

## G10 FX Week Ahead: Tailgating treasury yields

Our rates team is expecting UST yields to be back on the rise next week: in FX, this may imply that the dollar can recover some ground to low-yielders. Commodity currencies may, instead find some support if Chinese trade and growth data come in strong. In New Zealand, the RBNZ should keep its policy message unchanged, with little impact on the undervalued NZD



Treasuries

Source: shutterstock



## USD: Tail-gating treasury yields

	Spot	Week ahead bias	Range next week	1 month target
DX	92.3000	Mildly Bullish 	92.0000 - 93.0000	92.0000


- US Treasury yields continue to drive FX markets and, if anything, the correlation is becoming even stronger. So where to for US Treasury yields in the week ahead? The answer from our bond team is a clear 'higher'. Behind that call are expectations for a strong US data set, including the March readings for Retail Sales (stimulus checks starting to come through), Industrial Production (better weather) and CPI ([jumping to 2.4% YoY](#) on base effects amongst other factors). Add in fresh long-end Treasury supply for 10s and 30s and our team expect US 10-year yields to be testing 1.75%, if not higher.
- The above looks positive for the dollar against the low yielders of JPY, CHF and to some degree EUR. Commodity FX might be able to outperform a little should this week's Chinese data come in on the strong side – we have March trade data and the first look at 1Q21 GDP. We'll also be hearing some final thoughts from the Fed (Powell and the Beige Book on Wednesday), before the two-week blackout period before the April 28th FOMC meeting. Also look out for the first quarter results from large US banks, presumably doing quite well with steeper yield curves and seemingly having avoided the worst of the Archegos scandal.

## EUR: Too much baggage

	Spot	Week ahead bias	Range next week	1 month target
EUR/USD	1.1885	Mildly Bearish 	1.1790 - 1.1900	1.2000

- Higher US yields look set to force EUR/USD back down to 1.1800 again. The only bullish argument we can see for EUR/USD this week is a case for strong 2Q US data being already fully priced and traders wanting to jump in early on the EUR recovery story – more signs of which should emerge through the quarter as, for example, vaccination programmes gain pace in the likes of France and Germany. But with the EU Recovery Fund stuck in a German courtroom, the EUR re-rating story may have to wait.
- In terms of the local calendar, we'll hear a couple of times from ECB President Lagarde as well as seeing eurozone February retail sales and industrial production – plus the German April ZEW investor survey. Elsewhere, the [global chip shortage](#) won't be helping the European auto industry either and we suspect EUR/USD needs more consolidation at these lower levels, before making a move higher later in the quarter. Certainly, a sustained break above the 1.1900 area would be a surprise.

## JPY: PM Suga visits Washington

	Spot	Week ahead bias	Range next week	1 month target
USD/JPY	109.65	Mildly Bullish 	109.30 - 111.00	110.00

- What seems a clear run higher for US Treasury yields warns of USD/JPY retesting 111 this week. Failure in the 110.20/50 area would be a surprise. The highlight of the week will be PM Suga's visit to Washington – the first leader hosted by President Biden. Presumably the pandemic will top the list of discussion topics, though China will be keenly listening for any remarks on Taiwan. The visit comes at a time when USD/JPY is far from any sensitive levels, although Japanese exporters will clearly be a lot happier than their counterparts in the US. And it would seem a little incongruous for President Biden to try and talk USD/JPY lower.
- The market is not paying much/any attention to Japanese data at the moment and instead what US data means for US yields will be the driving theme this week.

## GBP: The temporary perfect storm

	Spot	Week ahead bias	Range next week	1 month target
GBP/USD	1.3731	Mildly Bullish 	1.3600 - 1.3920	1.4200

- GBP felt the perfect storm of the vaccination concerns and the heavy one-way positioning. Prior to the sell-off, GBP was the biggest speculative long in the G10 FX space vs USD (as measured by CFTC). However, on vaccinations, the UK regulator pointed out that the balance of benefits and risks still favours the AZ vaccine and the UK government reiterated that its plan to offer the first dose to all adults by end July remains intact. This means that the constructive case for GBP remains intact and we expect sterling to recover fairly soon (EUR/GBP to return to the 0.85 level) and GBP/USD to move back above the 1.40 level as we get closer to the summer and EUR/USD also moves higher. Note that after the sharp adjustment this week, GBP /USD screens meaningfully undervalued based on our short-term fair value. This (a) limits scope for further sterling fall; and (b) should help to facilitate some modest GBP rebound next week.
- On the data front next week, we have Feb industrial production (Tuesday) and monthly Feb GDP (Tuesday). None should have a meaningful effect on GBP as they don't capture the anticipated sharp 2Q recovery of the domestic economy, while the recent GBP drivers were purely related to vaccination expectations and technicals.

## AUD: Aussie data to play second fiddle to Chinese data

	Spot	Week ahead bias	Range next week	1 month target
AUD/USD	0.7627	Mildly Bullish 	0.7570 - 0.7720	0.7700

- The Aussie dollar – along with most high-yielders – has not been able to take great advantage of the soft USD momentum this past week, as low-yielders led the rebound. We think this dynamic may change next week as US Treasuries yields may be back on the rise (helping USD against low-yielders, as per our USD section above), but some positive growth and trade data out of China along with stabilising risk sentiment may support the bloc of commodity currencies. AUD's higher exposure to Chinese sentiment – also through the iron ore channel – should be particularly helpful.
- Domestically, Australian jobs numbers for March will be watched closely to gauge the pace of the recovery in the country. We could see another set of good data and while this may marginally provide some extra short-term support to AUD, it would likely fall short of impacting the Reserve Bank of Australia rate expectations, which should remain stuck to the bottom for a while regardless of encouraging data. The central bank has recently discussed the issue of rising house prices in Australia, but that should also be ineffective in moving rate expectations, as macroprudential measures will most surely come before any change in the monetary policy stance.

## NZD: RBNZ set to be a non-event

	Spot	Week ahead bias	Range next week	1 month target
NZD/USD	0.7043	Mildly Bullish 	0.7000 - 0.7150	0.7200

- Next week's highlight in New Zealand is the central bank policy meeting scheduled for Wednesday. As discussed in "[RBNZ preview: Quietly monitoring house prices](#)", we think there is a high probability that the Bank will merely reiterate its message from the February meeting (prolonged stimulus remains necessary) and ultimately have a very limited impact on NZD. Indeed, the drop in 4Q20 GDP and the measures by the government to curb house prices are taking some pressure off the RBNZ to turn more hawkish anytime soon. A survey of real estate agents showed early signs that housing demand is shrinking, but it may take some more time for prices to stop rising.
- The effectiveness of the government measures to stop the uncontrolled rise in house prices will be key in keeping RBNZ rate expectations low in the coming months. What is very likely is that front-end rates are unlikely to fall further considering the unlikelihood of negative rates and no need for extra QE. So the negative impact of the RBNZ expectations re-pricing on NZD has likely worn off, and NZD/USD can count on a 2% undervaluation in the short-term (according to our model) and a more balanced speculative positioning to stage a rebound. As highlighted in the AUD section above, Chinese data may provide support to NZD next week.

## CAD: Covid concerns may remain a curb to the loonie

	Spot	Week ahead bias	Range next week	1 month target
USD/CAD	1.2554	Neutral	1.2500 - 1.2640	1.2550

- A set of very strong jobs data for March (unemployment rate down to 7.5%, 300k increase in employment) failed to generate a material rebound in the underperforming CAD. While a somewhat choppy performance of crude may have played a role, it seems that the worsening virus situation in Canada is keeping appetite for the loonie rather low. Most provinces have taken quick measures to contain this violent third Covid wave, and markets are inevitably starting to re-rate their recovery expectations for the Canadian economy (a key factor driving CAD higher in 2021).
- The tapering announcement on 21 April by the Bank of Canada may be the light at the end of the tunnel as we have learnt in the past year that it normally takes some time for contagion numbers to drop after restrictions are imposed and Canada is still lagging significantly behind the likes of the US when it comes to vaccinating its population. The release of the BoC Business Outlook survey for 1Q21 should also have a more limited impact as markets may deem it outdated in light of fresh virus-containment measures. We expect CAD to lag AUD and NZD next week, even if some generally supportive environment for commodity currencies may cap USD/CAD upside.

## CHF: New dates for the Polish mortgage story

	Spot	Week ahead bias	Range next week	1 month target
EUR/CHF	1.1004	Mildly Bullish ↗	1.1000 - 1.1100	1.1200

- EUR/CHF seems to be bouncing around on US yields (positive correlation), with the CHF and the JPY the two stand-out underperformers when US yields rise. The Swiss National Bank will not mind this at all and in fact will be quite happy that the real CHF trade weighted index is around 5% off the highs seen last summer.
- The story of Poland's CHF mortgage challenge rumbles on. Key dates here now seem to be: i) 29th April – the European Court of Justice rules on whether Polish banks can charge for capital if a credit has been invalidated and ii) 11th May – the Polish Supreme Court rules on whether Polish banks can charge Polish Wibor rather than CHF Libor for the mortgages – impacting the cost of the crisis for the Polish banking system. Polish banks still seem to have around CHF23bn of CHF liabilities relating to this story and the threat of some sizable CHF buying, should momentum build towards fully winding down this mortgage book, still hangs over the CHF.

## NOK: So far well behaved relative to some other European FX

	Spot	Week ahead bias	Range next week	1 month target
EUR/NOK	10.1200	Mildly Bullish 	10.0000 - 10.2760	10.0000

- It is a very quiet week on the Norwegian data front. Feb monthly GDP (Monday) and March Trade balance (Thursday) will have a limited impact on NOK. Rather, the main driver of EUR/NOK will be the general risk environment. Another set of expected strong US data next week (US retail sales and CPI) and its likely impact on the UST yields may not bode well for procyclical high beta currencies – particularly those that have not recently experienced a meaningful sell-off. In contrast to either SEK or GBP, the krone price action has been relatively well behaved in recent weeks, meaning that NOK is likely to be more vulnerable to the deteriorating risk environment than some of its European G10 peers.
- Despite the near-term risks, we expect EUR/NOK to break below the 10.00 level this quarter as the recovering EZ and Norwegian economies and expectations of the first Norges Bank hike (4Q21 is our base case but NB may move already in late 3Q21) will benefit NOK.

## SEK: Recovering after the relatively big sell-off

	Spot	Week ahead bias	Range next week	1 month target
EUR/SEK	10.1600	Neutral	10.0960 - 10.2450	10.1000

- After the krona sell-off in late March and EUR/SEK breaking its multi-month tight trading range of 10.00-10.20 (and spiking to the 10.30 level), the currency has stabilised and is now back below the 10.20 level. We see room for further SEK gains in coming months (towards the EUR/SEK 10.00 level) as the eurozone and Swedish economies pick up as the vaccination process gains pace. The expected more synchronised recovery of the global economy in 2H21 should also benefit the cyclical SEK levered to global growth.
- Domestically, the main point of focus will be Swedish March Inflation (Wed). All inflation measures are expected to rise, but the Riksbank will look through it as the increase is driven by temporary factors and CPI should move lower again in the second half of the year. With the Riksbank signalling no change in interest rates over the forecast horizon, the spike in CPI will have a non-negligible and very temporary effect on SEK.

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