

# FX Weekly

## Fed Takes the Hot Seat

### The Week Ahead

- **Dollar Index - Fade.** Support at 101; Resistance at 105
- **USD/SGD - Sell Rallies.** Support at 1.3670; Resistance at 1.3920
- **USD/MYR - Fade.** Support at 4.37; Resistance at 4.4450
- **AUD/SGD - Consolidate.** Support at 0.9710; Resistance at 1.0000
- **SGD/MYR - Interim Top.** Support at 3.1500; Resistance at 3.21

### Eyes on US CPI Tonight; Fed's Guidance Next Thu

While 50bps hike for Jun and Jul FoMCs are almost a done deal and 75bps hike is off the table, question remains if another 50bps hike at Sep FOMC is a possibility. The probability of 50bps hike at Sep has risen from under 40% at end-May to ~62%. Last week, in response to Bostic's mention for Sep rate pause, 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 while Mester followed up to say that she would support a 50bps hike in Sep if inflation does not back off. Another 50bps hike may increase the overall tightening this year, adding to USD strength. This puts emphasis on tonight's US CPI data (830pm SG/MY time). Consensus looks for headline to hold steady at 8.3% and core CPI to slip to 5.9% (down from 6.2%). Higher price pressures will keep UST yields and USD firm in the lead-up to FoMC. But with recent deceleration in price pressures seen with average hourly earnings and core PCE, a moderation in headline CPI can help to provide a breather on recent rise in UST yields and USD. Near term risks for USDSGD, USDMYR are skewed to the upside. SGDMYR could head lower towards 3.17, 3.15.

### BoE to Hike Another 25bps; BoJ Policy Status Quo

BoE policy decision is due next Thu. Consensus looks for 25bps hike while OIS suggests that markets are split between 25bps and 50bps hike. We expect the MPC to continue with its back-to-back hike of +25bps. This will then be the 5<sup>th</sup> increase to bring policy rate to 1.25%. Bringing inflation down to its medium term target of 2% is still BoE's priority but at the same time, most BoE policymakers are trying to combat inflation without pushing the economy into a recession. Recent BoE speaks suggest that BoE may not be keen to step up pace of tightening (i.e. front-loading rate hikes) even with inflation set to rise to double-digit as policymakers weigh growth concerns. BoE officials seem to favor raising rate in a "measured" way "that doesn't disturb the rest of the economy". For BoJ on Fri, we expect MPC to maintain policy status quo. The BoJ views cost-push inflationary pressures as being transitory, and ultra-dovish policy being needed to support growth. There was also no change in Kuroda's stance that a weak yen was positive overall for the Japanese economy, even as he noted downsides of "excessive moves" in the currencies for companies.

### US, China Activity Data; SG NODX; UK Data Dump Next Week

Key data we watch next week include UK IP, GDP on Mon. For Tue, US PPI; German CPI, ZEW survey. For Wed, US retail sales; EU IP; China activity data. For Thu, AU labor report; NZ GDP. For Fri, US IP; EU CPI; UK retail sales; trade data from SG, MY; NZ mfg PMI.

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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: 101.00; R: 105.00	<p>Mon: - Nil -</p> <p>Tue: NFIB Small business optimism, PPI (May);</p> <p>Wed: Empire manufacturing, NAHB housing market index (Jun); Retail sales, import, export prices (May);</p> <p>Thu: FOMC; Building permits, housing starts (May); Philly Fed business outlook (Jun); initial jobless claims (4 Jun);</p> <p>Fri: Industrial production, capacity utilization, leading index (May)</p>
EURUSD		S: 1.0450; R: 1.0790	<p>Mon: - Nil -</p> <p>Tue: ZEW survey expectations (Jun); German CPI (May);</p> <p>Wed: industrial production, Trade (Apr);</p> <p>Thu: Labor costs (1Q);</p> <p>Fri: CPI (May)</p>
AUDUSD		S: 0.7025; R: 0.7250	<p>Mon: - Nil -</p> <p>Tue: Business confidence (May);</p> <p>Wed: Consumer confidence (Jun);</p> <p>Thu: Labor market report (May)</p> <p>Fri: - Nil -</p>
NZDUSD		S: 0.6310; R: 0.6530	<p>Mon: - Nil -</p> <p>Tue: Food prices (May);</p> <p>Wed: Current account (1Q);</p> <p>Thu: GDP (1Q);</p> <p>Fri: Mfg PMI (May)</p>
GBPUSD		S: 1.2390; R: 1.2650	<p>Mon: Industrial production, GDP, Trade, construction output (Apr);</p> <p>Tue: Labor market report (Apr);</p> <p>Wed: - Nil -</p> <p>Thu: BoE MPC;</p> <p>Fri: Retail sales (May)</p>
USDJPY		S: 130.40; R: 135.15	<p>Mon: BSI Large industry (2Q);</p> <p>Tue: Capacity utilization, Industrial production (Apr);</p> <p>Wed: Core machine orders, tertiary industry (Apr);</p> <p>Thu: Trade (May);</p> <p>Fri: BoJ MPC</p>
USDCNH		S: 6.6300; R: 6.7200	<p>Mon: - Nil -</p> <p>Tue: - Nil -</p> <p>Wed: IP, FAI, Retail sales, jobless rate (May)</p> <p>Thu: New home prices (May);</p> <p>Fri: - Nil -</p>
USDSGD		S: 1.3670; R: 1.3920	<p>Mon: - Nil -</p> <p>Tue: - Nil -</p> <p>Wed: - Nil -</p> <p>Thu: - Nil -</p> <p>Fri: NODX (May)</p>
USDMYR		S: 4.3700; R: 4.4450	<p>Mon: - Nil -</p> <p>Tue: - Nil -</p> <p>Wed: - Nil -</p> <p>Thu: - Nil -</p> <p>Fri: Trade (May)</p>
USDPHP		S: 52.60; R: 53.35	<p>Mon: - Nil -</p> <p>Tue: - Nil -</p> <p>Wed: - Nil -</p> <p>Thu: - Nil -</p> <p>Fri: - Nil -</p>
USDIDR		S: 14,400; R: 14,690	<p>Mon: - Nil -</p> <p>Tue: - Nil -</p> <p>Wed: Trade (May)</p> <p>Thu: - Nil -</p> <p>Fri: - Nil -</p>

Sources: Bloomberg, Maybank FX Research & Strategy

## Selected G7 FX Views

Currency	Stories of the Week
<b>DXY Index</b>	<p><b>Choppy ahead of Fed's Guidance.</b> Recent US data including payrolls report shows that fears of US recession within the next 12 months are overblown. Though there are evidence that hiring and wage growth is moderating from high levels, the overall May employment report still show a healthy job market and this should not change Fed's policy normalisation schedule.</p> <p>While 50bps hike for Jun and Jul FoMCs are almost a done deal and 75bps hike is off the table, question remains if another 50bps hike at Sep FOMC is a possibility. The probability of 50bps hike at Sep has risen from under 40% at end-May to ~62%. Last week in response to Bostic's mention for Sep rate pause, 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 while Mester followed up to say that she would support a 50bps hike in Sep if inflation does not back off. Another 50bps hike may increase the overall tightening this year, adding to USD strength. For now markets are already pricing for +290bps rate hike for the year (up from +274bps end-May).</p> <p>This puts emphasis on tonight's US CPI data (830pm SG/MY time). Consensus looks for headline to hold steady at 8.3% and core CPI to slip to 5.9% (down from 6.2%). Higher price pressures will keep UST yields and USD firm in the lead-up to FoMC. But with recent deceleration in price pressures seen with average hourly earnings and core PCE, a moderation in headline CPI can help to provide a breather on recent rise in UST yields and USD. Then again, USD dips may still prove to be shallow ahead of FoMC next week.</p> <p>DXY was last at 103.1 levels. Bearish momentum on daily chart is waning while RSI was rising. Slight risks to the upside. Resistance at 103.20, 103.60 and 104.10 levels. Support at 102.70 (21 DMA), 102.60 (23.6% fibo retracement of 2022 low to high), 101.80 (50 DMA), 101.00 (38.2% fibo).</p> <p><i>Next week brings NFIB Small business optimism, PPI (May) on Tue; Empire manufacturing, NAHB housing market index (Jun); Retail sales, import, export prices (May) on Wed; FOMC decision; Building permits, housing starts (May); Philly Fed business outlook (Jun); initial jobless claims (4 Jun) on Thu; Industrial production, capacity utilization, leading index (May) on Fri.</i></p>
<b>EUR/USD</b>	<p><b>Paving the Way for NIRP to be History.</b> At the GC (9 Jun), ECB confirmed that QE program will end on 1 Jul and a <b>25bps hike will follow at the next meeting on 21 Jul and then increase it again in Sept meeting, possibly by a larger magnitude</b> if the medium term inflation outlook persists or deteriorates". ECB also said that a <b>gradual but sustained path of further rate increases will be appropriate beyond Sep meeting</b>, based on its current assessment. ECB projected inflation at 6.8% and 3.5% in 2022 and 2023, respectively with assumption of average oil price of \$105.8/bbl and \$93.4/bbl for 2022 and 2023, respectively. YTD average inflation is already 6.8% while May headline CPI was 8.1%. Higher food and energy prices may continue to pose upside risks to ECB's assumption, implying a strong case for 50bps hike at Sep meeting. Even Lagarde admitted that risks to inflation as primarily to the upside and inflation may top 7% this year. She also touched on deploying either existing, adjusted or even new instruments to address any potential bond market panic or fragmentation issues, but stopped short of details on what they are. On net, <b>ECB's guidance on tightening path is clear with inflation the critical factor for any increase in pace of hike. The one risk we see is that growth surprises further to the downside as ECB assumes growth of 2.8% and 2.1% in 2022 and 2023, respectively. A much slower growth may complicate the policy normalisation path.</b> For now, rates markets have shifted aggressively on expectations looking for ~140bps hike for remainder of 2022 vs. 100bps hike at start of month.</p> <p>EUR fell despite ECB turning hawkish as policy announcement was largely in line with expectations and there was no surprise hike. We did caution for <i>"buy rumor, sell on fact"</i> play for EUR especially when a Jul hike was already priced and that FoMC takes place the following week (16 Jun). EUR was last at 1.06 levels. Mild bullish momentum on daily chart is fading while RSI fell. Risks to the downside. Support at 1.0570 (50% fibo retracement of May low to Jun high), 1.0520 (61.8% fibo) and 1.0450 (76.4% fibo). Resistance at 1.0620/50 (21 DMA, 38.2% fibo), 1.0690 (23.6% fibo) and 1.0790 levels.</p> <p><i>Next week bring ZEW survey expectations (Jun); German CPI (May) on Tue; industrial production, Trade (Apr) on Wed; Labor costs (1Q) on Thu; CPI (May) on Fri.</i></p>

**GBP/USD** ***BoE Likely to Go With 25bps Hike.*** BoE policy decision is due next Thu. Consensus looks for 25bps hike while OIS suggests that markets are split between 25bps and 50bps hike. We expect the MPC to continue with its back-to-back hike of +25bps. This will then be the 5<sup>th</sup> increase to bring policy rate to 1.25%. Bringing inflation down to its medium term target of 2% is still BoE's priority but at the same time, most BoE policymakers are trying to combat inflation without pushing the economy into a recession. Recent BoE speaks suggest that BoE may not be keen to step up pace of tightening (i.e. front-loading rate hikes) even with inflation set to rise to double-digit as policymakers weigh growth concerns. BoE officials seem to favor raising rate in a "measured" way "that doesn't disturb the rest of the economy".

While PM Bojo survived a vote on his leadership, the margin of win revealed the growing discontent within his party and this puts greater focus on the 2 by-elections on 23 Jun, which Conservatives are tipped to lose both. While current party rules say Bojo is immune from another challenge for a year, these rules can be changed if there is genuine discontent and appetite within the party to do it. Recall that in 2018, former PM Theresa May resigned a few months later after she won the confidence vote. A case of weakened leadership can undermine GBP. This adds to our short GBP view - 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. Elsewhere we continue to keep a look out on Northern Ireland (NI) Protocol developments. Any signs of EU-UK trade war could implicate GBP.

GBP was last at 1.2485 levels. Mild bullish momentum on daily chart is waning while RSI fell. Risks skewed to the downside. Support at 1.2460 and 1.2390 (23.6% fibo). Resistance at 1.2540 (38.2% fibo), 1.2650 (50% fibo retracement of Apr high to May low).

*Next week brings Industrial production, GDP, Trade, construction output (Apr) on Mon; Labor market report (Apr) on Tue; BoE MPC on Thu; Retail sales (May) on Fri.*

**USDJPY** ***Growing Risks of Intervention.*** USDJPY rose this week amid widening of 2y UST-JGB yield differentials. Pair was last at 133.75 levels. Bullish momentum on daily chart intact but RSI shows signs of turning from overbought territories. Technically we should expect a reversal from here, barring wild swings. Resistance at 134.60, 135.00/15 levels. Support at 132.60, 131.40 and 130.50 levels. The BoJ, MoF and FSA published its first joint warning on recent sudden weakening of JPY. This is a strong language akin to verbal intervention. We caution that markets should not be complacent and continue to bet one way on USDJPY upside. Furthermore, technical signs are emerging for a potential turnaround ahead. A stretched short JPY market could face the pain of a squeeze should intervention comes in timely with technical signs.

*Next week brings BSI Large industry (2Q) on Mon; Capacity utilization, Industrial production (Apr) on Tue; Core machine orders, tertiary industry (Apr) on Wed; Trade (May) on Thu; BoJ MPC on Fri.*

**AUD/USD** ***Keeping a Lookout if Breakout Sees Continuation of Momentum.*** AUD traded lower this week amid broad risk-off. Growing fears of global growth slowdown, inflation worries and tighter financial conditions undermined risk appetite while Thu news of renewed lockdown in various Shanghai districts weighed on sentiments.

Pair was last at 0.7125 levels. Bullish momentum on daily chart faded but decline in RSI moderated. A convergence of moving averages (MAC) is taking hold around 0.7250 levels. A MAC typically suggests that a price expansion can occur soon (break-out trade). We continue to monitor price action post break-out to downside. Support at 0.7110 (21 DMA), 0.7025 (23.6% fibo). Resistance at 0.7245 levels (50% fibo retracement of 2022 high to low, 50, 100 DMAs) proves strong.

*Next week brings Business confidence (May) on Tue; Consumer confidence (Jun) on Wed; Labor market report (May) on Thu.*

**NZD/USD** ***Looking for ReboundS.*** NZD traded with a heavy bias this week amid underwhelming NZ data - card spending, mfg activity while risk off sentiments permeates owing to growing fears of global growth slowdown and inflation worries. Following World Bank's downward revision of global growth to 2.9%, OECD also cut global growth to 3%, and doubled inflation outlook to nearly 9% for its 38 member states.

NZD was last at 0.6430 levels. Mild bullish momentum on daily chart is fading while decline in RSI shows signs of moderation. Price action suggests that pace of decline may moderate or rebound. Support at 0.6380, 0.6310 levels. Resistance at 0.6440 (21 DMA), 0.6530 levels (38.2% fibo retracement of Apr high to May low).

*Next week brings Food prices (May) on Tue; Current account (1Q) on Wed; GDP (1Q) on Thu; Mfg PMI (May)*

on Fri.

### Technical View: MYR Crosses

MYR Crosses	Direction	Support/Resistance	Stories of the Week
SGD/MYR		S: 3.1500; R: 3.2100	<b>Interim Top.</b> SGDMYR consolidated near recent highs this week. Last at 3.1890 levels. Daily momentum turned mild bearish while RSI eased from near overbought conditions. Potential bearish divergence on MACD and RSI observed. We opined an interim top may have been formed. Watch out for reversal lower. Support at 3.1830 (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: 3.1100; R: 3.2000	<b>Consolidation.</b> AUDMYR corrected lower this week. Cross was last at 3.1560 levels. Bullish momentum on daily chart intact but signs of fading momentum is showing up. Decline in RSI however moderated. Consolidation likely. 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 3.1160 (21 DMA).
EUR/MYR		S: 4.6700; R: 4.7400	<b>Slight Pullback Risks.</b> EURMYR consolidated this week. Cross was last at 4.7080 levels. Bullish momentum on daily chart shows signs of fading while RSI eased from near overbought. Slight risks to the downside. Support at 4.6950 (61.8% fibo), 4.6620 (50% fibo) and 4.63 levels. Resistance at 4.7350 (76.4% fibo retracement of 2022 high to low), 4.7460 (200 DMA).
GBP/MYR		S: 5.3800; R: 5.5400	<b>Sell Rallies.</b> GBPMYR traded sideways this week. Cross was last seen at 5.5030 levels. Mild bullish momentum on daily chart is fading while RSI is flat. Bearish trend channel formed since Feb remains intact. Bias to sell rallies towards upper bound. Resistance at 5.5420 levels (trend channel upper bound), 5.6090 (200 DMA). Support at 5.4780 (21 DMA), 5.3735 levels (61.8% fibo retracement of 2020 low to 2021 high).
JPY/MYR		S: 3.2700; R: 3.3810	<b>Looking for Rebound.</b> JPYMYR extended its decline this week. Cross was last at 3.2760 levels. Daily momentum is bearish while RSI fell towards oversold conditions. Potential rebound likely. Support at 3.27 levels. Resistance at 3.3810 levels (21, 50 DMAs), 3.4880 levels (100DMA).

### Technical Chart Picks:

USDSGD Daily Chart - Near Term Risks to Upside



USDSGD continued to trade higher this week. Pair was last at 1.38 levels.

Bearish momentum on daily chart is waning while RSI rose. Bullish trend channel formed since late-May intact for now. Near term risks skewed to the upside.

Support at 1.3780 (21 DMA), 1.3730 (50 DMA) and 1.3670 (38.2% fibo retracement of 2021 low to 2022 high).

Resistance at 1.3840 and 1.3920 levels.

Watch out for CPI report this evening for UST yields and USD direction.

USDMYR Weekly Chart - Upside Risks Near Term



USDMYR inched higher this week; last at 4.4020 levels.

Bullish momentum on weekly chart intact though RSI is in overbought conditions. Upside risks intact but pace of up-tick may moderate.

Resistance at 4.4080 (May high), 4.4450 (2020 high).

Support at 4.39 (21 DMA), 4.37 levels.

AUDSGD Daily Chart: Consolidate



AUDSGD slipped this week. Cross was last at 0.9840 levels.

Bullish momentum on daily chart faded while RSi fell. Risks to the downside but watch support at 0.98 (21DMA). Decisive break should see extension of downmove towards 0.9710 (23.6% fibo). But a hold-up there should see AUDSGD consolidate.

Resistance at 0.9860/70 (100, 200 DMAs, 38.2% fibo), 0.9920 (50 DMA) and parity (50% fibo retracement of 2021 high to 2022 low).

SGDMYR Daily Chart: Interim Top



SGDMYR consolidated near recent highs this week. Last at 3.1890 levels.

Daily momentum turned mild bearish while RSI eased from near overbought conditions. Potential bearish divergence on MACD and RSI observed. We opined an interim top may have been formed. Watch out for reversal lower.

Support at 3.1830 (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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