

## FX Weekly

# Lower Yielders Rise at the Expense of USD

### The Week Ahead

- **Dollar Index - Ease.** Support at 96.50; Resistance at 98.30
- **USD/SGD - Pullback.** Support at 1.3610; Resistance at 1.3830
- **USD/MYR - Supported.** Support at 4.1670; Resistance at 4.2020
- **AUD/SGD - Range.** Support at 0.9440; Resistance at 0.9640
- **SGD/MYR - Runaway Gap.** Support at 3.04; Resistance at 3.06

### Not All Risk Offs are USD Positive; Environment Matters

Given the classical risk-off tone in markets where equities, oil prices fell while bond, gold prices rose, one would have expected USD to be much firmer. But that was not quite the case. Lower yielders such as JPY, CHF, EUR and even some AXJs were much better bid at the expense of the costly USD. And we are inclined to say that *recent price action just validated what we've been calling for - DXY strength to fade*. True that market typically buys USD on fears of no trade deal, etc. But we argued that trade tensions can also hurt US growth, jobs creation and financial markets. Potentially the Fed may even need to ease monetary policies at some stage. In this environment where US growth/activity outlook starts to dim, flight to quality flows should favor JPY CHF and EUR. As such DXY strength could be curbed. Pullback in USDAXJs may find support as trade tensions remain in the background. This week we watch out for further cues from Fed Chair Powell (Tue and Clarida (Wed). On data, a softer than expected print on US ISM (Mon), ADP (Wed), NFP (Fri) could further drag USD lower.

### ECB Hold; RBA and RBI to Cut 25bps This Week

ECB is likely to announce further details to its TLTRO-3 program (scheduled to start in Sep) this Thu and we do not rule out another dovish tilt but do not expect a change in policy settings. Elsewhere we expect RBA and RBI to cut rate by 25bps at their respective MPC meetings on Tue and Thu, respectively. AUD may not tank on the cut as it is priced in but guidance matters. Markets are now pricing in more than 2 cuts. Less dovish than expected guidance could even see AUD rebound.

### US ISM, NFP; EU CPI; AU GDP; German IP on Tap This Week

Key data this week: US ISM Mfg today. For Tue, Fed's Chair Powell to speak; US durable goods, factory orders; EU CPI; AU retail sales; NZ terms of trade, GDT dairy auction; UK construction PMI. For Wed, US ISM non-Mfg, ADP employment; Fed's Clarida to speak; EU PPI, retail sales, services PMI; AU GDP; UK, JP, China services PMI; Philippines CPI. For Thu, US trade; EU GDP; German factory orders; ECB's Draghi speaks; AU trade; BoE's Carney speaks. For Fri, US unemployment rate, NFP, hourly earnings; German trade, industrial production; PM May steps down; FX reserves from China, Singapore and Philippines. Plenty of market closures in Asia this week including ID the whole week; SG on Wed; MY on Wed, Thu; KR, IN on Thu and China, HK, TW on Fri.

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Our in-house model implies that S\$NEER is trading around 0.8% above the implied midpoint of 1.3843, suggesting that it is on the stronger side vs. other trading partner currencies.

Currency	Direction	Support/Resistance	Key Data and Events This Week
Dollar Index		S: 96.50; R: 98.30	<ul style="list-style-type: none"> <li>Mon: ISM Mfg (May); Fed's Quarles, Barkin, Bullard speak;</li> <li>Tue: Fed's Powell, Williams speak; Factory Orders, Durable Goods (Apr);</li> <li>Wed: ISM non-Mfg, ADP employment (May); Fed's Clarida, Bostic, Bowman speak;</li> <li>Thu: Fed's Kaplan, Williams speak; Trade (Apr);</li> <li>Fri: NFP, Unemployment rate, hourly earnings (May);</li> </ul>
EURUSD		S: 1.1120; R: 1.1280	<ul style="list-style-type: none"> <li>Mon: Mfg PMI (May);</li> <li>Tue: Unemployment rate (Apr); CPI core (May);</li> <li>Wed: Services PMI (May); PPI, Retail Sales (Apr);</li> <li>Thu: GDP (1Q); ECB Governing Council Meeting; ECB's Draghi speaks; German Factory orders (Apr);</li> <li>Fri: German trade, Industrial production (Apr)</li> </ul>
AUDUSD		S: 0.6860; R: 0.7030	<ul style="list-style-type: none"> <li>Mon: - Nil -</li> <li>Tues: RBA Meeting; Retail Sales (Apr); RBA's Lowe speaks;</li> <li>Wed: GDP (1Q); PMI Services (May); RBA's Heath speaks;</li> <li>Thu: Trade (Apr);</li> <li>Fri: Home Loans, Investment Lending (Apr)</li> </ul>
NZDUSD		S: 0.6450; R: 0.6630	<ul style="list-style-type: none"> <li>Mon: - Nil -</li> <li>Tue: Terms of Trade (1Q); GDT Dairy Auction;</li> <li>Wed: - Nil -</li> <li>Thu: ANZ Commodity Price (May)</li> <li>Fri: - Nil -</li> </ul>
GBPUSD		S: 1.2560; R: 1.2750	<ul style="list-style-type: none"> <li>Mon: Mfg PMI (May);</li> <li>Tue: Construction PMI (May);</li> <li>Wed: Services PMI (May); BoE's Ramsden speak;</li> <li>Thu: BoE Governor Carney speaks;</li> <li>Fri: Halifax House Prices (May); PM May Steps Down</li> </ul>
USDJPY		S: 106.90; R: 109.50	<ul style="list-style-type: none"> <li>Mon: Capex, Company profits (1Q);</li> <li>Tue: - Nil -</li> <li>Wed: PMI Services (May);</li> <li>Thu: BoJ Kuroda speaks;</li> <li>Fri: Labour Cash Earnings, Household Spending (Apr)</li> </ul>
USDCNH		S: 6.8600; R: 6.9400	<ul style="list-style-type: none"> <li>Mon: Caixin Mfg PMI (May);</li> <li>Tue: - Nil -</li> <li>Wed: Caixin PMI Services (May);</li> <li>Thu: - Nil -</li> <li>Fri: FX Reserves (May)</li> </ul>
USDSGD		S: 1.3610; R: 1.3810	<ul style="list-style-type: none"> <li>Mon: PMI (May);</li> <li>Tue: - Nil -</li> <li>Wed: - Nil -</li> <li>Thu: - Nil -</li> <li>Fri: FX Reserves (May)</li> </ul>
USDMYR		S: 4.1670; R: 4.2020	<ul style="list-style-type: none"> <li>Mon: Trade (Apr); PMI (May)</li> <li>Tue: - Nil -</li> <li>Wed: - Nil -</li> <li>Thu: - Nil -</li> <li>Fri: - Nil -</li> </ul>
USDPHP		S: 51.50; R: 52.00	<ul style="list-style-type: none"> <li>Mon: PMI Mfg (May);</li> <li>Tue: - Nil -</li> <li>Wed: CPI (May); Unemployment rate (Apr);</li> <li>Thu: - Nil -</li> <li>Fri: FX Reserves (May)</li> </ul>
USDIDR		S: 14,100; R: 14,400	<ul style="list-style-type: none"> <li>Mon: - Nil -</li> <li>Tue: - Nil -</li> <li>Wed: - Nil -</li> <li>Thu: - Nil -</li> <li>Fri: - Nil -</li> </ul>

Sources: Bloomberg, Maybank FX Research &amp; Strategy

## Selected G7 FX View

Currency	Stories of the Week
<b>DXY Index</b>	<p><b>ISM, NFP, Powell, Clarida Speaks to Provide Cues.</b> Our call in the last FX Weekly (24 May) looking for DXY to pullback lower came into play as the run-up to 98.3 failed again for the third time, making 98.3 level an interim triple top. Daily momentum shows signs of turning bearish. ADX shows strength of uptrend is showing signs of fading. Area of support here at 97.5 (50 DMA) - 97.7 (21 DMA). Break below this targets a move towards 97 (100 DMA), 96.50 (200 DMA). Immediate resistance remains at 98.3 levels (interim triple top).</p> <p>Given the classical risk-off tone in markets where equities, oil prices fell while bond, gold prices rose, one would have expected USD to be much firmer. But that was not quite the case. Lower yielders such as JPY, CHF, EUR and even some AXJs were much better bid at the expense of the costly USD. And we are inclined to say that <b>recent price action just validated what we've been calling for - DXY strength to fade.</b> True that market typically buys USD on fears of no trade deal, etc. But <b>we argued that trade tensions can also hurt US growth, jobs creation and financial markets. Potentially the Fed may even need to ease monetary policies at some stage.</b> In this environment where <b>US growth/activity outlook starts to dim, flight to quality flows should favor JPY and CHF while EUR could somewhat retain its relative resilience.</b> As a result <b>DXY strength could be curbed.</b></p> <p>In addition last week, <b>Fed Vice Chair Clarida discussed the possibility of Fed rate cut</b> (for the first time this year) though he did stress that US economy is in a “very good place” with unemployment low and inflation subdued. In his Q&amp;A session after his speech at the Economic Club of NY overnight, he said the Fed was “very attuned to the risks to the outlook and if they crystallised it could be a reason for more accommodative monetary policy”. He added that if incoming data were to show a persistent shortfall in inflation below 2% objective or to indicate that global economic and financial developments present a material downside risk to baseline outlook then there are developments that the FoMC would take into account in assessing the appropriate stance”. Markets are now pricing in nearly 80% chance of Fed rate cut as soon as at the Sep FoMC meeting (vs. 50% a month ago).</p> <p><i>Focus this week on ISM Mfg (May); Fed's Quarles, Barkin, Bullard speak on Mon; Fed's Powell, Williams speak; Factory Orders, Durable Goods (Apr) on Tue; ISM non-mfg, ADP employment (May); Fed's Clarida, Bostic, Bowman speak on Wed; Fed's Kaplan, Williams speak; Trade (Apr) on Thu; NFP, Unemployment rate, hourly earnings (May) on Fri.</i></p>
<b>EUR/USD</b>	<p><b>Focus on ECB, Italy's Budget.</b> EUR reversed early week's weakness into NY close last Fri. And price action remains dominated by concerns and relief with Italy - internal politics and its budget impasse with EU. Italy told EC that it plans to launch “a comprehensive plan of spending review and revenue enhancement” (in response to EC asking Italy for explanations with regards to budget). Italy's Finance Minister acknowledged that “in principle a higher primary surplus would be necessary in order to put the debt ratio on a clear downward path but the question is the time and extent of the adjustment... He added that drop in global trade and manufacturing activity in 2H 2018 was abrupt and deeper than expected, raising the difficulty of promptly introducing offsetting measures. At any given rate, given continuing high unemployment and near-deflationary conditions, the introduction of restrictive fiscal measures would have been counter-productive”. The EC is due this week to decide whether to impose disciplinary procedure involving a EUR3.5bn penalty on Italy.</p> <p>At the upcoming GC meeting (6 Jun), we expect ECB to reiterate its commitment to maintain key policy rates including Main Refinancing operations, deposit facility and marginal lending facility on hold at 0%, -0.4% and 0.25%, respectively till end-2019. Further details on the terms and conditions for 3rd tranche of TLTRO (announced in Mar-2019 and starting in Sep-2019) is expected at the Jun GC. We do not rule out another dovish tilt as recent ECB minutes indicated that ECB policymakers seem concerned that Euro-area growth is weaker than feared as ECB acknowledged that “recent data had turned out even weaker than expected and there was now somewhat less confidence in the baseline scenario for growth and that the range of other possible outcomes had widened”. But cutting policy rate or unleashing further stimulus does not fall within our expectations as inflationary pressure remain evident and growth slowdown in German is likely one-off and current policy accommodation and TLTRO as backstop are sufficient.</p> <p>EUR was last seen at 1.1180 levels. Daily momentum turned mild bullish. Resistance at 1.1210 (50 DMA) and 1.1280 (100 DMA). Support at 1.1180 (21 DMA), 1.1120 (interim double bottom). Range-</p>

bound play in the range of 1.1110 - 1.1280 is not ruled out.

*Focus this week Mfg PMI (May) on Mon; Unemployment rate (Apr); CPI core (May) on Tue; Services PMI (May); PPI, Retail Sales (Apr) on Wed; GDP (1Q); ECB Governing Council Meeting; ECB's Draghi speaks; German Factory orders (Apr) on Thu; German trade, Industrial production (Apr) on Fri.*

**GBP/USD** **Death Cross (bearish bias) or Oversold (rebound) or Both?** PM May is due to step down this Fri. Questions remain over who PM May's successor will be, if a fresh GE may be held soon, if Brexit date (of 31 Oct 2019) will be delayed again and how the brexit process (hard brexit or soft brexit bias) could change going forward. Uncertainty on this front provides a challenging climate for GBP going forward.

Pair was last seen at 1.2640 levels. 50 DMA crossed 200 DMA to the downside - death cross - a bearish signal. Bearish momentum on daily chart is fading while stochastics is showing signs of rising from oversold territories (Rebound risks). We do not rule out rebound risks in the near term but corrective rebound may not last and is likely to be capped at 1.2690, 1.2750 levels. Support at 1.2560, 1.2440.

*Focus this week on Mfg PMI (May) on Mon; Construction PMI (May) on Tue; Services PMI (May); BoE's Ramsden speak (Wed); BoE Governor Carney speaks (Thu); Halifax House Prices (May); PM May Steps Down (Fri).*

**USD/JPY** **Cautious of Near Term Short Squeeze; Sell Rallies Preferred.** Our call for USDJPY to head lower (in the last FX Weekly) met our objective at 108.60. In fact the pair continued to trade to near-5 month low of 108.06. Risk-off (equities lower, UST yields lower) play continues to drive the pair lower.

Pair was last seen at 108.30 levels. Bearish momentum on daily chart remains intact but stochastics has fallen into oversold conditions. We are cautious that a short squeeze to the upside could take place. Resistance at 109.10, 109.50. Look to sell rallies again looking for a move lower towards 107.50, 106.90.

*Focus this week on Capex, Company profits (1Q) on Mon; PMI Services (May) on Wed; BoJ Kuroda speaks on Thu; Labour Cash Earnings, Household Spending (Apr) on Fri.*



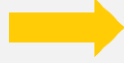


**AUD/USD** **RBA's Guidance Matters More than Rate Decision.** AUD traded higher, in line with our call for bullish divergence play. Upside momentum is still gaining for this pair even as a rate cut is expected tomorrow. Moves in the AUD underscores the fact that the rate cut tomorrow is 99% in the price and risks are to the upside should RBA appear to be less dovish than expected. In fact the futures implied rate price in more than 2 rate cuts by the end of the year and we caution that RBA's guidance matters more than rate decision. If the guidance is less dovish than expected, AUD could even see further upside play out. Pair was last seen at 0.6950 levels. Bullish momentum on daily chart is intact while stochastics is rising. An extended run higher towards 0.6995 (38.2% fibo retracement of Apr high to May low), 0.7030/40 (50% fibo, 50 DMA) should not be ruled out. Support at 0.69, 0.6860.

*Focus this week on RBA Meeting; Retail Sales (Apr); RBA's Lowe speaks on Tue; GDP (1Q); PMI Services (May); RBA's Heath speaks on Wed; Trade (Apr) on Thu; Home Loans, Investment Lending (Apr) on Fri.*

**NZD/USD** **Making a Soft Bottom in the Interim.** NZD drifted modestly higher as focus on US-China trade was shifted to US-Mexico. Pair was last seen at 0.6560 levels. Bullish momentum on daily chart remains intact while stochastics is rising. Area of resistance at 0.6550 - 0.6570 needs to be decisively broken for further up-move towards 0.6630 levels to gain traction. Failing which the pair could ease to trade 0.6480 - 0.6550 range. Area of support at 0.6430 (Oct low) - 0.6485 (a "soft bottom").

*Focus this week on Terms of Trade (1Q); GDT Dairy Auction on Tue; ANZ Commodity Price (May) on Fri.*

## Technical View: MYR Crosses

MYR Crosses	Direction	Support/Resistance	Stories of the Week
SGD/MYR		S: 3.0300; R: 3.0600	<b>Mild Bias to the Upside but Mind the Gap.</b> SGDMYR gapped higher this morning; last seen at 3.0490 levels. Move higher was consistent with our call (in last FX Weekly). Bearish momentum on daily chart remains shows tentative signs of fading while stochastics shows early signs of turning higher. Mild bias to the upside. But watch out if the gap higher on Mon represents a runaway gap or if the gap gets filled. Immediate resistance at 3.0520, 3.06 levels. Support at 3.0420 (21 DMA), 3.0360 (50 DMA).
AUD/MYR		S: 2.8900 R: 2.9480	<b>Buy Dips or Buy on Break.</b> AUDMYR drifted modestly higher. Last seen at 2.9040 levels. Bullish momentum on daily chart remains intact while stochastics is rising towards near-overbought conditions. 50DMA looks on track to cut 100 DMA to the upside - bullish signal. Gains could further gain traction on break above 2.9170 (23.6% fibo retracement of Dec high to 2019 triple bottom). Next resistance at 2.9480 (200DMA, 38.2% fibo). Support at 2.8960 (21 DMA), 2.8650 (triple bottom). Buy dips preferred or buy on the break.
EUR/MYR		S: 4.6500; R: 4.7200	<b>Ascending Triangle or Triple Top Bearish Reversal?</b> Run-up in EURMYR failed at 4.69 again as the cross backed off. Last seen at 4.6725 levels. Daily momentum shows signs of turning bearish bias while stochastics is turning lower. A pullback lower likely. But a potential ascending triangle pattern is in the works - a bullish pattern. Watch support at 4.6650. A break below that would nullify the bullish pattern as triple top bearish reversal overwhelms. Then watch next support at 4.6420 (50, 100 DMAs, 38.2% fibo of the run-up from Mar to May-2019). But if the bullish continuation pattern holds up. Watch out for a break above 4.69; possibly towards 4.7070 (200 DMA) or even 4.80 levels (target of the ascending triangle).
GBP/MYR		S: 5.2770; R: 5.3210	<b>Mixed.</b> GBPMYR drifted lower; last seen at 5.2870 levels. Bearish momentum on daily chart shows signs of fading while stochastics is in oversold conditions - signs of rebound could come but technical signals are mixed as 21, 50 DMAs look on track to cut 100, 200 DMAs to the downside - bearish signal. Support at 5.2770. Resistance at 5.3210.
JPY/MYR		S: 3.8100 R: 3.8700	<b>Consolidation.</b> JPYMYR continued to trade higher. Cross was last seen at 3.8670 levels. Bullish momentum on daily chart remains intact but stochastics is in overbought conditions. Consolidation likely this week. Support at 3.85, 3.81. Resistance at 3.87 levels.

## Technical Chart Picks:

USDSGD Daily Chart - Decline Could Accelerate on Break below 1.37



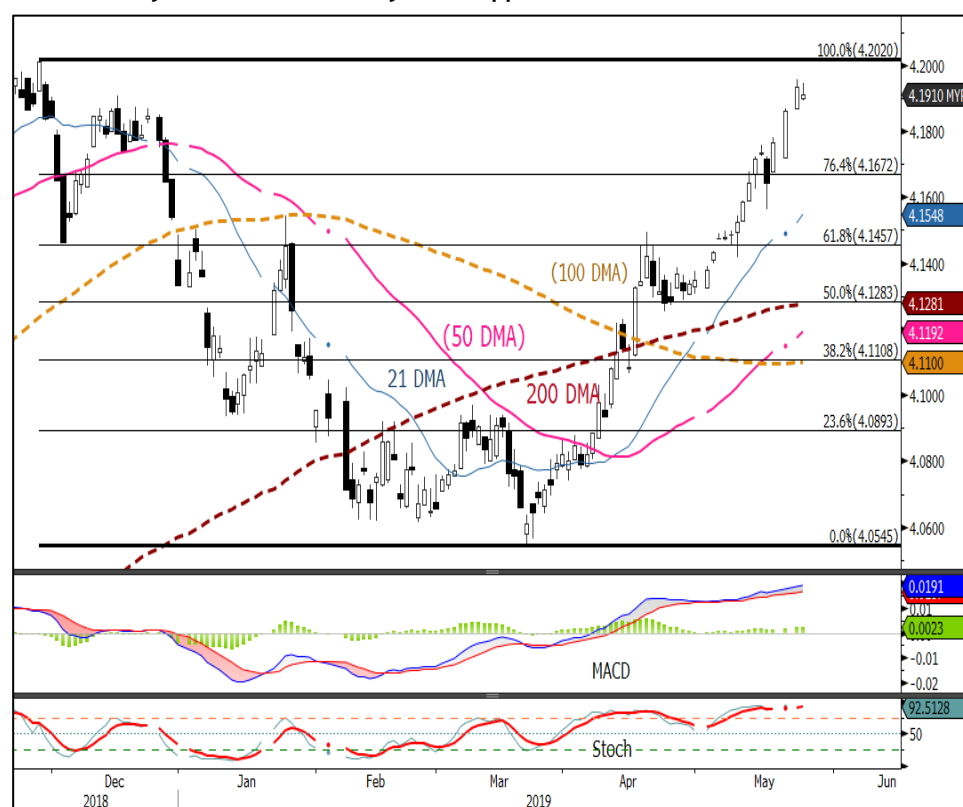
Our call - looking for a pullback in USDSGD came in timely as USDSGD run-up failed 1.3830s for the second time in a month.

This created an interim double-top bearish reversal. Pair traded a low of 1.37; stopped short of our third objective at 1.3680. Pair was last seen at 1.3710 levels.

Daily momentum turned mild bearish while stochastics is turning lower from overbought conditions. Support at 1.3708 (61.8% fibo retracement of 2018 high to 2019 low) needs to be broken decisively for further downside towards 1.3660(50% fibo), 1.3610 (38.2% fibo) to materialize.

Resistance at 1.3770 (76.4%, 1.3830 (2019 high, interim double-top).

USDMYR Daily Chart - Pullback May Find Support



USDMYR tested higher last week before the hitting a roadblock slightly above 4.20 levels (31 May). Since then the pair traded lower; last seen at 4.1820 levels.

Daily momentum turned mild bearish while stochastics turned higher. Move lower may find support at 4.17 (21 DMA), 4.1670.

Resistance at 4.1960, 4.2020 levels.

## AUDSGD Weekly Chart: Struggling to Find a Direction for Now



AUDSGD traded another week of subdued range of 0.95 - 0.9570 last week.

Cross was last seen at 0.9525 levels. Weekly momentum and stochastics indicators are not showing a clear bias for now.

Range-bound trade could continue. Support seen at 0.9520 (21 DMA), 0.9440. Resistance at 0.9580 (50 DMA), 0.9640.

## SGDMYR Daily Chart: Mind the Gap



SGDMYR was last seen at 3.0490 levels. Move higher was consistent with our call (in last FX Weekly).

Bearish momentum on daily chart remains shows tentative signs of fading while stochastics shows early signs of turning higher.

Mild bias to the upside. But watch out if the gap higher on Mon represents a runaway gap or if the gap gets filled. Immediate resistance at 3.0520, 3.06 levels.

Support at 3.0420 (21 DMA), 3.0360 (50 DMA).

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