Terence Wu
FX Strategist
+65 6530 4367
TerenceWu@ocbc.com

Treasury Research
Tel: 6530-8384

New Ideas and/or Updates

- A hectic two weeks of central bank policy decisions are now behind us. Let us re-assess the current central bank landscape:

  1. **Fed**: The Fed appears to sit most comfortably with the heightened market expectations. Powell was deft in assessing the inflation situation in relation to the heightened rate hike expectations, giving no explicit push-back nor acknowledgement. His attempt at linking labour market outcomes to rate hikes also diffused excessive rate hike expectations for now. However, this patience may be short-lived if key labour market data outperform in the coming months. Should that actualize, there is room to impute more hawkish expectations at the Fed.

  2. **ECB**: The doves are still in control at the ECB. The doves responded to the uncertain showing at the 28 Oct ECB policy decision with clear push-backs from Lagarde and Lane in the weeks since.

  3. **BOE**: The "unreliable boyfriend" moniker persists as the BOE failed to deliver the rate hike despite posturing for it in the past weeks. Governor Bailey's comments suggest that the labour market was the reason for hesitation, leaving the labour market data releases on 16 Nov key for rate hike prospects in the Dec meeting. Expect the paring back excessive rate hike expectations to continue in the interim.

  4. **BOC and the antipodean central banks:** They have scope to lean hawkish (for the BOC and RBNZ) and less dovish (for the RBA).

- Overall, the relationship between the central banks and the market is still not at equilibrium – expect ongoing reassessment based on data releases and central bank comments. Meanwhile, the paring back of overly hawkish expectations and position adjustments could drive some choppy FX movements in the near term. In particular, the gap between RBA guidance and market expectations is still wide – there is room for the market expectations on the RBA front to consolidate lower. This could be a near term negative for the AUD. Nevertheless, we remain cautious about extrapolating these near term movements longer into the horizon.

- Rate hike expectations across the central bank space higher should settle at levels higher than pre-October levels once the flux settles. This will leave us with an expanded group of hawkish central banks. This makes the laggards, like the ECB and BOJ, stand out even more. Within the expanded group of hawkish central banks, we also need to distinguish between those which should be actually comfortable with hiking (like the Fed), and those which may face questions about their policy decisions (like the BOE).

- We distill these developments and views into its impact on the FX space, and draw following implications:

  1. The Fed-ECB divergence remains the cleanest theme across the central bank space. This leaves us comfortable with holding our **24 Sep structural short EUR-USD** (marked at +1.35%). There is a similar dynamic between the Fed and the BOJ, although the price action on the USD-JPY is too distracted by UST yield movements.

  2. Medium term negativity for the AUD needs to be pared back. The RBA is still nearer the dovish camp, but it is now clear that it is moving towards the neutral space. However, there is immediate downside risks should the hawkish expectations converge towards the latest RBA guidance. In that context, we initiate a **tactical short AUD-USD call on 04 Nov** (Entry: 0.7393, TP: 0.7173, SL: 0.7505, marked at -0.10%).

  3. The BOE's forward guidance confuses more than it guides. We had been cautious about the BOE in the run up to its decision last week (see FX Ideas, 29 Oct), and chose to close the **24 Sep structural short EUR-GBP on 01 Nov** for an implied +1.34% profit. Going forward, there is an argument that a BOE rate hike is actually a policy mis-step. We stir clear of the GBP until we have more clarity on that.

  4. Despite the hawkish BOC, the USD-CAD has failed to find another leg lower, and have instead reverted higher. We **close the 13 Oct tactical short USD-CAD on 09 Nov** for an implied +0.06% return.

EXISTING

No.	Inception	B/S	Currency Pair	Entry	Target	Stop	Rationale	P/L since entry (%)
Tactical								
1	04-Nov-21	S	AUD-USD	0.7393	0.7173	0.7505	CAD supported by strong commodities and crude oil; risk environment also supportive in the near term	-0.10
Structural								
1	24-Sep-21	S	EUR-USD	1.1740	1.1495	1.1861	Extension of hawkish Fed / strong USD thesis; EUR most exposed given structurally dovish ECB	+1.35

RECENTLY CLOSED

No.	Inception	Exit	B/S	Currency Pair	Entry	Close	Rationale	P/L (%)
1	28-Jul-21	07-Oct-21	S	AUD-USD	0.7366	0.7314	RBA remains one of the more dovish central banks; most exposed to risks emanating from China	+0.75
2	15-Sep-21	19-Oct-21	S	AUD-USD	0.7329	0.7440	Latest developments at the RBA should leave it firmly in the more dovish camp; risk-off attempting to take hold on weakening growth	-1.47
3	22-Oct-21	27-Oct-21	S	AUD-CAD	0.9243	0.9320	Potential divergence between BOC and RBA in terms of policy guidance; short term implied valuation model points to more gains for the CAD	-0.83
4	24-Sep-21	01-Nov-21	S	EUR-GBP	0.8557	0.8444	BOE expectations elevated and rate hikes front-loaded in 2022; Potential for GBP to catch up to BOE expectations	+1.34
5	13-Oct-21	09-Nov-21	S	USD-CAD	1.2457	1.2448	CAD supported by strong commodities and crude oil; risk environment also supportive in the near term	+0.06

Treasury Research & Strategy

Macro Research

Selena Ling
Head of Research & Strategy
LingSSSelena@ocbc.com

Tommy Xie Dongming
Head of Greater China Research
XieD@ocbc.com

Wellian Wiranto
Malaysia & Indonesia
WellianWiranto@ocbc.com

Howie Lee
Thailand, Korea & Commodities
HowieLee@ocbc.com

Herbert Wong
Hong Kong & Macau
herberthtwong@ocbcwh.com

FX/Rates Strategy

Frances Cheung
Rates Strategist
FrancesCheung@ocbc.com

Terence Wu
FX Strategist
TerenceWu@ocbc.com

Credit Research

Andrew Wong
Credit Research Analyst
WongVKAM@ocbc.com

Ezien Hoo
Credit Research Analyst
EzienHoo@ocbc.com

Wong Hong Wei
Credit Research Analyst
WongHongWei@ocbc.com