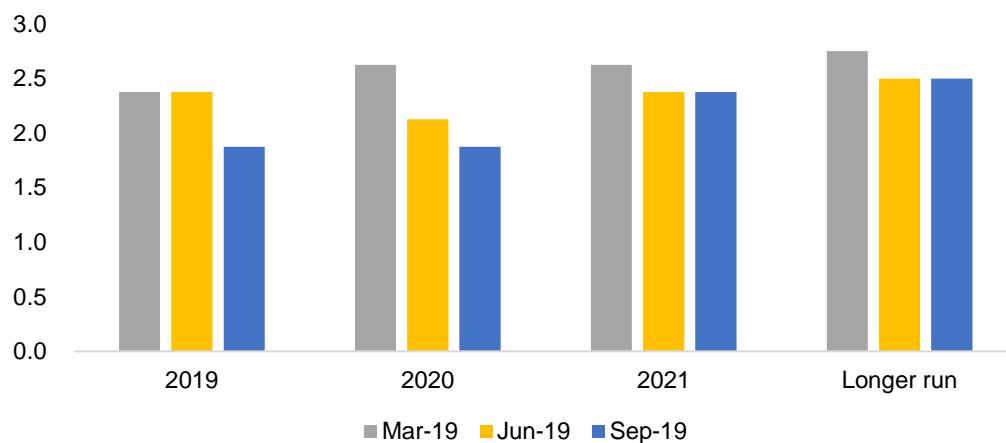
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all phrase and merely replied that he leaves his “eyes open” and the Fed is “very data dependent”. It’s his way to keep the prospect of more easing in place.

But not quite firmly so. Only seven members saw one more cut this year, while ten others expect unchanged or rising rates before yearend. Is Powell struggling to build any kind of consensus? Yes and no. The Fed as a whole is as split as it can, but keep in mind that not all members are eligible to vote. Six out of ten voters, by our count, favor one more rate cut this year. So ignore the chatter this Fed is “divided”. The Fed will cut its rate – most likely in December – when their chips are down.

### Exhibit 1: Median Rate Forecast



Source: US Fed, Shanghai Commercial Bank

Will an imminent rate cut silence the skeptics? Of course not. The plumbing issue in repo market is becoming acute and could overshadow any easing. Still, Powell seems reluctant to take a strong stand on balance sheet expansion – far from it indeed. Quarter ends, tax deadlines, and major Treasury settlements are all acid tests for the Fed onwards.

### Carry is king

The dollar is again trading with a bid tone. The double-negative from a dovish Fed and abating China-US trade tensions are underway. So why is USD rising? Carry, on this cratered planet, is king. Cooler heads prevail.



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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
16-Sep-19 09:55	We recommend to re-load long yen long exposure	107.77	107.68	108.33	108.13	-0.3%
13-Sep-19 10:55	We see some upside in EUR/USD in the short run	1.1066	1.0993	1.1108	1.1035	-0.3%
1-Aug-19 11:15	Skeptical about just how much juice is left in the dollar rally	98.81	97.22	99.02	98.81	0.0%
26-Jul-19 10:45	We prefer to fade any EUR rallies	1.1148	1.1030	1.1243	1.1140	0.1%
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	1.1570	1.1306	1.1617	1.1400	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

#Since August 2018

^Citi Parker Global Currency Manager Index

**Total return<sup>#</sup> 17.2%**

**Benchmark return<sup>#^</sup> 0.4%**

**Hit ratio<sup>#</sup> 75.0%**

Source: Shanghai Commercial Bank



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## Recent Publications

The Epiphany Comes Too Early 	Sept 16, 2019
Draghi's Farewell Party 	Sept 13, 2019
Reclaiming the Spotlight 	Sept 9, 2019
A Game of Two Halves 	Sept 4, 2019
Two Wrongs Don't Make a Right 	Aug 28, 2019
War and Peace 	Aug 2, 2019
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