Oct 15, 2021

FX Weekly

Inflationary Pressures to Linger for Longer

The Week Ahead

- **Dollar Index** - **Fade.** Support at 92.60; Resistance at 94.70
- **USD/SGD - Eyeing Dips.** Support at 1.3410; Resistance at 1.3580
- **USD/MYR - Consolidate.** Support at 4.1500; Resistance at 4.1700
- **AUD/SGD - Buy Dips.** Support at 0.9900; Resistance at 1.0100
- **SGD/MYR - Sell Rallies.** Support at 3.0570; Resistance at 3.0960

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Stay Long Commodity-Linked FX vs. Short INR, JPY

Higher global energy prices, including oil (brent up >66% YTD) remain an ongoing theme and is likely they feed into higher domestic energy prices, adding to inflationary concerns. Early this week, IMF warned that the global economy is entering a phase of inflation risk as it called on central banks to be "very, very vigilant" and to take early actions to tighten monetary policy should price pressure persist. IMF's baseline forecast is that inflation will rise sharply towards end-2021 and moderate in mid-2022 before easing to pre-pandemic levels but it also added that inflation risks are skewed to the upside. IMF's World Economic Outlook report cautioned central banks to look out for second-round effects of higher energy prices feeding into wages and then into core inflation. We continue to stick to our bias (see here and here) that commodity-linked FX including CAD, AUD, NZD and MYR stand to benefit while net energy importers including INR, JPY and KRW stay back-footed. For ASEAN FX, we still look for a pullback in USDSGD within 1.3410 – 1.3580 range while we look for USDMYR to consolidate in 4.15 – 4.17 range.

Will the ECB Budge?

This week more central banks acknowledged the risk of inflation lasting longer than earlier anticipated. For instance, MAS noted that "in the quarters ahead, rising imported and labor costs, alongside the recovery in domestic activity, will support a broad-based pick-up in inflation. Imported inflationary pressures are likely to persist for some time amid strengthening global demand and lingering supply constraints". FoMC minutes indicated that some Fed members' district contacts generally did not expect bottlenecks to be fully resolved until sometime next year or even later. BoE's Chief Economist Huw Pill earlier said that the balance of risks is currently shifting towards great concerns about the inflation and the current strength of inflation looks set to prove more long lasting than originally anticipated. ECB's Knot warned that investors must be careful not to underestimate inflation risks that could prompt the ECB to tighten monetary policy. Higher energy prices have caused a pronounced pick-up in Euro-area CPI (nearly half of the recent surge in headline CPI to 3% was contributed by energy prices). We opined that sustained uptick in energy prices should pose upside risks to ECB's inflation projections and policymakers could well be forced to normalise earlier than expected - a potential positive catalyst for EUR. ECB policy meeting: 28 Oct.

Our in-house model implies that S$NEER is trading at +1.35% to the implied midpoint of 1.3663, suggesting that it is firmer vs. other trading partner currencies.

China GDP, Activity Data; SG NODX; Prelim PMIs; BI MPC

Busy start on data release next week with NZ CPI, services PMI; US IP, China 3Q GDP, IP, FAI, retail sales; SG NODX on Mon. For Tue, RBA minutes; BI MPC - expected to keep policy status quo. For Wed, EU CPI; German PPI; UK CPI, PPI. For Thu, US Philly Fed business outlook. For Fri, global prelim PMIs; Malaysia, JP CPIs; UK retail sales; SG URA private home prices. Market closures on Tue: MY, ID, PH and India.

Bloomberg FX Ranking

__1Q 2021__
No. 2 for SGD, CNH
No. 3 for NZD, THB
No. 5 for AUD

__2Q 2021__
No. 2 for CNH
No. 3 for TWD, SGD, CAD
No. 5 for CNY
No. 10 for GBP

__3Q 2021__
No. 1 for VND
No. 3 for TWD

Currency	Direction	Support/Resistance	Key Data and Events
Dollar Index	→	**S: 92.60; R: 94.70**	**Mon:** Industrial production (Sep); NAHB housing market index (Oct); **Tue:** Building permits, housing starts (Sep); **Wed:** - Nil - **Thu:** Philly Fed business outlook (Oct); Existing home sales (Sep); Fed's Beige Book; **Fri:** Prelim PMIs (Oct)
EURUSD	→	**S: 1.1490; R: 1.1760**	**Mon:** - Nil - **Tue:** Construction output (Aug); **Wed:** CPI (Sep); Current account (Aug); German PPI (Sep); **Thu:** Consumer confidence (Oct); Debt to GDP (2020); **Fri:** Prelim PMIs (Oct)
AUDUSD	→	**S: 0.7310; R: 0.7570**	**Mon:** - Nil - **Tue:** RBA Minutes; Wed: Westpac leading index (Sep); **Thu:** NAB Business confidence (3Q) **Fri:** Prelim PMIs (Oct)
NZDUSD	→	**S: 0.6980; R: 0.7100**	**Mon:** Services PMI (Sep); CPI (3Q); **Tue:** - Nil - Wed: - Nil - **Thu:** Credit card spending (Sep) **Fri:** - Nil -
GBPUSD	→	**S: 1.3570; R: 1.3820**	**Mon:** CBI selling prices, Rightmove House prices (Oct) **Tue:** - Nil - **Wed:** CPI, PPI, RPI (Sep); **Thu:** Public finances (Sep); **Fri:** Retail sales (Sep); Prelim PMIs (Oct)
USDJPY	→	**S: 112.60; R: 118.60**	**Mon:** - Nil - **Tue:** - Nil - **Wed:** Trade (Sep); **Thu:** Machine tool orders (Sep); **Fri:** CPI (Sep); Prelim PMIs (Oct)
USDCNH	→	**S: 6.4000; R: 6.4700**	**Mon:** GDP (3Q); Retail sales, IP, FAI, property investment (Sep); **Tue:** - Nil - **Wed:** 1y, 5y LPR; New home prices (Sep); **Thu:** - Nil - **Fri:** - Nil -
USDSGD	→	**S: 1.3410; R: 1.3580**	**Mon:** NODX (Sep); **Tue:** - Nil - **Wed:** - Nil - **Thu:** - Nil - **Fri:** URA Private home prices (3Q)
USDMYR	→	**S: 4.1500; R: 4.1700**	**Mon:** - Nil - **Tue:** - Nil - **Wed:** - Nil - **Thu:** - Nil - **Fri:** CPI (Sep)
USDPHP	→	**S: 50.20; R: 51.20**	**Mon:** - Nil - **Tue:** - Nil - **Wed:** - Nil - **Thu:** - Nil - **Fri:** Budget Balance (Sep)
USDIDR	↓	**S: 14,000; R: 14,300**	**Mon:** - Nil - **Tue:** BI MPC **Wed:** - Nil - **Thu:** - Nil - **Fri:** - Nil -

Sources: Bloomberg, Maybank FX Research & Strategy

Selected G7 FX Views

Currency	*Stories of the Week*
DXY Index	***Room for USD to Pullback Lower***. DXY traded a week of 2 halves – rising in early week but reversing gains into losses into end week (Asia time). And it looked as if it was a buy on rumor, sell on fact trade on release of US CPI (which came in firmer at 5.4% vs. 5.3% expected). UST yields fell, alongside USD while commodity-linked, AXJ FX and gold rose. Focus next shifts to retail sales (tonight), IP (next Mon) and prelim PMIs (next Fri). Data in line with estimates should keep positive risk sentiment and USD pullback play intact while a sharply stronger (US data strength) or weaker data (risk aversion) could pose upside risks to USD. We reiterate that with Fed tapering expectations well-telegraphed and that a Fed rate hike not likely to occur until sometime next year (perhaps closer to end 3Q or 4Q 2022), we see room for stretched USD longs to unwind in the near term. Energy-proxy FX, including CAD and AUD may continue to outperform in the interim. DXY was last at 93.93 levels. Daily momentum shows signs of turning mild bearish while RSI is falling from near overbought conditions. Potential rising wedge (bearish reversal) is compelling. We stick to our bias looking for pullback. We continue to monitor if the bearish divergence on weekly MACD will play out. Immediate support at 93.85 (neckline), 93.50 (21 DMA) and 93.15 (50 DMA). Resistance at 94.47 (double-top), 94.7 levels. To recap, FoMC minutes released earlier this week indicated that taper could start in mid-Nov or mid-Dec. One path of reducing $10bn of USTs and $5bn of MBS was discussed and that will see taper conclude by mid-2022 while other members wanted a faster tapering pace. Minutes also indicated that while some Fed officials raised inflation forecast, they still saw it as transitory. Some Fed members noted that their district contacts generally did not expect bottlenecks to be fully resolved until some time next year or even later. *Next week brings Industrial production (Sep); NAHB housing market index (Oct) on Mon; Building permits, housing starts (Sep) on Tue; Philly Fed business outlook (Oct); Existing home sales (Sep); Fed's Beige Book on Thu; Prelim PMIs (Oct) on Fri.*
EUR/USD	***Still Looking for Rebound***. EUR rebounded off its year-lows this week, in line with our bias to buy on pullback. Overall ECB remains dovish. ECB's Lagarde said she saw no evidence yet of second round effects while Rehn said will maintain stimulus for some time to come. Earlier, Lagarde cautioned against withdrawing stimulus too quickly in response to what is likely to be a "transitory" spike in inflation as she said "there are no signs that this increase in inflation is becoming broad-based across the economy" and that inflation will decline once these pandemic-driven effect pass. We reiterate our stand that ECB may be underestimating inflationary pressures. This is also a view broadly echoed by IMF this week but also by some ECB members. Klass Knot warned that investors must be careful not to underestimate inflation risks that could prompt the ECB to tighten monetary policy. He further commented that price pressure may turn out to be stronger than currently projected. ECB's Villeroy also said that uncertainty has shifted from growth to inflation. We opined that a more notable shift from ECB members (from dovish to less dovish) could see EUR squeeze higher. To put in context, higher energy prices have caused a pronounced pick-up in Euro-area CPI (nearly half of the recent surge in headline CPI to 3% was contributed by energy prices). We opined that sustained uptick in energy prices should pose upside risks to ECB's inflation projections and policymakers could well be forced to normalise earlier than expected – a potential positive catalyst for EUR. Pair was last seen at 1.1605 levels. Bearish momentum on daily chart faded while RSI rose from near oversold conditions. On weekly chart, we observed a potential bullish divergence on MACD (shows signs of playing out). We still look for rebound play. Resistance at 1.1630 (21 DMA), 1.1670 (previous neckline support) and 1.1760 (50 DMA). Support at 1.1530 levels, 1.1490 (50% fibo retracement of 2020 low to 2021 high). *Next week brings Construction output (Aug) on Tue; CPI (Sep); Current account (Aug); German PPI (Sep) on Wed; Consumer confidence (Oct); Debt to GDP (2020) on Thu; Prelim PMIs (Oct) on Fri.*

GBP/USD ***Bullish Pressure, Technically.*** GBP rose this week amid better UK data – employment, monthly GDP, IP and on rising expectations that BoE would hike rates by 15bps to 0.25% in Dec-2021. GBP was last at 1.3725 levels. Daily momentum and RSI indicators showing a mild bullish bias. Some risks to the upside. Next resistance at 1.3740 (50 DMA), 1.3820. Support at 1.3620 (21DMA), 1.3570 levels. We reiterate that GBP remains trapped between a rock and a hard place. We had previously noted that the energy crisis and supply chain disruption at home look set to last longer than anticipated. These drivers would result in falling outputs and rising prices – somewhat akin to slight stagflation concerns (but short of a full blown one as underlying growth fundamentals remain intact for now). And the GBP may stay under pressure but a hawkish BoE on the other hand, may somewhat mitigate the downside. BoE Chief Economist Huw Pill made his first comments in public last week - said that risks to the economy are far more 2-sided than they have been for some time and as a result, policy decisions will become more finely balanced. He said that the balance of risks is currently shifting towards great concerns about the inflation and the current strength of inflation looks set to prove more long lasting than originally anticipated.

Some Brexit risks but less of a concern at this point. We noted a Bloomberg report saying that EU is ready to escalate brexit clash if the UK quits over Northern Ireland pact but subsequently it was noted that European Commissioner Sefcovic struck a conciliatory tone. While the UK demanded a rewrite of the Northern Ireland protocol, Sefcovic opened the doors to talks by offering wide-ranging concessions including a proposal to cut the number of customs checks on goods arriving in Northern Ireland by half. We keep a look out on new developments.

Next week brings CBI selling prices, Rightmove House prices (Oct) on Mon; CPI, PPI, RPI (Sep) on Wed; Public finances (Sep) on Thu; Retail sales (Sep); Prelim PMIs (Oct) on Fri.

USD/JPY ***Bullish Trend Remains Your Friend.*** USDJPY continued to trade higher on widening UST-JGB yield differentials (+47bps vs. 39bps at start of month). Pair was last seen at 114.30 levels. Bullish momentum on daily chart intact while RSI is near overbought conditions. Risks remain skewed to the upside for now. Immediate resistance at 114.50 levels (76.4% fibo retracement of 2017 high to 2020 low) before 118.60 (2017 high). Support at 112.60, 111.50 (21 DMA). Buy dips unless rise in energy prices and UST yields reversed.

Next week brings Trade (Sep) on Wed; Machine tool orders (Sep) on Thu; CPI (Sep); Prelim PMIs (Oct) on Fri.

AUD/USD ***Bullish Trend Intact; But Pullback Not Ruled Out.*** AUD extended its march higher this week amid rise in energy, oil prices. Pair was last seen at 0.7420 levels. Daily momentum is bullish while RSI is rising towards overbought conditions. Bias to the upside but mindful of RSI at overbought conditions. Pullback lower not ruled out. Support at 0.74 (100 DMA), 0.7360 (61.8% fibo retracement of Sep high to low) and 0.7310/20 levels (50% fibo, 50 DMA). Buy dips favoured. Resistance at 0.7440, 0.7480/0.74 (Sep high) and 0.7570 (200 DMA).

Next week brings RBA Minutes on Tue; Westpac leading index (Sep) on Wed; NAB Business confidence (3Q) on Thu; Prelim PMIs (Oct) on Fri.

NZD/USD ***3Q CPI in Focus.*** RBNZ expects headline CPI to peak at around 4% in Sep 2021. Nonetheless CPI is still expected to stay above 2% mid-point for most of the forecast horizon due to sustained capacity price pressures. 2Q CPI unexpectedly rose sharply to 3.3% y/y, up from 1.5% for 1Q. That was the first time in 10 years that headline CPI breached RBNZ's 1% - 3% target band. Apart from low base effects, supply disruptions, the sharp increase in inflation was due to higher prices for new housing, food and petrol. Elsewhere the recent increase in minimum wage to $20/hour is likely to have fed into higher prices. Ongoing disruption in the auto sector amid chip shortages not only affect US but NZ as well, with both used and new car prices rising. For 3Q, consensus is looking for 4.2% y/y. A much higher number should further build in rate hike pressure. Already we are looking for RBNZ to tighten at their next MPC in Nov.

NZD rose this week, latching on the move higher in commodity-linked FX (amid rising energy prices) and the swing in Sep mfg PMI to expansionary territories (51.4 vs. 39.7 prior). Pair was last at 0.7050 levels. Daily momentum is bullish while RSI is rising. Risk to the upside. Resistance here at 0.7055 (61.8% fibo), 0.71 (76.4% fibo, 200 DMA). Support at 0.70/0.7015 levels (50DMA, 50% fibo), 0.6980 levels (21DMA, 38.2% fibo) and 0.6930 levels (23.6% fibo retracement of Sep high to low).

Next week brings Services PMI (Sep); CPI (3Q) on Mon; Credit card spending (Sep) on Thu.

Technical View: MYR Crosses

MYR Crosses	Direction	Support/Resistance	Stories of the Week
SGD/MYR	→	S: 3.0570; R:3.0960	**Sell Rallies.** SGDMYR traded a week of 2-halves, falling in early half to a low of 3.0676 before retracing losses. Last seen at 3.0840 levels. Bearish momentum on daily chart faded while RSI is rising. Potential bullish divergence forming on daily MACD. Risks now skewed to the upside. Resistance at 3.0840/50 (50% fibo retracement of Mar low to 2021 double-top, 21, 200 DMAs), 3.0960/80 (38.2% fibo, 50, 100 DMAs). But bias to sell rallies. Double bearish cross overs observed: 21DMA cutting 200DMA and 50DMA cutting 100DMA to the downside. Support at 3.0680/3.0720 (61.8% fibo), 3.0570 (76.4% fibo).
AUD/MYR	→	S: 3.0300; R: 3.1000	**Rebound Underway.** AUDMYR extended its move higher, breaking out of its bearish trend channel formed since Jun. Cross was last seen at 3.0780 levels. Daily momentum is bullish while RSI is rising. Risks remained skewed to the upside. Resistance at 3.0990 (100 DMA), 3.1060 (38.2% fibo retracement of Nov low to 2021 double top). Support at 3.0630/80 (50% fibo, 50DMA), 3.0430 (21 DMA) and 3.03 (61.8% fibo).
EUR/MYR	→	S: 4.7800; R: 4.8700	**Potential Bullish Divergence.** EURMYR fell this week amid divergence performance but there was some signs of bounce towards end-week. Cross was last seen at 4.8230 levels. Bearish momentum on daily chart intact but shows signs of fading while RSI shows signs of turning higher from oversold conditions. Potential bullish divergence may also be forming on RSI, MACD. Still caution for potential snapback risk (given RSI at oversold conditions). Resistance at 4.8450, 4.8670 (21 DMA), 4.90. Support at 4.82, 4.80 and 4.7770.
GBP/MYR	→	S: 5.6200; R: 5.7100	**Rebound Risks Intact.** GBPMYR extended its rebound this week, in line with our call in the last FX Weekly for *further rebound not ruled out*. Cross was last seen at 5.6950 levels. Bearish momentum on daily chart faded while RSI is rising. Rebound risks intact. Resistance at 5.70/71 (21, 200 DMAs, 23.6% fibo), 5.7580 (50 DMA). Support at 5.65, 5.62 (recent low).
JPY/MYR	→	S: 3.7150; R: 3.8000	**Temporary Pause in Decline.** JPYMYR fell further this week. Cross was last seen at 3.6660 levels. Mild bearish momentum on daily chart intact but there are signs of it fading while RSI is showing signs of turning from near oversold conditions. Some risk of rebound ahead. Resistance at 3.72, 3.75 levels. Support at 3.67, 3.65 levels.

Technical Chart Picks:

USDSGD Daily Chart – Looking for Extended Pullback

USDSGD fell this week, in line with our call in the last FX Weekly. Move lower came amid MAS' surprise decision to tighten policy. Pair was last seen at 1.3480 levels.

Daily momentum turned bearish while RSI fell to near oversold conditions. Risks to the downside as we look for extension of pullback.

Next support at 1.3440 (50% fibo retracement of Jun low to Jul high), 1.3410 (200 DMA) before 1.3380 (61.8% fibo).

Resistance at 1.35 (38.2% fibo), 1.3570 (23.6% fibo) and 1.3620 (falling trend-line resistance).

USDMYR Daily Chart – Moderation in Pace of Decline

USDMYR fell this week amid higher oil price. Last seen at 4.1590 levels.

Bearish momentum on daily chart intact while RSI is showing signs of turning higher from near oversold conditions. Pace of decline likely to slow from here as we continue to expect consolidative trades.

Support at 4.15, 4.12 levels.

Resistance at 4.1770 levels (21, 50 DMAs), 4.1860 (23.6% fibo retracement of 2021 low to high), 4.1910 (50DMA).

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

AUDSGD Daily Chart: Buy Dips in 0.99 – 1.01 Range

AUDSGD extended its rebound this week amid AUD outperformance. Cross was last seen at 1.0007 levels.

Daily momentum is bullish while RSI is rising. Room for gains with next resistance at 1.0040 levels (50% fibo retracement of Oct-2020 low to 2021 high) before 1.01.

Support at parity, 0.9920 (61.8% fibo) and 0.9890 (21, 50 DMAs).

We observed a potential rising wedge pattern which can serves as signs of bearish reversal but at the same time, bullish crossover could be forming with 21DMA cutting 50DMA to the upside. Temporary pullback in AUDSGD is not ruled out as bias to buy dips in 0.99 – 1.01 range.

SGDMYR Daily Chart: Rebound Underway; Sell Rallies Preferred

SGDMYR traded a week of 2-halves, falling in early half to a low of 3.0676 before retracing losses. Last seen at 3.0840 levels.

Bearish momentum on daily chart faded while RSI is rising. Potential bullish divergence forming on daily MACD. Risks now skewed to the upside. Resistance at 3.0840/50 (50% fibo retracement of Mar low to 2021 double-top, 21, 200 DMAs), 3.0960/80 (38.2% fibo, 50, 100 DMAs).

But bias to sell rallies. Double bearish cross overs observed: 21DMA cutting 200DMA and 50DMA cutting 100DMA to the downside.

Support at 3.0680/3.0720 (61.8% fibo), 3.0570 (76.4% fibo).

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