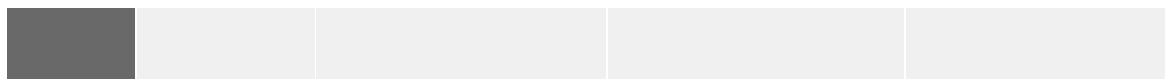


## G10 FX Week Ahead: Crisis... what crisis?

Equity markets continue to bounce back from Monday's heavy losses and despite signals from the US bond market, there are no widespread signs of crisis. An upbeat Fed should keep the dollar supported in the week ahead, while the eurozone's exit from recession looks unlikely to help the euro. A spike in Australian inflation could fuel bets on a less dovish RBA



## USD: Should stay bid into the Fed

	Spot	Week ahead bias	Range next week	1 month target
DXY	92.9400	Mildly Bullish 	92.5000 - 93.5000	93.5000


- The dollar should stay gently bid into Wednesday's FOMC meeting. Despite lockdown concerns elsewhere in the world fuelled by the Delta variant, we expect the Fed will have to deal with the realities of above-trend growth and inflation. While it may not specify exactly when it is ready to taper, the tone should generally support the view that tapering should emerge in 4Q this year, with the possibility of a first hike coming in 4Q22. US data this week will provide a first look at 2Q21 GDP growth – expected at 8-9% quarter-on-quarter annualised – plus also June readings for personal consumption and the PCE deflator. In addition, we'll see updates on durable goods orders, consumer confidence and new home sales.
- The week ahead will also see the IMF release an interim update on its World Economic Outlook. In April, the fund saw the world growing by 6% in 2021 and 4.4% in 2022. It will be interesting to see if the IMF downgrades China's forecasts much, if at all. In April, the IMF had China growing at 8.4% in '21 and 5.6% in '22. With emerging market economies understandably lagging in the vaccination race, portfolio flows to EM have been in reverse over recent weeks, which is another factor why the dollar may stay supported near term.

## EUR: Exit from recession unlikely to help

	Spot	Week ahead bias	Range next week	1 month target
EUR/USD	1.1766	Mildly Bearish 	1.1710 - 1.1850	1.1800

- It's a big week for eurozone data, with a first look at 2Q GDP and the flash July CPI release. On the former, the consensus expects a 1.5% quarter-on-quarter expansion, as the eurozone exits its technical recession. Hopes for much stronger growth in 3Q are under a little pressure, however, as the Delta variant hits confidence. A pick-up in eurozone headline CPI to 2.0/2.1% year-on-year looks unlikely to move markets. This comes after the European Central Bank's policy review, which shifted forward guidance such that the ECB will not consider raising rates until CPI is sustainably at 2% over a 12-18 month forecast horizon. Currently, the ECB sees CPI at 1.4% in 2023.
- Other data of note will be the July German Ifo and also the eurozone confidence surveys for July. German July PMIs actually held up quite well despite fears over supply chain disruptions etc. We'll also see European leaders discussing their emergency fiscal support plans – the Recovery and Resilience Facility. Some of this money should be dispersed later this year, although Hungary's request for EU funds is running into delays given the stand-off with the EU over LGBTQ issues. In all, we see EUR/USD staying soft this week, with an upward adjustment in US money market rates likely pressuring EUR/USD towards major support at 1.1700.

## JPY: False start

	Spot	Week ahead bias	Range next week	1 month target
USD/JPY	110.47	Mildly Bullish 	109.50 - 111.00	111.00

- Last Monday it looked as though the Japanese yen would be one of the strongest currencies on the week as risk assets came under pressure and the Fed tightening cycle was repriced lower. This proved a false start, however, as equity markets quickly reclaimed their losses. The coming week is a big one for US earnings, with big tech heavyweights due to report. It still seems far too early in the cycle for equities to turn lower on a sustainable basis. Thus, the JPY will probably remain an underperformer.
- Locally, the focus will be on the start of the Olympics and whether it can proceed as planned during the pandemic. Clearly, the lack of spectators is a major loss for the Japanese economy, but a cheap exchange rate and a generally buoyant international manufacturing sector should keep Japan's export machine going – we'll get some insights on this from Monday's July PMI releases. We are starting to question whether the dollar will rally more broadly this summer, and a move through 112.20 in USD/JPY could draw in more asset managers that trade on momentum.

## GBP: Downside risks remain in place

	Spot	Week ahead bias	Range next week	1 month target
GBP/USD	1.3730	Mildly Bearish 	1.3570 - 1.3900	1.4000

- GBP/USD has been struggling due to both specific negative news on sterling and the declining EUR/USD. Next week should offer no real changes, with the July FOMC meeting posing a downside risk to low yields vs the dollar (see above) should the Fed drop some hints about Jackson Hole or tapering in September. On the GBP side, UK clashes with the EU – in trying to renegotiate the conditions of post-Brexit trade in Northern Ireland – should also tame any meaningful upside to sterling.
- It will be a very quiet week on the UK data front next week, with a limited spillover into sterling. July Nationwide House prices (Wednesday), June consumer credit and June mortgage approvals (both Thursday) shouldn't affect GBP in any meaningful way.

## AUD: Inflation spike could add pressure to RBA

	Spot	Week ahead bias	Range next week	1 month target
AUD/USD	0.7371	Mildly Bullish 	0.7330 - 0.7450	0.7500

- With risk sentiment remaining unstable, AUD/USD has moved below the 0.7400 level for the first time since late 2020, with a correction in iron ore prices also likely playing a role.
- Next week's main event in Australia is the release of 2Q inflation figures. Our economics team estimates that headline CPI grew 3.5% YoY, which is marginally below consensus. So far, the Reserve Bank of Australia has not budged, sticking to its dovish stance despite many developed central banks having moved to the hawkish side. It is still likely that one high inflation reading won't be enough to generate a U-turn in the RBA's tone, as evidence that inflation pressures are more persistent will likely be needed. But this should still put some pressure on the RBA to start discussing an earlier start to the tightening cycle. Markets are only pricing 40bp worth of tightening in Australia in the next two years (by comparison, the pricing in New Zealand is for 100bp), so there is considerable room for markets to speculate on a hawkish turn in the RBA's language in 2H21. We expect this could help AUD reclaim some lost ground next week, although mostly in the crosses as the US dollar could come out broadly stronger from the FOMC meeting.

## NZD: Holding pattern, waiting for early august jobs data

	Spot	Week ahead bias	Range next week	1 month target
NZD/USD	0.6977	Neutral	0.6900 - 0.7050	0.7200


- Following the Reserve Bank of New Zealand policy meeting and inflation report, Kiwi markets have entered a quiet period. The data calendar is still rather dull in the week ahead, with some focus on the (usually, not market-moving) trade data for June.
- This leaves the New Zealand dollar almost totally driven by external factors and global risk appetite until the 4 August 2Q employment data, which we see as a key input to gauge the probability of an August rate hike by the RBNZ. We continue to expect that the central bank's hawkish stance will help NZD to outperform in the G10 once risk sentiment stabilises.

## CAD: Bulls regain some momentum

	Spot	Week ahead bias	Range next week	1 month target
USD/CAD	1.2571	Mildly Bearish 	1.2450 - 1.2640	1.2300

- The loonie has been the best performing currency in the G10 this week, possibly benefiting from a delayed reaction to last week's Bank of Canada meeting (which saw another round of tapering) after some profit-taking appeared to have got in the way after the meeting.
- The week ahead is rather busy data-wise in Canada. Inflation numbers for June are expected to remain above 3%, with the risk of yet another spike, in line with what we are seeing in the US. Barring a material drop in the inflation numbers (which appears unlikely in our view), we think the release will consolidate the view that the Bank of Canada will end asset purchases by the end of the year, and allow markets to speculate on a first hike in the first half of next year. GDP data for May will also be in focus, but is likely to have a more limited market impact. All in all, we think the recent good performance by Canada's dollar, despite the US dollar having remained broadly supported, can continue next week.

## CHF: Dovish ECB keeps EUR/CHF pressured

	Spot	Week ahead bias	Range next week	1 month target
EUR/CHF	1.0831	Mildly Bullish 	1.0800 - 1.0890	1.0900

- Consistent with a trade-weighted euro at its lowest levels in 12 months, EUR/CHF remains soft. Hopes for a less dovish setting of ECB policy in September have been dashed. Indeed, somewhat amazingly, there is now speculation that the ECB will increase, not decrease its PEPP purchases! In response, the Swiss National Bank is left to watch EUR/CHF sink and remains a little cautious about intervening after having its knuckles rapped by Washington last year. The way things are looking right now, EUR/CHF could well break below the 1.0800 area and drop to 1.0735.
- Locally, we will get the July update of the Swiss KOF leading indicator. This is expected to come off the boil a little further – although from very elevated levels. The debate for EUR/CHF is probably whether the EUR or the CHF proves the better funding currency – and certainly we've seen CHF outperform in bouts of risk aversion. Higher volatility in thin August markets is probably also a factor that could keep EUR/CHF under pressure.

## NOK: Recovering from the liquidity exaggerated sell off

	Spot	Week ahead bias	Range next week	1 month target
EUR/NOK	10.4090	Mildly Bearish 	10.2740 - 10.5770	10.2000

- Following the pronounced sell-off during the first part of July, Norway's krone started recovering as risk sentiment began to tentatively stabilise and oil prices recovered back above the US\$70/bbl level. Importantly, some of the prior EUR/NOK overshoot was caused by poor summer liquidity, a factor NOK is vulnerable to, as it is the least liquid currency in the G10 FX space. This means that the recent krone recovery is justified, in our view.
- It is a quite week on the Norwegian data front. June retail sales (Wednesday) and July unemployment numbers (Friday) should have a limited impact on NOK. General risk sentiment should remain the key driver of the currency next week and following the overshoot of EUR/NOK, we expect the pair to slowly grind lower next week.

## SEK: Dovish ECB to support renewed downward EUR/SEK trend

	Spot	Week ahead bias	Range next week	1 month target
EUR/SEK	10.2070	Neutral	10.1470 - 10.2700	10.1000

- Sweden's krona has outperformed Norway's krone in the July sell-off, a function of lighter positioning and modestly better liquidity. With the risk environment tentatively stabilising, we expect EUR/SEK to grind lower, back below the 10.20 level. The dovish bias from the July ECB meeting and the prospect of the ECB keeping its accommodative stance in place for longer is also marginally positive for SEK vs EUR, particularly as the Riksbank is one of banks at the more dovish end of the G10 central banking spectrum (though less dovish than the ECB).
- On the data front, we have June retail sales (Wednesday), the July economic Tendency Survey (Thursday) and Q2 GDP (Thursday). These are unlikely to be SEK negative but equally, with the Riksbank being cautious and signalling no change in interest rates over the forecast horizon, any upside surprise should not be overly positive for SEK either.

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