

# FX Weekly

## Upcoming FoMC a Non Event?

### The Week Ahead

- **Dollar Index - Fade.** Support at 89.2; Resistance at 91.6
- **USD/SGD - Sell Rallies.** Support at 1.3160; Resistance at 1.3350
- **USD/MYR - Short.** Support at 4.0800; Resistance at 4.1200
- **AUD/SGD - Consolidate.** Support at 1.0040; Resistance at 1.0300.
- **SGD/MYR - Fade Upticks.** Support at 3.09; Resistance at 3.12

### Buy Risk on Dips; Short JPY; USD Short Squeeze (if any) a Sell

A much higher than expected 5% headline CPI only managed to see a brief spike in DXY as the dollar looks on track to close weaker for the week. Price action not only suggests that the high print was already positioned for but also markets buying Fed's story that the current period of high inflationary pressures is transitory and that the Fed is likely to stay behind the curve for now. Bear in mind that the Fed is operating under an Average Inflation Targeting (AIT) regime and that they will be tolerant of inflation overshoots. Increasingly, we think the upcoming FoMC (17<sup>th</sup> Jun) could potentially turn out to be a non-event if markets are mostly convinced of Fed keeping policy stance status quo. A pro-risk, goldilocks-like environment could return benefiting pro-cyclical and carry proxy FX. The risk to this view is a hyped up Fed discussion on tapering. For the week, there is still plenty of US data ahead of FoMC that may cause some volatility - IP, PPI, retail sales (Tue); housing data (Wed). On USDMYR, we continue to look for downside play towards 4.0970 first objective. For USDSGD, bigger support lies at 1.3160. Bias to fade upticks.

### BI, CBC and BoJ Next Week - To Maintain Policy Status Quo

On BI, while higher interest rates could help with the nascent recovery in bond flows, there is a lack of urgency for any hikes given that inflation remains tame, and recent upticks in the covid contagion trajectory could still weigh on domestic growth. Meanwhile, any rate cut is also unlikely to avoid IDR volatility linked to US taper concerns. For BoJ, lack of upward price pressures indicate that monetary policy settings will likely remain accommodative for long. Earlier, BoJ also commented that it is too early to discuss the specifics of exiting from its stimulus program, and that it largely expects long-term yields to move within its newly clarified range (+/-0.25ppts either side for 10Y yield target), and will not change JGB purchase amounts unless breaches of the range are observed. For Taiwan, we expect CBC to keep rate on hold at 1.125% even with CPI running above 2% (as policymakers dismissed it as transitory). Furthermore tighter covid-related restrictions in TW may dampen activity momentum and there is no urgency for CBC to tighten ahead of the curve or the Fed.

### US, China Activity Data; NZ GDP; SG NODX Next Week

Key data we watch next week include EU IP, NZ services PMI on Mon. For Tue, US retail sales, IP, empire mfg; RBA minutes; UK labor market report. For Wed, UK CPI; China activity data; US housing data. For Thu, Sg NODX; NZ GDP; EU CPI. For Fri, UK retail sales. Next Mon sees market closures in China, HK, TW due to dragon boat festival.

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*Our in-house model implies that S\$NEER is trading at +1.00% to the implied midpoint of 1.3361, suggesting that it is slightly firmer vs. other trading partner currencies.*

### Bloomberg FX Ranking












#### 4Q 2020

No. 2 for EUR, SGD  
No. 3 for JPY  
No. 5 for MYR, PHP, AUD, KRW  
No. 6 for NZD  
No. 8 for GBP

No. 2 for Asia FX

#### 1Q 2021

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

| Currency     | Direction   | Support/Resistance   | Key Data and Events  |
|--------------|---|----------------------|--|
| Dollar Index |    | S: 89.20; R: 91.60   | <b>Mon:</b> - Nil -<br><b>Tue:</b> Retail sales, PPI, IP (May); Empire manufacturing (Jun)<br><b>Wed:</b> Building permits, Housing starts, Import & export price index (May)<br><b>Thu:</b> FoMC; Philly Fed business outlook (Jun); Initial jobless claims;<br><b>Fri:</b> - Nil - |
| EURUSD       |    | S: 1.2000; R: 1.2270 | <b>Mon:</b> Industrial Production (Apr);<br><b>Tue:</b> Trade (Apr);<br><b>Wed:</b> Labor cost (1Q);<br><b>Thu:</b> CPI (May); construction output (Apr);<br><b>Fri:</b> Current account (Apr); German PPI (May)   |
| AUDUSD       |    | S: 0.7680; R: 0.7820 | <b>Mon:</b> - Nil -<br><b>Tue:</b> RBA Minutes; House price index (1Q);<br><b>Wed:</b> Westpac Leading index (May);<br><b>Thu:</b> Labor market report (May); RBA Governor Lowe to speak;<br><b>Fri:</b> - Nil -   |
| NZDUSD       |    | S: 0.7120; R: 0.7310 | <b>Mon:</b> Services PMI (May);<br><b>Tue:</b> Food prices (May);<br><b>Wed:</b> Current account (1Q);<br><b>Thu:</b> GDP (1Q)<br><b>Fri:</b> - Nil -  |
| GBPUSD       |    | S: 1.4030; R: 1.4250 | <b>Mon:</b> - Nil -<br><b>Tue:</b> Labor market report (Apr);<br><b>Wed:</b> CPI, PPI, RPI (May);<br><b>Thu:</b> - Nil -<br><b>Fri:</b> Retail sales (May)   |
| USDJPY       |  | S: 108.80; R: 110.20 | <b>Mon:</b> IP (Apr);<br><b>Tue:</b> Tertiary index (Apr);<br><b>Wed:</b> Trade (May); core machine orders (Apr);<br><b>Thu:</b> - Nil -<br><b>Fri:</b> CPI (May); BOJ MPC   |
| USDCNH       |  | S: 6.3500; R: 6.4200 | <b>Mon:</b> - Nil -<br><b>Tue:</b> - Nil -<br><b>Wed:</b> IP, Retail Sales, FAI, New home prices (May);<br><b>Thu:</b> - Nil -<br><b>Fri:</b> - Nil -  |
| USDSGD       |  | S: 1.3160; R: 1.3350 | <b>Mon:</b> - Nil -<br><b>Tue:</b> - Nil -<br><b>Wed:</b> - Nil -<br><b>Thu:</b> NODX (May)<br><b>Fri:</b> - Nil -   |
| USDMYR       |  | S: 4.0800; R: 4.1200 | <b>Mon:</b> - Nil -<br><b>Tue:</b> - Nil -<br><b>Wed:</b> - Nil -<br><b>Thu:</b> - Nil -<br><b>Fri:</b> - Nil -  |
| USDPHP       |  | S: 47.40; R: 47.90   | <b>Mon:</b> - Nil -<br><b>Tue:</b> - Nil -<br><b>Wed:</b> - Nil -<br><b>Thu:</b> - Nil -<br><b>Fri:</b> - Nil -  |
| USDIDR       |  | S: 14,000; R: 14,400 | <b>Mon:</b> - Nil -<br><b>Tue:</b> Trade (May);<br><b>Wed:</b> - Nil -<br><b>Thu:</b> BI MPC<br><b>Fri:</b> - Nil -  |

Sources: Bloomberg, Maybank FX Research &amp; Strategy

## Selected G7 FX Views

| Currency         | Stories of the Week  |
|------------------|--|
| <b>DXY Index</b> | <p><b><i>FoMC in Focus but Probably May Not Matter as Much.</i></b> A much higher than expected 5% headline CPI only managed to see a brief spike in DXY as the dollar looks on track to close weaker for the week. Price action not only suggests that the high print was already positioned for but also markets buying Fed's story that the current period of high inflationary pressures is transitory and that the Fed is likely to stay behind the curve for now. Bear in mind that the Fed is operating under an Average Inflation Targeting (AIT) regime and that they will be tolerant of inflation overshoots. Increasingly, we think the upcoming FoMC (17<sup>th</sup> Jun) could potentially even turn out to be a non-event if markets are mostly convinced of Fed keeping policy stance status quo. A pro-risk, goldilocks-liked environment could return benefiting pro-cyclical and carry proxy FX. The risk to this view is a hyped up Fed discussion on tapering.</p> <p>Nonetheless there is still plenty of US data ahead of FoMC that may cause some volatility - PPI, retail sales (Tue); housing data (Wed). The upcoming FoMC (17 Jun) would provide greater clarity on Fed's thinking and forward guidance. <b>We do not rule out some Fed discussion on the intent of tapering but expect no commitment to a specific timeline. Likely it will be prep talks from the Fed and sometime at the Jackson Hole Symposium (end-Aug) or Sep FoMC to announce a taper timeline for the future.</b> For now, market expectations (not all though) are for Fed to begin tapering in baby steps around the turn of the year and if the Fed does hint towards a similar timeline (no rush), then market anxiety should ease, fears for taper tantrum could fade and USD weakness should resume. On net, our base case remains for another reaffirmation of Fed's dovish bias.</p> <p>DXY was last seen at 90.1. Mild bullish momentum on daily chart is fading while RSI shows tentative signs of turning lower. We expect USD softness to resume in "drips and drabs". Support at 89.60, 89.20 and 88.25 levels (2021 lows). Resistance at 90.80 (50DMA, 61.8% fibo retracement of 2021 low to high), 91 (100 DMA) and 91.6 (200 DMA).</p> <p><i>Next week brings Retail sales, PPI, IP (May); Empire manufacturing (Jun) on Tue; Building permits, Housing starts, Import &amp; export price index (May) on Wed; FoMC; Philly Fed business outlook (Jun); Initial jobless claims on Thu.</i></p> |
| <b>EUR/USD</b>   | <p><b><i>Buy Dips Preferred.</i></b> EUR was a touch firmer this week even as ECB renewed its pledge on faster pace of bond purchases in coming quarter. While ECB kept key policy parameters, including pace of PEPP unchanged, ECB expressed optimism on growth in 2H 2021 and revised both inflation and growth forecasts higher. Specifically, growth was revised higher to 4.6% for 2021 (vs. 4% earlier projection) and increased to 4.7% for 2020 (vs. 4.1% previous projection). For inflation, ECB raised forecast to 1.9% for 2021 (up from 1.2% earlier projection). . In the press conference, Lagarde <i>said uncertainties remain as near term economic output depends on the course of the pandemic and how the economy responds after reopening.</i> In introductory ECB statement, it noted <i>that market interest rates have increased further... while partly reflecting improved economic prospects, a sustained rise in market rates could translate into a tightening of wider financing conditions that are relevant for the entire economy. Such a tightening would be premature and would pose a risk to the ongoing economic recovery and the outlook for inflation.</i></p> <p>Taken together, while ECB's stance was interpreted as dovish and the ECB wants to avoid any unnecessary tightening in financial conditions for the time being, its economic assessment was upbeat. And is aligned with our constructive outlook for EUR - rapid vaccination pace, flattening of epidemic curves, expectations of EU growth playing catch-up as economy reopens, etc. Air traffic and airfares are rising and the EURO 2020 tournament starts coming weekend. Europe also saw the largest decline in new infection and deaths (during the last week of May) and about 44% of EU adults have now received at least 1 dose of vaccine. That said we retain some caution that opening its economies too quickly and freely with little quarantine controls could risk variant spread. This may derail economy reopening plans and undermine sentiment</p>   |

Pair was last at 1.2180 levels. Bearish momentum on daily chart intact though there may be signs of it fading while RSI is showing early signs of rising. Resistance at 1.2220, 1.2270 levels. Support at 1.2130 (23.6% fibo retracement of Mar low to May high), 1.2090 (50 DMA), 1.2050 levels (38.2% fibo, 100DMA) and 1.20 (200 DMA). Buy dips preferred.

*Next week brings Industrial Production (Apr) on Mon; Trade (Apr) on Tue; Labor cost (1Q) on Wed; CPI (May); construction output (Apr) on Thu; Current account (Apr); German PPI (May) on Fri.*

**GBP/USD** **Delta Variant Undermine GBP Bulls.** We remain cautious of GBP outlook in the interim on spread of delta variant and brexit tail risks. EU warned about imposing trade tariff on UK if it fails to implement in full the part of the brexit agreement relating to Northern Ireland. The centre of the lingering issue was to prevent a border on the island of Ireland while protecting trade within UK post-brexit. And in this instance it is a ban on the export of sausages and other chilled meats from Great Britain (England, Scotland and Wales) to Northern Ireland. Great Britain does not want to follow EU rules but Northern Ireland does as it shares a border with the Republic of Ireland (EU territory). And the issue is EU food safety rules do not allow chilled meat products to enter its markets from non-EU members. The 2 sides will continue to iron out differences but likely, a timing grace period could be one quick, temporary patch (to kick the can down the road).

On variant spread, the delta variant is now the dominant variant in the UK, overtaking the Alpha variant. Number of cases confirmed rose nearly 80% over the last week (100% since early May) with northwest England (towns of Blackburn, Bolton) and schools still the most affected though there are tentative signs of the transmission in Bolton starting to fall but other parts of England reporting clusters. A delay of full reopening (scheduled for 21 Jun) is not impossible and a delay with no future date penned could further weigh on GBP. We watch for decision on 14 Jun. Local press reported unknown sources looking for a one month delay in reopening.

GBP was last seen at 1.4165 levels. Bearish momentum on daily chart remains intact though RSI is flat. Consolidative price pattern likely to persist. Support at 1.4110 (23.6% fibo retracement of Apr low to May double-top), 1.4030 (38.2% fibo). Resistance at 1.4210, 1.4250 (double top).

*Next week brings Labor market report (Apr) on Tue; CPI, PPI, RPI (May) on Wed; Retail sales (May) on Fri.*

**USD/JPY** **Dragged by UST Yields.** USDJPY traded range-bound this week this week. Last seen at 109.50 levels. Daily momentum and RSI indicators are not showing a clear bias for now. Consolidative trade could continue for the pair. Support at 109.10/20 levels (50 DMA, 50% fibo retracement of Mar high to Apr low) before 108.80 (38.2% fibo). Resistance at 109.65 (61.8% fibo), 110.15 (76.4% fibo). Persistent drags in UST yields could pull USDJPY lower though JPY should remain a sell in itself on dovish BoJ. It is probably the only central bank that has little to no policy room to manoeuvre as inflation remains benign. Other DM central banks can in fact be more hawkish, less dovish given economic improvements, higher inflation but have the luxury to choose not to react. As such, we reckon that JPY remains a sell against all DM FX.

*Next week brings IP (Apr) on Mon; Tertiary index (Apr) on Tue; Trade (May); core machine orders (Apr) on Wed; CPI (May); BOJ MPC on Fri.*






**AUD/USD** **Break-Out Trade Imminent.** AUD still stuck in the 0.7730- 0.7770 doldrums. FOMC is still the event to watch for Jun and this range could hold till then with Lowe's speech in Toowoomba likely to provide a mild diversion. Labour report comes thereafter, a data that would be keenly watched given the recent surge in job advertisements that could suggest that jobless rate could be closer towards the pre-pandemic levels. (cons. At 5.5%). AUD was last at 0.7760 levels. Daily momentum turned bullish while RSI is rising. Compression of moving averages (21, 50 and 100 DMAs) observed. This typically precedes a price expansion (break-out) but directional bias unknown at this point. Look for 0.7720 - 0.7820 within wider range of 0.7680 - 0.79.

*Next week brings RBA Minutes; House price index (1Q) on Tue; Westpac Leading index (May) on Wed; Labor market report (May); RBA Governor Lowe to speak on Thu.*

**NZD/USD** **Range.** NZD consolidated in subdued range this week. Last seen at 0.72 levels. Bearish momentum on daily chart intact while RSI is flat. Range-bound trade likely. Immediate support at 0.7180 (50, 100 DMAs), 0.7120. Resistance at 0.7220 (21 DMA), 0.7310. Look to trade the above levels.

*Next week brings Services PMI (May) on Mon; Food prices (May) on Tue; Current account (1Q) on Wed; GDP (1Q) on Thu.*

## Technical View: MYR Crosses

| MYR Crosses | Direction   | Support/Resistance   | Stories of the Week   |
|-------------|---|----------------------|---|
| SGD/MYR     |    | S: 3.0950; R: 3.1350 | <b>Bounce Not Ruled Out; Lean against Strength.</b> SGD/MYR consolidated this week; last seen at 3.1120 levels. Bearish momentum on daily chart intact but RSI shows tentative signs of turn around higher. Room for bounce not ruled out. Resistance at 3.12, 3.1350 (May high). Support at 3.11 (23.6% fibo retracement of 2021 low to high, 21 DMA). 3.10 (50 DMA), 3.0950 (38.2% fibo) and 3.0820 levels (50% fibo).  |
| AUD/MYR     |    | S: 3.1800; R: 3.2300 | <b>100 DMA Should Hold.</b> AUD/MYR traded subdued range this week; last seen at 3.1880 levels. Daily momentum is bearish bias while RSI is falling. Risks to the downside. Immediate Support here at 3.1860 (50 DMA). Break below this puts next support at 3.1690 (100 DMA), 3.1060 levels (38.2% fibo retracement of Oct low to Feb high). Failing a break, the cross could revert to trade the familiar range of 3.18 - 3.23. Resistance at 3.1980 (21 DMA), 3.23 levels (triple top) levels. |
| EUR/MYR     |    | S: 4.9765; R: 5.0800 | <b>Bearish Divergence Underway.</b> EUR/MYR drifted lower this week, in line with our caution for bearish divergence. Cross was last seen at 5.0120 levels. Bearish momentum on daily chart intact while RSI is falling. Bearish divergence as previously flagged on daily MACD is underway. Pullback risks remain. Immediate support at 4.99 (38.2% fibo) and 4.9765 levels (50 DMA). Resistance at 5.03 (21 DMA), 5.0820 (2021 high), 5.10 levels.  |
| GBP/MYR     |  | S: 5.7700; R: 5.8800 | <b>Bears in Play.</b> GBP/MYR continued to trade lower this week, in line with our caution for retracement play. Cross was last seen at 5.8030 levels. Bearish momentum on daily chart intact while RSI is falling. Further pullback not ruled out given the break below 21 DMA (now at 5.8430 levels). Next support at 5.77 (50 DMA). Resistance at 5.8430 (21 DMA), 5.88 levels.  |
| JPY/MYR     |  | S: 3.7390; R: 3.8000 | <b>Range with Some Risk to the Upside.</b> JPY/MYR firmed this week. Cross was last seen at 3.7635 levels. Bearish momentum on daily chart shows signs of fading while RSI is seen rising. Some risk to the upside. Resistance at 3.7790 levels (21, 50 DMAs), 3.79800 (100 DMA). Support at 3.7390 levels (2021 lows, Apr double-bottom), 3.7250 levels.   |



## Technical Chart Picks:

USDSGD Daily Chart - Downside Bias; Sell Rallies



USDSGD traded a touch lower this after a brief spike. Pair was last at 1.3220 levels.

Daily momentum turns flat while RSI show signs of falling. Near term risks skewed to the downside but FoMC next Thu could keep losses at bay in the interim.

Support here at 1.3220, 1.3160 (double-bottom).

Resistance here at 1.3265 (21-DMA), 1.33/30 (50, 100 DMAs, 61.8% fibo retracement of 2021 low to high), 1.3350 (50% fibo), 1.34 (200-DMA). Sell rallies preferred.

USDMYR Daily Chart - Sell Rallies



USDMYR fell this week, in line with our call for move lower. Pair was last seen at 4.1135 levels.

Daily momentum turned mild bearish while RSI is falling towards near oversold conditions. Risks still skewed to the downside but watch FOMC next week - not ruling out a temporary short squeeze. But bias to fade.

Immediate support at 4.1060/90 (200 DMA, lower bound of bullish trend channel) and 4.0970 (38.2% fibo retracement of 2021 low to high, 100DMA) and 4.0770 (50% fibo).

Resistance at 4.1260/80 (21, 50 DMAs), 4.1460 levels.

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

AUDSGD Daily Chart: Rounding Top Pattern Playing Out



AUDSGD consolidated this week, after touching a low of 1.0160 last week. Last seen at 1.0250.

We earlier shared a rounding-top pattern (bearish) and noted a compression of moving averages (signs of a break out trade). Cross was last seen at 1.0170 levels.

Bearish momentum on daily chart is fading while RSI is flat. Moving averages compression observed, with 21, 50 and 100 DMAs around 1.0290-figure (likely an interim resistance for now) while rounding top pattern observed. Any bounce above 1.03/1.0370 (23.6% fibo retracement of Oct low to Feb high, 21, 50, 100 DMAs) could temporarily nullify any bearish bias. And extension of the move towards 1.04 is not ruled out.

But failure to break higher could see the cross revert to trading recent range of 1.0160 (38.2% fibo) - 1.03.

SGDMYR Daily Chart: Bounce Not Ruled Out; Lean against Strength



SGDMYR consolidated this week; last seen at 3.1120 levels.

Bearish momentum on daily chart intact but RSI shows tentative signs of turn around higher. Room for bounce not ruled out. Resistance at 3.12, 3.1350 (May high).

Support at 3.11 (23.6% fibo retracement of 2021 low to high, 21 DMA). 3.10 (50 DMA), 3.0950 (38.2% fibo) and 3.0820 levels (50% fibo).

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