

Global FX Monthly Outlook

Delta variant concerns and upcoming Jackson Hole meeting to set major FX direction

EUR (1.187) —

- EUR continued to lose ground against the USD and weakened to its lowest point in four months. The bloc's currency fell to as low as 1.177 on July 23 on the back of the ECB's continued dovish message and risk-off market mood. However, in the last week of July, the EUR gained traction and climbed near the 1.19 level due to the Fed's cautiously optimistic tone and better-than-expected Eurozone 2Q21 GDP reading.
- EUR may hover around the 1.19 level against the USD in August, supported by hopes of a strong Eurozone economic indicator reading and expectation that US inflation will start to cool off. However, the direction of the single currency is seen to be influenced by the swift spread of the Delta variant and the Fed's signal at the Jackson Hole symposium on Aug 26-28.

GBP (1.390) ▲

- GBP marginally appreciated against the USD in July, as the dollar declined following the US FOMC meeting. The sterling was also supported by the relatively successful full reopening of the UK economy on July 19, despite some concerns about the spread of the Delta variant.
- GBP may continue to strengthen this month given the UK's sustained economic recovery and improving COVID-19 condition, with daily new cases declining rapidly. However, the performance of the pound will likely be dependent on the Bank of England's policy meeting this week, where a continued dovish stance may weigh on the currency.

AUD (0.734) ▼

- AUD plunged for the third straight month in July, reaching the lowest level since November 2020 as COVID-19 cases spiked and forcing the government to put its largest city under lockdown since June 26. This was further weighed by its dovish central bank, signalling that the policy rate will remain low until 2024.
- AUD is expected to be pressured by rising COVID-19 cases amid fears of the Delta variant, as well as an extended lockdown which likely will threaten its economic recovery going forward.

NZD (0.697) ▲

- NZD was traded at a tight range in July. It ended marginally lower, falling by just 0.2% against the USD versus the end of June due to risk-off mode sentiment amid the spread of the Delta variant. However, the kiwi performance was supported by the Reserve Bank of New Zealand (RBNZ) decision to halt its pandemic-induced USD70.0b bond purchase program.
- NZD may edge slightly higher in August, as RBNZ may signal monetary policy tightening as soon as the August meeting, given the sharp rise in inflationary pressures and a tight labour market. Nonetheless, the upside bias would be capped by the global COVID-19 situation and the US Fed's signal at the Jackson Hole symposium.

Table 1: Currencies Outlook

	Long Term*					OUTLOOK
	Q2-21	Q3-21F	Q4-21F	Q1-22F	Q2-22F	
EURUSD	1.189	1.198	1.202	1.205	1.208	▲
GBPUSD	1.386	1.395	1.398	1.401	1.405	▲
AUDUSD	0.750	0.764	0.769	0.774	0.778	▲
NZDUSD	0.699	0.705	0.705	0.706	0.706	▲
CADUSD	0.807	0.811	0.810	0.809	0.808	▲

	Short Term (Technical)					OUTLOOK
	EMA (21)	R1	R2	S1	S2	
EURUSD	1.184	1.191	1.195	1.180	1.173	▼
GBPUSD	1.383	1.404	1.418	1.369	1.347	▼
AUDUSD	0.742	0.751	0.767	0.725	0.715	▲
NZDUSD	0.699	0.707	0.717	0.689	0.680	▲
CADUSD	0.799	0.815	0.828	0.786	0.769	▼

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.

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

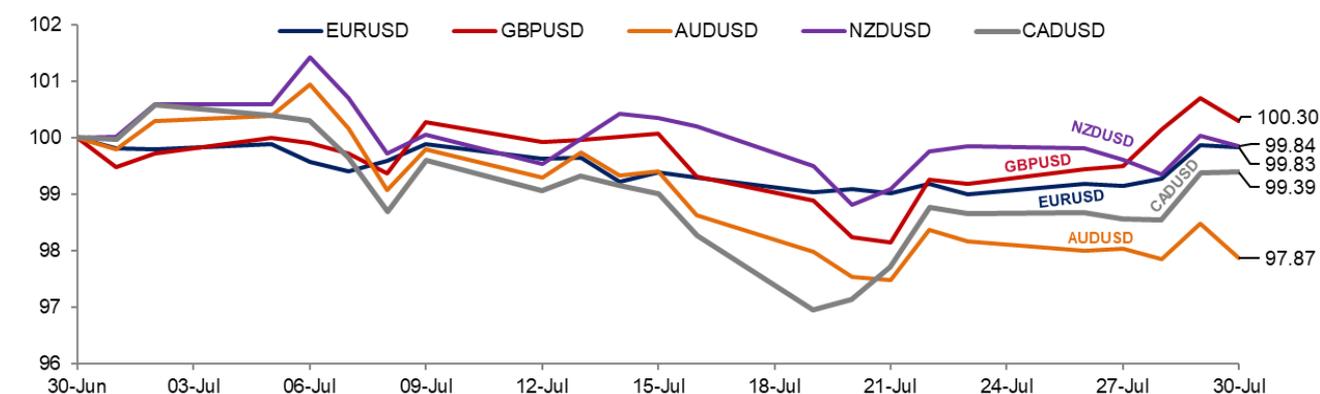
Table 2: Upcoming Major Data Release

Date	Currency	Indicator
03/08/2021	AUD	Interest Rate Decision
04/08/2021	NZD	Unemployment (Q2)
04/08/2021	EUR	Retail Sales (JUN)
05/08/2021	AUD	Balance of Trade (JUN)
05/08/2021	GBP	Interest Rate Decision
05/08/2021	USD	Balance of Trade (JUN)
06/08/2021	USD	Non-Farm Payrolls (JUL)
10/08/2021	AUD	Business Confidence (JUL)
11/08/2021	USD	Inflation (JUL)
11/08/2021	AUD	Consumer Confidence (AUG)
12/08/2021	GBP	Balance of Trade (JUN)
12/08/2021	GBP	Production (JUN)
12/08/2021	EUR	Industrial Production (JUN)
13/08/2021	AUD	Unemployment (JUL)
13/08/2021	EUR	Balance of Trade (JUN)
17/08/2021	GBP	Claimant Count (JUL)
17/08/2021	USD	Retail Sales (JUL)
18/08/2021	GBP	Inflation (JUL)
18/08/2021	EUR	Inflation (JUL)
19/08/2021	USD	FOMC Minutes
20/08/2021	GBP	Retail Sales (JUL)
24/08/2021	GBP	Consumer Confidence (AUG)
25/08/2021	NZD	Balance of Trade (JUL)
25/08/2021	USD	Durable Goods Orders (JUL)
27/08/2021	USD	Personal Income (JUL)

Source: Kenanga Research, Trading Economics

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Graph 1: Monthly Global FX Indices Trend

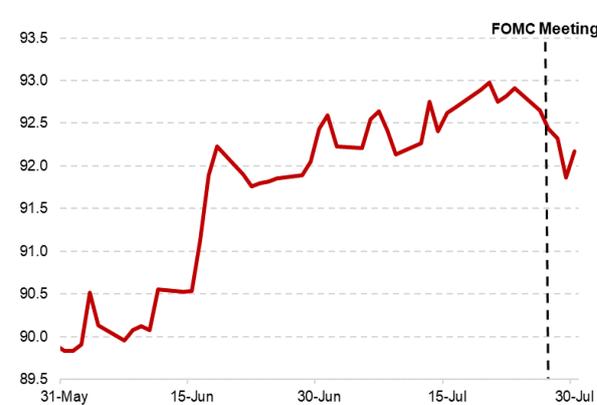


Source: Kenanga Research, Bloomberg

USD under pressure following the US FOMC meeting; focus will be on the Jackson Hole symposium

- USD experienced broad weakness in the lead up to and following the recent US FOMC meeting, with the US Dollar Index (DXY) declining from 92.65 to 91.86 between July 26 – 29. This downtrend turned DXY gains, which reached a 3-month high earlier in July, into losses for the month, as the US Federal Reserve (Fed) disappointed the market by showing no rush to taper its USD120.0b monthly asset purchases, even as it remained optimistic about the US's recovery progress.
- Nevertheless, the Fed's position to maintain a dovish policy stance and to delay tapering discussions appears to be in line with the US's apparent growth plateau and uneven labour market recovery, made evident by recent data. The US economy grew at a weaker-than-expected rate in 2Q21, with GDP growth registering 6.5% YoY (1Q21: 4.3%), well below market expectations of 8.5%. Additionally, US initial jobless claims came in at 400.0k for the week ended July 24, which was slightly above market expectations of 380.0k and remains higher than the 373.0k registered at the beginning of July. These worse-than-anticipated figures also exacerbated USD weakness towards the end of the month.
- Against this backdrop of potentially delayed tapering plans and weaker economic data, the USD may remain under pressure in the near-term. However, this will be dependent on the Fed's policy signal at the Jackson Hole Economic Symposium between August 26 – 28. Chairman Powell's recent remarks indicated that tapering will still be gradually discussed over multiple upcoming meetings. Should tapering begin to be outlined at the Jackson Hole symposium, we can expect the USD to regain its strength.

Graph 2: US Dollar Index (DXY) Trend



Source: Kenanga Research, Bloomberg

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