Global FX Outlook

Virus resurgence triggers risk-off sentiment

EUR (1.121) ▲

- Despite a flight-to-quality triggered by the worsening COVID-19 situation in the US, EUR continued its rally against the USD on the back of the reopening of EU economies and despite reaffirmation of dovish stance by the ECB.
- EUR may continue its upward momentum in July due to investors' optimism over improving COVID-19 situation in most European countries. However, rising risk of a stalled US-EU trade talks is expected to put some pressure on the bloc's currency.

GBP (1.227) ▼

- GBP weakened marginally against USD as a record monthly GDP contraction of 20.4% in April erased early gains made against the dollar. In addition, BoE's QE measure was also deemed insufficient by investors, weighing on the sterling.
- GBP will likely weaken in July as Brexit trade negotiations appear static; without a deal, Britain will fall back to on an unfavourable World Trade Organisation terms in 2021. Continued talks of BoE introducing negative interest rates are also expected to cause the pound to decline.

AUD (0.685) ▼

- AUD strength in June was mainly due to a surge in iron ore prices, amid a recovery in China's factory activity, and RBA's optimistic view of a shallower economic downturn. It offsets Fed's dovish economic outlook and fear of a 2nd wave of COVID-19 infection.
- Its bullish momentum is expected to fade with a build-up of risk-off mode driven by a resurgence of COVID-19 cases locally, as well as in China, the US and South Korea. The resulting re-tightening of containment measures dampens economic growth recovery.

NZD (0.641) ▼

- NZD strengthened in June against USD, backed by a supportive domestic environment as it succeeded in containing the COVID-19 pandemic. Weaker USD further uplift NZD's strength.
- Apart from concerns over COVID-19 resurgence, the RBNZ dovish statement after leaving its key interest rate unchanged at 0.25% along with hints of additional QE and possibility of pushing interest rates to negative territory are factors that would weigh on NZD going forward.

Table 1: Currencies Outlook

Long Term*						
	Q2-20	Q3-20F	Q4-20F	Q1-21F	Q2-21F	OUTLOOK
EURUSD	1.121	1.121	1.120	1.119	1.118	—
GBPUSD	1.227	1.224	1.214	1.205	1.198	▼
AUDUSD	0.685	0.685	0.684	0.683	0.683	—
NZDUSD	0.641	0.642	0.641	0.640	0.640	▲
CADUSD	0.731	0.728	0.726	0.724	0.722	▼

Short Term (Technical)						
	EMA (21)	R1	R2	S1	S2	OUTLOOK
EURUSD	1.121	1.135	1.150	1.109	1.096	—
GBPUSD	1.244	1.260	1.294	1.210	1.194	▲
AUDUSD	0.684	0.699	0.713	0.672	0.658	▼
NZDUSD	0.640	0.656	0.672	0.624	0.607	▼
CADUSD	0.734	0.742	0.754	0.724	0.717	▲

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.

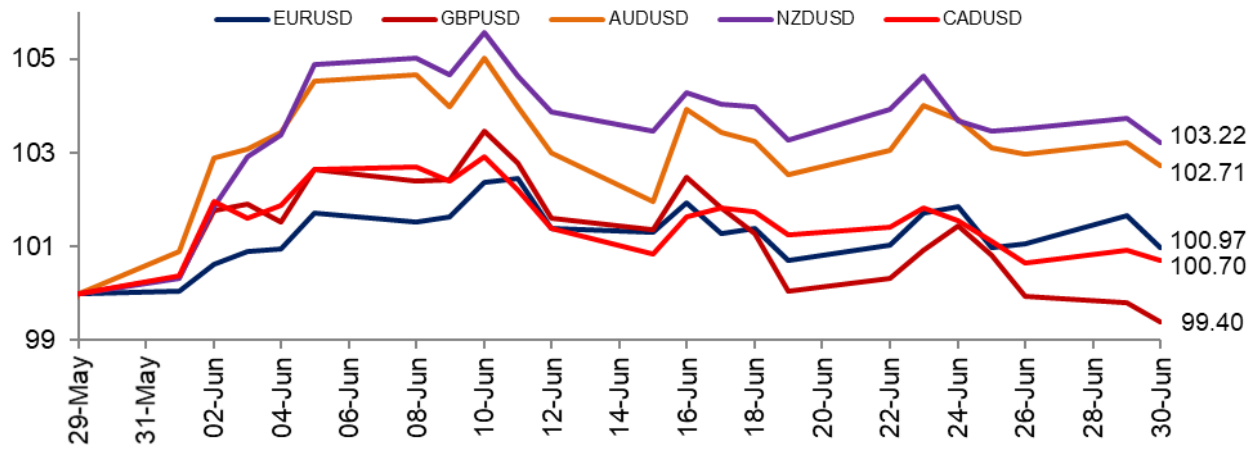
$$EMA = (P \times \alpha) + [Previous\ EMA \times (1 - \alpha)]$$

Table 2: Upcoming Major Data Release

Date	Currency	Indicator
01/07/2020	EUR	Manufacturing PMI (JUN)
01/07/2020	USD	Manufacturing PMI (JUN)
01/07/2020	GBP	Manufacturing PMI (JUN)
02/07/2020	AUD	Balance of Trade (MAY)
02/07/2020	USD	Balance of Trade (MAY)
02/07/2020	USD	Non-Farm Payrolls (JUN)
02/07/2020	EUR	Unemployment Rate (MAY)
03/07/2020	EUR	Services PMI (JUN)
03/07/2020	AUD	Retail Sales (MAY)
03/07/2020	GBP	Consumer Confidence (JUN)
06/07/2020	EUR	Retail Sales (MAY)
10/07/2020	USD	PPI (JUN)
14/07/2020	GBP	Balance of Trade (MAY)
14/07/2020	USD	Inflation Rate (JUN)
15/07/2020	GBP	Inflation Rate (JUN)
15/07/2020	USD	Trade (JUN)
16/07/2020	NZD	Inflation Rate (Q2)
16/07/2020	AUD	Unemployment Rate (JUN)
16/07/2020	EUR	Balance of Trade (MAY)
16/07/2020	EUR	ECB Interest Rate Decision
16/07/2020	USD	Retail Sales (JUN)
17/07/2020	EUR	Inflation Rate (JUN)
23/07/2020	GBP	Retail Sales (JUN)
24/07/2020	NZD	Balance of Trade (JUN)
30/07/2020	USD	Fed Interest Rate Decision
30/07/2020	USD	GDP Growth Rate Adv (Q2)
31/07/2020	EUR	GDP Growth Rate (Q2)
31/07/2020	EUR	Inflation Rate (JUL)
31/07/2020	AUD	Inflation Rate (Q2)

Source: Kenanga Research, Trading Economics

Graph 1: Monthly Global FX Indices Trend



Source: Kenanga Research, Bloomberg

Table 3: YTD Correlation Between US Dollar Index (DXY) and Major Currencies

	EURUSD	NZDUSD	AUDUSD	CADUSD	GBPUSD	XAUUSD
April	-0.71	-0.68	-0.48	-0.74	-0.74	-0.27
May	-0.88	-0.75	-0.69	-0.74	-0.21	-0.21
June	-0.69	-0.76	-0.71	-0.70	-0.68	0.49
YTD	-0.90	-0.82	-0.79	-0.70	-0.67	-0.08

Source: Kenanga Research, Bloomberg

DXY as a trading vehicle and proxy to track major currencies movement

- Currency index such as DXY is commonly used as an indicator of the USD's relative strength during the period of market uncertainty as its represent the value of the USD in terms of a basket of major currencies such as EUR (weight: 57.6%), GBP (11.9%) and CAD (9.1%).
- There is a strong negative correlation between DXY and all the major currencies, though changes in risk appetite could affect this correlation as investors may also seek shelter in JPY and CHF haven amid market turbulence.
- As for gold, given that it is priced in USD (XAUUSD), a negative correlation between gold prices and the DXY is observable. However, a different pattern emerges in periods of elevated risk-off mode, such as in June, whereby both the DXY and gold rallied, due to their status as safe haven assets, which investors take refuge in as part of their hedging strategy.

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