

# Global FX Monthly Outlook

Major currencies to be pressured by slowing global growth and sustained Fed hawkishness

## EUR (0.980) ▼

- Despite the European Central Bank's (ECB) unprecedented 75 basis points (bps) rate hike, the EUR still weakened against the safe-haven USD, mainly due to the Fed's persistent rate hikes, better-than-expected US macroeconomic readings, and Europe's worsening energy crisis. In addition, the shared currency was also pressured by the significant escalation in the Russia-Ukraine war and growing recessionary risk.
- The prospect of weaker economic growth in the Euro area, due to rising inflationary pressure and tighter financial condition, may continue to pressure the EUR to trade below parity against the USD. Despite the expectation that the ECB may hike by another 75 bps, the USD index may continue to trend upward due to the Fed's strong resolution to bring down inflation.

## GBP (1.117) ▼

- GBP plunged to a record low of 1.04 against the USD towards the end of September, plagued by a dire economic outlook and the near collapse of the UK bond market following the government's presentation of the mini-budget. The intense sell-off of UK gilts led to heightened market volatility and weighed heavily on the sterling. However, cable regained some of its losses by the end of the month after the Bank of England (BoE) announced it would temporarily purchase long-dated gilts to restore market stability, effectively restarting its quantitative easing programme.
- GBP may remain pressured in October, with market sentiment will likely remaining weak as the UK government stands firm on its mini-budget. The sterling may also be weighed by broad dollar strength as the Fed maintains its hawkish path.

## AUD (0.640) ▼

- AUD depreciated against the USD in September, reaching its lowest level since April 2020 following the US Fed's third consecutive 75 bps rate hike and weak commodity prices amid fears of a global recession.
- AUD is expected to continue weakening in October, surrounded by plummeting commodity prices brought by fears of a global economic slowdown. The US Fed will also likely remain hawkish and potentially deliver another rate hike towards the end of the year. However, AUD's downside bias may be partially capped should the Reserve Bank of Australia raise rates by another 50 bps this month, while China may relax its zero-COVID policy.

## NZD (0.560) ▼

- NZD depreciated against the USD, reaching its weakest level since March 2020 due to broad USD appreciation as the US Fed remained hawkish, while risk sentiment plunged amid fears of a global recession and rising geopolitical tensions.
- The direction for the kiwi in October remains weak as the US Fed is expected to remain hawkish while risk aversion lingers. Nevertheless, the kiwi may find support from expected rate hikes by the Reserve Bank of New Zealand and if China eases its pandemic restrictions.

Table 1: Currencies Outlook

	Long Term*					OUTLOOK
	Q3-22	Q4-22F	Q1-23F	Q2-23F	Q3-23F	
EURUSD	0.980	1.045	1.057	1.070	1.082	▲
GBPUSD	1.117	1.240	1.258	1.276	1.294	▲
AUDUSD	0.640	0.686	0.692	0.698	0.706	▲
NZDUSD	0.560	0.638	0.646	0.654	0.662	▲
CADUSD	0.723	0.767	0.765	0.765	0.766	▲

	Short Term (Technical)					OUTLOOK
	EMA (21)	R1	R2	S1	S2	
EURUSD	0.987	1.013	1.046	0.952	0.925	▲
GBPUSD	1.126	1.171	1.225	1.065	1.013	▲
AUDUSD	0.664	0.674	0.708	0.623	0.606	▲
NZDUSD	0.588	0.597	0.635	0.541	0.523	▲
CADUSD	0.746	0.756	0.788	0.707	0.691	▲

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.

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

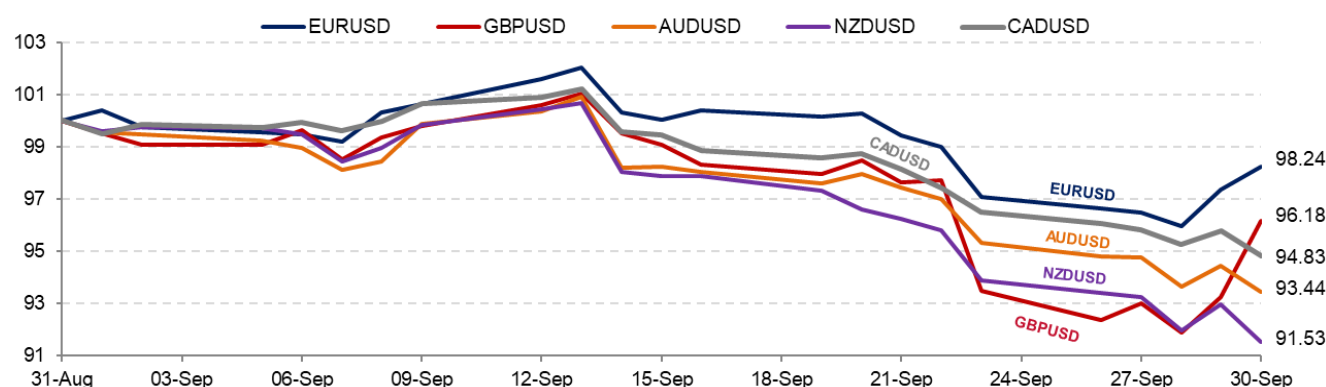
Table 2: Upcoming Major Data Release

Date	Currency	Indicator
03/10/2022	USD	PMI (SEP)
04/10/2022	AUD	Interest Rate Decision
04/10/2022	NZD	Interest Rate Decision
04/10/2022	USD	Trade (AUG)
06/10/2022	AUD	Trade (AUG)
06/10/2022	EUR	Retail Sales (AUG)
07/10/2022	USD	Non-Farm Payrolls (SEP)
11/10/2022	GBP	Claimant Count (SEP)
12/10/2022	GBP	Trade (AUG)
12/10/2022	GBP	Industrial Production (AUG)
12/10/2022	EUR	Industrial Production (AUG)
13/10/2022	USD	FOMC Minutes
13/10/2022	USD	Inflation (SEP)
14/10/2022	EUR	Trade (AUG)
14/10/2022	USD	Retail Sales (SEP)
18/10/2022	NZD	Inflation (Q3)
18/10/2022	AUD	RBA Meeting Minutes
18/10/2022	USD	Industrial Production (SEP)
19/10/2022	GBP	Inflation (SEP)
19/10/2022	EUR	Inflation (SEP)
20/10/2022	AUD	Unemployment (SEP)
26/10/2022	AUD	Inflation (Q3)
27/10/2022	EUR	Interest Rate Decision
27/10/2022	USD	GDP Advance Estimate (Q3)

Source: Kenanga Research, Trading Economics

03 October 2022

Graph 1: Monthly Global FX Indices Trend



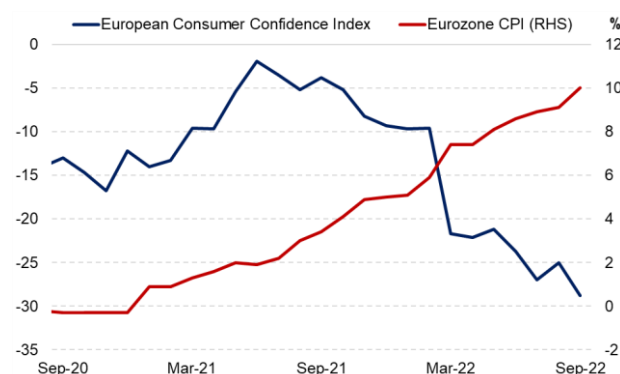
Source: Kenanga Research, Bloomberg

Graph 2: UK 10 and 30-year Government Bond Yields



Source: Kenanga Research, Bloomberg

Graph 3: Europe Consumer Confidence Index and CPI



Source: Kenanga Research, Bloomberg

### The United Kingdom's sterling crisis and Europe's worsening economic outlook may push the USD higher

- On September 23, UK's new finance minister unveiled a GBP45.0b tax-cutting mini-budget which sent the markets into turmoil, with the 10-year gilt surging to its highest level in 14 years and the sterling plunging to as low as 1.04 against the USD, before rebounding to around the 1.07 – 1.12 level due to the BoE's emergency intervention. The move has prompted the IMF to issue a rare warning, urging the G7 economy to "re-evaluate" its unfunded tax cuts.
- Looking beyond the sterling crisis, the deterioration in the Euro area economic outlook due to soaring inflation and a worsening energy crisis, amid the Russia-Ukraine war, may continue to put pressure on the EUR. Moving forward, the recent issues with the Nord Stream 1 pipeline is expected to continue to amplify the impact of inflation and weigh on consumer confidence.
- Since there is not much that the BoE can do to support the local currency without any emergency rate hikes, the sterling may hover around the 1.05-1.10 level until the November rate meeting. This, coupled with a potential further depreciation of the EUR and Fed's hawkish momentum may push the USD index higher, pressuring other major currencies.

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