Jun 24, 2022

FX Weekly

Focus Shifts from Powell to Lagarde in Sintra

The Week Ahead

- **Dollar Index** - **Fade.** Support at 101.50; Resistance at 105.10
- **USD/SGD - Sell Rallies.** Support at 1.3670; Resistance at 1.3960
- **USD/MYR - Fade.** Support at 4.37; Resistance at 4.4450
- **AUD/SGD - Consolidate.** Support at 0.9550; Resistance at 0.9900
- **SGD/MYR - Range.** Support at 3.1500; Resistance at 3.19

USD to Remain Supported on Dips

Powell's testimony to both Senate and House panels were consistently hawkish with clear priority on arresting inflation and that recession whilst not "inevitable", is a possibility. Commodity prices (crude oil, base metal) mostly slumped in reaction but corrective price action there lifted USTs. While mildly lower UST yields provided some support for negative yielding JPY, EUR, CHF against the USD, the greenback was better bid against other FX. Currencies of laggards in monetary policy normalization (with the exception of China) saw outsized losses relative to peers (THB, PHP). The fall in commodities also brought pro-cyclical AUD, NZD and CAD (to a lesser extent) to recent lows against the USD. Broadly, the greenback may remain supported on dips until US inflation prints ease significantly and that may require energy prices to stabilize at lower levels. Eyes on US Core PCE due on Thu for the next cue on the USD. Meanwhile, the RMB continues to rise against its trading basket. Its resilience to external sentiment swings could anchor regional currencies. Fatigue seems to have set in for the USDMYR bulls and we look for more two-way trades while USDSGD may continue to find support at the 1.38-handle.

ECB Forum on Central Banking In Focus

Into the coming week, ECB forum on central banking (27-29 Jun) should be watched for further details of the anti-fragmentation tool that Lagarde mentioned earlier this month. This tool plans to limit bond spreads and it will kick in if borrowing costs for weaker nations rise too far or too fast beyond certain threshold. Technically, it could be some form of QE. Lagarde did not mention whether the threshold will be made public but Bank of Italy Governor Visco opined that Italy-Germany bond spreads should only be 150bps. Work is still ongoing on devising the new tool (details to be firmed up by Jul ECB meeting) and we believe more details could be expected as soon as at the ECB forum on 27 - 29 Jun. If the crisis tool is well-designed to prevent fragmentation and finds sufficient support, ECB may be able to raise rates with more confidence to tackle inflation (positive for the EUR).

Key Data Next Week

Key data we watch next week include US durable goods order, Dallas Mfg, CH industrial profits on Mon; US consumer confidence on Tue; US GDP, AU retail sales on Wed; US Core PCE, CH PMI on Thu; Fri has US ISM Mfg, EU Mfg PMI and CPI, UK PMI, JP Tankan, CH Caixin PMI, Mfg PMI from JN, MY, PH and ID as well as ID CPI.

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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: 101.50; R: 105.10**	**Mon:** Durable goods orders, pending home sales (May); Dallas Fed mfg activity (Jun); **Tue:** Conf board consumer confidence (Jun); Wholesale, retail inventories (May); Richmond Fed mfg index (Jun); **Wed:** GDP (1Q); **Thu:** Personal income, spending, **Core PCE (May);** Chicago PMI (Jun); **Fri:** ISM mfg (Jun); Construction spending (May)
EURUSD	→	**S: 1.0350; R: 1.0750**	**Mon:** - Nil - **Tue:** - Nil - **Wed:** Consumer confidence (Jun); **Thu:** Unemployment rate (May); **Fri:** Mfg PMI, CPI (Jun)
AUDUSD	→	**S: 0.6830; R: 0.7150**	**Mon:** - Nil - **Tue:** - Nil - Wed: Retail sales (May); **Thu:** Private sector credit (May) **Fri:** Mfg PMI, commodity index (Jun)
NZDUSD	→	**S: 0.6200; R: 0.6330**	**Mon:** - Nil - **Tue:** - Nil - Wed: - Nil - **Thu:** Activity outlook, business confidence (Jun); **Fri:** Consumer confidence (Jun); building permits (May)
GBPUSD	→	**S: 1.2000; R: 1.2610**	**Mon:** - Nil - **Tue:** - Nil - **Wed:** - Nil - **Thu:** GDP, current account balance (1Q); **Fri:** Mfg PMI (Jun)
USDJPY	↓	**S: 131.00; R: 138.00**	**Mon:** Coincident, leading index (Apr); **Tue:** - Nil - **Wed:** Retail sales (May); Consumer confidence (Jun); **Thu:** Industrial production, housing starts (May); **Fri:** Tankan mfg index (2Q); Jobless rate, Tokyo CPI (May); Mfg PMI (Jun)
USDCNH	→	**S: 6.6400; R: 6.7800**	**Mon:** Industrial profits (May); **Tue:** - Nil - **Wed:** - Nil - **Thu:** NBS PMIs - mfg & non-mfg (Jun); **Fri:** Caixin PMI Mfg (Jun)
USDSGD	→	**S: 1.3670; R: 1.3960**	**Mon:** - Nil - **Tue:** - Nil - **Wed:** - Nil - **Thu:** Deposits and balances of residents outside SG (May); **Fri:** URA Private home prices (2Q prelim)
USDMYR	→	**S: 4.3500; R: 4.4450**	**Mon:** - Nil - **Tue:** - Nil - **Wed:** - Nil - **Thu:** - Nil - **Fri:** PMI Mfg (Jun)
USDPHP	↑	**S: 52.60; R: 56.50**	**Mon:** - Nil - **Tue:** - Nil - **Wed:** - Nil - **Thu:** - Nil - **Fri:** PMI Mfg (Jun)
USDIDR	→	**S: 14,700; R: 14,900**	**Mon:** - Nil - **Tue:** - Nil - **Wed:** - Nil - **Thu:** - Nil - **Fri:** PMI Mfg, CPI (Jun)

Sources: Bloomberg, Maybank FX Research & Strategy

Selected G7 FX Views

Currency	*Stories of the Week*
DXY Index	***Mixed.*** The DXY index traded sideways for much of this week in spite Powell's "unconditional commitment" to arrest inflation. His hawkish rhetoric and acknowledgement of recession risks weighed on commodity prices and brought some calm to the UST yields. The greenback's performance was rather mixed, advancing the most against PHP, THB due to comparatively dovish central banks that were a tad more nonchalant on supply-pushed inflation. Commodity-linked currencies (CAD,NZD, AUD) were also on the backfoot. Greater resilience was seen in CNY and CHF. CNY was supported by recovery in domestic tourism while the unexpected 50bps hike by SNB provides lingering support for the CHF. DXY was last at 104.3 levels. Bullish momentum on daily chart has waned while stochastics slipped from overbought conditions. Recent highs in DXY index price action forms a bearish divergence with the lower peaks of stochastics which could mean some bearish bias. That said, some support is likely ahead of the have May core PCE on Thu that could provide the next directional cue for UST and UST yields. Support at 103.15 (23.6% fibo retracement of 2022 low to high) and 102.90 (21 DMA). Resistance at 104.80, 105.20/30 levels (May high). *Next week brings Durable goods orders, pending home sales (May); Dallas Fed mfg activity (Jun) on Mon; Conf board consumer confidence (Jun); Wholesale, retail inventories (May); Richmond Fed mfg index (Jun) on Tue; GDP (1Q) on Wed; Personal income, spending, <u>Core PCE (May);</u> Chicago PMI (Jun) on Thu; ISM mfg (Jun); Construction spending (May) on Fri.*
EUR/USD	***Double-Bottom Intact.*** EUR drifted sideways for much of the past week, tugged by two opposing forces of lower UST yields (that narrowed EU-US yield differential) and increasing concerns on the energy crisis in the economic bloc. Germany raised the risk level of its national gas emergency plan to the second highest "alarm" phase, allowing the government to enact legislation to allow energy firms to pass cost increase to households and businesses. Energy providers have been forced to take significant losses after Russia gradually reduces gas supplies. While Germany Economy Minister Habeck assured that short-term gas supply is still secured, he warned of a "Lehman effect" as the "whole market is in danger of collapsing at some point", if losses for energy suppliers pile up too high. EU Climate Chief Frans Timmermans also highlighted in his speech to parliament that 12 EU member states are affected by the gas crisis and a "full gas disruption is now more real than ever before". Into the coming week, ECB forum on central banking (27-29 Jun) should be watched for further details of the anti-fragmentation tool that Lagarde mentioned earlier this month. This tool plans to limit bond spreads and it will kick in if borrowing costs for weaker nations rise too far or too fast beyond certain threshold. Technically, it could be some form of QE. Lagarde did not mention whether the threshold will be made public but Bank of Italy Governor Visco opined that Italy-Germany bond spreads should only be 150bps. Work is still ongoing on devising the new tool (details to be firmed up by Jul meeting) and we believe more details could be expected as soon as at the ECB forum on 27 – 29 Jun. If the crisis tool is well-designed to prevent fragmentation and finds support, ECB may be able to raise rates with more confidence to tackle inflation. EUR was last at 1.0522, not changed very much since last week. Mild bearish momentum on daily chart has waned while stochastics rose modestly. Consolidation could continue. Resistance at 1.0570 (50% fibo), 1.0620/40 (38.2% fibo retracement of May low to Jun high, 21DMA). Support at 1.04, 1.0340 levels (May low). Double bottom at 1.0360 remains intact and we are biased to buy dip. *Next week brings Consumer confidence (Jun) on Wed; Unemployment rate (May) on Thu; Mfg PMI, CPI (Jun) on Fri.*
GBP/USD	***Bearish Bias Intact.*** Right after UK posted a 4-decade high inflation print of 9.1%y/y for May, retail sales fell -4.7%y/y vs. estimated -4.5%. Demand destruction from persistently high inflation continues with 9 out of 10 UK adults reported higher cost of living in the past month. Consumer confidence also dropped to a record low, likely contributing to the leadership crisis for PM Johnson and weighed on the cable. GBP was last at 1.2290 levels and recent price action formed a bullish divergence and that tends to precede bullish reversals. That said, weekly chart shows mild bearish momentum. Pair is also within a falling trend channel which could continue eventually guide the pair lower. Support at 1.2080, 1.20 levels. Resistance at 1.2460 (50-dma), before the next at 1.2630.

Next week brings GDP, current account balance (1Q) on Thu; Mfg PMI (Jun) on Fri.

USDJPY ***Gravestone Doji on Weekly Candlestick***. USDJPY had a choppy week, still guided by the UST-JGB yield differentials. Sensitivity to official comments seem to have reduced.

Pair was last at 135 levels. Bullish momentum on daily chart faded while stochastics have started to turn lower from overbought conditions. A gravestone doji seems to have formed on the weekly candlestick (pending today's close) and it is a strong bearish signal for the pair. Resistance at 135.60 and 138 levels. Support at 132.20, 131 (21 DMA).

Next week brings Coincident, leading index (Apr) on Mon; Retail sales (May); Consumer confidence (Jun) on Wed; Industrial production, housing starts (May) on Thu; Tankan mfg index (2Q); Jobless rate, Tokyo CPI (May); Mfg PMI (Jun) on Fri.

AUD/USD ***But Bias to Buy on Pullback***. AUDUSD retained a bearish bias, weighed by recession fears and concomitant declines in the broad commodity complex. That said, the AUDUSD was able to hold on to the 0.69-figure. The RBA-Fed divergence may also continue to crimp on the AUDUSD pairing as well as the current sluggish commodity prices. Along with crude oil prices, base metals (such as copper) were also on the slide. Iron ore on the other hand, seem a tad supported, possibly providing the AUDUSD some supports on dips. China's ambassador to Australia Xiao Qian spoke of "opportunity of possible improvement of (China-Australia) bilateral relations. This comes after New Deputy PM Richard Marles conversed with China's Defense Minister Wei Fenghe in Singapore in early Jun. On the daily chart, spot last printed 0.6904. Double bottom at 0.6830 remains intact with neckline seen around 0.7200 and eventual target to be around 0.76. This could take some time to play out. Sideways trade within recent range likely but bias to buy on pullback. Support at 0.6880, 0.6830 levels. Resistance at 0.7030, 0.71 (21 DMA).

Next week brings Retail sales (May) on Wed; Private sector credit (May) on Thu; Mfg PMI, commodity index (Jun) on Fri.

NZD/USD ***Double-Bottom Intact***. NZD drifted sideways for much of this week, weighed by recession fears and sluggish commodity prices. Momentum is now neutral and stochastics show signs of rising. That said, NZD bulls may still be less decisive given lingering woes on inflation, financial conditions tightening and recession. Support at 0.62/0.6210 levels (double-bottom) remains intact, a bullish reversal formation. Resistance at 0.6370, 0.6420 (21 DMA). Bias to buy dips.

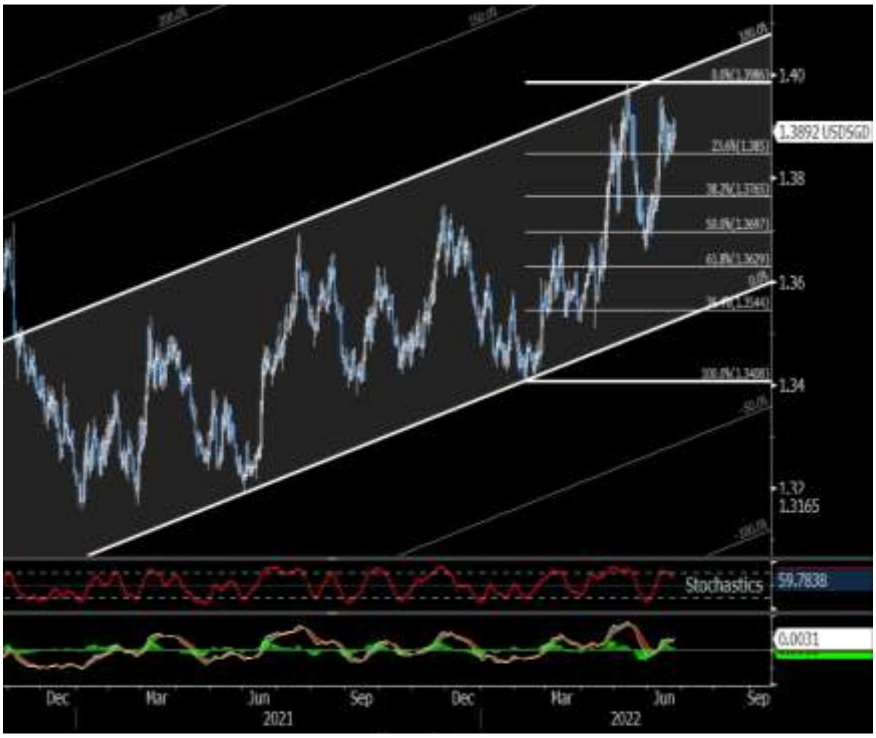
Next week brings Activity outlook, business confidence (Jun) on Thu; Consumer confidence (Jun); building permits (May) on Fri.

Technical View: MYR Crosses

MYR Crosses	Direction	Support/Resistance	Stories of the Week
SGD/MYR	→	S: 3.1500; R: 3.2100	**Bias to Sell on Rallies.** SGDMYR hovered around 3.17 as we write. Next support at 3.1510 (38.2% Fibonacci retracement of the Mar-May rally). Bearish momentum on daily chart intact. 21-dma is en-route to make a bearish cross-over of the 50-dma. Bias still for downside play but do not rule out consolidative trades. We look for rallies to fade into. Resistance at 3.18, 3.1890 (21 DMA) and 3.20 levels. Next support at 3.1560 (50 DMA), 3.1510 (38.2% fibo).
AUD/MYR	→	S: 3.0000; R: 3.1500	**Oversold.** AUDMYR fell to levels around 3.05. Bearish momentum on daily chart intact but stochastics show some signs of turning higher. Rebound risks not ruled out. Resistance at 3.0555 (76.4% Fibonacci retracement of the May-Jun), 3.0815, 3.1080 (38.2% fibo retracement of 2022 low to high), 3.1055 (21, 50 DMAs). Support at 3.04 (61.8% fibo), 3-levels (76.4% fibo).
EUR/MYR	→	S: 4.5600; R: 4.6950	**Slight Pullback Risks.** EURMYR rose slightly to 4.6460 levels. Bearish momentum on daily chart wanes while stochastics rise from near-oversold conditions. Risks still skewed to the upside within the 4.50-4.72 range. Support at 4.56, 4.5245 (2022 low). Resistance at 4.6650 levels (50% fibo, 100 DMA) and 4.6950 (61.8% fibo).
GBP/MYR	→	S: 5.3000; R: 5.4800	**Sell Rallies.** GBPMYR whipsawed. Cross was last seen at 5.4080 levels. Bearish momentum on daily chart waned while RSI turns higher from near-oversold conditions. We continue to prefer to look for rallies to fade into. Bearish trend channel formed since Feb still intact. Resistance at 5.4775 (21DMA, 50% fibo) and 5.50 levels. Support at 5.30 (lower bound), 5.2450 (76.4% fibo).
JPY/MYR	↑	S: 3.3000; R: 3.4000	**Bullish Divergence.** JPYMYR rebounded from a new 2022 low of 3.2165. Cross was last at 3.2610 levels. MACD forest forms a bullish divergence with this cross and this cross has also formed a falling wedge, another bullish reversal set up. Rebound risks. Support at 3.2165 levels. Resistance at 3.2770 (23.6% fibo retracement of May high to Jun low), 3.30 (21-dma), 3.3150 (38.2% fibo).

Technical Chart Picks:

USDSGD Daily Chart – Room for Bears



USDSGD traded sideways for much of the past week, above 1.3850 support. Pair remains a tad elevated near the top of the bullish trend channel and we see more room for bearish retracements.

Support at 1.3850 (23.6% fibo of the 2022 low to high) before the next at 1.3800 (21-dm), 1.3670 (38.2% fibo retracement of 2021 low to 2022 high) and 1.3610 (200 DMA).

Resistance at 1.3950, 1.3990 levels.

USDMYR Daily Chart – Fatigue Sets in

USDMYR drifted slightly higher to levels around 4.4065 as we write. This pair is finding support on the 21-dma but shows little signs of gaining bullish momentum even as crude oil prices slide drastically.

Weekly chart shows waning bullish momentum and stochastics also tentatively turning from overbought conditions. We stick to our view that this pair may be reaching a top soon as fatigue sets in for the bulls.

Support at 4.3965 before the next at 4.3660 (23.6% Fibonacci retracement of the Mar-May rally).

Resistance at 4.4250 (Jun high), 4.4490 (2020 high).

AUDSGD Daily Chart: Triple Bottom?

AUDSGD continue to be whipsawed, led lower on net by the underperformance of the AUD as commodities slide on recession risks.

0.9550 (May low) continues to be a key support for the cross. The recent bearish move has formed a potential triple bottom, a bullish reversal pattern.

Resistance at 0.9750 (23.6% Fibonacci retracement of the Apr-May pullback). Support is at 0.9550 before 0.9453 (Jan low)

SGDMYR Daily Chart: Bias to Sell on Rallies

SGDMYR hovered around 3.17 as we write. Next support at 3.1510 (38.2% Fibonacci retracement of the Mar-May rally).

Bearish momentum on daily chart intact. 21-dma is en-route to make a bearish cross-over of the 50-dma. Bias still for downside play but do not rule out consolidative trades. We look for rallies to fade into.

Resistance at 3.18, 3.1890 (21 DMA) and 3.20 levels.

Next support at 3.1560 (50 DMA), 3.1510 (38.2% fibo).

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