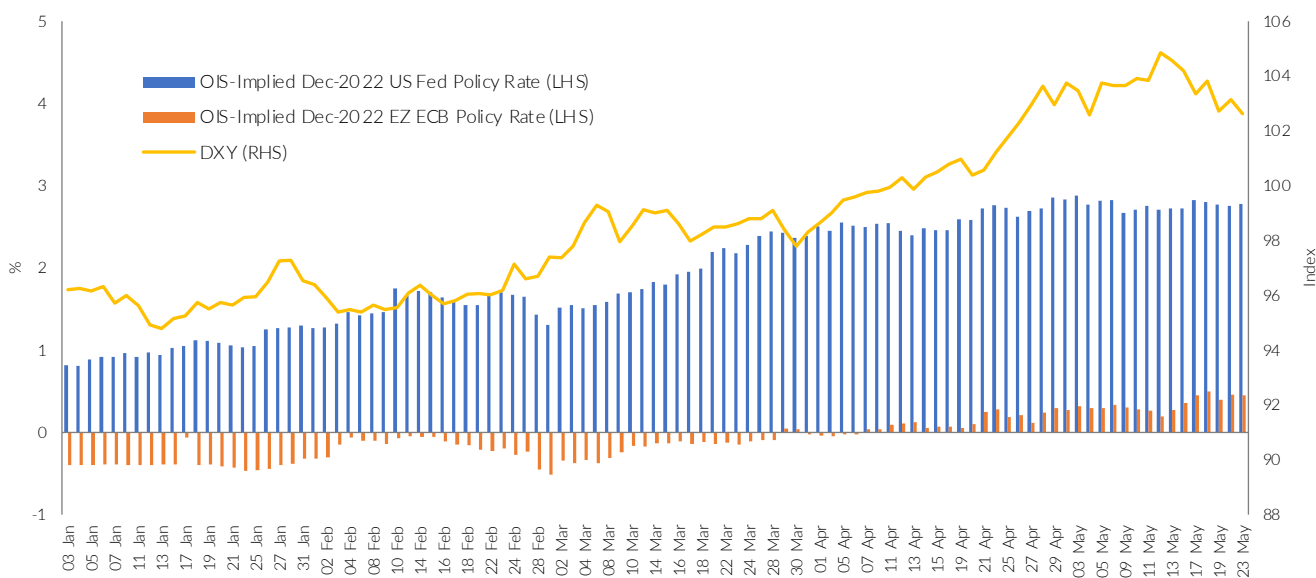


Dollar Rally Shows Signs of Moderating as Market Expectations of Fed Hike Pace Stabilises; ECB Grows Hawkish



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Head, FX Research



Source: Bloomberg, Maybank FX Research & Strategy

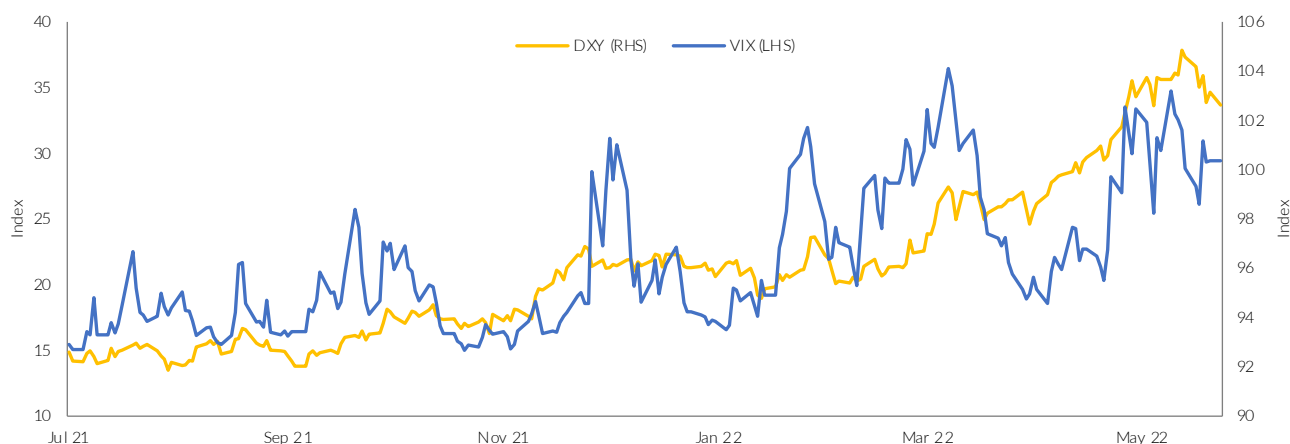
Persistent inflation pressures in the US had led to hawkish shifts in Fed signalling, with markets swiftly repricing a front-loading in Fed rate hikes in recent months, contributing to the earlier broad dollar rally.

But expectations have stabilized a tad since late April, with markets now looking for Fed policy rate to reach around 2.8-2.9% by December 2022.

This tentative plateauing in US rate hike expectations occurred just as ECB turned hawkish in policy tones. A rate lift-off by ECB in July is highly likely.

As other major central banks embark on or continue their own monetary policy normalization plans, policy divergence vis-à-vis Fed could be capped, limiting room for another bout of strong dollar rally.

Elevated uncertainty over the global growth outlook could lend USD some interim support



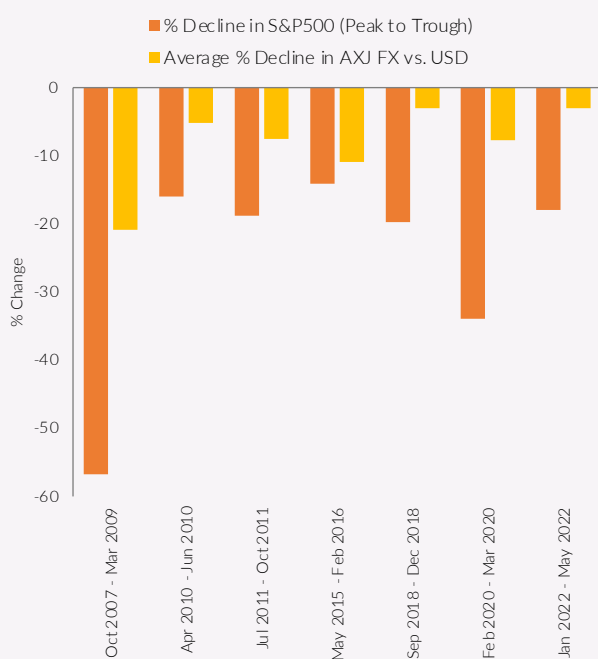
Source: Bloomberg, Maybank FX Research & Strategy

Despite synchronous global policy normalization (excluding China and Japan) in the face of inflationary pressures, the protracted nature of the geo-political situation in Ukraine and Russia, risks of Fed turning even more hawkish if inflation momentum persists, expectedly softer China growth outlook etc., are contributing to elevated uncertainty in financial markets.

Developments suggest that markets may be mired in a risk-based cautious view based on the global economic backdrop.

These factors could lend USD some interim support on haven demand, and delay any significant retracement lower in dollar strength until the latter part of the year.

Current episode of AxJ FX sell-off still modest



Note: We consider sell-offs of above 14% magnitude (as significant) over the last 14 years; cut-off date of current episode of S&P 500 sell-off is 12 May 2022; AxJ FX performance versus USD measured via peak to trough for periods around respective S&P 500 sell-off episodes. AxJ FX decline is average of % changes in SGD, MYR, IDR, THB, PHP, CNY, KRW, TWD, INR.

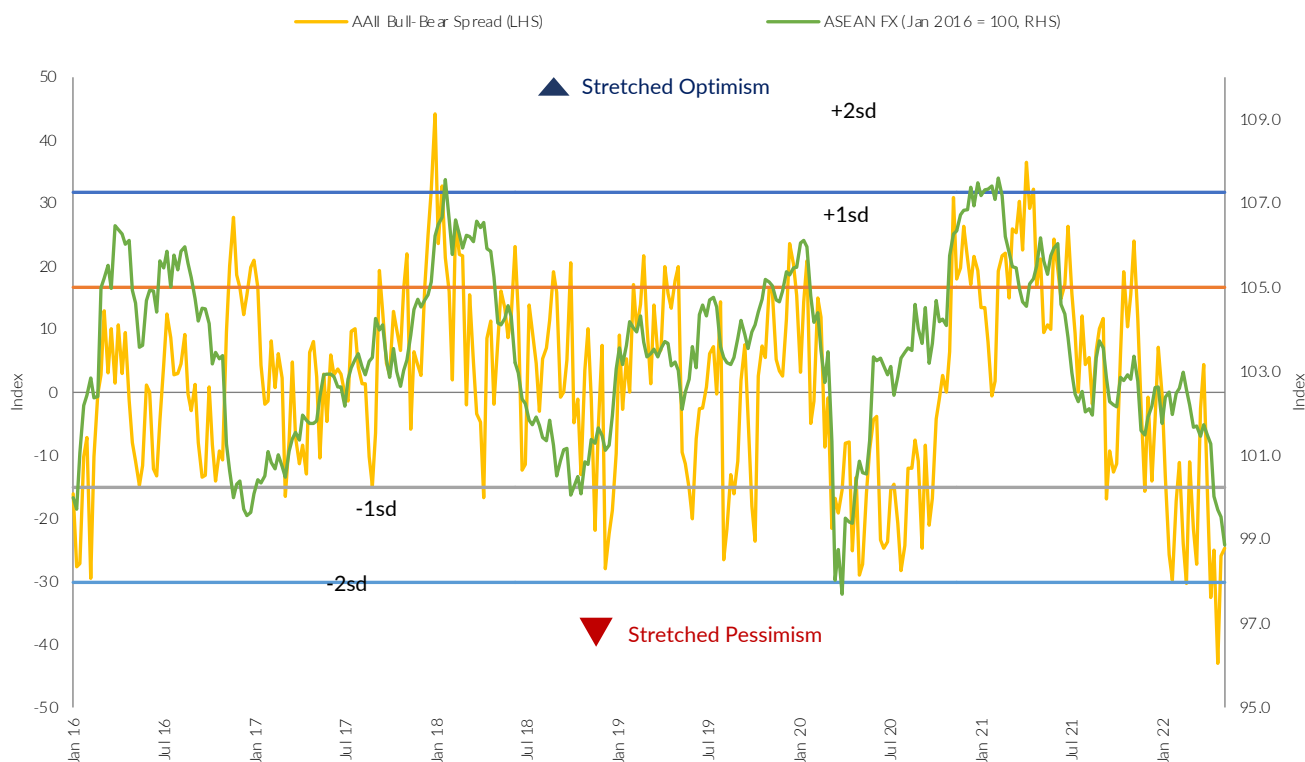
Historically, average AxJ FX depreciation range between -3% and -11% in episodes of global equity routs (excluding GFC outlier), and AxJ FX drags in this episode (-3%) has been relatively modest in comparison. ASEAN FX NEER baskets have also been broadly steady YTD.

Reopening momentum in the region could be helping to mitigate externally-induced drags but caution could persist for a while more. In-house FX volatility models suggest some slight under-pricing in regional FX risks.

We do not expect broad or severe depreciation pressures from here, but a more sustainable or significant recovery in the AxJ FX complex may not be forthcoming yet.

Source: Bloomberg, Maybank FX Research & Strategy Estimates

Further Severe Bearish Pressures on ASEAN FX May Be Less Likely Given Stretched Risk Sentiments



Source: Bloomberg, Maybank FX Research & Strategy Estimates

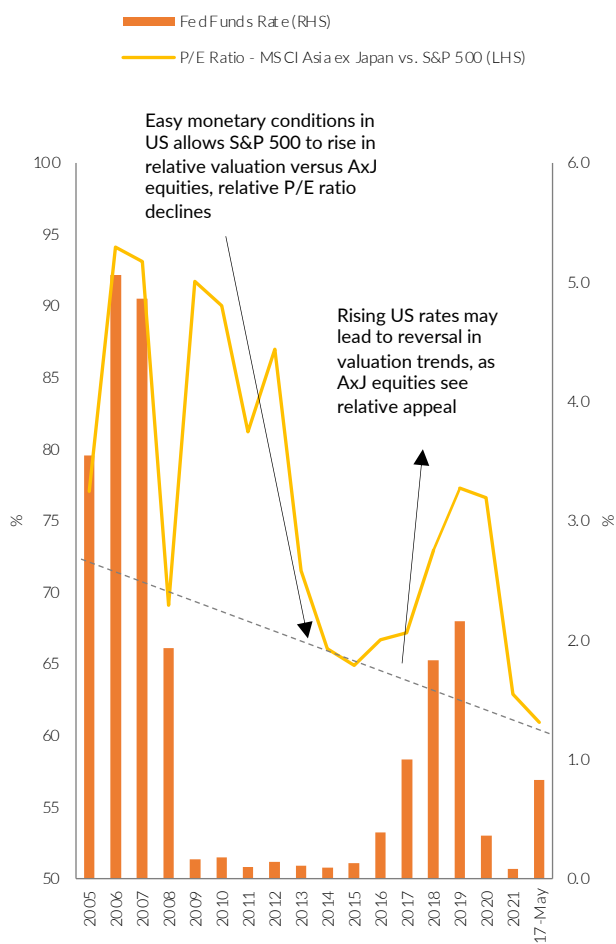
Note: AAll Investor Sentiment Survey is a regular weekly survey conducted by American Association of Individual Investors and aims to offer insights into the opinions of individual investors by asking them where the market is heading in the next 6 months. AAll bull-bear spread in chart aims to capture shifts in broader risk sentiments. ASEAN FX index captures equal-weighted moves in SGD, MYR, IDR, THB, PHP.

At this point, indicators such as the fear-greed index, AAll investor sentiment survey are painting a coherent story of fear and caution.

But as per historical performance, the emergence of contrarian bets when broader risk sentiment readings are at stretched levels can indicate a moderation in negative FX drags.

If positive catalysts, i.e. growth slowdown fears dissipating, China Covid risks easing, etc. set in over time, a more meaningful rebound in regional FX sentiments can occur.

Last Fed Rate Hike Cycle Saw Asian Risk Assets Gaining Appeal; Cautious AxJ FX Optimism in 2H



Source: Bloomberg, Maybank FX Research & Strategy Estimates

Higher-frequency data shows some signs of tentative easing in portfolio outflow drags in some ASEAN markets such as Indonesia and Thailand.

Meanwhile, valuations for AxJ equities have reached relative lows versus US assets in mid-May, and risk-reward dynamics could suggest Asian assets gaining some appeal alongside the easing of China-induced drags later in 2H22. Historically, the last period of rising US rates did see an improvement in Asian risk asset appeal.

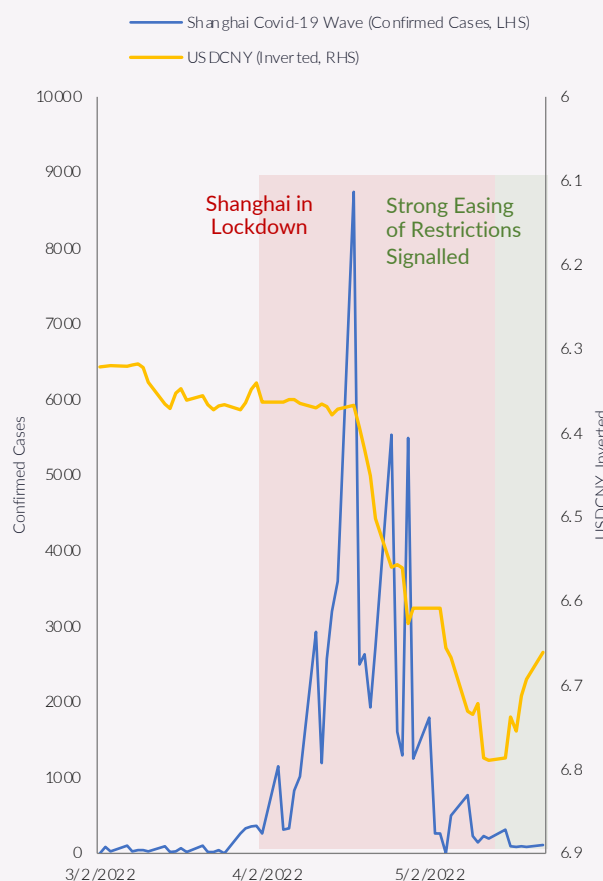
Such developments could concomitantly provide some support for AxJ FX in 2H.

CNY In Tentative Recovery Mode After Shanghai Infections Came off, Restrictions Ease, Downside Risks Remain

CNY only started to rebound after Shanghai infections have come off considerably and Shanghai authorities declared a halt in the community spread with more easing of restrictions to be expected. Chinese officials now combat outbreaks with aggressive mass testing and early enactment of flash lockdowns. Eyes are on Covid counts in Beijing, Tianjin.

UST 10y yield is trading at par with that of China's, with US recession fears possibly limiting US-CH yield premium divergence.

Factors that could keep USDCNY supported include a lack of carrying, the possibility that more infectious Covid variants could lengthen the period of flash lockdowns and worsen growth prospects, or any escalation in geopolitical tensions that could intensify capital outflows.



Source: 丁香医生, Bloomberg, Maybank FX Research & Strategy