

Ryan Lam, CFA

Head of Research

ryan.lam@shacombank.com.hk

+852 2841 5283

# Instant Thoughts

3 November 2022

## Lift Is as Much About the Destination as the Journey

- Fed Chair Powell slammed the door on dovish pivot, after an unanimous 75bp rate hike for the fourth meeting in a row.
- “The ultimate level of interest rates will be higher than previously expected.”
- We still believe the stepdown from jumbo rate hike was coming next month to 50bp, as the Fed has deliberately carved out flexibility under the catchall phrase of “cumulative tightening.” We are also penciling in one 50bp hike and one 25bp hikes next year, placing the target range for the policy rate at 5.0-5.25% at its peak.
- The dollar rally is now a marathon, not a sprint.

Halloween passed, but the horror doesn't leave us. Fed Chair Powell slammed the door on dovish pivot, after delivering an unanimous 75bp rate hike for the fourth meeting in a row.

Initially, “the Committee will take into account the cumulative tightening of monetary policy, the lags with which monetary policy affects economic activity and inflation”, a fresh line added in the post meeting statement, was greeted with a combination of excitement and anxiety. But yesterday was a tale of two reactions. Powell's words was the watershed moment, saying “the ultimate level of interest rates will be higher than previously expected.” Sentiment went sour thereafter.

He went at length to explain the risk of too little tightening outweighs the risk of doing too much. “If we were to overtighten, we could then use our tools strongly to support the economy. Whereas, if we don't get inflation under control because we don't tighten enough, now we're in a situation where inflation is now entrenched.”



上海商業銀行  
SHANGHAI COMMERCIAL BANK

So overtightening seems exactly what he plans to do, and we intend to take the words from Powell, an intelligent yet unassuming person, liberally not figuratively. Yet we believe the stepdown from jumbo rate hike was coming next month to 50bp, as the Fed has deliberately carved out flexibility under the catchall phrase of “cumulative tightening.” We are also penciling in one 50bp hike and one 25bp hike next year, placing the target range for the policy rate at 5.0-5.25% at its peak.

Seeing through this lens, the dollar rally is now a marathon, not a sprint.



上海商業銀行

SHANGHAI COMMERCIAL BANK

## Recent Publications

Mistake that Can Never Undo 	Oct 19, 2022
Even Style Isn't Forever 	Oct 7, 2022
Misery Returns from Summer Break 	Sep 19, 2022
Shivering Through the Winter 	Sep 7, 2022
Barking at the Wrong Tree 	Aug 25, 2022
A Symbolic Expression 	Aug 16, 2022
Slouching Away from Eden 	Aug 12, 2022
False Dawn 	Aug 5, 2022
Nothing is as Bad, or as Good as It Seems 	Jul 29, 2022
No Man Ever Steps In the Same River Twice 	Jul 28, 2022
Diving In 	Jul 18, 2022
The Carry Also Rises 	Jul 8, 2022
Pick Your Poison Carefully 	Jun 23, 2022
Upping the Ante 	Jun 16, 2022
Calling Bluff 	Jun 13, 2022
Evolutionary Torrent 	Jun 6, 2022
Fight Another Day 	May 31, 2022
Leaving High and Dry 	May 24, 2022
May Day for Dollar 	May 17, 2022
When Fate Intervened 	May 12, 2022
Dovish Whisper 	May 5, 2022
Running to Stand Still 	Apr 26, 2022
The Lone Dove Is Still Standing 	Apr 14, 2022
Houston, We Have an Inversion! 	Apr 6, 2022
A Horror Show 	Mar 24, 2022
A Clarion Call to Tightening 	Mar 17, 2022
What's Past Is Prologue 	Mar 10, 2022
War and Peace 	Feb 28, 2022
Score Settling 	Feb 21, 2022
Two Wrongs Don't Make a Right 	Feb 15, 2022
The Lady is for Turning 	Feb 7, 2022
With Great Power Comes Great Responsibility 	Jan 27, 2022
Ignorance Is a Bliss, Until It's Not 	Jan 20, 2022



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



上海商業銀行  
SHANGHAI COMMERCIAL BANK

investment may not be able to liquidate immediately under certain market situation. Customers should 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 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