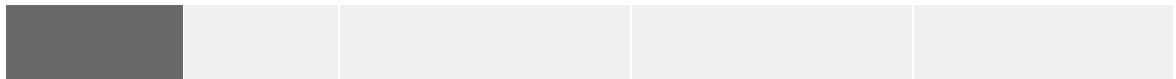


G10 FX Week Ahead: Running repairs

Risk markets will enter the week on a slightly better footing following rate hikes in Turkey and Russia and hints of optimism over both US trade relations and Brexit. There is still much that could go wrong, but for this week we think risk assets could correct a little further and the dollar weaken. We'll also see central bank meetings in Norway and Switzerland



EUR: Sterling support?

	Spot	Week ahead bias	Range next week	1 month target
EUR/USD	1.1660	Mildly Bullish ↗	1.1580 - 1.1770	1.1600

- More aggressive than expected action by both the Turkish and Russian central banks helped put some support under the EM complex and take some of the upside pressure off the dollar. We also think the more constructive dialogue about Brexit and the GBP rally has helped to pull the EUR higher. Here much focus will be placed on the EU leaders' meeting in Salzburg on Wednesday where they are expected to grant chief negotiator Barnier a more flexible position to reach a conclusion with the UK regarding an exit deal. This could underpin European currencies this week. The European calendar is light and the focus will be on a variety of ECB speakers, where the market is now waiting for insights into ECB re-investment policy.
- On the US side, investors will be eager to hear how Wall Street executives have fared in China this weekend. And more importantly, will they manage to persuade Washington against escalating trade tariffs? On the US data side, we'll just see some second-tier releases in the form of existing home sales, housing starts and TIC data. US 10 year yields are toying with 3% again, but with the Fed in the black-out period ahead of the meeting on Sep 26th, a catalyst for much higher US yields is not clear.

JPY: Abe's third term

	Spot	Week ahead bias	Range next week	1 month target
USD/JPY	112.10	Neutral	111.20 - 112.80	110.00

- The highlight of the week in Japan will be Thursday's LDP leadership election. Were PM Abe not to secure a third term as leader it would be a major surprise and lead to a strengthening JPY on the view that Abe's reflationary policies would somehow be watered down. That seems unlikely and instead, USD/JPY continues to be driven by higher US yields and still a constructive US equity environment.
- Wednesday will see a rate decision from the BoJ. The domestic story is performing pretty well, but after launching forward guidance recently it would be far too early for the BoJ to turn less dovish. We'll also see national CPI heading up to 1.1% YoY – again unlikely to alter market thinking on the BoJ trajectory.

GBP: Position for a rebound as come what (Mrs. May), a Brexit deal is likely to be signed

	Spot	Week ahead bias	Range next week	1 month target
GBP/USD	1.3075	Neutral	1.3000 - 1.3260	1.3200

- The tailwind of a weaker USD, fairly robust UK economic data and a string of positive Brexit headlines (and no deal Brexit bets being unwound) have helped GBP/USD move above 1.31. We think the short GBP squeeze could continue through to 1.3220/60 - especially if UK data in the week ahead continues to support a BoE in tightening mode. Aug CPI data (Wed) is the main risk here - with the BoE noting that UK inflation dynamics could be softer than previously estimated given waning transitory factors. Yet, we still think that UK inflation consolidating around 2% into year-end (the Bank's target) will be sufficient for the BoE to tighten again in 1H19 if no deal Brexit risks are taken off the table. We also have UK retail sales (Thu) in the week ahead - where expectations are for a softer print after the summer buoyancy in the UK consumer.
- As for Brexit, we think GBP markets will start to get tired of the positive headlines following the initial re-pricing of no-deal risks and we suspect investors will now want to see some tangible progress on the Withdrawal Agreement to fully engage in a broad GBP recovery. We agree with reports that any UK concessions on the Irish border are unlikely to come until after the governing Conservative Party Conference (ending 3 Oct) - but still recommend positioning for a sharp GBP/USD rebound to 1.36-1.38 over the next two months with PM May likely to be the one signing a Brexit deal in mid-November. The UK political backdrop remains fragile - and expect noise to pick-up as the Party Conference Season begins. The Labour Conference begins on Sun 23 Sep and we may see greater noise in the week ahead around a second Brexit referendum - or a big shift in Labour's Brexit stance. Difficult to say how GBP markets react here - though one could imagine the knee-jerk move may be positive (or fuel a further short squeeze).

AUD: RBA minutes may give fresh insight into policy thinking

	Spot	Week ahead bias	Range next week	1 month target
AUD/USD	0.7180	Neutral	0.7080 - 0.7320	0.7200

- The heavily oversold AUD/USD may have put in a temporary bottom - with global risk sentiment slowly coming back online over the past week (US-China trade talk rumours, EM policymakers taking credible policy steps to tackle local issues). It may be too early to declare victory in a broad rebound in global markets - but certainly, with the USD running out of positive fundamental momentum, there are limited external reasons for AUD/USD to fall back to 0.70 in the near-term.
- The domestic story, however, remains pretty uninspiring - although we saw some decent Australian jobs growth. The RBA minutes in the week ahead (Tue) may offer some more clarity on the central bank's policy thinking - in particular, whether domestic banks raising mortgage lending rates will have any effects on the RBA's willingness to adjust the cash rate higher at some point in the future. We note that 1Y AUD OIS rates have been sidelined in recent months - with limited expectations for an RBA rate hike over the next 12 months priced in.

NZD: 2Q New Zealand GDP a make or break for the kiwi

	Spot	Week ahead bias	Range next week	1 month target
NZD/USD	0.6580	Neutral	0.6500 - 0.6650	0.6500

- 2Q New Zealand GDP data (Wed) will be the highlight of the week; the consensus is for a +0.8% QoQ rebound (prior +0.50% QoQ) - although there is a wide range of estimates from 0.5%-1.0%. The RBNZ have been citing softer business confidence as a reason for caution on policy tightening (and maybe a reason for policy easing); however, if the underlying economic data surprises to the upside then this will be difficult for NZD markets to ignore. Indeed, we think expectations for an RBNZ rate cut in Feb-19 (30% priced in) may be slightly over-exaggerated and could see less dovish RBNZ expectations as being a supportive factor for NZD/USD.
- The tail risk to NZD over the coming months remains broader geopolitical and global risk sentiment - with an escalation in the global trade war and waning global growth sentiment being the catalyst for NZD/USD to move below 0.65. Hard to judge whether we see this - and if we don't see any escalation, then look for NZD/USD to broadly drift higher as the USD safe-haven momentum fizzles out.

CAD: Potential for a NAFTA deal a live event

	Spot	Week ahead bias	Range next week	1 month target
USD/CAD	1.3000	Mildly Bearish 	1.2900 - 1.3140	1.2800


- Despite some superficial signs of progress, NAFTA cancellation risks remain pretty high (as gauged by geopolitical indices) and this is keeping USD/CAD bid around the 1.30 mark. Indeed, we suspect investors are unlikely to participate in a positive CAD story until the risk of a calamitous NAFTA break-up is firmly taken off the table. But with Trump and Trudeau still both playing hardball, it may be too early to see any positive re-pricing. NAFTA remains a watch this space - with the potential for the deadlock to be broken live anytime ahead of the US midterms.
- It's a busy week ahead in the Canadian data calendar - with July manufacturing sales (Tue), August ADP jobs data (Thu) and the usual monthly retail sales and CPI inflation data dump at the end of the week (Fri). While headline CPI came in at a monumental 3.0% YoY last month, core inflation remains there or thereabouts around the 2.0% level; unless we see a major uptick in core CPI dynamics, then we think markets are adequately pricing in only one further BoC rate hike in 2018 (at the Oct meeting). Indeed, it's hard to see the BoC going too aggressive on policy tightening given the household debt risks. Saying that we think USD/CAD has room to drift lower towards 1.27-1.28 if a US-Mexico-Canada trade deal is agreed.

CHF: SNB meets to discuss rates on Thursday

	Spot	Week ahead bias	Range next week	1 month target
EUR/CHF	1.1270	Neutral	1.1240 - 1.1340	1.1000

- The SNB undertakes its quarterly monetary policy meeting on Thursday and meets at a time when EUR/CHF has dropped back to levels seen last July. It will be acutely aware of how sensitive EUR/CHF is to European political risk and in advance of Italian budget negotiations later this month will show no let-up in its policies of keep rates super low (-0.75% 3m CHF Libor) and its threat to intervene to weaken the CHF if need be. Remarks regarding FX intervention will be closely watched ahead of the US Treasury FX report to be released mid-October, which searches for any signs of currency manipulation.
- Other than the SNB meeting, EUR/CHF will be driven by developments on the Italian budget. Will the populist government be happy in toning down its budget to appease Brussels or will it hold to campaign pledges and raise expectations that Finance Minister Tria will be forced to step down? Watch this space.

SEK: Minutes to reveal a delay in hiking?

	Spot	Week ahead bias	Range next week	1 month target
EUR/SEK	10.4500	Bearish 	10.4500 - 10.7000	10.6000

- Despite some good news – a clear signal from the Riksbank that it really means to hike rates this time, and the less-bad than anticipated election result -- the krona remains under pressure. Poor economic data (a major downward revision to GDP and yet another weak inflation print) suggests the Riksbank will retain its dovish bias. The minutes from the central bank's September meeting published on Monday is the key event next week, with any sign that the Riksbank may delay further beyond the 'December or February' communicated at the policy meeting likely to hit SEK. House price data on Tuesday could provide some support as the housing market is looking a bit more stable.
- While incipient signs that risk sentiment is improving could be SEK positive, a softening economy and the ongoing political impasse (so far the mainstream parties appear some way from reaching a compromise, and new elections early next year remains a possibility) means EUR/SEK is likely to remain in no-man's land over coming weeks.

NOK: Norges Bank to hike Thursday

	Spot	Week ahead bias	Range next week	1 month target
EUR/NOK	9.6300	Bearish 	9.5000 - 9.7000	9.5500

- EUR/NOK has come down fairly sharply thanks to a combination solid domestic data, firming oil prices, and an improved global risk environment. And next week's Norges Bank meeting will likely see not only an interest rate hike (to 0.75%, the first NB hike since 2011) but also an upwards shift in the interest rate forecast to signal the possibility of three hikes more hikes in 2019. This should provide another boost for the krone, which could see EUR/NOK fall towards 9.50.
- While EUR/NOK remains exposed to global risk aversion and oil prices, we think support from the relatively hawkish central bank means the krone remains a good bet to outperform other smaller G10 currencies where the domestic economic story looks less robust – in the first instance SEK [but perhaps also AUD and/or NZD?]

Author

Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

chris.turner@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.