US President Trump’s decision to clamp down Iranian oil sales permeated the oil market. After the winter in which USD50 was the normal levels, West Texas Intermediate (WTI) crude has popped up 30% to crack USD65 a barrel (Exhibit 1). It seems obvious this should be a cause for joy shared universally by holders of oil-dependent currencies. But the voice in your head is, all too often, plain wrong.

- Why on earth CAD so poorly behaved in spite of higher-priced oil?
- The misgiving of awful rate hikes in the US, the CAD counterpart, could be tossed out of window when tame inflation is a global phenomenon. The tightening concern is nowhere close to stir anytime soon.
- The tax-hike-like consequence of oil spike is another lighting rod. But the West is no longer as much energy-intensive as they once were in 1970s and 1980s.
- The readiness of shale oil investment, compared conventional oil drilling, should send a shock wave through the marketplace: The oil market should stabilise more effectively than in the past.
- While oil prices may provide some inspiration, it won’t be the game-changer to rock the carry-trade boat. Eventually, the Bank of Canada might deliver something for bears to get their teeth into. Don’t feel hard-pressed to join black-gold rush.
Believe it or not, the US dollar, meanwhile, is flexing its muscles. Correspondingly, the loonie dropped like a stone to 1.35s, taking it to the weakest level last seen at January (Exhibit 2). How on earth the CAD so poorly behaved? Is it time to rethink the received wisdom?

**The painless oil spike**

To explain the aberration, let's think about why oil boom is used to spell trouble for the CAD counterpart – the US. Part of the answer has to lie in the fact that mounting inflation dovetails awful rate hikes. This misgiving, however, could be tossed out of window when tame inflation is a global phenomenon. The tightening concern is nowhere close to stir anytime soon. Quite possibly, investors will feel protected by omnipotent central banks, as they used to be.

The tax-hike-like consequence of oil spike is another lighting rod. It empties consumers' wallets and leaves them less to spend on everything else. This worry is not so far-fetched. Supply-driven oil shocks were indeed the culprits behind the economic disasters of the 1970s and early 1980s.

But the West is no longer as much energy-intensive as they once were in 1970s and 1980s. The US is often cited as the poster child in this energy-conservation competition, and rightfully so. Profits of technology and financial firms aren't pounded as hard by the run-up in oil price as industrial behemoths.
Above all, the US has transformed itself into a leading oil producer, thanks to the shale revolution. You read it right: From virtually nothing in 2010, US shale oil production has swollen to around 7.9 million barrels a day. The readiness of shale oil investment, compared conventional oil drilling, should send a shock wave through the marketplace: The oil market should stabilise more effectively than in the past.

What might all these imply? A higher beta with respect to oil is not expected due to these structural impediments. While oil prices may provide some inspiration, it won’t be the gamechanger to rock the carry-trade boat. Eventually, the Bank of Canada might deliver something for bears to get their teeth into. So don’t feel hard-pressed to join black-gold rush.
Table 1: Strategy Performance Summary

<table>
<thead>
<tr>
<th>Date</th>
<th>Key recommendations</th>
<th>Entry level*</th>
<th>Low</th>
<th>High</th>
<th>Period-end level</th>
<th>1-month return</th>
</tr>
</thead>
<tbody>
<tr>
<td>21-Mar-19 10:50</td>
<td>Playing the high-carry USD from the long side in a quiet summer ahead is recommended</td>
<td>95.88</td>
<td>95.74</td>
<td>97.52</td>
<td>97.30</td>
<td>1.3%</td>
</tr>
<tr>
<td>13-Mar-19 10:20</td>
<td>The resolution in sight warrants holding a GBP long position</td>
<td>1.3084</td>
<td>1.3081</td>
<td>1.3381</td>
<td>1.3090</td>
<td>0.0%</td>
</tr>
<tr>
<td>8-Mar-19 10:35</td>
<td>EUR/JPY is a cleaner expression of the EUR-bearish view</td>
<td>124.86</td>
<td>123.85</td>
<td>127.45</td>
<td>124.99</td>
<td>-0.1%</td>
</tr>
<tr>
<td>19-Feb-19 9:10</td>
<td>Underweighting the dollar and staying nimble</td>
<td>96.83</td>
<td>96.29</td>
<td>97.71</td>
<td>96.48</td>
<td>0.4%</td>
</tr>
<tr>
<td>12-Feb-19 9:10</td>
<td>For HKD bear, it is the Trojan horse you want to smuggle in</td>
<td>7.8470</td>
<td>7.8470</td>
<td>7.8500</td>
<td>7.8500</td>
<td>0.0%</td>
</tr>
<tr>
<td>31-Jan-19 10:40</td>
<td>The USD will going on struggling</td>
<td>95.26</td>
<td>95.16</td>
<td>97.16</td>
<td>96.06</td>
<td>-0.8%</td>
</tr>
<tr>
<td>30-Jan-19 10:10</td>
<td>We have interest in chasing GBP higher</td>
<td>1.3094</td>
<td>1.2779</td>
<td>1.3335</td>
<td>1.3293</td>
<td>1.5%</td>
</tr>
<tr>
<td>16-Jan-19 11:20</td>
<td>The GBP remains a buy-in-dip play</td>
<td>1.2845</td>
<td>1.2839</td>
<td>1.3217</td>
<td>1.2905</td>
<td>0.5%</td>
</tr>
<tr>
<td>12-Dec-18 10:30</td>
<td>Fate will smile upon the GBP once again next year</td>
<td>1.2513</td>
<td>1.2473</td>
<td>1.2862</td>
<td>1.2844</td>
<td>2.6%</td>
</tr>
<tr>
<td>14-Nov-18 11:00</td>
<td>We prefer to sell the EUR into rallies</td>
<td>1.1304</td>
<td>1.1263</td>
<td>1.1437</td>
<td>1.136</td>
<td>-0.5%</td>
</tr>
<tr>
<td>14-Nov-18 11:00</td>
<td>We prefer to sell the GBP into rallies</td>
<td>1.3010</td>
<td>1.2485</td>
<td>1.307</td>
<td>1.2627</td>
<td>3.0%</td>
</tr>
<tr>
<td>9-Nov-18 10:30</td>
<td>The resurgence of the USD will continue as uncertainty builds</td>
<td>96.7</td>
<td>96.08</td>
<td>97.7</td>
<td>96.7</td>
<td>0.0%</td>
</tr>
<tr>
<td>8-Oct-18 11:20</td>
<td>USD/CNY remains a buy-in-dip play</td>
<td>6.9036</td>
<td>6.8725</td>
<td>6.9769</td>
<td>6.9320</td>
<td>0.4%</td>
</tr>
<tr>
<td>3-Oct-18 16:30</td>
<td>A re-test of the lows (for EUR) around 1.1450 is very much on the radar</td>
<td>1.157</td>
<td>1.1306</td>
<td>1.1617</td>
<td>1.14</td>
<td>1.5%</td>
</tr>
<tr>
<td>21-Sep-18 15:00</td>
<td>USD/HKD to hit 7.83 in October</td>
<td>7.81</td>
<td>7.8033</td>
<td>7.8423</td>
<td>7.8423</td>
<td>0.4%</td>
</tr>
<tr>
<td>13-Sep-18 9:50</td>
<td>We prefer to trade GBP on the long side and buy dips towards 1.2960 if we get the chance</td>
<td>1.296</td>
<td>1.2927</td>
<td>1.3294</td>
<td>1.3168</td>
<td>1.6%</td>
</tr>
<tr>
<td>30-Aug-18 12:30</td>
<td>After USD/CAD hitting 1.28s, a re-test of the 1.30 handle could be on the cards</td>
<td>1.292</td>
<td>1.2892</td>
<td>1.3224</td>
<td>1.293</td>
<td>0.1%</td>
</tr>
<tr>
<td>27-Aug-18 17:00</td>
<td>The fragile political backdrop still remains a cause of concern for holding AUD</td>
<td>0.732</td>
<td>0.7088</td>
<td>0.7362</td>
<td>0.7230</td>
<td>1.2%</td>
</tr>
<tr>
<td>23-Aug-18 11:00</td>
<td>The USD will feel bid once again</td>
<td>95.3</td>
<td>93.84</td>
<td>95.71</td>
<td>94.2</td>
<td>-1.2%</td>
</tr>
<tr>
<td>15-Aug-18 11:00</td>
<td>JPY won’t be our first choice to seek asylum</td>
<td>111.3</td>
<td>109.84</td>
<td>112.14</td>
<td>112</td>
<td>0.6%</td>
</tr>
</tbody>
</table>

*Entry level recorded at the time of publication, if not stated otherwise

Total return 13.0%

Benchmark return -4.3%

Hit ratio 78.9%

Source: Shanghai Commercial Bank
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