Currency Outlook December 2018

CAXTON FX BUSINESS

Contents

Economic data correct as of 23rd November 2018

What you need to know

November was yet another volatile month with sterling experiencing a rollercoaster ride, including its biggest single day drop in two years after cabinet resignations in the wake of PM May's Brexit deal being approved by the cabinet. In addition, the US dollar touched fresh yearly highs against the Euro after worries over Italy's planned budget deficit weighed on the single currency.

December is likely to follow a similar theme with several key risk events including the final central bank meetings of 2018. The Fed are expected to increase interest rates, marking their fourth rate hike this year, while other major central banks are forecast to keep monetary policy on hold. Other highlights include continued global trade tensions, a potential slowdown in global growth as well as geopolitical risks in the shape of Brexit and the Italian budget saga.

WEEK 1

December begins with a busy week for economic data, with highlights including PMI figures from the UK and US as well as wage growth from Japan. The US labour market report will also be closely watched as market participants continue to focus on wage growth tracking well above the inflation rate. Both the Reserve Bank of Australia (RBA) and Bank of Canada (BoC) meet this week however no change to monetary policy is forecast. Despite this, volatility can be expected as each of the banks begin to shape their monetary policy going into 2019.

WEEK 2

UK economic data is brought into sharp focus this week with GDP, inflation and wage growth figures. Investors will be looking for the fundamentals of the UK economy to remain resilient despite the ongoing Brexit negotiations. Also, of note is the last European Central Bank (ECB) meeting of the year, where the end to quantitative easing is expected to be confirmed. The market will also be looking for hints as to the timing of the first interest rate rise since 2011. A key risk event not to forget is also the EU Summit, where mentions of Brexit and the Italian budget may spark some volatility. Finally, the House of Commons is set to vote on the draft Brexit withdrawal agreement this week, posing significant downside risks to sterling should the Commons fail to vote for the deal.

WEEK 3

Central banks steal the limelight with the Federal Reserve (Fed), Bank of Japan (BoJ) and Bank of England (BoE) all meeting. A 25-basis point hike is expected from the Fed, however has yet to be fully priced in to the market, hence the direction of the dollar will largely depend on the result of December's interest rate decision as well as indications of further monetary policy tightening into 2019. The BoJ and BoE are not expected to change policy, having said that, their comments will be closely watched as a gauge of the health of the respective economies. Other data of note includes PMI figures from the Eurozone as well as the release of US GDP figures.

DECEMBER 2018	
03	UK Manufacturing PMI, US ISM Manufacturing PMI
04	Reserve Bank of Australia (RBA) meeting
05	Australian GDP, UK Services PMI, Bank of Canada (BoC) meeting
06	Australian Retail Sales
07	Japan Wage Growth, US Labour Market Report, Canadian Labour Market Report
10	UK GDP
11	UK CPI House of Commons vote on Draft Withdrawal Agreement
12	UK Labour Market Report, US CPI
13	Swiss National Bank (SNB) Meeting, European Central Bank (ECB) Meeting
18	RBA Meeting Minutes, New Zealand Current Account
19	US Federal Reserve (Fed) Meeting, Canadian Inflation, New Zealand GDP

WEEK 4

A shortened week to end the month due to the Christmas festivities sees little data of note. The main highlight is likely to be the monthly Swiss economic barometer, a key indicator of the health of the Swiss economy. US consumer confidence is also released, giving investors a good idea of the health of the US retail sector post-Christmas. On the whole, markets are likely to be more illiquid over the festive period as many market participants spend time away from the office.

DECEMBER 2018	
20	Australian Labour Market Report, Bank of Japan (BoJ) Meeting, Bank of England (BoE) meeting
21	Eurozone Manufacturing and Services PMIs, UK GDP, US GDP
27	US Consumer Confidence
28	Swiss Economic Barometer

GBP Currency Outlook

1 MONTH

With PM May's Brexit withdrawal agreement having received approval from the cabinet and the EU, the challenge of winning a vote on the deal in the House of Commons remains. This is likely to prove difficult with the deal coming under fire from all sides combined with the crucial fact of the Prime Minister not holding a majority in parliament. The vote is set for 11th December, with 5 days of parliamentary debate beforehand, posing significant downside risks to the pound should the deal fail to pass through parliament. Should the deal be voted down, this could cause a vote of no confidence in May, heightening the likelihood of a no-deal scenario. Away from politics, the final Bank of England meeting of the year is likely to be a non-event with no change to monetary policy on the horizon until after March 2019. Market participants will also be looking for economic data to remain resilient which would underpin the pound.

3 MONTHS

After the initial parliamentary hurdles in the Brexit process have been cleared, the market is likely to focus once again on the economic fundamentals of the United Kingdom which have remained relatively strong despite the political upheaval. While trade negotiations will continue throughout the next two years, the market is likely to take some solace in the certainty of the withdrawal agreement and transition deal. Sterling is likely to appreciate if some or all of the Brexit-related uncertainty is eliminated. Fundamentally, the Bank of England plan to increase rates gradually and to a limited extent, a quicker pace of rate rises would likely strengthen the pound.

KEY DATES

11 Dec	UK CPI House of Commons vote on Draft Withdrawal Agreement
12 Dec	UK Labour Market Report
20 Dec	Bank of England Meeting
21 Dec	Final GDP (Q3)

Economic Data	UK
GDP	0.6% (Q3)
Interest Rate	0.75% (change Aug 18)
Inflation Rate	2.4% (Oct 18)
Unemployment Rate	4.1% (Sept 18)
Wage Growth	3.0% (Sept 18, inc bonus)
Trade Balance	0.03bln (Sept 18)
Current Account	-20.3bln (Q2)

GBP/USD 6 MONTHS

EUR Currency Outlook

1 MONTH

The near term direction of the single currency is likely to be determined by two main factors, the Italian budget discussions and the European Central Bank. The former is an unprecedented situation, with the EU commission having rejected the proposals and enacted an excessive deficit procedure against Italy, this poses significant downside risks for financial stability in the Eurozone as well as increasing downward pressure on the Euro and Italian bonds. The ECB are expected to confirm an end to their quantitative easing programme and could provide hints as to the timing of their first rate hike in this cycle, possibly underpinning the Euro into the end of the year, and bringing the ECB into sync with other global central banks in beginning to remove crisis-era stimulus from the markets.

3 MONTHS

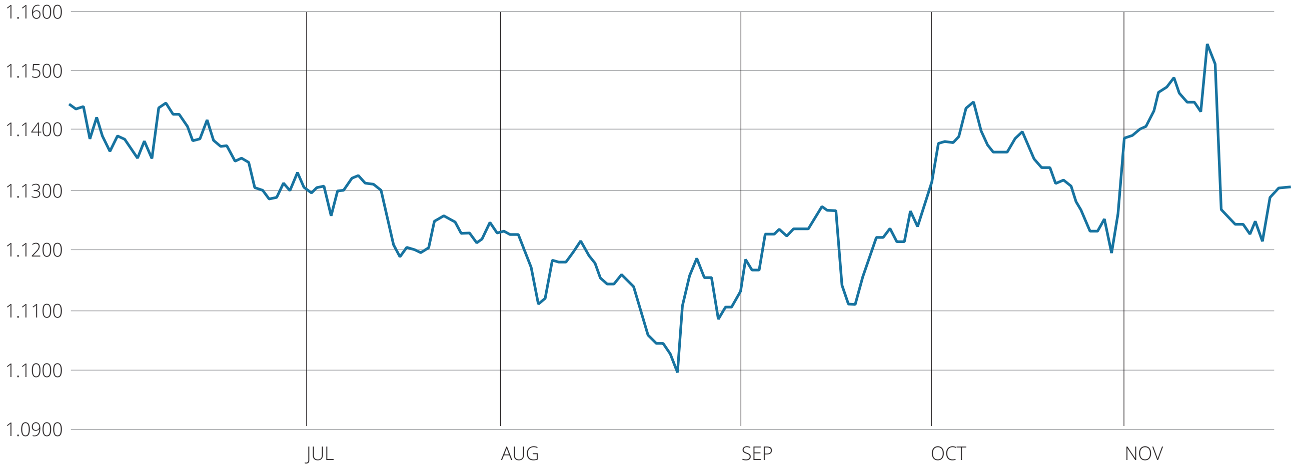
In the longer run, the euro could remain vulnerable to a slowdown in both Eurozone and global economic growth; making it unlikely for central bankers to bring forward any interest rate increases from their current plan of "summer 2019". Geopolitical tensions pose considerable downside risk to the euro, with the Italian budget, Brexit and potential turbulence in Germany all possible causes of downward pressure on the single currency. The latter is now of increased prominence after the government suffered losses in recent elections as well as Chancellor Merkel's announcement of not running for another term.

Economic Data	Eurozone
GDP	1.7% (Q3)
Interest Rate	0.0% (last changed Mar 16)
Inflation Rate	2.2% (Oct 18)
Unemployment Rate	8.1% (Sept 18)
Wage Growth	1.9% (Q2)
Trade Balance	13.1bln (Sept 18)
Current Account	24.1bln (Sept 18)

KEY DATES

07 Dec	Revised GDP (Q3)
13 Dec	ECB Meeting
21 Dec	Eurozone Manufacturing and Services PMI

GBP/EUR 6 MONTHS



USD Currency Outlook

1 MONTH

The main event for the dollar will be this month's meeting of the Federal Reserve, with a 25 basis point rate hike expected but not yet fully priced in to markets. Away from a change to interest rates, investors will also be focussed on the latest set of economic projections to gauge the likely pace of monetary policy tightening over the next 12 months. The Fed have now become more concerned with getting rates to a neutral level rather than stimulating the economy, potentially leading to a slower pace of rate increases. The monthly labour market report, GDP release and inflation data will also be in focus as the market looks for the US to end the year as it started, as the best performing major global economy.

3 MONTHS

After the midterm elections passed as forecast, with the Democrats regaining control of the House, the potential for further tax cuts and other fiscal stimulus is lower. In addition, other parts of President Trump's legislative agenda could be detailed along with possible investigations into the 2016 election being opened. This, combined with an increasingly cautious Fed who believe that interest rates are approaching neutral and are likely to become increasingly data dependant, could conspire together to weaken the dollar. However, a continued increase in volatility in global equity markets would likely result in significant demand for the greenback which is seen as a "safe haven" currency and tends to strengthen in times of turmoil.

Economic Data	USA
GDP	3.0% (Q3)
Interest Rate	2% - 2.25% (last changed Sept 18)
Inflation Rate	2.5% (Oct 18)
Unemployment Rate	3.7% (Oct 18)
Wage Growth	3.1% (Oct 18)
Trade Balance	-54.0bln (Sept 18)
Current Account	-101.5bln (Q2)

EUR/USD 6 MONTHS

KEY DATES

05 Dec	ISM Non-Manufacturing PMI
07 Dec	US Labour Market Report
12 Dec	US CPI
19 Dec	Fed meeting
21 Dec	Final GDP (Q3)

CAD Currency Outlook

1 MONTH

The Canadian dollar has experienced mixed fortunes despite a renegotiated trade deal with the US and Mexico being agreed in principle. With the Bank of Canada having raised interest rates at their last meeting, it is likely to provide some support for the loonie over the near-term, especially as the prospect of further rate hikes is on the horizon. The labour market report will be closely watched as unemployment continues to fall while inflation and GDP figures will be in focus, as investors try to gauge the health of the Canadian economy, which has recently been performing above expectations.

3 MONTHS

Despite strong fundamentals, the Canadian dollar remains susceptible to geopolitical tensions and their follow-through impact on commodity prices. A climate of falling oil prices, due to excess supply and fears of a global growth slowdown, would likely be cause for a weaker Canadian dollar. In addition, the USMCA trade agreement still needs to be approved and passed through Congress in the US – a process which has been complicated since the Democrats' victory in the midterm elections due to their reluctance to approve the deal in its current form. A failure to pass this trade agreement would be seen as negative for the Canadian dollar. Finally, the Bank of Canada are expected to continue raising interest rates throughout 2019, possibly at a faster pace than the Fed, thus narrowing the differential between US and Canadian rates and possibly spurring demand for CAD.

Economic Data	Canada
GDP	1.9% (Q2)
Interest Rate	1.75% (last changed Oct 18)
Inflation Rate	2.2% (Sept 18)
Unemployment Rate	5.8% (Oct 18)
Wage Growth	2.2% (Oct 18)
Trade Balance	-0.42bln (Sept 18)
Current Account	-15.9bln (Q2)

KEY DATES

05 Dec	Bank of Canada Meeting
07 Dec	Canadian Labour Market Report
19 Dec	Canadian CPI
21 Dec	Canadian GDP, Canadian Retail Sales

GBP/CAD 6 MONTHS

AUD Currency Outlook

1 MONTH

The Aussie dollar rebounded in November after strong employment figures and an upbeat Reserve Bank of Australia which upwardly revised its economic forecasts. These themes are set to continue into the end of the year with the next Australian dollar move likely to take its cue from the tone set by the RBA. Global trade tensions will also be a factor behind the Aussie's performance, risk sentiment has recently stabilised, however antipodean currencies remain vulnerable to any further increase in rhetoric due to their heavy dependence on China for trade.

3 MONTHS

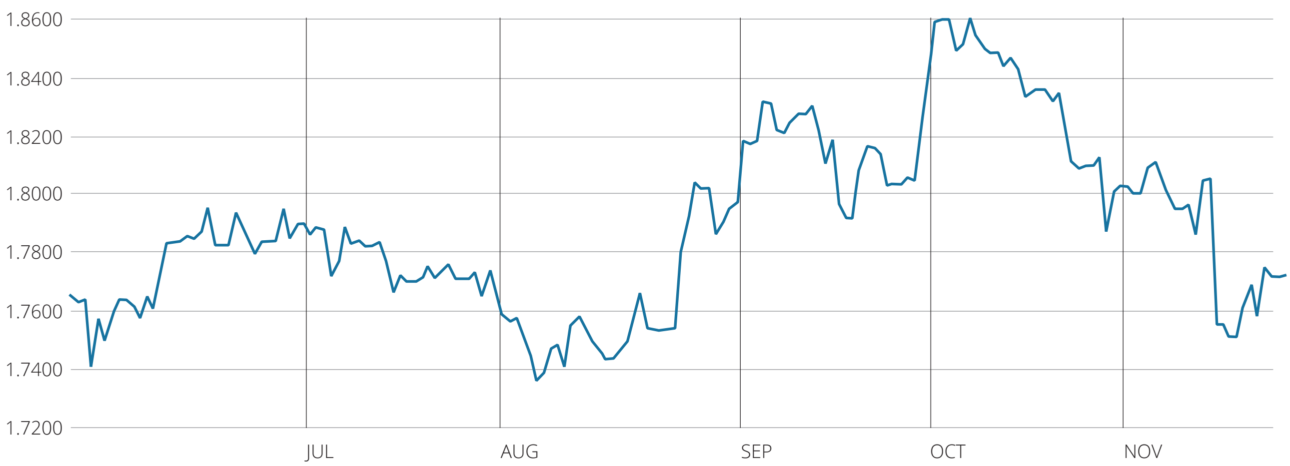
The medium-term outlook for the Aussie dollar remains uncertain, due to both domestic and geopolitical factors. Domestically, sentiment is likely to remain negative as below target inflation and sluggish wage growth give the RBA little reason to change monetary policy in the near term. They have, however, indicated that the next rate change will be a hike. A continued decline in house prices and consumer sentiment may also cause some downward pressure on the Australian dollar. Geopolitically, uncertainty stemming from Sino-US relations may cap any rallies and make it difficult for market sentiment to turn to the upside.

KEY DATES

04 Dec	RBA Meeting
05 Dec	Australian GDP (Q3)
18 Dec	RBA Meeting Minutes
20 Dec	Australian Labour Market Report

Economic Data	Australia
GDP	0.9% (Q2)
Interest Rate	1.5% (last changed Aug 16)
Inflation Rate	1.9% (Q3)
Unemployment Rate	5.0% (Oct 18)
Wage Growth	2.3% (Q3)
Trade Balance	3.02bln (Sept 18)
Current Account	-13.4bln (Q2)

GBP/AUD 6 MONTHS



NZD Currency Outlook

1 MONTH

The November labour market report beat market expectations by a significant margin which spurred a return of positive sentiment surrounding the domestic economy. It is likely that the near-term direction for the Kiwi dollar will be dictated by the ongoing US-China trade dispute. This situation has been relatively benign recently and a continuation of this trend will likely see the Kiwi dollar appreciate further, continuing its recent strong performance. Dairy prices will also impact NZD and poses a downside risk for the Kiwi dollar, especially as prices have been falling since May with this trend likely to continue.

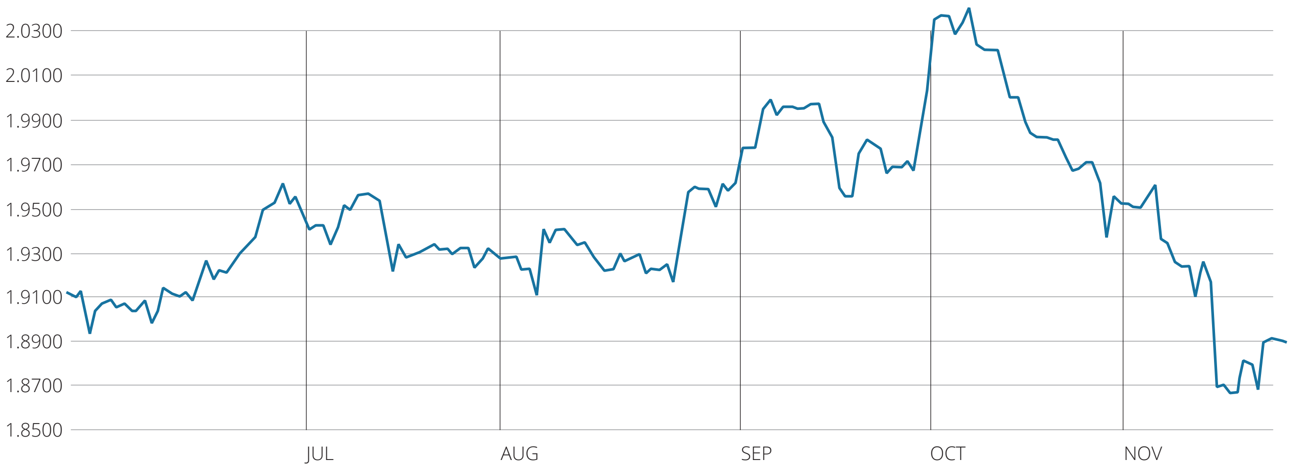
3 MONTHS

The RBNZ, who don't meet in December, will likely be the catalyst for the next major Kiwi dollar move. The RBNZ have indicated that their next move "may be a cut" which is casting a shadow over NZD appreciation, as this would take monetary policy in the opposite direction to other major central banks. Therefore, domestic data is likely to be the main driving factor behind Kiwi dollar movement especially if it continues to outperform market expectations as has been seen recently. External factors will also have an impact, with geopolitical risk stemming from the US-China trade as well as a continued fall in dairy prices opening the door to further downside.

KEY DATES	
16 Dec	Westpac Consumer Sentiment
18 Dec	ANZ Business Confidence
19 Dec	New Zealand GDP (Q3), Trade Balance

Economic Data	New Zealand
GDP	1.0% (Q2)
Interest Rate	1.75% (last changed Nov 16)
Inflation Rate	1.9% (Q3)
Unemployment Rate	3.9% (Q3)
Wage Growth	1.9% (Q3)
Trade Balance	-1.5bln (Sept 18)
Current Account	-1.62bln (Q2)

GBP/NZD 6 MONTHS



JPY Currency Outlook

1 MONTH

Little has changed in the Japanese economy over the last month, hence the near-term direction of the yen is largely dependant on global risk sentiment and geopolitical tensions. Any escalation in trade tension or further turmoil in global equity markets is likely to ignite demand for the yen as a "safe-haven" currency. The yen has recently strengthened as volatility in equity markets has increased and this trend is likely to continue. Domestically, little change to macroeconomic data is expected, however the market is likely to keep a keen eye on average earnings figures, GDP for Q3 and the final BoJ meeting of the year.

3 MONTHS

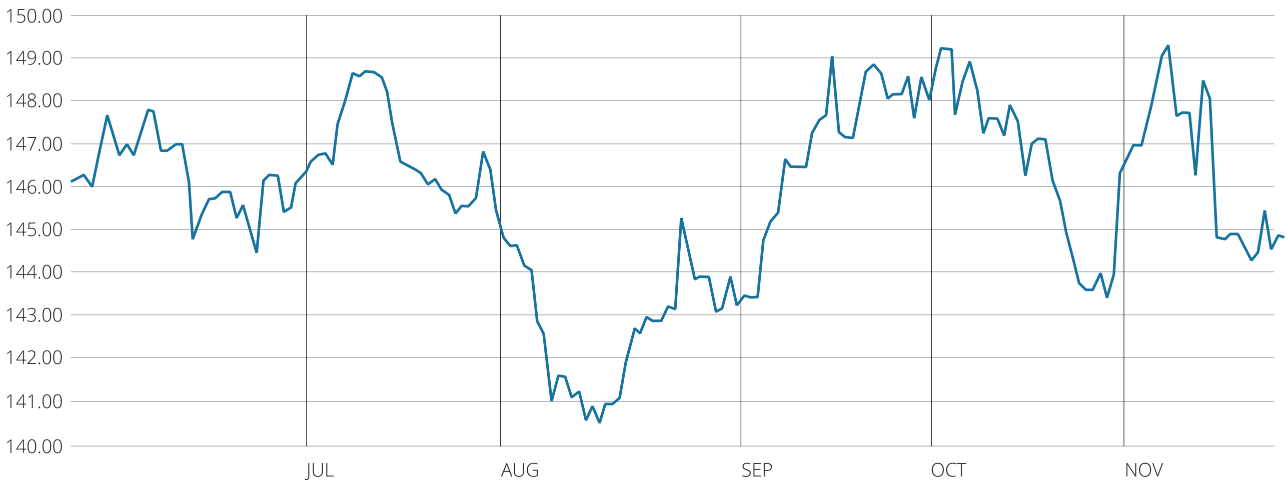
The longer-run outlook for the yen is likely to be determined by the aforementioned global risk factors, with the currency appreciating in sync with increasing market volatility as a safe haven. Despite this, the lack of desire from the BoJ to tighten monetary policy and change their guidance to a more hawkish stance is likely to act as a significant headwind to any upwards move due to divergence in monetary policy between the BoJ and other global central banks. Any hawkish signals, especially relating to widening the range of trading for bond yields, would be interpreted positively by the market as would a pick-up in inflation closer to the central bank's target.

KEY DATES

07 Dec	Japan Wage Growth
09 Dec	Japan GDP
20 Dec	BoJ Meeting
27 Dec	Japan Unemployment Rate

Economic Data	Japan
GDP	-0.3% (Q3)
Interest Rate	-0.1% (last changed Jan 16)
Inflation Rate	1.0% (Nov 18)
Unemployment Rate	2.3% (Sept 18)
Wage Growth	1.4% (Oct 18)
Trade Balance	-449bln (Oct 18)
Current Account	1.82tln (Sept 18)

GBP/JPY 6 MONTHS



CHF Currency Outlook

1 MONTH

There is very little in the way of economic data in December likely to stimulate major market moves hence the direction of the Swissie will be largely similar to the yen and dictated by risk sentiment. The monthly inflation reading will be closely examined for any follow-through effects of a strengthening currency with market participants also likely to pay close attention to any comments from the SNB regarding their opinion on the valuation of the franc.

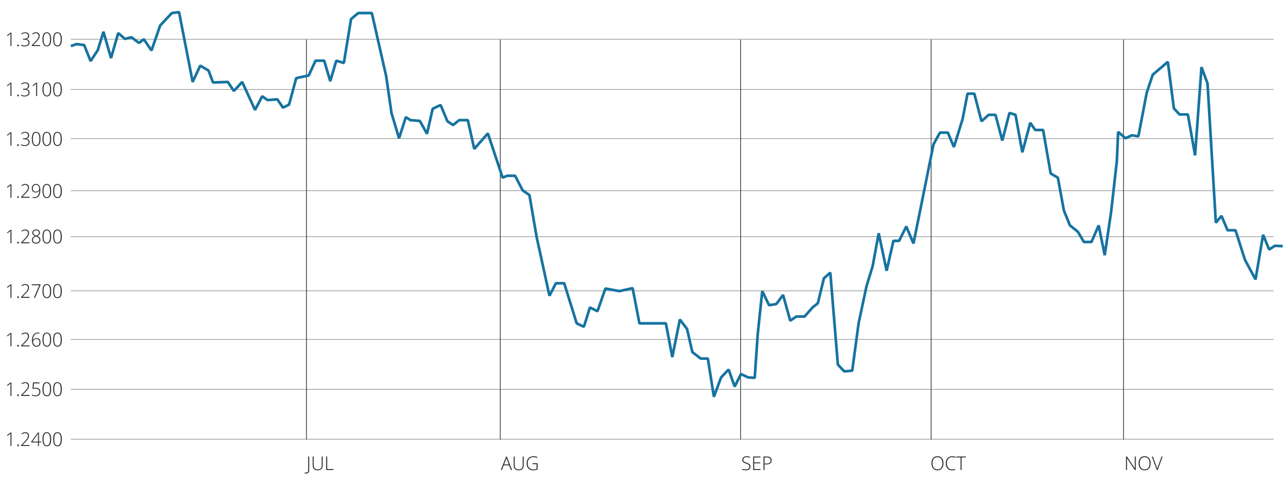
3 MONTHS

Prospects of the SNB tightening monetary policy remain limited, especially as the central bank have already raised concerns over the value of the franc. Longstanding concerns relating to the overvaluation of the franc still hold true and may prevent the franc from markedly appreciating. In addition, a resolution to the issues of Brexit and the Italian budget could spark a sell-off in the Swissie as external risk factors are removed from the markets. Any uptick in global equity market volatility may also spur some strength in the franc.

KEY DATES	
06 Dec	Swiss CPI
13 Dec	SNB Meeting
20 Dec	Swiss Trade Balance
28 Dec	KOF Economic Barometer

Economic Data	Switzerland
GDP	0.7% (Q2)
Interest Rate	-0.75% (last changed Jan 15)
Inflation Rate	1.1% (Oct 18)
Unemployment Rate	2.4% (Oct 18)
Wage Growth	0.8% (Q2)
Trade Balance	2.6bln (Oct 18)
Current Account	22.1bln (Q2)

GBP/CHF 6 MONTHS



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