

# Global FX Monthly Outlook

EUR and GBP to gain from the dovish revaluation of the Fed, but Europe’s banking crisis may shift sentiment

## EUR (1.063) ▲

- After declining to as low as 1.054 (March 8) against the USD following Fed Powell's hawkish testimony, the EUR rebounded above the 1.070 mark, as market expects the Fed ease its hawkish stance amid the recent collapse of Silicon Valley Bank (SVB). However, the acceleration in the US core CPI reading and the recent banking crisis in Europe have raised market uncertainty and weakened the EUR.
- The EUR is poised to gain from the ongoing downward repricing of the Fed fund futures as the market continue to monitor Fed's next action on SVB and awaits Fed policy decision. To add, the EUR may further benefit and potentially trade around the 1.065 – 1.075 zone if the European Central Bank follows through with another 50 basis point rate hike. However, new concerns over Credit Suisse may worsened market sentiment and pressure the bloc’s currency.

## GBP (1.207) ▲

- The decline of the USD index (DXY) following the SVB fiasco has helped the GBP to recoup some of its losses against the greenback over the past few weeks. Domestically, the pound was supported by solid employment data, upbeat UK GDP reading of 0.3% MoM (consensus: 0.1%) and optimistic UK spring budget. However, soaring risk aversion due to the growing banking crisis has capped sterling’s upside.
- As the DXY may continue to experience downward pressure due to the US banking crisis and the Fed potentially adopting a less hawkish stance, the GBP is anticipated to appreciate towards the 1.21 level by end-March. Nevertheless, if the Bank of England decides to shift towards a pause in its March meeting and if the global banking crisis continue to worsen, the GBP may be negatively impacted.

Table 1: Currencies Outlook

Long Term*							
	Q4-22	Q1-23F	Q2-23F	Q3-23F	Q4-23F	Q1-24F	Trend
EURUSD	1.071	1.073	1.102	1.115	1.128	1.162	▲
GBPUSD	1.208	1.208	1.251	1.268	1.285	1.324	—

Short Term (Technical)							
	RSI (14)	EMA (21)	R1	R2	S1	S2	Trend
EURUSD	47.161	1.065	1.088	1.115	1.045	1.028	▲
GBPUSD	50.773	1.205	1.230	1.250	1.192	1.174	▼

Signal for Base Currency Trend = ▲ Bullish — Neutral ▼ Bearish

\*F=Forecasts for end of period

Source: Kenanga Research, Bloomberg

RSI (14): 14-day Relative Strength Index

Measures the speed and magnitude of a security's recent price changes to evaluate overvalued or undervalued conditions. A reading of 75 or above indicates an overbought situation while a reading of 25 or below indicates an oversold condition.

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.

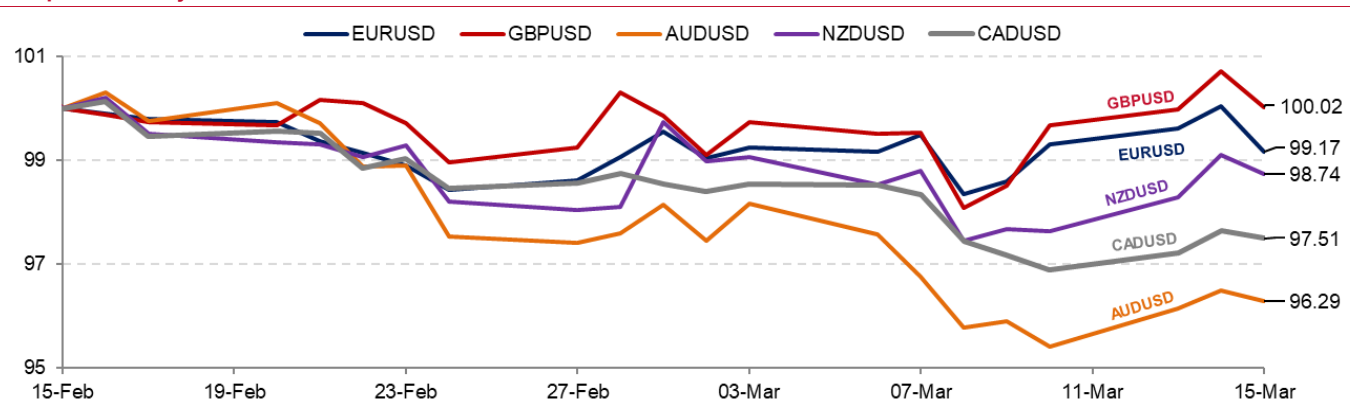
$$EMA = (P \times \alpha) + [Previous\ EMA \times (1 - \alpha)]$$

Table 2: Key Macroeconomic Indicators (Latest Data)

Countries	Inflation Rate (% YoY)	Unemployment Rate (%)	GDP (% QoQ)	Interest Rate (%)	10-year Government Bond Yield (%)
Euro area	8.5 (Jan: 8.6)	6.7 (Dec: 6.7)	0.0 (3Q22: 0.4)	3.00	3.25 (end-Feb: 3.50)
United Kingdom	10.1 (Dec: 10.5)	3.7 (Dec: 3.7)	0.0 (3Q22: -0.2)	4.00	3.32 (end-Feb: 3.50)

Source: Kenanga Research, Bloomberg

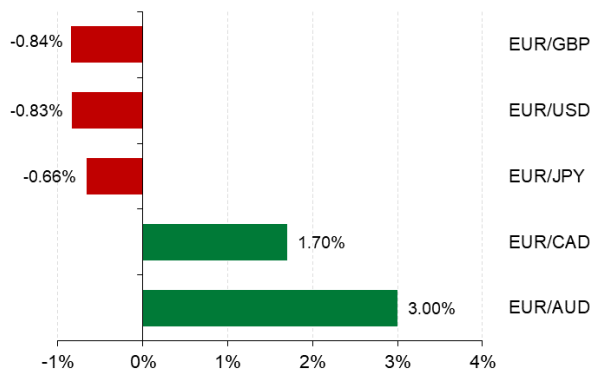
Graph 1: Monthly Global FX Indices Trend



Source: Kenanga Research, Bloomberg

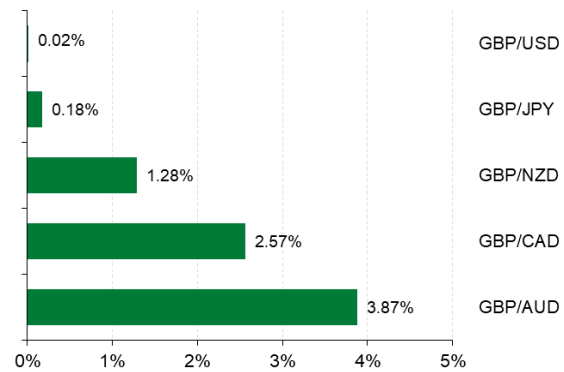
16 March 2023

Graph 2: Monthly Performance of Core Pairs (EUR)\*



Source: Kenanga Research, Bloomberg  
\*Start date: 15 February, End date: 15 March

Graph 3: Monthly Performance of Core Pairs (GBP)\*



Source: Kenanga Research, Bloomberg  
\*Start date: 15 February, End date: 15 March

Table 3: Key Major Data Release And Policy Announcement for the Month

Date	Country	Indicator	Previous	Consensus/Forecast
16/3/2023	US	Building Permits Preliminary (FEB)	1.339m	1.340m
16/3/2023	EA	ECB Interest Rate Decision	3.00%	3.50% (50 bps hike)
17/3/2023	US	Michigan Consumer Sentiment Preliminary (MAR)	67.0	67.0
22/3/2023	UK	Inflation Rate (FEB)	10.1% YoY	N/A
23/3/2023	US	Fed Interest Rate Decision	4.75%	5.00% (25 bps hike)
23/3/2023	UK	BoE Interest Rate Decision	4.00%	4.25% (25 bps hike)
24/3/2023	UK	Retail Sales (FEB)	0.5% MoM	N/A
24/3/2023	US	Durable Goods Orders (FEB)	-4.5% MoM	N/A
31/3/2023	EA	Inflation Rate Flash (MAR)	8.5% YoY	N/A
31/3/2023	EA	Unemployment Rate (FEB)	6.7%	N/A
31/3/2023	US	Core PCE Price Index (FEB)	0.6% MoM	N/A
3/4/2023	US	ISM Manufacturing PMI (MAR)	47.7	N/A
7/4/2023	US	Non Farm Payrolls (MAR)	311.0k	N/A
11/4/2023	EA	Retail Sales (FEB)	0.3% MoM	N/A
12/4/2023	US	Core Inflation Rate (MAR)	N/A	N/A
13/4/2023	UK	GDP (FEB)	0.3% MoM	N/A
14/4/2023	US	Retail Sales (MAR)	N/A	N/A

Source: Kenanga Research, Trading Economics, Bloomberg

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