



# Currency Outlook September 2018

**CAXTONFX**  
BUSINESS

# What you need to know

August saw sterling hit its lowest levels against the dollar since June 2017 and the euro since October 2017 as the Bank of England hiked interest rates to the highest since 2009, 'no-Brexit' fears rose, and the dollar appreciated amidst heightened geopolitical tensions. Heading into September, we expect to see further sterling pressure as Brexit negotiations continue, the Fed raises rates for a third time this year, and geopolitics remains in focus.

## WEEK 1

- Of the UK PMIs, Manufacturing PMI typically has the greatest market impact, while the Services industry represents 80% of the economy.
- The US jobs report typically sees market volatility. Focus has been increasingly on the average earnings figure as central banks ponder why a tightening job market hasn't seen a correspondingly strong acceleration in wage growth.

## WEEK 2

- UK monthly GDP will receive a nod, but the attention is mainly on the Q2 final figure later in the month. The Bank of England is widely expected to keep rates on hold until next year after August's hike and the Bank's subsequent dovish tones.
- The ECB is expected to keep policy on hold, with QE purchases to wind down by the end of the year and interest rates to remain on hold until at least next summer. Markets will look for the ECB's update inflation outlook after headline inflation hit 2.1% in July.

## WEEK 3

- Final CPI figures will be watched closely for confirmation that headline inflation hit 2.1% in the Eurozone in July.
- Inflation is key for the UK as well, with the release of July figures. Markets will watch to see whether inflation continues to pick back up; any significant acceleration could increase speculation of a need for higher interest rates. Retail Sales are also in focus.

## WEEK 4

- The Fed is widely expected to hike interest rates by 25 basis points. The CME FedWatch Tool has this move priced in by up to 94% (22.08.2018). Markets will closely watch the updated economic projections for signs that a fourth hike is still in play; forward guidance will be the key determinant for dollar moves.
- It's also a big week for final Q2 GDP figures, expected from both the US and the UK. While the market impact may be limited if there are no notable revisions, the figures are important indicators of the economies' strength and resilience.

## SEPTEMBER 2018

03	  	UK Manufacturing PMI, US ISM Manufacturing PMI, US Bank Holiday
04		UK Construction PMI
05	 	UK Services PMI, US ISM Non-Manufacturing PMI
06		US ADP Non-Farm Employment Change
07		US Jobs Report (NonFarm Payrolls, Average Earnings)
10		UK GDP (monthly)
11		UK labour market data (Unemployment Rate, Average Earnings)
12		US PPI
13		BoE meeting, ECB meeting
14		US Retail Sales
17		Eurozone Final CPI
19		UK CPI
20		UK Retail Sales
24		Eurozone Flash PMIs
25		US CB Consumer Confidence
26		Fed meeting
27		US Durable Goods Orders, Final GDP
28	 	UK Current Account, Final Q2 GDP; Eurozone Flash CPI

# GBP/EUR

## Currency Outlook



### 1 MONTH (SEPTEMBER)

- The Bank of England and the ECB are both expected to keep monetary policy on hold this month. The BoE hiked interest rates last month, and the ECB has already announced it will wind down QE purchases by the end of the year and keep interest rates on hold until at least next summer.
- As a result, FX moves will depend on updated guidance. If the BoE remains cautious on the path of future rates, the pound could head lower, particular given the broader context of ongoing Brexit pressures and no-deal fears. Key for the ECB is whether the Bank adjusts its outlook after inflation accelerated to 2.1% (note core inflation is still low at 1.1%).
- The rate may regain the lower end of its 1.12-1.15 band but is likely to remain subdued.

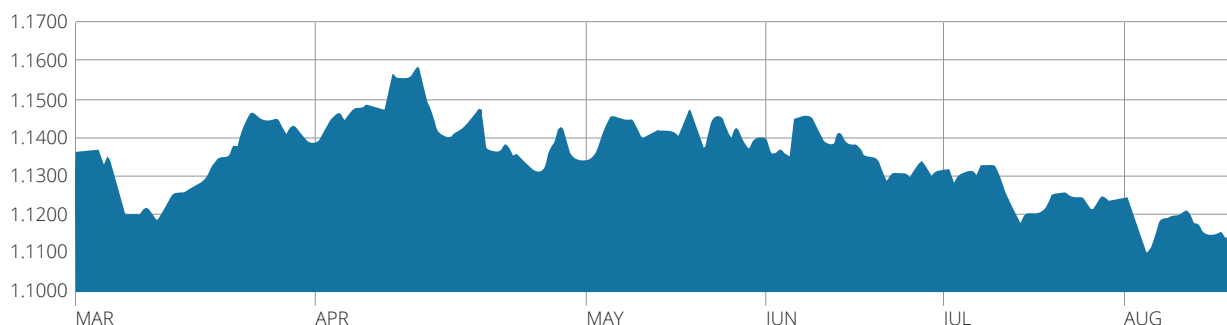
### 3 MONTHS (SEPTEMBER – NOVEMBER)

- The pound may remain at risk during this period, unless progress on Brexit negotiations has been made and a deal seems imminent. No-deal fears could grow if negotiations are prolonged.
- There may be some euro strength as the end of QE purchases comes to an end, but unless the inflation outlook changes notably, interest rates are not expected to rise until at least next summer. The euro will be driven in part by geopolitics and the US dollar.
- Overall, movement may continue to be constrained to a relatively tight range, unless there are any significant shocks (e.g., a no-deal Brexit or an unexpectedly soft Brexit)

### KEY DATES

<b>13 Sep</b>	ECB, BoE meetings
<b>25 Oct</b>	ECB meeting
<b>28 Oct</b>	EU Summit
<b>Oct</b>	Barnier's preferred deal deadline
<b>1 Nov</b>	BoE meeting
<b>13 Dec</b>	ECB meeting, EU Summit
<b>20 Dec</b>	BoE meeting
<b>Mar 2019</b>	UK leaves EU

### GBP/EUR 6 MONTHS



Economic Data	UK	Euro Area
GDP	0.4%/1.3% (Q2)	0.4% (Q2)
Interest Rates	0.75% (last changed Aug '18)	0.0% (last changed Mar '16)
Inflation Rate	2.5% (Jul)	2.1% (Jul)
Unemployment Rate	4.0% (Jun)	8.3% (Jun)
Wage Growth	2.4% incl. bonus (Jun)	1.8% (Q1)
Trade Balance	-1,861M GBP (Jun)	22,510M EUR (Jun)
Current Account	-17,720M GBP (Q1)	28,500M EUR (Jun)

# GBP/USD

## Currency Outlook



### 1 MONTH (SEPTEMBER)

- The Fed is widely expected to hike interest rates this month, which will mark its third move this year. As the move has already been almost completely priced in, signs that the Fed is still on track for a fourth hike would be needed for additional dollar strength. If this seems less likely, a cautious hike could weaken the dollar.
- Geopolitics and trade tensions will remain a key driver of the dollar. Continued tensions could see renewed risk aversion and the dollar gain as a safe haven.
- On the sterling side, Brexit is set to continue posing a downside risk as the deal deadline approaches and no-deal fears remain elevated, while the BoE has had its interest rate hike for the year so the upside for the pound from monetary policy is limited.
- As a result, the dollar seems to have the upper hand in the short-term.

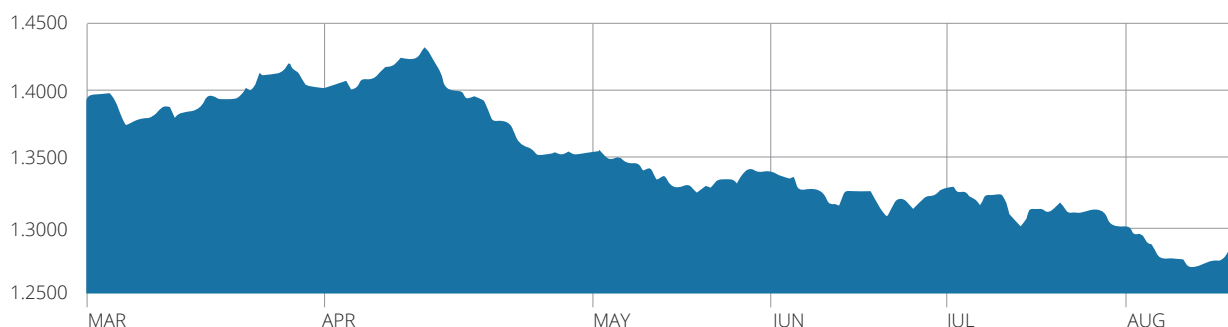
### 3 MONTHS (SEPTEMBER – NOVEMBER)

- Looking further ahead over the next three months, cable's strength will depend on the outcome of geopolitical and trade tensions and Brexit negotiations. Markets will also be looking ahead to a possible fourth US rate hike in December.
- If geopolitical tensions have subsided and the UK government reached a Brexit deal with the EU, a weaker dollar and stronger pound could see the rate end the year higher, returning to the 1.30s.
- However, continued global tensions and a delayed Brexit deal agreement could instead send cable lower, bringing back into focus the low-1.20s to sub-1.20 levels seen in late 2016 to early 2017. These lows had last been hit in the 1980s.

### KEY DATES

<b>13 Sep</b>	BoE meeting
<b>26 Sep</b>	Fed meeting
<b>28 Oct</b>	EU Summit
<b>Oct</b>	Barnier's preferred deal deadline
<b>1 Nov</b>	BoE meeting
<b>6 Nov</b>	US midterm elections
<b>8 Nov</b>	Fed meeting
<b>13 Dec</b>	ECB meeting, EU Summit
<b>19 Dec</b>	Fed
<b>20 Dec</b>	BoE meeting
<b>Mar 2019</b>	UK leaves EU

### GBP/USD 6 MONTHS



Economic Data	UK	US
GDP	0.4%/1.3% (Q2)	4.1% (Q2)
Interest Rates	0.75% (last changed Aug '18)	2.00% (last changed Jun '18)
Inflation Rate	2.5% (Jul)	2.9% (Jul)
Unemployment Rate	4.0% (Jun)	3.9% (Jul)
Wage Growth	2.4% incl. bonus (Jun)	2.7% (Jul)
Trade Balance	-1,861M GBP (Jun)	-46,348M USD (Jun)
Current Account	-17,720M GBP (Q1)	-124,105M USD (Q1)

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B U S I N E S S

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