Maybank

Macro | FX Research & Strategy

Global

FX Weekly

Brace for Faster Tightening, Globally

The Week Ahead

- **Dollar Index - Sell Rallies.** Support at 93.20; Resistance at 96.90
- **USD/SGD - Bearish Engulfing.** Support at 1.3320; Resistance at 1.3530
- **USD/MYR - Range.** Support at 4.1700; Resistance at 4.2000
- **AUD/SGD - Bounce.** Support at 0.9455; Resistance at 0.9725
- **SGD/MYR - Sideways.** Support at 3.0860; Resistance at 3.1210

Near Term Risk Sentiment Could be Undermined; Sell USD Rally

Solid US payrolls report (tight labor market and acceleration in wage growth) adds to the likelihood of a faster pace of policy normalisation. But not only is the Fed quickening its pace, other central banks have also indicated so. BoE did back-to-back hikes and began unwinding QE while markets are pricing as much as another +120bps rate hike up to Nov-2022 including another back-to-back hike at next MPC in Mar. ECB also signaled a surprise hawkish shift amid growing concerns of inflation. RBNZ though already begun rate hike cycle last year, could see its pace accelerate while the BoC is set for liftoff in Mar and RBA may surprise in May. Both RBNZ and BoC have markets pricing in ~150bps rate increase for 2022 while +100bps is priced for RBA. Global financial conditions should tighten further and this could pose some challenges to equity markets in the near term. USD may see some interim support especially if upcoming US CPI (Thu) further surprise to the upside. But bias to sell rallies. For USDSGD, we look out for signs of follow-thru momentum following bearish engulfing pattern. Key support at 1.34. For USDMYR, key support at 4.1740 (200 DMA) needs to be broken for decline to gather momentum. Failing which, 4.17 - 4.20 range could suffice for the week.

ECB's Hawkish Tilt May Usher in EUR Bull Run

Recall in 2017 when the ECB made a hawkish tilt from its then dovish stance and the EUR subsequently rose ~8% from Jun to Sep-2017. And the ECB did not even raise rates back then. All ECB's Draghi said was *"All the signs now point to a strengthening and broadening recovery in the euro area. Deflationary forces have been replaced by reflationary ones… While there are still factors that are weighing on the path of inflation, at present they are mainly temporary factors that typically the central bank can look through"* while there was also speculation of QE taper then. Today, EU inflation and macro conditions (PMIs still indicate expansion in mfg and services despite omicron spread while inflation at record high of 5.1%) as well as faster tightening in global peers do seem to suggest that there is room for ECB to unwind some of its policy accommodation. And we expect this to be supportive of EUR. Near term, 1.1450, 1.15 levels may prove tough to break before 1.1695. Elsewhere support at 1.13, 1.1120 levels. Bias to buy dips remains.

Malaysia IP, GDP; UK Data Dump; US CPI; BI MPC in Focus

Key data we watch this week include German IP, SG PMI on Mon. For Tue, US trade, business optimism; AU business confidence; Malaysia IP. For Wed, German trade; AU consumer confidence; BoE's Huw speaks. For Thu, US CPI; Malaysia FX reserves; BI MPC. For Fri, EU CPI; RBA's Lowe speaks; NZ mfg PMI; BoE's Bailey speaks; UK GDP, IP, trade, construction output; Malaysia GDP, current account.

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Our in-house model implies that S$NEER is trading at +1.99% to the implied midpoint of 1.3733, suggesting that it is much firmer vs. other trading partner currencies.

Bloomberg FX Ranking

2Q 2021
No. 2 for CNH
No. 3 for TWD, SGD, CAD
No. 5 for CNY
No. 10 for GBP

3Q 2021
No. 1 for VND
No. 3 for TWD

4Q 2021
No. 4 for TWD
No. 5 for CNY

Currency	Direction	Support/Resistance	Key Data and Events
Dollar Index		S: 93.20; R: 96.90	**Mon:** - Nil - **Tue:** NFIB small business optimism (Jan); trade balance (Dec); **Wed:** Wholesale inventories, trade sales (Dec); **Thu:** CPI, real average earnings (Jan); **Fri:** Uni of Michigan sentiment (Feb)
EURUSD		S: 1.1260; R: 1.1410	**Mon:** Sentix investor confidence (Feb); German IP (Dec); **Tue:** ECB's Villeroy speaks; **Wed:** German trade, current account (Dec); **Thu:** - Nil - **Fri:** CPI (Jan)
AUDUSD		S: 0.7130; R: 0.7280	**Mon:** Retail sales (4Q); **Tue:** NAB Business confidence (Jan); Wed: Westpac consumer confidence (Feb); **Thu:** - Nil - **Fri:** RBA Governor Lowe speaks
NZDUSD		S: 0.6620; R: 0.6900	**Mon:** - Nil - **Tue:** - Nil - Wed: - Nil - **Thu:** - Nil - **Fri:** Mfg PMI, card spending (Jan)
GBPUSD		S: 1.3420; R: 1.3730	**Mon:** - Nil - **Tue:** BRC Sales (Jan); **Wed:** BoE Chief Economist Huw Pill speaks; **Thu:** House price balance (Jan); **Fri:** GDP (4Q); IP, trade, construction output (Dec); BoE Gov Bailey speaks
USDJPY		S: 113.00; R: 114.90	**Mon:** Leading, coincident index (Dec P); **Tue:** Current account (Dec); **Wed:** Machine tool orders (Jan P); **Thu:** PPI (Jan); **Fri:** - Nil -
USDCNH		S: 6.3300; R: 6.3800	**Mon:** Caixin services PMI (Jan) **Tue:** - Nil - **Wed:** - Nil - **Thu:** - Nil - **Fri:** - Nil -
USDSGD		S: 1.3330; R: 1.3530	**Mon:** PMI, FX reserves (Jan); **Tue:** - Nil - **Wed:** - Nil - **Thu:** - Nil - **Fri:** - Nil -
USDMYR		S: 4.1500; R: 4.2000	**Mon:** - Nil - **Tue:** Industrial production (Dec); **Wed:** - Nil - **Thu:** FX reserves (Jan); **Fri:** GDP, current account (4Q)
USDPHP		S: 50.20; R: 51.50	**Mon:** - Nil - **Tue:** - Nil - **Wed:** - Nil - **Thu:** Unemployment rate (Dec) **Fri:** - Nil -
USDIDR		S: 14,200; R: 14,350	**Mon:** GDP (4Q); **Tue:** FX Reserves (Jan); **Wed:** - Nil - **Thu:** BI MPC **Fri:** - Nil -

Sources: Bloomberg, Maybank FX Research & Strategy

Selected G7 FX Views

Currency	*Stories of the Week*
DXY Index	***CPI in Focus***. Solid jobs report last Fri halted DXY's sell-off that started since 28 Jan. Jan NFP jumped +467k (vs. consensus of +125k) while there was substantial upward revisions to NFPs in Nov (+647k vs. initial report of +210k) and Dec (+51s0k vs. initial report of +199k). This basically shows that trend employment growth did not moderate as previously thought to be. Payroll employment also increased across most sectors, led by gains in leisure & hospitality as well as professional and business services. While Jan unemployment rate ticked slightly higher to 4% (vs. 3.9% in Dec), this was due to a rise in labor force participation rate to 62.2%, from 61.9%. Apart from solid job growth numbers, wage growth data was impressive. Average hourly earnings saw a sequential pick up to 0.7% m/m (vs, 0.5% prior and expected). In annual terms, hourly earnings rose 5.7% (vs. 4.9% prior vs. 5.2% expected). Wage pressures could stay elevated in the interim amid labor supply constraints but as labor participation shows signs of rising, there may be room for wage pressures to ease in coming months. In sum for now, the **solid jobs report of tighter labor market and accelerating wage growth adds to the likelihood of a faster pace of Fed normalisation.** Markets are now pricing in +133bps rate hike this year (vs. +95bps before Jan FoMC). This is equivalent to more than 5 hikes but short of 6 hikes for 2022. This week the key focus is on US CPI (Thu). Consensus expect acceleration to 7.3% y/y (vs, 7% prior). A higher than expected print could further support USD. Taking stock of last FoMC (27 Jan), there were a few key takeaways and we sum up as follow: (1) **March lift-off is highly likely** and well-priced by markets since weeks ago as Fed indicated that rate hikes "will soon be appropriate" and officials were "of a mind" to raise rate in Mar; (2) **Fed opens up flexibility, optionality and created room to allow for rates to go higher** as the statement left out phrases such as "gradual" or "measured", which were previously used in the last tightening cycle to indicate tightening path; (3) **sense of urgency at the Fed** as high inflation threat is real. It is likely Fed will unwind policy levers fairly quickly – via faster and more frequent pace of hikes as well as running off its balance sheet. In particular, Powell laid the road map for policy normalisation in saying that taper will end in early Mar and Fed to begin shrinking balance sheet after rate increases commence. Decision on timing and pace of balance sheet reduction will be made at coming meetings. He did point to the use of redemption caps to roll off balance sheet (like in 2017-19) instead of selling its holdings outright (to stem earlier speculation that Fed may consider this option). On net, the Fed can be interpreted as taking another hawkish tilt with faster pace of tightening now a base case scenario as Fed now sees "risk that high inflation will be prolonged". DXY was last at 95.50 levels. Mild bearish momentum on daily chart intact while decline in RSI moderated. Key support at 95.25 (100 DMA) is still holding up for now. Decisive break may open room for further downside. Next support at 94.70, 94.40 (38.2% fibo retracement of 2021 low to 2022 high). Absence of a break could see DXY consolidate. We do not rule out intermittent bounces this week. Resistance at 95.8 (21 DMA), 96.10 (50 DMA). *This week brings NFIB small business optimism (Jan); trade balance (Dec) on Tue; Wholesale inventories, trade sales (Dec) on Wed; CPI, real average earnings (Jan) on Thu; Uni of Michigan sentiment (Feb) on Fri.*
EUR/USD	***ECB Preparing Ground for Policy Normalisation***. Key messages out of the ECB meeting last Thu that saw EUR strengthened and EU sovereign bond yields higher include: (1) ECB's Lagarde noted there was "unanimous concern around the table of the governing council about inflation numbers" and that risks to inflation are tilted to the upside. (2) The term, "transitory inflation" was not mentioned in her presser. (3) The Governing Council (GC) also agreed that it is sensible not to exclude a rate hike this year, as opposed to previously ruling out a rate hike this year. In response, markets moved quickly to bring forward expectations of a ~10bps hike to Jul, from Sep and about +50bps tightening by end-2022 (vs. +10bps hike at start of 2022). For EUR, MTD +2.7%. The moves were consistent with our earlier calls since the Annual outlook *that the ECB may be underestimating the persistence of price pressures and it may need to walk back on its words and normalise policies earlier. If this happens, it would be a positive turnaround for EUR*. We opined that the +50bps hike may be stretched especially when Lagarde also cautioned markets on not assuming too much in terms of immediacy of hikes and that the Governing Council will not rush to conclusions on its formal stance. 10th Mar ECB meeting will be key as it contains the next set of

macroeconomic projection, including inflation and will include a reassessment of its APP as mentioned by Lagarde. We think it is possible that the pace of APP be reduced or made flexible while an earlier end to APP (scheduled to end in Oct-2022) is also not ruled out.

Nevertheless last Thu ECB meeting was the first time there was an explicit acknowledgement from ECB GC that inflation is a growing concern and that the idea of a rate hike this year was not dismissed. This episode is somewhat similar to 2017 when ECB also indicated a hawkish tilt from their very dovish stance and subsequently EUR rose about 8% (from Jun-Sep-2017). And the best part was ECB did not even lift its finger on raising interest rates! All ECB did then was to talk about reflationary forces taking over from deflation, euro-area recovery strengthening and broadening as well as tapering QE.

Today, EU inflation and macro conditions (PMIs still indicate expansion in mfg and services despite omicron spread while inflation at record high of 5.1%) as well as faster tightening in global peers do seem to suggest that there is room for ECB to unwind some of its policy. We expect this to be supportive of EUR upside in the medium term unless ECB brushes off what it last said and retain its dovish stance.

EUR was last at 1.1435 levels. Momentum is bullish but rise in RSI shows signs of slowing. Near term, EUR's pace of rise is likely to moderate or even come off. Support at 1.14, 1.1335 (21 DMA). Resistance at 1.1490 (50% fibo retracement of 2020 low to 2021 high).

This week brings Sentix investor confidence (Feb); German IP (Dec) on Mon; ECB's Villeroy speaks on Tue; German trade, current account (Dec) on Wed; CPI (Jan) on Fri

GBP/USD ***BoE Frontloading Rate Hikes while Political Uncertainty Offsets against GBP Bulls.*** The BoE tightening cycle is well underway with first hike of 15bps in Dec-2021 and another 25bps hike at Feb-2022 MPC. A very tight labor market and more persistent price pressures were the push factors for BoE to act. Last MPC saw the potential for BoE to quicken its pace of tightening going forward. While 5 members voted for 25bps hike, 4 members whom dissented had voted for 50bps hike. QE will also begin to unwind. These actions exhibit greater sense of urgency. BoE now anticipate CPI rise further (current at 30y high of 5.4%) and to peak at 7.25% in Apr. Markets are now pricing in as much as another 120bps hike up to Nov-2022 with the next hike coming in as soon as at the next MPC in Mar.

GBP was last at 1.3535 levels. Daily momentum is not indicating a clear bias while rise in RSI slows. We still look for consolidative plays. Support at 1.35 levels (50% fibo retracement of Oct high to Nov low, 100 DMA), 1.3420/30 levels (38.2% fibo, 50 DMA). Resistance at 1.3570/80 (61.8% fibo, 21 DMA), 1.3630 levels. A faster BoE, stimulus spending and growth normalizing should see GBP supported but we cautioned that political upheavals may see more choppy trades ahead for GBP

This week brings BRC Sales (Jan) on Tue; BoE Chief Economist Huw Pill speaks; House price balance (Jan) on Thu; GDP (4Q); IP, trade, construction output (Dec); BoE Governor Bailey speaks on Fri.

USD/JPY ***No Directional Cues for Now.*** USDJPY was last seen at 115.30 levels. Daily momentum and RSI are not indicating a clear bias. Expect sideways trade for now. Resistance at 115.70, 116.40. Support at 114.40 (50DMA), 113.80 (100 DMA).

This week brings Leading, coincident index (Dec P) on Mon; Current account (Dec) on Tue; Machine tool orders (Jan P) on Wed; PPI (Jan) on Thu.

AUD/USD ***Interim Pressure to the Downside; Buy Dips.*** AUD was last at 0.71 levels. Daily momentum is not indicating a clear bias but rebound in AUD failed to break above 21, 50DMAs (last at 0.7150/65 levels). A decisive break is needed for further gains to gather momentum. Failing which a retest of 0.7050, 0.70 (double-bottom) is not ruled out. Bias to buy dips.

This week brings Retail sales (4Q) on Mon; NAB Business confidence (Jan) on Tue; Westpac consumer confidence (Feb) on Wed; RBA's Lowe speaks.

NZD/USD ***Buy Dips.*** NZD was last at 0.6630 levels. Bearish momentum on daily chart faded while RSI is rising. Bias to buy dips. Support here at 0.6610, 0.6540 levels. Resistance at 0.67, 0.6740 (21 DMA).

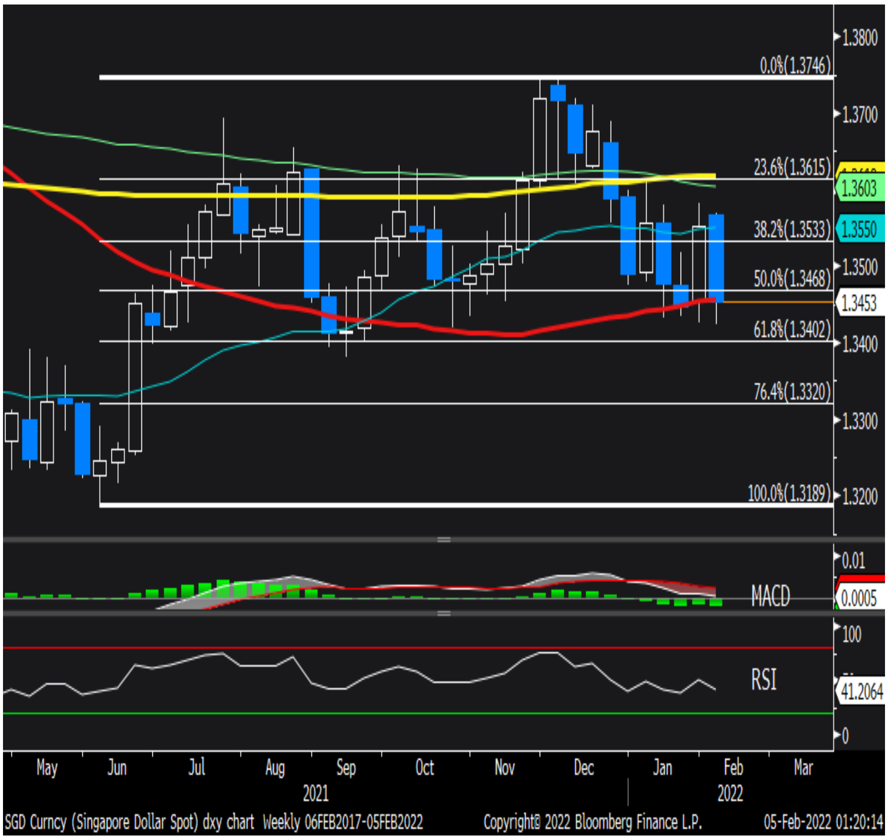
Relatively quiet week with focus on Mfg PMI, card spending (Jan) on Fri.

Technical View: MYR Crosses

MYR Crosses	Direction	Support/Resistance	Stories of the Week
SGD/MYR	→	S: 3.0860; R: 3.1200	**Sideways.** SGDMYR rebounded last week after hitting a low of 3.08851 (31 Jan). Cross was last at 3.1085 levels. Bearish momentum on daily chart shows signs of fading while RSI is rising. Risks skewed to the upside but we opined recent wide range of 3.0860 - 3.12 still holds. Resistance at 3.12 (2022 high). Support at 3.1070 (23.6% fibo retracement of Nov low to Jan high), 3.0990 (38.2% fibo) and 3.0950 (50, 200 DMAs). Beyond these levels put firmer support at 3.0860 (61.8% fibo).
AUD/MYR	→	S: 2.9280; R: 3.0360	**Consolidate.** AUDMYR rose amid AUD outperformance even though MYR held steady. Cross was last at 2.9730 levels. Bearish momentum on daily chart shows signs of fading while rise in RSI slowed. Consolidation likely in coming days. Support at 2.9560 (23.6% fibo retracement of Oct high to Jan low), 2.9280 (2022 low). Resistance at 3.0080 (38.2% fibo, 50 DMA), 3.0360 (100 DMA).
EUR/MYR	→	S: 4.7510; R: 4.8510	**Buy Dips.** EURMYR rebounded last week amid a resurgence in EUR bull resurgence (following ECB's potential hawkish tilt). Last at 4.79 levels. Bearish momentum on daily chart waned while RSI rose. Risks to the upside. Immediate resistance at 4.7910 (100 DMA), 4.8060 (38.2% fibo retracement of Aug high to eb low) and 4.8510 (50% fibo). Support at 4.7510 (23.6% fibo, 21, 50 DMAs), 4.70 levels.
GBP/MYR	→	S: 5.6490; R: 5.7420	**Pullback Risks; Bias to Buy Dips.** GBPMYR rose last week. Hawkish BoE fueled GBP gains. Cross was last seen at 5.6720 levels. Bearish momentum on daily chart is waning while rise in RSI faded. Sideways trade could suffice as we look for pullbacks to buy into. Support at 5.6490 (23.6% fibo), 5.61. Resistance at 5.70 (38.2% fibo), 5.7280 (200 DMA) and 5.7420 (50% fibo retracement of Jul high to Nov-Dec double bottom),
JPY/MYR	→	S: 3.6000; R: 3.6600	**Range.** JPYMYR traded a week of 2 halves, ending the week on a softer close. Cross was last at 3.6290. Daily momentum is mild bearish while RSI fell. Slight risks to the downside. Support at 3.60, 3.5810 and 3.57 levels. Resistance at 3.6360 (23.6% fibo retracement of Dec high to Jan low), 3.66 (38.2% fibo).

Technical Chart Picks:

USDSGD Weekly Chart - Bearish Engulfing



USDSGD traded sharply lower last week.

Pair was last at 1.3450 levels. On the weekly chart, bearish momentum is intact while RSI fell. Bearish engulfing candlestick on weekly chart suggests potential for bearish pressure to persist. Bearish crossover observed with 21 DMA cutting 200 DMA to the downside (not shown here).

Support at 1.34 (61.8% fibo retracement of 2021 low to high), 1.3320 (76.4% fibo).

Resistance at 1.3470/80 levels (200 DMA, 50% fibo), 1.3530 (38.2% fibo) and 1.3580 (50 DMA). Bias to sell rallies.

USDMYR Daily Chart - Range

USDMYR drifted lower last week, alongside most other USDAXJs. Pair was last at 4.1810 levels.

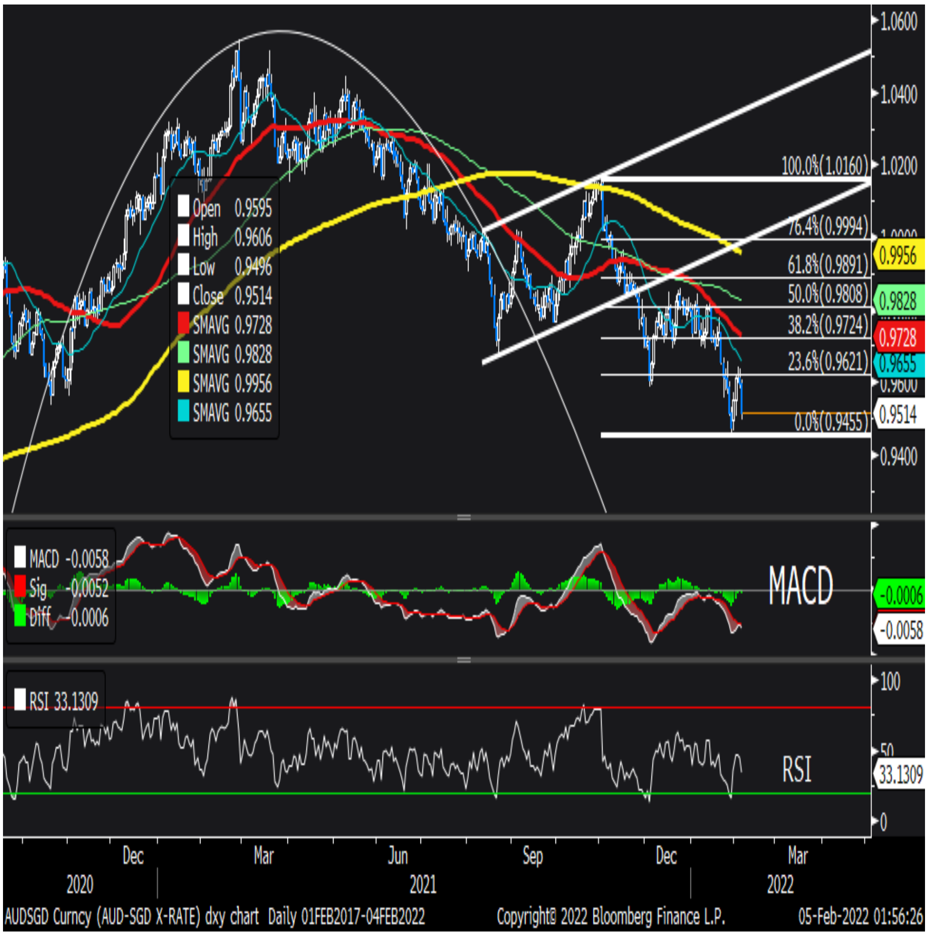
Daily momentum is not indicating a clear bias for now while RSI rose. Risks to the upside but recent range of 4.17 – 4.20 likely to prevail.

Immediate support at 4.1740 (200 DMA), 4.1520 (38.2% fibo retracement of 2021 low to high) and 4.1220 (50% fibo).

Resistance at 4.1890 levels (23.6% fibo, 21 DMA), 4.2010 (50 DMA).

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

AUDSGD Daily Chart: Tactical Rebound



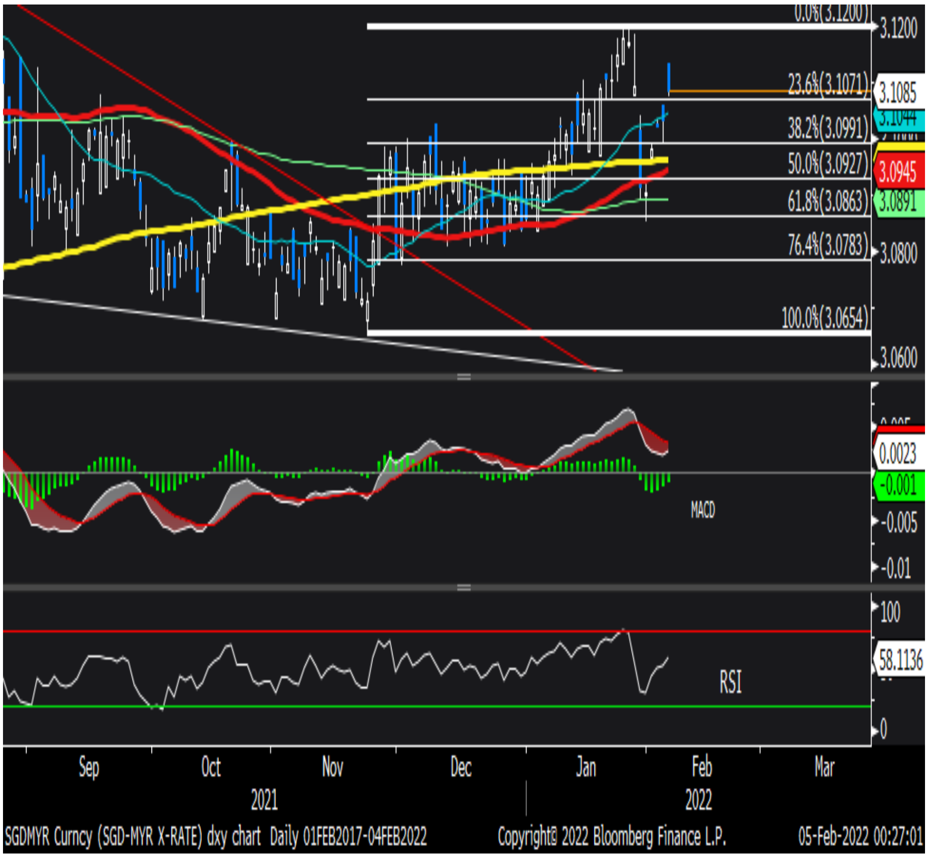
AUDSGD continued to trade with a heavy bias amid SGD relative outperformance. Cross was last at 0.9510 levels.

Daily momentum is not showing a clear bias though RSI turned down). Risks to the downside but we reckon there maybe limited room for bears to persist. We are biased for tactical rebound.

Resistance at 0.9620 (23.6% fibo retracement of Nov high to Jan low), 0.9725 (38.2% fibo, 50 DMA).

Support at 0.9455 (recent low)

SGDMYR Daily Chart: Sideways



SGDMYR rebounded last week after hitting a low of 3.08851 (31 Jan). Cross was last at 3.1085 levels.

Bearish momentum on daily chart shows signs of fading while RSI is rising. Risks skewed to the upside but we opined recent wide range of 3.08 – 3.12 still holds.

Resistance at 3.12 (2022 high).

Support at 3.1070 (23.6% fibo retracement of Nov low to Jan high), 3.0990 (38.2% fibo) and 3.0950 (50, 200 DMAs). Beyond these levels put firmer support at 3.0860 (61.8% fibo).

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