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# Instant Thoughts

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## Farewell to Summer Breeze

- **U.S. stocks finally came back down to earth yesterday, marking its sharpest selloff since June.**
- **Investors typically inhabit a mindset dominated by Platonic ideals according to which reason is the principal arbiter of our decision. The reality, however, is that we just get tired to talk about the same narrative over and over again.**
- **Until yesterday, this was a market that had ruined anyone dare to take chips off the table by stopping them from back in. When the heavy bill on mental capital lifts, cutting equities out is an easier trigger to pull.**

As the summer draws to its close, the hard work starts. And indeed the “back-to-school” season started in an unimaginably harsh way. U.S. equities finally came back down to earth yesterday, marking its sharpest selloff since June.

No meaningful signals have emerged just because the calendar has flipped to September. Running counter to intuition though, a swath of stronger-than-expected data was released overnight. The wedge between stocks and the real economy looks, if anything, a tad closer than the day before.

Is there a reasonable explanation for the sell-off? In a word, yes. Come to think about this: if explosive valuations can be justified solely by rock bottom interest rates, why other corner of the financial world doesn't share the



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skyrocketing valuations of the NASDAQ? Subdued borrowing cost, from the very beginning, is not the be-all and end-all.

This discussion is Platonic though. There hasn't been any sort of profound shift in rates recently. The point of going it through is to highlight that investors typically inhabit a mindset dominated by Platonic ideals according to which reason is the principal arbiter of our decision. The reality, however, is that we just get tired to talk about the same narrative over and over again. That seems to be the case at the moment. Risk gets closed for no better reason than fatigue sets in.

Sounds tedious, but it could turn the table. Until yesterday, this was a market that had ruined anyone dare to take chips off the table by stopping them from back in. When the heavy bill on mental capital lifts, cutting equities out is an easier trigger to pull.

Under bull market trader exploits trader; under bear market, it's just the opposite. We won't be surprised this post-summer selloff lasts for longer.



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**Table 1: 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%
						<b>Total return#</b>	<b>18.3%</b>
						<b>Hit ratio#</b>	<b>67.5%</b>

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

#Since August 2018

Source: Shanghai Commercial Bank



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