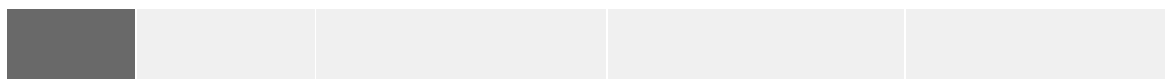


G10 FX Week Ahead: No need to dot the i's in “inflation”

Markets will monitor the last pieces of data before the 20-24 Sep. week, when five central banks in G10 will announce policy. Inflation reports will be in focus in the US, UK and Sweden, but we doubt they will make a big difference for their respective policymakers. Any stabilisation in sentiment should see activity FX backed by tightening cycles rise again.



USD: Rally may cool off as Fed meeting draws closer

	Spot	Week ahead bias	Range next week	1 month target
DXY	92.5000	Neutral	92.1000 - 92.9000	92.0000

- Markets have returned to long dollar positions this week as markets looked again with some concern on the potential combination of monetary tightening at a time when the Delta-variant spread looks likely to hinder the global economic recovery. Some local stories have, however, emerged and G10 FX currencies have partly shifted away from the usual risk-off trades later this week. China-US relationships are also back in focus as Biden and China's president Xi spoke over the phone for the first time since February. This could be one important thread for markets heading into year-end: so far, CNY has been supported on the news that the two leaders have re-started talks, and more signs of at least tentative improvements in Sino-American relations may keep driving USD/CNY lower and away from the 6.50 level, which normally causes a positive spillover effect for the whole Asia EM FX segment.
- As we enter the Fed's blackout period ahead of the 22 September FOMC announcement, all focus in the week ahead in the US will be on August CPI numbers. Our economist's forecast is in line with consensus: a marginal slowdown from 5.4% to 5.3% in headline inflation. Recent Fed communication has not diverged from the view that inflationary pressures have a transitory nature, so even in the event of another rise in inflation we doubt Fed rate expectations- and by extension, the dollar - will be particularly impacted. Markets have likely acknowledged that the disappointing jobs figures were the most crucial piece of data before the Fed meeting, and other releases this week (industrial production, retail sales, University of Michigan sentiment) may also have limited impact. We are inclined to think markets may take a wait-and-see approach ahead of the very busy 20-24 Sept. week in terms of central bank activity. Some stabilisation in sentiment may be on the cards after investors appear to have already priced in a certain degree of pessimism in the past few days.

EUR: Defying any hope of higher volatility

	Spot	Week ahead bias	Range next week	1 month target
EUR/USD	1.1830	Neutral	1.1800 - 1.1870	1.1900

- The September ECB meeting marked a small win for hawks, as policymakers finally **caught up with reality** and modestly reduced the pace of asset purchases. That was, however, largely priced in by the market and the EUR failed to see any material benefit. After all, the overall policy stance of the ECB remains firmly on the dovish side and markets are reasonably reluctant to see this week's move as the first step in a sustained policy-normalisation path.
- There are no clear data drivers in the Eurozone next week, and considering the very small fluctuations of EUR/USD around a major risk event like the ECB meeting, we could simply see the pair oscillate within its recent 1.1800/1.1900 trading range as we head into the 22 September Fed meeting.

JPY: Expecting a move above 110 as US yields on the rise again

	Spot	Week ahead bias	Range next week	1 month target
USD/JPY	109.90	Mildly Bullish 	109.60 - 110.60	111.00

- The drop in US 10-year yields back to the 1.28 level amid generalised grim market risk sentiment saw USD/JPY fall below the 110.00 gravity line this week, but hopes of a more relaxed US-China relationship today saw yields tick back up and JPY shed some gains. Any improvements on this topic should continue to hit JPY harder than USD, and drive USD/JPY back up.
- Our rates team sees the balance of risks as skewed for a continuation in today's trend higher in 10-year US yields into the week ahead, with a chance to re-test the 1.37% monthly highs. Accordingly, we think USD/JPY could move back to the 110.40 highs in the week ahead. Data out of Japan this week (PPI, Machine orders, trade numbers) should have very little impact on the yen.

GBP: Focus shifts back on data

	Spot	Week ahead bias	Range next week	1 month target
GBP/USD	1.3850	Mildly Bullish ↗	1.3800 - 1.3980	1.3800

- The pound was little touched by some softer-than expected growth data this morning and we also saw a quite contained impact from BoE governor Andrew Bailey's cautiously optimistic comments earlier this week.
- However, as we get closer to the BoE's policy announcement on 23 September, GBP's sensitivity to domestic data drivers may increase, even more so as this week's calendar includes higher-frequency data. We suspect that jobs figures on Tuesday will be a more important release compared to CPI numbers on Wednesday, as a bounce higher in August inflation will be mostly due to base effect and short-term CPI swings are playing a secondary role in driving BoE's decisions compared to longer-term projections. Later in the week, retail sales will also be in focus. We think the data flow should prove by-and-large supportive for the pound and we could see EUR/GBP press lower towards the 0.8500 mark while Cable may break above 1.3900.

AUD: Jobs data may hinder any recovery

	Spot	Week ahead bias	Range next week	1 month target
AUD/USD	0.7370	Neutral	0.7310 - 0.7440	0.7300

- The RBA delivered what could be considered as a "[dovish tapering](#)" this week. While the Bank went ahead with plans to reduce asset purchases to AU\$ 4bn per week, it extended the no-tapering horizon, saying the current pace of purchases will be kept unchanged until February 2022. Despite an initial spike in AUD, the currency then fell in the session and is closing the week as the worst performer in G10. Looking at how other G10 currencies (especially NOK and NZD) have performed, we think AUD is still suffering from the RBA's relative dovishness compared to peers.
- An improvement in market sentiment around the US-China relationship has provided some help to the over-exposed antipodeans, and is surely a factor that may ease pressure on a currency like AUD. At the same time, iron ore has been unable to continue its recovery this week, and we remain of the view that more sell-offs in the commodity are a very material risk. On the data side, Australia's jobs data will be closely watched as they will provide an important gauge of the how much economic drag was generated by the spread of the Delta variant in the country. Here, worse-than-expected data may push markets to price in another delay in the RBA's policy-normalisation plans and offset any benefit from a potential stabilisation in risk sentiment next week. It will also be worth monitoring RBA governor Philip Lowe's speech on Tuesday.

NZD: AUD/NZD has more downside potential

	Spot	Week ahead bias	Range next week	1 month target
NZD/USD	0.7130	Mildly Bullish 	0.7220 - 0.7100	0.7200

- The Kiwi dollar has outperformed its closest peer AUD (as well as most other G10 currencies) this week and after a short-lived rally, AUD/NZD has now dropped to 1.0350. We continue to see downside risks to the pair on monetary policy and economic divergence.
- Indeed, we think that markets saw some opportunity to buy the dips in NZD at a moment New Zealand exited the nation-wide lockdown and with the very likely first rate hike by the RBNZ (on 06 October) drawing nearer. In the week ahead, 2Q GDP data in New Zealand will be the main highlight: we should see a moderate slowdown in QoQ growth, but only a significant drop might derail fully-cemented expectations about RBNZ tightening.

CAD: Political uncertainty remains a factor

	Spot	Week ahead bias	Range next week	1 month target
USD/CAD	1.2630	Neutral	1.2550 - 1.2700	1.2400

- CAD saw some support on Friday as strong jobs data for August (+90k employment change, jobless rate dropping to 7.1%) endorsed the view (which is also our base case) that the Bank of Canada's pause in asset purchase tapering this week is not likely to last into year-end. As discussed in our [BoC review](#), we expect QE in Canada to be fully unwound in 4Q21.
- The electoral campaign in Canada is set to remain in focus with only 10 days to go before the vote, and we think that CAD is currently discounting some political risk as opinion polls show neither of the two major parties (Liberals and Conservatives) as likely to secure a full majority in the House. Next week, CPI data will be the main highlight and another above-consensus read may further support hawkish expectations on the BoC, but once again, political risk may cap CAD gains for now. Once political uncertainty dissipates, a short-term undervaluation vs USD (2.1%, according to our fair value model) and solid fundamentals all point to a rebound in the loonie, in our view.

CHF: Struggling to benefit from risk aversion

	Spot	Week ahead bias	Range next week	1 month target
EUR/CHF	0.8560	Mildly Bullish ↗	1.0830 - 1.0910	1.0800

- The rally in EUR/CHF from the 1.0700 mid-August level to this week's 1.0900 peak came to an end after the ECB meeting failed to provide support to the euro and pushed the pair back to 1.0850.
- Still, CHF has shown some difficulty in fully benefitting from risk-off waves of late, and the 3-month risk reversals on EUR/CHF have recently turned less bearish on the pair. This is a potential signal that the market is turning less confident that a generally tricky month for equities will ultimately prompt sustainable CHF outperformance. In the week ahead, there is a lack of drivers in the eurozone and in Switzerland, but some sentiment stabilisation may put some mild pressure on the franc.

NOK: Norges Bank tightening prospect offering support

	Spot	Week ahead bias	Range next week	1 month target
EUR/NOK	10.2300	Mildly Bearish ↘	10.1200 - 10.2750	10.1500

- Another rise in Norwegian inflation in August (headline reached 3.5%) all but cemented the view that the Norges Bank will go ahead with its planned hikes in September and December – which is also our view. We continue to think that markets are rewarding those currencies that are backed by tightening cycles, and here NOK and NZD are the two key stand-outs in G10.
- Also contributing to late-week outperformance in NOK was a rally in oil prices on Friday as Brent erased Thursday's losses and is now trading close to 73\$ again. There are no market-moving data releases in Norway next week, but keep an eye on Norges Bank's governor Oystein Olsen on Thursday. On that same day, we'll see the results of Norway's general elections (held on Monday), where Labour Party leader Jonas Gahr Støre looks set to receive the majority of the votes according to recent polls. There is still some uncertainty around whether he'll be able to find coalition partners after the vote, but so far NOK has been quite unreactive to political risk. Barring any material corrections in risk assets, we could see a break below 10.2000 in EUR/NOK next week.

SEK: Moderate inflation rise unlikely to change Riksbank's stance

	Spot	Week ahead bias	Range next week	1 month target
EUR/SEK	10.1900	Neutral	10.1550 - 10.2250	10.2000

- If indeed monetary-policy outlook drove some divergence in G10 this week, it is no surprise that SEK emerged as an underperformer in G10, given the lingering dovish stance by the Riksbank.
- We'll monitor Swedish CPI numbers for August in the week ahead, which will be the last important piece of data before the 21 September Riksbank policy meeting. Our view is that even if we see a moderate increase in inflation, we doubt this will be enough to drive a material change in the Riksbank's stance just yet, as the longer term inflation outlook remains quite subdued. Still, a strong CPI read should offer some short-term help to SEK, but in the longer run we continue to see SEK be a laggard among pro-cyclicals if market sentiment stabilisation fuels interest for carry trades.

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