



## **Winlock Currency News – Review of 2019**

2019 currency fluctuations were again all about Brexit – or were they? Here is your review of 2019 courtesy of Winlock:

### **US Dollar**

In our Review a year ago, we set a possible range of \$1.15-1.50 for the dollar dependent upon the type of Brexit that was delivered. In the end, Brexit was not delivered at all in 2019 but it still dominated the sterling currency market. Having started 2019 at \$1.30 or so, it stayed there until May when it became clear that Theresa Mays' government would fail and the risk of a hard Brexit increased. Hence sterling fell and by August sterling had slumped to \$1.20 – a depreciation of approximately 7% from January 2019. As the risk of a No Deal Brexit receded sterling recovered steadily, up to \$1.25 in October and back above \$1.30 in December, once the election result was known. So we now know that we will be leaving the EU, the Customs Union and the Single Market, yet sterling is more or less where it was a year ago. This indicates that the market believes a sensible trade deal will be reached in due course, and that neither side will wish to inflict too much harm on each other by way of tariffs or border checks. This may be optimistic, there is still much that could go wrong but any sort of sensible trade deal is likely to see sterling increase further, maybe as high as \$1.40. This would see input prices ease in the UK for many sectors not least the fenestration sector.

### **Euro**

The target we set a year ago for the euro was €1.05 – 1.20 and the actual range was €1.06-1.17 so we weren't too far off the mark! As with the dollar the euro rate followed the Brexit saga, with sterling falling to €1.06 in August as uncertainty reached its height and then recovering to €1.17 by early January 2020 as the outlook for an orderly Brexit improved. Sterling is now at its highest against the euro for well over 2 years, so the price of European made products may start to fall slightly. A disorderly Brexit would be bad news for the UK and the EU. If this were to occur, the downside against the euro would be less than against the dollar, so a range of €1.12-1.25 is probably likely this year.

### **Chinese Yuan**

As we predicted a year ago China has not allowed its currency to strengthen in 2019, and it has responded to poor market conditions and US trade tariffs by devaluing the Yuan. Against the US dollar the Yuan has devalued by approximately 3% year on year but this devaluation was nearer 6% at certain times in the year. As we expected China will continue to do whatever it thinks is required to keep its factories active. From a level of CNY 8.70 in January 2019, sterling fell to 8.42 (3% fall) in August, before peaking at 9.42 in December (an 8% rise year to date). It has since settled back to CNY 9.0 so sterling is still almost 3.5% higher against the Yuan than a year ago. This will help offset the continued increases in Chinese labour rates so the UK price of products from China should not be increasing in 2020 or at least not by much.