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Global

Maybank

FX Weekly

Fed Keeps Everyone Focused on Inflation

The Week Ahead

- **Dollar Index - Fade Rallies.** Support at 103.20; Resistance at 107.40
- **USD/SGD - Bearish Risk.** Support at 1.3670; Resistance at 1.3880
- **USD/MYR - Downside Risk.** Support at 4.40; Resistance at 4.50
- **AUD/SGD - Consolidation.** Support at 0.95; Resistance at 0.98
- **SGD/MYR - Overbought.** Support at 3.18; Resistance at 3.25

United on the Inflation Fight

This week has been peppered with Fed speaks who mostly renewed commitments to getting inflation lower and marginally revived bets on a 75bps hike for Sep. Fed Bullard was the lead hawk, looking for Fed rate to reach 3.75-4.00% by year end. Much of the rhetoric this week suggest mixed views on the likelihood of a soft landing and Fed wants to manage expectations for rate cuts in 2023. While the UST yields and USD are a tad higher, Fed Fund Futures still imply a 60% probability of a 50bps hike vs. 40% for 75bps and a potential cut in Mar 2023 amid growing reports of layoffs. Eyes are on the NFP and the average hourly earnings from the Jul labour report tonight. Weaker prints could ease support for the greenback further.

Laser-focused on Inflation Prints

The central bank policy calendar is rather light with only Bot policy decision due (25bps hike expected). Focus could instead be on inflation prints from the US, Germany, France and China. Expectations are for US CPI to ease a tad next week after gasoline prices declined for the past seven consecutive weeks. Softer inflation data should continue to weaken the USD and UST yields (negative for USDJPY). We continue to prefer to fade the USD on rallies. In Germany, food inflation and higher costs of housing, water and energy are likely to keep the inflation print elevated. France too is due to release CPI. PMI releases last week suggest that activity in European nations is weakening but still tight labour market could keep the ECB on a rate tightening cycle and lend support to the EUR. China's CPI is expected to rise as well but China remains one of the few to keep inflation close to target.

While further slippages of the USD and UST yields could be benign for Asian currencies, another driver of FX of note is also the decline in crude oil prices. Brent fell almost 15% this week and that is especially favourable for net oil importers such as INR, PHP, KRW, THB. We cannot rule out some technical rebound. Meanwhile, technical indicators suggest bearish pressure could remain on the USDSGD and USDMYR.

What We Watch

Key data we watch into next week include China's trade and foreign reserves data this Sun. Mon has Japan current account balance, Singapore's foreign reserves. Tue has US Unit Labor Costs (2Q), AU NAB business confidence, Westpac consumer confidence. China's monetary data is due anytime from 9 Aug. Wed has US CPI, GE CPI, JN PPI and CH PPI, CPI. Thu has US PPI, GE current account, SG GDP. Fri has UK GDP, industrial production, trade, FR ILO report and CPI. Fed Evans and Kashkari speak on Wed night. Fed Daly speak on Bloomberg TV on Fri morning (Asia time).

Market closure: India, Singapore are off on Tue; Japan on Thu; Thailand on Fri.

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Currency	Direction	Support/Resistance	Key Data and Events
Dollar Index	→	**S: 103.20; R: 107.40**	**Mon:** - Nil - **Tue:** NFIB Small Business Optimism (Jul), Non-farm Productivity (2Q P), Unit Labor Costs (2Q P) **Wed:** CPI (Jul); real Average Hourly Earnings (Jul), Wholesale Inventories (Jun F); Fed Evans, Kashkari Speak, PPI (Jul) **Thu:** PPI Ex Food and Energy (Jul); Fed Daly speaks on Bloomberg TV **Fri:** Import price index,export price index (Jul); Univ. of Mich. Sentiment (Aug P)
EURUSD	→	**S: 1.0110; R: 1.0420**	**Mon:** Sentix investor confidence (Aug) **Tue:** - Nil - **Wed:** GE CPI (Jul F); **Thu:** GE Current Account Balance (Jun); **Fri:** FR ILO unemployment rate (2Q); FR CPI (Jul F); IT trade bal (Jun), Industrial Production (Jun)
AUDUSD	→	**S: 0.6830; R: 0.7140**	**Mon:** Foreign Reserves (Jul) **Tue:** CBA Household (Jul); Westpac consumer confidence (Aug); NAB business confidence (Jul) Wed: - Nil - **Thu:** Consumer Confidence Expectation (Aug) **Fri:** - Nil -
NZDUSD	→	**S: 0.6180; R: 0.6450**	**Mon:** 2Y inflation expectation (3Q) **Tue:** ANZ Truckometer Heavy (Jul); card spending (Jul) **Wed:** - Nil - **Thu:** REINZ House Sales (Jul) **Fri:** Food Prices (Jul)
GBPUSD	→	**S: 1.1935; R: 1.2480**	**Mon:** - Nil - **Tue:** - Nil - **Wed:** - Nil - **Thu:** - Nil - **Fri:** GDP (2Q P); industrial production (Jun)l Mfg Production (Jun); Trade (Jun)
USDJPY	→	**S: 129.90; R: 134.80**	**Mon:** Current account balance (Jun), trade (Jun) **Tue:** Money Stock M3 (Jul) **Wed:** PPI (Jul), BoJ Outright Bond Purchase **Thu:** - Nil - **Fri:** - Nil -
USDCNH	→	**S: 6.7000; R: 6.8300**	**Mon:** - Nil - **Tue:** - Nil - **Wed:** CPI, PPI (Jul) **Thu:** - Nil - **Fri:** - Nil -
USDSGD	→	**S: 1.3670; R: 1.3880**	**Mon:** Foreign Reserves (Jul) **Tue:** - Nil - **Wed:** - Nil - **Thu:** GDP (2Q F); **Fri:** - Nil -
USDMYR	↓	**S: 4.4000; R: 4.5000**	**Mon:** - Nil - **Tue:** Industrial production (Jun); manufacturing sales (Jun) **Wed:** - Nil - **Thu:** - Nil - **Fri:** GDP (2Q)
USDPHP	→	**S: 54.80; R: 55.90**	**Mon:** Agriculture Output (2Q) **Tue:** Trade (Jun); GDP (2Q) **Wed:** - Nil - **Thu:** - Nil - **Fri:** - Nil -
USDIDR	→	**S: 14,730; R: 15,040**	**Mon:** Consumer Confidence (Jul) **Tue:** - Nil - **Wed:** - Nil - **Thu:** - Nil - **Fri:** - Nil -

Sources: Bloomberg, Maybank FX Research & Strategy

Selected G7 FX Views

Currency	*Stories of the Week*
DXY Index	***Fade Rallies.*** The DXY index respected the support marked by the 50-dma this week, last at 105.90. Greenback has been swung by a combination of resilient US data, some stronger corporate earnings as well as hawkish Fed speaks. Eyes are on the US labour report for Jul. Consensus expects NFP to be around 250K vs. 372K. Average hourly earnings growth also need to slow further for the DXY index to clear the 105-support level (50-dma). An upside surprise to hourly earnings could spur the greenback to swing back higher. DXY was last around 105.89 levels. Bearish momentum on daily chart waned. Resistance at 106.88 (21-dma) before the 107.50. This week has been peppered with Fed speaks and renewed commitments to getting inflation lower and revived bets on a 75bps hike for Sep. Of note, Fed Daly warned that Fed is “nowhere near almost done on its work on inflation”. Fed Evans spoke about funds rate at 3.75-4.00% in 2Q as being reasonable, downplaying the probability of “immediate cuts” like what was observed for the past rate hiking cycles. Meanwhile, Fed Mester opined that “broad-based pullback in US activity” is not observed and that the labour market is very healthy, insinuating that the economy should be able to withstand further rate hikes. Fed Bullard was the lead hawk, looking for Fed rate to be 3.75-4.00% by year end. **<u>Taken together, Fed is reiterating its commitment to fight inflation but views on whether a softlanding can be achieved are mixed.</u>** One thing in common amongst all Fed speakers this week is the “laser-focus on inflation” and upcoming average hourly earnings tonight and Jul CPI release on Wed will be highly scrutinized. Wide expectation for CPI to ease, at least on the back of lower energy costs likely kept the USD from aggressive bullish extension this week. Average gasoline prices in the US have fallen for 7 consecutive weeks. That said, USD may remain supported ahead of the releases given Fed’s data dependency and prefer to continue to fade rallies. *Next week brings NFIB Small Business Optimism (Jul), Non-farm Productivity (2Q P), Unit Labor Costs (2Q P) on Tue. Wed has CPI (Jul); real Average Hourly Earnings (Jul), Wholesale Inventories (Jun F); Fed Evans, Kashkari Speak, PPI (Jul). Thu has PPI Ex Food and Energy (Jul); Fed Daly speaks. Fri has Import price index, export price index (Jul); Univ. of Mich. Sentiment (Aug P).*
EUR/USD	***Sideways.*** Energy shortages will likely continue to constrain the extent of any interim EUR gains. For much of the past week, EUR was stuck within the 1.0110-1.0380 range, in the absence of stronger cues to bring this pair out of this depressed range. Russia flagged that three compressor turbines in need of repairs and could be affected by sanction-related delays. Dutch front-month gas contract was last around EUR199.25/mwh and there is lack of alternative energy sources. Electricite de France is being forced to extend cuts to its nuclear reactor output as the heat wave has raised river temperature, reducing its ability to cool the plants. This has turned France from a net exporter of energy into a net importer of energy. Meanwhile, trade (including coal shipment for power production) along the Rhine River in Germany is being affected by low water level and vessel shortage. In Italy, the government has approved a EUR17bn aid package to help cushion the impact of inflation. Costs are expected to be covered by higher tax revenue and better-than-expected growth. Elections are scheduled for 25 Sep and thus far, Giorgia Meloni’s Brothers of Italy (23.4%), Enrico Letta’s Democrats (22.1%) are leading in polls. Daily momentum is mild bullish. Resistance at 1.0320 (23.6% fibo retracement of 2022 high to low) and 1.0420 (50-dma). Support at 1.0110. *Next week has EC Sentix investor confidence (Aug) on Mon. Wed has EC CPI (Jul F);Thu has GE Current Account Balance (Jun); Fri has FR ILO unemployment rate (2Q); FR CPI (Jul F); IT trade bal (Jun), Industrial Production (Jun).*
GBP/USD	***Still 2-Way Risks.*** GBP has been creeping higher since mid-Jul, but due in part to softening in broad dollar. Political uncertainty is expected to drive GBP sentiments after BoE has taken the base rate higher by the expected 50bps to 1.75%, in line with expectations. Little positivity in store for GBP though as the central bank dished out grim forecasts of a recession in 4Q that will extend into 2023. Inflation is expected to peak above 13% this year and remain elevated thereafter. Governor Bailey promised “all options” are on the table for future meetings and pledged to “act forcefully”. The decision came after UK construction PMI fell to 48.9 from previous 52.6. GBPUSD touched 1.2150 (the low for the week) before rebounding

back to levels around 1.2140 in early Asia. 50-dma capping prices at 1.2180, if not 1.2270. Support at 1.2035 (21-dma). This pair remains susceptible to two-ways trades amid fluidity of domestic politics, now with slight bias to downside play. Support at 1.2040 (21-DMA), 1.1950 levels. Resistance at 1.2220 (50-DMA) is being tested; next at 1.2350 (23.6% fibo retracement of 2021 high to 2022 low).

Next week brings GDP (2Q P); industrial production (Jun)l Mfg Production (Jun); Trade (Jun).

USDJPY ***Bearish; Sell Rallies***. USDJPY rebounded from recent lows, taking the cue from the UST yield swings amid a barrage of hawkish Fed speaks in the past week. Pair was last seen around 133.20 and the 50-dma at 134.80 has become a resistance that caps aggressive USDJPY bulls for now. Support is seen around 129.90 (38.2% Fibonacci retracement of the Mar-Jul rally). Stochastics are now oversold and could mean that pair can remain supported on dips. MACD however, is still rather bearish. Looking at the weekly chart, there is still room for bears to extend and the bearish divergence is playing out.

Next week brings Current account balance (Jun), trade (Jun) on Mon; Tue has Money Stock M3 (Jul); Wed has PPI (Jul), BoJ Outright Bond Purchase.

AUD/USD ***Buy on Dips***. AUDUSD hovered around 0.6950 after a choppy week. RBA raised cash target rate by 50bps to to 1.85%. AUDUSD slipped after the widely-expected hike and was weighed further by a downgrade of GDP forecast to 3.25% over 2022 and 1.75% for 2023 and 2024. This compares to May's forecast of 4.25% in 2022, 2% for 2023 and 2024. With regards to inflation, the central bank expects it to peak in 2022 (at around 7¾%) before easing back to 4% over 2023 and 3% over 2024. RBA continues to highlight consumer spending as a source of uncertainty *as higher inflation and interest rates put pressure on household budgets*. Whilst pledging to get inflation lower, the central bank flagged that the *path to achieve this balance is a narrow one and clouded in uncertainty"*. Lowe also stressed that there is no "pre-set path" and lean towards data-dependency. RBA has certainly joined the Fed and BoC on the dovish pivot and that has reduced the possibility of a full catch-up on the Fed. Cash rate futures now imply a 30bps point increase in the cash target rate for Sep, a sharp contrast to Fed's hawkish reminder that seems to have revived bets for a larger hike. Caution is warranted for this risk-sensitive pair in the near-term but we remain constructive on the AUD in next few months, looking for a healthy cushion from its current account surplus.

Back on the AUDUSD, bullish momentum has waned and stochastics are turning from overbought conditions. 21-dma at 0.6890 is a support level for the pair and is at risk of crossing the 50-dma (0.6955) to the upside. Taken together, there are mixed signals and pair could remain within the 0.6890-0.7050 range this week. We continue to prefer to buy on dips.

Next week brings Foreign Reserves (Jul) on Mon. Tue has CBA Household (Jul); Westpac consumer confidence (Aug); NAB business confidence (Jul). Thu has Consumer Confidence Expectation (Aug).

NZD/USD ***Gains Could Slow***. NZD hovered around 0.6290. Bullish momentum has waned a tad and stochastics show signs of turning lower from overbought conditions. This could translate to some bearish pressure on the NZDUSD but we expect the support at 0.62 to remain largely intact. Price formation has formed an arguable inverted head and shoulders and we see risks tilted to the upside. Neckline is formed around 0.6350 and recent dip towards 0.62 could form the second shoulder, that is in line with the first shoulder formed in Jun.

Pair was last at 0.6320 levels. Momentum and RSI indicators on daily chart remain modestly bullish. Resistance at 0.6380 (61.8% fibo retracement from Jun high to Jul low), 0.6450 (76.4% fibo). Support at 0.6260 (38.2% fibo), 0.6180 (23.6% fibo).

Next week brings 2Y inflation expectation (3Q) on Mon. Tue has ANZ Truckometer Heavy (Jul); card spending (Jul). Thu has REINZ House Sales (Jul). Fri has Food Prices (Jul).

Technical View: MYR Crosses

MYR Crosses	Direction	Support/Resistance	Stories of the Week
SGD/MYR	→	S: 3.1800; R: 3.2500	**Overbought**. SGDMYR was last at 3.2370. Bullish momentum is waning and stochastics show signs of turning lower from overbought condition. This cross is supported by 3.2330 before the next at 3.2170. Resistance is seen around 3.2540.
AUD/MYR	→	S: 3.0590; R: 3.1910	**Buoyant.** AUDMYR was last at 3.09 levels. Bullish momentum on daily chart has waned while stochastics have fallen from overbought conditions. Further decline could meet support at 3.0850 (50.0% fibo retracement from Jun high to Sep low), 3.0590 (38.2% fibo) and 3.0280 (23.6% fibo). Resistance at 3.1410 (76.4% fibo), 3.1910 (Jun high).
EUR/MYR	→	S: 4.5055; R: 4.6110	**Choppy.** EURMYR saw more two-way swings over the last week but remained supported. Last seen at 4.5520 levels. Bullish momentum on daily chart remains intact while stochastics are falling from overbought conditions. Support at 4.5206 (21-dma) before the next at 4.5040 (23.6% fibo retracement from Jun high to Jul low). Resistance at 4.5900 (50-dma) before the next at 4.6110.
GBP/MYR	↓	S: 5.3620; R: 5.4830	**Cautious of Pullback.** GBPMYR drifted sideways for the past week. Cross was last seen at 5.4100 levels. Momentum and stochastics on daily chart are falling. A broadening formation underscores greater price volatility and we see more room for downside in this cross, possibly driven by the MYR. Support at 5.3620 (38.2% fibo retracement from May high to Jul low), 5.3160 (23.6% fibo). Resistance at 5.4830 (76.4% fibo), 5.5570 (May high).
JPY/MYR	↓	S: 3.3000; R: 3.4100	**Bearish Risks.** JPYMYR was last at 3.3430. Daily momentum is waning in bullishness but stochastics are falling from overbought conditions. Further retracement possible. Resistance at 3.4100 (76.4% fibo retracement from May high to Jul low); 3.4780 (May high). Support at 3.3330 (50.0% fibo), 3.3000 (38.2% fibo), 3.2560 (23.6% fibo).

Technical Chart Picks:

USDSGD Daily Chart – Bearish Breakout

USDSGD broke out of a bullish trend channel and was last seen around 1.3760. This pair has been hovering around the 100-dma for the past few sessions. Interim support is seen around 1.3750/60 and next support is seen around 1.3680.

21-dma is en-route to cut the 50-dma lower, a bearish signal.

We think there is a chance for pair to extend towards the next support around 1.3680.

Resistance at 1.3880 (50.0% fibo retracement from May low to Jul high), 1.40 (23.6% fibo).

USDMYR Daily Chart – Near Term Downside Risks

Further gains in pair is beginning to show signs of being capped. Pair was last at 4.4505 levels.

Momentum on daily chart has become bearish while stochastic fell from overbought conditions. Bias for corrective move lower.

Support at 4.4490 (21-DMA), 4.4160 (50-DMA).

Resistance at 4.50 (2017 high).

Note: orange line - 21 SMA; blue line -50SMA; red line - 100 SMA; green line - 200 SMA

SGDMYR Daily Chart: Overbought; Gains Could Slow

SGDMYR was last at 3.2370. Bullish momentum is waning and stochastics show signs of turning lower from overbought condition.

This cross is supported by 3.2330 before the next at 3.2170. Resistance is seen around 3.2540.

Note: orange line - 21 SMA; blue line –50SMA; red line – 100 SMA; green line - 200 SMA

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