

G10 FX Week Ahead: Clearing the blocks

The block in the Suez Canal ahead of Thursday's OPEC+ meeting and the EU's struggles to find a way out of a high-contagion/low-vaccination situation will remain in focus this week. There are few signs that the USD corrective rally is over and strong payrolls, paired with Biden's infra stimulus plans, may keep EUR/USD under pressure



USD: Building back better?

	Spot	Week ahead bias	Range next week	1 month target
DXY	92.7000	Mildly Bullish 	92.4000 - 93.2000	92.0000

- At the end of last week, there were very few signs that what we see as a corrective dollar bounce had run its course. On the agenda this week are a few inputs which on paper look dollar positive. The first is the US macro data where the March employment numbers (ADP on Wednesday and NFP on Friday) should be strong. Our man in NYC, James Knightley, forecasts NFP to rise 750k versus consensus 600k. The unemployment rate is also expected to dip to 5.9/6.0% from 6.2%. None of this should really sway the Fed, however, which still awaits 10 million people to re-discover work and has gone out of its way to undermine the unemployment rate as a catch-all figure for those unemployed.
- The second key input will be Joe Biden's launch of his \$3trn infrastructure plan. James Knightley *thinks* this will be a tougher sell than the \$1.9trn stimulus. It will also be interesting to see how the market reacts to any suggestions of tax hikes for corporates and the wealthy and perhaps a Capital Gains Tax hike too. We are still holding onto a bearish dollar scenario for later in the year, but we probably need to see bond markets settle down and Europe start to play its part in the global recovery before the dollar starts to soften again.

EUR: Early bird discounted EUR

	Spot	Week ahead bias	Range next week	1 month target
EUR/USD	1.1800	Mildly Bearish 	1.1700 - 1.1870	1.1800

- Europe's clocks went forward an hour on Sunday and Friday, 2 April also represents the start of Easter holidays for much of Europe. It has been a long quarter and many will be looking to get to Friday in one piece. As above, there are few signs yet that the dollar correction is over – that leaves EUR/USD vulnerable to 1.1700 in the week ahead. Much focus will remain on the virus situation in Europe and whether lockdowns can slow rising case numbers and also whether the slow pace of vaccinations can finally reach exit speed.
- The data calendar this week should see a mild pick-up in the pace of eurozone CPI in March, although nothing to bother the ECB. We should also see more readings of consumer and business confidence across the region. These have so far held up well, although have been largely taken before fresh lockdowns and also before Europe's most recent challenge, the Suez blockage. The container ship has now been partially refloated but it remains unclear how long it will take to reopen the canal. Quarter end will also see focus on portfolio re-balancing flows. 1Q European outperformance of the US both in terms of equity and bond markets could actually trigger some EUR selling on 30/31 March.

JPY: 110 under pressure

	Spot	Week ahead bias	Range next week	1 month target
USD/JPY	109.60	Neutral	108.50 - 110.00	108.00

- USD/JPY continues to surprise, nearly pressing 110 even without the assistance of higher bond yields. Japanese purchases of foreign bonds have picked up in March, although we would have assumed that most of these purchases would have been FX hedged.
- The week ahead in Japan sees February retail sales and industrial production, plus the 1Q Tankan business survey. The weaker JPY must be providing some windfall gains to Japanese exporters and a further improvement in the Tankan should not be a surprise.

GBP: Simply looking better than EUR

	Spot	Week ahead bias	Range next week	1 month target
GBP/USD	1.3800	Neutral	1.3700 - 1.3900	1.4400

- The data flow in the UK was mixed last week: January unemployment dropped more than expected, while inflation inched lower (to 0.4%) in February against market consensus. On the inflation side, our UK economist [sees the drop as a temporary blip](#) in the march to the 2% level later this year. Overall, with UK-EU tensions over vaccine supplies easing and vaccinations in the UK keeping a good pace, markets continue to see the UK Government's timeline to reopen the economy as realistic and therefore sterling is retaining some better resilience than other G10 currencies to USD appreciation.
- We can expect that same resilience to last this week, where the data calendar in the UK is quite light. On the Bank of England side, there are two scheduled speakers (Saunders and Tenreyro) this week, although any material deviation from the Bank's recent rhetoric appears unlikely at this stage. Concerns about a worsening virus situation and the slower vaccination progresses in the eurozone may widen the UK-EU gap in terms of recovery expectations and we could see EUR/GBP test the key 0.8500 support in the coming days.

AUD: Bond rally takes some pressure off the RBA

	Spot	Week ahead bias	Range next week	1 month target
AUD/USD	0.7630	Neutral	0.7530 - 0.7725	0.7700

- AUD/USD moved back above 0.7600 on Friday but was down by 1.5% on the week following a combination of choppy risk sentiment and rallying yields. On the latter, the Reserve Bank of Australia surely welcomed the 10bp fall in Australian 10Y yield last week, which has brought the differential with 10Y Treasuries below 4bp, the lowest since early February – and a material drop from the 50bp peak seen in late February. This is keeping the need for more RBA interventions in the bond market low for the moment, but we don't exclude more will be needed in the coming weeks if global bond yields start to move up again.
- The data calendar this week is very light in Australia, with only trade figures from February worth highlighting. Focus should remain on the oil market and it's spill-over on other commodities. Iron ore actually enjoyed a corrective rally to US\$167/mt last week, helped by better activity outlook for China. Other threads to follow are – although the market impact has arguably been subdued so far – the EU-Australia dispute over vaccine supplies to Papua New Guinea and the floods in Sydney and NSW that may slow vaccination efforts. That said, we expect external factors to remain the primary driver of AUD this week.

NZD: Downside risks shrinking

	Spot	Week ahead bias	Range next week	1 month target
NZD/USD	0.7000	Neutral	0.6920 - 0.7090	0.7300

- The Kiwi dollar had a very grim week, losing around 2.5% to the USD and dropping below 0.7000 for the first time since November. The trigger of the drop in spot was a move by the New Zealand government to remove tax incentives to real-estate investors, with the aim of curbing the housing bubble in the country. That prompted a fierce re-pricing of hawkish Reserve Bank of New Zealand rate expectations, as markets expect now less pressure on the Bank to hike rates for housing-stability purposes.
- As discussed in "[Why we think the NZD drop doesn't have legs](#)", the downside risks for NZD – in particular relative to other pro-cyclical peers such as AUD – may have shrunk significantly after last week's move. First, there is no room for a further drop in front-end yields (since a rate hike in the next year has been completely priced out and a cut is off the cards); second, NZD/USD is about 2.7% undervalued according to our short-term fair value model; third, inflation and employment resilience (plus the risk of house prices staying supported despite the government's measures) may cause hawkish expectations on the RBNZ to rise again soon. For now, external factors should dominate NZD/USD price action, but we expect any further selling pressure on NZD to be more contained than on AUD.

CAD: Suez and OPEC+ the main drivers this week

	Spot	Week ahead bias	Range next week	1 month target
USD/CAD	1.2580	Neutral	1.2480 - 1.2680	1.2500

- The Bank of Canada took centre stage last week, first by announcing the unwinding of some emergency liquidity programmes and then providing strong signals that it will be the first developed central bank to effectively start a consistent tapering process in the coming months. Both of these developments were likely much warranted: liquidity and market functioning are no longer a concern and the on-going recovery in Canada is no longer warranting the BoC's massive balance sheet. The first steps of the tapering process should be announced in one month time, at the April meeting, although the size of the first move may depend of the health of the bond market at that point, as the BoC will likely calibrate its tapering in a way that does not trigger excessive yield volatility.
- BoC's tapering news likely helped CAD to keep its losses contained last week despite USD strength. This week, the Canadian calendar includes January's GDP numbers, although developments in the oil market should be a bigger driver of the currency. The Suez Canal blockage has severely disrupted the logistics of commodities' supply and that ultimately came to the rescue of oil prices in a week where concerns about third virus waves (especially in Europe) prompted a re-pricing of oil demand expectations. This week, along with developments in the Suez Canal, the focus will be on the OPEC+ meeting, where the recent volatility in oil prices and virus concerns may indeed play a role and should avert another hike in production.

CHF: Winds of change from Poland?

	Spot	Week ahead bias	Range next week	1 month target
EUR/CHF	1.1080	Neutral	1.1040 - 1.1040	1.1200

- The March Swiss National Bank meeting elicited few surprises and EUR/CHF barely budged. We are overall constructive on this cross, but feel the EUR needs to find its feet first – presumably led by some kind of improvement in its handling of the virus. The local calendar sees the March KOF leading indicator, (doing very well recently) and then the March CPI, still at a very low -0.3% YoY.
- Away from Switzerland, market focus is increasingly turning its attention to events in Poland. April 13-15th will see the Polish Supreme Court rule on the CHF mortgage issue, i.e. whether Polish banks had mis-sold FX mortgages and should be made to pick up the tab. The zloty has been weakening on this, but so far there has been little suggestion that Polish banks have a large open exposure to a short CHF position. And there is also a suggestion that any FX needs arising from this could be undertaken off-market with the relevant central banks. But a much weaker PLN would be a point of attention for EUR/CHF – against the risk of Polish demand for CHF.

NOK: All about oil

	Spot	Week ahead bias	Range next week	1 month target
EUR/NOK	10.1140	Neutral	10.0300 - 10.2000	10.2000

- This week's outlook for NOK is strictly tied to oil market dynamics, after the Suez emergency gave some help to the high-beta NOK in a week of uncertain risk sentiment. As discussed in the CAD section above, OPEC+ should not hike output and this may help some stabilization, although the virus-related concerns in Europe may keep being a drag in the short term.
- Domestic drivers should continue to play second fiddle for NOK this week, with only February's retail sales in focus, but unlikely to drive a material market response. The EUR's soft momentum should continue to keep EUR/NOK upside broadly capped for now.

SEK: Dragged down by EU virus woes

	Spot	Week ahead bias	Range next week	1 month target
EUR/SEK	10.2000	Mildly Bullish 	10.1700 - 10.2600	10.1000

- SEK's high correlation with EU-related sentiment has proven detrimental in the past few days, with the Krona being the worst-performing G10 currency after the battered AUD and NZD.
- With EU sentiment possibly remaining subdued this week, we could see SEK continue to follow the EUR lower, especially considering the lack of possibly offsetting factors like the case of rebounding oil prices for NOK. The release of March's economic tendency survey may will be important to gauge the state of the Swedish economy, but its impact on SEK should be short-lived and virus-related news in Europe should remain the primary driver. On the central bank side, keep an eye on the speech by Riksbank's Governor Stefan Ingves on Tuesday. EUR/SEK may continue to hover around the 10.200 level this week.

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