FX Insight

JPY: Bears In Temporary Retreat

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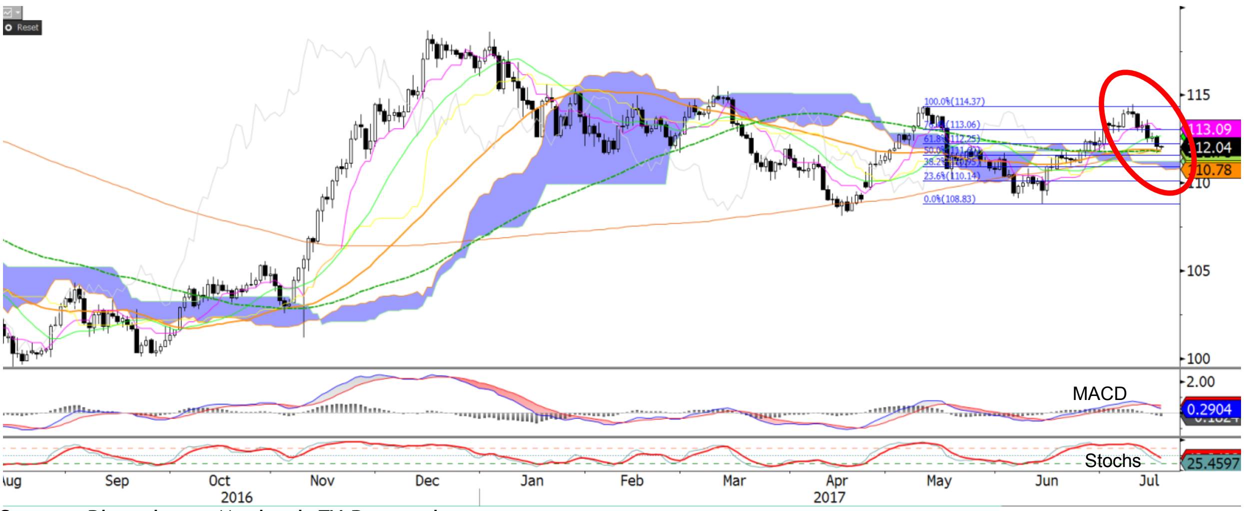
BOJ ends its two-day policy meeting on 20 Jul (Thu) with no change in monetary policy stance expected. We expect BOJ governor Kuroda to follow-up during his post-meeting press conference at 2.30pm (Singapore time tomorrow) with a deep commitment to the Quantitative & Qualitative Easing with Yield Curve Control policy. He is also expected to reiterate the central bank's commitment to do all that is necessary to ensure that the 2% inflation target is achieved. This will serve to highlight the divergent path that the BOJ is taking compared to its peers. The rest of the major central banks have already begun normalizing rates (Fed and BoC) or are planning to withdraw monetary stimulus in due time (ECB and BOE). We also expect the BOJ to trim its inflation outlook for 2017 to reflect weakness in global oil prices.

Though this monetary policy divergence leaves the BOJ as the only major G7 central bank to remain on an easing bias, recent price action in the USDJPY is not reflective of this reality. Instead, price action has been dictated by speculation that the Fed could slow its rate hike trajectory amid weak inflation and retail sales prints. In addition, the failure of the US Congress to pass an alternative healthcare bill triggered concerns that the Trump administration's economic agenda could be at risk. These have weighed on UST and USD and in turn USDJPY. The JPY has been among the best performer so far this week, up slightly over 0.5% against the USD. **Nevertheless, we expect this strength to be temporary and a USDJPY rebound could be in the cards by early-Aug (when US PCE core data and US NFP is released).**

Chart 1: USDJPY (Daily) – Bearish Bias



Source: Bloomberg, Maybank FX Research

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USDJPY has remained under pressure for the past week, underpinned by a reversal in UST yields and USD following the recent risk events. Pair has tested the 111-levels but has been unable to stay at those levels for now. Reiteration of its commitment to its monetary policy at its policy meeting tomorrow could mitigate some of the current downside risk. Pair was last seen around 112.06-levels. A death cross appears to have formed with the 50DMA cutting the 200DMA from the top – a bearish technical signal. Downside pressure on the pair could persist towards 111.60 (50% fibo retracement of the May to Jun downswing), 111-handle (38.2% fibo). Resistance is around 112.65 (21DMA), 113-handle (76.4% fibo).

With monetary policy likely to remain unchanged for the foreseeable future, moves in the USDJPY will be driven by external events, namely expectations of US Fed fund rate hikes and US tax reforms and infrastructure spending. **We expect markets to begin pricing USD strength ahead of the third 25bps rate hike at the 19-20 Sep FOMC meeting (our house view) and provide the USDJPY with another leg up. In addition, with healthcare issue out of the way for now, the Trump administration can now focus its attention on economic issues, primarily tax reforms and infrastructure spending, which would be supportive of the USD. Moreover, should US data, in particular inflation or payrolls date, surprise to the upside that should give USD an additional boost.** We should see the USDJPY possibly moving lower towards the 111.60, 111.00 levels before consolidating until the next leg up. In this environment, though our preference remains to stay short in the JPY, we seek better levels to enter.

Chart 2: JPYSGD (Daily) – Bullish Tilt

Source: Bloomberg, Maybank FX Research

JPYSGD has been on the uptick since touching a low not seen since Apr 2016 at 1.2096 on 11 Jul, lifted by the recent JPY outperformance. Cross was last seen around the 1.2200-levels. Daily momentum indicators and stochastics are bullish bias. Upside risk could see this cross headed towards our resistance level at 1.2280 levels (23.6% fibo retracement of the Apr-Jul downswing). Support at 1.2096.

Chart 3: JPYMYR (Daily) - Watching Break Of 50DMA

Source: Bloomberg, Maybank FX Research

JPYMYR is showing a sharp rebound from its 2017 low of 3.7535 on 11 Jul amid renewed JPY strength. Cross was last seen around 3.8245-levels and is seen heading towards the 50DMA that has so been capping upside to the cross in recent weeks. A clean break of the 50DMA at 3.8380-levels on a weekly close could see this cross revisit 3.8760 levels (38.2% fibo retracement of the Apr high to Jul low). Support at 3.8110 levels (21DMA), 3.7940 (May low). Daily MACD and stochastics are bullish bias.

Chart 4: EURJPY (Daily) - Short-Term Retracement Risk

Source: Bloomberg, Maybank FX Research

After easing off from its 2017 high of 130.77 on 11 Jul on the back of JPY outperformance, the EURJPY has been in consolidation mode since. This cross was last seen around 129.26. Technical suggests potential for a pullback in the near term with both daily momentum indicators and stochastics showing bearish bias. We look a possible retracement towards

1.2815 (21DMA), around 1.26-levels (50DMA, 50% fibo retracement of the Jun low to Jul high). We retain our core view of buying EUR on dips vs. the JPY on expectations of policy divergence between the ECB and BOJ. As we have discussed above, the BOJ remains committed to its ultra-loose monetary policy while the ECB is on the verge of signaling some removal of monetary stimulus in due course should inflation remains on the uptick.

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