FX Tech Flash

Fade the Fear, Selectively

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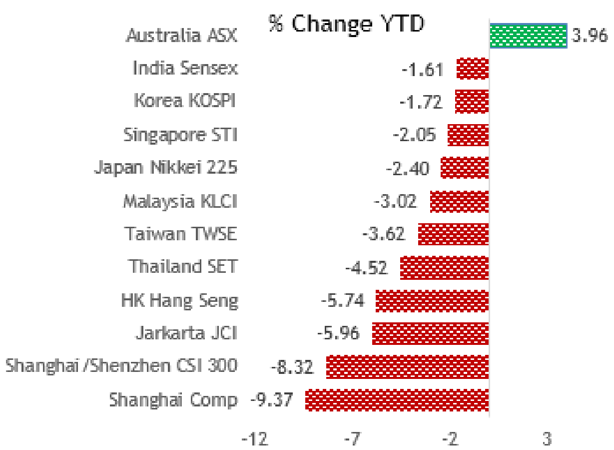
A Summary - Prefer Long AUD Crosses

Selected AXJ FX could still remain under pressure if the severity of the Wuhan Coronavirus outbreak intensifies or persist for longer than expected. But we see tactical opportunities for selected FX to outperform. In terms of market positioning, recent market/data development and technical, AUD shorts appear overstretched and oversold (amongst the FX losers). Further unwinding of stretched short AUD position could pose upward pressure on AUD. We prefer long AUDUSD, AUDJPY and short EURAUD to proxy for tactical play.

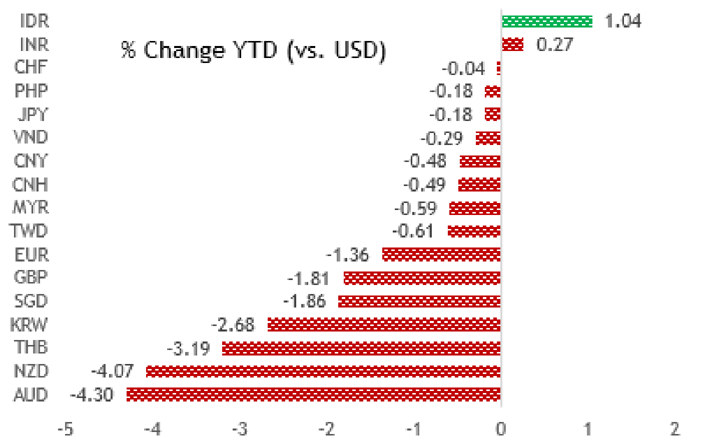
Timely Market Correction or More to Come?

2020 YTD has been full of negative events, from US-Iran conflict to unexpected Coronavirus outbreak in Wuhan and to lesser extent, H1N1 outbreak in China and African swine-flu outbreak in Philippines. Not surprisingly, risk appetite has been hit. Chinese equities have been worst hit in the region while in the FX world, high-beta, China proxy, tourism/open economy FX proxies including AUD, NZD, THB, KRW and SGD have suffered losses of between 2% and 4% (vs. USD) on YTD basis.

Chinese Equities Worst Hit in the Region



AUD, NZD, THB, KRW and SGD Bore the Brunt of the Decline



Source: Bloomberg (as of 4 Feb, 2pm), Maybank FX Research & Strategy

To put things in perspective, our Maybank AXJ FX index (vs USD) has risen by more than 3% in 4Q 2019 owing to a combination of drivers including de-escalation in US-China trade tensions, signs of growth stabilisation amid tech cycle recovery, asymmetric Fed on policy response to inflation, easy monetary policy responses and fiscal measures from most countries to support growth and brexit clarity. Since the start of 2020, our AXJ FX index has corrected lower by about 1.3% YTD. And we continue to ask the question if this is a timely market correction or if more losses could come.

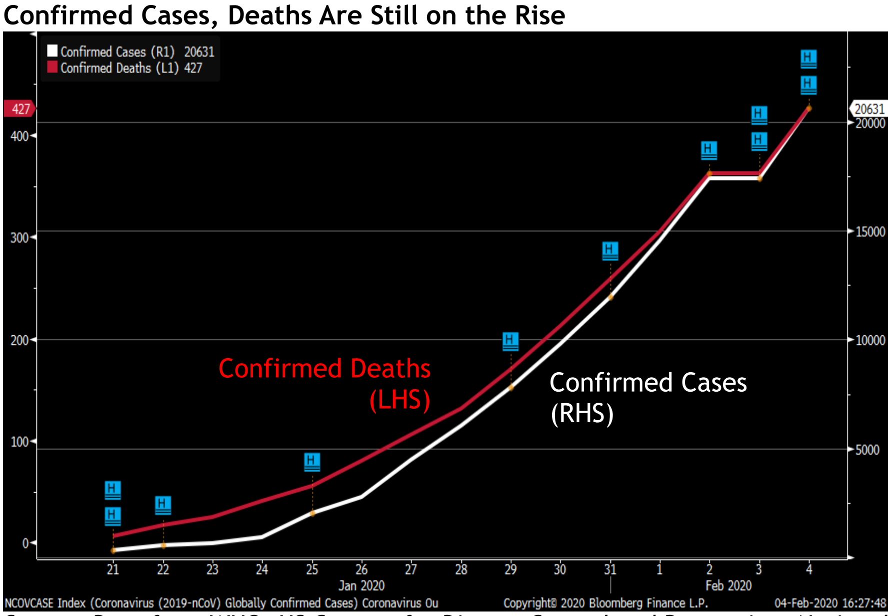
-1.3% Correction YTD from the 3% Rally in Maybank AXJ FX in 4Q 2019

Note: Maybank AXJ FX constructed based on 9 AXJ FX including CNH, KRW, TWD, SGD, MYR, IDR, THB, PHP and INR equally weighted against USD
Source: Bloomberg, Maybank FX Research & Strategy

Caution (not Complacency) Remains Warranted

Fears of Wuhan Coronavirus contagion and rising death toll suggest that the situation may get worse before improving. Given higher internet penetration rate (social media improves information transfer) today (vs. SARS in 2003) and precautionary measures undertaken by global authorities in an attempt to limit the spread of Wuhan Coronavirus in the community, we warn that the **impact on businesses and sentiment will be front-loaded**. Selected AXJ FX including CNH, SGD, THB and KRW could still remain under pressure if the severity of the outbreak intensifies or persist for longer than expected.

Confirmed Cases, Deaths Are Still on the Rise



Source: Data from WHO, US Centres for Disease Control and Prevention, National Health Commission China, Bloomberg

Selectively Pick Stretched FX to Proxy Recovery Play

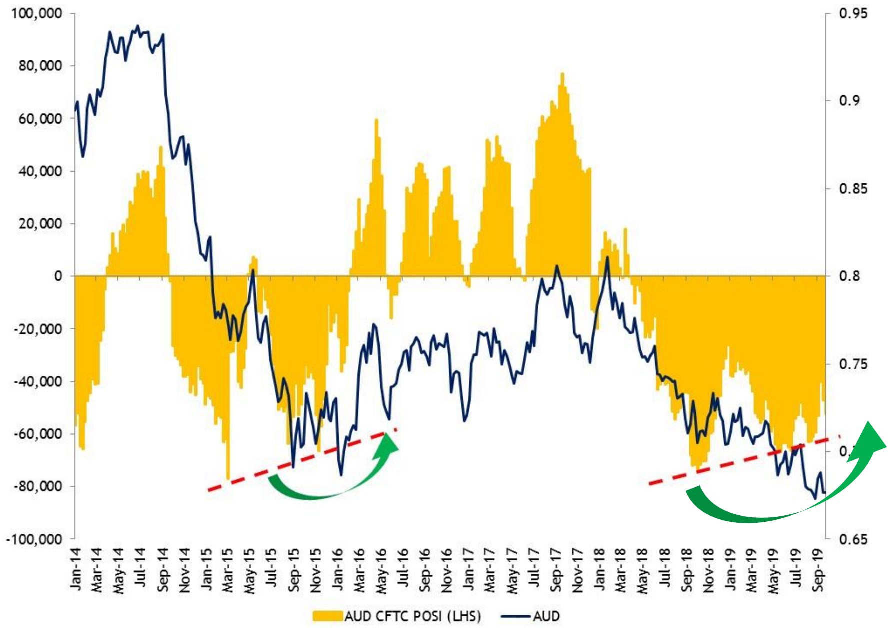
Our Economists' base case assumes 1 quarter of negative impact on GDP growth due to the impact from the Coronavirus fallout with a risk of a stretch to 2 quarters, markets could be more anticipatory, using this dip as an opportunity to buy on nascent signs of stabilisation.

In terms of market positioning, recent market/data development and technical, AUD shorts appear overstretched and oversold (amongst the FX losers). Further unwinding of stretched short AUD position could pose upward pressure on AUD.

RBA keeping cash rate on hold at 0.75% at its MPC meeting on 4 Feb has already seen AUD moving off its lows. Recent data including hiring momentum, firmer CPI in 4Q and housing recovery remains intact.

Looking ahead this week, Australia will release key data including 4Q retail sales, business confidence on Thu and RBA will release its Statement on Monetary Policy while RBA Governor Lowe delivers semi-annual testimony to parliament committee on Fri. Another good run in data and less bearish assessment of outlook could see AUD shorts unwind further and AUD strength play out. And we look at a few AUD crosses including AUDUSD, AUDJPY and EURAUD (on a slightly longer term perspective).

Divergence between CFTC Positioning and AUD



Source: US CFTC, Maybank FX Research & Strategy

AUD Triple Bottom Likely to Stay Respected

Technically, AUD had come close to its triple-bottom support (0.6670 levels) earlier this week. Low was seen around 0.6680 levels. Last seen at 0.6710 levels. While bearish momentum on daily chart remains intact, stochastics and RSI are showing tentative signs of turning from oversold conditions. Given the sharp and rapid sell-off (nearly -5% at one point YTD) and AUD nearing its key triple bottom support, we are reluctant to call for shorts here. Instead we think there is a tactical opportunity for AUD to extend its recovery, possibly towards 0.6850 levels. Adding a note of caution, we would be careful if AUD decline decisively breaches below the triple bottom support as a sharp break there might point to further downside.

Looking for AUDUSD Tactical Rebound (Daily Chart)

Source: Bloomberg, Maybank FX Research & Strategy

Looking for AUDJPY to Rebound

Another cross that could be of interest is AUDJPY as appetite for risk returns. Cross was last seen at 73.20 levels. Potential drift higher in AUDUSD and USDJPY could support AUDJPY upside. To be sure bearish momentum on daily chart remains intact but there are early signs of them fading. RSI and slow stochastics are also showing signs of turning higher from oversold conditions. Rebound can gather momentum on break above 73.25 (50% fibo retracement of 2019 low to Dec high), putting next resistance at 74 levels (38.2% fibo) in sight. A stretch towards 75 levels (23.6% fibo, 50 DMA) is the ultimate target, in the short term. Support at 72.50 (61.8% fibo). Break below support nullifies the tactical rebound bias.

AUDJPY (Daily): A Riskier Play to Proxy for Rebound

Source: Bloomberg, Maybank FX Research & Strategy

EURAUD: Sell Rallies on Rounding Top Pattern

We observe that a rounding top pattern could potentially be forming on this cross. This is typically formed at the end of an uptrend and is tends to be associated with a bearish reversal. But we think price action may take a while to kick in but is worth keeping a watch. Cross was last seen at 1.6470 levels. Bias to sell rallies towards 1.6540 levels (SL above 1.6620) looking for a deeper pullback towards 1.6075 first objective.

EURAUD: Sell Rallies Preferred

Source: Bloomberg, Maybank FX Research & Strategy

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