G10 FX Week Ahead: Kicking Brexit into touch

The main risk for the dollar next week is the potentially disappointing US jobs report rather than the fully-priced-in Fed rate cut. And any weakness there should benefit pro-cyclical G10 FX rather than EUR. We expect GBP gains to stall and even reverse given yet more Brexit uncertainty

Nice try. Boris Johnson playing rugby a year before the UK's Brexit referendum

EUR: Fed rate cut priced in but NFP poses downside risk to the dollar

	Spot	Week ahead bias	Range next week	1 month target
EUR/USD	1.1090	Mildly Bullish	1.1040 - 1.1205	1.1000

- With the market fully pricing in the October Fed rate cut (Wednesday) and our view that the central bank is unlikely to pre-commit to a more meaningful cutting cycle (rather it should stick to its reactive approach/insurance cuts) the key dollar driver should be the US economic data. We look for a modestly above-consensus Q3 GDP (Wed), yet see a risk to the dollar stemming from the October US labour marker report (Fri). The non-farm payrolls are likely to dip (ING 70K vs market 95K) and disappoint due to the GM strike being a drag on the numbers. Such a figure would increase odds of further rate cuts (even if the Fed does not signal it) and weigh on the dollar.
- In Europe, we should get another batch of uninspiring data. Both October core and headline eurozone CPI should come in at 1%, and 3Q GDP should stay at 0.2%QoQ (although there is a non-negligible risk of a 0.1% print). This means that European data won't provide many reasons to be cheerful about the euro, but the downside risk to the US NFP suggests a neutral/modestly-positive bias for the cross. Still, we expect the 1.1200 level to act as a strong resistance. The fading Brexit 'optimism' also suggests lower upside to EUR/USD and European FX in general.

JPY: BoJ to add more weight

	Spot	Week ahead bias	Range next week	1 month target
USD/JPY	108.65	Mildly Bullish	108.00 - 109.50	108.00

- The yen has consolidated its position above the 108 level vs the USD despite renewed uncertainty around Brexit failing to scratch the trade-talks-fuelled risk sentiment resilience. CFTC data had already shown a substantial slump in JPY speculative net positions (which dropped to -4% of open interest as of 15 Oct), and we would not be surprised if Monday's data shows a further jump in short positions.
- If anything can rescue the falling Japanese currency, it's unlikely to be the Bank of Japan, which meets on October 30-31 to set monetary policy. The improving global backdrop left markets undecided on whether Governor Kuroda will push rates into deeper negative territory, and the implied probability of a cut is currently around 65%. However, our economists suspect the consumption tax hike this month worsens an already battered economic outlook in Japan, which more than warrants a 10bp rate cut. When adding a probable downgrade in the BoJ growth and inflation forecast, the bearish momentum on the JPY seems unlikely to fade next week. We see JPY weakness mostly channelled via the activity currencies, while a Fed cut and possibly weaker-than-expected US payrolls may keep USD/JPY upside somewhat capped.

GBP: Vanishing catalysts for sterling upside

	Spot	Week ahead bias	Range next week	1 month target
GBP/USD	1.2819	Mildly Bearish	1.2710 - 1.3000	1.2600

- The uncertainty is creeping back again. PM Johnson is keen to call early elections but there doesn't seem to be the required majority in Parliament. The EU signalled that it would wait until after Monday's vote in the UK Parliament (on an early election) before it decides on the length of the Article 50 extension period. With a UK general election unlikely to gain the required majority the eventual agenda may move back towards the Withdrawal Agreement Bill, with the aim of translating the deal into law. Still, there is a risk that Boris Johnson will follow on his threat and, unless the early election vote is passed, he does not follow with legislating the Withdrawal Agreement Bill, effectively ending up with a zombie Parliament.
- All this means vanishing catalysts for any GBP upside. Our short term financial fair value model suggests that GBP is currently around 1.5% over-valued vs EUR, pointing to some scope for a reversal in GBP gains given the vanishing positive catalysts for the currency. The 200-day moving average of GBP/USD 1.2716 is the next level to watch.

AUD: The last piece of the puzzle to exclude a November cut

	Spot	Week ahead bias	Range next week	1 month target
AUD/USD	0.6826	Mildly Bullish	0.6790 - 0.6890	0.6750

- As the RBA navigated these past few months of monetary easing, the market's perception has been that two indicators were the major (if not the only) determinants of the Bank's decisions: inflation and unemployment. For both, the RBA sets two audacious targets, 2.5% and 4.5%. However, markets have also noticed that even a slight improvement in those two gauges seems to be enough to prompt a pause in the RBA easing. The unemployment rate slowed to 5.2% from 5.3% in the September print, and this was enough to halve the implied probability (now at 18%) for a cut on 5 November.
- Next Friday, the Q3 inflation report will be published and consensus sees the headline CPI advance from 1.6% to 1.7%. We think it will be enough to cement expectations that the RBA will stay put in November. Governor Lowe will speak on Tuesday, but we suspect he won't diverge from his recent rhetoric before seeing the inflation numbers. This should ultimately translate in some support for the Aussie dollar, that will inevitably remain strictly dependent on the Brexit and trade talks dynamics, but may attract more interest from investors if an RBA cut is ruled out for now. AUD/USD should consolidate in the upper half of the 0.68 area.

NZD: Waiting for the next driver

	Spot	Week ahead bias	Range next week	1 month target
NZD/USD	0.6362	Mildly Bullish	0.6330 - 0.6430	0.6350

- Somewhat differently from the rest of the G10 commodity currencies, the kiwi dollar will lack a clear idiosyncratic driver next week, and will therefore solely rely on swings in global risk sentiment. CFTC data keep showing how the kiwi dollar is consistently the biggest speculative short in the G10 space (-54% of open interest as of 15 October), which suggests that a positive catalyst can indeed trigger that short-squeezing effect that can exacerbate the rebound in spot. The issue, however, remains that such catalysts are terribly lacking. 3Q inflation beat consensus last week but slowed to 1.5% YoY, exports rose in September but also signalled a further slump in the forestry sector, PMI surveys stay in the contraction area.
- In turn, markets are almost fully pricing in another RBNZ 25bp cut in November, and differently from the RBA, the case against easing appears weaker. All in all, we expect risk sentiment to hold on in the next week which should put a halt to the NZD slump seen at the end of this week, but we suspect the currency will underperform its two main risk-sensitive peers CAD and AUD.

CAD: BoC unlikely to dent loonie's momentum

	Spot	Week ahead bias	Range next week	1 month target
USD/CAD	1.3064	Bearish	1.2930 - 1.3150	1.3100

- Looking at this past week, it is a bit surprising how the loonie managed to come up as the best G10 performer: Trudeau losing his absolute majority, weak retail sales and faltering optimism on Brexit all had the potential to dent CAD momentum. Indeed, the jump in oil prices (WTI now close to 55 $/bll) played a role in offsetting the negatives, but the markets seem to have a clear favourable bias for the loonie at the moment.
- Next week, the focus will be on the Bank of Canada rate announcement on Thursday, which comes four hours before the FOMC makes its move. Markets are sure rates will be kept on hold, and probably expect Governor Poloz to stick to recent rhetoric. September headline inflation disappointed but the preferred core measures remain on target and wage growth boomed to 4.3%. Unemployment was also down, which suggests the Bank is still lacking reasons to cut or change its neutral guidance, especially when adding rising optimism around a trade war resolution. On Friday, August GDP numbers should flatten up around 1.3% YoY. Bar a negative turnaround in risk appetite, we see little reason to expect an inversion in the loonie's rally next week. On the contrary, USD/CAD may persevere in its downward trajectory and break below 1.30. However, we suspect more tangible advancements in the US-China trade negotiations will be needed to keep the pair below that level consistently.

CHF: Cloudy economic outlook no help to battered franc

	Spot	Week ahead bias	Range next week	1 month target
EUR/CHF	1.1019	Mildly Bullish	1.0975 - 1.1070	1.0900

- Similarly to its risk-averse peer JPY, the Swiss franc stays on the back foot as risk appetite remains supported, and it was the worst G10 performer after the pound this week. 1.10 in EUR/CHF now seems like a fairly solid floor for the pair, and CHF bulls will need to hope the UK Parliament votes for new elections while ditching Johnson's Brexit deal to see a downward correction for those two.
- In terms of data releases, the KOF leading indicator will be closely monitored after a slump in the September reading. As noted by our economics team, the gloom around the Swiss economic outlook is intensifying, and we now expect GDP to grow by only 0.9% in 2019 (vs 2.8% in 2018). On top of that, the inflation report on Friday should signal a further slowdown in headline CPI to 0.00% YoY. All this, in turn, is likely to further convince markets that the SNB will remain stuck to its ultra-accommodative stance for a long time, thereby eliminating any internal support to the franc. On the flipside, the slew of data in the eurozone is unlikely to prompt any rebound in the faltering sentiment of the common area, thereby holding EUR/CHF from another extended rally.

NOK: Slow grind in EUR/NOK higher

	Spot	Week ahead bias	Range next week	1 month target
EUR/NOK	10.1900	Mildly Bullish	10.1250 - 10.2440	10.2500

- We look for a slow grind in EUR/NOK higher during the large part of the week as the expected uninspiring EZ data and the Fed unlikely to pre-commit to a large easing cycle in during the Wednesday FOMC meeting keeps NOK soft. The stalling Brexit progress also suggests a less upside to the currency.
- On the domestic front, the focus is on September Retail sales (Wed) and PMI Manufacturing (Fri) but the bar is high for any upside surprise to effect NOK positively. This is because the NB is now in a wait-and-see mode and even if improving data suggests rising odds of a hike, the NOK price action this year indicated that the currency is not reactive to the NB interest rate increase/market expectations of such increases.

SEK: Fading the Riksbank hawkish bias

	Spot	Week ahead bias	Range next week	1 month target
EUR/SEK	10.7420	Mildly Bullish	10.7000 - 10.8530	10.8500

- We remain negative on SEK and expect EUR/SEK to move back above the 10.80 level next week. The effect of the hawkish Riksbank October meeting on SEK has been short-lived, due in part to the signalled December hike being perceived as a policy mistake (i.e. the risk of delivering a hike into a downturn – as the ECB did in 2011). Yet another decline in October Economic Tendency Survey provided a case in point. Hence, the upside to SEK seems exhausted.
- On the data front, the focus is on Oct PMI Manufacturing (Fri). The reading should remain in the contractionary territory, keeping the currency unattractive. Even if the Riksbank moves for a December hike, the likely one-and-done nature of the hike (as signalled by the central bank) suggests limited upside to krona. After GBP, SEK has been the most sensitive European G10 currency to the Brexit optimism. With such optimism now fading, SEK is set to lose another supporting factor.

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