OCBC TREASURY RESEARCH

FX Weekly

5 June 2023

Cautious and Selective Stance

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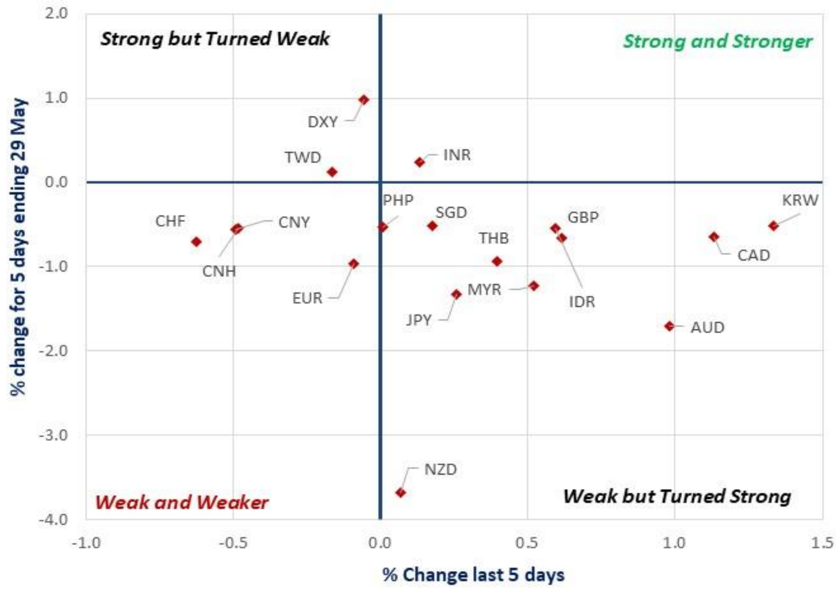
Recent Ranges Likely to Hold Ahead of FoMC. This week is relatively quiet on the data front while Fedspeaks enter into blackout period ahead of FoMC meeting (14 Jun). FX markets are likely to take cues from broader market sentiments in RMB, yields, equities and oil markets. OPEC+ just reached an agreement to extend output cuts into 2024 and to give the UAE a bigger quota next year. Meanwhile Saudi Arabia is planning to announce additional voluntary cut that could amount to 1mbpd on top of the existing production cut of 2mbpd and voluntary cut of 1.6mbpd (that was previously announced in Apr and effective in May). Sustained uptick in oil prices may lend CAD a boost. Potentially a rate hike at BoC MPC is not ruled out or at the very least, a hawkish hold amid a series of better-than-expected economic data over the past few weeks. On other majors, USD was better bid against lower yielders such as JPY, CHF and gold post-bumper NFP (+339k vs. +195 exp) last Fri. But USD strength was not broad based. Risk-proxy FX such as 1s KRW NDF, AUD held on to gains as details of US jobs report hinted at signs of soft landing. That said, unexpected rebound in US CPI, upward revision to 1Q GDP and somewhat resilient labour market still point to some risks that Fed may adopt a hawkish stance at upcoming FoMC (14 Jun). Not forgetting the deluge of bill/Treasury auctions ahead that may keep yields broadly higher. As such, we expect markets to continue to trade on cautious and selective stance.

Favour Carry, Tech Proxies and Safe-Haven Proxies. Goldilocks-like environment and falling vols should favour carry trades. In the region, IDR remains our top pick. There are also signs that the AI wave is still driving up tech stocks and KR, TW and JP equities continue to see foreign inflows. At the same time TW export orders and KR new orders are showing tentative signs of bottoming. Put together, a turnaround in semiconductor downcycle should benefit tech proxies including KRW, TWD and even JPY. Elsewhere, safe-haven proxies, JPY and gold can be considered as hedges against global growth slowdown/ downside risk.

FX – Turning or Trending – Sentiment Shifts in Favours of AUD, CAD and KRW



Source: Bloomberg, OCBC Research

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AxJ Positioning Bias (Reuters Poll) and EPFR Flows

Based on Reuters survey on Asia FX positioning, bets for AxJ FX stay bearish. Bearish bets on CNY, MYR and PHP remained the highest amongst regional AxJs. Bearish bets saw biggest increase in THB, MYR, SGD and CNY. Bearish bets on KRW and TWD were slightly reduced. Elsewhere, positioning is relatively light on IDR.

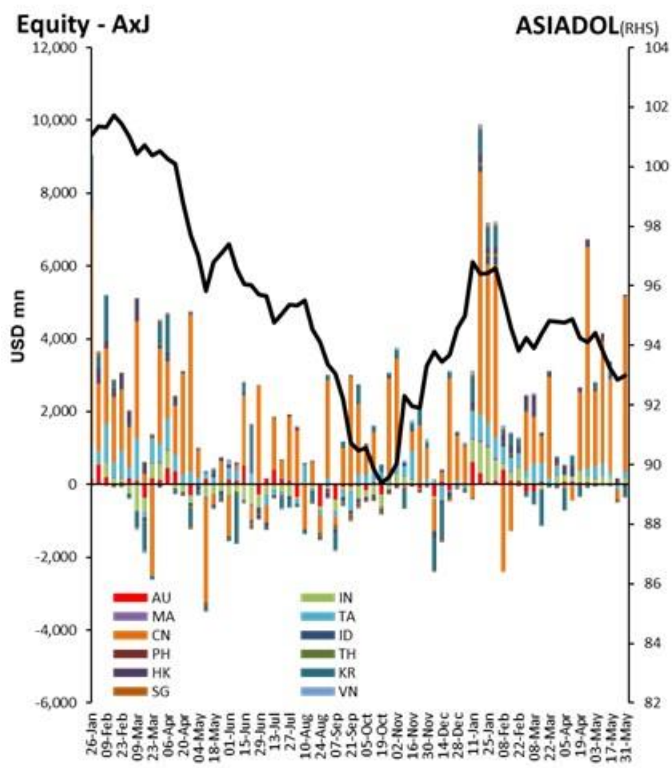
On EPFR flows, global bond market reported net inflows of $1.2bn last week, a significant decrease from prior week's inflows of $9.5bn. Developed Market saw inflows while Emerging Markets saw outflows of $0.8bn, where Emerging Asia led the largest outflows of $0.3bn. On DM equity flows, Developed Asia saw outflows slowed to $0.64bn (vs. outflow of $0.87bn the week before last).

	09-Feb-23	23-Feb-23	09-Mar-23	23-Mar-23	06-Apr-23	20-Apr-23	04-May-23	18-May-23	01-Jun-23	Trend
USD/CNY	-0.8	0.36	0.68	0.17	0.04	-0.14	0.56	1.27	1.88	
USD/KRW	-0.63	0.77	1.3	0.87	0.56	0.36	1.01	0.88	0.68	
USD/SGD	-0.72	0.21	0.65	0.16	-0.39	-0.13	-0.04	0.19	0.73	
USD/IDR	-0.53	0.12	0.56	0.74	-0.26	-0.47	-1.05	-0.27	0.23	
USD/TWD	-0.68	0.3	0.78	0.63	-0.03	0.3	0.65	1	0.7	
USD/INR	0.25	0.8	0.28	0.58	0.3	0.3	-0.14	0.11	0.48	
USD/MYR	-0.64	0.49	0.78	0.74	0.29	0.54	0.69	1.1	1.77	
USD/PHP	-0.4	0.33	0.42	0.36	0.08	0.95	0.86	1.12	1.08	
USD/THB	-1	0.37	0.3	0.37	-0.06	-0.12	-0.43	-0.5	0.45	

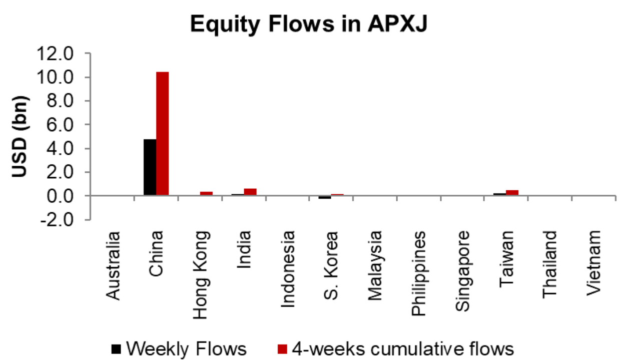
Note: Asian FX poll is conducted by Reuters, on bi-weekly basis on what analysts and fund managers believe the current market positioning are. Poll uses estimates of net short or long on a scale of -3 to +3. A score of +3 indicates significant long USD against the AxJ FX. Arrow direction indicates change in positioning from last date.

Source: Reuters [latest avail: 1 Jun 2023], OCBC Research

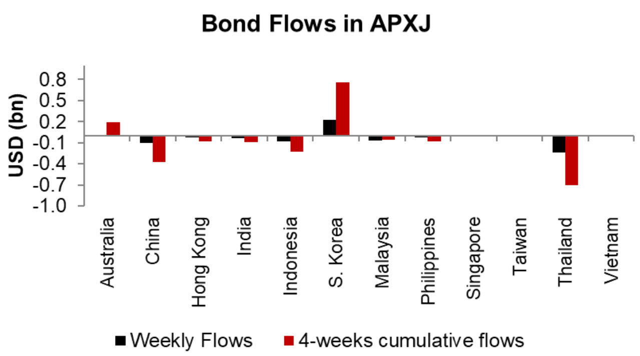
EPFR Equity Flows to AxJ vs ASIADOL



AxJ Equity Flows – Week vs 4w Cumulative



AxJ Bond Flows - Week vs 4w Cumulative



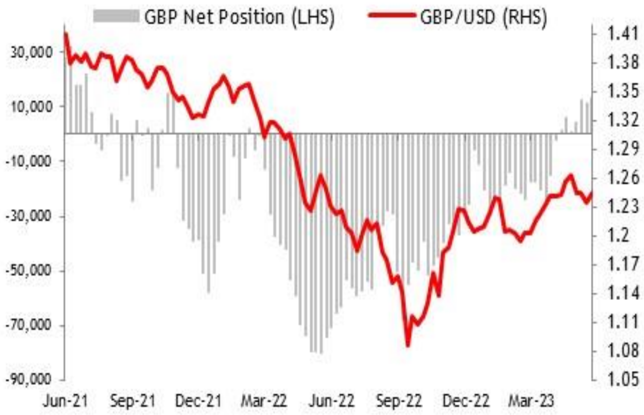
Note: Latest data available as of 31st May 2023 (weekly frequency); ASIADOL index refers to Bloomberg Asia dollar index

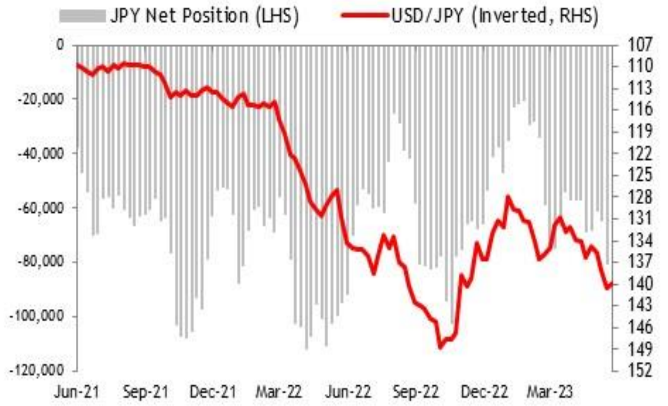
Source: EPFR, Bloomberg, OCBC Research

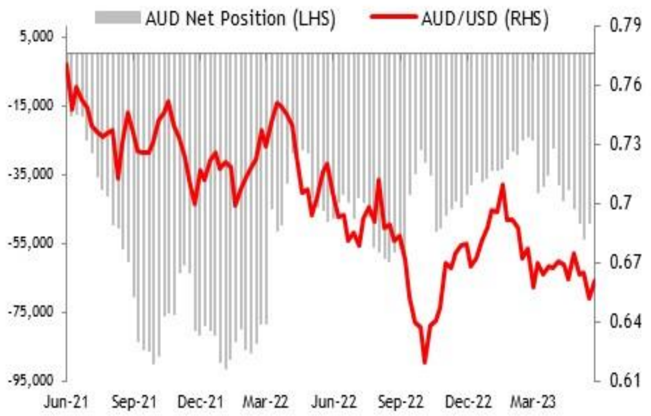
Non-Commercial CME CFTC Net Positioning (in number of contracts) vs. Respective FX/USD

- *Positioning data as of 30 May; Latest CFTC report issued on 2 Jun 2023; data points of the past 2Y on weekly frequency*

Long DXY position rose as DXY stays above 104.
EUR longs receded, alongside slippage in EUR towards 1.07 levels.
GBP longs rose again to highest level in 18 months, alongside rise in GBP.
Shorts in JPY surged to highest level in 7 months as JPY stays weak past 140 to the USD.







Notes: The FX positioning data for this report is part of the Commitments of Traders (COT report published by the US Commodity Futures Trading Commission (CFTC) on every Friday (330pm ET) for data up to the Tue in the same week. Hence our FX Weekly publication will show a 1-week lag. In our report, we focus on non-commercial traders' position which is typically seen as a proxy for leveraged, speculative positioning. They can provide directional cues, used as a rough gauge to measure how stretched a position may be and provide some guide for point of inflection.
Source: US CFTC, OCBC Research

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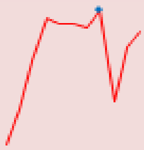
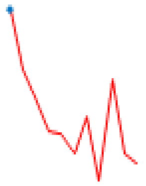
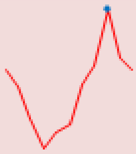
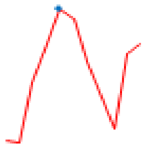
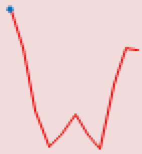
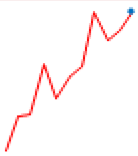
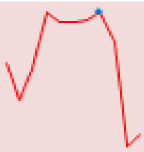
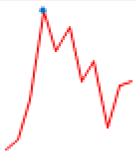
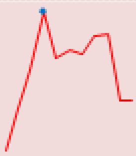
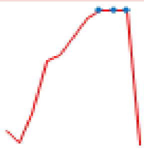
FX	Key Data and Events for the Week	14D Trend	Support/Resistance
Dollar	**Mon:** Services PMI, ISM services (May); Factory orders, durable goods (Apr); **Tue:** - Nil – **Wed:** Trade (Apr); **Thu:** Wholesale trade sales, inventories (Apr) **Fri:** - Nil –		**S: 100.80; R: 105.20**
EURUSD	**Mon:** Services PMI (May); PPI (Apr); Sentix Consumer confidence (Jun); ECB's Lagarde speaks; **Tue:** Retail sales (Apr); **Wed:** - Nil – **Thu:** GDP (1Q) **Fri:** - Nil –		**S: 1.0620; R: 1.0820**
GBPUSD	**Mon:** Services PMI (May); **Tue:** BRC sales, construction PMI (May); **Wed:** - Nil – **Thu:** House price balance (May) **Fri:** - Nil –		**S: 1.2300; R: 1.2540**
USDJPY	**Mon:** Services PMI (May); **Tue:** Labor cash earnings (Apr); **Wed:** - Nil – **Thu:** GDP, current account balance(1Q); **Fri:** - Nil –		**S: 138.50; R: 142.50**
AUDUSD	**Mon:** Services PMI (May); **Tue: RBA;** Current account balance (1Q); Wed: GDP (1Q); FX reserves (May); **Thu**: Trade (Apr) **Fri:** - Nil –		**S: 0.6430; R: 0.6680**
USDCNH	**Mon**: Caixin services PMI (May); **Tue:** - Nil – **Wed:** Trade (May); **Thu:** - Nil – **Fri:** CPI, PPI (May)		**S: 7.0600; R: 7.2000**
USDKRW	**Mon**: FX reserves (May); **Tue:** - Nil – **Wed:** - Nil – **Thu:** - Nil – **Fri:** Current account balance (Apr); Bank lending (May)		**S: 1300.00; R: 1330.00**
USDSGD	**Mon:** Retail sales (Apr); **Tue:** - Nil – **Wed:** FX reserves (May); **Thu:** - Nil – **Fri:** - Nil –		**S: 1.3370; R: 1.3590**
USDMYR	**Mon:** - Nil – **Tue:** - Nil – **Wed:** - Nil – **Thu:** FX reserves (May); **Fri:** Industrial production (Apr)		**S: 4.5000; R: 4.6200**
USDIDR	**Mon:** PMI Mfg, CPI (May); **Tue:** - Nil – **Wed:** - Nil – **Thu:** - Nil – **Fri:** FX reserves (May)		**S: 14,700; R: 15,000**

Source: Bloomberg, OCBC Research

Key Themes and Trades

Supported Near Term but Bias to Lean against Strength. This week is relatively quiet on the data front while Fedspeaks enter into blackout period ahead of FoMC meeting (14 Jun). FX markets are likely to take cues from broader market sentiments in RMB, bond yields, equities and oil markets. Over the weekend, OPEC+ reached an agreement to extend output cuts into 2024 and to give the UAE a bigger quota next year. Meanwhile Saudi Arabia is planning to announce additional voluntary cut that could amount to 1mbpd on top of the existing production cut of 2mbpd and voluntary cut of 1.6mbpd (that was previously announced in Apr and effective in May). Sustained uptick in oil prices may lend CAD a boost. In addition, risk of sustained oil prices (if any) may further add to inflationary pressures. On other majors, USD was better bid against lower yielders such as JPY, CHF and gold post-bumper NFP (+339k vs. +195k exp) last Fri. But USD strength was not broad based. Risk-proxy FX such as KRW, AUD held on to gains as details of US jobs report hinted at signs of soft landing. Unemployment rose to 7-month high of 3.7% while wage growth slowed (4.3% y/y vs. 4.4% exp and prior). That said, unexpected rebound in CPI, upward revision to 1Q GDP and somewhat resilient labor market still point to some risks that Fed may adopt a hawkish stance at upcoming FoMC (14 Jun). Not forgetting the deluge of bill/Treasury auctions ahead that may keep yields broadly higher. As such, we expect markets to continue to trade on cautious and selective stance.

Our house view looks for Fed to hold at upcoming FoMC but a hawkish hold is not ruled out especially given the unexpected improvement in some US data. Fedspeaks have been somewhat balanced. Jefferson signalled that the Fed is inclined to keep rates steady in June while Harker said the Fed should skip a rate hike in June. Mester sees not reason to pause rate hikes. 30d fed funds futures are now even pricing in 30% probability of a 25bp hike at Jun FOMC and 82% probability of a 25bp hike by Jul FoMC.

On net, better than expected US growth and slowing growth momentum elsewhere in Germany, China may still support USD momentum in the near term. But bias remains to sell rallies. Fed nearing end of tightening cycle typically implies limited room for USD upside. Moreover, dovish expectations have been entirely unwound and we still do not expect Fed to hike that once more but to remain status quo for most of the remainder of the year. Softer US data and more entrenched disinflation trend can help to keep USD bulls from breaking higher. There is still 1 more CPI report next week (13 Jun) before FoMC.

President Biden had signed the debt ceiling bill and it was the same deal that was agreed between Biden and McCarthy last weekend. Basically, it includes a 2-year agreement that keeps non-defence spending roughly flat in fiscal 2024 and increase by 1% in fiscal 2025; defence spending would be exempted and be permitted to rise 3% next year while **debt limit will be suspended through Jan-2025** – after next Presidential election in Nov-2024.

DXY was last at 104 levels. Bullish momentum on daily chart faded while RSI eased from overbought conditions. Bullish bias intact though a near term pullback is not ruled out. Support at 104 (61.8% fibo), 103.40 (50% fibo) and 102.75 (38.2% fibo, 100 DMA). Resistance at 104.70 (76.4% fibo retracement of 2023 high to low), 105.15 and 105.80/90 levels (2023 high, 200 DMA).

On a medium-term basis, we keep to our view for a moderate-to-soft USD profile as Fed tightening goes into late cycle, with an "end-in-sight" potentially on the horizon. Recent FoMC meeting (3 May) added to conviction that current Fed tightening cycle is likely near its end. Key highlight from the FoMC was that policymakers no longer say they anticipate more firming of policy. We believe a more entrenched disinflation trend would reinforce the "end-in-sight" view and likely for the USD to trade softer. That said, USD's decline is not a one-way street. There will be instances of intermittent and sporadic USD upticks as USD still retain some yield advantage and is a safe haven proxy to some extent. The risk of USD rebound could occur if markets (disorderly) unwind its dovish repricing of the Fed or a broader market sell-off, growth concerns resurface.

Consolidation. EUR slipped last week. This was due to RMB softness, USD resurgence, sharp widening in EU-UST yield differentials (-169bps from -110bps in mid-Apr), Germany entering technical recession (-0.3% in 1Q and -0.5% in 4Q 2022), slippage in Euro-area CPI reinforcing recent comments from ECB officials that tightening cycle may be nearing an end. Euro-area CPI decelerated to flat m/m for May, down from 0.6% m/m in Apr while core CPI moderated to 5.3% y/y (vs. 5.6% in Apr). On ECB tightening cycle, Guindos said ECB has entered the 'home stretch' of policy tightening path and officials are returning to 25bp pace of hike. We reiterate that a downshift in pace of hike does not represent an ECB pivot as officials are still looking for further tightening. Lane said that services are feeding inflation, driving growth despite German recession while another council member Maklouf said he is ready for 2 more hikes in Jun and Jul. To add, we opine that Fed is probably closer to a pivot than ECB and resumption of the convergence in ECB-Fed policy should still support EUR. As it stands, markets are still looking for about 2 more hikes from ECB this year.

EUR was last at 1.0690 levels. Bearish momentum on daily chart shows signs of fading but rise in RSI moderated. Support still seen at 1.0640/50 (76.4% fibo retracement of 2023 low to high). But if this is decisively broken, the next support levels are at 1.06, 1.0540 levels. Resistance at 1.0740 (61.8% fibo), 1.08 (50% fibo).

We remain mild-constructive on EUR's outlook on the back of still hawkish ECB and somewhat resilient Euro-area growth. Germany slipping into a technical recession is a risk to monitor – whether it is a shallow or protracted period. So far, like most nations in the Euro-area, services sector is holding up much better than manufacturing. ECB survey of Professional Forecasters (SPF) also noted an upward revision to GDP growth for Euro-area to 0.6% for 2023. Softer energy prices (gas prices fell nearly 90% since Aug and now trades around 17-month low of under EUR30/MWh) also helped as it improves the overall outlook. Businesses, households and government finances can also cope better. There are also pockets of activity with car sales in Europe sustaining its rebound. On ECB's tightening policy, there are signs that the cycle could be nearing an end though data dependence will be key on future policy rate decisions. On net, we opined still-resilient growth in EU, somewhat hawkish ECB (vs. Fed possibly undertaking rate cut first) and potentially a moderate-to-soft USD profile should support EUR's recovery. Key risks to watch that may weigh on EUR outlook include (1) EU's growth momentum from here – if it falters; (2) whether there will be renewed escalation in Russian-Ukraine tensions – poses risks to energy and inflation or would there be a ceasefire scenario; (3) if USD strength returns with a vengeance (i.e. global risk-off); (4) if ECB unexpectedly signals a pause or dovish tilt.

Bearish Crossover. GBP started the week on a softer footing, carrying over bearish momentum from last Fri. USD strength on the back of stronger than expected US NFP and renewed fears of stagflation risks in UK undermined GBP. Hotter than expected CPI print (8.7% y/y in Apr vs. 8.2% expected) saw a jump in expectations for further tightening. Expectations of peak rate has remained higher at ~5.45%, vs. pre-CPI release of around 5%. Hawkish repricing of BoE did not translate into stronger GBP as we argued that the issue of higher prices for longer and tighter financial conditions would put further strains on UK consumer and this should also bring back stagflation risks for the UK economy.

Pair was last at 1.2395 levels. Daily momentum is not showing a clear bias while RSI fell. Risks are skewed to the downside. Next support at 1.2345 (38.2% fibo), 1.23 levels (100DMA) and 1.2240 (50% fibo retracement of Mar low to May high). Resistance at 1.2460/70 (23.6% fibo, 21, 50 DMAs), 1.2550 levels.

We remained slightly neutral-mild constructive in our GBP outlook as UK growth outlook may not be as bad as feared, BoE is still somewhat hawkish, domestic credibility is restored, post-Brexit EU-UK relations are on the mend while softer energy prices offer relief with government finances, businesses, and households. OBR, BoE and a UK think tank, NIESR are no longer expecting UK to enter into a recession. On net, a moderate-to-soft USD profile, tentative signs of improvement in growth outlook, fading Brexit concerns should allow for GBP to recover. Risk to our outlook is the pockets of concerns in some aspects of domestic fundamentals (stagflation risk, consumer squeeze, etc.) that could still restraint GBP's recovery to some extent. On BoE policy bias, our take from last MPC was that current episode of monetary tightening that began in Dec-2021 may have reached restrictive territories and as much as official(s) would like to pause rate hikes, they need evidence (such as faster pace of deceleration in inflation, easing labor market tightness, etc.) to support their decision to pause. But sticky inflation suggest that BoE officials may have to keep the tightening bias intact and hope for inflationary pressures to ease more materially.

Sell Rallies; Watch Verbal Intervention. USDJPY u-turned higher last Fri as UST yields surged. Better than expected NFP, unexpected rebound in US CPI and upward revision to US 1Q GDP still point to some risks that Fed may adopt a hawkish stance at upcoming FoMC (14 Jun). Not forgetting the deluge of bill/Treasury auctions ahead that may keep yields broadly higher. Sizeable USD carry could keep USDJPY supported until the market expectations on Fed shifts less hawkish. Pair was last at 140.45 levels. Daily momentum and RSI are not indicating a clear bias. Resistance at 141 (previous high) and 142.50 (61.8% fibo retracement of 2022 high to 2023 low). Support at 139.60 (50% fibo), 138.50 levels (recent low). We are cautious of another verbal intervention should USDJPY's pace of rise proves rapid. Recall that MOF-FSA-BOJ met last Monday, and top currency official said that the government will continue to closely monitor market moves and will take appropriate responses if necessary. We do not expect officials to lean against the wind so soon but to rely on verbal intervention to slow JPY's depreciation pace if need arises. In any sense, intervention typically buys time or delay/slow pace of depreciation. A turn in trend would still require UST yields to ease off or a BoJ to shift policy.

We retain bias to sell rallies for USDJPY. Our house view still expects the BoJ to move away from YCC regime at some stage later this year as inflationary pressures broaden and upward pressure on wage growth remains intact. At the last BoJ MPC (28 Apr), a policy review was unveiled as expected but the projected timeframe for the review (up to 1 – 1.5years) was much longer than expected. But later on, BoJ Governor Ueda clarified that policy change is still possible during policy review. We opined BoJ is buying time, and this suggests that JPY bulls may have to be more patient. We doubt BoJ will use the full 18 months review duration, but it also appears that the next MPC (16^{th} Jun) may be too soon to expect any policy shift.

Broadly over a medium-term, we expect USDJPY to trade lower on the back of a moderate-to-soft USD profile (as Fed tightening stretches into late cycle and that USD can fall when pause or pivot comes into play) and expectation for further BoJ shift towards policy normalisation amid higher inflationary pressures in Japan. Japan's Keidanren business lobby which represents 1,494 companies in Japan (as of Apr 2022) said that the average increase sealed at the conclusion of the wage talks this year was the "biggest in about 30years". Earlier, Japan's largest union (UA Zensen), which is the largest industrial union in Japan with 18 unions under its umbrella has unveiled that it has sealed a 5.28% average pay increase with employers during annual wage negotiations while other Japanese corporates such as Sumco (silicon wafer maker) said it would implement up to 6% wage increase, Oriental Land (operator of Disneyland/sea) reported raising wages by ~7%.

Need to Clear Above 21, 50 DMAs for Bulls to Regain Composure. AUD rebounded, consistent with our *looking for rebound* view in the last FX Weekly. Move higher came amid 1/ debt ceiling deal no longer a worry; 2/ push back in risks of US recession; 3/ rebound in commodity prices including iron ore, copper; 4/ in reaction to Bloomberg report that China may be working on stimulus to support China property market; 5/ supported risk appetite as seen in equity market performance; 6/ markets positioning for hawkish hold at RBA meeting on Tue. AUD was last at 0.66 levels. Bearish momentum on daily chart faded but rise in RSI moderated. Rally appears capped under 0.6625 (21 DMA). A$ needs to clear above several key resistances, including 21dma, 0.6660 (50 DMA) for bulls to regain confidence. Failing which, AUD could revert to trading lower range. Support at 0.6570 (61.8% fibo), 0.6430 (76.4% fibo retracement of Oct low to Feb high). Elsewhere, the extent of RMB swings remain a risk to watch.

Sharp depreciation will undermine AUD but assuming RMB depreciation doesn't turn disorderly, AUD can ride on the rebound in commodity prices and equity sentiments.

Looking out, we still favour AUD to trade higher on the back of China reopening, possibly warmer ties between Australia and China, and a more moderate-to-soft USD profile (as Fed nears end tightening cycle). On AU-China relations, development has been promising: 1/ China imports of Australian timber has resumed from mid-May (halted since late 2020 and is worth approx. A$600mio); 2/ Discussions have been progressing to remove 80% tariff on Australian barley; 3/ China's top steelmaker and 3 central government-backed utilities have resumed coal imports from Australia earlier this year; 4/ wine, crayfish, hay and meat are outstanding items that could potentially see restrictions lifted by Beijing; 5/ Australia PM could visit President Xi in Beijing in Sep or Oct. We have shared that the tourism, education and property sectors in Australia could benefit if relations between China and Australia further warm up, and this can be a positive for AUD. Key downside risk factors that may affect AUD outlook are 1/ extent of CNH swings; 2/ if USD strength or Fed tightening cycle unexpectedly extends; 3/ global growth outlook – if DM's slowdown deteriorates; 4/ any market risk-off event.

Driven by USD and RMB Swings. USDSGD rebounded sharply on Fri tracking the rebound in USD and UST yields after US NFP print saw another bumper print. Fri's bumper payrolls, unexpected rebound in CPI and upward revision to 1Q GDP still point to some risks that Fed may adopt a hawkish stance at upcoming FoMC (14 Jun) while ongoing RMB softness remains a drag on SGD. Chinese policymakers are not displaying a strong pushback on RMB depreciation and this resulted in a feedback loop to softer RMB, which had came on the back of softer than expected China data. These factors highlighted (i.e. RMB softness, USD strength and signs of global growth slowing) could still keep USDSGD somewhat supported.

Pair was last at 1.3520 levels. Bullish momentum on daily chart shows signs of fading while RSI fell. Support at 1.3435 (21 DMA), 1.3380 (23.6% fibo retracement of 2022 high to 2023 low). Resistance at 1.3560 (recent highs), 1.3590 (38.2% fibo). Any dip in USDSGD may be shallow for now on relative USD strength and RMB softness. S$NEER trades around +1.27% above model-implied mid.

We remained less bullish-to-neutral on SGD outlook. The case for further MAS tightening in October has probably diminished post-dovish assessment of global, SG outlook and their view on inflation to ease materially into end 2023. Nonetheless we expect market consensus for long S$NEER should continue to fade while we maintain our bias for short S$ vs. long IDR (carry), A$ (China reopening, commodity proxy), and EUR (policy divergence). On USDSGD, we expect a mild downward trajectory over the forecast horizon owing to the moderate-to-soft USD view (on Fed nearing end of tightening cycle) and China reopening optimism (temporarily delayed and should provide some support to sentiments and regional growth in 2H).

To recap, MAS maintained policy stance (no change to slope, center and policy band) at the last MPC (14 Apr). **Statement took a dovish turn from its Oct MPC as <u>concerns on Singapore growth prospects this year seems to take priority</u>**. MAS did acknowledge the risks to inflationary pressures (in event of fresh shocks to global commodity prices) but also countered back to say that a sharper-than-expected downturn in advanced economies could result in general easing of inflationary pressures. Importantly, MAS made mention to 1/ **imported inflation turning more negative** and 2/ **core inflation expected to <u>ease materially</u>** by end 2023. In addition, MAS assessed that the 5 back-to-back tightening since cycle begun in October 2021 have tempered momentum of price increases and effects of policy tightening are still working through the economy and should dampen price pressures. **Current policy stance (which is already on an appreciating path) should continue to reduce imported inflation and curb domestic cost pressures**.

Under Pressure. USDRMB attempted to trade higher. Absence of any explicit push back from policymakers is fuelling market confidence in sending the pair higher. Daily RMB fix continues to come in consistent with Bloomberg consensus expectations and that somewhat gave the impression that policymakers may be walking the talk in allowing markets to play a greater role in price discovery so long the pace of RMB depreciation comes at an orderly manner (recall PBoC had issued a statement on 19 May aimed at curbing speculation and we opined that policymakers can tolerate some extent of RMB weakness as long RMB depreciation is not disorderly). Elsewhere CNH-CNY basis spread is largely stable. Widening of the spread is typically a proxy indication for rapid RMB depreciation. But this round, there seems to be no such risk, for now.

Overall, path of least resistance for USDCNH is to the upside considering negative RMB carry, push-back in China reopening momentum (due to weaker China data) and foreign outflows. And as long as USD and UST yields continue to trend higher, RMB softness could persist for a little longer. That said, we noted that brief dip in USDCNH below 7.07 in reaction to Bloomberg report on Fri that China is working on a new set of measures to support the property market. The reaction in USDCNH suggests that solving the root cause (tackle economy's weak links) can alleviate side effects (RMB softness).

Pair was last at 7.1340 levels. Bullish momentum on daily chart intact though there are early signs of it fading while RSI is near overbought conditions. Immediate resistance at 7.14. Sustained close above said resistance could expose USDCNH to trade higher towards 7.18, 7.20 and 7.2150 (76.4% fibo). Support at 7.10, 7.07 levels.

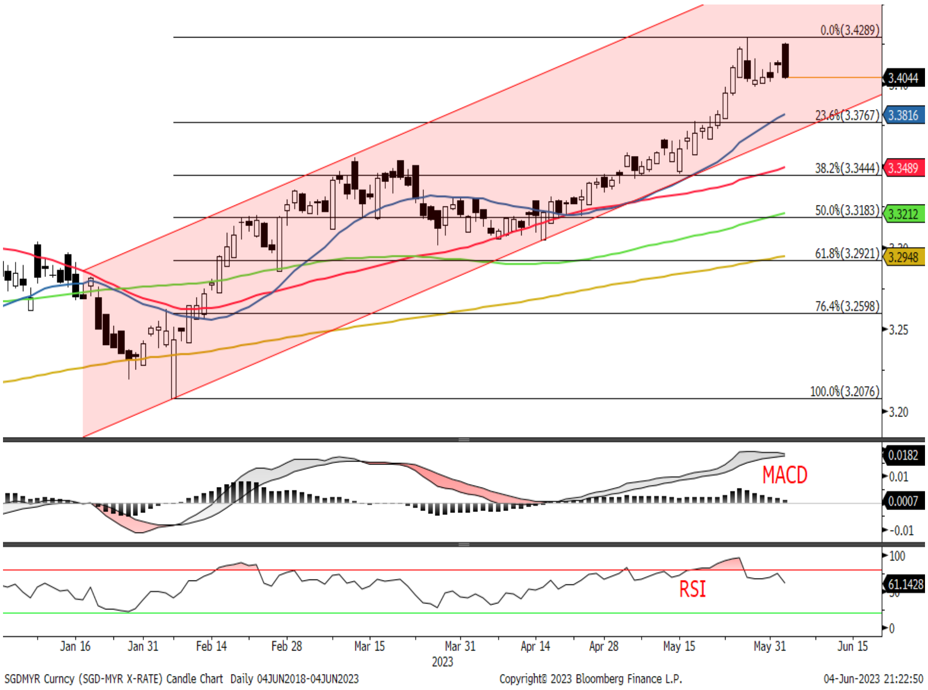
Trade Ideas

Entry Date	Trade	Entry	Close	Profit/ Loss	Remarks	Exit Date
03-Oct-22	Short AUDNZD	1.141	1.1143	2.34%	RBNZ-RBA policy divergence. First target at 1.12 met. Targeting next objective at 1.1050. Shift SL to 1.1360. [Trade TP earlier at 1.1085]	19-Oct-22
04-Oct-22	Short AUDJPY	94.6	92.9	1.80%	Tentative signs of market stresses. First objective at 92.1 met. Targeting next objective at 90.50. Move SL to 93.70 (17 Oct). [Trade tripped SL in NY time]	17-Oct-22
27-Oct-22	Short CADJPY	107.3	104.9	2.24%	Tentative signs of market stresses.Target a move towards 105.75, 104.20 and 102.70 objectives. SL at 110.70. [TP trade earlier given that JPY leg appreciated larger and faster than expected]	14-Nov-22
20-Dec-22	Short NZDUSD	0.6345	0.63125	0.51%	Softer activity outlook, business confidence and consumer confidence in NZ undermined NZD. Short NZDUSD, targeting a move lower towards 0.6280 (first objective met) before 0.62 (second objective). SL moved to 0.6345 from 0.6385 [Trade tripped SL]	28-Dec-22
20-Dec-22	Long AUDNZD	1.0555	1.074667	1.82%	Tactical long AUDNZD on bullish divergence, targeting a move towards 1.0650 (first objective met), 1.0725 (second objective met) and 1.0865. SL at 1.0475 [Trade TP]	04-Jan-23
09-Mar-23	Short USDJPY	137	131.9	3.72%	look for a removal of YCC regime. Sustained rise and broadening inflationary pressures supports our bias for an abolishment of YCC and or exit from NIRP. Moderate-to-soft USD profile(as Fed tightening stretches into late cycle and that USD can fall when peak is priced) should also support USDJPY lower. Targeting move towards 132.50, 131.30 objectives. SL at 138.30. [Trade TP]	22-Mar-23
10-Mar-23	Long AUDUSD	0.6570			Favor AUD to trade higher on the back of 1/ China reopening story; 2/ possibly warmer ties between Australia and China; 3/ room for RBA to tighten. Target a move towards 0.70, 0.7160 objectives. SL at 0.64 [LIVE]	
17-May-23	Short USDTHB	34.2	34.75	-1.61%	Favor THB to strengthen on the back of Fed pause, a proxy for China reopening trade (to benefit TH inbound tourism), softer oil prices. Sell rally USDTHB towards 34.20. Target a move towards 33.50, 33.1 objectives. SL at 34.75 [SL].	29-May-23

Note: Close level is average of 1st, 2nd and 3rd objectives for take profit scenario; TP refers to take profit; SL refers to stop-loss

Selected SGD Crosses

SGDMYR Daily Chart: Double Top (Bearish Reversal Likely)



SGDMYR attempted to trade higher last week but was capped again. Cross was last at 3.4040 levels.

Bullish momentum on daily chart is fading while RSI fell. Double-top likely formed. Corrective pullback not ruled out in coming sessions.

Resistance at 3.42, 3.4289 levels (2023 high).

Support at 3.3770 (23.6% fibo retracement of 2023 low to high), 3.3670 (21 DMA) and 3.3430/50 levels (50 DMA, 38.2% fibo).

SGDJPY Daily Chart: Somewhat Still Supported for Now

SGDJPY fell for most parts of last week before a late surge on Fri into the close. Cross was last at 103.67 levels.

Bullish momentum on daily chart faded though RSI rose. Golden cross formed (50DMA cuts 200 DMA) earlier – a bullish signal. Last week's decline failed to break below 21DMA. Bullish trend channel formed since Mar-2023 remains intact.

Resistance at 104 (76.4% fibo), 104.90 and 105.20 levels.

Support at 102.60 (21 DMA, 61.8% fibo retracement of Oct high to Dec low), 101.20/40 (50DMA, 50% fibo) and 100.85 (200 DMA).

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

SGDCNH Daily Chart: Bullish but Stretched

SGDCNH extended its run-up amid CNH underperformance. Cross was last at 5.2665 levels.

Bullish momentum on daily chart intact for now while RSI shows signs of turning from near-overbought conditions. Potential bearish divergence on MACD. Rising wedge pattern observed (typically can hint at bearish reversal) but we continue to watch price action. Pullback not ruled out.

Support at 5.2240 (21 DMA), 5.2030 (50 DMA) and 5.1710/30 levels (100 DMA, 50% fibo retracement of Jul low to Nov high).

Resistance at 5.27 (Nov high), 5.28 (recent high).

EURSGD Daily Chart: Consolidative but Signs of Bullish Divergence

EURSGD consolidated last week as decline failed to gather momentum to break past 100DMA. Cross was last at 1.4460 levels.

Bearish momentum on daily chart faded while RSI is not showing much indication. Potential bullish divergence on MACD observed but remains too early to tell at this stage.

Support at 1.4430 levels (100 DMA) is key before, 1.4385 (38.2% fibo retracement of 2022 low to 2023 high) and 1.4260/80 levels (50% fibo, 200 DMA)

Resistance at 1.4540/60 levels (23.6% fibo, 50 DMA), 1.4570 (21 DMA).

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

GBPSGD Daily Chart: 2-Way Trade for Now

GBPSGD continued to drift higher amid GBP rebound while SGD lagged. Cross was last at 1.6810 levels.

Daily momentum turned mild bullish but RSI fell. Fri's sharp reversal hinted that bulls may be reluctant to advance further for now. 2-way trade likely for now.

Immediate resistance at 1.6910 (recent high) before 1.70, 1.71 levels

Support at 1.6740 (21DMA, 76.4% fibo retracement of Jun high to Sep low), 1.6640 (50 DMA).

AUDSGD Daily Chart: Still Bias to Buy Dips

AUDSGD rebounded last week. Cross was last at 0.8920 levels.

Bearish momentum on daily chart shows signs of fading while RSI rose. Bias to buy dips.

Immediate resistance at 0.9000/10 levels (100 DMA, 38.2% fibo retracement of 2023 high to low) and 0.9070 (50% fibo) and 0.9110 (200 DMA).

Support at 0.8910 levels (21, 50 DMAs, 23.6% fibo), 0.88, 0.8770 (recent low).

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

Gold Daily Chart: 100DMA a Critical Support

Gold did trade higher for most of last week before erasing bulk of the gains in a single session last Fri. XAU was last at 1948 levels.

Bearish momentum on daily chart faded but RSI fell. 2-way trade still likely.

Key support at 1939 (100 DMA, trend line support). Decisive break puts next support some miles away at 1891 (28.2% fibo).

Resistance at 1957 levels (23.6% fibo retracement of 2022 low to 2023 high), 1983/91 levels (21, 50 DMAs) and 2024 levels.

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

Medium Term FX Forecasts

FX	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24
USD-JPY	138.00	135.00	130.00	129.00	128.00
EUR-USD	1.0800	1.0900	1.1000	1.1000	1.1100
GBP-USD	1.2400	1.2500	1.2600	1.2600	1.2700
AUD-USD	0.6800	0.6900	0.7000	0.7000	0.7100
NZD-USD	0.6200	0.6300	0.6400	0.6400	0.6500
USD-CAD	1.3500	1.3300	1.3200	1.3100	1.3000
USD-CHF	0.9000	0.9000	0.8900	0.8900	0.8900
USD-SEK	10.400	10.200	10.000	9.9000	9.9000
DXY	103.23	102.06	100.71	100.49	99.70
USD-SGD	1.3400	1.3300	1.3200	1.3100	1.3100
USD-CNY	7.1000	7.0000	6.9500	6.9000	6.8800
USD-CNH	7.1100	6.9900	6.9500	6.9000	6.8800
USD-THB	34.300	34.200	34.000	33.800	33.800
USD-IDR	14920	14850	14800	14750	14720
USD-MYR	4.5400	4.5200	4.5000	4.4600	4.4200
USD-KRW	1305.0	1275.0	1265.0	1260.0	1255.0
USD-TWD	30.600	30.500	30.400	30.300	30.200
USD-HKD	7.8400	7.8400	7.8300	7.8200	7.8200
USD-PHP	55.800	55.600	55.200	55.100	54.600
USD-INR	82.000	81.500	81.000	81.000	80.800
USD-VND	23400	23200	23200	23000	23000
EUR-JPY	149.04	147.15	143.00	141.90	142.08
EUR-GBP	0.8710	0.8720	0.8730	0.8730	0.8740
EUR-CHF	0.9720	0.9810	0.9790	0.9790	0.9879
EUR-SGD	1.4472	1.4497	1.452	1.441	1.4541
GBP-SGD	1.6616	1.6625	1.6632	1.6506	1.6637
AUD-SGD	0.9112	0.9177	0.924	0.917	0.9301
NZD-SGD	0.8308	0.8379	0.8448	0.8384	0.8515
CHF-SGD	1.4889	1.4778	1.4831	1.4719	1.4719
JPY-SGD	0.9710	0.9852	1.0154	1.0155	1.0234
SGD-MYR	3.3881	3.3985	3.4091	3.4046	3.3740
SGD-CNY	5.2985	5.2632	5.2652	5.2672	5.2519
SGD-IDR	11134	11165	11212	11260	11237
SGD-THB	25.597	25.714	25.758	25.802	25.802
SGD-PHP	41.642	41.805	41.818	42.061	41.679
SGD-CNH	5.3060	5.2556	5.2652	5.2672	5.2519
SGD-TWD	22.836	22.932	23.030	23.130	23.053
SGD-KRW	973.88	958.65	958.33	961.83	958.02
SGD-HKD	5.8507	5.8947	5.9318	5.9695	5.9695
SGD-JPY	102.98	101.50	98.484	98.473	97.710
Gold $/oz	2000.0	2030.0	2050.0	2050.0	2070.0

Source: OCBC Research (Latest Forecast Update: 1st June 2023)

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