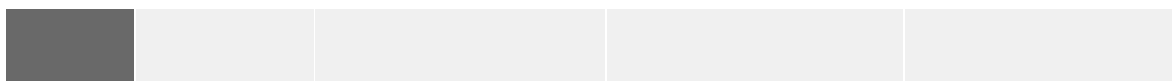


G10 FX Week Ahead: Reeling in cheap liquidity

Powell attends Jackson Hole, known for his penchant for fly-fishing and we should get insights as to whether the Fed is ready to reel in the some of the liquidity - or at least stop adding to it. With risk appetite that may struggle to recover, the dollar should remain bid into the Jackson Hole risk event, while pro-cyclical currencies may have a tough time



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DXY: Pushed higher in a pincer movement

	Spot	Week ahead bias	Range next week	1 month target
DXY	93.5980	Mildly Bullish 	92.7000 - 94.3000	94.5000


- The dollar is being driven higher by the combined forces of a Fed moving towards a taper and the re-assessment of global growth prospects on the back of the Delta Variant. The former will be very much in focus this week as the Kansas City Fed holds its Jackson Hole symposium over Thursday and Friday. Most expect the Fed to shed light on its tapering decision, which could be announced as early as September and started in October. The length of the tapering cycle will be in focus too, with a few FOMC members recommending a quicker Fed tapering cycle than was seen most recently in 2014. Expect the dollar to stay bid into the Jackson Hole event risk. The local data calendar sees the August PMI reading, July home sales data, 2Q GDP revisions and 2Q personal consumption data, all of which should be over-shadowed by the Jackson Hole event.
- As above, the broad dollar trend will also be determined by the global risk environment. Unless China announces some policy initiative that can support local equity markets, the marked underperformance of North Asian asset markets will keep global EMFX under pressure and the dollar bid. At this stage, that support looks unlikely with Chinese regulators still in the mood to tidy up the private sector – most recently telling Evergrande to sort out its debt problems on its own.

EUR: Can August PMIs lighten the mood?

	Spot	Week ahead bias	Range next week	1 month target
EUR/USD	1.1673	Mildly Bearish 	1.1600 - 1.1750	1.1700

- Broad dollar strength is keeping EUR/USD offered. As a pro-cyclical currency, the EUR is feeling the heat of global slowdown fears, though may be finding a little support as EUR-funded carry trades are unwound. 1.1600 looks the clear risk this week as we approach Jackson Hole.
- Locally, the highlight will be Monday's run of flash PMI releases and then the German Ifo on Wednesday. Recent industry surveys point to continuing expectations of supply chain disruptions – potentially lasting into 2Q22. And with the news from China only seeming to deteriorate, the market may be bracing for a softer set of manufacturing confidence figures. Thursday also sees the ECB release minutes of its 21-22 July meeting. Here investors will look out for any clues as to what the ECB will do with PEPP at its 9 September meeting. With only 5bp of ECB tightening priced in over the next three years, it is hard to see these minutes driving EUR money market rates any lower.

JPY: Non-correlated advantages

	Spot	Week ahead bias	Range next week	1 month target
USD/JPY	109.84	Mildly Bearish 	108.80 - 110.30	110.00

- The JPY has withstood the dollar's risk-averse advance reasonably well. Supporting the JPY is: a) the JPY has little correlation with EMFX and the Renminbi and b) speculators are already running short JPY positions. Downward revision to global growth expectations and fragile risk sentiment in general suggests the JPY should continue to enjoy support this week as carry trades remain under pressure.
- Having enjoyed a 12% drop from highs seen last March, the JPY effective exchange rate is now starting to march higher. It may be time for the CNH/JPY cross rate to suffer something of a sharper correction lower.

GBP: No data drivers on the horizon

	Spot	Week ahead bias	Range next week	1 month target
GBP/USD	1.3621	Mildly Bearish 	1.3450 - 1.3730	1.3800

- The dollar rally has sent GBP/USD sharply lower and there is a meaningful risk we'll see a break below the 1.3570 July lows in the week ahead. The higher sensitivity of the pound to risk sentiment compared to the euro has also led to a spike in EUR/GBP, but the 0.8645 July highs do not see imminently at reach, as the pound appears to have over-discounted some below-consensus data releases this week and the euro is lacking an idiosyncratic bullish narrative at the moment.
- After Monday's PMIs, there won't be other market-moving releases in the UK until the growth/industrial production figures on 10 September. Any stabilisation in the pound will likely rely on some tentative improvements in the global risk environment. In the week ahead, the Jackson Hole symposium will likely be the key driver, and with the risks skewed towards another leg lower in risk and leg higher in the dollar, the pound may struggle to recover just yet.

AUD: Still struggling with heavy cross-fire

	Spot	Week ahead bias	Range next week	1 month target
AUD/USD	0.7139	Mildly Bearish 	0.7030 - 0.7200	0.7300

- The Aussie dollar has been on a freefall this week, losing 3.3% of its value against the USD. AUD is the currency showing the largest risk premium (4.6%) in G10 according to our short-term fair value model, which is not surprising considering that Australia is the most dependent on China's exports and AUD is also discounting the risks of a further drop in iron ore prices as well as lockdowns in many parts of Australia.
- Next week's calendar in Australia includes retail sales figures for the month of July, although it appears highly unlikely that data will be a real driver considering the dominance of the other factors mentioned above. There is a possibility that the large drop this week (and the considerable short-term undervaluation) means that markets have already priced in a good deal of the spill-over of a potential Asia/China slowdown into AUD. Should this be the case, we should see at least some more contained losses for AUD in the week ahead, although the domestic narrative remains concerning due to the virus spread and iron ore has more downside room before reaching its 2020 levels. That will likely determine whether AUD/USD will be able to survive above 0.7000 in the coming weeks.

NZD: RBNZ hike delay came at the worst possible time for NZD

	Spot	Week ahead bias	Range next week	1 month target
NZD/USD	0.6834	Mildly Bearish 	0.6740 - 0.6880	0.7100

- It's been a tumultuous week in New Zealand. The country announced a nation-wide lockdown as the government adopted an ultra-strict approach to prevent the spread of the Delta variant after just one case was found last weekend. This ultimately made the Reserve Bank of New Zealand refrain from delivering a rate hike that appeared all but certain. All this happened in one of the worst weeks for pro-cyclical currencies in recent history, and inevitably exacerbated the downside for the Kiwi dollar, which broke decisively below 0.70 and is now pressuring the 0.6800 level.
- As discussed in "[RBNZ: Hawkish hold leaves room for two hikes this year](#)", the rate-path projections were actually more hawkish than market's expectations, indicating that the rate cycle is delayed, and not really questioned for now. That can be, however, a positive factor for NZD only in the longer run. For now, the downside risks remain significant considering the worsening sentiment in the APAC region and the nation-wide lockdown in New Zealand that has been extended until Tuesday.

CAD: Risks of a move above 1.30

	Spot	Week ahead bias	Range next week	1 month target
USD/CAD	1.2851	Mildly Bullish 	1.2750 - 1.3020	1.2600

- Despite a new spike in inflation in July (headline rose to 3.7% YoY) in Canada, the loonie was hardly hit from the global risk-off mood, losing around 3.0% against the dollar and getting close to the 1.3000 level.
- Another leg higher in USD around the Jackson Hole conference, more drops in global risk appetite and further signs of weakness in the oil market might push USD/CAD above 1.3000 in the week ahead. Any signs of better resilience of CAD compared to other pro-cyclicals will likely be determined by the ability of oil prices to survive the current re-rating of global growth. At the same time, we note that USD/CAD is currently 2.8% overvalued, which may suggest most of the negatives may have been priced into the pair already.

CHF: In demand

	Spot	Week ahead bias	Range next week	1 month target
EUR/CHF	1.0713	Mildly Bearish 	1.0680 - 1.0750	1.0800

- EUR/CHF is seeing quite a lot of volatility – albeit in narrow ranges. Frankly it is hard to know what is driving it in thin summer markets – but both JPY and CHF are the clear FX outperformers during bouts of risk aversion. Defensive positioning ahead of the Jackson Hole event suggests CHF stays in demand.
- As usual the market wants to know if the Swiss National Bank is resisting CHF strength. Last week's CHF sight deposit data showed a CHF3bn rise, suggesting the SNB may have had an interest near 1.0700. Expect the SNB to remain on guard this week, although a stronger defence may not be seen until the November lows at 1.0660/80.

NOK: NB September hike confirmation no help to battered krone

	Spot	Week ahead bias	Range next week	1 month target
EUR/NOK	10.5600	Mildly Bullish ↗	10.4600 - 10.6800	10.4000

- The Norges Bank meeting on Thursday and the GDP numbers on Friday did not leave meaningful marks on NOK, which dropped sharply due to its high beta to global risk sentiment. As discussed in our [NB meeting review](#), policymakers did what the market was expecting: signalling that they will start hiking in September. There is indeed some risk that the Delta variant spread will affect tightening plans, but we think conditions for two hikes in 2021 and two more in 2022 persist.
- Apart from July's retail sales, Norway's data calendar is empty next week, and external factors will continue to drive all NOK moves. Like the case of CAD, a better resilience compared to other pro-cyclicals will rely on crude's ability to find some sort of support in the week ahead. The risk of a break above the 10.610 July highs in EUR/NOK is now quite material.

SEK: Data unlikely to matter

	Spot	Week ahead bias	Range next week	1 month target
EUR/SEK	10.3000	Mildly Bullish ↗	10.2500 - 10.4000	10.3000

- A slew of domestic data in Sweden next week should not have material implications for SEK, in our view. That's because the sharp rise in global risk aversion is generating unusually wide moves for the krona and the Riksbank's ultra-dovish stance looks highly unlikely to change anytime soon on the back of incoming data.
- Anyway, both the 2Q GDP numbers and the Economic Tendency Survey for August should attract some attention, and in particular the former, which will provide an indication of how much the new virus wave has been weighing on Sweden's business and consumer sentiment. Growth data may show a marginal acceleration from the 0.8% QoQ growth rate in 1Q21. The data calendar also includes July's PPI and retail sales data. With EUR/SEK having already broken above its 2021 highs, there may not be clear technical resistances in the pair in the week ahead. The risks remain skewed to the upside for now, but we could see some stabilisation around 10.30 in EUR/SEK if sentiment fails to deteriorate much further.

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