

FX Outlook: Fed garners most attention in 2Q

USD strength to extend into 2Q and 3Q as the Fed normalizes policy

Oil supply constraints may ease, giving more muted support to AUD

Policy divergence to weigh on JPY, EUR

USD Outlook

We expect the dollar strength to extend to 2Q and 3Q during which the Fed will begin to reduce its balance sheet and undertake a couple of 50bp rate hikes, before tapering off in 4Q. YTD, the DXY has strengthened by over 4.0%, thanks to geopolitical related factors and the Fed’s pivoting to more aggressive rate hikes in March. In April onwards, while Russia-Ukraine uncertainties linger on, the focus is more likely back on the US fundamentals and the magnitudes of the Fed tightening. The recent scale down of net USD long position also allows the possible build-up in positioning ahead of the next Fed rate hike. The US inflation expectations remain strong, reinforced by a robust job market outlook and strong services indicators. We see upside risk to the USD outlook, particularly relative to EUR and JPY due to policy divergence. The sharply higher energy prices which could further weigh on business sentiments and consumer real purchasing power remains the key near term headwinds for the US.

	06 Apr	Q2-22	Q3-22	Q4-22	Q1-23
DXY	99.60	98.50	99.00	98.00	97.50

EUR/USD

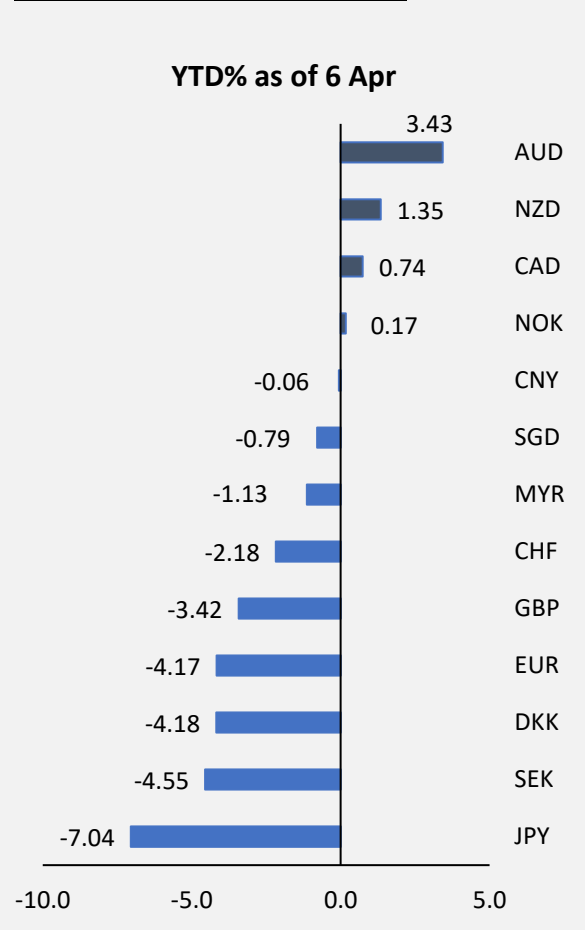
We think that EUR/USD may remain weak in 2Q and 3Q, but unlikely to move towards parity. As mentioned above, the Fed is expected to deliver two 50bp hikes in 2Q, compared to the ECB which is expected to only move its key rates in 4Q22 after the APP program is concluded in 3Q. This gives the EUR an opportunity to recoup losses in 4Q when the Fed is nearing the end of its 2022 tightening cycle. The proximity of the war and the continent’s strong reliance on Russian energy continue to pose a major uncertainty to the euro area outlook. We do not foresee a complete ban of Russian oil into the single-currency bloc as this would trigger a massive economic shock that would send the economy back into recession.

	06 Apr	Q2-22	Q3-22	Q4-22	Q1-23
EUR/USD	1.0896	1.10	1.09	1.10	1.12

GBP/USD

GBP/USD outlook may be constrained by the limited room of policy tightening this year after the BOE delivered three successive hikes since December 2021. We expect the BOE to raise rates twice in the coming

Figure 1: Currencies vs USD (YTD %)



Source: Bloomberg

quarter and pause in 3Q onwards. The base case remains for the UK growth to slow down throughout 2022, reflecting the impact of higher energy prices and inflation even before the Russia-Ukraine crisis started. The war is expected to further exacerbate the elevated price pressures, which may adversely affect spending although the UK household savings could act as a limited buffer.

	06 Apr	Q2-22	Q3-22	Q4-22	Q1-23
GBP/USD	1.3069	1.29	1.28	1.30	1.31

USD/JPY

Policy divergence remains a major driver for USD/JPY in 2022. After hitting a six-year high of 125 last week, the yen continues to trade near multi-year high of 124 levels and may extend its weakness to the weeks ahead, concurrent with the large build-up in net short positions. We expect the JPY to recoup some gains in the quarters ahead after the recent weakening, partly supported by its safe haven appeals. The BOJ's staunch defence of its 10Y JGB yield cap affirms its intention to keep policy accommodative. Inflation has picked up in Japan but remained relatively lower compared to its DM counterparts. The temporary pick-up in wage growth after the looser Covid restrictions is insufficient to push inflation towards the BOJ's 2.0% target.

	06 Apr	Q2-22	Q3-22	Q4-22	Q1-23
USD/JPY	123.80	121	120	120	120

AUD/USD

AUD has strengthened the most among commodity currencies this year. We see more muted AUD strength heading into 2Q and 3Q as we expect the impacts of higher energy prices to ease in the coming months. The global supply crunch is likely to ease further as OPEC+ gradually raises output this year. Furthermore, we do not expect the RBA to raise its cash rate at least until 3Q22. The shift in policy stance remained cautious in our view as the RBA stresses the importance of wage growth to sustain inflation. The softer Chinese growth and its zero-Covid policy is also an uncertainty for Australian export outlook.

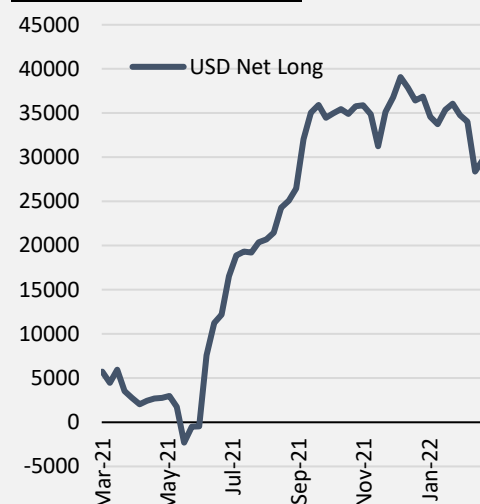
	06 Apr	Q2-22	Q3-22	Q4-22	Q1-23
AUD/USD	0.7512	0.76	0.77	0.76	0.76

USD/SGD

We see a stronger SGD in 2Q due to the strong prospects of a MAS tightening this month to a 1% per annum slope, in response to the higher global interest rates worldwide and newly revised official inflation outlook (2.5-3.5% in 2022). SGD had performed relatively well (-0.8% YTD) compared to other Asian currencies in the face of heightened uncertainties. The local economy is expected to fare well from robust domestic demand after the Singaporean government further loosened Covid restrictions to normalise Covid-19. We may see some weakness in the local manufacturing sector but it will likely remain resilient barring from a sharp drop in demand from China.

	06 Apr	Q2-22	Q3-22	Q4-22	Q1-23
USD/SGD	1.3598	1.36	1.35	1.34	1.33

Figure 2: USD Net Position



Source: Bloomberg

Figure 3: HLBB Rate Hike Outlook

	Now	2Q-22	3Q-22	4Q-22
Fed	0.25-0.50	1.25-1.50	1.75-2.00	2.00-2.25
ECB	-0.50	-0.50	-0.50	-0.25
BOE	0.75	1.25	1.25	1.25
RBA	0.10	0.10	0.75	1.00
BOJ	-0.10	-0.10	-0.10	-0.10
BNM	1.75	1.75	2.00	2.00

Source: HLBB Global Markets Research

USD/MYR

The ringgit will stay relatively resilient against the imminent USD strength. MYR has lost 1.1% YTD against USD, and we expect the pair to be anchored at 4.2000, supported by the positive growth outlook amid the current transition to endemicity and to a certain extent, the still-elevated oil prices. We maintain expectations for a 25bp OPR hike in 2H22, likely as early as September.

	06 Apr	Q2-22	Q3-22	Q4-22	Q1-23
USD/MYR	4.2135	4.2	4.18	4.16	4.16

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