October 2019 Currency Outlook

CAXTON BUSINESS

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Markets were once again dominated by geopolitical events in September, with US-China trade tensions continuing to escalate, and Brexit developments resulting in a volatile pound. Monetary policy was also at the forefront of investors' minds, with the FOMC announcing another 25bps rate cut, and the ECB unveiling a sweeping stimulus package to try and turnaround the eurozone economy.

Looking to the month ahead, D-day is approaching for Brexit, with the UK set to conclude its departure from the European Union at the end of October; though the nature of the divorce remains far from clear at present. Meanwhile, escalating global trade tensions will continue to drive shifts in risk sentiment, while monetary policy easing will remain in focus, with additional stimulus likely in the coming months from the Fed, ECB, and numerous other central banks.

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Contents

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

Week-by-Week Overview

WEEK ONE

October begins with the usual round of PMI surveys, with market participants set to examine the data for further signs of a slowdown in the manufacturing sector, in addition to the possible spill-over effects of the slowdown into the broader economy. Meanwhile, CPI figures from the eurozone and Switzerland are set to show the pace of price increases remaining benign; while the RBA are likely to loosen policy further as downside risks to the outlook persist. Finally, the monthly US labour market report will be eyed for further signs of tightness, though jobs growth is likely to continue to moderate due to supply constraints.

WEEK TWO

The month progresses with minutes from a couple of recent central bank meetings in focus. Investors will parse accounts from the Fed's and ECB's September policy decisions for further signs of easing on the horizon, particularly from the Fed where the policy outlook remains uncertain. On the data front, labour market figures from Canada will be eyed, in addition to jobs data from Japan and Switzerland. Finally, US CPI and consumer sentiment releases will both impact the US economic and monetary policy outlooks.

WEEK THREE

The third week of October is crunch time for Brexit talks, with PM Johnson set to use the EU Council Summit to push for a renegotiated version of the Withdrawal Agreement. Should the EU not give the UK any concessions, MPs will likely make attempts to force through an extension to Article 50. Elsewhere, labour market figures from the UK and Australia will be in focus, as well as CPI inflation data from the UK and Canada.

KEY EVENTS

Week One

1 Oct	Japan unemployment rate (Aug), Reserve Bank of Australia (RBA) rate decision, Eurozone manufacturing PMI (Sep F), UK manufacturing PMI (Sep), Eurozone CPI (Sep), Canada GDP (Jul), US ISM manufacturing PMI (Sep)
2 Oct	Switzerland CPI (Sep)
3 Oct	Australia trade balance (Aug), Eurozone services PMI (Sep F), UK services PMI (Sep), US ISM non-manufacturing PMI (Sep)
4 Oct	US labour market report (Sep)

Week Two

7 Oct	Switzerland unemployment rate (Sep)
8 Oct	Japan average earnings (Aug)
9 Oct	FOMC meeting minutes (Sep)
10 Oct	ECB meeting minutes (Sep), US CPI (Sep)
11 Oct	Canada labour market report (Sep), US prelim. consumer sentiment (Oct)

Week Three

15 Oct	UK labour market report (Aug)
16 Oct	UK CPI (Sep), US retail sales (Sep), Canada CPI (Sep)
17 Oct	Australia labour market report (Sep), Switzerland trade balance (Sep), European Council Summit (Day 1)
18 Oct	Japan CPI (Sep), European Council Summit (Day 2)

WEEK FOUR

Politics will continue to dominate this week, with federal elections in Canada taking centre stage, as voters head to the polls with the ruling Liberals, and opposition Conservatives, neck and neck in opinion polling. The ECB's latest policy decision will also be in focus, with Draghi's farewell unlikely to result in policy changes, but set to see a further push for fiscal stimulus from eurozone governments.

WEEK FIVE

October concludes with a number of monetary policy decisions, with the Fed, ECB and BoJ in the spotlight. Markets will be weighing up the prospects of additional stimulus from all of the aforementioned Banks, either to be delivered this month, or hinted at to prime markets for delivery later in the year. The UK's departure from the EU will also be in focus, with Brexit set to take place on 31st October. On the data front, the 1st estimates of Q3 GDP from the US and eurozone will be examined for any signs of a continued softening in activity.

KEY EVENTS

Week Four

21 Oct	Canada federal election
22 Oct	RBA meeting minutes (Oct), Canada retail sales (Aug)
23 Oct	New Zealand CPI (Q3)
24 Oct	Eurozone flash PMIs (Oct), European Central Bank (ECB) rate decision

Week Five

29 Oct	Australia CPI (Q3), Japan retail sales (Sep)
30 Oct	Switzerland KOF economic barometer (Oct), US advance GDP (Q3), Bank of Canada (BoC) rate decision, Federal Reserve (Fed) rate decision
31 Oct	UK due to leave EU, Bank of Japan (BoJ) rate decision, Eurozone GDP (Q3), Canada GDP (Aug)

GBP Currency Outlook

1 MONTH

Brexit D-Day is fast approaching for the UK, with the nature of the UK's departure from the EU remaining far from certain. All eyes will be on this month's EU Council Summit, where the outcome seems binary; PM Johnson will either defy all expectations and come away with a refreshed deal, or fail to get any changes to the existing Withdrawal Agreement. A refreshed deal, ratified by Parliament, resulting in an orderly Brexit on 31st October, would result in significant sterling upside. On the other hand, should no amended deal be forthcoming, the pound is set to come under pressure as MPs attempt to prevent a no-deal departure by forcing an extension to Article 50. Another prorogation to force through a no-deal exit is unlikely given the Supreme Court's recent ruling, however such an outcome is not completely off the table, with the slim possibility remaining that the EU refuse any extension request.

Should a no-deal departure be avoided, sterling would move to the upside as uncertainty recedes. Nonetheless, a disorderly departure appears to not be fully priced in, and would result in a steep fall in the value of the pound should it occur.

KEY DATES	
1 Oct	Manufacturing PMI (Sep)
3 Oct	Services PMI (Sep)
15 Oct	Labour market report (Aug)
16 Oct	CPI (Sep)
17/18 Oct	European Council Summit
31 Oct	UK due to leave EU

3 MONTHS

Whatever happens with Brexit in the month ahead, a winter general election remains highly likely; either through the government's choosing due to having no working Commons majority, or through the opposition's calling to prevent a no-deal Brexit. The uncertainty caused by an election, as well as the shifts in opinion polling and party policy announcements, may exert downward pressure on the pound.

Away from politics, November's Bank of England policy decision will largely hinge on the outcome of Brexit. Barring a no-deal departure, the BoE should leave policy unchanged, thus having little impact on sterling. A no-deal Brexit would likely result in policy loosening, comprising an interest rate cut along with the possibility of restarting asset purchases.

Economic Data	UK
GDP	1.2% (Q2 19)
Interest Rate	0.75% (Aug 18)
Inflation Rate	1.7% (Aug 19)
Unemployment Rate	3.8% (Jul 19)
Wage Growth	4.0% (Jul 19)
Trade Balance	-0.2bln (Jul 19)
Current Account	-30.0bln (Q1 19)

GBP/USD 6 MONTHS

EUR Currency Outlook

1 MONTH

All eyes will be on the impact of the ECB's sweeping September stimulus package in the months ahead. Investors are set to pay close attention to both hard and soft economic releases, as the economy continues to show signs of waning. The ability of the ECB to turnaround the bloc's economic fortunes remains doubtful, hence an increased push for fiscal stimulus from eurozone governments is likely. Signs that a loosening of purse strings is unlikely to be forthcoming, particularly in Germany, or a further softening in economic activity are likely to weigh on the common currency.

This month's ECB meeting, Draghi's last at the helm of the Bank, is unlikely to result in any policy alterations, though policymakers will retain their easing bias, leaving the door open for incoming President Lagarde to loosen policy further. Finally, the risk of a no-deal Brexit remains, with such an outcome likely to dent the eurozone economy, and possibly weaken the euro.

KEY DATES	
1 Oct	Manufacturing PMI (Sep)
3 Oct	Services PMI (Sep)
15 Oct	Labour market report (Aug)
16 Oct	CPI (Sep)
17/18 Oct	European Council Summit
31 Oct	UK due to leave EU

3 MONTHS

In the longer-term, while the chances of further monetary policy easing remain elevated, market participants will be paying close attention to incoming economic data, particularly from Germany – the growth engine of the eurozone. The economy is at high risk of entering a technical recession in the third quarter, with the impacts of such a slowdown likely to have a spill-over effect on the rest of the eurozone, thus denting the attraction of the currency.

Furthermore, the European Union is at risk of becoming President Trump's next target in the ongoing trade war. The US have delayed a planned increase in auto tariffs until mid-November, however a further delay is not guaranteed. Any tariff imposition would almost certainly be followed by retaliatory action from the EU, resulting in the situation deteriorating into a full-blown trade conflict. Such a conflict would act as a headwind for the euro, and the EU economy.

Economic Data	EU
GDP	1.2% (Q2 19)
Interest Rate	0.75% (Aug 18)
Inflation Rate	1.7% (Aug 19)
Unemployment Rate	3.8% (Jul 19)
Wage Growth	4.0% (Jul 19)
Trade Balance	-0.2bln (Jul 19)
Current Account	-30.0bln (Q1 19

GBP/EUR 6 MONTHS

USD Currency Outlook

1 MONTH

Monetary policy will remain in focus over the coming month, with the FOMC clearly divided over the appropriate course of action for a slowing US economy. Having announced consecutive 25bps 'insurance' rate cuts at their last two meetings, policymakers have indicated, through the dot plot, that further easing may not occur this year. However, the Fed reiterated their pledge to 'act as appropriate' to sustain the economic expansion, hence signs of activity softening further, or an increase in US-China trade tensions, will likely result in additional accommodation being provided. Nonetheless, the Fed are unlikely to deliver on the aggressive 40bps worth of policy easing that markets price by year-end, thus posing an upside risk to the dollar.

Market participants will also be paying close attention to the labour market in the month ahead, with jobs growth set to continue moderating as a consequence of supply constraints. Such supply constraints should continue to exert upward pressure on earnings. The usual round of inflation, sentiment and consumer spending reports will also be eyed; the latter being of most importance with consumption continuing to underpin US economic growth.

KEY DATES	
1 Oct	ISM manufacturing PMI (Sep)
3 Oct	ISM non-manufacturing PMI (Sep)
4 Oct	Labour market report (Sep)
9 Oct	FOMC meeting minutes (Sep)
10 Oct	CPI (Sep)
11 Oct	Prelim. consumer sentiment (Oct)
16 Oct	Retail sales (Sep)
30 Oct	Advance GDP (Q3), Federal Reserve (Fed) rate decision

3 MONTHS

Looking further ahead, the ongoing, and escalating, US-China trade war will remain at the forefront of investors' minds. Should tensions increase further, the dollar will likely continue to rally as a result of market participants seeking a safe-haven. This may seem counterintuitive, with the trade war having a detrimental impact on the US economy, however, in terms of market impact, this is largely being ignored thus far.

Speaking of an economic slowdown, close attention will be paid to the health of the manufacturing sector in coming months. PMI surveys have recently entered contractionary territory, with investors cautious that the effects of such contraction may spill-over into the wider economy. A significant spill-over would likely result in a weaker dollar, and more aggressive policy easing from the Fed.

Economic Data	USA
GDP	2.0% (Q2 19)
Interest Rate	1.75% - 2.00% (Sep 19)
Inflation Rate	1.7% (Aug 19)
Unemployment Rate	3.7% (Aug 19)
Wage Growth	3.2% (Aug 19)
Trade Balance	-53.9bln (Jul 19)
Current Account	-128.2bln (Q2 19)

EUR/USD 6 MONTHS

CAD Currency Outlook

1 MONTH

October's focus will be the 43rd Canadian federal election, with the ruling Liberals and opposition Conservatives heading into the plebiscite neck and neck in opinion polling. A victory for the Liberals, likely with a smaller majority than at present, would be largely neutral for the Canadian dollar, representing a continuation of the status quo. However, victory for the Conservatives would be a significant positive for the loonie, with the Party perceived as more 'pro-business'.

Meanwhile, there remains a slim chance that the Bank of Canada (BoC) join the global cycle of loosening monetary policy. However, with inflation tracking close to target, and economic growth remaining relatively firm, it is unlikely that the BoC cut rates this month. Should any policy easing take place, the BoC will likely frame a rate cut in a similar manner to the Fed, that being to provide 'insurance' against growing global risks. Assuming no easing takes place, a continued widening of the yield spread between Canada and the rest of the world should continue to underpin the CAD.

3 MONTHS

In the longer-term, oil prices will continue to have a significant impact on the direction of the loonie, with the correlation between the two remaining strong. Increasing tensions in the Middle East, particularly between Saudi Arabia and Iran, have brought supply concerns back to the fore, resulting in a prices rallying. Further attacks on infrastructure, or other supply disruptions, will likely see prices rise further, assisting the CAD.

Meanwhile, the usual round of economic data will be in focus, with investors looking to see whether the Canadian economy can remain immune from both a slowing in global manufacturing activity and escalating US-China trade tensions. Finally, the USMCA trade agreement, replacing NAFTA, is still yet to be ratified, with the failure to approve the new trade posing a tail risk to the loonie.

KEY DATES	
1 Oct	GDP (Jul)
11 Oct	Labour market report (Sep)
16 Oct	CPI (Sep)
21 Oct	Federal election
22 Oct	Retail sales (Aug)
30 Oct	Bank of Canada (BoC) rate decision
31 Oct	GDP (Aug)

Economic Data	CANADA
GDP	1.6% (Q2 19)
Interest Rate	1.75% (Oct 18)
Inflation Rate	1.9% (Aug 19)
Unemployment Rate	5.7% (Aug 19)
Wage Growth	3.8% (Aug 19)
Trade Balance	-1.1bln (Jul 19)
Current Account	-6.4bln (Q2 19)

GBP/CAD 6 MONTHS

AUD Currency Outlook

1 MONTH

The Reserve Bank of Australia (RBA) are set to announce a further 25bps interest rate cut this month, bringing rates to a fresh record low of 0.75%. The case for further policy easing rests on three factors; sub-target inflation, sluggish GDP growth and upwardly trending unemployment. With a rate cut around 80% priced in, increased focus will be on the monetary policy outlook. Policymakers will likely maintain their explicit easing bias, while potentially also raising the prospect of introducing unconventional policies, such as quantitative easing. Comments along these lines will likely weigh on the Aussie.

Meanwhile, 3rd quarter CPI figures will likely continue to show a benign pace of price increases, while this month's labour market report is set to show a significant degree of slack persisting. Both of these factors will likely weigh on the currency going forward.

KEY DATES	
1 Oct	Reserve Bank of Australia (RBA) rate decision
3 Oct	Trade balance (Aug)
17 Oct	Labour market report (Sep)
22 Oct	RBA meeting minutes (Oct)
29 Oct	CPI (Q3)

3 MONTHS

Looking ahead, the Aussie dollar will likely continue trading as a liquid risk proxy, trading in line with shifts in risk appetite. Therefore, any further escalation in US-China trade tensions will further dent the attraction of the currency. However, any trade war escalation will be a two-pronged attack on the AUD, with the Australian economy also likely to take a hit from additional tariffs, with around 30% of all Australian exports heading to China. Therefore, weaker Chinese demand would further dampen momentum in the already fragile Australian economy.

Iron ore prices will also remain in focus, though the correlation between the commodity and the Aussie dollar has weakened in recent months. Prices remain elevated, though below the highs seen earlier in the year, which may help to support the currency should geopolitical risks show signs of subsiding.

Economic Data	AU
GDP	1.4% (Q2 19)
Interest Rate	1.0% (Jul 19)
Inflation Rate	1.6% (Q2 19)
Unemployment Rate	5.3% (Aug 19)
Wage Growth	2.3% (Q2 19)
Trade Balance	7.3bln (Jul 19)
Current Account	5.9bln (Q2 19)

GBP/AUD 6 MONTHS

NZD Currency Outlook

1 MONTH

In a similar manner to its antipodean counterpart, the kiwi dollar will likely continue to trade in line with shifts in global risk appetite. An increase in risk aversion in the market, sparked either by an escalation in the US-China trade war, or a number of other geopolitical risks. Moreover, escalating trade tensions will have a direct, negative impact on the New Zealand economy, with approximately a quarter of kiwi exports heading directly to China.

Meanwhile, this month's macroeconomic calendar is sparsely populated, with only third quarter CPI inflation figures of note. The pace of price increases is set to remain subdued, increasing the chances of the RBNZ providing additional policy accommodation before the end of the year.

KEY DATES	
23 Oct	CPI (Q3)

3 MONTHS

Speaking of the RBNZ, at least one further 25bps rate cut should be expected this year with the RBNZ unlikely to hold fire when faced with slowing economic momentum, a slack labour market and below-target inflation. Third quarter economic growth and labour market figures will be closely watched for any signs of softness, which will feed through into a weaker dollar.

Markets will also pay attention to the trend in dairy prices, which remain closely correlated with the currency. Prices have been choppy recently, however a sustained uptrend may benefit the kiwi dollar should geopolitical risks subside.

Economic Data	NZ
GDP	2.1% (Q2 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	-0.6bln (Jul 19)
Current Account	-1.1bln (Q2 19)

GBP/NZD 6 MONTHS

JPY Currency Outlook

1 MONTH

The near-term direction of the yen will continue to depend on shifts in risk appetite, with the yen primed to appreciate if geopolitical risks increase. Markets continue to face an increasing wall of worry; comprised not just of geopolitical tensions, but also concerns over the potential for the global manufacturing slowdown to spread into other sectors of the global economy. An increase in any of the aforementioned risks would result in a rotation into safe havens, seeing the yen strengthen.

Also in focus this month will be the planned consumption tax hike, with markets wary that the increase could result in a slump in consumer spending, resulting in a broader economic slowdown. Bearing this in mind, expectations of the BoJ providing additional stimulus have increased in recent weeks, however question marks persist over policymakers ability to stimulate the economy with a seemingly exhausted toolkit after decades of ultra-loose monetary policy.

KEY DATES	
1 Oct	Unemployment rate (Aug)
8 Oct	Average earnings (Aug)
18 Oct	CPI (Sep)
29 Oct	Retail sales (Sep)
31 Oct	Bank of Japan (BoJ) rate decision

3 MONTHS

Looking ahead, global trade will continue to dominate, not only with US-China relations, but also Japan-South Korea negotiations in focus. As mentioned above, the yen will likely experience significant demand if global tensions increase, however further tit-for-tat tariff escalations may begin to dent Japanese growth. This is, however, unlikely to have a significant impact on the yen, with the direction of the currency more closely correlated with shifts in risk appetite than with Japanese economic fundamentals.

Economic Data	JAPAN
GDP	1.0% (Q2 19)
Interest Rate	-0.1% (Jan 16)
Inflation Rate	0.3% (Aug 19)
Unemployment Rate	2.2% (Jul 19)
Wage Growth	-0.3% (Jul 19)
Trade Balance	-136bln (Aug 19)
Current Account	2.0tln (Jul 19)

GBP/JPY 6 MONTHS

CHF Currency Outlook

1 MONTH

The franc will likely trade in a similar manner to the yen in the month ahead, with the currency's best chances of appreciation continuing to stem from the franc's status as a safe-haven. Not only will escalating trade tensions benefit the CHF, but the potential risk of a no-deal Brexit will likely result in demand for the franc from European investors seeking a haven closer to home.

Also in focus this month will be the usual round of economic releases, likely to show significant slack persisting in the labour market, along with the pace of price increases, as measured by CPI, remaining incredibly subdued; with deflation becoming a distinct possibility.

3 MONTHS

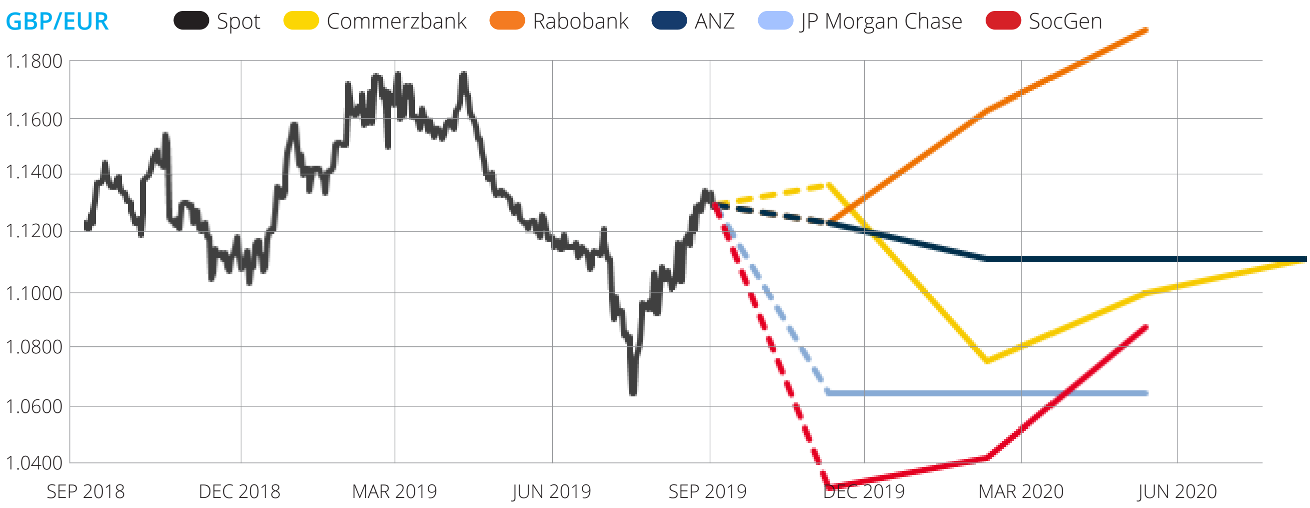
In the longer-term, the Swiss National Bank (SNB) are likely to leave monetary policy on hold, with intervention in the FX markets, both verbally and monetarily, the primary tool in the SNB's arsenal. Policymakers remain primarily concerned with preventing the CHF from appreciating too significantly, largely due to the open nature of the Swiss economy. 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.

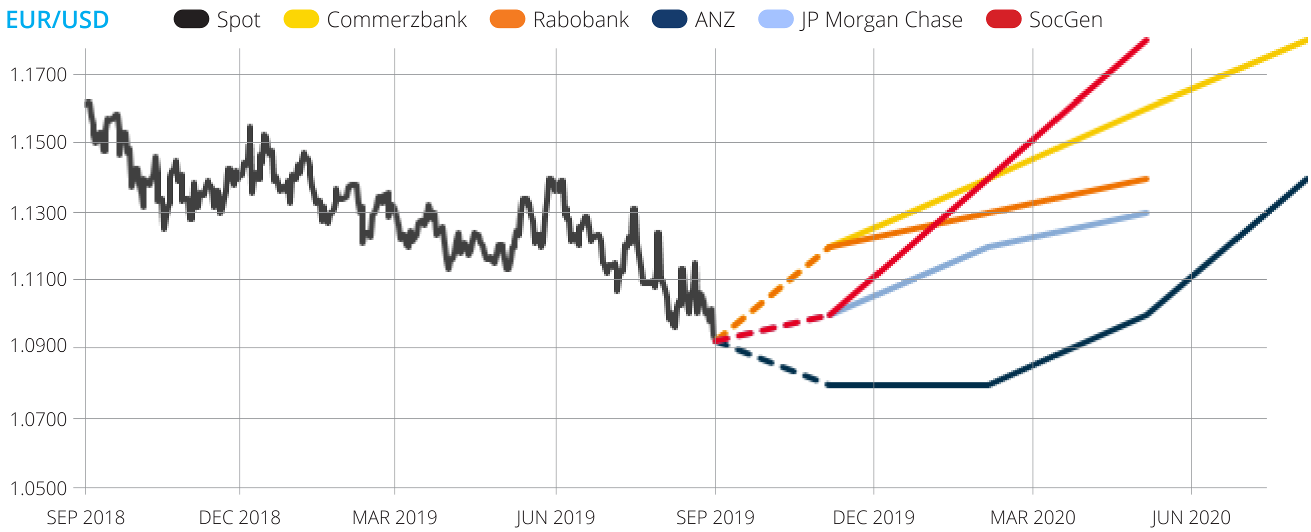
KEY DATES	
2 Oct	CPI (Sep)
7 Oct	Unemployment rate (Sep)
17 Oct	Trade balance (Sep)
30 Oct	KOF economic barometer (Oct)

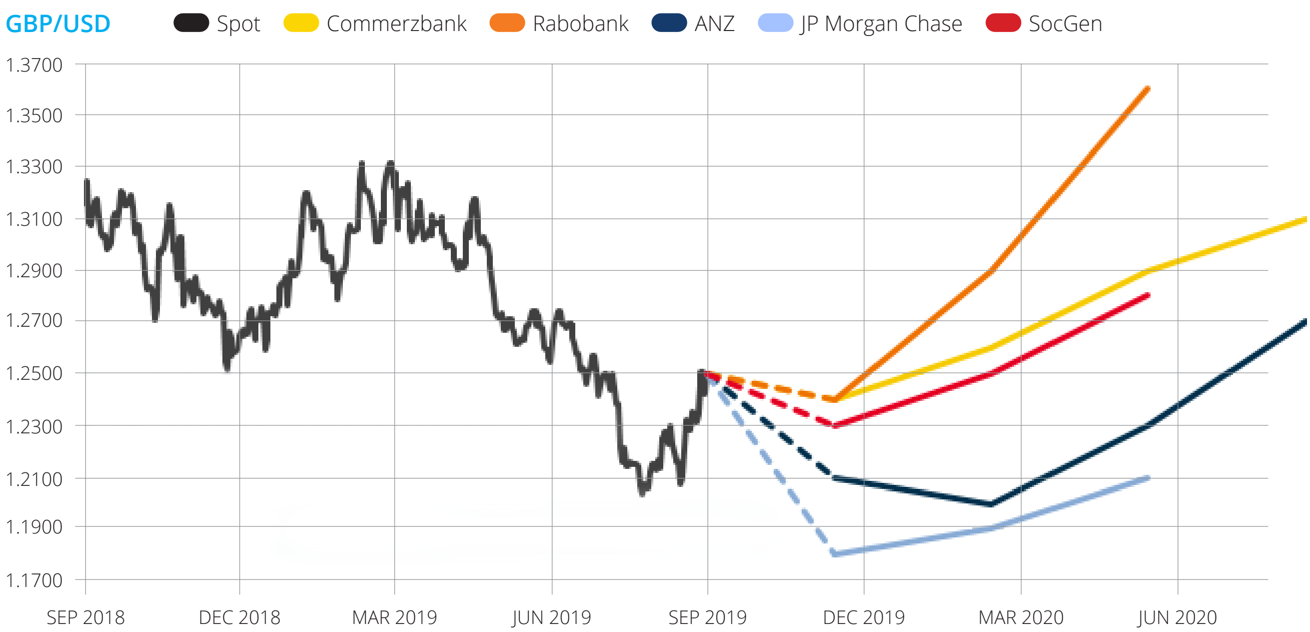
Economic Data	SWITZERLAND
GDP	0.2% (Q2 19)
Interest Rate	-0.75% (Jan 15)
Inflation Rate	0.3% (Aug 19)
Unemployment Rate	2.1% (Aug 19)
Wage Growth	0.5% (Q2 19)
Trade Balance	1.2bln (Aug 19)
Current Account	21.3bln (Q2 19)

GBP/CHF 6 MONTHS

2019 Currency Forecasts

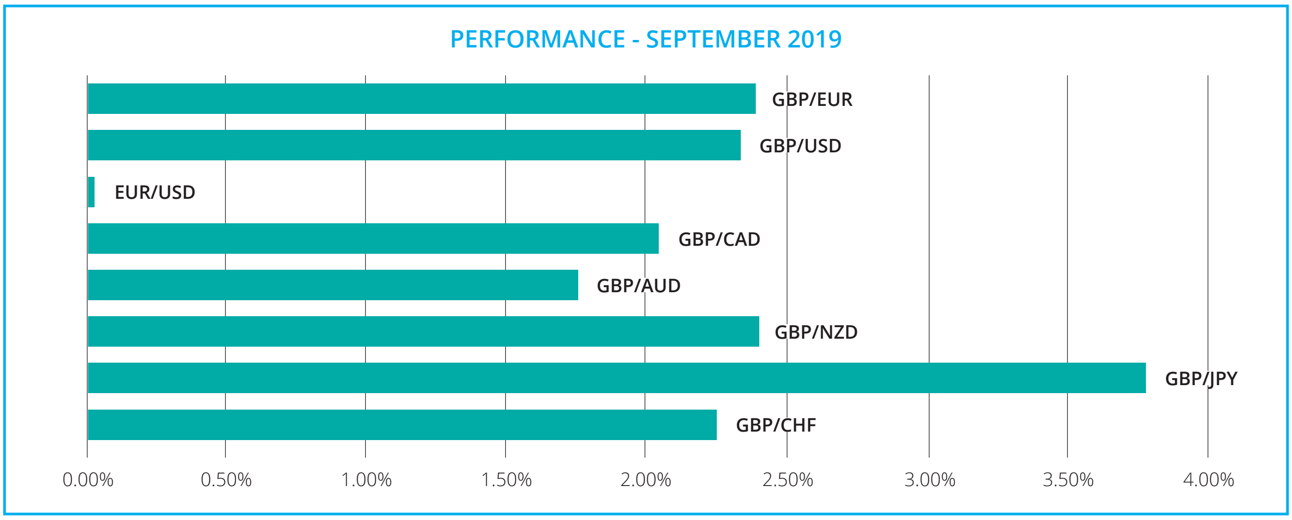






Build your currency plan to be Brexit ready

	01/09/19	25/09/19	% Change
GBP/EUR	1.1029	1.1293	2.39%
GBP/USD	1.2135	1.2418	2.33%
EUR/USD	1.0994	1.0995	0.01%
GBP/CAD	1.6145	1.6476	2.05%
GBP/AUD	1.8027	1.8341	1.74%
GBP/NZD	1.9215	1.9676	2.40%
GBP/JPY	128.53	133.39	3.78%
GBP/CHF	1.1986	1.2256	2.25%



As a business, implementing a simple but effective 'currency plan' will help your business manage volatility for October 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, we can help you build a simple currency plan to protect your business against adverse movements in the FX markets.

Speak to us today to help you manage your currency risk.
For more information call
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