FX Flash

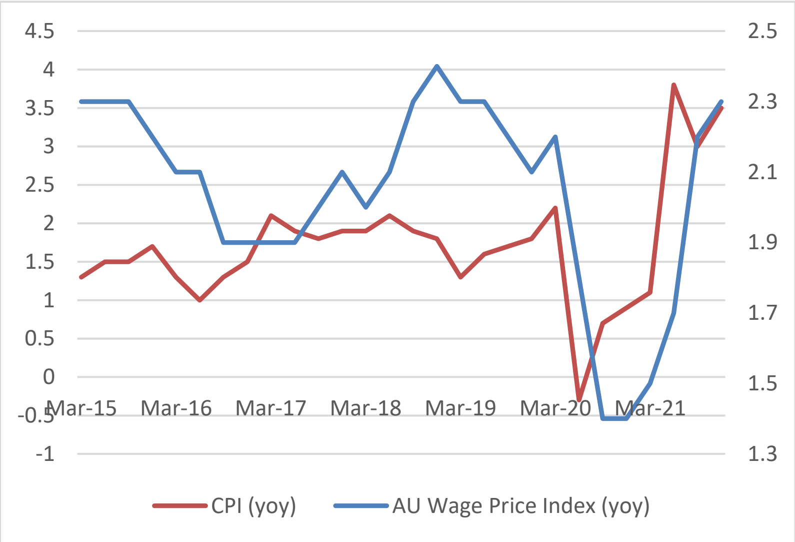
AUD Finally Gets a Boost from RBA

RBA No Longer Patient?

RBA left cash target rate unchanged at 0.10%, interest rate on Exchange Settlement balances at 0%. The central bank made a significant hawkish pivot by dropping the key phrase “prepared to be patient” when it comes to assessing macro conditions for its policy actions. This gels with our expectations for RBA to potentially tilt hawkish today and **we hold our view for RBA to raise cash target rate in Jun 2022 and AUD to remain supported on dips notwithstanding some risks of retracement.**

Also within the statement, inflation is noted to have risen for the country with *further upside risks from the rising costs of fuel and other commodities*. In addition, the RBA noted larger wage increases (a key impetus for rate action) although the wage growth at an aggregate level is still likely to be gradual. Most importantly, assessment of the economy is still an upbeat one with household spending recovering from the impact of Omicron while business investment is still on the rise. **Tightening labour market and rising inflationary pressures are compelling macro conditions for rate hikes, especially from record low of 0.10%.** In addition, recent consumer surveys revealed that households are getting increasingly concerned about inflation and RBA probably see that as another reason to act soon. That said, the Board wants to see “important additional evidence” on both inflation and the evolution of labour costs to decide on policy. **These probably include the 1Q CPI on 27 Apr and 1Q wage price index on 18 May. There is also a minimum wage review to be announced in mid-June and the Australian Council of Trade Unions had recently urged for a 5% increase for the minimum wage, vs. 2.5% last year.**

Wage Growth and CPI Have Been On The Rise



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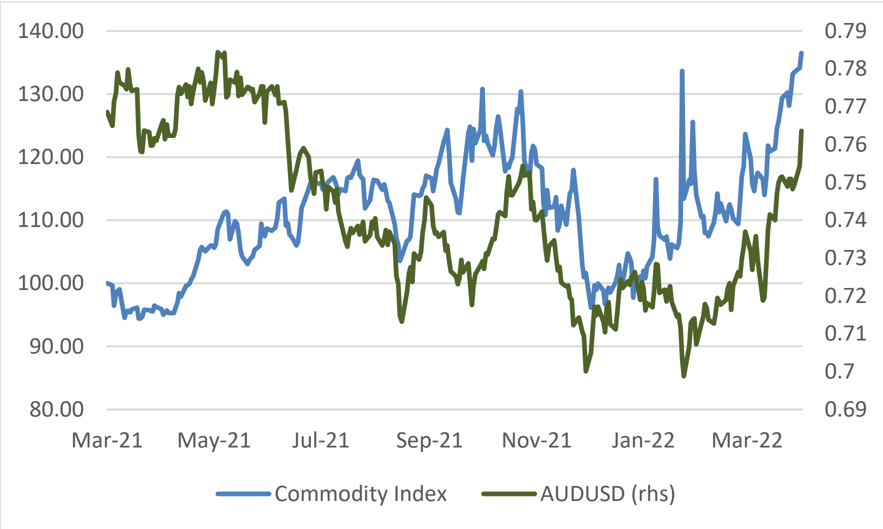
Overall, the RBA has effectively dropped its dovish stance. The reaction of the AUD today could be due to the fact that RBA is finally less uncertain about the inflation outlook and acknowledge the upside risks to inflation. On the other hand, cash rate forwards have clearly run ahead and priced that in already. Cash rate futures implies a 25bps rate hike by June and more than 7 (25bps) rate hikes this year, only a tad more than what was seen yesterday. **AUD could continue to find some support from RBA's monetary normalization plans but we are still wary of retracement risks.**

In fact, AUD has quite a number of underpinning factors including terms of trade factors (copper, iron ore and natural gas), RBA monetary policy normalization as a laggard as well as potential for demand recovery in China that is somewhat underway with infrastructure investment. In addition, AU-US 10y yield differential has widened substantially.

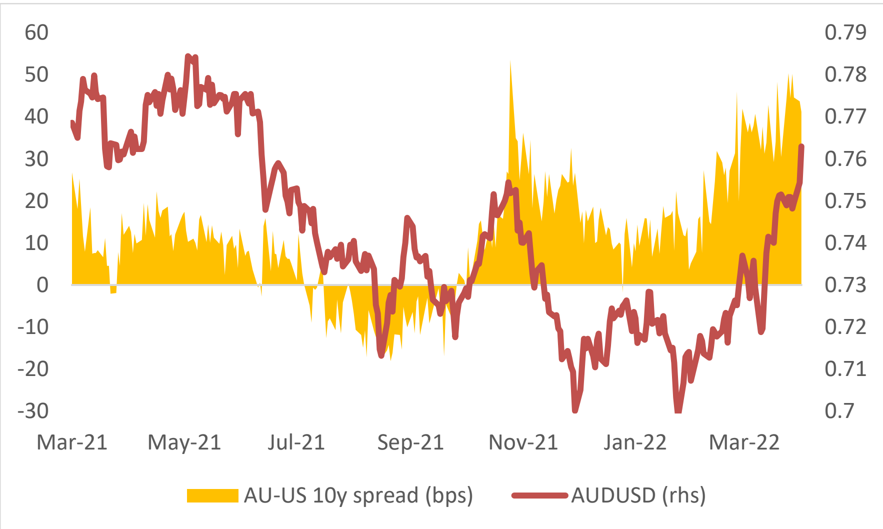
The Rise in Commodity Prices Have Lifted the AUD



Note: Commodity Index consist of equally weighted price of iron ore, natural gas and copper with respective prices on 5 Mar 2021 taken to be 100.

Source: Bloomberg, Maybank FX Research & Strategy

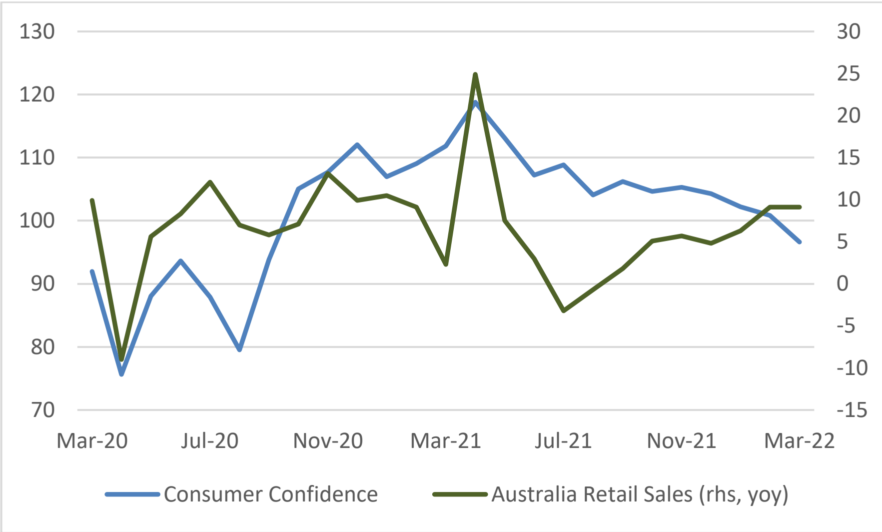
AU-US 10y Yield Differential Widens, Boosting the AUDUSD



Source: Bloomberg, Maybank FX Research & Strategy

In our FX Monthly Issue 3, we had looked for RBA to raise cash target rate in Jun. We continue to hold on to that view as consumers have started to be concerned with inflation and RBA needs to act sooner or risk falling behind the curve. We cannot rule out an earlier rate hike in May but that is not our base case. That suggests a fair amount of support for the AUDUSD into the next few months, in anticipation of the first rate hike since 2009.

Australia's Consumer Sentiment Has Been on a Decline



Source: Westpac-Melbourne Institute, ABS, Maybank FX Research & Strategy

The additional boost from the war-triggered commodity poses upside risks to our AUDUSD forecast at 0.75 for the year-end.

However, there could be a time for AU-US yield differential to narrow once it becomes clear that Australia is not likely to have the same rate hike trajectory as other developed peers including the Fed. RBA has noted that Australia's inflation remains lower than other countries. In addition, the aggressive run-up in the cash rate forwards suggest rate hikes could also be priced in to a fair extent and adds to retracement risks of the AUD at some point. We thus prefer to accumulate on pullbacks rather than to chase AUDUSD longs from here.

AUDUSD (Weekly) – Potential Pullback Opportunities for late Bulls

Momentum indicators are bullish but late entrants can wait for pullback opportunities as a rising wedge has formed which typically precedes a bearish retracemenet. Support is seen around 0.7487 (50% Fibonacci retracement of the 2021-2022 decline) before the next at 0.7365 (38.2% fibo). Resistance is seen around 0.7610 before the next at 0.7762.

Source: Bloomberg, Maybank FX Research & Strategy

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