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# Instant Thoughts

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## I Ease Therefore I Am

- **The Fed unveiled to have voted unanimously for adoption of average inflation targeting, “seeks to achieve inflation that averages 2 percent over time”.**
- **What makes difference to the Fed’s modus operandi is that past shortfall from the 2% target will be “made up” for in subsequent periods.**
- **But we learn little about what the Fed will do to back up its new strategy. These all seem to us more like a mea culpa for its ill-fated rate-hiking campaign during 2015-2018, rather than ironclad commitment to inflation overshoot.**
- **With the Fed playing second fiddle now, trend is your friend.**

Enlightenment thinkers used to have an intense suspicion of institutions, which they saw as impediments to the flowing of individual liberty. It all changed. All eyes were on Jay Powell’s Jackson Hole opener overnight. Even the slightest sign of reservation was considered as a betrayal to markets.

The no-drama Powell has to break his own rule. The Fed unveiled to have voted unanimously for adoption of average inflation targeting, “seeks to achieve inflation that averages 2 percent over time”. What makes it so different from the Fed’s modus operandi is that past shortfall from the 2% target will be “made up” for in subsequent periods.

Mark Twain once remarked, “Man is the only animal that blushes. Or needs to.” In a subtle way, the Fed admitted that it has plucked the so-called natural rate of unemployment ( $u^*$ ) out of thin air. This was a costly mistake in 2015-2018, as the



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Fed hiked rates pre-emptively because unemployment got “too low”. An unemployment rate that is deemed too low, from now on, won’t get in the way of economic recovery like they did last time.

This alone doesn’t make the policy review epoch-making though. Indeed we learn little about what the Fed will actually do to back up its new strategy. How could they not even define average over what period? Wouldn’t it become an excuse for the Fed to do whatever they want, by arbitrarily changing the length of the average? Another key omission is no mention of QE at all. These all seem to us more like a mea culpa for its ill-fated rate-hiking campaign, rather than ironclad commitment to inflation overshoot.

No wonder the post-announcement bond rally was quickly reversed. With the Fed playing second fiddle, trend is your friend.



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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
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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