

FX Weekly

Fed Taper Talks to Intensify

The Week Ahead

- **Dollar Index - Fade.** Support at 91; Resistance at 93.5
- **USD/SGD - Gravestone Doji?** Support at 1.3510; Resistance at 1.3690
- **USD/MYR - Overbought RSI.** Support at 4.1800; Resistance at 4.2500
- **AUD/SGD - Downside Risk.** Support at 0.9970; Resistance at 1.0100.
- **SGD/MYR - 2-Way Trade.** Support at 3.09; Resistance at 3.12

Plenty of US Event Risks Next Week

USD was modestly firmer this week but the magnitude of its gains has somewhat slowed. Recent bounce in US equities owing to strong earnings season and near-10% rebound in oil prices from this week's low may have partially soothed cautious sentiments. Nonetheless AXJs continued to trade cautiously, with high-beta KRW near 7-month low vs. USD. Rampant delta variant spread globally remains a key concern. Next week's focus is on FoMC, US 2Q GDP (Thu) and core PCE (Fri). USD could trade firmer into event risks as we retain bias to lean into. For USDSGD, we keep a lookout for bearish signals with eye on 1.3510 as next support. For USDMYR, there may be room for retracement, with support at 4.20, 4.1850.

Fed Taper Talks Likely but No Timeline

Focus next week on FoMC on Thu (2am SG/MY time). Likely there will be more discussion on tapering but short of a timeline. The last FoMC minutes noted "various participants mentioned that they expected the conditions for beginning to reduce the pace of asset purchases to be met somewhat earlier than they had anticipated at previous meetings". There was also specific mention to slowing the purchases of MBS. But overall we see little need to over-react as Powell had earlier emphasized that the Fed would provide ample notice ahead of taper. Fed Chair Powell's testimony to Congress last week also reinforced Fed's dovish bias. He attributed the jump in CPI 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 also said longer run inflation remains well anchored. While Powell noted improvements in labor market, he also said it is "still a long way to go". 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. Bear in mind Fed is now operating on Average Inflation Targeting (AIT) regime and will also be tolerant of inflation overshoots. On net, we still look for Fed to offer guidance on tapering timeline at the upcoming Jackson Hole symposium (26 - 28 Aug) or latest by Sep FoMC (22 Sep). Our baseline looks for gradual pace of tapering (in clips of \$10bn/month) to begin in Jan 2022 and to end the \$120bn/month QE purchase by end-2022 before tightening rates in 2023.

US, EU GDPs and CPIs; China PMIs; SG IP; MY Trade Next Week

Data we watch next week includes German IFO; SG IP next Mon. For Tue, US consumer confidence, durable goods; China industrial profits. For Wed, AU CPI; Malaysia trade. For Thu, US 2Q GDP; NZ activity outlook. For Fri, US Chicago PMI, core PCE; EU CPI estimate, 2Q GDP; AU PPI; Japan activity data. For next Sun, China NBS PMIs are released.

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Our in-house model implies that S\$NEER is trading at +0.30% to the implied midpoint of 1.3637, suggesting that it is slightly firmer vs. other trading partner currencies.












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: New home sales (Jun); Dallas Fed mfg activity (Jul); Tue: Durable goods order (Jun P); Conference Board Consumer confidence (Jul); Richmond Fed Mfg (Jul); Wed: Retail inventories (Jun); Thu: FoMC; GDP (2Q); Fri: Chicago PMI (Jul); Personal income, spending, core PCE (Jun)
EURUSD		S: 1.1705; R: 1.2000	Mon: German IFO expectations (Jul); Tue: - Nil - Wed: - Nil - Thu: Consumer confidence (Jul); Fri: CPI estimate (Jul); 2Q GDP
AUDUSD		S: 0.7320; R: 0.7500	Mon: - Nil - Tue: - Nil - Wed: CPI (2Q); Thu: Import, export price index (2Q); Fri: PPI (2Q)
NZDUSD		S: 0.6900; R: 0.7060	Mon: Trade (Jun); Tue: - Nil - Wed: - Nil - Thu: Activity outlook, business confidence (Jul); Fri: Consumer confidence (Jul); Building permits (Jun)
GBPUSD		S: 1.3700; R: 1.4010	Mon: - Nil - Tue: CBI Reported sales (Jul); Wed: - Nil - Thu: CBI Trends Selling Prices (Jul); Fri: Lloyds Business Barometer (Jul)
USDJPY		S: 109.60; R: 112.00	Mon: Prelim PMIs (Jul); Tue: PPI (Jun); Wed: Leading index, coincident index (May); Thu: - Nil - Fri: Jobless rate, industrial production, retail sales, housing starts (Jun)
USDCNH		S: 6.4400; R: 6.5000	Mon: - Nil - Tue: Industrial profits (Jun); Wed: - Nil - Thu: - Nil - Fri: - Nil - Sat: NBS PMIs (Jul)
USDSGD		S: 1.3510; R: 1.3690	Mon: Industrial production (Jun); Tue: - Nil - Wed: - Nil - Thu: - Nil - Fri: Bank Loans & Advances (Jun)
USDMYR		S: 4.1800; R: 4.2500	Mon: - Nil - Tue: - Nil - Wed: Trade (Jun) Thu: - Nil - Fri: - Nil -
USDPHP		S: 49.70; R: 50.90	Mon: - Nil - Tue: - Nil - Wed: - Nil - Thu: - Nil - Fri: - Nil -
USDIDR		S: 14,400; R: 14,600	Mon: - Nil - Tue: - Nil - Wed: - Nil - Thu: - Nil - Fri: - Nil -

Sources: Bloomberg, Maybank FX Research & Strategy

Selected G7 FX Views

Currency	Stories of the Week
DXY Index	<p>FoMC, 2Q GDP and Core PCE in Focus Next Week. USD was modestly firmer this week but the magnitude of its gains has somewhat slowed. Recent bounce in US equities owing to strong earnings season and near-10% rebound in oil prices from this week's low may have partially soothed cautious sentiments (owing to global delta variant spread) and supported commodity-linked FX including CAD, NZD. Nonetheless AXJs continued to trade cautiously, with high-beta KRW near 7-month low vs. USD. Rampant delta variant spread globally remains a key concern as worries of another pandemic wave in some countries may see tighter restrictions last longer and this could see covid fatigue dampening sentiment and derailing growth recovery momentum. Elsewhere we also observed that decline in UST yields may have found an interim bottom after hitting a 5-month low of 1.13% earlier this week and has now bounced higher (by +15bps). On this note, USDJPY also traded higher as traditional correlation proxy play (higher equity, higher UST yields -> higher USDJPY) comes back into play. Next week's focus is on FoMC, 2Q GDP (Thu) and core PCE (Fri). USD could trade firmer into event risks.</p> <p>For FoMC next Thu (2am SG/MY time), the focus is on taper talks as we expect all policy parameter to stay status quo. Likely there will be more discussion on tapering but short of a timeline. The last FoMC minutes noted "various participants mentioned that they expected the conditions for beginning to reduce the pace of asset purchases to be met <i>somewhat earlier than they had anticipated</i> at previous meetings". There was also specific mention to slowing the purchases of MBS. But overall we see little need to over-react as Powell had earlier emphasized that the Fed would provide ample notice ahead of taper. Fed Chair Powell's testimony to Congress last week also reinforced Fed's dovish bias. He noted 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 but also attributed the jump in CPI 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 also said longer run inflation remains well anchored. While Powell noted improvements in labor market, he also said it is "still a long way to go". 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. Bear in mind Fed is now operating on Average Inflation Targeting (AIT) regime and will also be tolerant of inflation overshoots. On net, we still look for Fed to offer guidance on tapering timeline at the upcoming Jackson Hole symposium (26 - 28 Aug) or latest by Sep FoMC (22 Sep). Our baseline looks for gradual pace of tapering (in clips of \$10bn/month) to begin in Jan 2022 and to end the \$120bn/month QE purchase by end-2022 before tightening rates in 2023.</p> <p>In fact 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 (pre-condition requires covid infection to ease and vaccination rate to pick up globally).</p> <p>DXY was last seen at 92.90 levels. Daily momentum and RSI are still not indicating a clear bias. 2-way trade likely but biased to sell rallies. Support at 92.50 (21 DMA), 91.95 levels (61.8% fibo retracement of Mar high to May low), 91.30/50 levels (50, 100, 200DMAs, 50% fibo). Resistance at 93.2 and 93.5 levels.</p> <p><i>Next week brings New home sales (Jun); Dallas Fed mfg activity (Jul) on Mon; Durable goods order (Jun P); Conference Board Consumer confidence (Jul); Richmond Fed Mfg (Jul) on Tue; Retail inventories (Jun) on Wed; FoMC; GDP (2Q) on Thu; Chicago PMI (Jul); Personal income, spending, core PCE (Jun) on Fri.</i></p>
EUR/USD	<p>Falling Wedge in the Making (Bullish Reversal). EUR drifted a touch lower this week amid dovish ECB, cautious risk sentiment (owing to rising covid spread globally and in Europe) and potential political uncertainty. Floods in West Germany, Belgium and Netherlands should see negative ramification on economy but it remains too early to estimate the costs. More likely the flooding incident may somewhat affect Germany's political landscape as the country has federal elections in 2 months' time and the Greens party could swing it to their advantage riding on climate change (and this would affect Merkel's party).</p> <p>Notable highlight for the week was ECB's confirmation for a more dovish forward guidance - - ECB expects</p>

key interest rates to remain at their present or lower levels until it sees inflation reaching 2% well ahead of the end of its projection horizon and durably for the rest of the projection horizon, and it judges that realised progress in underlying inflation is sufficiently advanced to be consistent with inflation stabilising at 2% over the medium term.

Lagarde further explained at the Q&A session that the forward guidance rests on 3 key factors: (1) Governing Council (GC) wants to see inflation reach 2% well ahead of the end of projection horizon (at the moment ECB projects up to 2023 and inflation forecast is 1.4%); (2) 2% inflation to be sufficiently lasting - can oscillate a little bit but it cannot go below 2%; (3) to look at current circumstances and in particular the current underlying inflation to see whether directionally these underlying inflation components actually lead us into that upward trend that will reach 2% target.

On net, the revised guidance implies that the **refresh of inflation projections at upcoming Sep ECB is important** as ECB's last projection (as of Jun) of 2023 inflation was at 1.4%. It also **imply a higher hurdle for ECB to tighten as inflation needs to be 2% durably for the forecast horizon - 2-year period** (in ECB's case). Lagarde also said new guidance is an indication that "none of us" want to tighten prematurely as she emphasized on the element of patience. She added that she wouldn't say it is "lower for longer". We opined she wants to avoid the policy mistake during Trichet's times in 2011 when ECB hiked prematurely and to U-turn when Draghi took over. True that the revised forward guidance may seem dovish, there was no accompanying tools to walk the talk. So the key lies in inflation - if it sustainably creep higher - an ECB move is not impossible. **But importantly the sole discretion lies in ECB judgement of inflation projections.**

Elsewhere all key policy parameters were kept on hold, as widely expected. On PEPP purchases, it reiterated that purchases will be conducted at a significantly higher pace than during the first months of the year. There was no details on the outlook of PEPP. On growth outlook, Lagarde said that outlook is broadly balanced and economic activity is expected to return to pre-crisis level in 1Q.

EUR was last seen at 1.1780 levels. Daily momentum and RSI are showing tentative signs of turnaround. Potential falling wedge pattern could be in the making. This is typically a bullish reversal though one can also argue that the apex is still way away. Resistance at 1.1840 (76.4% fibo retracement of Mar low to May high, 21 DMA), 1.1920/30 (61.8% fibo), 1.1980/1.20 levels (50, 100, 200 DMAs, 50% fibo). Support at 1.1760 and 1.1705/15 levels.

Next week brings German IFO expectations (Jul) on Mon; Consumer confidence (Jul) on Thu; CPI estimate (Jul); 2Q GDP on Fri.

GBP/USD Break Above 1.38 Could Bring Back GBP Bulls. GBP fell to more than 3-month low of 1.3570 this week before bouncing higher (as USD strength faded). Wide spread of delta strain in UK and globally, with transmissibility of around 6 remains a concern as UK economy fully reopened (as of 19th Jul). Elevated covid caseloads and rising death toll (highest level since Mar-2021) undermined GBP. But we note some tentative improvements with daily infection (~39k as of 22 Jul) falling below its 7-day average (of ~42k). Hospitalisation rate is key as UK experiments with covid as endemic. So long it did not pick up significantly, daily infection continues to fall while more people become fully vaccinated, then this experiment could prove to be a template for the world, a potential boost to risk sentiment. Of interest is that 9 in 10 people in UK has covid antibodies and there are more people vaccinated in UK today than before (about 54% fully vaccinated and 69% of population with at least 1 dose). On UK data, retail sales surprised to the upside. Though prelim PMIs was a touch softer than expected, the readings still indicate expansion in activities.

On key BoE speaks this week, Ben Broadbent said that policymakers may be right to overlook the surge in inflation now as he is not convinced that current inflation in retail goods should in and of itself mean higher inflation 18 - 24 months ahead and he attributed high inflation today to rising oil prices and lumber prices. This pushed back expectations for BoE tightening. Recall just last week - 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".

GBP was last seen 1.3730 levels. Bearish momentum on daily chart shows tentative signs of fading while RSI is rising from near oversold conditions. Potential bullish divergence on daily MACD not ruled out. Further upmove could further gain traction if GBP decisively break above resistance at 1.38 (21 DMA). Next resistance at 1.3910 (50% fibo). Support at 1.3710/30 (23.6% fibo retracement of 2021 double-top

to Jul low, 200 DMA). 1.3570 (recent low).

Next week brings CBI Reported sales (Jul) on Tue; CBI Trends Selling Prices (Jul) on Thu; Lloyds Business Barometer (Jul) on Fri.

USD/JPY **Inverted H&S?** USDJPY rebounded this week alongside the rise in UST yields after both securities hit their respective multi-week lows. Traditional correlation proxy play (higher equity, higher UST yields -> higher USDJPY) also appears to come back into play.

Pair was last at 110.50 levels. Bearish momentum on daily chart faded while RSI is rising. Upside risks ahead. Mini inverted head & shoulders appear to be forming with neckline at 110.60 levels. A break above could see the pair extend its up-move towards 112 levels. Support at 110 (50 DMA), 109.50 (100 DMA). We watch the price action to decide the next trade. A decisive break is worth the chase but failing which, the pair could revert to 109.60 - 110.60 range.

Next week brings Prelim PMIs (Jul) on Mon; PPI (Jun) on Tue; Leading index, coincident index (May) on Wed; Jobless rate, industrial production, retail sales, housing starts (Jun) on Fri.






AUD/USD **2-Way Trade.** AUD was last seen at 0.7375 levels. Bearish momentum on weekly chart intact though RSI is falling into oversold conditions. A potential falling wedge pattern appears to be in the making. This is typically associated with bullish reversal but the apex is still some distance away. Elsewhere daily momentum and RSI are not indicating a clear bias. We still look for 2-way trade. Risk-reward probably favours buying dips. Support at 0.73, 0.7230. Resistance at 0.7460 (21 DMA), 0.75 and 0.7590 (200 DMA).

Next week brings CPI (2Q) on Wed; Import, export price index (2Q) on Thu; PPI (2Q) on Fri.

NZD/USD **Consolidate but Bias to Buy Dips.** NZD traded sideways this week in absence of fresh catalyst. Pair was last seen at 0.6980 levels. Death cross formed with 50DMA cutting 200 DMA to the downside. Daily momentum and RSI are not indicating a clear bias. Support at 0.6910, 0.6880. Resistance at 0.6990 (21 DMA), 0.7050 and 0.7090 (200 DMA). We look for 2-way trade in 0.69 - 0.7060 range next week.

Next week brings Trade (Jun) on Mon; Activity outlook, business confidence (Jul) on Thu; Consumer confidence (Jul); Building permits (Jun) on Fri.

Technical View: MYR Crosses

MYR Crosses	Direction	Support/Resistance	Stories of the Week
SGD/MYR		S: 3.0900; R: 3.1200	2-Way Trade. SGDMYR traded sideways this week. Cross was last seen at 3.1070 levels. Bullish momentum on daily chart intact while RSI is rising. Slight risks to the upside. Resistance at 3.11, 3.1150 and 3.1220 levels. Support at 3.1030 (50 DMA), 3.0950 (21 DMA) and 3.0920 (100 DMA). 2-way trade with slight risk to the upside. Meantime we watch 3.0900 - 3.12 range next week.
AUD/MYR		S: 3.0900; R: 3.1400	Consolidate. AUDMYR slipped below 200DMA key support this week. Last seen at 3.1150 levels. Mild bullish momentum faded but RSI is rising. Technicals are mixed for now. Look for 2-way trade. Resistance at 3.12, 3.1590 and 3.1680 (50, 100 DMAs). Support at 3.09, 3.0680 levels (200 DMA). We look for 3.09 - 3.14 range.
EUR/MYR		S: 4.9500; R: 5.0250	Prefer to Buy Dips. EURMYR inched modestly higher this week amid MYR softness. Cross was last seen at 4.9820 levels. Bullish momentum on daily chart intact for now. Risks still skewed to the upside but a decisive break above 4.9910 (38.2% fibo retracement of 2021 low to high, 50 DMA) is needed for upside to gather traction. Thereafter, resistance at 5.0250 (23.6% fibo), 5.0450 levels. Support at 4.98, 4.9630 (50% fibo) and 4.95 levels (21, 50 DMAs). Bias to buy dips.
GBP/MYR		S: 5.7400; R: 5.8900	Sideways. GBPMYR slipped this week amid GBP underperformance. Cross was last seen at 5.80 levels. Bullish momentum on daily chart shows signs of fading while RSI is rising. 2-way trade likely. Support at 5.76 (100 DMA), 5.7420 levels. Resistance at 5.80, 5.85 levels.
JPY/MYR		S: 3.7900; R: 3.8500	Bias to Fade. JPYMYR traded higher this week but shows signs of easing off as we head into end-week. Cross was last seen at 3.8310 levels. Bullish momentum on daily chart intact but show signs of fading while RSI is turning lower from overbought conditions. Retracement lower likely. Support at 3.81, 3.7870 (21DMA). Resistance at 3.84 (200 DMA), 3.87 levels.

Technical Chart Picks:

USDSGD Weekly Chart - Gravestone Doji in the Making?



USDSGD traded higher this week but as of writing, some of the gains were retraced. Last seen at 1.36 levels.

Bullish momentum on weekly chart intact while RSI is still on the rise towards overbought conditions. But on the daily chart (not shown here), bullish momentum shows signs of fading while RSI has turned lower from overbought conditions. Potential bearish divergence on daily MACD could be forming. If we do get a close below yesterday low of 1.3580, then potentially there could be following thru action on the downmove. We also note a potential gravestone doji in the making (bearish reversal). We watch price development on this front. Support at 1.3525 (21 DMA), 1.3510 (23.6% fibo retracement of 2020 high to 2021 low) and 1.3460.

Resistance at 1.3690, 1.3730 (38.2% fibo).

USDMYR Daily Chart - Room for Retracement



USDMYR traded sharply higher this week. Pair was last seen at 4.2230 levels.

Bullish momentum on daily chart intact but shows tentative signs of fading while RSI shows signs of turning from overbought conditions. Room for retracement lower. Support at 4.20, 4.1820/50 levels (21DMA, 23.6% fibo retracement of 2021 low to high) and 4.1520 levels (50 DMA).

Resistance here at 4.2440 (upper bound of bullish trend channel), 4.25 levels.

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

AUDSGD Weekly Chart: Risks Still Skewed to Downside



AUDSGD briefly broke below parity this week before rebounding. Cross was last seen at 1.0020 levels. Bearish momentum on weekly chart remains intact with RSI falling. Rounding top (bearish) pattern still intact. Death cross with 50DMA on track to cut 200DMA looks more likely than not.

Risks remain skewed to the downside. Immediate support at 0.9970, 0.9920 (61.8% fibo).

Resistance at 1.0040 (50% fibo retracement of Oct low to 2021 high), 1.0080 (21DMA) and 1.0150/70 (50, 200 DMAs).

SGDMYR Daily Chart: Consolidate



SGDMYR traded sideways this week. Cross was last seen at 3.1070 levels.

Bullish momentum on daily chart intact while RSI is rising. Slight risks to the upside. Resistance at 3.11, 3.1150 and 3.1220 levels.

Support at 3.1030 (50 DMA), 3.0950 (21 DMA) and 3.0920 (100 DMA).

2-way trade with slight risk to the upside. Meantime we watch 3.0900 - 3.12 range next week.

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