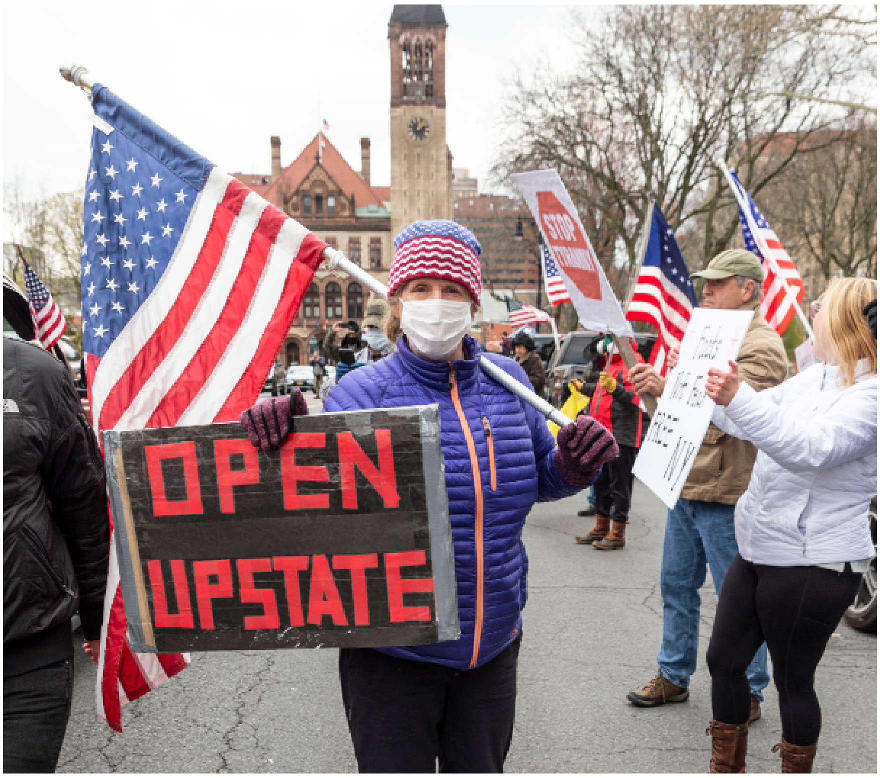
G10 FX Week Ahead: The big reveal

With the positives from easing lockdowns already in the price, it's time to assess the damage already done. So, all eyes are on the big reveal: US payrolls, where we expect a 21mn drop. This should contribute to softer risk sentiment and halt the USD downtrend. Elsewhere, central banks in the UK, Australia and Norway should be fairly uneventful



USD: A large rise in unemployment

	Spot	Week ahead bias	Range next week	1 month target
DXY	98.9300	Neutral	98.7500 - 100.0000	97.0000

- April was a good month for risk assets as policy makers provided aggressive support and Covid-19 curves started to turn lower. As we enter May attention will turn to the size of the damage caused by the lockdowns. Most pertinently, the US week ahead will see the release of unemployment figures. Our team looks for 21 million jobs to be lost in the April nonfarm payrolls report, triggering a spike in the unemployment rate spike to 16%. A further decline of 12 million jobs and a rise in the jobless rate to 22% may be seen in the May report. Combined with a US earnings season so far characterised by little guidance, we expect a slightly softer risk environment to provide the dollar with a little support.
- The US calendar also sees Services data and the March trade balance. Talking of trade, we are starting to hear a little more of Washington's plans to retaliate or seek compensation from China over Covid-19. Another phase in the trade war is the last thing the world economy needs right now and is a factor that could undermine expectations for a recovery. This would also hurt our scenario of a benign dollar decline this year.

EUR: Fiscal risk premia contained

	Spot	Week ahead bias	Range next week	1 month target
EUR/USD	1.0982	Neutral	1.0850 - 1.1020	1.1000

- European Central Bank measures to address fragmentation in eurozone money markets – largely via Targeted Longer Term Refinancing Operations and Pandemic Emergency Longer-Term Refinancing Operations (PELTRO) liquidity provision – have provided some support to peripheral debt markets and the euro. The challenge going forward is to identify where 2020 eurozone growth actually registers within the ECB's -5 to -12% scenario. Few insights will be provided from the European data calendar in the week ahead, although Thursday will see a new set of forecasts from the European Commission.
- We look for a rangebound EUR/USD in the week ahead, largely because the external environment does not look conducive to a broad dollar decline. The steady decline in $ Libor should, however, provides a supportive backdrop to EUR/USD medium term. 3-month USD hedging costs for European investors are now just 0.75% versus 3.25% a year ago.

JPY: Golden Week holiday

	Spot	Week ahead bias	Range next week	1 month target
USD/JPY	106.77	Bearish ↘	105.80 - 107.80	105.00

- Expectations are that Japanese Prime Minister Shinzo Abe will extend Japan's state of emergency to month end from 7 May, taking a conservative approach to exit strategies. That news may not be greeted well by Japanese equities when they re-open after the 4-6 May Golden Week holiday.
- USD/JPY has retained a firm, positive correlation with the US S&P 500 over the last three months and a slightly more difficult equity environment, including any fresh news on a US-China trade war, should keep USD/JPY pressured in our opinion.

GBP: Looking through the BoE meeting

	Spot	Week ahead bias	Range next week	1 month target
GBP/USD	1.2553	Neutral	1.2440 - 1.2655	1.2500

- The Bank of England meeting (Thursday) should have a fairly limited impact on sterling as the main measures have already been announced and done. The interest rate is technically zero, QE is in place and the BoE announced temporary monetary financing of state debt. With the economic outlook very uncertain, the likely scenario-based set of BoE economic forecasts should have a muted impact on GBP.
- The focus will be more on Prime Minister Boris Johnson's phased approach to reopening the economy. This might be a mild GBP positive as it would set a roadmap towards some partial normalisation. Still, upside to GBP/USD should be fairly limited as (a) EUR/USD is likely to struggle to break materially above the 1.10 level; (b) the multi-phased plan to open the economy is unlikely to be a strong positive (and is already in large part expected) for EUR/GBP to persistently break below 0.8700, which up until now proved to be a strong support level. In the absence of EUR/USD forcefully breaking above the 1.1000 level, GBP/USD should struggle to move above 1.2600. The 200-day moving average of 1.2655 should act as a strong resistance for GBP/USD.

AUD: RBA may pour cold water on tapering expectations

	Spot	Week ahead bias	Range next week	1 month target
AUD/USD	0.6447	Mildly Bearish	0.6280 - 0.6630	0.6400

- As market conditions worldwide improved in the past few weeks, the Reserve Bank of Australia has seen a chance to reduce its bond purchases, as already hinted in the previous policy statement (7 April). The RBA meets again on Tuesday, and markets have built some expectations that the bank will provide clues about additional tapering, as money market turmoil appears well under control and Australia has successfully flattened the Covid-19 contagion curve.
- However, the risk of sending a somewhat hawkish signal likely overweighs the benefits, and we think that Governor Philip Lowe will maintain a cautious tone, likely signalling the Bank is still ready to provide additional support to the economy. Australia's massive fiscal stimulus package (some 16% of GDP) is about to prompt an unprecedented ramp-up in bond issuance, which will likely require the RBA's "assistance". Moreover, AUD strength is hardly good news for an export-oriented country like Australia, and the RBA may well want to avoid adding steam to the rally. All in all, we expect the RBA to keep a quite dovish/downbeat tone (also in their economic assessment) and to have a negative impact on AUD this week. AUD/USD may move back to the 0.63 region as risk sentiment proves less supportive than in the previous couple of weeks.

NZD: RBNZ dilemma keeps upside capped

	Spot	Week ahead bias	Range next week	1 month target
NZD/USD	0.6078	Mildly Bearish	0.5880 - 0.6230	0.6000

- The Kiwi dollar has regained some ground vs its procyclical peers this week as New Zealand is set to exit the lockdown phase with very encouraging virus containment results. AUD/NZD may continue to edge lower towards 1.05 this week as the risks for AUD (RBA meeting may prove unsupportive) appear larger than for the NZD.
- However, a possibly less optimistic tone in the markets next week may cause NZD to face some downward correction too, likely moving back below the 0.60 mark. Even during risk-on waves, the possibility that the Reserve Bank of New Zealand cuts rates again may prove to be an obstacle to a sustained NZD rally. We discussed this topic in our note, RBNZ: Keeping it positive, and we don't think the RBNZ will explore zero or negative rates. However, the NZD's resilience is likely creating some unease within the Bank, and keeping some ambiguity around more cuts could prove effective in keeping the currency capped. Next week, the key highlight in New Zealand are 1Q jobs numbers, which should however have a limited impact as they don't fully mirror the consequences of the lockdown which started on 25 March.

CAD: Gauging the economic fallout

	Spot	Week ahead bias	Range next week	1 month target
USD/CAD	1.4020	Mildly Bullish	1.3800 - 1.4360	1.4300

- Swings in crude prices remain the key underlying narrative driving the Canadian dollar. Here, lingering capacity concerns still warrant extreme caution in calling for the bottom in WTI. We are, thus, equally cautious in changing our view that CAD should lag other procyclicals in risk-on rallies.
- Next week, however, will also be about assessing the economic impact of the lockdown measures, plunging oil prices and global trade. Manufacturing PMIs on Tuesday will be watched but the key release will be the jobs report on Friday. Our economist expects a fall in employment of 2.5 million in April, with unemployment jumping to 12.6%. The combination with the US numbers may prove toxic for the high-beta CAD, which may close the week close to the 1.43 mark.

CHF: Evidence grows of a new line in the sand at 1.05

	Spot	Week ahead bias	Range next week	1 month target
EUR/CHF	1.0569	Mildly Bearish	1.0530 - 1.0610	1.0500

- In the week to 24 April, the Swiss National Bank's total CHF sight deposits rose CHF13 billion, suggesting the SNB has been forced to intervene in EUR/CHF by the most since January 2015. Monday's weekly release of the sight deposit data to Friday 1 May is unlikely to show a similarly large rise, as calmer conditions in eurozone debt markets have meant that EUR/CHF has been under a little less pressure. However, the evidence is now stronger that the SNB is protecting the 1.05 level in EUR/CHF – a new line in the sand. Thursday also sees SNB FX reserves for April.
- Other data in the week ahead will be the April PMI (expected close to the March 2009 low of 33) and April CPI, expected at -0.9% YoY. Switzerland went into this crisis at close to deflationary levels and the collapse in oil doesn't bode well here – deflation effectively raises Switzerland's real interest rate and keeps upward pressure on the CHF.

NOK: No more easing from the NB, at least for now

	Spot	Week ahead bias	Range next week	1 month target
EUR/NOK	11.3180	Mildly Bullish	11.0700 - 11.5900	11.5000

- As was the case for the Riksbank this week, we expect the Norges Bank to stay on hold next Thursday. The NB has already delivered an aggressive pace of rate cuts and being very close to the zero lower bound, the bank is likely to opt for a wait-and-see approach. The interest rate path should not show any more cuts (and not below zero, with the NB unwilling to enter negative territory), while any eventual projected policy rate normalisation should be shallow. Overall, the impact of the NB meeting on the krone should be limited.
- From the perspective of external drivers, we see limited appreciation potential for NOK next week. The upside to the oil price is limited and Brent should not move materially above the US$25/bbl level. As for risk sentiment, it may remain muted given the large rally in stock markets already and the possible concerns about a new US-China trade war following President Trump's threat to retaliate against China for the coronavirus outbreak.

SEK: Tactical pullback

	Spot	Week ahead bias	Range next week	1 month target
EUR/SEK	10.7400	Mildly Bullish	10.6000 - 10.8460	11.0000

- SEK remains well positioned among the G10 cyclical currencies as (a) the Riksbank has lagged its cyclical G10 peers on the easing front (no rate-cuts, only an extension of QE), which in turn materially narrowed the krona's negative rate differential versus its peers; (b) SEK is not exposed to commodity prices; (c) the currency benefits, along with NOK, from the rising EUR/USD. As per The FX road to recovery, we see SEK as the most attractive G10 currency to position for the recovery in global growth and the easing of lockdown measures.
- While positioned well in the G10 FX space, tactically we see room for a move higher in EUR/SEK next week as the risk environment should be less upbeat (vs this week), while the positive effect from the Riksbank's on-hold decision is now exhausted and priced in. Still, the 50-day MA resistance level of EUR/SEK 10.8464 should not be breached next week. On the margin, SEK should outperform NOK next week, with the exposure to commodity prices being the differentiating factor.

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