Macro | FX Research & Strategy

Global

FX Weekly

The Week of Central Banks - Fed in Focus

The Week Ahead

- **Dollar Index - Two-Way Risks.** Support at 100.60; Resistance at 102.00
- **USD/SGD - Two-Way Risks.** Support at 1.2950; Resistance at 1.3100
- **USD/MYR - Two-Way Risks.** Support at 4.22; Resistance at 4.40
- **SGD/MYR - Sideways.** Support at 3.2950; Resistance at 3.3500

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Speculating on the Fed Cut

Over the last week, market bets on the size of Fed rate cuts at the upcoming FOMC (whether it was 25bps or 50bps) saw quite some swings. US data throughout the week had at times been favorable and unfavorable towards a larger 50bps cut (as a cut of at least 25bps is pretty much in the bag already). Aug core CPI had come out just a tad stronger than expectations at 0.3% MoM (est. 0.2% MoM, Jul. 0.2% MoM), which supported the view that the cut next week could only be 25bps. However, the release of PPI data with some elements surprising on the downside, again boosted bets that a 50bps could happen. The decline for domestic air passenger transportation whilst lower than expected health insurance and hospital services and portfolio management charges reading all point to the possibility that Aug core PCE could be lower than the prior month. Regardless of all this, we still believe that the FOMC may only go ahead with a 25bps cut next week as they could still wish to await for more data before acting. More importantly, we look out for cues from the statement, dot plots or Chair Powell'sd speech on their openness to a bigger cut further down the road. We think the Fed would hint at not ruling out larger rate cuts in the future. Since the start of Sep, the broad dollar has been generally trading sideways and that can be said generally for most Asian currencies. We are expecting this to continue building up into the FOMC. Whilst there can be knee-jerk reactions in relation to the Fed's decision, it would ultimately depend on how US data eventually pans out to be. Jitteriness about the data and uncertainty on whether a US soft-landing can be achieved can risk creating two-way movements in the broad greenback.

Our in-house model implies that S$NEER is trading at +1.86% to the implied midpoint of 1.3241, suggesting that it remains firm vs trading partner currencies.

BOE, PBOC and BOJ Decisions Due Next Week

Among the three other major central bank policy decisions due next week (BOE, PBOC and BOJ), that of the BOE is being closely watched with our expectations that they would cut by 25bps as services inflation has been coming off. This would be against market consensus and expectations which see that there could be a hold. Resultantly, we see the GBPUSD (currently on a rebound) could come off from current levels. Meanwhile, we are expecting the BOJ to stay on hold as they continue to monitor data and examine the effects of their last rate hike. Ueda is likely to also imply that a tightening cycle remains in the books. USDJPY though we believe would be less impacted by the BOJ than it is by the Fed next week. Signs of the Fed coming off as more dovish can further support the bullish JPY momentum and guide the USDJPY pair further downwards. On the PBOC front, the LPR and the MLF are likely to remain unchanged.

Other Key Data/Events We Watch

Mon: US Empire mfg (Sep)

Tue: US Retail sales (Aug), EC/GE Zew survey (Sep)

Wed: UK CPI (Aug), **CH 1Y MLF, BI policy decision**

Thu: **FOMC decision, BOE policy decision, CBC policy decision**

Fri: **BOJ policy decision, CH 1Y & 5Y LPR**, JP CPI (Aug), UK Retail sales (Aug), GE Retail sales (Jul) (20 - 25 Sep)

SEE PAGE 8 FOR IMPORTANT DISCLOSURES AND ANALYST CERTIFICATIONS

Currency	Support/Resistance	Key Data and Events
Dollar Index	**S: 100.60; R: 102.00**	**Mon:** Empire mfg (Sep) **Tue:** Retail sales (Aug), NY Fed services business activity (Sep), IP (Aug), Capacity utilization (Aug), Manufacturing production (Aug), Business inventories (Jul), NAHB housing market index (Sep) **Wed:** Building permits (Aug), Housing starts (Aug) **Thu: FOMC Decision,** Net TIC flows (Jul), CA balance (2Q), Philly Fed business outlook (Sep), Initial jobless claims (14 Sep), Leading index (Aug), Existing home sales (Aug) **Fri:** - Nil -
EURUSD	**S: 1.10; R: 1.13**	**Mon:** EC Trade balance (Jul), EC Labor costs (2Q) **Tue:** GE Zew survey (Sep), EC Zew survey (Sep), **Wed:** EC CPI (Aug F), GE Retail sales (Jun) (18 – 20 Sep) **Thu:** ECB CA (Jul) **Fri:** GE PPI (Aug), FR Business and mfg confidence (Sep), FR Production and own-company outlook indicator (Sep), FR Retail sales (Aug), GE Retail sales (Jul) (20 – 25 Sep)
AUDUSD	**S: 0.66; R: 0.68**	**Mon:** - Nil - **Tue:** - Nil - **Wed:** Westpac leading index (Aug) **Thu:** Jobs data (Aug) **Fri:** - Nil -
NZDUSD	**S: 0.61; R: 0.63**	**Mon:** Performance services index (Aug) **Tue:** Non-resident bond holdings (Aug) **Wed:** Westpac consumer confidence (3Q), BoP CA balance (2Q) **Thu:** GDP (2Q) **Fri:** - Nil -
GBPUSD	**S: 1.2670; R: 1.3200**	**Mon:** Rightmove house prices (Sep), **Tue:** - Nil - **Wed:** CPI (Aug), RPI (Aug), PPI (Aug), HPI (Jul) **Thu: BOE policy decision** **Fri:** GfK consumer confidence (Sep), Retail sales (Aug)
USDCAD	**S: 1.34; R: 1.37**	**Mon:** Bloomberg Nanos confidence (13 Sep), Mfg sales (Jul), Existing home sales (Aug) **Tue:** Housing starts (Aug), CPI (Aug) **Wed:** Int'l securities transactions (Jul) **Thu:** BOC summary of deliberations **Fri:** Retail sales (Jul), Industrial product price (Aug), Raw materials price index (Aug)
USDJPY	**S: 135; R: 146**	**Mon:** - Nil - **Tue:** Tertiary industry index (Jul) **Wed:** Trade data (Aug), Core machine orders (Jul) **Thu:** Tokyo condominiums for sale (Aug) **Fri:** CPI (Aug), **BOJ policy decision**
USDCNH	**S: 7.05; R: 7.15**	**Sat:** New/used home prices (Aug), IP (Aug), Retail sales (Aug), Fixed assets ex rural (Aug), Property investment (Aug), Residential property sales (Aug), Surveyed jobless rate (Aug) **Mon:** - Nil - **Tue:** - Nil - **Wed:** FX net settlement – clients CNY (Aug), **1Y MLF** **Thu:** Swift global payments CNY (Aug) **Fri: 1Y, 5Y LPR**

Currency	Support/Resistance	Key Data and Events
USDTWD	**S: 31.50; R: 32.50**	**Mon:** - Nil - **Tue:** - Nil - **Wed:** - Nil - **Thu: CBC policy decision** **Fri:** - Nil -
USDKRW	**S: 1310; R: 1360**	**Mon:** - Nil - **Tue:** - Nil - **Wed:** - Nil - **Thu:** - Nil - **Fri:** - Nil -
USDMYR	**S: 4.22; R: 4.40**	**Mon:** - Nil - **Tue:** - Nil - **Wed:** - Nil - **Thu:** Trade data (Aug) **Fri:** - Nil -
USDSGD	**S: 1.27; R: 1.33**	**Mon:** - Nil - **Tue:** NODX (Aug), Electronic exports (Aug) **Wed:** COE auction **Thu:** - Nil - **Fri:** - Nil -
USDPHP	**S: 55.00; R: 57.00**	**Mon:** OFWR (Jul) **Tue:** - Nil - **Wed:** - Nil - **Thu:** BoP overall (Aug) **Fri:** - Nil -
USDIDR	**S: 15200; R: 15750**	**Mon:** - Nil - **Tue:** Trade data (Aug), External debt (Aug) **Wed: BI policy decision** **Thu:** - Nil - **Fri:** - Nil -
USDTHB	**S: 33.00; R: 34.50**	**Mon:** - Nil - **Tue:** - Nil - **Wed:** Car sales (Aug) (18 – 24 Sep) **Thu:** - Nil - **Fri:** Gross international reserves and forward contracts (13 Sep)

G7 FX Views

Currency	*Stories of the Week*
DXY Index	***Two-Way Risks Amid FOMC*.** The DXY has pretty much continued to trade sideways within a range of 101.00 – 102.00 for the last couple of sessions. It is difficult for the broad dollar to move decisively in any particular direction given the uncertainty with the level that the Fed would move by at the upcoming FOMC next week. Bets on whether the Fed would do a larger 50bps cut (as a 25bps is seen as in the bag) swung throughout the week as US data at times could be either favourable or unfavourable. Aug CPI data coming out slightly stronger than expected led to a scale back in rate cut expectations. However, elements of the Aug PPI seeing downside surprise and an initial jobless claims that was a tad higher than estimates, reignited bets again for a 50bps move. Regarding the former, The decline for domestic air passenger transportation whilst lower than expected health insurance and hospital services and portfolio management charges reading all point to the possibility that Aug core PCE could be lower than the prior month. We expect the broad dollar to still continue trading within a tight range of 101.00 – 102.00 building up to the FOMC. US Aug retail sales due just before the FOMC can also be one data point that can potentially have quite some impact on markets. Whilst there can be knee-jerk reactions in relation to the Fed's decision, it would ultimately depend on how US data eventually continues to pan out to be. Jitteriness about the data and uncertainty on whether a US soft-landing can be achieved would continue to create a two-way movements in the broad greenback. Key support is seen around 100.60. Resistance remains at 102. Break out above that opens the way towards 102.90. Two-way trades within the 100.60-102.00.
EUR/USD	***Two-Way Risks, Focus now on FOMC*.** EURUSD came down building up to the ECB decision this week but it then rebounded as Lagarde did not necessarily provide any surprises. Concerns about the ECB becoming more dovish amid weakening growth (especially in relation to the bloc's largest economy – Germany) and some scale back in Fed rate cut expectations looked to have guided the pair lower initially. The ECB did cut by 25bps in line and Eurozone economic projections were revised downwards slightly and inflation projections moved higher for 2024 and 2025 but all this was in line with expectations. More importantly though, they are still not pre-committed to any particular rate path of easing and this looks to have lifted the Euro back up. The ECB appeared to still be data dependent and Lagarde provided no hint just yet of another rate cut soon in Oct. With the ECB now out of the way, focus moves to the upcoming FOMC next week. It is very much two-way risks depending on how the Fed moves. A 25bps cut and a lack of hint on openness to larger size futures cuts could imply rate differentials are still US favorable and guide EURUSD lower. However, if there is a 50bps cut or a 25bps cut with hints of openness for bigger cuts, yield differentials could turn more favorable for the Euro and support further upward climbs for it. Resistance at the 1.1100 level with the next after that at 1.1202. Support at 1.1000 and 1.0901.
GBP/USD	***Downside, Expect BOE to Cut*.** GBPUSD came off initially earlier in the week amid some broad greenback climb as US CPI data was marginally stronger than expected, paring back a 50bps rate cut expectations. Weakness in the UK Jul jobs data also weighed on the GBP. However, it rebounded as the broad greenback moved downwards when bets of a Fed Sep 50bps cut rose again. Elements of the US Aug PPI disappointed and a slightly stronger than expected initial jobless claims look to have driven the increase in bets. Going into next week, the focus would both be on the BOE and Fed. Any sign of more dovishness from the latter can go some way to support the GBPUSD. However, we are expecting the BOE to cut by 25bps to 4.75% as services inflation has been coming off. This would be against both the market consensus and expectations of a hold and can create downside for the GBPUSD, outweigh the positive effects from the Fed dovishness. Back on the chart, resistance is at 1.3121 and 1.3264. Support at 1.3033 and 1.2963.
USDJPY	***Downside, Fed the Bigger Focus than BOJ Next Week*.** USDJPY continues to keep heading down lower this week as the JPY bulls are gradually taking the lead. The CME net CFTC JPY positioning is now implying bullishness for the JPY. Developments this week though have backed this bullishness as comments from BOJ policy board members including Tamura and Nakagawa appeared to be supportive of a tightening cycle. In some sense, the JPY is seen as a possible winner in almost all scenarios. If

	there is a recession, USDJPY would head downwards given falling US rates whilst even if there is a soft landing, there would still be a gradual decline in US rates and the USDJPY would also fall. We are expecting more downside for USDJPY as investor appetite to position more into the JPY grows. Into next week, focus would be on the Fed rather than the BOJ. The BOJ is expecting to hold and Ueda is likely to also imply that a tightening cycle remains in the books. Signs that the Fed is coming off as more dovish can further support JPY strength. Back on the chart, support is at 140.25 and 135.00. Resistance is at 150.00 and 152.00.
AUD/USD	***Bounce within 0.66-0.68***. AUD remains sentiment-driven, susceptible to two-way trades within 0.66-0.68 range, especially given the current growth assessment and fragility of sentiment. Momentum is neutral. This is a time of global growth assessment and should there be a lack of revival in consumer confidence/business confidence even after the signaling of rate cuts, we will start to take a more cautious view of the AUD. Our glass half full view of the world is based on our assumptions that the Fed is easing at a time where there is some resilience in the economy, consumer confidence is holding up and weekly jobless claims suggest little evidence of mass layoffs. We assume that global growth is more likely to soft land and bottom out as major central banks (ex BoJ) start to ease monetary policies. Support at 0.6620 before the next at 0.6550 and then at 0.6500. Rebound to extend towards 0.6720 before 0.6800.
NZD/USD	***Bearish Skew Remains***. NZDUSD rose and was last seen around 0.6180, buoyed by the USD decline. Momentum is still skewed a tad bearish. We see two-way risks for this pair within the 0.61-0.6250 range. Area of support around 0.6080-0.6100 seems rather strong. Expect price action to remain above this region.

Technical Chart Picks:

USDSGD Daily Chart - Two-Way Risks

USDSGD is flirting with the key support at 1.3000 and a decisive break is supportive of further bearish moves. Nevertheless, we remain at band edge of SGDNEER and further moves down need to occur in tandem with a broader USD sell-off and non-USD SGDNEER constituents outperforming the SGD. Two-way risks still exist depending on how US data pans out. Support at 1.3000 and 1.2950. Resistance 1.3100

USDMYR Daily Chart - Two-Way Risks

USDMYR last seen at 4.3090. USDMYR continued to head lower as the broad dollar softened. External developments remain the main driver especially those related to the US. Two-way risks for now depending on how US data pans out to be. Support at 4.3000 followed by 4.2250. Resistance at 4.3700 and 4.4000.

SGDMYR Daily Chart - Sideways

SGDMYR continues to trade sideways as both the MYR and SGD strengthen concurrently against the USD. We expect sideway trading to continue as both the MYR and SGD are likely to see similar price action against the USD. Support at 3.3050 followed by 3.2500. Resistances at 3.3500 followed by 3.4000.

Source: Bloomberg, Maybank FX Research & Strategy

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