FX Weekly

Invasion Stokes Inflation Fears

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The Week Ahead

- **Dollar Index – Sell Rallies.** Support at 94.40; Resistance at 97.45
- **USD/SGD - Sell Rallies.** Support at 1.3450; Resistance at 1.3620
- **USD/MYR - Awaiting Breakout** Support at 4.184; Resistance at 4.204
- **AUD/SGD - Mild Bullish.** Support at 0.96; Resistance at 0.99
- **SGD/MYR - Sideways.** Support at 3.0900; Resistance at 3.1200

EUR, KRW Vulnerable; Tactical Buy AUD, USDJPY on Dips

Full-scale Russian invasion of Ukraine zaps risk appetite. The attack opens up the possibility of Russia eyeing other Baltic states, including Lithuania while the risk of a long-drawn battle with Ukraine should not be ruled out. Amongst AXJs, high-beta KRW may remain vulnerable in the near term while in the G7 space, EUR softness may persist given its trade, energy and investment ties with Russia while potential delay in ECB policy normalisation further weighs. DXY, CHF and gold are risk aversion plays. The surge in oil prices past $106/bbl at one point this week is a stark reminder that ongoing global supply disruptions could get worst and thus further exacerbate inflation concerns and pose downside risks to global growth. Rising oil prices could undermine net oil importers and lead to more discernible drags on KRW, INR and THB, while CAD, oil benefit. That said, geopolitical situation is fluid and risks are 2-way for markets. We cannot predict how long the conflict will last but we can draw on experience from past military conflicts (such as 9-11 attack, Crimea annexation in 2014 and Turkish offensive into Syria in 2009). Initial weaknesses in AXJs tend to reverse after a few weeks. Assuming this is not a long-drawn conflict, we expect the negativity surrounding AXJs to fade. Opportunistically, we favor buying AUD on dips towards 0.7150/60 support, targeting a move towards 0.7280, 0.7340. In the AXJ space, we look to sell USDSGD uptick, looking for a move lower towards 1.3450 objective. USDMYR could still trade sideways in 4.1840 – 4.2040 range.

Our in-house model implies that S$NEER is trading at +1.54% to the implied midpoint of 1.3735, suggesting that it is much firmer vs. other trading partner currencies.

Delay in ECB Policy Normalisation Add to EUR Woes

ECB speaks overnight suggest that policymakers may consider slowing policy normalisation process in light of the Ukraine conflict. But they will continue to assess the situation. Holzmann whom earlier said he backed 2 hikes this year has struck a cautious tone overnight – *it's possible however that the speed may now be somewhat delayed*. Schnabel said that current inflation outlook calls for gradual normalisation but will carefully assess Ukraine impact on policy. Stournaras said ECB must keep buying bonds to cushion Ukraine fallout. Makhlouf said that ECB may decide QE end date in Mar despite Ukraine situation. Surge in global energy prices, prolonged global supply bottleneck and the mounting tensions between Russia and Ukraine will continue to drive up inflationary pressure. Delay in tightening risks runaway inflation. Stagflation risks could creep in and further undermine EUR. Watch EU CPI estimate next Wed.

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

Powell Testimony, RBA, BNM MPCs, US Payrolls, China PMI

Key data we watch next week include Chicago PMI, AU retail sales on Mon. For Tue, global mfg PMIs; RBA – status quo. For Wed, EU CPI estimate; US ADP employment; AU GDP; SG PMI. For Thu, global services PMI; BNM MPC – status quo. For Fri, US payrolls; EU retail sales. Powell testimony to Congress on Wed and Thu.

Currency	Direction	Support/Resistance	Key Data and Events
Dollar Index	→	S: 94.40; R: 97.45	**Mon:** Chicago PMI, Dallas Fed mfg (Feb); **Tue:** Mfg PMI (Feb); **Wed:** ADP employment (Feb); Fed chair Powell testifies before house panel; Thu: Services PMI; Factory orders (Jan) Powell testifies before senate panel Fri: NFP, unemployment rate, average hour earnings (Feb).
EURUSD	→	S: 1.1040; R: 1.1400	**Mon:** - Nil - **Tue:** Mfg PMI (Feb); **Wed:** CPI estimate (Feb); **Thu:** Services PMI (Feb); PPI, unemployment rate (Jan); **Fri:** Retail sales (Jan)
AUDUSD	→	S: 0.7000; R: 0.7250	**Mon:** Retail sales (Jan); **Tue:** Mfg PMI (Jan); current account balance (4Q); RBA MPC; Wed: GDP (4Q); **Thu:** Services PMI (Feb); Trade (Jan) **Fri:** - Nil -
NZDUSD	→	S: 0.6615; R: 0.6810	**Mon:** Activity outlook, business confidence (Feb); **Tue:** - Nil - Wed: Terms of trade (4Q); building permits (Jan) **Thu:** - Nil - **Fri:** Consumer confidence (Feb)
GBPUSD	→	S: 1.3320; R: 1.3500	**Mon:** - Nil - **Tue:** Mfg PMI (Jan); **Wed:** - Nil -Nationwide house price (Feb); **Thu:** Services PMI (Feb); **Fri:** Construction PMI (Feb)
USDJPY	→	S: 114.20; R: 116.40	**Mon:** Retail sales, IP (Jan); **Tue:** Mfg PMI (Feb); **Wed:** Capex (4Q); **Thu:** -Services PMI (Feb); **Fri:** Jobless rate (Dec)
USDCNH	→	S: 6.3000; R: 6.3500	**Mon:** - Nil - **Tue:** NBS PMIs mfg & non-mfg, Caixin Mfg PMI (Feb); **Wed:** - Nil - **Thu:** Caixin services PMI (Feb) **Fri:** - Nil -
USDSGD	→	S: 1.3450; R: 1.3620	**Mon:** - Nil - **Tue:** - Nil - **Wed:** PMI (Feb); **Thu:** - Nil - **Fri:** Retail sales (Jan)
USDMYR	→	S: 4.1840; R: 4.2040	**Mon:** - Nil - **Tue:** Mfg PMI (Feb); **Wed:** - Nil - **Thu:** BNM MPC **Fri:** - Nil -
USDPHP	→	S: 51.05; R: 51.90	**Mon:** - Nil - **Tue:** Mfg PMI (Feb); **Wed:** - Nil - **Thu:** - Nil - **Fri:** CPI (Feb)
USDIDR	→	S: 14,280; R: 14,460	**Mon:** - Nil - **Tue:** Mfg PMI, CPI (Feb) **Wed:** - Nil - **Thu:** - Nil - **Fri:** - Nil -

Sources: Bloomberg, Maybank FX Research & Strategy

Selected G7 FX Views

Currency	*Stories of the Week*
DXY Index	***Core PCE, Geopolitical Tensions to Drive USD Sentiments***. DXY rose, alongside gold and oil prices amid Russian invasion of Ukraine. Full scale invasion leaves risk sentiment fragile, notwithstanding the bounces seen in futures. The attack also opens up the possibility of Russia eyeing other Baltic states, including Lithuania after taking down Ukraine while the risk of a long-drawn cold war with the western allied forces should not be ruled out. Amongst AXJs, high-beta KRW may remain vulnerable in the near term while in the G7 space, EUR softness may persist given its trade, energy and investment ties with Russia while potential delay in ECB policy normalisation further weighs. DXY, CHF and gold are risk aversion plays. Looking out, geopolitical situation remains fluid and tougher sanctions could still be imposed. So far the sanctions imposed were seen as no tougher than feared. Russia is still not barred from SWIFT payment network and Putin is still not included in the list of sanctioned officials. On the other hand, Russia has yet to turn off gas taps to Europe via Ukraine. These suggest there is room for tensions to rachet up but could also mean a long-drawn cold war. We reiterate that tensions remain fluid and can pose 2-way risks for markets. On Fed speaks, Chris Waller said he sees strong case for 50bps hike in Mar if economic data keep coming in hot though Ukraine conflict added uncertainty to his outlook. He further added that preference is to increase target range 100bps by mid-year and to shrink balance sheet no later than Jul's FoMC. The surge in oil prices past $106/bbl at one point this week is a stark reminder that ongoing global supply disruptions could get worst and thus further exacerbate inflation concerns. This could keep UST yields supported and add to buy USDJPY on dips play. DXY was last at 97.1 levels. Daily momentum is mild bullish while rise in RSI is showing signs of moderation near overbought conditions. Risk still skewed to the upside. Resistance at 97.45 (2022 high). Support at 96 (21, 50 DMAs), 95.40 (100 DMA), 94.40 (38.2% fibo retracement of 2021 low to high). We look for better levels to fade rallies. *Next week brings Chicago PMI, Dallas Fed mfg (Feb) on Mon; Mfg PMI (Feb) on Tue; ADP employment (Feb); Fed chair Powell testifies before house panel on Wed; Services PMI; Factory orders (Jan) Powell testifies before senate panel on Thu and on Fri, NFP, unemployment rate, average hour earnings (Feb).*
EUR/USD	***Troubles Ahead***. EUR remains under pressure this week amid full-scale Russian invasion of Ukraine. We had shared earlier that a blow-up in tensions is a negative for EUR on their linkages with Russia via trade, energy and sentiment channels. In 2020, Russia was 5th largest partner for EU exports and imports. A military conflict could see Russia turn off gas supplies to Europe, in turn exacerbating Europe's energy shortage situation as the EU relies heavily on Russia for energy consumption (40% gas comes from Russia). Even as Russia has yet to turn off the gas taps, European gas futures jumped >60% at one point yesterday. Prolonged increase in energy and food prices could mean even higher price pressures adding constraints to growth (stagflation-like risk). In addition, recent ECB speaks revealed that policymakers may consider delaying policy normalization plans in light of Ukraine situation. It is a tricky situation for policymakers in Europe and ECB as they may not favor normalizing policy if inflation is supply side driven as they are concerned that higher borrowing cost could hit demand. However sharp rise in prices is likely to hit sentiment and consumption spending. And these give rise to stagflation troubles (risk of runaway inflation and slowing growth). Ideally, we opine they should carry on with their gradual normalization plans and maintain their previous forward guidance. To some extent, a stronger EUR could also help to mitigate imported inflation pressure as well. EUR was last at 1.1175 levels. Daily momentum is bearish while RSI fell. Risks skewed to the downside for now. Support at 1.1120, 1.1040 (76.4% fibo retracement of 2020 low to high). Breach below this puts 1.08 on focus. Resistance at 1.1250, 1.1290 (61.8% fibo) and 1.1380 (100 DMA). *Next week brings Mfg PMI (Feb) on Tue; CPI estimate (Feb) on Wed; Services PMI (Feb); PPI, unemployment rate (Jan) on Thu; Retail sales (Jan) on Fri.*
GBP/USD	***Range***. GBP fell sharply amid risk-off trade sparked by Russian invasion of Ukraine. But some losses were retraced into the close. Pair was last seen at 1.3380 levels. Daily momentum is mild bearish while decline in RSI slowed. Support at 1.3320 levels (23.6% fibo). Resistance at 1.3420 (38.2% fibo retracement of Oct high to Dec low), 1.35 (50% fibo). Look for consolidative trade in 1.3360 – 1.3420 within wider perimeters

of 1.3320 – 1.35.

Next week brings Mfg PMI (Jan) on Tue; Nationwide house price (Feb) on Wed; Services PMI (Feb) on Thu and Fri: Construction PMI (Feb).

USDJPY

Downside Risks. Last seen at 115.43. While pair did initially tank as expected towards 114.40 on reports of Russia attack on Ukraine, it subsequently rebounded throughout the day, swinging back above the 115-handle. Some signs of recovery in risk sentiments in the US session, alongside a rebound in UST yields (UST10Y went from intraday trough of 1.85% to 1.96% last seen) supported the up-move in USDJPY. In part, fears of elevated oil prices (despite overnight paring of gains) on potential supply disruptions, seem to be supporting bets for central bank tightening pace, and by correlation, UST yields. Biden-announced sanctions were again, somewhat contained in severity. E.g., Russia not expelled from Swift payments system. Momentum and RSI on daily chart are not showing a clear bias. Resistance at 116.35 (Jan high). Support at 114.45 (50.0% fibo retracement from Nov low to Jan high), 113.40 (76.4% fibo).

Next week brings Retail sales, IP (Jan); on Mon; Mfg PMI (Feb) on Tue; Capex (4Q) on Wed; Services PMI (Feb) on Thu; Jobless rate (Dec)

AUD/USD

Buy Dips. AUDUSD broke out of the rising wedge this week as Russia bombarded Kyiv in Ukraine. Pair was last at 0.72 levels. Notwithstanding some impact from the sentiment channel, we sense resilience in the AUD given Australia's potential to benefit as an alternative energy source for Europe. In addition, Biden has ruled out excluding Russia from the SWIFT payment system in his speech yesterday. That provided some relief to markets and AUD rebounded from a low of 0.7095. Bullish momentum waned on the daily chart with key resistance eyed at 0.7240 (100-dma) before the next at 0.7340 (200-dma). Support is seen around 0.7177 (50-dma). We still prefer to buy on pullbacks for the AUDUSD pairing given stretched positioning and monetary policy normalization for RBA.

This upcoming RBA meeting would be one without much fanfare as wage growth remains mild enough for RBA to retain its message of patience. The latest print lowers the likelihood of a rate hike in May and Aug may be a more opportune time for a move. That does not shift our constructive AUD view as we look for external drivers (buoyant energy, commodity prices on recovery and infrastructure needs) to remain on net supportive of the currency.

Next week brings Retail sales (Jan) on Mon; Mfg PMI (Jan); current account balance (4Q); RBA MPC on Tue; GDP (4Q) on Wed; Services PMI (Feb); Trade (Jan) on Thu.

NZD/USD

Bullish Trend Channel Intact for Now. NZD gains post-RBNZ was more than unwound as Russia invasion of Ukraine dominated market moves. Pair was last at 0.67 levels. Bullish momentum on daily chart intact but shows signs of waning while RSI fell. Near term risks skewed to the downside. But bullish trend channel formed since early Feb remains respected. Support at 0.6660/70 (21 DMA, 38.2% fibo retracement of Jan high to low), 0.6640 (lower bound of channel) and 0.6615 (23.6% fibo). Buy dips preferred. Resistance at 0.6730 (50DMA), 0.6810 (76.4% fibo).

At the last RBNZ MPC (23 Feb), OCR was raised by 25bps to 1%. RBNZ also announced that quantitative tightening will start in Jul selling down its QE holdings at a rate of NZ$5bn per year while maturities will not be reinvested. Accompanying MPS also indicated that more monetary tightening was needed than signalled in Nov MPS. While RBNZ considers the spike in global inflation to be temporary, it also said that long term inflation expectations have risen. Inflation is now seen to accelerate to 6.6% in 1Q 2022. OCR projections have been raised to 3.25% by end-2023, implying another 225bps hike over the next 2 years (or back-to-back hike of 25bps for 2 years). RBNZ's Orr also indicated that the MPC is open to hike 50bps if need arises.

Next week brings Activity outlook, business confidence (Feb) on Mon; Terms of trade (4Q); building permits on Wed; Consumer confidence (Feb) on Fri.

Technical View: MYR Crosses

MYR Crosses	Direction	Support/Resistance	Stories of the Week
SGD/MYR	→	S: 3.0900; R: 3.1200	**Downside Pressure.** SGDMYR was a touch softer this week amid SGD weakness while MYR was largely stable on oil proxy. Cross was last at 3.1040 levels. Bearish momentum on daily chart intact while RSI fell. Risks skewed to the downside. Momentum skewed to the downside for now. Support at 3.0920 (100DMA, 38.2% fibo). Resistance at 3.1080/95 (21DMA, 61.8% fibo retracement of 2021 high to low), 3.12 (triple-top).
AUD/MYR	→	S: 2.9900; R: 3.0340	**Rising Wedge (Bearish Reversal).** AUDMYR rose this week amid AUD outperformance though gains slowed into end week. Cross was last at 3.0175 levels. Mild bullish momentum on daily chart remains intact but RSI shows signs of turning lower. In the interim, risks are skewed to the downside. Support at 3.0080 (50 DMA), 2.9905 (21 DMA). Resistance at 3.0320/340 (100 DMA, 50% fibo).
EUR/MYR	→	S: 4.7000; R: 4.7500	**Bearish Bias.** EURMYR turned lower towards end-week. Cross was last at 4.7150 levels. Bullish momentum on daily chart faded while RSI fell. Risks skewed to the downside. Support at 4.70, 4.6620. Immediate resistance at 4.75 (23.6% fibo retracement of Aug high to Feb low, 21 and 50 DMAs).
GBP/MYR	→	S: 5.6000; R: 5.7000	**Risks to the Downside.** GBPMYR fell this week. Cross was last seen at 5.6550 levels. Bullish momentum faded while RSI turned lower. Downside risks ahead but watch support at 5.6490 – if it holds. A break lower could usher in further weakness. Next support aat 5.60, 5.5650. 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: 3.6900	**Upside Risk. Gains in** JPYMYR eased this morning. Cross was last at 3.6470. Daily momentum and RSI shows signs of turning mild bullish. Resistance at 3.66 (38.2% fibo retracement of Dec high to Jan low), 3.6785 (50% fibo) and 3.6970 (61.8% fibo). Support at 3.60, 3.57 levels.

Technical Chart Picks:

USDSGD Daily Chart – Sell Rallies

USDSGD saw a spike up this week following Russian invasion of Ukraine.

But the move higher has been partially retraced. Last at 1.3525 levels. Bullish momentum on daily chart intact but RSI turned lower. Potential death cross is in the making with 50DMA looking on track to cut 200 DMA to the downside after cutting 100DMA earlier. Bias to sell rallies.

Resistance at 1.3570, 1.3615 (23.6% fibo retracement of 2021 low to high).

Support at 1.3470/80 levels (21 DMA, 50% fibo), 1.3420 levels.

USDMYR Daily Chart – Symmetrical Triangle

USDMYR traded a touch higher but the move higher was milder relative to its ASEAN peers. We reiterate that risk-off trade seen in most FX were less felt in MYR as higher oil prices helped to offset risk-off sentiment. But we opined that MYR cannot escape unscathed in the event of a long-drawn conflict that put strain on supply chains and global growth.

Pair was last at 4.1970 levels.

Daily momentum and RSI indicators are showing signs of turning mild bullish. On chart pattern, a symmetrical triangle pattern (represents a period of consolidation) with apex is in sight and a break out is imminent. But issue with this pattern is though it may hint at a break out trade soon, its directional bias is unclear at this point. Support at 4.1790 (200 DMA), 4.1520 (38.2% fibo retracement of 2022 low to high). Resistance at 4.1950 (50 DMA), 4.22 and 4.2480 levels (double-top). Interim trade in 4.1890 – 4.20 range within wider perimeters of 4.18 – 4.22 range.

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

AUDSGD Daily Chart: Upside Risk Though RSI Near Overbought

AUDSGD continued to trade higher this week, in line with our tactical rebound idea. Cross was last at 0.9745 levels.

Daily momentum remains mild bullish bias though RSI is in overbought conditions. Bias for upside play.

Support at 0.9700/25 (38.2% fibo retracement of Nov high to Jan low, 50 DMA), 0.9620 (23.6% fibo, 21DMA) and 0.9455 (recent low).

Resistance at 0.9810/20 levels (50% fibo, 100 DMA), 0.99 (200 DMA).

SGDMYR Daily Chart: Mild Downside Risk

SGDMYR was a touch softer this week amid SGD weakness while MYR was largely stable on oil proxy. Cross was last at 3.1040 levels.

Bearish momentum on daily chart intact while RSI fell. Risks skewed to the downside.

Support at 3.0920 (100DMA, 38.2% fibo).

Resistance at 3.1080/95 (21DMA, 61.8% fibo retracement of 2021 high to low), 3.12 (triple-top).

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