

Global FX Monthly Outlook

Most major currencies may decline against stronger US dollar

EUR (1.157) ▼

- Despite European Central Bank's (ECB) mild hawkish turn and a surprise increase in EU economic sentiment, EUR depreciated by more than 2.2% to its weakest level in 14 months in September. The weakness in the bloc's currency was mainly due to a sharp rise in the USD index (DXY) after Chairman Powell said that tapering decision may be announced as early as November.
- EUR may continue to depreciate against the USD in October if the DXY continues to trade around the 94.0 level amid hawkish Fed outlook. However, the bloc's currency may pare some losses if the ECB makes any announcement on tightening its monetary policy.

GBP (1.343) ▼

- GBP deteriorated significantly against the USD in September, falling to its lowest level since December 2020. The sterling was pressured by a robust US dollar, amid a surge in US Treasury yields, as well as by market fears about the UK's energy crisis and government reshuffle.
- GBP may continue to weaken this month, as the UK's supply chain issues and persistently high inflation, raise concerns about its economic recovery. Furthermore, despite the Bank of England indicating a preference towards tapering bond purchases soon, the uncertain economic outlook may discourage it from tightening monetary policy this year, which could weigh on cable.

AUD (0.719) ▲

- In September, AUD depreciated against the USD as risk-off resumed amid growing concerns over the global growth outlook due to China's power crunch and the Evergrande debt crisis. AUD was also pressured by broad-based gains in USD and rising US Treasury yields.
- AUD may be supported by economic reopening optimism as the federal government is expected to reopen international borders when the 80.0% vaccination threshold is achieved. Besides, more states are expected to lift lockdown measures on the back of higher vaccination rates.

NZD (0.686) ▲

- NZD plunged in September as new daily COVID-19 cases surged to the highest level in one month, a week after the government lifted the emergency alert. Fed tapering talks, China Evergrande debt crisis and US debt limit standoff further weighed on the kiwi.
- Although the recent surge in COVID-19 cases may impact the near-term outlook, the Reserve Bank of New Zealand may continue with the rate hike in its upcoming MPC meeting, subsequently supporting the NZD. This is mainly due to the prospect of recovery amid the progress of vaccination program and the government's ability to manage the pandemic.

Table 1: Currencies Outlook

| | Long Term* | | | | | OUTLOOK |
|--------|------------|--------|--------|--------|--------|---------|
| | Q3-21 | Q4-21F | Q1-22F | Q2-22F | Q3-22F | |
| EURUSD | 1.157 | 1.188 | 1.193 | 1.197 | 1.200 | ▲ |
| GBPUSD | 1.343 | 1.382 | 1.386 | 1.390 | 1.394 | ▲ |
| AUDUSD | 0.719 | 0.742 | 0.749 | 0.756 | 0.762 | ▲ |
| NZDUSD | 0.686 | 0.701 | 0.702 | 0.703 | 0.704 | ▲ |
| CADUSD | 0.785 | 0.793 | 0.793 | 0.793 | 0.792 | ▲ |

| | Short Term (Technical) | | | | | OUTLOOK |
|--------|------------------------|-------|-------|-------|-------|---------|
| | EMA (21) | R1 | R2 | S1 | S2 | |
| EURUSD | 1.173 | 1.178 | 1.198 | 1.147 | 1.137 | ▲ |
| GBPUSD | 1.369 | 1.373 | 1.402 | 1.329 | 1.314 | ▲ |
| AUDUSD | 0.728 | 0.737 | 0.755 | 0.710 | 0.701 | ▲ |
| NZDUSD | 0.701 | 0.706 | 0.726 | 0.676 | 0.666 | ▲ |
| CADUSD | 0.789 | 0.796 | 0.806 | 0.777 | 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.

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

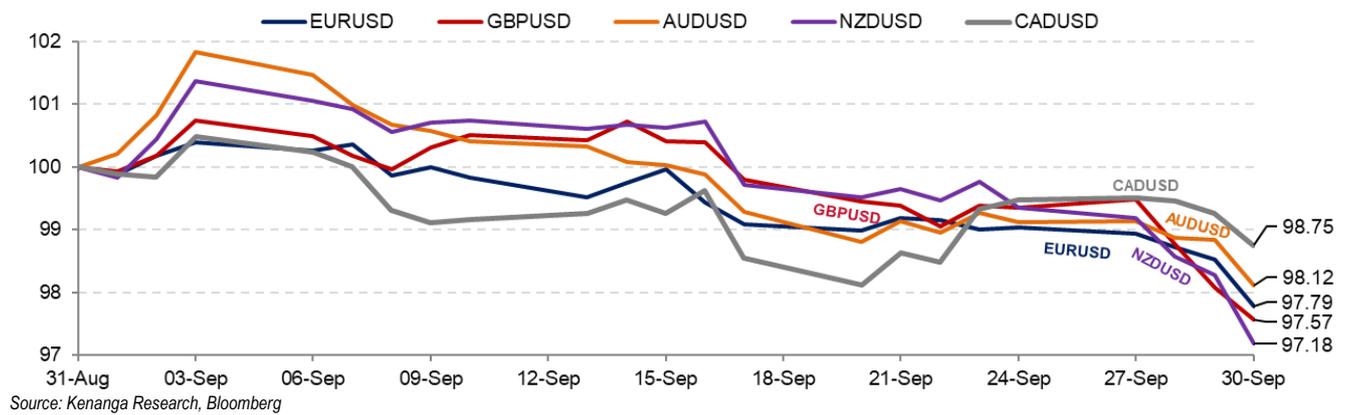
Table 2: Upcoming Major Data Release

| Date | Currency | Indicator |
|------------|----------|-----------------------------|
| 01/10/2021 | AUD | PMI (SEP) |
| 01/10/2021 | USD | Personal Income (AUG) |
| 05/10/2021 | AUD | Trade (AUG) |
| 05/10/2021 | AUD | Interest Rate Decision |
| 05/10/2021 | USD | Trade (AUG) |
| 06/10/2021 | NZD | Interest Rate Decision |
| 08/10/2021 | USD | Non-Farm Payrolls (SEP) |
| 11/10/2021 | GBP | Trade (AUG) |
| 11/10/2021 | GBP | Industrial Production (AUG) |
| 12/10/2021 | GBP | Claimant Count (SEP) |
| 13/10/2021 | USD | Inflation (SEP) |
| 13/10/2021 | EUR | Industrial Production (AUG) |
| 15/10/2021 | AUD | Unemployment (SEP) |
| 15/10/2021 | USD | Retail Sales (SEP) |
| 18/10/2021 | USD | Industrial Production (SEP) |
| 20/10/2021 | GBP | Inflation (SEP) |
| 20/10/2021 | EUR | Inflation (SEP) |
| 22/10/2021 | GBP | Consumer Confidence (OCT) |
| 23/10/2021 | NZD | Inflation (Q3) |
| 27/10/2021 | NZD | Trade (SEP) |
| 27/10/2021 | USD | Durable Goods Orders (SEP) |
| 28/10/2021 | AUD | Inflation (Q3) |
| 28/10/2021 | EUR | Interest Rate Decision |
| 29/10/2021 | USD | Personal Income (SEP) |

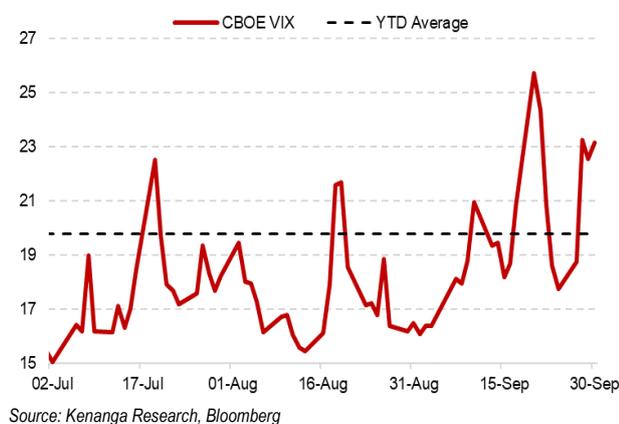
Source: Kenanga Research, Trading Economics

01 October 2021

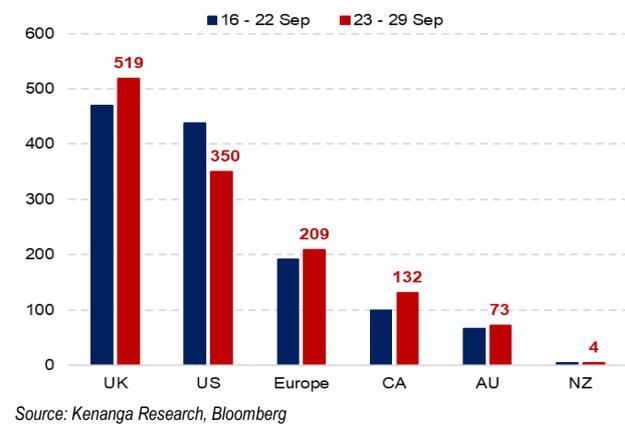
Graph 1: Monthly Global FX Indices Trend



Graph 2: Chicago Board Options Exchange (CBOE) Volatility Index (VIX)



Graph 3: Daily New Confirmed COVID-19 Cases per 1.0m people (7-day Average)



USD to remain elevated amid the ongoing risk-off environment

- The market sentiment can be seen moving towards risk-off mood as observed by a rise in the CBOE VIX in the last week of September as credit spreads widened due to the elevated global inflationary pressures, US fiscal uncertainty, Fed's hawkish tilt and unwavering spread of the Delta COVID-19 variant.
- Despite high vaccination rates and reopening optimism in most advanced economies, the market may continue to remain volatile on the back of heightened global economic uncertainty. Hence, it is crucial to observe the CBOE VIX movement in the next few weeks as the US debt deadline looms.
- In the near term, most G10 currencies, especially the Euro, are expected to be heavily hit by a rise in the DXY as investors are likely to seek shelter in the safe-haven dollar during this period of uncertainty.

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