

FX Ideas

30 July 2021

New Ideas and/or Updates

- The FX market reaction towards the July FOMC was decidedly dovish, with the USD taken lower in the subsequent sessions. We thought the statement rhetoric itself was less dovish than market perception, giving clear signals that there is progress towards tapering. Also, note that market-implied Fed rate hike expectations have not materially changed from levels just prior to the July FOMC. Thus, we are not expecting the floor under the USD fall away.
- Having said that, growing Fed expectations is the underlying driver for the USD's gains after the June FOMC. With the Fed (and especially Powell) still unwilling to commit, the positive momentum may have difficulty sustaining. The immediate trajectory for the USD may now be sideways. A period of sideways consolidation between 91.50 and 93.50 for the DXY Index cannot be ruled out.
- Tactical exposure to USD longs has been reduced organically when two of our ideas hit target on 25 July. Given the current context, we further move towards being more neutral on the USD in the near term. We do so by adding a **tactical short USD-CAD on 30 July** (Entry: 1.2451; TP: 1.2130; SL: 1.2607). The USD-CAD adjustment since June may have run its course. Our short term implied valuation for the USD-CAD has started to turn lower amid a recovering commodity complex (among other factors). Meanwhile, the BOC remains committed to their forward guidance, running down asset purchases on schedule and signaling potential rate hike in 2H 2021. Thus, the BOC remains one of the least-dovish central banks. We retain our **15 Jul tactical long USD-CNH** (marked at -0.17%) for now, after a series of fast-moving developments onshore left the pair briefly as high as 6.5287. Expect the pair to be back range-bound between 6.4500 and 6.5000, pending further clarity on the onshore policy front.
- On the structural horizon, we remain in favour of the USD. Our **04 Jun structural short EUR-USD** (marked at +1.95%) took a hit after the July FOMC. We may rotate away from short-EUR should the retracement continue beyond 1.1900. The long-USD exposure, however, is retained through a **structural short AUD-USD idea initiated on 28 July** (Entry: 0.7366; TP: 0.7049; SL: 0.7524; marked at -0.26%). Notwithstanding near term weakness in the USD, the Fed-RBA dichotomy remains stark and should sustain longer term AUD weakness. This is further reinforced by the lack of clear improvement in Sino-US trade relations in the Biden administration. Any tensions on this front should catch the AUD as collateral damage. The **02 Jun structural short AUD-NZD idea** has continued to perform this week. However, RBNZ expectations has moved sharply its July meeting, and much is now baked in (first rate hike potentially as soon as the Aug RBNZ meeting). Should the pair fail to breach immediate support levels at 1.0540, an argument can be made to exit for now and re-enter at potentially better levels.

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EXISTING

No.	Inception	B/S	Currency Pair	Entry	Target	Stop	Rationale	P/L since entry (%)
Tactical								
1	15-Jul-21	B	USD-CNH	6.4627	6.5392	6.4207	PBOC again showing signs of dovishness; CFETS RMB Index elevated, provide downside protection	-0.17
2	30-Jul-21	S	USD-CAD	1.2451	1.2131	1.2607	CAD adjustment from 1.2000 may be overdone; Crude regain positive momentum	--
Structural								
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	+1.36
2	04-Jun-21	S	EUR-USD	1.2111	1.1720	1.1911	Regardless of near-term shifts in ECB/FED stance, the ECB's b/s expansion outpaces the Fed	+1.95
3	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	-0.32

RECENTLY CLOSED

No.	Inception	Exit	B/S	Currency Pair	Entry	Close	Rationale	P/L (%)
1	30-Apr-21	23-Jun-21	B	USD-JPY	108.87	110.98	UST-JGB yields looking to widen again in the USD's favour	+1.90
2	06-Jul-21	08-Jul-21	S	EUR-NZD	1.6847	1.7048	RBNZ rate hike expectations pulled forward, likely the first to hike in G-10 space; ECB still a laggard	-1.16
3	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
4	25-Jun-21	25-Jul-21	S	GBP-USD	1.3918	1.3617	BOE unexpectedly dovish; reopening progress in UK delayed	+2.22

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