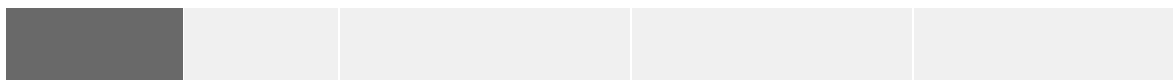


## FX Week ahead: Bend the knee to the mighty buck

Donald Trump is revelling in the use of the strong dollar in bringing his EM foes to bear. Washington looks unlikely to ease sanctions pressure anytime soon and not until the EM sell-off blows back into US asset markets will the dollar lose its near-term lustre



## EUR: Turkish contagion

	Spot	Week ahead bias	Range next week	1 month target
EUR/USD	1.1430	Bearish 	1.1320 - 1.1530	1.1300

- Washington's use of economic sanctions as an arm of foreign policy is extending into FX markets as well. President Trump appears to be revelling in the dollar's ability to bring the likes of China, [Russia](#) and Turkey to bear by contributing to varying degrees of currency crises. 2% yields on 3 month US Treasury Bills make the dollar the go-to safe haven right now. Until the Fed acknowledges that US policy settings are too tight – or we see a significant de-escalation in EM tension – summer demand for the dollar looks unlikely to abate.
- In the week ahead EUR/USD looks vulnerable to the low 1.13s after the break-out of tight trading ranges. While data will probably take a back-seat to the policy response from EM policymakers, the market will, however, look at US July retail sales (Wed) and German 2Q18 GDP (Tues) for clues on activity trends. With Turkish exposure now driving European under-performance of US equities and the Italian budgetary story still lurking, it looks like EUR buyers will have to be patient.

## JPY: Usurped by the dollar as a safe haven

	Spot	Week ahead bias	Range next week	1 month target
USD/JPY	110.85	Neutral	110.50 - 111.50	112.00

- Somewhat surprisingly USD/JPY has traded tight ranges despite the volatility in the EM space. The JPY does benefit from being [an uncorrelated hedge](#) to the Asian sell-off, but has not been able to make any headway against the mighty dollar. Reuters source stories about the BoJ trying to raise rates earlier in the year haven't had much impact on the JPY either.
- It would probably take a decisive sell-off in US equities to trigger a USD/JPY sell-off right now – but FAANG related distortions make a clear read on US equities difficult. In terms of Japanese data, Friday saw 2Q18 Japan GDP surprise on the upside and in the week ahead the focus will be on any slow-down in exports when the July trade data is released.

## GBP: Brexit risks, seasonality woes and global market turmoil

	Spot	Week ahead bias	Range next week	1 month target
GBP/USD	1.2760	Mildly Bearish 	1.2600 - 1.2850	1.2700

- The independent GBP weakness since last week's BoE rate hike in part reflects the switch of focus by investors towards heightened no-deal Brexit risks. Indeed, when a UK cabinet minister puts the odds of a breakdown in Brexit talks at 60% – that is difficult for any investor to ignore (even if one sees this as political posturing). However, we wouldn't be too hasty in apportioning all of GBP's weakness towards increased Brexit uncertainties. Not only are we in a thin summer market, we also note that seasonality trends over August do not favour the pound. Moreover, the broader global market angst has seen GBP/USD slide to the 1.27-1.28 area quicker than we had anticipated.
- We would view any undershoot of these levels as inconsistent with the Brexit status quo – and would no longer deem risk-reward to favour positioning for further GBP weakness. While the 2Q GDP figures would have lifted the pound under normal circumstances (although there was a worrying drop in exports that may be related to the global trade war story), they were not strong enough to knock markets out their current Brexit lull. We would need to see some significantly positive economic numbers to do so – and given how the economy is intrinsically linked to the Brexit outcome, this seems unlikely. The week ahead sees the July jobs report (Tue), CPI report (Wed) and retail sales (Thu); the risks are asymmetric in the sense that bad data will likely weigh on GBP, while good data is unlikely to elicit much GBP upside.

## CHF: Italy, Turkey or Russia?

	Spot	Week ahead bias	Range next week	1 month target
EUR/CHF	1.1350	Bearish 	1.1280 - 1.1420	1.1300

- EUR/CHF is under heavy pressure as the EM currency weakness spreads from Turkey to Russia. Typically Russian nationals view the CHF as a safe haven and given the US sanction threats will prefer to steer clear of the dollar. We expect the US sanction story against Russia to build over coming months – warning that this EUR/CHF trend is here to stay. At the same time, the Italian budget story looks set to run into late September, with politicians trying to balance electoral promises and EMU commitments.
- The question is what will the SNB do? They still have a policy of intervening in FX and assume the CHF is over-valued. 1.1250 looked a possible SNB intervention area for the SNB last summer. However, with Washington on the rampage, the SNB might prefer to keep their heads down and not incur Trump's wrath by intervening to weaken the currency. Downside risks prevail over the coming months.

## SEK: Still very fragile

	Spot	Week ahead bias	Range next week	1 month target
EUR/SEK	10.4370	Bearish ↘	10.3500 - 10.5000	10.5000

- Even if the risk environment improves, the upside to SEK should be limited as the Riksbank is unlikely to change its dovish stance any time soon. The soft Swedish July core CPI (declining from 1.4%YoY to 1.3%) supports the dovish-for-longer Riksbank stance which should limit any material strengthening potential of SEK.
- On the data front, we don't expect much reaction in SEK in response to the July Swedish house price data (Monday) as prices are not expected to have moved much over the summer holiday period. If the risks environment remains fragile, EUR/SEK should test the 10.50 level.

## AUD: Vulnerable amid the global market turmoil

	Spot	Week ahead bias	Range next week	1 month target
AUD/USD	0.7301	Mildly Bearish ↘	0.7150 - 0.7400	0.7200

- In this global FX market turmoil, local AUD factors will have no material bearing on price action. With AUD/USD taking out the 0.73 support and broad-based EM FX weakness potentially weighing on global risk sentiment, we now see greater odds of a move below 0.72 (levels not seen since Dec 2016).
- Unlike the RBNZ, the RBA kept a fairly neutral stance this week – although the central bank did downgrade its projected inflation profile. For what it's worth, the week ahead sees 2Q wage data (Wed) and the Jul jobs report (Thu). We also get Governor Lowe's semi-annual testimony to parliament (Fri).

## NOK: The NB preparing the market for a rate hike

	Spot	Week ahead bias	Range next week	1 month target
EUR/NOK	9.5470	Neutral	9.4500 - 9.6220	9.4500

- The key focus will be on the Norges bank meeting on Thursday. While we don't expect a rate hike, the Norwegian central bank is likely to reiterate its intention to raise the policy rate in September. The latest (July) inflation numbers heavily support the NB forward guidance, with both headline and core CPI increasing to 3%YoY and 1.4% respectively.
- While the fragile external environment (TRY collapsing, USD/CNY higher, EUR/USD below 1.1500) is mitigating the positive effect of Norwegian data on the krone against EUR (ie, EUR/NOK remaining above the 9.500 support level), the NB hawkish bias (vs dovish bias of Riksbank) should keep the upside pressure on NOK/SEK as the policy stances of both central banks diverge significantly. Should the risk environment stabilize, EUR/NOK is poised to break below the 9.50 level (with Aug NB meeting being the catalyst)

## NZD: RBNZ tells markets they have no appetite to hike

	Spot	Week ahead bias	Range next week	1 month target
NZD/USD	0.6600	Mildly Bearish 	0.6500 - 0.6700	0.6700

- The RBNZ came with a clear message to markets this week- we have no appetite to hike. The dovish signal was reflected in the RBNZ's flatter for longer projected path for the OCR – with the central bank now not foreseeing a rate hike until late 2020 (around 12 months later than what was anticipated at the May meeting). While we may see further kiwi weakness in the short-term – as markets adjust to a central bank that has no appetite to hike – we note that there is hardly any tightening now priced in over a 2-year horizon. This may limit the domestic pain for NZD.
- The global backdrop is a different story – and we suspect this is likely to keep the high-beta NZD on the back foot. Look for NZD/USD to move towards 0.65 if global risk sentiment deteriorates significantly in the week ahead. Data wise, we'll see 2Q PPI (Thu).

## CAD: Getting caught in the geopolitical crossfire

	Spot	Week ahead bias	Range next week	1 month target
USD/CAD	1.3080	Neutral	1.2950 - 1.3150	1.3000

- It's been a pretty mixed week for CAD. Canada had been caught up in the geopolitical crossfires, with reports that Saudi Arabian officials have actioned a fire sale of Canadian assets. However, this was quickly faded as markets saw it as a non-credible threat – while constructive news flow surrounding NAFTA and a potential forthcoming deal also helped. The Jul jobs report also continued to show strong monthly jobs growth (albeit largely part-time jobs); however, the negative in the report was the lacklustre wage growth – which fell to 3% YoY (after being at 3.9% a few months ago).
- We expect much of the same in the week ahead. The domestic story will be focusing on the July CPI readings (Fri) – and we'll also get manufacturing sales data (Wed) and the ADP report (Thu). While the local factors remain supportive, high-beta currencies remain out-of-favour in the current market environment. Were EM sentiment to stabilise, we could see USD/CAD moving below 1.30 (low conviction call).

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