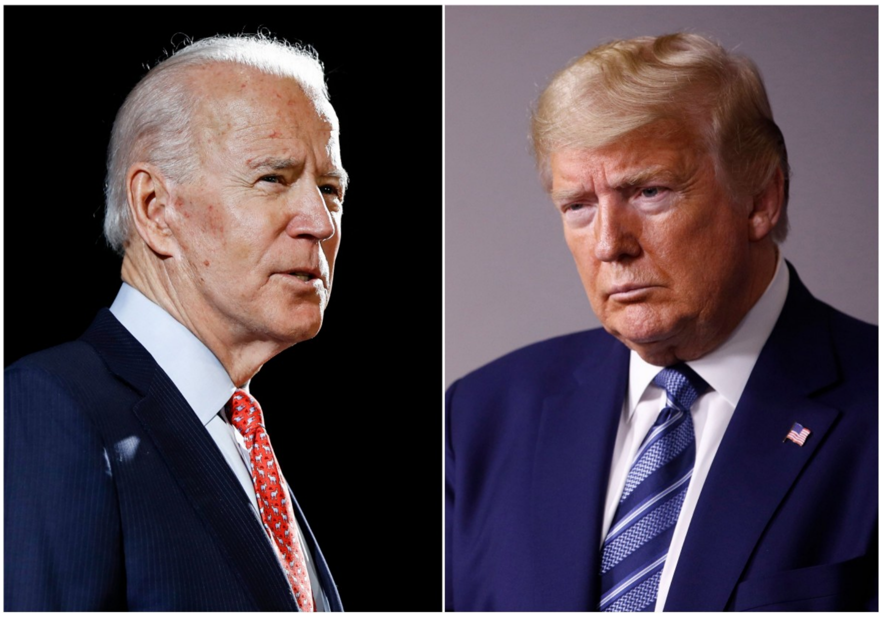
G10 FX Week Ahead: Last chance saloon

Thursday's debate may be the last chance for Trump to turn around the campaign, while there should still be more chances for the EU and the UK to agree on a trade deal despite their confrontational tone, which could keep a cap on GBP losses. Unless fresh fiscal stimulus hopes come to the rescue, risk-related FX may keep struggling and USD could stay supported



Former Vice President Joe Biden,left, and President Donald Trump

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USD: Last chance saloon for the President?

	Spot	Week ahead bias	Range next week	1 month target
DXY	93.6500	Mildly Bullish ↗	93.2000 - 94.2000	93.0000

- Joe Biden's lead in the opinion polls has been narrowing, just slightly, over the last week. President Trump will hope that this Thursday's second and final TV debate in Nashville presents an opportunity to score some points off Biden. This is perhaps the last big opportunity to do this before the November 3rd election. Any narrowing in the opinion polls will probably be taken as a negative by risk markets, increasing as it does the chances of a contested election. This comes at a time when financial markets are priced towards a benign outcome in the form of a Democratic clean sweep.
- The debate comes against a backdrop of rising double-dip fears. And what stands out currently is the divergence between Europe, the US and China. Europe is priced (debt and equities anyway) towards a sharp slowdown. US markets are caught in the middle, while Chinese markets are priced for a V (e.g. 10 year Chinese sovereign bond yields at 3.2% – look out for China 3Q GDP data Monday). US data next week, largely in the form of positive housing data, should not be a game-changer for the US assessment, nor should the Fed's Beige Book. However, initial claims could receive a little more attention after a poor outcome last week and speculation could grow, that the October NFP released right after the election could actually be negative. Unless fresh fiscal stimulus comes to the rescue, this cocktail of data and events looks slightly risk negative/dollar positive.

EUR: Keeping heads above water

	Spot	Week ahead bias	Range next week	1 month target
EUR/USD	1.1710	Mildly Bearish ↘	1.1650 - 1.1780	1.1800

- Broadening lockdowns across Europe have taken their toll on European asset markets and taken some of the steam out of the EUR. The macro focus this week will be on the October PMIs (Friday), where the services index is expected to fall again, but manufacturing should just about keep the Eurozone composite figure above 50. There is a whole host of ECB speakers due again this week – but it seems European fixed income markets certainly have received the message of the double dip. Here German Bund yields have recently made a new low for the year.
- Progress or lack thereof on Brexit will also play a role in Euro pricing this week as will Monday's OPEC+ meeting. There have been periods this year where cyclicals currencies (including the EUR) have rallied alongside oil, throwing focus on whether OPEC+ members will dial back from planned output increases next year. As per the DXY section, EUR/USD will also take notice of developments in China. If better Chinese activity data prompts another leg lower in USD/CNY, EUR/USD could find a little support.

JPY: Probably a good election hedge

	Spot	Week ahead bias	Range next week	1 month target
USD/JPY	105.31	Neutral	105.00 - 105.80	105.00

- USD/JPY remains trapped in very tight ranges and certainly is trading like a non-correlated pair with the global recovery story (e.g. no correlation with the US 10-30 year curve – a key reflation proxy). It is hard to see that changing unless the threat of a contested election becomes more real – where investors would then even choose to avoid the dollar as a safe-haven currency.
- We did notice quite a large amount of foreign bond buying by Japanese residents in the latest reporting week, suggesting the 105.00 level remains an attractive area to go into overseas assets. Let's see whether those purchases are repeated in this week's Ministry of Finance portfolio flow data. The Japanese data calendar is light but should culminate in another -0.4% year-on-year reading in core CPI – confirming very little progress in Japan's multi-decade battle against deflation.

GBP: Not derailed by the threat of no deal

	Spot	Week ahead bias	Range next week	1 month target
GBP/USD	1.2905	Neutral	1.2740 - 1.3070	1.3100

- Despite PM Johnson's comments about the UK government's willingness to go for the Australia style trade deal (which in other words means no deal), the reaction in the GBP and the UK rates markets was fairly limited as the UK Prime Minister did not call for the end of negotiations. One can interpret the latest comments as a face-saving exercise, characterised by a tough talk but the continuation in negotiations beyond the UK government's self-imposed deadline of 15 October. While GBP fell in response to Johnson's comments, the scale of the currency decline was relatively muted considering that no risk premium (associated to no deal Brexit) has been priced into the currency for some time. If the market credibly believed in the threat of a no deal Brexit (as expressed today), GBP would be materially weaker today, in our view.
- We expect the UK-EU trade negotiations to continue next week, suggesting a limited downside to GBP, with GBP/USD to be primely driven by EUR/USD as EUR/GBP should remain range bound. On the UK data front, we should see a modest uptick in both headline and core UK September CPI (Wednesday) from rather depressed levels. But with price pressures remaining low, the extension of QE in the Nov BoE meeting looking as a done deal and the odds of negative rates to be primarily driven by the outcome of the UK-EU trade negotiations, the UK data should have a limited impact on GBP.

AUD: Double threat

	Spot	Week ahead bias	Range next week	1 month target
AUD/USD	0.7090	Bearish ↘	0.6950 - 0.7130	0.7100

- The combination of Australia-China trade tensions and rising chances that the Reserve Bank of Australia will add more stimulus soon are proving to be a toxic mix for AUD amid an already unsupportive environment for risk assets. On the first factor, it is still to understand how much the Chinese ban on Australian coal was indeed part of Beijing's protectionist agenda or whether diplomatic tensions were the main motive. Should the latter be true, the threat of more Australian exports being targeted may be a narrative for the coming weeks and may undoubtedly weigh on AUD.
- Looking at the second factor, RBA Governor Lowe's hint about an extension of the bond purchase programmes to longer (10Y) maturities has prompted many to think such move will come at the 3 November policy meeting. Australia's 10Y yields dropped below 75bp for the first time since April on the back of the announcement, but there is still likely some sizeable downside potential for rates if markets fully buy into the prospect of RBA buying 10Y bonds. Next week may bring more clarity, with the minutes of the latest RBA policy meeting and a speech by Deputy Governor Guy Debelle. All in all, the Australian dollar now seems highly vulnerable to more risk-appetite contractions, more than the other G10 commodity currencies.

NZD: Ardern looks set for re-election, with limited FX impact

	Spot	Week ahead bias	Range next week	1 month target
NZD/USD	0.6600	Mildly Bearish ↘	0.6530 - 0.6650	0.6900

- Tomorrow's elections in New Zealand look unlikely to yield any major surprise and equally unlikely to generate a sizable impact on NZD. As highlighted in "Limited NZD implications from New Zealand's general election", the main question ahead of the vote is whether PM Jacinda Ardern's Labour Party will secure a full majority in the house or will have to form another coalition government with the Green party. The implications in terms of future policy actions are likely negligible, although markets may welcome a majority government as a sign of further political stability and we might see some NZD outperformance on Monday.
- On the data calendar, inflation numbers for 3Q will be the key highlight next week given the rising prospect of the Reserve Bank of New Zealand adding more monetary stimulus already in November. Signs of a price growth trending back towards the 2% mark may not be enough to seriously dent the cemented expectations for more stimulus, but may prompt some investors to shift their easing expectations to the next year, possibly offering some support to NZD. Also, keep an eye on RBNZ Hawkesby's comments on Monday.

CAD: Some supportive data coming to help

	Spot	Week ahead bias	Range next week	1 month target
USD/CAD	1.3200	Mildly Bullish	1.3150 - 1.3270	1.3100

- The Canadian dollar has shown better resilience than other high-beta G10 currencies to the drop in global risk appetite this week. We continue to see CAD's fundamentals as more attractive than AUD's and NZD's especially in light of rising RBA and RBNZ easing bets and China-Australia tensions.
- The data-flow next week should further support CAD's resilience as the BoC Business Outlook may underline how the Canadian's economy regained momentum in 3Q, September inflation may inch higher and August retail sales may also show a positive read. Some downside risk may stem from the OPEC+ JMMC meeting if there are indications of further unwinding of output cuts, but if WTI manages to hold at or above the US$40/bbl mark, CAD still looks likely (also thanks to its anomalous net-short positioning) to face less downside than other pro-cyclicals in the current unstable risk environment.

CHF: Italian BTPs finally turn lower

	Spot	Week ahead bias	Range next week	1 month target
EUR/CHF	1.0710	Mildly Bearish	1.0680 - 1.0750	1.0700

- It was a surprise to see EUR/CHF trading below 1.07 last week. We thought the SNB had locked EUR/CHF down with a 1.0710/20 floor since July. The catalyst seemed to be Italian BTPs finally selling off. These had held up quite well on the view of fresh ECB stimulus in December, but finally conceded to the breadth of European lock downs and what it means for activity.
- In a quiet week for Swiss data, there may be some focus on the KoF's set of autumn forecasts released on Thursday. Like the IMF, it may be tempted to revise up 2020 forecasts, although portray a very uncertain environment into 2021. For reference the KOF in August saw Switzerland contracting 4.7% in 2020 and growing 3.7% in 2021.

NOK: It is all about the global drivers

	Spot	Week ahead bias	Range next week	1 month target
EUR/NOK	10.9910	Mildly Bullish	10.8400 - 11.2000	10.7000

- With risk sentiment back under pressure, NOK unsurprisingly turned into the worst performing G10 currency this week. The NOK price action remains by and large about the beta (to global factors) rather than the alpha (to domestic drivers) and the same should be the case next week. With the market concerns about the impact of the rising Covid cases and the associated restrictions on the European economic outlook rising, the fragile state of the equity markets points to another challenging week for NOK. The horizontal resistance level of EUR/NOK 11.00 has not been persistently breached so far this week, but the pair should move above this level next week.
- Data-wise, it will be a quite week, with August unemployment rate or 3Q industrial production (both on Thursday) exerting little effect on NOK.

SEK: More immune to the second wave of de-rating of the European growth outlook

	Spot	Week ahead bias	Range next week	1 month target
EUR/SEK	10.3720	Neutral	10.3000 - 10.4610	10.3000

- SEK has been more immune to the second wave of de-rating of the European growth outlook, with the EUR/SEK remaining fairly range bound this week (vs the sharp SEK fall in late September). This is likely due to the less stretched positioning in the currency, with SEK re-gaining some its previous normality of outperforming other G10 cyclical currencies in times of stress. While the risk environment likely remaining fragile next week, EUR/SEK should not break below the 10.30 level but NOK/SEK should continue heading lower given the higher sensitivity of NOK to risk (vs SEK).
- There are limited Swedish data points next week. Swedish house prices (Monday), NIER Extra Business Survey (Tuesday) and September PPI inflation (Friday) should have a negligible impact on SEK.

Authors

Chris Turner
Global Head of Markets and Regional Head of Research for UK & CEE
chris.turner@ing.com

Francesco Pesole
FX Strategist
francesco.pesole@ing.com

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