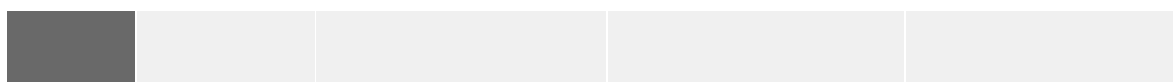
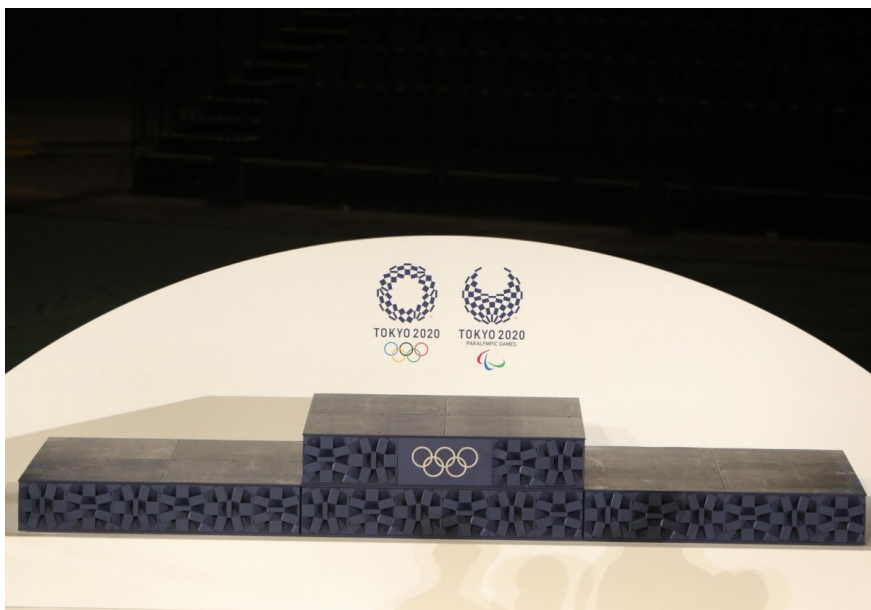


## G10 FX Week Ahead: Dollar unlikely to step off the podium

In the final week of the Olympics, we think the dollar will at least be able to stabilise after the recent correction. The prospect of the Fed's tapering should be cemented by good payrolls, while global risk assets may still struggle to look past China's regulatory clampdown. Elsewhere, the BoE and RBA should not deliver any new guidance



## USD: Too early to call for a turnaround in dollar's strength

|     | Spot    | Week ahead bias | Range next week   | 1 month target |
|-----|---------|-----------------|-------------------|----------------|
| DXY | 91.8880 | Neutral         | 91.4000 - 92.5000 | 93.0000        |

- After a week where the Fed made another step towards tapering and the Chinese government's regulatory clampdown generated a risk-off wave that spread across Asian and global markets, one would expect to see a stronger dollar across the board. In fact, the dollar is on track to have the worst week of 2021, as it lost ground against all G10 currencies. Indeed, US real yields touched record lows but real-rate differentials have not proved to be a determining factor for FX moves since markets have turned more sceptical about the global recovery story. The main trigger for the dollar correction was Powell's post-FOMC press conference, where he still sounded cautious about the recovery, but we doubt such comments (which were a mere reiteration of his recent rhetoric) were enough to dent expectations that the Fed will soon (we think in Jackson Hole in late August) announce the timeline for asset purchase reductions or enough to force a price-out of rising expectations around a 2022 rate hike. Instead, the dollar correction appeared to be mostly a profit-taking event, with markets that had already priced in the extra bit of hawkishness at the July FOMC and cashed in on some long-dollar positions.
- In the week ahead, some key data for July will tell us at what pace the US economy has continued to recover, but it's worth keeping an eye on debt-ceiling discussions in Congress and the potential impact on the US money market. Our economists expect the ISM surveys to keep reporting strong demand, but once again highlight the constraint on the supply side. The other main release, the July jobs report, should see employment gains at around 900k according to our estimates, which is largely in line with consensus and should underpin the notion that the labour market is on a solid recovery path. On balance, next week's dataflow should allow markets to cement their Fed tapering expectations. When combined with a global recovery sentiment that remains mixed and the material risk of more equity shocks coming from China – which are likely to have already exacerbated portfolio outflows from emerging markets – we think it is too early to call for the end of the dollar's recent good momentum and we expect the greenback to find at least a fairly solid floor in the week ahead.

## EUR: Stabilising after the rebound

|         | Spot   | Week ahead bias | Range next week | 1 month target |
|---------|--------|-----------------|-----------------|----------------|
| EUR/USD | 1.1890 | Neutral         | 1.1770 - 1.2000 | 1.1800         |

- The cautious Fed offered some helping hand to EUR/USD and with the subsequent USD softness facilitated the EUR/USD rise to the 1.1900 level. However, we see any upside to EUR/USD as limited. The cautious July FOMC meeting is now in the price and although the Fed doesn't appear to aim to disrupt markets, it will nonetheless be ahead of the ECB in terms of the monetary policy normalisation. In contrast, the conclusion of the ECB strategy review does point towards a very cautious ECB that should keep the policy ultra-accommodative for a prolonged period of time. From this perspective, higher-than-expected eurozone 2Q GDP and June EZ CPI released today should not affect the EUR much – given that the dovish ECB bias is very clear.
- Domestically, it will be a very quiet week on the EZ data front. June retails sales (Wednesday) won't have much of an effect on the euro.

## JPY: Rally may have already run out of steam

|         | Spot   | Week ahead bias  | Range next week | 1 month target |
|---------|--------|------------------|-----------------|----------------|
| USD/JPY | 109.64 | Mildly Bullish ↗ | 109.20 - 110.70 | 111.00         |

- USD/JPY has attempted to enter a more sustained downtrend and to consolidate below the 110.00 level around which the pair has been hovering since early July. Record low real rates in the US and the waves of risk-off generated by Beijing's regulatory clampdowns are indeed offering a broadly supportive environment for the yen, although the large majority of the moves in the pair appear driven by USD dynamics.
- The Tokyo 2020 Olympics are heading to a conclusion next week, and despite the near total absence of crowds at the events, there have not been any virus-related interruptions so far. What is however an element of concern, and may impact Japan's growth outlook, is the flare-up in Covid-19 cases in Tokyo. Let's see if this will start to have an impact on the yen, which anyway may struggle to hold on to recent gains in the week ahead if, as we expect, the dollar stabilises, and solid US jobs data add some fuel to the recovery story.

## GBP: Not much surprise expected from the BoE

|         | Spot   | Week ahead bias | Range next week | 1 month target |
|---------|--------|-----------------|-----------------|----------------|
| GBP/USD | 1.3970 | Neutral         | 1.3800 - 1.4100 | 1.4000         |

- All the focus next week will be on the August BoE meeting (Thursday). We don't expect any new guidance on the interest rate path and look for the repeat of prior language that 'significant progress' is needed before stimulus is removed. Only 1-2 members are likely to vote for an early end of the QE. As this should not come a surprise to markets and the guidance should be seen as neutral, the impact on GBP should be rather limited.
- With EUR/USD stabilising and the dollar experiencing some tentative progress, GBP/USD is likely to test the 1.4000 level. However, given that we see an upside to EUR/USD as limited and the UK specific news should not provide too much boost to sterling next week, we don't look for a material spike in GBP/USD above the 1.400 level next week – rather a shallow one, if any.

## AUD: Quiet RBA meeting amid iron ore's scary swings

|         | Spot   | Week ahead bias | Range next week | 1 month target |
|---------|--------|-----------------|-----------------|----------------|
| AUD/USD | 0.7375 | Neutral         | 0.7310 - 0.7420 | 0.7500         |

- If concerns about Beijing's regulatory clampdown weren't enough to unnerve the over-exposed Australian market, a plunge in iron ore prices put strong curbs on AUD ability to cash in on USD weakness this week. Iron ore futures reverted to May's lows after China stepped up with more measures to curb steel production (in an attempt to reduce pollution), which have included the imposition of a tariff on steel exports.
- Domestically, the focus will be on the Reserve Bank of Australia August meeting (Tuesday). We think policymakers in Sydney (a city that is about to spend the whole month of August in lockdown) will not make any amendment to the current policy stance after the adjustments announced in early July. The [jump in inflation to 3.8%](#) in 2Q should be dismissed as transitory, and the Bank will likely wait for more indications from the labour market before reacting on the policy side. The recent spread of the Delta Variant, which is triggering fresh restrictions in Australia, is likely another reason why the RBA should revert from sounding more hawkish or upbeat on the recovery at this meeting. It's key to note that, differently from the US and Europe, only 14% of Australians are fully vaccinated. We think the RBA won't be able to lift AUD next week, with the currency that may remain a laggard in the pro-cyclical space and face material downside risks if iron ore prices keep falling.

## NZD: Jobs data to determine whether RBNZ will hike in August

|         | Spot   | Week ahead bias  | Range next week | 1 month target |
|---------|--------|--|-----------------|----------------|
| NZD/USD | 0.7000 | Mildly Bullish  | 0.6970 - 0.7110 | 0.7200         |

- The Kiwi dollar has rebounded fiercely this week, as markets channelled most China-related fears through AUD and the dollar weakness led most G10 currencies to recover recent losses.
- In the week ahead, the key focus will be on the release of 2Q jobs data in New Zealand. This is set to be a potentially pivotal event for NZ markets, as a strong read could raise the chances of an August rate hike by the Reserve Bank of New Zealand, to which markets are currently attaching a 65% probability. Consensus is already forecasting a drop in the unemployment rate to 4.4%, which could be enough to fully convince markets the RBNZ will hike in August. Barring a very grim read, we still think that the first hike will not come any later than October. The jobs data will likely determine the direction of next week for NZD if – as we expect – the USD stabilises. But considering an August hike is not fully priced in and the NZD looks cheap compared to its rate attractiveness, we are inclined to have a bullish bias on NZD in the week ahead.

## CAD: Bulls regaining some momentum

|         | Spot   | Week ahead bias | Range next week | 1 month target |
|---------|--------|-----------------|-----------------|----------------|
| USD/CAD | 1.2442 | Neutral         | 1.2350 - 1.2560 | 1.2400         |

- Supported oil prices and USD weakness allowed USD/CAD to move back below 1.2500 after having spiked to the 1.2750 area in the week before. We think the post-BoC profit-taking event is well past us, and markets are seeing reasons to slowly re-build CAD long positions.
- On Friday, the Canadian jobs figures for July will be published along with the US ones. We think both the US and Canada numbers should prove supportive for their respective recovery narratives, and ultimately beneficial for CAD as investors cement their view that the Bank of Canada will continue reducing asset purchases in the coming months. We remain of the view that the BoC will end its QE programme by year end, and see a non-negligible risk of a first hike in Canada in 2022. For next week, some USD recovery could curb USD/CAD gains, but CAD should fare well against low-yielding currencies.

## CHF: How nervous is the SNB getting?

|         | Spot   | Week ahead bias | Range next week | 1 month target |
|---------|--------|-----------------|-----------------|----------------|
| EUR/CHF | 1.0770 | Neutral         | 1.0730 - 1.0820 | 1.0900         |

- EUR/CHF has faced another week of losses, as CHF benefitted from a number of equity shocks coming from China and the strong inflation numbers in the eurozone were not enough to lift the EUR (considering the ultra-dovish ECB).
- The question now is how long will markets be able to test the Swiss National Bank tolerance for a stronger franc. If 1.0800 wasn't a line in the sand, a further drop to the 1.0700 level may see the SNB stepping up with more FX interventions. In the week ahead, the main data release to watch in Switzerland is July's inflation, which is expected to have ticked higher from 0.6% to 0.7%. This will make no difference to the SNB policy mix and should have very limited impact on CHF. We think that a combination of stabilising risk sentiment and SNB FX interventions suggests that EUR/CHF could be close to having reached the bottom of its recent downtrend.

## NOK: Still tied down by the low summer liquidity

|         | Spot    | Week ahead bias | Range next week   | 1 month target |
|---------|---------|-----------------|-------------------|----------------|
| EUR/NOK | 10.4390 | Neutral         | 10.3250 - 10.5130 | 10.2000        |

- NOK continues recovering some of its early July losses as the stabilising risk assets and recovering oil prices (Brent now meaningfully above US\$70/bbl) is a clear positive for the currency. The low summer liquidity (which is set to continue throughout most of August) should continue preventing NOK from the full catch-up with its short-term fundamentals but with Norges Bank being the most hawkish G10 central bank (two hikes expected in the remainder of the year) and the liquidity expected to come back after the current summer lull, there is more upside to NOK in the latter part of 3Q.
- As for the next week, the stable risk environment suggests that EUR/NOK should continue testing the 10.40 level. It is a very quiet week on the domestic data front, with July PMI Manufacturing (Monday) and June Credit growth (Friday) likely having no effect on the currency.

## SEK: Settling in the EUR/SEK 10.10-10.20 range

|         | Spot    | Week ahead bias | Range next week   | 1 month target |
|---------|---------|-----------------|-------------------|----------------|
| EUR/SEK | 10.1900 | Neutral         | 10.1520 - 10.2480 | 10.1000        |

- We expect EUR/SEK to start settling in the 10.10-10.20 range with the spikes above 10.20 level to be short-lived. The stabilising risk environment is a key supporting factor for the krona as, domestically, Riksbank won't offer much of a boost to the currency given its firmly cautious bias and its clear guidance for unchanged interest rates over the forecast horizon.
- Data-wise, we have Swedish Manufacturing and Services PMIs (Monday and Wednesday respectively) but a spill over into the currency should be very limited. It is all about the risk sentiment.

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