Maybank

Macro | FX Research and Strategy

Global

FX Flash

AUD - Upmoves Can be Crimped

AUD Back in Familiar Ranges

AUD played out the potential rebound that we have foreseen here. Bets on a near-term rate cut by RBA were pared and slight easing of contagion fears of the novel coronavirus boosted the AUD. As shown in the chart below, cash rate futures no longer imply a rate cut in May. Rate cut expectation is now pushed to Nov. AUDUSD jumps from sub-0.67 in the earlier part of this week to 0.6750 before softening again. We do not want to rule out further bullish moves towards the 0.6810 (50% Fibonacci retracement of the Jan drop) and then perhaps 0.6840 before 0.6900. However, AUD recovery is not likely to be one of unbridled rally. Cautious sentiment and some soft data could check its gains.

Considering all factors that include the occasional swing in risk sentiment, it was still the RBA decision and policy statement that triggered the turning point of the AUDUSD. Improving housing data, resilient hiring sentiment and non-threatening inflation painted a picture rosy enough for RBA to keep the policy rate at 0.75%. Even so, the central bank acknowledged in its statement some sources of uncertainty including 1) the technology dispute between the US and China as well as 2) the novel coronavirus "which is having a significant effect on the Chinese economy" but it is still premature to know how long-lasting the impact will be.

We watch for the impact of the novel coronavirus on China and concomitantly on Australia along with potential damage from the bushfire for fresh pressure on the AUDUSD in the next few weeks. Weaker data could keep the AUDUSD within the 0.66-0.70 range that has held for the past several months. We hold our view that the currency pair could form a bottom (albeit an increasingly long one) within this range.

Analysts

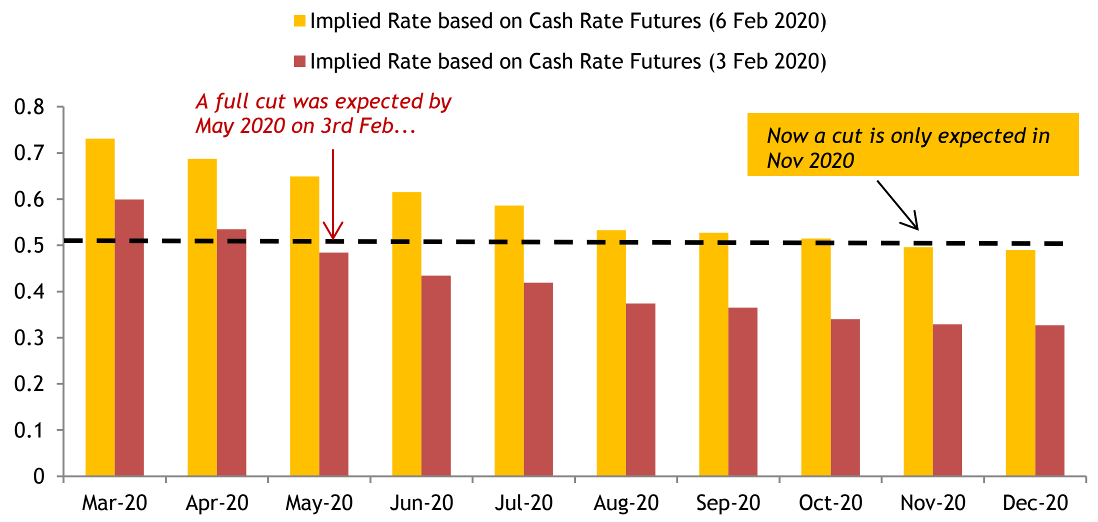
Saktiandi Supaat
(65) 6320 1379
saktiandi@maybank.com.sg

Fiona Lim
(65) 6320 1374
fionalim@maybank.com.sg

Tan Yanxi
(65) 6320 1378
tanyx@maybank.com.sg

Christopher Wong
(65) 6320 1347
wongkl@maybank.com.sg

Investors No Longer Look for a Rate Cut in the Near-Term

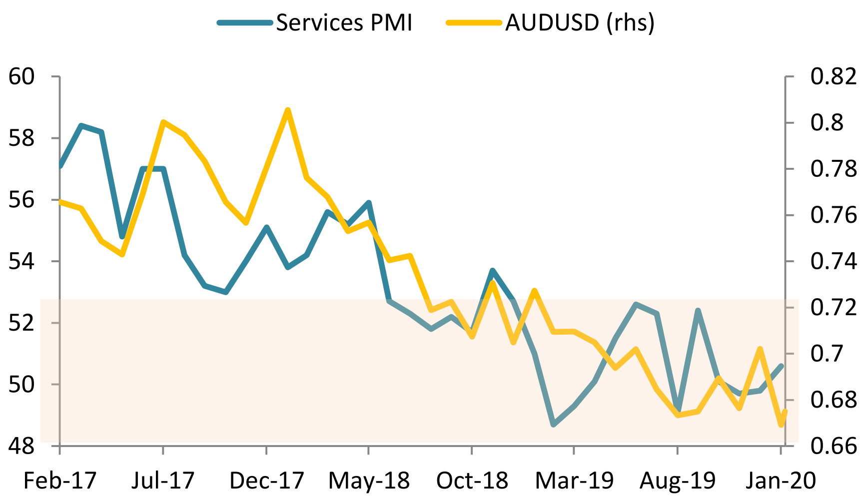


Source: Bloomberg, Maybank FX Research & Strategy
Note: Each bar in the chart represents the policy rate implied by the cash rate futures for the months ahead. Apart from the Jan summer break, RBA holds a policy meeting every month.

While the chart in the first page serves as a good guidance on how market players have responded to RBA, it is also rather fluid and reactive to data and news flows. Should data start to deteriorate in the next few months, expect rate cut bets to return to pressure the AUDUSD again.

Stronger Data Lifts

Better Services PMI Lift AUD, But no Sign of A Break-Out Yet



Source: Markit, Bloomberg, Maybank FX Research & Strategy

Part of the reason for the AUDUSD rebound, apart from the less-dovish than expected RBA, is the relief that recent data has brought. Australia's Dec retail sales was a worse-than-expected print of -0.5%m/m vs. previous 1.0% growth in Nov (with the previous print boosted by the Black Friday sales). However, retail sales turnover for 4Q showed a gentle recovery of 0.5%q/q vs. -0.1% in quarter prior, also exceeding the consensus of 0.3%. PMI services also became expansionary at 50.6 for Jan vs. previous 48.9. Key findings of the PMI survey showed business confidence strengthening to a four month high and output prices accelerating higher due to greater demand for services. That said, note that services output based on PMI survey is at best, showing signs of stabilization. PMI-services have remained within the 48-52 range for much of 2019. AUDUSD has also traded largely within the 0.66-0.71 range over the same period. At this point, we see little reason for AUDUSD to break out of this range.

RBA Lowe Signals a High Bar for Further Easing

Lowe has been given a lot of air time this week including the statement that accompanies the policy decision, his speech titled The Year Ahead at the National Press Club in Sydney on Wed, his Statement on Monetary Policy released this morning and his testimony to the parliament committee earlier. Insofar for this week, here are some key takeaways

- 2020 GDP to be largely unaffected by wildfires given rebuilding efforts – impact only on Dec 2019 and Mar 2020 quarters.
- Coronavirus is a new uncertainty and it is too early to know impact.
- Stronger case to cut interest rate if unemployment rises
- Long and variable lags of monetary policy
- Urge for fiscal policy to be employed more as an economic stabilizer.

- Hopes for period of interest rate stability
- Concerns about low rates encouraging borrowing boom
- Reiterates that QE "won't countenance QE" until cash target rate reaches 0.25%. "The threshold for undertaking QE … has not been reached in Australia and I do not expect it to be reached"
- From the SoMP, GDP for Year to Jun 2020 is downgraded to 2% from prev. 2.5%. Inflation is now seen at 1.75% in the period vs. prev. 2%.

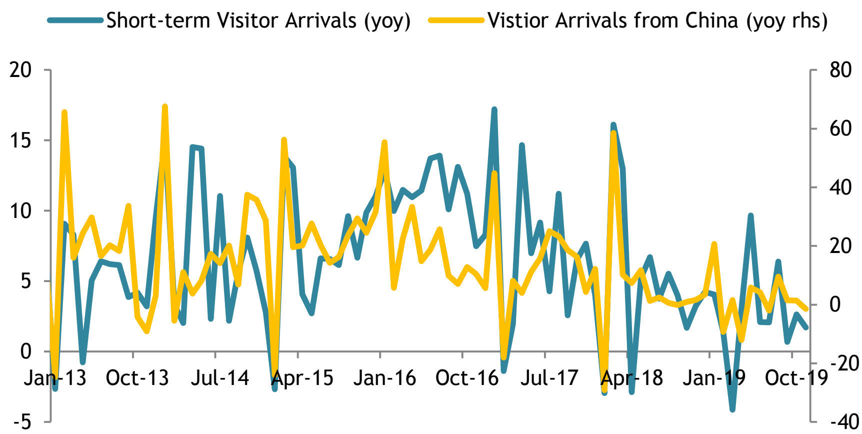
Taken together, data has afforded RBA time to wait and watch for any undesirable effects that the novel coronavirus has on Australia. As for the impacts of the particularly severe bushfire, RBA is likely to count on the government's rebuilding efforts and fiscal measures to cushion the economy. Jobless rate is key and has to rise before RBA takes action again and RBA holds the view that transmission mechanism of the previous rate cuts would take some time. Lowe was rather explicit about his desire for a period of interest rate stability and reminds investors that lowering rates further could risk raising household debt. In other words, the bar for the next rate cut is higher but we are not closer to a rate hike.

QE was brought up at Lowe's semi-annual testimony to the House of Representatives Standing Committee on Economics this morning and he seems determined to quash any speculation that QE is a near-term prospect.

Damage from Bushfire and Coronavirus Should Show up in Data to Pressure the AUD

It is hard for the services sector to be impervious to the bushfire as short-term visitor arrivals had already dwindled into the end of last year while the bushfire intensify. While PMI-services improved recently, we anticipate some weakness there eventually along with softer retail sale numbers. We have been of the view that the release of these data should crimp AUDUSD recovery at some point and RBA penciled in Mar 2020 and Dec 2019 quarters for likely impact.

S-T Visitor arrivals Have Dwindled

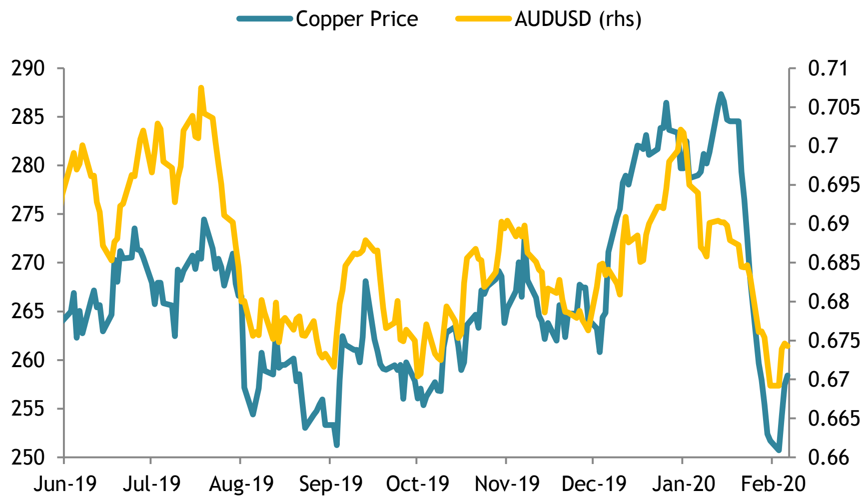


Source: Markit, Bloomberg, Maybank FX Research & Strategy

In addition, the emergence of the new coronavirus has prompted Australia to deny entry to all foreign visitors who had recently been in China. That could only mean further damage to tourist spending. Considering that 15% of tourists come from China based on the first eleven months of 2019. The uncertain development of the coronavirus may delay investment decision and dampen consumption in the near-term.

While the impact on tourism for 1Q2020 has not fully materialized on data yet, commodity prices such as copper has already reflected the expected fall in China's demand. AUDUSD has also fallen in tandem over the much of Jan before recent recovery. The easing of the fears over the coronavirus amid news of potential treatments with drugs that due to commence clinical trials given investors reason to pare their bearish trades.

AUDUSD Will Remain Sensitive to China's Demand



Source: Markit, Bloomberg, Maybank FX Research & Strategy

Still, the move lower in Jan suggests that AUD is likely to remain affected by the impact of the novel coronavirus on China's activity. Beyond the near-term flushing out of short positions, further material move above 0.70 could be difficult.

AUDUSD (Daily) - Losing Bearish

Source: Bloomberg

AUDUSD was unable to clear the 0.6776-resistance and slipped back to levels around 0.6720. Momentum indicators are still losing bearish bias. We do not want to rule out further bullish moves towards the 0.6810 (50% Fibonacci retracement of the Jan drop) and then perhaps 0.6840 before 0.6900. However, AUD recovery is not likely to be one of unbridled rally. Cautious sentiment and some soft data could check its gains.

AUDSGD (Daily) - Rally taking a Breather, Still in Falling Trend Channel

Source: Bloomberg

AUDSGD spiked back within striking distance of the upper bound of the falling trend channel as AUD strength coincides with MAS-triggered SGD weakness. AUDSGD is now seen around 0.9310. Support at 0.9287 (50% Fibonacci retracement of the Jan fall). 200-dma at 0.9381 is a key resistance before Dec high of 0.9460.

AUDMYR (Daily) – Bullish Momentum Rising

Source: Bloomberg

AUDMYR rebounded from low of 2.7420 and was last seen around 2.7750. This cross now flirts around the 21-dma around 2.7805. Momentum indicators are still rising and the retracements lower could be shallow. Support around 2.7757 before the next at 2.7424. Rebounds to meet resistance around 2.7960 before 2.8130.

DISCLAIMER

Published by:

Malayan Banking Berhad
(Incorporated in Malaysia)

Saktiandi Supaat	Christopher Wong	Fiona Lim	Yanxi Tan
Head, FX Research	Senior FX Strategist	Senior FX Strategist	FX Strategist
saktiandi@maybank.com.sg	wongkl@maybank.com.sg	Fionalim@maybank.com.sg	tanyx@maybank.com.sg
(+65) 63201379	(+65) 63201347	(+65) 63201374	(+65) 63201378