

Global FX Monthly Outlook

Dollar strength to sustain at the expense of other global currencies

EUR (1.055) ▼

- EUR depreciated around 4.9% MoM against the USD and closed last month near the 1.05 mark, a level last seen in December 2016. The weakness in the EUR was due to widening monetary policy divergence between the Fed and the European Central Bank (ECB), weaker Eurozone growth prospects and a deterioration in global risk appetite. The USD index (DXY) soared to as high as 103.6 (Apr 28) due to the Fed's increasing hawkishness and rising safe-haven demand.
- EUR may likely trade around the 1.05 – 1.06 level against the USD as the DXY is expected to continue to hover around the 103.0 – 104.0 mark amid solid Fed tightening expectations and worsening global economic outlook. However, a more hawkish ECB may help to buoy the bloc's currency from further depreciation.

GBP (1.257) ▼

- GBP weakened by 4.2% MoM against the USD in April, reaching its lowest level since July 2020. This was on the back of a strengthening dollar amid safe-haven demand and rising US Treasury yields. The GBP weakness was also exacerbated by concerns of further monetary policy divergence between the Bank of England (BoE) and the US Fed, as the former is expected to raise policy rates at a softer pace.
- GBP may continue to depreciate this month as the BoE only raised interest rates by 25 basis points (bps) to 1.0%, compared to the more aggressive 50bps hike by the Fed. Furthermore, the sterling may be weighed by the BoE's warning that the UK could face a recession by the end of the year.

AUD (0.706) ▼

- AUD weakened by 5.7% MoM against the USD in April mainly due to broad USD appreciation as the DXY index surged amid US Fed hawkishness and flight to safe haven brought by global recession concerns. In addition, the performance of the AUD was also associated with a decline in RMB as PBoC slashed its Required Reserve Ratio for commercial banks' foreign currency deposits.
- Downside bias for AUD persists mainly due to the increasing US Fed hawkishness to tame inflation, and global economic slowdown fears amid China's zero-Covid policy and the ongoing Russia-Ukraine crisis.

NZD (0.646) ▼

- NZD plunged by 6.9% MoM to a level last seen in June 2020 against the USD, due to rising external pressures led by the appreciation in USD amid hawkish US Fed and weak Chinese currency. Nonetheless, the downside was capped earlier by a hefty 50 bps policy rate hike from the Reserve Bank of New Zealand (RBNZ), its biggest rate hike in 20 years.
- NZD may find support from the next RBNZ meeting on May 25, as the central bank is expected to raise its policy rate by another half-point to tame inflation. However, the imminent prospect of the Fed's rate hike acceleration and global economic slowdown may weigh on the kiwi in May.

Table 1: Currencies Outlook

	Long Term*					OUTLOOK
	Q1-22	Q2-22F	Q3-22F	Q4-22F	Q1-23F	
EURUSD	1.109	1.115	1.120	1.124	1.129	▲
GBPUSD	1.312	1.323	1.330	1.336	1.342	▲
AUDUSD	0.749	0.748	0.746	0.745	0.745	▼
NZDUSD	0.694	0.689	0.687	0.686	0.686	▼
CADUSD	0.799	0.788	0.779	0.773	0.769	▼

	Short Term (Technical)					OUTLOOK
	EMA (21)	R1	R2	S1	S2	
EURUSD	1.070	1.089	1.124	1.035	1.015	▲
GBPUSD	1.274	1.298	1.339	1.231	1.206	▲
AUDUSD	0.723	0.744	0.781	0.687	0.668	▲
NZDUSD	0.661	0.682	0.718	0.628	0.610	▲
CADUSD	0.785	0.794	0.811	0.769	0.761	▲

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.

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

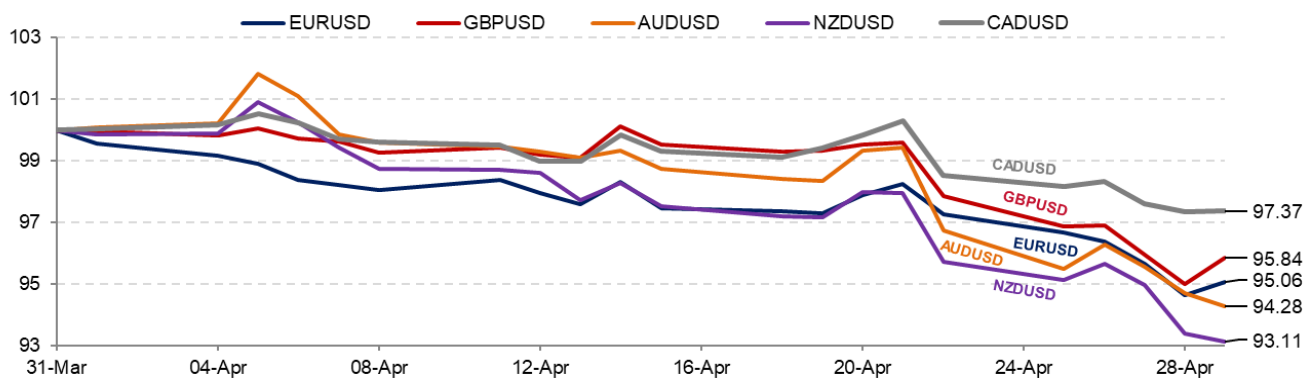
Table 2: Upcoming Major Data Release

Date	Currency	Indicator
03/05/2022	AUD	Interest Rate Decision
03/05/2022	EUR	Unemployment (MAR)
04/05/2022	NZD	Unemployment (Q1)
04/05/2022	EUR	Retail Sales (MAR)
04/05/2022	USD	Trade (MAR)
05/05/2022	USD	Interest Rate Decision
05/05/2022	AUD	Trade (MAR)
05/05/2022	GBP	Interest Rate Decision
06/05/2022	USD	Non-Farm Payrolls (APR)
10/05/2022	AUD	Business Confidence (APR)
11/05/2022	USD	Inflation (APR)
12/05/2022	GBP	GDP (MAR)
12/05/2022	GBP	Industrial Production (MAR)
12/05/2022	USD	PPI (APR)
16/05/2022	EUR	Trade (MAR)
17/05/2022	GBP	Claimant Count (APR)
17/05/2022	USD	Retail Sales (APR)
18/05/2022	GBP	Inflation (APR)
18/05/2022	EUR	Inflation (APR)
19/05/2022	AUD	Unemployment (APR)
20/05/2022	NZD	Trade (APR)
25/05/2022	USD	Durable Goods Orders (APR)
26/05/2022	USD	FOMC Minutes
27/05/2022	USD	Personal Income (APR)

Source: Kenanga Research, Trading Economics

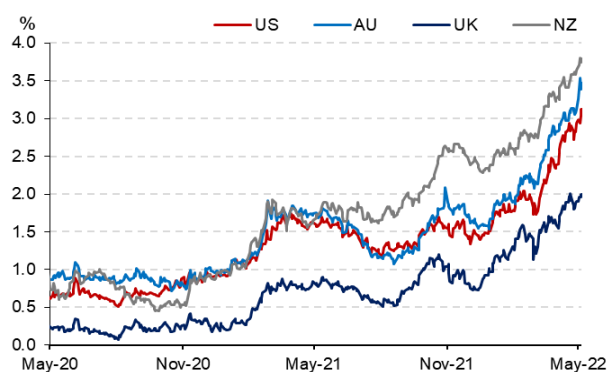
09 May 2022

Graph 1: Monthly Global FX Indices Trend



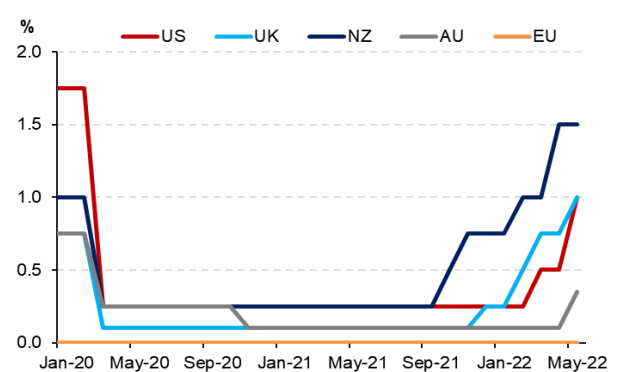
Source: Kenanga Research, Bloomberg

Graph 2: 10-Year Government Bond Yields



Source: Kenanga Research, Bloomberg

Graph 3: Central Bank Policy Rates



Source: Kenanga Research, Bloomberg

Global currencies continue to be outpaced by a strong dollar despite some monetary policy convergence

- The dollar continues to outpace other global currencies with the DXY reaching as high as 103.7 on May 02, driven by the Fed's aggressive tightening of monetary policy in the face of soaring US inflation. This comes despite similar moves from other major central banks to raise policy rates, as global risk-off sentiment continues to favour the safe-haven dollar.
- Ahead of the Fed's 50bps rate hike, the RBNZ also raised rates by 50bps to 1.50% on April 12, its fourth hike in a row and its biggest increase in 20 years. Going forward the central bank is expected to continue raising rates aggressively, which should help cap any further depreciation in the NZD.
- Although the Reserve Bank of Australia (RBA) and the BoE also hiked rates by 25bps in the same week as the Fed, the less aggressive moves have raised concerns of further monetary policy divergence in the long run, as the US central bank is poised for a back-to-back 50bps hike in June. Meanwhile, the ECB has only just started building momentum for a possible rate hike in July but has kept the policy rate at zero for the time being. As such, these currencies will likely continue to face strong downward pressure in the near-term.

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