

FX Weekly

Red-Hot Inflation Accelerates Policy Normalisation

The Week Ahead

- **Dollar Index - Fade.** Support at 99.81; Resistance at 103.20
- **USD/SGD - Range-Bound.** Support at 1.3610; Resistance at 1.3810
- **USD/MYR - Sell Rallies.** Support at 4.34; Resistance at 4.40
- **AUD/SGD - Upside Play.** Support at 0.9870; Resistance at 1.0130
- **SGD/MYR - Interim Top.** Support at 3.1700; Resistance at 3.21

Jun ECB Meeting Could be 'Live'

ECB Governing Council meeting takes center-stage next week (9 Jun) as policymakers provide a more formal update to policy bias. A confirmation to end APP and a 25bps rate hike projected for Jul meeting is the base case. But we opined that the Jun meeting could be 'live' even though most policymakers had earlier guided for Jul as potential date for first rate hike. An earlier than expected move to raise rate by 25bps should not be ruled out especially with May headline CPI running at record high of 8.1% y/y and that a consensus to tighten "without undue delay" has somewhat been reached (as per Apr minutes). Members also judged that the accommodative monetary stance "was no longer consistent with inflation outlook". Recent ECB speaks also revealed that policymakers are concerned of red-hot inflation - Villeroy said "inflation is too high and too broad... normalization of policy is required". Lagarde earlier indicated that Jul is likely a lift-off date for ECB rates and that ECB will exit sub-zero territory by end-3Q. Several policymakers such as Knot, Kazimir and Holzmann even up the ante in suggesting about having the option of 50bps hike. ECB Knot indicated that bigger rate increases (such as 50bps) must not be excluded if inflation shows signs of "broadening further or accumulating" while Holzmann judged that 50bps hike in Jul is appropriate. A case of ECB surprising on the timing of rate normalization can add to EUR strength. But if the ECB turns out to deliver the expected with no element of surprise, then we would be cautious of "buy rumor, sell rally" play on EUR especially when a Jul hike was already priced and that FoMC takes place the following week (16 Jun). On AXJ FX, we look for range-bound play in 1.3610 - 1.3810 for USDSGD and potentially an interim top/bearish reversal for SGDMYR towards 3.17 levels.

RBA and RBI to Tighten Respective Monetary Policies

For RBA on Tue, we look for a 25bps hike to bring the cash target rate to 0.60%. Given the downside surprise in wage price index and softer inflation expectation prints, we think RBA is in no hurry to ramp up the magnitude of the next hike and could proceed with a more regular pace of tightening. For RBI on Wed, we look for 35bps hike to bring repo rate to 4.75% amid relentless rise in CPI, WPI. Signs of stronger domestic demand alongside infrastructure investment plans by the government and somewhat resilient exports growth suggest that the economy is able to withstand further tightening.

US, China CPIs; China Trade and Malaysia IP Next Week

Key data we watch next week include Caixin services PMI (Mon). For Tue, EU investor confidence; PH CPI. For Wed, EU, JP GDPs; German IP. For Thu, China, Philippines trade. For Fri, US CPI, real hourly earnings and Uni of Mich sentiment; NZ mfg activity; China CPI, PPI; Malaysia IP. Next Mon, KR and NZ markets are closed for hols. Today we watch US payrolls - a softer print can add to USD softness.

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Bloomberg FX Ranking

3Q 2021












No. 1 for VND
No. 3 for TWD

4Q 2021

No. 4 for TWD
No. 5 for CNY

1Q 2022

No. 2 for TWD
No. 4 for CNY

Currency	Direction	Support/Resistance	Key Data and Events
Dollar Index		S: 99.81; R: 103.20	Mon: - Nil - Tue: Trade (Apr); Wed: Wholesale trade sales, inventories (Apr); Thu: Initial jobless claims (Jun); Fri: CPI, real hourly earnings (May); Uni of Mich sentiment (Jun P)
EURUSD		S: 1.0600; R: 1.0860	Mon: - Nil - Tue: Sentix investor confidence (Jun); Factory orders (Apr); Wed: GDP, Employment (1Q); German industrial production (Apr); Thu: ECB Governing Council Fri: - Nil -
AUDUSD		S: 0.7150; R: 0.7340	Mon: - Nil - Tue: RBA meeting Wed: - Nil - Thu: - Nil - Fri: - Nil -
NZDUSD		S: 0.6410; R: 0.6625	Mon: - Nil - Tue: Commodity price (May); Wed: - Nil - Thu: - Nil - Fri: Mfg activity (1Q); Card spending (May)
GBPUSD		S: 1.2390; R: 1.2650	Mon: - Nil - Tue: BRC Sales, Services PMI (May); Wed: Construction PMI (May) Thu: RICS House price balance (May) Fri: - Nil -
USDJPY		S: 127.00; R: 131.25	Mon: - Nil - Tue: Labor cash earnings, Leading index (Apr); Wed: GDP (1Q); Current account (Apr); Thu: Machine tool orders (May); Fri: PPI (May)
USDCNH		S: 6.5700; R: 6.7200	Mon: Caixin PMI services (May); Tue: FX reserves (May); Wed: - Nil - Thu: Trade (May); Fri: CPI, PPI (May)
USDSGD		S: 1.3610; R: 1.3810	Mon: - Nil - Tue: FX reserves (May) Wed: - Nil - Thu: - Nil - Fri: - Nil -
USDMYR		S: 4.3400; R: 4.4000	Mon: - Nil - Tue: - Nil - Wed: FX reserves (May) Thu: - Nil - Fri: Industrial production (Apr)
USDPHP		S: 52.30; R: 53.10	Mon: - Nil - Tue: CPI (May); Wed: - Nil - Thu: Trade (Apr); Fri: Unemployment rate (Apr)
USDIDR		S: 14,340; R: 14,535	Mon: - Nil - Tue: - Nil - Wed: - Nil - Thu: Consumer confidence (May) Fri: - Nil -

Sources: Bloomberg, Maybank FX Research & Strategy

Selected G7 FX Views

Currency	Stories of the Week
DXY Index	<p>Consolidate. Dollar's decline since mid-May paused this week as markets digest the mixed bag of US data and rare Biden-Powell meeting, ahead of key event risk - FoMC (16 Jun). On US data, price action these few days suggests a pattern of good US data is bad for sentiment/positive USD while bad US data is good for sentiments/negative USD. Good US data this week includes stronger than expected ISM manufacturing, prices paid and new orders. Bad US data this week includes slower ADP gains to 128k in May, from 247k in Apr while durable goods grew at a slower pace of 0.3% m/m, down from 1.8% prior. Hence a case of softer US data dialling back fears of aggressive Fed, sending US stocks higher and USD lower. US payrolls tonight (830pm SG/MY time) will be key to see if wage growth and job gains slows. Consensus looks for NFP at +320k (vs. +428k prior) and avg hourly earnings at 5.2% (vs. 5.5% prior). Softer data print can add to USD downside.</p> <p>Rare Biden-Powell meeting this week focused on combating inflation and that Fed has "a primary responsibility to control inflation". Biden also said that it was likely that the pace of job growth could slow from a monthly pace of 500k jobs down to around 150k as a result of Fed's effort to combat high inflation. We opined that the rare meeting which came ahead of the mid-term elections in Nov basically implies that (1) high inflation is at risk of threat to US economy (and potentially may jeopardise mid-term elections) and it is Fed's task to tame inflation; (2) Administration can tolerate some economic trade-offs (i.e. slower job gains) to bring inflation down - and this raises the question if Fed will go all out on policy tightening. We think the latter is a risk and hence a potential case for firmer UST yields</p> <p>Fed speaks this week reinforced consensus view for 2 more 50bps hike at Jun and Jul FoMCs. In disagreeing with Bostic's earlier comments of a Sep pause, Fed's Brainard said it's very hard to see the case for a pause in Sep as Fed still got a lot of work to do to get inflation down to 2% target. Fed's Mester said that she favors raising rates by 50bps in Jun and Jul but cautioned that pace could speed up or slow down from Sep, based on what happens with inflation. Recently released FoMC minutes also stopped short of talking about more aggressive hikes (i.e. 75bps). The key takeaway was that Fed saw aggressive hikes (front-loading) as providing flexibility later this year, instead of aggressive hikes picking up pace. Core PCE also rose at slower pace of 4.9% y/y in Apr vs. 5.2% in Mar. We stick to our proposition that Fed may have hit peak hawkishness.</p> <p>DXY continued to trade near recent lows. Last at 101.60 levels. Bearish momentum on daily chart intact while decline in RSI moderated. We look for consolidative trades. Support at 101.00/40 (38.2% fibo, 50DMA), 99.81 (50% fibo). Resistance at 102.55 (23.6% fibo retracement of 2022 low to high), 103 (21 DMA).</p> <p><i>Next week brings Trade (Apr) on Tue; Wholesale trade sales, inventories (Apr) on Wed; Initial jobless claims (Jun) on Thu; CPI, real hourly earnings (May); Uni of Mich sentiment (Jun P) on Fri.</i></p>
EUR/USD	<p>A Jun Hike is Not Ruled Out. EUR remains supported this week amid continued narrowing of 2y EU-UST yield differentials (last at -200bps vs. -210bps aa week ago) on hopes of ECB tightening. Pair was last at 1.0745 levels. Bullish momentum on daily chart intact while RSI rose. Key resistance at 1.0760 (50 DMA). Break above puts next resistance at 1.0860/65 (76.4% fibo retracement of 2016 low to 2018 high). Support at 1.07, 1.0630 and 1.06 (21 DMA).</p> <p>ECB Governing Council meeting takes center-stage next week (9 Jun) as policymakers provide a more formal update to policy bias. A confirmation to end APP and a 25bps rate hike projected for Jul meeting is the base case. But we opined that the Jun meeting could be 'live' even though most policymakers had earlier guided for Jul as potential date for first rate hike. An earlier than expected move to raise rate by 25bps should not be ruled out especially with May headline CPI running at record high of 8.1% y/y and that a consensus to tighten "without undue delay" has somewhat been reached (as per Apr minutes). Members also judged that the accommodative monetary stance "was no longer consistent with inflation outlook". Recent ECB speaks also revealed that policymakers are concerned of red-hot inflation. Villeroy said "inflation is too high and too broad... normalization of policy is required". Lagarde indicated that Jul is likely a lift-off date for ECB rates and that ECB will exit sub-zero territory by end-3Q. Several policymakers such as Knot, Kazimir and Holzmann even up the ante in suggesting about having the option of 50bps hike. ECB Knot indicated that bigger rate increases (such as 50bps) must not be excluded if inflation shows signs of "broadening further or accumulating". Kazimir said that ECB can start with 25bps</p>

hike in Jul, then open to a 50bps hike in Sep meeting while Holzmann judged that 50bps hike in Jul is appropriate. A case of ECB surprising on the timing of rate normalization can add to EUR strength. But if the ECB turns out to deliver the expected with no element of surprise (i.e. end to APP and Jul rate hike without further guidance on trajectory), then we would be cautious of “buy rumor, sell rally” play on EUR especially when a Jul hike was already priced and that FoMC takes place the following week (16 Jun).

Next week brings Sentix investor confidence (Jun); Factory orders (Apr) on Tue; GDP, Employment (1Q); German industrial production (Apr) on Wed; ECB Governing Council on Thu.

GBP/USD **Sideways Trade.** Our caution in the last FX Weekly for GBP to pullback panned out. Pair was last at 1.2575 levels. Mild bullish momentum on daily chart intact while RSI is flat. Sideways trade likely. Resistance at 1.2650 (50% fibo retracement of Apr high to May low). Support at 1.2535 (38.2% fibo), 1.2460 (21 DMA), 1.2390 (23.6% fibo).

We retain the view that short GBP remains the best proxy trade to express a view on stagflation fears - growth downturn, surge in living cost, including food and BoE not front-loading policy tightening. Recall earlier that BoE's Bailey said a surge in food cost could have apocalyptic consequences for the poorest people in society and global economy. Elsewhere we continue to keep a look out on Northern Ireland (NI) Protocol developments. Any signs of EU-UK trade war could implicate GBP.

Next week brings BRC Sales, Services PMI (May) on Tue; Construction PMI (May) on Wed; RICS House price balance (May) on Thu.

USDJPY **Rebound Risks.** USDJPY rebounded this week, in line with our call for near term rebound in the last FX Weekly. Move higher came amid the uptick in UST yields. Pair was last at 130.05 levels. Bearish momentum on daily chart faded while RSI rose. Falling wedge - typically associated with bullish reversal - in play. Risks to the upside for now though we look for rally to sell into. US payrolls tonight will drive price action. A stronger than expected data could see USDJPY jump. Resistance at 131.25 levels (2022 high). Support at 128.75 (21 DMA), 127.05 (23.6% fibo retracement of 2022 low to high), 125.80 (50 DMA) and 126.80 (50 DMA).

Next week brings Labor cash earnings, Leading index (Apr) on Tue; GDP (1Q); Current account (Apr) on Wed; Machine tool orders (May) on Thu; PPI (May) on Fri.

AUD/USD **RBA to Tighten - Will It Be 25bps or 40bps?** We look for a 25bps hike to bring the cash target rate to 0.60%. Given the downside surprise in wage price index and softer inflation expectation prints, we think RBA is in no hurry to ramp up the magnitude of the next hike and could proceed with a more regular pace of tightening.






AUDUSD extended its run higher this week, in line with our call for bullish play. We shared that *potential bullish flag could be in the making*. Sentiments are somewhat supported amid Shanghai reopening, appreciation in RMB, decent rally in equity markets this week and broad USD retreat. AUD was last at 0.7245 levels. Bullish momentum intact while RSI rose towards near overbought conditions. A convergence of moving averages is taking hold. This typically suggests that a price expansion can occur soon (break-out trade, though direction cannot be foretold). We continue to monitor price action. Resistance at 0.7245 levels (50% fibo, 50, 100 DMAs). Break-out puts next resistance at 0.7340 (61.8% fibo retracement of 2022 high to low), 0.7465 (76.4% fibo). Support at 0.7150 (38.2%), 0.7065 (21 DMA).

Next week brings RBA meeting on Tue.

NZD/USD **Potential Inverted H&S.** NZD was a touch firmer this week following the rally post-RBNZ the week before. Rebound in equity, gains in CNH and broad USD pullback supported the pair. Pair was last at 0.6545 levels. Daily momentum is bullish while rise in RSI shows tentative signs of moderating. Consolidative trades likely from here. Resistance at 0.6580, 0.6630 (50% fibo). Support at 0.6530 levels (38.2% fibo retracement of Apr high to May low), 0.6465, 0.6400/10 levels (23.6% fibo, 21DMA).

Next week brings Commodity price (May) on Tue; Mfg activity (1Q); Card spending (May) on Fri.

Technical View: MYR Crosses

MYR Crosses	Direction	Support/Resistance	Stories of the Week
SGD/MYR		S: 3.1700; R: 3.2100	Interim Top. SGDMYR firmed modestly amid SGD outperformance this week. Cross was last at 3.2005 levels. Bullish momentum on daily chart is fading while RSI is near overbought conditions. Potential bearish divergence on MACD and RSI likely. We opined an interim top may have been formed. Watch out for reversal lower. Support at 3.1780 (21 DMA), 3.1510 (23.6% fibo retracement of 2022 low to high), 3.1340 (38.2% fibo). Resistance at 3.2060, 3.2110, 3.2280 levels.
AUD/MYR		S: 3.1000; R: 3.2180	Upside Risks. AUDMYR rose sharply this week, in line with our call for upside risks. Cross rose amid AUD outperformance. Last at 3.1830 levels. Daily momentum is bullish while RSI is rising into overbought conditions. Upside bias intact though we do not rule out slower pace of gains given RSI entering near overbought conditions. Resistance at 3.20, 3.2180 (2022 high). Support at 3.15 (23.6% fibo retracement of 2022 low to high), 3.1280 levels (50 DMA) and 3.10 (21 DMA).
EUR/MYR		S: 4.6600; R: 4.8000	Break Above 200DMA Should See Gains Solidify. EURMYR firmed this week. Cross was last at 4.7190 levels. Daily momentum is mild bullish bias while RSI is near overbought. 21DMA cuts 50DMA to the upside - near term bullish signal. Immediate resistance at 4.7350 (76.4% fibo retracement of 2022 high to low), 4.75 (200 DMA). Break out of these resistance should see EUR bulls gather further momentum. Failing which EUR could revert to trading 4.66 - 4.7350 range. Support at 4.6950 (61.8% fibo), 4.6620 (50% fibo) and 4.63 levels.
GBP/MYR		S: 5.4480; R: 5.5800	Bearish Trend Channel Intact. GBPMYR's rebound since mid-May showed signs of moderation. Cross was last seen at 5.5160 levels. Mild bullish momentum on daily chart intact though there are signs of it fading while RSI is flat. Bearish trend channel formed since Feb remain intact though GBP is near the upper bound. Key resistance at 5.5590 (100 DMA), 5.5820 (38.2% fibo) needs to be broken for GBP to rise meaningfully. Next resistance at 5.6130 (200DMA), 5.63. Failure to break out of upper bound should see GBP revert back to its bearish trend channel. Support at 5.4650/5.4775 (21 DMA, 50% fibo), 5.3735 levels (61.8% fibo retracement of 2020 low to 2021 high).
JPY/MYR		S: 3.3350; R: 3.4420	Looking for Direction. JPYMYR fell this week, in line with our caution for risk of pullback. Cross was last at 3.3780 levels. Daily momentum is mild bearish but decline in RSI moderated. Consolidation likely. Resistance at 3.40 (21, 50 DMAs), 3.4420 (38.2% fibo retracement of 2022 high to low). Support at 3.3670, 3.3350 levels.

Technical Chart Picks:

USDSGD Daily Chart - Consolidation



USDSGD's attempt to test below 1.3670 this week was brief as the pair subsequently rebounded. That said the rebound was capped. Pair was last at 1.3710 levels.

Bearish momentum on daily chart intact though there are tentative signs of it waning while RSI was flat. Consolidative trades likely ahead of key event risks - ECB (9 Jun); FoMC (16 Jun).

Support at 1.3670 (38.2% fibo retracement of 2021 low to 2022 high), 1.3630 (100 DMA) and 1.3570/85 levels (50% fibo, 200 DMA).

Resistance at 1.3790 (23.6% fibo), 1.3810 (21 DMA) and 1.39 levels.

USDMYR Weekly Chart - Range-Bound



USDMYR saw a pullback in early week, as cautioned but the corrective pullback was brief. Pair retraced most of its early week losses. Pair was last at 4.3865 levels.

Mild bearish momentum on daily chart shows signs of fading but rise in RSI moderated. Range-bound trades likely in the near term. But bias to sell rallies. Weekly RSI overbought.

Support at 4.3850 (21 DMA), 4.3420 (76.4% fibo retracement of 2020 high to 2021 low) and 4.3110 levels (50 DMA).

Resistance at 4.4050 (May high), 4.4450 (2020 high).

AUDSGD Daily Chart: Upside Play



AUDSGD rallied sharply this week amid AUD outperformance. Cross was last at 0.9950 levels.

Daily momentum turned mild bullish while RSI rose. Risks to the upside. Immediate resistance at 1.00 (50% fibo retracement of 2021 high to 2022 low), 1.0130 (61.8% fibo).

Support at 0.9850/70 (38.2% fibo, 100, 200 DMAs), 0.9750 (21 DMA).

SGDMYR Daily Chart: Interim Top



SGDMYR firmed modestly amid SGD outperformance. Cross was last at 3.2005 levels.

Bullish momentum on daily chart is fading while RSI is near overbought conditions. Potential bearish divergence on MACD and RSI likely. We opined an interim top may have been formed. Watch out for reversal lower.

Support at 3.1780 (21 DMA), 3.1510 (23.6% fibo retracement of 2022 low to high), 3.1340 (38.2% fibo).

Resistance at 3.2060, 3.2110, 3.2280 levels.

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