

Evelyn Huang

Evelyn.huang@shacombank.com.hk

Analyst

+852 2841 5450

Ryan Lam, CFA

Head of Research

ryan.lam@shacombank.com.hk

+852 2841 5283

Monthly Insights

11 September 2020

History Is Circular

- No matter how numbed we've become, the Brexit shocks keep coming.
- UK PM Johnson and his henchmen are renegeing the parameter agreed in the Withdrawal Agreement. The newly introduced Internal Market Bill basically says the North Ireland Secretary of State reserves the right to interpret EU state aid law and most important, to "disapply" it.
- If EU has any self-respect, and if it cares about its reputation as a tough negotiator in a politically polarized world, we can only imagine they will not return to negotiating table until Johnson eats his own words.
- The risk of blowing up the trade talk amid this Manichean standoff, at least to us, is very real. We suspect we're not done with blowing froth off the pound, and hence tilt to underweight it.



上海商業銀行

SHANGHAI COMMERCIAL BANK

Theme Article

We love Voltaire's observation that 'history never repeats itself; man always does.' While the sour memory of a deadlocked Brexit talk in 2019 still remains fresh, now it seems yesterday recurred.

No matter how numbed we've become, the Brexit shocks keep coming. After seven rounds of negotiation, the EU and UK achieved no breakthrough at all, but only blamed each other for the slow progress.

The EU's 'Level-playing field' - the obligation to follow EU regulations in areas such as workers' rights, environmental standards and state aid - remain the principal stumbling block. UK Prime Minister Boris Johnson can't resist Marshmallow any longer. Driven by utopian belief that the UK will "prosper mightily" if they are unshackled, he and his henchmen are renegeing the parameter agreed in the Withdrawal Agreement. The newly minted Internal Market Bill basically says the North Ireland Secretary of State reserves the right to interpret EU state aid law, and most important, to "disapply" it.

Perhaps centuries of potted history convinced Downing Street officials they are destined always to be on the winning side. However, as Ronald Reagan cautioned, "the trouble with our liberal friends is not that they're ignorant; it's just that they know so much that isn't so." Their arrogance blinds them to how the European views them, which is with mockery and growing hostility.

The act to unilaterally amend an international treaty is likely seen in Brussels as a wilful attempt to sabotage the entire deal. If EU has any self-respect, and if it cares about its reputation as a tough negotiator in a politically polarized world, we can only imagine they will not return to negotiating table until Johnson eats his own words.

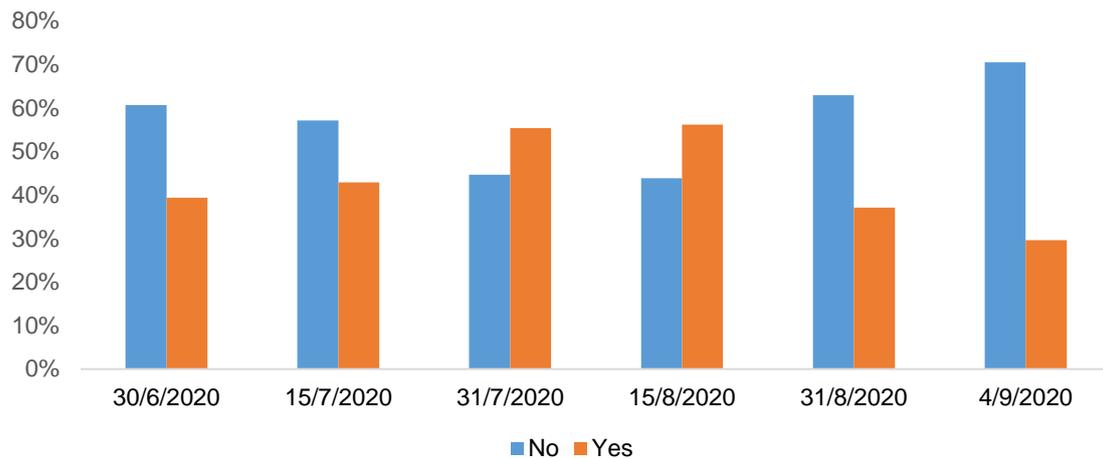
The elephant in the room, of course, is whether Johnson's provocation is just opportunistic posturing to earn upper hand in the negotiation. We think it is well wide of the mark. Hiding no secret, the UK's chief negotiator David Frost promised the discretion over regulatory "isn't a simple negotiating position which might move under pressure — it is the point of the whole project." The risk of blowing up the trade talk amid this Manichean standoff, at least to us, is very real.



上海商業銀行
SHANGHAI COMMERCIAL BANK

Echoing our concern, the betting platform Smarket shows that odds for no deal now go through the roof to 70%, up from around 45% in July 31 (Exhibit 1). It couldn't have come at a worse time - UK has just imposed social contact restrictions to combat a second wave of COVID-19 cases. We suspect we're not done with blowing froth off the pound, and hence tilt to underweight it.

Exhibit 1: UK and EU to sign a deal in 2020?



Source: Smarket, Shanghai Commercial Bank



上海商業銀行
SHANGHAI COMMERCIAL BANK

UK

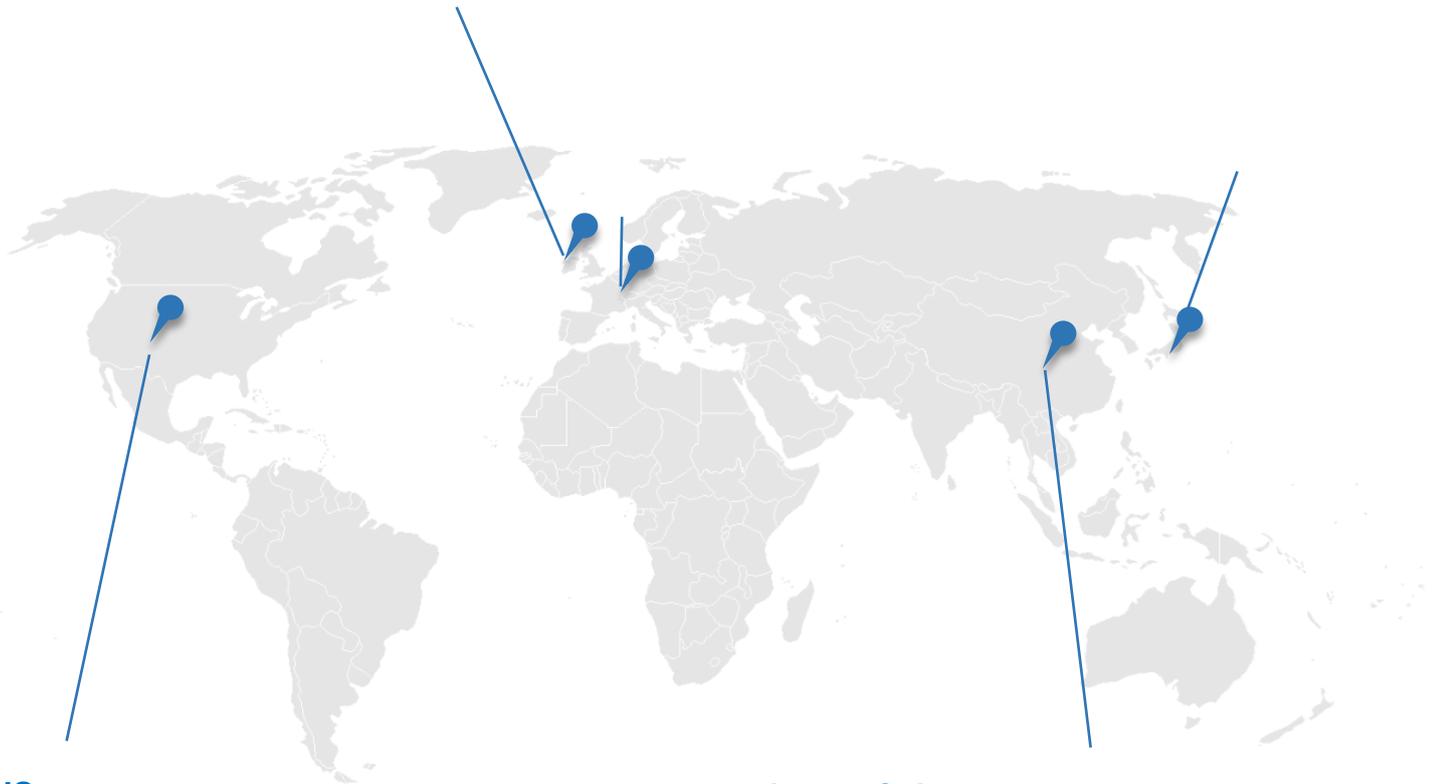
The Q2 contraction in UK GDP was the worst on record. We do not anticipate a recovery of output to pre-crisis levels before 2022 at the earliest.

EU

Dragged by stronger euro and the German VAT rate cut, Eurozone marked the first deflation print since May 2016. The negative print will stay until 2021.

Japan

The outgoing PM Abe will likely be succeeded by Yoshihide Suga, a behind-the-scenes enforcer of Abe's policies. The market would likely welcome a continuity in Abenomics, even without Abe.



US

The jobless rate tumbled 10.2% to 8.4%. It fell for non-technical reason: more people getting jobs, rather than dropping out of the workforce altogether. The recovery is on the right track.

Mainland China

July's economic softness proved to be temporary, partially due to flooding and abnormal temperature. As normalcy restores, the Chinese economy breathe fresh life.



上海商業銀行
SHANGHAI COMMERCIAL BANK

Foreign Exchange Outlook

 USD	<p>Overweight</p> <p>Neutral</p> <p>Underweight</p> 	<p>The dollar weakness is far from being a one-way street. Equity investors are still fleeing from their own greed and excesses. As long as the tech rout continues, the greenback will regain its footing.</p>
 EUR	<p>Overweight</p> <p>Neutral</p> <p>Underweight</p> 	<p>EUR dipped amid verbal intervention. ECB Chief Economists Philip Lane and a few other policymakers went to the great length to express their concerns about the euro's strength. FX traders like round number. Surpassing through the much-watched 1.20 level will cause a level of disproportionate agitation.</p>
 GBP	<p>Overweight</p> <p>Neutral</p> <p>Underweight</p> 	<p>Investment community is outraged by hints that Johnson may single-handedly overturn the EU withdrawal agreement. Compounded by an acute dollar demand, we have seen the pound sharply lower. No end in misery in sight for the sterling.</p>
 RMB	<p>Overweight</p> <p>Neutral</p> <p>Underweight</p> 	<p>The fact that the leg higher in yuan has been driven by corporates rather than fast money is encouraging. We also expect China to stay restrained on retaliating against Trump's provocation into the US election. The pair will remain locked in range trading.</p>
 JPY	<p>Overweight</p> <p>Neutral</p> <p>Underweight</p> 	<p>Underpinned by global turbulence, yen shows a sign of life. The JPY depreciation effects of Abenomics will eventually surface, but it is an issue for another day.</p>
 AUD	<p>Overweight</p> <p>Neutral</p> <p>Underweight</p> 	<p>Australian GDP came in weaker than expectations providing the catalyst for a mild AUD selloff. Despite the RBA seems content with the ongoing currency appreciation, the probability of "proper" QE is still looming should the Bank feel the urgency to catch up to its peers. Short term remain biased to sell rallies.</p>
 NZD	<p>Overweight</p> <p>Neutral</p> <p>Underweight</p> 	<p>Akin to other risk assets, because of the way investors are positioned, there's a notable risk here of the selloff feeding onto itself.</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	-5.8	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	1.18	1.12	1.14
GBP/USD	1.30	1.33	1.28
USD/JPY	106	109	107
USD/CNH	6.84	6.96	6.80
AUD/USD	0.73	0.70	0.72
NZD/USD	0.66	0.67	0.65

Source: Bloomberg, Shanghai Commercial Bank



Table 3: 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%
			Total return[#]			18.3%	
			Hit ratio[#]			67.5%	

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

[#]Since August 2018

Source: Shanghai Commercial Bank



上海商業銀行
SHANGHAI COMMERCIAL BANK

For Personalized Service

Recent Publications

Farewell to Summer Breeze 	Sep 28, 2020
I Ease Therefore I Am 	Aug 28, 2020
A Brief Renaissance 	Aug 21, 2020
On Thin Ice 	Aug 17, 2020
Life Is a Process of Becoming 	Aug 11, 2020
Time for Meditation 	Jul 30, 2020
Emotion Moves Us, Literally 	Jul 27, 2020
A Deal Is a Deal 	Jul 22, 2020
Better Than Devil You Know 	Jul 16, 2020
Gambler's Fallacy 	Jul 9, 2020
The Dance of the Millions 	Jul 3, 2020
All Lives Matter 	Jun 26, 2020
Recovery Is A Marathon, Not a Sprint 	Jun 17, 2020
No New Wave, Only the Sea 	Jun 11, 2020
Fly Me to the Moon 	Jun 4, 2020
It's the Silence Between Notes That Makes Music 	May 29, 2020
Who Eats Buffett's Lunch? 	May 28, 2020
Back to Future 	May 13, 2020
House of Cards 	May 8, 2020
Roiling Underneath 	May 4, 2020
Thinking Like a Pro 	Apr 27, 2020
Why Oil Crash Is Not All Bad News 	Apr 22, 2020
Rising from the Dead 	Apr 15, 2020
Love at First Sight 	Apr 7, 2020
Mile Wide, Inch Deep 	Mar 30, 2020
Crossing the Rubicon 	Mar 24, 2020
Turning Fire Hoses Fully Open 	Mar 20, 2020
The ECB Is Obligated to Act. Yesterday. 	Mar 19, 2020
Fed Easing Is a Four-Letter Word for Now 	Mar 16, 2020
How to Save the World Without Being a Jerk 	Mar 13, 2020
The Sparkle Is Wearing Off 	Mar 12, 2020
The Monday Blues 	Mar 10, 2020
Creeping to the Other Side 	Mar 4, 2020
Pandemic Panic 	Mar 2, 2020



上海商業銀行

SHANGHAI COMMERCIAL BANK

Disclaimer - Investment Involves Risk

Investment Risk Disclosure

- The following risk disclosure statement cannot disclose all the risks involved and does not take into account any circumstances that are unknown to Shanghai Commercial Bank Limited (the "Bank"). Investment involves risks. Securities, Investment fund and Bonds are investment products. The price of investment products may go up or down, and may become valueless. It is as likely that losses will be incurred rather than profit made as a result of buying or selling investment products. Any past performance figures shown are not indicative of futures performance. Part of the investment may not be able to liquidate immediately under certain market situation. Customers should refer to relevant offering documents for detailed information, including but not limited to Risk Disclosures, prior to any investment subscription. The products described herein may not be suitable for all people. The decisions to invest are made by customers and customers should not invest in investment products unless the intermediary selling them has explained to them that the product is suitable for them having regard to customers' financial situation, investment experience and investment objectives. Customers should not make any investment decisions based on this document alone. Customers must make their own assessment of the information provided in this document. Customers should carefully consider whether any investment products or services mentioned herein are appropriate for them in view of their financial situations, investment experiences and investment objectives. If customers have any doubt about this material or any relevant offering document, they should consult their own independent advisers on the legal, regulatory, tax, investment and financial implications of the investments (including but not limited to estate duty and withholding tax and other tax obligations which may arise from local or foreign investment) as they deem appropriate to ensure that they understand the nature of the investments in order to consider whether the investments are suitable investments for them.
- Investment Risk in Securities: The prices of securities fluctuate, sometimes dramatically. The price of a security may move up or down, and may become valueless. It is as likely that losses will be incurred rather than profit made as a result of buying and selling securities. Investment involves risks. Any past performance figures shown are not indicative of futures performance. Part of the investment may not be able to liquidate immediately under certain market situation. Customers must ensure to read and understand the information of Shanghai and Shenzhen Connect A-shares trading of the Bank including relevant details, trading rules, risk, fees, restriction and notices before investing in Shanghai and Shenzhen Connect A-shares trading.
- Investment Risk in investment funds: The prices of investment funds fluctuate, sometimes dramatically. The price of an investment fund may go up or down and may become valueless. It is as likely that losses will be incurred rather than profit made as a result of buying and selling investment funds. Investment involves risks. Any past performance figures shown are not indicative of futures performance. Part of the investment may not be able to liquidate immediately under certain market situation. Customers should



上海商業銀行
SHANGHAI COMMERCIAL BANK

refer to relevant investment fund offering documents for detailed information, including but not limited to Risk Disclosures, prior to any investment fund subscription. Customers should carefully consider whether any investment products or services mentioned herein are appropriate for them in view of their financial situations, investment experiences and investment objectives. Please refer to explanatory memorandum or relevant materials of the fund for further information. The subscription of investment fund is subjected to prevailing regulatory requirements and restrictions and relevant terms and conditions of the Bank. The Bank acts as a distributor of the funds managed by fund houses and the funds are the product of the third party fund houses. For distribution of funds – in respect of an eligible dispute (as defined in the Terms of Reference for the Financial Dispute Resolution Centre in relation to the Financial Dispute Resolution Scheme) arising between the Bank and the customers out of the selling process or processing of the related transaction, the Bank is required to enter into a Financial Dispute Resolution Scheme process with the customers; however any dispute over the contractual terms of the product should be resolved directly between the third party fund house and the customers.

- Investment Risk in Bonds: Bond investments are not bank deposits and involve risks, including the possible loss of the principal amount invested. Customers should be aware of the risk of exchange rate fluctuations for bonds denominated in non-local currency, which may cause a loss of principal. Unless specified, these investments are not guaranteed by the Bank. The prices of bonds fluctuate, sometimes dramatically. The price of a bond may go up or down and may become valueless. It is as likely that losses will be incurred rather than profit made as a result of subscribing and redeeming bonds. Investment involves risks. Any past performance figures shown are not indicative of future performance, which the Bank does not guarantee the existence of a secondary market for bonds. Part of the investment may not be able to liquidate immediately under certain market situation. Customers should refer to relevant bonds offering documents for detailed information, including but not limited to Risk Disclosures, prior to any bonds subscription.
- RMB is subject to exchange rate risk (only applicable to Individual Customers): RMB is currently not freely convertible. Customers should be aware that they can conduct conversion of RMB at CNH rate through bank accounts, for which it is subject to the requirements specified by the Relevant Authorities from time to time, the requirements specified by the Bank and/ or the RMB position and commercial decisions of the Bank at that moment. RMB Conversion Limitation Risk (only applicable to Corporate Customers): RMB is currently not freely convertible. Corporate Customers should be aware that they can conduct conversion of RMB through bank accounts, for which it is subject to the requirements specified by the Relevant Authorities from time to time, the requirements specified by the Bank and/ or the RMB position and commercial decisions of the Bank at that moment. RMB investments are subject to exchange rate fluctuations which may provide both opportunities and risks. The fluctuation in the exchange rate of RMB may result in losses in the event that the customer converts RMB into HKD or other foreign currencies. If the home currency of the customer is different from the Investment product currency or the Investment



上海商業銀行
SHANGHAI COMMERCIAL BANK

product's reference currency, changes in currency exchange rates may erode the investment gains or widen the investment losses of the customer.

- The information of this document has not been reviewed by the Securities and Futures Commission of Hong Kong or any regulatory authorities in Hong Kong.

Important Notice / Disclaimer:

- This document is issued and solely owned by the Bank. This document is for general information and reference only and does not constitute any offer, solicitation, invitation, advice or recommendation to subscribe, trade, redeem or sell for any deposits or investments. No representation, guarantee or other assurance as to the outcome of any investment has been made or will be given to you by or on behalf of the Bank.
- This document contains information from third party, which may be incomplete or simplified. Although the information herein contained is obtained or compiled from sources the Bank believes to be reliable, it has not been independently verified. The Bank cannot and does not represent or warrant the accuracy, validity, reliability, timeliness or completeness of any such information (whether in whole or in part), and accepts no liability for any loss or damage howsoever arising from or in reliance upon the whole or any part of such information or opinions (unless due to the negligence or wilful default of the Bank, the Bank's authorised officers, employees or agents). The Bank reserves the right to amend all or any part in this document, which all views, forecasts and estimates constitute judgments made before the publication date, and are subject to change without further notice. This document contains certain statements that may be deemed as forward-looking statements involving risks and uncertainties. Customers should be aware that actual results may differ materially from those projected, estimated, assumed or anticipated in any such forward-looking statements due to different factors, risks and economic situation.
- The information herein contained may not be reproduced, quoted, distributed, disclosed or published (whether in whole or in part) in any media for any purpose without prior express written consent from the Bank. The Bank accepts no liability for any loss arising from or in reliance upon such information or contents. This document is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution would be contrary to the laws or regulations.
- The Bank and its affiliates or subsidiaries, and/or their officers, directors, agents and employees may have positions in and may trade for their own account in all or any of the securities or investments mentioned in this document. Companies within the Bank may have provided investment services or underwritten in relation to these securities. Commission or other fees may be earned by the Bank respect of the services provided by them relating to these securities or investments.



上海商業銀行
SHANGHAI COMMERCIAL BANK