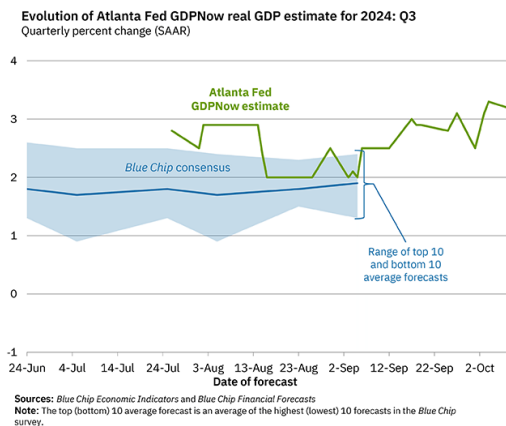


## C8 Currency Compass – October 2024

### FX Market and Strategy

A strong start from Currency Compass last month, where we called for a 50bp Fed rate cut camp but noting our currency models point to EURUSD and GBPUSD weakness, so any bounce is a good opportunity to add EUR and GBP hedges. Indeed it was, with EURUSD hitting 1.12 and GBPUSD 1.34 before falling back. Stronger US data, in particular the employment report, helped cement this view, the chart below illustrates how recent US data has pushed up the Atlanta Fed Q3 GDPNow forecast from 2% to above 3%.



Secondly, the view was correct that, with USDJPY hitting our downside target around 140, the USD was likely to be strongest against the JPY. Looking forward, in October, our models remain USD positive, against all three major currencies.

In terms of event risk this month, we see no change in rates by the ECB or BoJ, so focus is on the UK's first Labour budget for 14 years. For the FX markets, the key may well be the reaction to any rewrite of fiscal rules, but, after the Truss government budget disaster, we expect the new government to show caution. The UK tax burden will rise, with tax rates rising and tax reliefs removed. The problem for the government, is that some measures may prove fiscally neutral at best, so they may well be toned down compared to current expectations. This suggests a relief trade for GBP (full discussion overleaf). Finally, the shadow of the US presidential elections looms large, we will discuss in depth in the next issue, but for now the USD has benefited from improving polls for Trump in swing states, such as Florida (see right).

### C8 Hedge Overview

C8 Hedge is a stand-alone web platform created to help corporates, pension funds and fund managers manage their FX exposures in a consistent and systematic way. C8 Hedge is managed by Jon Webb who has been active in the FX markets for 30 years, both in banks and funds, most recently advising on FX markets as Head of FX Strategy at Jefferies.

The founding partners of C8, Mattias Eriksson and Ebrahim Kasenally worked with Jon Webb at HSBC London in the late 90's before becoming partners at Bluecrest Capital Management, building Bluetrend into a \$15bio systematic fund, with an important FX component.

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	Harris	Trump	Lead
September 25 (Victory Insights)	45%	47%	+2
September 25 (McLaughlin & Associates)	46%	51%	+5
September 27 (RMG Research)	48%	50%	+2
October 2 (Redfield and Wilton)	45%	49%	+4
October 6 (Activote)	47%	53%	+6
October 6 (New York Times/Siena College)	41%	55%	+14

Table: Alicja Hagopian • Source: Latest Florida polls from FiveThirtyEight



## Currency Focus: GBP and the UK Budget

With major Labour election manifesto commitments on the tax side, there is much anticipation about the UK's Autumn budget on the 30 October. We see any changes to UK's fiscal rules having the most impact on GBP, but after the Truss budget disaster two years ago, we expect more caution this time around. In terms of tax measures, already some of the touted changes e.g. limiting pension tax relief have been rejected by public sector unions. The exit of non-doms suggests that these measures may also be scaled back to avoid a negative revenue impact. A negative fiscal impact is likely from large capital gains tax increases and VAT on private school fees.

The latter is a political move so unlikely to be dropped, but the measures around the former may also be watered down. Please find below an excellent review of potential measures courtesy of Radstock Partners. Taking this all together, we see a relief trade for sterling, post the announcement, also aided by the risk that increased government spending on public sector wages leaves the BoE less room to cut than other countries.

As we discussed last month and overleaf, our models still favour USD, based on the strength of the US economy, so we see any immediate GBP gains to be against the EUR and JPY.

"Reeves' Levers"	The Base	Worth	In scope?	Impact	Expeded outcome
Rewrite Fiscal Rules	£0-100bn	£0-100bn	Now or never	Pro-growth*	Initial volatility
Higher Rate income	<£100bn	£5bn @ 5%	Over time	Anti-growth	Diminishing returns
Pension Reliefs	£45bn	£5-10bn	One-off, now	Lower saving	Alternative savings
VAT Reliefs	£32bn	Up to £5bn	Some areas	Some severe	Ideology vs. offset
Private Residence Relief	£30bn	£0, but ->	Expect increased land taxes, e.g. Council Tax		
Non-domicile reform	£10bn	[negative]	Expected	Anti-growth	Watered down
R&D Reliefs (all schemes)	£8bn	£4bn	Greatly increased compliance focus		
Inheritance Tax	£8bn	£2bn	Potentially	Low ex. RND	Residence NRB gone
Other CGT and Uplift	£6bn	£2bn	Potentially	Some severe	Rates adjusted
All others <£5bn, duties	£20bn	£1bn	Some areas	Localised	Noise > Signal

\* Subject to maintaining market stability (ref. Truss / Kwarteng 2022)

## Key Event Dates

17 October	EU	ECB Meeting	Expect no rate change, after the 25bp cut in September to 3.50%
30 October	UK	Autumn Budget	Expect higher tax rates and reduced exclusions (see above). Rewrite of Fiscal Rules.
31 October	Japan	BoJ Meeting	Expect no rate change
5 November	US	Presidential Election	Market expectation remains evenly split on Harris v Trump, current momentum with Trump
7 November	US	FOMC Meeting	Expect 25bp rate cut to 4.50-4.75%
7 November	UK	BoE Meeting	Expect 25bp rate cut to 4.75%
12 December	EU	ECB Meeting	Expect 25bp deposit rate cut to 3.25%
18 December	US	FOMC Meeting	Expect 25bp rate cut to 4.25-4.50%
19 December	Japan	BoJ Meeting	Expect 25bp hike to 0.5%
19 December	UK	BoE Meeting	Expect 25bp rate cut to 4.50%