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Maybank

Macro | FX Research and Strategy

Global

FX Flash

Capitalizing on the Upside of the USD

The USD Resurges

We like to Sell USDJPY on Rally; Buy AUDUSD on dips; Long the USDCAD on Dips.

The King USD is hard to dethrone, especially when the DXY index is 60% weighted against the EUR. Ahead of the ECB meeting this Thu, the EUR is dragged lower as market players start to anticipate a bigger surprise from the central bank (a 10bps cut at this meeting instead of just "paving the way for a cut in Sep") ahead of the FOMC meeting next week. That has brought the EURUSD under the 1.12-figure as we write.

In addition, some political uncertainties stemming from a potential snap election speculated in Italy did not help the EUR in the least. Not far elsewhere, we await the announcement of the next Prime Minister of UK and the front-runner is Boris Johnson (aka Bojo) who is keen to get the UK out of the EU, "with or without a deal". Even though BoJo's ability to force through a no-deal Brexit has been significantly reduced by parliament, a successful BoJo armed with some colourful pro-Brexit comments, coupled with potential resignations among key ministers, could still cause the GBP to dip mildly again. The combination of EUR-woes, GBP-Brexit concerns and Trump's announcement of a bipartisan deal to suspend the US debt ceiling thus lifted the DXY index towards mid-97 levels today.

With two-days left ahead of ECB's rate decision on Thu, we see potential for USD to head a tad higher and that give rise to more opportunities to lean against the USD strength.

DXY Index (Weekly Chart) - Moves Higher to Be Resisted

Source: *Bloomberg, Maybank FX Research & Strategy*

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USDJPY - Upside This Week, Gone the Next?

We've been calling for rebound risk in the USDJPY this past week and the call seem to be coming to fruition. The USDJPY has begun trending higher today, even after undoing the effects of NY Fed Williams' comments (which had ignited bets on 50bps Fed cuts, and subsequently got clarified as "academic" in nature). In light of the positive momentum in the pair today, we review the factors underpinning our calls for rebound risk in USDJPY.

Before ECB's decision on Thurs, we still look for upside bias in the USDJPY pair. PM Abe's ruling coalition (LDP and Komeito) won 57.5% of Upper House seats, compared to 62.2% pre-elections, and short of the two-thirds majority required to pursue more aggressive objectives, such as revising the country's constitution. This would mean that short-term focus of the coalition could continue to be on growth-enhancing policies, to anchor their support base. More details would likely be forthcoming this week. The political win likely also means that the planned sales tax hike (from 8% currently to 10% in October) would likely take place, which could cause the front-loading of consumption within the next few months and support growth somewhat. There are also reports of increased spending on infrastructure ahead of the 2020 Tokyo Olympics. There is a new sewage system, new luxury hotels and 21km of monorail from new international airport to downtown. 100km of roads around the city centre for instance, has been resurfaced with a new reflective material to ward off threat of a record heatwave next year.

These factors could support equities in the interim, as seen from the recovery in the Nikkei 225 from a Jul trough of 21030 last Thurs to 21618 (almost 2.8% gain). In line with the robust sentiments in equities this week, USDJPY could likely remain supported (see positive correlation in Chart; i.e., negative correlation between Nikkei and Yen strength). This is also in line with our call for USD to be supported heading into the ECB rate decision.

Firmer Equities Led the USDJPY Higher

Source: Bloomberg, Maybank FX Research & Strategy

Turning Bearish on the USDJPY Beyond The Near-Term

Post-this week however, several JPY-positive factors (weigh on USDJPY) could come to the fore. First, the trade spat with South Korea (over historical animosity stemming from Japan's past colonization of the Peninsula) could begin to weigh on Japanese exporters. Thus far negative market sentiments have largely been directed at Korean firms, after Abe restricted exports to South Korea of three materials needed for production in semiconductors and smartphone displays. But there are signs that these are changing.

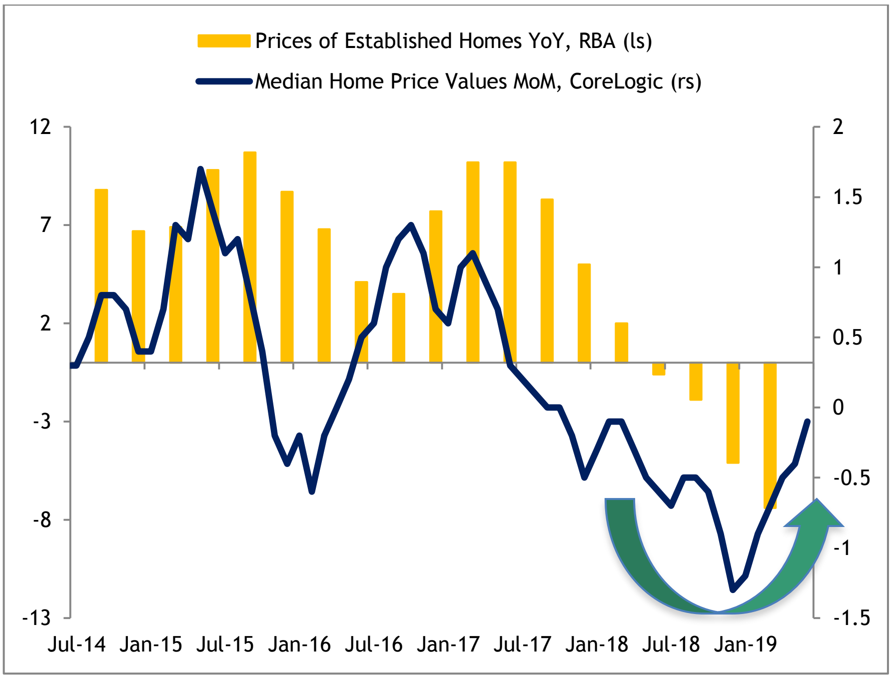
A public backlash in South Korea against Japanese products is gathering momentum, and has already posed a drag on sales of some beer and tour packages. The boycott could also potentially spread to luxury cars and retailers. This could start weighing on Japanese equities once the initial relief post Abe's political win passes, and weigh on the USDJPY pair. These developments could potentially also coincide with tentative USD softness once the ECB rate policy decision passes, as investors reposition for FoMC next week.

Given the above, we think that there is a fair chance of USDJPY heading towards 108.50 (50 DMA) in the lead-up to the ECB decision, or at least remain supported somewhat. Any upward moves, however, are unlikely to breach 108.90 (38.2% fibo retracement from 2019 high to low). Momentum on the daily charts is mildly positive and stochastics also seem to be turning around from near-oversold conditions. Post ECB-policy however, the situation is more murky (with ECB tones, expectations on Fed action, Korea-Japan trade spat developments all coming into play), but there's a chance of net impact of the above weighing on the USDJPY pair instead.

Constructive on The AUD, Still has Chance to Buy on Dips

We hold the view that the AUD should not see a lot more downsides from where it is as there are increasing signs of stabilization in the housing sector (price falls are less negative) and the window of opportunity provided by the RBA who would wait on the sidelines for the rest of the year to monitor the effect of its accumulated 50bps cut on the real economy as well as the fiscal impulse that the Federal Government has provided via the tax cuts passed in the parliament earlier this month. More than 10 million taxpayers will receive tax relief of up to $1080 over the next three years. In addition, reinvigoration of the infrastructure could also spur the domestic demand. The factors mentioned lifted the AUDUSD from its low of 0.68 in Jun to almost 0.71-figure in the past one month, in an environment where US and China declared ceasefire (again).

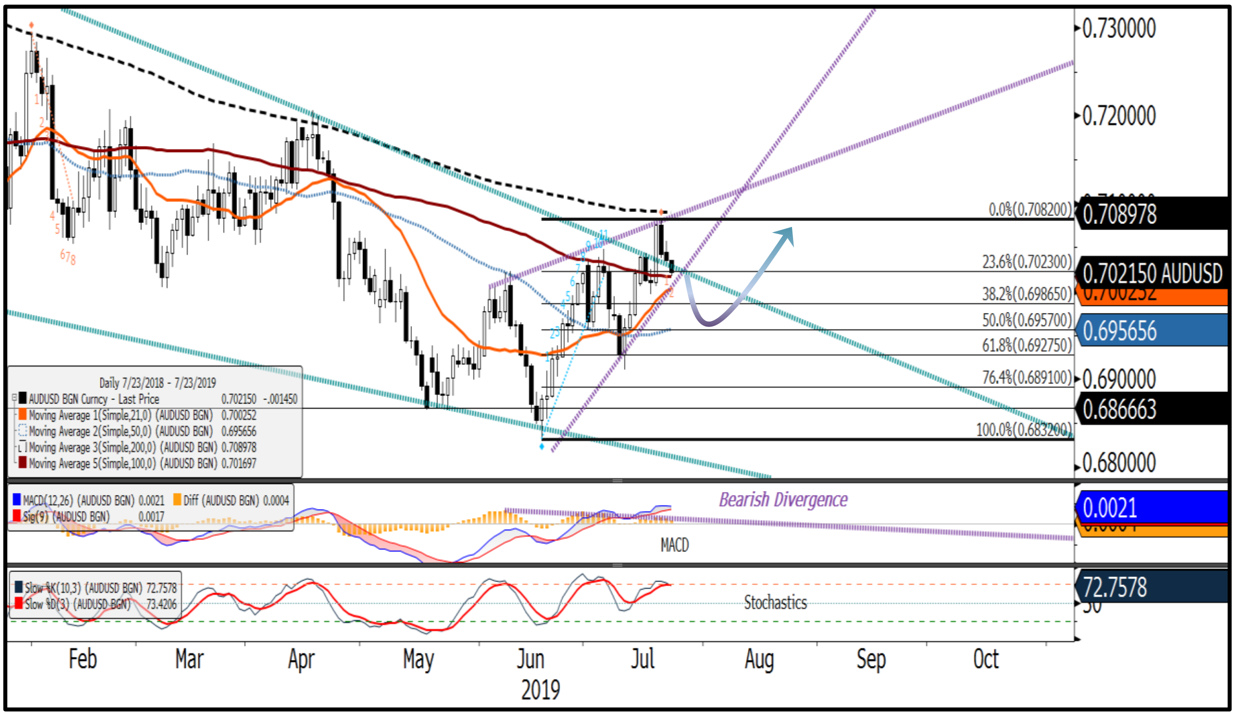
Australia's Housing Sector Shows Signs of Bottoming



Source: Bloomberg, Maybank FX Research & Strategy

That said, we see signs of retracements for the AUDUSD lower towards 0.6950 (50% Fibonacci retracement of the Jun low to Jul high, 50-dma) before the next at 0.0690 before the next move higher as shown in the chart below. There is a rising wedge formed (marked by the purple dotted lines) as well as a bearish divergence with the MACD forest. This is in line with our view for the USD profile to peak after the ECB meeting as we look for market players to come to a realization that the room for ECB to ease is limited compared to the Fed. 21-dma is at the brink crossing above the 100-dma and then en-route towards the 200-dma, underpinning our bullish bias for this pair.

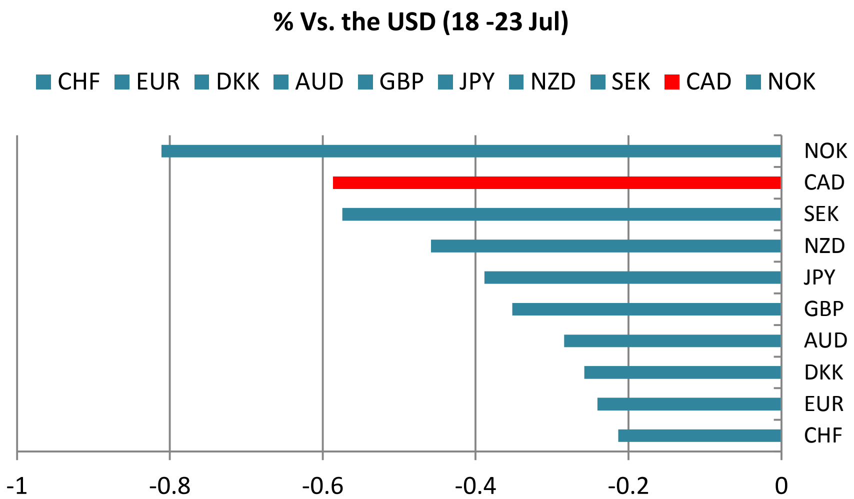
AUDUSD (Daily Chart) - Another Chance for Bargain Hunters?



Source: *Bloomberg, Maybank FX Research & Strategy*

Turning Negative on The CAD, Regardless

USDCAD - A Potential Boost as BoC Becomes the Laggard to Ease



Source: *Bloomberg, Maybank FX Research & Strategy*

Another pair that has seen quite a substantial move up alongside the USD is the USDCAD in the past few sessions as CAD becomes increasingly sensitive to the underperformance of its own data that could shift bets towards a more dovish BoC. We think that the USDCAD has a bit more steam to go should it break the bearish trend channel. In addition, the Bank of Canada seems to have somewhat loosened mortgage restrictions by lowering the 5-year conventional mortgage rate (used as a qualifying rate in mortgage stress tests) last week from 5.34% to 5.19% and while that is not expected to provide a strong lift to the housing sector, it is also taken as a nod to slowing housing credit growth that was blamed on the stress test.

USDCAD (Daily) - Bottoming Soon?

Source: Bloomberg, Maybank FX Research & Strategy

We see signs that the USDCAD could bottom and the first upmove could be spurred by the EUR weakness leading up to the ECB decision this Thu. Thereafter, USD softness may resume but we look for the break of the 1.3145 that could trigger more upside towards the 1.3290 (near the 50% Fibonacci retracement of the Jun-Jul decline). BoC has been upbeat on its assessment of the economy for much of this year with its May statement noting that the "recent data have reinforced view that the slowdown in late 2018 and early 2019 was temporary" and in July's statement "Canadian economy is returning to potential growth" whilst acknowledging that the "outlook is clouded by persistent trade tensions". We see potential for USDCAD to be a buy on dips as the recent of run of strong data may stand at risk of losing steam. Retail sales for May dropped unexpectedly and the wholesale trade sales for the same month also registered an unanticipated decline of -1.8%m/m. In addition, the softer USD profile could also be negated by a fall in crude that is negative for the CAD. *Break of the 1.3145 to clear the way for more upside towards first target at 1.3225 (38.2% fibo), 1.3260, 1.3330 (100-dma). Stoploss at 1.3060.*

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