

FX Weekly

Anticipating Downshifts

The Week Ahead

- **Dollar - Room for Rebound.** Support at 99.40; Resistance at 102.90
- **USD/SGD - Consolidation.** Support at 1.30; Resistance at 1.33
- **USD/MYR - Range-Trade.** Support at 4.20; Resistance at 4.30
- **AUD/SGD - Bullish.** Support at 0.92; Resistance at 0.95
- **SGD/MYR - Supported on Dips.** Support at 3.19; Resistance at 3.27

Central Banks Decisions Ahead

The Fed is expected to make another downshift (25bps hike vs. 50bps in Dec) on 1 Feb and it may take a strong upside surprise to the PCE Core deflator tonight to shift market expectations. Apart from FOMC meeting, we have ECB and BoE rate decision next Thu. Market consensus look for both central banks to hike 50bps. As we close in on the end of the tightening cycle, we are witnessing mild divergence in policy decisions that do not favour the USD and that prospect has been weighing on the greenback broadly. That said, any hints of a slowdown in the pace of tightening by the BoE and ECB for the future meetings could eventually bring the EUR and GBP lower as well but declines are likely to be shallow in a more benign USD environment. China's official PMI would be eagerly anticipated for signs of recovery in activity.

Anticipating the BoJ Governor Nomination List

Nominations of the next BoJ Governor and Deputy Governors are to be submitted to the Diet on 10 Feb but there are some expectations for leakages before that. Given that the choice of Governor could swing speculative pressure on the JPY and JGBs, it is likely that PM Kishida may want to choose someone that is relatively "neutral" - neither a strong supporter of Abenomics nor a stronger opposition of it. The top contender remains to be Masayoshi Amamiya. Even though he had been part of the team that invented and implemented the yield curve control framework as well as QE, he is also a person that is known for bold measures when the economic situation calls for it and could keep the speculative pressure on the JPY rather balanced. Given his strong linkages to the current monetary policy framework, the initial impact of such a choice would be a move up in the USDJPY as he is still perceived to be in the dovish camp. Thereafter, we anticipate a rebuilding of speculation for another bold and creative action to break the BoJ out of the current speculative rut that could result in more two-way trades. Such moves could violate the USDJPY falling trend channel that has held since Nov last year.

Key Data/Events We Watch Next Week

Onshore markets in China and Taiwan are open next week. Monday brings NZ trade. Tues has IMF publishing its latest World Economic Outlook, Chicago PMI, US Conf. Board Consumer Confidence (Jan), EC GDP (4Q), AU retail sales, JP retail sales and IP, CH industrial profits for Dec and official PMI (Jan). Wed has US ADP report (Jan), US ISM Mfg (Jan), S&P Global Mfg PMI for US, EC, AU, JP, China and others (Jan). Thu has US unit labor costs (4Q), building approvals, SG PMI. Fri has US NFP, S&P Services PMI from around the world.

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Currency	Support/Resistance	Key Data and Events
Dollar Index	S: 99.40; R: 103.90	<p>Mon: Dallas Fed Mfg Activity (Jan) Tue: IMF publishes WEO, FHFA House price (Nov), MNI Chicago PMI (Jan), Conf. Board Consumer Conf (Jan), Dallas Fed Services Activity (Jan) Wed: ADP employment (Jan), ISM Mfg (Jan), S&P Global Mfg PMI (Jan), FOMC decision Thu: Unit labor costs (4Q P), factory orders (Dec), durable goods orders (Dec F) Fri: NFP (Jan), ISM services (Jan), S&P Global US services PMI (Jan)</p>
EURUSD	S: 1.06; R: 1.10	<p>Mon: Consumer confidence (Jan F), ECB Villeroy speaks Tue: GDP (4Q) Wed: S&P Global Eurozone Mfg PMI (Jan), CPI (Jan P), Thu: ECB Policy Decision + Press Conference Fri: S&P Eurozone Services PMI (Jan), PPI (Dec)</p>
AUDUSD	S: 0.6830; R: 0.7140	<p>Mon: - Nil - Tue: Retail sales (Dec), private sector credit (Dec) Wed: Mfg PMI (Jan) Thu: Building approvals (Dec), private sector houses (Dec) Fri: AU home loans (Dec), investor loan value (Dec), Services PMI (Jan)</p>
NZDUSD	S: 0.62; R: 0.65	<p>Mon: Trade (Dec) Tue: - Nil - Wed: CoreLogic house prices (Jan), labour report (4Q) Thu: Building Permits (Dec) Fri: ANZ Consumer Confidence (Jan)</p>
GBPUSD	S: 1.19; R: 1.25	<p>Mon: Lloyds Business Barometer (Jan) Tue: Mortgage approvals, M4 Money supply (Dec) Wed: Nationwide House PX (Jan), Mfg PMI (Jan) Thu: BoE Policy Decision Fri: Services PMI (Jan)</p>
USDJPY	S: 126; R: 132.50	<p>Mon: - Nil - Tue: Retail sales (Dec), industrial production (Dec P) Wed: Mfg PMI (Jan) Thu: Monetary Base (Jan) Fri: Jibun Bank Services PMI (Jan F)</p>
USDCNH	S: 6.65; R: 6.80	<p>Mon: - Nil - Tue: industrial profits (Dec), Official Mfg, Non-Mfg PMI (Jan) Wed: Caixin Mfg PMI (Jan) Thu: - Nil - Fri: Service PMI Services (Jan)</p>
USDSGD	S: 1.30; R: 1.33	<p>Mon: - Nil - Tue: Money supply (Dec) Wed: COE (Feb) Thu: PMI (Jan) Fri: S&P Global Singapore PMI (Jan), retail sales (Dec)</p>
USDMYR	S: 4.20; R: 4.30	<p>Mon: - Nil - Tue: - Nil - Wed: S&P Mfg PMI (Jan) Thu: - Nil - Fri: - Nil -</p>
USDPHP	S: 54.10; R: 56.90	<p>Mon: - Nil - Tue: - Nil - Wed: S&P Mfg PMI (Jan) Thu: - Nil - Fri: - Nil -</p>
USDIDR	S: 14,900; R: 15,330	<p>Mon: - Nil - Tue: - Nil - Wed: S&P Mfg PMI (Jan), CPI (Jan) Thu: - Nil - Fri: - Nil -</p>

Selected G7 FX Views

Currency	Stories of the Week
DXY Index	<p>Room for Bullish Retracement. The DXY index traded sideways with a bearish bias for much of last week. Data suggests an economic slowdown is in the works but labour market conditions remain firm (initial jobless claims drop). We have PCE core deflator due today. Consensus expects this metric to extend its downtrend, mirroring the Dec US CPI headline. With expectations swung so much towards another downshift by the Fed, there could be more room for USD rebound especially if there is an upside surprise to this data that could potentially force the Fed to follow through on its pledge to prioritize inflation over growth. We thus continue to see room for bullish retracement. Adding to the possibility of rebound is news that Japan and Netherlands are at the cusp of forging a deal to enter into a chip alliance to curb export of technology to China. This sets up the next escalating move in the US-China tech war a bit more meaningfully and could weaken yuan sentiment a tad in the near-term.</p> <p>For the week ahead, FOMC decision on Wed weighs at the fore. Fed Fund Futures pricing suggest that a 25bps is expected, likely conditional on a benign PCE core deflator print tonight. We watch for the Fed to retain a hawkish language regardless of a 25bps move or a 50bps and that getting inflation back to 2% is still the priority. We are also wary that service inflation remains sticky to the downside and we see potential for the Fed to highlight it as a cause for concern and that could also be a source of strength for the USD.</p> <p>The DXY index remains on a bearish trend, pushing below the 102-figure towards the 101.40-support. MACD remains bearish on the weekly chart while stochastics suggest conditions remain stretched to the downside. Resistance remains at 102.90 (21-dma).</p>
EUR/USD	<p>Buoyant but Overbought. EURUSD pushed higher and was last seen around 1.0890. ECB members have been hawkish in their language with ECB Governing Council members Vassilev and Makhoul remained hawkish, saying that 50bps hikes at the next two meetings are appropriate and that rates would be restrictive for a while. These came after ECB Chief Lagarde assured that the central bank will “stay the course to restore inflation to goal”.</p> <p>A 50bps hike is expected at the ECB decision next Thu and a hawkish Lagarde could continue to underpin EURUSD. This would be the fifth 50bps hike by the ECB and would raise deposit facility rate to 2.50%. EU-US 10y yield has narrowed drastically to -127bps from almost -200bps in Nov, providing the lift to EURUSD. In addition, a warmer winter has eased concerns of energy crunch for Europe, aiding EUR sentiment. Sensitivity to updates from the war in Ukraine have dulled without the pinch of energy prices as a result. Better-than-expected economic data (industrial production, PMI, trade) certainly alleviate fears of a severe recession. That said, we see potential for these to unwind should there be any hints of a downshift by the ECB at Lagarde’s press conference on Thu.</p> <p>EURUSD seems to be crimped by the 1.0930 -resistance. Momentum remains bullish on the daily, weekly chart but stochastics are overbought. There is also a rising wedge being formed. We do not want to rule out shallow retracements towards support levels around 1.0760 before 1.0625. Resistance at 1.1170.</p>
GBP/USD	<p>Double Top. GBPUSD hovered around 1.2380. Eyes are on BoE rate decision next week and markets lean towards a bigger 50bps rate hike to get bank rate up to 4.0%. In more recent comments, Governor Andrew Bailey mentioned that market expectations and that of the central bank had lately converged and we are likely to expect a terminal rate to be fairly close - within another 50bps away. A downshift is close and could happen as soon as next week and this could also mean soften support for the GBP.</p> <p>GBPUSD last traded at 1.2380 levels and is making a second test of 1.24 levels. Golden crosses have formed on 13 Dec (50ma crossing 100ma) and more recently on 11 Jan (50ma crossing 200ma). A potential double top could be forming should the 1.2450 level resistance hold once more. Should a double top form, the break of the neckline at around 1.18 figure would be confirmation to short GBPUSD. Stochastics are flagging overbought although RSI is neutral. We watch supports at 1.2230 and 1.2010, followed by resistances at 1.2620 and 1.2840.</p>
USDJPY	<p>Eyes on the Nomination List. Last seen at 129.90, pressing against the upper bound of the falling trend channel. The upside surprise to Tokyo CPI (a leading indicator of the National CPI) firmed speculation of another policy action by the BoJ and boosted the JPY on Fri. The upcoming nomination list for the next BoJ Governor and Deputy Governors from the government is a highly anticipated event.</p>

Given that the choice of Governor has a direct implication on speculative pressure, it is likely that Kishida may want to choose someone that is relatively “neutral” - neither a strong supporter of Abenomics nor a stronger opposition of it. The top contender remains to be Masayoshi Amamiya. Even though he had been part of the team that invented and implemented the yield curve control framework as well as the QE, he is also a person that is known for bold measures and could keep the speculative pressure on the JPY rather balanced. Given his historical linkages to the current monetary policy stance, the initial impact of such a choice would be a move up in the USDJPY as he is still perceived to be in the dovish camp. However, potential for another bold and creative action to break the BoJ out of the current speculative rut could see more two-way trades thereafter. Such a move could violate the falling trend channel that has held since Nov last year. The PM is supposed to submit his nominations of the BoJ Governor and Deputy Governors to the Diet on 10 Feb but there are some expectations for leakages before that.

We hold the view that there could be another tweak in the YCC and that anchors our core view for USDJPY to continue to head lower towards 122 by year end. In the meantime, we prefer to lean against the USDJPY strength and next support is seen around 126.55. Resistance at 130.40 before 133.80.

AUD/USD ***Rising Wedge Threatened.*** AUDUSD was last seen around 0.6490, underpinned by optimism over China’s recovery amid strong box office tickets sales for the first few days of Chinese New Year, that exceeded the 2019 level (pre-pandemic). Signs of the US economy slowing also somewhat buoyed sentiment and concomitantly, the risk-sensitive AUDUSD. Back on the daily chart, spot is at 0.7120. While MACD is still bullish, stochastics flag overbought conditions. The rising wedge remains intact but could be at risk of being violated. A decisive close above 0.7140 would confirm violation and the likely extension of this bullish trend. We are thus still wary of retracements and we eye US PCE core. Pullbacks could still bring the AUDUSD to levels around 0.6830 (50,200-dma). Beyond the near-term, macro environment remains benign for the AUD. 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 could raise demand for Australia’s metal exports are all positives for the AUDUSD.

NZD/USD ***Double Top Formation.*** NZDUSD rose on buoyant risk sentiment. Its double top formation is being threatened but remains intact for now. If this plays out, we look for retracement towards the 0.62/0.63-figure as RBNZ could go for its first policy pivot, making a likely smaller hike of 25bps after five consecutive 50bps hike. 4Q CPI came in at 7.2%/y, undershooting RBNZ’s forecast of 7.5%/y. Softening demand conditions at home suggest that CPI forecast is likely to miss the 1Q forecast of 7.5%/y as well. That said, broader USD decline could still force a break of the 0.65-resistance for this pair to head towards 0.6580. Data-wise for the rest of the week, we have ANZ business confidence for Jan due on Fri.

Technical Chart Picks:

USDSGD Daily Chart - Bullish Divergence



Pair was last seen around 1.3140. This pair remains rather heavy, pressing against the 1.3090-support. MACD is still very bearish on the daily and weekly chart. However, stochastics are turning in oversold condition and support at 1.3090 could hold in the interim before the next at 1.30.

In addition, MACD forest has formed a bullish divergence with recent price action.

Taken together, bias is still bearish but with conditions looking rather stretched, we do not want to rule out potential for rebound towards the 1.3270 (21-dma).

USDMYR Daily Chart - Dragonfly Doji



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

Pair touched a low of 4.2265 this morning after a rather precipitous decline.

Optimism over China's re-opening A recent rebound in the Brent prices might have contributed to the MYR strength.

4.2350 and 4.2050 are subsequent next support levels before the 4.1645. This pair is poised to end the day with a dragonfly doji and that could portend a reversal. Rebounds to meet resistance around 4.3020.

SGDMYR Daily Chart: Rebound Risk



SGDMYR seems to have arrived at the key support around 3.2190. Momentum remains bearish for this cross but stochastics are now in oversold terrain. Next support is seen around 3.1910. We think further move lower could be a grind.

Rebounds to meet resistance at 3.2390 before 3.27.

USDTHB Daily Chart: Bears Running into Fatigue



USDTHB was last seen around 32.85 and the THB rally might be running out of steam in the near-term.

Bullish divergence had formed between the price action and the MACD forest.

THB continues to be a key beneficiary of china re-opening story. Our economist now looks for another 50bps hike from BoT due to the upbeat growth story and elevated price pressure.

The USDTHB has found support around the 32.57-level and next support is seen around 32.09. Pair may see some consolidation or even rebound due to the bullish divergence. Resistance at 33.34.

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

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