

Global FX Monthly Outlook

Further signs of US economic weakness and a dovish Fed to benefit G10 currencies

EUR (1.086) ▲

- The market has once again embarked on a dovish repricing of Fed rate expectations due to the below consensus US key macro readings. According to the CME FedWatch tool, markets are currently pricing in at least four rate cuts starting in May 2024 due to indications of a softening US labour market and diminishing inflationary pressures. As such, the USD has significantly weakened, propelling the EUR to appreciate by over 3.0%, closing near the 1.09 level.
- Sluggish eurozone economic activity, coupled with the prospect of a dovish ECB, is poised to persist as headwinds for the bloc's currency in the coming weeks. This combined with the lack of progress in the proposed reform of the bloc's fiscal rules may further weigh on the EUR. Nevertheless, the possibility of a further decline in the USD index (DXY), driven by indications of vulnerabilities in the US economy and the inevitable conclusion that the Fed rate has reached its peak, could potentially support the EUR at its current level.

GBP (1.246) ▲

- The sharp decline in both the USD index and US Treasury yields, stemming from the softer-than-expected October US inflation report, has helped the GBP to strengthen near the 1.25/USD mark. However, a faster deceleration in UK inflation figures is building a dovish case for the Bank of England. This coupled with weak UK economic data (i.e. labour and housing), has capped the pound's upside.
- Market expectations of a pause in the Fed's December monetary policy meeting, along with the potential for further softening in the US economy, may continue to push the DXY lower, benefiting the GBP. However, the improbability of a BoE rate hike in December, attributed to the UK's easing labour market and cooling inflation, could limit the sterling from trading above the 1.30 threshold against the USD.

Table 1: Currencies Outlook

Long Term*							
	Q3-23	Q4-23F	Q1-24F	Q2-24F	Q3-24F	Q4-24F	Trend
EURUSD	1.057	1.089	1.133	1.162	1.179	1.197	▲
GBPUSD	1.220	1.273	1.325	1.358	1.379	1.400	▲
Short Term (Technical)							
	RSI (14)	EMA (21)	R1	R2	S1	S2	Trend
EURUSD	67.270	1.067	1.073	1.079	1.054	1.041	▼
GBPUSD	62.821	1.226	1.231	1.242	1.207	1.195	▼

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.

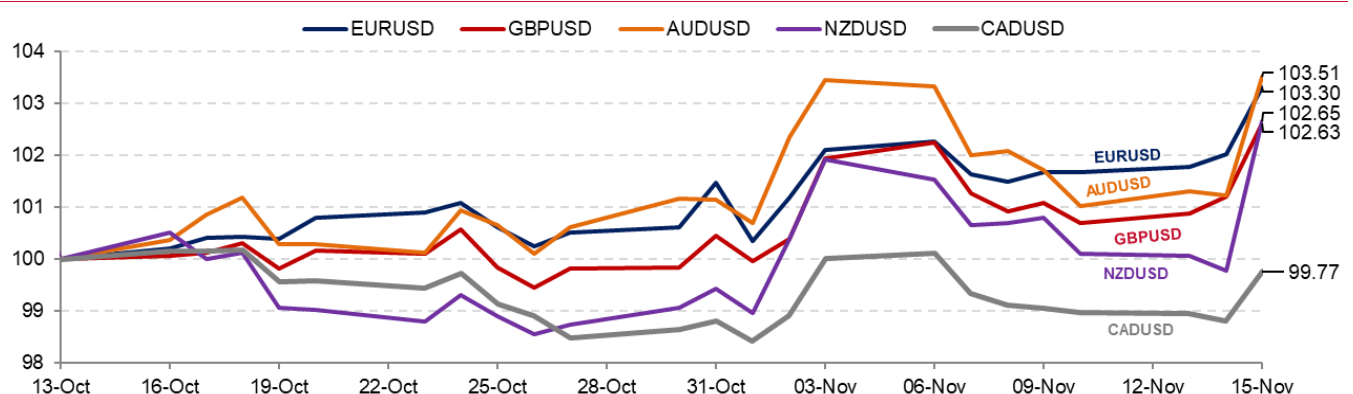
$$EMA = (P \times \alpha) + [Previous EMA \times (1 - \alpha)]$$

Table 2: Key Macroeconomic Indicators (Latest Data)

Countries	Inflation Rate (% YoY)	Unemployment Rate (%)	GDP (% QoQ)	Interest Rate (%)	10-year Government Bond Yield (%)
Euro area	2.9 (Sep: 4.3)	6.5 (Aug: 6.4)	-0.1 (2Q23: 0.2)	4.50	3.44 (end-Oct: 3.62)
United Kingdom	4.6 (Sep: 6.7)	4.2 (Aug: 4.2)	0.0 (2Q23: 0.2)	5.25	4.19 (end-Oct: 4.51)

Source: Kenanga Research, Bloomberg

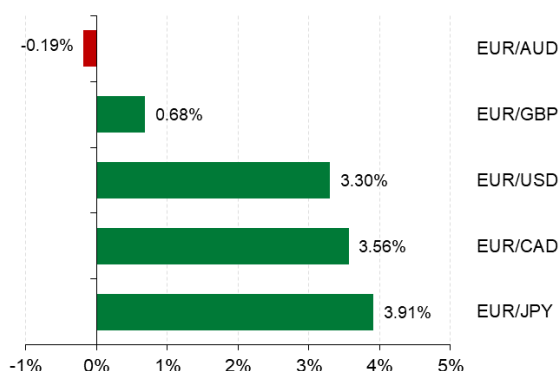
Graph 1: Monthly Global FX Indices Trend



Source: Kenanga Research, Bloomberg

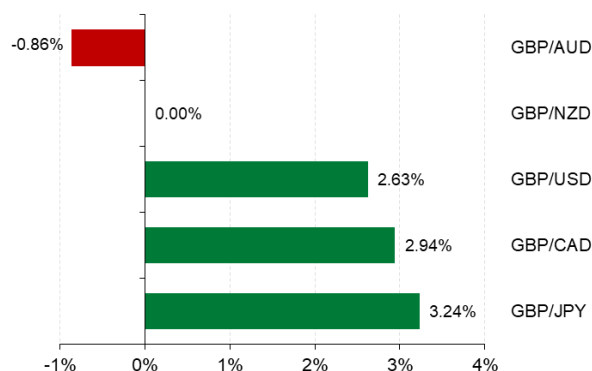
16 November 2023

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



Source: Kenanga Research, Bloomberg
*Start date: 13 October, End date: 15 November

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



Source: Kenanga Research, Bloomberg
*Start date: 13 October, End date: 15 November

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

Date	Country	Indicator	Previous	Consensus/Forecast
17/11/2023	UK	Retail Sales (OCT)	-0.9% MoM	0.3% MoM
22/11/2023	US	Durable Goods Orders (OCT)	4.7% MoM	-3.0% MoM
23/11/2023	US	FOMC Minutes	N/A	N/A
30/11/2023	EA	Inflation Rate Flash (NOV)	2.9% YoY	N/A
30/11/2023	US	Core PCE Price Index (OCT)	0.3% MoM	N/A
30/11/2023	US	Personal Spending (OCT)	0.7% MoM	N/A
1/12/2023	US	ISM Manufacturing PMI (NOV)	46.7	N/A
5/12/2023	US	JOLTs Job Openings (OCT)	9.553m	N/A
8/12/2023	US	Non Farm Payrolls (NOV)	150.0k	N/A
12/12/2023	UK	Unemployment Rate (OCT)	4.2%	N/A
12/12/2023	US	Core Inflation Rate (NOV)	4.0%	N/A
13/12/2023	UK	GDP (OCT)	0.2% MoM	N/A
14/12/2023	US	Fed Interest Rate Decision	5.50%	5.50% (status quo)
14/12/2023	UK	BoE Interest Rate Decision	5.25%	5.25% (status quo)
14/12/2023	EA	ECB Interest Rate Decision	4.50%	4.50% (status quo)
14/12/2023	US	Retail Sales (NOV)	-0.1% MoM	N/A

Source: Kenanga Research, Trading Economics, Bloomberg

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