Jan 7, 2022

Maybank

# FX Weekly

## Balance Sheet Normalisation Fears Gradually Coming into Focus

### The Week Ahead

- **Dollar Index - Fade.** Support at 94.50; Resistance at 96.90
- **USD/SGD - Sideways.** Support at 1.3540; Resistance at 1.3680
- **USD/MYR - Pullback.** Support at 4.1850; Resistance at 4.2160
- **AUD/SGD - Downside.** Support at 0.9590; Resistance at 0.9850
- **SGD/MYR - Sideways.** Support at 3.0850; Resistance at 3.1020

### From Policy Rate Normalisation to Quantitative Tightening

FX markets started the new year on a cautious footing. USD strength was particular pronounced vs. high beta FX including commodity-linked proxy FX (such as AUD, NZD) and AXJss (such as KRW, MYR and IDR). Omicron variant spread affecting medical capacity in US, UK, KR and tighter restrictions in some jurisdictions like HK, Korea was one factor but a major factor undermining risk sentiment was emerging fears of faster pace of Fed tightening as seen from recently published FoMC minutes. Markets are now facing a potential shift towards quantitative tightening (QT) or balance sheet normalisation from an era of QE taper, policy normalisation. Looking on there are a number of US data releases coming up, including payrolls (tonight) and for next week, CPI (Wed), PPI (Thu) and retail sales, industrial production (Fri) - that could influence USD direction and broad market sentiment. For US payrolls tonight (930pm SG/KL time), markets are looking for further improvement in labor market. In particular for NFP to pick up pace to +433k (vs. +210k prior), average hourly earnings to tick up sequentially to 0.4% m/m (vs. 0.3% prior) and for unemployment rate to fall further to 4.1% (vs. 4.2% prior). Stronger data reinforces expectations for Fed to front-load rate hikes and QT. This could further undermine sentiments and put a bid on USD while data in line with estimates or softer than expected can bring some relief. Nevertheless, we opined that with a hawkish Fed more or less priced, there may be somewhat limited room for USD bulls. For USDSGD we look for sideways trade in 1.3540 - 1.3680 with USD a likely driver while for USDMYR, we see some room for pullback towards 4.1850.

### Fed Urgency to Tighten Un-Nerves Sentiments

FoMC minutes revealed that officials are potentially contemplating with a faster pace of policy rate normalisation given the speed of economic recovery as it also stressed on the importance of being flexible. The minutes also showed there was broad support for Fed to begin reducing the size of its balance sheet after the first interest rate increase with some officials saying that such a move could happen "relatively soon". In sum, the FoMC minutes exudes urgency on policy normalisation as inflation is running much higher than what Fed officials have earlier anticipated while labour market conditions are largely consistent with Fed's goals. Markets are now shifting its expectations for first rate hike to come as early as Mar (when bond purchase ends) or at the May FoMC. YTD, 2y UST yield has risen 15bps to 0.87% (nearing 2-year high).

### US, China Inflation; US Activity Data; China Trade Next Week

Key data we watch next week include Malaysia IP; AU building approvals; EU unemployment rate on Mon. For Tue, AU trade, retail sales. For Wed, US CPI; EU IP; China CPI, PPI. For Thu, US PPI; NZ building permits. For Fri, US IP, retail sales, Uni of Michigan sentiment; German GDP; French CPI; UK IP; China trade.

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**Bloomberg FX Ranking**

*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*

*4Q 2021*
*No. 4 for TWD*
*No. 5 for CNY*


SEE PAGE 8 FOR IMPORTANT DISCLOSURES AND ANALYST CERTIFICATIONS

| Currency | Direction | Support/Resistance | Key Data and Events |
|---|---|---|---|
| Dollar Index | | S: 94.50; R: 96.90 | **Mon:** Wholesale trade sales (Nov);<br>**Tue:** NFIB Small business optimism (Dec);<br>**Wed:** CPI, real avg weekly earnings (Dec);<br>**Thu:** PPI (Dec); Fed's Beige book;<br>**Fri:** Retail sales, industrial production, import, export prices (Dec); Uni of Mich sentiment (Jan) |
| EURUSD | | S: 1.1220; R: 1.1400 | **Mon:** Sentix investor confidence (Jan); unemployment rate (Nov);<br>**Tue:** - Nil -<br>**Wed:** Industrial production (Nov);<br>**Thu:** - Nil -<br>**Fri:** Trade (Nov); German GDP (2021); French CPI (Dec) |
| AUDUSD | | S: 0.7000; R: 0.7280 | **Mon:** Building approvals (Nov); FX Reserves (Dec);<br>**Tue:** Trade, retail sales (Nov);<br>Wed: - Nil -<br>**Thu:** - Nil -<br>**Fri:** - Nil - |
| NZDUSD | | S: 0.6700; R: 0.6900 | **Mon:** - Nil -<br>**Tue:** - Nil -<br>Wed: Commodity price (Dec);<br>**Thu:** Building permits (Nov)<br>**Fri:** - Nil - |
| GBPUSD | | S: 1.3420; R: 1.3620 | **Mon:** - Nil -<br>**Tue:** BRC sales (Dec); unit labor costs (3Q);<br>**Wed:** - Nil -<br>**Thu:** RICS House price balance (Dec);<br>**Fri:** Monthly GDP, IP, construction output, Trade (Nov) |
| USDJPY | | S: 114.50; R: 118.00 | **Mon:** - Nil -<br>**Tue:** Leading, coincident index (Nov)<br>**Wed:** Current account (Nov)<br>**Thu:** Machine tool orders (Dec);<br>**Fri:** PPI (Dec) |
| USDCNH | | S: 6.3500; R: 6.4000 | **Mon:** - Nil -<br>**Tue:** - Nil -<br>**Wed:** CPI, PPI (Dec);<br>**Thu:** - Nil -<br>**Fri:** Trade (Dec) |
| USDSGD | | S: 1.3550; R: 1.3750 | **Mon:** - Nil -<br>**Tue:** - Nil -<br>**Wed:** - Nil -<br>**Thu:** - Nil -<br>**Fri:** - Nil - |
| USDMYR | | S: 4.1850; R: 4.2160 | **Mon:** Industrial production (Nov)<br>**Tue:** - Nil -<br>**Wed:** - Nil -<br>**Thu:** - Nil -<br>**Fri:** - Nil - |
| USDPHP | | S: 50.80; R: 51.80 | **Mon:** - Nil -<br>**Tue:** Trade (Nov)<br>**Wed:** - Nil -<br>**Thu:** - Nil -<br>**Fri:** - Nil - |
| USDIDR | | S: 14,280; R: 14,450 | **Mon:** - Nil -<br>**Tue:** - Nil -<br>**Wed:** - Nil -<br>**Thu:** - Nil -<br>**Fri:** - Nil - |

*Sources: Bloomberg, Maybank FX Research & Strategy*

## Selected G7 FX Views

| Currency | *Stories of the Week* |
|---|---|
| **DXY Index** | ***Keeping Eyes Peeled on US Data and Fed Speaks for Directional Bias.*** Taking stock of 16th Dec FoMC, the Fed announced plans to double the pace of taper to $30bn (from $15bn currently) per month starting Jan-2022 and to end QE in Mar-2022 (earlier than Jun-2022 earlier anticipated) while dots plot reflected higher inflation and rate hikes projection. 12 out of 18 FoMC members expect at least 3 hikes in 2022 (vs. 1 hike from Sep's dot plot). The accompanying statement noted that "supply and demand imbalances related to the pandemic and the reopening of the economy have continued to contribute to elevated levels of inflation" and that "job gains have been solid in recent months, and unemployment rate has declined substantially". At the press conference, Fed Chair Powell said that "one of the two biggest threats to getting back to maximum employment is actually high inflation" (the other being pandemic). He also noted that Fed is keeping a close watch on wages "lest they begin rising so rapidly that they feed into already too high-inflation." We opined that though markets have fully priced in 3 hikes and faster pace of taper, there is still risk of Fed tilting even more hawkish if inflation does show signs of running out of control. At the same time there is risk of Fed tapering its balance sheet (not just bond purchases) as Powell indicated that debate on when to begin shrinking balance sheet is underway but no official decision on when the runoff would start.<br><br>Indeed, FoMC minutes (released on 6 Jan) showed there was broad support for Fed to begin reducing the size of its balance sheet after the first interest rate increase with some officials saying that such a move could happen "relatively soon". Minutes also revealed that officials are potentially contemplating with a faster pace of policy rate normalisation given the speed of economic recovery as it also stressed on the importance of being flexible. In sum, the FoMC minutes exudes urgency on policy normalisation as inflation is running much higher than what Fed officials have earlier anticipated while labour market conditions are largely consistent with Fed's goals. OIS-implied suggests a rate hike as early as Mar or May FoMC (frontloading of rate hike expectations). Markets are now facing a potential shift towards quantitative tightening (QT) or balance sheet normalisation from an era of QE taper, policy normalisation. Play-up of QT fears can undermine sentiment and add to USD strength. We keep a look out on Fed speaks next week for clues on QT (or one can say shrinking of Fed balance sheet).<br><br>DXY was last at 96.15 levels. Bearish momentum on daily chart shows signs of fading while rise in RSI paused. Slight upside risks ahead but we maintained bias to lean against strength. Support at 95.50 (50DMA), 94.50 levels (38.2% fibo retracement of 2020 high to 2021 low). Resistance at 96.20 (21DMA), 96.90 levels (2021 high, double top).<br><br>*Next week brings Wholesale trade sales (Nov) on Mon; NFIB Small business optimism (Dec) on Tue; CPI, real avg weekly earnings (Dec) on Wed; PPI (Dec); Fed's Beige book on Thu; Retail sales, industrial production, import, export prices (Dec); Uni of Mich sentiment (Jan) on Fri.* |
| **EUR/USD** | ***Weighed by Re-widening of EU-UST Yield Differential.*** EUR continued to trade with a heavy bias. Ongoing ECB-Fed policy divergence continued to see 2y EU-UST yield differentials widen to -146bps (from -133bps at the start of 2022) and this should still weigh on EUR in the interim. Elsewhere the omicron spread in Europe is also a risk to watch (if recovery momentum is derailed or restrictions tightened). Earlier this week, ECB's Kazaks stressed that ECB will act if inflation outlook picks up while he also spoke about flexibility and the need to be able to adapt. ECB's Klass Knot floated the idea of winding down QE by end-year and raising rates in early 2023. Nonetheless for ECB Lagarde's comments typically carried more weight than other members. EUR was last at 1.1295 levels. Mild bullish momentum on daily chart is fading while RSI fell. Risks skewed to the downside for now. Immediate support at 1.1270, 1.1220, 1.1185 (2021 low) before bigger support at 1.1040 (76.4% fibo retracement of 2020 low to 2021 high). Resistance at 1.1360/80 levels (50DMA), 1.14 and1.1490 (50% fibo).<br><br>Taking stock - at the last ECB meeting (16 Dec), the ECB confirmed that it would end its EUR1.85tn PEPP program, as scheduled in Mar-2022 and will expand its other bond purchase plan next year. Currently, the present pace of bond purchases at EUR80-90bn/month (via PEPP at EUR60-70bn per month and APP at EUR20bn per month) will be slow to EUR40bn per month, starting Apr-2022 and will continue at least through Oct-2022. The ECB also stressed that during this period of bond purchases, the ECB will not increase its deposit rate (currently at -0.5%). On macroeconomic update, ECB now projects inflation to average 3.2% in 2022, before easing to 1.8% for 2023 and 2024. ECB's Lagarde said that current surge due to high energy prices and constrained supply should pass eventually but later added that there is possible upside risks to inflation outlook as "numbers are not telling us that we are seeing second round effects". Overall, the ECB meeting can be |

interpreted as slightly hawkish and may have caught some economists off-guard. Nevertheless, ECB's hawkish tilt still lags behind other DM central banks including Fed, BoE, RBNZ. We still expect ECB to stick to their dovish rhetoric but reiterate our caution that the ECB may be underestimating the persistence of price pressures and that it may need to walk back on its words and normalise policies earlier. If this happens, it would be a positive turnaround for EUR.

*Next week brings Sentix investor confidence (Jan); unemployment rate (Nov) on Mon; Industrial production (Nov) on Wed; Trade (Nov); German GDP (2021); French CPI (Dec) on Fri.*

**GBP/USD** ***Bias to Buy Dips***. GBP enjoyed a ~3% rally post BoE's surprise tightening at its MPC meeting in Dec. BoE MPC voted 8-1 to raise policy rate from record low of 0.1% to 0.25%. The timing of hike was earlier than expected as previous expectations for a Nov hike was disappointingly pushed back. BoE Governor Bailey said that evidence of a **very tight labor market** and **more persistent price pressures** were the push factors for BoE to act. He also said that "we're concerned about inflation in the medium term and we're seeing things now that can threaten that". Recall that BoE previously said that price pressures are transitory and CPI will return to 2% in medium term. Governor Bailey is now saying that inflation could top 6% in coming months. Nov headline CPI surged to decade high of 5.1% y/y. Markets are now pricing in 3 hikes by Aug with the next 25bps hike coming in around the 3 Feb or 17 Mar MPC. There is little forward guidance from BoE's statement except for the line, "modest tightening is likely to be necessary". That said, we believe that BoE on tightening path can be supportive of GBP gains.

GBP was last at 1.3535 levels. Bullish momentum on daily chart remains intact though there are very tentative signs of it fading while RSI is showing early signs of turning around from near overbought conditions. We still expect consolidative play in absence of fresh market catalyst. Support at 1.35 (50% fibo retracement of Oct high to Dec low), 1.3420/40 (50 DMA, 38.2% fibo). Resistance at 1.3560/80 (100 DMA, 61.8% fibo) and 1.3610 levels.

*Next week brings BRC sales (Dec); unit labor costs (3Q) on Tue; RICS House price balance (Dec) on Thu; Monthly GDP, IP, construction output, Trade (Nov) on Fri.*

**USD/JPY** ***RSI Overbought***. USDJPY continued to trade one-way higher post-FoMC in Dec-2021 amid Fed-BoJ policy divergence play. UST-JGB 2y yield differentials widened to +91bps (from +65bps in Dec). USDJPY even traded a 4-year high of above 116-handle this year (4 Jan). Pair was last seen at 115.80 levels. Daily momentum is bullish but RSI is falling from overbought conditions. We do not rule out retracement place amid stretched technical and alongside the pullback in equity markets (risk aversion on fears of Fed QT and faster pace of policy normalization). Support at 115.50 (23.6% fibo retracement of Dec low to Jan high), 114.90 (38.2% fibo) and 114.50 (50% fibo, 21 DMA). Resistance at 116.35 (recent high) before 118 and 118.90 levels. Amidst Fed-BoJ policy divergence showing no signs of abating, preference goes with playing USDJPY from the long bias to express USD strength. But we opined there may be opportunity to buy on dips instead of chasing the highs.

*Next week brings Leading, coincident index (Nov) on Tue; Current account (Nov) on Wed; Machine tool orders (Dec) on Thu; PPI (Dec) on Fri.*

**AUD/USD** ***Corrective Move Lower Underway; Buy Dips Preferred***. AUD fell so far this week in part reacting to surge in omicron cases globally but in large part, due to fears of Fed quickening its pace of policy normalisation and possibly embarking on shrinking its balance sheet (quantitative tightening), This undermined sentiment broadly and weighed on risk-proxy FX such as AUD.

Pair was last at 0.7165 levels. Bullish momentum on daily chart is fading while RSI is falling. Rising wedge pattern playing out – bearish reversal. Risks skewed to the downside for now. Support at 0.7120 (23.6% fibo), 0.7060 and 0.70 levels (2021 low). Resistance at 0.7190/0.7210 (21DMA, 38.2% fibo retracement of Oct high to Dec low) before 0.7260/80 (50% fibo, 50, 100DMAs).

*Next week brings Building approvals (Nov); FX Reserves (Dec) on Mon; Trade, retail sales (Nov) on Tue.*

**NZD/USD** ***Will Interim Bottom at 0.67 Hold?*** NZD drifted lower in the new year, tracking moves in AUD and in response to fears of Fed quickening its pace of policy normalisation and possibly embarking on shrinking its balance sheet.

Pair was last at 0.6745 levels. Bullish momentum on daily chart is fading while RSI is falling. Risks skewed to the downside. Support at 0.67 (2021 low). Decisive break below this support puts next key support at 0.6510 levels. Resistance at 0.6790 (21 DMA), 0.6825 (23.6% fibo retracement of Oct high to Dec low), 0.6860 and 0.69 levels (38.2% fibo).

*Next week brings Commodity price (Dec) on Wed; Building permits (Nov) on Thu.*

## Technical View: MYR Crosses

| MYR Crosses | Direction | Support/Resistance | Stories of the Week |
|---|---|---|---|
| SGD/MYR | → | S: 3.0850; R: 3.1020 | **Sideways Trade.** SGDMYR traded sideways this week and was last seen hovering near its recent highs amid MYR softness. Cross was last at 3.0950 levels. Daily momentum and RSI are showing tentative signs of turning mild bullish at this point. We keep a lookout on the upper bound of recent range of 3.0850 – 3.0960. A decisive break could usher in more gains towards 3.1020, 3.1050 levels. Support remains at 3.0875 (100 DMA), 3.0850 (50 DMA). |
| AUD/MYR | → | S: 3.0000; R: 3.0500 | **Consolidation.** AUDMYR traded sideways this week. Cross was last seen at 3.0160 levels. Bullish momentum on daily chart faded while RSI is flat for now. Consolidation likely. Support at 3.0030 (23.6% fibo retracement of Oct high to Nov low). Resistance at 3.0285 (38.2% fibo) and 3.0490 (50% fibo). |
| EUR/MYR | → | S: 4.7500; R: 4.8250 | **Upside Risks.** EURMYR firmed this week amid MYR underperformance. Cross was last at 4.7630 levels. Mild bullish momentum on daily chart intact while RSI is rising. Directional bias still skewed towards upside for now. Resistance at 4.77 (50 DMA), 4.7950 before 4.8250 (100 DMA). Support at 4.75 (21DMA), 4.7050 (2021 low). |
| GBP/MYR | → | S: 5.6500; R: 5.7300 | **Retracement Eyed after Rally** GBPMYR rose sharply after rebounding from its double bottom at 5.56 levels (which we highlighted in the last FX weekly in Dec-2021). Move higher came amid divergence in FX performance - GBP strength while MYR depreciated. Cross was last seen at 5.6885 levels. Daily momentum is bullish while RSI rose and is near overbought conditions.Resistance at 5.70 (38.2% fibo retracement of Jul high to Nov-Dec double bottom), 5.73 (200 DMA). Support at 5.67 (100 DMA), 5.6490 (23.6% fibo). We opined a corrective move lower led by GBP could occur in the near term. |
| JPY/MYR | → | S: 3.6000; R: 3.6800 | **Rebound Underway.** After a 3.5% decline since mid-Dec, JPYMYR rebounded. This comes on the back of JPY strength while MYR fell. Cross was last at 3.66390. Bearish momentum on daily chart shows signs of fading while RSI is rising from oversold conditions. Rebound risk in the near term. Resistance at 3.66 (38.2% fibo retracement of Dec high to Jan low), 3.6785 (50% fibo) and 3.6970 (61.8% fibo). Support at 3.63, 3.60 levels (recent low). |

## Technical Chart Picks:

**USDSGD Daily Chart - Sideways**


After trading lower post-FoMC to a low of 1.3474 (32 Dec), USDSGD rebounded to as high as 1.3615 (6 Jan) in the first week of trading in 2022.

Pair was last at 1.3590 levels. Bearish momentum on daily chart is fading but rise in RSI also showed tentative signs of slowing. Pair may trade sideways in the interim.

Immediate resistance at 1.3615 (23.6% fibo retracement of Jun low to Nov high), 1.3680 and 1.3750 levels.

Support at 1.3580 (38.2% fibo), 1.3540 (23.6% fibo, 100 DMA)

**USDMYR Daily Chart - Pace of Gain Likely to Moderate**


USDMYR extended its run higher this week, in line with our call this week for rebound risk. Fears of faster pace of Fed normalisation, domestic flood woes and huge repair costs (estimated at MYR1bn) brought about the move higher.

Pair was last at 4.2065 levels. Bearish momentum on daily chart faded while rise in RSI paused. Potentially we see the pace of gains moderating. Resistance here at 4.2160 levels (61.8% fibo retracement of Nov high to Jan low).

Support at 4.2020 (21DMA), 4.1965 (38.2% fibo) and 4.1850 (23.6% fibo, 100 DMA).

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

**AUDSGD Daily Chart: Interim Risks to the Downside**


Our call in the last FX weekly for AUDSGD to trade sideways panned out over the last few weeks. Cross was last at 0.9725 levels.

Mild bullish momentum on daily chart shows signs of waning while RSI is falling. Risks to the downside. Support at 0.9720 (23.6% fibo), 0.9690 and 0.9590 levels (Nov lows).

immediate resistance at 0.9780 (21 DMA), 0.9810 (38.2% fibo retracement of Oct high to Dec low) and 0.9850 (50 DMA).

**SGDMYR Daily Chart: Sideways**


SGDMYR traded sideways this week and was last seen hovering near its recent highs amid MYR softness. Cross was last at 3.0950 levels.

Daily momentum and RSI are showing tentative signs of turning mild bullish at this point. We keep a lookout on the upper bound of recent range of 3.0850 – 3.0960. A decisive break could usher in more gains towards 3.1020, 3.1050 levels.

Support remains at 3.0875 (100 DMA), 3.0850 (50 DMA).

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