

FX Trade Ideas

13 January 2021

New Ideas and Updates

- We start this year with the view that the USD may weaken in early 2021 amid a resilient risk-on environment (see [2021 FX Outlook](#), 14 Dec 2020). This stance was intact until the market was shaken up by the Democrats picking up both Senate seats in the Georgia run-off elections (5 Jan 2021), gaining control of the Senate and completing the “Blue Sweep”. **The resultant swing higher in back-end UST yields threatened to herald a new market backdrop – one where a higher nominal and real US yields can exert an upward pull on the USD.**
- The broad USD re-engaging its favourable yield differentials to move higher is one of the risks to the weak-USD consensus that was also highlighted in the 2021 FX Outlook. However, we are not completely on the train at this time. **We expect higher US yields to eventually lead the USD higher, but only if it is a reflection of stronger US macro prospects.** At this juncture, even if US data prints have been largely resilient, it is perhaps too early to treat US macro exceptionalism as a base case. **Moreover, even with the up-move in the nominal yields, back-end real yields in the US remain negative.** The move in yields is effectively still a laggard relative to the broader reflation trade in other asset classes.
- Therefore, we expect the sell-USD-on-rally dynamic to re-assert once the USD bounce is exhausted, and have used the opportunity to **selectively re-enter USD shorts against the JPY** (7 Jan 2021, entry: 103.38, T/P: 100.35, S/L: 104.75) **and AUD** (13 Jan 2021, entry: 0.7757, T/P: 0.8027, S/L: 0.7631). The USD-JPY idea was perhaps too early for its time, and better entry levels were missed. Nevertheless, note that USD bounce has failed to breach the structural downtrend in the USD-JPY, and we prefer to stay the course. We also expect the AUD to be more resilient to any USD recovery – reflection of the risk-on environment, better growth prospects, and the commodities rally.

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EXISTING

No.	Inception	B/S	Currency Pair	Entry	Target	Stop	Rationale	P/L since entry (%)
1	07-Jan-21	S	USD-JPY	103.38	100.35	104.75	USD more active than JPY as a haven currency in a risk-on environment; Structural JPY appreciation intact	-0.48
2	13-Jan-21	B	AUD-USD	0.7757	0.8027	0.7631	AUD expected to be more resilient towards USD rebound amid risk-on environment	-0.03

RECENTLY CLOSED

Inception	Exit	B/S	Currency Pair	Entry	Close	Rationale	P/L (%)
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