

## FX Ideas

3 June 2021

### New Ideas and/or Updates

- The broad USD has been contained within a tight range since our previous [FX Ideas](#) (21 May). A meaningful pricing-in of Fed tapering / rate hike expectations has been elusive, and that has resulted in a sell-on-rally stance for the USD. On the flip side, it is also hard to argue against the firm US macro performance, which keeps the floor under the USD, especially since it is already near year-to-date lows.
- We continue to look for opportunities to initiate outright long USD exposure within the G-10 space – and these may arise soon. Note subtle shifts in Fed speak, with increasing admission that it will be appropriate to discuss tapering in the upcoming meetings. Members like Brainard have also started citing two-way risks over inflation. Note also, that aggregate back-end USD-G10 yield differentials are re-widening in the USD's favour. We stay positive that Fed tapering / rate hike expectations may materialize soon. The May NFP (4 Jun) and June FOMC meeting (16 Jun) will be the next key event risks.
- Aside from the Fed, relative central bank dynamics in terms of exiting excessive monetary stimulus should also dictate on the crosses. We have had successes here relating to BOC and CAD-strength. Going forward, we shift the attention to the RBA. Granted that the RBA is likely to rein in on its bond purchase programme in the July meeting, but its forward policy rate guidance remains one of the most dovish among the major central banks (rate hikes unlikely “until 2024 at the earliest”). In contrast, the RBNZ has come out with a clearly hawkish, albeit “conditional”, trajectory. This could leave the RBA a laggard compared to the RBNZ, especially in the 2022-2023 timeframe. In this context, we initiate a **structural short AUD-NZD on 02 June** (entry: 1.0695; TP: 1.0425; SL: 1.0828).
- On the local front, we are perhaps too negative on the pandemic resurgence than we should. MTI rhetoric (25 May) that the negative impacts of the heightened restrictions will be limited to specific sectors, and not trigger a broader decline in economic activity seemed to be well-heeded by the market. Optimism is further imputed earlier this week, when it seemed like the restrictions will end on schedule on 13 June. This has allowed the market to price back in MAS policy expectations, and push the SGD NEER back above the +1.00% above parity mark. Coupled with a broadly soggy USD, the USD-SGD was taken to sub-1.3200 levels, triggering the **stop-loss on our 20 May tactical long USD-SGD** for an implied -0.87% loss.
- Elsewhere, we remain comfortable in holding on to our tactical JPY shorts – the **28 April tactical long AUD-JPY** (marked at +0.52%) and **30 April tactical long USD-JPY** (marked at +0.83%). As seen from our FX Sentiment Index, market sentiment has leaned positive on a multi-session. Global equities and commodity complex have also moved higher, yet, the corresponding up-move in the USD-JPY and JPY-crosses

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has been limited. In addition, the JPY is likely to be most exposed to any tweak in Fed tapering and rate hike expectations. These suggest to us that the upside risks for the USD-JPY and JPY-crosses may not yet be fully priced in.

### EXISTING

| No.               | Inception | B/S | Currency Pair | Entry  | Target | Stop   | Rationale  | P/L since entry (%) |
|-------------------|-----------|-----|---------------|--------|--------|--------|--|---------------------|
| <b>Tactical</b>   |           |     |               |        |        |        |  |                     |
| 1                 | 28-Apr-21 | B   | AUD-JPY       | 84.354 | 87.576 | 82.747 | JPY may be weighed down by renewed gains in back-end UST yields; creeping risk-on sentiment supports the AUD | +0.52               |
| 2                 | 30-Apr-21 | B   | USD-JPY       | 108.87 | 110.98 | 107.78 | UST-JGB yields looking to widen again in the USD's favour  | +0.83               |
| <b>Structural</b> |           |     |               |        |        |        |  |                     |
| 1                 | 02-Jun-21 | S   | AUD-NZD       | 1.0695 | 1.0425 | 1.0828 | RBNZ jumps to the front of hawkish queue alongside BOC; RBA should remain relatively more dovish             | -0.11               |

### RECENTLY CLOSED

| No. | Inception | Exit      | B/S | Currency Pair | Entry  | Close  | Rationale  | P/L (%) |
|-----|-----------|-----------|-----|---------------|--------|--------|--|---------|
| 1   | 16-Apr-21 | 23-Apr-21 | S   | EUR-USD       | 1.1953 | 1.2081 | Back-end UST yields bottoming; EGB-UST yield spread should compress                              | -0.52   |
| 2   | 23-Apr-21 | 30-Apr-21 | S   | AUD-CAD       | 0.9688 | 0.9457 | BOC first to ease off monetary stimulus, relatively hawkish compared to the RBA                  | +2.44   |
| 3   | 11-Mar-21 | 21-May-21 | S   | EUR-CAD       | 1.5043 | 1.4756 | BOC closer to tapering excessive monetary stimulus compared to the ECB                           | +2.09   |
| 4   | 20-May-21 | 01-Jun-21 | B   | USD-SGD       | 1.3305 | 1.3190 | Pandemic situation weighs on the SGD; SGD NEER may revert to parity to +0.50% above parity range | -0.87   |

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