

## FX Ideas

15 September 2021

### New Ideas and/or Updates

- The DXY Index now (15 Sep) stands effectively near the closing level on 27 Aug, the day of Powell's comments at Jackson Hole. With the exception of the NZD and the CHF, most major pairs have also round-tripped during this period.
- We think this lack of directional conviction in the FX space stems from the market running into a standstill relative to two drivers. Firstly, Fed expectations arguably still leans hawkish compared to early June (and therefore USD-positive on balance), but it has not recovered from the Jackson Hole shake-out, as seen from the narrow, rangebound movement in Eurodollar futures. Instead, they have essentially settled into a wait-and-see mode ahead of the Sep FOMC next week (22 Sep). The problem is that even if we do get a tapering announcement, a moderate, middle-of-the-line pace with little insight on the rate hike trajectory may not impart significant USD directionality either.
- Secondly, while the pace of recovery from the pandemic has stalled, this is still an early-stage development, and it remains unclear if it would herald the start of another extended period of slowdown. Thus, the resultant risk-off tilt is a USD-positive, but still seems insufficient to drive sustained USD directionality for now.
- The implication then, is that most major FX pairs seemed to settle within a narrow range. This leaves directional calls outside of the very immediate time horizon, save for the most selective, rather unconvincing. Thus, we have mostly stayed out of raising new ideas this period. On net, we still retain a marginal USD-positive bias, having the **28 Jul structural short AUD-USD** (marked at +0.53%) and the **12 Aug tactical short GBP-USD** (marked at +0.19%) ideas are left to run in the interim.
- We find some scope to double-down on AUD shorts. The stretching out of the taper timeline, and the very explicit pushback from RBA's Lowe on rate hike expectations through early 2023 should have doused any remnant AUD-optimism on the back of the RBA taper. Note that our FX Sentiment Index has been leaning Risk-Off on a multi-week basis. In terms of positioning, the late-Aug to early-Sep run up in the AUD seemed to have encouraged the AUD shorts to load up among the non-commercial accounts, and for leveraged accounts to reverse their held AUD-longs. In this context, we **initiate a tactical short AUD-USD on 15 Sep (entry: 0.7329, TP: 0.7111, SL: 0.7440)**.

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### EXISTING

No.	Inception	B/S	Currency Pair	Entry	Target	Stop	Rationale	P/L since entry (%)
<b>Tactical</b>								
1	12-Aug-21	S	GBP-USD	1.3862	1.3574	1.4014	BOE not a leader in global central banks' hawkish tilt; recovery may slow into 3Q	+0.19
2	15-Sep-21	S	AUD-USD	0.7329	0.7111	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	--
<b>Structural</b>								
1	28-Jul-21	S	AUD-USD	0.7366	0.7049	0.7524	RBA remains one of the more dovish central banks; most exposed to risks emanating from China	+0.53

### RECENTLY CLOSED

No.	Inception	Exit	B/S	Currency Pair	Entry	Close	Rationale	P/L (%)
1	22-Jun-21	25-Jul-21	S	AUD-USD	0.7524	0.7303	RBA dovish for now relative to Fed; RMB re-engaging weakness after strengthening run	+3.04
2	25-Jun-21	25-Jul-21	S	GBP-USD	1.3918	1.3617	BOE unexpectedly dovish; reopening progress in UK delayed	+2.22
3	04-Jun-21	10-Aug-21	S	EUR-USD	1.2111	1.1720	Regardless of near-term shifts in ECB/FED stance, the ECB's b/s expansion outpaces the Fed	+3.34
4	02-Jun-21	16-Aug-21	S	AUD-NZD	1.0695	1.0425	RBNZ jumps to the front of hawkish queue alongside BOC; RBA should remain relatively more dovish	+2.65
5	30-Jul-21	17-Aug-21	S	USD-CAD	1.2451	1.2607	CAD adjustment from 1.2000 may be overdone; Crude regain positive momentum	-1.24
6	15-Jul-21	17-Aug-21	B	USD-CNH	6.4627	6.4879	PBOC again showing signs of dovishness; CFETS RMB Index elevated, provide downside protection	+0.14

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