

Global FX Monthly Outlook

Further gains expected despite Fed's taper talk

EUR (1.219) ▲

- EUR rallied to a five-month high against the weakening USD, primarily due to the Fed's status quo on the monetary policy front. The bloc's currency managed to extend April's gains due to Europe's accelerated vaccination drive and continued global economic recovery, fuelling demand for the risk-on currency.
- EUR may continue its rally against the weakening USD if the Fed remains calm and continue its USD120.0b/month bond-buying program. The single currency will continue to be supported by Europe's improving COVID-19 condition due to its swift vaccination campaign. However, the expectation that the ECB will extend its asset purchases on 10 June may limit EUR's further upside.

GBP (1.417) ▲

- GBP strengthened last month against a weakened USD. The sterling received support from the UK's successful ongoing vaccine campaign and the relaxation of several restriction measures. Cable was also lifted by the unemployment rate dropping to 4.8% in March and headline inflation rising to 1.5% in April.
- GBP may continue to strengthen this month, as the UK's vaccination progresses and with nationwide lockdown restrictions set to end on 21 June. However, a recent rise in COVID-19 cases has raised fears concerning a more infectious virus strain; should this cause a delay to reopening plans, the GBP will likely face pressure.

AUD (0.774) ▲

- AUD was broadly stable as pressure from inflationary fears and the suspension of economic dialogue between China and Australia equally offset support from RBA's growth upgrade and a lower-than-consensus US jobs data.
- AUD is expected to trade higher on strong commodity prices, but with the upside limited by a lockdown in Victoria amid a resurgence of Covid-19 cases.

NZD (0.726) ▲

- NZD closed higher in May, mainly attributable to positive economic data such as higher building permits and a rebound in retail sales, which beat market expectations. In addition, the Reserve Bank of New Zealand (RBNZ) signalled a rate hike in the second half of 2022, sending the kiwi high to a level last seen in March.
- NZD is expected to further strengthen this month on hawkish RBNZ and further global vaccination progress. Nonetheless, the upside bias would be limited depending on the outcome of US FOMC meeting.

Table 1: Currencies Outlook

	Long Term*					OUTLOOK
	Q1-21	Q2-21F	Q3-21F	Q4-21F	Q1-22F	
EURUSD	1.174	1.221	1.224	1.227	1.229	▲
GBPUSD	1.376	1.419	1.421	1.423	1.426	▲
AUDUSD	0.762	0.774	0.780	0.786	0.790	▲
NZDUSD	0.700	0.724	0.721	0.719	0.718	▲
CADUSD	0.794	0.828	0.828	0.828	0.828	▲

	Short Term (Technical)					OUTLOOK
	EMA (21)	R1	R2	S1	S2	
EURUSD	1.216	1.229	1.239	1.205	1.191	▼
GBPUSD	1.409	1.428	1.439	1.397	1.376	▼
AUDUSD	0.775	0.785	0.796	0.766	0.759	▲
NZDUSD	0.722	0.734	0.741	0.716	0.706	▼
CADUSD	0.823	0.835	0.842	0.817	0.805	▼

Signal for Base Currency Trend = ▲ Bullish — Neutral ▼ Bearish

*F=Forecasts for end of period

Source: Kenanga Research, Bloomberg

EMA (21): 21-day Exponential Moving Average

EMA gives more weight to the most recent periods, places more emphasis on what has been happening lately. Old data points retain a multiplier even if they are outside of the selected data series length.

$$EMA = (P \times \alpha) + [Previous\ EMA \times (1 - \alpha)]$$

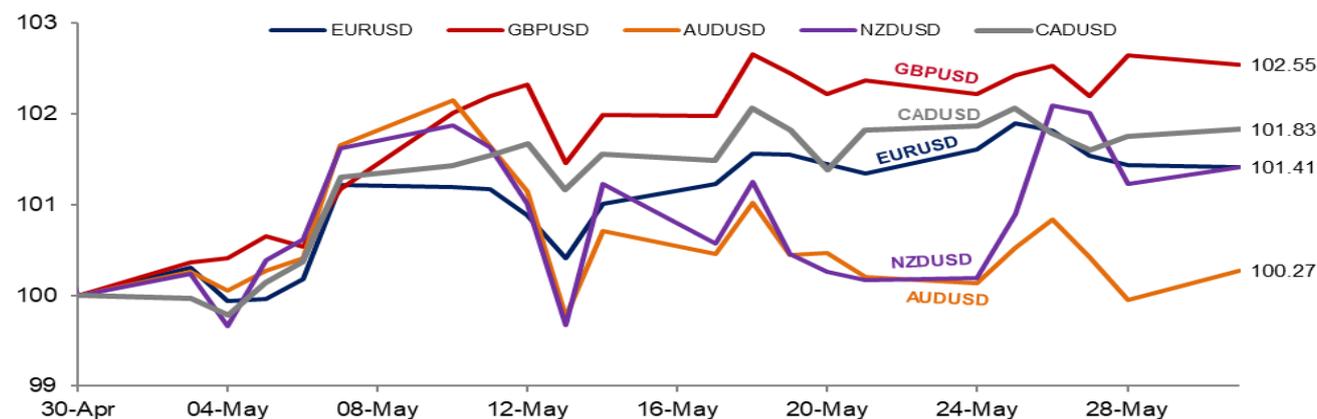
Table 2: Upcoming Major Data Release

Date	Currency	Indicator
01/06/2021	AUD	Interest Rate Decision
01/06/2021	EUR	Unemployment (APR)
02/06/2021	AUD	GDP (Q1)
03/06/2021	AUD	Balance of Trade (APR)
04/06/2021	USD	Non-Farm Payrolls (MAY)
04/06/2021	EUR	Retail Sales (APR)
08/06/2021	AUD	Business Confidence (MAY)
08/06/2021	USD	Balance of Trade (APR)
10/06/2021	EUR	Interest Rate Decision
10/06/2021	USD	Inflation (MAY)
11/06/2021	GBP	Balance of Trade (APR)
15/06/2021	GBP	Claimant Count (MAY)
15/06/2021	EUR	Balance of Trade (APR)
15/06/2021	USD	Retail Sales (MAY)
16/06/2021	GBP	Inflation (MAY)
16/06/2021	NZD	Current Account (Q1)
17/06/2021	USD	Interest Rate Decision
17/06/2021	EUR	Inflation (MAY)
17/06/2021	NZD	GDP (Q1)
18/06/2021	AUD	Unemployment Rate (MAY)
24/06/2021	GBP	Interest Rate Decision
24/06/2021	USD	Durable Goods Orders (MAY)
25/06/2021	USD	Personal Income (MAY)
25/06/2021	GBP	Consumer Confidence (JUN)
30/06/2021	GBP	GDP (Q1)

Source: Kenanga Research, Trading Economics

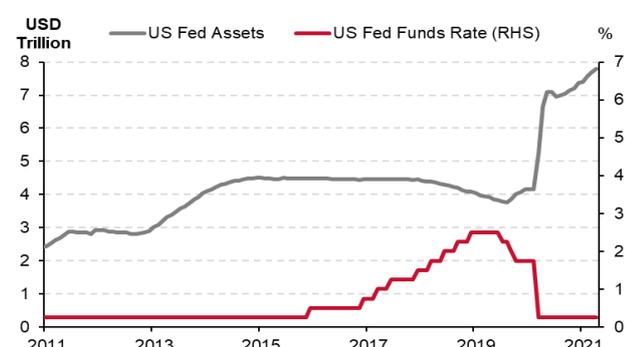
01 June 2021

Graph 1: Monthly Global FX Indices Trend



Source: Kenanga Research, Bloomberg

Graph 2: Fed's Assets and Policy Rate



Source: Bloomberg, Kenanga Research

Graph 3: DXY Index Trend



Source: Bloomberg, Kenanga Research

Fed's taper talk and divergence of interest rates outlook to move global currencies

- The prospects of inflationary pressure and interest rate hikes on the back of a continued economic recovery have led to talks of quantitative easing (QE) tapering amongst Fed's officials. The Fed launched its massive QE in Mar 2020, at a pace of USD120.0b of bond purchases per month, in a bid to support its economy hit by the COVID-19. Its balance sheet portfolio stood at USD7.8t of assets as of Apr 2021, an increase of USD3.6t compared to Feb 2020.
- Based on USD performance in 2013, the greenback fell against major global currencies as the tapering talks started. The downside bias continued when the Fed began its tapering in late 2013 and strengthened towards Oct 2014 as the tapering completed. Nonetheless, its policy rate remained low until it was raised by 25 bps in Dec 2015, sending the dollar higher.
- We expect the dollar weakening trend to continue in the near term as a result of the divergence in monetary policy amongst the central banks. This is premised on expectation that the US Fed will retain its dovish stance for quite some time despite talks on tapering. Meanwhile, other central banks are expected to start signalling a hawkish tone (e.g. New Zealand, Canada), which would likely exert pressure on the greenback in the near term.

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