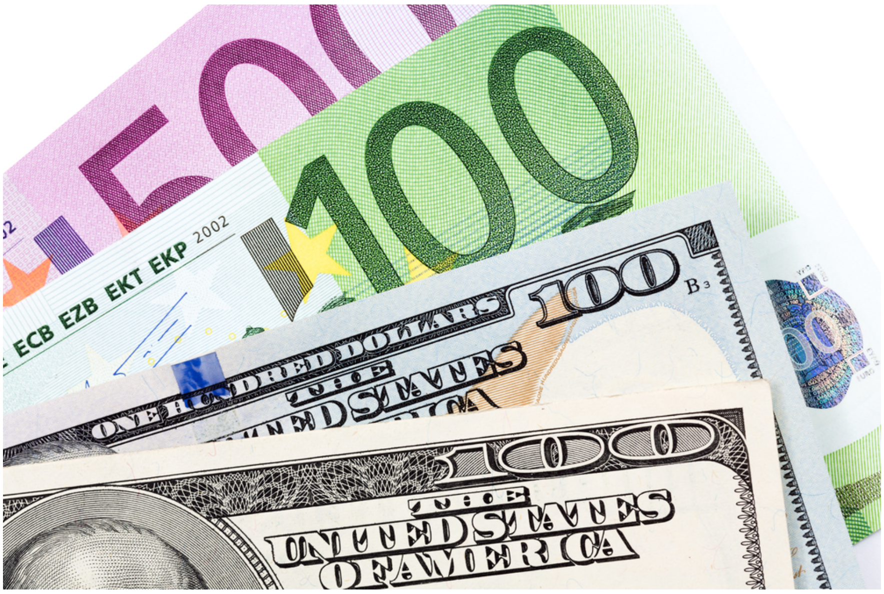
# G10 FX Week Ahead: A little more summertime

The new season will hardly bring fresh support to the USD, which could rejoin its summer bear-trend next week. This should help the EUR survive the Sept. PMI read as markets move on to the EU summit. Demand for Chinese assets could add fuel to the EM FX rally, while central bank meetings in NZ, Sweden, Switzerland and Norway should have low surprise potential



## USD: Benign decline to continue

| | Spot | Week ahead bias | Range next week | 1 month target |
|---|---|---|---|---|
| DXY | 92.9750 | Mildly Bearish ↘ | 92.0000 - 93.6000 | 92.0000 |

- After a brief short squeeze on the back of the FOMC meeting, the dollar looks as though it is settling back into the kind of benign decline that allows risk assets to prosper. The domestic US highlight of the week ahead may be testimony to the House from FOMC Chair Powell on Tuesday and then again, joined by Treasury Secretary Mnuchin to the Senate on Thursday. The data calendar is quite light, but August existing home sales are expected to be strong following record low US mortgage rates.
- Helping the soft dollar tone has been – and looks set to be – good appetite for EM currencies. CNY, KRW, ZAR and MXN have all been performing very well and it looks as though USD/CNY could stay offered into Thursday's decision by FTSE Russell as to whether Chinese sovereign bonds are included in its popular WGBI index. Some estimates suggest inclusion could see over US$100bn of portfolio capital flowing into Chinese bonds upon inclusion. Barring major second wave national lockdowns which would rock recovery stories, a further decline in USD/CNY should keep the overall dollar tone soft.

## EUR: September stability or set-back?

| | Spot | Week ahead bias | Range next week | 1 month target |
|---|---|---|---|---|
| EUR/USD | 1.1835 | Mildly Bullish ↗ | 1.1760 - 1.1950 | 1.2000 |

- The key focus in the week ahead will be an update on the September confidence readings through the flash PMIs and the German Ifo. The August data had softened from the sharp early summer recovery and the September data will provide insights on whether confidence continued to erode – especially in the services sector. These data releases are on Wednesday and Thursday. If the EUR can survive these (the soft $ trend suggests it can) then the market moves onto the EU summit (24-25 September). Topics on the agenda include the EU's response to tension in the eastern Mediterranean and also to Russia. There are also suggestions that more detailed support for the EU capital market union will be presented – positive for the EUR if it raises the prospect of a deeper pool of European securities to rival the dollar.
- One event risk to highlight: Sunday sees seven of Italy's twenty regions go the polls. A poor showing by the one of the ruling coalition members, the PD, could raise fears of early elections in 2021 – although it is not clear how the opposition the League party could force such an outcome.

## JPY: Unfamiliar territory

| | Spot | Week ahead bias | Range next week | 1 month target |
|---|---|---|---|---|
| USD/JPY | 104.38 | Mildly Bearish ↘ | 104.00 - 105.10 | 104.00 |

- USD/JPY has typically not spent much time below 105 over the last five years, but pressure is certainly building for a move lower over coming months. Things like: i) negative real US yields ii) perhaps Softbank's repatriation of its divestment (ARM) proceeds and iii) USD/JPY being seen as the key vehicle to hedge US election risk are weighing. One could also make the case that the continuity of Abenomics and the BoJ upgrading domestic growth forecasts is a positive too – as is CNY strength dragging the Asian FX complex with it.
- The local data calendar is light – just the release of the BoJ July minutes. It is tempting to see this USD/JPY move extend (we see 102 in 3 months). But typically Japanese fund managers will see value in unhedged US assets at these levels in USD/JPY – thus the decline may be slow-going.

## GBP: Following the headline news from trade negotiations

| | Spot | Week ahead bias | Range next week | 1 month target |
|---|---|---|---|---|
| GBP/USD | 1.2980 | Mildly Bearish ↘ | 1.2730 - 1.3170 | 1.2500 |

- GBP price action will continue to be dominated by the UK-EU trade negotiations news flow, with the next round of talks scheduled for the next week. Despite some softening in the prior harsh rhetoric (PM Johnson agreed to give Parliament a veto over some measures of the Internal Market bill, while EC President von der Leyen said she was “convinced” a deal is possible), we continue to see downside risk to GBP as the odds of a no deal Brexit are high (around 50%) but not enough risk premia is priced into GBP (only around 1.5% based on our financial fair value model, vs 5% risk premium priced in late June). This points to further GBP downside, in our view.
- On the data front, we have September UK PMI (Wednesday). But given the Brexit risk and the increased probability of BoE negative rates (following the confirmation that the BoE discussed the effectiveness of negative interest rates during the September rate setting meeting), the UK PMIs should have a limited impact on GBP. The prime driver of sterling remains the outlook for the UK-EU trade negotiations.

## AUD: Still to find support around 0.725

| | Spot | Week ahead bias | Range next week | 1 month target |
|---|---|---|---|---|
| AUD/USD | 0.7295 | Neutral | 0.7250 - 0.7340 | 0.7300 |

- AUD has hovered around the 0.73 level in a week where employment data proved way less pessimistic than expected (both by surveyed economists and by the RBA/government projections). Still, the lockdown measures in Victoria are likely keeping investors cautious about AUD, as a downturn in economic data down the road could be the trigger for more RBA easing – possibly with the additional aim of weakening AUD.
- Stabilising risk sentiment next week and the inability of the USD to stage sustainable rebounds suggest AUD/USD could keep finding support around the 0.7250 area. On the calendar, retail sales for August will be the key release to watch, while PMIs should have a limited market impact. Also, keep an eye on RBA's Debelle's speech on Tuesday and potential spillover from any surprising move by the PBOC (which we do not see as likely).

## NZD: No fireworks from the RBNZ yet

| | Spot | Week ahead bias | Range next week | 1 month target |
|---|---|---|---|---|
| NZD/USD | 0.6760 | Neutral | 0.6700 - 0.6810 | 0.6700 |

- Next week's highlight for NZD will be the Reserve Bank of New Zealand policy announcement on Wednesday. Since the August policy meeting – when QE was expanded – RBNZ speakers have reiterated the bank's readiness to add stimulus if necessary and a dramatic GDP contraction in 2Q (-12.4% YoY) left little doubts this meeting while be characterised by a similarly dovish tone. Still, we do not expect any cut or new policy measure at this meeting, with the Bank likely taking its time to fully assess the implications of a move to negative rates and wait for more data to gauge the impact of new lockdown measures in Auckland in August.
- With most of the RBNZ dovishness in the price, we suspect markets would be particularly reactive to the RBNZ announcement only if there is a surprising shift in language, with particular focus on any currency-related comments.

## CAD: Reduced volatility ahead

| | Spot | Week ahead bias | Range next week | 1 month target |
|---|---|---|---|---|
| USD/CAD | 1.3190 | Mildly Bearish ↘ | 1.3100 - 1.3220 | 1.3100 |

- A below-expectation read in retail sales today triggered some CAD weakness. Still, the rebound in oil prices this week and the OPEC+ making further steps in the direction of cuts compliance should keep USD/CAD gains relatively short-lived.
- Additionally, recent CFTC positioning data continue to highlight that CAD is the most oversold currency in G10, which points to a somewhat lower vulnerability compared to other activity currencies to swings in sentiment. Next week's empty data calendar in Canada should allow CAD to trade strictly in line with risk sentiment and oil, and we may see USD/CAD comfortably trade in the 1.31/1.32 area, waiting for another catalyst.

## CHF: SNB policy meeting – more exemption on sight deposits?

| | Spot | Week ahead bias | Range next week | 1 month target |
|---|---|---|---|---|
| EUR/CHF | 1.0779 | Neutral | 1.0720 - 1.0800 | 1.0700 |

- The Swiss National Bank meets to set monetary policy on Thursday. No change is expected in their two core policies: i) the policy rate set at -0.75% or ii) continued FX intervention to address the 'highly valued' CHF. If there is to be a move, it may relate to what is called the 'threshold factor' – basically the multiple of the minimum reserve requirement held by banks that are exempt from negative rates. This factor was last changed to 30 from 25 in April and another change could be coming as CHF sight deposits continue to stack up – these have risen another CHF80bn since April. An increase in the threshold could be seen as EUR/CHF positive via the SNB's ability to buy more FX without generating a greater charge for the local banking system.
- Apart from the SNB meeting, expect EUR/CHF to take its cue from USD/CHF – now seemingly trapped in a 0.90-0.92 range. A downside break-out feels more likely into the US elections, suggesting the SNB will have to step up the pace of intervention.

### SEK: Better growth, but little reaction from Riksbank

| | Spot | Week ahead bias | Range next week | 1 month target |
|---|---|---|---|---|
| EUR/SEK | 10.3980 | Mildly Bearish ↘ | 10.3000 - 10.4500 | 10.2000 |

- The focus is on the Riksbank meeting on Tuesday. Despite the improving economic outlook (which should be reflected in the upward revision to the GDP forecast) the inflation outlook remains challenging (due in part to the recent SEK strength), meaning that the Riksbank is unlikely to move towards a more hawkish tone. Some uptick in the interest forecast (at the end of forecast horizon) is possible, but the central bank is likely to continue underscoring the risk associated with Covid-19. We thus don't look for a material surprise, but in terms of a balance of risks, these are skewed to modestly higher SEK, if we see some minor adjustment in the interest rate forecast higher.
- With the post FOMC dollar rebound fading, we expect a constructive environment for risk next week. EUR/SEK should stabilise below the 10.40 level.

### NOK: Little surprise from NB on card

| | Spot | Week ahead bias | Range next week | 1 month target |
|---|---|---|---|---|
| EUR/NOK | 10.7400 | Mildly Bearish ↘ | 10.6000 - 10.8000 | 10.5000 |

- We expect Norges Bank to remain on hold (Thursday) and following the upward revision to the interest rate forecast in the prior meeting, we don't look for any material change this time. While the NB's own forward guidance suggest it will be one of the first European central banks to hike in the upcoming cycle, this is now priced in and the September NB meeting should have a fairly limited impact on NOK. Still, the risks are skewed to a modestly higher NOK next week should the risk environment remain constructive.
- With the oil prices recovering following the OPEC+ Joint Ministerial Monitoring Committee meeting this week (after the Saudi pressure on members who are falling short of the deal and are not in compliance with production limits), this is should be also beneficial for NOK.

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