
# April 2019 Currency Outlook

CAXTON FX BUSINESS

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Markets remained volatile in March, with price action driven by a continued global economic slowdown in addition to central banks shifting to a more dovish policy stance. The Fed surprised investors by indicating that there would be no further rate hikes this year along with announcing an end to its balance sheet run-off while the ECB also surprised by announcing a fresh round of policy stimulus and revising its forward guidance. The pound was one of the best performing majors in March, as the risk of a no-deal exit receded despite Parliament again and again and again voting against the Withdrawal Agreement.

Similar themes appear set to dominate this month, with geopolitical risk, in the shape of Brexit and the US-China trade negotiations remaining front and centre. Focus will also be on incoming economic data as markets gauge the degree of slowing in the global economy over the first quarter along with attention continuing to fall with central banks and the prospects for further monetary policy easing to be announced.

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Economic data correct as of 27th March 2019
Trade data denominated in local currency

# Week-by-Week Overview

**WEEK ONE**

A busy week to begin the month, with focus likely to fall on the monthly US labour market report as investors look for figures to bounce back from an unexpected drop in headline nonfarm payrolls last month. Focus will also lie with the usual monthly set of PMI surveys as markets continue to try and gauge the extent of a global softening of economic activity with data for the eurozone likely to be particularly impactful bearing in mind the steep fall in the manufacturing survey in March. Central banks will also be in focus, with expectations growing that the Reserve Bank of Australia (RBA) will be the next bank to join the global shift to dovish policy stances. Minutes from the ECB's latest meeting will also be examined as markets continue to digest the ECB's additional stimulus measures.

**WEEK TWO**

Economic data is more limited this week, though CPI inflation figures from the US will be eyed for an indication of the health of the US economy. In addition, first quarter GDP figures from the UK will give markets a chance to evaluate economic performance despite ongoing Brexit-related uncertainties. Central banks will also be in focus, with the ECB set to announce their latest policy decision, though no change to rates is expected. More likely to move markets is the release of minutes from the Federal Reserve's latest policy meeting, which will give investors insight into the thinking behind the Fed's decision to complete its dovish U-turn on policy.

**KEY EVENTS IN APRIL 2019**

| | |
|---|---|
| 1 Apr | UK manufacturing PMI,<br>Eurozone CPI estimate,<br>US ISM manufacturing PMI,<br>US retail sales |
| 2 Apr | Reserve Bank of Australia (RBA) meeting,<br>Switzerland retail sales,<br>Australia annual budget release |
| 3 Apr | UK services PMI,<br>Final Eurozone PMIs,<br>US ISM non-manufacturing PMI |
| 4 Apr | ECB meeting minutes,<br>Japan average earnings,<br>Switzerland CPI inflation |
| 5 Apr | US labour market report,<br>Canada labour market report |
| 7 Apr | Japan current account |
| 8 Apr | New Zealand business confidence,<br>Swiss unemployment rate |
| 10 Apr | UK GDP,<br>European Central Bank (ECB) meeting,<br>US CPI inflation,<br>Federal Reserve (Fed) meeting minutes<br>EU Summit |
| 12 Apr | Possible UK exit date from EU if no deal agreed |

## WEEK THREE

Inflation and labour market data will likely be the focus this week. Inflation releases are due from the UK, Canada, New Zealand and Japan – with all being of increased importance after the recent dovish shift in central bank rhetoric. A continued downturn in inflation could spark further fears of a slowdown and may cause central banks to consider loosening policy. With labour market data, investors will continue to look for signs of economies nearing full employment along with an increase in wage growth. The UK's data is likely to come under the most scrutiny, with unemployment at its lowest level since 1975, and wages increasing at a post-crisis high.

## WEEK FOUR

Once again, central bank meetings come to the fore this week, with the Bank of Canada (BoC) and Bank of Japan (BoJ) both announcing their latest policy decisions. While no change is expected from either, the monetary policy statements from both banks will be closely examined for hints of upcoming interest rate changes and for the Banks' economic outlooks. The BoJ will be monitored closely as it battles with continued low inflation. Also of note will be the advance estimate for US GDP growth for the first quarter of the year, which is likely to be significantly below trend owing to the impact of the government shutdown.

## WEEK FIVE

April's final week is set to be quiet though first quarter GDP numbers from both the eurozone and Canada will be eyed for further indications of a softening in economy activity – particularly in the eurozone where data shows little sign of having bottomed out. Also in focus will be labour market data from Japan and New Zealand, with the latter likely to have more of an impact on future monetary policy.

## KEY EVENTS IN APRIL 2019

| | |
|---|---|
| 16 Apr | RBA meeting minutes,<br>UK labour market report,<br>New Zealand CPI inflation,<br>Japan trade balance |
| 17 Apr | UK CPI inflation,<br>Canada CPI inflation |
| 18 Apr | Australia labour market report,<br>Japan CPI inflation |
| 24 Apr | Australia CPI inflation,<br>Eurozone flash PMIs,<br>Bank of Canada (BoC) meeting |
| 25 Apr | Bank of Japan (BoJ) meeting,<br>New Zealand trade balance |
| 26 Apr | US advance GDP (Q1 19) |
| 29 Apr | Japan unemployment rate |
| 30 Apr | Eurozone flash GDP estimate (Q1 19),<br>Canada GDP,<br>New Zealand labour market report,<br>Switzerland KOF economic barometer,<br>New Zealand business confidence |

# GBP Currency Outlook

### 1 MONTH

The pound was one of the best performing majors in March as markets priced out the risk of a no-deal Brexit despite Parliament twice rejecting the Prime Minister's Withdrawal Agreement. The UK's divorce from the EU will once again be the main, if not only, driving force behind the pound this month, with focus now on Parliament trying to find a consensus on the way forward for negotiations ahead of the expiration of the Article 50 extension on 12th April. It remains highly uncertain which course the negotiations will take, with the possibility of a softer Brexit, the PM's deal or even leaving without a deal still on the table. The pound is set to remain volatile and driven by fast-moving news flow ahead of the EU Summit on 10th April, where the EU will decide whether or not to grant a further extension to the Brexit process. Moves towards an agreement would likely see sterling find some support as markets latch onto the certainty this could provide, though a shift towards a no-deal exit could see significant weakness in the pound.

### 3 MONTHS

The UK economy remains a mixed picture, with a tight labour market being outweighed by sluggish GDP growth and below target inflation. Markets will be looking for economic data to remain relatively resilient, especially the labour market which is likely to cause inflationary pressures over the course of time. However, it is important for investors to closely examine incoming data, with some points having been distorted by pre-Brexit stockpiling. Assuming some certainty is achieved in the Brexit negotiations, the Bank of England would likely wish to tighten policy, though any Brexit-related shocks would quickly put paid to any such plans. A tightening of policy would be a positive for the pound, however the window for rate hikes appears to be closing, especially as the broader global economy begins to show signs of slowing.

### KEY DATES

| | |
|---|---|
| 1 Apr | Manufacturing PMI |
| 3 Apr | Services PMI |
| 10 Apr | Monthly GDP (Feb),<br>EU Summit |
| 12 Apr | Possible UK exit date from EU<br>(if no deal agreed) |
| 16 Apr | Labour market report |
| 17 Apr | CPI inflation |
| 19 Apr | Retail sales |

### GBP/USD 6 MONTHS


| Economic Data | UK |
|---|---|
| GDP | 1.3% (Q4 18) |
| Interest Rate | 0.75% (Aug 18) |
| Inflation Rate | 1.9% (Feb 19) |
| Unemployment Rate | 3.9% (Jan 19) |
| Wage Growth | 3.4% (Jan 18) |
| Trade Balance | -3.8bln (Jan 19) |
| Current Account | -26.5bln (Q3) |

# EUR Currency Outlook

## 1 MONTH

The ECB's dovish tone and continued poor economic data have done little to reassure investors that the bloc's economic slowdown is beginning to reverse course, especially after manufacturing PMI figures fell to a near six-year low in March. Continued scrutiny of economic data is likely, with markets set to latch on to any positive signs as the early green shoots of recovery which would likely see the single currency find some support. The most impactful data point is likely to be 1st quarter GDP, which is set to confirm a sluggish start to the year for the euro area, though focus will also be on various sentiment surveys as markets attempt to assess the state of the economy heading into the 2nd quarter.

Also in focus will be the ECB meeting, no change to monetary policy is likely after a slew of accommodative measures were announced in March along with continued subdued core inflation. Another notable point will be the UK's ongoing divorce from the EU, though any downside effects on the eurozone are likely to be most notable in the case of a no-deal exit and the disruption that this would cause to cross-border trade.

## 3 MONTHS

In the longer-term, elections to the European Parliament, due in May, are beginning to come into focus with continued expectations for populist parties to gain ground. Such an outcome is a tail risk to the euro, with markets seeming underpriced for the breaking of the Parliament's current centre-right and centre-left 'Grand Coalition'. Meanwhile, attention will also be on the ECB's next policy move and whether additional stimulus will be injected into the economy. Should inflation remain sluggish and growth remain subdued, the ECB maybe tempted to implement further policy easing, with the potential for a restart to the QE programme. Such a move would be negative for the euro, though the single currency did quickly recover its losses after March's dovish surprise from the ECB.

## KEY DATES

| | |
|---|---|
| 1 Apr | CPI inflation flash estimate, unemployment rate |
| 3 Apr | Final March PMIs |
| 5 Apr | Retail sales |
| 10 Apr | European Central Bank (ECB) meeting |
| 17 Apr | Final CPI inflation |
| 24 Apr | April Flash PMIs |
| 30 Apr | Prelim. GDP (Q1 19) |


| Economic Data | Eurozone |
|---|---|
| GDP | 1.1% (Q4 18) |
| Interest Rate | 0.0% (Mar 16) |
| Inflation Rate | 1.5% (Feb 19) |
| Unemployment Rate | 7.8% (Jan 19) |
| Wage Growth | 2.3% (Q4 18) |
| Trade Balance | 17.0bln (Jan 18) |
| Current Account | 9.3bln (Jan 19) |

# USD Currency Outlook

### 1 MONTH

In a similar vein to the euro, markets were spooked by the Fed's dovish surprise which completed their U-turn from leaving policy tightening on autopilot to a prolonged pause to rate hikes. The Fed now indicate they expect no rate hikes at all this year, though markets currently assign approximately a 70% chance of a rate cut by the end of 2019. Speeches from FOMC members, along with minutes from the Fed's March meeting, will be closely watched for any signs of concern over the prospects for the US economy. Increased concerns over the longer-term outlook for the US may see some softening of the dollar.

Elsewhere, markets will be looking for updates into the already tight labour market and GDP figures – though Q1 figures are likely to be significantly below trend due to the impact of the government shutdown. Despite a moderation in nonfarm payrolls in February, wages reaching their highest level in 10 years was taken as a positive signal. A further increase in wages, combined with continued low unemployment, may see the dollar find further support.

### 3 MONTHS

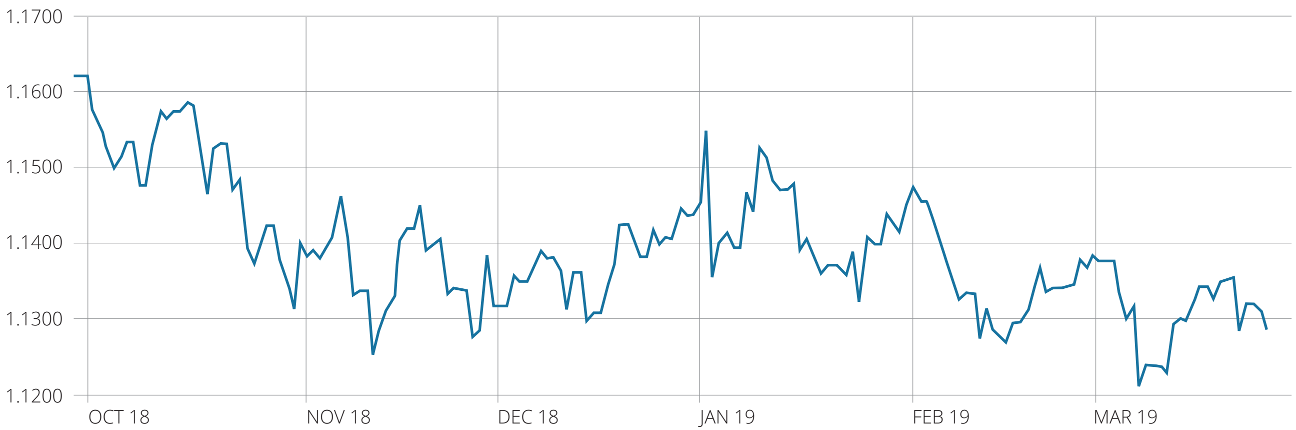
Looking ahead, the longer-term prospects for the greenback will also hinge on the progress, or lack of, in continued trade negotiations between the US and China. Despite various reports of a deal being close, little progress seems to have been made with negotiations becoming increasingly protracted. Agreement of a deal may spark some appreciation of the dollar due to the removal of uncertainty from the market, though eventual agreement of a deal may already be priced in.

Another possible source of dollar strength stems from the currency's status as a safe-haven, with the greenback generally seeing significant demand in times of increased global risk. With risk sentiment remaining fragile, a further decrease in investors' risk appetite would see the dollar well-supported. However, it is important to note that, along with the high chance of a Fed rate cut, an inversion in the US yield curve has begun to stoke fears of an upcoming recession. Such an eventuality, though remaining low probability at present, would provide a stiff headwind to the dollar.

### KEY DATES

| | |
|---|---|
| 1 Apr | ISM manufacturing PMI, retail sales |
| 3 Apr | ISM non-manufacturing PMI |
| 5 Apr | Labour market report |
| 10 Apr | CPI inflation, Federal Reserve (Fed) meeting minutes |
| 26 Apr | Advance GDP (Q1 19) |

### EUR/USD 6 MONTHS




| Economic Data | USA |
|---|---|
| GDP | 2.6% (Q4 18) |
| Interest Rate | 2.25% - 2.5% (Dec 18) |
| Inflation Rate | 1.5% (Feb 19) |
| Unemployment Rate | 3.8% (Feb 19) |
| Wage Growth | 3.4% (Feb 19) |
| Trade Balance | 51.1bln (Jan 19) |
| Current Account | -124.8bln (Q3 18) |

# CAD Currency Outlook

## 1 MONTH

The Canadian economy remains a mixed bag, though recent data points towards a continued soft patch. Inflation remains well below target in addition to sluggish GDP growth and unexpectedly weak retail sales numbers. Soft data is likely to keep the BoC on hold for the foreseeable, removing any mention of normalising rates to a 'neutral' level at their last meeting. The relatively dovish policy is expected to continue and will likely act as a headwind over the coming month.

Incoming economic data will also be closely watched alongside the BoC as investors attempt to gauge whether Canada is beginning to recover from an economic slowdown. The monthly labour market report will attract close attention, though a continued high unemployment rate results in significant slack in the market thus causing little in the way of inflationary pressures. CPI inflation figures will also likely attract attention, though the impact of energy prices may distort the measure while GDP and sentiment surveys will give good indications of economic health.

## 3 MONTHS

The correlation between the Canadian dollar and oil prices remains relatively strong, hence any moderation in prices would likely be met with a downside move in the loonie. Such a fall is unlikely however, with most forecasts pointing to a rally in oil prices as OPEC-led supply cuts continue to tighten supply and underpin prices. A continuation of this trend would be supportive for the Canadian dollar.

The other major long-term driving factor for the Canadian dollar will be the political landscape ahead of elections in October. Current opinion polls shows the race neck and neck between the incumbent Liberals and the Conservatives, though any election-related weakness in the Canadian dollar would likely be seen in the aftermath of the result should either party fail to secure a majority of seats. Another political factor on the radar is the ongoing SNC-Lavalin affair, relating to alleged political interference by the PM's office. An escalation of uncertainty relating to the scandal could spark a sell-off in the loonie as investors rotate away into other, more certain, environments.

## KEY DATES

| | |
|---|---|
| **5 Apr** | Labour market report |
| **17 Apr** | CPI inflation |
| **18 Apr** | Retail sales |
| **24 Apr** | Bank of Canada (BoC) meeting |
| **30 Apr** | Monthly GDP (Feb) |

## GBP/CAD 6 MONTHS


| Economic Data | Canada |
|---|---|
| GDP | 2.1% (Q3 18) |
| Interest Rate | 1.75% (Oct 18) |
| Inflation Rate | 1.4% (Jan 19) |
| Unemployment Rate | 5.8% (Jan 19) |
| Wage Growth | 1.8% (Jan 19) |
| Trade Balance | - 2.1bln (Nov 18) |
| Current Account | - 15.5bln (Q4 18) |

# AUD Currency Outlook

### 1 MONTH

Risk sentiment will once again play a key part in the near-term direction of the Aussie dollar, with both antipodean currencies continuing to act as risk proxies for market sentiment. Any downturn in risk appetite, possibly stemming from continually escalating trade tensions, would likely see the Aussie dollar take a leg lower. However, more significant downside risks to the Australian dollar lie closer to home, especially with the domestic housing market remaining on shaky ground. A continuation of the fall in house prices, along with relatively tight credit conditions, paint a relatively bleak picture of the domestic economy.

It is this, along with relatively sluggish inflation, that have increased the chances of an RBA rate cut this year. Markets are currently pricing approximately a 70% chance of a rate cut by year-end, with further monetary policy easing likely to work against the Aussie dollar – as the yield differential between it and other G10 majors widens.

### 3 MONTHS

Looking ahead, the outlook does not look incredibly promising for the Australian dollar, with the 3 traditional drivers of the currency's strength (commodities, carry and China) working against it. Firstly, iron ore prices, Australia's main commodity, remain below their 52-week high and are likely to exert downwards pressure on the Aussie. Secondly, carry trades, where investors sell a low-yielding currency to purchase a high-yielding one, are no longer as favourable for the Aussie dollar with interest rates remaining at record-lows hence the currency sees less demand. Finally, China's economy continues to slow, which will weigh on demand for Australian exports to its largest trading partner and thus act as a drag on the Australian economy.

Another point of note that are beginning to appear on the horizon is upcoming Federal Elections, likely to be held in May. Any surprise result, or a failure of either major party to secure a working majority would be a further drag on the currency.

### KEY DATES

| | |
|---|---|
| 2 Apr | Reserve Bank of Australia (RBA) meeting |
| 3 Apr | Retail sales |
| 16 Apr | RBA meeting minutes |
| 18 Apr | Labour market report |
| 24 Apr | CPI inflation |

### GBP/AUD 6 MONTHS


| Economic Data | Australia |
|---|---|
| GDP | 2.3% (Q4 18) |
| Interest Rate | 1.5% (Aug 16) |
| Inflation Rate | 1.8% (Q4 18) |
| Unemployment Rate | 4.9% (Feb 19) |
| Wage Growth | 2.3% (Q4 18) |
| Trade Balance | 4.6bln (Jan 19) |
| Current Account | -7.2bln (Q4 18) |

# NZD Currency Outlook

## 1 MONTH

In a similar manner to its antipodean counterpart, the New Zealand dollar's near-term direction will move largely in sync with changes in global risk appetite. With several geopolitical risks on the horizon, the Kiwi dollar has relatively slim hopes of appreciation. Domestically, the New Zealand economy remains weak, with weak business investment and a slowing housing market acting as a drag on economic growth. A slowing global economy is also acting as a headwind; hence this month's trade figures will be eyed for any detrimental impact on the economy. In addition, labour market figures will continue to be closely watched with employment nearing its estimated maximum level, continued low unemployment would usually push up wages, something that would be positive for the kiwi dollar.

## 3 MONTHS

Growing expectations of an interest rate cut are likely to weigh on the kiwi dollar, with markets currently fully pricing in a rate cut by November after the RBNZ's indications that the "next rate move is likely down". Continued loose monetary policy reflects concerns over the longer-term health of the New Zealand economy which, along with a continued deterioration in risk sentiment and a rotation into less risky assets, will likely weigh on the NZD.

Also of note in the longer-term will be dairy prices, which have been continuing to increase in recent months. A further firming in prices may see the Kiwi dollar find some support; however the correlation between the two has begun to weaken in recent months, with geopolitics and economic divergence acting as the main drivers of the currency.

## KEY DATES

| | |
|---|---|
| **8 Apr** | Business confidence |
| **16 Apr** | CPI inflation |
| **25 Apr** | Trade balance |
| **30 Apr** | Labour market report |

## GBP/NZD 6 MONTHS


| Economic Data | New Zealand |
|---|---|
| GDP | 2.3% (Q4 18) |
| Interest Rate | 1.75% (Nov 16) |
| Inflation Rate | 1.9% (Q4 18) |
| Unemployment Rate | 4.3% (Q4 18) |
| Wage Growth | 2.0% (Q4 18) |
| Trade Balance | -914mln (Jan 19) |
| Current Account | -3.2bln (Q4 18) |

# JPY Currency Outlook

### 1 MONTH

Having traded within a tight range against the dollar over the last month, the most likely catalyst for appreciation of the yen remains an escalation in global geopolitical risks. The yen's safe-haven status means the Japanese currency tends to strengthen in times of global turmoil; thus with the ongoing trade war and Brexit remaining unresolved, the yen may see some demand.

However, the fundamentals of the Japanese economy remain weak, with almost non-existent inflation and sluggish GDP growth giving market participants little reason to be bullish. While the Bank of Japan is unlikely to change policy this month, further unconventional policy measures and additional monetary easing cannot be ruled out. Such action would likely weigh on the yen.

### 3 MONTHS

In the longer term, yen volatility is likely to remain a product of both geopolitical risks and loose monetary policy. The latter is likely to weigh further on the yen if the Federal Reserve resume their interest rate increases, with a widening of the yield spread between the currencies likely to result in a weaker yen. As mentioned, any appreciation in the currency is likely to come as a result of the yen's safe-haven status rather than economic fundamentals. Finally, beginning to appear on investors' radar is October's planned consumption tax hike which, when last increased, resulted in a brief recession. Therefore, a cautious mood is likely to prevail heading into the second half of the year.

### KEY DATES

| | |
|---|---|
| 4 Apr | Average earnings |
| 7 Apr | Trade balance |
| 16 Apr | Trade balance |
| 18 Apr | CPI inflation |
| 25 Apr | Bank of Japan (BoJ) meeting |
| 29 Apr | Unemployment rate |

### GBP/JPY 6 MONTHS


| Economic Data | Japan |
|---|---|
| GDP | 0.3% (Q4 18) |
| Interest Rate | -0.1% (Jan 16) |
| Inflation Rate | 0.2% (Feb 19) |
| Unemployment Rate | 2.5% (Jan 19) |
| Wage Growth | 1.2% (Jan 19) |
| Trade Balance | 339bln (Feb 19) |
| Current Account | 600bln (Jan 19) |

# CHF Currency Outlook

### 1 MONTH

In a similar vein to the yen, the franc remains a safe-haven of choice, especially in Europe where geopolitical risks persist in the shape of Brexit and the upcoming European Parliament elections. Moves towards a no-deal Brexit in addition to the surge of populist parties in the EU Parliament would likely see the franc well supported as investors look for a safer place to hold their funds.

Economically, Switzerland continues to outperform the eurozone, posing an upside risk to the franc. Further outperformance is likely, especially with the eurozone seemingly in a prolonged period of soft activity – the monthly economic barometer will be eyed as a useful leading indicator for performance. Divergence in the two economies sees the franc set to strengthen, though the SNB will be anxious to see that the currency does not become too "highly valued".

### 3 MONTHS

Over the longer-term, the SNB are highly unlikely to make any changes to monetary policy this year, instead waiting for the ECB to tighten first to prevent the value of the franc from appreciating. The importance of the franc's valuation stems from Switzerland's export dependent economy, with the SNB likely to intervene, verbally or monetarily, in the FX markets should the franc appreciate too much for their appetite. It is therefore likely that the franc will remain around its current levels against the euro for the foreseeable future.

### KEY DATES

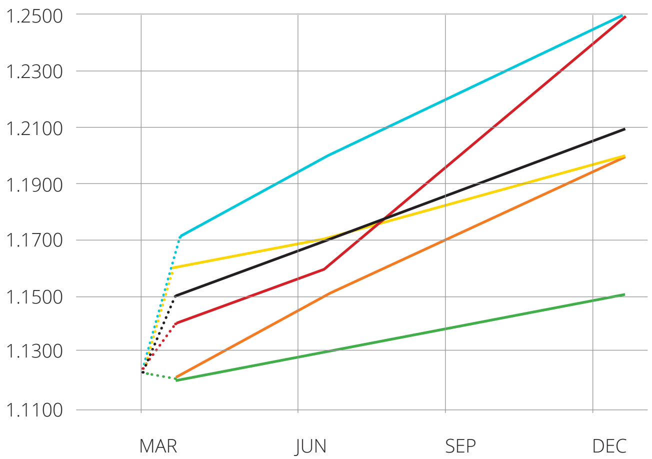
| | |
|---|---|
| 2 Apr | Retail sales |
| 4 Apr | CPI inflation |
| 8 Apr | Unemployment rate |
| 18 Apr | Trade balance |
| 30 Apr | KOF economic barometer |

### GBP/CHF 6 MONTHS

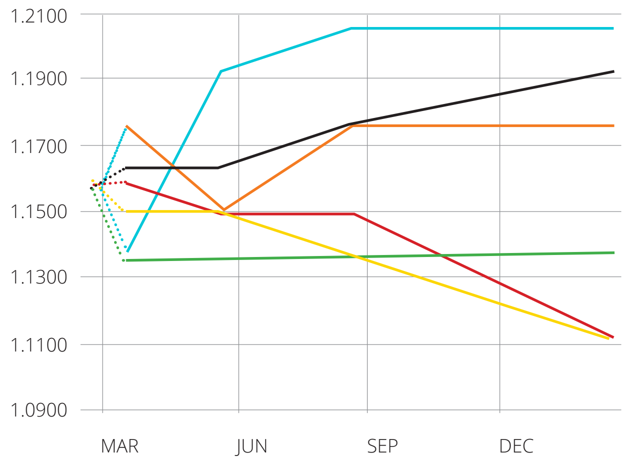

| Economic Data | Switzerland |
|---|---|
| GDP | 1.4% (Q4 18) |
| Interest Rate | -0.75% (Jan 15) |
| Inflation Rate | 0.6% (Feb 19) |
| Unemployment Rate | 2.7% (Feb 19) |
| Wage Growth | 0.5% (Q3 18) |
| Trade Balance | 2.04bln (Feb 19) |
| Current Account | 15.2bln (Q4 18) |

# 2019 Currency Forecasts

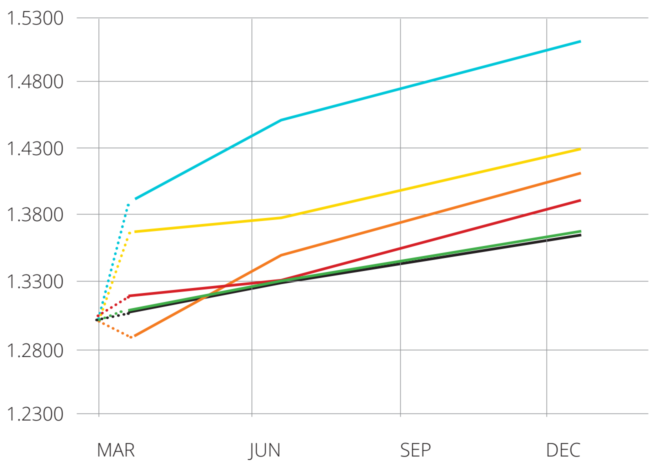
### EUR/USD




### GBP/EUR




### EUR/USD



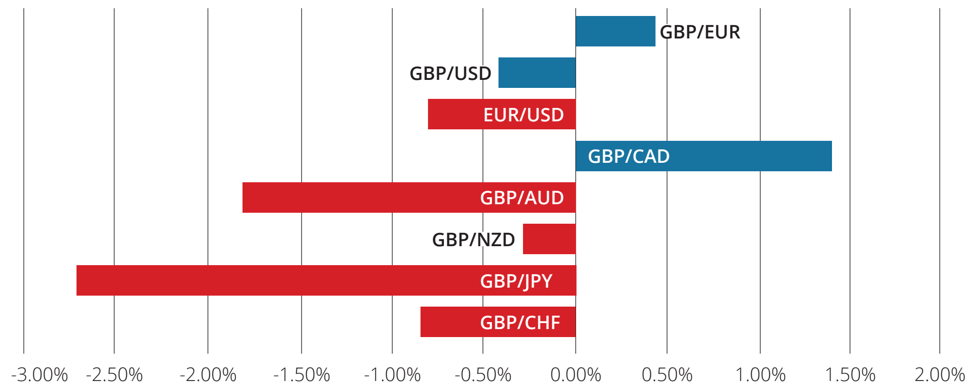

Citi Danske ING MUFG Rabobank SocGen

# Build your currency plan to be Brexit ready!

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

| | Mar High | Mar Low | % Change |
|---|---|---|---|
| GBP/USD | 1.3381 | 1.2939 | -0.41% |
| GBP/EUR | 1.1803 | 1.1463 | 0.43% |
| EUR/USD | 1.1448 | 1.1176 | -0.81% |
| GBP/CAD | 1.7795 | 1.7328 | 1.39% |
| GBP/AUD | 1.8862 | 1.8338 | -1.82% |
| GBP/NZD | 1.9510 | 1.8959 | -0.28% |
| GBP/JPY | 148.70 | 143.69 | -2.72% |
| GBP/CHF | 1.3423 | 1.2910 | -0.85% |

PERFORMANCE - MARCH 2019




### 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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