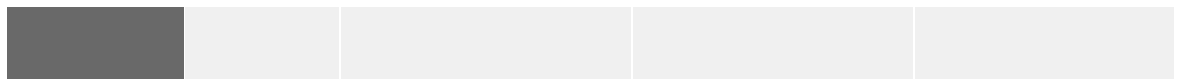


G10 FX Week Ahead | A turning point?

Stable German Ifo provided the first tentative glimmer of hope and if followed by a rise in inflation next week should prove to be a soft lid on the extent of the EUR/USD decline. On the trade war side, the focal point will be the US deadline on EU steel and aluminium tariffs. If President Trump goes ahead, then the EU has said it would respond



EUR: The first tentative glimmers of hope

	Spot	Week ahead bias	Range next week	1 month target
EUR/USD	1.1700	Mildly Bearish 	1.1550 - 1.1870	1.1900

- We expect EUR/USD to remain under modest downside pressure as the general USD strength and Italian political woes keep the cross under downward pressure. But after a stream of bad Eurozone news (i.e., the disappointing activity data of past weeks), clouds seem to be clearing. Not only the German Ifo stabilised, but we look for a non-negligible rebound in Eurozone May inflation data next Thursday from 1.2% year on year previously to 1.6% (with a risk of further upside in coming months given the high oil prices) and German May CPI (Wednesday) expected at 1.8%. This should provide a lid on the extent of the EUR/USD decline
- In the US, the data should remain robust. The second estimate of Q1 GDP (Wednesday) should confirm 2.3%YoY growth while the US May labour market report (Friday) should show an increase in wages (2.7% vs 2.6% previously) and solid 170K NFP, keeping the fed stance for “gradual” policy normalisation intact.

JPY: Re-surfacing trade tensions bring back JPY attractiveness

	Spot	Week ahead bias	Range next week	1 month target
USD/JPY	109.40	Mildly Bullish 	108.30 - 110.80	109.00

- With the risk of global trade tensions re-surfacing (the US administration introduced the threat of US car tariffs) and the cancellation of the US-North Korea summit, JPY attractiveness is back in focus. This should keep USD/JPY stable (though with modest upside risk) ahead of the Friday's US labour market report. The solid May Non-farm payrolls and the wage growth should prompt some USD strength, potentially sending USD/JPY back above the 110.00 level.
- On the domestic front, the Japanese calendar is fairly light. April retail sales (Wednesday) should record a month on month rebound from the negative into positive while the April Industrial Production growth (Thursday) should remain unchanged at 1.4%YoY. Data should play second fiddle to the external environment in terms of the driver of USD/JPY.

GBP: Maybe update depending on 1Q UK GDP revision / Brexit news

	Spot	Week ahead bias	Range next week	1 month target
GBP/USD	1.3340	Neutral	1.3200 - 1.3520	1.3800

- It's been a mixed week for GBP. On the one hand, softer CPI inflation data may have dented hopes of an August Bank of England rate hike, though stronger-than-expected April retail sales print (ex-auto: +1.3% MoM) suggested there may still be some signs of life in the UK economy. More will be needed on the data front to convince the Monetary Policy Committee that another rate hike this year is warranted. The week ahead will see some second-tier data releases, so keep an eye on - consumer confidence (Wednesday), money and credit data (Thursday) and the May manufacturing PMI reading (Friday).
- UK political risks continue to linger in the background - as Brexit talks reach a crucial juncture. Headlines may keep GBP/USD contained, though we expect some consolidation in the 1.33-1.34 area for now.

AUD: Searching for a reason to push higher

	Spot	Week ahead bias	Range next week	1 month target
AUD/USD	0.7565	Neutral	0.7500 - 0.7700	0.7600

- Despite the myriad of geopolitical and trade uncertainties, the Australian dollar has surprisingly remained fairly resilient. The recent consolidation is fairly encouraging for our broader outlook for a higher AUD/USD by year-end. However, in the near-term, the currency lacks any material catalyst - not least as core Australian data remains fairly uninspiring from the Reserve Bank of Australia rate hike perspective. The week ahead will focus on 1Q private capex data (Thursday) - with markets looking for a mild 1.5% QoQ bounce-back after a disappointing 4Q. However, following the soft 1Q construction work down release, there are downside risks to the capex reading.
- The external environment will continue to dominate AUD/USD dynamics in the short-run - and given the uncertainties surrounding US trade policy, Italian politics and emerging market economies, it's difficult to bank on a risk relief rally. However, should the external backdrop turn favourable, then we would expect AUD to be a modest outperformer.

NZD: Talk of unconventional RBNZ policy is just precautionary

	Spot	Week ahead bias	Range next week	1 month target
NZD/USD	0.6920	Neutral	0.6850 - 0.7050	0.7100

- The domestic highlight of the week will be the Reserve Bank of New Zealand Financial Stability Report due Tuesday - where macroprudential policies and the New Zealand housing market will be in particular focus. One could easily see the current LVR policies that have been in place since 2013 to curb house price inflation remaining unchanged. However, even under any subtle changes, the direct implications for the NZD are fairly muted (not least as monetary policy expectations are fairly neutral). Indeed, while the RBNZ did release their unconventional monetary policy toolkit this week (which included QE and negative rates), assistant Governor McDermott reiterated that it's not a signal of intent and merely the central bank being "prudent" in planning for another hypothetical crisis.
- On the data front, we'll get May business and consumer confidence - as well as the 1Q terms of trade data all on Thursday. The latter is expected to fall -1.5% as higher imported oil prices have offset the fairly steady dairy export prices. Should US rate remain fairly contained, we suspect that NZD/USD could be prime for a corrective rally (eyeing a move back to 0.71 in the coming weeks).

CAD: Policy signal watching at the May BoC meeting

	Spot	Week ahead bias	Range next week	1 month target
USD/CAD	1.2900	Mildly Bearish 	1.2740 - 1.3000	1.2700

- Recent lacklustre Canadian macro data and the lack of tangible NAFTA progress means the odds of a 'surprise' rate hike at this week's Bank of Canada meeting (Wednesday) remain trivial - although one can never fully rule it out given the central bank's history of catching markets by surprise. Instead, our primary focus will be on signals in the statement and whether we see strong enough conviction from the central bank over a July rate hike (currently 60-65% priced in). An explicit nod towards a rate hike at an upcoming meeting seems unlikely given the nature of the trade and geopolitical uncertainties overhanging the Canadian economy. But subtle acknowledgement that "further progress" has been made in economic recovery and absorption of slack would be a sufficient enough conditional signal for a July rate hike (conditional on economic data remaining resilient and NAFTA risks not increasing materially).
- There'll be a series of data releases to watch out for in the upcoming week: 1Q GDP (Thursday), trade and industrial production (Tuesday) and manufacturing PMI (Friday) will all have some bearing on the BoC's policy outlook. Oil prices may stay bid in the near-term on the back of US sanctions on Iran and Venezuelan production declines, though our Commodities team believe that [OPEC will formulate an exit strategy from its production cut deal](#) later next month (22 June). Sentiment around this may keep a lid on crude prices for now.

CHF: Benefiting from the Italian political woes

	Spot	Week ahead bias	Range next week	1 month target
EUR/CHF	1.1618	Neutral	1.1540 - 1.1770	1.1800

- Italian political woes, the rise in the perceived Eurozone political risk and the sharp increase in BTP-Bund spread (10y spread now around 200bp) translated into a material support for CHF, making the currency (a) the top G10 FX performer of the past two weeks; (b) the only European currency recording gains against USD over the same period. Indeed, the fall in EUR/CHF is more than enough to outweigh the faltering EUR/USD in terms of the USD/CHF implications.
- The perceived Italian risk more than offsets any concerns about the upcoming Vollgeld referendum on 10 June and its potential negative implications for the franc. We expect the pace of the EUR/CHF decline to ease next week (partly because the BTP-Bund spread seems stretched at this point), with EUR/CHF likely pausing around the 1.16000 level. On the domestic front, neither Q1 GDP (Thursday) or the April retail sales (Thursday) should have much of an influence on the franc.

SEK: The battle of institutions

	Spot	Week ahead bias	Range next week	1 month target
EUR/SEK	10.2100	Neutral	10.1390 - 10.3000	10.5000

- While SEK obtained a boost from the National Debt Office decision to position for stronger SEK, we note that more the SEK gains now the lower the scope any actual hawkish action from the Riksbank later on as the last thing the central bank desires is to support an ongoing SEK rally. Also, we note that the size of intended positions for stronger SEK from the debt office (SEK 7.5bn) is lower than its position back in 2009 (SEK 50bn at the time). Hence, the upward SEK momentum may not last for too long. We expect EUR/SEK to settle around 10.20 next week.
- On the domestic front, Swedish April retail sales should decline (Monday), while the May Economic Tendency Survey (Tuesday) and May Manufacturing PMI (Friday) should remain unchanged.

NOK: Reversing oil price to put a lid on the immediate NOK gains

	Spot	Week ahead bias	Range next week	1 month target
GBP/USD	9.4890	Neutral	9.4000 - 9.5770	9.4500

- With the speculation about the boost to the OPEC oil supply increasing and putting a limit on the extent of further rise of the oil price (in fact risks are skewed to the correction lower following the rally over the past weeks), the recent EUR/NOK decline is set to pause.
- It is a fairly quiet week on the domestic data front. The main focus is on the May Manufacturing PMIs, due on Friday which we expect to remain stable. This should, in turn, limit the pace of NOK decline should oil price continue decreasing throughout the week. The 200-day MA of EUR/NOK 9.5770 should provide a solid resistance to the pair.

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