Macro | FX Research & Strategy

Global

October 27, 2023

FX Weekly

Basket Trades and Hedges

The Week Ahead

- **Dollar - Range.** Support at 105.00; Resistance at 107.20
- **USD/SGD - Bullish Bias.** Support at 1.35; Resistance at 1.3730
- **USD/MYR - Range** Support at 4.66; Resistance at 4.80
- **AUD/SGD - Range.** Support at 0.8510; Resistance at 0.8740
- **SGD/MYR - Range.** Support at 3.4330; Resistance at 3.48

Multiple Thematic Drivers and a Busy Week Ahead

As we approach the end of the month, we are confronted with a multitude of thematic drivers that dominate the FX space including 1) the lingering possibility of the Hamas-Israel conflict broadening; 2) US economic outperformance vs. the RoW (USD buoyant); 3) China's additional fiscal stimulus that could support economies dependent on China's resource demand (AUD, MYR). Oil prices eased a tad over the past week due to the release of hostages by Hamas but Israel continues to prepare for a ground invasion of Gaza and that could make the (long THB, CHF vs. AUD, NZD) basket mentioned in the FX Weekly dated 16 Oct, alongside Gold as still a possible hedge for further escalation. We remove CAD as it has shown more sensitivity to risk vs. oil. Risk aversion, US' economic outperformance could continue to keep the DXY index buoyant within a 105.50-107 range but we are wary that risks to the greenback are asymmetric as strength of the US economy and weakness in the Eurozone/China economy are likely well-priced in the DXY index and vulnerable to shifts. As such, Eurozone Oct CPI estimate, Oct ISM Mfg, ISM services, China Oct PMI prints as well as Oct NFP due next week are key. Another thematic FX play is that of semiconductor recovery which could benefit the TWD, KRW vs. CNH.

Fed, BoE and BNM To Sit On Their Hands, BoJ Watched Closely

Fed's decision is normally the elephant in the room. With Powell echoing his colleagues' opinion that the rise of the long-term yields reduces the need for the Fed to do more, markets are not positioned for the Fed to do much on 1 Nov. Powell is likely to repeat his message of being patient as the risks of overtightening become more levelled with inflation. Moderating inflation prints elsewhere could also keep BoE and BNM from adjusting their policy rates as well. What is more closely watched this week would be BoJ as 10y JGB yield has been rising. Its rise could spur increasing speculation on BoJ's next move. At the next decision, there could be another adjustment to the 1% 10y yield cap. We expect BoJ to revise forward guidance on inflation target, revise FY 2024 inflation forecast to 2% and that would pave the way for BoJ to abolish YCC and exit NIRP in 2Q 2024. The makes USDJPY look incredibly lofty now.

With SGDNEER near the top of the band and USD still pretty buoyant, we see upside risks to the USDSGD towards 1.3750. Meanwhile, US Treasury yields have started to lose bullish steam, some stabilization of the UST yields could be more constructive for the MYR. As such, USDMYR could remain within 4.75-4.80.

Other Key Data/Events We Watch Next Week

Mon: AU retail sales (Sep)
Tue: China NBS official PMI (Oct), US Conf. Board Consumer confidence (Oct), EC CPI (Estimate), **BoJ Policy Decision**
Wed: China Caixin PMI (Oct) ,US ISM Mfg (Oct), **FOMC Policy Decision**
Thu: BNM Policy Decision, BoE Policy Decision
Fri: US NFP (Oct), ISM Services (Oct)

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Our in-house model implies that S$NEER is trading at +1.97% to the implied midpoint of 1.3975, suggesting that it is firmer vs. other trading partner currencies.

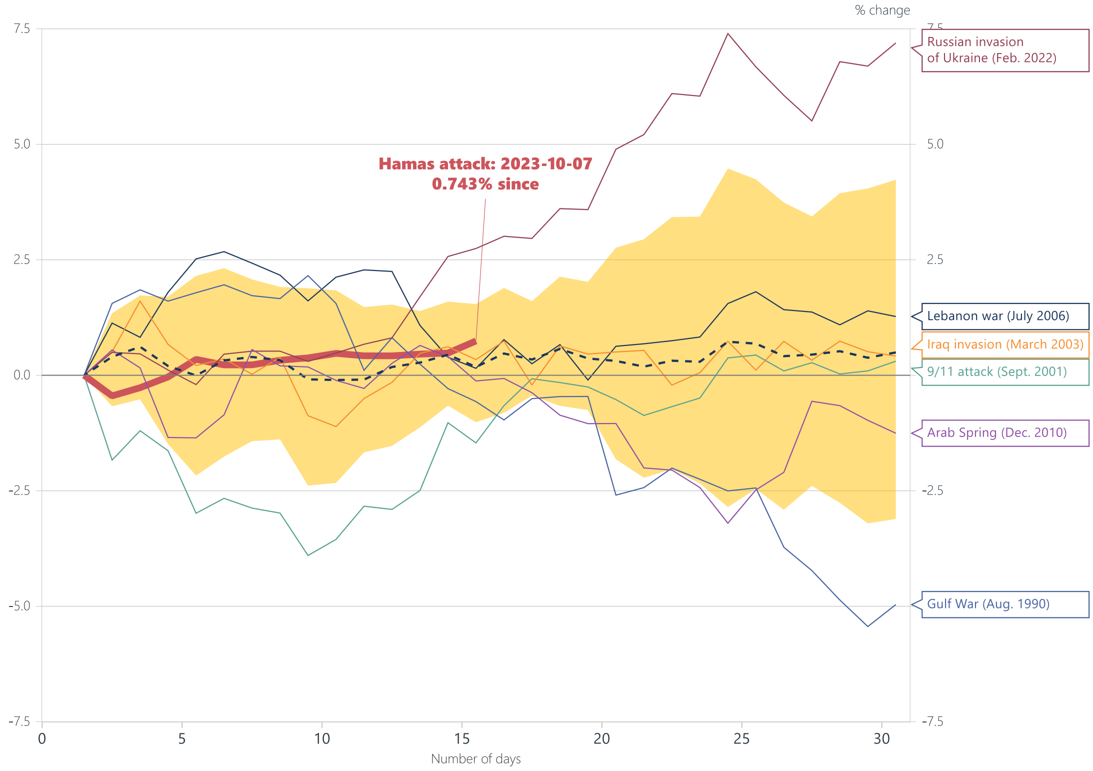
SEE PAGE 8 FOR IMPORTANT DISCLOSURES AND ANALYST CERTIFICATIONS

Currency	Support/Resistance	Key Data and Events
Dollar Index	**S: 105.00 ; R: 107.20**	**Mon:** Dallas Fed Manf. Activity (Oct) **Tue:** FHFA House price (Aug), MNI Chicago PMI (Oct), Conf. Board Consumer confidence (Oct), Dallas Fed Services Activity (Oct) **Wed:** ADP employment change (Oct), ISM Mfg (Oct) **Thu: FOMC Decision,** Press Conference, Unit Labor Costs. Factory orders (Sep), durable goods orders (Sep F) **Fri:** NFP (Oct), Average hourly earnings (Oct), ISM Services (Oct)
EURUSD	**S: 1.0450; R: 1.0620**	**Mon:** Consumer confidence (Oct), **Tue:** GDP (3Q A), CPI Estimate (Oct) **Wed:** ECB Nagel speaks **Thu:** ECOB Eurozone Mfg (Oct F) **Fri:** Unemployment rate (Sep)
AUDUSD	**S: 0.6170; R: 0.6420**	**Mon:** Retail sales (Sep) **Tue:** RBA Jones speech, Private sector (Sep), CoreLogic House price (Oct) **Wed:** Judo Bank Australia PMI Mfg (Oct F), Building approvals (Sep) **Thu:** Trade (Sep), Home loan (Sep) **Fri:** Judo Bank Australia PMI (Oct F), Retail sales (3Q), RBA Jones Panel
NZDUSD	**S: 0.5770; R: 0.6060**	**Mon:** -Nil- **Tue:** Building permits (Sep), ANZ Activity outlook, business confidence, CoreLogic House Prices (Oct) **Wed:** Labour report (3Q) **Thu:** -Nil- **Fri:** -Nil-
GBPUSD	**S: 1.1940; R: 1.2300**	**Mon:** Nationwide House (Oct, due 28 Oct – 3 Nov), **Tue:** Lloyds Business barometer (Oct), BRC Shop price (Oct) **Wed:** S&P Global Mfg PMI (Oct F), **Thu:** BoE Decision Maker Panel Survey, **BoE Policy decision** **Fri:** BoE Hauser speaks, Official reserves (Oct), S&P Global Services PMI (Oct F), BoE Huw Pill, Haskel speak
USDCAD	**S: 1.3560; R: 1.3850**	**Mon:** -Nil- **Tue:** GDP (Aug) **Wed:** S&P Canada Mfg PMI (Oct) **Thu:** -Nil- **Fri:** Labour Report (Oct)
USDJPY	**S: 146.70; R: 151**	**Mon:** -Nil- **Tue:** Retail sales (Sep), industrial production (Sep P), Housing starts (Sep), **BoJ Policy Decision** **Wed:** Jibun Bank Mfg PMI (Oct F) **Thu:** Monetary Base (Oct) **Fri:** -Nil-
USDCNH	**S: 7.30; R: 7.37**	**Mon:** -Nil- **Tue:** Official NBS Composite, Mfg, Non-Mfg PMI (Oct) **Wed:** Caixin China Mfg PMI (Oct) **Thu:** -Nil- **Fri:** Caixin Services PMI, Composite (Oct)
USDTWD	**S: 31.75;R: 32.50**	**Mon:** -Nil- **Tue:** GDP (3Q A) **Wed:** S&P Global Taiwan PMI Mfg (Oct) **Thu:** -Nil- **Fri:** Foreign Reserves
USDKRW	**S: 1330 ;R: 1380**	**Mon:** Discount Store Sales (Sep) **Tue:** Industrial production (Sep) **Wed:** Trade (Oct), S&P Global SK PMI Mfg (Oct) **Thu:** CPI (Oct) **Fri:** Foreign Reserves (Oct)
USDSGD	**S: 1.3530; R: 1.3810**	**Mon:** -Nil- **Tue:** Money supply (Sep) **Wed:** - Nil - **Thu:** PMI (Oct), Electronics Sector (Oct) **Fri:** S&P Global Singapore PMI (Oct), Retail sales (Sep)

Currency	Support/Resistance	Key Data and Events
USDMYR	**S: 4.66; R: 4.80**	**Mon**: -Nil- **Tue**: -Nil- **Wed:** S&P Global Malaysia PMI Mfg (Oct) **Thu: BNM Policy Decision** **Fri**: -Nil-
USDPHP	**S: 56.00; R: 57.50**	**Mon**: -Nil- **Tue**: Money Supply (Sep), Bank Lending (Sep) **Wed**: -Nil- **Thu**: -Nil- **Fri**: S&P Global Philippines Mfg PMI (Oct)
USDIDR	**S: 15,400; R: 16,000**	**Mon**: -Nil- **Tue**: -Nil- **Wed:** S&P Global Indonesia PMI Mfg (Oct), CPI (Oct) **Thu**: -Nil- **Fri**: -Nil-
USDTHB	**S: 35.90 ;R: 37.70**	**Mon**: -Nil- **Tue**: Capacity Utilization (sep), Trade (Sep) **Wed:** S&P Global Thailand PMI Mfg (Oct), Business Sentiment index (Oct) **Thu**: -Nil- **Fri**: Foreign Reserves (Oct -27)

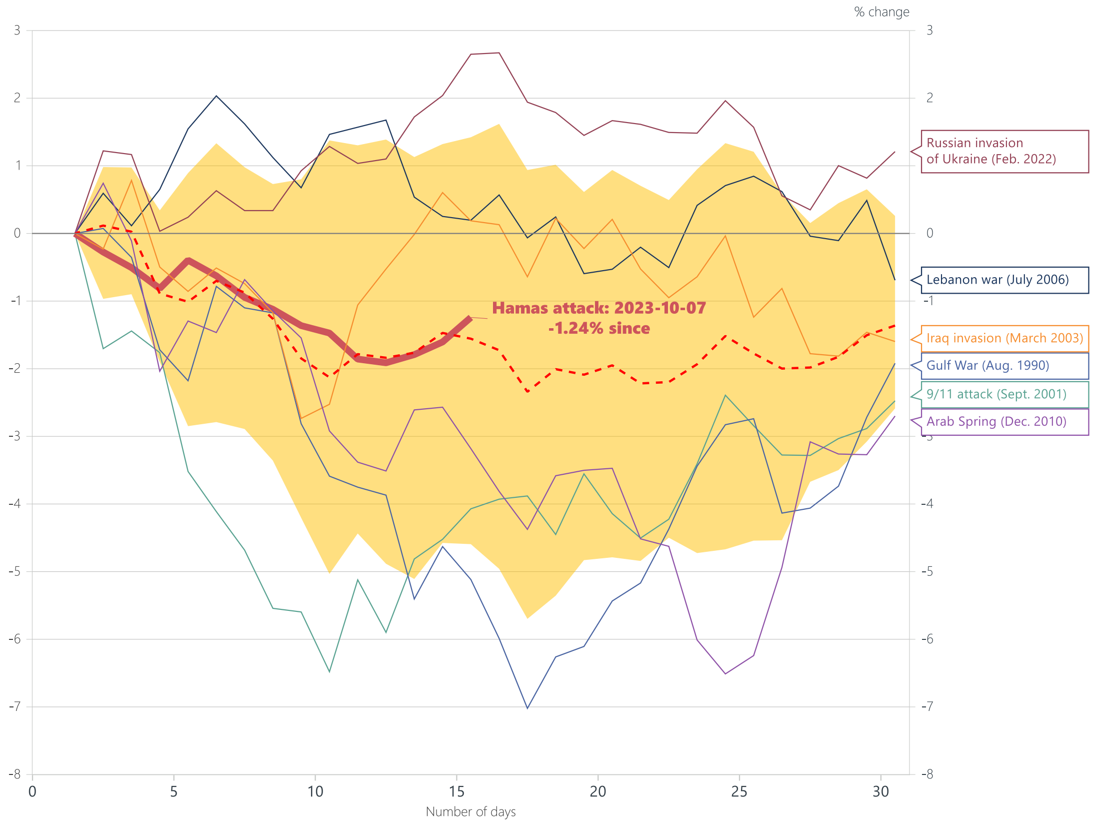
CHF Tend to Exhibit Stronger Safe Haven Properties Than JPY 30 Days from Geopolitical Events

Short-term impact of various geopolitical events on USDJPY



Source: Macrobond, Maybank FX Research & Strategy

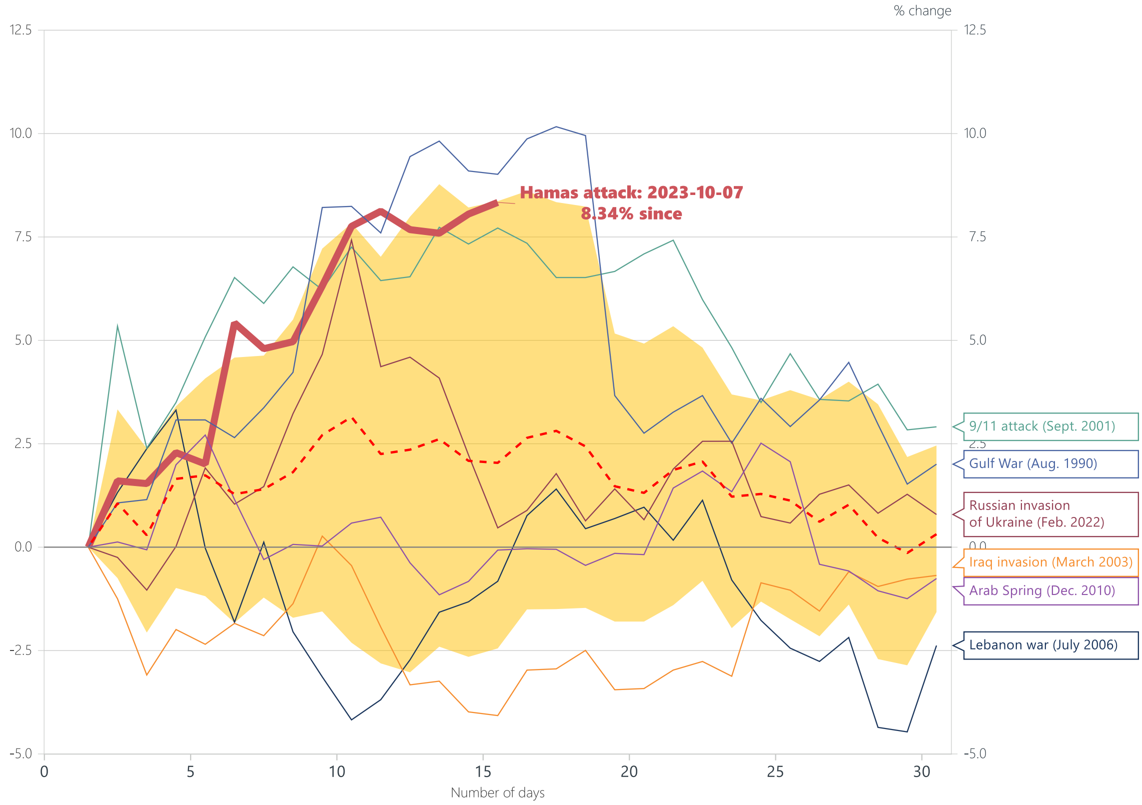
Short-term impact of various geopolitical events on USDCHF



Source: Macrobond, Maybank FX Research & Strategy

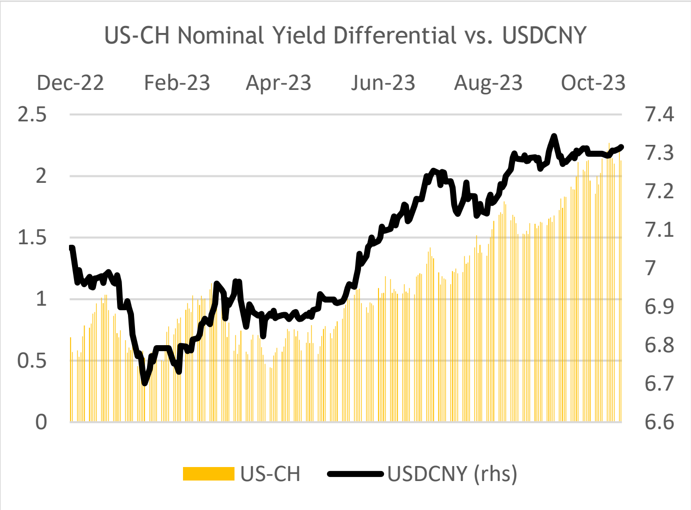
Both Currencies Cannot Hold a Candle to Good Old Gold (vs. USD)

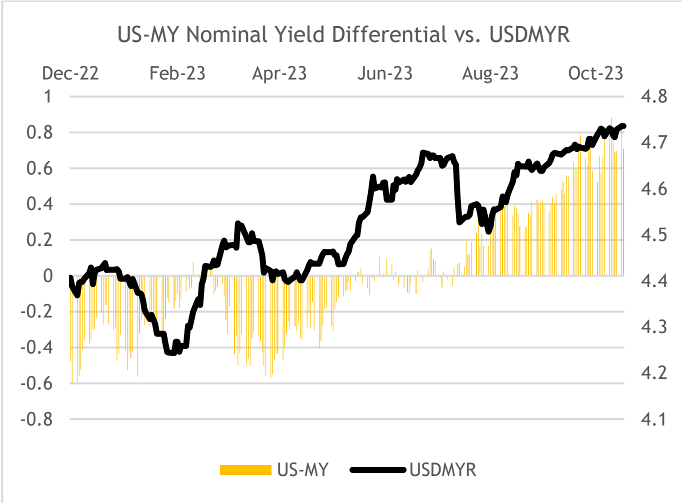
Short-term impact of various geopolitical events on Gold

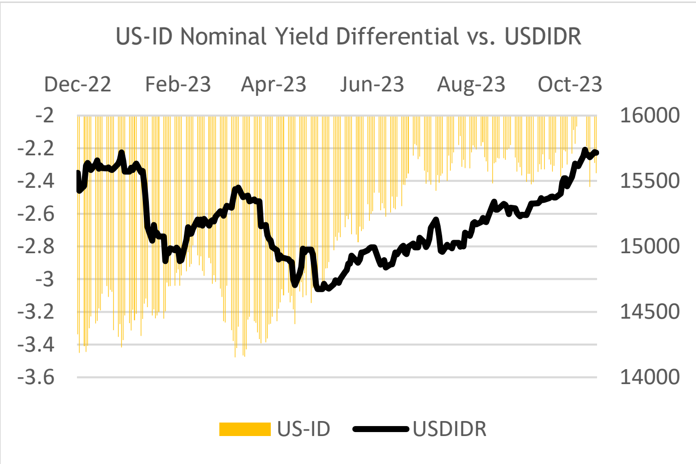


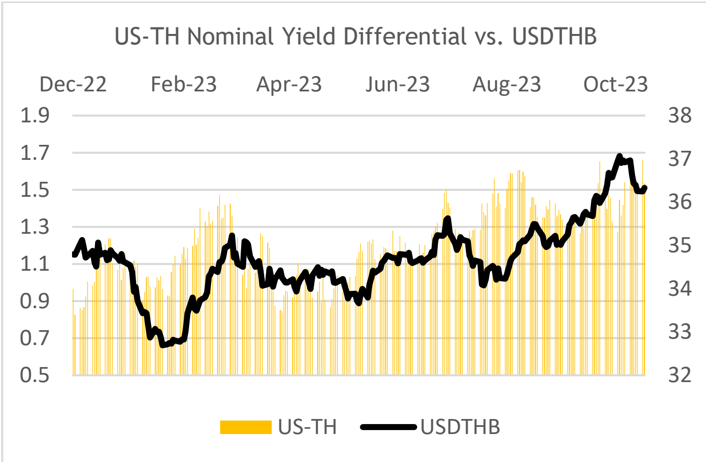
Source: Macrobond, Maybank FX Research & Strategy

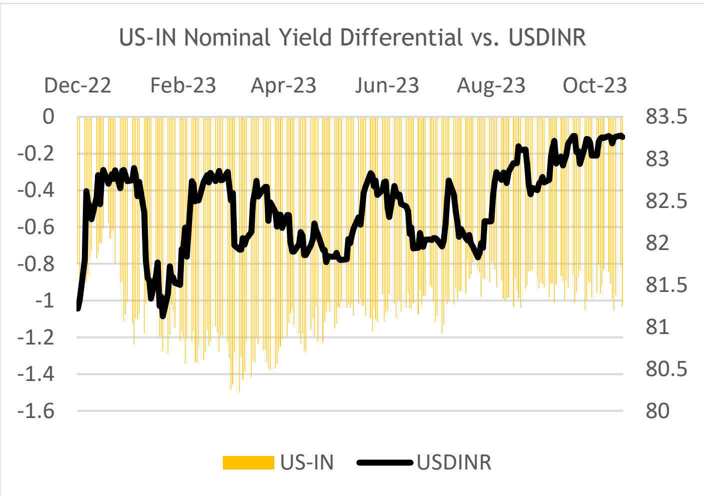
Chart Set A: Nominal Yield Differentials and USDAsia Pairings

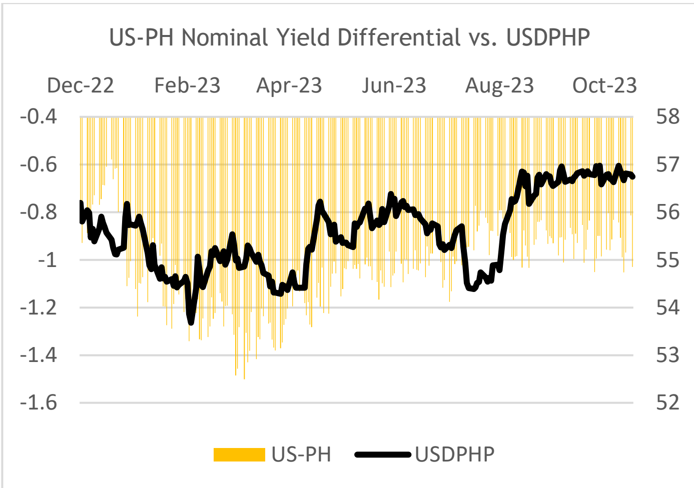








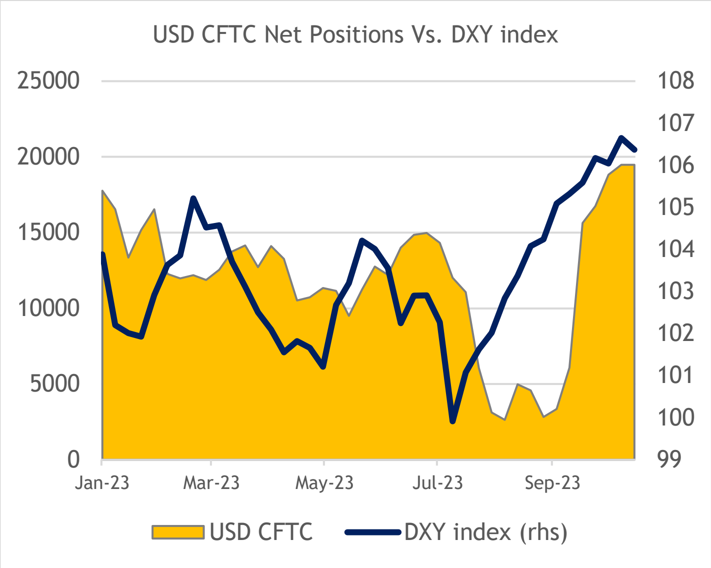


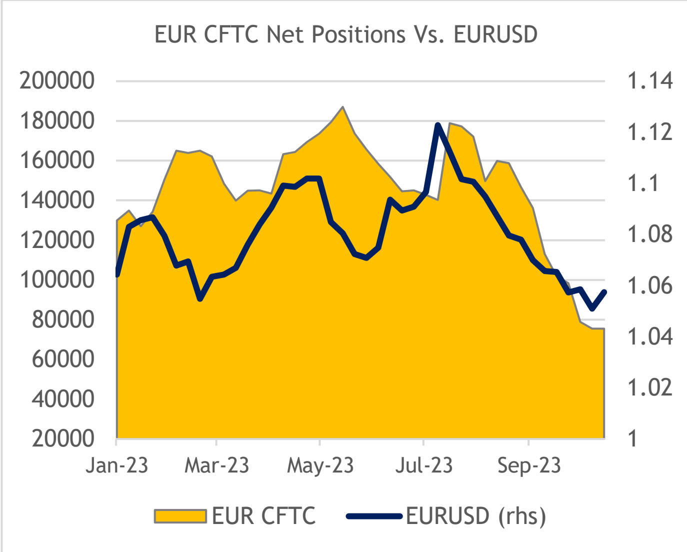


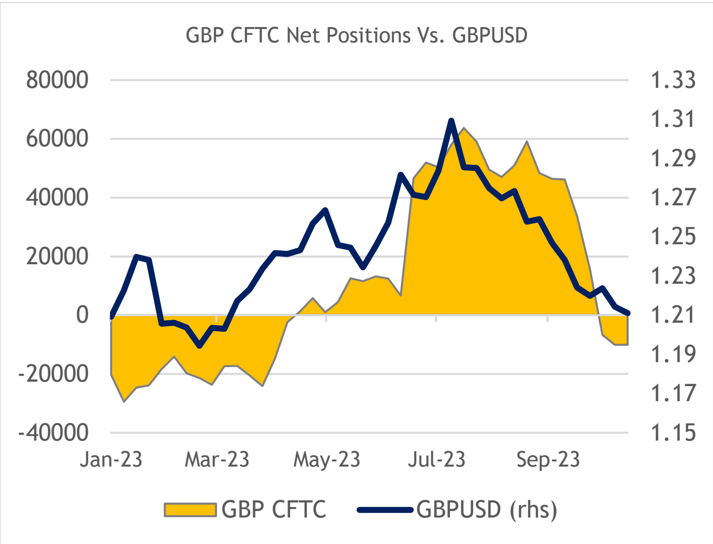
Note: Yield differentials are taken based on generic 10y sovereigns yields.

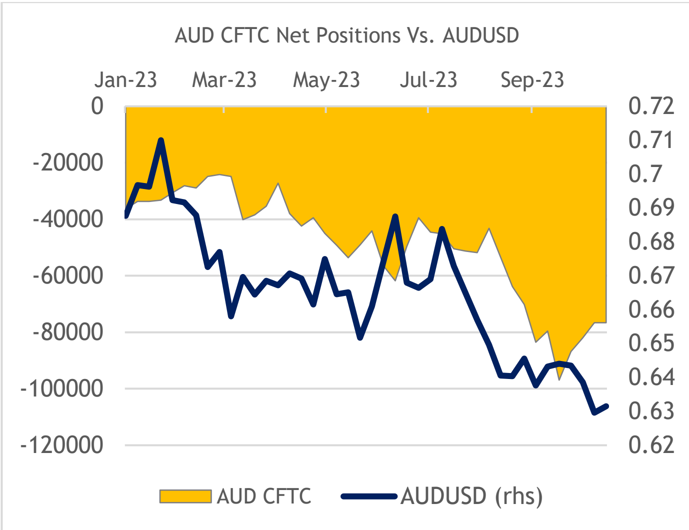
Source: Bloomberg, Maybank FX Research & Strategy Estimates

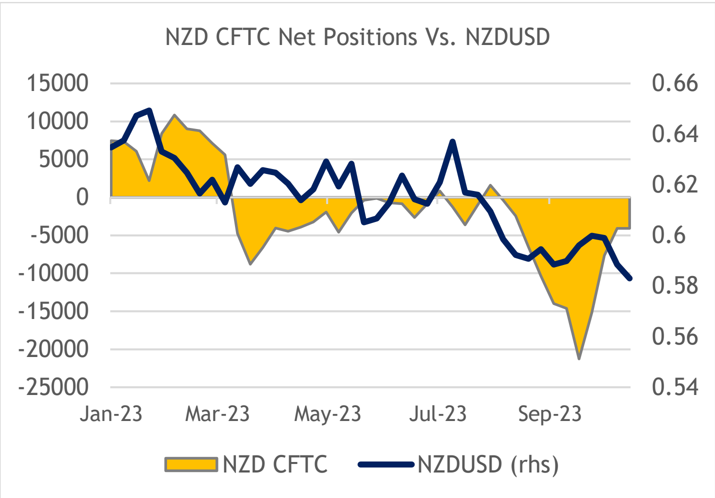
Chart Set B: CFTC Net Non-Commercial Futures Positions (in contracts) vs. FX

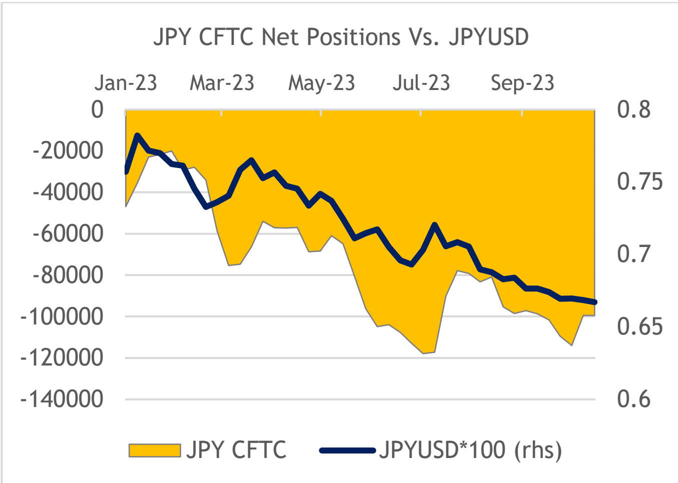












Source: Bloomberg, Commitment of Traders, Maybank FX Research & Strategy Estimates

Date	Trade	Entry/[SL]	Objective(s)	P&L	Open/Closed	Remarks
24 Feb 23	Short AUDNZD	1.0915	1.0850, 1.0780	+1.24%	Closed	Hawkish RBNZ Stance should benefit the NZD vs. the AUD that could see RBA turning a tad dovish on recent moderation in CPI.
10 Mar 23	Sell USDJPY	137.50 [140.50]	132.40; 128.00	--	--	Markets look for +50bps hike from Fed. An NFP print in line with consensus could bring about USD weakness against the JPY. In addition, potential for credit /financial risks emerging could potentially drive safe haven JPY demand in addition to potentially lower UST yields. 17 Mar Remarks: Trade idea did not come to fruition due to a high entry price. That said, we retain bearish view for USDJPY to head towards 128.
24 Mar 23	Short GBPUSD	1.2240 [1.2380]	1.1890	-3.5%	Closed	Banking Crisis could linger. European banks are under pressure. Barring a potential contagion from the banking crisis, GBP could also weaken as BoE faces a dilemma between growth risks (weaker Mar mfg PMI) vs. elevated inflation. Risk reward of 1:2.5.
6 Apr 23	Buy the USDCAD	1.3479 [1.3380]	1.3550, 1.3630, 1.3700	-0.7%	Closed	Risk reward ratio is 1:2.2
14 Apr 23	Short EURAUD	1.6440 [1.6700]	1.5920, 1.5760	-2.6%	Closed	Risk reward ratio is 1:2.6
12 May 23	Short NZDCAD	0.8480 [0.8572]	0.8397, 0.8290, 0.8160	+0.7%	Closed at 0.8420	Risk reward ratio is 1:3.5
18 May 23	Short CNHAUD	0.2150 [0.2172]	0.2122, 0.2104, 0.2093	-1.0%	Closed at 0.2172 (stoploss stipulated)	While the trade was likely stopped on 26 May when it hit a high of 0.2176 that day, the CNHAUD was down > 6% thereafter. (23 Jun)
18 May 23	Short CNHKRW	190.10 [192.01]	188.10, 185.23	--	--	CNHKRW was down >6% since 18 May before recent retracement. (23 Jun)

Date	Trade	Entry/[SL]	Objective(s)	P&L	Open/Closed	Remarks
30 May 23	Long AUDUSD	0.6550 [0.6380]	0.6670, 0.6870, 0.6925	3.1%	Closed on 13 Jun 2023	
30 May 23	Short USDCAD	1.3570 [1.3720]	1.3520, 1.3410, 1.3275	1.5%	Closed on 13 Jun 2023	
11 Sep	Long AUDUSD	0.6400 [0.6350]	0.6522, 0.6576, 0.6625.	+0.6%	Closed on 22 Sep 2023	Expires on 22 Sep.
			Cumulative P/L	+2.4%		

Selected G7 FX Views

Currency	*Stories of the Week*
DXY Index	***Consolidation into FOMC Policy Decision.*** The DXY index touched a high of 106.89 on Thu before easing back to levels around 106.60 in early Asia. This comes after a pretty strong move higher thus far this week. 3Q GDP turned out to be stronger than expected at 4.9%y/y from previous 2.1% (expected at 4.5%). To some extent, the stronger-than-expected PMI releases for Oct earlier this week provided bullish momentum leading into the GDP release. As a result, the upside surprise to the GDP did not provide that much of a further boost to the DXY index. We continue to hold our view that the DXY index has reached an interim peak. Recent price action suggests that the USD could enter into buoyant consolidation within the 105.50-107 range should US economic data continues to remain resilient. Any downside surprise in US economic data could potentially spur more room for USD to decline given the strength of the economy that is being priced in the moment. We remain cognizant of increasing downside risks to the economy given that credit card delinquency is normalizing back to pre-Covid days as excess household savings are being run down by inflation/higher borrowing rates. In additions, the US government is planning to ask around $105bn of aid for Israel, Ukraine, Taiwan and border securities. While that increases the supply side pressure on the UST curve, further fiscal deterioration has typically contributed to USD weakness in the past as well. Back on the daily DXY index chart, gravestone doji formed on Thu normally precedes a bearish move and we look for the DXY index to break below the 106.30-support (21-dma). Next resistance is seen around 106.70 before 107.20. Interim support is intact at 105.50 and next support for the DXY index is seen at 105.30 (50-dma). As mentioned above, we continue to see asymmetric risks to the USD with outperformance of the US economic data vs. an already rather weak Eurozone/China economic data to keep the index within the 105.50-107.40. However, this could easily shift once there are further improvement in data for the Eurozone and China.
EUR/USD	***Consolidation For Now.*** EURUSD hovered around 1.0560 with much of the weakness likely to have played out before the ECB decision given that the rate-hold decision is widely-expected. Lagarde had cautioned that the underlying price pressures have started to ease but noted that medium term inflation outlook becomes more uncertain. Her mention of weak economy and decline in manufacturing likely kept the EUR a tad weighed. EURUSD is last seen around 1.0560 and seem to have settled within the range of 1.0450-1.0620 range. Momentum indicators do not have much directional bias at this point. We anticipate that the two-way trades could continue but with a gradual grind higher. Recent data suggests that contractions in manufacturing PMI seem to have not worsened further. We see a risk that EURUSD might have more room for rebound on positive data. Risks to the EURUSD could be asymmetric with support around 1.0510 before the next at 1.0450. Resistance at 1.0660.
GBP/USD	***Whippy Trade to Continue.*** GBPUSD waffled around 1.2120. Markets do not expect any fireworks at the BoE policy meeting on Thu with the policy bank rate likely to be kept unchanged at 5.25%. Even though the BoE officials have been careful to retain a sense of vigilance on inflation, Governor Bailey has also conveyed his expectations for inflation to ease further towards the end of the year in an interview with Belfast Telegraph. The bar for BoE to hike could be higher than before, especially with economic data weakening (IP, retail sales, consumer confidence). In any case, any further rate hike would weigh on the economy and hurt the GBPUSD. Weekly chart suggests that the stochastics show signs of turning higher from oversold conditions, bearish momentum is slightly waning (albeit still very bearish). Declines seem to be slowing but price action remains bearish. Support around 1.2040 would be closely watched. Break there could open the way towards 1.1940 and a possible further bearish extension. Cable remains susceptible to two-way risks. What we watch is 1) potential for broadening of Israel-Hamas conflict that could lead to higher oil prices, 2) further weakness in the UK data (PMI, Lloyd business barometer for Oct) that could drive cable lower.

USDJPY	***Rising Wedge, Susceptible to Declines***. USDJPY broke above the 150-figure earlier this week but the more curious move is the JGB 10y yield that touched a high of 0.888% before easing to levels around 0.875%. At this rate, 10y yields could very well touch the cap of 1%. The move higher was likely aided by FinMin Suzuki's words that he continues to monitor the FX moves with "same urgency" which indicates the BoJ is not more anxious over the breach of the 150-figure. That said, the rise in the 10y yield of the JGBs could mean increasing speculation on BoJ's next move. Afterall, a policy decision is due next week and there could be another adjustment to the cap. We expect BoJ to revise forward guidance on inflation target (2), revising FY 2024 inflation forecast to 2% and that would pave the way for BoJ to abolish YCC and exit NIRP in 2Q 2024. Back on the USDJPY technical charts, USDJPY has formed a rising wedge and this formation typically precedes a pullback. Knee-jerk pullbacks of the USDJPY cannot be ruled out towards 148.2 before the next at 145. Resistance at 151.10 and 151.95.
AUD/USD	***Range***. AUDUSD hovered around 0.6350, off key support around 0.6270 (tested at one point this week). Rebound is spurred by higher iron ore prices, rising expectations for RBA to deliver one more rate hike as PPI for 3Q surprised to the upside with a 1.8%q/q momentum vs. previous 0.5% as well as China's industrial profits that indicate further signs of stabilization. Recall that headline inflation for 3Q quickened to 1.2%q/q from previous +0.8%. Trimmed mean measure also accelerated more than expected to 1.3%q/q from previous 1.0%. We recognize the risk of another rate hike by the end of the year and that is likely to dampen demand at home which is already showing signs of slowing. As such, this additional rate hike is unlikely to bring lasting boost to the AUD. What we can count on is the potential for further signs of stabilization in China's economy. Back on the AUDUSD chart, spot is around 0.6290 and the 0.6280-support remained intact. Recent action suggest that two-way trades remain within 0.6270-0.6420. We see more room for upside than down.
NZD/USD	***Tentative Bullish Retracements***. NZDUSD hovered around 0.5830, lifted higher. As the Oceanic Nino index continues to rise (which measures the surface temperatures), there could be increasing anxiety that the production of dairy milk could be affected. RBNZ ran a stress test and found that an unprecedented severe drought (that last for 2 years) may trigger defaults on 16% of banks' lending to dairy farms, based on 2022 exposures. This result could continue to weigh on the NZD. As noted before, break-out below key support around 0.5860 to open the way towards next support at 0.5750 and would construe an extension of a downtrend. Resistance at 0.5930, 0.6060.

Technical Chart Picks:

USDSGD Daily Chart – Whipsaw To Continue

With SGDNEER near the top of the band and USD still pretty buoyant, we see upside risks to the USDSGD towards the year high of 1.3764. A break-out there opens the way towards 1.3810 before 1.3878 and then at 1.3930.

Support around 1.3690 before 1.3630.

USDMYR Daily Chart – Bulls Slow

USDMYR hovered around 4.7775. Ascent has slowed and bullish momentum is waning. Should UST yields continue to stabilize and China show further signs of economic improvement, USDMYR may reverse lower.

For now, two-way trades likely within 4.75-4.8050.

Source: Bloomberg, Maybank FX Research & Strategy
Note: orange line - 21SMA; blue line - 50 SMA; red line - 100 SMA; green line - 200 SMA

SGDMYR Daily Chart: Bullish Bias, Wary of Bearish Divergence

SGDMYR was last seen around 3.4890, pulling back after a high of 3.5083. This cross seems pretty stretched to the upside even as uptrend remains intact.

As we bear in mind that SGDNEER is also pretty much stretched to the topside, that could probably mean that SGDMYR could remain within the 3.4815-3.5140.

Breakout to the downside to open the way towards 3.4640 (21-dma).

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

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Malaysia

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