

Global FX Monthly Outlook

Volatile trading expected to persist in August amid persistent safe-haven demand

EUR (1.094) ▲

- The EUR weakened back to below the 1.10 level against the USD due to rising speculation that the European Central Bank (ECB) is done raising interest rates amid build-up of disinflationary pressures and worsening eurozone PMI figures. Adding to the weakness is ECB President Lagarde's decision not to confirm another rate hike in September and the USD index's ascent back to above the 103.0 level.
- Despite the lacklustre eurozone economic outlook, a potential follow-up 25 basis points (bps) hike by the ECB in September amid the bloc's still hot and sticky inflation readings, could help push the EUR another leg up above the 1.10 level against the USD. Additionally, more evidence of the US disinflationary story, less hawkish FOMC minutes, and signs of a weaker US labour market could also help support the EUR.

GBP (1.271) ▲

- The UK's slower-than-expected CPI reading has led to a dovish repricing in the Bank of England (BoE) tightening expectations, substantially weakening the pound. However, BoE's hawkish tone following its 25 bps hike, coupled with strong UK retail sales and GDP readings, and a record 8.2% YoY increase in wage growth has helped to buoy the GBP, amid rising bets of more tightening.
- A downside surprise to the UK's inflation figures could dent expectations for a further 25 - 50 bps tightening by the BoE, weakening the GBP. However, the pound could find support from the continued improvement in the UK's macro readings. Also, the pound may benefit from the weakening of the USD amid dovish repricing in Fed rate expectations, especially if US inflation numbers continue to trend lower-than-expected.

Table 1: Currencies Outlook

	Long Term*						Trend
	Q2-23	Q3-23F	Q4-23F	Q1-24F	Q2-24F	Q3-24F	
EURUSD	1.091	1.132	1.145	1.180	1.210	1.228	▲
GBPUSD	1.270	1.321	1.339	1.380	1.414	1.436	▲

	Short Term (Technical)						
	RSI (14)	EMA (21)	R1	R2	S1	S2	Trend
EURUSD	43.561	1.100	1.124	1.144	1.086	1.068	—
GBPUSD	44.091	1.278	1.310	1.334	1.265	1.244	—

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.

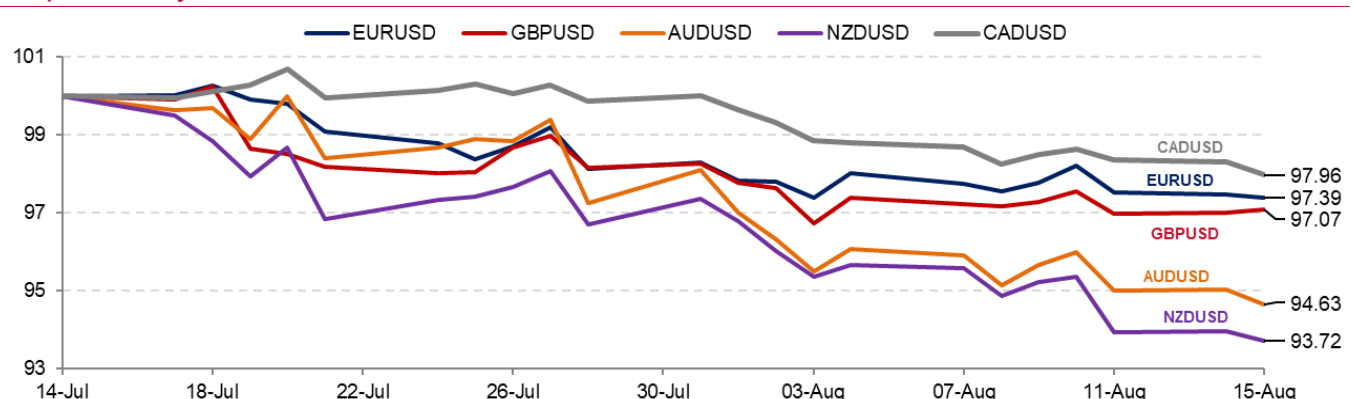
$$EMA = (P \times \alpha) + [Previous\ EMA \times (1 - \alpha)]$$

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 (Jun: 5.5)	6.4 (May: 6.4)	0.3 (1Q23: 0.0)	4.25	3.40 (end-Jul: 3.24)
United Kingdom	7.9 (May: 8.7)	4.2 (May: 4.0)	0.2 (1Q23: 0.1)	5.25	4.59 (end-Jul: 4.31)

Source: Kenanga Research, Bloomberg

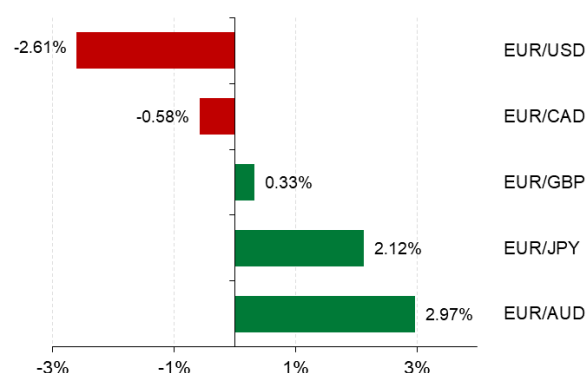
Graph 1: Monthly Global FX Indices Trend



Source: Kenanga Research, Bloomberg

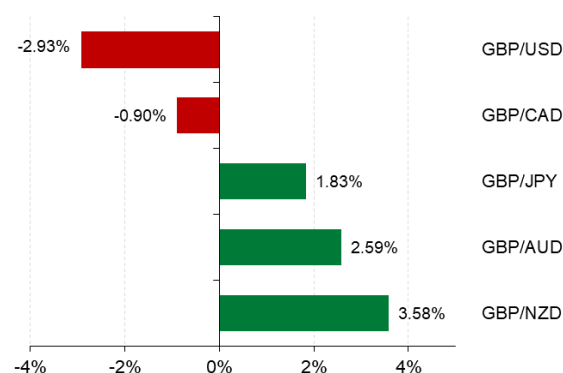
16 August 2023

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



Source: Kenanga Research, Bloomberg
*Start date: 14 July, End date: 15 August

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



Source: Kenanga Research, Bloomberg
*Start date: 14 July, End date: 15 August

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

Date	Country	Indicator	Previous	Consensus/Forecast
16/8/2023	UK	Inflation Rate (JUL)	7.9% YoY	6.8% YoY
17/8/2023	US	FOMC Minutes	N/A	N/A
18/8/2023	UK	Retail Sales (JUL)	0.7% MoM	-0.5% MoM
24/8/2023	US	Durable Goods Orders (JUL)	4.7% MoM	-4.0% MoM
29/8/2023	US	JOLTs Job Openings (JUL)	9.582m	N/A
31/8/2023	EA	Inflation Rate Flash (AUG)	5.3% YoY	N/A
31/8/2023	EA	Unemployment Rate (JUL)	6.4% YoY	N/A
31/8/2023	US	Core PCE Price Index (JUL)	0.2% MoM	N/A
1/9/2023	US	Non Farm Payrolls (AUG)	187.0k	N/A
1/9/2023	US	Unemployment Rate (AUG)	3.5%	N/A
1/9/2023	US	ISM Manufacturing PMI (AUG)	46.4	N/A
12/9/2023	UK	Unemployment Rate (JUL)	N/A	N/A
13/9/2023	UK	GDP (JUL)	0.5% MoM	N/A
13/9/2023	US	Core Inflation Rate (AUG)	0.2% MoM	N/A
14/9/2023	EA	ECB Interest Rate Decision	4.25%	N/A
14/9/2023	US	Retail Sales (AUG)	N/A	N/A

Source: Kenanga Research, Trading Economics, Bloomberg

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