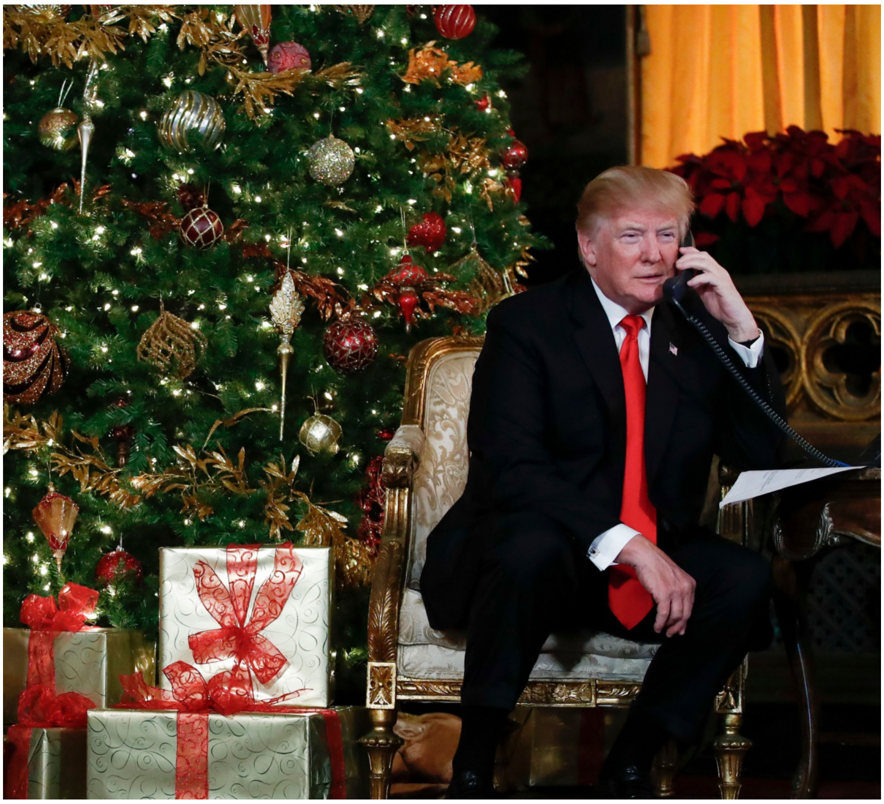
G10 FX Week Ahead: Christmas wrapping

Don’t go on holiday just yet as the week before Christmas is packed with data and key events. The BoE, BoJ, Norges Bank should keep it low, while the Riksbank should deliver on its promise and hike. Mixed PMIs in the eurozone keep suggesting limited upside potential for the euro, while Antipodeans face a slew of key data



EUR: A small step above 1.12

	Spot	Week ahead bias	Range next week	1 month target
EUR/USD	1.1142	Mildly Bullish	1.1070 - 1.1250	1.1000

- The positive spill-over effect of UK election into EUR/USD seem to have worn off. As we head to the Christmas holidays, the week ahead presents a few interesting events and releases. In the eurozone, the PMIs are published today and in line with consensus we're expecting another tick-up in the manufacturing numbers. However, our economists see the risk of a weaker services reading, which may partly offset the positive market impact. The IFO Institute indicators are also expected to inch higher. However, the grim economic outlook for the Common Area and the prospects of lower yields for longer suggests that data surprises are bound to still have limited positive impact on the euro.
- In the US, the calendar is filled with a number of surveys (PMI, Philadelphia Fed, Empire manufacturing) and the industrial production numbers for November will be watched too as many expect a fierce rebound. Housing numbers should find support from a decline in mortgage rates and personal spending is also seen to be holding up well. All in all, some broadly constructive data flow, paired with the well-supported rates (thanks to the US-China trade deal), suggest we'll likely lack some evident catalysts for dollar weakness next week. Nonetheless, expect EUR/USD to keep broadly having limited upside potential due to the euro's attractiveness as a funding currency in the supported risk environment. The pair may break 1.1200 but should find resistance around 1.1250 (August highs).

JPY: Static BoJ no help to the yen

	Spot	Week ahead bias	Range next week	1 month target
USD/JPY	109.60	Mildly Bullish	108.50 - 110.70	108.00

- The yen was caught in the crossfire late this week as the US-China trade deal was signed off by President Trump and the Conservative party won by a large margin in the UK. While some more details on the trade deal should come through later in the week, the risks for JPY remain tilted to the downside as the recent round of risk appetite keeps drying up haven demand.
- Markets will also be watching the central bank of Japan's meeting on Wednesday. The rate announcement comes after a week of Japanese central bank speakers commented on monetary policy last week. First, Governor Kuroda referred to the global economic outlook for 2020 as "bright", but his deputy, Masayoshi Amamiya, later said that the central bank is ready to add more stimulus if downside risks rise. We struggle to see any room for a material surprising tilt in the BoJ stance this week, which means the yen is unlikely to find anything to grab on to avert another unhappy week. USD/JPY to break above 110.

GBP: Bulk of the gains is behind us

	Spot	Week ahead bias	Range next week	1 month target
GBP/USD	1.3334	Mildly Bullish	1.3200 - 1.3520	1.3800

- Following the post-election rally, the GBP price action should stabilise this week, with the currency volatility declining. While the GBP outlook for 2020 remains tricky (largely due to the uncertainty about the transition period extension), sterling could gain modestly this week particularly if the initial stages of the Withdrawal Agreement Bill are completed. As for the Bank of England meeting on Thursday, our economists expect the Bank to remain cautious (due to activity stalling and rising risks surrounding the jobs market). No shift towards a more hawkish stance also suggests a limited upside sterling potential stemming from the BoE. UK December PMIs due on Monday won't reflect the UK election result so won't really reflect the post-election sentiment.
- We estimate that the market-friendly UK election outcome was worth around 4% in GBP gains meaning that any further sterling upside should be modest (ie, GBP/USD not breaching the 1.35/36 area), particularly when the bulk of the good news is behind us and GBP still trades with a modest premium (even though its short term fair value increased modestly as the market repriced the BoE outlook to less dovish).

AUD: Back to the unemployment dilemma

	Spot	Week ahead bias	Range next week	1 month target
AUD/USD	0.6906	Neutral	0.6830 - 0.6950	0.6900

- AUD has been rallying for most of the last week as the US-China trade deal paired with good momentum for industrial metals revamped some appetite for the currency. The positive trade story may continue to support AUD/USD that can reasonably close the year at 0.70 or higher.
- Data wise, all eyes will be on unemployment data. Recent dynamics have accustomed us to the make-or-break potential of Australia jobs reports, and this time won't be any different. Markets have been increasingly torn around the idea of more RBA easing early next year as data (GDP growth) failed to flag an effective pass-through of the RBA stimulus. A 0.1% deviation in unemployment will be enough to give an exact direction to rate expectations, even though the 4.5% target indicated by the central bank is still out of reach. The RBA December minutes, out on Tuesday, may not be of particular interest as the policy meeting took place before the release of the weaker growth data.

NZD: Growth to support the kiwi$ momentum

	Spot	Week ahead bias	Range next week	1 month target
NZD/USD	0.6610	Bullish	0.6575 - 0.6640	0.6700

- After failing to break below 1.04, AUD/NZD has corrected higher on the back of a supported AUD and smaller than expected infrastructure investment announced by Kiwi policymakers. The New Zealand dollar net speculative positioning corrected higher but remains deep into short territory which still warrants upside potential.
- This week's calendar will be focused on 3Q GDP numbers. Market expectations are for a tick-up in growth from 2.1% YoY in 2Q, and our economics team see room for a positive surprise. We expect the data flow to keep endorsing markets perception that the RBNZ will keep from easing monetary policy further in the coming months. In this view and considering potential downside risk from Australian labour data, we continue to see room for further depreciation in AUD/NZD. It's worth keeping an eye on trade data to see whether the resilience in New Zealand exports have continued in November. Similar to AUD, NZD/USD should keep benefitting from the Sino-American trade deal story next week.

CAD: Inflation to stay at target

	Spot	Week ahead bias	Range next week	1 month target
USD/CAD	1.3160	Mildly Bearish	1.3040 - 1.3323	1.3100

- USD/CAD has moved back below 1.3200 thanks to a supportive risk environment that helped the loonie recover after last week's big slump in employment. We see little impediments to CAD cashing in on the risk-on mood and some support may also come from the ratification of the USMCA by the US Congress.
- On Wednesday, markets will closely watch November CPI data. Latest payrolls raised concerns about the labour picture, but the resilient wage growth (4.4% YoY in November) is likely to keep inflation around the Bank of Canada 2% target. While we expect the inflation picture to remain supportive for rates, we do see the BoC delivering a one-off cut in 1Q20 as the external factors keep posing risks to the outlook. More details in our recent update on the BoC and CAD: "Canada: One more rate cut early next year".

CHF: Still downside risk, but less than JPY

	Spot	Week ahead bias	Range next week	1 month target
EUR/CHF	1.0968	Mildly Bullish ↗	1.0910 - 1.1035	1.1000

- The SNB left its monetary stance unchanged this week, but – as noted by our economics team – sounded more dovish as the staff forecasts for conditional inflation were revised downwards. However, with no expected tilt to the Bank's ultra-accommodative policy on the horizon, the impact on CHF has remained muted.
- The market-friendly outcome of UK general election has pushed EUR/CHF close to the 1.10 level but the pair may have further upside room next week as global risk sentiment should remain supported. However, the franc is less exposed than the yen to trade story and can retain some attractiveness as doubts about the Eurozone outlook linger.

NOK: No surprise from NB, krone prospects remain attractive

	Spot	Week ahead bias	Range next week	1 month target
EUR/NOK	10.0630	Mildly Bearish ↘	9.9760 - 10.1570	10.1000

- The Norges Bank meeting (Thu) should not bring many surprises. The central bank should remain on hold and the interest rate path should remain largely unchanged (as negatives such as lower than forecasted Q3 GDP are offset by weaker than forecasted NOK within the bank's model), with a modest hawkish bias (the NB forecast retaining the possibility of a hike in 2020)
- With the risk appetite stabilizing (market friendly UK election outcome, improvement on the US China trade front) we see NOK as the most attractive European G10 currency. Solid carry, seasonal NOK strength in January and cheap valuation all suggest the krone's outperformance next year.

SEK: Priced in Riksbank hike won't have a positive impact on SEK

	Spot	Week ahead bias	Range next week	1 month target
EUR/SEK	1.4525	Mildly Bullish	10.3770 - 10.5700	10.7000

- We expect the Riksbank to deliver the well signalled 25bp rate hike on Thursday, achieving its aim to bring the interest rate out of the negative territory. Yet, given the soft growth and inflation outlook, the hike is likely to be of one-and-done nature and the signalled rate path for 2020 should be flat (ie no hike). This means that SEK is unlikely to benefit from the hike as (a) such an outcome is widely expected, (b) it is not the start of a tightening cycle.
- We continue to see SEK as lagging NOK next year and the currency reaction to the UK election outcome provided the case in point. SEK was flat vs EUR while NOK strengthened by 0.5%.

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