

### New Ideas and/or Updates

- In the [Daily Market Outlook](#) (11 Oct), we opined that the broad USD may enter a consolidation phase between 93.50 and 94.50 on the DXY Index due to a lack of a new, immediate upside catalyst. The DXY Index has duly touched the two extremes (94.50 on 12-13 Oct and 93.50 on 19-21 Oct) before turning back into the range.
- The drawdown in the DXY Index starting from 13 Oct gave the FX Ideas portfolio a hit. The **24 Sep structural EUR-USD idea** (marked at +0.83%) has been weighed down heavily in the process. In addition, the upswing in cyclicals against the USD has been stronger than expected, causing our **15 Sep tactical short AUD-USD to hit its stop-loss at 0.7440** for an implied -1.47% loss. The overall portfolio, however, is supported in part by the **25 Sep structural short EUR-GBP** (marked at +1.40%) and the **13 Oct short USD-CAD** (marked at +0.98%).
- We are not overly concerned about the recent consolidation lower in the broad USD. We have reiterated that the USD's medium term outlook remains bullish, and it's a matter of being patient for the USD bulls. Going forward, USD bulls can look forward to two potential catalysts. Firstly, the next two weeks are packed full of central bank policy decisions. This may be cue for the market to trade on relative central bank dynamics again, as opposed to being guided by risk and commodities as in recent sessions. A focus on relative central bank dynamics has tended to be USD positive since June, as hawkish Fed remains the central assumption. Secondly, front-end yield differentials have quietly moved in favour of the USD despite the USD decline. Trends this year suggest that such disconnect in front-end yield differentials and FX movements, especially for the EUR-USD and USD-JPY, does not last very long. Do not rule out a re-engagement soon.

**Terence Wu**

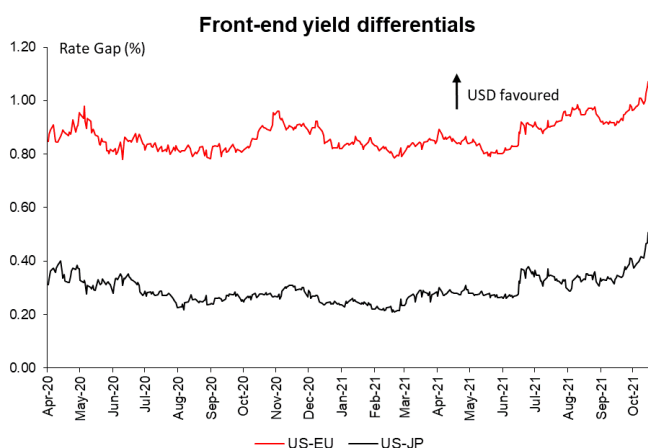
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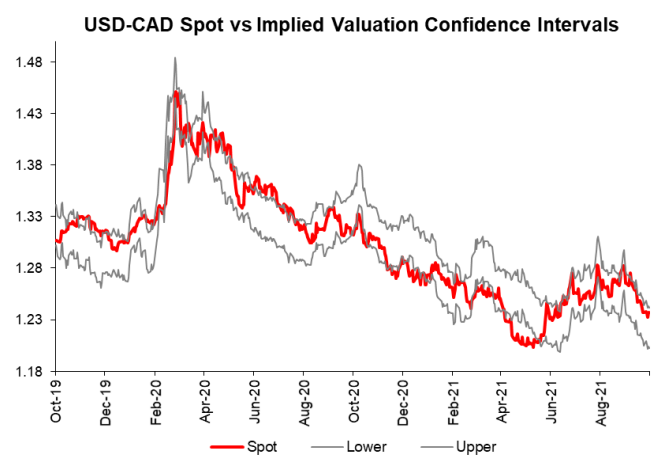
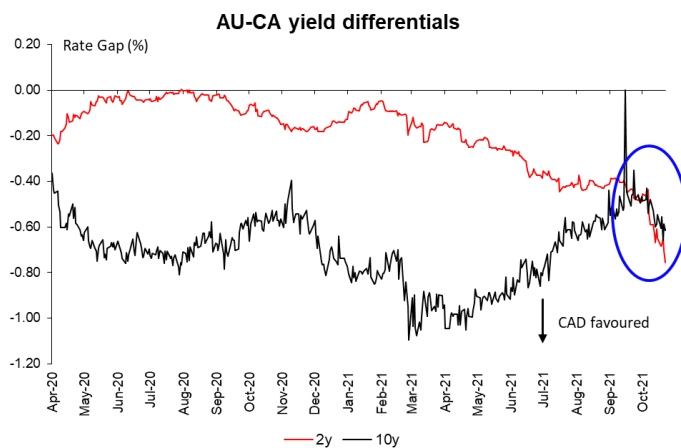
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- The CAD has underperformed the AUD in the recent run-up in the cyclicals, but we are fundamentally more comfortable with backing the CAD (and NZD) than the AUD. Our USD-CAD short term implied valuations suggest that the current spot level is at the high end of

confidence intervals. Any mean reversion should be favourable to the CAD. In contrast, the AUD-USD spot is in the middle of the confidence interval. Both front- and back-end yield differentials are also moving in favour CAD over the AUD, perhaps reflecting a relatively more hawkish BOC than the RBA. These factors led us to **initiate a tactical short AUD-NZD on 22 Oct** (Entry: 0.9243; TP: 0.9088; SL: 0.9320). This allows us to have a relative play on the cyclical without being overly exposed to their trajectory against the USD.



### EXISTING

No.	Inception	B/S	Currency Pair	Entry	Target	Stop	Rationale	P/L since entry (%)
<b>Tactical</b>								
1	13-Oct-21	S	USD-CAD	1.2457	1.2119	1.2626	CAD supported by strong commodities and crude oil; risk environment also supportive in the near term	+0.98
2	22-Oct-21	S	AUD-CAD	0.9243	0.9088	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	--
<b>Structural</b>								
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	+0.83
2	24-Sep-21	S	EUR-GBP	0.8557	0.8315	0.8675	BOE expectations elevated and rate hikes front-loaded in 2022; Potential for GBP to catch up to BOE	+1.40

### RECENTLY CLOSED

No.	Inception	Exit	B/S	Currency Pair	Entry	Close	Rationale	P/L (%)
1	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
2	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
3	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
4	12-Aug-21	20-Sep-21	S	GBP-USD	1.3862	1.3574	BOE not a leader in global central banks' hawkish tilt; recovery may slow into 3Q	+1.49
5	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
6	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

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