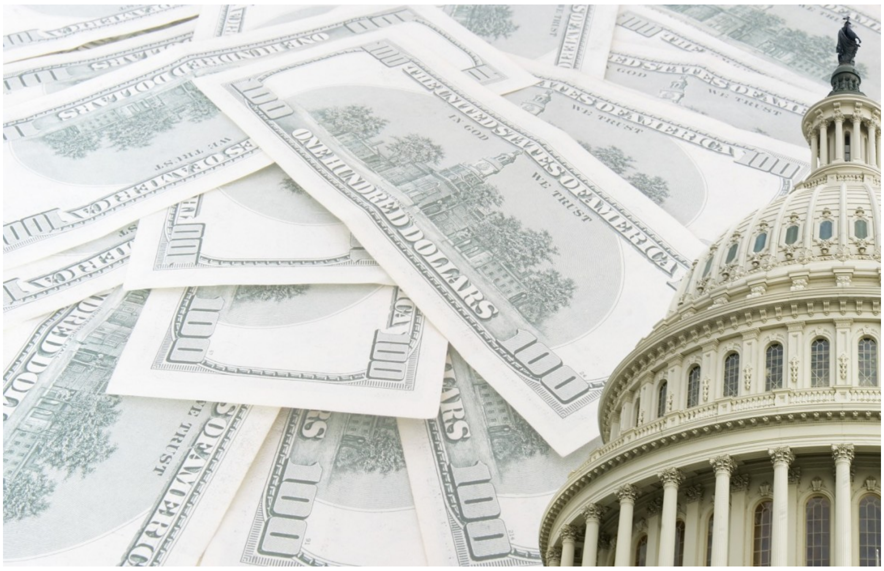
# FX Week Ahead: Getting over the dollar rally

Unlike the more drawn out "taper tantrum" of 2013 – there are signs that this vicious circle of higher US rates and USD circle may well be coming to an end. As Take That said, "just have a little patience" and we believe that the theme of MEGA: Make Everyone (else) Great Again – that worked so well at the start of the year in FX markets – will come back in play



## EUR: Bottoming out

| | Spot | Week ahead bias | Range next week | 1 month target |
|---|---|---|---|---|
| EUR/USD | 1.1940 | Neutral | 1.1820 - 1.2100 | 1.1900 |

- We see EUR/USD as bottoming and expect the cross to range trade around the 1.1900 level next week. The next week's data should not provide a catalyst for another leg in EUR/USD lower while the cross remains undervalued by around 1.5% based on our short-term financial fair value model (this collaborates our short squeeze positioning driven thesis being one of the key reasons behind the stronger USD). This should provide a cushion to the EUR/USD, with the pair remaining above this week's low of 1.1823.
- On the data front, the US April retails sales (Tue) should keep the positive momentum from March in place and should tick higher 0.5%MoM. April US IP should rise 0.6% MoM in line with consensus. Although positive data outcomes, they are unlikely to cause a USD rally or a material hawkish re-pricing of the Fed. in the EZ, the focus turns to the German Q1 GDP reading which is expected to slow (in line with the weaker EZ Q1 GDP).

## JPY: Bound by the 110.00 level

| | Spot | Week ahead bias | Range next week | 1 month target |
|---|---|---|---|---|
| USD/JPY | 109.40 | Neutral | 108.50 - 110.20 | 109.00 |

- We look for USD/JPY to remain bound by the 110.00 level, with the 200-day MA of 110.20 providing a strong resistance. The across the board dollar rally is losing momentum and while there is a limited scope for front-end UST yields to rise further next week.
- The Japanese data should continue to have a limited effect on JPY, with 1Q GDP (Wed) and April CPI (Fri) unlikely to move USD/JPY match.

### GBP: Solid UK jobs report will help regain some lost swagger

| | Spot | Week ahead bias | Range next week | 1 month target |
|---|---|---|---|---|
| GBP/USD | 1.3540 | Mildly Bullish | 1.3450 - 1.3670 | 1.3800 |

- After being knocked by a couple of heavy sucker punches in the past month - not least the soft 1Q UK GDP data and a more guarded Bank of England - sterling has a chance to regain some of its cyclical swagger this week on the back of a constructive Mar jobs report (Tue). Solid ex-bonus wage growth - which is the primary focus of the Bank of England - could tick up to 2.9% YoY, while we look for a sharper bounce back in employment growth (+150k) versus the market consensus (+129k). An overall solid UK jobs report would in our view go a long way to rekindling some of the lost BoE policy tightening sentiment in recent weeks - especially as we see the UK curve flattening to its lowest level since January as an overreaction to recent events.
- While Brexit news will continue to linger in the backdrop - with EU chief negotiator Michel Barnier providing an update on talks and PM May potentially heading a postponed 'War Cabinet' meeting - we think the balance of risks are for a higher GBP/USD. Indeed, we note that the pair is trading around 2 standard deviations below our estimated short-term fair value of 1.38-1.40 - levels that we think are consistent with a gradual BoE and Fed policy normalisation agenda.

### AUD: Chinese activity data could set the tone

| | Spot | Week ahead bias | Range next week | 1 month target |
|---|---|---|---|---|
| AUD/USD | 0.7540 | Mildly Bullish | 0.7450 - 0.7660 | 0.7600 |

- The Australian jobs market will dominate the domestic agenda this week - with both 1Q wage data (Wed) and the April employment report (Thu) to note. Bar any positive surprises here - it's difficult to see any major re-assessment of the neutral RBA policy stance. The RBA minutes (Tue) may also give greater colour on the board's current policy thinking.
- More broadly, Chinese activity data in the week ahead could set the tone for Asia FX sentiment (including AUD); in particular, our economists think that fixed asset investment growth could nudge up to 7.7% YoY (in part due to greater real estate activity). Solid Chinese economic data could help to stabilise global risk sentiment - helping high-beta currencies like the AUD to recoup some of its recent losses.

## NZD: New mandate, new chief, same dovish RBNZ

| | Spot | Week ahead bias | Range next week | 1 month target |
|---|---|---|---|---|
| NZD/USD | 0.6950 | Mildly Bullish | 0.6900 - 0.7100 | 0.7100 |

- It is clear that under the new stewardship of Governor Orr, the RBNZ will be one of the last central banks to join in any synchronised global policy normalisation story. While the central bank flat-lined their forward policy rate path out until Sep 2019, we think that this one-off dovish adjustment is now priced into markets - noting that the 2-year forward rate is pricing in just 45bps worth of tightening now.
- With the 'lowflation' dynamics of the NZ economy one of the more pressing concerns for the central bank, there is little on the domestic agenda that could change the RBNZ policy outlook until the 2Q CPI print (16 Jul). Saying that it may be worth keeping an eye on the latest GDT dairy auction (Tue) and 1Q PPI data (Wed). On the former, we note that NZ terms of trade have been fairly supported of late by resilient dairy prices - which in turn paints a constructive fundamental backdrop for the kiwi dollar.

## CAD: Data, NAFTA and oil all in play

| | Spot | Week ahead bias | Range next week | 1 month target |
|---|---|---|---|---|
| USD/CAD | 1.2790 | Mildly Bearish | 1.2640 - 1.2870 | 1.2500 |

- A breather in USD strength may see CAD benefit from a temporary re-coupling with higher oil prices. Indeed, we continue to see limited USD/CAD upside in the absence of any major flare-up in NAFTA risks; while we see growing risks of no formal agreement by the informal 18 May deadline (proposed by US officials), we doubt that this will necessarily warrant a CAD uncertainty premium. Instead, the balance of risks are for USD/CAD pullback towards the 200-dma (around 1.2650) - especially if the data continues to support a July BoC rate hike.
- On that note, the week ahead sees the release of April CPI and March retail sales reports (both Fri). While inflation is set to remain there or thereabouts around the 2% BoC target midpoint, we note it's the activity side that holds the key to a near-term BoC hike. A rebound in retail sales - as well as solid March manufacturing sales (Wed) - would give policymakers some comfort.

## CHF: Vollgeld referendum comes into play

| | Spot | Week ahead bias | Range next week | 1 month target |
|---|---|---|---|---|
| EUR/CHF | 1.1945 | Mildly Bullish | 1.1900 - 1.2050 | 1.2100 |

- There are very tentative signs that the dollar has put in a short-term top. USD/CHF, however, might see opposing forces in the form of a milder softer dollar, but perhaps some weakness coming through in the CHF as the market turns its attention to the Vollgeld Swiss referendum on June 10th. SNB's Jordan speaks at a Vollgeld event on Wednesday and will deliver a very clear 'Just Say No'. But the market waking up to the risk of a populist referendum on a very technical subject could see some precautionary EUR/CHF buying.
- Italian politics has yet to play a significant role in EUR/CHF pricing. We'd like to think that the prospect of a Five Star and League government is well-telegraphed now and doesn't deliver a large flight to safety in the CHF. But we can't rule out that story developing later in the year where some of these parties' more populist measures ever look like making it through parliament.

## SEK: The textbook short squeeze

| | Spot | Week ahead bias | Range next week | 1 month target |
|---|---|---|---|---|
| EUR/SEK | 10.2700 | Bearish | 10.1500 - 10.4000 | 10.5000 |

- We see the recent SEK rebound as a positioning related correction from very over-sold levels and don’t expect it to develop into a trend. The Swedish economy is to slow down, SEK will suffer from the usual low summer liquidity while the recent SEK strength is reducing the odds of more hawkish Riksbank (this will eventually come as a disappointment to the market and weigh on SEK again). Hence, we don’t chase the move in the EUR/SEK lower.
- It is a very quiet week on the Swedish data front. The main point of interest is the April average house prices data (Mon) to gauge whether the housing market continues stabilizing.

## NOK: Softer 1Q GDP stalling upside

| | Spot | Week ahead bias | Range next week | 1 month target |
|---|---|---|---|---|
| EUR/NOK | 9.5400 | Mildly Bullish | 9.4700 - 9.6500 | 9.4500 |

- The EUR/NOK decline of past days may stall somewhat next week, likely prompted by the softer Norway 1Q GDP reading (Wed). Our economists look for 0.5% QoQ growth, slightly weaker than 4Q17 and also a touch below Norges Bank's forecast of 0.6%. While we don't expect this to cause the NB to step away from the signalled Sep rate hike, the market may somewhat reduce the probability of tightening.
- We expect the NOK weakness to be temporary given the positive effect of the rising oil price on the economy as well as on the NB's mechanical approach to the rate path signalling.

## Author

**Chris Turner**
Global Head of Markets and Regional Head of Research for UK & CEE
chris.turner@ing.com