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Instant Thoughts

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A Brief Renaissance

- **No small part of the excitement over dollar bearishness is thought to lie in the transatlantic divergence in COVID caseload.**
- **The virus is under better control in the EU because of its stringent measures. Wagering on rising inflation has been a "widow-maker" for years. Why should this time be any different?**
- **For the dollar doldrums to extend, it has to fall versus Emerging Market. The reality is quite the opposite – softer currencies get softer.**
- **As the summer's heatwave fades, the dollar might catch a second wind.**

"The greenback is doomed!" Having crashed multiple resistance lines and plummeted more than 8% off its March high (Exhibit 1), the buzz around dollar sell-off – an unthinkable prospect not so long ago – reaches a fever pitch.

Exhibit 1: US Dollar Index

Source: CEIC, Shanghai Commercial Bank

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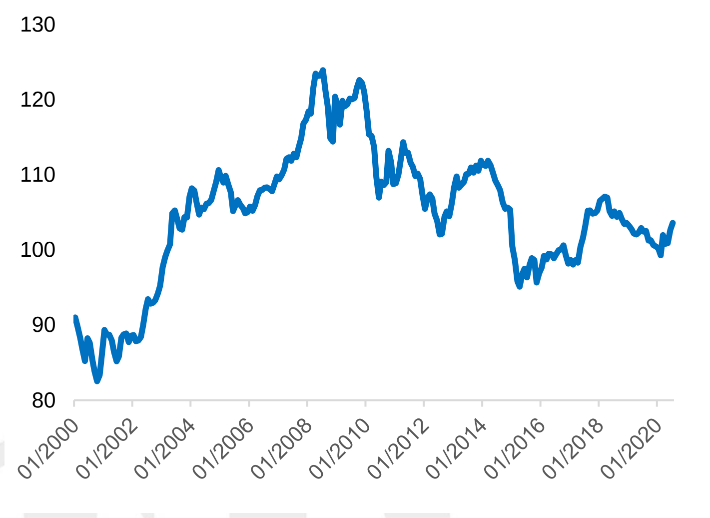
The world hasn't changed that much. Everything under the sun has to be related to COVID shock. Naturally, no small part of the excitement over dollar bearishness is thought to lie in the transatlantic divergence in COVID caseload (Exhibit 2).

Just how true is this proposition? Trump's mishandling the outbreak makes a convenient excuse, but it's just beside the point. The untold story is that neither is the Europe a newborn superhero defying gravity. If a 9.2% drop in US GDP last quarter is jaw-dropping, the contractions in Germany and France – 11.5% and 19.0% respectively – are bloodbaths. The virus is under better control in the EU because their citizens consent to live with the subsequent economic damage, however gut-wrenching.

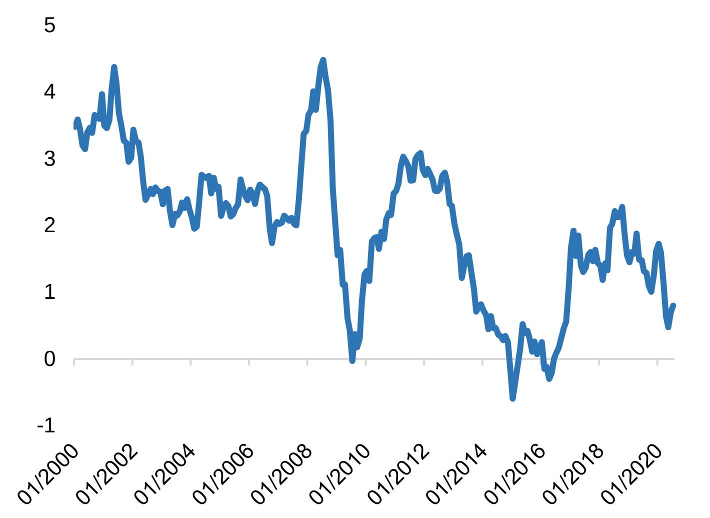
Far from witnessing European renaissance, deflationary winds are blowing through the continent (Exhibit 3), same situation as in 2018 during the last bout of EUR strength. Wagering on rising inflation has been a "widow-maker" for years. Why should this time be any different?

Exhibit 2: EUR Real Effective Exchange Rate Index



Source: CEIC, Shanghai Commercial Bank

Exhibit 3: EU CPI (% YoY)



Source: CEIC, Shanghai Commercial Bank

To which one may reply: It can't be all doom and gloom. What about the EUR750 billion-worth Recovery Fund? Fact speak volumes. The nest egg, accounting for less than 5% of the stock of public-held US government debt, is a drop in the bucket. Isn't it a "Hamiltonian moment" towards the long-awaited fiscal union? Even the most self-serving FX trader will never put his shirt on something that may or may not happen decades from now.

For the dollar doldrums to extend, it has to fall versus Emerging Market. The reality is quite the opposite – softer currencies get softer. There appears to be a crisis brewing in public finance among Emerging Market, owing to its over-generous handouts and running-dry public coffers amid depressed commodity prices. We're struggling to buy into the story investors will anchor on EM outperformance.

Tellingly, yesterday's market movement revealed any hint of less enthusiastic support by the Fed can trigger an outsized negative response. As the summer's heatwave fades, the dollar might catch a second wind.

Table 1: Strategy Performance Summary

Date		Key recommendations	Entry level*	Low	High	Period-end level	1-month return
			Ex post performance (1-month)				
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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