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Instant Thoughts

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Never Two Without Three

- **Last Friday brought yet another Johnson's pledge to walk away from Brexit negotiation.**
- **His bellicose rhetoric is then rightly seen as a ritual brinkmanship to extract last-minute concessions.**
- **And the weak, as Thucydides wrote, suffer what they must? Not necessarily. If Brexit talk breaks up on fisheries, the spotlight-seeking Brussels politicians will have to explain to the world why European boats can come to within six nautical miles of the British coast while British boats must abide by the EU's 12-mile rule.**
- **Our hunch is that UK and EU leaders will eventually come to their senses. In the weeks ahead, we expect to both sides to take pragmatism over stridency.**

The Brexit story has been nothing if not endless. Last Friday brought yet another Johnson's do-or-die pledge. His right-hand man Michael Gove even "concluded" that "the EU trade talks are in effect ended" and the UK is "increasingly well prepared for an Australia style (no-deal) exit".

This twist, however, did not upset all calculations. The sterling had its quietest day in a month last Friday, partly because repetition is numbing, partly because nobody believes a word Johnson says.

The well sought-after Canadian deal was never asked for, and was never on offer. Take, for example, Johnson himself has repeatedly ruled out an extension of Brexit



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transition, which is an imperative for line-by-line negotiations required by Canada-style deal. His bellicose rhetoric is then rightly seen as a ritual brinkmanship, where the UK seeks to cause a chaotic smash-up and extract last-minute concessions. The French have a phrase for this: “jamais deux sans trois” (“never two without three”).

And the weak, as Thucydides wrote, suffer what they must? Not necessarily. European seems to have overplayed its hand on fisheries. If Brexit talk breaks up, the status-seeking Brussels politicians will have to explain to the world why European boats can come to within six nautical miles of the British coast while British boats must abide by the EU’s 12-mile rule. Power, after all, derived more from reputation than prescription. And they know that too well.

Our hunch is that UK and EU leaders will eventually come to their senses. In the weeks ahead, we expect both sides to take pragmatism over stridency.



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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%
			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

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