

Global FX Outlook

Mounting US-China tension could trigger another risk-off episode

EUR (1.110) ▲

- EUR rallied to a five-month high against the USD on the resumption of Franco-German EU integration engine and the bloc's announcement of a EUR750.0b recovery package. Furthermore, EUR finds additional support on the positive development of the COVID-19 vaccine.
- The positive sentiment around the EU pandemic emergency purchase programme, coupled with ECB hints of possible additional easing at its policy meeting this week, is expected to push EUR to trade higher against the USD.

GBP (1.234) ▼

- GBP depreciated against the USD (1.23; Apr: 1.25) on news that Bank of England (BoE) may embark on negative interest rate policy. However, it was partially supported by constructive risk climate, in particular, Prime Minister Boris Johnson's announcement of restarting the economy in June.
- GBP may continue to lose its strength this month weighed by the Brexit trade negotiations ahead of 1 July deadline, and the possibility of BoE officials would vote to expand quantitative easing at the next MPC meeting on 18 June.

AUD (0.667) ▼

- AUD strengthened as favourable vaccine news and signs of economic recovery overshadowed escalating US-CN spat over Hong Kong, trade and COVID-19 origin, China's sanctions on imports from Australia triggered by Australia's demand for international investigation on virus origin and dovish RBA minutes.
- AUD to trade lower this month as risk appetite would be pressured further by expectations of more retaliatory actions from both the US and CN surrounding the planned national security law for Hong Kong.

NZD (0.621) ▲

- NZD appreciated on COVID-19 vaccine optimism, establishment of a NZD50b recovery fund and RBNZ Governor's reluctance to adopt negative rates in the near term. These offset downside pressure from the US-CN turmoil and doubling of quantitative easing.
- NZD could be lifted higher given its success in combatting the pandemic and reopening the economy, albeit partially capped by worsening US-CN relation.

Table 1: Currencies Outlook

	Long Term*					OUTLOOK
	Q1-20	Q2-20F	Q3-20F	Q4-20F	Q1-21F	
EURUSD	1.095	1.109	1.108	1.107	1.106	▲
GBPUSD	1.236	1.231	1.223	1.213	1.205	▼
AUDUSD	0.609	0.665	0.664	0.663	0.662	▲
NZDUSD	0.594	0.620	0.619	0.618	0.617	▲
CADUSD	0.703	0.725	0.723	0.721	0.719	▲

	Short Term (Technical)					OUTLOOK
	EMA (21)	R1	R2	S1	S2	
EURUSD	1.093	1.120	1.131	1.090	1.069	▼
GBPUSD	1.229	1.253	1.271	1.214	1.193	▼
AUDUSD	0.653	0.676	0.685	0.649	0.631	▼
NZDUSD	0.610	0.631	0.642	0.602	0.583	▼
CADUSD	0.718	0.733	0.740	0.714	0.702	▼

Signal for Base Currency Trend = ▲ Bullish — Neutral ▼ Bearish
 *F=Forecasts for end of period
 Source: Kenanga Research, Bloomberg

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.

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

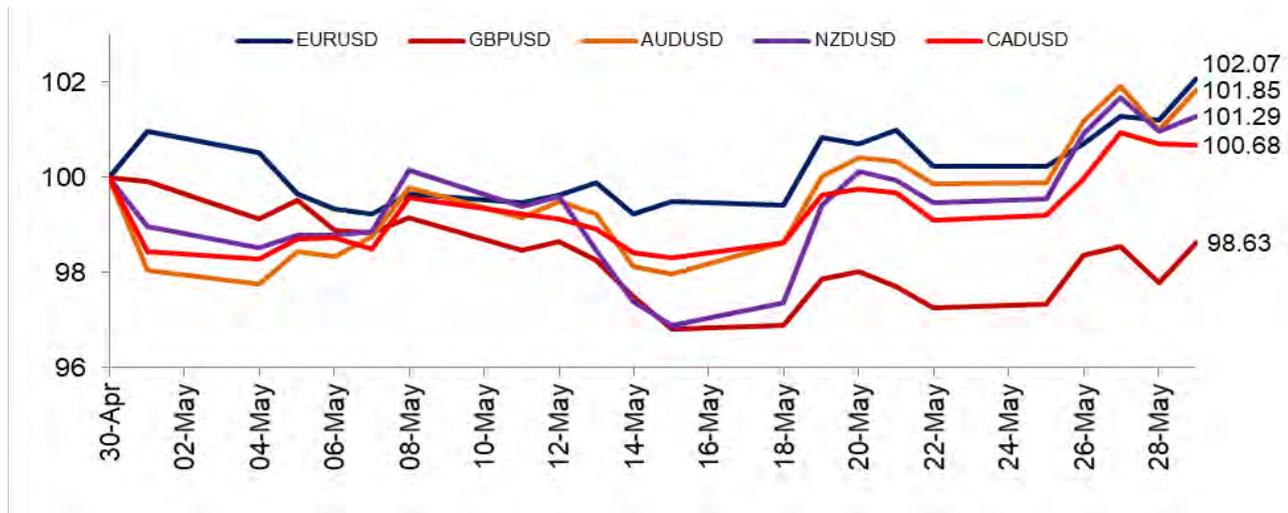
Table 2: Upcoming Major Data Release

Date	Currency	Indicator
01/06/2020	EUR	Manufacturing PMI (May)
01/06/2020	USD	Manufacturing PMI (May)
02/06/2020	AUD	Current Account (Q1)
02/06/2020	AUD	Interest Rate (Jun)
03/06/2020	AUD	GDP (Q1)
03/06/2020	EUR	Services PMI (May)
03/06/2020	EUR	Unemployment Rate (Apr)
03/06/2020	USD	Services PMI (May)
04/06/2020	AUD	Trade (Apr)
04/06/2020	AUD	Retail Sales (Apr)
04/06/2020	EUR	Retail Sales (Apr)
04/06/2020	EUR	Interest Rate (Jun)
04/06/2020	USD	Trade Balance (Apr)
05/06/2020	USD	Nonfarm Payrolls (May)
05/06/2020	USD	Unemployment Rate (May)
09/06/2020	EUR	GDP (Q1)
09/06/2020	USD	OPEC Meeting
10/06/2020	USD	CPI (May)
11/06/2020	USD	Interest Rate
12/06/2020	EUR	Industrial Production (Apr)
12/06/2020	GBP	Industrial Production (Apr)
12/06/2020	GBP	Trade Balance (Apr)
15/06/2020	EUR	Trade Balance (Apr)
16/06/2020	GBP	Unemployment Rate (Apr)
16/06/2020	USD	Retail Sales (May)
16/06/2020	USD	Industrial Production (May)
17/06/2020	EUR	CPI (May)
17/06/2020	GBP	CPI (May)
17/06/2020	NZD	Current Account (Q1)
17/06/2020	USD	Housing Starts (May)
18/06/2020	AUD	Unemployment Rate (May)
18/06/2020	GBP	Interest Rate
18/06/2020	NZD	GDP (Q1)
25/06/2020	USD	GDP (Q1)

Source: Kenanga Research, Trading Economics

01 June 2020

Graph 1: Monthly Global FX Indices Trend



Source: Kenanga Research, Bloomberg

Table 3: Consumer Confidence Index (CCI)

	US	GB	EA-19	AU	CA	NZ
Jan-20	101.53	100.48	100.56	99.36	100.72	99.61
Feb-20	101.14	100.29	100.27	99.21	100.26	99.43
Mar-20	100.08	99.58	99.38	98.70	98.65	99.20
Apr-20	98.58	98.32	98.01	97.84	96.35	n/a

Source: Kenanga Research, OECD

COVID-19 has wrecked consumer confidence in major economies, signalling the start of a global recession

- The consumer confidence indicator has dropped for 4 consecutive months in all major economies on impact of layoffs and COVID-19 crisis that are weighing on consumers' sentiment of the current economic instability.
- As many countries are reopening their economy, the CCI is expected to edge slightly higher, but still is insufficient to trigger a wave of spending due to increasing unemployment rate which is at record high in some countries as there is a risk of re-imposition of stay-at-home order and business closure.
- The deterioration in consumer confidence is expected to affect exchange rate negatively due to large leftward shift in aggregate demand and central banks' dovish bias. Governments across the globe need to plan a sustainable post-COVID-19 economic recovery to help hardest-hit business and boost consumer confidence.

For further information, please contact:

Wan Suhaimie Wan Mohd Saidie
Head of Economic Research
wansuhaimi@kenanga.com.my

Atiqa Noor Azlan
Economist
atiqa.noorazlan@kenanga.com.my

Muhammad Saifuddin Sapuan
Economist
saifuddin.sapuan@kenanga.com.my

Afiq Asyraf Syazwan Abd. Rahim
Economist
afiqasyraf@kenanga.com.my

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KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia

Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my