FX Tech Flash

EUR: Eyeing That Trend Line

Analysts

Saktiandi Supaat
(65) 6320 1379
saktiandi@maybank.com.sg

Christopher Wong
(65) 6320 1347
wongkl@maybank.com.sg

Fiona Lim
(65) 6320 1374
fionalim@maybank.com.sg

Leslie Tang
(65) 6320 1378
leslietang@maybank.com.sg

Break Above 1.1360 Could See EUR Bulls Gain Traction

Though EUR slipped modestly in early trade this morning, the pair continued to trade near recent highs of 1.1350 levels. The slight pullback seen could be attributed to conflicting reports on US-China trade negotiation progress and ahead of FOMC meeting (2am SG/KL time 21 Mar).

EUR was last seen at 1.1350 levels. We questioned if EUR will finally break above this downward sloping trend line resistance (formed since Mar-2018) – currently at around 1.1360/70 levels (with 50, 100 DMAs clustering there as well). So far this line of resistance has capped EUR's advance six times or so in the last 1 year. And on the daily chart, price action exhibits a mini rising wedge pattern (formed since 6th Mar). This is typically associated with a bearish reversal.

These signs suggest the **risk of another rejection of the recent rally and a potential pullback towards 1.1250 levels in the interim** should not be ruled out.

EUR (Daily Chart): Trend Line Resistance and Mini Rising Wedge

Source: Bloomberg, Maybank FX Research & Strategy

Bias to Buy EUR on Dips Remain

Nonetheless we remain convicted to our buy EUR on dip call. From a longer-term perspective, a bigger falling wedge pattern can be seen (formed since early-2018). This is typically a bullish reversal pattern.

Key resistance at 1.1360/70 levels (50, 100 DMAs, downward sloping trend line resistance from the highs in 2018 and 2019) needs to be decisively broken for further upside towards 1.1450, 1.1480 (200 DMA) and even 1.17 levels to gain traction. Failing which the pair could ease to trade in 1.1260 – 1.1360 range. Key support still seen at 1.1190 (61.8% fibo retracement of 2016 low to 2017 high).

EUR (Weekly Chart): Bias to Buy Dip Remains

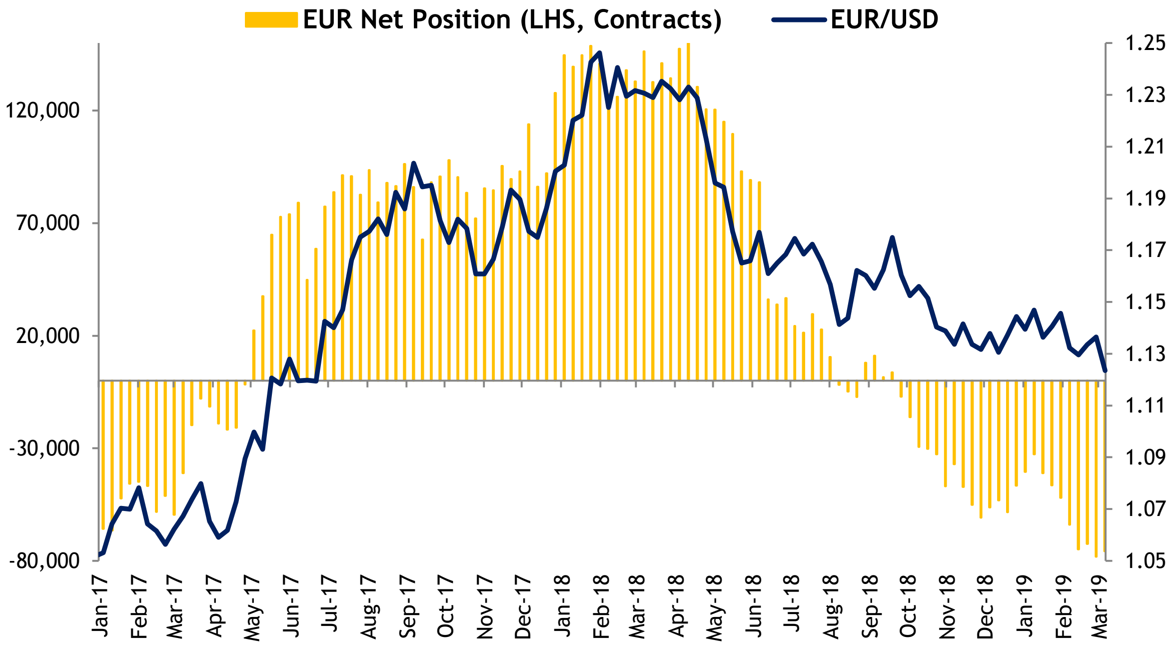
Source: Bloomberg, Maybank FX Research & Strategy

This week we pay close attention to EU consumer confidence (Thu) and EU prelim PMIs (Fri) for a gauge on activity momentum. Better data would provide the confidence for potential portfolio re-allocation to underweight/neutral European equities (flow story is supportive of EUR).

Elsewhere, CFTC net short position of EUR has risen to near 2-year high. This suggests that many negatives have being priced in. Unwinding of EUR short could catalyse the EUR move higher.

In addition, if Fed signals a longer pause the negative EU-UST spread may even narrow further and provide the support for EUR recovery

EUR Short Positioning Near 2-Year Record Levels



Source: CFTC positioning as of 12 Mar for report released on 15 Mar, Bloomberg, Maybank FX Research & Strategy

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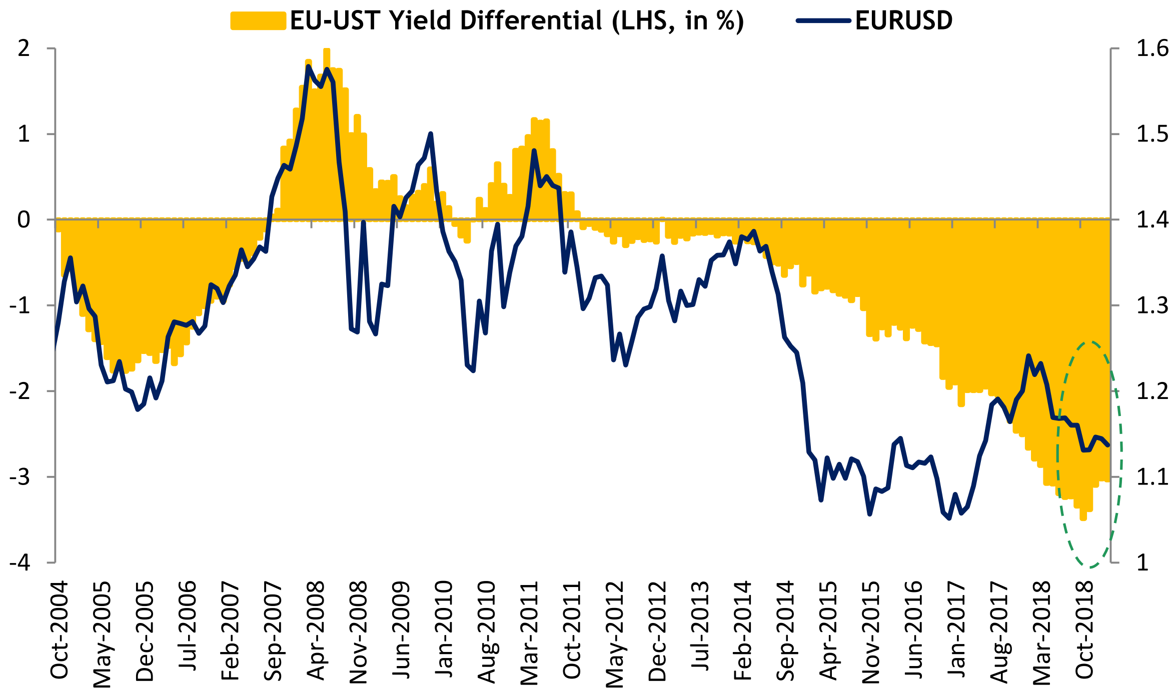
Narrowing of EU-UST Yield Differentials May Provide Support for EUR



Source: Bloomberg, Maybank FX Research & Strategy

FoMC Meeting (2am SG, KL time on 21st Mar) in Focus

While the Fed is widely expected to keep target range of 2.25% – 2.50% unchanged, markets are eyeing Fed's plan to end balance sheet normalisation. A decision to end balance sheet normalisation earlier or slow the pace of normalisation could ease financial conditions.

On the dots plot, we do not rule out the chance of a shift lower in guidance to 1 hike for 2019, down from 2 hikes in Dec meeting. Hint of prolonged Fed pause could further weigh on USD, especially when USD-long position has risen to 2019-high. The recent run of softer than expected US data including Industrial Production, empire manufacturing, CPI, PPI, ISM new orders and NFP as well as downward risks to global growth continue to warrant Fed's patience on rate normalisation.

Hopes of US-China finding a common ground on trade, slowing momentum in US data and Fed pause/dovish rhetoric in the environment of benign inflation and growth "not hot not cold" should see USD softer in the weeks to come.

But ahead of FoMC event risk tomorrow morning, we expect consolidative trading. Some of the earlier USD softness could unwind into FoMC.

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Malayan Banking Berhad
(Incorporated in Malaysia)

Saktiandi Supaat
Head, FX Research
saktiandi@maybank.com.sg
(+65) 63201379

Christopher Wong
Senior FX Strategist
wongkl@maybank.com.sg
(+65) 63201347

Fiona Lim
Senior FX Strategist
Fionalim@maybank.com.sg
(+65) 63201374

Leslie Tang
Senior FX Strategist
leslietang@maybank.com.sg
(+65) 63201378