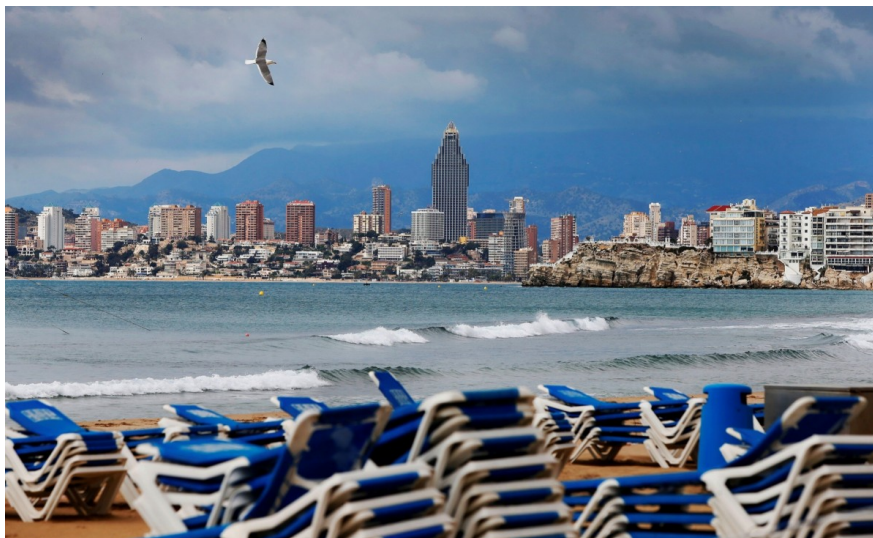


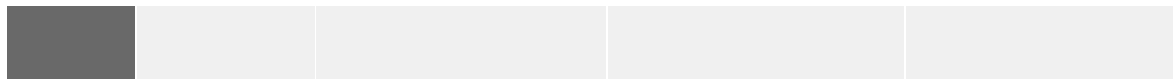
G10 FX Week Ahead: As hot as it gets?

We expect the dollar to remain gently offered next week, when May inflation numbers in the US may come in at 4.8% and further dampen the USD real rate. Central bankers will take centre stage in the rest of G10: the ECB will struggle to sound any more dovish amid rising tapering speculation, while the BoC should keep it quiet while preparing to taper again in July



A view of a deserted beach in Benidorm, Spain, one of Spain's hotspots for tourism.

Source: Shutterstock



USD: As hot as it gets?

	Spot	Week ahead bias	Range next week	1 month target
DXY	90.1000	Mildly Bearish 	89.5000 - 90.5000	89.0000

- Friday's slightly softer-than-expected US May employment numbers stand to set the tone for the weeks ahead. This provides the excuse for the Fed to say that substantial progress towards its goals has not been achieved and to defer the tapering debate a little longer. All will be revealed at the June 16th FOMC meeting. Before that, however, this week sees the May US CPI release. We expect headline and core to jump to 4.8% and 3.3% year-on-year respectively. This may well be the peak in YoY rates, however, as peak base and bottleneck effects might be seen in these figures. Last month FX and Rates markets looked through the jump in inflation and we suspect the same may be true this month. In effect the combination of higher US inflation and a Fed prepared to do little about it is a negative environment for the dollar.
- Assuming dollar bears can pass through Super Thursday of US CPI and the ECB policy decision unscathed, the dollar could stay gently offered into the major event risk of the month which is the FOMC decision. The week ahead also sees a G7 summit in Cornwall, Chinese trade data and what could be another 50bp front-loaded hike from the Central Bank of Russia on Friday. On balance we are sticking with our call for the dollar to stay gently offered this summer.

EUR: Super Thursday

	Spot	Week ahead bias	Range next week	1 month target
EUR/USD	1.2170	Mildly Bullish 	1.2100 - 1.2310	1.2300

- The highlight for the EUR this week will be Thursday's ECB meeting. Our team sees the main objective of the day being to [avoid taper talk](#). Rates markets have backed away from the idea that the ECB will slow down PEPP purchases – potentially meaning there is little downside for the EUR from this meeting. Yes, the ECB will not want to do anything to encourage a stronger EUR, yet it seems hard for them to adopt any more of a dovish position than they have already.
- The week also sees German ZEW investor expectations as well as German industrial production for April. In reality, the trade-weighted EUR has not moved much for the last ten months and it seems hard for policy makers to express too much concern over a stronger EUR right now. The continued opening up of the European economy – and another leg higher in European bond yields and demand for European equities – should keep EUR/USD supported this summer.

GBP: More upside to GBP/USD

	Spot	Week ahead bias	Range next week	1 month target
GBP/USD	1.4180	Mildly Bullish 	1.4010 - 1.4380	1.4400

- With the uninspiring May US employment figures giving the Fed an excuse to be patient, the subsequent soft USD dynamics (driven by the deeply negative front real rates – likely to be further underscored by the next week's US May CPI) should keep upside pressure on GBP/USD. We don't think concerns whether the full restriction easing is delivered by the 21 June deadline should weigh too much on GBP. Even if the date is postponed the impact on the economic activity should be limited (as any postponement should be just a matter of weeks in our view). This suggests that GBP/USD should keep pushing to the 1.4300 level next week.
- On the UK data front, the main focus will be on April UK GDP (Friday). The reopening of shops and outdoor hospitality in April will, unsurprisingly, lead to another decent monthly growth, reiterate the positive UK economic outlook and be supportive of GBP. The focus will also be on the April Industrial and Manufacturing production (also on Friday).

JPY: Snap elections in Japan?

	Spot	Week ahead bias	Range next week	1 month target
USD/JPY	109.50	Mildly Bearish 	108.60 - 110.20	108.00

- Softer-than-expected US employment gains and the 5bp decline in US Treasury yields took some steam out of the \$/JPY rally Friday. It is hard to see US yields going an awful lot lower from here, suggesting that it is dangerous to chase \$/JPY down through 109.00. If \$/JPY is to move lower, it will require a different catalyst.
- One such catalyst could be a re-rating of Japanese growth prospects as Japan belatedly ramps up its vaccination campaign. That does seem to be the case over the last month. There has also been a report that PM Suga could call a snap election this autumn – once the Tokyo Olympics and Para-Olympics have concluded. Such a call could be accompanied by an extra budget and prompt a re-rating of Japanese equities and the JPY – which is not out of question in a world where investors are chasing the next growth story. Also this week look out for a Biden-Suga bilateral at the G7 and Japan's April Balance of Payments data.

AUD: The countdown to the July RBA meeting has started

	Spot	Week ahead bias	Range next week	1 month target
AUD/USD	0.7740	Mildly Bullish 	0.7700 - 0.7820	0.7800

- A stabilisation in iron ore prices after a tumultuous month of May is limiting AUD downside, in a week where the Reserve Bank of Australia didn't deliver any surprise at its policy meeting. 1Q GDP, however, came in stronger than expected, at 1.1% YoY (consensus was for 0.6%) and kept fuelling the narrative that lower restrictions in Australia successfully limited the economic damage from the pandemic.
- With the exception of May's jobs numbers on 17 June, there aren't many other key releases to watch ahead of the July RBA meeting, when the bank will have to decide whether to roll-out its yield curve control scheme to the November 2024 and whether to taper asset purchases. In light of this, the stronger GDP numbers were likely a point in favour of the hawks. Next week will be very quiet in Australia from a data-perspective, and external factors should dominate the price action in AUD.

NZD: House prices don't budge

	Spot	Week ahead bias	Range next week	1 month target
NZD/USD	0.7200	Mildly Bullish 	0.7160 - 0.7300	0.7400

- The Kiwi dollar has been the worst performing currency in G10 this week, possibly still suffering from long-squeezing events: net-long positioning was worth 20% of open interest as of 25 May, according to CFTC data.
- With a broadly unchanged and supportive fundamental picture for NZD, we see room for a recovery in the coming weeks, as markets should continue to see with favour the improved rate profile after the shift in tone by the Reserve Bank of New Zealand. Housing data for May indicated that the government measures have not been very successful in curbing the rise in prices, which keeps suggesting RBNZ tightening is warranted. We'll get more housing figures in the week ahead, but the calendar in NZ is pretty quiet otherwise.

CAD: BoC to keep it quiet while gearing up for more tapering in July

	Spot	Week ahead bias	Range next week	1 month target
USD/CAD	1.2090	Mildly Bearish 	1.2000 - 1.2140	1.2000

- Canada's employment dropped for a second straight month in May, as virus containment measures clearly put an obstacle to the recovery in the domestic economy. However, vaccination rates remain very high in Canada, and the government's decision to delay second doses may prove to be a very successful strategy ahead of the summer. This may allow some investors to partly overlook bad data given the vaccine-fuelled optimism for the economic outlook.
- Next week's Bank of Canada meeting will not – in our view – shake the markets as the Bank should reiterate its recent policy rhetoric while gearing up for another round of QE tapering in July. We discuss this in detail in: ["Bank of Canada preview: Pausing, but still in pole position for tightening"](#) and think that the impact on CAD at next week's meeting should be either neutral or mildly supportive. We remain of the view that USD/CAD will make its way below the 1.20 mark in the summer.

CHF: Sluggish

	Spot	Week ahead bias	Range next week	1 month target
EUR/CHF	1.0940	Mildly Bullish 	1.0930 - 1.1030	1.1100

- There has been little change in the surprisingly sluggish performance of EUR/CHF. Support is now clearly defined at 1.0920/30 and given that it is not clear what is depressing EUR/CHF right now, we can't rule out a temporary break lower.
- The week ahead sees May Swiss CPI. This expected to jump to 0.6% YoY from 0.3%. Don't expect the Swiss National Bank to get too excited by it, however. We expect the SNB to be one of the last central banks to raise rates over the next few years – and the risk is it never gets a chance to raise rates before the next recession comes along. Also look out for SNB FX reserves for May. It is not clear the SNB has been intervening much recently, but decent gains in equities over the last month may lift FX reserves given their 20% weight towards equities.

NOK: External and internal factors point to stronger NOK

	Spot	Week ahead bias	Range next week	1 month target
EUR/NOK	10.1160	Mildly Bearish 	10.0000 - 10.2240	9.9500

- Softer USD and limited prospects of imminent Fed tightening should benefit high beta FX such as NOK. The Fed being seen as not derailing the global economic recovery is also positive for the oil price. With Brent oil at US\$72/bbl, this is supportive for NOK. Given the risk environment should remain benign next week, this should push EUR/NOK below the 10.10 level.
- On the data front, the main focus will be on the May Norway Inflation (Thursday). The headline CPI should remain elevated and close to the 3% level. With the recent Norwegian economic data being solid and clear price pressures across the globe, the odds of an earlier Norges Bank hike (in Sep) are increasing. The NB should be the most hawkish central bank in the G10 FX space this year and facilitate further NOK strength.

SEK: More help from the general risk environment

	Spot	Week ahead bias	Range next week	1 month target
EUR/SEK	10.0820	Mildly Bearish 	10.0120 - 10.1560	10.1000

- The slow grind in EUR/SEK lower continues and with the risk environment likely staying supportive next week, the cyclical SEK should benefit. The global risk environment and more synchronised global economic recovery should be the main drivers of higher SEK in coming months as, unlike in the case if NOK and the Norges Bank, SEK won't get the tailwind from Riksbank's monetary policy stance.
- On the latter, the focus will be on May CPI (Thursday). All inflation readings (headline, core etc), should normalise modestly from the previous month's highs, which is in line with the Riksbank's forecast and its guidance that it won't react to the current CPI overshoot – which it deems as temporary. As a result, the inflation number should not provide much support to SEK next week.

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