Feb 11, 2022

Maybank

FX Weekly
Fade the *Dollar Smile*

The Week Ahead

- **Dollar Index** – **Sell Rallies.** Support at 94.40; Resistance at 97.45
- **USD/SGD - Range.** Support at 1.3420; Resistance at 1.3520
- **USD/MYR - Breakout?** Support at 4.1700; Resistance at 4.2000
- **AUD/SGD - Bounce.** Support at 0.9450; Resistance at 0.9720
- **SGD/MYR - Sideways.** Support at 3.1000; Resistance at 3.1350

+50 bps Fed Hike Seems Not Too Distant; Sell USD Rally

Hawkish comments from Fed's Bullard (voter this year) tanked sentiment as markets re-price for even faster pace of Fed normalisation. In particular, Bullard said that 'inflation shock' needs big response and he supports raising rates by 100bps by July meeting. He even went as far to talk about the possibility of an inter-meeting hikes and even considering asset sales when rolling down balance sheet (currently expectations is for run-off of maturing securities). Probability for 50bps hike at Mar FoMC has now risen to 80% while markets are pricing in >100bps hike by Jul and a total of about 160bps hike by end year (vs. 125bps hike previously). Nasdaq futures remain on the back foot, 10y UST yield saw its biggest one-day jump since 2009 and USD was broadly firmer. Bullard's remarks serves as a reminder that there is still risks for Fed to turn even more hawkish than it currently is. Uncertainty on Fed trajectory alongside better US data (strong payrolls and red, hot CPI) will keep USD supported for now (USD smile theory). At the same time, tightening of financial conditions will pose downside pressure on equities in the interim. We still favour selling USD rallies when rationalisation and acclimatisation set in. We doubt the Fed is prepared to be accused of derailing global recovery momentum at the expense of abrupt tightening. Furthermore the core of inflation is still due to supply side constraints. For AXJs, USDSGD traded with heavy bias but support at 1.34 proved solid for now as we look for 1.3420 - 1.3520 range. USDMYR is possibly coming close to technical break out after price contraction.

EUR Pullback - A Buy on Dips

ECB speaks this week has been more moderate following the hawkish ECB tilt the week before and in relative to Fed' Bullard. ECB's Lagarde warned that policy moves will need to be gradual. Raising interest rates would not solve inflation that is caused by supply side issues. Interest rate increases is typically a domestic demand tool and may not be directly effective to deal with supply side inflation. In fact, the economy may even be doubly hit by demand and supply shocks. Pullback to find support at 1.1330, 1.1250 levels. Beyond near term we opined that the latest ECB shift (3 Feb) implies an end to negative rate era that begun in 2014. This may have profound long term positive impact on EUR as EUR-funded carry trades may unwind. Hence supporting our bias to buy EUR on dips.

SG Budget, NODX; CPIs from China, EU, UK in Focus

Key data we watch next week include NZ services PMI; ECB's Lagarde speaks on Mon. For Tue, US empire mfg, PPI; EU GDP, ZEW survey; UK labor market report; JP GDP. For Wed, US retail sales, IP; EU UP, ECB's Lane speaks; UK CPI, PPI; China CPI, PPI. For Thu, BSP MPC – policy status quo expected; US Philly Fed business outlook, FoMC minutes; SG GDP, NODX. For Fri, UK retail sales; NZ PPI; Singapore Budget.

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Our in-house model implies that S$NEER is trading at +2.1% to the implied midpoint of 1.3736, 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: 94.40; R: 97.45**	**Mon:** - Nil - **Tue:** PPI (Jan); Empire mfg (Feb); **Wed:** Retail sales, industrial production (Jan); **Thu:** Building permits, housing starts (Jan); FoMC minutes; Philly Fed business outlook (Feb); **Fri:** Existing home sales, Leading index (Jan)
EURUSD	→	**S: 1.1330; R: 1.1490**	**Mon:** ECB's Lagarde speaks; **Tue:** ZEW survey (Feb); Trade (Dec); GDP (4Q P); **Wed:** Industrial production (Dec); ECB's Lane speaks; **Thu:** - Nil - **Fri:** Consumer confidence (Feb); current account, construction output (Dec)
AUDUSD	→	**S: 0.7000; R: 0.7250**	**Mon:** - Nil - **Tue:** - Nil - Wed: Westpac Leading Index (Jan); **Thu:** Labor market report (Jan) **Fri:** - Nil -
NZDUSD	→	**S: 0.6540; R: 0.6710**	**Mon:** Services PMI, food prices (Jan); **Tue:** - Nil - Wed: - Nil - **Thu:** - Nil - **Fri:** PPI (4Q)
GBPUSD	→	**S: 1.3500; R: 1.3630**	**Mon:** - Nil - **Tue:** Labor market report (Dec); **Wed:** CPI, PPI, RPI (Jan); **Thu:** - Nil - **Fri:** Retail sales (Jan)
USDJPY	→	**S: 114.50; R: 116.90**	**Mon:** - Nil - **Tue:** IP (Dec); GDP (4Q P); **Wed:** Tertiary industry index (Dec); **Thu:** Trade (Jan); core machine orders (Dec); **Fri:** CPI (Jan)
USDCNH	→	**S: 6.3300; R: 6.3900**	**Mon:** - Nil - **Tue:** - Nil - **Wed:** CPI, PPI (Jan); **Thu:** - Nil - **Fri:** - Nil -
USDSGD	→	**S: 1.3420; R: 1.3520**	**Mon:** - Nil - **Tue:** - Nil - **Wed:** - Nil - **Thu:** GDP (4Q); NODX (Jan) **Fri:** Budget
USDMYR	→	**S: 4.1700; R: 4.2000**	**Mon:** - Nil - **Tue:** - Nil - **Wed:** - Nil - **Thu:** - Nil - **Fri:** - Nil -
USDPHP	→	**S: 51.05; R: 51.90**	**Mon:** - Nil - **Tue:** Overseas remittances (Dec); **Wed:** - Nil - **Thu:** BSP MPC **Fri:** - Nil -
USDIDR	→	**S: 14,280; R: 14,460**	**Mon:** - Nil - **Tue:** Trade (Jan) **Wed:** - Nil - **Thu:** - Nil - **Fri:** Current account (4Q)

Sources: Bloomberg, Maybank FX Research & Strategy

Selected G7 FX Views

Currency	*Stories of the Week*
DXY Index	***Activity Data, FoMC Minutes Up Next***. Hawkish comments from Fed's Bullard (voter this year) tanked sentiment as markets re-price for even faster pace of Fed normalisation. In particular, Bullard said that 'inflation shock' needs big response and he supports raising rates by 100bps by July meeting. He even went as far to talk about the possibility of an inter-meeting hikes and even considering asset sales when rolling down balance sheet (expectations is for run-off of maturing securities). Probability for 50bps hike at Mar FoMC has now risen to 80% while markets are pricing in >100bps hike by Jul and about 160bps hike by end year (cumulatively). Nasdaq futures remain on the back foot, 10y UST yield saw its biggest one-day jump since 2009 and USD was broadly firmer. Bullard's remarks serves as a reminder that there is still risks for Fed to turn even more hawkish than it currently is. Uncertainty on this front will keep USD supported for now but when rationalisation and acclimatisation set in, we opined USD can pullback as markets start to question how much tightening can the Fed do, if the Fed is prepared to be accused of derailing global recovery momentum and how stretched USD long positioning is. Separately at a virtual event hosted by Stanford Institute for Economic Policy Research, Fed's Barkin chimed in to say that he is open to a 50bps hike, conceptually but have to be convinced if it's needed now. US CPI quickened more than expected to a new four-decade high of 7.5%y/y in Jan vs. previous 7.0%. Rising price pressure was seen in most categories including food, electricity and housing costs. Core CPI (excluding food and energy) also stunned with an acceleration to 6.0%y/y from previous 5.5%. One would have expected USD to trade higher on red hot CPI print but in fact between CPI release (930pm 10 Feb) and before Bullard spoke in a Bloomberg news interview (past 1am SG/MY time 11 Feb), USD even hit the session's low and S&P500 was still holding up. Moves were reversed post Bullard's hawkish comments. All in, **red hot CPI** (40y high of 7.5% for Jan) alongside solid jobs report of **tighter labor market and accelerating wage growth does warrant a faster pace of Fed normalisation.** A 50bps hike at Mar FoMC should not be ruled out. Coming week, US IP, retail sales and FoMC minutes will be released. Hotter data should further support USD. We reiterate that *while the lead up to FoMC in Mar may see USD supported overall, we are of the view that USD should peak (also seen in past Fed hike cycles over last 50 years) after first hike as expectations are already in the price (assuming no disorderly tightening or further bump up in tightening expectations). We also see the case for USD decline premised on (1) Fed is not the only one tightening and (2) synchronous policy normalisation in the face of positive global economic backdrop allows for cyclical FX to strengthen.* DXY was last at 96 levels. Mild bearish momentum on daily chart shows signs of fading while RSI is turning higher. Resistance at 96.10 (50 DMA), 96.50 before 97.45 (2022 high). Key support at 95.30 (100 DMA), 94.40 (38.2% fibo retracement of 2021 low to high). *Next week brings PPI (Jan); Empire mfg (Feb) on Tue; Retail sales, industrial production (Jan) on Wed; Building permits, housing starts (Jan); FoMC minutes; Philly Fed business outlook (Feb) on Thu; Existing home sales, Leading index (Jan) on Fri.*
EUR/USD	***An Interim Top; Buy Dips Preferred***. EUR's sharp rebound in early Feb paused before turning lower towards end-week. Fed Bullard's hawkish comments (see above) spurred USD higher. At the same time ECB speaks this week has been more moderate following the hawkish ECB tilt the week before (3 Feb). Lagarde warned that policy moves will need to be gradual. Rushing to tighten policy would harm economy's recovery from pandemic. She also said that raising interest rates "would not solve any of the current problems". We believe she referred current problems to supply side issues and interest rate increases (typically a tool for domestic demand) may not be directly useful. In fact, the economy may be doubly hit by rising price pressures and growth risks. Lagarde did say that inflation is only likely to exceed 2% goal in medium term if wages were to significantly and persistently breach that level. Earlier ECB Chief Economist Lane said that bottleneck-related price pressures should fade over time as pandemic-induced frictions disappear and supply and demand adjust in response to relative price movements. EUR was last at 1.1385 levels. Bullish momentum on daily chart shows tentative signs of fading while RSI shows signs of moderating. Near term, EUR's pace of rise could slow. Support at 1.1340 (21 DMA). Resistance at 1.1450, 1.1490 (50% fibo retracement of 2020 low to 2021 high). Likely an interim top for EUR has been made and pullback lower is likely in the near term.

Beyond near term, we note that ECB's earlier Governing Council meeting potentially marks a significant shift. It 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. Markets have priced in +50bps hike for 2022, in line with our Economists' view. We opined this can be significant as latest ECB shift implies an end to negative rate era that begun in 2014. This may have profound long term positive impact on EUR as EUR-funded carry trades may unwind. We keep a look out on 10th Mar ECB meeting 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.

Next week brings ECB's Lagarde speaks on Mon; ZEW survey (Feb); Trade (Dec); GDP (4Q P) on Tue; Industrial production (Dec) on Wed; ECB's Lane speaks on Thu; Consumer confidence (Feb); current account, construction output (Dec) on Fri.

GBP/USD ***Range***. GDP traded sideways this week. Pair was last at 1.3565 levels. Daily momentum is not indicating a clear bias while RSI is flat. We still look for consolidative plays. Support at 1.35 levels (50% fibo, 100 DMA). Resistance at 1.3570/80 (61.8% fibo, 21 DMA), 1.3630 levels.

Comments from BoE Chief Economist Huw Pill this week suggests some reluctance on front-loading of rate hikes as opposed to BoE MPC exuding greater sense of urgency. Recall at the last MPC, 4 members whom dissented had voted for 50bps hike while QE unwinding commenced. Though Pill wouldn't rule out bigger hikes in all circumstances, he worries about taking unusually large steps on policy. Nevertheless we note that markets have priced in close to 80% probability of 50bps hike at its next MPC in Mar.

Next week brings Labor market report (Dec) on Tue; CPI, PPI, RPI (Jan) on Wed; Retail sales (Jan) on Fri.

USD/JPY ***Sideways***. While USDJPY volatility on Thu was partly due to hawkish Bullard's comments, UST yield upswing in the US session, we note a key BoJ development in late Asian trading. BoJ announced that it will buy an unlimited amount of 10Y bonds at 0.25%*on 14 Feb, in an attempt to convince markets of its commitment to yield curve policy. Market focus on Fed-BoJ divergence could keep USDJPY supported in elevated ranges for now, even as upward momentum could moderate from here.

USDJPY was last seen at 116 levels. Daily momentum and RSI are mild bullish. Slight risks to the upside but sideways trade likely for now. Resistance at 116.40, 116.90. Support at 114.80 (21 DMA), 114.50 (50DMA).

Next week brings IP (Dec); GDP (4Q P) on Tue; Tertiary industry index (Dec) on Wed; Trade (Jan); core machine orders (Dec) on Thu; CPI (Jan) on Fri.

AUD/USD ***Interim Downside Pressure; Buy Dips***. AUD was last at 0.7135 levels. Mild bullish momentum shows tentative signs of easing while RSI looks to turn lower. Risks to the downside. Support at 0.7120, 0.7050 and 0.70 levels (double-bottom). Resistance at 0.72, 0.7250 (100 DMA). Bias to buy dips.

Next week brings Westpac Leading Index (Jan) on Wed; Labor market report (Jan) on Thu.

NZD/USD ***Buy Dips***. Rally in Kiwi this week stalled on Thu following Fed Bullard's hawkish comments. NZD was last at 0.6650 levels. Daily momentum turned bullish though RSI eased. Bias to buy dips. Support here at 0.6610, 0.6540 levels. Resistance at 0.6670 (21DMA), 0.6710 levels.

Next week brings Services PMI, food prices (Jan) on Mon; PPI (4Q) on Fri.

Technical View: MYR Crosses

MYR Crosses	Direction	Support/Resistance	Stories of the Week
SGD/MYR	→	S: 3.0970; R: 3.1330	**Mixed.** SGDMYR extended its rebound this week amid continued SGD strength. Cross was last at 3.1185 levels. Daily momentum turned mild bullish while RSI is rising. Golden cross observed with 50DMA cutting 200DMA to the upside. Momentum skewed to the upside but key hurdle ahead at 3.12 (double-top). A decisive break above double-top could open way for further upside towards 3.1350 (2021 high). But failure to break out may see the cross revert back to recent wide range of 3.0860 - 3.12. We note technical resistance at 3.12 (2022 high). Support at 3.1080 (61.8% fibo retracement of 2021 high to low), 3.10 (50% fibo) and 3.0970 (50, 200 DMAs). Beyond these levels put firmer support at 3.0820 (23.6% fibo).
AUD/MYR	→	S: 2.9500; R: 3.0340	**Rebound May Have Legs.** AUDMYR further rebound amid AUD outperformance. Cross was last at 3.0070 levels. Daily momentum turned mild bullish while RSI rose. Risks to the upside. Immediate resistance at 3.0080 (38.2% fibo, 50 DMA) before 3.0320/340 (100 DMA, 50% fibo). Support at 2.9770 (23.6% fibo retracement of Oct high to Jan low), 2.95 and 2.9280 (2022 low).
EUR/MYR	→	S: 4.7510; R: 4.8510	**Bullish Momentum.** EURMYR continued to hover near recent highs amid EUR holding up. Cross was last at 4.7870 levels. Bullish momentum on daily chart intact while RSI rose. Risks to the upside. Immediate resistance at 4.7910 (100 DMA), 4.8060 (38.2% fibo retracement of Aug high to Feb low) and 4.8510 (50% fibo). Support at 4.7510 (23.6% fibo, 21, 50 DMAs), 4.70 levels.
GBP/MYR	→	S: 5.6000; R: 5.7420	**Break Out Imminent.** GBPMYR consolidated this week. Cross was last seen at 5.6710 levels. Bearish momentum on daily chart waned while rise in RSI faded. Sideways trade could still continue though price breakout may be coming soon. 21, 50 and 100 DMAs show signs of convergence - typically precedes a breakout trade. Support at 5.6490 (23.6% fibo), 5.60. 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: 3.5700; R: 3.6600	**Downside Limited towards 3.57.** JPYMYR traded lower this week, in line with our caution for risks to the downside. Cross was last at 3.6090. Daily momentum is mild bearish while RSI fell. Risks remain skewed to the downside though we note RSI is nearing oversold. 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 Daily Chart – Heavy but Also Nearing Key Support

USDSGD continued to trade with a heavy bias this week.

Pair was last at 1.3410 levels. Daily momentum shows signs of turning mild bearish while RSI is falling. Bearish crossover likely with 50DMA on track to cut 100DMA to the downside.

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

Resistance at 1.3470/80 levels (21 DMA, 50% fibo), 1.3530 (38.2% fibo) and 1.3580 (50 DMA). Bias to sell rallies.

USDMYR Daily Chart – Symmetrical Triangle

USDMYR consolidated in subdued range this week. Pair was last at 4.1830 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 until break-out. At the same time, price action resembles a symmetrical triangle in the making. A break out typically precedes after consolidation. Bias for downside play.

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 Underway

AUDSGD rose, in line with our tactical rebound idea. Cross was last at 0.97 levels.

Daily momentum and RSI turned bullish. Upside risks intact while we continued to look for tactical rebound.

Resistance at 0.9725 (38.2% fibo retracement of Nov high to Jan low, 50 DMA), 0.9810/20 levels (50% fibo, 100 DMA)

Support at 0.9620 (23.6% fibo, 21DMA) and 0.9455 (recent low).

SGDMYR Daily Chart: Sideways

SGDMYR extended its rebound this week amid continued SGD strength. Cross was last at 3.1185 levels. Daily momentum turned mild bullish while RSI is rising. Golden cross observed with 50DMA cutting 200DMA to the upside. Momentum skewed to the upside but hurdle ahead at 3.12 (double-top). A decisive break above double-top could open way for further upside towards 3.1350 (2021 high).

But failure to break out may see the cross revert back to recent wide range of 3.0860 – 3.12. We note technical resistance at 3.12 (2022 high). Support at 3.1080 (61.8% fibo retracement of 2021 high to low), 3.10 (50% fibo) and 3.0970 (50, 200 DMAs). Beyond these levels put firmer support at 3.0820 (23.6% fibo).

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