

# FX Weekly

## To Fear Fed's Hawkish Shift?

### The Week Ahead

- **Dollar Index - Double-Top.** Support at 96.10; Resistance at 99.70
- **USD/SGD - Downside Risk.** Support at 1.3450; Resistance at 1.3650
- **USD/MYR - False Break.** Support at 4.19; Resistance at 4.24
- **AUD/SGD - Bearish Divergence?** Support at 1.00; Resistance at 1.0290
- **SGD/MYR - Interim Top.** Support at 3.0900; Resistance at 3.1200

### Still Bias to Sell USD Rallies

Focus next week shifts to global PMIs as markets take stock on how growth momentum may or may not have been affected by Ukraine crisis. At first glance, March preliminary PMIs released this week, in particular out of Europe suggests little evidence of global growth momentum being derailed at this point. For US, focus is on ADP (Wed), core PCE (Thu) and payrolls, ISM mfg (Fri). We also noted that comments made by Fed officials this week have also started to shift more significantly as they look for much faster pace of policy normalisation, in terms of magnitude of rate hikes and trajectory. For instance, Fed Chair Powell said that *if we determine that if we need to tighten beyond common measures of neutral and into a more restrictive stance, we will do that as well*. Mary Daly said that *she has "everything on the table" for next policy meeting in May and that includes a 50bps hike and a decision to shrink balance sheet* could be warranted depending on economic data in coming weeks. Fed's estimate of neutral rate is ~2.4%. Though hawkish Fed expectations may already be in the price, we are cautious of Fed turning even more restrictive. This is one risk that is not fully priced and may well provide that intermittent upward pressure to USD in the near term. JPY and EUR may face downward pressure while commodity-linked FX such as AUD, NZD and CAD could still hold on to gains. That said we retain our over-arching bias that the USD is likely near its peak. For USDSGD, key support at 1.3520 if broken, could see 1.3450, 1.3410 next. USDMYR could retrace the false break lower as we look for 4.19 - 4.24 range.

### DXY Less Sensitive to Yield Moves when Yield Curve Flattens

While higher US rate expectations typically add to USD upward pressure, we think it may be useful to consider how USD sensitivity to rate moves can vary in different yield curve regimes (i.e., steepen vs flattening period). We look at past 32 years of daily data since 1990 on DXY sensitivity (90d rolling basis) to 2y and 10y UST yields against different regimes of 2y10y yield curve episodes. Historically, USD sensitivity to yields picks up when 2y10y yield curve steepens - a proxy for brighter economic prospects. However, in current episode, the yield curve regime is one where 2y10y is flattening (last at +20bps vs +89bps peak of the year in early-Jan 2022). So technically, USD's sensitivity to yield uptick should not matter as much as compared to periods when the yield curve is steepening.

### Next Week: Global PMIs; US Payrolls; EU CPI Estimate

Key data we watch next week include Dallas Fed mfg activity on Mon. For Tue, AU retail sales; US consumer confidence. For Wed, US ADP; BoT MPC - status quo. For Thu, US core PCE; China PMIs. For Fri, US NFP; global mfg PMIs; Japan Tankan mfg index; EU CPI estimate.

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*Our in-house model implies that S\$NEER is trading at +2.27% to the implied midpoint of 1.3878, suggesting that it is much firmer vs. other trading partner currencies.*

### Bloomberg FX Ranking

#### 2Q 2021




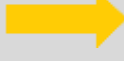







No. 2 for CNH  
No. 3 for TWD, SGD, CAD  
No. 5 for CNY  
No. 10 for GBP

#### 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: 96.10; R: 99.70	<b>Mon:</b> Dallas Fed mfg activity (Mar); retail, wholesale inventories (Feb); <b>Tue:</b> Conf board consumer confidence (Mar); JOLTS jobs openings (Feb); <b>Wed:</b> ADP employment (Mar); GDP (4Q); <b>Thu:</b> Personal income, spending, Core PCE (Feb); Chicago PMI (Mar); <b>Fri:</b> ISM mfg, payrolls report (Mar); construction spending (Feb)
EURUSD		S: 1.0860; R: 1.1200	<b>Mon:</b> - Nil - <b>Tue:</b> German GfK consumer confidence (Apr) <b>Wed:</b> Consumer confidence, German CPI (Mar); <b>Thu:</b> Unemployment rate (Feb); <b>Fri:</b> CPI estimate, mfg PMI (Mar)
AUDUSD		S: 0.7390; R: 0.7560	<b>Mon:</b> - Nil - <b>Tue:</b> Retail sales (Feb); <b>Wed:</b> - Nil - <b>Thu:</b> Building approvals (Feb); <b>Fri:</b> PMI mfg, commodity index (Mar)
NZDUSD		S: 0.6695; R: 0.6925	<b>Mon:</b> - Nil - <b>Tue:</b> - Nil - <b>Wed:</b> Building permits (Feb); Activity outlook, business confidence <b>Thu:</b> - Nil - <b>Fri:</b> Consumer confidence (Mar)
GBPUSD		S: 1.3000; R: 1.3200	<b>Mon:</b> - Nil - <b>Tue:</b> Money supply (Feb); <b>Wed:</b> BRC shop price index (Mar); <b>Thu:</b> GDP, current account balance (4Q); Lloyds business barometer (Mar); <b>Fri:</b> Mfg PMI (Mar)
USDJPY		S: 119.50; R: 122.50	<b>Mon:</b> - Nil - <b>Tue:</b> Jobless rate (Feb); <b>Wed:</b> Retail sales (Feb); <b>Thu:</b> IP, housing starts (Feb); <b>Fri:</b> PMI Mfg (Mar); Tankan mfg index (1Q)
USDCNH		S: 6.3500; R: 6.4100	<b>Mon:</b> - Nil - <b>Tue:</b> - Nil - <b>Wed:</b> - Nil - <b>Thu:</b> NBS PMIs - mfg and non-mfg (Mar); <b>Fri:</b> Caixin Mfg PMI (Mar)
USDSGD		S: 1.3450; R: 1.3650	<b>Mon:</b> - Nil - <b>Tue:</b> - Nil - <b>Wed:</b> - Nil - <b>Thu:</b> Money supply (Feb); <b>Fri:</b> URA home prices (1Q)
USDMYR		S: 4.1900; R: 4.2400	<b>Mon:</b> - Nil - <b>Tue:</b> - Nil - <b>Wed:</b> - Nil - <b>Thu:</b> - Nil - <b>Fri:</b> PMI Mfg (Mar)
USDPHP		S: 51.05; R: 52.605	<b>Mon:</b> - Nil - <b>Tue:</b> - Nil - <b>Wed:</b> - Nil - <b>Thu:</b> Bank lending (Feb); <b>Fri:</b> PMI Mfg (Mar)
USDIDR		S: 14,280; R: 14,450	<b>Mon:</b> - Nil - <b>Tue:</b> - Nil - <b>Wed:</b> - Nil - <b>Thu:</b> - Nil - <b>Fri:</b> PMI Mfg, CPI (Mar)

Sources: Bloomberg, Maybank FX Research &amp; Strategy

## Selected G7 FX Views

Currency	Stories of the Week
<b>DXY Index</b>	<p><b><i>Upside Risks but Near Its Peak.</i></b> DXY was modestly firmer this week as markets took stock of recent development including hawkish Fed speaks, more sanctions on Russia, fears of Russia resorting to chemical/ nuclear attacks and renewed uptick in energy prices. That being said about the DXY, the USD behaviour was rather mixed with softness seen vs. commodity-linked FX such as AUD, NZD but strength seen vs. most currencies including EUR, GBP as well as AXJs, including MYR, KRW.</p> <p>Following Powell's hawkish remarks on Mon, more Fed officials have turned even more hawkish, in terms of magnitude of rate hike (50bps hike as soon as next meeting) and trajectory (i.e. getting rates to neutral -2.4% by Fed est. this year or even for policy to turn restrictive). Mester is not ruling out 50bps hike and backs front-loading rate hikes in 1H this year, given the underlying strength of the economy and the Fed fund rate is at low levels. She also wants to get policy rate up to 2.5% this year and follow up with more increases next year to rein in 40y high inflation. Daly also share similar view in getting rates up to neutral and that Fed could consider tightening to restrictive policy. Hawkish Bullard reiterate his stance that the Fed needs to move aggressively to keep inflation under control. Recall on Monday during a NABE seminar, Powell had also sounded more hawkish in saying, <i>"We will take the necessary steps to ensure a return to price stability. In particular, if we conclude that it is appropriate to move more aggressively by raising the federal funds rate by more than 25 basis points at a meeting or meetings, we will do so. And if we determine that we need to tighten beyond common measures of neutral and into a more restrictive stance, we will do that as well."</i> 50bps hike at next FoMC (4 May) is now 75% priced in while for the year, 2.25% is now priced (vs. 1.95% a week ago). This implies another ~190bps rate hike this year. Though hawkish Fed expectations may already be in the price, we are cautious of Fed turning even more restrictive or hawkish. This is one risk that is not fully priced and may well provide that intermittent upward pressure to USD in the near term. More Fed speaks are coming up next week.</p> <p>Focus next week shifts to global PMIs as markets take stock on how growth momentum may or may not have been affected by Ukraine crisis. At first glance, preliminary PMIs released this week, in particular out of Europe suggests little evidence of global growth momentum being derailed at this point. For US, focus is on ADP (Wed), core PCE (Thu) and payrolls, ISM mfg (Fri). While near term risks are skewed to the upside for USD, we hold to our over-arching view that calls for <u>USD nearing its peak</u>, underpinned by: (1) hawkish Fed expectations somewhat in the price and that USD's sensitivity to yield moves tend to weaken during current episode of yield curve flattening; (2) Fed is not the only one tightening; (3) global economic backdrop to remain somewhat supportive (no recession or stagflation) to support synchronous policy normalisation; (4) ongoing talks between Russia-Ukraine in hope of reaching a comprehensive deal (that may take weeks to month to forge).</p> <p>Geopolitical risks will continue to pose 2-way risks for markets. A comprehensive deal for ceasefire, withdrawal of troops, neutralisation and demilitarisation may take up to weeks to forge but given that both sides have already started work to iron out a peace agreement, we think this is at least still a good start.</p> <p>DXY was last at 98.62 levels. Daily momentum is mild bearish while RSI fell. Risks skewed to the downside. Support at 98.3 (21 DMA), 97.72 (61.8% fibo) and 96 levels (50% fibo). Resistance at 99.2, 99.73 (76.4% fibo retracement of 2020 high to 2021 double-bottom low).</p> <p><i>Next week brings Dallas Fed mfg activity (Mar); retail, wholesale inventories (Feb) on Mon; Conf board consumer confidence (Mar); JOLTS jobs openings (Feb) on Tue; ADP employment (Mar); GDP (4Q) on Wed; Personal income, spending, Core PCE (Feb); Chicago PMI (Mar) on Thu; ISM mfg, payrolls report (Mar); construction spending (Feb) on Fri.</i></p>
<b>EUR/USD</b>	<p><b><i>Ukraine Developments, Oil Prices and ECB Speaks to Drive Sentiments.</i></b> EUR was modestly softer this week as ongoing geopolitical tensions in Ukraine drags on while higher energy prices weigh on EUR. Russia President Putin plans to demand that "unfriendly" nations pay for natural gas in RUB, in retaliation to US and Europe sanctions. Italy said it declined to pay in RUB while Germany said that such a shift is a breach of contract. Supply disruptions as a result of changing rules will further aggravate energy shortage situation and worsen inflation outlook in Europe. Supplies from transatlantic partner may not be sufficient for any shortfall.</p>

ECB speaks this week do not seem to exhibit a strong sense of urgency. ECB's Visco reiterate ECB's stance that supply shock cannot be countered simply by monetary policy. He said that all options are open for ECB: (1) take into account FX when making decisions; (2) keep maintaining favourable financing conditions; (3) not seeing excessive wage increases or de-anchoring of inflation expectations in EU. He also added that administered prices on energy may help in the short term. Earlier, Villeroy said that green transition may cause some inflationary pressure and ECB must not over-react to energy price volatility.

On growth, ECB officials played down fears of stagflation in EU. Lagarde said that "even in the bleakest scenario with second round effects with a boycott of gas and petrol and worsening of war that goes on for a long time, the Euro-area will still manage a 2.3% growth".

EUR was last at 1.1020 levels. Mild bullish momentum on daily chart intact while RSI rose. 2-way trades still expected. Resistance at 1.1040 levels (76.4% fibo retracement of 2020 low to high), 1.11 and 1.1190/1.12 (61.8% fibo, 21 DMA). Support at 1.10, 1.0960 and 1.0860 (trendline support).

*Next week brings German GfK consumer confidence (Apr) on Tue; Consumer confidence, German CPI (Mar) on Wed; Unemployment rate (Feb) on Thu; CPI estimate, mfg PMI (Mar).*

**GBP/USD** **Consolidate.** Early week rally in GBP fizzled out as Chancellor Sunak's Spring statement did not address near term economic headwinds even though fuel duty of 5pence will be suspended till Mar-2023. UK also cut 2022 GDP forecast to 3.8%, from 6% citing impact of Ukraine war, high global inflation and continuing supply chain pressures. Elsewhere, retail sales disappointed to the downside.

Pair was last at 1.3180 levels. Mild bullish momentum on daily chart intact while RSI rose. Range-bound play likely. Resistance at 1.3230/45 (21 DMA, 38.2% fibo), 1.3320 (50% fibo retracement of Feb high to Mar low), 1.3395 (61.8% fibo). Support at 1.3150 (23.6% fibo), 1.31 levels.

*Next week brings Money supply (Feb) on Tue; BRC shop price index (Mar) on Wed; GDP, current account balance (4Q); Lloyds business barometer (Mar) on Thu; Mfg PMI (Mar).*

**USDJPY** **Overbought; Retracement Risk.** USDJPY extended its red hot rally this week amid further widening in 2y UST-JGB yield differentials to +216bps (vs. +192bps last week). Pair was last at 121.50 levels. Bullish momentum on daily chart intact but RSI shows signs of turning lower from deeply overbought conditions. Bullish bias intact but overbought signal suggest that risk of retracement lower should not be ruled out. Immediate resistance at 122, 122.40 (recent high). Support at 121, 120 and 119.50.

*Next week brings Jobless rate (Feb) on Tue; Retail sales (Feb) on Wed; IP, housing starts (Feb) on Thu; PMI Mfg (Mar); Tankan mfg index (1Q).*

**AUD/USD** **Pullback Likely but Bullish Trend Channel Intact.** AUD extended its climb outside of its bullish trend channel this week. Move higher came on the back on positive sentiment, concomitant rise in broader commodities (including AUD-linked copper and iron ore). Pair was last at 0.7510 levels. Bullish momentum on daily chart intact while rise in RSI shows signs of slowing near overbought conditions. Retracement move lower back into the bullish trend channel is likely. Support at 0.7425 (76.4% fibo retracement of Oct high to Dec low), 0.7340 (61.8% fibo, 21 DMA). Resistance at 0.7540, 0.7560 (Oct high).






*Next week brings Retail sales (Feb) on Tue; Building approvals (Feb) on Thu; PMI mfg, commodity index (Mar) on Fri.*

**NZD/USD** **Consolidate in Bullish Trend Channel.** NZD held on to gains this week amid rise in equity and commodity prices. Sentiment remains supported despite Fed signalling faster pace of rate hikes. Markets read it as economy strong enough to withstand faster rate hikes that were intended to slow inflation.

Pair was last at 0.6960 levels. Daily momentum is mild bullish while RSI is near overbought conditions. Pull-back play not ruled out. Support at 0.6915 (200 DMA), 0.6870 (50% fibo) and 0.6790 (38.2% fibo retracement of Oct high to Jan low). Resistance here at 0.6960 (61.8% fibo), 0.70, 0.7060 (76.4% fibo).

*Next week brings Building permits (Feb); Activity outlook, business confidence on Wed; Consumer confidence (Mar) on Fri.*

## Technical View: MYR Crosses

MYR Crosses	Direction	Support/Resistance	Stories of the Week
SGD/MYR		S: 3.0900; R: 3.1200	<b>An Interim Top.</b> SGDMYR showed tentative signs of turning after the recent rally. Move lower came amid MYR relative strength. Cross was last at 3.1090 levels. Daily momentum is bullish but shows tentative signs of it fading while RSI shows signs of turning from near-overbought conditions. An interim top may have been formed. Risks now skewed to the downside. Support at 3.1070 (61.8% fibo), 3.10 (50 DMA) and 3.09 (38.2% fibo retracement).
AUD/MYR		S: 3.1170; R: 3.2000	<b>Bullish Bias though Nearing Overbought.</b> AUDMYR extended its rally this week amid AUD outperformance while MYR lagged. Cross was last at 3.1590 levels. Daily momentum bullish while RSI is rising towards overbought conditions. Immediate resistance at 3.1620 (76.4% fibo retracement of 2021 high to 2022 low), 3.20 before 3.2340 (2021 high). Support at 3.14, 3.1170 levels (61.8% fibo).
EUR/MYR		S: 4.6000; R: 4.7050	<b>Risk of Pullback.</b> EURMYR was a touch firmer this week. Pair was last at 4.6440 levels. Bullish momentum on daily chart intact but recent rise in RSI shows signs of slowing. Risk of pullback in the near term. Support at 4.6340 (21 DMA), 4.6160 (76.4% fibo), 4.5244 (recent low). Resistance at 4.67, 4.7050 (61.8% fibo retracement of 2020 low to 2021 high), 4.7770 levels (50% fibo).
GBP/MYR		S: 5.4775; R: 5.5820	<b>Bulls Show Signs of Fatigue.</b> GBPMYR rose this week, in line with our call for risks skewed to the upside. Cross was last seen at 5.5655 levels. Bullish momentum on daily chart intact but rise in RSI faded. Risks that bullish pressure could fade. Resistance at 5.5820 levels (38.2% fibo), 5.63 (50, 100 DMAs). Support at 5.54 (21 DMA), 5.50 before 5.4775 (50% fibo retracement of 2020 low to 2021 high).
JPY/MYR		S: 3.3500; R: 3.5075	<b>Still Bearish and Increasingly Oversold.</b> JPYMYR plunged this week. Cross was last at 3.4530. Daily momentum remains bearish bias while RSI has fallen deeply into oversold conditions. Risks still skewed to the downside. Support at 3.40, 3.3470 (61.8% fibo retracement of 2014 low to 2016 high). Resistance at 3.5075 (50% fibo), 3.58 (21 DMA).



## Technical Chart Picks:

USDSGD Daily Chart - Downside Risks



USDSGD consolidated this week, in line with our call in the last FX Weekly for consolidative play. Pair was last at 1.3562 levels.

Mild bearish momentum on daily chart intact while RSI shows signs of falling. Risks are to the downside. Key support at 1.3520 (50DMA, 38.2% fibo retracement of 2021 low to high), 1.3450 (50% fibo), 1.3390 levels (61.8% fibo).

Resistance at 1.3590 (21 DMA), 1.3610 (23.6% fibo), 1.3650 (76.4% fibo), 1.3690.

USDMYR Daily Chart - False Break out?



USDMYR broke out of symmetrical triangle earlier this week. But subsequent price action suggests that the move could be a false breakout - we monitor further price action. Last at 4.185 levels.

Mild bullish momentum intact though there are signs of it fading while RSI turned lower from near-overbought conditions. A gravestone doji may also have been formed on Thu session - a bearish reversal. Risks now skewed to the downside.

Support at 4.2160, 4.2060, 4.19 (23.6% fibo retracement of 2022 low to high, 50 DMA), 4.1840 levels (200 DMA).

Resistance at 4.2280, 4.2480 levels.

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

AUDSGD Daily Chart: Bearish Divergence?



AUDSGD extended its rally this week, in line with our bias to buy dips. Cross was last at 1.02 levels.

Bullish momentum on daily chart intact while RSI shows tentative signs of turn-around from near overbought conditions. Potential bearish divergence on MACD and RSI could be forming - we monitor price action.

Resistance at 1.0220, 1.0290 (76.4% fibo retracement of 2021 high to 2022 low).

Support at 1.0130 (61.8% fibo), 1.0000 (50% fibo) and 0.9880 (38.2% fibo, 200 DMA).

SGDMYR Daily Chart: Interim Top



SGDMYR showed tentative signs of turning after the recent rally. Move lower came amid MYR relative strength.

Cross was last at 3.1090 levels. Daily momentum is bullish but shows tentative signs of it fading while RSI shows signs of turning from near-overbought conditions. An interim top may have been formed. Risks now skewed to the downside.

Support at 3.1070 (61.8% fibo), 3.10 (50 DMA) and 3.09 (38.2% fibo retracement of 2021 high to low).

Resistance at 3.1180 levels (76.4% fibo).

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