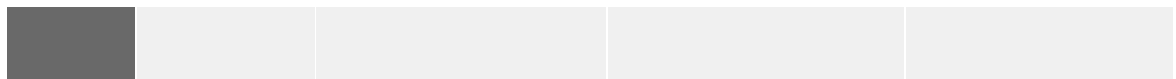


## G10 FX Week Ahead: No news is bearish news for the dollar


We expect USD to stay on a gentle downtrend as the prospect of the Fed adding more liquidity if needed should keep a floor below risk assets and the US data-flow may remain mixed. Elsewhere, the OPEC+ meeting could put a cap on oil-sensitive currencies, while GBP is facing another crucial week with Brexit talks. In Australia, the RBA meeting may be a non-event.



Source: Shutterstock



## USD: No news is bearish news

	Spot	Week ahead bias	Range next week	1 month target
DXY	91.8140	Mildly Bearish 	91.5000 - 92.5500	91.0000

- The dollar is gently drifting to the lows of the year as investors re-allocate portfolios to recovery trades in the rest of the world. One key part of the story is that the Fed will keep rates very low well into the (hoped for) upturn and we should hear a little more on this story from Fed Chair Powell this week, who has various speeches and also appears before the Senate Banking Committee (with Mnuchin) to discuss the CARES act. We will also see the latest Beige Book ahead of the next FOMC meeting on Dec 16th.
- We'll also get some fresh US macro updates in the form of the November employment report and ISM releases. On the former, we're slightly above the 500k consensus figure, but below consensus on both the ISM manufacturing and services indices. Indeed, the focus this week will be whether US state governors, now that Thanksgiving has passed, choose to impose harsher lockdowns to curb second waves. While more lockdown restrictions may stand to curb US equity markets, the prospect of the Fed being prepared to add more liquidity should limit any dollar upside. And given that DXY has fallen in seven of the last ten Decembers, we do favour gentle dollar downside into the end of the year.

## EUR: Knocking on 1.20's door

	Spot	Week ahead bias	Range next week	1 month target
EUR/USD	1.1947	Mildly Bullish 	1.1840 - 1.2000	1.2000

- EUR/USD continues to grind higher, buoyed by the broadly weaker dollar. Local inputs to the EUR story this week come from the EZ flash November CPI, seen still at -0.3% YoY, and a soft October retail sales figure. Neither should detract from the view that the ECB will offer fresh stimulus when it meets on Dec 10th.
- The simmering threat of a veto of the EU Recovery Fund by either Poland or Hungary has yet to be taken seriously by FX markets (a deal is expected) and the EUR will also take note of any progress on Brexit. In the background, any good Chinese November PMI numbers or any OPEC+ outcome which does not hurt crude oil too badly would probably be greeted well by the trade-sensitive EUR.

## JPY: Drifting

	Spot	Week ahead bias	Range next week	1 month target
USD/JPY	103.99	Neutral	103.70 - 104.70	103.00

- USD/JPY has returned to type, with one-month levels of implied volatility drifting back to the 5% area. We are, however, encouraged that USD/JPY continues to trade below 105, despite some reasonably large Japanese buying of foreign bonds according to portfolio flow data. This chimes with our view that the global exodus from the dollar will dominate many FX pairs and that USD/JPY could be headed to the 102 area.
- Japanese data this week is industrial production and retail sales as well as some jobs data. This typically doesn't drive the JPY and instead USD/JPY will probably take more notice of whether any fresh US lockdowns (or virus news – good or bad) has much of an impact on global equity markets.

## GBP: Inching closer?

	Spot	Week ahead bias	Range next week	1 month target
GBP/USD	1.3360	Mildly Bullish 	1.3200 - 1.3600	1.3600

- It is once again a potential make-or-break week for sterling as face-to-face EU-UK trade negotiations are resuming in London this weekend. The latest remark by both parties have highlighted lingering differences and have somewhat played down the chances of a deal, prompting a drop in GBP (EUR/GBP is back at the 0.8950 mark). Also, the costs for hedging the downside in Cable through 1-week risk reversals has risen to levels last seen in September. All this is mirroring a market that is becoming more concerned about a potential no-deal, but the levels at which GBP is trading is still telling us that very little of the worst-case scenario is being priced in. Accordingly, should negotiations definitively collapse, the downside reaction should still be asymmetrical.
- Picking a timing on an official deal or no-deal announcement remains complicated considering the number of delays, but time is indeed running very short and we should at least see the balance tilt towards one of the two outcomes more decisively this coming week. We remain in the view that a deal (although a “skinny” one, mostly focused on trade rather than services) will be agreed, so we retain a positive bias on GBP. The data calendar looks very quiet in the UK next week and there are only two speeches by BoE's Silvana Tenreiro to keep an eye on. Still, it will – once again – be all about Brexit.

## AUD: RBA to keep it quiet

	Spot	Week ahead bias	Range next week	1 month target
AUD/USD	0.7390	Mildly Bullish 	0.7340 - 0.7480	0.7300

- It's going to be a busy week in terms of AUD domestic drivers. On the central bank side, the RBA will announce monetary policy on Tuesday and Governor Philip Lowe will deliver a speech to the Parliament Economic Committee the following day. Both these events come before a key piece of data for policy decisions – 3Q growth figures – which will be released during Lowe's parliament testimony. Accordingly, we do not expect the RBA meeting to bring major surprises considering the Bank very recently deployed a new large stimulus package (a rate cut and an adjustment to its QE). If anything, Governor Lowe may want to stress (as he has done repeatedly) that the RBA is not out of firepower. However, we think more easing (and especially negative rates) looks quite unlikely, and markets also appear in line with this view.
- Some investors will hope for any signs that the RBA is shifting away from its relaxed stance on the relatively strong AUD, but we think we have not reached levels that warrant such a shift in stance just yet. With the RBA impact on AUD possibly quite contained, the GDP figures may drive any idiosyncratic AUD moves. We expect 2.5% QoQ, which is only marginally above consensus, so we are inclined to think AUD will move in line with global risk dynamics. As usual, it's worth keeping an eye on the China-Australia trade spat, which shows no signs of abating and AUD has remained dangerously complacent to this story.

## NZD: Relative outperformance may start to fade

	Spot	Week ahead bias	Range next week	1 month target
NZD/USD	0.7040	Mildly Bullish 	0.7000 - 0.7110	0.6900

- The Kiwi dollar has had another very strong week and is now comfortably trading above the 0.7000 mark for the first time since 2018. A letter by NZ Grant Robertson to the RBNZ - in which he asked to consider surging house prices in monetary policy decisions - was the trigger for even more down-scaling of RBNZ rate cut expectations. Markets largely overlooked the push-back by the RBNZ Governor Adrien Orr as he stressed the independence of the Bank in reaction to the letter.
- We suspect that the domestic pushes to NZD outperformance will start to run short in the coming days and weeks as: a) markets have now fully priced out more rate cuts, so further upside for front-end rates looks limited; b) NZD has an overstretched net-long positioning vs USD ; c) the RBNZ aversion for a strong NZD may prompt officials to revamp their dovish tone (although we don't think they will ultimately deliver more cuts) to keep further currency appreciations capped. There are no data worth noting in the week in NZ, and while we think there are fewer reasons for NZD to outperform other pro-cyclicals, an overall benign risk environment and weaker USD may allow NZD consolidate above 0.7000.

## CAD: Data-flow to remain supportive, but OPEC+ is the key driver

	Spot	Week ahead bias	Range next week	1 month target
USD/CAD	1.2980	Neutral	1.2880 - 1.3080	1.3000

- CAD's exposure to US sentiment has proved detrimental as the loonie failed to follow other procyclicals in another decent rally this week. The US contagion and data narrative will remain an important factor for CAD into next week, although more domestic drivers are set to come into play. Canada's third quarter GDP is expected to show a robust rebound in excess of 45% annualised growth and the jobs report should also show robust gains. This should keep the data-flow a positive input for CAD, as the recovery maintains a decent pace.
- Still, next week will be a pivotal one for oil prices as the OPEC+ meets and an extension to output cuts will be discussed. Our commodities team thinks the balance of risks for oil is tilted to the downside ahead of the meeting, as they note that a three-month rollover in cuts is in the price and may be seen as bearish. At the same time, a 6-month rollover looks unlikely given the recent recovery in prices. Some oil underperformance may offset the positives from strong data and CAD may still struggle to keep up with AUD and NZD gains next week.

## CHF: Busy week for Swiss data

	Spot	Week ahead bias	Range next week	1 month target
EUR/CHF	1.0814	Neutral	1.0800 - 1.0850	1.0800

- EUR/CHF looks to be trying to build a higher base – now above 1.0800 – perhaps with the help of the SNB. This week sees some important data in the form of 3Q GDP (expected at +6% QoQ from -8% in 2Q), a November KOF expected to dip from its sharp recovery and November CPI stuck at -0.6% YoY. None of these should alter the view that the SNB has a lot of heavy lifting to do in EUR/CHF.
- Probably the biggest downside to EUR/CHF stems from: i) troubled progress of the EU Recovery Fund or ii) the ECB mis-judging the mood of the market and failing to deliver enough support in December to keep EZ peripheral debt spreads compressed. Neither of these are our baseline views, thus we would expect EUR/CHF to stay supported above 1.0800.

## NOK: OPEC+ may hit the pause button for NOK rally

	Spot	Week ahead bias	Range next week	1 month target
EUR/NOK	10.5610	Neutral	10.4690 - 10.7000	10.7000

- The high-beta NOK has been helped by a supportive risk environment and another week of oil gains. Next week, more NOK upside will likely be challenged by the risks to oil prices stemming from the OPEC+ meeting. We discuss this in greater detail in the CAD section, but we see potential for disappointment as OPEC+ members look unlikely to deliver a longer than 3-month rollover in production cuts.
- There are no data releases nor central bank events in Norway next week, so oil dynamics are set to be the main focus. Should the bearish oil scenario materialize, EUR/NOK may struggle to break sustainably trade below the 10.5000 mark unless more positive news on a vaccine or a positive spill-over from a Brexit trade deal come into play next week.

## SEK: Riksbank's surprise is not a game-changer

	Spot	Week ahead bias	Range next week	1 month target
EUR/SEK	10.1530	Mildly Bearish 	10.0000 - 10.2500	10.2000

- The Riksbank delivered a surprising expansion to its QE programme by SEK 200bn, reaching a total of SEK 700bn, and appeared to keep the door open for more action. Still the reaction by SEK (which is up 1.35% vs USD and 0.60% vs EUR this week) was quite contained and short-lived, as it is likely that markets were already expecting a similar move in December.
- We are reluctant to forecast more QE expansions in the coming months, and considering the ECB is set to deliver a top-up to its asset purchases programmes in December, we doubt that balance-sheet divergence will shift in disfavour of SEK vs the EUR. We still target 9.90 in EUR/SEK by mid-2021. Next week will be quiet in Sweden data-wise, and a speech by RB Governor Stefan Ingves should not be too interesting for markets considering the vicinity to the rate announcement. The recent uptrend in NOK/SEK may lose steam next week on the back of possible woes to oil prices hitting NOK.

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