

## FX Ideas

24 November 2021

### New Ideas and/or Updates

- The previous [FX Ideas](#) (9 Nov) laid out a largely central bank based FX outlook. In the intervening weeks, the G-10 FX space have mostly progressed in line with our expectations. Our **24 Sep structural short EUR-USD hit its target price at 1.1495 on 10 Nov** for an implied +2.13% gain. This idea should have been extended as it approached the initial target price at 1.1495. The subsequent price movement showed that it would also have hit the theoretical extended target price at 1.1282.
- Going forward, a number of factors still point towards a negative EUR-USD. On the Fed front, the removal of the Brainard Fed Chair question probably lifted a near-term negative weight on the USD (albeit not a significant one in the first place) and UST yields. A Powell Fed will be the continuity outcome, reinforcing the current hawkish Fed consensus. The central discussion surrounding the Fed is the potential acceleration of the tapering process (as seen from Clarida and Waller's most recent comments), and whether the Fed will catch up to the market's rate hike expectations for 2022. Fed-led arguments are still fundamentally positive for the USD, and we have argued that this is best expressed through short EUR-USD. Our views have not changed.
- Europe is also gripped in a new wave of COVID-19 cases. The worsening situation, policy response (more restrictions, full lockdown in Austria etc) and the public's reaction to policy response (limited unrest and violence) will not be market neutral. Expect this to be a EUR-negative. Summing across domestic and Fed-led arguments, we expect the EUR-USD to persist on a heavy tone. 1.1200 should attract. However, given the rapid moves, prefer instead to sell on any relief rally, rather than chasing the pair lower.
- Elsewhere, the **04 Nov tactical short AUD-USD call** (marked at +2.35%) have benefited first from a partial compression of market-implied RBA rate hike expectations towards the RBA's central scenario, and then some renewed risk-off sentiment in the last 3-4 sessions. Overall, our near-term AUD-negative view is not yet fully exhausted, and expect the AUD-USD to be tilted towards the 0.7200 support, especially if the risk-off sentiment persists.
- The AUD-negative view can also be expressed through the AUD-NZD. Ahead of the RBNZ meeting on 24 Nov, NZD longs were pulled as expectations of a 50 bps hike faded. We viewed the resultant NZD sell-off as being overextended, and expected a baseline 25 bps hike by the RBNZ, plus signals of an increased pace of rate hikes in 2022 to be sufficient to keep the NZD in an advantageous position relative to the AUD. In that context, we initiated a **structural short AUD-NZD on 23 Nov (Entry: 1.0410, TP: 1.0215; SL: 1.0509)**. On 24 Nov, the RBNZ duly hiked by 25 bps. The initial reaction was expectedly negative, but the scale of NZD declines were actually relatively muted. Expect this to be a short-lived move.

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### EXISTING

No.	Inception	B/S	Currency Pair	Entry	Target	Stop	Rationale	P/L since entry (%)
<b>Tactical</b>								
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	+2.35
<b>Structural</b>								
1	23-Nov-21	S	AUD-NZD	1.0410	1.0215	1.0509	RBNZ remains structurally more hawkish than the RBA; recent reversal higher overextended	-0.22

### RECENTLY CLOSED

No.	Inception	Exit	B/S	Currency Pair	Entry	Close	Rationale	P/L (%)
1	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
2	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
3	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
4	24-Sep-21	10-Nov-21	S	EUR-USD	1.1740	1.1495	Extension of hawkish Fed / strong USD thesis; EUR most exposed given structurally dovish ECB	+2.13

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