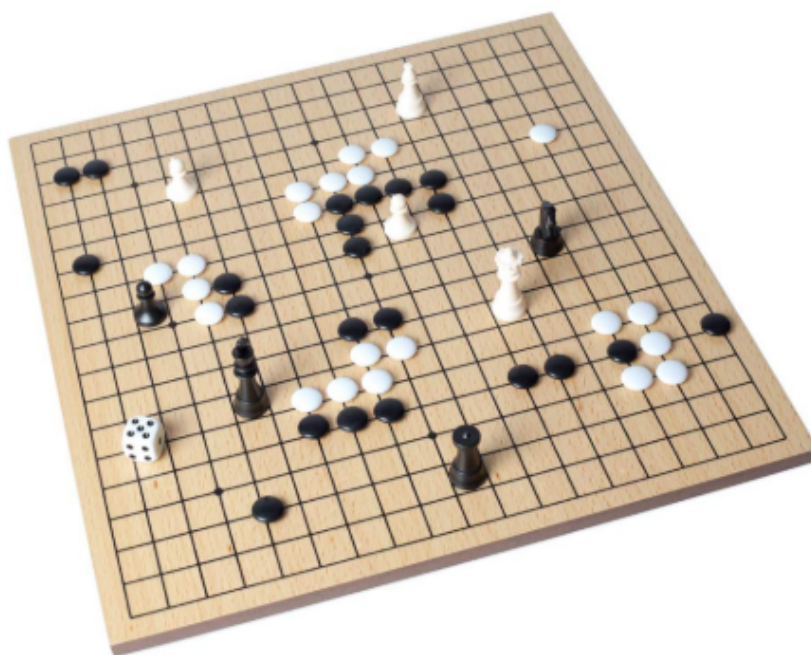


G10 FX Week Ahead: Zero-sum game

The week ahead ends with the Thanksgiving holiday in the US and with Black Friday, with the hope of positive signs from consumer spending. Otherwise, vaccine hopes and rising infections could be a zero-sum game for market sentiment and we expect broad G10 FX stabilization. In the UK, the waiting game for a Brexit deal may continue for one more week.



USD: A bit more pause

	Spot	Week ahead bias	Range next week	1 month target
DXY	92.3000	Neutral	91.7000 - 92.9000	91.0000

- Investors continue to reassess the risk of stricter containment measures against the optimistic prospects of a vaccine. This dichotomy may prove to be a zero-sum game for markets at the moment and we could see risk sentiment face further stabilization as we head into Thursday's Thanksgiving holiday in the US (equity and bond markets are shut). Also at the end of the week, Black Friday sales figures will be closely watched to track any hint of resilience in consumer spending despite the pandemic.
- Hardly any catalysts will be offered from the US data calendar, with PMIs on Monday and a bunch of releases of Wednesday (durable goods orders, second 3Q GDP read, PCE and personal spending) all unlikely to have major implications for markets. The minutes of the quite uneventful 5 November FOMC meeting will also be released on Wednesday, with any possible surprise coming from hints at a QE expansion in December. Also, expect more on the Mnuchin-Powell dispute on preserving the emergency lending programme, although this has not proven to have a large market impact so far. Away from the US, investors will keep an eye on the G20 summit over the weekend and the speech by HK Chief Executive Carrie Lam following more demonstrations in recent days. All in all, we expect the dollar to stay on a stable path next week but we retain a clear USD dovish bias in the longer term (more details in our "2021 FX Outlook: Back on Track").

EUR: Recovery fund, Brexit and PMIs in focus

	Spot	Week ahead bias	Range next week	1 month target
EUR/USD	1.1870	Neutral	1.1800 - 1.1950	1.2000

- The re-emergence of frictions around the rule-of-law conditionality on the EU budget and Recovery Fund have held back EUR gains this week, but recent comments suggest Hungary and Poland may be opening up to a compromise. This should remain an important background story for the EUR and other European currencies (CEE FX, scandies) next week, although it appears that investors are only marginally pricing in the risk of further frictions and the upside potential if an agreement is reached looks fairly limited.
- Wider implications for the EUR should come from the EU-UK trade negotiations. We are not inclined to think a deal will be agreed already next week (more details in the GBP section), but the news flow is set to intensify and would likely spill-over onto the EUR. Data-wise, Monday's PMI will be in focus. While we saw only a small drop in the last month for most indicators, our economics team expects a significant slump (below 40) in the composite gauge, driven by a drop in services due to fresh containment measures. Manufacturing should also inch lower, but should remain above the 50 mark and possibly sweeten the pill for markets. Grim PMIs could cause the EUR to start the week on the back foot, although the impact should be short-lived considering investors have largely factored in the EZ growth de-rating and improving vaccine prospects are keeping investors upbeat on a sustained recovery. Finally, keep an eye on ECB President Lagarde and Chief Economist Lane speeches as we get closer to the 10 December meeting when the Bank is set to unveil an expansion of QE.

JPY: Stuck in the middle

	Spot	Week ahead bias	Range next week	1 month target
USD/JPY	103.83	Neutral	103.00 - 104.50	102.00

- It is a very quiet week data-wise in Japan and an even more quiet end of the week in global markets due to the long Thanksgiving week-end. Our rates team is seeing scope for a marginally flatter US yield-curve next week, which may put a floor on the inversely-correlated JPY.
- Otherwise, any upside for JPY will likely rely on potential negative developments in Europe with respect to the EU-UK Brexit deal or a setback in EU Recovery Fund negotiations. Further rising infections world-wide may still offer some support to JPY in the crosses but with the prospects of a vaccine accelerating, risk-havens look unlikely to enjoy a fully-fledge rally at this stage.

GBP: Still in the waiting game

	Spot	Week ahead bias	Range next week	1 month target
GBP/USD	1.3280	Neutral	1.3110 - 1.3400	1.3600

- The waiting game for the UK-EU trade deal continues. With the progress being slow and the negotiations to extend into early December, this suggests limited catalysts for GBP gains next week. EUR/GBP should thus remain flat and GBP/USD is to continue to be primarily driven by EUR/USD. Given our neutral outlook on the latter, it also means a neutral outlook on the former and GBP/USD to stay range bound next week.
- As we argued in our 2021 FX outlook, even if the UK-EU trade deal is reached its soft nature and the lack of risk premia priced into GBP suggests only a limited upside to GBP. However, with politics and the UK-EU relationship uncertainty taking a less prominent role next year, this should allow GBP to benefit from the weak USD dynamics, sending GBP/USD above 1.40 in 2021. But for the very near-term, the lack of conclusions from the ongoing UK-EU negotiations suggest a lack of meaningful moves in GBP/USD at this point.

AUD: RBA's dovishness remains a question

	Spot	Week ahead bias	Range next week	1 month target
AUD/USD	0.7310	Neutral	0.7260 - 0.7360	0.7300

- AUD is up on the week but underperformed its closest peer NZD (which staged an impressive rally). A set of labour data came in stronger than expected on Thursday and gave reasons to believe that RBA easing may have peaked. The RBA minutes from November suggested that the Bank considered holding off on the rate cut, but also signalled an ongoing discussion around extending the yield curve control to the 5Y.
- Let's see if we get some clarity about possible future actions from the speech by Deputy Governor Debelle on Tuesday. For now, what is clear about the RBA policy (and was made even clearer by Governor Lowe's remarks this week) is that (a) negative rates are a remote option and (b) AUD strength is not a concern at the current levels. All this suggests the downside risks for AUD stemming from the RBA policy stance are relatively contained. Looking at other factors, any developments in the highly tense diplomatic and trade relationships with China remain central for AUD, while the Aussie data calendar is very quiet in the week ahead.

NZD: Is the RBNZ getting nervous about NZD strength?

	Spot	Week ahead bias	Range next week	1 month target
NZD/USD	0.6948	Neutral	0.6880 - 0.7010	0.6900

- The kiwi dollar appears to be a market favourite at the moment to jump on the broad USD weakness. Contributing to NZD momentum is the extensive downscaling of negative rates expectations in New Zealand. What we know however is that the RBNZ is one of the least relaxed central banks in the developed world when it comes to domestic currency appreciation. With NZD close to the 0.70 mark, the Bank may consider revamping its ultra-dovish language (i.e. suggesting negative rates) following the recent hawkish shift.
- RBNZ Governor Adrien Orr will speak on Tuesday and if he is to touch upon monetary policy themes, we see him more likely to be extra dovish rather than endorsing market's repricing of negative rates. That is not to say we think the RBNZ will eventually cut – we have long been reluctant to think so – but we might see NZD momentum losing some steam. It is also worth mentioning NZD is facing some position-squaring-related downside risk considering that it has an abnormally large net-long positioning compared to other pro-cyclicals.

CAD: Fading domestic catalysts

	Spot	Week ahead bias	Range next week	1 month target
USD/CAD	1.3070	Neutral	1.3000 - 1.3130	1.3000

- USD/CAD has been on a stable depreciating trend in the second half of this week, as the loonie is enjoying a stabilization in oil prices and a still positive domestic data story (good retail sales figures today being a case in point).
- Next week, we won't see much on the domestic data front, so global developments and oil will likely remain the only drivers of CAD. Some speeches by BoC Governor Tiff Macklem and exiting Deputy Governor Carolyn Wilkins are not set to be focused on monetary policy and should therefore be overlooked by investors. More generally, we expect very little in terms of policy changes by the BoC in the near future after the adjustments to QE in the latest meeting. USD/CAD may test the key 1.3000 support next week.

CHF: All about the jeopardized EU Recovery Fund

	Spot	Week ahead bias	Range next week	1 month target
EUR/CHF	1.0807	Neutral	1.0780 - 1.0830	1.0800

- The near-term fate for the Swiss franc appears heavily linked to developments in the EU Recovery Fund ongoing negotiations, with CHF generally being the safe-haven currency of choice when EZ sentiment deteriorates. We are inclined to think EU members will get to a resolution of the dispute with Poland and Hungary fairly soon and are therefore reluctant to see EUR/CHF drift much lower. No data releases worth mentioning in Switzerland next week add to the probability of a fairly quiet week for the franc.
- In the longer-run, we think the Swiss franc can be a key underperformer in 2021 as the global reflation unfolds, precautionary CHF buying is unwound and rebounding global trade offers room for a recovery in the eurozone. We target 1.15 in EUR/CHF by the end of 2021. More details in "2021 FX Outlook: Back on Track".

NOK: Pausing gains

	Spot	Week ahead bias	Range next week	1 month target
EUR/NOK	10.6660	Neutral	10.5500 - 10.7810	10.7000

- It is a very quiet week on the Norwegian data front. The September unemployment rate (Wednesday) and October retail sales (Friday) should have a limited impact on NOK. EUR/NOK should continue to be driven by global risk appetite, pointing to some pause in the recent gains – given our neutral outlook for risk next week. We expect EUR/NOK to stay above the 10.60 level next week.
- We are upbeat on the NOK prospects for 2021 and expect the krone to be the best performing European currency (along with SEK), in part helped by the anticipated EUR/USD gains. Still, we see a high bar for the EUR/NOK to move back to / below its pre-pandemic levels given its deeply negative real rate.

SEK: Riksbank in the wait-and-see mode

	Spot	Week ahead bias	Range next week	1 month target
EUR/SEK	10.2280	Neutral	10.1640 - 10.3000	10.2000

- The focus of the week is on the Riksbank meeting (Thursday). We don't expect any surprises, with a QE programme in place and rates at zero the bank is likely to adopt a wait-and-see approach to gauge how the pandemic effect on the economy evolves and also to see what the ECB does in its December meeting. As we argued in our 2021 FX outlook, the expected further ECB easing in December (via QE and TLTROs) should give the Riksbank a free option to top up its QE (if necessary – though not our base case yet) without affecting SEK too much. Overall, the cautious wait-and-see Riksbank message next week without any pre-commitment should have limited impact on SEK.
- Bar the Riksbank meeting, there are the Nov Economic Tendency Indicator (Thursday), October retail sales (Friday) and Q3 GDP (Friday) on the Swedish data front, but none should have a meaningful impact on SEK. With our risk bias neutral for the next week, this points to a stable EUR/SEK, hovering around the 10.20 level.

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