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Article

## G10 FX Week Ahead: Can the Fed save the dollar?

The highlight of the week ahead will be the release of the January FOMC minutes, a host of Fed speakers and then the semi-annual monetary policy report. Can the Fed turn this dollar bear trend around?

### Fed and ECB minutes the best hope for EUR bears

	Spot	Week ahead bias	Range next week	1 month target
EUR/USD	1.2435	Mildly Bullish	1.2385 - 1.2660	1.2500

- We're clearly witnessing a weak dollar environment, with early signs that investors are demanding concessions (both in FX and yields) to hold US bonds. After a market holiday on Monday, the US focus will shift back to the Fed story. The minutes of the Jan FOMC meeting are released on Wed, with several Fed speakers then to be heard before the release of the semi-annual monetary policy report on Friday. This is all preparation for the main event on Feb 28th, when new chair Powell testifies to Congress.
- While the Fed tone may be a little more hawkish, a lot of Fed tightening is already priced this year, thus the dollar need not rally. In the EZ, we'll also see ECB minutes (Thurs) plus German IFO and flash Feb PMIs across the Eurozone. ECB minutes may try to exaggerate concerns over FX volatility, but we suspect any EUR/USD correction proves temporary - and that EUR/USD could test a big trendline just above 1.2650.

### MoF intervention threats look empty

	Spot	Week ahead bias	Range next week	1 month target
USD/JPY	106.21	Mildly bearish	105.20 - 107.40	105.00

- USD/JPY has failed to find any support from higher US yields and we doubt that a slightly more hawkish Fed stance makes much difference here. Instead, the FX market will increasingly be looking at US Treasuries and any signs of waning appetite - such as weaker auctions/outflows etc. The main Japanese data this week is the Jan CPI release on Thursday - any upside surprise could support the JPY.
- Friday's push to 105.55 prompted the MoF to warn against one-sided JPY moves. Yet the chances of BoJ intervention are very low... intervention would trigger the currency manipulator label from the US Treasury - and the last time the BoJ intervened was when USD/JPY was trading below 80 in 2011.

### UK jobs data to firm up a May BoE hike?

	Spot	Week ahead bias	Range next week	1 month target
GBP/USD	1.4010	Mildly bearish	1.3950 - 1.4200	1.4000

- GBP/USD has been enjoying the weak dollar environment, which may well continue next week. We'll also be focusing on UK jobs data on Wednesday. A big pick-up in the numbers of employed looks assured because of base effects, but we also see some slight upside risk to the 2.4% 3m YoY wage figure. That could push the market a little more in the direction of pricing a May BoE hike (63% probability assigned to a hike currently).
- Brexit risks remain a threat to GBP long positions - and volatility looks assured - in the run-up to the March 22nd EU leaders summit. In theory a transition deal should be agreed by then. Before then, however, there will be much hard-bargaining which could easily deliver a temporary setback to GBP longs.

### Real CHF TWI is a lot lower

	Spot	Week ahead bias	Range next week	1 month target
EUR/CHF	1.1500	Mildly bearish	1.1470 - 1.1570	1.1600

- EUR/CHF has found some temporary support at 1.1450 and the market will again be looking at Swiss sight deposit data on Monday for any signs of SNB intervention (none so far). However, the inflation adjusted CHF has corrected a lot lower - and the market will be guessing when the SNB is ready to normalise. EuroSwiss futures priced 59bp of tightening by end 2019.
- In terms of local data, the highlight is probably 4Q17 Industrial Production data on Thurs - which should presumably be good and could pose some upside risks to CHF.

### RBA minutes should show relaxed policy makers

	Spot	Week ahead bias	Range next week	1 month target
AUD/USD	0.7913	Mildly Bullish	0.7870 - 0.7990	0.7800

- AUD has taken advantage of the weak dollar and pushed on close to 0.80. Commodity prices (eg iron ore & copper) remain firm and the AUD is withstanding the rise in Treasury yields well. The local highlight this week will be the release of RBA minutes on Tuesday. So far the RBA has done a good job of reining in tightening expectations - where a rate hike by year-end is still only 64% priced (it was 96% priced last October).
- There is also RBA speaker Bullock on Monday, but this looks more a financial stability issue. Let's see how AUD copes with the return of Chinese markets on Monday.

### NZ 4Q17 retail sales in focus

	Spot	Week ahead bias	Range next week	1 month target
NZD/USD	0.7385	Mildly bearish	0.7320 - 0.7435	0.7200

- NZD enjoyed the weak dollar environment and the modest pick-up in inflation expectations. We see little on the local calendar to drive NZD this week. We also note that 0.7435 seems to be pretty strong technical resistance.
- The market is quite relaxed on RBNZ policy this year - just attaching a 46% probability to a hike in the current 1.75% policy rate. If there is to be any local factors dominating here this week it maybe Thursday's release of 4Q17 retail sales. A big pick-up is expected after

the weak 3Q17 figure.

### Caught between weak dollar and weak crude

	Spot	Week ahead bias	Range next week	1 month target
USD/CAD	1.2545	Neutral	1.2420 - 1.2600	1.2400

- USD/CAD is caught between the weak dollar story and also a modest set-back in energy. We think both of those factors will continue to exert an influence over coming months, but probably a hawkish BoC will see USD/CAD nudge towards the 1.24 area.
- This week the local CAD data sees focus return to CPI. Here the market expects CPI to continue around the 1.9% area. That's probably enough to keep the market minded towards an April BoC rate hike - currently 63% priced.

### Modest downside risk from the Jan CPI

	Spot	Week ahead bias	Range next week	1 month target
EUR/SEK	9.8925	Neutral	9.8370 - 9.9670	9.8000

- The key focus of the week is the Swedish January inflation (Tue). We look for largely unchanged CPI and CPIF, yet we see downside risks to the forecast (following the downside surprise to Norway Jan CPI as well as the erratic nature of the January reading).
- Although this points to a modest upside risk to EUR/SEK on the day, it should not materially effect the Riksbank outlook for this year and next (as inflation is stabilizing around the target). Hence, we look for EUR/SEK to hover around 9.90 level.

### Driven by the global risk sentiment

	Spot	Week ahead bias	Range next week	1 month target
EUR/NOK	9.6620	Mildly bearish	9.5780 - 9.7580	9.6500

- NOK is likely to continue in its recovery (following the early January sell-off) as the risk environment and oil price stabilizes and stock markets grind higher. Yet, with the oil price being well below the January's high, we see a limited room for EUR/NOK to persistently and materially break below the 9.6000.
- On the domestic front, the Norway Dec unemployment rate (Wed) should exert a limited influence over NOK, with EUR/NOK price action being primary a function of the global risk sentiment.

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