

FX Trade Ideas

20 January 2021

New Ideas and/or Updates

- A coherent storyline is still lacking within the FX space, with contrasting themes are dragging the broad USD in different directions. The attempt to pull the USD higher on yield differential arguments seemed to have stopped in its tracks after the 10y UST yield lost upside traction near 1.20%, and back-end US real yields remained negative. **Our base view is for the 10y yield to consolidate around the 1.10% handle in the near term**, leaving limited positive impetus on the USD from yield differentials. Into this void, the market seemed to look back to equities (as the harbinger of risk dynamics) as the main driver.
- **This shift back to equities-led and risk sentiment-led directionality, if sustained, should be negative on the USD.** Going forward, Biden's fiscal stimulus, and the ongoing dovishness at the Fed, should be positive equities and risk. The steady hand that is Yellen on the Treasury Secretary seat should also calm nerves at the early stages. It follows then that we remain comfortable in holding on to the long AUD-USD call (13 Jan). We are also comfortable in holding the short USD-JPY call (7 Jan) from a technical perspective after attempts at topside breaches failed on repeated occasions. We will be more comfortable to hold on if the 103.50 support can be breached. **Overall, through the still-mixed signals, we remain net biased for a weaker USD.**
- In light of the still-mixed signals, we hold on to our existing calls, but refrain from adding further short USD positions. On the sidelines, we watch the EUR-USD, which may potentially have found a base. Immediate concerns over Italy may have also eased for now.

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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	-0.41
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	-0.31

RECENTLY CLOSED

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