May 2019 Currency Outlook

CAXTON FX BUSINESS

May Currency Outlook

The US dollar was the best performing major currency in April, rallying to near 2-year highs, as markets began to react to the US economy's outperformance against its peers and largely ignored the increased chances of a Fed rate cut. Despite the dollar's strength, low volatility continued to plague markets, with many measures of G10 FX volatility falling to multi-year lows as a result of the global shift to more dovish monetary policy by global central banks.

Looking to the month ahead, economic data will continue to be a major factor driving currency market volatility, as investors attempt to gauge whether data has begun to bottom out or whether the global economy continues to slow. Furthermore, politics appears set to dominate with Brexit remaining on markets' radar in addition to upcoming elections in the EU and Australia.

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Economic data correct as of 29 April 2019

Trade data denominated in local currency

Week-by-Week Overview

WEEK ONE

May begins with a couple of important central bank meetings, with policy decisions due from both the Federal Reserve (Fed) and Bank of England (BoE). Though neither is expected to announce any policy changes, focus will be on the future direction of US interest rates after the Fed's dovish U-turn in the first quarter and on the BoE's view of the UK's economic performance amidst continuing Brexit-linked uncertainty. Other areas of focus at the start of the month include the usual set of PMI surveys, which may serve to confirm the view of a continuing economic slowdown, in addition to CPI inflation figures from the eurozone, expected to show price increases remaining sluggish and at a level well-below the ECB's 2% target. Perhaps the most notable data point however will be the monthly US labour market report, with focus likely to fall on wage and unemployment data as markets continue to gauge the tightness of the jobs market in the US.

WEEK TWO

Central bank meetings are again in focus this week, this time from Australia and New Zealand, as expectations mount that both the RBA and RBNZ are preparing for a rate cut. For the RBA, after sluggish inflation in the first quarter of just 1.3%, markets are assigning around a 65% chance of a rate cut in May, with two 25bps rate cuts fully priced in by the end of the year. Turning to New Zealand, markets are assigning a similar 60% chance of a rate cut this month, though recent comments from RBNZ Governor Orr that the economy is "in a pretty good spot" has dampened expectations of an imminent rate cut. Economic data will also be in focus, with markets eyeing 1st quarter GDP from the UK in addition to the monthly Canadian labour market report. The former will be closely watched for any Brexit-related impact, while the markets will be looking for the latter to remain resilient after a positive Q1.

KEY EVENTS IN MAY 2019	
1 May	UK manufacturing PMI, US ISM manufacturing PMI, US ADP nonfarm employment change, Federal Reserve (Fed) rate decision
2 May	Bank of England (BoE) rate decision
3 May	UK services PMI, US ISM non-manufacturing PMI, Eurozone flash CPI estimate, US labour market report, Switzerland CPI
7 May	Reserve Bank of Australia (RBA) rate decision, Australia retail sales, Canada trade balance
8 May	Reserve Bank of New Zealand (RBNZ) rate decision, European Central Bank (ECB) meeting minutes, Switzerland unemployment rate
9 May	New Zealand annual budget, US PPI
10 May	RBA monetary policy statement, UK GDP (Q1), US CPI, Canada labour market report, Japan average earnings

WEEK THREE

GDP figures will be in focus this week, with 1st quarter growth data due from the eurozone and Japan. Markets will pay close attention to any softness in the data, particularly with questions being raised over both the ECB's and BoJ's ability to stave off an economic downturn. Elsewhere, labour market reports from the UK and Australia will be eyed, with markets looking for the former to provide further evidence of the UK's tight labour market, perhaps the UK economy's only bright spot. For Australia, the unemployment rate is set to be the key gauge, with the RBA having indicated that increased unemployment will be a key trigger for a rate cut. Finally, Australian elections are due to be held, with a potential hung parliament and the ensuing uncertainty likely to weigh on the Aussie dollar.

WEEK FOUR

The eurozone comes sharply into focus this week, with May's flash PMI surveys and European Parliament elections the main focuses. Markets will be closely watching the PMI surveys to gauge whether data has begun to bottom out, with the manufacturing sector the likely focus after being stuck in contractionary territory for 3 straight months. Turning to the elections, focus is likely to fall on the possible rise of populist, eurosceptic parties along with the potential for a breakup of the current Parliament's grand coalition. Elsewhere, minutes from both the RBA and Fed's latest policy meetings will give markets a greater insight into the reasoning behind monetary policy decisions, while CPI inflation figures from the UK will be closely watched having remained below the BoE's 2% target throughout the whole of the first quarter.

WEEK FIVE

Economic growth will be in the limelight as May concludes, with GDP figures due from both the US and Canada. Canadian figures are likely to be the most impactful for markets, with the data likely to show relatively soft growth over the first quarter, broadly in line with the BoC's expectations. From the US, figures will be the first revision to the advance estimate of 3.2% annualised QoQ growth in the 1st quarter. It is possible that growth will be revised lower, due to the significant impact of increasing inventories on the growth number, though minor downward revisions are typically of little interest to markets. Elsewhere, the Bank of Canada (BoC) announce their latest policy decision, with no change to rates expected after the BoC shed their tightening bias last month. Meanwhile, Switzerland's monthly economic barometer will be watched as markets gauge the health of the Swiss economy in light of a slowdown in the eurozone – Switzerland's largest trading partner.

KEY EVENTS IN MAY 2019

14 May	UK labour market report
15 May	Eurozone flash GDP (Q1), Canada CPI, US retail sales, Japan prelim. GDP (Q1)
16 May	Australia labour market report
17 May	UK retail sales, Japan national CPI
18 May	Australia federal election
21 May	RBA meeting minutes, New Zealand retail sales, Switzerland trade balance
22 May	UK CPI, US retail sales, Fed meeting minutes
23 May	Eurozone flash PMIs, New Zealand trade balance, EU elections begin (until Sun 26th)
28 May	US consumer confidence, Japan retail sales
29 May	Bank of Canada (BoC) rate decision, Switzerland KOF economic barometer
30 May	US prelim. GDP (Q1), Switzerland GDP (Q1), Japan unemployment rate
31 May	Canada GDP (Q1), US core PCE

GBP Currency Outlook

1 MONTH

The outlook for the pound remains as cloudy as ever, with a lack of any progress on Brexit beginning to exert downward pressure on sterling. Though avoidance of an imminent no-deal Brexit helped the pound, the elongated timescales involved mean a case can be made for any plausible brexit outcome – ranging from a no-deal exit through to no Brexit at all. The most likely scenario remains leaving with a deal, likely the current Withdrawal Agreement in an amended form. For the markets, approval of a deal remains the ideal scenario, with the removal of a significant degree of uncertainty likely to see sterling appreciate significantly, though this remains far from a formality.

Also this month, the BoE will announce their latest policy decision, though no change to rates is expected. Markets will be paying attention to the BoE's latest set of economic forecasts, with a hawkish tilt possible. GDP figures for the 1st quarter will be closely watched after a mixed recent set of PMI figures, with the economy likely to have stagnated after the services sector slipped into contraction.

3 MONTHS

In the longer-term, though economic data continues to have a limited effect on the pound, the labour market remains one of the few bright spots of the UK economy - wages continue to increase at a post-crisis high of 3.5% while unemployment remains at multi-decade lows. Should the labour market remain this tight, inflationary pressures are likely to mount. While such a combination would usually result in a BoE rate hike and a well-supported pound, the BoE remain unlikely to tighten policy until Brexit-related uncertainty is resolved.

Elsewhere, back in the political world, tail risks in the shape of a new Prime Minister, a general election or even a second EU referendum cannot be discounted, with the ensuing uncertainty likely to weigh on the pound.

KEY DATES

1 May	Manufacturing PMI
2 May	Bank of England (BoE) rate decision
3 May	Services PMI
10 May	GDP (Q1)
14 May	Labour market report
22 May	CPI inflation

GBP/USD 6 MONTHS

Economic Data	UK
GDP	1.4% (Q4 18)
Interest Rate	0.75% (Aug 18)
Inflation Rate	1.9% (Feb 19)
Unemployment Rate	3.9% (Feb 19)
Wage Growth	3.5% (Feb 18)
Trade Balance	-4.9bln (Feb 19)
Current Account	-23.7bln (Q4 18)

EUR Currency Outlook

1 MONTH

A slowdown in economic activity continues to dominate for the single currency, with recent PMI and sentiment surveys showing that data is yet to bottom out. May's PMI surveys will be closely watched, with particular focus likely to fall on the manufacturing sector after 3 consecutive months in contractionary territory. Markets will also seek confirmation of the recent run of soft economic activity through 1st quarter GDP figures, though with current positioning heavily short EUR, a degree of poor economic data may already be priced in hence the market impact may be muted.

Elsewhere, politics are set to be a dominant theme for the single currency, with elections to the European Parliament due to be held towards the end of May. Current opinion polling shows a likely rise in votes for populist, eurosceptic parties along with a potential breakup of the current centre-right – centre-left ruling 'grand coalition'. While such an event may not have an immediate impact on the euro, a rise of eurosceptic parties would likely result in less european integration and the possibility of further economic divergence.

3 MONTHS

Looking ahead, European Central Bank (ECB) policy remains key to the longer-term outlook, with the potential for further stimulus measures should the eurozone economy's soft patch continue for longer than expected. The ECB's concern is not only with growth however, with the chances of further stimulus increased by inflation remaining at seemingly stubbornly low levels, well below the ECB's 2% target level. Further stimulus may provide the euro with some relief, as markets may take solace in the ECB's acknowledgement of a downturn and willingness to act – though any policy decisions after October are difficult to predict due to the expiration of Draghi's term and a fresh President being appointed.

Other risks to the euro to be aware of include the reluctance of investors to move funds into the eurozone, hurting demand for the currency, along with the ongoing Brexit situation, with the tail-risk no-deal scenario impossible to rule out.

KEY DATES

3 May	Flash CPI estimate
8 May	ECB meeting minutes
15 May	Flash GDP (Q1)
23 May	Flash PMIs, EU elections begin (until Sun 26th)

GBP/EUR 6 MONTHS

Economic Data	Eurozone
GDP	1.1% (Q4 18)
Interest Rate	0.0% (Mar 16)
Inflation Rate	1.4% (Mar 19)
Unemployment Rate	7.8% (Jan 19)
Wage Growth	2.3% (Q4 18)
Trade Balance	17.9bln (Feb 19)
Current Account	15.5bln (Feb 19)

USD Currency Outlook

1 MONTH

After the Fed completed their dovish U-turn in March, no policy changes are expected this month - instead, markets are likely to focus on Chairman Powell's assessment of recent US economic data, including an unexpectedly strong 1st quarter GDP number, in addition to the likely future path of monetary policy. Markets are currently pricing a 64% chance of a rate cut by the end of 2019, though such expectations may be overdone with the US economy surprising to the upside.

Away from monetary policy, focus will continue to fall on hard economic data, with the dollar's recent rally to 22-month highs sparked by the US economy's outperformance compared to the rest of the world. Assuming that data continues to hold up well, the dollar is likely to remain well-supported. Markets will also be eyeing the monthly labour market report, with wages and unemployment likely to be the main areas of focus as the market remains tight due in part to the late-cycle US economy.

3 MONTHS

US-China trade continues to be a dominant theme, though continued headlines of a deal being close are yet to have been followed up by an official signing ceremony. However, with such high expectations of a deal being agreed, a positive outcome seems largely priced in hence may cause a limited reaction in the dollar. Of more interest is where President Trump turns his attention next, with both the EU and Japan likely targets. A US-EU trade conflict would likely be more damaging than the US-China trade war, with detrimental effects on both sides of the Atlantic, though the dollar may still see demand as investors seek a safe-haven.

Elsewhere, attention will continue to centre around incoming economic data, with markets particularly focused on the labour market remaining tight. 2nd quarter GDP figures will also attract attention, especially after the 1st quarter's growth figure was largely underpinned by volatile inventory building, the effect of which is likely to subside as we progress through the year.

KEY DATES

1 May	ISM manufacturing PMI, ADP nonfarm employment change, Federal Reserve (Fed) rate decision
3 May	ISM non-manufacturing PMI, labour market report
10 May	CPI
22 May	Retail sales, Fed meeting minutes
30 May	Prelim. GDP (Q1 2nd estimate)
31 May	Core PCE

EUR/USD 6 MONTHS

Economic Data	USA
GDP	3.2% (Q1 19)
Interest Rate	2.25% - 2.5% (Dec 18)
Inflation Rate	1.9% (Mar 19)
Unemployment Rate	3.8% (Mar 19)
Wage Growth	3.2% (Mar 19)
Trade Balance	-49.3bln (Feb 19)
Current Account	-134.4bln (Q4 18)

CAD Currency Outlook

1 MONTH

The loonie remains one of the best performing G10 currencies this year, though its recent rally has been dented after the Bank of Canada (BoC) became the latest central bank to make a dovish shift and shed their tightening bias in April. With the BoC likely on hold this month, focus will turn to the monthly labour market report will be front and centre as, in a similar manner to the UK, the Canadian labour market has been one of the few recent bright spots. A note of caution is required however, as the recent BoC business outlook survey showed warnings signs that recent positive data may begin to fade, an outcome which would result in a weaker Canadian dollar.

Elsewhere, 1st quarter GDP figures will also be eyed, with the data likely to confirm the Canadian economy's recent soft patch. In addition, focus will be on continuing global trade uncertainties, with positive trade news likely to spur investment in the domestic economy and see further demand for the Canadian dollar.

3 MONTHS

In the longer-term, crude oil prices will continue to play a significant role in the direction of the Canadian dollar with the historical correlation between the two remaining strong. Crude looks set to continue its recent rally in light of continued fears over supply, with demand also likely to increase should the global economy begin to bounce back from its soft patch and industrial production begin to increase. Such a rally would see the loonie well-supported.

Other things to look out for include October's Federal Elections, with the prospect of voter-friendly policies being announced as the ruling Liberals attempt to win a 2nd term. Such policies would likely stimulate consumer spending and may provide the loonie with further support. Meanwhile, economic data will continue to play a large part in the loonie's direction, along with trade, particularly the ratification of the USMCA trade deal – something which appears far from a formality.

KEY DATES

7 May	Trade balance
10 May	Labour market report
15 May	CPI
29 May	Bank of Canada (BoC) rate decision
31 May	GDP (Q1)

GBP/CAD 6 MONTHS

Economic Data	Canada
GDP	1.6% (Q4 18)
Interest Rate	1.75% (Oct 18)
Inflation Rate	1.9% (Mar 19)
Unemployment Rate	5.8% (Mar 19)
Wage Growth	2.32% (Mar 19)
Trade Balance	-2.9bln (Feb 19)
Current Account	-15.4bln (Q4 18)

AUD Currency Outlook

1 MONTH

The Aussie dollar remained pressured in April as the chances of a rate cut by the Reserve Bank of Australia (RBA) increased amid sluggish inflation and a modest upward trend in unemployment. Therefore, May's RBA policy decision will be closely watched, with markets currently assigning roughly a two-thirds chance of a 25bps rate cut. A rate cut would likely weigh on the Aussie dollar, causing confidence in the Australian economy to be dented.

Elsewhere, federal elections will be closely watched, with Australia likely to elect its 7th new leader in just over a decade, based on current opinion polling. Markets will pay close attention to pledges made by both of the main political parties, with concern likely to be expressed over a Labor proposal to scrap tax breaks where property is owned for investment purposes, a move which could further dent confidence in an already shaky housing market.

3 MONTHS

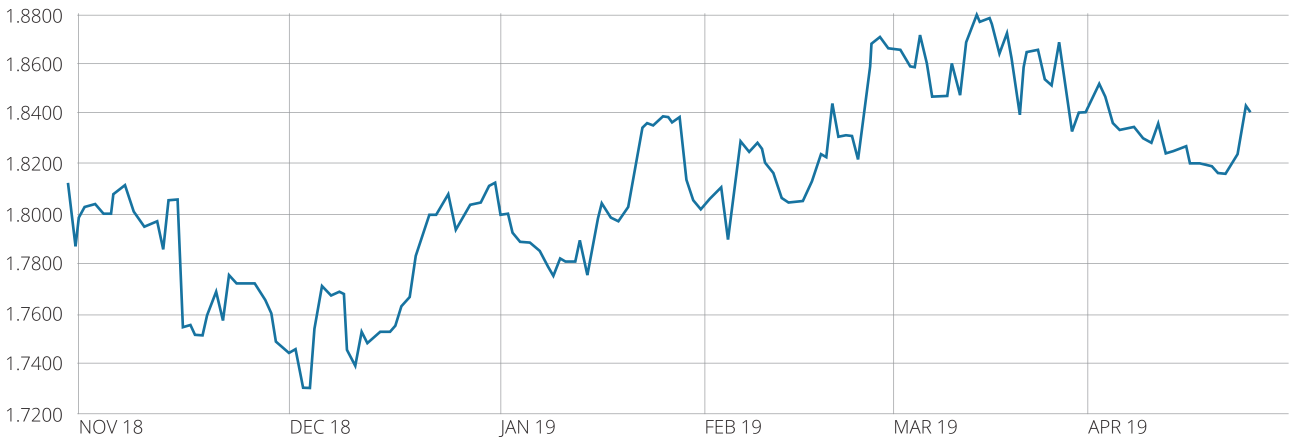
In the longer-term, further interest rate cuts by the RBA cannot be ruled out, with markets currently assigning a near 100% probability of two 25bps rate cuts by the end of the year. Such a move would likely see further downside moves for the Aussie dollar, though a further rate cut would likely be contingent on inflation remaining subdued and unemployment trending upwards on a steeper trajectory. Markets will therefore pay close attention to both data points over the coming quarters.

Other areas of note include the domestic housing market and credit conditions, with the former remaining on uncertain footing and the latter continuing to tighten, a recipe which would send the economy into a downturn. In addition, ongoing US-China trade tensions will be eyed, with a removal of tensions and an uptick in the Chinese economy, particularly exports, likely to see the Aussie dollar find some relief.

KEY DATES

7 May	Reserve Bank of Australia (RBA) rate decision, retail sales
10 May	RBA monetary policy statement
16 May	Labour market report
18 May	Federal election (Saturday)
21 May	RBA meeting minutes

GBP/AUD 6 MONTHS



Economic Data	Australia
GDP	2.3% (Q4 18)
Interest Rate	1.5% (Aug 16)
Inflation Rate	1.3% (Q1 19)
Unemployment Rate	5.0% (Mar 19)
Wage Growth	2.3% (Q4 18)
Trade Balance	4.8bln (Feb 19)
Current Account	-7.2bln (Q4 18)

NZD Currency Outlook

1 MONTH

In a similar vein to its antipodean counterpart, the New Zealand dollar's near-term direction will be largely determined by central bank policy, with growing expectations of an imminent RBNZ rate cut. Markets see approximately a 60% chance of a rate cut in May, with continued low inflation alongside a relatively lacklustre labour market providing little reassurance that inflationary pressures will begin to build. A rate cut would weigh further on an already weak NZD, with the currency having ranked as one of the worst performing majors throughout April.

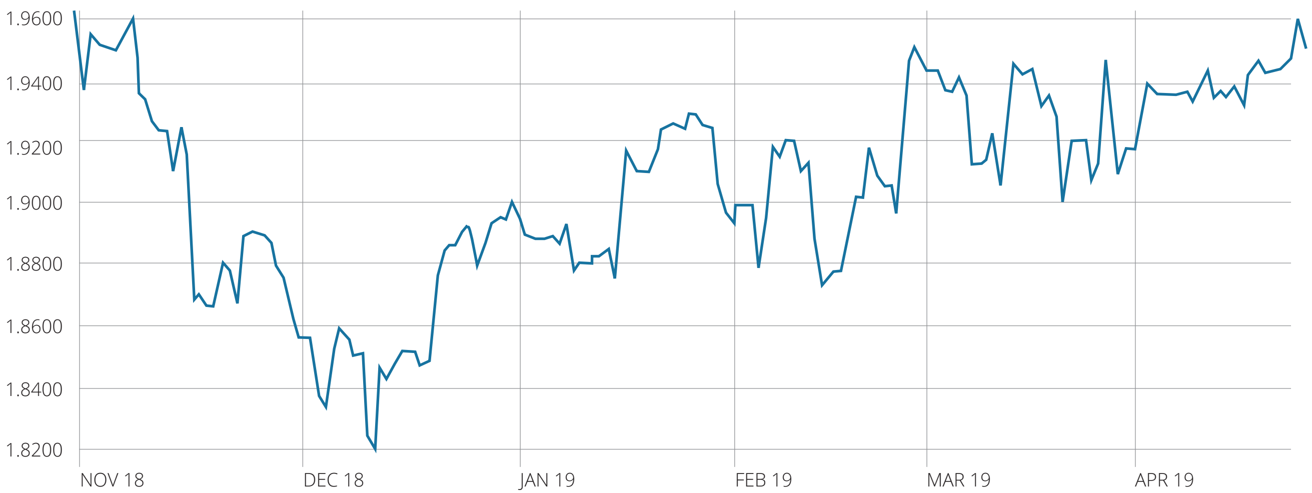
Other notable talking points for the month ahead include the annual budget, termed the 'wellbeing budget', with the government looking to invest into areas that improve people's day-to-day lives. For the markets, this is of little interest, with more focus being put on the government's ability to balance the books along with the announcement of any fiscal stimulus measures.

3 MONTHS

Labour market data will continue to play a key role in the kiwi dollar's longer-term direction, with a continuation of the recent trend showing a slack market likely to weigh on the currency and possibly spark expectations of a further RBNZ rate cut later this year. Elsewhere, data from China and other major global economies will be closely watched bearing in mind the NZD's close correlation with risk sentiment. Signs of a resurgence in economic momentum would likely help the kiwi dollar to find some support. Meanwhile, dairy prices will also be eyed, with markets looking for prices to continue their recent run of strong performance having chalked up price increases in 10 straight auctions stretching back to December 2018.

KEY DATES	
8 May	Reserve Bank of New Zealand (RBNZ) rate decision
9 May	Annual budget release
21 May	Retail sales
23 May	Trade balance

GBP/NZD 6 MONTHS



Economic Data	New Zealand
GDP	2.3% (Q4 18)
Interest Rate	1.75% (Nov 16)
Inflation Rate	1.5% (Q1 19)
Unemployment Rate	4.3% (Q4 18)
Wage Growth	2.0% (Q4 18)
Trade Balance	922mln (Mar 19)
Current Account	-3.26bln (Q4 18)

JPY Currency Outlook

1 MONTH

Beginning the month with a week of holidays for the Imperial Transition means the yen may get off to a rather sluggish start, though the prospect of flash moves as a result of severely diminished liquidity cannot be ruled out. Upon the return of Japanese market participants, global risk sentiment will once again be the main factor driving the yen, with the currency remaining the safe-haven of choice for many investors. Domestically, focus will likely fall on the 1st estimate of Q1 GDP, though growth is expected to remain at relatively sluggish levels. The labour market will also be watched, with markets likely to focus primarily on wages with the Japanese economy at practically full employment. Though disappointing data may harm the yen in the short-term, economic data from Japan is largely being ignored by markets at present.

3 MONTHS

Looking ahead, questions persist over the effectiveness of the Bank of Japan's (BoJ) monetary policy and ability to stimulate the. A dovish change to forward guidance, stating that rates will be kept at their current levels until spring 2020 came as little surprise to markets, with focus now falling on whether the BoJ will ever meet their 2% inflation goal. Further question marks surround the BoJ's ability to stave off an economic downturn, with the monetary policy arsenal appearing bare due to record-low interest rates and an extensive QE programme. BoJ policy is having little impact on the yen at present, though further easing could exert some downward pressure on the currency.
Other areas of focus include October's planned consumption tax hike along with the development of global risk sentiment, with the yen often moving in tandem with changes in investors appetite for risk.

KEY DATES

- 6 May	Markets closed (Imperial Transition)
10 May	Average cash earnings
15 May	Prelim. GDP (Q1)
17 May	National CPI
28 May	Retail sales
30 May	Unemployment rate

GBP/JPY 6 MONTHS

Economic Data	Japan
GDP	0.5% (Q4 18)
Interest Rate	-0.1% (Jan 16)
Inflation Rate	0.5% (Mar 19)
Unemployment Rate	2.5% (Mar 19)
Wage Growth	-0.8% (Feb 19)
Trade Balance	528bln (Mar 19)
Current Account	2.68tln (Feb 19)

CHF Currency Outlook

1 MONTH

Economic data will be in focus this month, with markets looking to 1st quarter GDP figures for confirmation of the expected weak start to the year – a factor common amongst most major global economies, barring the US. Inflation is also likely to remain sluggish, and well below the SNB's target, though with such poor data expected, upside surprises could see some demand for the franc. Perhaps of more importance will be global risk sentiment, with the franc likely to find some support should Brexit talks begin to break down or if populist parties rise to prominence in the European Parliament elections. Despite not being most investors' haven of choice, with many preferring the yen, the franc would likely still see significant demand.

3 Months

Negative rates appear set to remain the 'new normal' for the Swiss National Bank (SNB), with inflation expected at just 0.6% by the end of next year and the SNB highly unlikely to increase rates before the ECB. The SNB's reluctance to act before their European counterparts stems from the close trading relationship between the two areas, and from the SNB's desire to prevent the franc from appreciating extensively against the euro. FX intervention remains the SNB's most likely policy tool, both verbally and monetarily, though the CHF's recent decline to 2-year lows against the dollar will put some minds at rest at the SNB. Further easing cannot be ruled out, though it appears likely the SNB will not hike before the end of the current economic cycle, a factor which may exert downward pressure on the Swissie.

KEY DATES

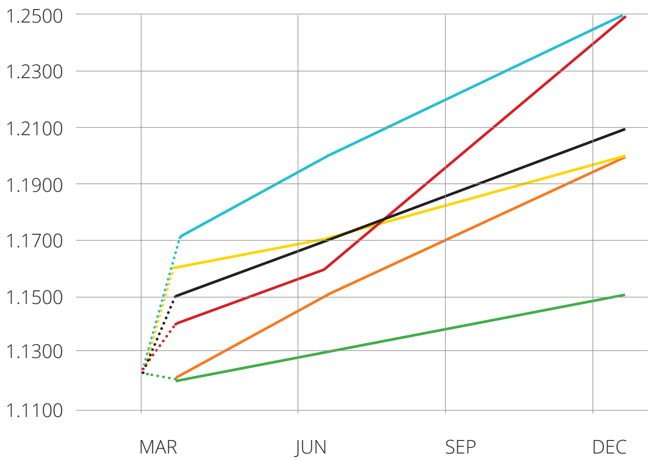
3 May	CPI
8 May	Unemployment rate
21 May	Trade balance
29 May	KOF economic barometer
30 May	GDP (Q1)

GBP/CHF 6 MONTHS

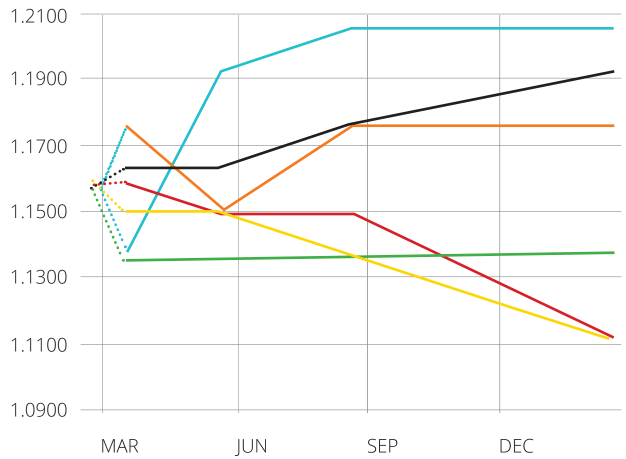
Economic Data	Switzerland
GDP	1.4% (Q4 18)
Interest Rate	-0.75% (Jan 15)
Inflation Rate	0.7% (Mar 19)
Unemployment Rate	2.5% (Mar 19)
Wage Growth	0.5% (Q3 18)
Trade Balance	2.5bln (Mar 19)
Current Account	15.2bln (Q4 18)

2019 Currency Forecasts

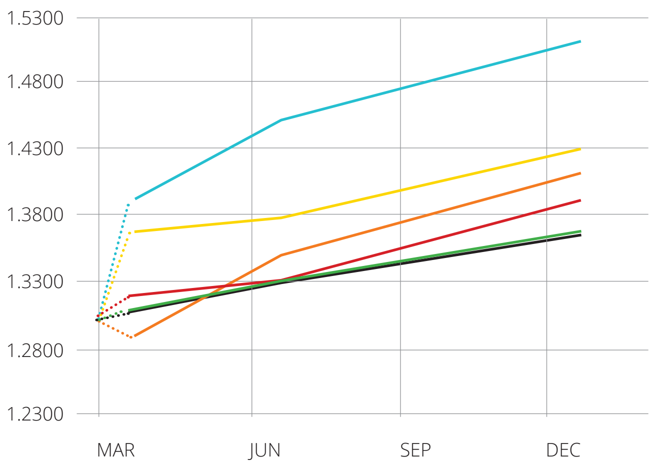
EUR/USD



GBP/EUR



GBP/USD

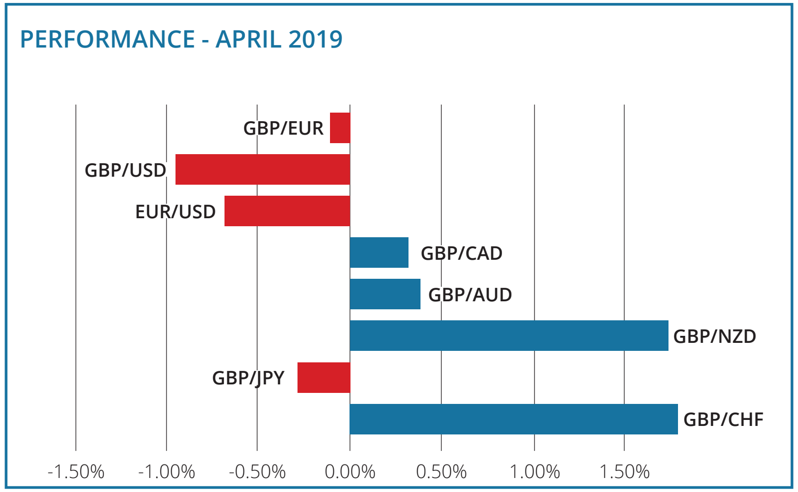


Citi Danske ING MUFG Rabobank SocGen

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 May 2019 and beyond. Following the 4 steps below will help you understand your currency risk and plan for any FX volatility.

	01/04/19	26/04/19	% Change
GBP/EUR	1.1595	1.1583	-0.11%
GBP/USD	1.3030	1.2906	-0.94%
EUR/USD	1.1219	1.1142	-0.68%
GBP/CAD	1.7357	1.7413	0.32%
GBP/AUD	1.8274	1.8346	0.39%
GBP/NZD	1.9070	1.9403	1.75%
GBP/JPY	144.59	144.18	-0.28%
GBP/CHF	1.2940	1.3172	1.79%



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

CAXTON FX
BUSINESS

Planning and managing your currency risk doesn’t have to be complicated.
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