

An aerial night view of a city skyline, likely New York City, featuring numerous illuminated skyscrapers and a dense urban layout. The lights from the buildings create a warm, golden glow against the dark sky.

Currency Outlook for 2019

Welcome to our 2019 Currency Outlook Report where we will provide a short summary on major currencies including AUD, USD, GBP, EUR, NZD, JPY and CAD.

WORLDFIRST

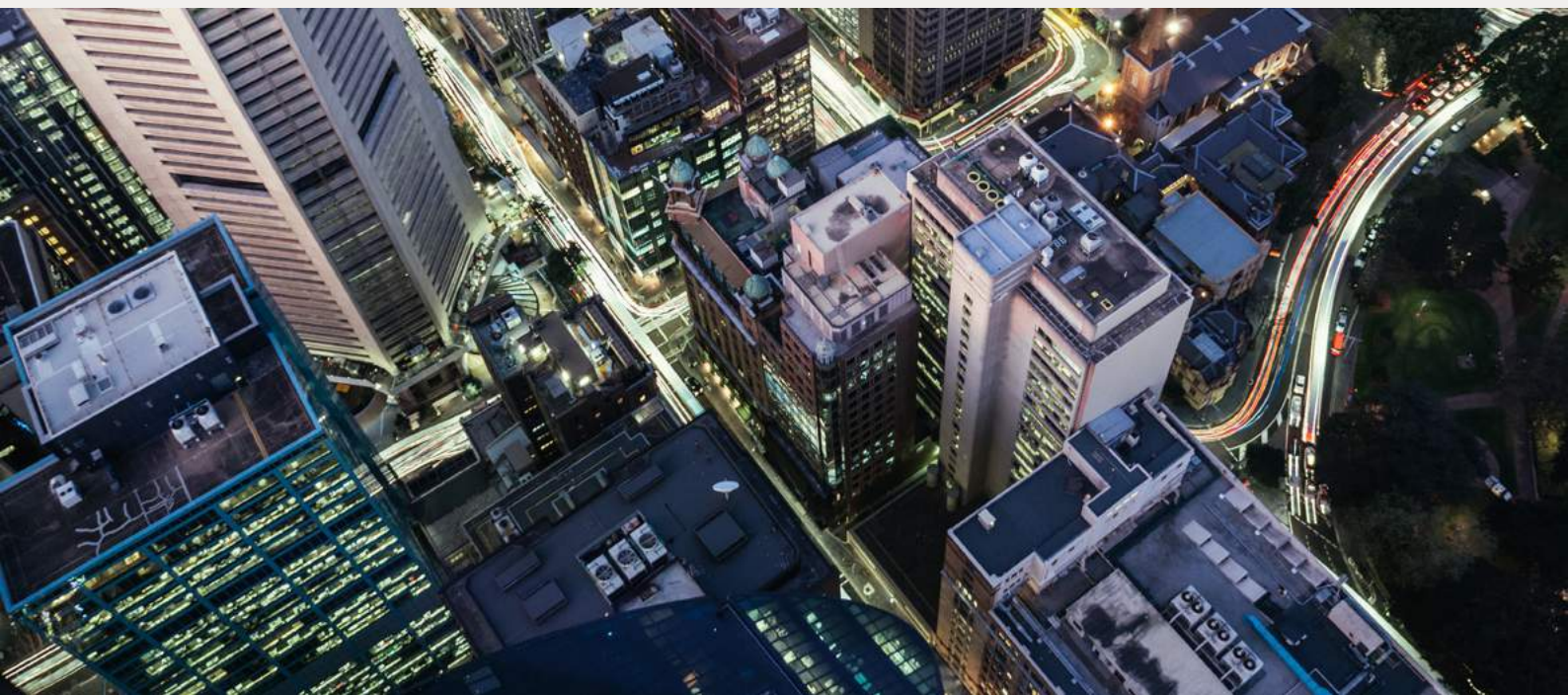
Top three events in 2019

Top events we believe could have the biggest impact on currency markets:

— **Brexit:** March 29 due date. Will there be an extension or will Theresa May allow the UK to crash out of the EU without a deal? Either way we're expecting volatility around this period for the GBP.

— **Trade war:** Trump was adamant in 2018 that China needed to play ball when paying tariffs for goods entering the country. China hit back by targeting the US agriculture export industry. From simmering to boiling point, the ongoing trade relationship is expected to be a slow and an uneasy journey.

— **Interest rates:** To Trump's disappointment, Jerome Powell raised rates four times last year in the US, with scope for another two in 2019. Here in Singapore, markets are expecting the Monetary Authority of Singapore to tighten monetary policy in April - the next policy. USD/SGD may encounter a sustained downtrend in 2019.



Currency Previews

Now WorldFirst's Chief Economist **Jeremy Cook** provides his predictions for the major currencies in 2019.

United States Dollar (USD)



It's difficult to come into the year bullish on the USD following its performance in 2018 that has blown everyone out of the way. Four interest rate hikes, the meat of a stimulus package driving growth onwards, a trade policy designed to damage competitors, 2018 was a year wherein the dollar ruled the roost. For our money however, we think that the efficacy of these measures in strengthening the US dollar will come to an end in the coming 12 months and, with it will be the US dollar's dominance over the majority of the wider currency universe.

Pockets of dollar strength will still be found of course; against the CNY and other emerging markets the risks that a slowing of global growth and international trade will likely see investors plump for the dollar over local currencies but against others such as the JPY, NOK, SEK and the EUR we think that the USD's time in the sun may be up.

As with every forecast there are caveats and ours focuses largely on the low probability event that the Federal Reserve has more tightening to do in 2019. Currently markets expect a solitary rate hike in 2019 with the Federal Reserve instead looking for three.

Someone has to be wrong. We think both are and look for two hikes – March and June – to top out the Fed's current tightening cycle.

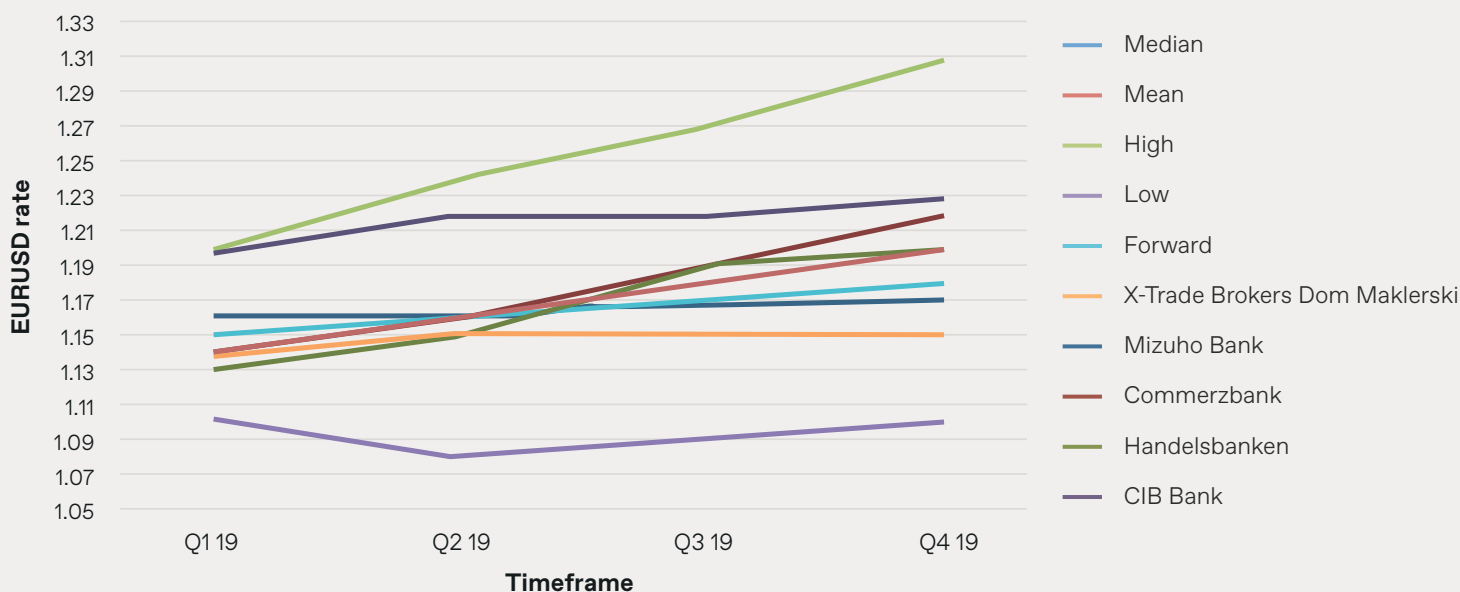
Similarly, an increase in trade tensions – propagated by the Trump Administration – will drag the USD higher at the expense of merging market and trade focused.

Growth forecasts globally are imbalanced at the moment in favour of the US and against the rest of the world. We think this to be wrong. There is no doubting that a factor in the strength of the US dollar this year has been growth deterioration and disappointment elsewhere in the world and our scenario posits that this will come to an end and likely reverse in the coming 12 months. While large gains will be found if these differential reverse, we think that even stabilisation will be enough to knock the dollar off its perch in 2019.

Against the EUR we expect the USD to rally to 1.22 over the course of 2019.

Market expectations of what will happen to the EUR versus the USD are below alongside the predictions of the 5 most accurate forecasters as measured by Bloomberg.

What the market at top 5 forecasters think about **EURUSD** in 2019





It is not a fashionable call to be optimistic when it comes to the AUD coming into 2019 and we will caveat our optimism by saying that the first half of the year could be a volatile couple of quarters; gains for the AUD may come easier from the summer onwards.

The AUD, much like the NZD, is exposed to both China and the US's cycle of increasing interest rates, although the Aussie finds itself more exposed courtesy of higher household debt level on a relative basis and by the simple fact that it is a more liquid currency than its antipodean neighbour.

The stories that drove the volatility in currency markets in 2018 don't vanish as the fireworks go off on the Sydney Harbour Bridge and a new year rolls in. Chinese growth concerns, US/China trade spats, instability in emerging markets and wider commodity price compression will all have a part to play in the movement of the Aussie in the coming 12 months.

Chinese demand for steel, and in turn Australian iron ore should remain solid with any demand that had previously been used for exports likely transposed into infrastructure projects. Similarly, natural gas exports should remain strong.

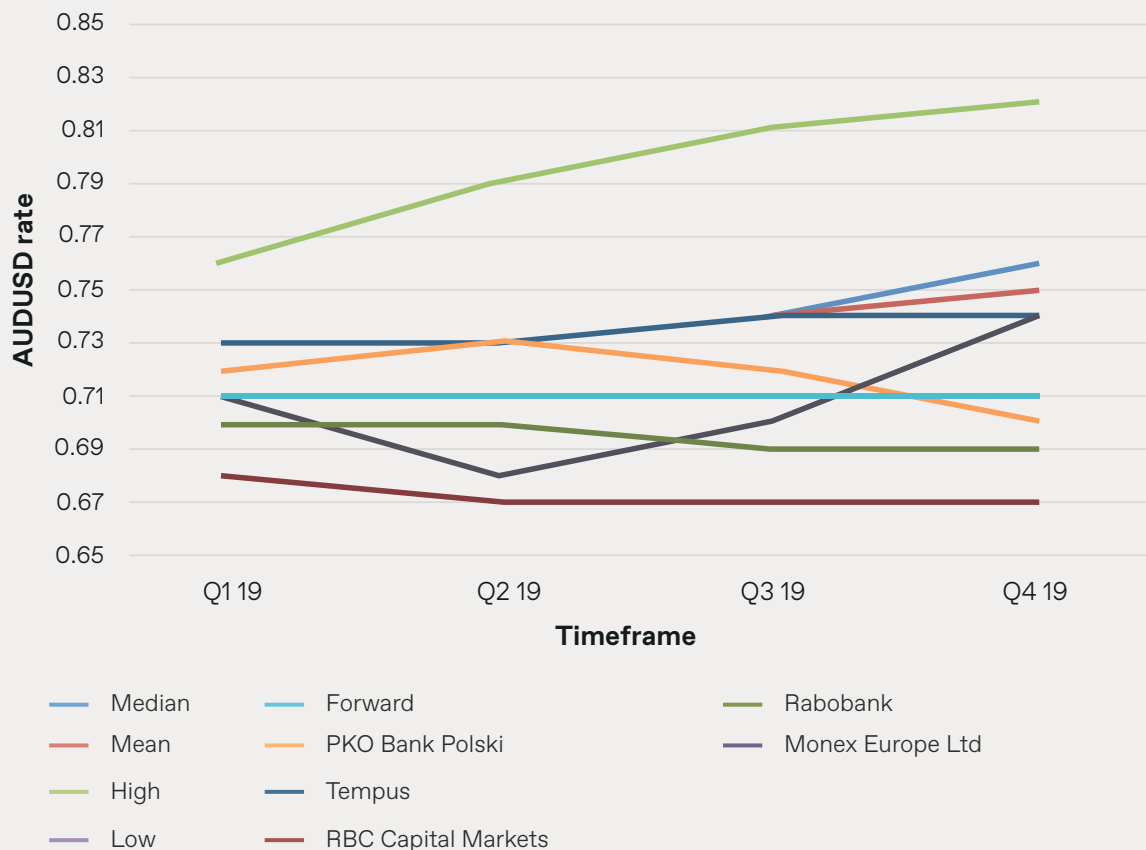
There is the small matter of a general election in Australia this May which will always be enough to keep the AUD under pressure for a month or so although we are not expecting a huge political upset.

The Reserve Bank of Australia will continue to emphasise that interest rate hikes are more likely than cuts and whilst we see no change in rates in Australia for at least a year, an increase in wages will naturally drive expectations and the AUD higher.

We anticipate AUD trading between 0.70 and 0.76 in 2019.

Market expectations of what will happen to the AUD versus the USD are below alongside the predictions of the 5 most accurate forecasters as measured by Bloomberg.

What the market at top 5 forecasters think about **AUDUSD** in 2019





Where to start with sterling? Brexit is an all-consuming beast at the moment and will dominate the pound's performance through the first two quarters of 2019 at least and, depending on the result, further into the future as well.

Despite the parliamentary jiggery-pokery of the past month or so we believe that a deal between the UK and EU is signed by the end of the Article 50 period and that a no-deal, cliff edge scenario is avoided. Should we get close to the March 29th deadline we believe political and business pressure to avoid a no-deal scenario will see the government postpone the ending of Article 50 in order to gain more negotiating time.

A deal is naturally sterling positive – it eliminates the case of no-deal – but we think that there is the significant chance that the equivalent of a political game of chicken to force weak hands to sign a deal, will drive the pound ever lower in the short-term.

Similarly, were the unthinkable to happen and the UK somehow conspires to throw itself over the cliff and onto the rocks then the declines for sterling could be quite staggering.

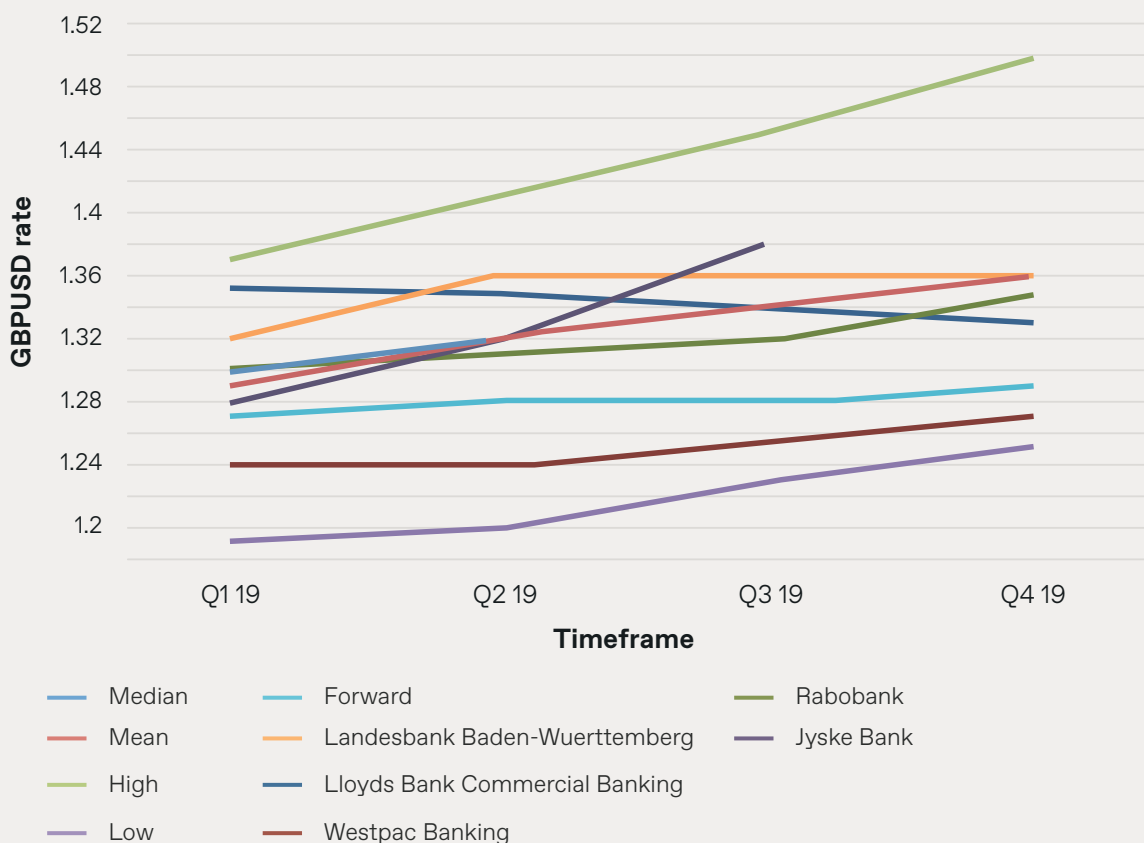
There is of course a life beyond Brexit and while sterling would likely react positively to a deal alongside a bounce in investment, growth, consumer spending and the like, we cannot see such an impulse lasting much longer than a couple of quarters.

The drivers of such a malaise are very similar to what we will have seen over the course of the Article 50 period – uncertainty over future trading relationships with the EU and other trade partners, mixed economic data and a Bank of England that cannot raise interest rates as it would wish.

In the event of a deal we expect sterling to rally to 1.18 against the euro before running back towards 1.14 as the exuberance fades with GBPUSD hitting 1.35 and settling around the 1.30 mark. In the event of a no-deal then we could see declines in GBPEUR to 1.05 with GBPUSD dragged to 1.15.

Market expectations of what will happen to the GBP versus the USD are below alongside the predictions of the 5 most accurate forecasters as measured by Bloomberg.

What the market at top 5 forecasters think about **GBPUSD** in 2019





The EUR will likely be the most important currency in the world in 2019 and how it, and the central bank that issues it, navigate the next twelve months will be both a symbol and a catalyst for global economic strength or a dark economic period.

Let's start with politics as these have overshadowed the continent since the beginning of 2017. While the Dutch, French and, to a lesser extent, the Italian elections are now consigned to the history books, politics remain a significant risk to forecasts. European Parliament elections are due in May of 2019 and there is a lot more populist shoes to drop between now and the end of reactionary politics.

That being said, and as we have noted in our CHF outlook for the next 12 months the risks from the Italian, and latterly French, discord has been overdone and that a near-term deal on the Italian budget is well within reach and likely to see some risk come out of the EUR price as a result.

Similarly, we do not see Brexit ending in a no-deal, cliff-edge scenario that damages both the UK and wider EU. As we note in our GBP outlook, there is enough political will on both sides of the Channel to prevent it occurring with the UK likely to postpone the end of the Article 50 period by a few months.

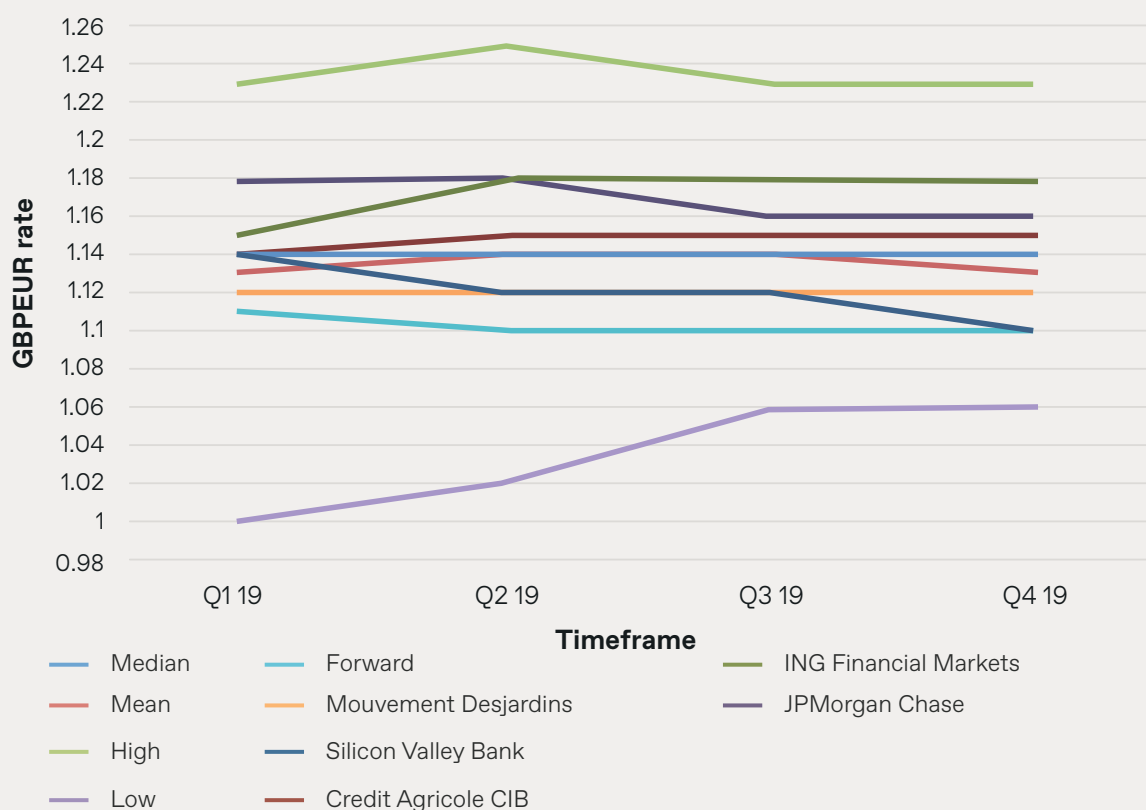
These idiosyncratic factors, whilst important, should lessen in impact as the year goes on to the single currency's favour.

Our belief is that the European Central Bank will raise interest rates in the summer of 2019 with a plan to continue hiking rates and winding down stimulus on a gradual basis that should even out to around one 25bps increase every 6-9 months. Such a move is contingent on stability in economic data – that is lacking at the moment – and calm financial markets; we expect growth to bounce back in 2019 following a weak year in 2018 although global trade concerns may hurt things at the margin.

With the ECB hiking interest rates and the Fed likely reaching a top in their hiking cycle within the next 12 months we think both EURUSD and EURGBP will perform well in 2019.

Market expectations of what will happen to the EUR versus the GBP are below alongside the predictions of the 5 most accurate forecasters as measured by Bloomberg.

What the market at top 5 forecasters think about **GBPEUR** in 2019





The Kiwi dollar has had a tough year marked by a Q3 low point as the Reserve Bank of New Zealand shifted their appraisal of the local economy and started to make noises about interest rate cuts. Since then the RBNZ has left the possibility of interest rate hikes on the table but has yet to act.

Central banks are set in two camps at the moment; those who issue 'forward guidance' about where they think interest rates will be in the future and those who are data dependent. The RBNZ's decision to pre-warn that interest rate cuts may be necessary casts more importance on to the data outlook for New Zealand.

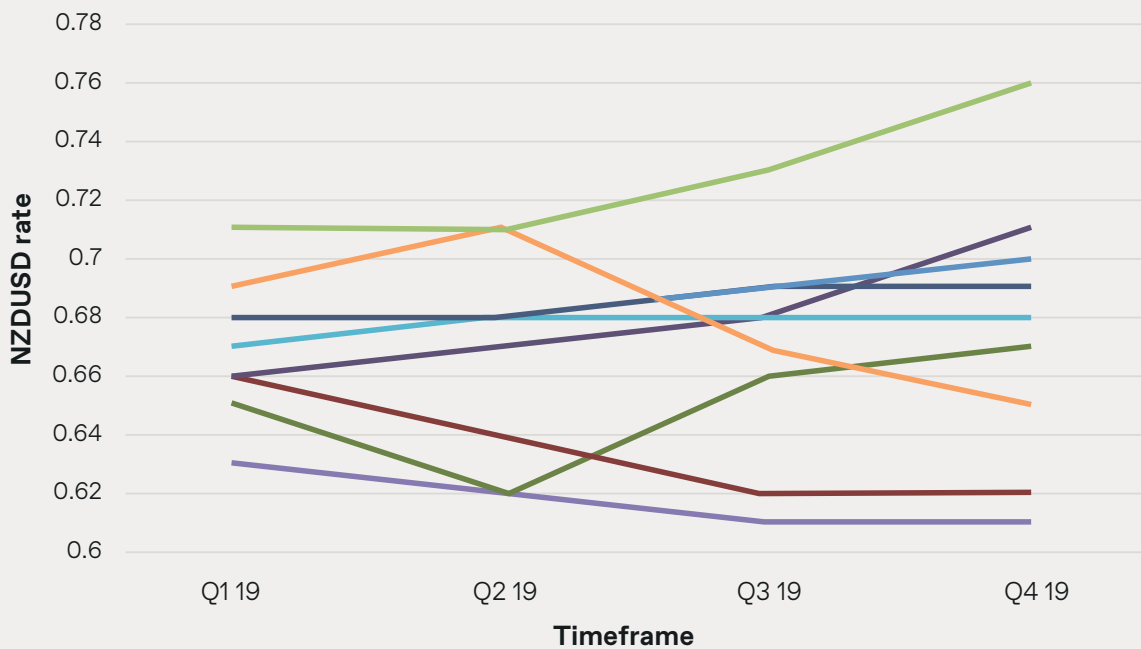
Business confidence has fallen to close to its lowest level since the Global Financial Crisis but while the hard data from Q3 will likely be poor, we don't believe that we'll see a continuation of the weakness and, subsequently no interest rate cut from the RBNZ. That may not be enough however to propel the NZD higher, simply lower the chances of extreme losses.

Much like the AUD, the NZD does remain exposed to China and a slowing of the economy there as well as the effect that higher US interest rates will have on the high levels of household debt in the country.

If you're an optimist on the global economy then we can see NZD running higher with China fears drifting out of the price while pessimists will be looking for the Official Cash Rate to be lowered in Q1. We are leaning more towards the former than the latter and expect NZD to hold its position around 0.70 level.

Market expectations of what will happen to the NZD versus the USD are below alongside the predictions of the 5 most accurate forecasters as measured by Bloomberg.

What the market at top 5 forecasters think about **NZDUSD** in 2019



- Median
- Mean
- High
- Low
- Forward
- PKO Bank Polski
- Tempus
- Westpac Banking
- Morgan Stanley
- Monex Europe Ltd



Japan continues to grow unabashed in 2019 following a strong 2018. Unlike western economies such as the UK or the US, the consumption quotient of the Japanese economy is a lot lower and exports and investment have been driving a significant portion of the improvement in Japanese growth. We expect that to continue into 2019 as the plans for the Tokyo Olympics in 2020 come together alongside additional expenditure from the Japanese corporate sector.

The main risks for the Japanese economy stem from trade concerns and a deterioration of the country's relationship with the United States and China. More importantly, the relationship between the United States and China is likely to remain rocky and ructions here will have an effect on Japanese exports.

Similarly, the Japanese car sector is extremely exposed to the imposition of additional tariffs on cars, something that will likely form a large part of the US-Japan trade talks that are due to begin again in the New Year.

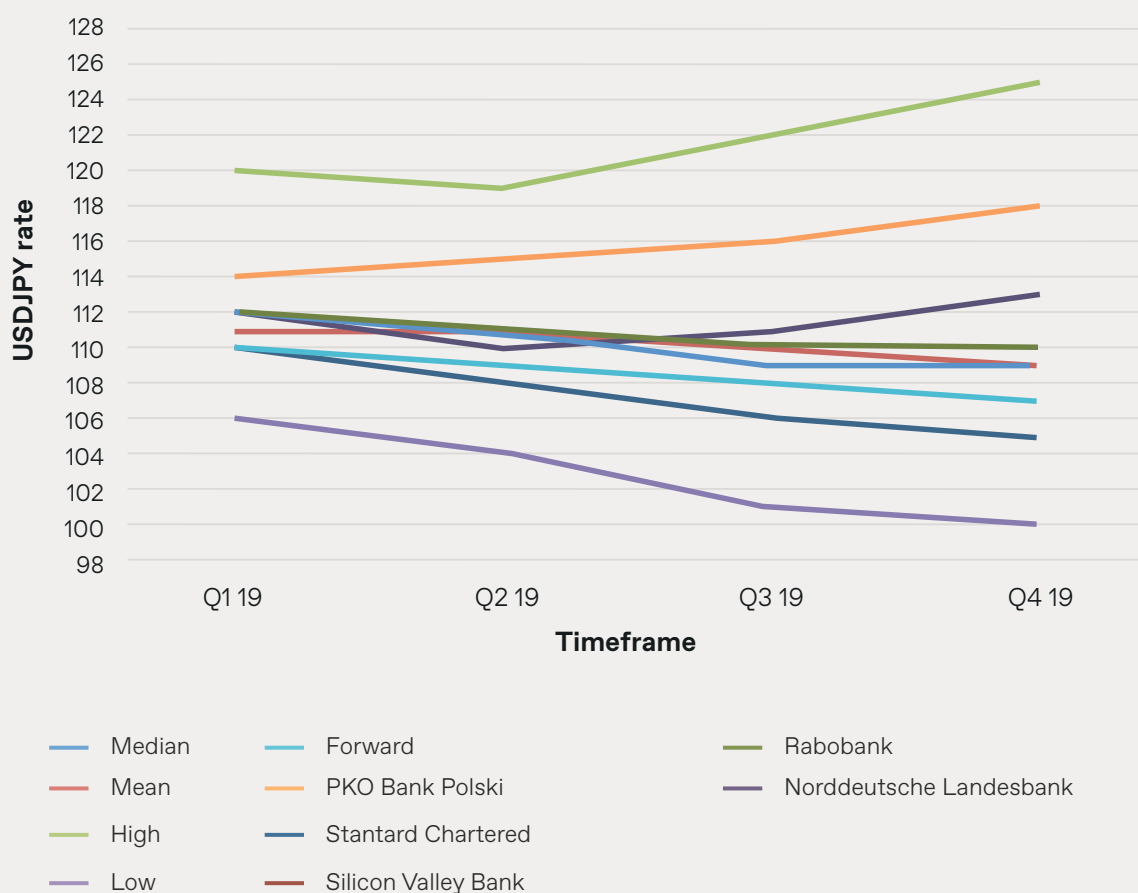
The political climate has not shifted markedly in recent years although the support for Prime Minister Abe has softened slightly. We have nationwide local elections in April 2019 and upper-house elections in July 2019 and both will help shape the stance of both parliament and the Bank of Japan.

Interest rates aren't going anywhere in Japan for a number of months and we expect the Bank of Japan to continue its policy of normalisation by allowing yields on Japanese debt to rise further in 2019.

The yen's fortunes will largely follow the outlook for global investment appetite, and we make the case that the wider dollar rally and the likely constriction of the global economy following a further slowing of the global trade picture will see USDJPY trade down towards 110.00 in 2019.

Market expectations of what will happen to the JPY versus the USD are below alongside the predictions of the 5 most accurate forecasters as measured by Bloomberg.

What the market at top 5 forecasters think about **USDJPY** in 2019





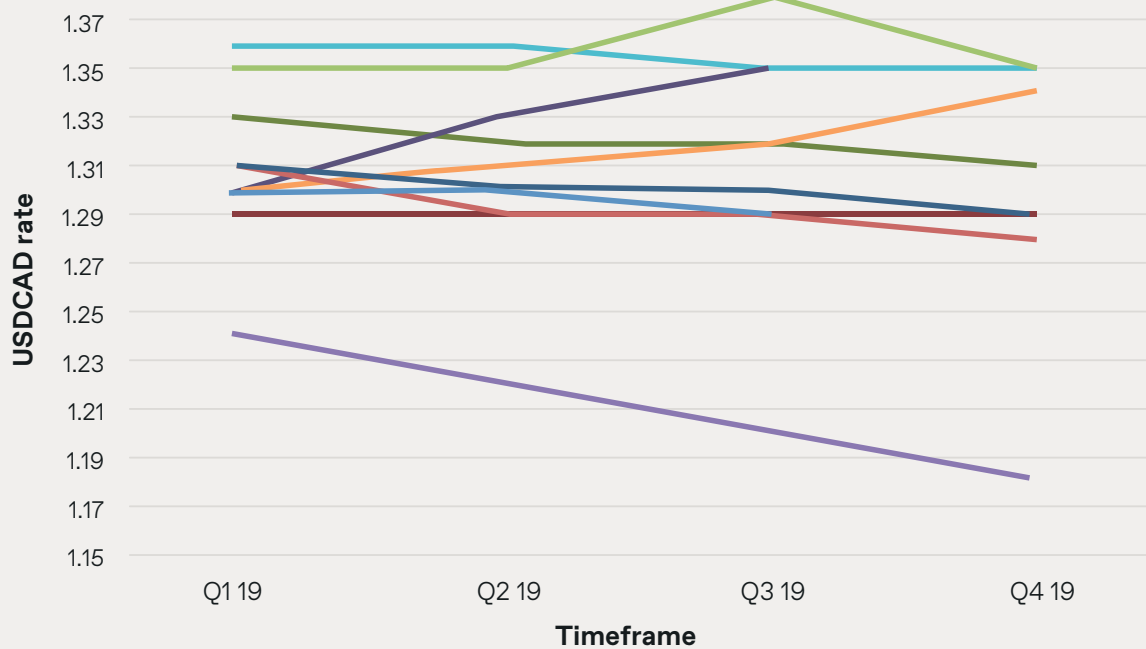
2018 was a year of uncertainty for the Canadian dollar and while the close relationship with the United States is a double-edged sword of both opportunity and pain, 2019 could very easily be a strong year for the Canadian dollar.

Most of this comes from being so intrinsically linked with the US economy which we expect will grow at or above its trend growth level as well as the knowledge that any upset and disruption to the North American Free Trade Agreement (NAFTA) has likely come in 2018, although we must wait on a completion of its successor, the United States–Mexico–Canada Agreement (USMCA).

The Bank of Canada is set to start raising interest rates in 2019 alongside drives higher in inflation and while higher oil prices may have been a near-term supporter of the currency – a support that we see re-merging in 2019 – these lower levels that we are seeing currently should help consumption by both Canadian and US consumers.

Market expectations of what will happen to the CAD versus the USD are below alongside the predictions of the 5 most accurate forecasters as measured by Bloomberg.

What the market at top 5 forecasters think about **USDCAD** in 2019



- Median
- Mean
- High
- Low
- Forward
- Canadial Imperial Bank of Commerce
- Silicon Valley Bank
- Tempus
- X-Trade Brokers Dom Maklerski
- Eurobank Cyprus