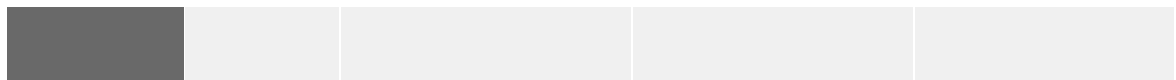


FX Week Ahead: New week, new trade tensions

The never-ending story of the US vs the rest of the world trade tensions should keep the risk currencies on their toes and support the safe haven JPY. The Eurozone inflation is likely to hit the 2% target and should provide some cushion to the euro next week



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EUR: Eurozone CPI helping the battered euro

	Spot	Week ahead bias	Range next week	1 month target
EUR/USD	1.1630	Neutral	1.1500 - 1.1790	1.1700

- We expect EUR/USD to remain largely range-bound next week, with some upside risks to the cross at the end of the week as the eurozone headline CPI is likely to reach the 2% target. Given the material and in our view exaggerated dovish re-pricing of the ECB depo rate outlook over the past two weeks (market still pricing only one 10bp ECB deposit rate hike by the very end of 2019), another tick higher in the eurozone inflation reading should be positive for the euro and put a floor under the front-end eurozone rates.
- The expected increase in German Ifo on Monday should also be EUR positive and partly offset the negative effect from the rising speculations about early elections in German. On the US data front, the data calendar is very light, with June Consumer Confidence due Tuesday and University of Michigan Sentiment Index (Fri). The ongoing overhang of a further escalation of trade wars (the US is now threatening with 20% tariffs on cars imported from the EU) should keep upside to EUR/USD limited.

JPY: The yen saved by the US trade polices

	Spot	Week ahead bias	Range next week	1 month target
USD/JPY	110.00	Mildly Bearish 	109.00 - 110.90	110.00

- The spectre of trade wars should keep USD/JPY around the 110 level throughout the next week. Despite the solid US economic data and the hike-prone FOMC, the USD/JPY should continue to struggle to break above the 111.00 level as the risk of trade wars limits the scope for the yen downside.
- Data-wise, Japanese May Retail sales (Thu) should moderate, while the June Tokyo CPI (Fri) should remain unchanged at 0.4% YoY. These are, however, of secondary importance for JPY price action as it is the newsflow on the US vs the rest of the world trade disputes that is currently the key for the yen.

GBP: EU summit unlikely to bring any major Brexit revelation

	Spot	Week ahead bias	Range next week	1 month target
GBP/USD	1.3260	Neutral	1.3150 - 1.3440	1.3500

- Following the government's victory of the meaningful vote on the Brexit dispute in the Parliament this week, the focus turns to the EU summit at the end of the next week. We don't think this is likely to bring any Brexit revelation given that (a) the EU's main focus is currently on the issue of migration rather than Brexit; (b) the absence of UK proposal/agreement to resolve the Irish border issue.
- On the data front, the focus is on the final release of the 1Q UK GDP. There is a chance it may get revised up closer to the Bank of England forecast of 2.3% (vs 2.1% actual). Such a revision would increase the chances of August hike and be GBP supportive.

AUD: Weighed down by trade tensions

	Spot	Week ahead bias	Range next week	1 month target
AUD/USD	0.7430	Mildly Bearish 	0.7300 - 0.7510	0.7400

- AUD recovered modestly following the decline caused by the escalating trade tensions between the US and China. With the threat of trade war imminent (US is now threatening the EU with 20% tariffs on cars, while the threat of the second round of tariffs on China is fully in place too), we don't expect risk-sensitive currencies such as AUD to do particularly well.
- A very calm week on the Australian domestic data front, with May Job vacancies (Thu) and May Private sector credit growth (Fri) being of secondary importance.

NZD: RBNZ neutral for NZD at best

	Spot	Week ahead bias	Range next week	1 month target
NZD/USD	0.6900	Mildly Bearish 	0.6800 - 0.6960	0.6900

- Quite surprisingly NZD underperformed AUD during the latest bout of risk-off triggered by the US-China trade tensions, following its outperformance vs its G10 USD bloc commodity peers (AUD, CAD) so far this year.
- The RBNZ meeting on Thursday is unlikely to be NZD supportive given the previous modestly dovish shift in the RBNZ stance (the central bank introducing a two-way risk to the rate outlook). We suspect the impact on NZD should be neutral at best. With the spectre of trade tensions remaining, we look for NZD/USD to struggle throughout the next week, with the cross staying below the 0.6950 level.

CAD: BoC June hike in question

	Spot	Week ahead bias	Range next week	1 month target
USD/CAD	1.3318	Mildly Bullish	1.3200 - 1.3470	1.3300

- CAD ended the week badly with both May CPI and May retail sales materially disappointing vs the market expectations, though it was likely partly caused by bad weather. Coupled with the ongoing trade tensions, the July BoC rate hike is now becoming much a closer call (market expectations shifted, declining from a 75% probability of a hike to 55%). Our economists are still inclined to the BoC hiking next month.
- With the next key data point ahead of the 11 June BoC meeting being the Canadian employment report in two-weeks time (6 July) we expect a limited upside potential to CAD prior to that. This suggests that USD/CAD is likely to remain above the 1.3200 level throughout the next week.

CHF: Limited scope for weakness in the safe haven CHF

	Spot	Week ahead bias	Range next week	1 month target
EUR/CHF	1.1520	Bearish	1.1470 - 1.1600	1.1600

- With the SNB remaining dovish (although it increased the CPI forecast through mid-2019 on the back of higher crude oil prices, it lowered it from then onwards due to the 'muted outlook in the euro area') and underscoring the overvaluation of CHF, the feedthrough from domestic data into the market expectations of the SNB policy path should remain rather muted.
- We see modest downside risks to EUR/CHF next week, particularly if the news flow on the US-EZ trade tensions gains traction again.

SEK: Downside risks fully in place

	Spot	Week ahead bias	Range next week	1 month target
EUR/SEK	10.3200	Mildly Bullish	10.2000 - 10.3620	10.5000

- The main driver of EUR/SEK should be the external environment next week. With the threat of escalating trade wars firmly in place (ie the US threatening with the second round of tariffs on China and 20% tariff on car imports from the EU) this does not bode well for the low liquidity currency of a small open economy such as Sweden. This should prevent any major strength in SEK.
- Swedish May PPI (Tue) and May Retails sales (Thu) should have a very limited impact on SEK. The 100-day moving average of EUR/SEK 10.2270 should act as firm support next week.

NOK: Monetary divergence in place

	Spot	Week ahead bias	Range next week	1 month target
EUR/NOK	9.4350	Neutral	9.3900 - 9.4970	9.4000

- The NB's signal that it remains on track to hike in September is very positive for NOK as the central bank continues to decouple from the dovish ECB. This should keep a downward pressure on EUR/NOK in place. We also look for NOK/SEK to grind higher as the cross resembles the perfect monetary divergence.
- Norwegian data should have a limited impact on EUR/NOK next week. Neither the April unemployment rate (Wed) nor the May retail sales (Fri) should effect NOK.

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