2020 Currency Outlook

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2019 Review

2019 was a year dominated by increasing Sino-US trade tensions, ongoing British political uncertainties, and a global monetary policy U-turn from this point 12 months ago.

Starting with trade, a ratcheting up of tensions between the US and China, followed by increasing tariffs and ever-lingering doubts over a deal between the two superpowers dampened economic output throughout the year – particularly in the manufacturing sector. As a result, in many developed economies, consumer spending has been the primary factor underpinning the ongoing economic expansion, with growth slowing from levels seen a year earlier.

In the US, the expansion is now the longest on record, aiding the present bull market in equities to extend into a record 10th year. The US expansion, however, has been at a slower pace than in 2018, with the sugar rush from Trump's tax cuts fading and ongoing trade tensions seeing the US economy 'catch down' to other developed economies.

As a result of the sluggish pace of growth, and another year of relatively benign inflation across G10 economies, central banks shifted to a more dovish policy stance.

The Federal Reserve carried out a series of three 25bps 'insurance' cuts during the second half of the year, with the ECB, RBA and RBNZ also joining the easing camp. Whether this policy loosening has engineered a soft landing for the global economy will become clear as time goes on.

The dovish policy stance, combined with both the Fed and ECB once again expanding their balance sheets through a restart of asset purchases, significantly increased liquidity in financial markets. This increased liquidity resulted in sharply reduced volatility in G10 FX, with many volatility gauges falling to multi-year lows.

Meanwhile, in the UK, political developments continued to dominate for sterling, with 2019 seeing 4 Parliamentary Brexit votes; 3 Article 50 extensions to the Brexit deadline; a Conservative Party leadership contest; an unlawful prorogation of Parliament; a renegotiation of the Brexit deal; and the first December general election in almost 100 years, resulting in the biggest Conservative majority since the days of Thatcher in the 80s.

At the end of the political rollercoaster, the pound ended the year on a relatively firm note, with markets reassured that the Tory majority will result in a smooth Brexit at the end of January, though concerns remain over the difficulties of agreeing the future trading relationship in just 11 months.

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Economic data correct as of 16.12.2019

Trade data denominated in local currency.

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2020 Looking ahead

Many of the themes that dominated financial markets in 2019 are set to remain front and centre in the coming twelve months.

TRADE

Despite the recent agreement of a phase one trade deal, Sino-US tensions aren't going away, with talks set to begin on a phase two deal in relatively short order.

However, despite markets seeming to think that a phase one deal is an easy steppingstone to additional phases, additional trade agreements between the two nations are by no means a foregone conclusion.

Market participants are only too aware of the tortuous years of talks that have got us to an initial deal, covering the 'easy' items on the agenda. The following phases of the deal will need to cover more complex issues, including intellectual property, technology transfer, currency manipulation and many others.

In fact, in several senses, the negotiations have become talks over national security rather than being purely about trade.

As a result, risk sentiment is vulnerable should negotiations fail to make significant progress, potentially resulting in additional tariff increases and a further dent to global growth.

UK POLITICS

Meanwhile, the UK's departure from the EU will once again be in focus, with EU-UK talks over the future trading relationship set to dominate throughout the coming year.

Prime Minister Boris Johnson has repeatedly stated his desire to conclude such talks before the end of the transition period in December 2020, while also affirming that he has no plans to extend the deadline for a deal to be concluded. As a result, with timings incredibly tight to wrap up a comprehensive trade deal within just 11 months, we may once again be looking at concerns over a no-deal Brexit at the end of next year.

However, complicating this picture is the now significant Tory majority in the Commons. This means that rebel MPs will no longer be able to easily pass legislation dictating the progress of the negotiations or mandating any deadline extensions. On the other hand, this majority may result in PM Johnson pivoting away from his present strategy, no longer being hamstrung by the Eurosceptic ERG, and see a closer relationship negotiated and an extension to the deadline.

Johnson has, however, shown little sign of performing such a pivot, and may be unlikely to do so with the recent election victory coming largely as a result of the Conservative's definitive, hard-line stance on Europe.

2020 PRESIDENTIAL ELECTION

Across the pond, politics will also likely dominate, with the November presidential election rapidly approaching. As the year progresses, the Democrat nominee will become clearer, with the Party set to choose between a centre-left candidate such as Joe Biden or Michael Bloomberg, and a more progressive candidate such as Elizabeth Warren or Bernie Sanders. The choice will become clearer as the Caucuses and Primaries proceed throughout the early part of the year.

Whoever is selected as the Democrat nominee is set to face President Trump in the November election. For markets, the re-election of President Trump represents the status-quo outcome, however Trump may become increasingly hawkish and unpredictably during a 2nd term, not having to worry about re-election. Should a Democrat be elected, this may somewhat spook investors, particularly if Warren or Sanders win the nomination and enact their planned wealth taxes.

MONETARY POLICY

Finally, monetary policy is likely to take a backseat throughout the year ahead, with the majority of DM central banks set to keep policy on hold, maintaining their present accommodative policy stances.

Risks to this outlook include the possibility that additional rate cuts are required should trade tensions tip the global economy into a deeper slumber, as well as the possibility of the BoJ or ECB deciding to take rates deeper into negative territory.

Overall, however, with monetary policy set to remain loose, and central bank liquidity set to remain plentiful, volatility may once again be dampened in the year ahead.

Key events 2020

January

21 – 24	World Economic Forum, Davos
23	ECB meeting
29	Federal Reserve meeting
30	BoE meeting and Monetary Policy Report
31	UK due to leave European Union, BoE Governor Carney steps down

February

3	US presidential election caucuses begin in Iowa
11	US presidential election primaries begin in New Hampshire
Tentative	UK government to unveil budget

March

3	'Super Tuesday' US presidential election primaries
12	ECB meeting and Staff Macroeconomic Projections
18	Federal Reserve meeting and Summary of Economic Projections
26	BoE meeting
31	OPEC production cuts set to end

April

17 – 19	IMF, World Bank spring meeting
29	Federal Reserve meeting
30	ECB meeting

May

7	BoE meeting and Monetary Policy Report, UK holds local elections

June

4	ECB meeting and Staff Macroeconomic Projections
10	Federal Reserve meeting and Summary of Economic Projections
10 – 12	G7 meeting held in USA

July

13	Democratic National Convention (Democrat presidential candidate unveiled)
29	Federal Reserve meeting

August

6	BoE meeting and Monetary Policy Report
24	Republican National Convention
Tentative	Jackson Hole Economic Symposium

September

10	ECB meeting and Staff Macroeconomic Projections
16	Federal Reserve meeting and Summary of Economic Projections
17	BoE meeting

October

29	ECB meeting

November

3	US presidential election
5	Federal reserve meeting, BoE meeting and Monetary Policy Report
9 – 19	UN Climate Change Conference held in Glasgow
21	New Zealand general election
21 – 22	G20 summit held in Riyadh, Saudi Arabia

December

10	ECB meeting and Staff Macroeconomic Projections
16	Federal Reserve meeting and Summary of Economic Projections
17	BoE meeting

Europe

Pound sterling (GBP)

KEY THEME – POST-BREXIT TRADE

Politics isn't going away when it comes to the pound, with focus set to remain on UK-EU relations throughout the coming 12 months. This year, however, attention will be on the future trading relationship, rather than the nature of the UK's departure, with the Withdrawal Agreement set to be ratified in both the UK and EU Parliaments before the end of January.

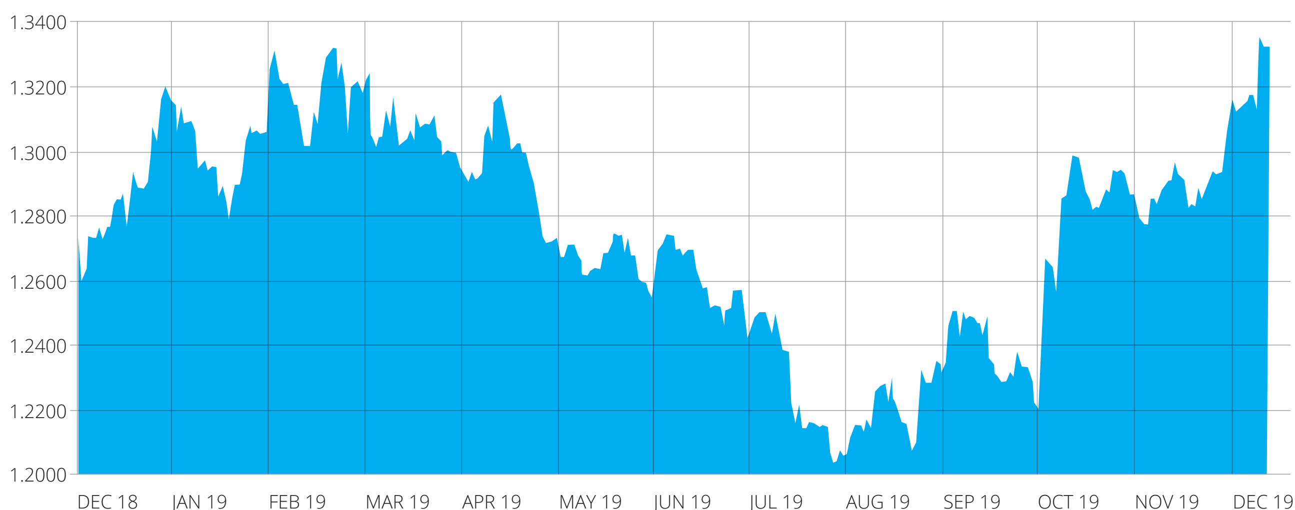
As a result, markets will pay close attention to the progress of trade negotiations, with the transition period – where the UK has left the EU, but follows the bloc's rules – set to conclude at the end of 2020. Whether the UK can negotiate a comprehensive free trade agreement with the EU27 by the end of December remains to be seen. However, with the timings appearing incredibly tight to get a deal done before then, investors will also pay close attention to the likelihood of the transition period being extended to allow additional time for the conclusion of trade negotiations.

The Prime Minister's recent move to outlaw an extension to the transition period has raised the chances of a cliff-edge scenario at the end of next year; however only time will tell whether this is just a negotiating ploy to focus minds on either side of the Channel. Towards the middle of next year, if desired, the government could attempt to pass a one-line bill extending the transition, avoiding the potential of a cliff-edge at the end of next year.

With the above in mind, 2020 may be a year of two halves for sterling. The first half of the year should see sterling remain well-supported, boosted by the release of

Economic Data	UK
GDP	1.3% (Q2 19)
Interest Rate	0.75% (Aug 18)
Inflation Rate	1.7% (Sep 19)
Unemployment Rate	3.9% (Aug 19)
Wage Growth	3.8% (Aug 19)
Trade Balance	-1.6bln (Aug 19)
Current Account	-25.2bln (Q2 19)

GBP/USD 2019



Pound sterling (GBP)

pent-up investment due to the certainty over the nature of the UK's departure from the EU. However, later in the year, sterling may encounter stiff headwinds, as focus increasingly shifts to the possibility of a no-deal exit from the transition period at the end of December.

MONETARY POLICY

Barring any shocks in the Brexit process, the Bank of England should remain on hold throughout the coming 12 months, despite striking an increasingly dovish tone in recent meetings. The recent dovish shift, including two policymakers voting for an immediate rate cut, stems largely from a recent softening in the labour market, hence these indicators will be closely watched as the year progresses. Nonetheless, policymakers are set to keep their limited policy powder dry throughout the year ahead, barring an economic catastrophe, with little policy headroom to allow MPC members to take out 'insurance' cuts in a similar manner to the FOMC last year.

It is also worth noting that the appointment of a new BoE governor is set to be made before the end of January, which may alter the policy outlook, particularly if a hawkish candidate such as Kevin Warsh is picked for the top job.

ECONOMIC BACKDROP

Having taken a backseat to politics for a number of years, economic indicators are set to take on greater importance this year. Of particular interest will be GDP growth, primarily as market participants attempt to gauge whether increased certainty on the UK's departure from the EU results in a release of pent-up investment and an uptick in activity across the economy. Leading indicators, however, for the economy are relatively disappointing at present, with new orders and employment struggling to make significant headway, and a potential return of political uncertainty as the year progresses set to cap any significant uptick in growth.

Meanwhile, close attention will be paid to incoming employment data and any signs of further softness, especially earnings growth, which has declined in 3 of the last 4 months. This is despite unemployment remaining at its lowest levels since 1975, indicative of the economy being at, or close to, full employment.

The ongoing, or even increasing, slack in the labour market should continue to keep a cap on inflation, with the likely subdued pace of price increases providing further reasoning for the BoE to leave policy settings unchanged.

Euro (EUR)

KEY THEME – FUNDING CURRENCY

After a rangebound 2019, 2020 is set to bring more of the same for the common currency, with the ECB's ongoing quantitative easing programme and ultra-loose policy stance providing ample liquidity, likely resulting in another year of uninspiring volatility.

In fact, the euro is beginning to exhibit similar behaviour to the Japanese yen, with negative yields resulting in a preference for investors to use the common currency as a funding currency for carry trades.

With any hope of ECB policy normalisation remaining distant at present, and unlikely to emerge during the next 12 months, this low rate, high liquidity dynamic should continue to keep the common currency confined to the narrow ranges seen last year.

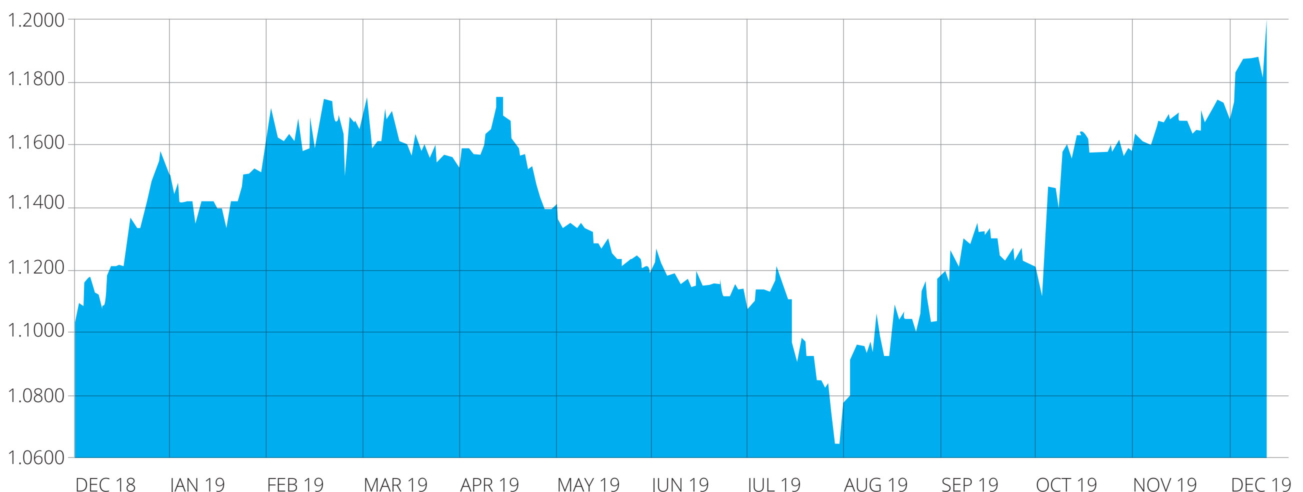
Of course, the primary risks to this outlook are a further slowdown in eurozone growth – which the ECB may struggle to stave off – in addition to the possibility of a further flare up in trade tensions, including the possibility of President Trump turning his attention to the eurozone, rather than focusing on China.

MONETARY POLICY

As mentioned above, the year ahead is set to see the ECB maintain their ultra-accommodative stance, keeping interest rates deep in negative territory, and maintaining the 'open-ended' quantitative easing programme. The open-ended nature of asset purchases is, however, likely to be called into question in the coming year, with the ECB likely to hit self-imposed issuer limits in most

Economic Data	EU
GDP	1.2% (Q3 19)
Interest Rate	Refi: 0.0% (Mar 16) Depo: -0.50% (Sep 19)
Inflation Rate	1.0% (Nov 19)
Unemployment Rate	7.5% (Sep 19)
Wage Growth	2.7% (Q2 19)
Trade Balance	18.7bln (Sep 19)
Current Account	35.8bln (Sep 19)

GBP/EUR 2019



countries well before the end of 2020. It is likely, however, that President Lagarde attempts to raise said limits – or purchases greater amounts of corporate debt – to continue the asset purchase programme. Whether rates are taken deeper into negative territory remains to be seen, though the efficacy of any further cuts appears questionable.

The upcoming strategy review will also be keenly watched, with particular attention set to be paid to the possible addition of 'symmetry' to the ECB's inflation target. Such an alteration would mean policymakers allowing inflation to run above target for a period, in order to make up for periods of inflation running below target. This would likely result in the present accommodative stance lasting for longer, meaning the common currency would continue to trade in line with the aforementioned dynamics.

However, despite asset purchases and deeply negative rates, it is clear that the ECB's policy can no longer have the desired effect on the eurozone economy on its own. As a result, expect policymakers to continue their push for fiscal stimulus from eurozone governments – particularly Germany – throughout the year ahead.

ECONOMIC BACKDROP

After 2019 saw benign inflation, and sluggish, almost stalled, economic growth – mainly driven by a slowdown in the manufacturing sector – 2020 is set to bring more of the same. As mentioned above, the ECB's stimulus programme shows little signs of having the desired effect, and leading indicators for the manufacturing sector are showing scant signs of improvement, hence the low growth environment appears set to continue for another year.

Meanwhile, inflation is also set to remain subdued, due to a combination of the ECB's lack of ammunition, and possible structural issues in the labour market. Despite unemployment remaining at a post-crisis low of 7.5%, there has yet to be significant upward pressure on earnings, thus the ongoing degree of labour market slack should continue to keep inflation subdued.

On the whole, the eurozone economy may slowly be morphing into the Japanese economy, with the two exhibiting the similar characteristics of low growth, low inflation and low, or even negative, yields.

Swiss franc (CHF)

KEY THEME – HAVEN FLOWS

Once again, the Swiss franc's primary hopes of appreciation rest on a deterioration in risk sentiment, which should result in solid demand for the Swissie as investors seek safer climbs. Such a situation may become particularly prevalent should European investors seek a haven if concerns over a cliff-edge Brexit at the end of 2020 arise.

Nonetheless, such haven flows and upside movement are not guaranteed. Should trade tensions show signs of abating, and a UK-EU free trade agreement be negotiated, the Swiss franc may struggle for significant upside. Further struggles may stem from relatively poor economic fundamentals, and the SNB remaining likely to step in to prevent any significant appreciation. As a result, EUR/CHF may be in for another quiet, rangebound year.

MONETARY POLICY

As with 2019, the SNB will remain primarily concerned with the valuation of the franc throughout the coming year, rather than focusing on the domestic inflation backdrop. This fixation with the FX market stems from the small, but highly open, nature of the Swiss economy, with the nation's economic fortunes highly dependent on trade with its eurozone neighbour.

As a result, the SNB's assessment of the franc, which is currently seen as 'highly valued' will remain key throughout the year, with any change to this assessment likely to have a significant impact on the CHF. A re-wording of this assessment may come should EUR/CHF begin to test 1.05.

Along with verbal intervention in the market, monetary interventions – i.e. purchasing euros to prop up the franc – should not be ruled out. Despite this, rates should remain unchanged, with the SNB seemingly reluctant to take rates deeper into negative territory.

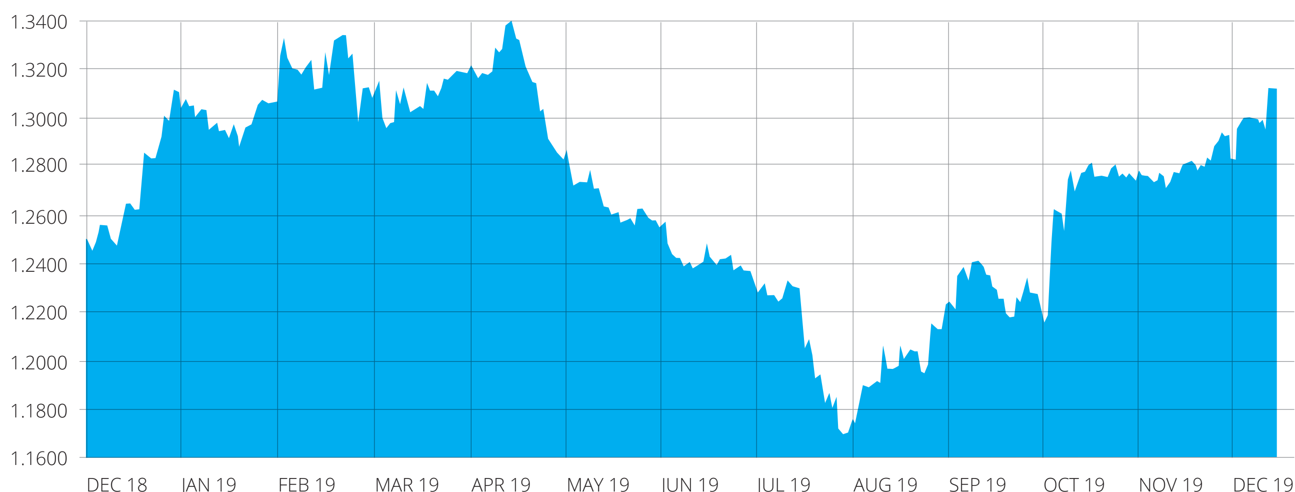
ECONOMIC BACKDROP

As mentioned above, the fundamentals of the Swiss economy are weak. Economic growth is stagnating, with the annual pace of GDP growth having failed to reach 2% in over a year, and leading indicators pointing to a subdued outlook, particularly in the manufacturing sector. The eurozone may also act as a drag on economic output, with Switzerland set to suffer spill-over effects of the bloc's slowdown.

Meanwhile, on the inflation front, Switzerland continues to run the risk of a prolonged deflationary spell, particularly with the SNB's loose policies failing to spark any increase in the pace of price increases. Furthermore, a spell of, at best, subdued inflation is likely, with practically full employment still failing to exert significant upward pressure on earnings.

Economic Data	SWITZERLAND
GDP	0.3% (Q3 19)
Interest Rate	-0.75% (Jan 15)
Inflation Rate	-0.3% (Oct 19)
Unemployment Rate	2.2% (Oct 19)
Wage Growth	0.5% (Q2 19)
Trade Balance	2.4bln (Oct 19)
Current Account	21.3bln (Q2 19)

GBP/CHF 2019



Norwegian krone (NOK)

KEY THEME – REMAINING FIRM

The perplexing late-2019 NOK sell-off is unlikely to extend into the new year, with strong economic fundamentals, solid oil prices, and an 'on hold' Norges Bank policy stance all set to provide solid support.

In fact, the solid oil prices and increasing investment in the energy sector should continue to underpin economic growth, with increasing investment also likely to result in significant inflows into the NOK. As a result of the increasing demand, the currency should remain well-supported at a minimum.

MONETARY POLICY

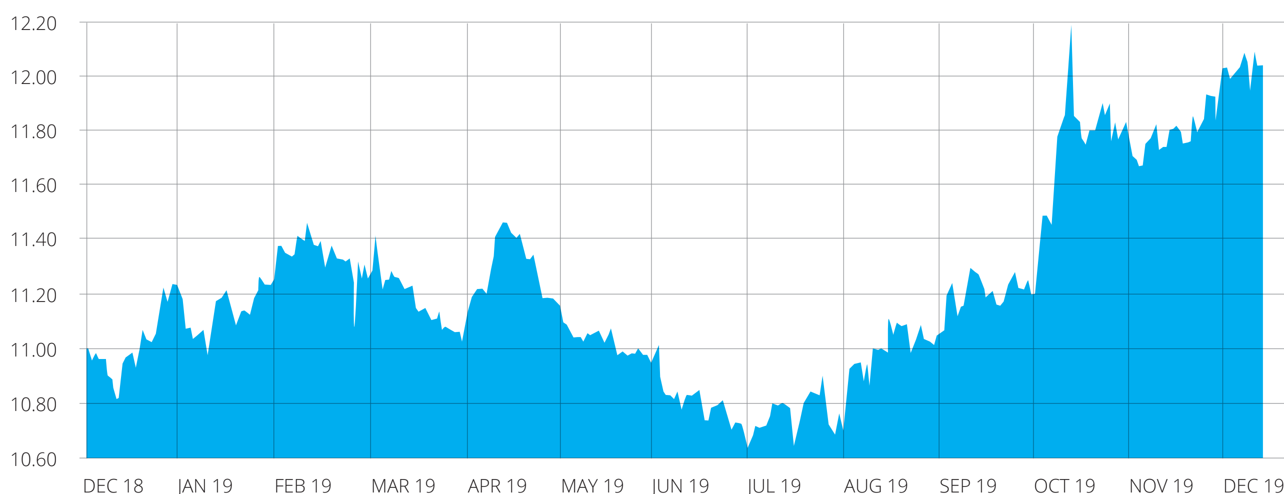
After three rate hikes in 2019, the Norges Bank now appear to be on hold, assessing the impact that last year's hikes have had on the Norwegian economy. Nonetheless, should inflation begin to trend upwards, and the economy evolves in a better than expected manner, a rate hike towards the tail end of 2020 should not be ruled out. Such a tightening, which is not yet priced into markets, should provide the currency with support.

ECONOMIC BACKDROP

As discussed above, the fundamentals of the Norwegian economy should remain relatively firm throughout the coming 12 months, with the energy sector largely holding the key to a faster pace of economic growth. Away from energy, the housing market appears to have stabilised, while the picture in the labour market remains pleasing. Should these conditions continue throughout the coming year, the NOK should remain underpinned, and rate hikes may remain on the table.

Economic Data	NORWAY
GDP	1.3% (Sep 19)
Interest Rate	1.5% (Sep 19)
Inflation Rate	1.6% (Nov 19)
Unemployment Rate	3.9% (Sep 19)
Wage Growth	3.7% (Sep 19)
Trade Balance	18.8bln (Nov 19)
Current Account	23.9bln (Nov 19)

GBP/NOK 2019



Swedish krona (SEK)

KEY THEME – LAGGING BEHIND

2019 was another year of underperformance for the SEK, and 2020 is set to follow suit due to a slowing pace of economic growth, ongoing disinflationary environment and a slack labour market. The krona has also been buffeted by escalating trade tensions between the US and China, with the Swedish economy particularly vulnerable to the global trade cycle.

As a result of these factors, the SEK is once again likely to spend the coming 12 months lagging behind its G10 peers, with the currencies lower-yielding characteristics also failing to provide any significant support.

MONETARY POLICY

Having recently exited their programme of negative interest rates, the Riksbank are likely to keep monetary policy on hold throughout 2020. Despite this, pervasive downside risks to the Swedish economy – primarily the downward trend in inflation – pose a risk that markets begin to price back in the prospect of policy loosening, thus weakening the SEK.

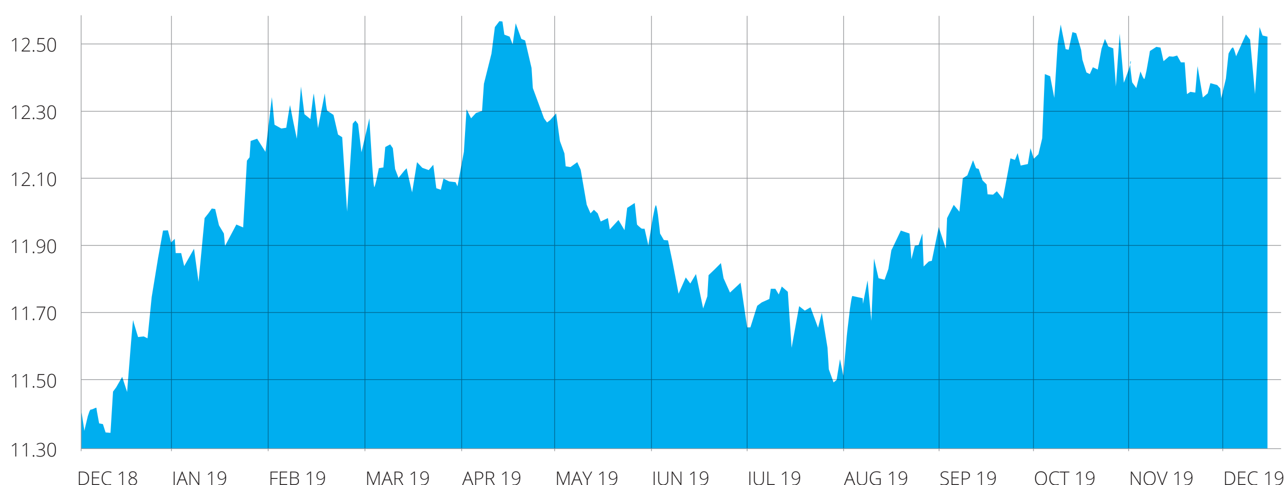
ECONOMIC BACKDROP

As mentioned in the opening section, the fundamentals of the Swedish economy appear to be weakening, including a slower pace of growth and falling inflation. Furthermore, leading indicators show little signs of improvement, with new orders declining and exports susceptible to a steep decline if trade tensions flare up once again.

Combined these factors make it difficult to be constructive on SEK going into 2020.

Economic Data	SWEDEN
GDP	1.6% (Sep 19)
Interest Rate	-0.25% (Dec 18)
Inflation Rate	1.8% (Nov 19)
Unemployment Rate	6.8% (Nov 19)
Wage Growth	2.4% (Aug 19)
Trade Balance	4.0bln (Oct 19)
Current Account	68.8bln (Q3 19)

GBP/SEK 2019



North America

US dollar (USD)

KEY THEME – PHASE ONE AND DONE?

As mentioned in the introductory section, Sino-US trade relations will once again be a significant driver of the dollar in the year ahead. The recent agreement of a phase one deal has, despite details being scant, somewhat boosted risk appetite, though attention is likely to shift quickly to whether the two nations are able to agree any further phases of the trade agreement.

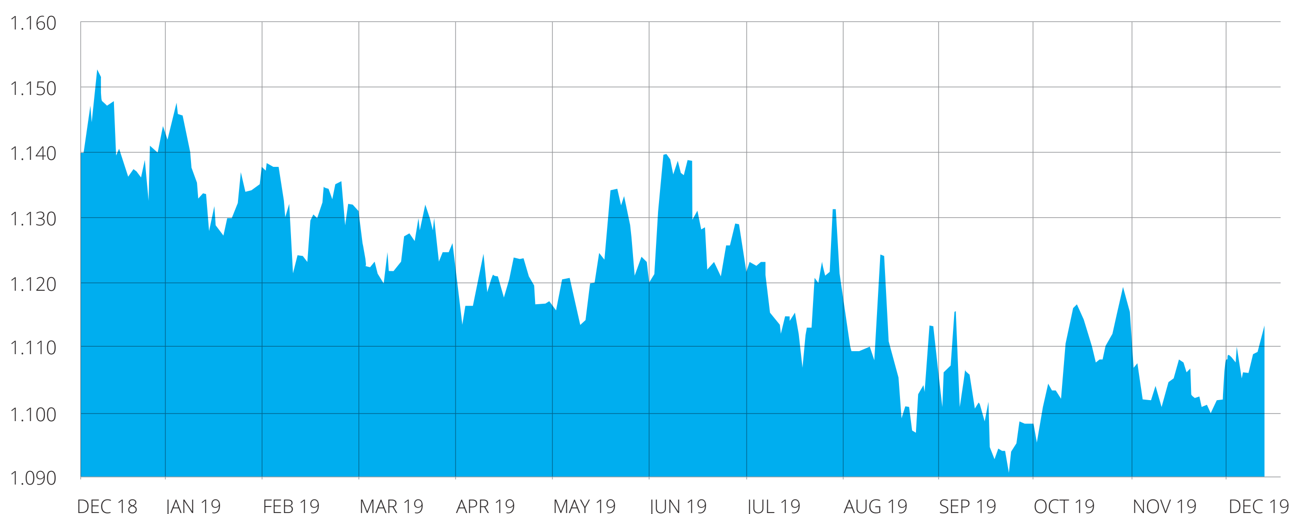
Despite markets seeming to believe that phase one will be a simple steppingstone to further parts of the deal, additional trade agreements are no foregone conclusion. Thus far, the years of talks have covered the supposedly easy matters; things like increased Chinese purchases of US agricultural products. The coming talks will need to cover more complex matters, including intellectual property and forced technology transfer, which will be no easy feat. In fact, the negotiations are close to becoming national security talks rather than trade talks.

Complicating this picture further is November's presidential election. Should President Trump win a second term, he may take an increasingly unpredictable, hawkish stance, not having to worry about re-election. Nonetheless, should another term of the Trump Presidency bring a further round of tax cuts and fiscal stimulus, this would be positive for the dollar and US assets in general.

On the other hand, the Democrat nominee will become clearer as the year progresses, with the Party set to choose between a centrist candidate

Economic Data	USA
GDP	2.1% (Q3 19)
Interest Rate	1.50% - 1.75% (Oct 19)
Inflation Rate	2.1% (Nov 19)
Unemployment Rate	3.5% (Nov 19)
Wage Growth	3.1% (Nov 19)
Trade Balance	-47.2 (Oct 19)
Current Account	-128.2bln (Q2 19)

EUR/USD 2019



US dollar (USD)

such as Joe Biden, or a more progressive candidate such as Elizabeth Warren. The election of a centrist is unlikely to have a significant impact on markets, however, should a candidate such as Warren win the Presidency, US assets would likely be spooked by radical proposals such as the wealth tax.

MONETARY POLICY

This year's outlook for the Federal Reserve is relatively simple, policymakers will keep monetary policy on hold, barring a 'material reassessment' of the economic outlook. Such a reassessment, if it occurs, will likely once again stem from Sino-US trade developments, again giving President Trump a significant degree of influence over the Fed's policy direction. Nonetheless, all things being equal, and if the economy evolves as expected (see below), policy should remain on hold, with the relatively accommodative stance helping to keep a floor under risk assets.

It is also worth noting that this year's FOMC voting rotation is likely to do little to alter the hawk-dove balance of the Committee, with Minneapolis Fed President Kashkari replacing James Bullard as the most dovish member; and Philadelphia Fed President Harker set to replace Eric Rosengren as the most hawkish voter.

ECONOMIC BACKDROP

The year ahead is set to see the US economy continue to 'catch down' to the remainder of the developed world, with GDP growth likely to slow to under 2% as a result of the ongoing manufacturing slowdown, lingering trade concerns, and mounting political uncertainties in the run up to November's election. Once again, as seen in 2019, consumer spending will remain key to prolonging the record-long economic expansion.

Key to a healthy level of consumer spending will be a healthy labour market. As 2020 progresses, payrolls gains will likely moderate due to a shrinking pool of available labour, however this is yet to exert significant upward pressure on earnings, which appear to have hit a ceiling just above 3% YoY. Nonetheless, earnings continue to increase at a healthy clip, which should continue to underpin spending throughout the coming year. The roughly 3% pace of earnings growth should, however, keep inflation close to the Fed's 2% target, giving further reason for policy to remain on hold.

Canadian dollar (CAD)

KEY THEME – REMAINING RESILIENT

Despite seemingly resurgent concerns over the health of the Canadian economy – particularly in relation to the labour market and external risks from US-China trade tensions – the Canadian dollar remained resilient throughout 2019.

This theme is set to continue throughout the coming year, with support largely stemming from yield differentials, with the BoC maintaining the highest developed market policy rate at 1.75%. As a result, yield-hungry investors partaking in carry trades mean the CAD remains in high demand, a situation which should once again prevail throughout the coming 12 months.

However, this outlook is not without its risks. A further flare up in Sino-US tensions would pose a stiff headwind to the economy. Furthermore, should the recent deterioration in labour market conditions – including the biggest 1-month fall in employment since 2009 – continue, the BoC may wish to consider insurance cuts, denting the CAD's advantage as the highest yielder among G10.

Other things to look out for in the year ahead include the ratification of the USMCA trade deal, which is becoming an increasingly prolonged process. Oil prices will also remain key for the loonie, with prices set to remain relatively stable should OPEC-led production cuts continue.

MONETARY POLICY

As mentioned above, the year ahead is likely to be rather uneventful for the BoC, with policy set to remain unchanged, leaving rates at 1.75%. Risks to this outlook appear to stem largely from external factors, namely any potential flare up of Sino-US trade tensions, with the knock-on effect on global activity potentially resulting in policymakers looking to add accommodation to the Canadian economy.

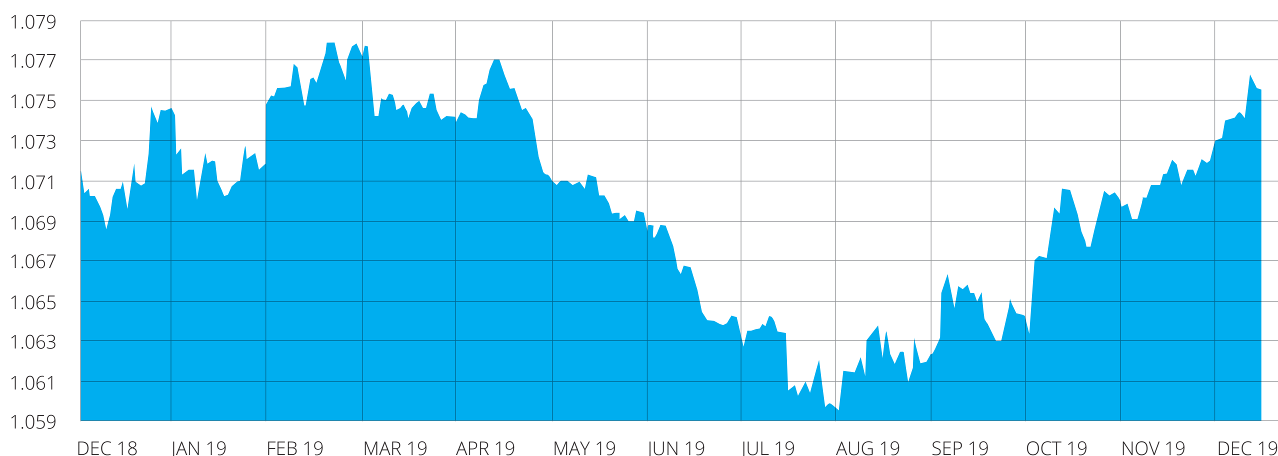
Despite this, even one 25bps insurance cut – which is likely to be the limit of any policy loosening – will still leave the CAD as one of the highest yielding G10 currencies, which should see the loonie remain well-supported throughout the coming year. Of course, the policy outlook may change in the second half of 2020 upon the appointment of a new governor to replace the outgoing Poloz.

ECONOMIC BACKDROP

In a similar manner to monetary policy, the evolution of the Canadian economy appears to hinge largely on external developments. Trade will, of course, play a major part in the coming year's economic growth, in the form of both Sino-US tensions and the long-awaited potential ratification of the USMCA agreement between North American nations. Domestically, labour market developments will be in focus, with particular attention on whether the recent surge in unemployment proves to be a one off or not.

Economic Data	CANADA
GDP	1.6% (Q2 19)
Interest Rate	1.75% (Oct 18)
Inflation Rate	1.9% (Oct 19)
Unemployment Rate	5.9% (Nov 19)
Wage Growth	4.4% (Nov 19)
Trade Balance	-1.0bln (Oct 19)
Current Account	-9.9bln (Q3 19)

GBP/CAD 2019



APAC

Australian dollar (AUD)

KEY THEME – TRADE REMAINS KEY

As seen throughout the majority of 2019, shifts in risk appetite will remain the key driving force behind the Aussie dollar in the year ahead. As a result, developments in Sino-US trade relations will remain in focus, particularly the progress of any phase two negotiations.

When looking at trade, it is important to note that the Aussie dollar receives a double-hit from any deterioration in sentiment towards the trade war. Firstly, as a liquid risk proxy, risk aversion in financial markets would result in a rotation away from the AUD in favour of safer climbs elsewhere. Secondly, with around 30% of all Australian exports being destined for China, the knock-on effects of any trade-related slowdown would likely quickly spill-over into the Australian economy.

MONETARY POLICY

The year ahead should see the RBA maintain their dovish policy stance, with policymakers having little reason to deviate from their present easing bias. Throughout the coming 12 months, there is likely to be at least one further 25bps cut to the Cash Rate, with both domestic and global risks to the outlook contributing to the likely additional policy accommodation.

Furthermore, the beginning of a quantitative easing programme cannot be ruled out, especially if the Cash Rate is cut close to the effective lower bound of 0.25%. The impact of such a quantitative easing programme, which is unlikely to be implemented until the second half of 2020 at the earliest, remains to be seen, however policymakers would hope the programme would help the RBA to hit its ambitious goals of 2.5% inflation, and unemployment at 4.5%.

ECONOMIC BACKDROP

As mentioned above, the RBA's ambitious policy goals remain some way away, however the Australian economy is showing some signs of inching away from its recent slump. On the inflation front, however, continued slack in the labour market – in the form of both rising unemployment and a lacklustre pace of wage growth – should continue to cap the pace of price increases as 2020 progresses. Meanwhile, growth continues to hinge largely on external developments. It is, however, a positive sign that the recent policy loosening has contributed to a rebound in the housing market, a fact which should improve household wealth and consumer spending as the year progresses.

Economic Data	AUSTRALIA
GDP	1.7% (Q3 19)
Interest Rate	0.75% (Oct 19)
Inflation Rate	1.7% (Q3 19)
Unemployment Rate	5.3% (Oct 19)
Wage Growth	2.2% (Q3 19)
Trade Balance	4.5bln (Oct 19)
Current Account	7.8bln (Q3 19)

GBP/AUD 2019

New Zealand dollar (NZD)

KEY THEME – PRIMED TO OUTPERFORM

The Kiwi dollar heads into 2020 on the front foot, with said outperformance set to continue in the new year. This likely outperformance stems from a number of factors, namely; the RBNZ appears to have completed cutting rates for now; dairy prices are beginning to rise; the market is still unwinding a hefty net short position; and the Kiwi dollar is presently trading well below its fair value.

The latter two factors are likely to result in strong performance over the first part of the year, with a removal of significant risks to the outlook prompting a rebound in the NZD. Nonetheless, November's elections pose a risk to this outlook, however neither Prime Minister Ardern's Labour, or the opposition Nationals, are likely to propose radical economic policies.

MONETARY POLICY

Having cut the Official Cash Rate (OCR) by a total of 75bps in 2019, including a surprise 50bps cut in August, the RBNZ are set to take a 'wait and see' approach this year. Policymakers have recently indicated that they are prepared to assess the impact that 2019's cuts have had before taking any further action. Therefore, with other DM central banks – particularly the RBA – still contemplating policy easing, the widening rate differential should help to underpin the Kiwi dollar.

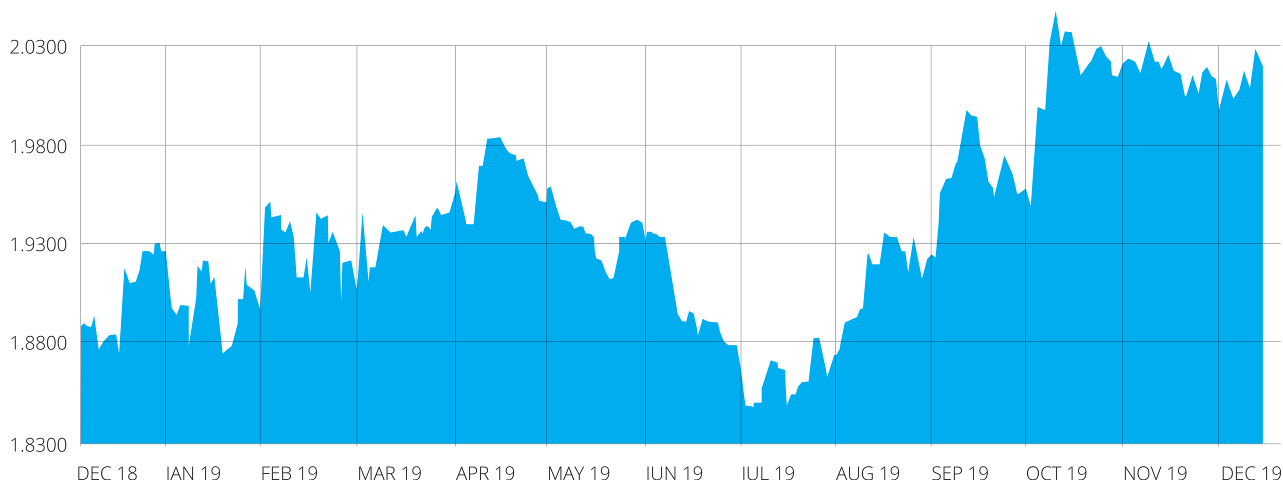
Furthermore, Governor Orr and the RBNZ Board have shown that, unlike the Fed, they won't be bullied by the market into taking a certain policy action, for example by holding rates steady in November 19 despite the market pricing a 70% chance of a rate cut. Therefore, even if markets begin to price in additional easing, this doesn't guarantee that cuts will take place.

ECONOMIC BACKDROP

Over the coming year, the domestic economic backdrop hinges largely on developments in the commodity complex, particularly in terms of agricultural and dairy exports. The prospects for both are looking up, which should help to see GDP growth recover from its recent sluggish pace. Chinese demand will, however, remain key to the prospects of both of the nation's major exports. In the labour market, prospects appear less rosy, with relatively high unemployment and a not insignificant degree of slack depressing wage growth. However, this shouldn't significantly alter the RBNZ's outlook.

Economic Data	NEW ZEALAND
GDP	2.1% (Q2 19)
Interest Rate	1.0% (Aug 19)
Inflation Rate	1.5% (Q3 19)
Unemployment Rate	4.2% (Q3 19)
Wage Growth	2.4% (Q3 19)
Trade Balance	-1.0bln (Oct 19)
Current Account	-1.1bln (Q2 19)

GBP/NZD 2019



Japanese yen (JPY)

KEY THEME – THE HAVEN OF CHOICE

The yen should remain investors' safe haven of choice throughout the coming 12 months, however ample liquidity from the BoJ, ECB and Federal Reserve may result in another year of relatively rangebound trading conditions as the continued provision of 'easy money' once again dampens volatility.

Despite this, the yen remains a close correlation with equity markets – particularly those in the US – hence any downturn in riskier assets would likely result in significant demand for the JPY. Such a downturn could stem from either a flare up of Sino-US trade tensions, a resurgence of concerns about the late-cycle global economy, or from a handful of other geopolitical sources.

Looking under the hood, the yen should fundamentally remain well-supported, particularly on any dips, with domestic investors set to continue supporting the yen as their search for positive returns overseas continues.

MONETARY POLICY

It's set to once again be a relatively uneventful year for the BoJ, with monetary policy set to remain on hold, largely as a result of policymakers' almost completely depleted toolkit. Decades of ultra-low rates, combined with the relatively recent additions to the policy mix of quantitative and qualitative easing, and yield curve control, have all failed to significantly stimulate the domestic economy and return inflation to anywhere close to target.

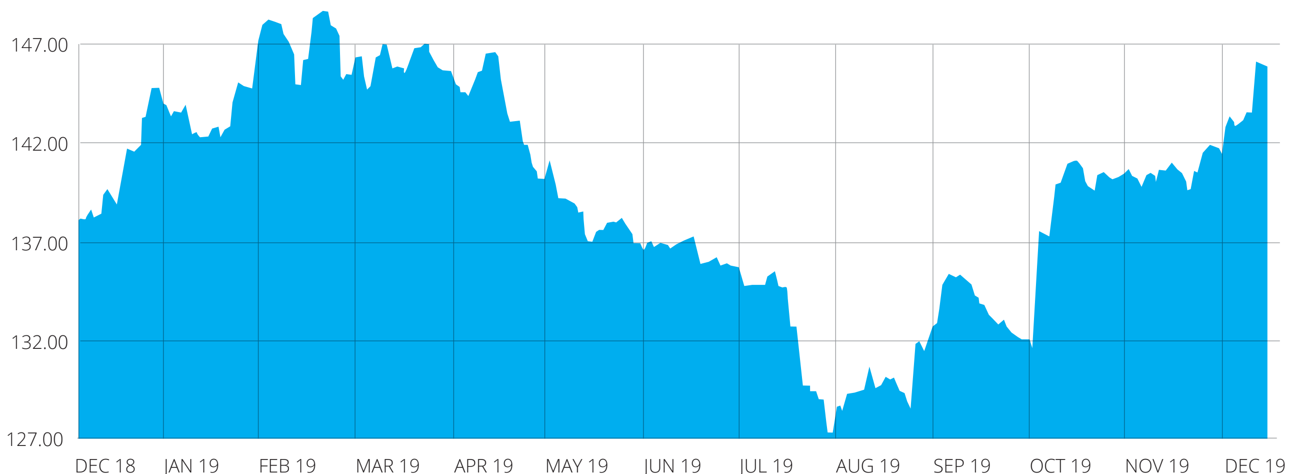
There appears to be little else that the BoJ can do to attempt to stimulate the economy, with deeper negative rates seemingly off the table, hence policymakers are likely to follow a similar line to the ECB – and hand the baton over to fiscal policy to pick up the burden of turning around the economy. Whether fiscal policies, including the recent more than $100bln package announced by PM Abe, can have the desired effect remains to be seen.

ECONOMIC BACKDROP

As with monetary policy, the fundamentals of the Japanese economy have recently been exerting little influence on the direction of the yen. While investors will pay close attention to the path of GDP growth considering the recent fiscal package, as well as the ongoing impact of October 2019's consumption tax hike, neither is likely to significantly alter the near-term direction of the JPY. Other indicators are expected to remain little changed, with unemployment set to remain low – but failing to exert upward pressure on wages – while the economy should continue to run a significant trade surplus with the rest of the world.

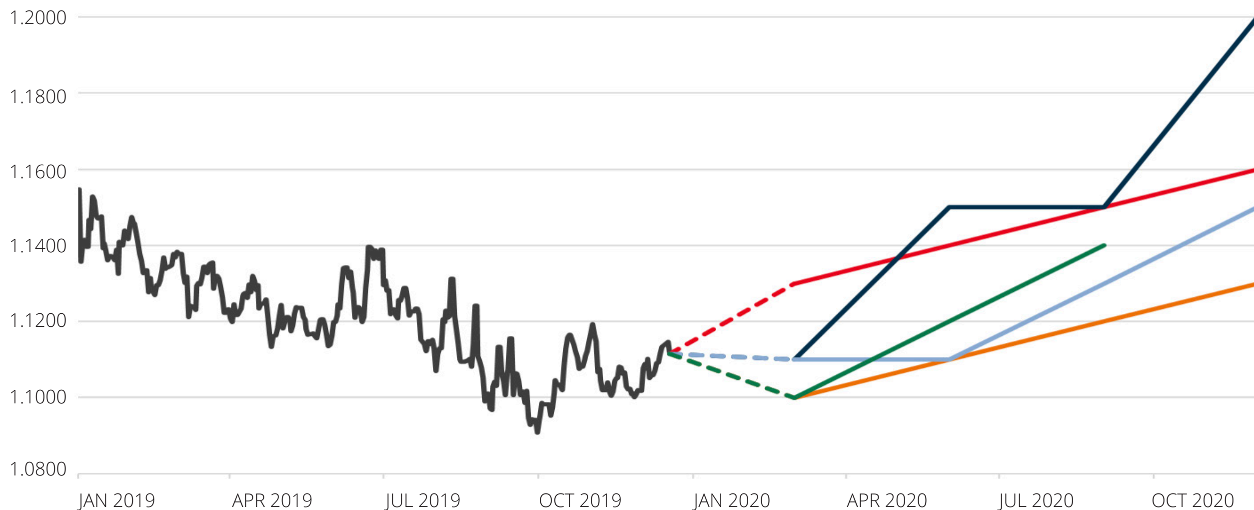
Economic Data	JAPAN
GDP	1.7% (Q3 19)
Interest Rate	-0.1% (Jan 16)
Inflation Rate	0.2% (Oct 19)
Unemployment Rate	2.4% (Oct 19)
Wage Growth	0.5% (Oct 19)
Trade Balance	15.7bln (Oct 19)
Current Account	1.8tln (Oct 19)

GBP/JPY 2019

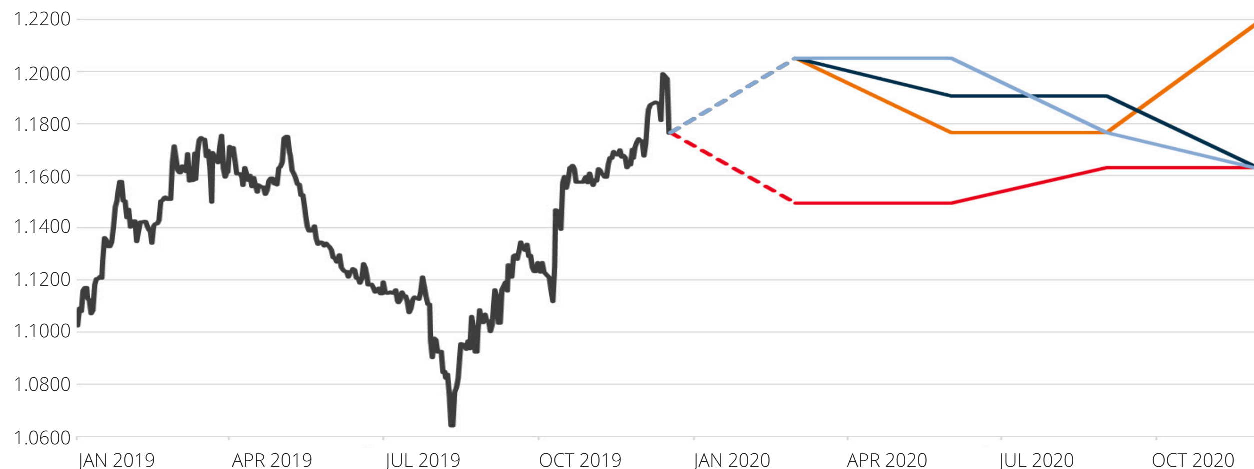


2020 Currency forecasts

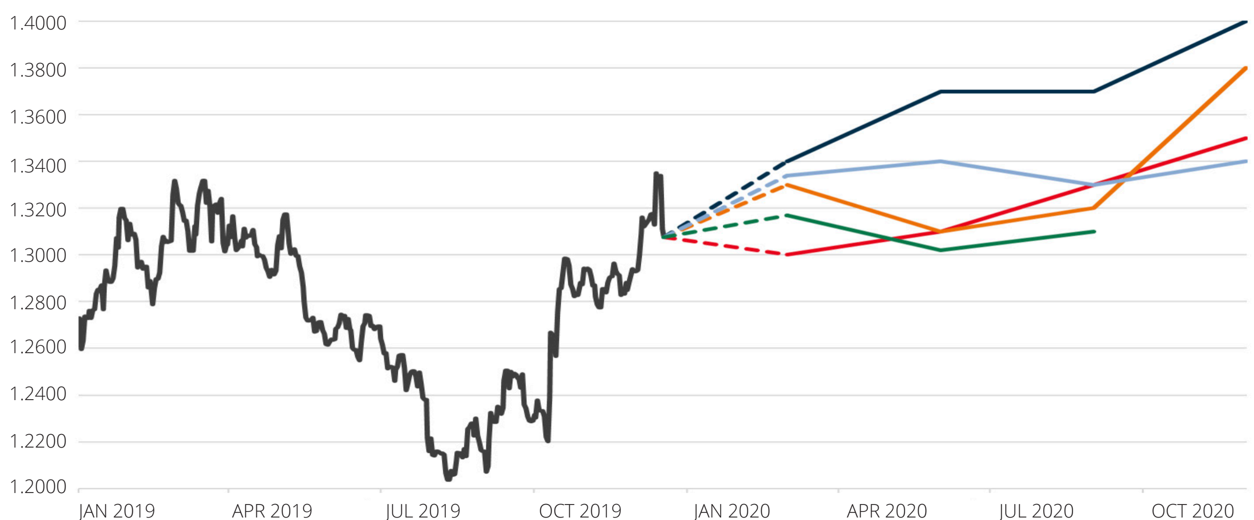
EUR/USD Spot UniCredit ING Citi Danske MUFG



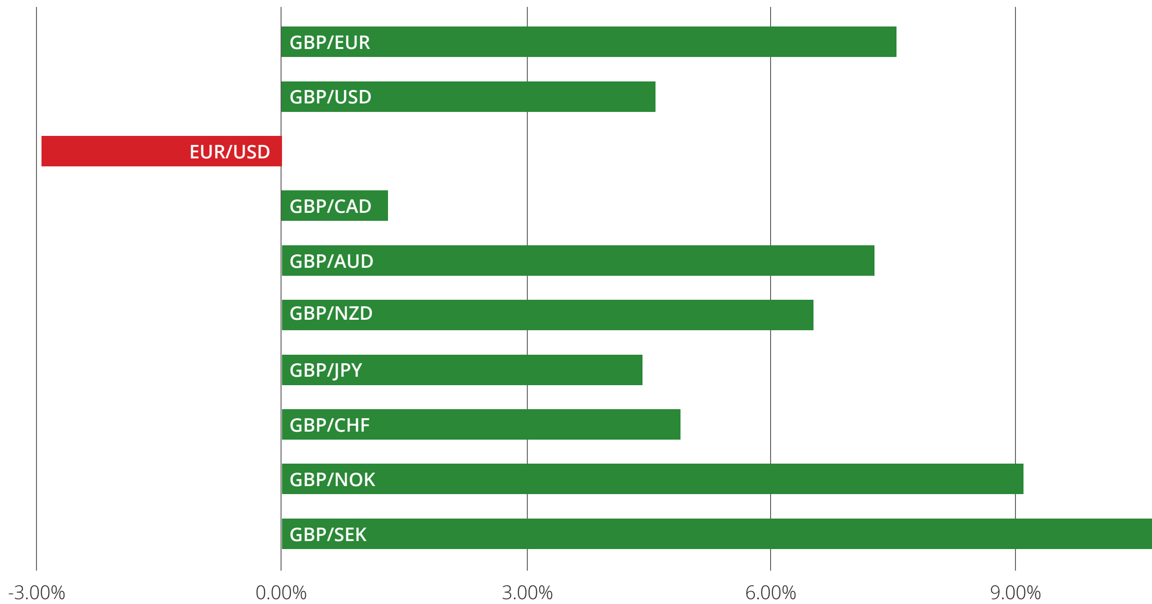
GBP/EUR Spot UniCredit ING Citi Danske MUFG



GBP/USD Spot UniCredit ING Citi Danske MUFG



2019 Performance



Build your currency plan for 2020

As a business, implementing a simple but effective 'currency plan' will help your business manage volatility for 2020. 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

CAXTON
BUSINESS

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