

## Central Bank Decision Week:· FX Outlook Amid Continued USD Strength

### Video highlights:

#### USD

- The DXY index has reclaimed the 100 threshold following a stronger-than-expected US non-farm payrolls released on 5Jun. Positive macroeconomic data has shifted market focus away from the Fed interest rate cuts toward potential rate hikes.
- The 50-day moving average has broken above both the 100-day and 200-day moving averages, forming a "Golden Cross." Historically, this setup occurred three times across 2023 and 2024, preceding subsequent DXY rallies of 2% to 4%.
- Upcoming indicators include the May CPI, the updated dot plot, the Summary of Economic Projections (SEP), and new Chairman- Kevin Warsh's inaugural FOMC meeting focusing on quantitative tightening.
- If the DXY breaks above resistance at 100.60, it has the potential to test the 102 level.

#### EUR:

- Energy-driven inflation continues to pressure the Eurozone, with May headline CPI rising to 3.2% and core CPI reaching 2.5%. Concurrently, geopolitical conflicts in the Middle East have severely impeded growth.
- First-quarter Eurozone GDP growth softened to 0.3%, while the May Composite PMI slid to an 18-month low of 48.5, signaling contraction.
- The ECB is widely expected to implement a defensive 25bps rate hike at June 11 meeting. However, lagging economic momentum and a dominant USD will continue to cap the Euro. Downside support for the EUR/USD is currently seen at the 1.14 level.

#### JPY

- The USD/JPY has returned to the critical 160 psychological resistance level, weighed down by a widened interest rate differential and rising trade deficits.
- The BOJ may hike rates to 1.0% at its June 16 meeting, but rates would remain relatively low overall.
- Trading around the 160 handle substantially elevates the risk of verbal or actual intervention by Japanese authorities, creating potential for sharp short-term technical rebounds. Support for USDJPY can be referenced at 200-day moving average of 155.6 level.

## **CAD**

- The Canadian economy has contracted for two consecutive quarters, while the domestic unemployment rate has climbed to 6.9%.
- The CAD has depreciated 2.5% against the greenback since early May, underperform its peers as negative fundamentals become largely priced in.
- BOC is anticipated to hold its overnight rate steady at 2.25% at its upcoming policy meeting.
- The recent weakness of CAD may have already priced in these negative factors, and short-term support could emerge at the 1.40 level. However, attention should be paid to the BOC's outlook on the economy; if USD/CAD breaks above 1.40 level, it has the potential to test the 1.4140.

## **AUD**

- RBA is widely projected to maintain its official cash rate at a restrictive 4.35% at June 16 meeting.
- Despite April headline CPI cooling to 4.2%, elevated energy costs and a scheduled July minimum wage hike could drive consumer prices higher in the second half of the year.
- Potential for an end-of-year rate hike provides a structural yield advantage that supports the currency against non-USD peers.
- USD strength and rising domestic unemployment will cap upside potential for AUD, resistance for AUD/USD can be referenced at the 100-day moving average of 0.7077 in the near term, while support level can be referenced at the 0.6968.

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