



A quick-step into 2019

FX and Economic Outlook – November 2018

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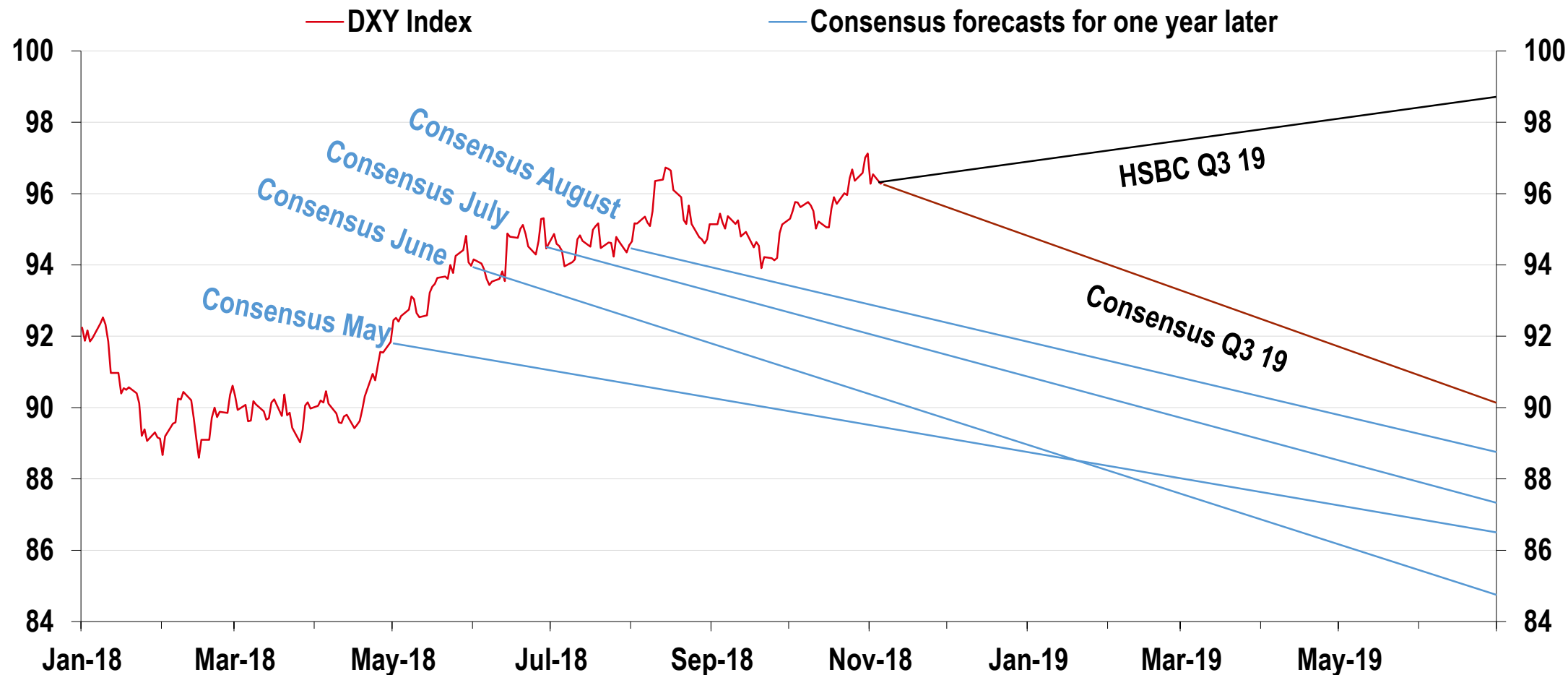
2. Strictly Come Dancing?

1) You need the right fundamentals

2) You need to win the public vote

- The USD has (1) but not (2) – the USD can rally further**

3. The consensus stubbornly calling for USD weakness



4. Three different dance styles to master

BALLROOM

Waltz

Foxtrot



Source: Petr Novák, Wikimedia Commons

LATIN

Rumba

Salsa



Source: Ailura, Wikimedia Commons

CONTEMPORARY

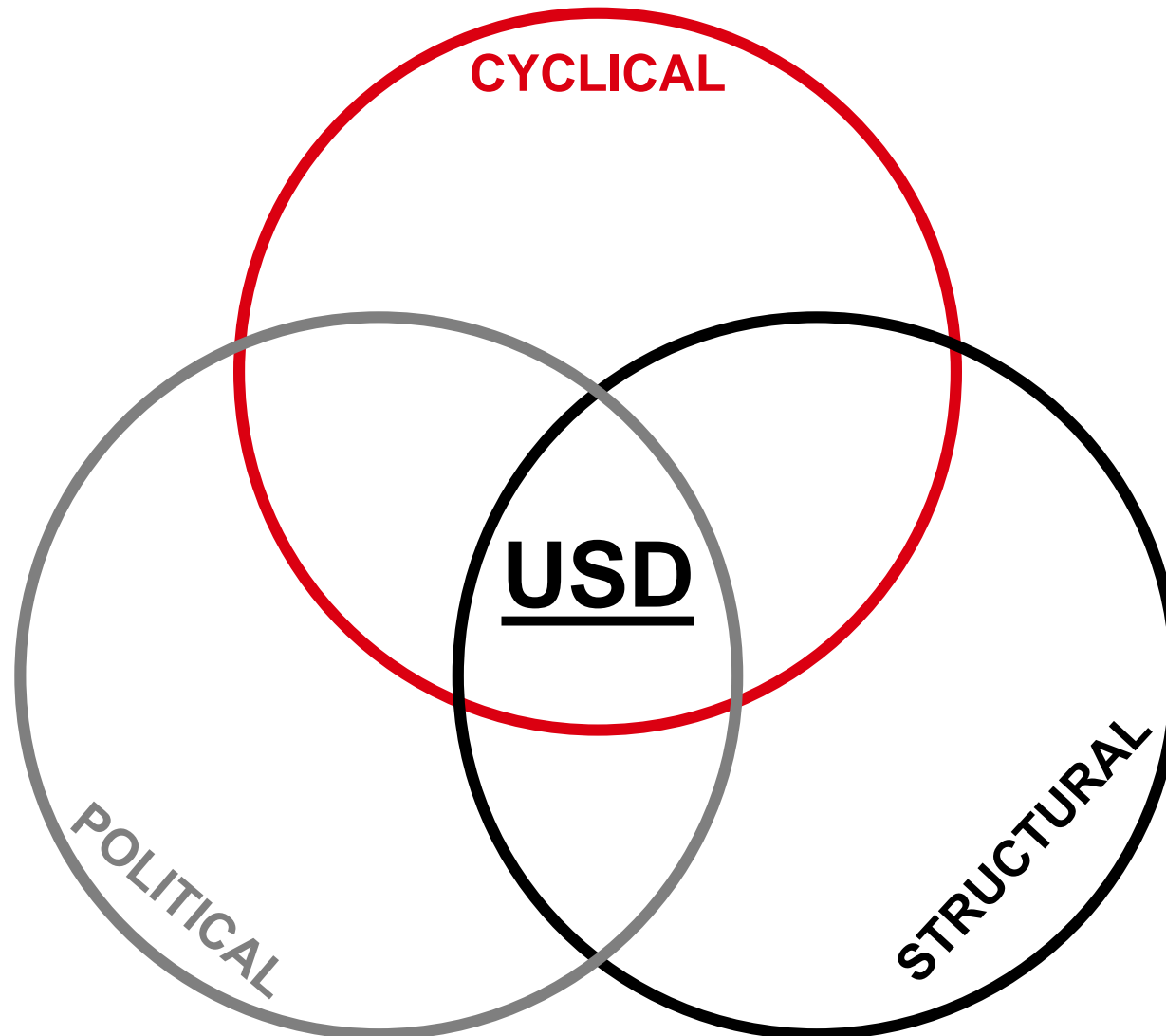
Jazz

Street

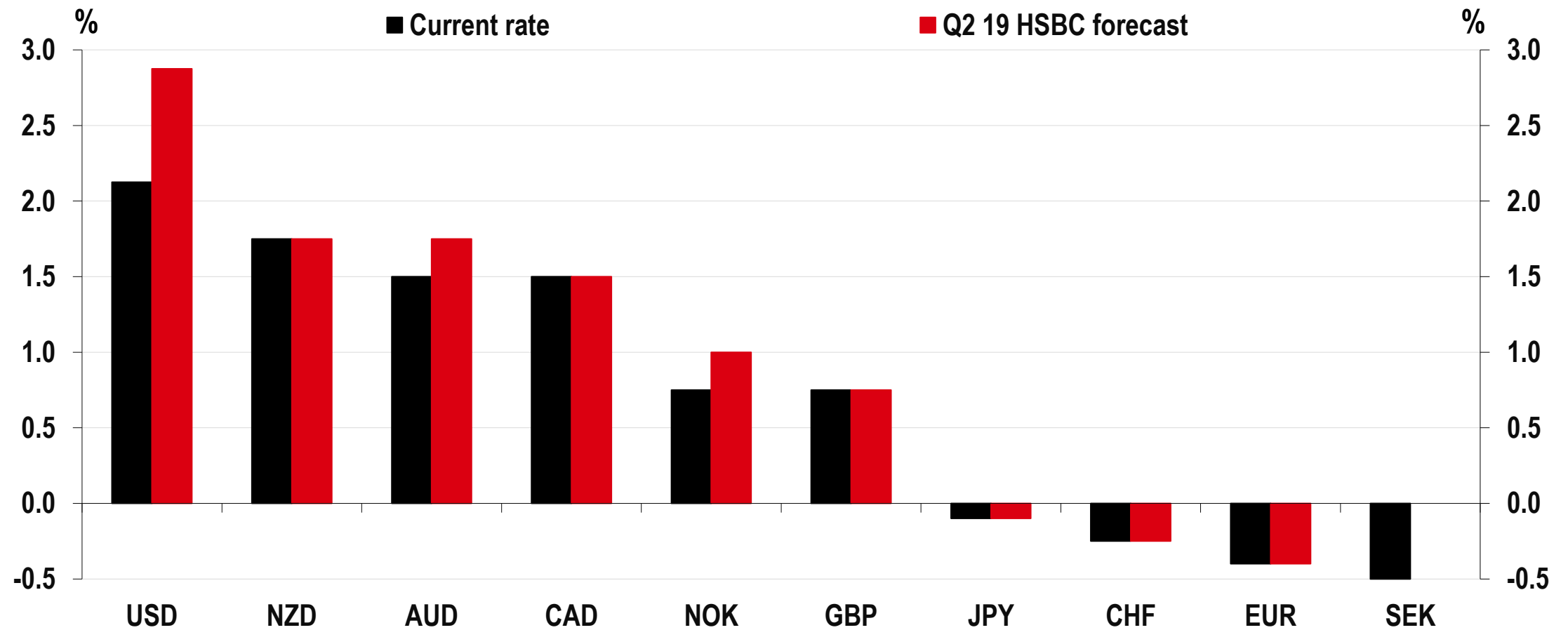


Source: Flashpop, gettyimages

5. Three different factors driving FX

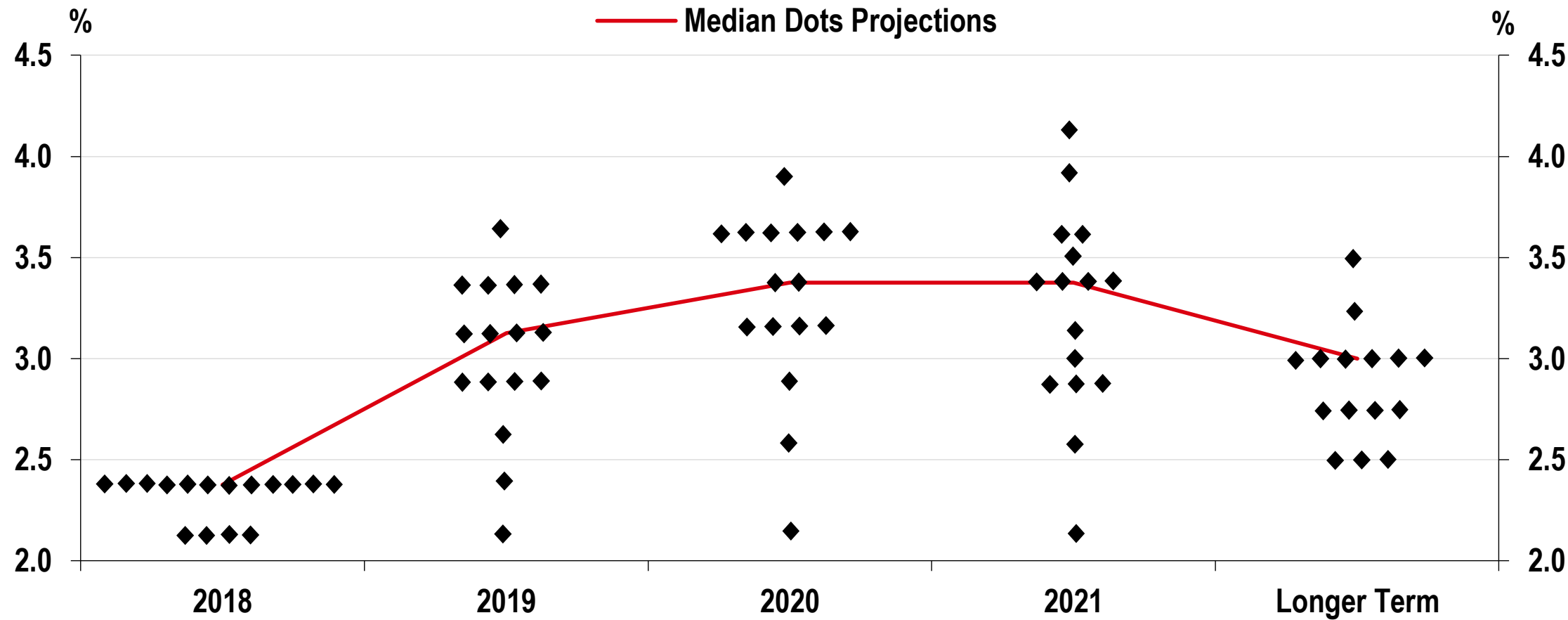


6. Level and path of rates is USD supported



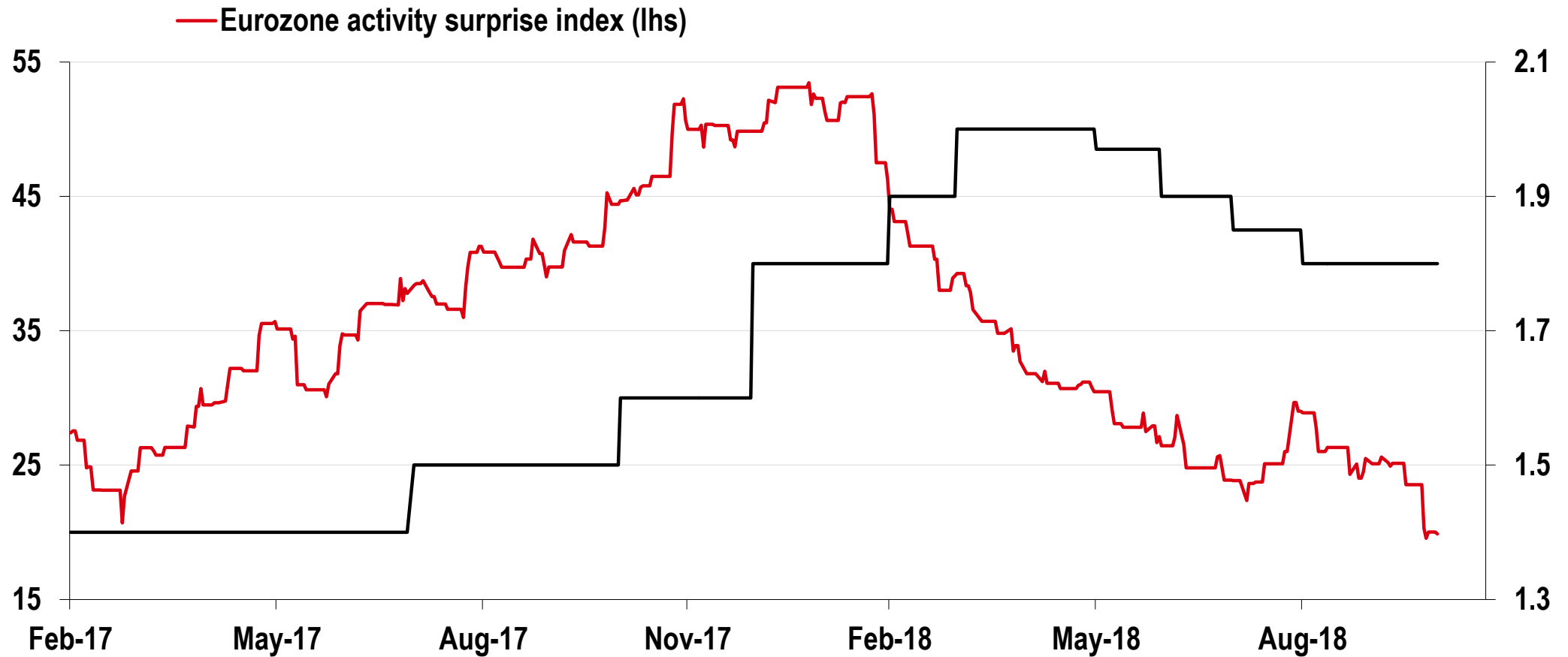
Source: Bloomberg, HSBC

7. American smooth – Fed to lift above neutral?



Source: Bloomberg, HSBC

8. Eurozone activity – dancing in the dark



Source: Bloomberg, HSBC

9. Global economic performance looks out of step

Surprise trends by Country/Region

	Activity	Inflation
<u>US</u>	→	↓
<u>Eurozone</u>	↓	↑
<u>Japan</u>	↓	↑
<u>UK</u>	↓	↓
<u>Canada</u>	→	↑
<u>Australia</u>	→	-
<u>Sweden</u>	↓	-
<u>Norway</u>	↓	-
<u>Asia</u>	↓	→
<u>CEEMEA</u>	↓	↑
<u>LatAm</u>	↓	→

Source: Bloomberg, HSBC

10. What if structural or political drivers come back?

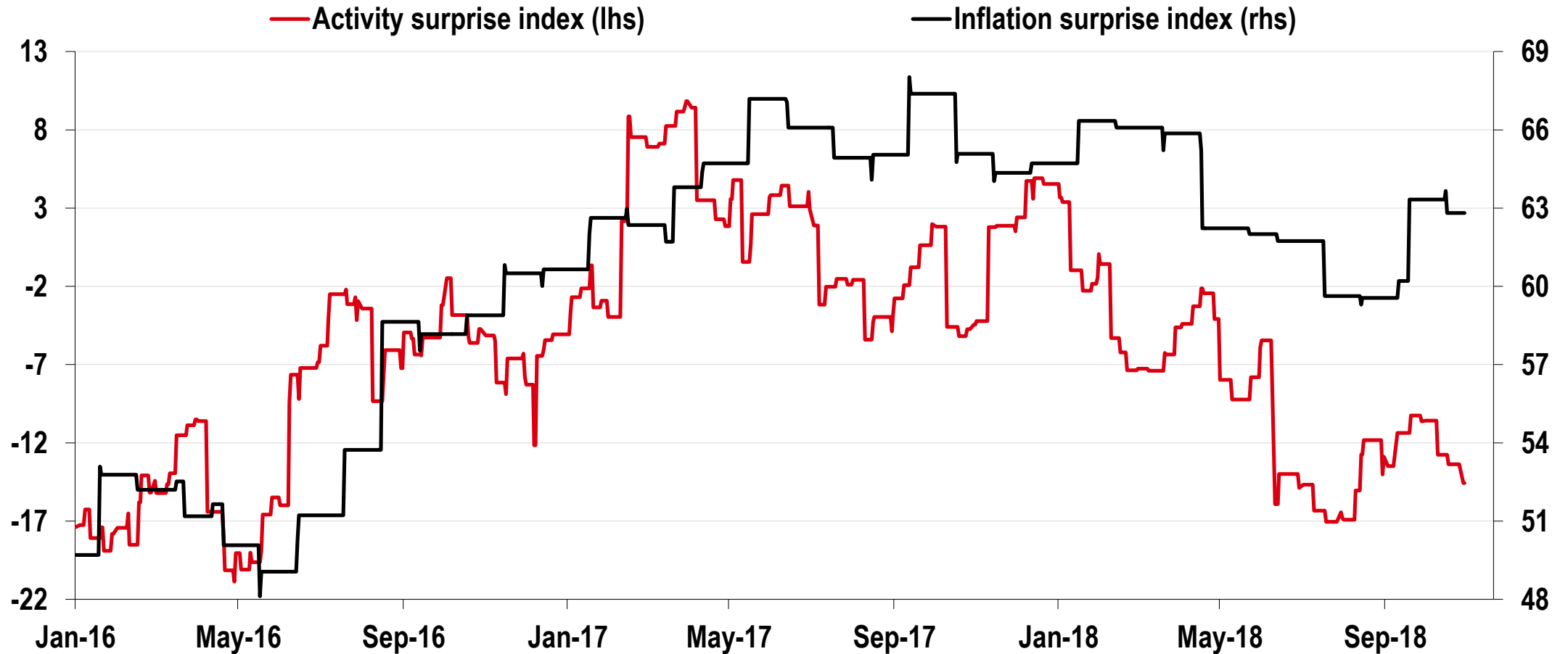
- **US fiscal and trade deficits look nasty....but...**
 - EUR fiscal divisibility, JPY much more debt, GBP & Brexit
 - US trade policy actually causing USD strength
- **Political focus after US mid-terms**
 - Potential policy agreement on infrastructure and China

GBP: Dancing to a different tune

12. GBP purely a political play for now

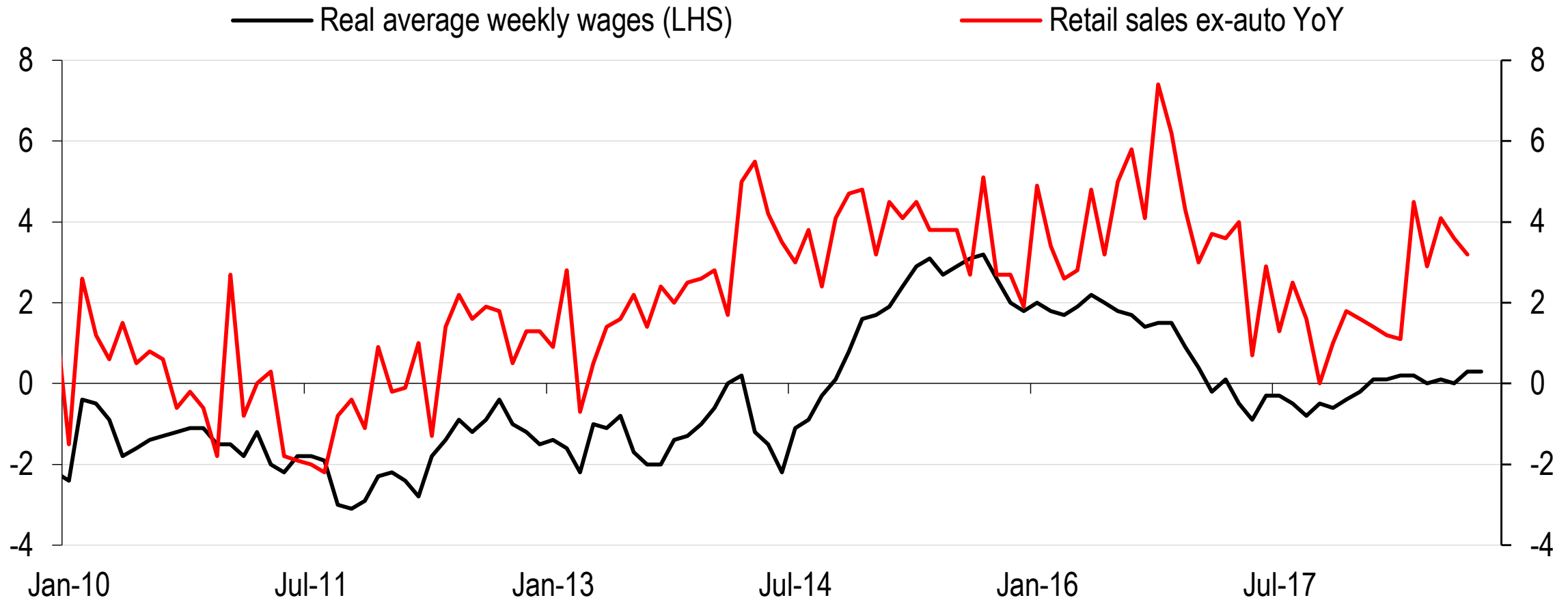
- **Structural concerns have retreated slightly**
- **Cyclical weakness persists despite summer bounce**
- **Political – uncertain end game, uncertain timing**

13. UK economic performance disappointing



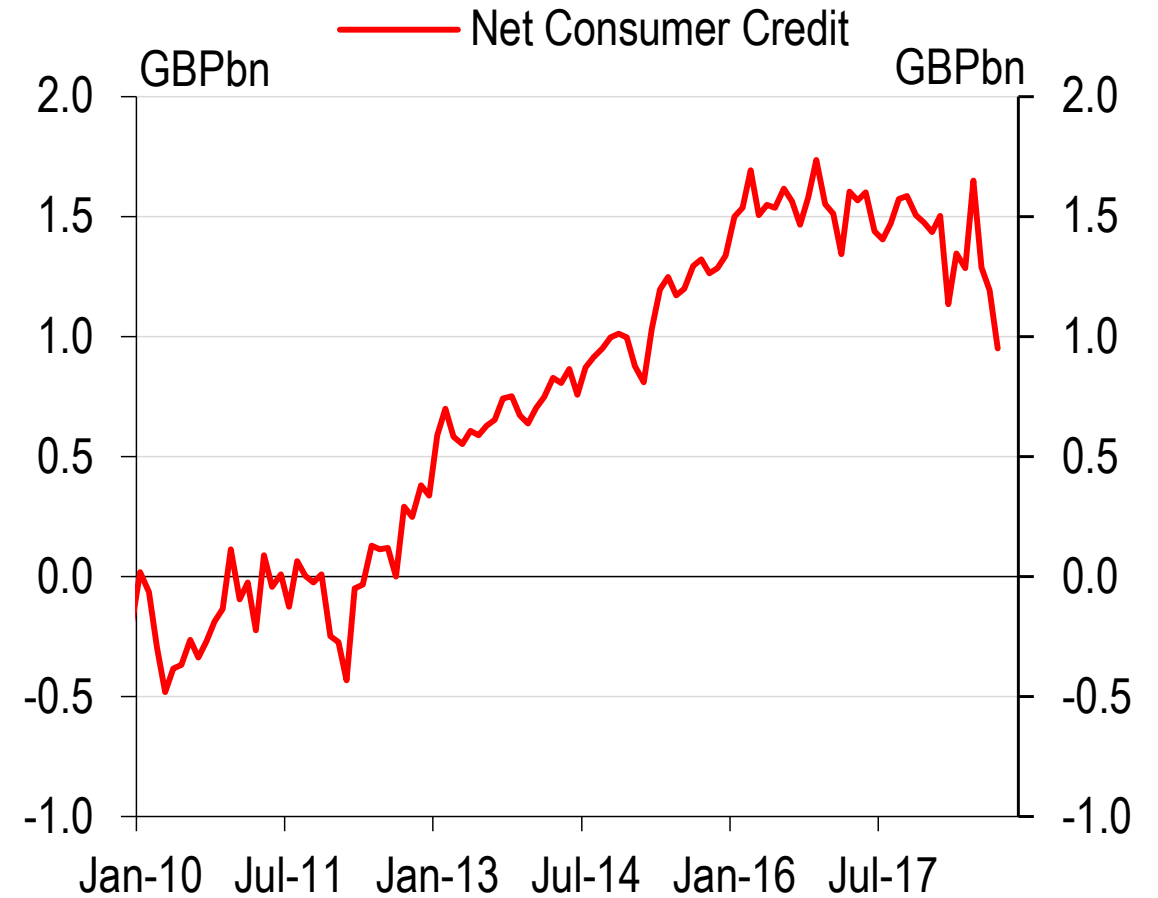
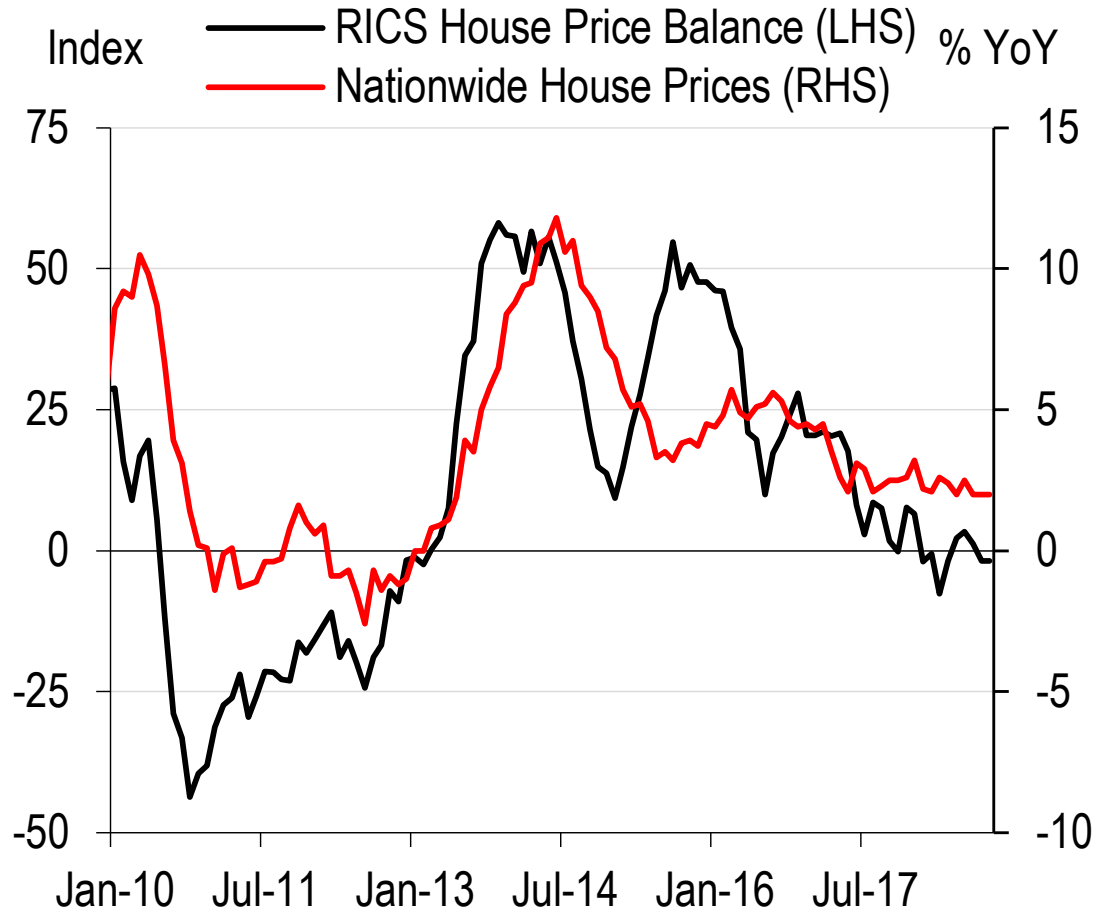
Source: Bloomberg, HSBC

14. Consumer boost proving short-lived



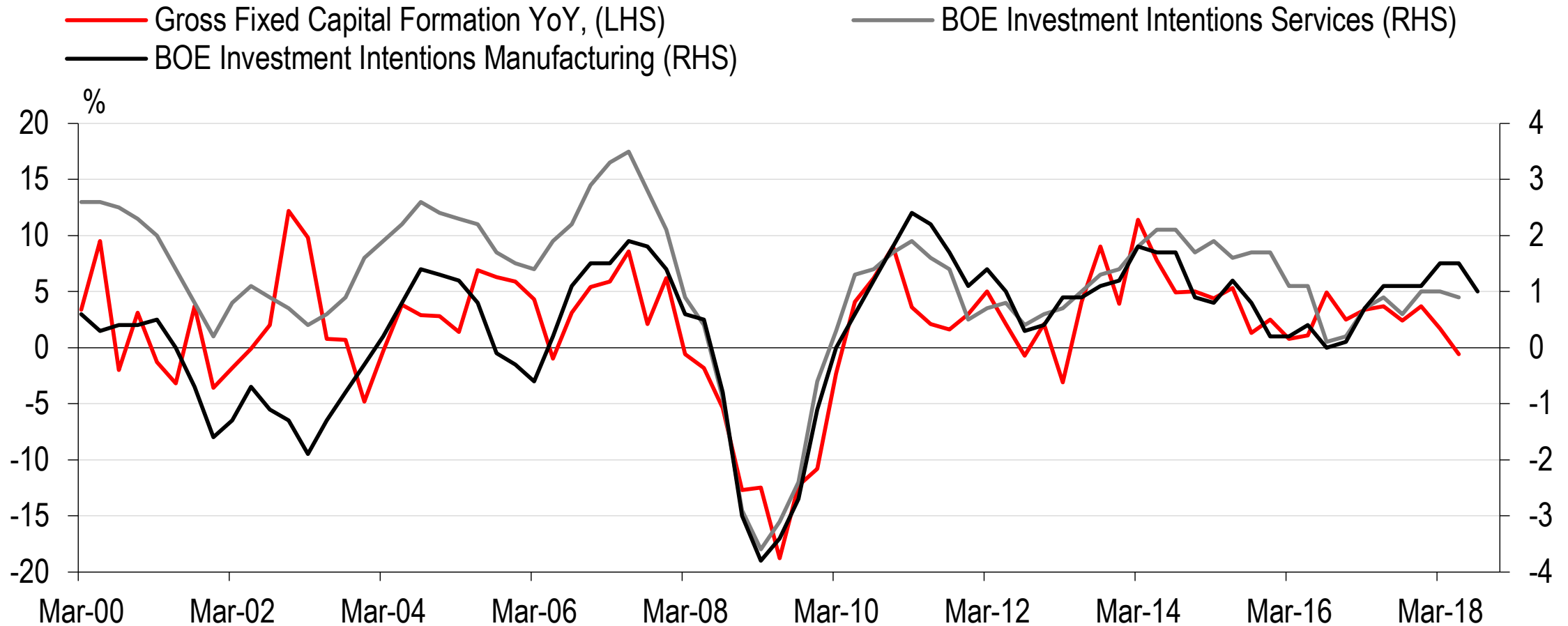
Source: Bloomberg, HSBC

15. Interest rate sensitivities may be biting already



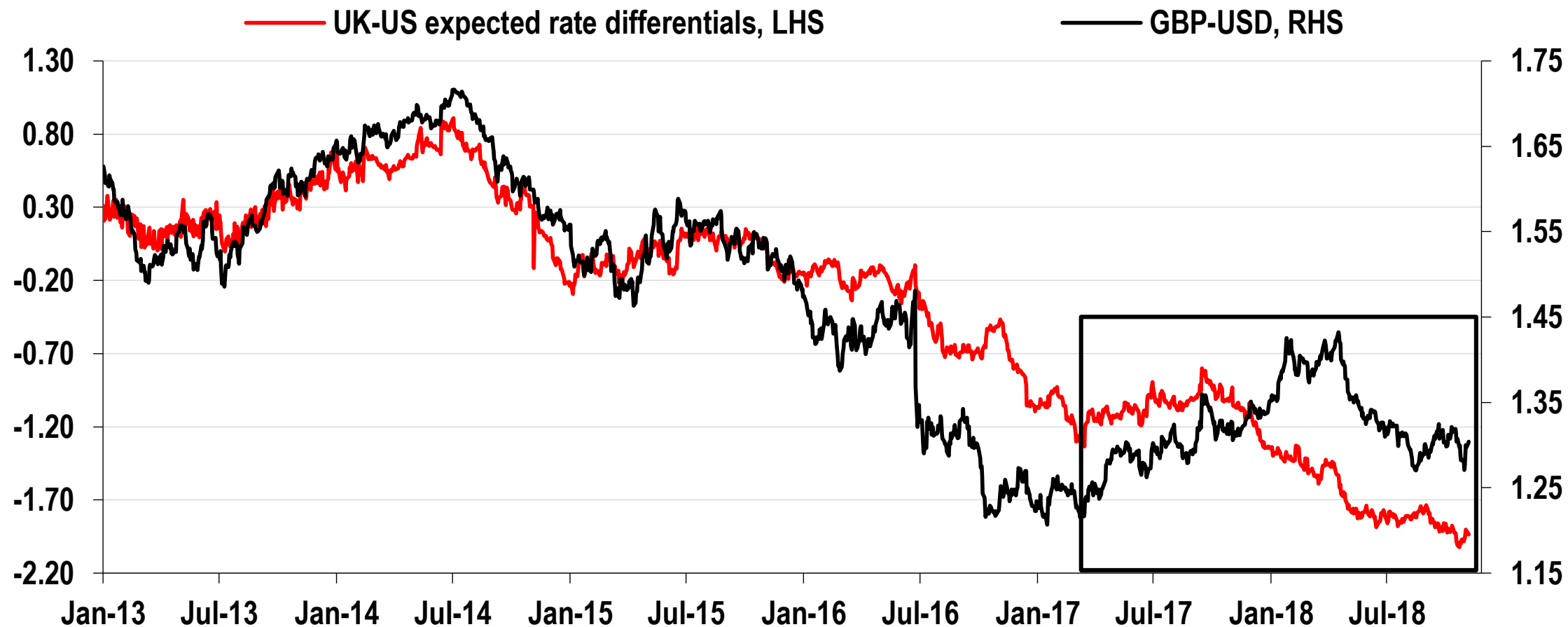
Source: Bloomberg, HSBC

16. Investment outlook is soft



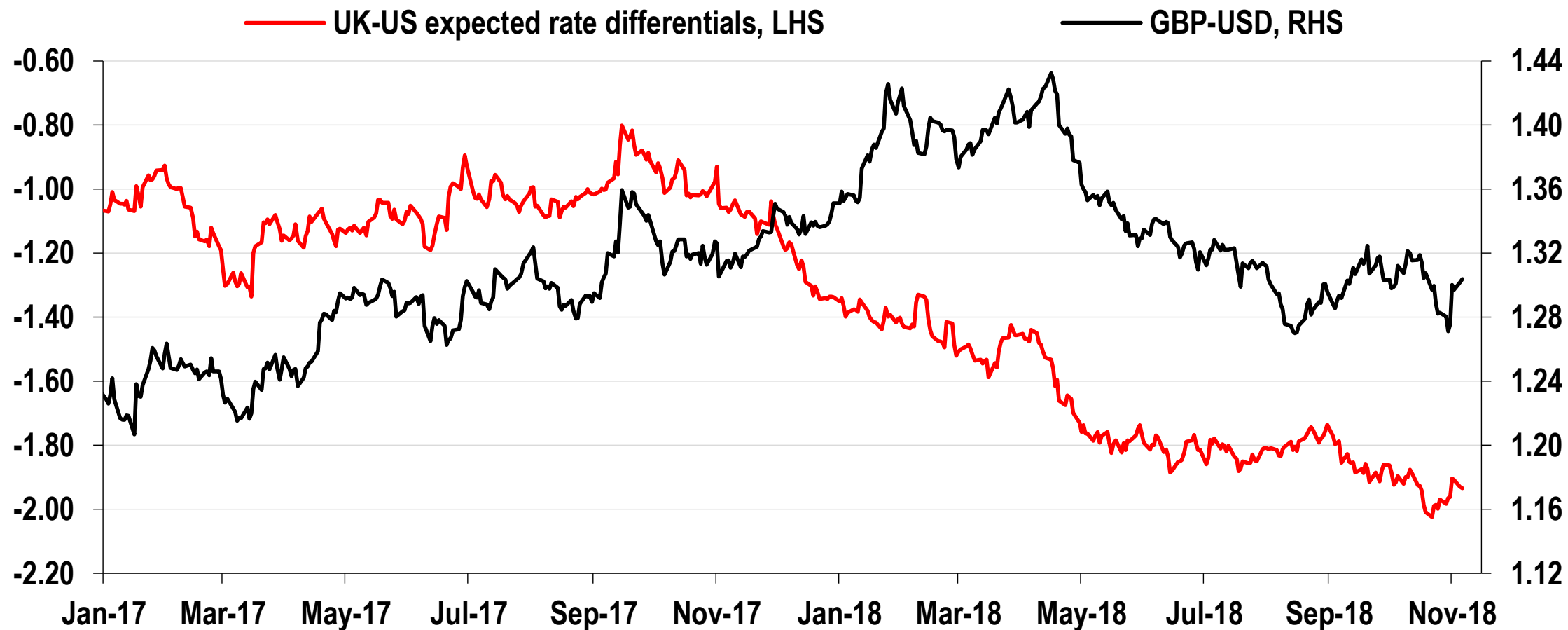
Source: Bloomberg, HSBC

17. GBP no longer behaving cyclically



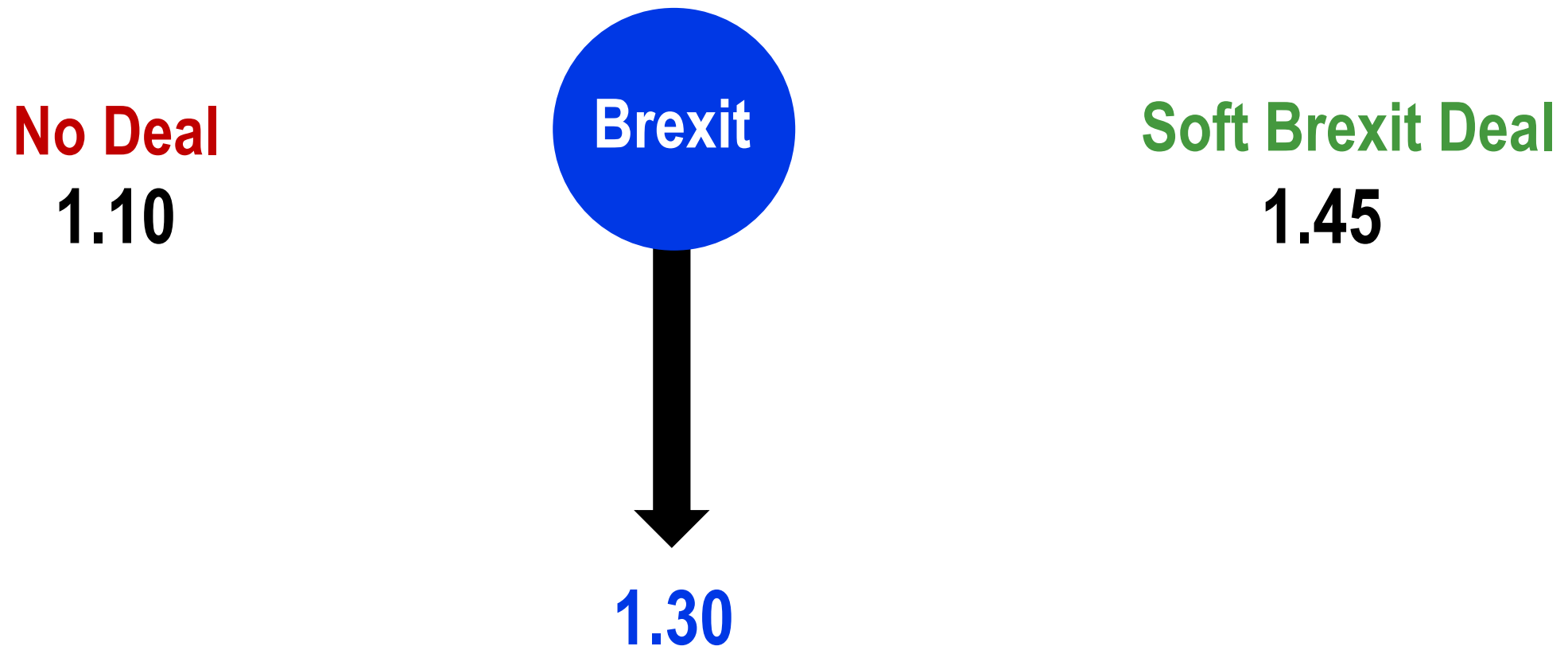
Source: HSBC, Bloomberg

18. GBP no longer behaving cyclically



Source: HSBC, Bloomberg

19. Deal or no deal: the HSBC forecast explained



$$50\% * 1.10 + 50\% * 1.45 = 1.28$$

20. Conclusions

- **Global FX outlook – USD has further to rally**
- **UK outlook – lukewarm economy, no rate hikes expected**
- **GBP outlook – a blend of Brexit outcomes**

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