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Monthly Insights

17 August 2020

On Thin Ice

- **Much of Trump's ambush on TikTok was performed for domestic constituencies with no real intention for negotiation.**
- **His reasoning reminds us of former US Vice President Richard Cheney, who infamously declared that even if the chance of WMDs falling into terrorist's hand was meager, we should nonetheless wage war as if that nightmare occurs.**
- **Silicon Valley is remarkably chilled about the tech war. Two years into the trade war, the Chinese, acting like the adult in the room, has not even signaled to shut Apple, Microsoft, Intel, Nvidia, or Qualcomm out of its domestic market.**
- **We might as well turn out to be lucky; betting on that would be hasty. We don't share markets' enthusiasm for tech's invincibility.**



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Theme Article

Denial, anger, and finally accept. At first, we perceived the US-Sino conflict as a sprint race. Then a marathon, then an ultramarathon. With Trump's ambush on TikTok, we can all accept that it's just a hard way of life.

The opening chapter of this tech war however bears little resemblance to the frightening drama now. In the end, spreading footprint globally — as TikTok has succeeded in doing after acquiring musical.ly in 2017 — is a natural evolution once domestic market saturates. As if foreseeing its predicament today, the high-flying video-sharing company has taken deliberate steps to preserve data privacy. Among other things, it stores all American user data on US-located servers and it has anointed Kevin Mayer, a venerable former Disney executive, as its CEO.

None of the pasta sticks to the wall though. Trump chose to poke his finger in the eyes of TikTok without warning. Had changing TikTok's behaviour been the goal, a laundry list of remedy measures should be put on the table. Much of his China-bashing was performed for domestic constituencies with no real intention for negotiation. That's why TikTok's executives are banging their heads against a wall.

Nothing can stop a know-nothing president from stoking fears and acting on them. After all, it is almost impossible to prove with certainty that espionage *wouldn't* happen.

Trump's reasoning reminds us of former US Vice President Richard Cheney, who infamously declared that even if the chance of WMDs falling into terrorist's hand was meager, we should nonetheless wage war as if that nightmare occurs. Motivated by the so-called Cheney Doctrine, the tech war was an end in themselves, not a means to an end.

Even the apparent one-way travel to ruin hasn't fazed analysts a bit. Silicon Valley is remarkably chilled about the tech rivalry. Two years into the trade war, the Chinese, acting like the adult in the room, has not even signaled to shut Apple, Microsoft, Intel, Nvidia, or Qualcomm out of its domestic market.

While it might feel like a refreshing whiff of sanity to political discourse, it is unrealistic to assume China will always restrain from pulling the plug. We might as well turn out to be lucky; betting on that would be hasty. No soldier would, and should, cheer a Pyrrhic victory. We don't share the markets' enthusiasm for tech's invincibility.



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UK

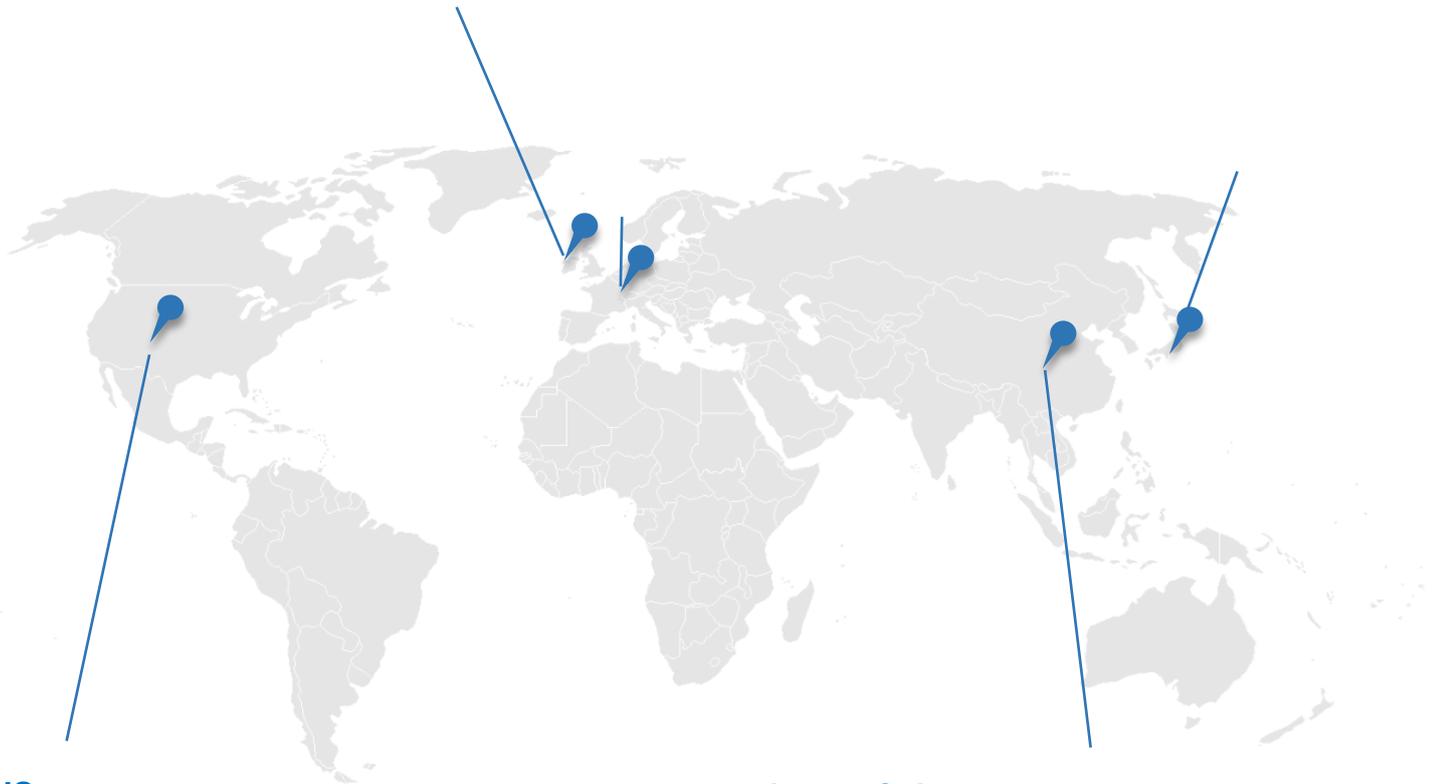
The island state has registered the worst economic contraction ever recorded. The end of the furlough scheme could lead to a spike in unemployment and more QE in the BoE November meeting.

EU

We expect a moderation in PMIs to set in over the coming months. The asymmetric impact of the pandemic-shock will remain visible between Southern and Northern Europe.

Japan

Despite infections was picking up again, consumer spending in July appears to have stayed at about the same level as in June.



US

An economic collapse over the last quarter does not come as a surprise. What surprised us is that the initial boost from pent-up demand has already showed sign of tapering off. A Phase 4 rescue package remains crucial.

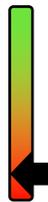
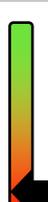
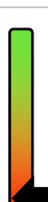
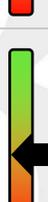
Mainland China

Addressing external challenges ahead, Chinese policymakers called for an inward-looking pivot. In essence, the policy is to boost domestic demand and supply side reform.



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Foreign Exchange Outlook

 <p>USD</p>	<p>Overweight</p> <p>Neutral</p> <p>Underweight</p> 	<p>Dollar sell-off extended into August despite the lack of an obvious catalyst. We believe the dollar weakness could be a result of equity portfolio rebalancing from the richly-priced U.S. assets. Perhaps November's presidential election is also starting to make its mark. We would expect some more white towels will be thrown.</p>
 <p>EUR</p>	<p>Overweight</p> <p>Neutral</p> <p>Underweight</p> 	<p>The catalyst that supported the euro wasn't the EUR 750bn rescue package per se, rather the region's robust healthcare systems and the prospect of fiscal union. Technically speaking though, a double top forms above 1.19. Let alone Europe is unlikely to benefit from a straight line recovery.</p>
 <p>GBP</p>	<p>Overweight</p> <p>Neutral</p> <p>Underweight</p> 	<p>GBP has traded remarkably well following EUR buoyance. We believe the BoE will wait for the end of the furlough scheme in October and cut rate to zero. The UK and the Europe will resume their Brexit negotiations shortly after the summer break. It will only add to the negative sentiment on GBP.</p>
 <p>RMB</p>	<p>Overweight</p> <p>Neutral</p> <p>Underweight</p> 	<p>Backed by benign equity backdrop and PBoC's resistance to cut rates further, the CNH stays biddish. In light of simmering trade-war rhetoric in the background, Renminbi is set to face more headwinds.</p>
 <p>JPY</p>	<p>Overweight</p> <p>Neutral</p> <p>Underweight</p> 	<p>USD/JPY's brief foray below 105 was met with a wall of buying. Its mild downtrend during Tokyo hours suggests the demand for yen among local institutions remains muted. Yen is playing second fiddle for now.</p>
 <p>AUD</p>	<p>Overweight</p> <p>Neutral</p> <p>Underweight</p> 	<p>It feels traders are on holiday. The carry theme stalled out as two-side risks become more balanced after extended run of risk-on mode. Net net, we are still moderately pro-risk. RBA's dovish take doesn't seem like a game-changer that breaks this grinding rally.</p>
 <p>NZD</p>	<p>Overweight</p> <p>Neutral</p> <p>Underweight</p> 	<p>After kissing goodbye to its pristine COVID-free status, the RBNZ's Governor Orr reiterated its will to introduce negative interest rates if necessary. It would gradually crowd out foreign investors and cap kiwi's rally.</p>

 >1% within 3 months
 +/-1% within 3 months
 <-1% within 3 months

Table 1: GDP Growth and Rates Forecasts

	GDP growth (% YoY)				Key policy rate (% yearend)			
	2017	2018	2019	2020F	2017	2018	2019	2020F
US	2.2	2.9	2.3	-3.2	1.25-1.50	2.25-2.50	1.75-2.00	0.00-0.25
Eurozone	2.4	1.8	1.2	-5.0	-0.40	-0.40	-0.50	-0.50
UK	1.8	1.4	1.4	-4.0	0.50	0.75	0.75	0.10
Japan	1.9	0.8	0.7	-5.0	-0.10	-0.10	-0.10	-0.20
China*	6.9	6.6	6.1	1.5	4.35	4.35	4.35	4.35
Hong Kong^	3.8	3.5	-1.2	-4.0	5.00	5.125	5.125	5.125

*1-year lending rate, ^Prime rate

Source: Bloomberg, Shanghai Commercial Bank

Table 2: Foreign Exchange Outlook

	Yearend target		
	Current	2019	2020F
EUR/USD	1.14	1.12	1.14
GBP/USD	1.26	1.33	1.28
USD/JPY	107	109	107
USD/CNH	7.00	6.96	7.10
AUD/USD	0.70	0.70	0.72
NZD/USD	0.66	0.67	0.67

Source: Bloomberg, Shanghai Commercial Bank



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Table 3: Strategy Performance Summary

			Ex post performance (1-month)				
Date		Key recommendations	Entry level*	Low	High	Period-end level	1-month return
8-May-20	08:25	The CNH sellers will re-gain the upper hand	7.0886	7.0651	7.1961	7.0733	-0.2%
30-Jan-20	11:03	The indiscriminate bid for the dollar could remain uninterrupted	98.03	97.36	99.91	98.14	0.1%
20-Jan-20	4:00	We remain stubborn buyers on dips for GBP	1.3000	1.2908	1.3228	1.2921	-0.6%
18-Jan-20	0:00	We remain stubborn buyers on dips for CAD	1.3070	1.3044	1.3302	1.3223	-1.2%
13-Dec-19	11:25	The pair (GBP) will meet strong resistance above 1.35	1.3466	1.2905	1.3466	1.3033	3.3%
30-Oct-19	11:40	Yet more strength for the pound	1.2863	1.2772	1.2970	1.2925	0.5%
23-Oct-19	11:05	Dips (in pound) are buy into	1.2848	1.2772	1.2970	1.2846	0.0%
26-Sep-19	8:30	Dollar shorts are swimming against the tide	98.94	98.85	99.67	98.66	-0.3%
16-Sep-19	09:55	We recommend to re-load yen long exposure	107.77	106.48	108.89	108.69	-0.8%
13-Sep-19	10:55	We see some upside in EUR/USD in the short run	1.1066	1.0880	1.1108	1.1042	-0.2%
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%

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

Total return# **18.3%**

#Since August 2018

Hit ratio# **67.5%**

Source: Shanghai Commercial Bank



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