

FX Weekly

Falling Out of Love with the USD?

The Week Ahead

- **Dollar Index - Fade.** Support at 93.10; Resistance at 95.90
- **USD/SGD - Sideways.** Support at 1.3400; Resistance at 1.3350
- **USD/MYR - Pullback.** Support at 4.1650; Resistance at 4.1960
- **AUD/SGD - Range.** Support at 0.9720; Resistance at 0.9870
- **SGD/MYR - Sideways.** Support at 3.0860; Resistance at 3.1110

Watch Out for USD Retracement; Sell USD Rallies Preferred

USD's decline accelerated this week. While there is certainly no let-up in Fed policy normalisation, we attributed the USD decline to a few factors: (1) omicron variant though more infectious is seen as less severe. This poses less of a threat to recovery momentum; (2) RMB is relatively resilient, helping to anchor AXJs; (3) Fed is not the only central bank tightening. BoK just tightened and more in Asia, G7 world could also shift into tightening bias triggering flows out of USD; (4) DXY positioning at 2-year high has already priced in an aggressive Fed, US data strength. In absence of fresh upside catalyst/surprises, there is little room for USD to extend northwards. Going forward, Fed speaks will go into blackout mode ahead of FoMC on 27 Jan. We keep a lookout on US earnings season, equity moves and China data. MTLF rate (Mon) for FX direction. For USDSGD, USDMYR, risks are skewed to the downside. Immediate support at 1.34, 4.1650, respectively. Break below these levels could usher in more decline.

BNM, BI and BoJ Up Next on MPC - Maintain Policy Status Quo

BoJ takes place on Tue while BNM and BI MPCs meet on Thu. We expect all to keep policy stance status quo. For BoJ, we noted market chatters for BoJ debating for rate increase at some time later this year even before 2% inflation target is met. This had fueled USDJPY's >2% decline YTD. For BNM, our Economist expects BNM to keep OPR on hold at 1.75% and only expect a 25bps hike in Nov-2022 MPC as growth takes hold and monetary policy bias shifts gear towards normalization before another 50bps in 2023. Our Economist outlined BNM's "pre-requisites" for normalizing/ tightening monetary policy and they are (1) sustained periods of steady improvement of economic performance amid a narrowing of the output gap and (2) an environment of price stability; (3) sustainable private consumption and investment growth driven by fundamentals without over-reliance on policy support; (4) stronger labour market underpinned by rising incomes; and (5) healthy access to financing for viable borrowers. For BI, though our Economist expects no hike at the upcoming MPC, the timing for first rate hike has been brought forward to 2Q vs. 4Q 2022 as it sought to maintain stability of the Rupiah when the Fed starts raising interest rates.

China GDP, activity Data; SG NODX; MY CPI Next Week

Key data we watch next week include China GDP, activity data, MTLF rate; Singapore NODX on Mon. For Tue, US empire manufacturing; EU ZEW survey; UK labor market report. For Wed, US housing starts, building permits; German, UK CPIs. For Thu, US Philly Fed business outlook; EU CPI, German PPI; AU labor market report; NZ food prices; PH overseas remittances. For Fri, EU consumer confidence; NZ mfg PMI; UK retail sales, consumer confidence; CPIs from Malaysia, Japan.

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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

Currency	Direction	Support/Resistance	Key Data and Events
Dollar Index		S: 93.10; R: 95.90	Mon: - Nil - Tue: Empire manufacturing (Jan); NAHB housing market index (Jan); Wed: Housing starts, building permits (Dec); Thu: Existing home sales (Dec); Philly Fed business outlook (Jan); Fri: Leading Index (Dec)
EURUSD		S: 1.1360; R: 1.1610	Mon: - Nil - Tue: ZEW survey expectations (Jan); Wed: Current account, construction output (Nov); German CPI (Dec); Thu: CPI (Dec); German PPI (Dec); Fri: Consumer confidence (Jan)
AUDUSD		S: 0.7200; R: 0.7340	Mon: - Nil - Tue: - Nil - Wed: Westpac consumer confidence (Jan); Thu: Labor market report (Dec) Fri: - Nil -
NZDUSD		S: 0.6750; R: 0.6900	Mon: - Nil - Tue: REINZ house sales (Dec); Wed: Card spending (Dec); Thu: Food prices (Dec) Fri: Mfg PMI (Dec)
GBPUSD		S: 1.3580; R: 1.3830	Mon: Rightmove House prices (Jan); Tue: Labor market report (Nov); Wed: CPI, PPI, RPI (Dec); House price index (Nov); Thu: - Nil - Fri: Retail sales (Dec); GfK consumer confidence (Jan)
USDJPY		S: 113.00; R: 115.00	Mon: Core machine orders (Nov); Tue: Industrial production (Nov); BoJ MPC Wed: - Nil - Thu: Trade (Dec); Fri: CPI (Dec)
USDCNH		S: 6.3300; R: 6.4000	Mon: 1y MTLF; GDP (4Q); IP, retail sales, FAI (Dec); Tue: - Nil - Wed: - Nil - Thu: 1y, 5y Loan prime rate Fri: - Nil -
USDSGD		S: 1.3400; R: 1.3530	Mon: NODX (Dec) Tue: - Nil - Wed: - Nil - Thu: - Nil - Fri: - Nil -
USDMYR		S: 4.1650; R: 4.1960	Mon: - Nil - Tue: - Nil - Wed: - Nil - Thu: BNM MPC; Fri: CPI (Dec)
USDPHP		S: 50.20; R: 51.50	Mon: - Nil - Tue: - Nil - Wed: - Nil - Thu: Overseas workers cash remittances (Nov) Fri: - Nil -
USDIDR		S: 14,200; R: 14,350	Mon: Trade (Dec) 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><i>Break Below Key Support Should Open Way for Bigger Decline.</i> USD's decline accelerated this week even as 2y UST yield continued to rise to 2y high of 0.92% and US headline CPI surged to 40-year high of 7%. While there is certainly no let-up in Fed policy normalisation, Fed Chair Powell's remarks to senate (on Tue) did help to soothe sentiment and we had flagged that DXY positioning at record 2-year high may already have priced in aggressive fed normalisation and data outperformance. As such, the unwinding of stretched USD longs in absence of fresh catalyst/surprises weighed on USD. To add, omicron variant being perceived as less deadly despite more infectious (recovery momentum not derailed) and a steady RMB helped anchor stability in AXJs.</p> <p>Looking on, it remains too early to write off the fears of earlier policy normalisation. Recent comments from Fed's Brainard and Waller served as a reminder that Fed's top priority is to bring inflation down and rate hike cycle could kick off as early as at Mar FoMC. Governor Waller said in a Bloomberg TV interview that he still thought it was reasonable to pencil in 3 hikes this year but the rate path depends on what inflation looks like in 2H. He shared that high inflation has caught the Fed off guard. He added that "if it continues to be high, the case will be made for 4, maybe 5 hikes... but if inflation falls back, rate hike could pause and not even go the full 3 hikes". He also said it would be appropriate to begin rate hike at Mar FoMC and to begin shrinking balance sheet by Summer. Separately, vice chair nominee (pending senate confirmation) Brainard told Congress that reducing inflation is Fed's most important task. She emphasized that the Fed has a powerful tool (interest rates) and they are going to use it to bring down inflation over time. She also expressed that the Fed is in position to hike soon as asset purchases end. That puts Mar FoMC as a real potential start of rate normalisation cycle. We also noted that some banks are expecting 4 - 5 rate hikes from the Fed this year.</p> <p>In Powell's Senate confirmation hearing (11 Jan), he told lawmakers that Fed would be ready to step up interest rates increases over time if inflation stays elevated. At the same time he also said he was optimistic that supply chain bottlenecks could fade to help bring down inflation. While he did not commit to the timing of first rate hike, he did confirm that the Fed will begin to shrink its \$8.8tn balance sheet later this year. He noted that the US economy was in a much stronger position today than the last time Fed shrank its balance sheet over 2017 - 19 (only started QT after Fed began gradual tightening in 2015) but the process this time could run sooner and faster. It is worth noting that Powell is framing the case for policy normalisation in the context of shifting away from pandemic-driven easy monetary policy instead of a shift into a restrictive stance to curb an over-heating economy. He said that the Fed should be able to normalise policies without hurting job market.</p> <p>DXY was last at 94.72 levels. Bearish momentum on daily chart intact while RSI is falling. Bias to the downside. Key support at 94.50/67 levels (38.2% fibo retracement of 2020 high to 2021 low, 100DMA) needs to be decisively broken for further downside to gather momentum. Next support at 93.80, 93.1 (200 DMA). Resistance at 95.70 (50DMA), 95.90 (21 DMA).</p> <p><i>Next week brings Empire manufacturing (Jan); NAHB housing market index (Jan) on Tue; Housing starts, building permits (Dec) on Wed; Existing home sales (Dec); Philly Fed business outlook (Jan) on Thu; Leading Index (Dec) on Fri.</i></p>
EUR/USD	<p><i>Break above 100DMA Opens Way for Bulls to Extend Run.</i> EUR trended higher this week amid broad USD's retreat. Pair was last at 1.1470 levels. Bullish momentum on daily chart remains intact while RSI rose. Key resistance at 1.1490/1.1510 (100DMA). Decisive break above puts next resistance at 1.1610, 1.17 levels. Support at 1.1360 (50 DMA), 1.1330 (21 DMA), 1.1290 levels.</p> <p>We still look for ECB to dial back on their easy policy stance and when that happens, EUR shorts may face further unwinding (short squeeze). We noted that in recent ECB speaks, Lagarde acknowledged about rising prices and said that the ECB takes this concern very seriously. She also reiterated ECB's commitment to price stability though she offered little details.</p> <p>ECB's Schnabel had earlier shared at the ECB virtual panel last week that greenflation is very real and not only is it not transitory, it is likely to get worse. She added that the need to step up the fight against climate change may even imply that fossil fuel prices will now not only have to stay elevated but even have to keep rising to meet the goals of the Paris climate agreement. Her comments may indicate that</p>

thinking at ECB on “rising energy prices as transitory” may be shifting and that could possibly imply that some ECB officials may begin to step away from keeping policy accommodative (a potential positive for EUR).

Next week brings ZEW survey expectations (Jan) on Tue; Current account, construction output (Nov); German CPI (Dec) on Wed; CPI (Dec); German PPI (Dec) on Thu; Consumer confidence (Jan) on Fri.

GBP/USD **Cautious of Unchecked Bulls; Bias to Buy Dips Instead.** GBP extended its bullish run (unchecked) since BoE's surprise tightening at its MPC meeting in mid-Dec. Recent monthly GDP data also revealed that UK economy has surpassed its pre-pandemic size in Nov-2021 for the first time. Broad bias, we reiterate our call for GBP to recover on the back of BoE hawkish shifts, stimulus spending and growth normalizing.

Nonetheless GBP's run-up appears stretched, technically. Last at 1.3735 levels. Bullish momentum on daily chart intact while RSI is at overbought conditions. Immediate resistance here at 1.3740 (200 DMA). Decisive break above could trigger more upside play towards 1.3830 levels (Nov highs). Support at 1.3680 levels (76.4% fibo), 1.3580 (61.8% fibo) and 1.35 (50% fibo retracement of Oct high to Dec low). We do not rule out retracement moves but bias remains to buy dips.

Next week brings Rightmove House prices (Jan) on Mon; Labor market report (Nov) on Tue; CPI, PPI, RPI (Dec); House price index (Nov) on Wed; Retail sales (Dec); GfK consumer confidence (Jan) on Fri.

USD/JPY **Decline May Moderate.** USDJPY fell sharply this week, in line with our caution for retracement play and we opined *there may be opportunity to buy on dips instead of chasing the highs*. Market chatters of BoJ hiking rates before 2% inflation target is met and sell-off in equities were the drivers for the decline.

Pair was last seen at 113.90 levels. Daily momentum is bearish while RSI fell and is coming close to near-oversold conditions. Downside risks remain. Support at 113.45 (76.4% fibo retracement of Dec low to Jan high), 113 (100 DMA). Pace of decline may moderate. Resistance at 114.20 (50 DMA), 114.50 (50% fibo) and 114.90 (38.2% fibo).

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 **Evening Star Pattern? Buy Dips Preferred.** AUD rose this week amid broad USD sell-off. Pair was last at 0.7275 levels. Mild bullish momentum on daily chart intact but RSI is falling. Price pattern points to evening star - bearish reversal. Risks skewed to the downside for now though bullish trend channel formed since mid-Dec remains intact. Buy dips favoured. Resistance at 0.7310, 0.7340 levels. Support at 0.7230 (50 DMA), 0.72 levels.






Next week brings Westpac consumer confidence (Jan) on Wed; Labor market report (Dec) on Thu.

NZD/USD **Pullback Risks.** Kiwi shows tentative signs of pullback amid sell-off in equity markets. Fed speaks overnight was also a reminder that Mar Fed hike is still on the cards.

NZD was last at 0.6850 levels. Mild bullish momentum on daily chart intact while RSI shows signs of turning. Resistance here at 0.6860 and 0.69 levels (38.2% fibo, 50DMA). Support at 0.6825 (23.6% fibo retracement of Oct high to Dec low), 0.6750.

Next week brings REINZ house sales (Dec) on Tue; Card spending (Dec) on Wed; Food prices (Dec) on Thu; Mfg PMI (Dec) on Fri..

Technical View: MYR Crosses

MYR Crosses	Direction	Support/Resistance	Stories of the Week
SGD/MYR		S: 3.0860; R: 3.1110	Sideways Trade. SGDMYR traded higher this week amid SGD strength. Cross was last at 3.1025 levels. Daily momentum is mild bullish while RSI is approaching overbought conditions soon. Immediate resistance at 3.1050 3.1110 levels (23.6% fibo retracement of 2021 low to 2021 double top). Support remains at 3.0950 (200 DMA), 3.0860 (50, 100 DMAs).
AUD/MYR		S: 3.0300; R: 3.0700	Higher Grounds. AUDMYR drifted a touch firmer this week amid AUD outperformance. Cross was last seen at 3.05 levels. Bullish momentum on daily chart intact while RSI rose. Upside risk. Resistance at 3.07 (61.8% fibo retracement of Oct high to Nov low). Support at 3.0340 (50 DMA), 3.0285 (38.2% fibo) and 3.0230 levels (21 DMA).
EUR/MYR		S: 4.7500; R: 4.8200	Skewed towards the Upside. EURMYR drifted modestly higher this week amid EUR slight outperformance. Cross was last at 4.79 levels. Mild bullish momentum on daily chart intact while RSI is rising. Directional bias still skewed towards upside for now. Resistance at 4.80 before 4.8150 (100 DMA). Support at 4.7640 (50 DMA), 4.75 (21DMA), 4.7050 levels (2021 low).
GBP/MYR		S: 5.6670; R: 5.7840	RSI Overbought GBPMYR extended its run-up this week. Cross was last seen at 5.7330 levels. Daily momentum is bullish but RSI rose into overbought conditions. Resistance at 5.7420 (50% fibo retracement of Jul high to Nov-Dec double bottom), 5.75 before 5.7840 (61.8% fibo). Support at 5.70 (38.2% fibo), 5.6670 (100 DMA), 5.6490 (23.6% fibo). We do not rule out a corrective move lower in the near term.
JPY/MYR		S: 3.6300; R: 3.6800	Rebound Underway. JPYMYR rebounded this week amid JPY outperformance. Cross was last at 3.6540. Bearish momentum on daily chart faded while RSI rose. Rebound risk in the near term. Immediate 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 3.6360 (23.6% fibo), 3.60 levels (recent low).

Technical Chart Picks:

USDSGD Daily Chart - RSI Near Oversold



USDSGD drifted lower this week, riding on USD's broad softness.

Pair was last at 1.3455 levels. Bearish momentum on daily chart intact for now while the decline in RSI towards near oversold levels is showing early signs of slowing. 21DMA cuts 50DMA to the downside. Directional bias to the downside.

Support at 1.34 (2021 low to high), 1.3320 (76.4% fibo).

Resistance at 1.3470/80 levels (200 DMA, 50% fibo), 1.3530 (38.2% fibo).

USDMYR Daily Chart - Downside Bias but Pace of Decline may Moderate



USDMYR fell this week. Pair was last at 4.1760 levels.

Daily momentum shows signs of turning bearish while RSI is falling. 21DMA cuts 50DMA to the downside - downside signal. Risks to the downside but we opined pace of decline may moderate soon.

Support at 4.1710 (200DMA), 4.1650 levels.

Resistance at 4.1840 (23.6% retracement of Nov high to Jan low), 4.1940/65 (38.2% fibo, 21, 50 DMAs) and 4.2065 levels (50% fibo).

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

AUDSGD Daily Chart: Upside Risks



AUDSGD rebounded this week amid AUD outperformance. Cross was last at 0.9810 levels.

Mild bullish momentum on daily intact while RSI rose. Sideways trade looks likely). Support at 0.9720 (23.6% fibo), 0.9690 levels.

immediate resistance at 0.9820 (50 DMA), 0.9870 (50% fibo retracement of Oct high to Dec low) and 0.9940 (62.8% fibo).

SGDMYR Daily Chart: Sideways



SGDMYR traded higher this week amid SGD strength.

Cross was last at 3.1025 levels. Daily momentum is mild bullish while RSI is approaching overbought conditions soon.

Immediate resistance at 3.1050 3.1110 levels (23.6% fibo retracement of 2021 low to 2021 double top).

Support at 3.0950 (200 DMA), 3.0860 (50, 100 DMAs).

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