

FX Weekly

An Imminent ECB Shift?

The Week Ahead

- **Dollar Index - Fade.** Support at 91; Resistance at 93.5
- **USD/SGD - Retrace.** Support at 1.3430; Resistance at 1.3590
- **USD/MYR - Overbought.** Support at 4.1700; Resistance at 4.2220
- **AUD/SGD - Range.** Support at 1.0040; Resistance at 1.0140.
- **SGD/MYR - Consolidate.** Support at 3.08; Resistance at 3.11

Covid Caution But Not Likely to Trigger Massive Risk Off

Caution remains warranted as there are signs of pick-up in infection globally. US daily new cases rose to +36k (above its 7-day average of +27k), UK, Indonesia rose to another fresh high of 48k, 56k, respectively while cases in Korea (~1,600 cases), Thailand (>9,300 cases) shows no signs of abating. Worries of another 3rd or 4th wave in some of these countries may trigger tighter restrictions pre-emptively. Already, some cities in the region including Sydney, Greater Seoul, Bangkok and over 10 cities in Indonesia have entered into lockdowns. Growth momentum, business confidence and investor sentiment can be undermined if lockdowns, restrictions are further prolonged. Risk aversion could see USD/AXJs particularly bid for now. But we also note from Fed Chair Powell's testimony this week that there was no hint that Fed will normalise policies pre-emptively as officials continue to interpret rising prices as transitory. With prices (CPI, PPI) rising and Fed still dovish and not likely to shift rates soon, real rates could stay further depressed and this makes the case for gold prices to stay supported, USD gains to be capped (or likely to reverse) while AXJs could take a breather. For USDSGD, bias is bullish but RSI shows signs of overbought. Nonetheless we caution for further upside if 1.3550 resistance goes. For USDMYR, the risk is still skewed to the upside but the pace of up-move could moderate (RSI overbought). Next resistance at 4.22 levels.

Potential ECB Shifts but Not Necessarily More Dovish

Upcoming ECB Governing Council meeting on 22 Jul is of interest. Lagarde had indicated that the meeting was previously expected to be relatively uneventful - will now have "some interesting variations and changes" as new guidance on monetary stimulus will be revealed. She emphasized that PEPP will run at least until Mar 2022, and this could then be followed by a "transition into a new format". Some analysts are expecting a more dovish stance but we think otherwise. We opined that Lagarde may attempt to manage market expectations that the end of PEPP (Mar-2022) does not necessitate policy tightening as policymakers seek to avert any unnecessary tightening of financial conditions. Hence the "transition into a new format" could be an open-ended type of QE in which ECB retains the flexibility and optionality to deploy when needed to support Euro-area economy and financial conditions. To some extent, we may be slightly tilted towards ECB phasing in a gentler path of exit from stimulus, with conditions but not in a big bang. Bias remains to buy EUR on dips.

SG, MY CPIs; BI MPC; China LPRs and Global PMIs Next Week

Data we watch next week includes NZ services PMI on Mon. For Tue, US housing data; RBA minutes; China 1y, 5y LPRs. For Wed, AU retail sales. For Thu, BI MPC (status quo). For Fri, global prelim PMIs; SG, MY CPIs; UK retail sales. Most ASEAN markets are closed on Tue for Eid al-Adha holidays.

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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

Currency	Direction	Support/Resistance	Key Data and Events
Dollar Index		S: 91.00; R: 93.50	Mon: NAHB Housing Market Index (Jul); Tue: Building permits, Housing Starts (Jun); Wed: - Nil - Thu: CFNAI, Existing home sales (Jun); Kansas City Fed mfg activity (Jul); Fri: Prelim PMIs (Jul P)
EURUSD		S: 1.1705; R: 1.2000	Mon: Construction output (May); Tue: Current account (Jun); Germany PPI (Jun); Wed: - Nil - Thu: ECB Governing Council; Consumer confidence (Jul); Fri: Prelim PMIs (Jul)
AUDUSD		S: 0.7380; R: 0.7590	Mon: - Nil - Tue: RBA Minutes; Wed: Retail sales (Jun); Westpac Leading index (Jun); Thu: NAB Business confidence (2Q) Fri: Prelim PMIs (Jul)
NZDUSD		S: 0.6940; R: 0.7110	Mon: Services PMI (Jun); Tue: - Nil - Wed: Credit card spending (Jun) Thu: - Nil - Fri: - Nil -
GBPUSD		S: 1.3700; R: 1.4010	Mon: Rightmove House Prices (Jul); Tue: - Nil - Wed: Public Finances (Jun); Thu: CBI Trends Selling Prices (Jul); Fri: Retail sales (Jun); Prelim PMIs (Jul)
USDJPY		S: 109.40; R: 110.60	Mon: - Nil - Tue: CPI (Jun); Wed: Trade (Jun); Thu: - Nil - Fri: - Nil -
USDCNH		S: 6.4400; R: 6.5000	Mon: - Nil - Tue: 1y, 5y Loan Prime Rate Wed: - Nil - Thu: - Nil - Fri: - Nil -
USDSGD		S: 1.3430; R: 1.3590	Mon: - Nil - Tue: - Nil - Wed: - Nil - Thu: - Nil - Fri: CPI (Jun); URA Private Home property prices (2Q)
USDMYR		S: 4.1700; R: 4.2200	Mon: - Nil - Tue: - Nil - Wed: - Nil - Thu: - Nil - Fri: CPI (Jun); FX Reserves (Jul)
USDPHP		S: 49.30; R: 50.40	Mon: - Nil - Tue: - Nil - Wed: - Nil - Thu: - Nil - Fri: Budget Balance (Jun)
USDIDR		S: 14,400; R: 14,600	Mon: - Nil - Tue: - Nil - Wed: - Nil - Thu: BI MPC; Fri: - Nil -

Sources: Bloomberg, Maybank FX Research & Strategy

Selected G7 FX Views

Currency	Stories of the Week
DXY Index	<p>2-Way Trade. USD was broadly firmer this week amid lingering cautious mood owing to pick-up in covid infection globally. US daily new cases rose to +36k (above its 7-day average of +27k), UK, Indonesia rose to another fresh high of 48k, 56k, respectively while cases in Korea (~1,600 cases), Thailand (>9,300 cases) shows no signs of abating. Worries of another 3rd or 4th wave in some of these countries may trigger tighter restrictions pre-emptively. Already, some cities in the region including Sydney, Greater Seoul, Bangkok and over 10 cities in Indonesia have entered into lockdowns. Growth momentum, business confidence and investor sentiment can be undermined if lockdowns, restrictions are further prolonged. Risk aversion could see USD/AXJs bid.</p> <p>Key highlight this week was the growing divergence between UST yield and USD moves, with the latter firmer while yields fell. In particular, headline CPI rose to 13-year high but yet the Fed was unmoved with Powell reiterating dovish bias while UST yields fell across the curve. Decline in yields also likely reflect markets buying the story that inflation is transitory and could fade next year (on high base effects possibly).</p> <p>In his recent testimony to the House, he acknowledged that (1) inflation increased “notably”; (2) data “have been higher than expected and hoped for” and (3) is expected to remain higher in coming months before moderating. He attributed the jump in prices to factors tied to economy reopening from pandemic and these set of factors include temporary data quirks, supply constraints that should “partially reverse” and rise in demand for services that were hit by pandemic. He <u>said longer run inflation remains well anchored</u> and it matters as the outlook shape the future path for prices. He added that Fed would be prepared to react if situation goes out of hand. <u>Up to this point, we opined there is no hint that Fed will normalise policies pre-emptively as Fed officials continue to interpret rising prices as transitory and they will not rush to normalise.</u> Bear in mind Fed is now operating on Average Inflation Targeting (AIT) regime and will also be tolerant of inflation overshoots. On the labor market, Powell noted improvements but “still a long way to go” (from Fed’s dual mandate of maximum employment). With prices (CPI, PPI) rising and Fed still dovish and not likely to shift rates soon, <u>real rates could stay further depressed and this makes the case for gold prices to stay supported, USD gains to be capped (or likely to reverse) while AXJs could take a breather.</u></p> <p>DXY was last seen at 92.623 levels. Daily momentum and RSI are not indicating a clear bias. 2-way trade likely. Support at 92.2 (21 DMA), 91.95 levels (61.8% fibo retracement of mar high to May low), 91.30/50 levels (100, 200DMAs, 50% fibo) and 91 levels (38.2% fibo, 50 DMA). Resistance at 93.2 and 93.5 levels.</p> <p><i>Next week brings NAHB Housing Market Index (Jul) on Mon; Building permits, Housing Starts (Jun) on Tue; CFNAI, Existing home sales (Jun); Kansas City Fed mfg activity (Jul) on Thu; Prelim PMIs (Jul P) on Fri.</i></p>
EUR/USD	<p>ECB GC on Thu the Top Focus. In a Bloomberg interview (12 Jul), Lagarde said that the meeting (on 22nd Jul) was previously expected to be relatively uneventful - will now have “some interesting variations and changes” as new guidance on monetary stimulus will be revealed. She emphasized that PEPP will run at least until Mar 2022, and this could then be followed by a “transition into a new format”. Some analysts are expecting a more dovish stance but we think otherwise. We noted she stressed on a few points including (1) “being very flexible and not start creating the anticipation that the exit is in the next few weeks”; (2) “guardedly optimistic” about recovery because delta variant pose threat to efforts to resume normal life; (3) higher inflation is expected to be temporary; (4) “the acceptance and the tolerance” that a transitory and moderate inflation overshoot may be needed as part of commitment to restore price stability.</p> <p>On net we opined that Lagarde is attempting to manage market expectations that the end of PEPP (Mar-2022) does not necessitate policy tightening as policymakers seek to avert any unnecessary tightening of financial conditions. Hence the “transition into a new format” could be an open-ended type of QE in which ECB retains the flexibility and optionality to deploy when needed to support Euro-area economy and financial conditions. To some extent, we may be slightly tilted towards ECB phasing in a gentler path of exit from stimulus, with conditions but not in a big bang manner.</p> <p>EUR was a touch softer this week amid USD bounce on risk aversion, expectations for a dovish ECB next week and covid spread in Europe, including Spain, Netherlands and France. Pair was last seen at 1.18</p>

levels. Daily momentum and RSI are not indicating a clear bias for now. Potential falling wedge pattern could be in the making. This is typically a bullish reversal. Resistance at 1.1840 (76.4% fibo retracement of Mar low to May high), 1.1870 (21 DMA), 1.1920/30 (61.8% fibo), 1.1990/1.20 levels (100, 200 DMAs, 50% fibo). Support at 1.1780 and 1.1705/15 levels.

Next week brings Construction output (May) on Mon; Current account (Jun); Germany PPI (Jun) on Tue; ECB Governing Council; Consumer confidence (Jul) on Thu; Prelim PMIs (Jul) on Fri.

GBP/USD **BoE Hawks vs Delta Variant.** GBP fell this week amid continued rise in covid infection (daily cases rose to another fresh high of 48k) alongside the rise in hospitalisation cases. The wide spread of delta strain with transmissibility above 2.5 can undermine sentiment even when economy reopens on 19th Jul. As of writing, there was chatters of curbs, restrictions even as the country moves ahead to reopen. Separately in a large scale study, ½ of hospitalised covid patients suffered at least 1 health complications. Near term, covid concerns could undermine GBP though we favour buying dips.

This week there were news of BoE debate to reduce stimulus as early as next month. Specifically, BoE's Saunders said policymakers should consider curtailing its bond purchase program in the next month or two while Deputy Governor Ramsden said he could "envisage those conditions for considering tightening being met somewhat sooner than I had previously thought". While BoE may start to sound a bit hawkish, the covid situation at home could still dampen bulls.

GBP was last seen at 1.3820 levels. Daily momentum is mild bullish while RSI shows signs of rising. Potential falling wedge pattern could be forming. This is typically associated with a bullish reversal. Resistance at 1.3890 levels (61.8% fibo), 1.3940/60 levels (100 DMA, 50% fibo retracement of Apr low to May high) and 1.4010 (50 DMA). Support here at 1.3810 (76.4% fibo), 1.37 (200 DMA).

Next week brings Rightmove House Prices (Jul) on Mon; Public Finances (Jun) on Wed; CBI Trends Selling Prices (Jul) on Thu; Retail sales (Jun); Prelim PMIs (Jul) on Fri.

USD/JPY **Range.** USDJPY was last at 110.10 levels. Daily momentum turned bearish but RSI shows signs of turning higher. 2-way risks. Support at 109.40/60 (100 DMA, 50% fibo retracement of Apr low to Jul high) before 109.10 (61.8% fibo) and 108.50 (76.4% fibo). Resistance at 110.10 (38.2% fibo), 110.50/60 (21DMA, 23.6% fibo). We look to trade for 109.40 - 110.60 range next week.

Next week brings CPI (Jun) on Tue; Trade (Jun) on Wed.

AUD/USD **Falling Wedge (Bullish Reversal).** AUD was last seen at 0.7435 levels. Mild bearish momentum on daily chart faded while RSI shows tentative signs of turning from near oversold conditions. A potential falling wedge pattern appears to be in the making. This is typically associated with bullish reversal. Resistance at 0.75, 0.7590 (200 DMA). Support at 0.7410, 0.7380.






Next week brings RBA Minutes on Tue; Retail sales (Jun); Westpac Leading index (Jun) on Wed; NAB Business confidence (2Q) on Thu; Prelim PMIs (Jul) on Fri.

NZD/USD **Bulls Can Build On Momentum.** NZD rose this week amid RBNZ's surprise hawkish shift (QE to end on 23rd Jul) and better than expected data - 2Q CPI and mfg PMI this week. Headline CPI came in at 3.3% y/y, breaching its 1% - 3% target band and was a 10-year high. The rise reinforced market expectation for RBNZ rate hike as soon as next month (88% priced) vs. earlier market expectations for Nov 2021 hike. Recall that RBNZ was looking for rate to go higher only in 2H 2022. Rate hike expectations, covid pandemic under control in NZ may keep NZD supported in the interim though we also note that external developments could still expose NZD to the downside especially when NZD can be sentiment-driven. To recap, RBNZ expressed concerns that persistent inflation pressure could build due to rising domestic capacity pressures and growing labour shortages. Noting that economic conditions have been persistently stronger than expected, the "least regrets" policy now is to reduce monetary support sooner.

NZD was last seen at 0.7025 levels. Daily momentum is mild bullish while RSI is showing signs of rising. Bias to the upside. Resistance at 0.7050, 0.7080 (200 DMA) and 0.7110 (50 DMA). Support at 0.6965, 0.6940, 0.6890.

Next week brings Services PMI (Jun) on Mon; Credit card spending (Jun) on Wed.

Technical View: MYR Crosses

MYR Crosses	Direction	Support/Resistance	Stories of the Week
SGD/MYR		S: 3.0800; R: 3.1100	Consolidate. SGDMYR drifted higher this week. Cross was last seen at 3.1010 levels. Bullish momentum on daily chart intact but shows tentative signs of fading while RSI is falling. Slight risks to the downside. Support at 3.0950, 3.0890 (100 DMA) and H&S neckline support at 3.0820/35 levels (50% fibo retracement of 2021 low to high). Resistance here at 3.1020 (50 DMA) and 3.11 levels (upper bound of bullish trend channel).
AUD/MYR		S: 3.1000; R: 3.1530	Consolidate with Risks to Upside. AUDMYR was a touch firmer. Cross was last seen at 3.1330 levels. Daily momentum turned bullish while RSI is rising. Risks to the upside. Resistance at 3.1530 and 3.1680 (50, 100 DMAs). Support at 3.1060/3.1120 levels (200 DMA). We look for 3.1060 - 3.1530 range.
EUR/MYR		S: 4.9000; R: 4.9900	Rebound Risk. EURMYR rebounded this week. Last seen at 4.9760 levels. Daily momentum turned bullish while RSI rose. Room for rebound. Resistance at 4.99. Support at 4.95, 4.9350 and 4.90 levels.
GBP/MYR		S: 5.7400; R: 5.8900	Rebound Underway. GBPMYR rebounded this week, in line with our call. Cross was last seen at 5.8350 levels. Bullish momentum on daily chart intact while RSI is rising. Potential bullish divergence on MACD underway. Risks remain to the upside. Resistance at 5.85, 5.89 levels. Support at 5.77, 5.74 levels.
JPY/MYR		S: 3.7700; R: 3.8400	Upside Risks; Bias to Fade. JPYMYR remain better bid this week amid JPY outperformance. Cross was last seen at 3.8250 levels. Daily momentum is bullish bias while RSI is near overbought conditions. Upside risks but bias to fade. Resistance at 3.84 (200 DMA). Support at 3.77 (21, 50, 100 DMAs).

Technical Chart Picks:

USDSGD Weekly Chart - Bullish but Increasingly Looking Overbought



USDSGD remains better bid this week but didn't seem to break out significantly to the upside. Last seen at 1.3550 levels.

Bullish momentum on weekly chart intact while RSI is still on the rise towards near-overbought conditions. We do not rule out some retracement next week but may be shallow. Underlying bullish momentum still seem intact (unless the close today comes in below 1.35). Elsewhere we note another bullish crossover with 50DMA on track to cut 100 and 200 DMAs to upside (not shown here).

Resistance at 1.3590, 1.3640, 1.3730 (38.2% fibo).

Support at 1.3510 (23.6% fibo retracement of 2020 high to 2021 low), 1.3480 (21 DMA) and 1.3430.

USDMYR Weekly Chart - Bullish Trend Channel Firmly Intact



USDMYR continued to trade higher this week. Pair was last seen at 4.2010 levels.

Bullish momentum on weekly chart intact but RSI shows signs of rising into overbought conditions on both weekly and daily charts. Bullish trend channel formed since start of the year remain intact. Risk remains skewed to the upside but the pace of upmove could moderate.

Resistance here at 4.2030, 4.2220 (50% fibo retracement of 2020 high to low).

Support at 4.1685 (38.2% fibo), 4.1680 (21 DMA).

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

AUDSGD Weekly Chart: Consolidation with Risks Still Skewed to Downside



AUDSGD traded range-bound this week. Cross was last seen at 1.0075 levels. Weekly, daily momentum is bearish while RSI is falling. Rounding top (bearish) pattern still intact.

Risks still skewed to the downside. Immediate support at 1.0040 (50% fibo retracement of Oct low to 2021 high). Decisive break puts next support at parity, 0.9920 (61.8% fibo).

Meanwhile Resistance at 1.0115/40 (21, 200 DMAs), 1.0205 (50 DMA).

We look for 1.0040 - 1.0140 range next week, with risk that a break to the downside puts next support at 0.9920.

SGDMYR Daily Chart: Consolidate



SGDMYR drifted higher this week. Cross was last seen at 3.1010 levels.

Bullish momentum on daily chart intact but shows tentative signs of fading while RSI is falling. Slight risks to the downside. Support at 3.0950, 3.0890 (100 DMA) and H&S neckline support at 3.0820/35 levels (50% fibo retracement of 2021 low to high).

Resistance here at 3.1020 (50 DMA) and 3.11 levels (upper bound of bullish trend channel).

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