

## FX Weekly

# Is USD Turning Into A Risk-on FX Proxy?

### The Week Ahead

- **Dollar Index - Upside Risk.** Support at 95.10; Resistance at 97.10
- **USD/SGD - Sell Rallies.** Support at 1.3500; Resistance at 1.3690
- **USD/MYR - Bearish.** Support at 4.0700; Resistance at 4.1350
- **AUD/SGD - Consolidate.** Support at 0.9630; Resistance at 0.9830
- **SGD/MYR - Fade.** Support at 3.0150; Resistance at 3.0360

### Long AUDNZD, Short NZDCAD

Growing hopes of progress with US-China trade deal and China pledging to unleash stimulus to support growth have somewhat kept risk sentiment supported. Equities were largely firmer while oil prices rebounded. And in the FX world, typical risk-on FX proxies including AXJ, AUD and NZD should have appreciated but instead, USD rebounded as if it has taken over as a risk-on FX proxy. Close monitoring on correlation break-down of traditional proxies is required before making the call. Technically, we do see risks skewed to the upside, with DXY possibly testing 96.70 levels. USD/AXJ could test higher amid oil price rebound. Elsewhere we are also in favor of tactical NZDCAD short targeting 0.87 objective on a clean break below 0.8930 support and tactical long AUDNZD targeting a move towards 1.0710 and 1.08 objectives. [1-week trade ideas].

### BoJ, ECB, BNM and BoK Expected to Remain Status Quo

BoJ meets on Wed while ECB, BNM and BoK meet on Thu. For ECB, APP has ended as of end-2018 and we expect key policy rates including MRO and deposit facility to remain unchanged at 0% and -0.4%, respectively and forward guidance to remain status quo at the upcoming meeting as economic data shows a deceleration in activity momentum. We remain watchful if ECB's Draghi will decisively shift to a dovish rhetoric or even mention the use of TLTRO as that could add to further EUR downside.

For BoK, slowing exports, growth and inflation forms the basis for BoK to keep 7-day repo on hold at 1.75%.

For BNM policy outlook, our Economist expects OPR to remain unchanged at 3.25% until end-2019 amid the outlook of sub-5% real GDP and still benign inflation.

### Focus on Global Prelim PMIs; UK, AU Labor Report This Week

Focus this week on US Richmond Fed Mfg, existing home sales; EU ZEW survey; NZ services PMI; UK labour report and public finance data; Malaysia FX reserves on Tue. For Wed, EU consumer confidence; AU leading index; NZ CPI; BoE's Broadbent speaks; JP trade; Singapore CPI. For Thu, US, EU prelim PMIs; AU PMI and employment change; Malaysia CPI; Philippines GDP. For Fri, Kansas City Fed Mfg Activity, durable goods, new home sales; German IFO; Singapore industrial production and home prices.

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Our in-house model implies that S\$NEER is trading 1.05% above the implied midpoint of 1.3722, 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: 95.10; R: 97.200	<ul style="list-style-type: none"> <li>Mon: - Nil -</li> <li>Tue: Existing home sales (Dec); Richmond Fed Mfg (Jan);</li> <li>Wed: - Nil -</li> <li>Thu: Prelim PMIs (Jan); Leading Index (Dec);</li> <li>Fri: Kansas City Fed Mfg Activity (Jan); Durable goods, New Home Sales (Dec)</li> </ul>
EURUSD		S: 1.1300; R: 1.1500	<ul style="list-style-type: none"> <li>Mon: - Nil -</li> <li>Tue: ZEW Survey (Jan);</li> <li>Wed: Consumer Confidence (Jan);</li> <li>Thu: ECB Meeting; Prelim PMIs (Jan)</li> <li>Fri: German IFO Expectations (Jan)</li> </ul>
AUDUSD		S: 0.7070; R: 0.7240	<ul style="list-style-type: none"> <li>Mon: - Nil -</li> <li>Tues: - Nil -</li> <li>Wed: Westpac Leading Index (Dec);</li> <li>Thu: Employment Change (Dec); PMI (Jan)</li> <li>Fri: - Nil -</li> </ul>
NZDUSD		S: 0.6680; R: 0.6910	<ul style="list-style-type: none"> <li>Mon: - Nil -</li> <li>Tue: Services PMI (Dec);</li> <li>Wed: CPI (4Q)</li> <li>Thu: Credit Card Spending (Dec);</li> <li>Fri: Net Migration (Nov)</li> </ul>
GBPUSD		S: 1.2500; R: 1.3000	<ul style="list-style-type: none"> <li>Mon: - Nil -</li> <li>Tue: Labour Report (Nov); BoE's Place, Fried speak; Public Finance (Dec);</li> <li>Wed: BoE's Broadbent speaks; CBI Selling Prices (Jan);</li> <li>Thu: - Nil -</li> <li>Fri: CBI Sales (Jan)</li> </ul>
USDJPY		S: 106.90; R: 110.70	<ul style="list-style-type: none"> <li>Mon: - Nil -</li> <li>Tue: - Nil -</li> <li>Wed: BoJ Meeting; Trade (Dec)</li> <li>Thu: PMI Mfg (Jan);</li> <li>Fri: - Nil -</li> </ul>
USDCNH		S: 6.7500; R: 6.8800	<ul style="list-style-type: none"> <li>Mon: Retail Sales, IP, FAI (Dec); GDP (4Q)</li> <li>Tue: - Nil -</li> <li>Wed: - Nil -</li> <li>Thu: - Nil -</li> <li>Fri: - Nil -</li> </ul>
USDSGD		S: 1.3500; R: 1.3690	<ul style="list-style-type: none"> <li>Mon: - Nil -</li> <li>Tue: - Nil -</li> <li>Wed: CPI (Dec);</li> <li>Thu: - Nil -</li> <li>Fri: Industrial Production (Dec); URA Home Prices (4Q)</li> </ul>
USDMYR		S: 4.0700; R: 4.1350	<ul style="list-style-type: none"> <li>Mon: - Nil -</li> <li>Tue: FX Reserves;</li> <li>Wed: - Nil -</li> <li>Thu: CPI (Dec); BNM Meeting</li> <li>Fri: - Nil -</li> </ul>
USDPHP		S: 52.50; R: 53.30	<ul style="list-style-type: none"> <li>Mon: - Nil -</li> <li>Tue: - Nil -</li> <li>Wed: - Nil -</li> <li>Thu: GDP (4Q)</li> <li>Fri: - Nil -</li> </ul>
USDIDR		S: 14,040; R: 14,370	<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

## Technical View : Group of Seven

Currency	Stories of the Week
<b>DXY Index</b>	<p><b>Near Term Rebound Risk.</b> USD drifted higher last week tracking the rise in oil prices, equities and UST yields. And the risk-on mood was supported by hopes of US-China trade talk progress and China pledging to unleash stimulus to support growth. This should typically have supported risk-on FX proxies such as AXJs, AUD and NZD but instead, the USD benefited. There is no compelling reason at this point to explain the price action but we do note that AXJ and oil price negatively correlate especially in the last 2 - 3 months or so. Recall the decline in brent from \$85/bbl to \$50/bbl from Oct to Dec saw ADXY appreciate from 103 to 106 levels. We caution that further rebound in oil prices could see more losses in AXJs and USD could benefit overall in the near term.</p> <p>DXY was last seen at 96.30 levels. Daily momentum is mild bullish while stochastics is rising. Our earlier caution (in last week's GM Daily) for near term rebound risks towards 96.10 (21 DMA) was met. Next resistance at 96.70 levels (61.8% fibo retracement of Dec high to Jan low) before 97 levels (76.4% fibo). Support at 96 (100 DMA) levels, 95.40, 95.1 levels (200 DMA). We look for better levels on DXY rally to fade into.</p> <p><i>Focus this week on Existing home sales (Dec); Richmond Fed Mfg (Jan) on Tue; Prelim PMIs (Jan); Leading Index (Dec) on Thu; Kansas City Fed Mfg Activity (Jan); Durable goods, New Home Sales (Dec) on Fri. Plenty of backlog data, including housing, durable goods, retail sales, trade, CFTC positioning, yet to be released owing to prolonged US Government shutdown.</i></p>
<b>EUR/USD</b>	<p><b>ECB on Tap This Week.</b> EUR remain under pressure amid signs of economic deceleration. Focus is also on ECB Draghi's press conference this Thu. While APP has ended as of end-2018, we expect key policy rates including MRO and deposit facility to remain unchanged at 0% and -0.4%, respectively and forward guidance to remain status quo at the upcoming meeting as economic data shows a deceleration in activity momentum. We remain watchful if ECB's Draghi will decisively shift to a dovish rhetoric or even mention the use of TLTRO as that could add to further EUR downside. But our bias is that he is likely to retain his last remarks - <i>a longer than expected slowdown could happen but not headed for a recession</i>. We reiterate our caution that further unwinding of long EURGBP position could weigh further on EUR. Pair was last seen at 1.1370 levels. Bearish momentum on daily chart remains intact while stochastics is falling. Near term risks remain mildly skewed to the downside. Support at 1.1360 (23.6% fibo retracement of Sep high to Nov low) and 1.1310. Resistance at 1.1425 (21 DMA), 1.1450 (38.2% fibo) - 1.1460 (100 DMA).</p> <p><i>Focus this week on ZEW Survey (Jan) on Tue; Consumer Confidence (Jan) on Wed; ECB Meeting; Prelim PMIs (Jan) on Thu; German IFO Expectations (Jan) on Fri.</i></p>
<b>GBP/USD</b>	<p><b>Accumulate on Dips.</b> GBP's recent run-up to 1.30 (17 Jan) appears to run out of steam ahead of PM May's brexit plan B later today (7pm London time or 3am SG/KL time on 22 Jan). Markets are highly suspicious that her plan B is identical to her plan A, with minor changes, possibly including a proposal to delay brexit date (which would require EU formal approval). Disappointment on her plan B would weigh on GBP. She has also reiterated her objection to holding a second referendum. The deal is expected to be put to a vote next Tue (29 Jan 2019). Barring short term downside risks owing to brexit deal uncertainty (impasse), we think the distribution of risks have shifted to a delayed and softer brexit with the likelihood of second referendum rising. This indicates a shift away from no-deal brexit scenario and should mitigate some negativity on GBP. Bias to accumulate GBP on dips.</p> <p>Pair was last seen at 1.2830 levels. Bullish momentum on daily chart shows signs of waning while stochastics is showing signs of turning from overbought conditions. Support at 1.28 (38.2% fibo retracement of Dec low to Jan high), 1.2740 levels (50% fibo) and 1.2680 (61.8% fibo). Resistance at 1.2890 (100 DMA), 1.30 (2019 high).</p> <p><i>Focus this week on Labour Report (Nov); BoE's Place, Fried speak; Public Finance (Dec) on Tue; BoE's Broadbent speaks; CBI Selling Prices (Jan) on Wed; CBI Sales (Jan) on Fri.</i></p>

**USD/JPY** **Near Term Upside Risk but Sell Rallies Preferred.** USDJPY firmed this week amid risk-on mood, supported by hopes of progress with US-China trade talks and the rebound in UST yields. Pair was last seen at 109.70 levels. Bearish momentum on weekly chart remains intact but short term risks skewed to the upside. Sustained close above 109.50 levels could see the pair test higher towards 110, 110.70 (38.2% fibo retracement of 2018 low to high). But we caution that a death cross pattern appears to be forming (50 DMA looks on track to cut 200 DMA to the downside). This is typically a strong bearish signal. Bias to lean against strength remains. We look for rallies towards 110, 110.50 to fade into, targeting a move towards 108.40, 107 objectives. SL placed above 111.50.

*Focus this week on BoJ Meeting; Trade (Dec) on Wed; PMI Mfg (Jan) on Thu.*

**AUD/USD** **Risks Skewed to the Downside.** AUD was last seen at 0.7160 levels. Bullish momentum on daily chart shows signs of waning while stochastics has turned lower. Key support at 0.7130/50 levels. Break below this targets 0.7070 (50% fibo retracement of Dec high to Jan flash crash low). Resistance at 0.7240.

*Focus this week on Westpac Leading Index (Dec) on Wed; Employment Change (Dec); PMI (Jan) on Thu.*

**NZD/USD** **Bearish Bias.** NZD remains under pressure. Last seen at 0.6730 levels. Bullish momentum on daily chart is waning while stochastics is falling from overbought conditions. Room for further downside. Support at 0.6690 (100 DMA), 0.6660. Resistance at 0.6760, 0.68 levels.

*Focus this week on Services PMI (Dec) on Tue; CPI (4Q) on Wed; Credit Card Spending (Dec) on Thu; Net Migration (Nov) on Fri.*

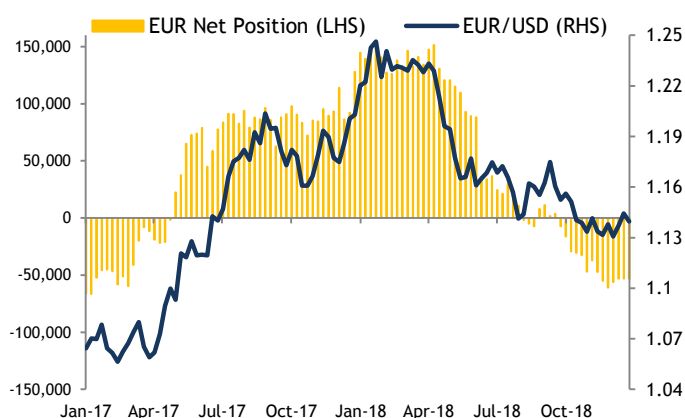
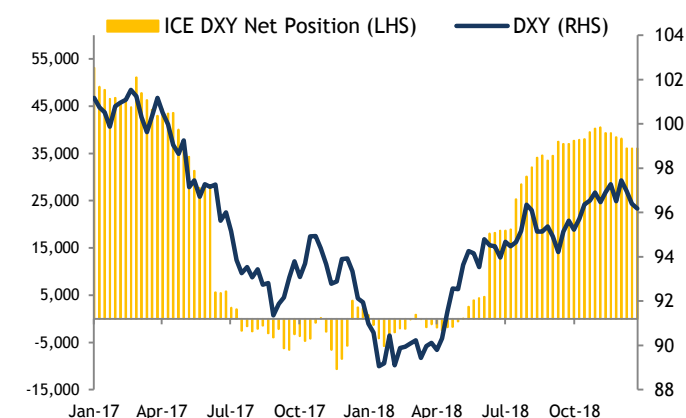
## Non-Commercial CME CFTC Net Positioning (in number of contracts) vs. Respective FX/USD

- Data as of 18 Dec 2018; CFTC report issued 21 Dec; data points of the past 2Y on weekly frequency

**No update since 18<sup>th</sup> Dec due to prolonged US Government Shutdown**

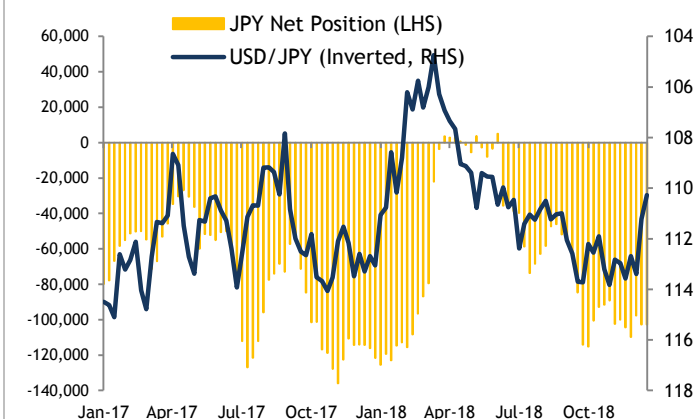
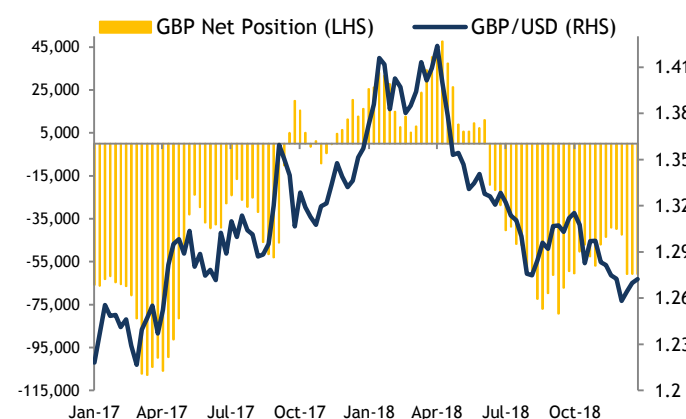
Further unwinding of stale long USD position to exert downside pressure to DXY

EUR net shorts have eased from record levels while EUR rebounded off 1.13-lows



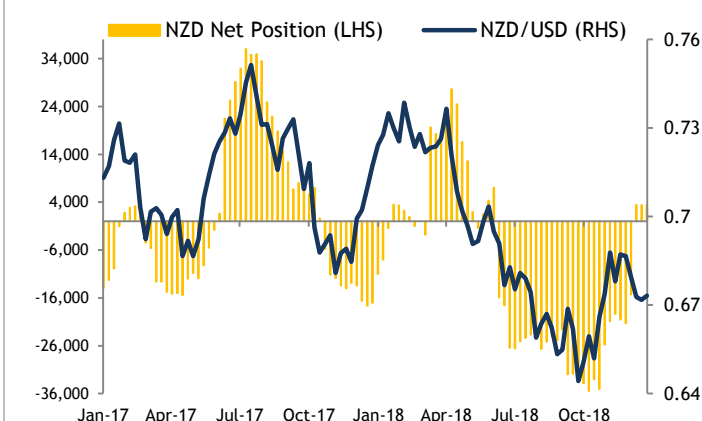
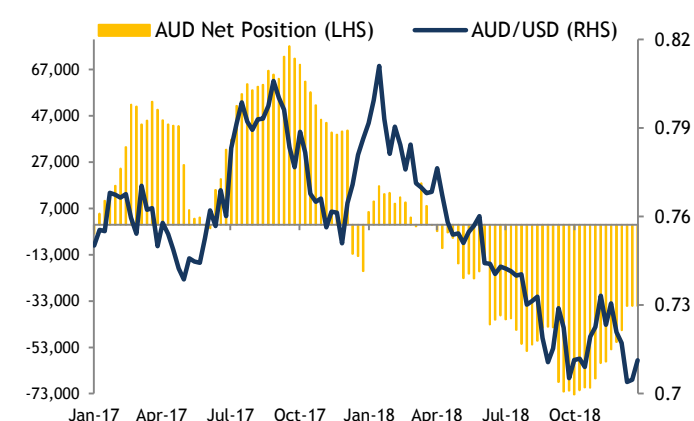
GBP net short position remain at record levels amid Brexit uncertainty

Reduction of stale JPY short position saw JPY strength picked up pace







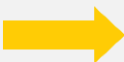
AUD net short position likely to have unwound further while AUD rebounded

NZD net short position diminished; NZD stabilised above 0.67-handle



The FX positioning data for this report is part of the Commitments of Traders (COT) report published by the US Commodity Futures Trading Commission (CFTC) on every Friday (330pm ET) for data up to the Tue in the same week. Hence our FX Weekly publication will show a 1-week lag. In our report, we focus on non-commercial traders' position which is typically seen as a proxy for leveraged, speculative positioning. They can provide directional cues, used as a gauge to measure how stretched a position may be and provide some guide for point of inflection.

## Technical View: MYR Crosses

MYR Crosses	Direction	Support/Resistance	Stories of the Week
SGD/MYR		S: 3.0150; R: 3.0360	<b>Conflicting - Cup &amp; Handle (Bullish) or Bearish Trend Channel?</b> SGDMYR was last seen at 3.0260 levels. A cup & handle pattern is potentially in the making and this is typically a bullish setup. However it remains too soon to conclude until break-up occurs. For time being, we focus on the bearish trend channel where price action on the weekly chart remains confined in. Momentum is also turning bearish and stochastics falling. More downside towards 3.0150, 3.0070 likely on break below 3.0240 (38.2% fibo retracement of 2017 high to 2018 low). Resistance at 3.0360 (21 DMA, upper bound of the bearish trend channel).
AUD/MYR		S: 2.9000 R: 2.9600	<b>Compression of Moving Averages Suggest Potential of Break-Out.</b> AUDMYR was last seen at 2.95 levels. Bullish momentum on daily chart remains intact but shows signs of waning while stochastics is showing signs of turning from near-overbought conditions. Compression of 50, 100, 200 DMAs typically precedes a break-out trade soon. Risks may be skewed to the downside. Support at 2.92, 2.90. Resistance at 2.9620 levels.
EUR/MYR		S: 4.6400; R: 4.7000	<b>Risks Skewed to the Downside.</b> EURMYR drifted lower amid EUR underperformance. Cross was last seen at 4.6820 levels. Mild bearish momentum on daily chart remains intact while stochastics is falling. 50 DMA appears on track to cut 200 DMA to the downside - typically bearish signal (death cross). Support at 4.66, 4.64. Resistance at 4.7010 levels.
GBP/MYR		S: 5.2500; R: 5.3800	<b>Temporary Pause in Bullish Momentum?</b> GBPMYR partially retraced early week's gains into last week's close as markets take stock of recent GBP's run ahead of the PM May's plan B tonight. Cross was last seen at 5.2920 levels. Mild bullish momentum is showing early signs of waning - suggesting the risk of slowing gains but underlying momentum remains bullish as indicated on weekly chart. Support at 5.25. Resistance at 5.3410, 5.38 levels. Cautious of 2-way trade in the short term.
JPY/MYR		S: 3.7300 R: 3.8100	<b>Lean against Strength.</b> JPYMYR drifted lower last week. Cross was last seen at 3.7535 levels. Bearish momentum intact but stochastics shows signs of turning from oversold conditions. Near term rebound not ruled out but likely to be capped under 3.78, 3.81 levels. Underlying bias remains to lean against strength, targeting a move towards 3.73, 3.68 objectives.

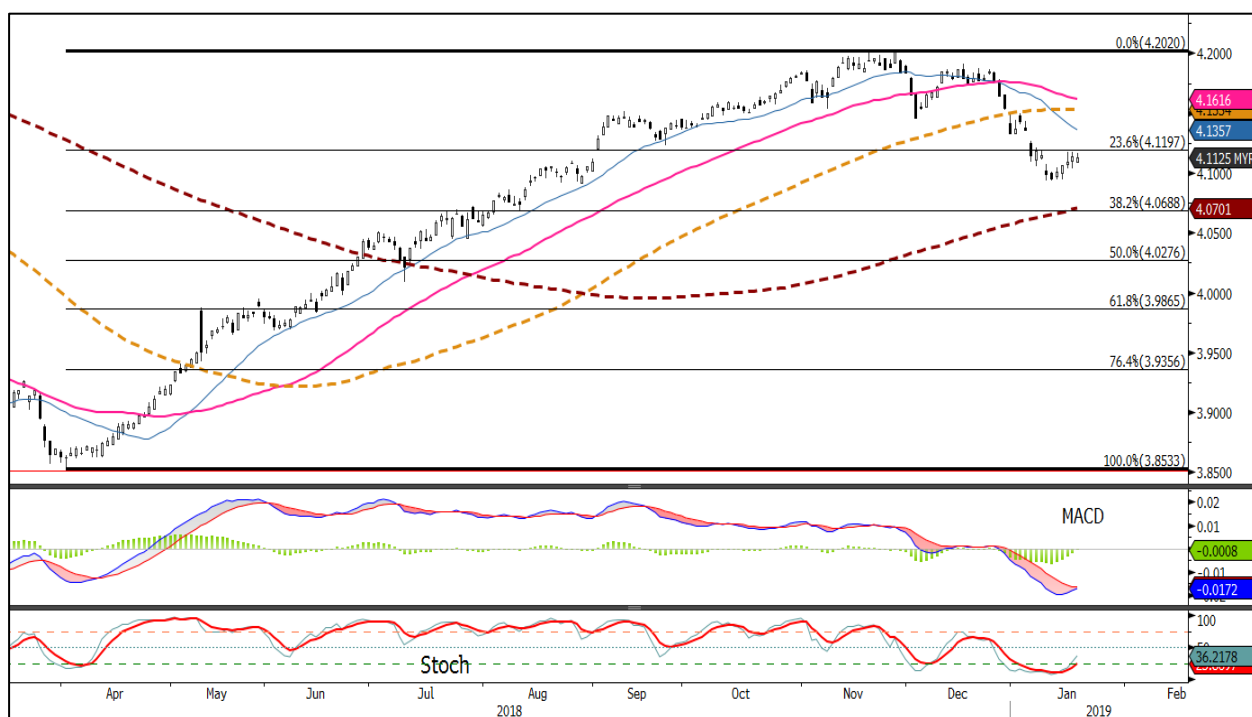
## Chart Picks

## USDSGD Daily Chart - Near Term Upside Risk but Bias to Fade



USDSGD drifted higher last week. Pair was last seen at 1.3590 levels. Daily momentum turned mild bullish while stochastics has risen from oversold conditions. Resistance at 1.3640 (38.2% fibo retracement of Oct high to Jan low) and 1.3690 (50% fibo). Support at 1.3560, 1.35 levels. Near term risks skewed to the upside.

## USDMYR Daily Chart - Extension of Decline Not Ruled Out



USDMYR firmed last week, tracking the broad rebound in the USD. Pair was last seen at 4.1130 levels. Bearish momentum on daily chart is waning while stochastics is rising from oversold conditions. Further rebound towards 4.1350, 4.1530 not ruled out on decisive close above 4.12 levels. Support at 4.0950, 4.07 levels (200 DMA).



## AUD/SGD Weekly Chart - Consolidate



AUDSGD consolidated in a relatively muted range of 0.97 - 0.9780 last week. Last seen at 0.9750 levels. Weekly momentum/stochastics not indicating a clear bias though daily chart suggests some signs of moderation in AUDSGD recovery. Area of resistance at 0.9780 - 0.9825 (50, 100 DMAs) needs to be cleared for further upside towards 0.9890, 0.9910 levels. Failing which the cross could return to trading range-bound between 0.9680 - 0.9830. Bigger support at 0.9680 (21 DMA), 0.9640 levels.

## SGD/MYR Weekly Chart - Cup &amp; Handle Pattern or a Bearish Trend Channel?



SGDMYR was last seen at 3.0260 levels. A cup & handle pattern is potentially in the making and this is typically a bullish setup. However it remains too soon to conclude until break-up occurs. For time being, we focus on the bearish trend channel where price action on the weekly chart remains confined in. Momentum is also turning bearish and stochastics falling. More downside towards 3.0150, 3.0070 likely on break below 3.0240 (38.2% fibo retracement of 2017 high to 2018 low). Resistance at 3.0360 (21 DMA, upper bound of the bearish trend channel).



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