G10 FX Week Ahead: Inflation – the known known

Another jump in US inflation is widely expected next week and may not be enough to stir rate expectations, leaving the dollar still vulnerable to negative real rates. In the rest of G10, commodity currencies may stay well supported, while the result of Scottish elections should not have major implications for sterling

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USD: A well-telegraphed jump in inflation shouldn't be a game changer

	Spot	Week ahead bias	Range next week	1 month target
DXY	90.3140	Mildly Bearish	89.9000 - 90.7000	90.0000

- A sharply below-consensus read in April's non-farm payrolls prompted a sell-off in the dollar across the board today as it likely relieved some pressure from the Fed to shift to a less dovish rhetoric. At the same time, the data-miss was not enough to severely dent the underlying recovery story, leaving the global risk sentiment broadly supported as equities can also continue to benefit from the lower-for-longer story.
- A globally supported risk appetite may continue to put some pressure on the dollar in the week ahead. Data-wise, the April inflation report will be the highlight of the week, with our US economist expecting headline CPI to come in at 3.7% year-on-year. The jump in inflation is largely expected by markets and may fail to drive a big change in the Fed's rate expectations, also considering the lack of signs that the Fed is ready to react to higher inflation just yet. All in all, the negative USD real rate narrative may remain intact and keep the dollar vulnerable. Another key event in the US will be Wednesday's $41bn 10-year Treasury auction. Our rates team is expecting another rise in Treasuries to materialize soon, but as long as the bond market proves resilient, there will likely be additional room for any dollar bear trend to gather pace. DXY may test the 90.00 support.

EUR: Soft dollar pushing EUR/USD higher

	Spot	Week ahead bias	Range next week	1 month target
EUR/USD	1.2140	Mildly Bullish	1.1980 - 1.2290	1.2200

- As the soft USD environment is to spill over into the next week, the upside pressure on EUR/USD should remain in place. It is a very quiet week on the eurozone data front (both the May German ZEW on Tuesday and March industrial production on Wednesday should have a limited impact on EUR), meaning that EUR/USD direction will be largely driven by the wider USD story. While the April US CPI should soar to 4% YoY on Wednesday, the market may interpret it via the real rate channel (which would be negative for USD as the front-end US real rate falls further) rather than as a signal for the Fed to start tightening earlier (where the latest NFPs support the Fed's wait-and-see approach).
- The outlook for the EUR/USD is clearly improving. The eurozone data should rebound as we get into the summer while the speculation about the ECB QE tapering is growing. Coupled with the general soft USD environment, this points to further EUR/USD upside in coming months.

JPY: Battling with the correlations

	Spot	Week ahead bias	Range next week	1 month target
USD/JPY	108.55	Neutral	108.00 - 109.10	108.00

- While a decisive downward turn by the dollar today pushed USD/JPY below 109.00 today, the yen has been the smallest beneficiary of dollar weakness this week due to its inverse correlation to risk appetite. In the week ahead, the Treasury auction and US CPI will keep investors heavily focused on rates dynamics, with the yen's short-term outlook staying heavily tied to US bond yields.
- A continuation of the good momentum in global equities along with the risk of US yields starting to tick back up may see the yen still unable to enter a steady appreciation trend for now. Data-wise, it is going to be a pretty quiet week in Japan, with only trade data for March in focus. USD/JPY may stay in the 108/109 region for most of the week.

GBP: Eyeing the GBP/USD 1.4000 level

	Spot	Week ahead bias	Range next week	1 month target
GBP/USD	1.3977	Mildly Bullish	1.3860 - 1.4180	1.4400

- It should be a calmer week for GBP after the BoE meeting and Scottish election this week. The BoE tapering announcement had a muted impact on GBP as the reduction in the pace of purchases wasn't overly aggressive. While the full Scottish election results are still not known, any negative effect on GBP should be limited (even if the pro-independence parties win) as another Scottish independence referendum is unlikely any time soon, being years away at best. We see GBP/USD rising above the 1.4000 level next week (and persistently settle above this level this summer), helped both by rising EUR/USD and the sharp economic recovery in the UK.
- On the latter, the main focus of the week is on the UK 1Q GDP (Wed). This should show a solid 1.5% YoY, which is considerably 'less bad' than feared given the Brexit disruption and the strict lockdown as March activity was strong due to the combination of schools returning and healthy month for retail. This should further underscore the prospects for a very strong economic recovery in 2Q and be supportive of the pound. The current post April NFP weak USD environment is clearly beneficial for GBP/USD.

AUD: The RBA is not a factor for the short term

	Spot	Week ahead bias	Range next week	1 month target
AUD/USD	0.7847	Mildly Bullish	0.7800 - 0.7940	0.7800

- The Reserve Bank of Australia reiterated a firmly dovish tone at its May policy meeting, while postponing till July its decision on whether shifting its yield-curve-control target bond from April 2024 to November 2024. With inflation having proven to be still rather subdued, surging housing prices were considered by some as a potential driver of a less dovish tone by the Bank. However, Deputy Governor Guy Debelle made clear that the RBA is not concerned about this factor now, actually seeing it as a welcomed sign of return to normality.
- All this suggests the Aussie dollar is set to remain the lowest-yielding commodity currency for longer, but also that there is probably only room to go up for now to the very low rate expectations. This should not happen in the short run, however, when no key data releases are due before the jobs report on 20 May. Instead, some focus will likely remain on the Australia-China relationships as tensions still fail to abate. Barring any trade-related retaliation by China and the Australian government's budget announcement possibly offering some extra support, AUD should still be able to fully cash in on good risk appetite, possibly exploring the 0.79 area.

NZD: Domestic economic story remains strong

	Spot	Week ahead bias	Range next week	1 month target
NZD/USD	0.7284	Mildly Bullish	0.7230 - 0.7360	0.7400

- A good jobs report for 1Q in New Zealand continued to underpin the rather solid domestic economic story which continues to provide some support to NZD. Markets are inevitably starting to question how long the Reserve Bank of New Zealand will be able to stick to its dovish tone given the data improvement, and we could indeed start to see a re-emergence of tightening expectations.
- Next's week's calendar in New Zealand is very light, with some focus only on Finance Minister Robertson's pre-budget speech (the budget will be announced on 20 May) and some housing data. The latter are set to be increasingly monitored after April's house data showed that the Government's measures to curb the housing bubble have not had the desired effect yet. NZD/USD should move back above the late April highs, and possibly advance into the 0.73 region.

CAD: Bad jobs data not a big concern

	Spot	Week ahead bias	Range next week	1 month target
USD/CAD	1.2144	Mildly Bearish	1.2040 - 1.2200	1.2100

- The Canadian dollar enjoyed a very strong week until today, as the set of jobs reports in North America left CAD unable to cash in on USD weakness. The Canadian economy saw a wider-than-expected drop in employment in April (which was influenced by fresh Covid-19 restrictions) and the disappointment in US data was also not great news for the highly exposed Canadian economy.
- That said, the road ahead for the Canadian dollar still looks rather bright, even after the recent rally. The policy divergence between the Bank of Canada and the Fed is set to keep a floor on USD/CAD, while faster vaccination roll-out in Canada may keep fuelling hopes of a faster exit from current restrictions and offset the negative impact of a worsening data-flow. The only highlight in the week ahead is a speech by BoC Governor Tiff Macklem, although we may not hear much change in the rhetoric this close to the latest BoC meeting. CAD may remain supported on the back of global risk-supportive mood.

CHF: Corrective rally in CHF

	Spot	Week ahead bias	Range next week	1 month target
EUR/CHF	1.0959	Mildly Bullish	1.0940 - 1.1030	1.1100

- We are still finding the move in EUR/CHF a bit strange. Maybe EUR/CHF can remain irrational longer than some can remain solvent, but still would have thought: i) confidence in the global recovery and ii) confidence in a European recovery means that there is little need to hold CHF and pay 75bp – the most negative rate in the world. We wonder whether factors like the Polish CHF mortgage issue or even some investment bank deleveraging on the back of the Archegos scandal might be playing a role in supporting the CHF.
- We are slightly pro risk in the week ahead – as long as higher US CPI or a poor auction hit the Treasury market. And that should mean EUR/CHF returning to more comfortable levels above 1.10.

NOK: Good environment for cyclical currencies like NOK

	Spot	Week ahead bias	Range next week	1 month target
EUR/NOK	10.0100	Bearish ↘	9.8900 - 10.0810	9.9500

- The extension of the soft USD environment into the next week should provide further support to the cyclical NOK. Softer USD and higher commodity prices are a clear positive for the krone. While the latest US NFP numbers underscore the case for the wait-and-see Fed approach, the Norges Bank is firmly on the path towards tightening this year, as underscored by the May meeting this week.
- On the data front, the main focus will be on the Norway April CPI (Monday). The headline CPI is to stay elevated at 3.1% YoY but the underlying prices should dip closer to 2%. However, this does not change much about the NB's commitment to hike this year. if anything, should the economy recover faster this summer, we don't rule out the NB starting the tightening process already in September. Norway 1Q GDP is out on Wednesday.

SEK: The spike in April CPI no game changer for cautious Riksbank

	Spot	Week ahead bias	Range next week	1 month target
EUR/SEK	10.1120	Mildly Bearish ↘	10.0400 - 10.1670	10.1000

- The Swedish April CPI (Wednesday) will be the highlight of the week, with both CPI and CPIF expected to rise above the 2% target. Still, we look for a limited spill over into SEK as the rise in CPI is expected by the Riskbank and the central bank already indicated it will look through the increasing prices this quarter as they are caused by temporary factors. Hence, no game changer for the Riksbank and its guidance to keep policy rates at zero over the policy relevant horizon.
- The softer USD environment should keep EUR/SEK close to its multi-month 10.10 gravity line next week, with EUR/SEK expected to break below the psychological 10.00 level in the second half of the year as the krona, being levered to global trade, is set to benefit from the more synchronized global recovery.

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