September 2019 Currency Outlook

CAXTON FX
BUSINESS

September 2019 Currency Outlook

August was no summer holiday for financial markets, with geopolitics dominating as US-China trade tensions continued to ratchet up, Brexit rumbled on, and Italian political instabilities resurfaced with the collapse of the government. Increasing risks resulted in a rotation towards safe-havens; with the Japanese yen and Swiss franc gaining ground, while the risk-sensitive antipodeans sank to the bottom of the pile. Demand for less-risky assets also sent bond yields falling, resulting in the spread between 2-year and 10-year Treasuries, a previously reliable recession indicator, inverting for the first time since 2007.

Looking to the month ahead, geopolitics appears likely to dominate once again, with central banks set to continue easing policy in an attempt to sustain the present economic expansion. The US Federal Reserve are set to announce another 25bps rate cut, while the ECB will likely announce a significant stimulus package to attempt to revive eurozone economic fortunes. Meanwhile, Brexit will remain at the forefront, with a Parliamentary showdown set to take place between pro- and anti- no-deal MPs.

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Contents

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

Week-by-Week Overview

WEEK ONE

September begins with the usual round of PMI surveys; which market participants will parse for any signs of economic activity continuing to slow – particularly in the manufacturing sector where global activity has recently posted back-to-back contractions for the first time in almost 7 years. Markets will also closely examine 2nd quarter GDP growth figures from the eurozone, Australia and Switzerland for any signs of continued soft economic activity. Meanwhile, rate decisions from the RBA and BoC should see policy settings left unchanged, while the monthly US labour market will be eyed for further signs of tightness sin the jobs market.

WEEK TWO

The ECB comes to the fore this week, with mounting expectations that policymakers will announce a significant stimulus package to attempt to revive the fortunes of the ailing eurozone economy. Markets will also be watching a slew of data releases from the US, including CPI inflation, retail sales and consumer sentiment figures. The latter data will be of significant interest, with consumer spending key for economic growth as business investment slows in the face of growing global uncertainties. From the UK, focus will fall on July's monthly GDP release along with monthly labour market figures – the latter set to remain the UK economy's bright spot.

KEY EVENTS

Week One

2 Sept	Eurozone manufacturing PMI (Aug Final (F), UK manufacturing PMI (Aug)
3 Sept	Reserve Bank of Australia (RBA) rate decision, Switzerland CPI (Aug), US ISM manufacturing PMI (Aug)
4 Sept	Australia GDP (Q2), Eurozone services PMI (Aug F), UK services PMI (Aug), Bank of Canada (BoC) rate decision
5 Sept	Switzerland GDP (Q2), US ISM non-manufacturing PMI (Aug)
6 Sept	Japan average cash earnings (Jul), Switzerland unemployment rate (Aug), Eurozone GDP (Q2 F), US labour market report (Aug), Canada labour market report (Aug)

Week Two

9 Sept	Japan GDP (Q2), UK GDP (Jul)
10 Sept	UK labour market report (Jul)
12 Sept	European Central Bank (ECB) rate decision, US CPI (Aug)
13 Sept	US retail sales (Aug), US prelim. consumer sentiment (Sep)

WEEK THREE

A busy week of central bank meetings sees US monetary policy as the main focus, with the Federal Reserve set to announce their latest monetary policy decision, likely another 25bps rate cut having pledged to 'act as appropriate' to sustain the economic expansion. Policy decisions are also due from the Bank of Japan (BoJ), Swiss National Bank (SNB) and Bank of England (BoE); though none of the three are likely to announce any policy tweaks. On the data front, inflation figures from the UK, eurozone, Canada and Japan will be closely watched; while markets will also pay attention to the monthly Australian labour market report, with the jobs market continuing to show significant slack.

WEEK FOUR

September draws to a conclusion with a relatively quiet week, the primary highlight being flash PMI data from the eurozone, with markets set to look for any signs of weak economic momentum continuing. Meanwhile, the Royal Bank of New Zealand's (RBNZ) latest policy decision will be in focus after policymakers surprised markets last month with the announcement of a 50bps rate cut. Other areas of focus include final Q2 GDP figures from the US and UK, in addition to the monthly Swiss economic barometer.

KEY EVENTS

Week Three	
17 Sept	RBA meeting minutes
18 Sept	UK CPI (Aug), Eurozone CPI (Aug), Canada CPI (Aug), Federal Reserve (Fed) rate decision, New Zealand GDP (Q2)
19 Sept	Australia labour market report (Aug), Bank of Japan (BoJ) rate decision, Swiss National Bank (SNB) rate decision, Bank of England (BoE) rate decision
20 Sept	Japan CPI (Aug), Canada retail sales (Jul)
Week Four	
23 Sept	Eurozone flash PMIs (Sep)
24 Sept	Reserve Bank of New Zealand (RBNZ) rate decision
25 Sept	BoJ meeting minutes, New Zealand trade balance (Aug)
26 Sept	US GDP (Q2 F)
27 Sept	Switzerland KOF economic barometer (Sep)
Week Five	
30 Sept	UK GDP (Q2 F)

GBP Currency Outlook

1 MONTH

Sterling will continue to be driven by Brexit developments over the coming month, with Parliament's return from recess likely to see MPs begin manoeuvres to attempt to prevent a no-deal departure from the bloc. Time for such manoeuvres will however be tight, with Parliament set to be prorogued from mid-September ahead of a planned October Queen's Speech, raising the chances of a no-deal exit due to time constraints. Markets will also closely track the progress of any UK-EU negotiations, particularly on the Irish backstop, with PM Johnson maintaining that the UK will leave on 31st October with or without a deal.

The pound remains primed to seize on any positive headlines, either agreement of a deal or avoidance of no-deal, as shown by the relatively cheap levels currently trading. Conversely, should a no-deal Brexit become the default scenario, sterling would likely sell-off significantly, possibly by as much as 10%. The outlook for Brexit remains cloudy, with swift shifts in sentiment to continue dominating for the pound in the coming month.

3 MONTHS

Looking ahead, the BoE should keep policy on hold for the remainder of the year, barring the shock of a no-deal departure from the EU. Monetary policy remains relatively loose in the UK, with real interest rates in negative territory, hence additional stimulus does not appear necessary. The MPC have maintained their stance that "gradual and limited" rate hikes will be required in the event of an orderly Brexit, dampening the chances of the BoE joining the global cycle of loosening policy.

Elsewhere, economic data is beginning to show signs of softening, however noise stemming from Brexit-linked uncertainties continues to make the economic backdrop difficult to determine. Nonetheless, despite the slowing in economic growth and recent decline in inflation, the labour market remains tight which should begin to exert upward pressure on prices. Finally, PMI surveys will be closely watched over the coming months as market participants gauge whether a global slowdown in activity is spreading to the UK.

KEY DATES	
2 Sept	Manufacturing PMI (Aug)
4 Sept	Services PMI (Aug)
9 Sept	GDP (Jul)
10 Sept	Labour market report (Jul)
18 Sept	CPI (Aug)
19 Sept	Bank of England (BoE) rate decision
30 Sept	GDP (Q2 F)

Economic Data	UK
GDP	1.2% (Q2 19)
Interest Rate	0.75% (Aug 18)
Inflation Rate	2.1% (Jul 19)
Unemployment Rate	3.9% (Jun 19)
Wage Growth	3.7% (Jun 19)
Trade Balance	1.8bln (Jun 19)
Current Account	-30.0bln (Q1 19)

GBP/USD 6 MONTHS

EUR Currency Outlook

1 MONTH

The ECB are primed to deliver a significant policy stimulus package this month as the eurozone continues to battle with benign inflation and fragile economic momentum. Draghi & Co. are set to cut the deposit rate by at least 10bps, along with the introduction of a tiering system, while possibly also restarting asset purchases and strengthening forward guidance on interest rates. With such actions largely priced in, the reaction in the euro may be limited, however policymakers may wish to go above and beyond the market's expectations to bring about a greater impact from their limited policy ammunition.

Meanwhile, economic sentiment surveys will be closely watched, as market participants examine whether the economic slowdown is showing signs of spreading outside of the manufacturing sector. The usual monthly round of inflation, labour market and retail sales releases will also all be eyed, though the releases may have little impact on the common currency.

3 MONTHS

In the longer run, the impact of the ECB's stimulus package will be in focus, with questions continuing to be raised over the effectiveness of policymakers' current policy toolkit and the ECB's ability to return inflation to their 2% goal. Focus will therefore not only be on leading economic indicators to provide an early gauge of the package's effectiveness, but also on longer-run inflation expectations to gauge market participants' view on the effectiveness of policy loosening. It has however recently become clear that monetary policy alone will likely not be enough to stimulate the eurozone economy, with co-ordinated fiscal stimulus becoming increasingly necessary.

Elsewhere, a potential no-deal Brexit poses a tail risk to the common currency, while the prospects of Germany entering a technical recession in the 3rd quarter remain high. The latter poses a significant risk to the euro area, with the bloc as a whole likely to be dragged down by sluggish activity in Europe's largest economy.

KEY DATES	
2 Sept	Manufacturing PMI (Aug F)
4 Sept	Services PMI (Aug F)
6 Sept	GDP (Q2 F)
12 Sept	European Central Bank (ECB) rate decision
18 Sept	CPI (Aug)
23 Sept	Flash PMIs (Sep)

Economic Data	EU
GDP	1.1% (Q2 19)
Interest Rate	0.0% (Mar 16)
Inflation Rate	1.0% (Jul 19)
Unemployment Rate	7.5% (Jun 19)
Wage Growth	2.5% (Q1 19)
Trade Balance	20.6bln (Jun 19)
Current Account	23.1bln (Jun 19)

GBP/EUR 6 MONTHS

USD Currency Outlook

1 MONTH

Having announced a 25bps rate cut in July, a 'mid-cycle adjustment', the Federal Reserve are likely to further loosen policy this month, with another 25bps interest rate cut fully priced in. The Fed's likely policy loosening comes after Chair Powell recently repeated his pledge to 'act as appropriate' to sustain the economic expansion, and as increasing US-China trade tensions continue to act as a headwind to the US economy. However, the effectiveness of looser monetary policy at this stage remains questionable, with monetary policy unable to mitigate the negative impacts of tariff increases, and possibly serving only to artificially increase asset prices and effectively underwrite President Trump's trade war.

For the dollar, rate cuts may not result in significant weakness with such a significant degree, approximately 75bps, worth of policy easing priced in by year-end. Barring a recession, such an aggressive path of rate cuts seems unlikely at present.

3 MONTHS

Markets will remain on alert for any further escalation in US-China trade tensions, with the latest tariff impositions set to hit consumers the hardest. Should these tariffs come into effect, or any fresh tariffs be announced, the detrimental impact on consumer spending and US GDP growth may conspire together to weaken the dollar. Further escalation in the trade war may not result in dollar demand, with market participants likely seeking an alternative safe-haven and focusing on the downside impact of any escalation.

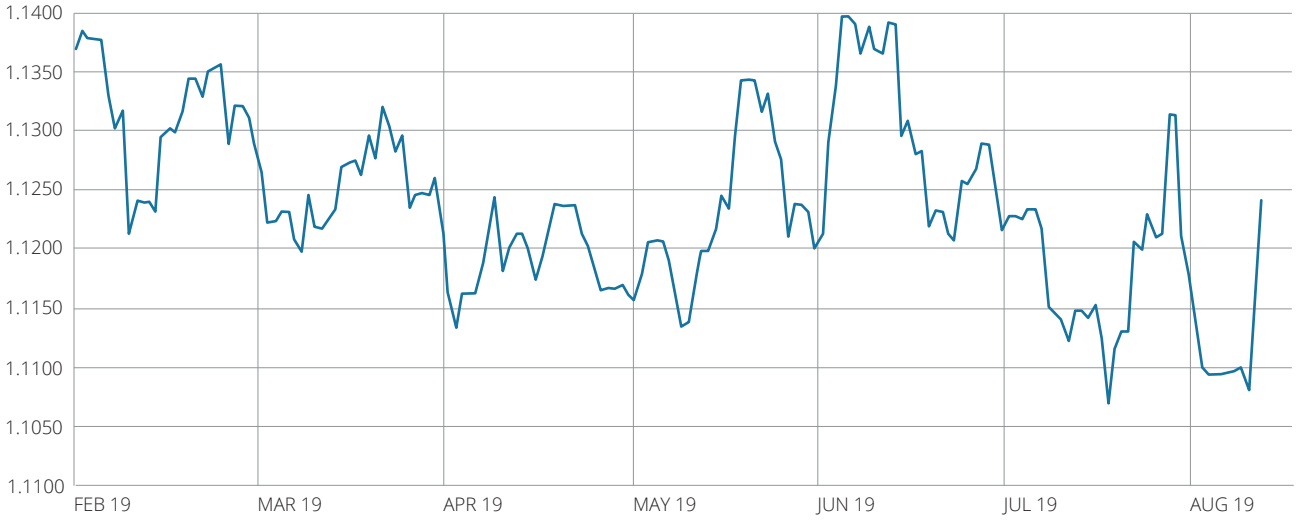
Other focuses will include the fixed income market, with investors remaining concerned by the 2s10s (treasury bonds) inversion, along with the continued flow of economic data, which is beginning to show signs of softening. Finally, the 2020 Presidential election is coming closer into view, with Democrats continuing to narrow down their field of candidates, and President Trump likely to soon gear-up his re-election campaign.

KEY DATES

3 Sept	ISM manufacturing PMI (Aug)
5 Sept	ISM non-manufacturing PMI (Aug)
6 Sept	Labour market report (Aug)
12 Sept	CPI (Aug)
13 Sept	Retail sales (Aug), Prelim. consumer sentiment (Sep)
18 Sept	Federal Reserve (Fed) rate decision
26 Sept	GDP (Q2 F)

Economic Data	USA
GDP	2.3% (Q2 19)
Interest Rate	2.00% - 2.25% (Jul 19)
Inflation Rate	1.8% (Jul 19)
Unemployment Rate	3.7% (Jul 19)
Wage Growth	3.2% (Jul 19)
Trade Balance	-55.2bln (Jun 19)
Current Account	-130.4bln (Q1 19)

EUR/USD 6 MONTHS



CAD Currency Outlook

1 MONTH

This month's Bank of Canada (BoC) policy decision will likely result in rates remaining unchanged, with the relatively firm fundamentals of the Canadian economy giving policymakers little reason to contemplate policy loosening. Such firm fundamentals include the labour market remaining tight, inflation tracking in line with the BoC's target and the economy growing at a relatively solid pace after Q4 18's soft patch. Should the BoC leave monetary policy on hold while other central banks ease policy, the widening in yield spreads between Canada and other G10 nations should help to underpin the loonie.

Meanwhile, oil prices will remain in focus, with continued supply constraints set to underpin crude prices, thus supporting the Canadian dollar due to the close correlation between the two. However, downside risks remain should demand weaken, acting as a headwind for the loonie.

3 MONTHS

In the longer-term, October's Federal elections are firmly on investors' radar. The ruling Liberals, led by PM Justin Trudeau, currently hold a 5 point lead in opinion polling, with the Canadian dollar likely to strengthen, or at least hold firm, should this polling translate into election victory. Nonetheless, the tail risk posed by a hung parliament, or surprise result, and ensuing uncertainty, would act as a drag on the loonie.

Other focuses include ongoing, and escalating, US-China trade tensions, which may begin to have a detrimental impact on the Canadian economy, should protectionist policies spread. Furthermore, the USMCA trade agreement, replacing NAFTA, is still yet to be formally ratified, posing a tail risk for cross-border trade should pre-agreement conditions return, thus denting economic growth and harming the Canadian dollar.

KEY DATES	
4 Sept	Bank of Canada (BoC) rate decision
6 Sept	Labour market report (Aug)
18 Sept	CPI (Aug)
20 Sept	Retail sales (Jul)

Economic Data	CANADA
GDP	1.3% (Q1 19)
Interest Rate	1.75% (Oct 18)
Inflation Rate	2.0% (Jul 19)
Unemployment Rate	5.7% (Jul 19)
Wage Growth	4.5% (Jul 19)
Trade Balance	0.14bln (Jun 19)
Current Account	-17.3bln (Q1 19)

GBP/CAD 6 MONTHS

AUD Currency Outlook

1 MONTH

As has now been the case for many months, shifts in global risk sentiment and developments in the US-China trade war will continue to dominate the landscape for the Aussie dollar, with the currency set to continue acting as a liquid risk proxy. Not only does the Aussie tend to suffer when markets become more risk averse, but the Australian economy would also take a hit. This is due to China comprising around 30% of all Australian exports, hence weaker Chinese demand would have a spill-over effect, dampening momentum in the already fragile Australian economy.

Meanwhile, Q2's GDP figures will be closely watched for any impact of ongoing trade tensions, while markets will also attempt to gauge the impact of the RBA's back-to-back 25bps rate cuts earlier in the year. Also eyed will be the monthly labour market report, likely to show significant slack remaining in the labour market, with relatively high unemployment not yet able to exert significant upward pressure on either wages or inflation.

3 MONTHS

Looking ahead, the RBA's interest rate bias is clearly downwards, with at least one further 25bps rate cut likely before the end of 2019. Markets currently price in around 40bps worth of further accommodation, possibly signalling that AUD downside may be limited should the RBA not deliver such a significant degree of easing. Nevertheless, should the RBA cut rates below the 1% mark, unconventional policies – such as quantitative easing – become increasingly likely. Such policies would likely act as a headwind to the Aussie dollar, also resulting in a further unwind of carry trades.

Market participants will also be keeping a close eye on iron ore prices, which have recently been slumping, along with continued shifts in risk dynamics.

KEY DATES	
3 Sept	Reserve Bank of Australia (RBA) rate decision
4 Sept	GDP (Q2)
17 Sept	RBA meeting minutes
19 Sept	Labour market report (Aug)

Economic Data	AU
GDP	1.8% (Q1 19)
Interest Rate	1.0% (Jul 19)
Inflation Rate	1.6% (Q2 19)
Unemployment Rate	5.2% (Jul 19)
Wage Growth	2.3% (Q2 19)
Trade Balance	8.0bln (Q2 19)
Current Account	-2.9bln (Q1 19)

GBP/AUD 6 MONTHS

NZD Currency Outlook

1 MONTH

After surprising markets with a 50bps interest rate cut last month, the RBNZ will likely keep rates unchanged this month, while still maintaining an explicit easing bias. The RBNZ's likely 'wait & see' stance this month would give policymakers a chance to digest how additional policy accommodation has impacted the economy, though Q2's GDP reading will not take into account the additional stimulus. Economic growth will likely remain subdued, with inflation also set to remain benign as significant slack persists in the labour market.

Despite the RBNZ likely remaining on hold this month, at least 25bps worth of additional rate cuts should be expected by year-end, further denting the Kiwi dollar's attraction and resulting in more unwinding of carry trades.

3 MONTHS

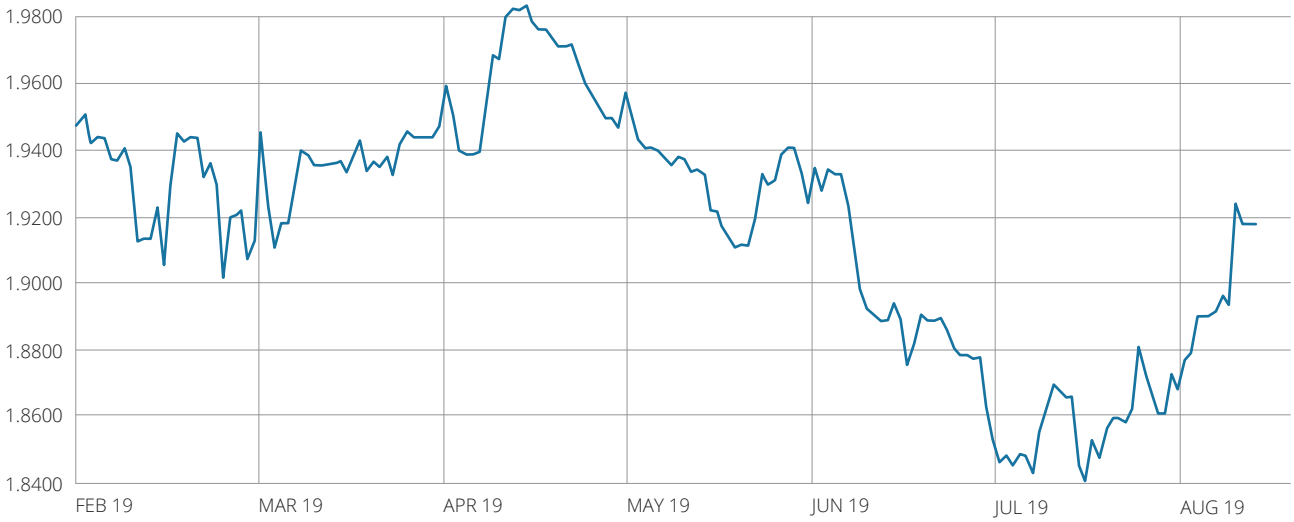
Looking further ahead, the New Zealand dollar will likely continue to trade in a similar manner to its antipodean counterpart by acting as a barometer for global risk sentiment. Sentiment remains fragile, namely due to ongoing trade tensions, with any further deterioration in risk appetite likely to result in significant downward moves for the Kiwi dollar as investors rotate towards safe-havens. However, not only will risk appetite play a role, but ongoing tensions will directly impact the New Zealand economy, particularly with approximately ¼ of all exports heading to China.

Other focuses in the month ahead include dairy prices, which remain strongly correlated with the kiwi dollar. Auction prices have been declining recently, with a continuation of this downtrend likely to exert pressure on the currency.

KEY DATES	
18 Sept	GDP (Q2)
24 Sept	Reserve Bank of New Zealand (RBNZ) rate decision
25 Sept	Trade balance (Aug)

Economic Data	NZ
GDP	2.5% (Q1 19)
Interest Rate	1.0% (Aug 19)
Inflation Rate	1.7% (Q2 19)
Unemployment Rate	3.9% (Q2 19)
Wage Growth	4.4% (Q2 19)
Trade Balance	0.4bln (Jun 19)
Current Account	0.7bln (Q1 19)

GBP/NZD 6 MONTHS



JPY Currency Outlook

1 MONTH

This month's BoJ policy decision is unlikely to result in any monetary policy alterations, with policymakers having largely exhausted their toolkit after decades of ultra-loose policy. Furthermore, the Japanese economy gives the BoJ little reason to alter their current stance, with inflation remaining practically non-existent, GDP growth slowing, and significant global headwinds on the horizon.

Meanwhile, this month's economic calendar is relatively light, though the final reading of 2nd quarter GDP growth will be watched for any revisions, notably those that may feed into softness throughout the remainder of the year. The yen's best chances of appreciation remain markets seeking a safe-haven shelter from increasing global risks.

3 MONTHS

As has now been the theme for a number of months, changes in risk appetite will continue to be a major force impacting the yen. Markets continue to face a mounting wall of worry, including both geopolitical risks and sluggish global growth, which may result in a rotation into safe-havens. Should market participants begin a flight to safety, the yen would likely be one of the main beneficiaries of the risk-off moves.

Also in focus in the coming months will be the impact of October's planned consumption tax hike. The last increase in the tax tipped Japan into a brief recession, hence markets will be on alert for similar negative economic repercussions, mainly a drop in private spending, this time around. Even a brief recession would exert pressure further pressure on the already fragile Japanese economy and expose the BoJ's difficulties in staving off a downturn.

KEY DATES	
6 Sept	Average cash earnings (Jul)
9 Sept	GDP (Q2)
19 Sept	Bank of Japan (BoJ) rate decision
20 Sept	CPI (Aug)
25 Sept	BoJ meeting minutes

Economic Data	JAPAN
GDP	1.2% (Q2 19)
Interest Rate	-0.1% (Jan 16)
Inflation Rate	0.5% (Jul 19)
Unemployment Rate	2.3% (Jun 19)
Wage Growth	0.4% (Jun 19)
Trade Balance	-250bln (Jul 19)
Current Account	1.2tln (Jun 19)

GBP/JPY 6 MONTHS

CHF Currency Outlook

1 MONTH

This month's SNB policy decision is likely to see rates left on hold, with policymakers unlikely to follow the ECB and take rates deeper into negative territory, with rates already being among the most negative in the world. Instead, due to the highly open nature of the Swiss economy, policymakers will remain primarily concerned with the value of the franc; with both verbal and monetary FX intervention likely. The SNB may change their description of the franc's value in their monetary policy statement, having previously described the CHF as 'significantly over-valued' when EUR/CHF has traded sub 1.10, as we see at present. Should policymakers' jawboning of the currency fail to have the desired effect, monetary intervention – purchasing euros to prop up the Swissie – remains a distinct possibility.

Other highlights in the month ahead include 2nd quarter GDP figures, likely to show a continued sluggish pace of expansion, largely due to a slowing in eurozone economic activity. Other macroeconomic releases are likely to have little impact, with risk sentiment to remain front and centre.

3 MONTHS

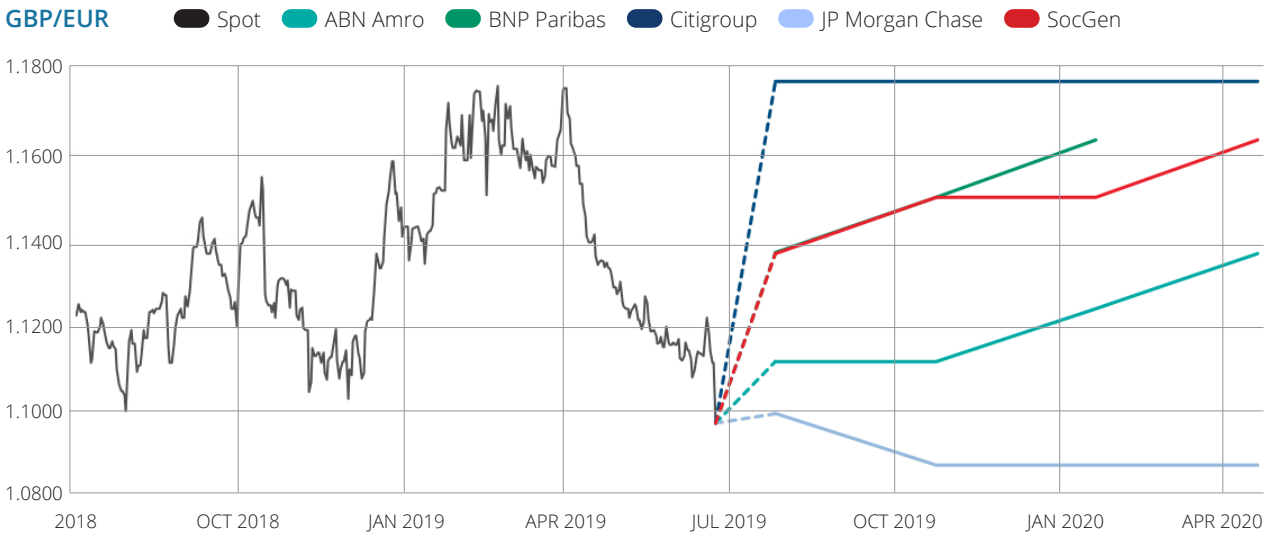
As mentioned above, risk sentiment will likely remain the most significant driver of the franc over the medium-term. Markets remain concerned by a number of factors – including Brexit, US-China trade tensions, Italian instabilities & falling bond yields – with all giving participants cause to seek a safe-haven as part of a rotation away from riskier assets. Such risk-off moves will likely benefit the franc, particularly if the prospects of a no-deal Brexit increase and European investors flock to a haven.

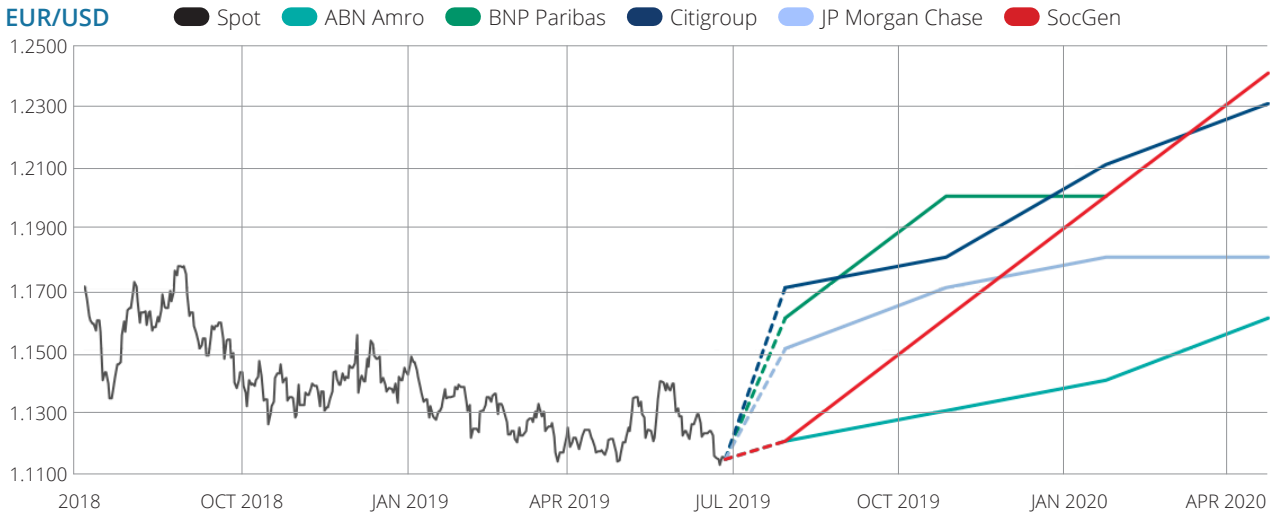
KEY DATES	
5 Sept	GDP (Q2)
6 Sept	Unemployment rate (Aug)
19 Sept	Swiss National Bank (SNB) rate decision
27 Sept	KOF economic barometer (Sep)

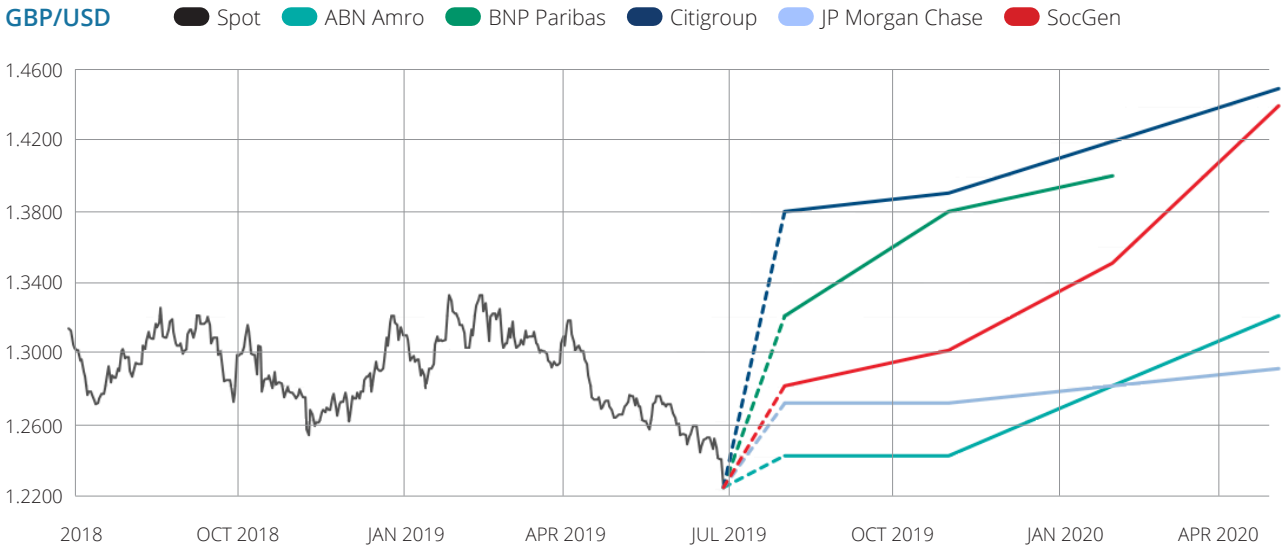
Economic Data	SWITZERLAND
GDP	1.7% (Q1 19)
Interest Rate	-0.75% (Jan 15)
Inflation Rate	0.3% (Jul 19)
Unemployment Rate	2.1% (Jul 19)
Wage Growth	0.5% (Q1 19)
Trade Balance	2.7bln (Jul 19)
Current Account	17.2bln (Q1 19)

GBP/CHF 6 MONTHS

2019 Currency Forecasts

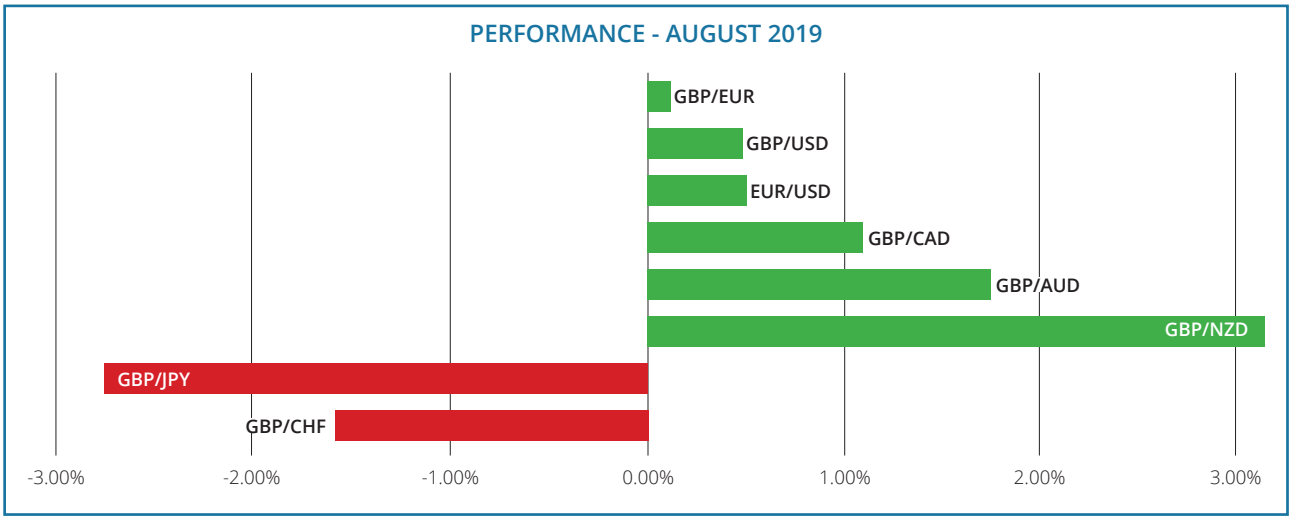






Build your currency plan to be Brexit ready

	01/08/19	25/08/19	% Change
GBP/EUR	1.0976	1.0989	0.12%
GBP/USD	1.2153	1.2214	0.50%
EUR/USD	1.1071	1.1128	0.51%
GBP/CAD	1.6035	1.6212	1.10%
GBP/AUD	1.7755	1.8066	1.75%
GBP/NZD	1.8550	1.9132	3.14%
GBP/JPY	132.25	128.61	-2.75%
GBP/CHF	1.2082	1.1890	-1.59%



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