

Global FX Monthly Outlook

Elevated global economic and geopolitical uncertainty may boost USD safe-haven demand

EUR (1.051) —

- After depreciating to below the 1.05 level against the USD due to a deteriorating domestic economy and hotter-than-expected US macroeconomic data, the EUR soared to above 1.06, driven by rising eurozone inflation expectations and a correction in the US Treasury 10-year yield. However, the gains made by the EUR were short-lived, as they were dampened by an upside surprise in the US CPI report.
- Despite European Central Bank (ECB) President Lagarde's statement that "officials will raise interest rates again if they have to", the markets are still pricing in a near-zero chance of another rate hike by the ECB. Moving forward, the EUR may continue to be influenced by both eurozone and US macro readings. Any indications that the ECB might cut rates before the Fed does could spell trouble for the EUR. Beyond the USD factor at play, the bloc's currency may also face pressure due to the ongoing economic weakness in China.

GBP (1.214) ▼

- The Bank of England's (BoE) decision to end its streak of 14 straight interest-rate increases, prompted by the drop in UK's CPI to 6.7% YoY (Consensus: 7.0%), dragged the GBP to hit an almost seven-month low of 1.206 on Oct 3. This, coupled with the persistent strength of the US labour market and increased demand for the safe-haven USD due to the Israel-Hamas conflict, have further weighed on the pound.
- While the Fed is unlikely to raise rates at their November meeting, the 'higher-for-longer' narrative remains intact. This may continue to drive demand for the USD, exerting pressure on the pound, as the market expects the BoE to maintain the policy rate at 5.25%. However, the decision still hinges on this week's release of inflation and job figures. Investors may also want to examine the UK's 3Q23 GDP data to assess the risk of a recession in the UK.

Table 1: Currencies Outlook

	Long Term*						Trend
	Q3-23	Q4-23F	Q1-24F	Q2-24F	Q3-24F	Q4-24F	
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)						Trend
	RSI (14)	EMA (21)	R1	R2	S1	S2	
EURUSD	38.598	1.060	1.074	1.090	1.047	1.037	▲
GBPUSD	38.874	1.226	1.251	1.282	1.202	1.183	▲

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.

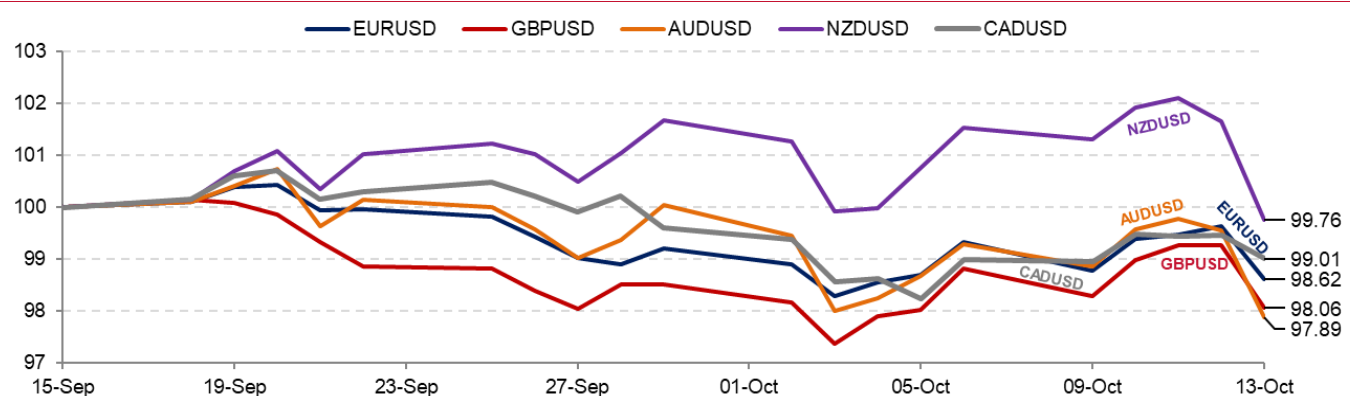
$$EMA = (P \times \alpha) + [Previous\ EMA \times (1 - \alpha)]$$

Table 2: Key Macroeconomic Indicators (Latest Data)

Countries	Inflation Rate (% YoY)	Unemployment Rate (%)	GDP (% QoQ)	Interest Rate (%)	10-year Government Bond Yield (%)
Euro area	4.3 (Aug: 5.2)	6.4 (Jul: 6.5)	0.1 (1Q23: 0.1)	4.50	3.61 (end-Sep: 3.67)
United Kingdom	6.7 (Jul: 7.8)	4.3 (Jun: 4.2)	0.2 (1Q23: 0.3)	5.25	4.39 (end-Sep: 4.44)

Source: Kenanga Research, Bloomberg

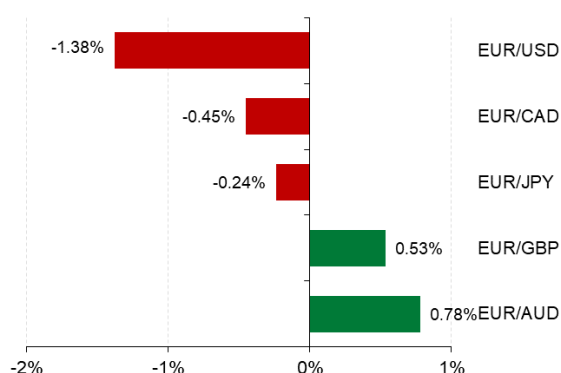
Graph 1: Monthly Global FX Indices Trend



Source: Kenanga Research, Bloomberg

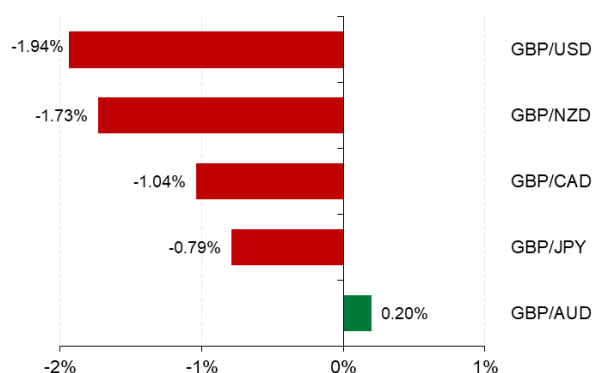
16 October 2023

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



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

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



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

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

Date	Country	Indicator	Previous	Consensus/Forecast
17/10/2023	UK	Unemployment Rate (AUG)	4.3%	4.3%
17/10/2023	US	Retail Sales (SEP)	0.6% MoM	0.3% MoM
18/10/2023	UK	Inflation Rate (SEP)	6.7% YoY	6.5% YoY
18/10/2023	US	Building Permits Preliminary (SEP)	1.541m	1.458m
20/10/2023	UK	Retail Sales (SEP)	0.4% MoM	-0.3% MoM
26/10/2023	EA	ECB Interest Rate Decision	4.50%	4.50% (status quo)
26/10/2023	US	GDP Growth Rate Advance (Q3)	2.1% QoQ	4.1% QoQ
27/10/2023	US	Core PCE Price Index (SEP)	0.1% MoM	0.2% MoM
31/10/2023	EA	GDP Growth Rate Flash (Q3)	0.5% QoQ	N/A
31/10/2023	EA	Inflation Rate Flash (OCT)	4.3% YoY	N/A
1/11/2023	US	ISM Manufacturing PMI (OCT)	49.0	N/A
2/11/2023	US	Fed Interest Rate Decision	5.50%	5.50% (status quo)
2/11/2023	UK	BoE Interest Rate Decision	5.25%	5.25% (status quo)
3/11/2023	US	Non Farm Payrolls (OCT)	336.0k	N/A
10/11/2023	UK	GDP Growth Rate Preliminary (Q3)	0.2% QoQ	N/A
14/11/2023	US	Core Inflation Rate (OCT)	0.4% MoM	N/A

Source: Kenanga Research, Trading Economics, Bloomberg

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