

# Global FX Monthly Outlook

A weak bias in the near term due to the US debt impasse, but a dovish Fed should reverse course

## EUR (1.088) ▲

- Despite the Fed's hint of a possible pause in its May meeting, the EUR weakened over the course of the last two weeks due to the unstable global risk environment caused by recessionary fears and the ongoing impasse over the US debt ceiling. The EUR was also pressured by the European Central Bank's (ECB) less hawkish than expected 25 basis points (bps) rate hike. However, ECB President Lagarde's hawkish statement has helped the EUR limit its losses.
- The bloc's currency may continue to be heavily influenced by the USD's trajectory, which will likely be determined by the outcome of US debt ceiling negotiations. If there is no encouraging progress, the USD index (DXY) could rise to above the 103.0 level due to an increase in safe-haven flows, weakening the EUR. However, any hawkish guidance by the ECB, coupled with dovish signals by the Fed on June 15, may help to support the EUR to recover above the 1.10 level.

## GBP (1.251) —

- The UK's higher-than-expected inflation reading and strong wage growth have led to an aggressive repricing of Bank of England (BoE) rate hike expectations, benefiting the pound. However, the ongoing risk-off sentiment, coupled with a 0.3% MoM contraction in the UK's March GDP (consensus: 0.0%), has hampered the pound's upward momentum.
- The focus now will be on the UK's inflation and wage growth data. If the readings come in hotter-than-expected, it may prompt the BoE to implement another 25 bps rate hike, which would benefit the pound. Despite expectations that the pound may weaken in the next few weeks due to the US debt crisis, it could potentially appreciate back to near the 1.26 level if the Fed signals more dovishness at its June meeting.

Table 1: Currencies Outlook

|        | Long Term* |        |        |        |        |        | Trend |
|--------|------------|--------|--------|--------|--------|--------|-------|
|        | Q1-23      | Q2-23F | Q3-23F | Q4-23F | Q1-24F | Q2-24F |       |
| EURUSD | 1.084      | 1.102  | 1.115  | 1.128  | 1.162  | 1.192  | ▲     |
| GBPUSD | 1.234      | 1.255  | 1.272  | 1.289  | 1.328  | 1.362  | ▲     |

|        | Short Term (Technical) |          |       |       |       |       | Trend |
|--------|------------------------|----------|-------|-------|-------|-------|-------|
|        | RSI (14)               | EMA (21) | R1    | R2    | S1    | S2    |       |
| EURUSD | 42.651                 | 1.096    | 1.109 | 1.115 | 1.091 | 1.080 | ▲     |
| GBPUSD | 51.786                 | 1.251    | 1.263 | 1.270 | 1.243 | 1.230 | —     |

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.

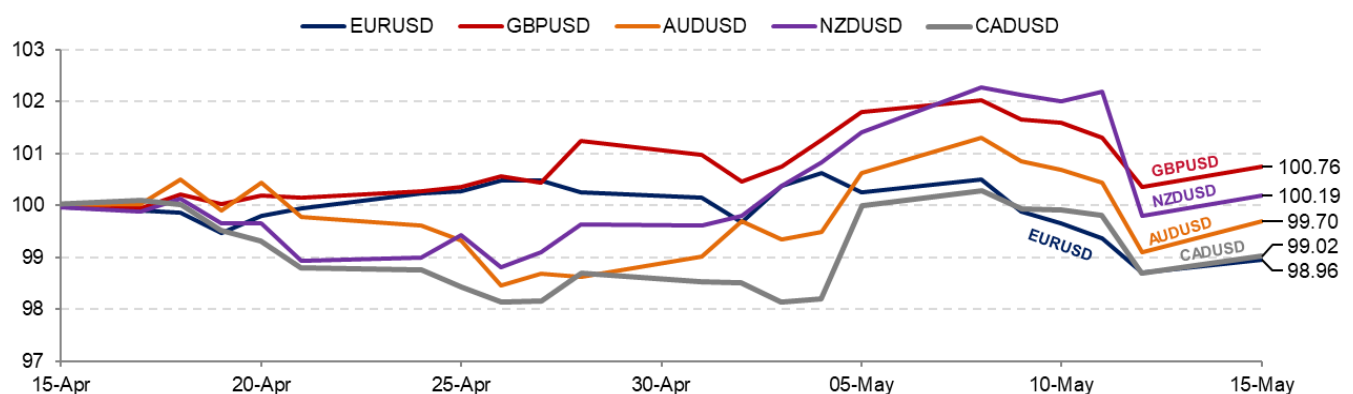
$$EMA = (P \times \alpha) + [Previous\ EMA \times (1 - \alpha)]$$

Table 2: Key Macroeconomic Indicators (Latest Data)

| Countries      | Inflation Rate (% YoY) | Unemployment Rate (%) | GDP (% QoQ)     | Interest Rate (%) | 10-year Government Bond Yield (%) |
|----------------|------------------------|-----------------------|-----------------|-------------------|-----------------------------------|
| Euro area      | 7.0 (Mar: 6.9)         | 6.5 (Feb: 6.6)        | 0.1 (4Q22: 0.0) | 3.75              | 3.10 (end-Apr: 3.15)              |
| United Kingdom | 10.1 (Feb: 10.4)       | 3.8 (Jan: 3.7)        | 0.1 (4Q22: 0.1) | 4.50              | 3.82 (end-Apr: 3.72)              |

Source: Kenanga Research, Bloomberg

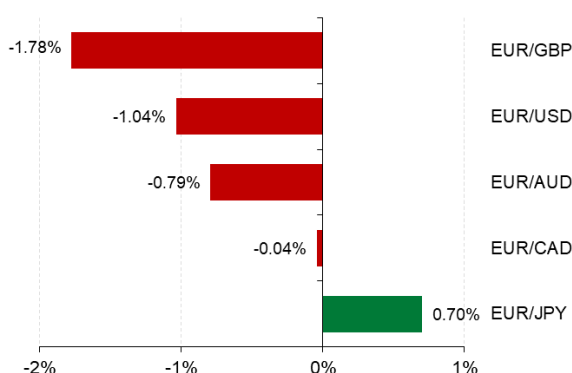
Graph 1: Monthly Global FX Indices Trend



Source: Kenanga Research, Bloomberg

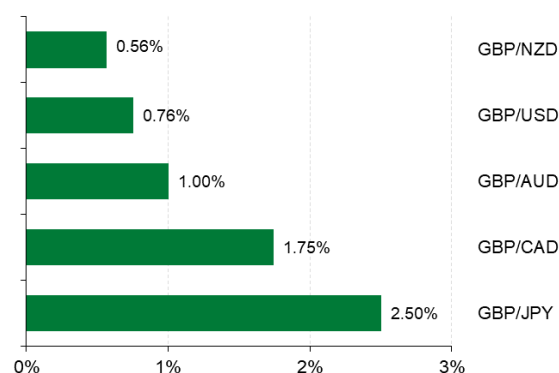
16 May 2023

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



Source: Kenanga Research, Bloomberg  
\*Start date: 14 April, End date: 15 May

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



Source: Kenanga Research, Bloomberg  
\*Start date: 14 April, End date: 15 May

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

| Date      | Country | Indicator                  | Previous  | Consensus/Forecast  |
|-----------|---------|----------------------------|-----------|---------------------|
| 16/5/2023 | UK      | Unemployment Rate (MAR)    | 3.8%      | 3.8%                |
| 16/5/2023 | US      | Retail Sales (APR)         | -0.6% MoM | 0.8% MoM            |
| 19/5/2023 | UK      | Gfk Consumer Confidence    | -30.0     | -27.0               |
| 19/5/2023 | US      | Fed Chair Powell Speech    | N/A       | N/A                 |
| 24/5/2023 | UK      | Inflation Rate (APR)       | 10.1% YoY | N/A                 |
| 25/5/2023 | US      | FOMC Minutes               | N/A       | N/A                 |
| 26/5/2023 | UK      | Retail Sales (APR)         | -0.9% MoM | N/A                 |
| 26/5/2023 | US      | Core PCE Price Index (APR) | 0.3% MoM  | N/A                 |
| 31/5/2023 | US      | JOLTs Job Openings (APR)   | 9.59m     | N/A                 |
| 1/6/2023  | EA      | Unemployment Rate (APR)    | 6.5%      | N/A                 |
| 1/6/2023  | EA      | Inflation Rate Flash (MAY) | 7.0% YoY  | N/A                 |
| 2/6/2023  | US      | Unemployment Rate (MAY)    | 3.4%      | N/A                 |
| 2/6/2023  | US      | Non Farm Payrolls (MAY)    | 253.0k    | N/A                 |
| 13/6/2023 | US      | Inflation Rate (MAY)       | 0.4% MoM  | N/A                 |
| 14/6/2023 | UK      | GDP (APR)                  | -0.3% MoM | N/A                 |
| 15/6/2023 | US      | Fed Interest Rate Decision | 5.25%     | 5.25% (status quo)  |
| 15/6/2023 | EA      | ECB Interest Rate Decision | 3.75%     | 4.00% (25 bps hike) |

Source: Kenanga Research, Trading Economics, Bloomberg

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