Trade Idea – Foreign Exchange

Commodity exporters remain accommodative

22\textsuperscript{nd} January 2016

\textbf{Commodity currencies plunge}

- Commodity currencies (AUD, CAD, NOK and NZD) have come under renewed pressure in 2016 as fresh declines in the oil price have raised the expectations of further interest cuts by respective central banks. Global oil prices have plumbed twelve year lows following the removal of Iranian nuclear sanctions and the release of weak Chinese manufacturing data, all of which have promoted bearish sentiment towards the broader commodity complex. In the very near term, we expect the AUD, CAD, NOK and NZD to resume their decline against the US Dollar, as bearish sentiment lingers and expectations of continued rate divergence with the US build.

\textbf{Potential for additional easing}

- Both Australia and New Zealand have suffered as their respective terms of trade (value of exports/value of imports) have plunged in the face of commodity oversupply and reduced Chinese demand. Last year, the Reserve Bank of Australia (RBA) cut rates twice in order to negate the economic impact of reduced capital expenditure and job reductions in the nation’s mining sector. Meanwhile, the Reserve Bank of New Zealand (RBNZ) cut rates 4 times to prevent the deflationary impact of supressed dairy farming incomes. Since mid-December, the start of oil’s recent drop, market expectations of further interest rate cuts have resurfaced (see Figure 1), with the RBA and RBNZ expected to cut rates at their upcoming monetary meetings on the 29\textsuperscript{th} February and 27\textsuperscript{th} January respectively. We believe that both the AUD/ USD and NZD/ USD exchange rates will come under pressure in coming weeks, as expectations of rate divergence with the US and concerns over the ongoing impact of commodity declines continue to weigh in.

\textbf{Figure 1}

\textbf{Further easing expected...}

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{figure1.png}
\caption{Source: Bloomberg, ETF Securities}
\end{figure}

\textbf{Bearish positioning reaches record high}

- The Bank of Canada (BoC) kept rates on hold at its latest monetary policy meeting this week. This was despite its latest quarterly monetary policy report revealing reduced growth forecasts and concerns over the “complex adjustment” the economy continues to make from its resource to its non-resource sector. This decision to hold off was likely due to the BoC
awaiting the release of the newly elected government’s federal budget, which is likely to include additional fiscal stimulus. We still believe that the BoC may be encouraged to take further action in months to come and the USD/CAD will move higher as a result. This move will also be aided by the build-up of net short CAD speculative positioning to record levels (see Figure 2).

**Figure 2**

Short positioning builds...

![Graph showing short positioning builds](image)

Investors wishing to express the investment views outlined above may consider using the following ETF Securities ETPs:

**Currency ETPs**

**EUR Base**
- ETFS Long AUD Short EUR (EUAU)
- ETFS Short AUD Long EUR (AUEU)
- ETFS Long CAD Short EUR (ECAD)
- ETFS Short CAD Long EUR (CADE)
- ETFS Long NOK Short EUR (EUNO)
- ETFS Short NOK Long EUR (NOEU)
- ETFS Long NZD Short EUR (EUNZ)
- ETFS Short NZD Long EUR (NZEU)

**GBP Base**
- ETFS Long AUD Short GBP (GBAU)
- ETFS Short AUD Long GBP (AUGB)
- ETFS Long CAD Short GBP (GBCA)
- ETFS Short CAD Long GBP (CAGB)
- ETFS Long NOK Short GBP (GBNO)
- ETFS Short NOK Long GBP (NOGB)
- ETFS Long NZD Short GBP (GBNZ)
- ETFS Short NZD Long GBP (NZGB)

**USD Base**
- ETFS Long AUD Short USD (LAUD)
- ETFS Short AUD Long USD (SAUD)
- ETFS Long CAD Short USD (LCAD)
- ETFS Short CAD Long USD (SCAD)
- ETFS Long NOK Short USD (LNOK)
- ETFS Short NOK Long USD (SNOK)
- ETFS Long NZD Short USD (LNZD)
- ETFS Short NZD Long USD (SNZD)

**3x**
- ETFS 3x Long AUD Short EUR (EAU3)
- ETF 3x Short AUD Long EUR (AUE3)
- ETF 3x Long CAD Short EUR (ECA3)
- ETF 3x Short CAD Long EUR (CAE3)

- ETF 3x Long AUD Short GBP (AUP3)
- ETF 3x Short AUD Long GBP (SAP3)

- ETF 3x Long AUD Short USD (LAU3)
- ETF 3x Short AUD Long USD (SAU3)

5x

- ETF 5x Long AUD Short EUR (EAU5)
- ETF 5x Short AUD Long EUR (AUE5)
- ETF 5x Long CAD Short EUR (ECA5)
- ETF 5x Short CAD Long EUR (CAE5)

**Currency Baskets**

- ETF Bullish USD vs Commodity Currency Basket Securities (SCOM)
- ETF Bearish USD vs Commodity Currency Basket Securities (LCOM)

The complete ETF Securities product list can be found [here](#).
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