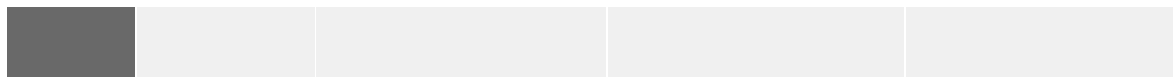


## G10 FX Week Ahead: Riding the soft dollar narrative

With Chair Powell cementing the negative real yield narrative for the dollar, there is little to suggest the current USD bear trend is to stop. US NFPs may disappoint a little, but this should just underscore the need to keep fed funds rates low. Question marks about Abenomics support our bearish USD/JPY view



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## USD: Lower for longer

	Spot	Week ahead bias	Range next week	1 month target
DXY	92.4550	Mildly Bearish 	91.5000 - 93.3600	91.0000

- The Fed Chair Powell's Jackson Hole speech and the announcement of the Average Inflation Targeting adoption cemented the negative USD real yield narrative and is likely to remain a key drag on USD for months and quarters to come. The adoption of average inflation targeting and tolerance for an inflation overshoot (to make up for prior undershoots) suggests (a) interest rate increases are a very distant proposition; and (b) USD real rate will remain low and may even go (initially) lower if the Fed succeeds in generating higher domestic price pressures. None of these should strategically bode well for the dollar (recall that high nominal and real dollar rates were the key ingredients behind USD strength in prior years).
- On the data front, the focus will be on the US labour market report (Friday). Our economists look for a below-consensus Non Farm Payrolls (NFP) and unchanged unemployment rate. While backward-looking indicators and not reflecting the latest Fed Chair speech, less positive numbers vs market expectations might be modestly USD negative as it would cement the lower-for-longer Fed interest rate outlook and the unappealing USD attractiveness. The Aug US ISM Manufacturing (Tue) should increase modestly while ISM Non-Manufacturing (Thu) should modestly decline.

## EUR: Plenty of good news priced in but soft USD dominates

	Spot	Week ahead bias	Range next week	1 month target
EUR/USD	1.1884	Mildly Bullish 	1.1750 - 1.2000	1.2000

- Despite plenty of good news being priced into EUR (the agreement on the EU Recovery Fund and the new budget led to a compression of the EZ fiscal premia) and speculative positioning being stretched, the dollar weakness dominates and is likely to be the key driver of the cross next week and for quarters to come. With the soft USD environment in place, the risk is skewed for modestly higher EUR/USD next week.
- On the EZ data front, both headline and core Aug CPI inflation readings (Tue) should dip lower as the July numbers were artificially distorted (higher) due to the usual discount sales period being delayed to August. Still, with the ECB already undergoing large asset purchases and low CPI being a global phenomenon, Aug EZ CPI numbers are unlikely to affect EUR, with the negative USD real yield narrative being the prime driver of the cross. This suggests modest downside risk to EUR/USD and an ongoing gentle trend higher

## JPY: Assessing the post-Abenomics

	Spot	Week ahead bias	Range next week	1 month target
USD/JPY	105.69	Bearish 	103.90 - 105.90	105.00

- Markets reacted to the news of the resignation of Japanese PM Abe by selling Japanese equities and buying JPY. The LDP is set to hold elections soon to elect a new president of the Party, who would then seek parliamentary approval to take over as PM until the October 2021 election. Next week may start to direct market expectations towards one or another possible successor: in these terms, investors will seek any hint on how much of Abenomics will be erased after the end of the Abe era. About this topic, our economists' early analysis tends to exclude an even more stimulative BoJ as a result of the change in leadership.
- Data-wise, the Japanese economic calendar will hardly be a factor for JPY next week, with economic and political developments in the US along with dynamics in US Treasuries firmly on the driver's seat. With a possible NFP miss on the cards and the post-Abe speculation possibly following a JPY-positive path, the yen may be a key beneficiary of additional USD weakness next week.

## GBP: Little upside potential beyond the general USD weakness

	Spot	Week ahead bias	Range next week	1 month target
GBP/USD	1.3265	Mildly Bullish 	1.3120 - 1.3420	1.3100

- GBP/USD has been benefiting from the broad-based USD weakness and with the negative USD real yield narrative unlikely to dissipate any time soon, we see a modest upside risk to GBP/USD next week. On the UK data front, the focus will be on Aug Manufacturing and Services PMIs (Tue and Thu respectively). We don't expect much fireworks with both readings remaining fairly flat, suggesting the degree of USD softness will be the key driver of the cross.
- It will be a quiet week on the UK-EU trade negotiations front, with the next round of negotiations only starting in the week after next (when the UK may put forward a paper on the state aid). We don't expect any positive headline news from negotiations in weeks to come, suggesting little upside potential to GBP beyond the general USD weakness.

## AUD: RBA cautious approach to have short-lived impact

	Spot	Week ahead bias	Range next week	1 month target
AUD/USD	0.7331	Neutral	0.7290 - 0.7410	0.7200

- The Reserve Bank of Australia will meet next week to announce monetary policy and we expect it to be – in line with market expectations – a relatively unremarkable event. The Bank is likely in a good spot in terms of the monetary stimulus that has already been deployed to assist the fiscal efforts against the pandemic shock. The fall-out of the lockdown in Victoria will likely be in focus and Governor Lowe may once again highlight the serious economic damage for the whole country. The lack of hard data to back any policy shift suggest a wait-and-see approach should prevail, but more downbeat comments on the economic recovery prospects may deliver a short-lived negative impact on AUD.
- Another highlight of the week in Australia (along with any news around contagion/reopening dynamics in Victoria) is the GDP data for 2Q, published a day after the RBA meeting. Markets are centred around a -6% YoY read while our economists expect -5.5%. The notion that the slump in the Australian economy has been less pronounced than most major economies may help AUD recover any loss after the RBA meeting. All in all, with the USD weakness possibly putting a floor below AUD/USD next week, we expect the pair to hover around the 0.73/0.74 area next week.

## NZD: No domestic factors in sight

	Spot	Week ahead bias	Range next week	1 month target
NZD/USD	0.6714	Mildly Bullish ↗	0.6680 - 0.6790	0.6700

- Differently from its closest peer AUD, the Kiwi dollar will not be affected by domestic factors next week and will remain strictly attached to developments in global risk sentiment. With the NFP possibly disappointing at the end of the week, pro-cyclical currencies may struggle to outperform defensive currencies in G10, although the weak USD environment should still offer support to NZD/USD.
- The idiosyncratic downside pressure to NZD from rising Reserve Bank of New Zealand rate cut expectations has surely run out of steam and we may need fresh dovish comments by the Bank to possibly re-ignite NZD weakness, as the easing of restrictions in Auckland is offering a slightly less worrying economic picture to investors.

## CAD: More room to rise

	Spot	Week ahead bias	Range next week	1 month target
USD/CAD	1.3083	Mildly Bearish 	1.2950 - 1.3110	1.3100

- The loonie continues to benefit from a weakening in the USD and the resilience in oil prices, and may continue to show robustness as we head to the end of next week when Canadian jobs numbers will be released alongside the US ones. Our economics team is expecting headline employment to rise by 400k in Canada, matching the July increase, and the unemployment rate to edge lower to 10.0%.
- A confirmation that Canada is following the US rebound in employment should be enough to let CAD appreciate further without much resistance, especially if US NFP disappoint. USD/CAD may break below 1.3000 next week, with CAD possibly outperforming AUD and NZD also thanks to a lingering net-short speculative positioning.

## CHF: Putting 0.90 behind

	Spot	Week ahead bias	Range next week	1 month target
EUR/CHF	1.0759	Neutral	1.0700 - 1.0790	1.0700

- USD/CHF is edging towards the key 0.9000 support on the back of a generalized USD weakness. With such USD bearish sentiment possibly extending into the next few days and any disappointment in NFP making safe-havens more attractive than pro-cyclicals to play another leg lower in USD, the break below 0.9000 may be a matter of when rather than if.
- Domestic data in Switzerland will hardly be able to change the pair's trend. Retail sales for July will be watched to gauge the extent of the rebound while inflation data later in the week will likely display a deep negative number with the recovery in price growth still unlikely to be encouraging. While USD/CHF may face further pressure after breaking below 0.9000, EUR/CHF may only marginally move lower with 1.0700 likely playing as a solid support.

## SEK: The soft dollar helping the cyclical krona

	Spot	Week ahead bias	Range next week	1 month target
EUR/SEK	10.2700	Mildly Bearish 	10.2000 - 10.3550	10.2000

- Likely other cyclical currencies, SEK rode the wave of the broad-based USD weakness, pushing back below the EUR/SEK 10.30 level. With the USD softness to remain in place, we see modest downside to EUR/SEK next week, though it may too early for the EUR/SEK 10.2000 support level to break (which has proved as a strong support so far this summer)
- It is a very quiet week on the Swedish data front, with the Aug PMI manufacturing (Tue) expected to increase modestly.

## NOK: The pace of appreciation to slow

	Spot	Week ahead bias	Range next week	1 month target
EUR/NOK	10.4750	Mildly Bearish 	10.3500 - 10.6260	10.5000

- NOK has been one of the top beneficiaries from the Powel-induced USD sell-off. Not only does the currency exert the highest beta to risk in the G10 FX space, but supported oil prices (benefiting from the concerns about Hurricane Laura effect on production and soft USD) also added to NOK gains.
- The likely continuation of the soft USD environment should keep EUR/NOK around 10.50 level with a modest downward bias, though with the Laura storm now passed, oil production should start coming back online thus limiting the upside to oil prices and by extension to NOK. The pace of the EUR/NOK decline should therefore ease. It is a fairly quiet week on the Norwegian data front. The focus will be on the Aug Manufacturing PMIs, which are expected the leave the contractionary territory.

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