

Global FX Monthly Outlook

Set to remain steady amid Fed’s expected dovishness and sticky EU and UK inflation

EUR (1.101) ▲

- The EUR has been on a rollercoaster ride in recent weeks, swinging between gains and losses. After initially giving up its mid-July gains, it surged back above the psychological 1.10/USD mark. Despite a stronger-than-expected 2Q24 GDP and elevated core inflation, the bloc’s currency dipped below 1.08/USD on August 1, pressured by weak manufacturing data from both Europe and China. It later regained ground, lifted by a disappointing US jobs report and easing inflation figures.
- Although the EUR slipped below 1.10/USD again after an unexpected jump in US retail sales yesterday—up 1.0% MoM (Consensus: 0.3%)—elevated inflation risks in the eurozone, particularly with wages in Germany expected to rise sharply, could dampen expectations of an ECB rate cut and keep the bloc’s currency buoyant near the 1.10 level. This, combined with a weakening US economic outlook and anticipated Fed rate cuts, bodes well for the EUR. However, the risk of slowing growth amid fiscal tightening could cap further gains.

GBP (1.285) ▲

- After climbing above the 1.30/USD level on July 17, fuelled by sluggish disinflation progress, the pound declined to as low as 1.27/USD on August 6, mainly in response to the Bank of England’s (BoE) 25 bps rate cut. However, the dovish shift in Fed rate expectations amid softening US inflation, alongside a less dovish recalibration of the BoE’s rate outlook due to mixed UK macro data, has helped limit the pound’s downside.
- The increasing likelihood that the BoE might hold rates steady in September, rather than cutting again, could continue to support the pound around the 1.28-1.30 level against the greenback in the coming weeks. The potential for a weakening dollar, driven by an anticipated 25 bps cut by the Fed next month, alongside sticky UK inflation, could bolster the case for a stronger pound. All eyes will be on Fed Powell’s tone during his Jackson Hole speech next week and the August jobs report (Sep 6), any sign of dovishness should help to lift the GBP.

Table 1: Currencies Outlook

	Long Term*						Trend
	Q2-24	Q3-24F	Q4-24F	Q1-25F	Q2-25F	Q3-25F	
EURUSD	1.071	1.104	1.120	1.137	1.154	1.172	▲
GBPUSD	1.265	1.290	1.309	1.329	1.349	1.370	▲

	Short Term (Technical)						Trend
	RSI (14)	EMA (21)	R1	R2	S1	S2	
EURUSD	66.653	1.091	1.094	1.104	1.072	1.061	▼
GBPUSD	55.752	1.280	1.304	1.323	1.264	1.245	—

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.

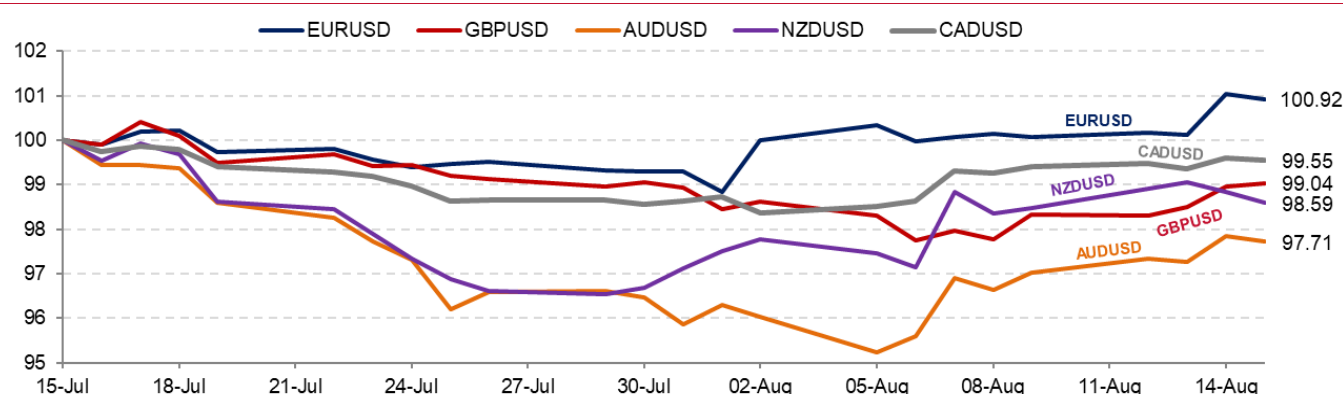
$$EMA = (P \times \alpha) + [Previous EMA \times (1 - \alpha)]$$

Table 2: Key Macroeconomic Indicators (Latest Data)

Countries	Inflation Rate (% YoY)	Unemployment Rate (%)	GDP (% QoQ)	Interest Rate (%)	10-year Government Bond Yield (%)
Euro area	2.6 (Jun: 2.5)	6.5 (May: 6.4)	0.3 (1Q23: 0.3)	4.25	2.92 (end-Jul: 2.92)
United Kingdom	2.2 (Jun: 2.0)	4.2 (May: 4.4)	0.6 (1Q23: 0.7)	5.00	3.92 (end-Jul: 3.97)

Source: Kenanga Research, Bloomberg

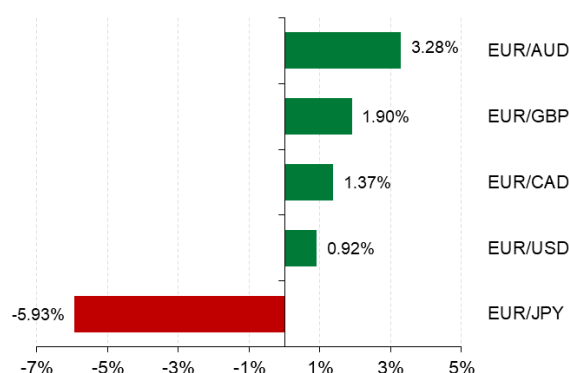
Graph 1: Monthly Global FX Indices Trend



Source: Kenanga Research, Bloomberg

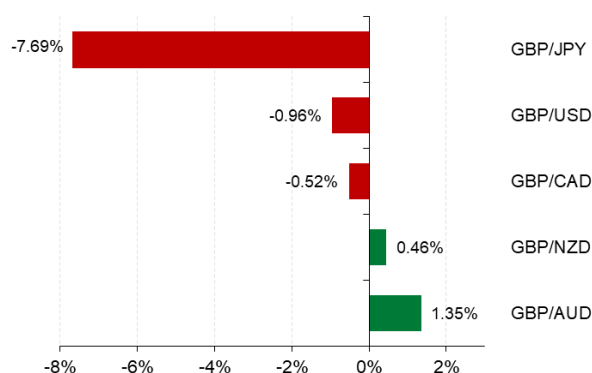
16 August 2024

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



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

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



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

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

Date	Country	Indicator	Previous	Consensus/Forecast
16/8/2024	UK	Retail Sales (JUL)	-1.2% MoM	0.6% MoM
16/8/2024	US	Building Permits Preliminary (JUL)	1.454m	1.425m
22/8/2024	US	FOMC Minutes	N/A	N/A
26/8/2024	US	Durable Goods Orders (JUL)	-6.6% MoM	0.5% MoM
30/8/2024	EA	Inflation Rate Flash (AUG)	N/A	N/A
30/8/2024	US	Core PCE Price Index (JUL)	0.2% MoM	0.2% MoM
30/8/2024	US	Personal Spending (JUL)	0.3% MoM	N/A
3/9/2024	US	ISM Manufacturing PMI (AUG)	46.8	N/A
4/9/2024	US	JOLTs Job Openings (JUL)	8.184m	N/A
6/9/2024	US	Non Farm Payrolls (AUG)	114.0k	N/A
10/9/2024	UK	Unemployment Rate (JUL)	4.2%	N/A
11/9/2024	UK	GDP (JUL)	0.0% MoM	N/A
11/9/2024	US	Core Inflation Rate (AUG)	0.2% MoM	N/A
12/9/2024	EA	ECB Interest Rate Decision	4.25%	4.25% (status quo)
12/9/2024	US	PPI (AUG)	0.1% MoM	N/A
13/9/2024	EA	Industrial Production (JUL)	-0.1% MoM	N/A

Source: Kenanga Research, Trading Economics, Bloomberg

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