FX Tech Flash

USD Bears Pause for Thought

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Fed Not As Dovish As Expected… G20 Summit Next in Focus

Our call to exercise caution (see here) ahead of G20 Summit in Osaka on 28-29 Jun is gradually playing out as decline in the dollar paused while equities gains eased off.

We questioned if markets were overly aggressive on their expectations for Fed to ease (see weekly here) and we subsequently warned that some risks are likely to be taken off the table this week in the lead up to G20 Summit, where President Xi and Trump are scheduled for dinner this Sat. We again highlighted our near term worries in the GM Daily yesterday (see here) that the pace of the USD decline may have been too rapid given the event risk this weekend.

True enough, the trigger came overnight when Fed's Bullard said that 50bps cut would be too much in Jul though he advocated for 25bps cut while Fed Chair Powell said that the case for lower rates had strengthened but he argued that monetary policy should not overreact to any individual data point or short term swing in sentiment. **Overnight Fed speaks provided some clarity that the Fed is not as dovish as markets have hoped for** and this also somewhat validated our concerns. **With a Jul Fed rate cut priced in and Fed stepping in to manage market expectations, the USD's move lower could moderate or even bounce from here (as markets adjust USD shorts) unless trade talks this weekend yield positive progress** (akin to a trade truce and no further tariffs being imposed). That said, US data - consumer confidence, new home sales continue to come in softer than expected. More of such bad data prints could still re-fuel market expectations for a dovish Fed again.

DXY (Daily Chart): Sympathetic Rebound?

Source: Bloomberg, Maybank FX Research & Strategy

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DXY Outlook: Near Term Consolidation

Our call for DXY to come off has met some objectives in the interim. DXY was last seen at 96.24 levels. Bearish momentum on daily chart remains intact though stochastics is showing tentative signs of turning from oversold conditions. Immediate support at 95.87 (76.4% fibo retracement of 2019 low to high) was respected. Resistance at 96.30, 96.60/70 (200 DMA, 50% fibo) before 97.1 (21, 100 DMAs, 38.2% fibo).

While our broad bias for USD to ease lower remains intact, we see some risks of consolidation (especially after the sharp drop in the past few days) in the range of 95.90 – 96.70 with mild risks to the upside in the near term.

USDJPY Technical Outlook: Near Term Rebound Not Ruled Out

USDJPY's decline found support again under 107-levels as pair rebounded back towards 107.40 levels. Bearish momentum on daily chart is waning while stochastics is showing signs of turning from oversold conditions. A potential falling wedge pattern also appears to be in the making – this is typically a bullish reversal. Rebound could test towards 108.20 (21 DMA) – 108.40 (61.8% fibo retracement of 2018 low to high) should immediate resistance at 107.80/90 gives way. Support at 106.90 (76.4% fibo) likely to hold in the interim.

We continue to reiterate our call for USDJPY trading in 106.90 – 108.40 range this week ahead amid external events - Trump-Xi dinner in Osaka (chance of trade truce or trade war), potential re-escalation of US-Iran tensions, and chance of verbal intervention from Japan officials.

USDJPY (Daily): Falling Wedge and a Bullish Divergence?

Source: Bloomberg, Maybank FX Research & Strategy

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