July 2019 Currency Outlook

CAXTON FX
BUSINESS

July 2019 Currency Outlook

Global central banks released the doves in June, as the prospects of looser monetary policy increased around the globe with the Fed and ECB both opening the door to rate cuts and additional stimulus later this year. Elsewhere, the Brexit impasse continues with UK political uncertainties showing no sign of dissipating as the Conservative Party leadership contest continues, while US-China trade relations have deteriorated with rhetoric being ratcheted up on both sides of the trade war.

Looking to the month ahead, while the pound's focus will remain squarely on the Westminster political bubble, global focus will largely centre on ongoing US-China trade relations. Furthermore, monetary policy will continue to come under the microscope, with markets looking for any hints of rate cuts, possibly coming as soon as this month.

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Economic data correct as of 25 June 2019
Trade data denominated in local currency.

Week-by-Week Overview

WEEK ONE

July begins with the usual round of PMI surveys, giving investors a good insight into economic performance last month. The data will likely be closely examined for any further signs of softening, especially in the manufacturing sector, which is in, or close to, contraction in many major economies. The monthly US labour market report will also be eyed, especially for a pickup in wage growth as the jobs market remains tight. In addition, monetary policy will remain on the radar. The Reserve Bank of Australia's (RBA) latest policy decision should see rates kept on hold, albeit with a dovish message. Meanwhile, market participants will carefully look over minutes from the ECB's June policy meeting as the prospects of additional stimulus mount.

WEEK TWO

A quieter week sees monetary policy remain at the forefront, with focus likely to fall on minutes from the FOMC's June policy meeting. Markets will be looking for further clarity on the Fed's easing bias, including the timing of a rate cut and the possibility of beginning a prolonged easing cycle. The Bank of Canada (BoC) are also due to announce their latest policy decision, with rates set to be kept on hold and the BoC likely to maintain their recent upbeat tone. Economic data is relatively limited, though US CPI and UK GDP figures will be eyed.

KEY EVENTS IN JULY 2019	
1 July	UK manufacturing PMI, US ISM manufacturing PMI,
2 July	Reserve Bank of Australia (RBA) rate decision
3 July	UK services PMI, US ISM non-manufacturing PMI, Canada trade balance
4 July	European Central Bank (ECB) meeting minutes, Switzerland CPI
5 July	US labour market report, Canada labour market report
WEEK 2	
8 July	Switzerland unemployment rate, Japan average earnings
10 July	UK GDP (May), Bank of Canada (BoC) rate decision, FOMC meeting minutes
11 July	US CPI
12 July	Prelim. US consumer sentiment

WEEK THREE

The middle of July is all about inflation and wages. CPI inflation figures are due from New Zealand, the UK, Canada and Japan – with all likely to be closely watched as the global pace of price increases remains subdued and the prospects of more accommodative monetary policy increase. As for wages, labour market reports are due from the UK and Australia. Regarding the former, investors will be looking for the jobs market to remain the UK economy's bright spot, remaining tight and thus far having been largely unaffected by Brexit-linked uncertainties. As for Australia, a continued trend of soft wages and increasing unemployment would heighten the odds of an RBA rate cut in August.

WEEK FOUR

The ECB's latest monetary policy decision, Draghi's 3rd from last as President, will be keenly watched as expectations of additional stimulus grow. Markets will be looking for a further dovish message from Draghi & Co, with the revised forward guidance teeing up a September rate cut and stimulus package likely. Economic data from the eurozone will also be in focus, with July's flash PMI data providing a useful leading indicator of economic performance in the 2nd half of 2019. Also on economic performance, the first estimate of 2nd quarter US GDP will be closely watched for any downside impacts of ongoing US-China trade tensions.

WEEK FIVE

July concludes with monetary policy once again front and centre, with policy decisions due from the Federal Reserve and BoJ. Markets assign a 100% chance of the Fed cutting rates in July, however this seems too aggressive unless downside risks to the economy materialise. Should rates remain on hold, investors will be seeking a clear dovish signal of rate cuts being imminent. Meanwhile, the BoJ are not expected to make any changes to policy, with continued question marks over their ability to stimulate the economy if necessary. Economic data will also be in focus, namely inflation releases from the US, eurozone and Australia in addition to labour market data from Japan and New Zealand.

KEY EVENTS IN JULY 2019

15 July	New Zealand CPI
16 July	RBA meeting minutes, UK labour market report, US retail sales
17 July	UK CPI, Canada CPI
18 July	Australia labour market report, UK retail sales, Canada retail sales, Switzerland trade balance
19 July	Japan CPI
WEEK 4	
22 July	Eurozone flash PMIs
23 July	New Zealand trade balance, New UK Prime Minister announced
25 July	European Central Bank (ECB) rate decision
26 July	US advance GDP (Q2)
WEEK 5	
29 July	Japan retail sales
30 July	Bank of Japan (BoJ) rate decision, US core PCE, New Zealand labour market report, Switzerland KOF economic barometer
31 July	Australia CPI, Eurozone flash CPI, Canada GDP, Federal Reserve (Fed) rate decision, Japan unemployment rate

GBP Currency Outlook

1 MONTH

Focus for the pound continues to revolve around political developments, with the ongoing Conservative Party leadership contest, and ensuing uncertainty, set to continue exerting downward pressure. The contest has emerged as a choice between frontrunner Boris Johnson, and his plan to leave the EU, deal or no deal, on 31st October, and Jeremy Hunt, who appears more open to renegotiation and a Brexit delay if necessary. While Hunt would be a more positive outcome for sterling, a degree of 'Boris risk' seems to have been priced in, hence the likely result may have limited market impact.

Elsewhere, economic data continues to take a back seat, though paints a mixed picture of the UK economy. Positives are relatively thin on the ground, though continued tightness in the labour market cements its position as one of the few economic bright spots and may underpin the pound. However, on a more pessimistic note, CPI inflation is set to moderate throughout the 2nd half of 2019, while the UK economy is likely to have stagnated in Q2.

KEY DATES	
1 July	Manufacturing PMI
3 July	Services PMI
10 July	GDP (May)
16 July	Labour market report
17 July	CPI
23 July	New Prime Minister announced

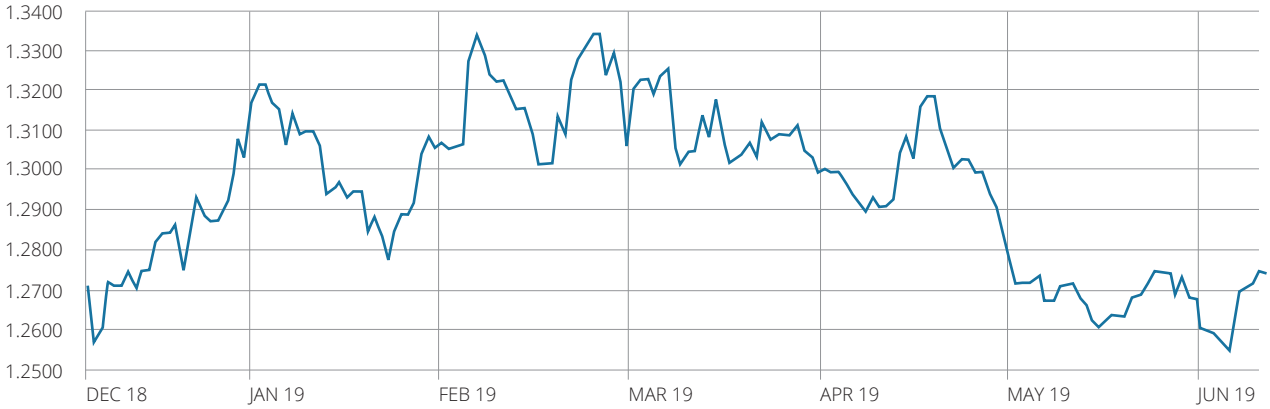
3 MONTHS

The Bank of England (BoE) don't meet in July, though policymakers' hands are likely to remain tied throughout the remainder of 2019 due to continued Brexit-related uncertainties, and a global shift to more dovish monetary policy. These factors combined mean Governor Carney is unlikely to tighten policy before his term concludes in January 2020, despite maintaining that "gradual and limited" rate increases are required, though the lack of policy action is unlikely to affect the pound.

Away from monetary policy, the longer-term direction of sterling will be determined by the direction taken in Brexit negotiations, resulting in a cloudy long-term picture. While a no-deal exit on 31st October remains the legal default, Parliament are likely to attempt to block such an outcome. Therefore, options facing the new Prime Minister are limited, including a renegotiation of the current deal, negotiation of a fresh UK-EU deal, or calling a general election to change the parliamentary arithmetic and break the present deadlock. Whichever situation prevails, leaving on 31st October seems unlikely, with uncertainty likely to continue pressuring the pound.

Economic Data	UK
GDP	1.8% (Q1 19)
Interest Rate	0.75% (Aug 18)
Inflation Rate	2.0% (May 19)
Unemployment Rate	3.8% (Apr 19)
Wage Growth	3.1% (Apr 19)
Trade Balance	-2.7bln (Apr 19)
Current Account	-23.7bln (Q4 18)

GBP/USD 6 MONTHS



EUR Currency Outlook

1 MONTH

The euro remained resilient in June, touching 3-month highs, despite the ECB adopting a more dovish policy stance. ECB President Draghi has firmly opened the door to policy easing, stating that "additional stimulus will be required" if the economic outlook doesn't improve. Should downside risks to the economy materialise, easing could come as soon as the July policy meeting, likely through a combination of a 10bps cut to the negative deposit rate and strong forward guidance on future policy changes. Should easing not materialise this month, September is almost certain to see the announcement of a stimulus package.

Elsewhere, growth momentum across the euro area remains weak, as shown by mixed PMI surveys and a continued subdued pace of GDP growth. Of more concern however, especially for the ECB, will be the continued sluggish pace of inflation, along with forward-looking gauges of inflation expectations hitting record-lows. These factors appear set to weigh on the single currency, especially if confidence in the bloc's ability to recover from a slowdown wanes further.

KEY DATES	
4 July	ECB meeting minutes
22 July	Flash PMIs
25 July	European Central Bank (ECB) rate decision
31 July	Flash CPI

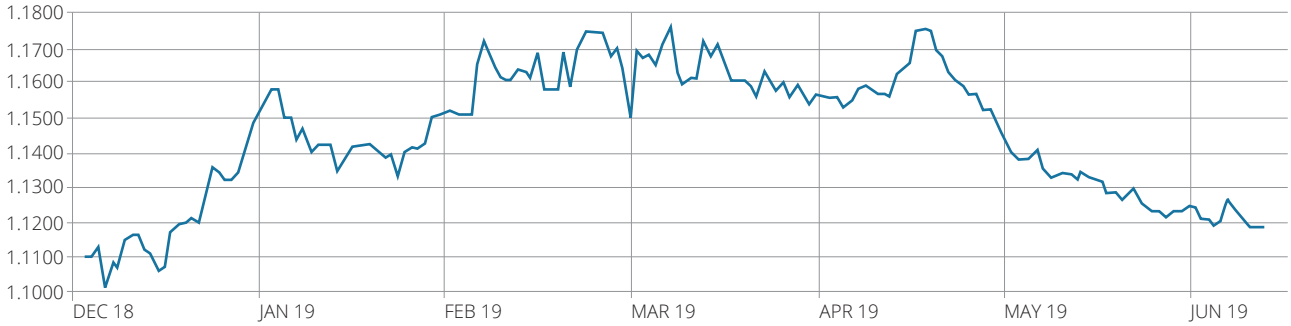
3 MONTHS

Looking ahead, the political bargaining over a host of EU top jobs appears set to continue, with markets primarily focusing on the likely identity of the next ECB president. Jens Weidmann, the hawkish President of Germany's central bank, appears the likely frontrunner, though his chances may be thwarted due his perceived opposition to unconventional policy measures in addition to the unwritten requirement for geographical diversity among the top roles. Compromise candidates, such as France's Francois Villeroy de Galhau or Finland's Erkki Liikanen, are also in the running. For the euro, a more dovish candidate open to continuing Draghi's legacy would be a more advantageous outcome.

Elsewhere, a number of tail risks remain on the horizon, namely the possibility of a no-deal Brexit and the likelihood of President Trump imposing tariffs on auto imports. Regarding the former, the ball rests firmly in the UK's court, meaning that a cliff-edge scenario on 31st October remains possible, with the market not yet completely pricing in this risk. Turning to trade, despite the implementation of auto tariffs being temporarily delayed, an increase in rhetoric or tariffs from President Trump is not out of the question.

Economic Data	EU
GDP	1.2% (Q1 19)
Interest Rate	0.0% (Mar 16)
Inflation Rate	1.2% (May 19)
Unemployment Rate	7.6% (Apr 19)
Wage Growth	2.5% (Q1 19)
Trade Balance	15.7bln (Apr 19)
Current Account	19.2bln (Apr 19)

GBP/EUR 6 MONTHS



USD Currency Outlook

1 MONTH

Federal Reserve (Fed) policy easing is on the way, with the dollar having declined in line with increasing expectations for rate cuts. The FOMC affirmed at their June meeting their desire to "act as appropriate" to sustain the economic expansion, a statement seen by markets as a sign of rate cuts on the horizon. Downside risks to the US economy remain significant, largely due to ever-increasing US-China trade tensions, with a 25bps rate cut, and the culmination of the Fed's balance sheet run-off, likely to come to fruition in September. However, should US-China trade tensions escalate further, a rate cut as soon as July, or even a larger, 50bps cut, cannot be ruled out. No matter the timing, policy easing is unlikely to be a one-off rate cut, likely taking the form of an easing cycle, with markets pricing more than 80bps worth of cuts this year. Looser policy should continue to drive the greenback lower.

Meanwhile, despite the Fed mulling easier policy and lingering trade uncertainties, the US economy continues to perform relatively well. GDP growth remains strong, outpacing global peers, while wage growth remains healthy, exemplifying the tight US labour market. One of the few negative facets of the US economy is inflation, which remains muted, hence the Fed's easing bias.

KEY DATES	
1 July	ISM manufacturing PMI
3 July	ISM non-manufacturing PMI
5 July	Labour market report
10 July	FOMC meeting minutes
11 July	CPI
26 July	Advance GDP (Q2)
31 July	Federal Reserve (Fed) rate decision

3 MONTHS

Looking further ahead, with the Fed likely well into an easing cycle, US-China trade relations will remain front-and-centre. With the cost of any further tariffs set to be borne by the US consumer, a further escalation in tensions would likely be met with a weaker dollar due to more lacklustre expectations for US economic growth.

Elsewhere, the 2020 Presidential Election is beginning to come into view, with President Trump having launched his re-election campaign and most Democratic contenders declaring their candidacy. It remains the case that, should the economy continue to perform reasonably well, President Trump will find re-election an easier prospect, reassuring financial markets. However, should escalating trade tensions, or another external factor, tip the US economy into a recession before Q3 2020, the race will likely be more open.

Economic Data	USA
GDP	3.1% (Q1 19)
Interest Rate	2.25% - 2.5% (Dec)
Inflation Rate	1.8% (May 19)
Unemployment Rate	3.6% (May 19)
Wage Growth	3.1% (May 19)
Trade Balance	-50.0bln (Mar 19)
Current Account	-130.4bln (Q1 19)

EUR/USD 6 MONTHS

CAD Currency Outlook

1 MONTH

The loonie performed well in June, with the currency set to remain relatively firm throughout the coming month. The Canadian dollar should be underpinned by a combination of firming oil prices, solid economic data and a relatively upbeat Bank of Canada (BoC). Firstly, oil prices remain on an upward trajectory, with ongoing Middle East tensions sparking supply concerns and therefore an increase in prices.

Meanwhile, the fundamentals of the Canadian economy remain strong. The labour market continues to tighten, with unemployment now at the lowest levels since comparable records began and set to exert further upward pressure on wages. Economic growth, while weak in Q1, shows signs of recovering throughout the remainder of the year, with momentum appearing strong heading into the 2nd half of 2019. These fundamental factors should see the Bank of Canada leave policy settings unchanged this month, having little reason to join the global shift to dovish policy. Due to this, widening yield spreads between Canada and its peers should see the loonie well-supported.

KEY DATES	
3 July	Trade balance
5 July	Labour market report
10 July	Bank of Canada (BoC) rate decision
17 July	CPI
31 July	GDP

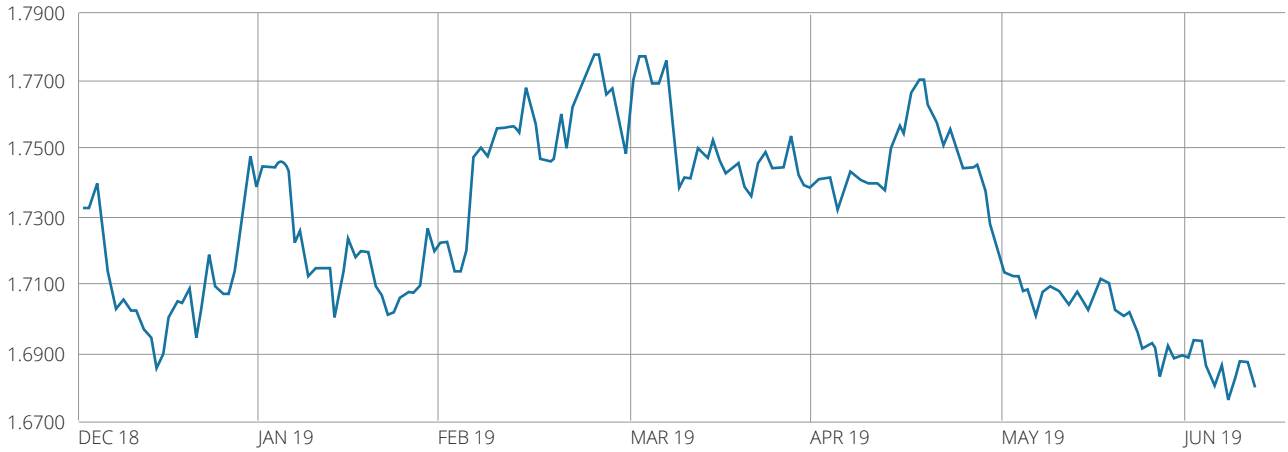
3 MONTHS

Looking further ahead, Federal Elections are beginning to come into view, with voters set to head to the polls in mid-October. While the major political parties have yet to release their manifestos, Parliament has risen ahead of the election. Polling currently puts the incumbent Liberals around 4 points behind the opposition Conservative Party, though this is marginally outside the margin of error for most polls. Markets will take a keen interest in developments in the run up to the election, specifically the prospect of increased political uncertainty should a hung parliament occur.

Another event that remains in focus is ratification of the USMCA trade agreement, which has yet to occur in either the US or Canada. Despite Mexico approving the deal, the prospects of the Democrat-controlled US House of Representatives ratifying the deal appear slim, hence posing a trade headwind and downside risk to the Canadian dollar.

Economic Data	CANADA
GDP	1.3% (Q1 19)
Interest Rate	1.75% (Oct 18)
Inflation Rate	2.4% (May 19)
Unemployment Rate	5.4% (May 19)
Wage Growth	2.8% (May 19)
Trade Balance	-0.9bln (Apr 19)
Current Account	-17.4bln (Q1 19)

GBP/CAD 6 MONTHS



AUD Currency Outlook

1 MONTH

The RBA finally bit the bullet in June, announcing a 25bps interest rate cut as the Bank continues to battle with a benign pace of inflation and a slack labour market. Further easing is likely to follow, with a rate cut in August 100% priced in. after the RBA has digested 2nd quarter inflation figures. Lower interest rates have further dented the attraction of the Aussie dollar, with carry trades involving the currency now nearly non-existent and unconventional monetary policy measures possibly still to come.

The fundamentals of the Australian economy are also relatively weak. GDP growth is solid, though remains susceptible to downside risks, namely a slowdown in Chinese economic activity due to the close trading relationship between the two nations. Inflation is also benign, with a slack labour market and upward trending unemployment unlikely to exert upward pressure on prices in the immediate future.

KEY DATES	
2 July	Reserve Bank of Australia (RBA) rate decision
16 July	RBA meeting minutes
18 July	Labour market report
31 July	CPI

3 MONTHS

Looking further ahead, global risk sentiment will remain a major driver of the Aussie dollar, with the currency continuing to trade as a liquid risk proxy. June saw the Aussie dollar fall to a near 3-year low against its US counterpart as risk sentiment soured, hence further deterioration in US-China trade relations, or other geopolitical risks increasing, are likely to result in downside moves. China will remain in focus as one of the main downside risks facing the economy, in addition to continued concerns over the health of the housing market. Either factor could end Australia's enviable record of consecutive annual growth in every year since 1991.

Finally, commodities remain in the picture, though the correlation between the Australian dollar and iron ore is weaker than in previous years. Still, a recent boom in iron ore prices, sparked by supply concerns, may provide the Aussie with some relief should global downside risks subside.

Economic Data	AU
GDP	1.8% (Q1 19)
Interest Rate	1.25% (Jun 19)
Inflation Rate	1.3% (Q1 19)
Unemployment Rate	5.2% (May 19)
Wage Growth	2.3% (Q1 19)
Trade Balance	4.9bln (Apr 19)
Current Account	-2.9bln (Q1 19)

GBP/AUD 6 MONTHS

NZD Currency Outlook

1 MONTH

Dovish monetary policy is also the main theme in New Zealand, with further RBNZ rate cuts on the horizon. In a similar manner to its antipodean counterpart, New Zealand is experiencing subdued inflation along with a slack labour market, meaning further policy loosening can be expected. The RBNZ don't meet in July, however with an August cut a more than 70% chance, the prospects of looser policy will likely weigh on the kiwi dollar.

Elsewhere, economic activity and trade in China will continue to play a major role in driving the currency. With mainland China remaining New Zealand's largest trading partner, demand for exports will be key in determining the future prospects of the economy. A further increase in US-China tensions seems likely, with no deal currently in sight, a factor which would likely exert downward pressure on the currency.

KEY DATES	
15 July	CPI
23 July	Trade balance
30 July	Labour market report
31 July	ANZ business confidence

3 MONTHS

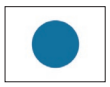
In the longer-term, the New Zealand dollar should continue to trade largely as a risk proxy for the global economy, in a similar manner to its Australian counterpart. Deterioration in risk sentiment would drive the currency lower, an outcome which seems likely due to ongoing, and escalating, tensions between the US and China, as well as the US and Iran.

Meanwhile, the fundamentals of the NZ economy remain relatively weak, though the impact of looser monetary policy to stimulate the economy are difficult to gauge so soon. Anaemic wage growth is likely to keep inflation subdued, while GDP growth will depend heavily on Chinese economic fortunes. The prospects of a 3rd RBNZ rate cut later this year remain high, seen as around a 60% chance according to current market pricing. Finally, the correlation between the kiwi dollar and dairy prices remains strong with a continuation of the recent trend of declining auction prices will likely exert downward pressure on the NZD.

Economic Data	NZ
GDP	2.5% (Q1 19)
Interest Rate	1.5% (May 19)
Inflation Rate	1.5% (Q1 19)
Unemployment Rate	4.2% (Q1 19)
Wage Growth	2.1% (Q1 19)
Trade Balance	-5.49bln (May 19)
Current Account	0.7bln (Q1 19)

GBP/NZD 6 MONTHS

JPY Currency Outlook



1 MONTH

The yen's recent run of strength, stemming from its safe-haven status, appears likely to continue, with geopolitical risks showing no signs of dissipating any time soon. Demand for safe havens remains the yen's best chances of appreciation, with economic fundamentals remaining weak and the BoJ's ultra-loose policy stance set to continue.

Monetary policy is once again likely to remain on hold this month, though the BoJ's cautious tone should continue, especially with significant downside risks to the economy persisting. Questions continue to be raised about the BoJ's ability to conduct significant further policy easing if necessary, despite policymakers maintaining that headroom is available. The yen has thus far largely ignored monetary policy decisions, though may weaken should further policy loosening appear on the horizon.

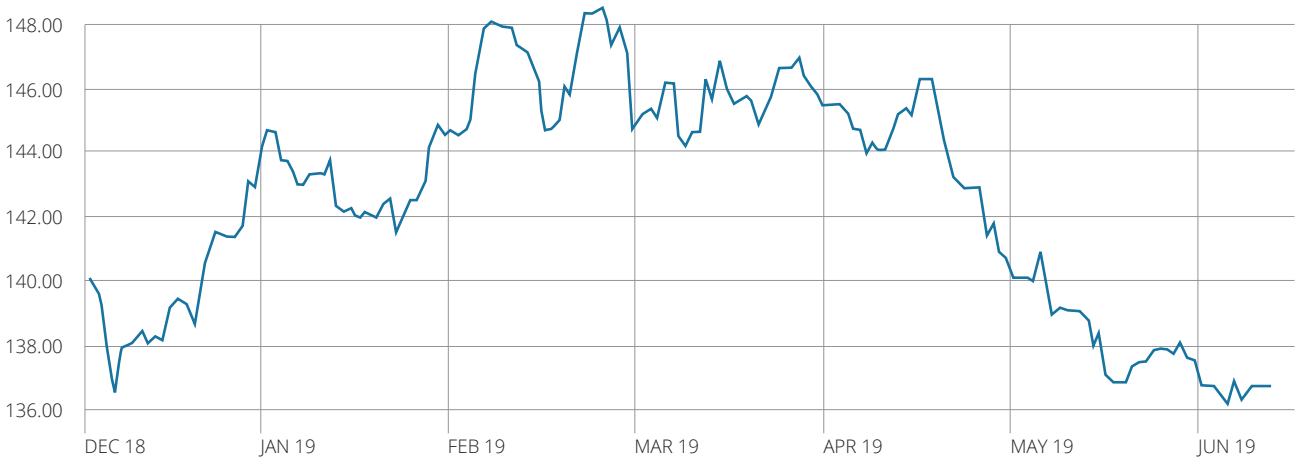
KEY DATES	
8 July	Average earnings
19 July	CPI
29 July	Retail sales
30 July	Bank of Japan (BoJ) rate decision
31 July	Unemployment rate

3 MONTHS

In the longer-term, October's consumption tax hike remains a looming risk to the economy, especially after 2014's tax hike tipped the economy into a brief recession as private spending plummeted. The hike, and possible economic downturn, will cause a headache for the BoJ, and may exert pressure further pressure on the already fragile Japanese economy. Inflation remains practically non-existent, along with GDP continuing to grow at a sluggish pace and wages continuing to decrease. The fragile state of the economy may weigh on the yen should safe-haven demand decrease.

Economic Data	JAPAN
GDP	0.9% (Q1 19)
Interest Rate	-0.1% (Jan 16)
Inflation Rate	0.7% (May 19)
Unemployment Rate	2.4% (Apr 19)
Wage Growth	-0.1% (Apr 19)
Trade Balance	-967bln (May 19)
Current Account	1.7tln (Apr 19)

GBP/JPY 6 MONTHS



CHF Currency Outlook

1 MONTH

The Swiss National Bank's (SNB) dovish tone continued in June as, despite rates being kept unchanged, the SNB emphasised the downside risks facing the Swiss economy. The SNB don't meet again until September, however FX intervention (either verbal or monetary) is likely should policymakers feel the franc is becoming too highly valued. The franc's recent strength, in a similar manner to the yen, has been driven by the currency's appeal as a safe-haven, a trend that is likely to continue should global risks – including Brexit and US-China trade tensions – escalate further.

One downside risk to the franc, and the Swiss economy as a whole, is the prospect of the EU applying punitive measures (including cutting off access to Swiss stock exchanges) should Switzerland not agree to a fresh treaty on EU-Swiss relations. This is something of a tail risk, that appears under-priced in the franc, with penalties potentially commencing as soon as the beginning of July.

KEY DATES	
4 July	CPI
8 July	Unemployment rate
18 July	Trade balance
30 July	KOF economic barometer

3 MONTHS

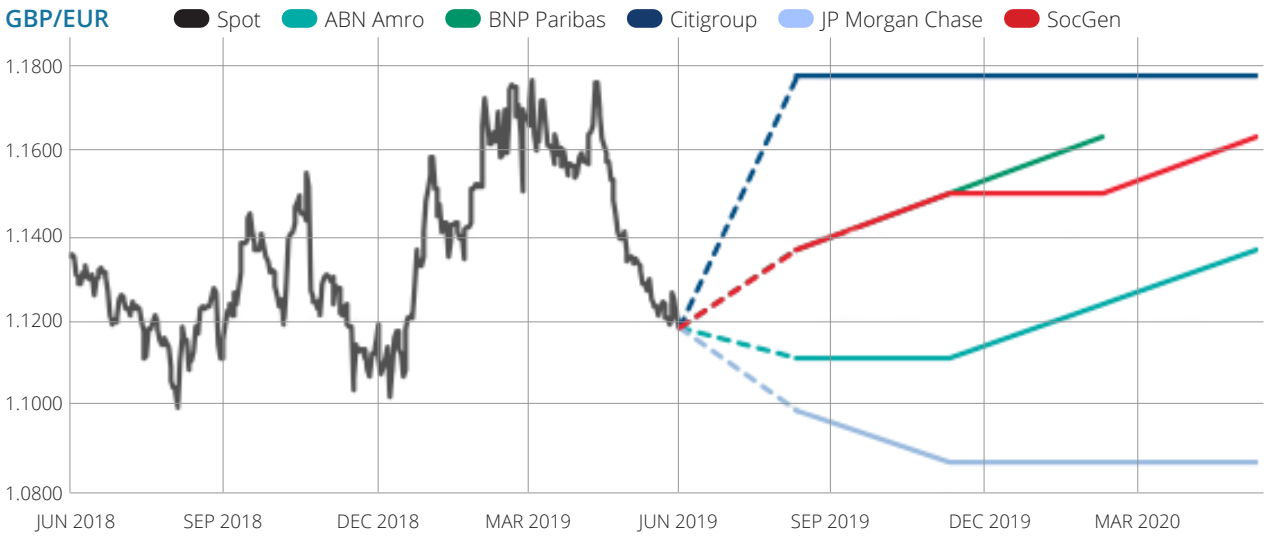
Looking ahead, the prospects of even looser monetary policy from the SNB cannot be ruled out, especially if the ECB follow through on their recent dovish rhetoric and deliver further stimulus. In such a situation, the SNB may find it difficult not to cut rates, if only to prevent the CHF from appreciating too steeply against the euro and damaging Switzerland's open economy.

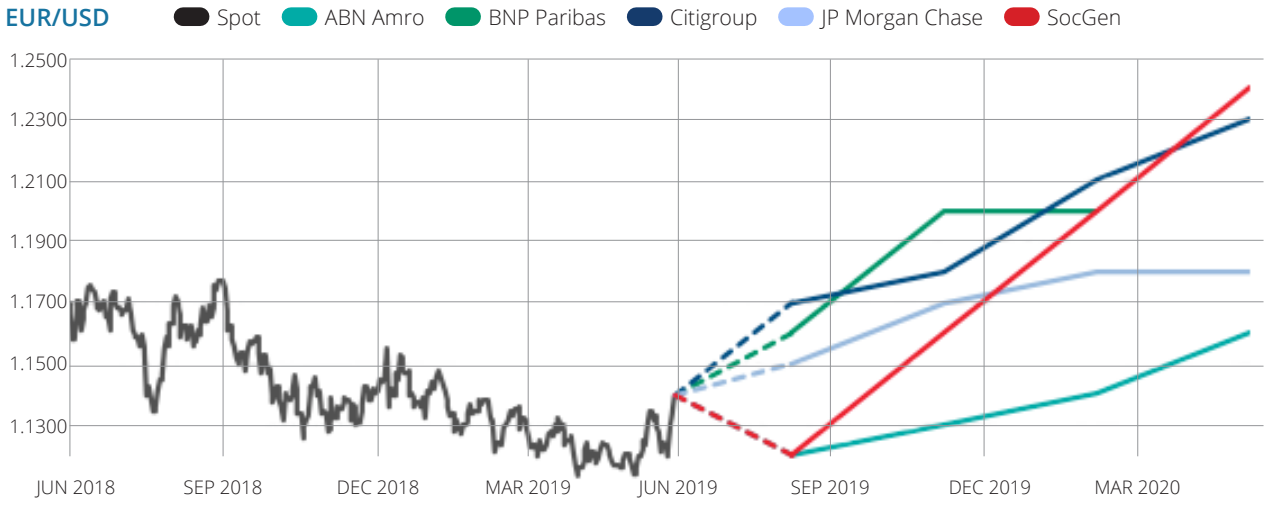
Elsewhere, the fundamentals of the Swiss economy remain weak, especially the benign pace of inflation and the downside risks posed to economic growth. Further complicating the inflation picture is that, despite a low unemployment rate, wage growth is minimal hence causing few upward price pressures. However, as long as safe-haven demand remains strong, the franc should remain underpinned, with markets largely ignoring the disappointing economic backdrop.

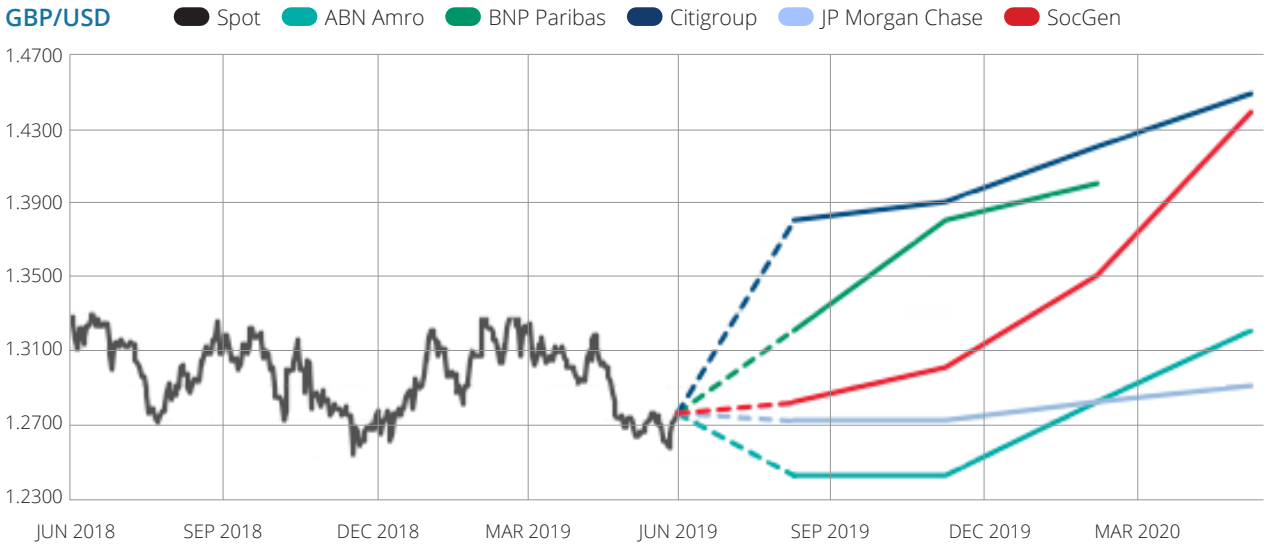
Economic Data	SWITZERLAND
GDP	1.7% (Q1 19)
Interest Rate	-0.75% (Jan 15)
Inflation Rate	0.6% (May 19)
Unemployment Rate	2.3% (May 19)
Wage Growth	0.5% (Q1 19)
Trade Balance	1.7bln (May 19)
Current Account	17.2bln (Q1 19)

GBP/CHF 6 MONTHS

2019 Currency Forecasts

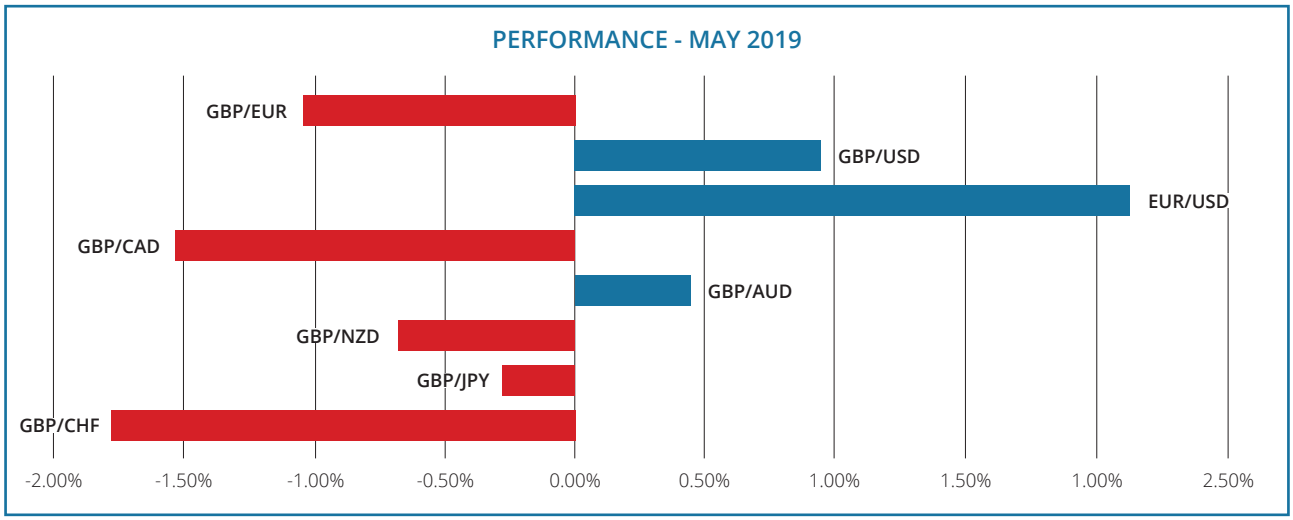






Build your currency plan to be Brexit ready

	01/06/19	28/06/19	% Change
GBP/EUR	1.1287	1.1169	-1.05%
GBP/USD	1.2603	1.2722	0.94%
EUR/USD	1.1151	1.1389	2.13%
GBP/CAD	1.7013	1.6751	-1.54%
GBP/AUD	1.8170	1.8251	0.45%
GBP/NZD	1.9274	1.9143	-0.68%
GBP/JPY	136.48	136.10	-0.28%
GBP/CHF	1.2610	1.2386	-1.78%



As a business, implementing a simple but effective 'currency plan' will help your business manage volatility for July 2019 and beyond. Following the 4 steps below will help you understand your currency risk and plan for any FX volatility.

1. Define your objectives
Understand your appetite to currency risk which can also be influenced by your cash flow requirements

2. Decide a hedging ratio
Define your hedging ratio appropriate for your business risk

3. Evaluate hedging approaches
Determine a hedging approach that best meets your risk management needs – rolling, static, or layered approach

4. Evaluate your plan
We will help you implement the right plan at the most optimal time whilst continually monitoring it for you

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Planning and managing your currency risk doesn't have to be complicated.
At Caxton FX, we can help you build a simple currency plan to protect your business against adverse movements in the FX markets.

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