Global FX Monthly Outlook

Less hawkish US Fed to bolster global FX uptrend

EUR (1.035) —

- EUR extended its gains and appreciated by more than 4.0% against the USD, primarily due to a weaker USD and falling energy prices. The sharp depreciation of the USD index (DXY) due to the dovish tone from the Fed has pushed the bloc's currency to close the month above parity for the first time since July 2022. On top of that, the EUR was also supported by the European Central Bank's (ECB) hawkish sentiment.
- As the DXY is expected to continue to hover around the 106.0-108.0 zone in December, the EUR may remain supported around the 1.04 level. However, the current situation in China, an unfavourable Eurozone economic outlook and weakening hawkish ECB bets due to the Eurozone inflation slowdown may continue to weigh on the bloc's currency, limiting any further appreciation.

GBP (1.199) ▲

- GBP strengthened against the USD in November on broad dollar weakness and renewed political calm in the UK. The sterling found strong support from the Bank of England's (BoE) 75 basis points (bps) rate hike earlier in the month, its largest in 33 years.
- GBP may continue to appreciate slightly in December as the BoE raises rates again, potentially matching the US Fed with a 50 bps rate hike, even as the dollar continues to be pressured by global risk-on sentiment. However, the UK's growth outlook is increasingly bleak as it contends with the long-term impact of Brexit and the broader impact of high energy prices in Europe.

AUD (0.673) ▲

- AUD appreciated against a broadly weak USD in November as risk-on sentiment returned. The aussie dollar was also buoyed by a 25 bps rate hike by the Reserve Bank of Australia (RBA). The central bank signalled that further hikes will likely be needed to tame inflation but officials were ready to pause in order to carefully assess the economic impact of tightening.
- AUD may strengthen marginally in December, as the RBA potentially raises rates for an eighth consecutive meeting on Dec 6. However, the Australian dollar is expected to weaken substantially if the central bank decides to pause its tightening cycle.

NZD (0.624) ▲

- NZD rallied in November, driven by the jumbo rate hike of 75 bps by the Reserve Bank of New Zealand to ensure inflation returns within its target range of 1% - 3% over the medium term. The performance of kiwi was also partly due to the US Fed's signal that it would slow the pace of rate hikes. Nonetheless, the upside was capped following COVID-19 resurgence and protests in China towards the end of the month.
- Given the expectation of a weaker USD in December amid a slowdown in the pace of US Fed rate hikes and improved global risk sentiment, we expect NZD appreciation to continue. Nevertheless, the upside may be capped due to the global growth slowdown concerns.

Table 1: Currencies Outlook

	Long Term*					
	Q3-22	Q4-22F	Q1-23F	Q2-23F	Q3-23F	OUTLOOK
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)					
	EMA (21)	**R1**	**R2**	**S1**	**S2**	**OUTLOOK**
EURUSD	1.024	1.064	1.092	0.991	0.946	▼
GBPUSD	1.181	1.231	1.263	1.147	1.094	▼
AUDUSD	0.663	0.691	0.709	0.642	0.611	▼
NZDUSD	0.609	0.641	0.658	0.591	0.559	▼
CADUSD	0.744	0.753	0.768	0.725	0.711	▲

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.

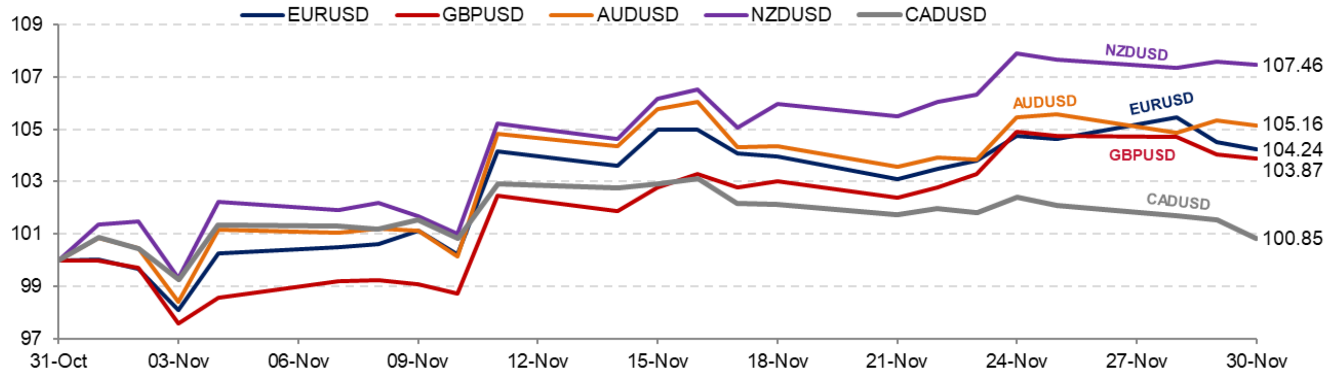
$$EMA = (P \times \alpha) + [Previous\ EMA\ \times (1 - \alpha)]$$

Table 2: Upcoming Major Data Release

Date	Currency	Indicator
01/12/2022	EUR	Unemployment (OCT)
01/12/2022	USD	Personal Income (OCT)
01/12/2022	USD	PCE Price Index (OCT)
02/12/2022	USD	Non-Farm Payrolls (NOV)
05/12/2022	EUR	Retail Sales (OCT)
06/12/2022	AUD	Interest Rate Decision
06/12/2022	USD	Trade (OCT)
07/12/2022	AUD	GDP (Q3)
08/12/2022	AUD	Trade (OCT)
12/12/2022	GBP	GDP (OCT)
13/12/2022	GBP	Claimant Count (NOV)
13/12/2022	USD	Inflation (NOV)
14/12/2022	AUD	Consumer Confidence (DEC)
14/12/2022	GBP	Inflation (NOV)
14/12/2022	EUR	Industrial Production (OCT)
15/12/2022	USD	Interest Rate Decision
15/12/2022	AUD	Unemployment (NOV)
15/12/2022	GBP	Interest Rate Decision
15/12/2022	EUR	Interest Rate Decision
15/12/2022	USD	Retail Sales (NOV)
16/12/2022	GBP	Retail Sales (NOV)
17/12/2022	NZD	GDP (Q3)
22/12/2022	GBP	GDP (Q3)
23/12/2022	USD	PCE Price Index (NOV)

Source: Kenanga Research, Trading Economics

Graph 1: Monthly Global FX Indices Trend

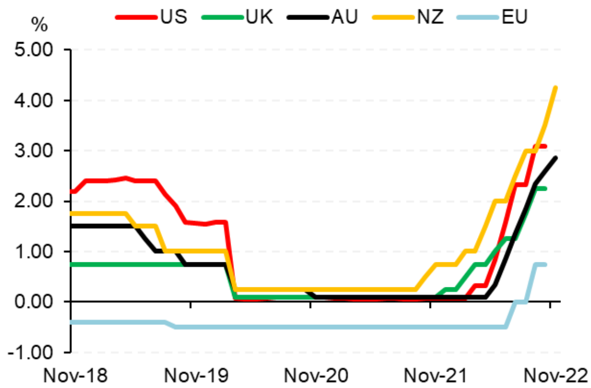


Source: Kenanga Research, Bloomberg

Graph 2: USD Index (DXY) Trend

Source: Kenanga Research, Bloomberg

Graph 3: Global Central Banks Policy Rate



Source: Kenanga Research, CEIC

Fed's less hawkish pivot weighs on USD but widening monetary policy divergence to limit the downside

- The recent depreciation of the USD reflected in the DXY index below the 106.0 level on 25th November was rather short-lived, as the market response to the Fed's minutes which signalled less hawkish guidance. Off reference, the Fed funds futures now have priced in a 75.8% chance of a 50 bps hike at the next FOMC meeting on 13-14 December, with the interest rate to reach its peak in May 2023 at about 5.00-5.25%.
- Despite the expectation of a slowdown in the pace of rate hikes, the possibility that the Fed could maintain its monetary policy tightening pace would largely depend on the underlying inflationary pressures. The Fed's preferred gauge of inflation, namely the core PCE price index, expanded by 5.1% YoY in September (Aug: 4.9%), indicating persistent inflationary pressure, and has been above the central bank's 2.0% target since April 2021.
- Nevertheless, the direction of global currencies in December remains susceptible to the tone of the US FOMC in its final monetary policy meeting for 2022. A further confirmation of the Fed pivoting towards a slower pace of rate hikes could weaken the USD, and lift other major global FX higher. However, the downside bias is likely limited given that the Fed seems to eye higher rates and hold longer, which would widen the rate differentials, favouring the USD.

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