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G10 FX week ahead: No signs of a cease-fire

As yet there are no signs of a cease-fire being declared in the US-China trade war and we expect the dollar to remain on the back foot. Away from trade, US inflation and FOMC minutes will be the highlight next week. Any acceptance from the Fed that the rise in USD Libor is doing some of its work would also be a dollar negative

Fed to acknowledge tighter financial conditions?

	Spot	Week ahead bias	Range next week	1 month target
EUR/USD	1.2268	Mildly Bullish	1.2205 - 1.2420	1.2500

• Friday's benign US jobs report provides a softish back-drop to the dollar over the week ahead. We are also interested to see whether this issue of the rise in USD Libor features in the FOMC minutes released on Wednesday. In other words, does the Libor-induced tightening of financial conditions mean the Fed has to hike less? Opposing that story will be firming measures of PPI, import prices and CPI (Wed) - although these look to be already priced.

• The odds are that the US-China trade war worsens before it improves. At the end of the week we may see the US Treasury's FX report on currency manipulation. In the current climate a report critical of China is likely - as well as an implicit desire for a weaker dollar to correct trade imbalances. The week ahead will also see the release of ECB minutes and some ECB speakers (Weidmann Thursday). On balance we favour EUR/USD gently higher despite high USD funding costs and a consensus view on the need for a weaker dollar.

Not out of the woods yet

	Spot	Week ahead bias	Range next week	1 month target
USD/JPY	107.24	Mildly Bearish	105.70 - 107.70	105.00

• It's hard to rule out the short squeeze extending, though we doubt investors will want to hold outright USD longs in the current climate. Neither Washington nor Beijing wants to lose face in the ongoing trade 'war' and we suspect there's plenty of scope for harsh rhetoric before the US assesses whether broad-based tariffs are placed against China in late May. Our preference is that this short squeeze blows itself out before 108.00, however.

• Japan this week sees the Feb current account surplus on Monday and a speech by BoJ Governor Kuroda on Thursday. USD/JPY could also suffer on the release of the Treasury's FX report (earliest Friday) serving as a reminder that it's a near-impossible environment in which the BoJ could consider FX intervention.

April tends to be a good month for GBP/USD

	Spot	Week ahead bias	Range next week	1 month target
GBP/USD	1.4102	Neutral	1.3960 - 1.4250	1.4300

• All the cards are falling into place for GBP/USD to post a bullish move to 1.45 in 2Q18 – which is where our conviction continues to lie. Looking at GBP's report card in March including Brexit politics, UK economic data and the Bank of England's (BoE) policy outlook have all turned into short-term positives for GBP – helping it to retain its status as the 'comeback kid' in FX markets. The UK data calendar in the week ahead is light - with industrial/manufacturing production and trade data (both Wed) of interest. The highlight of the week may be BoC Governor Carney speaking at a conference (Thu) - where we may get some policy comments.
• G10 currency pairs have historically exhibited strong seasonal patterns in April and at the top of the list is GBP/USD - which has posted a positive move in April every year for the last eight years. The average performance since 2010 has been +2.20%, while over the past five years the average has been +2.35%. We still view these tit-for-tat tariffs between US and China as being in the realms of Defcon 3 in the Trade War dynamics – or what we like to call a Cold Trade Conflict. Under this paradigm, we expect GBP to move modestly higher – or at the very least stay firm – against a politically weak USD (GBP/USD riding on the tailwinds of a higher EUR/USD).

AUD exposed to both trade and Libor

	Spot	Week ahead bias	Range next week	1 month target
AUD/USD	0.7688	Neutral	0.7645 - 0.7730	0.7700

• AUD has been holding up quite well despite the challenges poised by protectionism and Australian bank dependence on wholesale funding markets and exposure to higher USD Libor costs. It is far too early to sound the all clear on protectionist risks and we would see AUD remain fragile - especially were equities to take a more decisive turn for the worse. • Locally we'll get to see whether protectionism has dented confidence (business confidence on Tues, consumer on Wed). We'll also hear from RBA Governor Lowe on Thursday plus the Financial Stability Review on Friday. Typically the latter hasn't been a market mover but could shed some light on the local banking system's dependence on wholesale funding markets.

High NZD rates offer a buffer to USD Libor story

	Spot	Week ahead bias	Range next week	1 month target
NZD/USD	0.7260	Neutral	0.7230 - 0.7320	0.7200

▪ NZD/USD remains trapped in tight ranges but generally continues to underperform the AUD. So far dairy has not featured prominently in the US-China trade spat and 2%+ local money market rates are proving a useful defence to rising USD Libor costs. ▪ The only data of note will be Thursday's manufacturing PMI numbers, which continue to hover around the expansionary 53/54 area. The NZ money market curve has flattened recently, with the market now only pricing 10bp of tightening over the next 12 months.

The bulk of the CAD's relief rally may be done for now

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

▪ NAFTA renegotiations - and the prospect of a resolution in the coming week ahead of the Summit of the Americas (13/14 April) - will be front-and-centre for CAD markets. With USD/CAD trading within our estimated short-term fair value range of 1.27-1.29 – we think a lot of the 'good NAFTA news' may already be priced in. Hence, beyond a knee-jerk move lower on any official NAFTA re-negotiation announcement, CAD's relief rally may be done for now. ▪ The onus will be on Canadian macro data now to drive additional short-term CAD gains. The latest jobs report was constructive enough to keep hopes of a May BoC hike alive (40-50% priced in) - and we'll probably get a clear enough signal either way at the 18 April meeting. Ahead of this, the BoC's 1Q Business Outlook survey (Mon) will be pretty important in light of recent US trade policy uncertainties; officials will be looking for any evidence of dampened business confidence stemming from this or whether BoC tightening itself has been a negative factor.

Switzerland a currency manipulator?

	Spot	Week ahead bias	Range next week	1 month target
EUR/CHF	1.1780	Neutral	1.1750 - 1.1780	1.1900

• Despite the clear rise in protectionist rhetoric, the CHF has failed to derive a safe haven bid. There is a slight suggestion that Russian money leaving Switzerland could be the driving force here, but it's impossible to know right now. Instead, we're left with the SNB maintaining its policy of FX intervention and very negative rates (3m CHF Libor at -0.75%) and saying that the CHF remains in demand as a safe haven.
• A wild card this week is the risk of US Treasury naming Switzerland a currency manipulator because of its large current account surplus and admission of FX intervention. In the past US Treasury has tended to give Switzerland a waiver on these issues and it would be a big surprise and very CHF positive were UST to change tack.

Rebounding inflation supporting SEK

	Spot	Week ahead bias	Range next week	1 month target
EUR/SEK	10.2910	Mildly Bearish	10.2000 - 10.3500	10.3000

• We look for some modest SEK recovery next week prompted by the expected rebound in Swedish March inflation (Thu). Both CPI and CPIF are expected to nudge higher, with the CPIF moving above the 2% target (2.1%YoY expected vs 1.7% previously). Coupled with the likely stability in global risk appetite, EUR/SEK should decline. Yet SEK gains should be bound by the EUR/SEK 10.2000 support level, due in part to the likely fall in Swedish March average house prices (Thu) given the new restrictions on mortgages. Data-wise, the focus will also be on the Swedish March inflation expectations published on Wed.
• With SEK being one of the most vulnerable G10 currencies to the notion of global trade wars, the ongoing uncertainty about the President Trump's next steps (and China's counteractions) suggests a rather limited potential for more material SEK strengthening in spite of the recovering domestic inflation.

Settling below the EUR/NOK 9.6000 level

	Spot	Week ahead bias	Range next week	1 month target
EUR/NOK	9.5910	Bearish ↘	9.4750 - 9.6560	9.5500

- We expect a modest acceleration in Norwegian March core CPI and stable headline CPI on Tue (though we see upsides risk to the latter). Depending on weather the headline CPI surprises on the upside, the outturns should be either in line or above the NB's own forecast, thus (in either case) supporting the latest NB hawkish communication (which points to the first rate hike September 2018) and making the NB an outlier in the European central banking space (vs ECB, Riksbank or SNB).
- We look for EUR/NOK to settle below the 9.6000 level throughout the week and even break the 200-day Moving Average support of 9.5370 should the headline CPI surprise on the upside (despite the overshot being temporary in nature).

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