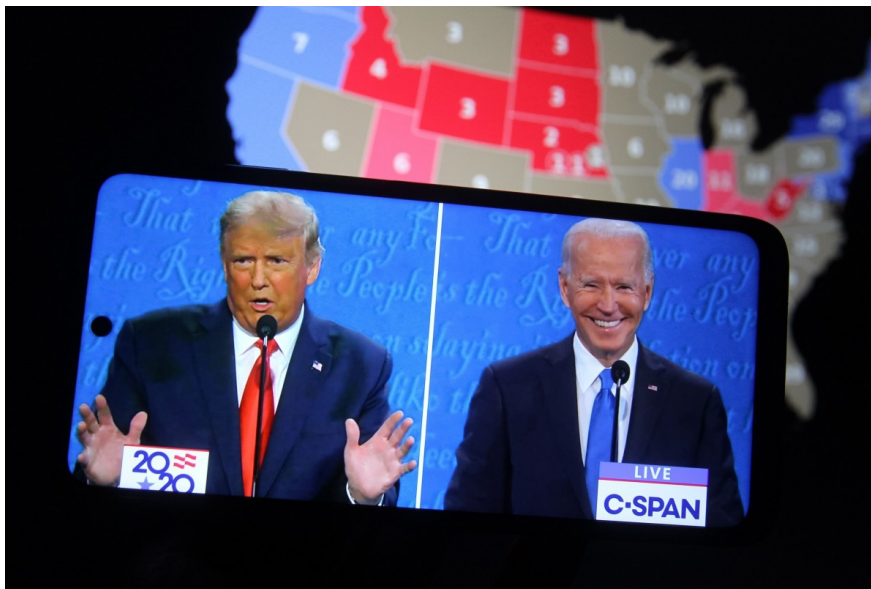


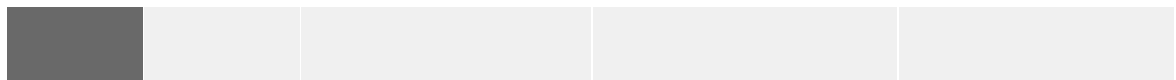
## G10 FX Week Ahead: Ruby Tuesday

We are going to trust the pollsters and expect a risk-friendly Biden win on Tuesday (negative for USD, positive for pro-cyclicals), but the risk of delayed results may be underestimated. The Fed meeting and latest US job numbers should play second fiddle. The Bank of England and RBA should increase the size of their QE, but we expect both to keep rates on hold




In this photo illustration the US President Donald Trump and Democratic presidential candidate Joe Biden are seen during the final presidential debate displayed on a screen of a smartphone.

Source: Shutterstock




## USD: Election being the sole focus and the sole driver

	Spot	Week ahead bias	Range next week	1 month target
DXY	93.90	Bearish 	92.5000 - 94.5000	93.0000

The US data calendar is super heavy next week and the usually important FOMC meeting and the US labour market report will play second fiddle to the US Presidential election (Tuesday) outcome. The market seems to be positioned for the Blue wave scenario, which would translate into weaker USD due to the mix of expectations for larger US fiscal stimulus (which would benefit cyclical FX), the subsequent confirmation of the low real rates for longer (as the Fed would stay behind the curve) as well as the anticipated return to the rules-based system for international relations (thus benefiting the safe-haven dollar less). All this should be positive for risk assets and higher beta G10 currencies but weigh on the dollar. As per [US Presidential election G10 FX scorecard](#), we see NOK and AUD benefiting the most from the Blue wave scenario. The key risks are a delayed or contested election results, both of which would lead to heightened volatility (hence we prefer wider ranges for the next week, both for DXY and other G10 crosses).

In terms of the delayed election results scenario, the three swing states of Pennsylvania, Michigan and Wisconsin don't start counting postal ballots until the election day and there could be delays. However, if some big states such Florida or Texas show Biden's victory, the picture will get clearer much earlier. Data-wise, the FOMC should retain a dovish bias on Thursday, being ready to do more should it be necessary, while Friday's US jobs report is likely to show a further loss of momentum. But what is normally the key US data points should be in the background next week.

## EUR: Benefiting from the weaker dollar

	Spot	Week ahead bias	Range next week	1 month target
EUR/USD	1.1680	Mildly Bullish 	1.1500 - 1.1920	1.1800

After the strongly dovish ECB meeting this week and its (in our view rather short-term) negative implication for the EUR, the EUR/USD price action next week will be all about the US factors, with the result of the US Presidential election being the key driving factor (see above). What seems at this point as the Blue wave outcome is likely to be positive for EUR/USD (largely due to its negative impact on USD) and should push the pair back towards/above the 1.1800 mark. While positive for EUR/USD, the euro should nonetheless lag most of its G10 peers (with the exception of the safe haven USD, JPY and CHF – see [US Presidential election G10 FX scorecard](#)).

On the domestic EZ front, it is a very quiet week, with September retail sales (Thursday) expected to have a negligible impact on EUR. Rather, more focus will be on the evolution of the Covid situation in Europe and the impact of the rising restrictive measures on the growth outlook. Still, with the ECB already pre-committing to act in December and not ruling out using all available instruments, a lot of bad news is by now priced into the euro. That's also why a market friendly result of the US Presidential election should push EUR/USD higher.

## JPY: The go-to currency for election-related uncertainty

	Spot	Week ahead bias	Range next week	1 month target
USD/JPY	104.70	Neutral	102.50 - 106.50	105.00

The yen is set to be a key beneficiary of any surprise result from Tuesday's election. The recent uptick in USD/JPY implied volatility around the election day tenor is a sign investors have started to feel less relaxed around the vote and the perceived probability of "alternative scenarios" to the market-friendly Blue wave appears to have risen. However, the market's pricing appears still heavily tilted towards a Biden win and – if polls are not to be trusted – then the balance of risks for the yen is surely tilted to the upside next week.

One factor to surely take into consideration is the possibility of delays in the results and we may not get clarity about a definitive winner until later in the week. Should this be the case, volatility and uncertainty may be shaking global markets and USD/JPY would find some good support before falling later in the week if Biden ultimately comes up with a victory. Our FX scorecard indicates that the USD is the other currency likely to benefit from a Trump victory/contested/delayed result, so JPY value will likely have to be searched in the crosses (i.e. vs pro-cyclicals and EUR).

## GBP: Silently moving closer to the trade deal

	Spot	Week ahead bias	Range next week	1 month target
GBP/USD	1.2955	Bullish ↗	1.2800 - 1.3250	1.3100

GBP benefits and should continue benefiting from the rising prospects of the UK-EU trade deal. The period of negative headline news has ceased and although there have been no official reports, the newsflow suggests progress is being made towards a deal around mid-November / second half of November. The overriding importance of this domestic driver has kept GBP fairly immune from global factors. The possible Blue wave scenario in the US election next week and the support to risk assets and the accompanying dollar decline should push GBP/USD back above 1.30, largely via its impact on the EUR/USD cross (rather than on EUR/GBP).

On the domestic UK front, the focus will be on the Bank of England meeting. A further monetary stimulus next week looks inevitable and we expect the increase in quantitative easing by £100bn. As for the issue of negative interest rates, the BoE should refrain from it, pointing to the ongoing review of its effectiveness and its impact on banking sector profitability. At this point, the odds of negative rate are highly tied up with the UK-EU trade negotiation outcome. As the BoE should keep interest rate unchanged and the QE expansion is widely expected, its impact on GBP should be shallow.

## AUD: RBA surprise hold and Biden win – it could be a great week for AUD

	Spot	Week ahead bias	Range next week	1 month target
AUD/USD	0.7028	Bullish ↗	0.6880 - 0.7270	0.7200

3 November has the potential to be a pivotal day for the Aussie dollar. The Reserve Bank of Australia's rate decision (at 03:30 GMT on 3 November) is one of the most-awaited in a long time: economists' consensus and market pricing are widely expecting a 15bp cut to the Cash Rate. We don't agree and expect the RBA to adjust from a yield target of QE to a volume (AUD100bn) target and start buying longer-dated bonds. We discuss our view (and the AUD implications) in detail in: ["Australia: The case against a rate cut"](#). We see the balance of risks as heavily tilted to the upside for AUD ahead of the RBA meeting.

Still, the RBA impact is set to be rather short-lived and will soon be mixed up with the election results, which may start to take shape on the night of Tuesday although more than one day may be needed before a clear winner emerges (as highlighted in the USD section). While delays would likely keep the whole pro-cyclical FX space under pressure, AUD may be a key outperformer in the case of a Biden landslide win (the most likely scenario, if polls are to be trusted), as shown in our US Election FX Scorecard.


## NZD: Following the global mood, but keep an eye on jobs data

	Spot	Week ahead bias	Range next week	1 month target
NZD/USD	0.6620	Bullish ↗	0.6480 - 0.6820	0.6900

While the NZD is set to be another beneficiary of a potential large victory by Joe Biden (and one of the main losers if Trump wins), short-term overvaluation (according to our fair value model) and an overstretched net-long positioning suggest a somewhat less upside potential compared to its closest peer AUD.

The NZ jobs numbers for 3Q will be released on the night (in European times) of the US elections, and they will likely be overshadowed by the first projections. If the impact won't be visible, the implications for the Reserve Bank of New Zealand are not negligible, and markets will likely go back to look at those figures once the US election-related dust has settled. The unemployment rate is set to rise (consensus is looking at 5.5%) after surprisingly sticking to very low figures. Any sign that the jobs market has held on well despite the Auckland lockdown and other restrictive measures may partly dent the rather cemented expectations around more QE and Negative Interest Rate Policy by the RBNZ.

## CAD: Looking at the neighbours

	Spot	Week ahead bias	Range next week	1 month target
USD/CAD	1.3340	Bearish 	1.2970 - 1.3600	1.3000

CAD is the G10 currency with the largest positive correlation with global risk appetite (as measured with the MSCI World Index) and the US election will unilaterally decide the direction for this week for the loonie. A Biden landslide win has the potential to push USD/CAD to the 1.3000 handle (or below). Looking at the domestic factors, the Bank of Canada meeting this week was characterized by a dovish tone – as widely expected – with a pledge to keep rates lower for longer and a recalibration of QE to purchase longer-date bonds. As discussed in our reaction piece, the implications for CAD are not set to be significant.

On Friday, we will also have jobs data out of Canada and while the US election will still be centre stage, it will be interesting to monitor whether the jobs market has continued to stay on a recovery path despite a worsening Covid-19 situation. Another robust read can suggest an even lower probability the BoC will act again in the foreseeable future.

## CHF: Stuck in the middle?

	Spot	Week ahead bias	Range next week	1 month target
EUR/CHF	1.0679	Mildly Bullish 	1.0640 - 1.0760	1.0700

According to our US Election FX Scorecard, CHF looks less vulnerable than JPY and USD in a Blue wave scenario and accordingly displays a more contained upside potential if Trump wins. We therefore think the franc may be show a less pronounced volatility compared to other G10 currencies on the days after the election.

A potential factor through which CHF may be idiosyncratically affected by the election are the expectations around a softer stance on currency interventions by a possible Democratic administration. The Treasury announced that the FX manipulation report will be published after the elections and considering that Switzerland is deep into manipulation territory (according to the Treasury criteria), CHF investors will likely keep an eye on developments in this context. In theory, a softer stance on FX interventions by the US can generate selling interest on the CHF, and this might add up to the downside pressure generated by a risk-on reaction to a Biden landslide victory.

## NOK: The most responsive G10 currency to the election outcome

	Spot	Week ahead bias	Range next week	1 month target
EUR/NOK	11.1120	Bearish ↘	10.8000 - 11.3000	10.7000

As outlined in our [US Presidential election G10 FX scorecard](#), NOK should benefit the most among G10 FX from the potential Blue wave outcome in the US Presidential election as the currency's sensitivity to equity markets, the UST yield curve and its current short-term undervaluation all point to NOK gains. The market friendly outcome of the US elections should therefore bring EUR/NOK back below the 11.00 level. Equally, in the case of contested election and the accompanying uncertainty and the dent to risk sentiment, NOK would be one of the most vulnerable - though such a scenario is not our base case.

Domestically, the focus will be on the Norges Bank meeting (Thursday). No change in interest rates is widely expected and with the NB previously already pouring cold water on expectations of policy tightening (saying the policy will stay at current level over the next couple of years) the scope for a dovish surprise is limited, particularly when the NB seems unwilling to move into the negative territory (and rates are already at zero). The NOK price action next week will be primarily about the impact of the US Presidential election result on risk sentiment, rather than the NB meeting.

## SEK: Benefiting from the potential market friendly US election outcome

	Spot	Week ahead bias	Range next week	1 month target
EUR/SEK	10.3750	Mildly Bearish ↘	10.2360 - 10.4610	10.3000

In line with other cyclical G10 currencies, SEK has been following the changes in risk appetite, suffering when equity markets faltered and rebounding modestly today. We expect the market friendly US election outcome (the Blue wave scenario) to help SEK and push EUR/SEK below the 10.300 level - which it briefly breached at the beginning of the week.

On the data front, the focus will be on Swedish Oct Manufacturing (Monday) and Services (Wednesday) PMIs and the 3Q GDP (Thursday). The forward-looking indicators should remain in expansionary territory. Although 3Q GDP should record a meaningful rebound, this will be considered as yesterday's news given the resurgence of the pandemic in Sweden and wider Europe. Hence, the impact on the currency will be limited, with EUR/SEK largely trading based on shifts in global risk sentiment stemming from the US election outcome.

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