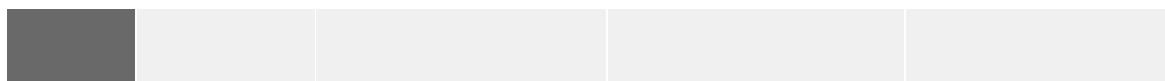


## G10 FX Week Ahead: All that glitters is not just the greenback

This week marked a shift from a dollar-centric narrative in FX, as the USD's stabilisation allowed local stories (like in AUD and NZD) to emerge. In the week ahead, a market that has received confirmation from Clarida and NFP about its tapering expectations may not be too impacted by another high US CPI read, but may stay concerned about the Covid wave in Asia



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## USD: It's not all about the dollar

	Spot	Week ahead bias	Range next week	1 month target
DXY	92.6000	Mildly Bullish 	92.4000 - 93.4000	93.0000

- If we were to find one key take-away is that in the current environment – where dollar dynamics are not proving to be the primary driver for the broader FX space – local stories can continue to have a more meaningful FX impact. After all, the dollar appears to have re-aligned with the Fed's hawkish pricing after having received some confirmation from the Fed Vice-Chairman Richard Clarida that the Bank is well on track to start normalise policy rates. Additionally, doubts about the pace of the US recovery after grim ISM manufacturing and ADP payrolls figures were by and large set aside by a record-high ISM services read first, and a [strong NFP read](#) then.
- If indeed markets are now feeling more comfortable with the Fed's rate expectations priced into the dollar, then the main highlight of next week – US CPI data for July – may not have a strong FX impact, even if headline inflation inches higher (our economist expects it to flatten up at 5.4%). External factors should instead dictate the underlying narrative for FX: the spread of the Delta variant is forcing countries with low vaccination rates (like in most of Asia) to revert to strict containment measures. This is a theme that may keep being a drag on the already vulnerable risk sentiment in China and Asia, which may ultimately offer a gently supportive narrative to the safe-haven dollar in the week ahead.

## EUR: Breaking below the recent range?

	Spot	Week ahead bias	Range next week	1 month target
EUR/USD	1.1790	Mildly Bearish 	1.1700 - 1.1820	1.1800

- If what we implied in the dollar section above is true – local stories are emerging as important drivers – the ECB's recently-confirmed ultra-dovish stance is not one of those stories that can come to the help of the euro. In addition, the spread of the Delta variant may keep markets reluctant to unwind their defensive dollar trades in the week ahead. The silver lining here, which could limit the EUR downside, is that widely vaccinated eurozone countries are still refraining from imposing new draconian restrictions despite the flare-up in cases.
- On the data side, the focus in the eurozone will be on the German ZEW survey. The expectation index of the survey may fall for a third consecutive month, but the assessment of the current situation could continue to rise. Barring major surprises in the ZEW, and considering there are no other major data releases in the eurozone nor any scheduled ECB speakers, EUR/USD may move break the lows (1.1750) of its recent trading range if the dollar draws some support from unstable risk sentiment.

## JPY: Dealing with the virus spike as Olympics end

	Spot	Week ahead bias	Range next week	1 month target
USD/JPY	110.30	Neutral	109.60 - 110.90	111.00

- A strengthening in the US economic sentiment in the second half of the week put curbs to the ability of JPY to benefit from any instability of the risk environment, and USD/JPY is now back above 110.00 following the strong US NFP.
- The release of inflation numbers in the US would normally prove to be a potentially very impactful event for USD/JPY, but as highlighted in the USD section, we suspect this month's release may have less FX implications. While some further hits to risk sentiment as some countries re-impose virus-containment measures should support the safe-haven JPY, Japan is facing its very own contagion crisis. As the Olympic games draw to a close on Sunday, Tokyo may continue to see record virus cases in the coming days, and there is an increasing risk the government will have to adopt stricter containment rules. In the week of domestic stories, this is one that could put a drag on the economic outlook for Japan, and possibly put a limit to how much JPY can rally on unstable risk sentiment/lower US yields. Indeed, the JPY could suffer on the emergence of a 'sell Asia' mentality.

## GBP: Staying supported on good economic sentiment

	Spot	Week ahead bias	Range next week	1 month target
GBP/USD	1.3890	Neutral	1.3810 - 1.3980	1.4000

- This week was all about the Bank of England meeting for GBP. Without the need to fully dissect the BoE statement (our UK economist did it for us in "[Bank of England takes another small step towards tightening](#)"), the main highlight amid a broadly unchanged cautiously optimistic tone, was the announcement that the Bank will start balance-sheet reduction once the policy rate is at 0.5% (previously 1.5%). The muted reaction in GBP was justified by the fact that this level of the Bank rate should not be seen before end-2022 or early-2023.
- The week ahead sees the release of the UK growth numbers for 2Q. Our economist expects to see a strong 5.0% QoQ read. Despite the high probability that the rebound in activity has paused in the summer months, the release should fuel expectations that the British economy will be back to pre-pandemic levels by year-end. After the BoE likely sounded less alarmed than feared about the Delta variant spread as it inched closer to tapering and the UK government that has continued to ease travel rules, the underlying narrative for GBP appears to be by and large positive. EUR/GBP could extend its downward trend after breaking below 0.8500, but Cable may struggle to break above 1.4000 if the USD remains supported.

## AUD: Iron ore scares continue

	Spot	Week ahead bias	Range next week	1 month target
AUD/USD	0.7360	Mildly Bearish 	0.7280 - 0.7400	0.7400

- The Reserve Bank of Australia meeting provided some time-limited help to AUD, which then quickly reverted to being driven by external factors. Despite having sounded as a marginal hawkish surprise, the RBA merely remained on track with its gradual tapering plans, and – [as discussed by our economist](#) – we did not identify any signals of shift in policy.
- Despite China-related sentiment failing to deteriorate much further on the regulatory clampdown point of view, iron ore has faced another sell-off as China's curb on steel production kept raising concerns on the demand side. Iron ore has now lost a fifth of its value in the past three weeks. Let's see how much further iron ore prices will fall in the week ahead: that is likely to remain a key driver for AUD amid a lack of data catalysts. AUD also remains highly vulnerable to signals that the Delta variant spread may force new lockdowns in China. On the domestic side, RBA Governor Lowe may signal how the recent flare-up in Delta cases in Australia confirms the need for more monetary stimulus as he testifies before a parliament committee. We don't expect RBA rate expectations to come to the rescue of AUD in the foreseeable future.

## NZD: Gearing up for an RBNZ hike

	Spot	Week ahead bias	Range next week	1 month target
NZD/USD	0.7030	Neutral	0.6990 - 0.7070	0.7200

- The drop in New Zealand's unemployment to the pre-pandemic 4.0% level in 2Q convinced us to pencil in a rate hike by the Reserve Bank of New Zealand on 18 August. Markets also look convinced, with the swap market signalling the August hike is fully in the price. We expect a second hike by year-end.
- Indeed, the very high exposure of New Zealand's economy to demand from China makes NZD, like AUD, quite vulnerable to any further de-rating of China's growth expectations if indeed the variant spread causes new restrictions. However, differently from AUD, NZD can count on the prospect of an imminent RBNZ hike, which should in our view limit the downside.

## CAD: Focus on the OPEC monthly report

	Spot	Week ahead bias	Range next week	1 month target
USD/CAD	1.2540	Neutral	1.2450 - 1.2600	1.2400

- July payrolls in Canada were not as good as those in the US, as the economy gained 94k jobs versus the forecasted 150k. The fact that CAD is not amongst the worst performers today as the USD jumped is a signal that the "miss" was surely not enough to dent the notion that Canada is on a solid recovery path. This, in turn, means that the BoC can remain on its policy normalisation path: we expect the end of QE by year-end.
- In the week ahead, CAD will be only driven by external factors, as the data calendar does not include any market-moving release and there are no scheduled BoC speakers. We'll be on the lookout for signs of resilience in the oil market (e.g. Brent holding above US\$70/bbl) as OPEC releases its monthly market report, where we'll see how the cartel assesses the impact of the Delta variant on oil demand.

## CHF: SNB's patience continues to be tested

	Spot	Week ahead bias	Range next week	1 month target
EUR/CHF	1.0740	Mildly Bearish 	1.0670 - 1.0770	1.0800

- EUR/CHF extended its drop this week, reaching levels last seen in November. While concerns about the possible drag to the global recovery due to the Delta variant spread likely has been offering a benign environment for a risk-haven currency like CHF, there could be more behind the drop in EUR/CHF. We discuss it in: ['EUR/CHF: Testing the Swiss National Bank's tolerance'](#). In our view, the fall in the pair is mirroring the widening gap between the European Central Bank and Swiss National Bank balance sheets as the ECB engaged in aggressive asset purchases.
- The main question remains: what is the line in the sand (if there is one) in EUR/CHF for the SNB to ramp up FX interventions? Last year, that appeared to be 1.05, but we'll scan incoming sight deposits data to see whether the SNB has already started to increase interventions. A second question is whether the SNB is feeling Washington's pressure to scale back interventions. There have been no indications this is actually the case, but part of the market may be speculating on it, and feel more comfortable about jumping into CHF long positions. In the week ahead, the data calendar is not busy in Switzerland. More uncertainty around the risk environment may however keep some pressure on EUR/CHF, and keep the focus on the SNB's intervention conundrum.

## NOK: Inflation to cement hike expectations

	Spot	Week ahead bias	Range next week	1 month target
EUR/NOK	10.4200	Neutral	10.3600 - 10.5000	10.3500

- EUR/NOK has remained stuck in the 10.40/10.50.. As highlighted in the CAD section above, we'll be looking for signs that Brent will be able to stay at least above US\$70/bbl in the week ahead, which could put a floor below oil-sensitive currencies.
- On the domestic side, it will be a busy week data-wise in Norway. Monday's industrial production numbers for June should not move the market, while Tuesday's CPI for July will be watched more carefully. Inflation is likely to have remained well above the 2% Norges Bank target, and cement expectations the NB will deliver the two 2021 hikes currently in their projections. This could partly shield NOK from potential unsupportive swings in sentiment next week.

## SEK: CPI to confirm Riksbank's lower for longer

	Spot	Week ahead bias	Range next week	1 month target
EUR/SEK	10.1800	Neutral	10.1400 - 10.2200	10.2000

- EUR/SEK is struggling to find direction amid a lack of clear catalysts in Europe. We expect the pair to keep oscillating around the 10.20 level in the week ahead, and any decisive move will likely be determined by any potential data surprises in the eurozone. On the domestic side, the release of inflation data for July should confirm that the inflation outlook in Sweden remains muted – especially compared to other developed economies – and should therefore endorse the Riksbank's dovish stance.
- The current uncertain risk environment is keeping a low-yielding currency like SEK somewhat protected, but once recovery trades start to re-emerge, the krona's unattractive yield compared to those pro-cyclical currencies backed by hawkish central banks should make it a laggard in G10.

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