

Global FX Monthly Outlook

EUR and GBP likely to benefit if the Fed signal the end of its tightening cycle

EUR (1.066) ▲

- Despite a 25 bps rate hike by the ECB, the EUR depreciated to its weakest level against the USD in six months. This depreciation was primarily due to the dovish statement highlighting the end of the ECB's tightening cycle and President Lagarde's speech, in which she stated that "economic growth to remain subdued in the coming months". The EUR was also pressured by solid US activity data.
- The EUR may strengthen against the USD and trade close to the 1.10 mark if the Fed permanently pauses its rate hiking cycle and highlights downside risks to economic growth in its September FOMC meeting. However, the subdued macroeconomic outlook in the euro area (as evidenced by the ECB's downgrade of its 2024 GDP growth forecast to 1.0% YoY from 1.5%), combined with robust US consumer spending and persistent high inflation in the US, could constrain the potential of the EUR to appreciate further.

GBP (1.238) ▲

- The sterling was also pressured by the broad-based USD strengthening last week, driven by the ECB's dovish tilt and stronger-than-expected US retail sales data. Adding to the depreciation was the dovish recalibration of BoE rate hike expectations amid a softening labour market and weaker-than-expected July GDP growth (-0.5% MoM; Jun: 0.5%).
- The anticipation of a hot UK CPI, of around 7.1% YoY (Jun: 6.8%), may lead to a potential 25 bps hike by the BoE. This is likely to bolster the GBP's strength against the robust USD. Furthermore, the chance of the Fed indicating that it has reached the peak of its rate tightening cycle could also have a significant positive impact on the sterling. The combination of higher borrowing costs and a restricted credit supply in the US builds the case for a potentially swifter policy shift by the Fed compared to the BoE.

Table 1: Currencies Outlook

	Long Term*						Trend
	Q2-23	Q3-23F	Q4-23F	Q1-24F	Q2-24F	Q3-24F	
EURUSD	1.091	1.109	1.122	1.156	1.185	1.203	▲
GBPUSD	1.270	1.295	1.312	1.352	1.386	1.407	▲

	Short Term (Technical)						Trend
	RSI (14)	EMA (21)	R1	R2	S1	S2	
EURUSD	33.014	1.079	1.100	1.113	1.077	1.067	▲
GBPUSD	32.132	1.256	1.279	1.291	1.257	1.246	▲

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.

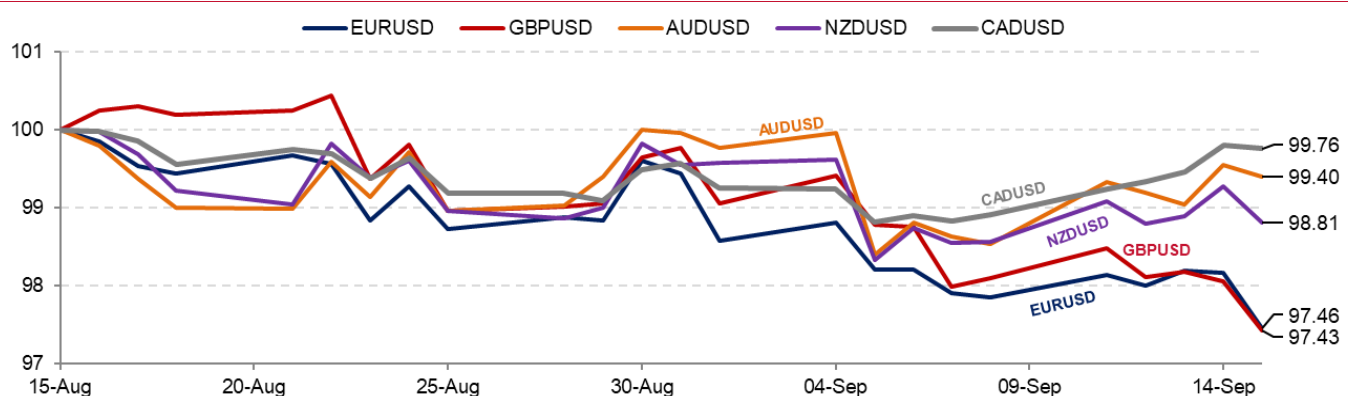
$$EMA = (P \times \alpha) + [Previous EMA \times (1 - \alpha)]$$

Table 2: Key Macroeconomic Indicators (Latest Data)

Countries	Inflation Rate (% YoY)	Unemployment Rate (%)	GDP (% QoQ)	Interest Rate (%)	10-year Government Bond Yield (%)
Euro area	5.3 (Jul: 5.3)	6.4 (Jun: 6.4)	0.1 (1Q23: 0.1)	4.50	3.40 (end-Aug: 3.25)
United Kingdom	6.8 (Jun: 7.9)	4.3 (Jul: 4.2)	0.2 (1Q23: 0.1)	5.25	4.36 (end-Aug: 4.36)

Source: Kenanga Research, Bloomberg

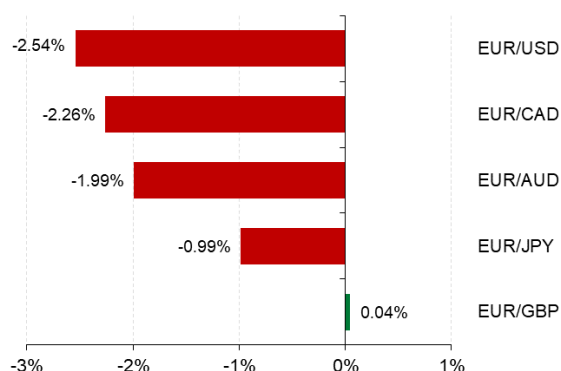
Graph 1: Monthly Global FX Indices Trend



Source: Kenanga Research, Bloomberg

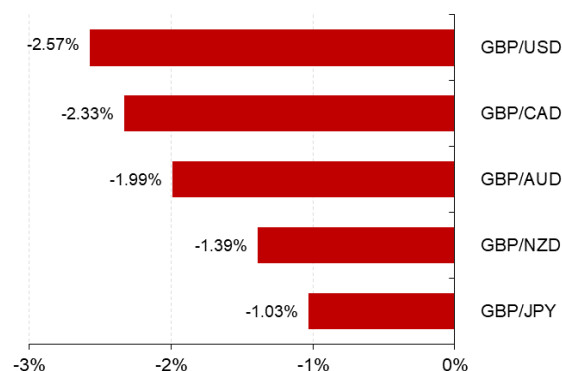
18 August 2023

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



Source: Kenanga Research, Bloomberg
*Start date: 15 August, End date: 15 September

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



Source: Kenanga Research, Bloomberg
*Start date: 15 August, End date: 15 September

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

Date	Country	Indicator	Previous	Consensus/Forecast
19/9/2023	US	Building Permits Preliminary (AUG)	1.443m	1.440m
20/9/2023	UK	Inflation Rate (AUG)	6.8% YoY	7.1% YoY
21/9/2023	US	Fed Interest Rate Decision	5.50%	5.50% (status quo)
21/9/2023	UK	BoE Interest rate Decision	5.25%	5.50% (25 bps hike)
22/9/2023	UK	Retail Sales (AUG)	-1.2% MoM	0.5% MoM
27/9/2023	US	Durable Goods Orders (AUG)	-5.2% MoM	-2.0% MoM
29/9/2023	EA	Inflation Rate Flash (SEP)	5.3% YoY	N/A
29/9/2023	US	Personal Spending (AUG)	0.8% MoM	N/A
29/9/2023	US	Core PCE Price Index (AUG)	0.2% MoM	N/A
2/10/2023	US	ISM Manufacturing PMI (SEP)	47.6	N/A
6/10/2023	US	Non Farm Payrolls (SEP)	187.0k	N/A
11/10/2023	US	PPI (SEP)	0.7% MoM	N/A
12/10/2023	US	FOMC Minutes	N/A	N/A
12/10/2023	UK	GDP (AUG)	-0.5% MoM	N/A
12/10/2023	US	Core Inflation Rate (SEP)	0.3% MoM	N/A
13/10/2023	US	Michigan Consumer Sentiment Preliminary (OCT)	67.7	N/A

Source: Kenanga Research, Trading Economics, Bloomberg

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