

## FX Weekly

# USD Short Covering Ahead of FoMC

### The Week Ahead

- **Dollar Index - Fade.** Support at 97.00; Resistance at 98.40.
- **USD/SGD - Supported.** Support at 1.3560; Resistance at 1.3700
- **USD/MYR - Consolidation.** Support at 4.16; Resistance at 4.22
- **AUD/SGD - Range.** Support at 0.9250; Resistance at 0.9350
- **SGD/MYR - Pullback.** Support at 3.0560; Resistance at 3.0760

### Will Fed Do More? Elsewhere BoJ May Ease; BoC on Hold

We reiterate our caution that USD short positions are at risk of further adjustments in the lead up to FoMC meeting next Thu (2am SG/KL time). And this could pose some temporary upward pressure on USD. A 25bps rate cut is expected but uncertainty remains on forward guidance. DXY could test higher towards 97.70, 98.40 levels. In the interim, USDSGD, USDKRW may attempt to trade higher towards 1.3720/30 and 1185 levels, respectively. Elsewhere on central bank meetings this week, we expect Bank of Canada to keep policy rate unchanged at 1.75% (on Wed) as labor market remains robust, inflation is near the midpoint of its target range of 1 - 3% while the BoJ could fiddle with some combination of lower short-term rate, wider trading range on 10-year JGB, or more ETF purchases at its upcoming MPC on Thu.

### Snap Elections in UK? Watch Vote on Monday

Our call (see [here](#) and [here](#)) for GBP to reclaim 1.30 handle has met objective. Subsequently we cautioned that GBP's "too fast too furious" rally may face a reality check and pullback could go towards 1.27-1.28 levels - this is also underway. Key focus is that a motion to trigger snap elections would be put to a vote in the House of Commons on Monday. BoJo requires 2/3 majority to support his call to hold General Elections, possibly on 12<sup>th</sup> Dec 2019. Extension of GBP's decline amid election uncertainty could come but GBP can quickly reverse out of its decline and trade higher if BoJo manages to score a stronger mandate from the people. We look for 1.27 - 1.30 range in the interim.

### US Payrolls; China PMIs; US, EU GDPs and CPIs Next Week

Data of interests next week include US CFNAI, Dallas Fed Mfg on Mon. For Tue, US and EU consumer confidence; RBA's Lowe to speak. For Wed, US 3Q GDP, ADP employment; AU CPI; JP retail sales; BoC meeting. For Thu, FoMC, BoJ MPCs; US core PCE, Chicago PMI; EU 3Q GDP; EU, German CPI; Australia building approvals; NZ building permits, business confidence; China NBS PMIs - mfg and non-mfg. For Fri, US NDP, average hourly earnings, unemployment rate; ISM mfg; AU PPI; PMI Mfg from UK, Malaysia, Indonesia; China's Caixin PMI Mfg; NZ consumer confidence; Indonesia CPI. Fed's Clarida, Quarles and Williams to speak on Fri.

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Our in-house model implies that S\$NEER is trading around 1.65% above the implied midpoint of 1.3860, suggesting that it is on the stronger side vs. other trading partner currencies.

*Please see page 3 for a summary of our trade ideas*

Currency	Direction	Support/Resistance	Key Data and Events This Week
Dollar Index		S: 97.00; R: 98.40	<ul style="list-style-type: none"> <li>Mon: CFNAI (Sep); Dallas Fed Mfg (Oct)</li> <li>Tue: Pending Home Sales (Sep); Conference Board Consumer Confidence (Oct);</li> <li>Wed: GDP (3Q); ADP Employment (Oct);</li> <li>Thu: FoMC; PCE Core (Sep); Chicago PMI (Oct); Personal income, spending (Sep);</li> <li>Fri: NFP, weekly earnings, unemployment rate, ISM Mfg (Oct); Construction spending (Sep); Fed's Clarida, Quarles, Williams speak</li> </ul>
EURUSD		S: 1.1080; R: 1.1200	<ul style="list-style-type: none"> <li>Mon: - Nil -</li> <li>Tue: Consumer confidence (Oct); ECB's Lautenschlaeger speaks;</li> <li>Wed: - Nil -</li> <li>Thu: GDP (3Q); EU, German CPI (Oct); Unemployment (Sep)</li> <li>Fri: - Nil -</li> </ul>
AUDUSD		S: 0.6750; R: 0.6910	<ul style="list-style-type: none"> <li>Mon: - Nil -</li> <li>Tues: RBA Governor Lowe speaks;</li> <li>Wed: CPI (3Q);</li> <li>Thu: Building approvals (Sep); Import export price index (3Q);</li> <li>Fri: PPI (3Q); PMI Mfg, Commodity Index (Oct)</li> </ul>
NZDUSD		S: 0.6300; R: 0.6440	<ul style="list-style-type: none"> <li>Mon: - Nil -</li> <li>Tue: - Nil -</li> <li>Wed: - Nil -</li> <li>Thu: Building Permits (Sep); Business Confidence (Oct)</li> <li>Fri: Consumer Confidence (Oct)</li> </ul>
GBPUSD		S: 1.2700; R: 1.3000	<ul style="list-style-type: none"> <li>Mon: CBI Reported Sales (Oct);</li> <li>Tue: BoE's Tenreyro speaks; Nationwide house prices (Oct); M4 (Sep);</li> <li>Wed: - Nil -</li> <li>Thu: GfK Consumer confidence (Oct);</li> <li>Fri: PMI Mfg (Oct)</li> </ul>
USDJPY		S: 107.50; R: 109.10	<ul style="list-style-type: none"> <li>Mon: PPI Services (Sep);</li> <li>Tue: - Nil -</li> <li>Wed: Retail Sales (Sep);</li> <li>Thu: Industrial Production, Construction orders (Sep); BoJ Meeting;</li> <li>Fri: Jobless rate (Sep)</li> </ul>
USDCNH		S: 7.0300; R: 7.1200	<ul style="list-style-type: none"> <li>Mon: - Nil -</li> <li>Tue: - Nil -</li> <li>Wed: - Nil -</li> <li>Thu: NBS Mfg, Non-Mfg PMI (Oct);</li> <li>Fri: Caixin PMI Mfg (Oct)</li> </ul>
USDSGD		S: 1.3560; R: 1.3700	<ul style="list-style-type: none"> <li>Mon: - Nil -</li> <li>Tue: - Nil -</li> <li>Wed: - Nil -</li> <li>Thu: Bank Loans &amp; Advances (Sep)</li> <li>Fri: - Nil -</li> </ul>
USDMYR		S: 4.1600; R: 4.2200	<ul style="list-style-type: none"> <li>Mon: - Nil -</li> <li>Tue: - Nil -</li> <li>Wed: - Nil -</li> <li>Thu: - Nil -</li> <li>Fri: PMI Mfg (Oct)</li> </ul>
USDPHP		S: 50.80; R: 51.60	<ul style="list-style-type: none"> <li>Mon: - Nil -</li> <li>Tue: - Nil -</li> <li>Wed: - Nil -</li> <li>Thu: Bank Lending (Sep)</li> <li>Fri: - Nil -</li> </ul>
USDIDR		S: 13,980; R: 14,200	<ul style="list-style-type: none"> <li>Mon: - Nil -</li> <li>Tue: - Nil -</li> <li>Wed: - Nil -</li> <li>Thu: - Nil -</li> <li>Fri: PMI Mfg, CPI (Oct)</li> </ul>

Sources: Bloomberg, Maybank FX Research &amp; Strategy

### Tactical FX Trade Ideas - Open

Date	Trade	Entry/[SL]	Objective(s)	P&L	Open/Closed	Remarks
26 Jul	Long IDRSGD	0.9702 [0.9615]	0.9940		Open	RV trade on growth and carry <a href="#">[Link]</a>
3 Jul	Short S\$NEER (vs. long USD, CNH, MYR, IDR, PHP)	+1.7% above implied-mid	To-par		Open	Position for MAS easing <a href="#">[Link]</a>

### Tactical FX Trade Ideas - Closed

Date	Trade	Entry/[SL]	Objective(s)	P&L	Open/Closed	Remarks
6 Sep	Short AUDNZD	1.0700 [1.0800]	1.0500	-0.9%	Closed at 1.08 (16 Sep)	Rising Wedge Bearish Reversal <a href="#">[Link]</a>
11 Jan	Short CNYSGD	0.2000 [trailing SL at 0.1970]	0.1900	+1.5%	Trailing SL at 0.1970 hit (14 Aug)	Triple-top bearish setup <a href="#">[Link]</a>
5 Aug	Long AUDNZD	1.0380 [1.0350]	1.0550	-0.28%	Stopped at 1.0350 (6 Aug)	Position for RBA-RBNZ policy divergence <a href="#">[Link]</a>
30 Jul	Short USDJPY	108.90 [109.70]	107	+1.7%	Closed at 107 {2 Aug}	Technical bearish reversal <a href="#">[Link]</a>
26 Jul	Long AUDCAD	0.9146 [0.9050]	0.9350	-1.04%	Stopped at 0.9050 (31 Jul)	Expectations for BoC to cut rate vs. RBA on hold <a href="#">[Link]</a>
8-Mar	Short USDJPY	111.70 [114.50]	108, 105	+1.97%	Closed at 109.50 (14 May)	Narrowing yield differentials and slowing growth concerns <a href="#">[Link]</a>
8 Mar	Long USDKRW (3m call)	1129 spot ref	Strike at 1140; B/E at 1148.2	+3.10%	Closed at 1186 (14 May)	Cheap hedge against equity sell-off <a href="#">[Link]</a>
8 Mar	Long IDRKRW	0.0800 [0.0780]	0.0860	+2.80% (excl. carry returns)	Closed at 0.0826 [14 May]	RV trade on monetary policy space, growth divergence <a href="#">[Link]</a>
16 Nov	Long THB, IDR vs. Short PHP (basket)	99.5 [98.60]	101.34	+1.85% (excl. carry returns)	Closed at 101.34 (4 Jan)	RV trade in monetary policy space to tighten <a href="#">[Link]</a>
Cumulative P/L				+11.6%		

## Selected G7 FX View

Currency	Stories of the Week
<b>DXY Index</b>	<p><b>Short Covering.</b> We reiterate our caution that USD short positions are at risk of further adjustments in the lead up to FoMC meeting next Thu (2am SG/KL time) for fear of disappointment (in the event Fed surprises with no move) as markets have already priced in about 95% chance of 25bps rate cut to 1.5% - 1.75%. Uncertainty on Fed's forward guidance remains a big question. <b>Fed is likely to maintain some degree of optionality with regards to policy guidance, without over-committing. On a stretch, Fed could possibly signal that mid-cycle adjustment has ended. This could see USD strength persist for a while. However we do not rule out the scenario of Fed signalling its intent to do more, if economic conditions deteriorate.</b> Confirmation of a dovish guidance would take the USD lower, especially when USD long positions are stretched near 30-month high and US data has peaked. Elsewhere US-China trade development and brexit remain keenly watched. Positive progress on those fronts will also subject dollar index to further pressure.</p> <p>Focus is also on whether Fed will announce QE restart especially when NY Fed's POMO and TOMO operations for liquidity injections have taken place for past 6-7weeks, while Fed's balance sheet has also risen by 5.5% to nearly \$4tn (though Powell may refer to this as an organic balance sheet growth rather than outright QE). A restart of QE would add to USD downside.</p> <p>We are of the view that YTD USD strength cannot be sustained in the medium term as US economy (outperformance) will not escape unscathed in an environment of global growth and trade slowdown. Continued USD appreciation and slowing global growth will result in tighter financial conditions, resulting in the need for Fed to turn more dovish. Though Fed claimed that its recent move to conduct POMO/TOMOs were targeted at maintaining bank reserves in the system and does not represent policy easing, we do not rule out the case of Fed turning dovish. This would reinforce USD softness.</p> <p>DXY was last seen at 97.70 levels. Bearish momentum on daily chart is waning while stochastics is showing signs of rising from oversold conditions. Risk of near term short covering (i.e. DXY higher) remains. Rebound towards 97.80 (100 DMA). 98.40 (21, 50 DMA) not ruled out especially in the lead up to FOMC next week. Bias to lean against USD strength remains. Immediate support at 97.40 levels (200 DMA), 97 levels.</p> <p><i>Data/Events of focus next week include CFNAI (Sep); Dallas Fed Mfg (Oct) on Mon; Pending Home Sales (Sep); Conference Board Consumer Confidence (Oct) on Tue; GDP (3Q); ADP Employment (Oct) on Wed; FoMC; PCE Core (Sep); Chicago PMI (Oct); Personal income, spending (Sep) on Thu; NFP, weekly earnings, unemployment rate, ISM Mfg (Oct); Construction spending (Sep); Fed's Clarida, Quarles, Williams speak on Fri.</i></p>
<b>EUR/USD</b>	<p><b>Near Term Risks Skewed to the Downside; Buy Dips.</b> MTD gains in EUR paused this week, in part due to disappointment in Euro-area, German prelim PMIs, and in part due to broad USD short covering ahead of FOMC next week. Pair was last seen at 1.1120 levels. Underlying momentum (weekly chart) remains bullish but bullish momentum on daily chart is waning while stochastics shows signs of turning lower from overbought conditions. Near term risks skewed to the downside but bias remains to buy dips. Support at 1.1080 levels. Resistance at 1.1150, 1.12 (200 DMA).</p> <p>ECB meeting proved to be a non-event yesterday with key policy rates and QE plan status quo (MRO at 0%, average deposit facility at -0.5% and asset purchase program to purchase EUR20bn/month starting 1st Nov). In Draghi's parting speech at his last press conference as ECB President yesterday, he said that "weaker growth momentum is delaying the pass-through of stronger wage growth to inflation". He also said that labor market has lost some strength and risks to the outlook are on the downside. He reiterated that there is a need for highly accommodative stance of monetary policy for a prolonged period as underlying inflation remains muted. Christine Lagarde takes over on 1 Nov and is expected to ensure monetary policy continuity but we also expect her to push EU governments to work on fiscal stimulus to spur economic activity</p> <p><i>Focus next week on Consumer confidence (Oct); ECB's Lautenschlaeger speaks on Tue; GDP (3Q); EU, German CPI (Oct); Unemployment (Sep) on Thu.</i></p>
<b>GBP/USD</b>	<p><b>Risks Shift in Favor of Brexit Optimism.</b> Our call (see <a href="#">here</a> and <a href="#">here</a>) for GBP to reclaim 1.30 handle has met objective. Subsequently we <u>cautioned</u> that GBP's "too fast too furious" rally may face a</p>

reality check and pullback could go towards 1.27-1.28 levels - this is also underway.

Key focus is that a motion to trigger snap elections would be put to a vote in the House of Commons on Monday. BoJo requires 2/3 majority to support his call to hold General Elections, possibly on 12<sup>th</sup> Dec 2019 and this implies that he needs the support of Labour party members. But Labor party leader Corbyn rejected the plan, saying that he needs these pre-conditions: (1) no-deal brexit off the table and (2) confirmation from EU on brexit extension to be met before supporting proposal for GE. Extension of GBP's decline amid election uncertainty could play out further but GBP can quickly reverse out of its decline and trade higher if BoJo manages to score a stronger mandate from the people.

Pair was last seen at 1.2840 levels. Bullish momentum on daily chart is fading while stochastics is turning from overbought conditions. Further decline in the near term should not be ruled out especially given the too fast too furious rally. Support at 1.2715 (200 DMA). Immediate resistance at 1.30, 1.3170 (50% fibo retracement of 2018 high to 2019 low). Look for 2-way trades in 1.27 - 1.30 in coming days.

*Focus next week on CBI Reported Sales (Oct) on Mon; BoE's Tenreyro speaks; Nationwide house prices (Oct); M4 (Sep) on Tue; GfK Consumer confidence (Oct) on Thu; PMI Mfg (Oct) on Fri.*

**USD/JPY** **BoJ in Focus.** We note that the BoJ is setting up expectations for a re-examination of growth and inflation outlook at the next MPC, post the implementation of the sales tax hike (from 8% to 10%) on 1 Oct. BoJ retained its dovish stance and reiterated its commitment to additional easing if needed, Kuroda had said that he was more inclined toward increasing stimulus now than in late July, and there was some genuine concern on potential stalling of price momentum. On balance, there is a fair chance that BoJ might ease with some combination of lower short-term rate, wider trading range for 10-year JGB, or higher ETF purchase at the upcoming MPC on Thu.

USDJPY was last seen at 108.60 levels. Bullish momentum is fading while stochastics is showing signs of turning from near-overbought conditions. Potentially a bearish divergence on MACD and rising wedge pattern are in the making - bearish reversal. Immediate resistance at 109.05 levels (200 DMA) before 109.70 levels. Support at 108 (21 DMA), 107.50 (50, 100 DMAs). Look for range of 107.50 - 109 next week.

*Focus next week on PPI Services (Sep) on Mon; Retail Sales (Sep) on Wed; Industrial Production, Construction orders (Sep); BoJ Meeting on Thu; Jobless rate (Sep) on Fri.*






**AUD/USD** **Range.** Gains in AUD reversed this week on renewed focus on QE in Australia. Pair was last seen at 0.6830 levels. Bullish momentum on daily chart is waning while stochastics shows signs of turning from near-overbought conditions. Risks are skewed to the downside. Support at 0.6780/90 levels (21, 50 DMAs) before 0.6720, 0.6670 (2019 low). Resistance at 0.6850 (100 DMA), 0.6910 levels. We look for sideways trades in 0.6750 - 0.6910 range dragged by market speculation for RBA QE (AUD negative) while hopes of US-China trade talk progress could mitigate.

*Focus next week on RBA Governor Lowe speaks on Tue; CPI (3Q) on Wed; Building approvals (Sep); Import export price index (3Q) on Thu; PPI (3Q); PMI Mfg, Commodity Index (Oct) on Fri.*

**NZD/USD** **Fading Bullish Momentum.** NZD fell amid broad USD short covering this week. Pair was last seen at 0.6360 levels. Bullish momentum on daily chart is waning while stochastics is turning from overbought conditions. Support at 0.6350 (50 DMA), 0.6320 (21 DMA) and 0.6240 levels. Resistance at 0.6440, 0.6770 levels (100 DMA). Risks skewed to the downside especially if talks of RBA QE gains traction again. As this could fuel RBNZ to possibly ease further, via unconventional monetary stimulus. We look for range of 0.63 - 0.6440 next week.

*Focus next week on Building Permits (Sep); Business Confidence (Oct) on Thu; Consumer Confidence (Oct) on Fri.*

## Technical View: MYR Crosses

MYR Crosses	Direction	Support/Resistance	Stories of the Week
SGD/MYR		S:3.0500; R:3.0800	<b>Bullish Crossovers.</b> SGDMYR traded sharply higher over the past 2 weeks, in line with our call for bullish crossovers - 50DMA cuts 200DMA and 21 cuts 100 DMA to the upside. Bullish momentum remains intact though there are signs that it may fade. Stochastics shows tentative signs of turning from overbought conditions. Pullback not ruled out. Support at 3.0640, 3.0560 levels. Resistance at 3.0760 levels (upper bound of the bullish trend channel) likely to cap further upside.
AUD/MYR		S: 2.8400 R:2.8800	<b>Pullback.</b> Move higher in AUDMYR was more than reversed this week amid AUD underperformance. Cross was last seen at 2.86 levels. Bullish momentum shows signs of fading while stochastics is near-overbought conditions. Pullback towards 2.84 levels (21, 50 DMAs) not ruled out. Resistance at 2.8830 (200 DMA).
EUR/MYR		S: 4.6200; R:4.6900	<b>Pullbacks; Buy Dips Preferred.</b> EURMYR slipped this week, last seen at 4.65 levels. Bullish momentum shows signs of fading while stochastics is showing signs of turning from overbought conditions. Pullback is possible but buy dips preferred. Support at 4.64 (100, 200 DMAs) before 4.62 (21, 50 DMA). Résistance at 4.6740 before 4.6870 levels.
GBP/MYR		S: 5.2810; R: 5.4500	<b>Retracement; Buy Dips.</b> GBPMYR eased this week after rallying more than 6% MTD from its low. Cross was last seen at 5.3780 levels. Bullish momentum on daily chart shows tentative signs of waning while stochastics is showing signs of turning from overbought conditions. Retracement risks in the interim; buy dips preferred. Support at 5.3470, 5.2810 levels. Resistance at 5.40, 5.45 levels.
JPY/MYR		S: 3.8500; R: 3.9000	<b>Range with Mild Bias to the Upside.</b> JPYMYR consolidated this week; last seen at 3.8510 levels. Bearish momentum is fading while stochastics is rising. Near term upward pressure. Resistance at 3.8760 (21, 100DMA), 3.8980 (50 DMA). Support at 3.85 before 3.8170 levels.



## Technical Chart Picks:

USDSGD Daily Chart - Supported on Dips



USDSGD consolidated this this week after the 2% decline MTD.

Last seen at 1.3640 levels Bearish momentum is fading while stochastics shows signs of turning higher from oversold conditions. A potential bullish divergence on the daily MACD appears to be in the making. A falling wedge is also observed - bullish reversal pattern. These patterns and signals suggest that a bottoming is near.

Rebound towards 1.3670, 1.3720/30 (21, 100 DMAs) and 1.3780 (50 DMA) should not be ruled out.

Support at 1.36 levels (Oct low) before 1.3560 (76.4% fibo retracement of 2019 low to high, trend line support of lows in Jan, Mar and Jul).

We look for 1.3560 - 1.37 range.

USDMYR Daily Chart - Indecision; Break-Out Soon?



USDMYR consolidated in narrow range this week. Pair was last seen at 4.1870 levels.

Daily momentum and stochastics indicators are not showing a clear bias for now. A symmetrical triangle pattern appears to be in the making - an indication of indecision and could possibly see a breakout (direction unknown) in coming sessions.

Immediate support at 4.18, 4.1680 (100 DMA). Resistance at 4.1950, 4.20

Break-outs could take USDMYR either to 4.16 or 4.22.

## AUDSGD Weekly Chart: Range



AUDSGD slipped amid AUD underperformance.

Cross was last seen at 0.9305 levels. Bullish momentum on daily chart is fading while stochastics is coming off. Some downside pressure not ruled out in the interim. Support at 0.9230 (Oct low)

Resistance at 0.9360 (50 DMA), 0.94 (100 DMA) levels.

Look for range of 0.9250 - 0.9350 this week.

## SGDMYR Daily Chart: Looking for Pullback



SGDMYR traded sharply higher over the past 2 weeks, in line with our call for bullish crossovers - 50DMA cuts 200DMA and 21 cuts 100 DMA to the upside.

Bullish momentum remains intact though there are signs that it may fade. Stochastics shows tentative signs of turning from overbought conditions. Pullback not ruled out. Support at 3.0640, 3.0560 levels. Resistance at 3.0760 levels (upper bound of the bullish trend channel) likely to cap further upside.



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