Forbes Middle East

Which currencies will unexpectedly rise above expectations or under-perform in 2019?

2018 will be remembered as a year of heightened volatility for a number of different financial asset classes. Ongoing political risk and uncertainty around the unpredictable nature of President Trump were not the only catalysts behind market fluctuations, with prolonged trade tensions between the United States and a number of their counterparts and geopolitical tensions elsewhere also keeping investors on their toes.

Many of these challenges remain with questions that are yet to be answered and several of these challenges willlinger into the new trading year. External uncertainties are certainly something that investors struggle to predict how they could impact currency markets, so let’s take a look into which currencies could unexpectedly cause a surprise in 2019:

Out-performers

Turkish Lira – This one will raise a few eyebrows when considering that the Turkish Lira remains weaker by nearly 30% year-to-date despite strengthening 17% throughout the past three months, but the currency of Turkey will be seen as a contender to rebound next year. The previous dominance in headlines over President Recep Tayyip Erdogan presenting risks to investor confidence have now taken a backseat, while recent Turkish economic data shows that many of the impacts from the August 2018 Turkish Lira crisis have already leaked into the domestic economy. With these impacts already felt, there will be discreet optimism that the worst for the Turkish economy has passed through.

Fears over a potential conflict of central bank independence between the Central Bank of the Republic of Turkey and the Turkish President are no longer feared as much as they were in the middle of 2018, and this will be crucial towards contributing hopes to Lira recovering more ground in 2019.

Chinese Yuan – 2018 has been a strange year where every single emerging market currency in the basket tracked by the Bloomberg Terminal has traded lower against the USD. A host of different external uncertainties have been behind the weakness seen in emerging market currencies, but it is the prolonged trade conflict between the United States and China that has impacted the currencies of the developing world the most. This has included the Chinese Yuan, which has weakened as much as 8% since the emergence of the trade tensions and even touched its weakest level against the Dollar since the global financial crisis a decade ago.

Now although a resolution to the long-standing trade tensions are yet to be found, optimism remains strong following the temporary“truce” agreed during the G-20 summit in Argentina that a resolution is still possible. If an agreement to the trade tensions is found, emerging markets currencies will be looked upon by investors as a “buy”.

Indonesia Rupiah – 2018 will be remembered as a brutal year for the Indonesia Rupiah. The currency at one stage depreciated by as much as beyond 10%, which represented its lowest level since the 1997 Asian Financial Crisis. The reasoning behind the weakness in the Rupiah was not domestically-led and the currency found itself caught in the crossfires from a number of different external global market uncertainties. One of these uncertainties stemmed from the trade tensions between the United States and China, and the currencies across South East Asia have shown a strong correlation to Yuan's performance in the past.

This means that if the Yuan strengthens on trade optimism, that the likes of the Rupiah, Singapore Dollar and Malaysia Ringgit will all be in line to mirror this advance.

USD – I can't remember there having often been a year where investors have entered a year as negative on the Greenback, as 2019. Selling the Dollar has been called as the trade for next year before the current year has even entered the final stretch, which makes me suspicious that this trade is a major threat to becoming an overcrowded one.

While it is clear that the United States economy is going to be a question to a period of slowing down after years of growth close to 3% and that the Federal Reserve will backtrack away from raising interest rates as often as four times next year, it does need to be remembered that the United States economy and the Federal Reserve remain lightyears ahead of their developed counterparts when it comes to economic progress. The Federal Reserve still stand alone in terms of being able to raise US interest rates, while the European Central Bank (ECB) and Bank of England (BoE) remain nowhere near ready to even commit to the subject of monetary policy.

A resolution to the long-standing trade conflict between the US and China is likely what is required to install confidence back into Federal Reserve policymakers, and as long as the Fed commits to at least two interest rate rises next year it should be enough to encourage investors to commit to USD positions.

British Pound – This will be one of the biggest surprises calls for unexpected out-performer next year, but just imagine the reaction in the British Pound if either; Brexit gets delayed, or doesn't happen at all?

The Pound is trading as low as 1.24 at time of writing and a severe distance away from its valuation of 1.50 during the night of the historic EU referendum of June 2016. The Sterling remains historically affordable for potential buyers. While many would consider it as a failure to democracy if the United Kingdom backed away from leaving the European Union and while this is not something that is expected to happen, the price reaction in the Pound as a result of such a shock would inevitable move the GBP towards headline contender for strength in 2019.

Japanese Yen – To see the Japanese Yen as one of the headline contenders to out-perform its peers in 2019 will not be a surprise to many. Concerns over slowing global growth are rife, with building economic pressures leading to distressing concerns that the global economy will face a challenging year in 2019. When you combine these factors together with struggling appetite from investors towards major stock markets, you have a mixture of reasons to believe that investors will require a safe-haven asset. This is good news for the Japanese Yen.

We have seen on countless occasions in recent history that the Japanese Yen has quickly found loyal buyers in times of market uncertainty and there are more than enough reasons to expect investors to look for the Yen next year.

Under-performers

Euro – It was only a few months back that expectations were mounting that 2019 would be the year to buy the Euro. Optimists even thought that the EURUSD could rally as high as 1.40, but this optimism has faltered as much as those who thought Oil could climb back above $100 before the end of 2018. Instead, the Euro has weakened by 5.15% year-to-date and the outlook for next year is that further weakness shouldn't be ruled out.

The ECB is destined to push back their own assessment on when to raise EU interest rates, which was previously thought to be at the end of 2019and this delay will put off Euro buyers. It goes without saying that Eurosceptic movements are emerging across Europe, which is presenting political risk challenges that will prove difficult for the likes of German Chancellor Angela Merkel and President Macron of France to combat. Away from ongoing populist movements throughout Europe, another issue for investors to contend with is the consensus that Europe will suffer in line with the expected global economic slowdown in 2019. Expectations for the Euro to ride high will be reliant on optimism that the Dollar will weaken, which inevitably means that the Euro has limited buyers heading into the New Year.

Indian Rupee – The worst performing currency throughout Asia this year is not yet ready to turn the corner. The news early December that respected Central Bank Governor, Urjit Patel resigned from his position as head of the Reserve Bank of India (RBI) has sparked another round of uncertainty over central bank independence.

The RBI'sindependence is a serious issue for investors and something that can't be raised under question. Until this uncertainty is removed investors need to be careful that potential interference into economic matters and central bank policy does not lead to the Indian Rupee going the same direction the Turkish Lira has for most of 2018. The Indian economy, as a net importer of Oil, should be benefiting much more from the aggressive downturn in the price of Oil over recent weeks but it has not been able to find a buyer – which suggests that buying demand for the Rupee remains at low levels.

South African Rand – This is a tough one to call and could go either way but traditionally, stock market volatility is bad news for riskier appetite. Reduced risk appetite means weak demand for riskier assets, and there are few very currencies out there considered as more risky as the Rand.

If stock markets do continue to tank into 2019 on pessimistic economic health conditions and if there is a global economic downturn that rattles investors, the Rand will be the least attractive buying asset for traders in terms of emerging markets.

Nigerian Naira –The Naira often slips away from the radar when it comes to currency movements, with this often linked to the country of Nigeria using many different exchange rates although investors should be prepared that 2019 looks set to be a difficult one for the Nigeria currency.

The outlook for the Naira has always been heavily influenced by both Dollar fluctuations and Oil prices, but it often goes without saying that Nigeria is one of the most sensitive economies at being reliant on Oil-export revenues. The economy of Nigeria not only remains on a tough quest to be away from reliance on Oil, but the commodity also has a strong impact on Government revenues. Weaker government revenues heading into the year of a general election, where fiscal spending will be expected to appease potential voters is not an ideal formula.

Jameel Ahmad is Global Head of Currency Strategy & Market Research at FXTM.

https://www.forbesmiddleeast.com/which-currencies-will-unexpectedly-rise-above-expectations-or-under-perform-in-2019