Macro | FX Research & Strategy

Global

Global Markets Daily

USD Weaker as Fed Downshifts and Acknowledges Disinflation

FOMC Downshifts and Powell Signals Fed Not Done

Last night, FOMC raised policy rates by 25bps in line with market consensus. Although Fed Chair Powell signalled that the Fed would continue to raise rates and pushed back on market expectations for rate cuts this year, he also presented a more optimistic outlook on inflation, which the market chose to focus on. Equities and USTs rallied (10Y: -9bps), while the USD was broadly weaker, DXY (-0.9%). Markets are now pricing in 50bps of rate cuts by the end of 2023. Powell was also not alarmed by easing conditions in financial markets - which could complicate the Fed's battle with inflation, and acknowledged that the US was in a period of disinflation with price pressures cooling. It is clear that while Powell was not dovish, he did not do enough to push back against the current market narrative that rate cuts are on the cards this year, which has been driving optimism. We now keenly watch the ECB and BOE decisions (consensus: +50bps) tonight.

Eurozone CPI Inflation Surprisingly Cools

Eurozone headline CPI inflation came in cooler at -0.4% MoM in January (exp: +0.1%; prev: -0.4%) in contrast to expectations on the back of a decline in energy prices. The ECB is not expected to read too much into this data print, given the first release of the year is particularly uncertain due to the update of weights to the consumption basket to reflect 2022 spending patterns. In addition, core CPI inflation remained firm at +5.2% YoY (exp: 5.1%; prev: 5.2%), which is the ECB's preferred inflation indicator. Market consensus is for the ECB to raise rates by 50bps later today.

Key Data Due Today

Data of interest today includes Singapore PMI, US unit labour costs (4Q2022) and building approvals. The ECB (915pm SG/KL time) and BOE (8pm SG/KL time) will deliver their policy announcements tonight (consensus +50bps).

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G7: Events & Market Closure

Date	Ctry	Event
30 Jan	NZ	Market Closure
1 Feb	US	FOMC Policy Decision (2 Feb 3AM SG/KL Time)
2 Feb	UK	BOE Policy Decision
2 Feb	EU	ECB Policy Decision

FX: Overnight Closing Levels/ % Change

Majors	Prev Close	% Chg	Asian FX	Prev Close	% Chg
EUR/USD	1.0990	1.17	USD/SGD	1.3064	-0.57
GBP/USD	1.2376	0.45	EUR/SGD	1.4357	0.59
AUD/USD	0.7137	1.16	JPY/SGD	1.0131	0.32
NZD/USD	0.6506	1.02	GBP/SGD	1.6166	-0.13
USD/JPY	128.98	-0.85	AUD/SGD	0.9323	0.58
EUR/JPY	141.7	0.27	NZD/SGD	0.8499	0.46
USD/CHF	0.9083	-0.86	CHF/SGD	1.438	0.27
USD/CAD	1.3291	-0.11	CAD/SGD	0.9829	-0.46
USD/MYR	4.274	0.00	SGD/MYR	3.2509	0.30
USD/THB	32.84	-0.50	SGD/IDR	11410.17	0.28
USD/IDR	14975	-0.10	SGD/PHP	41.3865	-0.46
USD/PHP	54.513	-0.26	SGD/CNY	5.1363	-0.12

Implied USD/SGD Estimates at 2 February 2023, 9.00am

Upper Band Limit	Mid-Point	Lower Band Limit
1.2960	1.3225	1.3489

AXJ: Events & Market Closure

Date	Ctry	Event

G7 Currencies

- **DXY Index – *Sliding on Relief, Bearish Trend Extends*.** The DXY index slumped below the 101.40-support after the Fed delivered the 25bps hike as expected, taking target range to 4.5-4.75%. Markets largely ignored its reiteration of the pledge to have "ongoing increases" in rates that was already flagged in the Dec dot plot. Focus was instead on fresh cues from the Fed 1) the committee acknowledge that the disinflationary process has started. 2) nonchalance about the recent easing of financial conditions as Powell prefers to focus on "sustained changes" to financial conditions. 3) rate cuts for 2023 may still be possible – Powell says if the economy performs "broadly in line" with his expectations, "it will not be appropriate to cut rates this year, to loosen policy this year". Taken together, even as "a couple more hikes" is needed for policy to be "appropriately restrictive", the language yesterday is much less hawkish than feared and provided USD bears fresh momentum. Other data release includes Jan ADP at 106K vs. 253K previously, construction spending which fell -0.4%m/m vs. previous 0.5%. ISM manufacturing was also lower than expected at 47.4 for Jan vs. previous 48.4. UST curve bull steepened by the end of the session with 10y yield now seen around 3.4% while 4.0%. Contrary to the adage of "don't fight the Fed", in this case, Fed seems to prefer "not to fight the market". The DXY index has slipped under key support. Back on the daily DXY index chart, spot closed at 101.22 last night. We would keep an eye on ECB and BoE decisions for any signals for downshift there too that could provide further tailwinds for the USD bears. Given that growth indicators have been mostly better than expected for both the UK and the EU bloc, the case for dovish signals seem to be less compelling. Regardless, the bearish trend of the DXY index could continue to hold and possibly nudge the DXY index gradually below the 100-figure. USD continues to remain bearish against most AxJ currencies. Week ahead has initial jobless claims, factory orders, durable goods orders for Dec on Thu before Jan NFP and ISM services on Fri.

- **EURUSD – *Broke above 1.10 figure*.** EURUSD last traded at 1.1020 levels this morning, breaking above the 1.10 figure on the back of USD weakness arising from Powell's presser. On the daily chart, we watch resistances at 1.11 and 1.12 figure and supports at 1.0950 and 1.09 figure. Although headline Eurozone CPI in January showed signs of cooling, core inflation remained firm. This adds to the list of recent data prints will likely strengthen the ECB's hawkish case. The ECB has continued to be hawkish on the battle for inflation thus far and our medium-term view is for a stronger EUR, underpinned by the hawkish ECB. The key risk to this medium-term outlook would be any escalation of geopolitical tensions between Russia and Ukraine. Euro data for the week ahead includes Spain, France and Germany CPI, Germany and France GDP and Eurozone CPI and GDP. The ECB policy decision is due this week (2 Feb), with expectations for a 50bps increase in the policy rate to 2.50%.

- **GBPUSD – *Higher*.** GBPUSD hovered around 1.24 levels this morning on the back of USD weakness. On the daily chart, we watch resistances of 1.24 and 1.2450 and supports at 1.23 (psychological) and 1.2279. The Nationwide House Price index showed that prices of home fell by -0.6% MoM in January (exp: -0.4% prev: -0.3%) while on a yearly basis price gains decelerated at +1.1% YoY (exp: +1.9%; prev: +2.8%). Combined with the earlier plunge in mortgage approvals, this adds to the narrative that the UK housing market is in the midst of a correction. Our medium term outlook is bearish GBP, given the conundrum the BOE is facing with both an impending recession and persistent price pressures. The BOE has also been notably dovish compared to the Fed and ECB. One factor, which could provide some medium-term relief for the GBP, would be the successful negotiation of changes to the Northern Ireland protocol, which allows for goods to be transported to Ireland from the UK without the need for checks. UK data for the week ahead is light includes Mortgage Approvals, Nationwide House Price Indices and PMI. The BOE policy decision is due this week (2 Feb), with expectations for a 50bps increase in the policy rate to 4.00%.

- **USDJPY – *Sinks amid "dovish" Fed*.** The pair was last seen trading lower at 128.37. The JPY got a boost from a fairly dovish Powell who recognize progress on the inflation battle and said that the "disinflation process has started". The Fed Chair may have indicated that there could be a couple more rate hikes but markets are instead anticipating 50bps of rate cuts in 2H 2023. The USDJPY is now back well within its bearish trend channel after having traded at the edge of it in previous sessions. We stay cautious though of further JPY gains especially given focus this month would be on the announcement of the new BOJ Governor nominee of which the selection of a more dovish candidate can disappoint the JPY bulls. However, they are unlikely to give up too. In the near term, we therefore suggest buying the pair on dips and to sell on rallies with the topside likely to be at around 130.50. Momentum indicators meanwhile are not exactly showing a clear bias. Resistance is at the 130.50 with the next level after that at 132.97 (50-dma). Support is seen at 127.23 (ytd low) with the subsequent after that at 124.77. Key economic data releases this week include the Jibun Bank PMI composite and services tomorrow (3 Feb).

- **AUDUSD – *Buoyant*.** AUDUSD was last seen around 0.7150, buoyed by the broad USD decline as well as the improvement in risk sentiment. Building approvals for Dec was much stronger than expected at +18.5%m/m growth vs. previous -8.8% decline. NAB business confidence for the next 3 months plummeted to a score of -1 for 4Q vs. previous 9. Business conditions also deteriorated to 18 vs. previous 23. China's re-opening (demand recovery from economic stimulus, resumption of Chinese tourist, student flows to Australia), return of coal trades between Australia and China, potential recovery for Chinese property that could raise demand for Australia's iron ore, all are medium term boosts for the AUD. Data-wise, we have home loans for Dec on Fri.

- **NZDUSD – *Threatening the 0.6530-resistance*.** NZD rose in line with most other non-USD currencies but the NDZUSD pair failed to breach the 0.6530-resistance. This key resistance has held up against multiple bullish attempts since Dec. We remain wary of pullbacks for the NZDUSD pairing as stochastics remain oversold, Breach of the resistance there could open he way towards the 0.6590 resistance before the 0.6675 (76.4% Fibonacci retracement of the Apr-Oct decline) while pullbacks could bring the pair towards the 0.6430 support (21-dma) before the next at 0.6370. Data-wise, we have ANZ Jan consumer confidence due tomorrow. Building permits fell -7.2%m/m for Dec vs. +6.7% in the month prior.

- **USDCAD – *Bearish Momentum*.** Softening global growth outlook does not bode well for the pro-cyclical CAD, especially with its sensitivity to crude oil prices. That said, USD was still the major loser as Powell's presser was less hawkish than feared. The fall in yields as well as a concomitant sense of relief brought the greenback lower against the CAD. USDCAD is en-route towards the 1.3220 (200-dma) before the next support at 1.3120. Our Long AUDCAD view remains intact for the month of February as we continue to favour the metal-linked AUD over crude oil-linked CAD regardless of where the USD heads towards. Unexpected rebounds of the USDCAD could bring the spot towards resistance at 1.3390 (21-dma).

Asia ex Japan Currencies

SGDNEER trades around +1.36% from the implied mid-point of 1.3225 with the top estimated at 1.2960 and the floor at 1.3489.

- **USDSGD – *Lower*.** USDSGD traded lower at 1.3047 levels this morning, with the weaker USD overnight. We continue to expect two-way action in USDSGD, but remain cautious that the downside (SGD strength) would be capped by the prevailing strength in the SGDNEER. Given the spate of central bank meetings over the next two days, some volatility in USDSGD is expected. On the daily chart, we watch resistances at 1.31 and 1.32, with supports at 1.30 and 1.29. Our medium term view on SGD is positive given the house call for MAS to tighten further in April, which is even more likely after this week's sticky inflation print. Further positive developments in China's reopening would also be supportive of this view given Singapore's economic linkages to China. We also closely watch the budget announcement due on 14 February for hints on the government's medium-term priorities for the Singapore economy. Data releases for Singapore this week include Dec unemployment, COE, Jan PMI and Dec retail sales.

- **SGDMYR – *Edged lower*.** SGDMYR traded slightly lower at 3.2437 levels. We watch key support levels at 3.23 and 3.20. We also watch resistances at 3.2393 and 3.2477. Although the MYR is on a bullish trajectory, we remain cautious of bouts of risk aversion which would provide some support for this pair. MAS' expected tightening in April could also be a fundamental underpinning for SGD strength and support for the pair.

- **USDMYR – *Gap down*.** The pair opened much lower this morning and was last seen trading around 4.2305. The MYR was trading much stronger amid the decline in the DXY following comments from a fairly "dovish" Powell. The USDMYR is now moving increasingly closer to the 4.2000 level of which if it hits it, would mark an unwind of the entire 2022 rally. We see this as an increasing possibility given the more favourable global macro environment. Momentum indicators are showing though that the pair is in oversold territory. Resistance is seen at 4.3091 (FI retracement of 76.4% from Nov 2022 peak to Mar 2022 low) with the subsequent after that at 4.3597 (5 Dec low). There are no other major data releases for this week.

- **USDCNH – *Range-bound*.** USDCNH steadied around 6.75 this morning. There was some positive economic data releases yesterday as Jan mfg PMI and non-mfg PMI re-entered expansion territory at 50.1 (Dec. 47.0) and 54.4 (Dec. 41.6) respectively as the country emerged out of the pandemic. Jan Caixin PMI mfg was still in contraction but there was a slight pick-up to 49.2 (Dec. 49.0). Dec industrial profits though showed a further decline to -4.0% YoY (Nov. -3.6% YoY) but that data was rather dated when the country had still not reopened. We still continue to look for USDCNH to consolidate within the 6.71-6.80 range. Resistance around 6.7970 still holds. Next resistance is seen around 6.8410 (50% fibonacci retracement 2022 rally). Support is seen around 6.7150. Remaining data for the week includes Jan Caixin services PMI on Fri.

- **1M USDIDR NDF – *Downwards*.** The 1M NDF was last seen trading much lower at 14839 amid a fall in UST yields and DXY after a fairly "dovish" Powell. The pair has become increasingly more sensitive to the UST yields and DXY in recent times. However, the expectation for falling UST yields this year and diminishing USD strength this year would give strong support to the IDR this year. Meanwhile, inflation data yesterday showed a slowdown in both headline and core CPI at 5.28% YoY (Dec. 5.51% YoY) and 3.27% YoY (Dec. 3.36% YoY) respectively. This further bolsters the case for a rate pause and reduces support for the IDR from a domestic rates angle. Momentum indicators are showing the pair in oversold territory. Support for the pair is seen at 14800 with the next level after that at 14628 (FI retracement of 76.4% from Nov 2022 peak to Mar 2022 low). Resistance is at 15118 (200-dma) with the subsequent at 15233. There are no other major data releases for this week.

- **USDTHB – *Range-bound*.** The pair was last seen trading around 32.70, which was lower than yesterday as the THB got support from a fairly "dovish" Powell. However, the USDTHB is still trading around a tight range of 32.60 – 33.00. There maybe some exhaustion with regards to THB bulls recently and that more positive developments regarding China's reopening and the tourism inflows maybe needed to push the pair lower. RSI hovers just above the oversold mark. Support is at 32.09 (Feb 22 low) and if it hits that level, it would mark an undoing of the entire 2022 rally. However, for now, it looks like stronger data or more positive developments from China and the US maybe needed to push the pair to that level. Resistance is at 33.08 (21-dma) with the next at 34.19 (50-dma). Other key data releases this week includes 27 Jan foreign reserves (3 Feb).

- **1M USDPHP NDF** – ***Slides amid "dovish" Fed*.** The 1M NDF was last seen trading at around 54.08, much lower than the level seen around the same time yesterday morning. The pair is now at around the strongest level since June 2022. Regardless, we remain cautious for the PHP given concerns regarding its fundamentals. However, falling UST yields and diminishing USD strength this year can give a substantial boost for the PHP this year. RSI has moved lower towards the oversold territory. Support is at 54.00 with the next level at 52.07 (May 2022 low). Resistance is seen at 55.86 (200-dma) with the subsequent at 56.14. There are no other major data releases for the rest of the week.

- **1M USDKRW NDF – Lower, breakout of range to downside.** The 1M USDKRW NDF last traded around 12100 and has broken out of its recent range of 1225 to 1250. We watch for a further break of the 1200 support to the downside. Our bias for this pair remains to the downside as Asian currencies get a boost from the Fed downshift and China's reopening, although we remain cautious of a near-term return in broad USD strength. Our medium term outlook for the KRW is positive amid China's reopening. South Korea's Jan CPI showed that inflation could be more persistent than expected coming in at +5.2% YoY (exp: +5.0%; prev: +5.0% YoY), with core CPI printing at +5.0% YoY (prev: +4.8%).

Malaysia Fixed Income

Rates Indicators

MGS	Previous Bus. Day	Yesterday's Close	Change (bps)
3YR MH 3/25	3.40	-	-
5YR MO 11/27	3.55	-	-
7YR MS 4/29	3.69	-	-
10YR MO 7/32	3.82	-	-
15YR MX 6/38	4.03	-	-
20YR MY 10/42	4.16	-	-
30YR MZ 6/50	4.32	-	-
IRS			
6-months	3.59	-	-
9-months	3.55	-	-
1-year	3.47	-	-
3-year	3.40	-	-
5-year	3.56	-	-
7-year	3.69	-	-
10-year	3.82	-	-

Source: Maybank
**Indicative levels*

- Malaysia markets closed for public holiday.

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Singapore Fixed Income

Rates Indicators

SGS	Previous Bus. Day	Yesterday's Close	Change (bps)
2YR	3.12	3.10	-2
5YR	2.85	2.82	-3
10YR	2.97	2.94	-3
15YR	3.00	2.97	-3
20YR	2.85	2.81	-4
30YR	2.63	2.61	-2
50YR	2.66	2.64	-2

Source: MAS (Bid Yields)

- SGS stated the month on firmer footing as the selling by local participant came to a halt. Yields ended the session lower by 2-4bp amid light trading ahead of the US FOMC decision. SORA OIS rates were down 2-3bp in line with the overnight rebound in USTs.

Indonesia Fixed Income

Rates Indicators

IDR Gov't Bonds	Previous Bus. Day	Yesterday's Close	Change
1YR	5.97	5.94	(0.03)
2YR	5.89	5.89	(0.00)
5YR	6.38	6.32	(0.06)
10YR	6.71	6.66	(0.05)
15YR	6.88	6.89	0.01
20YR	6.92	6.91	(0.01)
30YR	7.12	7.08	(0.04)

** Source: Bloomberg, Maybank Indonesia*

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- Most Indonesian government bonds strengthened yesterday. A rally on most Indonesian government bonds was driven by solid fundamental background by the country, taming inflation pressures, and investors' strong expectation for further moderating policy rate hikes by the Fed. Yesterday, it's reported that Indonesian inflation pressures waned in Jan-23. Then, on earlier this day, we saw that the Fed only lifted its policy rate by 25 bps, neither 50 bps nor 75 bps like on previous months. We expect those conditions to keep maintaining the rally trends on Indonesian bond market. We project that the country's 10Y government bonds yield is on the way to reach 6.50% at the end of first week of Feb-23.

- The Indonesia Statistics Agency (BPS) stated that the country recorded a decline in inflationary pressure from 0.66% MoM (5.51% YoY) on Dec-22 to 0.34% MoM (5.28% YoY) on Jan-23. This decrease in inflationary pressure occurred due to relatively moderate price increases on a monthly basis for almost all commodity groups, except the raw food group and the personal care and other services group. Instead, the transportation group recorded a monthly deflation by 1.15% MoM with -0.15% of monthly inflation contribution, although on a yearly basis, this group recorded a strong inflation by 13.91% YoY.

- We estimate that inflationary pressure will be relatively moderate this year. Strategic commodity prices, especially the Petralite fuel, the Solar fuel, the power tariff, and the LPG-3Kg, are expected to remain stable this year after seeing the prospects for world oil prices which are not expected to be as high as last year when they touched levels above US$100/month. barrel. Global oil prices are expected to remain below US$100/barrel this year as the outlook for the global economy is expected to slow down. In addition, we see that the movement of the US$ exchange rate is also not as strong as last year, after we saw the prospect of a relatively moderate increase in the Fed's interest rate this year. Pressure from imported inflation is expected to fade this year. Meanwhile, we see that the government will still maintain the supply chain for the distribution of goods nationally. Food commodity prices are also not as high as last year's, as global food supplies are again being supplied by Ukraine. With these development assumptions, we see Indonesian inflation to be slower from 5.51% in 2022 to be 3.60% in 2023. Core inflation is expected to remain low, namely at the level of 3.00% in 2023. We thought that those aforementioned assumptions are expected to be enough for Bank Indonesia to maintain its policy rate at 3.75% until the end of 2023.

Foreign Exchange: Daily Levels

	EUR/USD	USD/JPY	AUD/USD	GBP/USD	USD/CNH	NZD/USD	EUR/JPY	AUD/JPY
R2	1.1010	132.27	0.7132	1.2395	6.7990	0.6523	142.4867	92.5337
R1	1.0871	132.26	0.7011	1.2274	6.7918	0.6447	142.2233	91.8403
Current	1.1015	128.48	0.7150	1.2394	6.7136	0.6520	141.5100	91.8570
S1	1.0723	130.40	0.6902	1.2153	6.7461	0.6356	141.3033	90.8533
S2	1.0714	128.55	0.6914	1.2153	6.7076	0.6341	140.6467	90.5597

	USD/SGD	USD/MYR	USD/IDR	USD/PHP	USD/THB	EUR/SGD	CNY/MYR	SGD/MYR
R2	1.3271	#VALUE!	15222	54.9597	33.3047	1.4427	0.6384	3.2680
R1	1.3295	#VALUE!	15397	54.9203	33.4123	1.4360	0.6418	3.2776
Current	1.3053	4.2380	14980	54.5300	32.7490	1.4377	0.6334	3.2475
S1	1.3198	#VALUE!	15361	54.6733	33.1923	1.4245	0.6401	3.2710
S2	1.3077	#VALUE!	15150	54.4657	32.8647	1.4197	0.6351	3.2548

Values calculated based on pivots, a formula that projects support/resistance for the day.

Policy Rates

Rates	Current (%)	Upcoming CB Meeting	MBB Expectation
MAS SGD 3-Month SIBOR	4.2500	Apr-23	Tightening
BNM O/N Policy Rate	2.75	9/3/2023	Tightening
BI 7-Day Reverse Repo Rate	5.75	16/2/2023	Tightening
BOT 1-Day Repo	1.50	29/3/2023	Tightening
BSP O/N Reverse Repo	5.50	16/2/2023	Tightening
CBC Discount Rate	1.75	23/3/2023	Tightening
HKMA Base Rate	4.75	-	Tightening
PBOC 1Y Loan Prime Rate	3.65	-	Easing
RBI Repo Rate	6.25	8/2/2023	Tightening
BOK Base Rate	3.50	23/2/2023	Tightening
Fed Funds Target Rate	4.50	2/2/2023	Tightening
ECB Deposit Facility Rate	2.00	2/2/2023	Tightening
BOE Official Bank Rate	3.50	2/2/2023	Tightening
RBA Cash Rate Target	3.10	7/2/2023	Tightening
RBNZ Official Cash Rate	4.25	22/2/2023	Tightening
BOJ Rate	-0.10	10/3/2023	Neutral
BoC O/N Rate	4.50	8/3/2023	Tightening

Equity Indices and Key Commodities

	Value	% Change
Dow	34,092.96	0.02
Nasdaq	11,816.32	2.00
Nikkei 225	27,346.88	0.07
FTSE	7,761.11	-0.14
Australia ASX 200	7,501.66	0.33
Singapore Straits Times	3,377.65	0.36
Kuala Lumpur Composite	1,485.50	-0.93
Jakarta Composite	6,862.26	0.34
Philippines Composite	7,035.76	3.57
Taiwan TAIEX	15,420.13	1.01
Korea KOSPI	2,449.80	1.02
Shanghai Comp Index	3,284.92	0.90
Hong Kong Hang Seng	22,072.18	1.05
India Sensex	59,708.08	0.27
Nymex Crude Oil WTI	76.41	-3.12
Comex Gold	1,942.80	-0.13
Reuters CRB Index	271.80	-2.26
MBB KL	8.74	-0.46

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