

Global FX Monthly Outlook

Upside bias on US disinflationary story as ECB and BoE maintains hawkish stance

EUR (1.123) ▲

- The EUR has appreciated above the 1.12 level against the USD for the first time since February 2022, primarily due to the decline of the USD index below the 100.0 threshold amid lower-than-expected US June's inflation readings. The signs of growing disinflationary forces in the US, coupled with hawkish European Central Bank (ECB) minutes, has helped to support to the bloc's currency.
- With the ECB suggesting that further interest rate increases may be necessary, the EUR may continue to solidify its position against the USD towards the 1.13 level in the coming weeks. Both the ECB and the Fed are expected to raise rates by 25 bps in their July's meetings. However, the Fed is widely expected to adopt a slightly dovish stance and pause in its next meeting due to the slowdown in US price pressures, while the ECB may continue to hike in September

GBP (1.309) ▲

- The GBP has continued to gain ground against the USD following a surprise 50 bps rate hike by the Bank of England (BoE). Furthermore, the recent decline in the USD, triggered by the lower-than-expected US core inflation reading has helped to boost the GBP to its highest level in 15 months. The pound has also been supported by the UK's better-than-expected May GDP figures and record-high wage growth.
- Growing market expectations of another 50 bps rate hike by the BoE in August, coupled with a potential dovish tilt by the Fed may support the GBP to strengthen further against the USD. However, the market may closely monitor the release of the UK's June inflation data before making any significant moves. Any below-consensus reading may lead to a reassessment of BoE's hawkish outlook.

Table 1: Currencies Outlook

Long Term*							
	Q2-23	Q3-23F	Q4-23F	Q1-24F	Q2-24F	Q3-24F	Trend
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	78.076	1.097	1.105	1.118	1.073	1.056	▼
GBPUSD	74.719	1.279	1.288	1.306	1.246	1.221	▼

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.

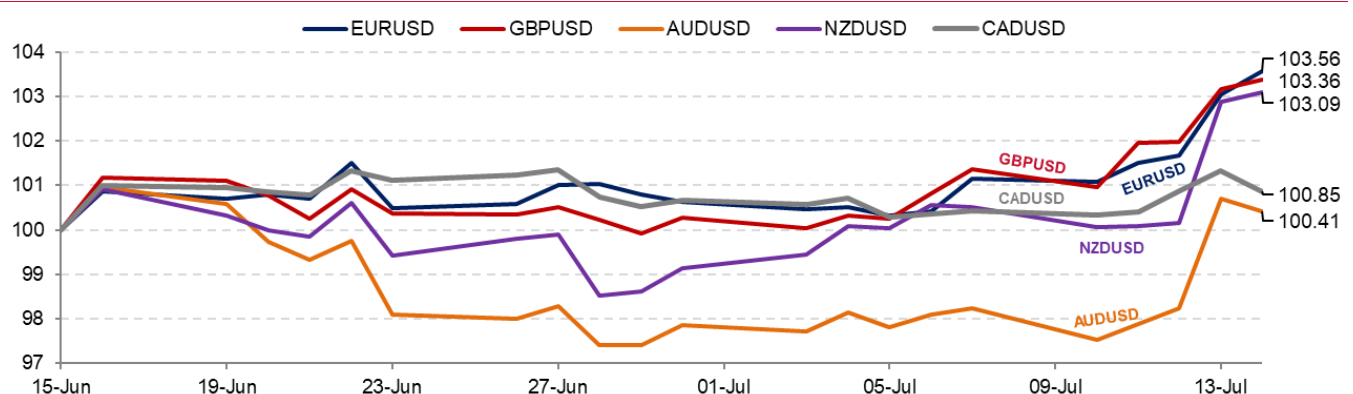
$$EMA = (P \times \alpha) + [Previous EMA \times (1 - \alpha)]$$

Table 2: Key Macroeconomic Indicators (Latest Data)

Countries	Inflation Rate (% YoY)	Unemployment Rate (%)	GDP (% QoQ)	Interest Rate (%)	10-year Government Bond Yield (%)
Euro area	5.5 (May: 6.1)	6.5 (Apr: 6.5)	-0.1 (4Q22: -0.1)	4.00	3.24 (end-Jun: 3.22)
United Kingdom	8.7 (Apr: 8.7)	4.0 (Apr: 3.8)	0.1 (4Q22: 0.1)	5.00	4.44 (end-Jun: 4.39)

Source: Kenanga Research, Bloomberg

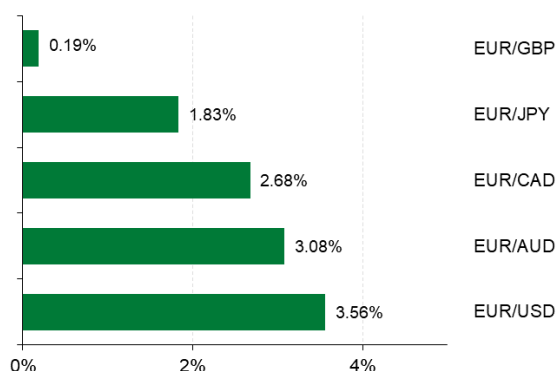
Graph 1: Monthly Global FX Indices Trend



Source: Kenanga Research, Bloomberg

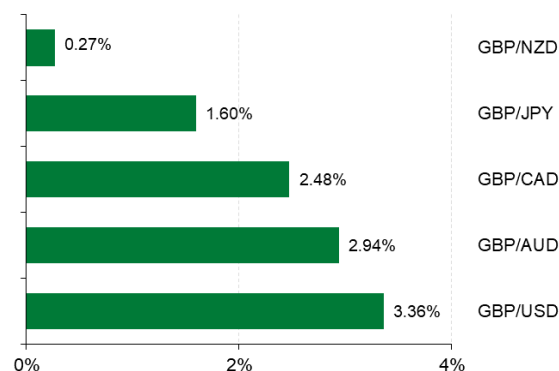
17 July 2023

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



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

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



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

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

Date	Country	Indicator	Previous	Consensus/Forecast
18/7/2023	US	Retail Sales (JUN)	0.3% MoM	0.5% MoM
19/7/2023	UK	Inflation Rate (JUN)	8.7% YoY	8.2% YoY
21/7/2023	UK	Retail Sales (JUN)	0.3% MoM	0.2% MoM
27/7/2023	US	Fed Interest Rate Decision	5.25%	5.50% (25 bps hike)
27/7/2023	EA	ECB Interest Rate Decision	4.00%	4.25% (25 bps hike)
27/7/2023	US	GDP Growth Rate Advance (Q2)	2.0% QoQ	N/A
28/7/2023	US	Core PCE Price Index (JUN)	0.3% MoM	N/A
31/7/2023	EA	GDP Growth Rate Flash (Q2)	-0.1% QoQ	N/A
31/7/2023	EA	Inflation Rate Flash (JUL)	5.5% YoY	N/A
3/8/2023	UK	BoE Interest Rate Decision	5.00%	5.25% (25 bps hike)
4/8/2023	US	Non Farm Payrolls (JUL)	209.0k	N/A
10/8/2023	US	Core Inflation Rate (JUL)	N/A	N/A
11/8/2023	UK	GDP Growth Rate Preliminary (Q2)	0.1% QoQ	N/A
11/8/2023	US	PPI (JUL)	N/A	N/A
11/8/2023	US	Michigan Consumer Sentiment Preliminary (AUG)	N/A	N/A
15/8/2023	UK	Unemployment Rate (JUN)	4.0%	N/A

Source: Kenanga Research, Trading Economics, Bloomberg

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