August 2019 Currency Outlook

CAXTON FX
BUSINESS

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Global central banks continued their shift to a more dovish policy stance in July, with the Federal Reserve and RBA announcing rate cuts, and the ECB preparing markets for a significant stimulus package in September. Meanwhile, little progress has been made on Brexit, though the UK does have a new Prime Minister in the shape of Boris Johnson. Other geopolitical risks have cooled slightly, with the US and China having agreed another tentative trade truce.

Turning to the month ahead, markets are likely to head into their traditional summer slumber with volatility likely to be muted. However, politics will remain key for the pound, with markets set to closely monitor developments in Brexit negotiations as PM Johnson continues to pledge to deliver a Halloween Brexit, 'no ifs or buts'. Elsewhere, markets will begin to anticipate likely developments in September, including further monetary policy easing.

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Economic data correct as of 30 July 2019
Trade data denominated in local currency.

Week-by-Week Overview

WEEK ONE

August begins with the usual round of manufacturing PMI surveys coming to the fore, with market participants set to closely examine the data for further signs of slowing global economic momentum. Meanwhile, the Bank of England are set to release their latest policy decision, likely leaving interest rates unchanged while possibly downwardly revising growth forecasts due to ongoing Brexit-linked uncertainties stunting business investment. Finally, the monthly US labour market will be closely watched as always, with particular focus on the jobs market remaining tight though headline payrolls growth is set to moderate.

WEEK TWO

Antipodean monetary policy will be this week's main focus, with policy decisions due from both the Reserve Bank of Australia (RBA) and Reserve Bank of New Zealand (RBNZ). The RBA are likely to keep policy on hold, following back-to-back 25bps rate cuts, while the RBNZ appear set to ease policy with inflation still relatively benign and significant slack still in the labour market. Elsewhere, services PMI figures from most major economies will be seen as a useful leading indicator of Q3 economic performance, while 2nd quarter GDP figures from the UK are expected to show the economy in stagnation, or at worst contraction.

KEY EVENTS

WEEK 1

1 August	Eurozone manufacturing PMI (Jul) UK manufacturing PMI (Jul) Bank of England (BoE) rate decision US ISM manufacturing PMI (Jul)
2 August	Australia retail sales (Jun) Switzerland CPI (Jul) Canada trade balance (Jun) US labour market report (Jul)

WEEK 2

5 August	Eurozone services PMI (Jul) UK services PMI (Jul) US ISM non-manufacturing PMI (Jul) New Zealand labour market report (Q2)
6 August	Reserve Bank of Australia (RBA) rate decision Japan average cash earnings (Jun)
7 August	Reserve Bank of New Zealand (RBNZ) rate decision
9 August	RBA monetary policy statement Switzerland unemployment rate (Jul) UK GDP (Q2 1st est.) Canada labour market report (Jul)

WEEK THREE

With the markets' summer slumber likely in full swing by this point, the data calendar is light, the primary highlight being labour market reports from both the UK and Australia. From the UK, investors will be looking for the jobs market to remain tight, with wages continuing to increase at a healthy pace. From Australia, unemployment will be the main focus as markets continue attempting to gauge the RBA's next policy move. Other notable points include CPI inflation releases from the UK and US, as well as the 1st estimate of 2nd quarter GDP growth from the eurozone.

WEEK FOUR

Monetary policy will once again be in focus this week, with market participants getting an insight into recent policy decisions through minutes from the ECB's, RBA's and FOMC's latest meetings. Other highlights include CPI inflation figures from the eurozone and Canada as well as flash PMI figures from the eurozone, the latter data point being used as an indicator of economic momentum throughout the summer months.

WEEK FIVE

August concludes with a relatively light economic calendar, with focus likely falling on the release of flash CPI figures from the eurozone as the pace of price increases remains sluggish across the common currency bloc. Meanwhile, markets will look for any revisions to US GDP in the 2nd estimate, while also gauging the health of the consumer through the latest set of consumer confidence figures. Finally, unemployment data will be due from Japan, along with the monthly Swiss economic barometer.

KEY EVENTS

WEEK 3

13 August	UK labour market report (Jun) US CPI (Jul)
14 August	Australia wage price index (Q2) Japan prelim. GDP (Q2) UK CPI (Jul) Eurozone flash GDP (Q2)
15 August	Australia labour market report (Q2) US retail sales (Jul)
16 August	US prelim. consumer sentiment (Aug)

WEEK 4

19 August	Japan trade balance (Jul) Eurozone final CPI (Jul)
20 August	RBA meeting minutes, Switzerland trade balance (Jul) New Zealand retail sales (Q2)
21 August	Canada CPI (Jul) FOMC meeting minutes
22 August	ECB meeting minutes
23 August	Japan CPI (Jul) Eurozone flash PMIs (Aug) Canada retail sales (Jun)

WEEK 5

26 August	New Zealand trade balance (Jul)
27 August	Japan retail sales (Jul) US consumer confidence (Aug)
29 August	Japan unemployment rate (Jul) Switzerland KOF economic barometer (Aug) US prelim. GDP (Q2 2nd est.)
30 August	Eurozone flash CPI (Aug) Canada GDP (Q2)

GBP Currency Outlook

1 MONTH

With Parliament in recess throughout the summer, market participants may have some brief respite from politics, though ongoing uncertainties should keep a lid on any sterling appreciation. The month's main event comes early on, in the shape of the Bank of England's (BoE) latest monetary policy decision. While no change to policy settings is expected, as policymakers' hands remain tied by Brexit-linked uncertainties, markets will be on alert for a downgrade to the MPC's growth forecasts with business investment remaining subdued and manufacturing activity having slowed significantly due to the hurry to stockpile goods ahead of the initial Brexit deadline in Q1. However, should the BoE wish to emphasise the positives, inflation remains relatively benign, while consumer spending is holding up well as a tight labour market feeds through into the fastest pace of wage growth since the financial crisis.

While the BoE may emphasise the positives, 2nd quarter GDP is likely to have stagnated, if not contracted, while PMI surveys may point to further weakness in the coming months. Hence, the pound is not yet out of the woods.

3 MONTHS

Looking ahead, Brexit will continue to dominate the outlook for the pound. With Boris Johnson having recently taken over as Prime Minister, markets will be keen to gain some clarity on the proposed next Brexit steps. Should PM Johnson continue his rhetoric of leaving on 31st October "do or die", the risks of a no-deal exit will increase especially with the EU looking unlikely to renegotiate, thus exerting pressure on the pound.

However, Parliament remains likely to attempt to block a no deal exit – thus increasing the likelihood of a further article 50 extension to facilitate a general election. Such an outcome now seems more likely, with neither exiting with a deal, or leaving without a deal, currently being able to obtain a stable parliamentary majority. However, the option of proroguing, or suspending Parliament to force through Brexit appears to still be an option at present.

KEY DATES	
1 August	Manufacturing PMI (Jul), BoE rate decision
3 August	Services PMI (Jul)
9 August	GDP (Q2 1st est.)
13 August	Labour market report (Jun)
14 August	CPI (Jul)

Economic Data	UK
GDP	1.8% (Q1 19)
Interest Rate	0.75% (Aug 18)
Inflation Rate	2.0% (Jun 19)
Unemployment Rate	3.8% (May 19)
Wage Growth	3.4% (May 19)
Trade Balance	-2.3bln (May 19)
Current Account	-30.0bln (Q1 19)

GBP/USD 6 MONTHS

EUR Currency Outlook

1 MONTH

In the month ahead, economic activity will be under the microscope as markets brace for action from the ECB at the beginning of next month. With this in mind, both final PMI figures for July and August's flash PMI survey will be closely watched for signs of weak economic momentum continuing into Q3, particularly in the manufacturing sector where the slowdown appears to be deepening. Taking a step back, the 1st estimate of second quarter GDP growth will also be closely watched, with the economic outlook remaining bleak – being described recently by ECB President Draghi as getting 'worse and worse'. A set of soft economic releases points to downside movement for the single currency.

Elsewhere, CPI inflation figures will be examined for any signs of lingering softness, with both the pace of price increases, and expectations of the future pace of inflation, remaining benign. Furthermore, minutes from the ECB's July policy meeting will be in focus as markets look for additional clarity on September's likely stimulus package.

KEY DATES	
1 August	Manufacturing PMI (Jul)
5 August	Services PMI (Jul)
14 August	Flash GDP (Q2)
19 August	CPI (Jul)
22 August	ECB meeting minutes
23 August	Flash PMIs (Aug)
30 August	Flash CPI (Aug)

3 MONTHS

Markets will be on alert for a significant monetary stimulus package to be announced by the ECB in September, after policymakers clearly signalled policy loosening to be on the way at the July policy meeting. Such a package will likely include a combination of; a further cut to the deposit rate, tiering measures to mitigate the impact on bank profitability, revision to forward guidance and possibly the restart of asset purchases. However, such stimulus is largely priced into markets already and, with the Fed also easing policy, the downside impact on the euro may be limited. Furthermore, the impact of such monetary stimulus on the eurozone economy remains questionable, with fiscal stimulus still required to fully combat the current economic weakness.

Meanwhile, the tail risk of a no-deal Brexit at the end of October remains, with the disruption caused by such an outcome likely to severely knock the already weak economic momentum across the bloc.

Economic Data	EU
GDP	1.2% (Q1 19)
Interest Rate	0.0% (Mar 16)
Inflation Rate	1.3% (Jun 19)
Unemployment Rate	7.5% (May 19)
Wage Growth	2.5% (Q1 19)
Trade Balance	23.0bln (May 19)
Current Account	13.3bln (May 19)

GBP/EUR 6 MONTHS

USD Currency Outlook

1 MONTH

With the Fed having announced a 25bps rate cut at the end of July, monetary policy expectations for the remainder of the year will be key, with markets pricing in approximately 45bps of further accommodation. However, with the Federal Reserve's next policy decision not coming until September, macroeconomic data and US-China trade relations set to come to the fore. Despite Fed policy loosening, economic fundamentals remain firm; economic growth is solid, the labour market is tight, consumer spending remains healthy, and inflation is close to target. Market participants will be looking for these themes to continue, which may underpin the dollar.

Meanwhile, despite a tentative US-China trade truce holding at present, relations can shift quickly – any changes in relations will be a key driver of risk sentiment in the month ahead. Finally, the annual Jackson Hole Economic Symposium will be eyed, with any comments on the monetary policy outlook of particular interest.

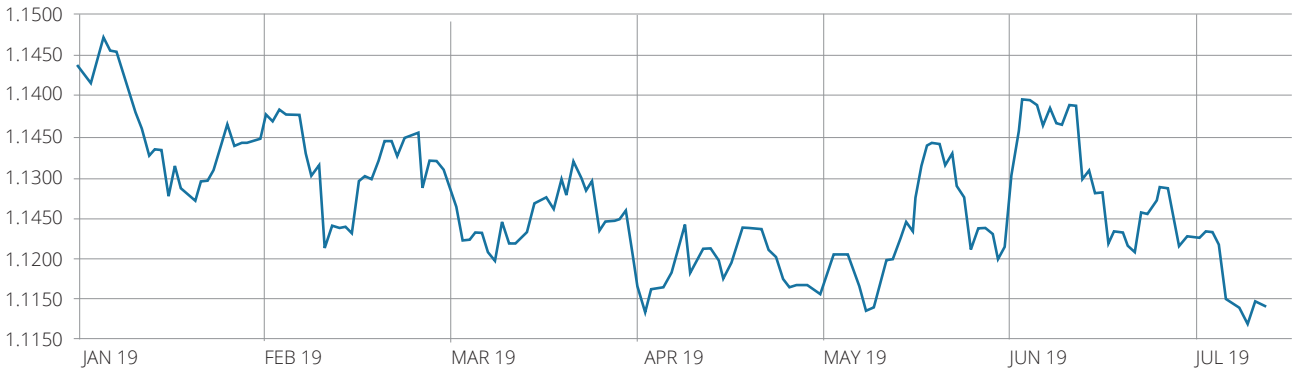
KEY DATES	
1 August	ISM manufacturing PMI (Jul)
2 August	US labour market report (Jul)
5 August	ISM non-manufacturing PMI (Jul)
13 August	CPI (Jul)
15 August	Retail sales (Jul)
21 August	FOMC meeting minutes
29 August	Prelim. GDP (Q2 2nd est.)

3 MONTHS

Having announced a 25bps interest rate cut in July, the monetary policy outlook, and market pricing of the likely interest rate path, will be key for the dollar in the longer-term. Markets have somewhat reduced their bets on aggressive policy easing from the Fed after policymakers maintained their 'act as appropriate' stance when loosening policy in July, helping the dollar to find some support. Should policymakers pivot back to a more dovish stance, perhaps as a result of increasing US-China trade tensions or weakening global momentum, the dollar would likely experience a move to the downside. On the other hand, should the Fed maintain a less-dovish policy stance than other global central banks, such as the ECB or BoJ, the dollar can be expected to remain relatively firm in the months ahead, with there being little in the way of divergence between major global central banks.

Economic Data	USA
GDP	2.1% (Q2 19)
Interest Rate	DUE 31 JULY
Inflation Rate	1.6% (Jun 19)
Unemployment Rate	3.7% (Jun 19)
Wage Growth	3.1% (Jun 19)
Trade Balance	-55.5bln (May 19)
Current Account	-130.4bln (Q1 19)

EUR/USD 6 MONTHS



CAD Currency Outlook

1 MONTH

With the Bank of Canada not meeting this month, focus will switch back to the fundamentals of the Canadian economy, which remain firm having recovered from a soft patch early in the year. Market participants will be looking for the labour market to remain tight, with unemployment set to hold near historical lows, thus continuing to exert upward pressure on wages. Other notable data points include 2nd quarter GDP figures, expected to show a relatively solid pace of growth, in addition to inflation which should remain around the 2% mark – all factors which should continue to underpin the Canadian dollar.

Meanwhile, the correlation between the loonie and oil prices remains strong. Oil prices are set to remain well-supported by ongoing supply concerns stemming from tensions in the Middle East, a factor which should feed through into support for the CAD.

KEY DATES	
2 August	Trade balance (Jun)
9 August	Labour market report (Jul)
21 August	CPI (Jul)
23 August	Retail sales (Jun)
30 August	Canada GDP (Q2)

3 MONTHS

In the longer-term, the Bank of Canada's (BoC) September policy meeting should see policymakers maintain a relatively upbeat tone in light of the solid fundamentals mentioned above. Monetary policy should remain on hold, however with the Federal Reserve loosening policy, a narrowing yield spread between Canada and the US should provide solid support to the loonie.

Other factors on the radar include the USMCA trade agreement, replacing NAFTA, which has yet to be ratified, posing a tail risk for cross-border trade should pre-agreement conditions return, thus denting economic growth. Also coming into view is October's Federal Elections, with the ruling Liberal party neck and neck with the opposition Conservatives in current opinion polling. Markets will be on the lookout for a potential hung parliament, with the ensuing uncertainty possibly exerting downward pressure on the loonie.

Economic Data	CANADA
GDP	1.3% (Q1 19)
Interest Rate	1.75% (Oct 18)
Inflation Rate	2.0% (Jun 19)
Unemployment Rate	5.5% (Jun 19)
Wage Growth	3.8% (Jun 19)
Trade Balance	0.7bln (May 19)
Current Account	-17.3bln (Q1 19)

GBP/CAD 6 MONTHS

AUD Currency Outlook

1 MONTH

After back-to-back 25bps interest rate cuts in June and July, the RBA are likely to leave policy on hold this month, choosing to examine the impacts of the recent policy loosening before making any further adjustments. However, the RBA are set to maintain their dovish stance, pledging to ease further 'if needed', making further easing likely in Q4, likely continuing to dent the attraction of the Aussie dollar.

Meanwhile, barring monetary policy, the Australian dollar is set to continue trading in line with shifts in global risk sentiment. Sentiment remains fragile with a tentative US-China trade truce currently holding, but with the situation subject to shift quickly and relations having the potential to sour once more. Trade uncertainties are also acting as a drag on the Australian economy, where momentum remains weak, largely due to China comprising around 30% of all Australian exports.

KEY DATES	
2 August	Retail sales (Jun)
6 August	RBA rate decision
9 August	RBA monetary policy statement
14 August	Wage price index (Q2)
15 August	Labour market report (Q2)
20 August	RBA meeting minutes

3 MONTHS

Looking further ahead, with economic momentum remaining weak, an increase in trade tensions impossible to rule out, the labour market remaining slack and inflation still benign, further policy loosening from the RBA remains likely. While another 25bps of rate cuts are priced in over the remainder of the year, any more than this, or even a move into more unconventional monetary policy, would likely exert downward pressure on the currency.

Meanwhile, relatively high and stable iron ore prices may be a source of support, though the correlation between the commodity and the Australian dollar is weaker than it has been in the past. Finally, a positive sign for the domestic economy is the recent trend of stabilising house prices, with the market showing early signs of a recovery, with investors looking for this trend to continue.

Economic Data	AU
GDP	1.8% (Q1 19)
Interest Rate	1.0% (Jul 19)
Inflation Rate	1.3% (Q1 19)
Unemployment Rate	5.2% (Jun 19)
Wage Growth	2.3% (Q1 19)
Trade Balance	5.8bln (May 19)
Current Account	-2.9bln (Q1 19)

GBP/AUD 6 MONTHS

NZD Currency Outlook

1 MONTH

In a similar manner to their antipodean counterpart, the Reserve Bank of New Zealand (RBNZ) appear set to announce another 25bps rate cut this month. It is easy for policymakers to make the case for further policy loosening; inflation remains below target, significant slack persists in the labour market, and the domestic economy has slowed more significantly than expected. Looser policy will likely dampen the attraction of the kiwi dollar, with the possibility of further rate cuts later in the year remaining highly likely. Not only are further interest rate cuts on the horizon, but policymakers are reported to have begun investigating unconventional policy measures, for example quantitative easing, should even looser policy be required in the future.

August's other notable data point will be Q2's labour market report, expected to show activity in the jobs market remaining subdued, with wages continuing to increase at a sluggish pace due to remaining slack in the labour market.

KEY DATES	
5 August	Labour market report (Q2)
7 August	RBNZ rate decision
20 August	Retail sales (Q2)
26 August	Trade balance (Jul)

3 MONTHS

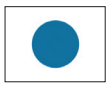
Looking ahead, the kiwi dollar will likely follow its antipodean cousin in trading as somewhat of a barometer for global risk sentiment. Hence, any further escalation in ongoing US-China trade tensions will likely result in downward pressure on the currency. Not only will risk appetite play a part, but trade tensions will also directly impact the New Zealand economy, with approximately 25% of exports heading directly to China. Any increase in tariffs, or a downturn in the Chinese economy, will have a ripple effect on the New Zealand dollar.

Finally, dairy prices remain correlated with the kiwi dollar, though the relationship is weaker than in previous years. The recent turnaround in dairy prices, after 4 consecutive months of price declines, may be a source of support should the trend continue over coming quarters.

Economic Data	NZ
GDP	2.5% (Q1 19)
Interest Rate	1.5% (May 19)
Inflation Rate	1.7% (Q2 19)
Unemployment Rate	4.2% (Q1 19)
Wage Growth	2.1% (Q1 19)
Trade Balance	0.4bln (Jun 19)
Current Account	0.7bln (Q1 19)

GBP/NZD 6 MONTHS

JPY Currency Outlook



1 MONTH

Once again, shifts in risk appetite are likely to be the main driver of the yen in the month ahead. Should markets continue to strike a risk-off tone, demand for safe havens, such as the yen, is set to remain healthy. This remains the yen's best chance of appreciation, with the fundamentals of the Japanese economy remaining mixed at best.

GDP growth is likely to remain subdued in the second quarter, with not only US-China trade tensions, but also Japan-South Korea trade frictions denting cross-border flows and business investment. Furthermore, inflation remains practically non-existent, while wages continue to decline despite the economy being at, or very close to, full employment. However, despite these negatives, the yen has recently been ignoring these fundamental factors, a trend that is likely to continue in the coming months.

KEY DATES	
6 AUGUST	Average cash earnings (Jun)
14 AUGUST	Prelim. GDP (Q2)
19 AUGUST	Trade balance (Jul)
23 AUGUST	CPI (Jul)
27 AUGUST	Retail sales (Jul)
29 AUGUST	Unemployment rate (Jul)

3 MONTHS

The Bank of Japan's (BoJ) September policy meeting will be the main focus in the months ahead, with a broader, global shift to a more dovish policy stance pressuring the BoJ to act further to attempt to stimulate the Japanese economy. However, with the BoJ having already taken interest rates into negative territory, and carried out extensive quantitative easing, questions persist over the effectiveness of such a policy and the ability of the BoJ to act with such a limited policy arsenal should a downturn occur.

Speaking of downturns, the impact October's planned consumption tax hike will be closely watched, with the previous tax hike, in 2014, resulting in a brief recession.

Economic Data	JAPAN
GDP	0.9% (Q1 19)
Interest Rate	-0.1% (Jan 16)
Inflation Rate	0.7% (Jun 19)
Unemployment Rate	2.4% (May 19)
Wage Growth	-0.2% (May 19)
Trade Balance	589bln (Jun 19)
Current Account	1.6tln (May 19)

GBP/JPY 6 MONTHS

CHF Currency Outlook

1 MONTH

The main notable point in the month ahead will be the increasing prospects of FX intervention from the SNB, with the franc trading close to its strongest levels in over 2 years against the euro. The SNB remain primarily concerned with the value of the franc due to the highly open nature of the Swiss economy, hence verbal, or even monetary, intervention is likely should the franc's appreciation continue as a result of its status as a safe-haven.

Meanwhile, the fundamentals of the Swiss economy are expected to remain broadly in line with the recent trend. Inflation should remain subdued, primarily due to an extremely slow pace of wage increases, despite unemployment holding at a near 2-decade low. The monthly KOF economic barometer will also be closely watched as a useful leading indicator of economic performance.

KEY DATES	
2 August	CPI (Jul)
9 August	Unemployment rate (Jul)
20 August	Trade balance (Jul)
29 August	KOF economic barometer (Aug)

3 MONTHS

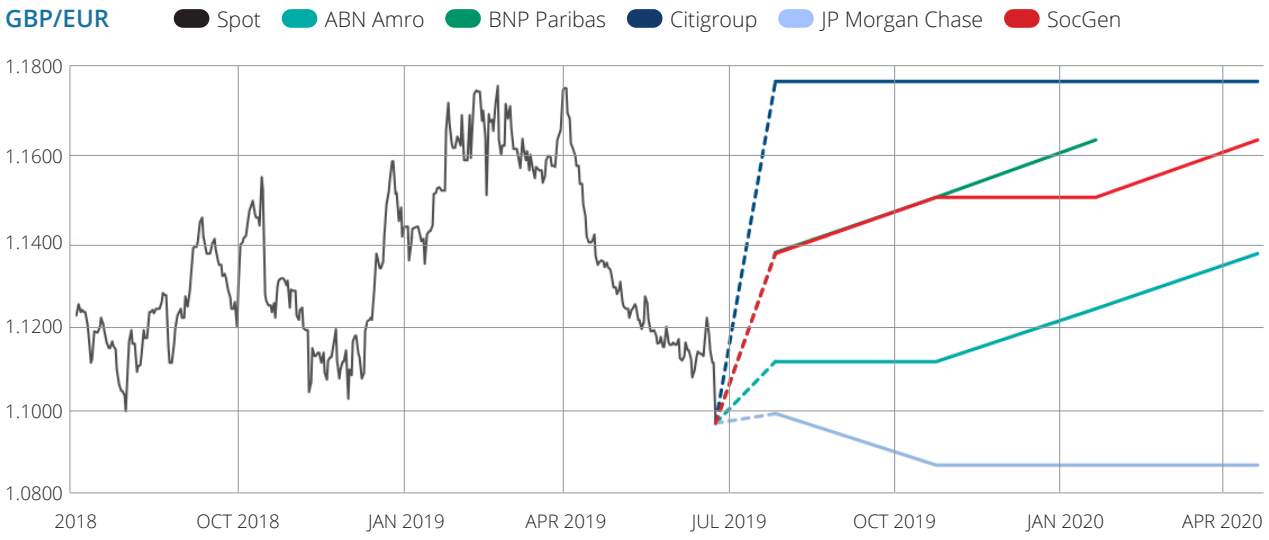
Looking ahead, the chances of further policy easing from the Swiss National Bank (SNB) have increased after clear signs from the ECB that additional stimulus is on the way. The SNB will likely wish to keep the current 35bps corridor between the two banks' policy rates in order to prevent steep appreciation of the franc, raising the likelihood of an SNB rate cut.

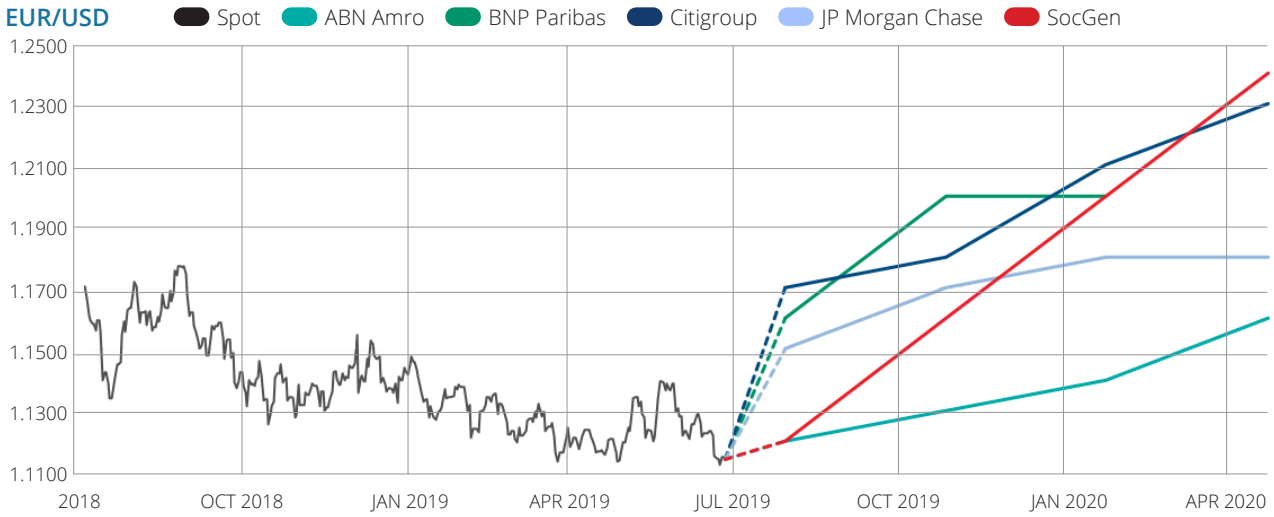
Other highlights include 2nd quarter GDP figures, likely to show activity slowing as trade tensions and a softening in eurozone activity set to bite. The franc's longer-term hopes of appreciation rest largely on shifts in global risk appetite, in a similar way to the yen, with the franc likely to appreciate should markets seek a safe-haven – especially if European investors wish to seek a close-to-home haven in the event of a no-deal Brexit. Finally, the current ban on EU firms trading on Swiss stock exchanges has yet to have a significant impact, though will remain on the radar in the coming months.

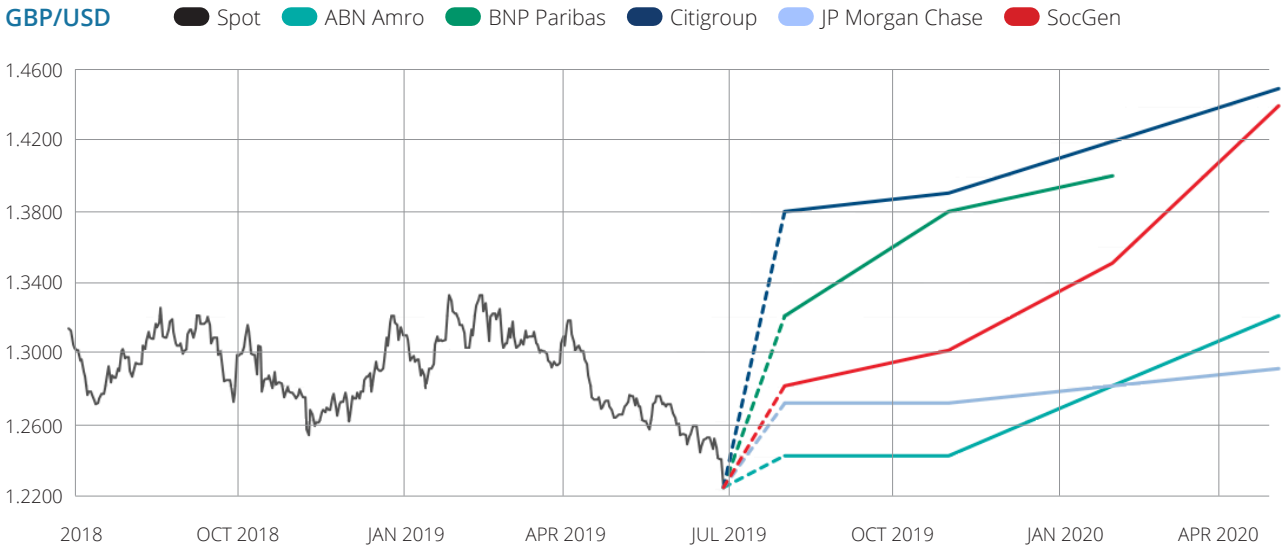
Economic Data	SWITZERLAND
GDP	1.7% (Q1 19)
Interest Rate	-0.75% (Jan 15)
Inflation Rate	0.6% (Jun 19)
Unemployment Rate	2.1% (Jun 19)
Wage Growth	0.5% (Q1 19)
Trade Balance	3.3bln (Jun 19)
Current Account	17.2bln (Q1 19)

GBP/CHF 6 MONTHS

2019 Currency Forecasts

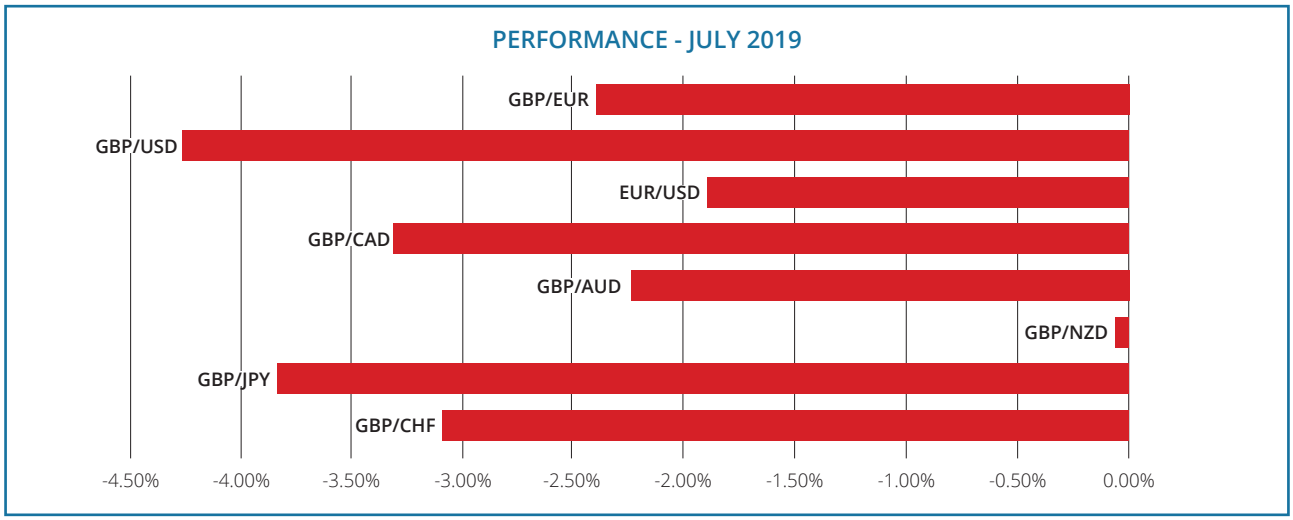






Build your currency plan to be Brexit ready

	01/07/19	30/07/19	% Change
GBP/EUR	1.1175	1.0908	-2.39%
GBP/USD	1.2697	1.2156	-4.26%
EUR/USD	1.1360	1.1145	-1.89%
GBP/CAD	1.6568	1.6020	-3.31%
GBP/AUD	1.8041	1.7637	-2.24%
GBP/NZD	1.8368	1.8357	-0.06%
GBP/JPY	137.24	131.98	-3.83%
GBP/CHF	1.2427	1.2042	-3.10%



As a business, implementing a simple but effective 'currency plan' will help your business manage volatility for August 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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