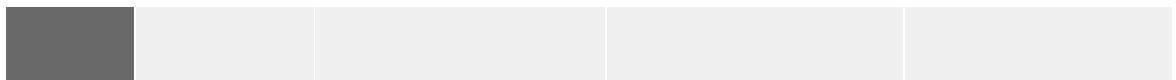


## G10 FX Week Ahead: Taking the fiscal bait

As long as neither side rules out further fiscal stimulus in the US, markets may keep seeing the glass half full and ignore broadening lockdowns, which should keep the risk-on/USD-off narrative in place. The EU summit on Thursday is Boris Johnson's self-imposed deadline for a UK-EU trade deal, but we expect talks to continue, to the benefit of GBP



## USD: Holding it all together

	Spot	Week ahead bias	Range next week	1 month target
DXY	93.2000	Mildly Bearish 	92.5000 - 93.6000	94.0000

- The dollar goes into Monday's US Columbus Day public holiday on the slightly offered side. Supporting risk assets and pressuring the dollar seem to be hopes for fresh US fiscal stimulus and investors settling into a view that the Presidential election outcome will not be contested. We don't expect these views to be challenged too harshly in the week ahead since the second Presidential TV debate looks to be delayed and neither party in Congress wants to be seen killing stimulus prospects. US data this week – NFIB small business optimism, retail sales, industrial production and consumer sentiment – should also remain supportive.
- One challenge to the modestly upbeat sentiment may come from the IMF Autumn meetings which start in Washington on Monday. The closely followed World Economic Outlook (WEO) is released on Tuesday and will see an update of the IMF's world growth forecasts (-4.9% in 2020 and +5.4% in 2021). While we may see a modest upgrade to the 2020 number, expect much focus on the downside risk to the 2021 figure based on second wave challenges. A concerted push for fresh fiscal stimulus from central bank speakers looks likely too. Elsewhere, US equities will also take their cue from the start of 3Q earnings releases from US banks. The big question is how these institutions handle some of the aggressive provisioning made in 2Q – and could possibly lead to some positive surprises.

## EUR: Defying the ECB

	Spot	Week ahead bias	Range next week	1 month target
EUR/USD	1.1810	Mildly Bullish 	1.1750 - 1.1900	1.1800

- EUR/USD has stayed relatively supported despite much verbal intervention from the ECB. Obviously very low inflation (core at 0.2% YoY) gives ECB good cause for concern over EUR strength, but broader global factors are at play here. The EUR is indeed participating in the global reflation story (steeper yield curves – particularly in the US) and it will probably take a loss of confidence in the global recovery, rather than ECB rhetoric, to turn EUR/USD lower.
- Apart from the EU summit on Thursday (which in addition to Brexit could look at fresh sanctions on Russia and Turkey), it does not look like there's enough macro data (yet) to give oxygen to ECB Lagarde's fears of a double dip. The only data of note is German ZEW and the more important October PMIs are not released until the following week. Instead the biggest challenge probably comes from whether European lockdowns broaden (Israel is the only country to see a second national lockdown). For the time being, we prefer EUR/USD to stay supported.

## JPY: Has the US curve steepening trend got legs?

	Spot	Week ahead bias	Range next week	1 month target
USD/JPY	105.80	Neutral	105.40 - 103.60	105.00

- USD/JPY remains beholden to US yield curve dynamics and the reflation story – especially so since: a) the US economy has been performing well and b) the US looks the closest to receiving fresh, large scale fiscal stimulus. Assuming neither side nixes the chance of fresh stimulus, our team look for a little more US curve steepening, which should support USD/JPY. With the front end of the US curve anchored, particular focus is on the 10-30 year curve – now at the steepest levels for the year.
- A benign week should keep the JPY offered on the crosses. But with USD/JPY showing the smallest correlation to recovery trades, the JPY does remain a safe haven, non-correlated play and any hints of straying from a placid election run-in could easily start to see the JPY outperform again. As an aside, we think Tokyo could become a little more tolerant of JPY strength since CNY and KRW (31% and 6% weights in the Yen's trade weighted basket) are making decisive moves higher.

## GBP: Modest relief ahead

	Spot	Week ahead bias	Range next week	1 month target
GBP/USD	1.2950	Mildly Bullish 	1.2800 - 1.3170	1.3100

- All eyes are on the EU summit (Thursday – Friday) next week and Boris Johnson's self-imposed 15 October deadline for the negotiations. We expect the deadline to be breached and negotiations to continue until end Oct / early Nov as not enough sufficient progress has been made. Still, for the UK government to justify the breach of the deadline, both sides are likely to claim that some progress has been made and hence negotiations can continue beyond the next week. Such a relatively constructive message should be positive for GBP, with GBP/USD likely breaking above the 200-day Moving Average of 1.3032. Still this does not mean the end of GBP volatility and the two-way price action in weeks thereafter as negotiations will remain tough and the newsflow may turn negative again (even if temporarily and even if the deal is eventually reached).
- On the data front, the focus is on the employment data (Tuesday). The UK unemployment rate show another slow uptick higher as the forthcoming end to the furlough scheme continues to add pressure on the labour market. But yet again, the domestic data should be of secondary importance to the UK-EU trade negotiations.

## AUD: Is the RBA really that dovish?

	Spot	Week ahead bias	Range next week	1 month target
AUD/USD	0.7210	Mildly Bullish 	0.7140 - 0.7300	0.7100

- We think market expectations around further Reserve Bank of Australia easing are overdone, and that the latest policy statement aimed at stressing the centrality of the jobs market for future policy decisions rather than signalling an imminent cut. So next week will likely be key in directing monetary expectations, with two market-moving events in focus. Employment data are due on Thursday, and we suspect that consensus is too much on the pessimistic side (expecting the unemployment rate to edge above 7%), and we see scope for an upside surprise.
- The other event is the speech by RBA Governor Lowe on Wednesday. Still, given that the speech is before the release of the jobs figures, there is a possibility Lowe will not change his rhetoric just yet. As usual, markets will be also on the lookout for currency-related comments to track any possible change in the so-far very relaxed stance of the RBA on AUD's relative strength. All in all, we see potential for some scale-down in the market's dovish expectations around the RBA and therefore see room for AUD idiosyncratic outperformance next week.

## NZD: Approaching elections should be a non-event

	Spot	Week ahead bias	Range next week	1 month target
NZD/USD	0.6640	Mildly Bullish 	0.6710 - 0.6600	0.6700


- The Reserve Bank of New Zealand provided additional indications that it is seriously moving towards negative rates yesterday, despite later announcing they will taper their bonds purchases for a third straight week. With the RBNZ dovishness largely in the price and the data calendar offering very little inspiration, we should hardly see NZD drift away from the general risk sentiment dynamics.
- On the domestic side, the upcoming elections will hardly play a key role for the currency, as polls suggest incumbent PM Jacinda Ardern should get a relatively comfortable win on 17 October. There is a chance Ardern's party will get a majority in the parliament, but even if they were to fell short of the 61-MPs mark, a deal with the Green Party (which could get around 8 seats) should ensure stability.

## CAD: Good momentum to linger

	Spot	Week ahead bias	Range next week	1 month target
USD/CAD	1.3140	Bearish 	1.3030 - 1.3180	1.3100

- The surprising 378k increase in employment in September and the unemployment rate dropping to 9.0% are further signs that the economic recovery in Canada is keeping a good pace. Latest comments by BoC Governor Macklem also gave little reasons to think the Bank is about to add stimulus anytime soon. Despite mentioning negative rates are in the toolkit, they still are a remote possibility in Canada. All this keeps offering a solid base in terms of fundamentals for CAD, in our view.
- Next week, we could see USD/CAD extending its downward trend as the Canadian calendar looks rather quiet, and risk assets may retain their momentum thanks to expectations around post-election stimulus plans in the US and Joe Biden's stable lead in the polls is reducing the perceived risk of a contested election. If WTI manages to stay above US40/bbl next week, CAD may be a key G10 outperformer again next week, also thanks to some short-squeezing effect.

## CHF: Focus on FX reserves

	Spot	Week ahead bias	Range next week	1 month target
EUR/CHF	1.0770	Mildly Bearish 	1.0720 - 1.0800	1.0700

- With the Swiss National Bank seemingly have penned EUR/CHF into a 1.0720-1.0820 range, the focus over the last week switched to the big CHF25bn jump in SNB FX reserves in September. Rather than representing a big jump in intervention, it more likely looks the quarterly re-valuation of underlying assets – where the SNB's large holdings of risk assets (corporate bonds and equities) will have served it well in 3Q. We quite like the suggestion from Pictet that the SNB should consider creating a Sovereign Wealth Fund from part of the FX reserves – though clearly that would be a political minefield and be difficult to repeat a similar, strategic exercise carried out by China.
- Given little on the Swiss calendar, the biggest threat to EUR/CHF this week comes from the EU summit on 15/16 October. Should any fuel be added to the Brexit fire, or progress on the EU Recovery Fund come into question, the SNB will be called into action in the low 1.07s again.

## NOK: Risk environment takes and risk environment gives

	Spot	Week ahead bias	Range next week	1 month target
EUR/NOK	10.8570	Mildly Bearish 	11.0150 - 10.7420	10.7000

- As risk sentiment continues stabilizing on the back of hopes of a larger Democratic fiscal stimulus post the US Presidential election (assuming Biden's victory and the rising odds of the Blue Wave), the high beta NOK is back in business and continues rebounding from the externally driven sell off seen in September. The likely benign risk environment next week (the extension of the EU-UK trade negotiations beyond 15 October should be also a marginally positive for the wider European FX segment) suggests a further grind in EUR/NOK lower, towards EURNOK 10.7500 next week.
- It is a very quiet week on the Norwegian data front. 3Q House price index (Monday) and Sep trade balance (Thursday) should be largely irrelevant for NOK, which will be primarily driver by the general risk environment.

## SEK: Decline in inflation to improve real rate

	Spot	Week ahead bias	Range next week	1 month target
EUR/SEK	10.4150	Mildly Bearish 	10.3550 - 10.5260	10.3000

- As other cyclical currencies, SEK is gradually strengthening and the same should be the case next week, if risk sentiment remains benign – as we expect. With the (negative) re-rating of the European growth outlook now priced in, SEK has more breathing space and EUR/SEK should break through the 100-day Moving Average 10.4060 support level next week.
- On the domestic data front, the focus is on September CPI. Headline and core prices should decline modestly, but this is unlikely to affect the Riksbank's stance (where QE is in place and bar for bringing rates back into the negative territory is set very high). Rather, the fall in CPI should be seen via the narrative of improving SEK real rate, which is on the margin SEK positive.

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