

# Global FX Monthly Outlook

Renewed COVID-19 fears and uncertainty spark flight to safety

## EUR (1.136) ▼

- EUR continued to lose ground for the sixth consecutive month against the USD due to heightened COVID-19 fears amid the advent of the new Omicron variant and stronger USD index (DXY) amid rising US inflation concerns. To add, the bloc's currency remained pressured by Europe's worsening COVID-19 situation and European Central Bank's (ECB) dovish monetary policy stance.
- The single currency may resume its bearish momentum against the greenback in December as the DXY may continue to trend higher on the back of the potential widening of ECB-Fed policy divergence, uncertainty over the new COVID-19 Omicron variant and Eurozone's dampening economic outlook.

## GBP (1.335) ▼

- GBP declined against the USD in November to its weakest level since December 2020. Cable was weighed by the Bank of England's (BoE) surprising decision to delay policy rate hikes, as well as the emergence of the Omicron variant, which bolstered the safe-haven dollar.
- GBP may continue to weaken this month due to fears surrounding the latest COVID-19 variant and the weaker-than-expected UK 3Q21 GDP growth, which may lead the BoE to keep the policy rate at a record low. However, should the BoE follow through by raising rates, the sterling will likely recover this month.

## AUD (0.713) ▼

- AUD depreciated in November, mainly due to broad USD strength and concerns regarding Australian employment data. Australia's unemployment rate for October climbed to 5.2% (Sep: 4.6%), above market expectations and reaching its highest level since April.
- The AUD may continue to weaken this month, on an expected contraction in Australia's 3Q21 GDP growth. Furthermore, the AUD will likely be weighed by growing risk-off sentiment in the face of the Omicron variant, which has already led to the delay of Australia's plans to further reopen its borders.

## NZD (0.682) ▼

- NZD plunged to a level last seen in November 2020 attributable to stronger USD amid risk-off sentiment brought by the new Omicron variant and hawkish tilt among the US Fed policymakers. Despite the second-rate hike of 25 bps by the Reserve Bank of New Zealand, the kiwi remained pressured against the safe-haven dollar.
- NZD would likely continue to be under downward pressure in December, subject to the development of the new Omicron COVID-19 variant and the outcome of the next US Federal Open Market Committee meeting on December 15.

Table 1: Currencies Outlook

| Long Term* |       |        |        |        |        |         |
|------------|-------|--------|--------|--------|--------|---------|
|            | Q3-21 | Q4-21F | Q1-22F | Q2-22F | Q3-22F | OUTLOOK |
| EURUSD     | 1.183 | 1.132  | 1.178  | 1.183  | 1.188  | ▼       |
| GBPUSD     | 1.378 | 1.336  | 1.387  | 1.390  | 1.394  | ▼       |
| AUDUSD     | 0.733 | 0.715  | 0.760  | 0.764  | 0.767  | ▼       |
| NZDUSD     | 0.701 | 0.682  | 0.712  | 0.709  | 0.707  | ▼       |
| CADUSD     | 0.793 | 0.781  | 0.804  | 0.801  | 0.800  | ▼       |

| Short Term (Technical) |          |       |       |       |       |         |
|------------------------|----------|-------|-------|-------|-------|---------|
|                        | EMA (21) | R1    | R2    | S1    | S2    | OUTLOOK |
| EURUSD                 | 1.139    | 1.158 | 1.179 | 1.118 | 1.100 | ▲       |
| GBPUSD                 | 1.345    | 1.357 | 1.378 | 1.323 | 1.311 | ▲       |
| AUDUSD                 | 0.727    | 0.738 | 0.763 | 0.700 | 0.687 | ▲       |
| NZDUSD                 | 0.697    | 0.706 | 0.730 | 0.669 | 0.657 | ▲       |
| CADUSD                 | 0.793    | 0.800 | 0.817 | 0.773 | 0.764 | ▲       |

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.

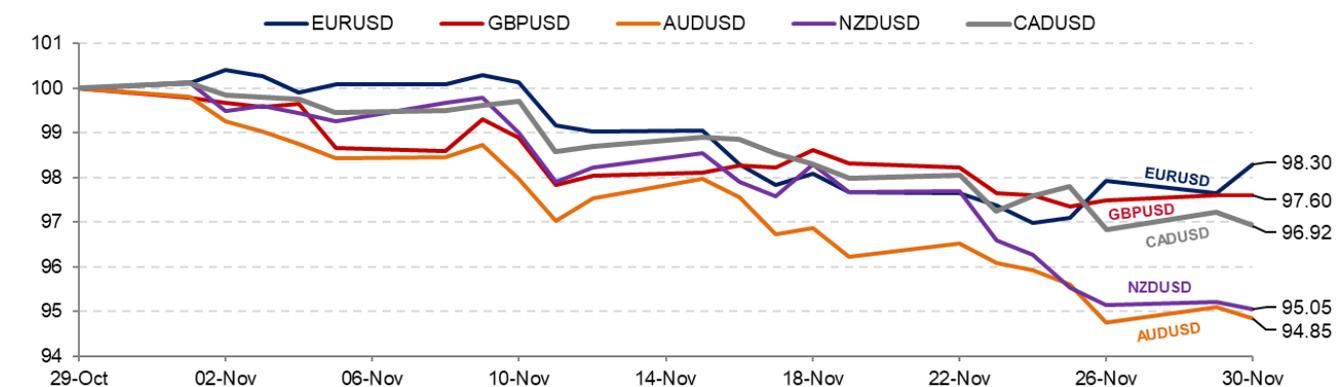
$$EMA = (P \times \alpha) + [Previous\ EMA \times (1 - \alpha)]$$

Table 2: Upcoming Major Data Release

| Date       | Currency | Indicator                  |
|------------|----------|----------------------------|
| 01/12/2021 | AUD      | GDP                        |
| 02/12/2021 | AUD      | Trade (OCT)                |
| 02/12/2021 | AUD      | Retail Sales (OCT)         |
| 03/12/2021 | USD      | Non-Farm Payrolls (NOV)    |
| 07/12/2021 | AUD      | Interest Rate Decision     |
| 07/12/2021 | USD      | Trade (OCT)                |
| 10/12/2021 | GBP      | Trade (OCT)                |
| 10/12/2021 | USD      | Inflation (NOV)            |
| 14/12/2021 | GBP      | Claimant Count (NOV)       |
| 15/12/2021 | GBP      | Inflation (NOV)            |
| 15/12/2021 | USD      | Retail Sales (NOV)         |
| 16/12/2021 | USD      | Interest Rate Decision     |
| 16/12/2021 | AUD      | Unemployment (NOV)         |
| 16/12/2021 | GBP      | Interest Rate Decision     |
| 17/12/2021 | GBP      | Retail Sales (NOV)         |
| 18/12/2021 | NZD      | Current Account (Q3)       |
| 19/12/2021 | NZD      | GDP (Q3)                   |
| 19/12/2021 | NZD      | Trade (NOV)                |
| 22/12/2021 | GBP      | GDP (Q3)                   |
| 23/12/2021 | USD      | Durable Goods Orders (NOV) |
| 23/12/2021 | USD      | Personal Income (NOV)      |
| 23/12/2021 | USD      | PCE Price Index (NOV)      |

Source: Kenanga Research, Trading Economics

Graph 1: Monthly Global FX Indices Trend

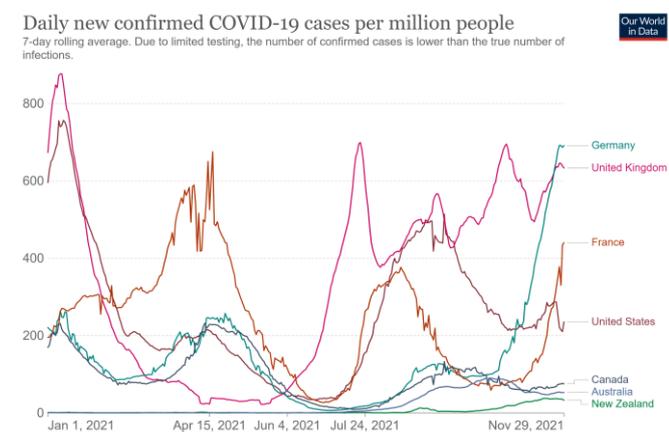


Source: Kenanga Research, Bloomberg

## Surging COVID-19 cases and the emergence of the Omicron variant may trigger a flight to safe haven

- The B.1.1.529 variant known as Omicron was first reported in South Africa on November 24. The variant has an unprecedented number of spike mutations with preliminary evidence suggesting an increased risk of infection compared to other variants of concern. WHO recently has warned that the Omicron poses a high risk of rapid infection around the world. Nonetheless, there are no reported deaths associated with the new variant yet. It would possibly take some time for researchers to better understand Omicron, including its transmissibility, severity of disease, and effectiveness of existing vaccines, tests, and treatments.
- So far, Omicron cases have been recorded mainly in Europe, Australia and Canada. Europe, which is currently struggling to contain the latest wave of COVID-19, has reported new cases associated with the new variant, particularly in the UK, Germany, the Netherlands, Italy, Belgium, Denmark and the Czech Republic. Australia has detected a total of five Omicron cases and decided to delay the planned reopening of its borders from December 1 to December 15 as the country weighs the potential threat posed by the new variant. Meanwhile, New Zealand, which enforced some of the strictest pandemic restrictions earlier, planned to reopen its borders in April 2022, reflecting a cautious easing of border curbs.
- Concern grows over the global growth recovery as surging cases could be expected, particularly in Europe and other regions amid fears of the Omicron variant. Likewise, many countries are expected to reimpose travel restrictions and further tighten pandemic protocols to curb the transmission. This could further trigger a flight to safe haven, causing the greenback to invariably gain over other major global currencies.

Graph 2: Daily New Confirmed COVID-19 Cases per 1.0m people



Source: Johns Hopkins University CSSE COVID-19 data

## For further information, please contact:

**Wan Suhaimie Wan Mohd Saidie**  
Head of Economic Research  
[wansuhaimie@kenanga.com.my](mailto:wansuhaimie@kenanga.com.my)

**Muhammad Saifuddin Sapuan**  
Economist  
[saifuddin.sapuan@kenanga.com.my](mailto:saifuddin.sapuan@kenanga.com.my)

**Afiq Asyraf Syazwan Abd. Rahim**  
Economist  
[afiqasyraf@kenanga.com.my](mailto:afiqasyraf@kenanga.com.my)

**Zalman Basree**  
Economist  
[zalman@kenanga.com.my](mailto:zalman@kenanga.com.my)

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**KENANGA INVESTMENT BANK BERHAD (15678-H)**  
Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia  
Telephone: (603) 2172 0880 Website: [www.kenanga.com.my](http://www.kenanga.com.my) E-mail: [research@kenanga.com.my](mailto:research@kenanga.com.my)