Macro | FX Research & Strategy

Global

May 27, 2022

Maybank

# FX Weekly
# USD Frowns

### The Week Ahead

- **Dollar Index** – **Fade.** Support at 99.81; Resistance at 103.20
- **USD/SGD - Bearish.** Support at 1.3610; Resistance at 1.3900
- **USD/MYR - Corrective Pullback.** Support at 4.34; Resistance at 4.40
- **AUD/SGD - Rebound.** Support at 0.9550; Resistance at 0.9870
- **SGD/MYR - Overbought.** Support at 3.1600; Resistance at 3.2010

### DXY: Break Below 101 to Usher in More Sell-Off

Dollar's decline since mid-May appears to be gathering pace (-3.4% since 13 May). This was due to early signs of slowing US growth momentum, sharp pullback in UST yields (10y UST yield down nearly 50bps) and broadly supported risk sentiments. Recently released FoMC minutes also stopped short of talking about more aggressive hikes (i.e. 75bps). The key takeaway was that Fed saw aggressive hikes (front-loading) as providing flexibility later this year, instead of aggressive hikes picking up pace. This is consistent with our proposition that Fed may have hit peak hawkishness for now. Elsewhere, markets are also focusing on the US's China tariff review before it lapses on 6th Jul. Potential removal of US tariffs on Chinese imports can be perceived to be positive for broader risk sentiment. On AXJ FX, there is room for USDSGD to extend decline towards 1.3670, 1.3610 if key support at 1.3700 breaks. A corrective pullback in USDMYR towards 4.37, 4.34 levels is also not ruled out.

### ECB's Hawkish Shift vs. Fed Peak Hawkishness => EUR Positive

At Davos this week, Lagarde gave a rather upbeat assessment of the euro area, noting "rock bottom" jobless rates, large household savings and a likely strong summer for the tourism industry that could mitigate drags from the war in Ukraine. She had earlier stepped up tempo on ECB policy normalisation, in saying that she expects **ECB to raise rates in July** and **exit sub-zero territory by end-3Q.** Other ECB policymakers including vice president Guindos also backed Lagarde's hawkish shift. Previously policymakers were only contemplating for exiting sub-zero around end-year. Last week, ECB's Knot said that **a 50bps hike remains an option for Jul** though there is no consensus around it. He added that ECB can only afford gradualism if inflation expectations are well anchored but inflation is now at the upper limit of still being well anchored. Policymakers may need to stay nimble in case that changes. We find that the hawkish shift was notable and came against a backdrop of Fed potentially reaching peak hawkishness. **9th Jun ECB meeting will be of key focus as policymakers provide a more formal update to policy bias.** A case of ECB walking the talk in catching up on policy normalisation can further narrow 2y EU-UST yield differentials (last at -210bps vs. -253bps in Apr), and add to EUR upside. The next 2 CPI reports (31 May, 1 Jul) will also be key. Higher inflation prints above 7.5% may intensify the likelihood of 50bps hike and that can add to EUR upside.

### US Payrolls; Global PMIs Next Week

Key data we watch next week include EU consumer confidence on Mon. For Tue, US Chicago PMI; China PMIs; EU CPI estimates. For Wed, EU, UK, JP, AU, Malaysia mfg PMIs; US ISM mfg; Caixin mfg PMI. For Thu, US ADP; NZ ToT. For Fri, US payrolls, ISM services; EU, UK, JP services PMIs. Next week is a hol-shortened week with US out on Mon; IS, KR on Wed; UK on Thu; CN, HK, TW, TH and UK out on Fri.


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*Our in-house model implies that S$NEER is trading at +1.35% to the implied midpoint of 1.3895, suggesting that it is slightly firmer vs. other trading partner currencies*

**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: 99.81; R: 103.20 | **Mon:** - Nil -<br>**Tue:** Chicago PMI, Dallas Fed mfg activity, consumer confidence (May);<br>**Wed:** ISM Mfg (May); construction spending (Apr);<br>**Thu:** ADP employment (May)); Durable goods, factory orders (Apr);<br>**Fri:** NFP, unemployment rate, hourly earnings, ISM services (May) |
| EURUSD | → | S: 1.0565; R: 1.0860 | **Mon:** Consumer confidence (May);<br>**Tue:** CPI estimates (May);<br>**Wed:** Mfg PMI, unemployment rate (May);<br>**Thu:** PPI (Apr);<br>**Fri:** Services PMI (May); Retail sales (Apr) |
| AUDUSD | ↑ | S: 0.7020; R: 0.7245 | **Mon:** - Nil -<br>**Tue:** Building approvals (Apr);<br>Wed: Mfg PMI (May); GDP (1Q)<br>Thu: Trade (Apr);<br>**Fri:** Services PMI (Apr) |
| NZDUSD | ↑ | S: 0.6395; R: 0.6630 | **Mon:** - Nil -<br>**Tue:** Building permits (Apr); Activity outlook, business confidence (May);<br>Wed: - Nil -<br>Thu: Terms of trade (1Q);<br>**Fri:** - Nil - |
| GBPUSD | → | S: 1.2390; R: 1.2770 | **Mon:** - Nil -<br>**Tue:** Lloyds Business barometer (May);<br>**Wed:** Nationwide house prices, Mfg PMI (May)<br>**Thu:** - Nil -<br>**Fri:** - Nil - |
| USDJPY | → | S: 127.00; R: 129.40 | **Mon:** Machine tools order (Apr P);<br>**Tue:** Jobless rate, Retail sales, IP (Apr);<br>**Wed:** PMI Mfg (May); Capex (1Q);<br>**Thu:** - Nil -<br>**Fri:** Services PMI (May) |
| USDCNH | → | S: 6.7000; R: 6.7800 | **Mon:** - Nil -<br>**Tue:** NBS Mfg and non-mfg PMIs (May);<br>**Wed:** Caixin PMI Mfg (May)<br>**Thu:** - Nil -<br>**Fri:** - Nil - |
| USDSGD | ↓ | S: 1.3610; R: 1.3900 | **Mon:** - Nil -<br>**Tue:** - Nil -<br>**Wed:** - Nil -<br>**Thu:** - Nil -<br>**Fri:** PMI (May); Retail sales (Apr) |
| USDMYR | → | S: 4.3400; R: 4.4000 | **Mon:** - Nil -<br>**Tue:** - Nil -<br>**Wed:** PMI Mfg (Apr)<br>**Thu:** - Nil -<br>**Fri:** - Nil - |
| USDPHP | → | S: 51.80; R: 52.80 | **Mon:** - Nil -<br>**Tue:** - Nil -<br>**Wed:** PMI Mfg (May)<br>**Thu:** - Nil -<br>**Fri:** - Nil - |
| USDIDR | ↓ | S: 14,450; R: 14,650 | **Mon:** - Nil -<br>**Tue:** - Nil -<br>**Wed:** - Nil -<br>**Thu:** PMI Mfg; CPI (May)<br>**Fri:** - Nil - |

*Sources: Bloomberg, Maybank FX Research & Strategy*

## Selected G7 FX Views

| Currency | *Stories of the Week* |
|---|---|
| **DXY Index** | ***Bearish Momentum Intact.*** Dollar's decline since mid-May appears to be gathering pace (-3.4% since 13 May). This was due to early signs of slowing US growth momentum, sharp pullback in UST yields (10y UST yield down nearly 50bps) and broadly supported risk sentiments. Recently released FoMC minutes also stopped short of talking about more aggressive hikes (i.e. 75bps). The key takeaway was that Fed saw aggressive hikes (front-loading) as providing flexibility later this year, instead of aggressive hikes picking up pace. Recall on Monday, Bostic even suggested that a Sep pause "might make sense" if price pressures cooled. This is consistent with our proposition that Fed may have hit peak hawkishness. Elsewhere, markets are also focusing on the US's China tariff review before it lapses on 6th Jul. Potential removal of US tariffs on Chinese imports can be perceived as de-escalation in tensions and this is positive for risk sentiment. In addition, more details of support measures in China and reports that Russia is opening sea corridors for shipping from Ukrainian ports to ease global food shortage problems are other contributing factors supporting broad sentiments.<br><br>Taking stock, FoMC minutes emphasized "the strong commitment and determination" to restore price stability and reiterated 50bps rate increment for the next few meetings. Minutes also noted that policy may have to move past a "neutral" stance in which it is neither supportive nor restrictive of growth. Minutes stopped short of indicating 75bps hike. On balance sheet reduction, Fed will allow for roll-off to reach $95 billion by August, including $60 billion USTs and $35 billion for mortgages. Any outright sale of MBS is possible, with notice of that happening well in advance.<br><br>Our caution for unwinding of stretched DXY longs remains underway, with DXY falling to 1-month low. DXY was last at 101.60 levels. Bearish momentum on daily chart intact while decline in RSI resumed. Bearish trend channel formed since early-May intact. Bias for downside play. Support here at 101 (38.2% fibo, 50DMA), 99.81 (50% fibo). Resistance at 102.55 (23.6% fibo retracement of 2022 low to high), 103.20 (21 DMA). Watch core PCE tonight – softer number could see further downside play out.<br><br>*Next week brings Chicago PMI, Dallas Fed mfg activity, consumer confidence (May) on Tue; ISM Mfg (May); construction spending (Apr) on Wed; ADP employment (May)); Durable goods, factory orders (Apr) on Thu; NFP, unemployment rate, hourly earnings, ISM services (May) on Fri.* |
| **EUR/USD** | ***Pullback Not Ruled Out; Buy Dips.*** EUR remains better bid this week as markets re-price for hawkish ECB while risk backdrop was conducive. 2y EU-UST yield differentials further narrowed. Last at -210bps vs. -253bps in Apr. Our call for break-out trade materialized. Pair was last at 1.0745 levels. Bullish momentum on daily chart intact while RSI rose. Falling wedge pattern – bullish reversal – played out. Key resistance at 1.0770 (50 DMA). Break above puts next resistance at 1.0860/65 (76.4% fibo retracement of 2016 low to 2018 high). Support at 1.07, 1.0670 and 1.0565 (21 DMA).<br><br>At Davos this week, Lagarde gave a rather upbeat assessment of the euro area, noting "rock bottom" jobless rates, large household savings and a likely strong summer for the tourism industry that could mitigate drags from the war in Ukraine. She had earlier stepped up tempo on ECB policy normalisation, in saying that she expects ECB to raise rates in July and exit sub-zero territory by end-3Q. Other ECB policymakers including vice president Guindos also backed Lagarde's hawkish shift. Previously policymakers were only contemplating for exiting sub-zero around end-year. Last week, ECB's Knot said that a 50bps hike remains an option for Jul though there is no consensus around it. He added that ECB can only afford gradualism if inflation expectations are well anchored but inflation is now at the upper limit of still being well anchored. Policymakers may need to stay nimble in case that changes. We find that the hawkish shift was notable and came against a backdrop of Fed potentially reaching peak hawkishness. 9th Jun ECB meeting will be of key focus as policymakers provide a more formal update to policy bias. A case of ECB walking the talk in catching up on policy normalisation can further narrow 2y EU-UST yield differentials (last at -210bps vs. -253bps in Apr), and add to EUR upside. The next 2 CPI reports (31 May, 1 Jul) will also be key. Higher inflation prints above 7.5% may intensify the likelihood of 50bps hike and that can add to EUR upside.<br><br>*Next week brings Consumer confidence (May) on Mon; Prelim CPI (May) on Tue; Mfg PMI, unemployment rate (May) on Wed; PPI (Apr) on Thu; Services PMI (May); Retail sales (Apr) on Fri.* |
| **GBP/USD** | ***Pullback Lower Not Ruled Out.*** Our call in the last FX Weekly for rebound materialized. GBP was last at |

1.2625 levels. Daily momentum is bullish while RSI rose. Bias remains skewed to the upside. Key resistance at 1.2650 (50% fibo retracement of Apr high to May low). This level needs to be broken for further upside to gather traction. Next resistance at 1.2770 (61.8% fibo), 1.28 (50DMA). Support at 1.2440 (21 DMA), 1.2390 (23.6% fibo).

Chancellor Sunak unveiled the latest set of support measures as part of a GBP15bn package targeted at alleviating rising costs. Millions of households will receive GBP400 discount on their energy bills, a one-off GBP650 payment for 8mio of the worst-off households, a one-off GBP300 payment to 8mio pensioner households and GBP150 each to 6mio disabled people. A 25% windfall tax was imposed on profits of oil and gas (O&G) companies, but with a 90% tax relief for firms that invest in O&G extraction in the UK. The 25% windfall tax will raise around GBP5bn revenue to finance the latest set of measures. Sunak said that the latest measures will have minimal impact on inflation as measures are targeted and partially funded by raising new money.

Elsewhere we continue to keep a look out on Northern Ireland (NI) Protocol developments. EU ambassador to the UK has rejected UK foreign secretary Liz Truss's demand that NI protocol be rewritten and issued a blunt warning of retaliation if UK government passes a law disapplying effects of the NI protocol. Truss has indicated plans to scrap parts of NI protocol saying that it was a matter of peace and security. It is likely that UK could begin legislation to scrap the NI-protocol. European Commission has earlier said that the re-negotiation of NI protocol was not an option and it would respond to any unilateral UK move, using "legal and political tools at its disposal". Any signs of EU-UK trade war could implicate GBP.

*Next week brings Lloyds Business barometer (May) on Tue; Nationwide house prices, Mfg PMI (May) on Wed.*

**USDJPY** ***Near Term Rebound Not Ruled Out; Fade***. USDJPY fell this week amid UST yields, USD pullback. Pair was last at 127.10 levels. Bearish momentum intact while RSI fell. Downside play intact. But price action shows a falling wedge – typically associated with bullish reversal. Hence not ruling some any near term bounce. But retained bias to sell into. Resistance at 128.90 (21 DMA), 129.40 and 130 levels. Support here at 127.05 (23.6% fibo retracement of 2022 low to high), 125.80 (50 DMA) and 124.50 (38.2% fibo).

*Next week brings Machine tools order (Apr P) on Mon; Jobless rate, Retail sales, IP (Apr) on Tue; PMI Mfg (May); Capex (1Q) on Wed; Services PMI (May) on Fri.*

**AUD/USD** ***Break Above 0.7150 Puts 0.7245 in Focus***. AUDUSD extended its run higher. Sentiments are somewhat supported but China Premier Li's warning on growth partially held back gains. AUD was last at 0.7145 levels. Bullish momentum intact while RSI rose. Technically, signals are mixed. A potential bullish flag could be in the making but on the other hand, a convergence of moving averages appear to take hold. This typically suggests that a price expansion can occur soon (break-out trade, with direction unknown). We continue to monitor price action. Support at 0.7040 (21 DMA), 0.70-figure. Resistance at 0.7150 (38.2% fibo retracement of 2022 high to low), 0.7245 (50% fibo).

Looking on, the Australia's Fair Work Commission decision on adjustment to minimum and award wages (wef 1 Jul) are in focus. Current minimum wage stands at $20.33/hour. Labor party had earlier called on increasing wages. One major Aussie bank is calling for 4 – 4.5% increase and if it materializes, this will be the largest minimum wage increase in 12 years. This will add to price pressures and possibly result in faster pace of RBA policy normalization.

*Next week brings Building approvals (Apr) on Tue; Mfg PMI (May); GDP (1Q) on Wed; Trade (Apr) on Thu; Services PMI (Apr) on Fri.*

**NZD/USD** ***Potential Inverted H&S***. NZD rallied this week amid hawkish RBNZ, risk-on sentiment, relative stability in CNH and broad USD pullback. Pair was last at 0.6525 levels. Daily momentum is bullish while RSI rose. Risks to the upside. Key resistance at 0.6535 levels (38.2% fibo retracement of Apr high to May low). Break puts next resistance at 0.6630 (50% fibo). A stretch to 0.6830 (200 DMA) is not ruled out if inverted head & shoulder pattern holds (neckline ~ 0.6510). Support at 0.6410 (23.6% fibo), 0.6395 (21 DMA).

RBNZ raised rate by 50bps, as expected to bring OCR to 2%. RBNZ also projected more aggressive rate hikes into 2023 with OCR now projected to peak higher at around 4%. Governor Orr said that RBNZ needs to raise rates "at pace" to prevent inflation expectations from being unanchored. Markets' implied still see another 2* 50bps hike fully priced for upcoming MPCs for Jul, Aug.

*Next week brings Building permits (Apr); Activity outlook, business confidence (May) on Tue; Terms of trade (1Q) on Thu.*

## Technical View: MYR Crosses

| MYR Crosses | Direction | Support/Resistance | Stories of the Week |
|---|---|---|---|
| SGD/MYR | → | S: 3.1640; R: 3.2110 | **Still Looking for Corrective Pullback.** SGDMYR continued to trade higher this week into uncharted territories at one point. Cross was last at 3.1980 levels. Bullish momentum on daily chart intact while RSI is rising towards near overbought conditions. We still look for a pullback lower. Resistance at 3.2010, 3.2110 and 3.2280 levels. Support at 3.1940, 3.1640 (21 DMA) and 3.1420 levels. |
| AUD/MYR | → | S: 3.0700; R: 3.1500 | **Upside Risks.** AUDMYR ticked higher this week amid AUD outperformance. Cross was last at 3.12 levels. Daily momentum is bullish while RSI rose. Potential bullish flag patten. Risks skewed to the upside. Resistance at 3.1180 (50 DMA) and 3.15 (23.6% fibo). Support at 3.1080 (38.2% fibo retracement of 2022 low to high), 3.0860 (21 DMA), 3.0735 (50% fibo). |
| EUR/MYR | → | S: 4.6600; R: 4.7600 | **Consolidate.** EURMYR extended gains this week. Cross was last at 4.7080 levels. Daily momentum is bullish bias but RSI near overbought. Consolidative trades likely. Resistance at 4.7350 (76.4% fibo), 4.7580 (200 DMA). Support at 4.6620 (50% fibo) and 4.63 levels. |
| GBP/MYR | → | S: 5.4480; R: 5.5800 | **Rebound Needs to Clear above 50DMA.** GBPMYR extended its rebound this week amid GBP outperformance. Cross was last seen at 5.5260 levels. Bullish momentum on daily chart while RSI rose. Potential rebound risks. Next resistance at 5.5330 and 5.57 (100 DMA). Support at 5.4780 (50% fibo), 5.4480 (21 DMA) and 5.3735 levels (61.8% fibo retracement of 2020 low to 2021 high). |
| JPY/MYR | → | S: 3.4160; R: 3.4900 | **Buy Dips.** JPYMYR consolidated this week. Cross was last at 3.4520 levels. Daily momentum is bullish though RSI shows signs of easing. Pullback not ruled out but bias to buy dips. Support at 3.4420, 3.4160 (50 DMA) and 3.3840 (23.6% fibo retracement of 2022 high to low). Resistance at 3.4780, 3.49 (50% fibo). |

## Technical Chart Picks:

**USDSGD Daily Chart – Bears Need to Break Below 50DMA**


USDSGD fell this week, in line with our call for downside pressure. Pair was last at 1.3735 levels.

Bearish momentum on daily chart intact while RSI fell. Key support at 1.37 levels (50DMA) needs to be decisively broken for further downside to play out. Next support at 1.3670 (38.2% fibo retracement of 2021 low to 2022 high), 1.3610 (100 DMA) and 1.3570/80 levels (50% fibo, 200 DMA).

Resistance at 1.3790 (23.6% fibo), 1.3845 (21 DMA) and 1.3910 levels.

**USDMYR Daily Chart – Still Keeping a Lookout for Corrective Pullback**


USDMYR hovered near recent highs this week. Pair was last at 4.3970 levels.

Daily momentum is mild bearish while RSI fell from overbought conditions. Tentative signs of pullback but lack of momentum.

Support at 4.38 (21 DMA), 4.3420 (76.4% fibo retracement of 2020 high to 2021 low) and 4.30 levels.

Resistance at 4.4050 (last week high), 4.4450 (2020 high).

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

**AUDSGD Daily Chart: Consolidate**

AUDSGD consolidated this week. Cross last at 0.9730 levels.

Daily momentum turned mild bullish but rise in RSI shows signs of slowing. Consolidation likely. Resistance at 0.9765 (21 DMA), 0.9840/60 levels (100, 200 DMAs), 0.9871 (38.2% fibo).

Support at 0.9710 (23.6% fibo retracement of 2021 high to 2022 low), 0.9550 (May low) before 0.9455 (2022 low).

**SGDMYR Daily Chart: Looking for Bearish Confirmation**

SGDMYR continued to trade higher this week into uncharted territories at one point. Cross was last at 3.1980 levels.

Bullish momentum on daily chart intact while RSI is rising towards near overbought conditions. We still look for a pullback lower.

Resistance at 3.2010, 3.2110 and 3.2280 levels.

Support at 3.1940, 3.1640 (21 DMA) and 3.1420 levels.

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