FX Weekly

6 November 2023

Retreat in Dollar, Yields Offers Relief for AXJs

Christopher Wong
FX Strategist
+65 6530 4367
ChristopherWong@ocbc.com

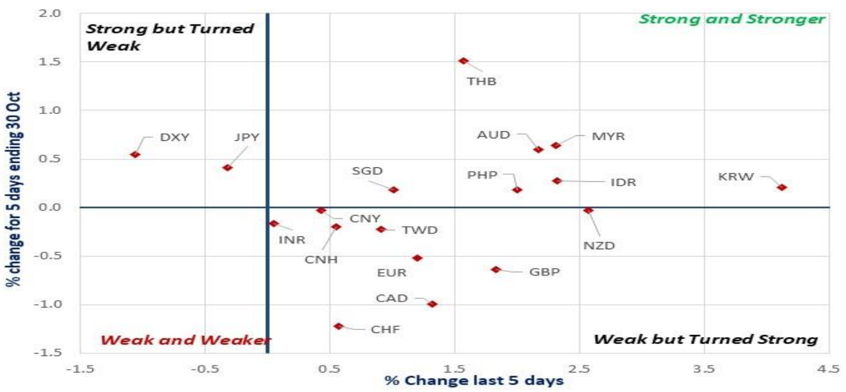
Global Markets Research
Tel: 6530-8384

FoMC, Data Reaffirm Our View that Fed is Done. DXY ended the week with a bearish close. The decline can be attributable to 1/ less hawkish FoMC; 2/ lower-than-expected longer-end bond supply; 3/ much softer-than-expected NFP, ISM services data. Powell also appeared to have downplayed the September dot-plot and brushed away concerns over rising inflation expectations. While Powell's messaging may have indicated a bullish assessment on growth and activity, the messaging also contained hint of extended pause, and to some extent that Fed is done for current cycle. Decline in USD could extend and provide an extended breather for AXJs unless UST yields resume rise. Overall, we are biased to adopt a "sell-on-rally" for USD as Fed is likely done with tightening for current cycle. USD sell off would likely accelerate when market narrative shifts into trading the expectations for "more rate cuts in 2024" and this would be highly dependent on how data pans out. A more entrenched disinflation trend and more material easing of labour market tightness, activity data in US should bring about the shift and for the USD to trade softer. That said, USD still retain a significant yield advantage and is a safe haven proxy to some extent. As such, USD may still find intermittent support on dips especially if global, China growth momentum sputters and/or geopolitical tensions persist.

RBA Likely to Hike on Tue. We see good chance of RBA increasing cash rates by 25bp, especially following higher CPI, PPI print, better than expected retail sales and following RBA Governor Bullock's recent remarks. In particular she said that RBA will not hesitate to hike if there is material upgrade to its inflation outlook. Markets are also pricing in >50% probability of a 25bp hike at the upcoming MPC (vs. <25% probability 2 weeks ago). Expectations of hike should continue to keep AUD supported in the interim. A stretch towards 0.6580, 0.6620 should not be ruled out.

China Data Blip or Lasting Setback? China PMIs unexpectedly came in weaker than expected for Oct. Both NBS and Caixin manufacturing slipped into contractionary territory while services PMI fell and came close to 50-line. Softer data underscores how fragile the recovery is and raises questions if the recovery momentum seen in the past 2 months has faltered or if this is just a one-off data blip? Focus on upcoming trade (Tue); CPI, PPI (Thu) and activity data (next Wed). We believe China's pro-growth measures, including plans to sell RMB1tn bonds to support the economy should bear fruit over time.

FX Turning or Trending – Breather for Non-USD FX



Source: Bloomberg, OCBC Research

Bloomberg FX Forecast Ranking (3Q 2023)

By Region:
No. 7 for G10 Major FX

(2Q 2023)

By Currency:
No. 1 for PHP
No.2 for IDR, VND, TWD, CAD

By Region:
No. 4 for Asia FX
No.7 for G10 Major FX

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AxJ Positioning Bias (Reuters Poll) and EPFR Flows

Based on Reuters survey on Asia FX positioning, bearish bets on most AxJ FX extended before FoMC. Bearish bets on IMYR, IDR and TWD saw the largest increase while bearish bets on SGD saw slight pare back. Overall, bearish bets on IDR, INR, MYR, and TWD were the largest while SGD, THB and PHP were relatively lesser. It is likely these bearish bets have somewhat unwound following the decline in USD, UST yields post-FoMC, NFP.

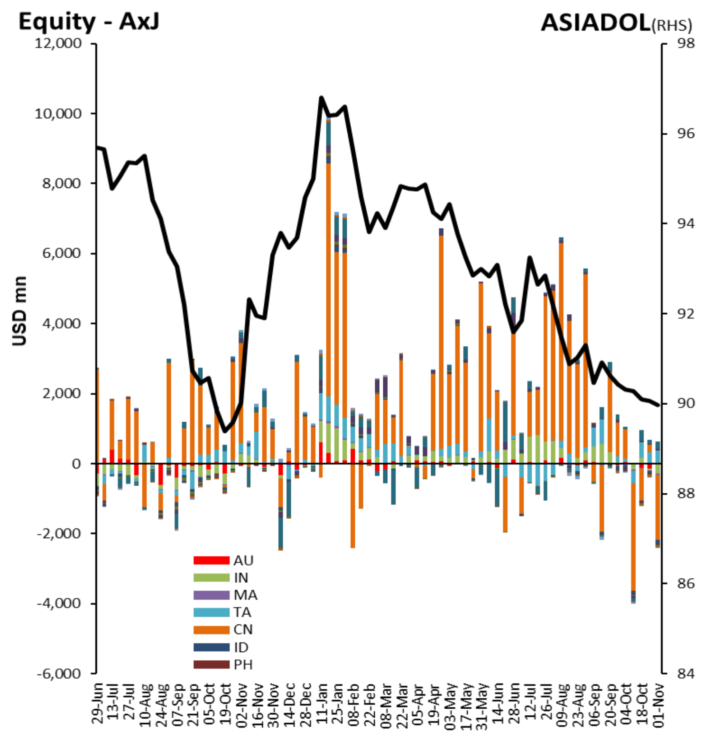
On EPFR flows, global bond market reported net inflows of $4.6bn last week, a sharp increase from prior week's inflow of $2.2bn. Developed Market saw inflows while Emerging Market continue to see outflows. Developed Market reported $6.5bn of inflows, while Emerging Market reported outflows of $1.9bn, where Emerging Asia led the largest outflow at $1bn. On DM equity flows, Developed Asia saw inflows slowed to $0.77bn last week, from prior week of +$2bn.

	13-Jul-23	27-Jul-23	10-Aug-23	24-Aug-23	07-Sep-23	21-Sep-23	05-Oct-23	19-Oct-23	02-Nov-23	Trend
USD/CNY	1.33	0.77	0.74	1.42	1.28	1.29	1.17	1.02	1.32	
USD/KRW	0.12	0.19	0.68	0.79	1.01	0.94	1.25	1.16	1.18	
USD/SGD	0.62	-0.22	0.28	0.34	0.3	0.61	0.81	0.84	0.74	
USD/IDR	0.52	-0.14	0.6	0.77	0.65	0.84	1	1.06	1.44	
USD/TWD	1.13	1.17	1.12	1	0.95	0.98	1.25	1.06	1.31	
USD/INR	0.1	-0.06	0.62	0.84	0.79	1	0.92	1.21	1.35	
USD/MYR	1.77	1.15	0.98	1.18	0.86	1.03	1.08	0.78	1.33	
USD/PHP	0.26	0.14	0.75	0.92	0.55	0.64	0.75	0.89	0.96	
USD/THB	0.73	0.15	0.49	0.5	0.57	0.83	1.03	0.67	0.85	

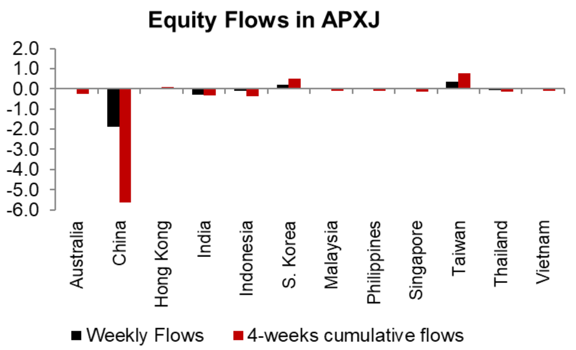
Note: Asian FX poll is conducted by Reuters, on bi-weekly basis on what analysts and fund managers believe the current market positioning are. Poll uses estimates of net short or long on a scale of -3 to +3. A score of +3 indicates significant long USD against the AxJ FX. Arrow direction indicates change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

Source: Reuters [latest avail: 2 Nov 2023], OCBC Research

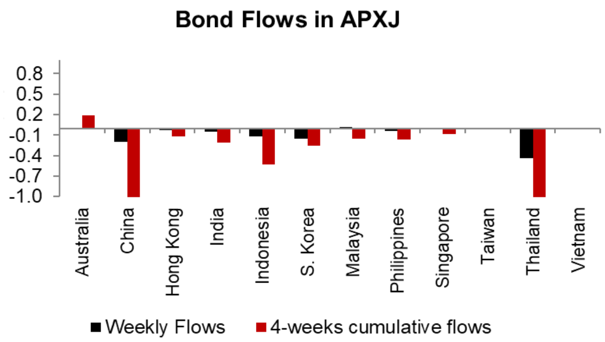
EPFR Equity Flows to AxJ vs ASIADOL



AxJ Equity Flows – Week vs 4w Cumulative



AxJ Bond Flows - Week vs 4w Cumulative



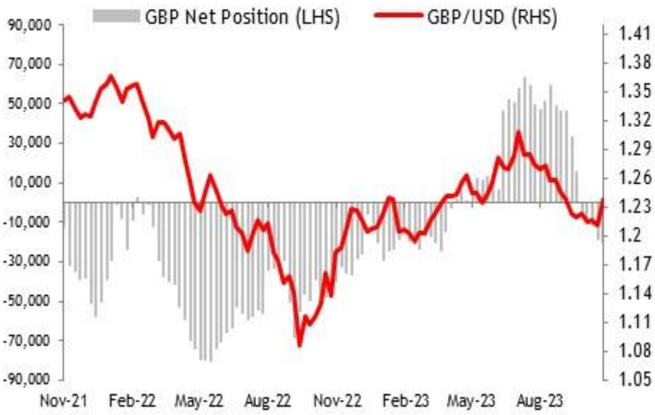
Note: Latest data available as of 1st Nov 2023 (weekly frequency); ASIADOL index refers to Bloomberg Asia dollar index

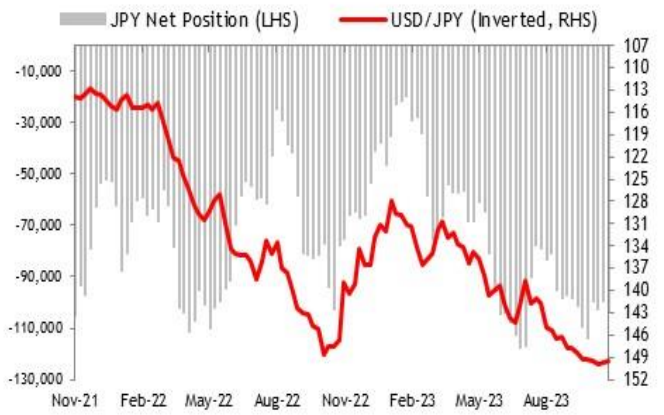
Source: EPFR, Bloomberg, OCBC Research

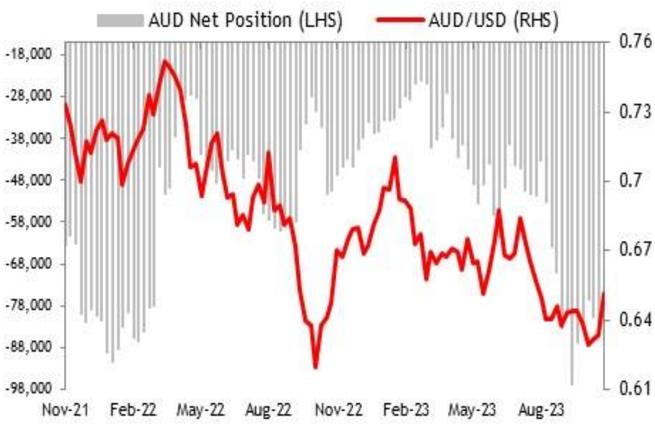
Non-Commercial CME CFTC Net Positioning (in number of contracts) vs. Respective FX/USD

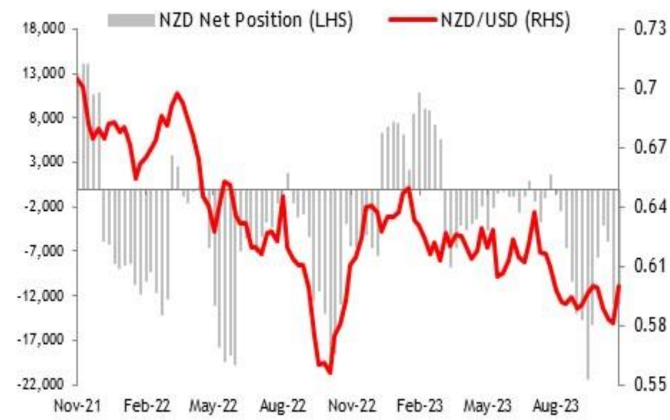
- *Positioning data as of 31 Oct; Latest CFTC report issued on 3 Nov 2023; data points of the past 2Y on weekly frequency*

Long DXY position decreased slightly just before FoMC, while DXY eased modestly.
EUR longs rebuilt while EUR rebounded sharply last week.
JPY shorts rose slightly alongside rebound in JPY from near recent low (vs. USD).
Short position in AUD, NZD eased slightly alongside rebound seen in AUD, NZD









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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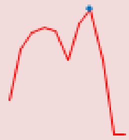
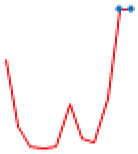
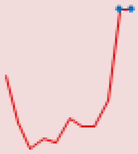
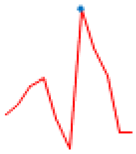
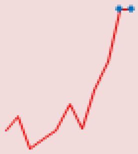
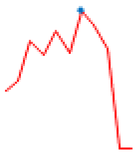
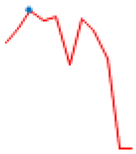
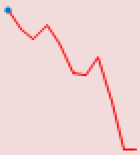
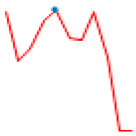
FX	Key Data and Events for the Week	14D Trend	Support/Resistance
Dollar	**Mon**: - Nil – **Tue:** Trade (Sep); **Wed:** Wholesale inventories (Sep); Fed Chair Powell speaks; **Thu:** Initial jobless claims; **Fri**: Uni of Michigan sentiment, 1y, 5y-10y inflation (Nov P); Powell speaks		**S: 103.50; R: 106.20**
EURUSD	**Mon:** Services PMI (Oct); German factory orders (Sep); **Tue:** PPI (Sep); German IP (Sep); **Wed:** Retail sales (Sep); German CPI (Oct); **Thu:** ECB's Lagarde speaks; **Fri:** ECB Lagarde speaks		**S: 1.0590; R: 1.0800**
GBPUSD	**Mon:** Construction PMI (Oct); **Tue:** BRC Sales (Oct); BoE's Huw Pill speaks; **Wed:** BoE Governor Bailey speaks; **Thu:** RICS house price balance (Oct); BoE's Huw Pill speaks; **Fri:** IP, GDP, trade, construction output (Sep); GDP (3Q)		**S: 1.2200; R: 1.2550**
USDJPY	**Mon:** PMI services (Oct); **Tue:** Retail Cash earnings (Sep); **Wed:** Leading index (Sep); **Thu:** Current account (Sep) **Fri:** - Nil –		**S: 146.00; R: 150.30**
AUDUSD	**Mon:** Job advertisements (Oct); **Tue: RBA Policy Decision;** FX reserves (Oct); **Wed:** - Nil – **Thu**: - Nil – **Fri:** RBA's SoMP		**S: 0.6360; R: 0.6620**
USDCNH	**Mon**: - Nil – **Tue:** Trade (Oct); **Wed:** - Nil – **Thu:** CPI, PPI (Oct) **Fri:** - Nil –		**S: 7.2400; R: 7.3200**
USDKRW	**Mon:** - Nil – **Tue:** - Nil – **Wed:** Current account (Sep); **Thu:** - Nil – **Fri:** - Nil –		**S: 1295.00; R: 1339.00**
USDSGD	**Mon:** - Nil – **Tue:** - Nil – **Wed:** FX reserves (Oct) **Thu:** - Nil – **Fri:** - Nil –		**S: 1.3455; R: 1.3650**
USDMYR	**Mon:** - Nil – **Tue:** Industrial production (Sep); FX reserves (Oct) **Wed:** - Nil – **Thu:** - Nil – **Fri:** - Nil –		**S: 4 6800; R: 4.7600**
USDIDR	**Mon:** GDP (3Q); **Tue:** FX reserves (Oct); **Wed:** Consumer confidence (Oct) **Thu:** - Nil – **Fri:** - Nil –		**S: 15,550; R: 15,800**

Source: Bloomberg, OCBC Research

Key Themes and Trades

Retain Bias to Sell Rallies. DXY ended the week with a bearish close. The decline can be attributable to 1/ less hawkish FoMC; 2/ lower-than-expected longer-end bond supply; 3/ softer-than-expected NFP print (150k vs. 180k expected vs. 336k prior). Even unemployment rose (3.9% vs 3.8% expected) and average hourly earnings came in at 4.1% y/y (vs. 4.2% prior). Slowing job growth reinforces our view that tightness in labour market is gradually easing. **Bearish close in the DXY and sharp pullback in UST yields should provide an extended breather for Asian FX (barring any unexpected downside surprises). High-beta FX, including KRW, AUD may have more room to run ahead**. This week's focus on plenty of central bank speaks, including Fed Chair Powell (Fri); ECB's Lagarde (Thu, Fri) and BoE's Bailey (Wed).

On Fed, FoMC kept rates on hold at 5.25-5.50% for the second consecutive meeting but maintained optionality for additional tightening later this year or next if inflation proves more sustained than expected. Fed noted that economic activity has been expanding at a strong pace, well above expectations and that labour market remains tight but supply-demand conditions coming into balance. Powell also told reporters during a press briefing that slowing down gives Fed officials a better sense of how much more they need to do, if they need to do more. **Powell also appeared to have downplayed the September dot-plot and brushed away concerns over rising inflation expectations**. While Powell's messaging may have indicated a bullish assessment on growth and activity, the **messaging also contained hint of extended pause, and to some extent that Fed is done for current cycle**. Overall, FOMC and Powell stuck to less-hawkish rhetoric: 1/ that policy making should proceed carefully, given the uncertainties and risks and how far they have come; 2/ acknowledge that the recent rise in UST yields amount to some degree of tightening and 3/ policy making remains data dependent. We **maintain our view that while the door for another hike remains open, the FOMC is likely done with tightening for current cycle** as inflation pressure is already coming off, alongside inflation expectations and that real rates at >2.4% (more than 10y high) is already restrictive. And we reckon that the hurdle for Fed to tighten again would be high if incoming data shows slowing inflation and further softening in labour market. Markets are re-pricing their dovish expectations. Fed fund futures indicated 5% probability of hike at Dec FoMC

Our Rates Strategist highlighted a few more things to note:

1/ Tighter financial condition. The FOMC statement commented that "tighter financial and credit conditions for households and businesses are likely to weigh on economic activity, hiring, and inflation" – "financial" is added to "credit" regarding the tighter conditions, apparently referring to the increases in UST yields. The rest of the statement is fairly similar to the September statement.

2/ Powell sounded less hawkish, or neutral. Despite that Powell still does not rule out the possibility of further tightening, he did sound less hawkish – or even neutral. He said higher yields are showing as higher borrowing costs for households and business; longer term inflation expectation remains well anchored; the Committee has not made a decision for December - this should even be seen as "dovish", as the September dot-plot points to a 25bp hike in December, and this leads to the next point:

3/ The efficacy of the dot-plot decays. Powell answered at length about the dot-plot: "The dot-plot is a picture in time of what the people in the Committee thinks is likely to be an appropriate monetary policy in light of their own personal economic forecast" and it is not "a plan that anybody has agreed to" and "that is a forecast that would change". The "efficacy of the dot plot probably decays over the 3-month period between that meeting and the next meeting". This is precisely what we have been highlighting, that the dot-plot represents individual FOMC members' own forecasts and past dot-plot were not particularly accurate. By saying members could, 6 weeks later, "say I wouldn't write down that dot" as they could change mind, Powell almost told the market to ignore the dots that point to a final 25bp hike, in our view.

DXY was last at 105.1 levels. Daily momentum shows signs of turning mild bearish while RSI fell. On weekly chart, bullish momentum shows signs of fading while RSI fell from near overbought conditions. Risks skewed to the downside for now. Support at 104.40 (38.2% fibo retracement of Jul low to Sep high), 103.50 levels (200 DMA, 50% fibo) and 102.50 (61.8% fibo). Resistance at 105.50 (23.6% fibo, 50 DMA), 106.20 (21 DMA) and 106.90 levels.

On net, the momentum in USD strength may continue to wane as Fed is getting closer to explicitly concur that they are done with tightening. In the interim, USD still retain a significant yield advantage and is a safe haven proxy to some extent. As such, USD may still find support on dips especially if global, China growth momentum sputters and geopolitical tensions persist. Nevertheless, we are biased to adopt a "Sell-on-rally" for USD as Fed is likely done with tightening for current cycle. USD sell off should accelerate when market narrative shifts into trading the expectations for "more rate cuts in 2024" and this would be highly dependent on how data pans out. A more entrenched disinflation trend and more material easing of labour market tightness, activity data in US should bring about the shift and for the USD to trade softer.

Room for Gains. EUR rose sharply last week, at the expense of USD pullback while ECB rhetoric remains fairly hawkish. Lagarde said that policymakers are determined to bring inflation down to 2% and not worried about political implications of ECB's efforts, which have been criticized by some European governments who had said that higher interest rates will choke off growth. Schnabel said ECB cannot close the door to further rate hikes; De Cos said it is far too premature to talk about lowering rates while Knot commented that current policy is "good cruising altitude". Nagel said that ECB cannot let up on rates too soon and he also shared in a separate interview that Germany's economy will probably expand again in 2024. He did acknowledge that 2023 was not a good year in regard to economic growth but it won't be a year of hard recession.

Pair was last at 1.0730 levels. Bullish momentum on daily chart intact while RSI rose. Bullish trend channel formed. Resistance at 1.0770 (38.2% fibo retracement of Jul high to Oct low), 1.0810 (100, 200 DMAs) and 1.0860 (50% fibo). Support at 1.0650 (23.6% fibo, 50 DMA), 1.0590 (21 DMA). Bias to buy dips. ECB's Lagarde to speak this week (Thu, Fri).

We see room for EUR to recover as USD trades on the backfoot on dovish repricing. But gains in EUR may somewhat be restraint to some extent as growth momentum in Euro-area slows while ECB tightening cycle has likely concluded, though rates may remain elevated for longer. We still expect Fed to be closer to rate cut as early as 1H 2024 vs. ECB in 2H 2024. Some degree of convergence in ECB-Fed monetary policies is still likely and that could still marginally be supportive of a mild upward trajectory into 2024. While ECB is likely done with raising rates for current cycle, we still expect some discussion on tackling excess liquidity in coming weeks discussion on how to reduce excess liquidity will focus on three areas: 1/ the amount of reserves banks must keep at the ECB; 2/ the unwinding of its bond-buying programmes and 3/ a new framework for steering short-term interest rates. These imply that raising minimum RR is a possible first move. Elsewhere, China data has been seeing some signs of improvement and recent SG NODX further confirmed that as NODX to China rebounded. Sustained improvement in China demand may start to show up in European data, and that may help to brighten EU's growth outlook, given peak pessimism and support EUR's recovery. The key risks to EUR's outlook are an earlier than expected dovish ECB pivot and/or growth momentum in Euro-area continues to decelerate sharply.

Supported. GBP rose last week as USD eased post-FoMC and softer payrolls data. Pair was last at 1.2380 levels. Bullish momentum on daily chart intact while RSI rose. Next resistance at 1.2435/60 levels (200DMA, 38.2% fibo retracement of Jul high to Oct low), 1.2547 (100 DMA). Support at 1.23 levels (23.6% fibo, 50 DMA), 1.22 (21 DMA).

At the last MPC meeting, BoE voted 6-3 to keep policy rate on hold at 5.25%. Governor Bailey said that it is too early to be thinking about rate cuts and policymakers will be watching closely to see if further rate increases are needed. Our rates strategist highlighted that while the BoE sounded more downbeat on the economic growth prospect, it has pushed the timeline for inflation to return to the 2% target to end-2025 from Q2-2025. The central bank continued to see risk to their inflation projection to the upside. BoE revised GDP forecasts lower for 2023 (from 0.9% to 0.6%), 2024 (0.1% to 0.0%) and 2025 (0.5% to 0.4%); CPI inflation forecasts were revised modestly lower for 2023 (from 4.9% to 4.6% for modal inflation) but notably higher for 2024. Autumn Statement on 22 Nov will be the next focus.

We remained neutral on GBP outlook as UK growth momentum shows signs of deceleration while BoE tightening cycle is likely to have approached its end. Looking out, we still hold to a mild upward trajectory for GBP as BoE is likely to keep rates restrictive for a little longer as inflationary pressures remain, and potential BoE-Fed policy convergence may still be supportive of GBP. Risk to our outlook is the pockets of concerns in some aspects of domestic fundamentals (i.e. over-tightening into recession, consumer squeeze, etc.) that could still restrain GBP's recovery to some extent.

Double Top Bearish Reversal. USDJPY traded choppy last week as the pair attempted to trade near 152 after BoJ's tweak underwhelmed expectations but subsequently, the pair traded sharply lower after UST yields fell, US data disappointed to the downside, FoMC turned out to be less-hawkish and BoJ engaged in verbal intervention. Specifically, Japan chief currency official Kanda said yield differentials is just one factor for FX; concerned about one-sided, sudden FX moves; authorities saw some JPY moves that were not in line with fundamentals and they were on standby to intervene.

Taking stock, the Bank of Japan's monetary policy decision may appear that BoJ did not do too much but on second look, there was actually quite a significant shift to some extent. Previous conduct of the YCC was such that the 1% in the 10y JGB yield was a strict upper bound. But BoJ's tweak to increasing flexibility means that 1% is no longer a hard cap but is now known as a reference rate, around which the BOJ will nimbly conduct market operations. This suggests that policymakers may be increasingly tolerant for JGB yields to adjust higher, though Governor Ueda himself replied that he does not expect JGB yields to go significantly above 1%, when asked whether 1.5% or 2% would be possible. To some extent, this may perhaps be as good as quietly allowing the YCC to fade, without explicitly saying so. BoJ's focus is still in achieving price stability target of 2% and policymakers sees that this increase needs to be accompanied by an intensified virtuous cycle between wages and price.

Our house view still expects both the YCC, NIRP regimes to be removed, depending on how fast JGB yields, inflationary, wage pressures rise over time and how sustained the rise is. We do note that inflationary pressures are broadening; growth outlook is improving and upward pressure on wage growth remains intact. Core-core inflation (strips away fuel and food) is now running at over 40year high of 4.3% and both nationwide and Tokyo CPIs show that price pressures are broadening. Recent 3Q Tankan survey shows rising confidence among large manufacturers while sentiment for non-manufacturers rose to highest level in more than 30 years. Nikkei also reported that Japan's largest business lobby (Keidanren) is likely to urge member companies to consider raising base pay for spring wage negotiations in 2024. Recall that for 2023, large firms belonging to Keidanren raised total pay increasing base pay for their employees by 3.99% (the biggest increase in 30 years). These reinforce our view for a BoJ shift at some point this year. The next MPC decision is due on Tue. Recall BoJ had made a surprise tweak to YCC (29 Jul), allowing for 10y JGB yield to above the cap as long as it stays under 1%. Another surprise (31 Oct) may catch market off-guard and lead to USDJPY declining.

USDJPY was last at 149.39 levels. On weekly chart, bullish momentum shows signs of fading while RSI fell. Bearish divergence observed on MACD. On daily chart, momentum shows tentative signs of turning mild bearish. Risks skewed to the downside. Next support at 148.60 (50 DMA), 146 (23.6% fibo retracement of 2023 low to high). Resistance at 149.80 (21 DMA), 150.30 and 152 levels (double top).

Beyond the near 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 on expectation for further BoJ shift towards policy normalisation amid higher inflationary and wage pressures in Japan.

RBA Likely to Hike. AUD traded and closed above 0.65-handle for the first time in about 3-months. Sharp pullback in USD, UST yields and expectations of RBA hike this week were some of the factors fuelling the rally. Australia PM Albanese is also in China this week and is scheduled to meet President Xi. This is the first visit made by an Australian leader in 7 years and PM Albanese attended the China International Import Expo in Shanghai on Sunday to promote Australian produce and businesses. Australia is looking to work with China to lift restrictions on other Australian imports such as wine, etc.

For RBA meeting (Tue), we see good chance of RBA increasing cash rates by 25bp, especially following higher CPI, PPI print, better than expected retail sales and following RBA Governor Bullock's recent remarks. In particular, she said that RBA will not hesitate to hike if there is material upgrade to its inflation outlook. That said, markets are not entirely convinced that RBA will hike as cash rate futures also only pricing in ~50% probability of a 25bp hike at the upcoming MPC (though still higher than the <10% probability a month ago). Given that market is 50-50, the chance of 2-way swing is relatively high around timing of RBA policy announcement. More importantly, we will also be watching out for forward guidance. A hawkish hike should continue to keep AUD better bid while a no hike should see last week's gains in AUD reversed.

AUD was last at 0.6510 levels. Daily momentum is bullish while RSI rose. Bias remains for upside play. Resistance here at 0.6510/20 levels (38.2% fibo of Jul high to Oct low, 100 DMA). Decisive break puts next resistance at 0.6580 (50% fibo), 0.6620 (200 DMA). Support at 0.6420/00 levels (23.6% fibo, 50DMA), 0.6365 (21 DMA).

We continue to favour AUD recovery in coming months: 1/ on signs that China growth may be stabilising; 2/ possibly warmer ties between Australia and China to support investment and trade flows benefits AUD; 3/ a more moderate-to-soft USD profile into 2024 (as Fed nears end tightening cycle and embark on rate cut cycle in 2024). On AU-China relations, development has been promising. The latest was Australia PM's visit to Beijing; a restart of high-level talks between Australia and China in Beijing, providing a platform for senior reps from industry, government, etc to exchange perspectives across the breadth of bilateral relationship. This is the first time since early 2020 that a dialogue has been held and is an important step towards warmer bilateral ties. Other developments include: 1/ China imports of Australian timber resumed since mid-May (halted since late 2020 and is worth approx. A$600mio); 2/ China lifted tariff on import of Australian barley (5 Aug), hay; 3/ China's top steelmaker and 3 central government-backed utilities have resumed coal imports from Australia earlier this year; 4/ wine, crayfish, and meat are outstanding items that could potentially see restrictions lifted by Beijing. 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 Fed tightening cycle unexpectedly extends; 3/ global growth outlook – if DM's slowdown deteriorates; 4/ any market risk-off event (i.e. escalation in Israel-Hamas conflict).

Sell Rallies. USDSGD fell, alongside the decline in most USD/AXJs. Sharp fall in UST yields (by as much as ~50bps at one point last week) provided the much-needed breather for Asian FX. The move lower was in line with our call (in last FX Weekly) that we *reckon upside risks was temporary and that chance of Fed pause (or potential pivot at some stage) and stabilising China momentum (at some point) should help to turn the pair lower.* The move has since played out.

Pair was last at 1.3545 levels. Daily momentum turned bearish while RSI fell. Bias to sell rallies. Immediate support at 1.3530/40 levels (38.2% fibo retracement of Jul low to Oct high, 100 DMA), 1.3455/65 levels (50% fibo, 200 DMA). Resistance at 1.3620 (23.6% fibo), 1.3650 (50DMA).

Recap: At the 13th Oct MPC, MAS maintained policy status quo, as widely anticipated, including ourselves. Key highlights include: 1/ **change in frequency of MPC meeting to quarterly** from 2024 and the next meeting will be in Jan. This is part of MAS' continuing efforts to enhance monetary policy communications; 2/ **MPS was overall more balanced** than previous. Statement noted that the *risk of a sharp global downturn, precipitated by financial vulnerabilities, has receded compared to earlier in the year. Growth in Singapore's major trading partners should gradually pick up later in 2024 as inflation continues to ease and the electronics cycle turns up modestly, although the timing and extent of the recovery is subject to significant uncertainty*; 3/ **core inflation projected to slow to an average of 2.5-3.5% in 2024** vs. 2023 projected MAS core cpi of around 4%. MAS retain the view that *there are both upside and downside risks to inflation. Shocks to global food and energy prices or domestic labour costs could bring about additional inflationary pressures.*

S$NEER is trading near its upper bound and could still continue to do so as MAS's policy stance is still on an appreciation stance. However, **should core inflation ease further into 2024 as projected by MAS, then the S$ strength we've seen for large part of this year can potentially taper off against some of its major trade partners.** Historically there is a positive correlation between the change in S$NEER and MAS core inflation. i.e. to say if core inflation does ease materially, then there is no need to for the S$NEER policy to be so tight. To put in context, if we get a scenario of core inflation easing further in Singapore, USD decline and sentiment is risk-on, then other currencies within the trade baskets may have more room to appreciate vs. SGD. To some extent, current environment could possible see low-beta SGD trade on the back foot vs. some of the currencies in its trade basket (non-USD).

Looking out into our forecast horizon, we still expect a mild downward trajectory for USDSGD, premised on our view for a moderate-to-soft USD outlook, on expectations that Fed is likely at end of tightening cycle/ to embark on rate cut cycle in 1Q 24) and on expectations that China growth to find a bottom in 2H. Elsewhere, we have also been highlighting there are tentative signs that the export slump for some countries in Asia may have moderated. Exports growth for Taiwan, Korea, Japan, Vietnam have turned positive for first time in a year while exports of Singapore, China, Indonesia, and Malaysia are less negative. More sustained and broader recovery is needed for exports recovery story to gather traction. When that happens, trade-dependent FX such as KRW, TWD, SGD, JPY can see a turnaround. This is also highly dependent on when the USD inflection is, when UST yields ease materially lower, and state of geopolitical situation.

Bias Skewed to the Downside. USDCNH turned lower into Fri close on a combination of exogenous factors playing out: 1/ sharp decline in UST yields, USD led by; 2/ softer payrolls data; 3/ less-hawkish FoMC. Disappointment in China PMIs for Oct did not spoil the RMB recovery party as the USD, UST yield moves were the overwhelming factor.

That said it is worth highlighting that China PMIs had unexpectedly come in weaker than expected for Oct. Both NBS and Caixin manufacturing slipped into contractionary territory while services PMI fell and came close to 50-line. **Softer data underscores how fragile the recovery is and raises questions if the recovery momentum seen in the past 2 months has faltered or if this is just a one-off data blip?** Focus on upcoming trade (Tue); CPI, PPI (Thu) and activity data (next Wed). We believe China's pro-growth measures, including plans to sell RMB1tn bonds, raise fiscal deficit ratio to 3.8% to support the economy should bear fruit over time.

USDCNH was last at 7.2890 levels. Daily momentum turned mild bearish, while RSI fell. Risks skewed to the downside. Support at 7.2665 levels (100 DMA), 7.24 levels. Resistance at 7.31 (50DMA), 7.35 levels.

To take stock, upbeat China data continues to point to signs of stabilisation in China economy and reinforces our view of a glass half full. Past 2 months of China data has been encouraging – 3Q GDP surprised to the upside; Industrial production, retail sales rebounded in Aug, Sep; exports and imports data saw its pace of deceleration slowing in Aug, Sep; credit data (aggregate financing and new RMB loans) rebounded significantly for Aug and Sep from July numbers.

Overall, we retain the view that quite a fair bit of pessimism is already in the price of RMB. Policymakers have stepped in with support measures (which may seem piecemeal but is rather extensive and targeted), that could potentially bear fruit over time. Some of these measures include but not limited to:

- Real estate measures such as 1st home mortgage rate cut;
- Debt swap to move up to RMB1.5tn off-balance sheet liabilities with extended maturities and lower interest rates;
- Taking steps to ease strict capital control measures in Shanghai's free trade zone and Lingang;
- Several provinces including Sichuan, Hebei launched new batch of major projects worth RMB1.1tn;
- Consideration for stabilisation fund to prop up local stock market;
- Reduction in loan prime rate, RRR, aggressive daily RMB fix and offshore CNH funding squeeze, etc.

And if policymakers can address the confidence, sentiment channels, then RMB weakness may moderate especially when there is already so much pessimism in the price. **Ultimately for RMB to stabilise fundamentally and recover would still require China economic activities to pick up, confidence to be "repaired" (foreign inflows to return) and USD, UST yields to turn lower (dependent on timing of Fed pivot).**

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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	0.685	4.26%	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 [Trade TP]	20-Jun-23
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
11-Aug-23	Long CADSGD	1.0040	0.9980	-0.60%	Long energy vs. short SGD on potential MAS easing, RMB and JPY softness. Target move towards 1.01, 1.0140 objectives. SL at 0.9980. [SL]	23-Aug-23
23-Aug-23	Long AUDUSD	0.6433	0.628	-2.38%	Expectations of China growth stabilisation, warmer ties between China and Australia, Fed near end tightening cycle. Target move towards 0.67. SL at 0.6280. [SL]	26-Oct-23
	Cumulative Returns			12.11%		

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

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Selected SGD Crosses

SGDMYR Daily Chart: Room for Retracement

SGDMYR continued to drift lower, in line with our caution that further retracement is not ruled out. Cross was last at 3.4720 levels.

Daily momentum turned bearish while RSI fell. Room for further retracement.

Support at 3.4580 (38.2% fibo), 3.4520 levels (50 DMA) and 3.4415/30 levels (50% fibo, 100 DMA).

Resistance at 3.4770 levels (23.6% fibo retracement of Jul low to Oct high), 3.49 and 3.5080 levels (2023 high).

SGDJPY Daily Chart: Range

SGDJPY eased slightly from recent high; last at 110.250 levels.

Daily momentum is mild bullish but RSI fell. Near term, range-bound price action near recent high likely. But looking out we observed a potential rising wedge in the making. This is typically a bearish reversal pattern. We continue to watch price action for confirmation.

Support at 109.50 (21 DMA), 108.90 (50 DMA) and 107.60 (100 DMA).

Resistance at 110.75, 112 levels.

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

SGDCNH Daily Chart: Slight Bullish Bias

SGDCNH rose, in line with our call for slight bias to the upside. Cross was last at 5.3810 levels.

Daily momentum and RSI indicators continue to exhibit a mild bullish bias.

Resistance at 5.40, 5.42 levels.

Support at 5.3680 (23.6% fibo, 100 DMA), 5.351-/50 levels (21, 50 DMA) and 5.3120 (38.2% fibo retracement of 2023 low to high).

EURSGD Daily Chart: Buy Dips

EURSGD was a touch firmer last week, led by EUR gains. Cross was last at 1.4530 levels.

Mild bullish momentum on daily chart intact while RSI rose. Bias for upside play.

Support at 1.4475 (21 DMA), 1.4420 (61.8% fibo) and 1.4360 (recent low).

Resistance at 1.46 levels (38.2% fibo retracement of 2023 low to high), 1.4630 levels (100 DMA).

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

GBPSGD Daily Chart: Bottoming Out

GBPSGD traded slightly lower in early week but losses were more than reversed into gains into NY close. Cross was last at 1.6770 levels.

Daily momentum turned mild bullish while RSI rose. Risks skewed to the upside.

Resistance at 1.68 (50 DMA), 1.6870 (38.2% fibo retracement of Jul high to Oct low) and 1.6965 levels (50% fibo).

Support at 1.6675 (21 DMA), 1.6550 (double bottom).

AUDSGD Daily Chart: Potential Turn

AUDSGD rebounded last week. Cross was last at 0.8820 levels.

Daily momentum turned bullish bias while RSI rose slightly. Bias for upside play.

Immediate resistance at 0.8820 (100 DMA), 0.8845 (38.2% fibo retracement of Jun high to Oct low) before 0.8910/20 levels (200 DMA, 50% fibo).

Support at 0.8750 (23.6% fibo), 0.8650 levels.

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

Gold Daily Chart: Buy Dips

Gold slipped but still continued to trade near elevated levels. Cross was last seen at 1992.65 levels.

Bullish momentum on daily chart is fading though RSI rose again and looks to attempt overbought conditions again. Bullish crossover observed: 21 DMA cuts 50, 100, 200 DMAs to the upside.

Resistance at 2010, 2025 levels.

Support at 1980, 1957 (23.6% fibo retracement of 2022 low to 2023 high) and 1930 (200 DMA).

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

Medium Term FX Forecasts

FX	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
USD-JPY	148.00	145.00	144.00	143.00	139.00
EUR-USD	1.0700	1.0800	1.0900	1.1000	1.1200
GBP-USD	1.2300	1.2400	1.2400	1.2400	1.2500
AUD-USD	0.6400	0.6500	0.6600	0.6700	0.6800
NZD-USD	0.5900	0.6000	0.6100	0.6200	0.6300
USD-CAD	1.3500	1.3400	1.3200	1.3000	1.3000
USD-CHF	0.9000	0.9050	0.9000	0.8900	0.8900
USD-SEK	10.8200	10.6000	10.2400	10.0000	9.7700
DXY	105.05	103.96	103.00	102.08	100.44
USD-SGD	1.3550	1.3510	1.3490	1.3470	1.3430
USD-CNY	7.2600	7.2000	7.1500	7.1000	7.0500
USD-CNH	7.2600	7.2000	7.1500	7.1000	7.0500
USD-THB	36.300	36.300	36.000	35.800	35.500
USD-IDR	15600	15350	15320	15300	15300
USD-MYR	4.7400	4.7000	4.6800	4.6600	4.6400
USD-KRW	1325.0	1315.0	1310.0	1305.0	1275.0
USD-TWD	32.000	31.800	31.800	31.600	31.400
USD-HKD	7.8200	7.8100	7.8000	7.8000	7.7900
USD-PHP	56.200	55.900	55.600	55.200	54.900
USD-INR	83.000	82.500	82.300	82.000	81.500
USD-VND	24300	24200	24200	24000	23900
EUR-JPY	158.36	156.60	156.96	157.30	155.68
EUR-GBP	0.8699	0.8710	0.8790	0.8871	0.8960
EUR-CHF	0.9630	0.9774	0.9810	0.9790	0.9968
EUR-SGD	1.4499	1.4591	1.4704	1.4817	1.5042
GBP-SGD	1.6667	1.6752	1.6728	1.6703	1.6788
AUD-SGD	0.8672	0.8782	0.8903	0.9025	0.9132
NZD-SGD	0.7995	0.8106	0.8229	0.8351	0.8461
CHF-SGD	1.5056	1.4928	1.4989	1.5135	1.5090
JPY-SGD	0.9155	0.9317	0.9368	0.9420	0.9662
SGD-MYR	3.4982	3.4789	3.4692	3.4595	3.4550
SGD-CNY	5.3579	5.3294	5.3002	5.2710	5.2494
SGD-IDR	11513	11362	11357	11359	11392
SGD-THB	26.790	26.869	26.686	26.578	26.433
SGD-PHP	41.476	41.377	41.216	40.980	40.879
SGD-CNH	5.3579	5.3294	5.3002	5.2710	5.2494
SGD-TWD	23.616	23.538	23.573	23.460	23.380
SGD-KRW	977.86	973.35	971.09	968.82	949.37
SGD-HKD	5.7712	5.7809	5.7821	5.7906	5.8004
SGD-JPY	109.23	107.33	106.75	106.16	103.50
Gold $/oz	1955.0	1980.0	2000.0	2020.0	2040.0

Note: These are not meant to serve as point forecast for the quarter-end but meant as trajectory bias of the currency pair

Source: OCBC Research (Latest Forecast Update: 23rd Oct 2023)

Global Markets Research & Strategy

Macro Research

Selena Ling
Head of Strategy & Research
LingSSSelena@ocbc.com

Tommy Xie Dongming
Head of Greater China Research
XieD@ocbc.com

Keung Ching (Cindy)
Hong Kong & Macau
cindyckeung@ocbcwh.com

Herbert Wong
Hong Kong & Macau
herberthtwong@ocbcwh.com

Lavanya Venkateswaran
Senior ASEAN Economist
lavanyavenkateswaran@ocbc.com

Ahmad A Enver
ASEAN Economist
ahmad.enver@ocbc.com

Jonathan Ng
ASEAN Economist
JonathanNg4@ocbc.com

Ong Shu Yi
ESG
ShuyiOng1@ocbc.com

FX/Rates Strategy

Frances Cheung
Rates Strategist
FrancesCheung@ocbc.com

Christopher Wong
FX Strategist
christopherwong@ocbc.com

Credit Research

Andrew Wong
Credit Research Analyst
WongVKAM@ocbc.com

Ezien Hoo
Credit Research Analyst
EzienHoo@ocbc.com

Wong Hong Wei
Credit Research Analyst
WongHongWei@ocbc.com

Chin Meng Tee
Credit Research Analyst
MengTeeChin@ocbc.com