



Currency Outlook October 2018

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BUSINESS

What you need to know

September proved to be another volatile month for sterling. A spate of positive Brexit headlines initially eased some no-deal Brexit concerns and strengthened the pound, which hit its highest levels against the dollar and the euro since July and against the Aussie since April. However, the headlines once again became more negative as EU leaders met in Salzburg, and the UK rejected the EU's improved Irish border offer and the EU in turn rejected the UK's Chequers proposals. With the October EU Summit fast approaching, Brexit headlines could see further sterling weakness until a deal has been achieved, while the US and Aussie dollars will remain vulnerable to trade headlines. No major central bank changes are expected this month.

WEEK 1















- The RBA is expected to keep interest rates on hold at 1.5%. At its previous meeting, it indicated that while rates are likely to remain on hold for a while, the next move is expected to be an increase. Markets will look for a similar tone and the extent of trade concerns.
- The US jobs report typically sees market volatility. Focus has been increasingly on the average earnings figure as central banks examine 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 first estimate of Q3 growth will not be released until November. Growth accelerated to 0.3% in July. The UK also releases the latest manufacturing production data.
- Markets will keep an eye on the ECB meeting minutes for any additional policy insights. The central bank is expected to wind down asset purchases by the end of the year and to keep interest rates on hold until at least the second half of next year.

WEEK 3

- Brexit will be in sharp focus this week as EU leaders gather for the October summit, which had previously been the preferred deadline for a Brexit deal. The progress achieved up to this point will determine the EU's willingness to hold an additional November summit, the new deal deadline hope. The pound will also eye CPI and Retail Sales data.
- The release of central bank meeting minutes continues with minutes from both the RBA and the Fed. While both banks are expected to maintain current trends—a hold for the RBA before an eventual hike, a gradual pace of hikes for the Fed—markets will look for any additional insights, particularly over trade concerns.

 OCTOBER 2018
01  UK Manufacturing PMI,  US ISM Manufacturing PMI
02  RBA meeting,  UK Construction PMI
03  UK Services PMI,  US ISM Mon-Manufacturing PMI
04  US ADP Non-Farm Employment Change
05  AU Retail Sales,  US Jobs Report (NonFarm Payrolls, Average Earnings)
08  US Bank Holiday
10  UK GDP (monthly),  US PPI
11  UK production data,  ECB minutes,  US CPI
12  US Consumer Sentiment
15  US Retail Sales  Italy submits budget for EU approval
16  RBA minutes,  UK labour market data (Unemployment Rate, Average Earnings)
17  UK CPI,  EZ Final CPI,  Fed minutes
18  AU labour market data,  UK Retail Sales,  EU Summit

WEEK 4

- 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 updated inflation outlook and hints as to the timing of a rate hike next year.
- Of the week's data releases, particularly notable is the first estimate of Q3 economic growth in the US. GDP picked up to 4.2% in Q2 from 2.2% in Q1. Q3 growth will be in close focus amidst rising interest rates and trade tensions with China, the EU, and NAFTA partners.

WEEK 5

- The first estimate of Q3 GDP in the Eurozone will be key following slower growth in recent quarters and increased concern about the implications of global trade tensions and Brexit on growth. In September, Draghi downplayed the effect of Brexit on the Eurozone's economy.
- Inflation will also be in focus with figures out for both the Eurozone and Australia. Eurozone CPI has held at or above 2.0% for four consecutive months; markets will be watching to see if continues to do so. Australia targets an inflation rate of 2-3% and hit 2.1% in Q2.

OCTOBER 2018		
22		UK Public Sector Net Borrowing
24		Eurozone Flash PMIs
25	 	ECB meeting, US Durable Goods Orders
26		US Advance GDP
29	 	EU Economic Forecasts, UK Budget
30	 	EZ Prelim Flash GDP, US Consumer Confidence
31	 	AU CPI, EZ Flash CPI

GBP/EUR

Currency Outlook



1 MONTH (OCTOBER)

- The Bank of England doesn't meet this month, leaving the latest Brexit headlines as the key driver for the pound. With the previous preferred deal deadline approaching—the October EU Summit—sterling will remain particularly vulnerable to signs of contention.
- The ECB is expected to keep monetary policy on hold after previously announcing it will wind down QE purchases by the end of the year and keep interest rates on hold until next summer. Markets will look for any further guidance on the timing of a rate hike in light of the latest inflation figures.
- Brexit contention could see sterling weaken. Agreement that negotiations have made enough progress for a November summit could lend some support, in which case the rate may regain the lower end of its familiar 1.12-1.15 band. However, it's likely to remain subdued.

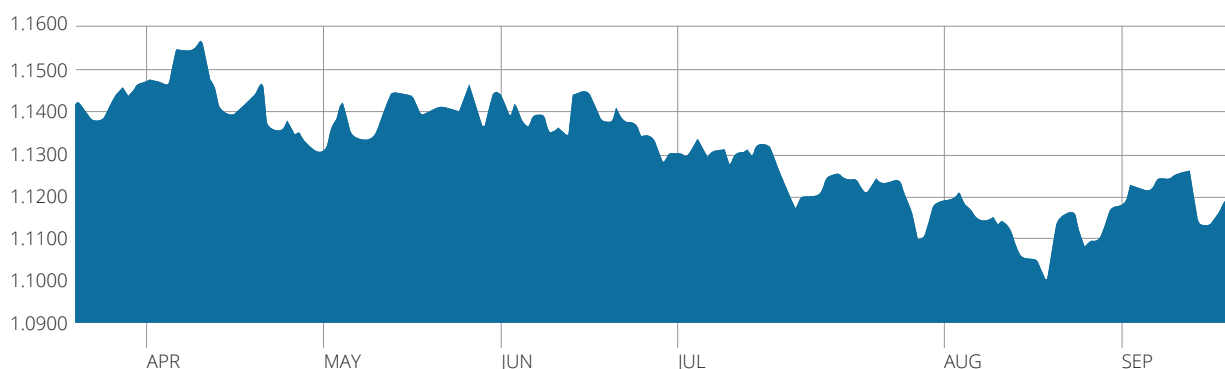
KEY DATES

15 Oct	Italy submits budget for EU approval
18 Oct	EU Summit
25 Oct	ECB meeting
29 Oct	UK Budget
1 Nov	BoE meeting
13 Dec	ECB meeting, EU Summit
20 Dec	BoE meeting
Mar 2019	UK leaves EU

3 MONTHS (OCTOBER – DECEMBER)

- 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's a significant shock like a no-deal or an unexpectedly soft Brexit)

GBP/EUR 6 MONTHS



Economic Data	UK	Euro Area
GDP	0.4%/1.2% (Q2)	0.4% (Q2)
Interest Rates	0.75% (last changed Aug '18)	0.0% (last changed Mar '16)
Inflation Rate	2.7% (Aug)	2.1% (Sep)
Unemployment Rate	4.0% (Jul)	8.2% (Jul)
Wage Growth	2.6% incl. bonus (Jul)	1.8% (Q1)
Trade Balance	-111 M GBP (Jul)	17,556 EUR (Jul)
Current Account	-17,720M GBP (Q1)	31,930M EUR (Jul)

GBP/USD

Currency Outlook



1 MONTH (OCTOBER)

- 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, whilst a further reduction of tensions could continue to weaken the dollar.
- On the sterling side, Brexit is set to continue posing a downside risk as the October EU summit approaches and after the failure at Salzburg renewed concerns that the UK is headed towards a no-deal Brexit.
- Neither the Fed nor the BoE are meeting this month. As expected, the Fed last month hiked interest rates to a target range of 2.00-2.25%.

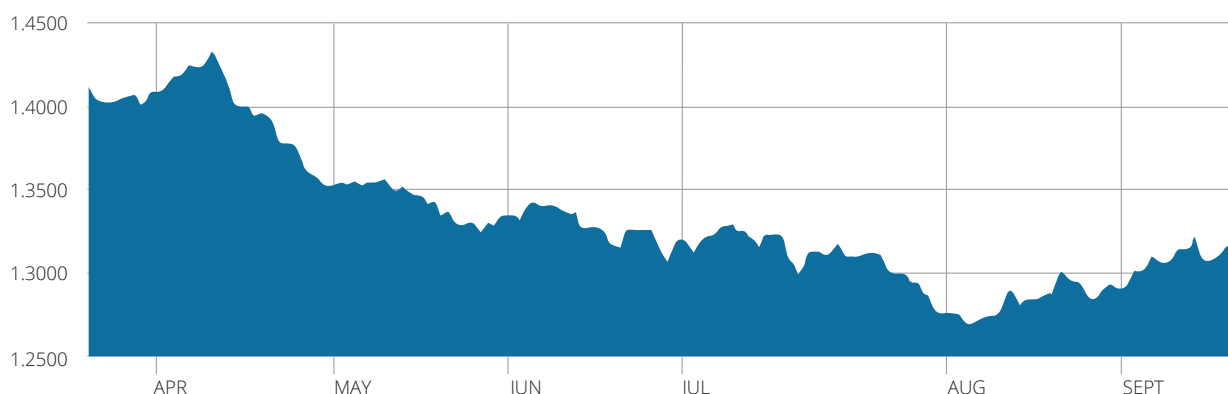
KEY DATES

18 Oct	EU Summit
29 Oct	UK Budget
1 Nov	BoE meeting
6 Nov	US midterm elections
8 Nov	Fed meeting
13 Dec	EU Summit
19 Dec	Fed meeting
20 Dec	BoE meeting
Mar 2019	UK leaves EU

3 MONTHS (OCTOBER – DECEMBER)

- 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 an expected 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, holding onto 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 seen in late 2016 to early 2017. Prior to that period, such lows had last been hit in the 1980s.

GBP/USD 6 MONTHS



Economic Data	UK	US
GDP	0.4%/1.2% (Q2)	4.2% (Q2)
Interest Rates	0.75% (last changed Aug '18)	2.25% (last changed Sep '18)
Inflation Rate	2.7% (Aug)	2.7% (Aug)
Unemployment Rate	4.0% (Jul)	3.9% (Aug)
Wage Growth	2.6% incl. bonus (Jul)	2.9% (Aug)
Trade Balance	-111 M GBP (Jul)	-50,082M USD (Jul)
Current Account	-17,720M GBP (Q1)	-124,105M USD (Q1)

GBP/AUD

Currency Outlook



1 MONTH (OCTOBER)

- Brexit will remain the key driver of the pound and if negotiations become more contentious ahead of the October summit, sterling could weaken further. However, the pound could later gain if the EU judges that sufficient progress has been made to move forward with a November summit and it seems that the UK is on track to reach a deal.
- The RBA will keep interest rates on hold this month with underlying inflation remain below target, and it will likely continue to indicate it expects the next move to be an increase.
- With the RBA to keep policy on hold for the time being and global trade tensions at risk of a further escalation, the Aussie may again prove vulnerable this month.

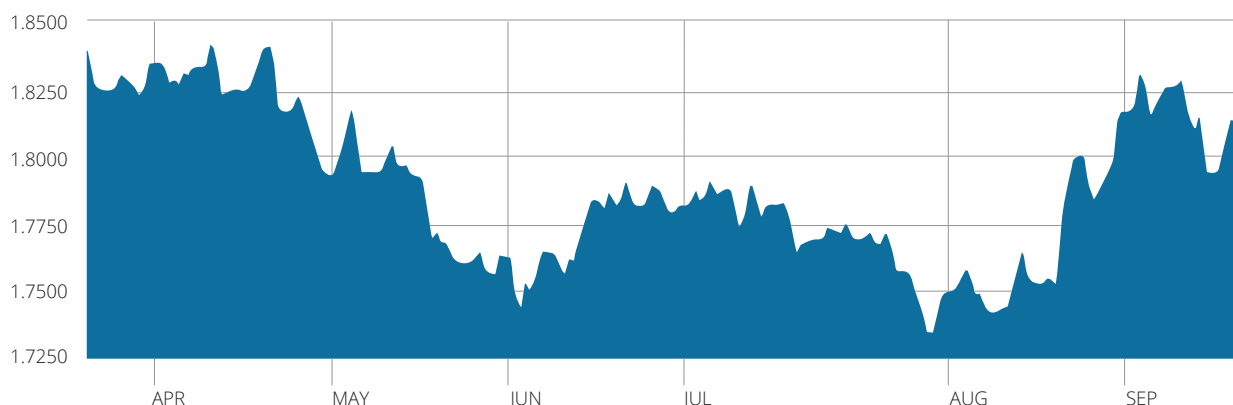
3 MONTHS (OCTOBER – DECEMBER)

- While a deal could ultimately strengthen the pound, fears of a no-deal Brexit could see additional weakness in the meantime. The BoE is expected to keep interest rates on hold until the second half of 2019 and therefore is unlikely to provide the pound with much support.
- While underlying inflation remains below target, the RBA will likely keep interest rates on hold. This, combined with ongoing vulnerability to trade tensions, may keep the Aussie under relative pressure.
- Positive Brexit progress and a softer Aussie dollar could see a renewed testing of 1.85, the rate's highest levels since the EU referendum.

KEY DATES

02 Oct	RBA meeting
18 Oct	EU Summit
29 Oct	UK Budget
1 Nov	BoE meeting
6 Nov	US midterm elections RBA meeting
4 Dec	RBA meeting
13 Dec	EU Summit
19 Dec	Fed meeting
20 Dec	BoE meeting
Mar 2019	UK leaves EU

GBP/AUD 6 MONTHS



Economic Data	UK	AU
GDP	0.4%/1.2% (Q2)	0.9% (Q2)
Interest Rates	0.75% (last changed Aug '18)	1.5% (last changed Aug '16)
Inflation Rate	2.7% (Aug)	2.1% (Q2)
Unemployment Rate	4.0% (Jul)	5.3% (Aug)
Wage Growth	2.6% incl. bonus (Jul)	2.1% (Q2)
Trade Balance	-111 M GBP (Jul)	1,551M AUD (Jul)
Current Account	-17,720M GBP (Q1)	-13,472M AUD (Q2)

CAXTON FX

B U S I N E S S

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