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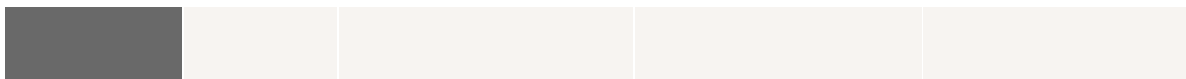
FX NORWAY SWEDEN

G10 FX Week Ahead: Cold Trade Wars, Cold Currency Wars and Cold Shoulders

It s certainly getting hot in here, but there s no reason to take your pulse off the markets in the week ahead. With President Trump throwing cold water over trade war risks, albeit temporarily, the focus turns to monetary policy - with three of the major four central banks meeting (BoJ, Fed and BoE). With month-end to also consider, it could be a choppy week



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EUR: More of the same

	Spot	Week ahead bias	Range next week	1 month target
EUR/USD	1.1650	Neutral	1.1550 - 1.1790	1.1700

- We look for yet another week of range-bound trading. Although both German (Mon) and EZ (Tue) CPIs are set to remain at the 2% target, we don't expect any major positive spill over into the EUR given the ECB's dovish forward guidance of the deposit rate path (as reiterated by ECB President Draghi during the July meeting). With core CPI set to remain around 1%, there is no rush for the ECB to change its stance now. The EZ GDP data (Tue) should print at 0.4% QoQ, the same as during the first quarter.
- In the US, we should see yet another solid unemployment report (Fri), with NFP rising by 190K, the wage growth remaining at 2.7% and the unemployment rate falling below 4%. While solid, we don't see it as overly negative for EUR/USD as the data should confirm the near-term expected path of the Fed funds rate, with two rate hikes nearly priced in for the remainder of the year. In turn, the positive effect on USD against EUR should be limited, also in the context of the meaningful correction in long EUR/USD speculative positioning over the past months. The FOMC should keep rates unchanged on Wed, yet the bias is expected to stay the same and indicate further gradual tightening ahead.

JPY: No fundamental reason for BoJ to tighten... but they may well surprise

	Spot	Week ahead bias	Range next week	1 month target
USD/JPY	111.00	Neutral	110.00 - 112.50	110.00

- Bank of Japan meetings rarely yield any prior excitement – and so next week’s event (Tue) will surely be special given that markets are already looking forward to it? Not quite. ING’s Chief Asia Economist Rob Carnell notes that any upcoming BoJ policy changes could amount to no more than technical tweaks to the ETF buying programme. At the more hawkish end of the spectrum is the BoJ opting to raise the 10Y JGB yield target from 0.0% to 0.1% (an engineered steepening of the curve). But this seems too aggressive for an economy that is in a weaker fundamental position than earlier this year. The alternative option is to allow for a wider trading range around the 0% target (eg, +/- 0.2%) – which may enable long-dated JGB yields to move higher in a global bond bear market. The most likely outcome is still one that sees the status quo from the BoJ – but flags a possible October policy shift.
- JPY investors may find this underwhelming given the recent hype around a big policy move. We could see USD/JPY moving higher – although upside capped by fading dollar sentiment. We think USD/JPY upside should be contained to the 112.00/50 area in the near term. Should the BoJ hawkishly surprise, we could see USD/JPY move below 110 given that the market is still significantly short yen.

GBP: A pound under the political cosh won't find much love from a dovish BoE hike

	Spot	Week ahead bias	Range next week	1 month target
GBP/USD	1.3110	Mildly Bearish 	1.2980 - 1.3220	1.2800

- Despite the Bank of England likely to raise rates in the week ahead (Thu), we believe the politics will continue to outweigh the economics for GBP in the short-term – especially if the Brexit strategy of the UK government remains one that is seemingly trying to fit a square peg in a round hole. The Bank’s policy reaction function goes beyond economics – and officials have explicitly conditioned their policy outlook on the assumption of a ‘smooth Brexit adjustment’. We feel that markets are unlikely to price in an extensive BoE normalisation cycle until further clarity on overall Brexit risks; indeed, the recent history suggests investors tend to adjust to BoE policy on a meeting-by-meeting basis – and that means a likely dovish August rate hike is unlikely to lead to sustained GBP upside.
- So while GBP may see a knee-jerk move higher on the Bank delivering a hike, we think a pound under the political cosh won't find much love from a dovish BoE hike. Instead, any pricing in of additional BoE rate hikes in 2019 – and a steeper UK OIS curve – is likely to come from positive Brexit developments. Only a concrete resolution between UK and EU officials over the Irish backstop dispute – which would effectively finalise the Withdrawal Agreement and significantly reduce the odds of a ‘No Deal’ Brexit – would trigger a material move higher in GBP over the coming months. We also get July consumer confidence (Tue) and the July PMI readings (Thu and Fri).

AUD: Soft inflation dynamics underscore fundamental weakness

	Spot	Week ahead bias	Range next week	1 month target
AUD/USD	0.7395	Neutral	0.7310 - 0.7490	0.7200

- The Aussie dollar hasn't had a lot going for it in 2018 - with the fragile global market backdrop and slump in commodities weighing on the high-beta currency. But the domestic story is equally uninspiring; the 2Q inflation data once again missed the more upbeat consensus expectations (+0.4% QoQ vs +0.5% median) - and re-affirmed the notion that RBA tightening is probably a non-existent source of upside risk for the AUD this year. Admittedly, there's not much more the AUD OIS curve can flatten - with a full 25bp rate hike not priced in until June 2019 (although that's starting to look questionable). But with all the medium-term drivers pointing downwards, we expect the AUD to remain under pressure.
- The only saving grace for AUD/USD is general dollar weakness and a breather in the global trade war narrative. The domestic activity data hasn't been too bad - the week ahead sees June retail sales (Fri), trade data (Thu) and private sector credit (Tue). Look for AUD/USD to tread water in the broad 0.73-0.75 range - with resistance around the 0.7460/70 area.

NZD: New Zealand 2Q jobs report could offer some upside

	Spot	Week ahead bias	Range next week	1 month target
NZD/USD	0.6790	Neutral	0.6700 - 0.6850	0.6900

- The domestic 2Q jobs report will be the focal point for kiwi markets in the week ahead; the quarterly jobs growth has been quite strong - but the pick-up in headline wage growth (+0.6% QoQ expected versus +0.3% prior) is exactly what RBNZ officials will want to see. Given the flatness of the NZD OIS curve, one could see short-term domestic rates moving slightly higher on a decent wage print - which in turn could support NZD in the week ahead (note this comes after a solid core NZ CPI print as well).
- Apart from global risk sentiment, there's not a lot else driving the kiwi. We look for NZD/USD to stabilise above the 0.67 level should the dollar lack any material catalysts to push on from here.

CAD: Neutral until NAFTA uncertainty taken off the table

	Spot	Week ahead bias	Range next week	1 month target
USD/CAD	1.3060	Neutral	1.2950 - 1.3150	1.3000

- USD/CAD has continued its steady drift lower amid a quiet week - with the loonie catching the occasional bid from higher oil prices and reduced US trade policy risks (there may - or may not be - a NAFTA trade deal in August depending on what day you speak to the US Trade Representative). In fact, the CAD's starting to ignore any negative talk or tweets from US officials - a sign that quite a bit of bad news may already be priced into the currency above the 1.30 level.
- The week ahead sees May Canadian GDP data (Tue) - which is expected to come in at +0.3% MoM. The July manufacturing PMI reading (Wed) and June trade data (Fri) will provide more timely updates of the economy. Any positive surprises could see USD/CAD breach the 1.30 level amid a generally neutral USD environment. But any move could be quickly faded given the limited appetite to chase CAD higher until NAFTA uncertainties are fully off the table.

CHF: Tentative decoupling from equity markets

	Spot	Week ahead bias	Range next week	1 month target
EUR/CHF	1.1590	Neutral	1.1550 - 1.1660	1.1600

- The Swiss July CPI (Fri) is to remain above 1% YoY and is expected to tick modestly higher from 1.1% to 1.2%. Yet, the spill over into the franc should be non-existent given that the ECB's dovish forward guidance on the deposit rate path and the EUR/CHF staying not far away from the 1.1500 level. Both suggest that the SNB is unlikely to change its monetary stance any time soon.
- Interestingly, we witnessed some modest decoupling of EUR/CHF from the global equity markets in past two weeks, with the EUR/CHF depreciating despite the rise in stock markets.

SEK: Softer data taking away SEK upside

	Spot	Week ahead bias	Range next week	1 month target
EUR/SEK	10.2900	Mildly Bullish 	10.2000 - 10.4000	10.5000

- We look for the slowdown in Swedish 2Q GDP (Mon), with forward-looking indicators (July manufacturing PMI and National Institute of Economic Research forecast) also pointing to the slower growth in the second half of the year. This should put a soft floor under the recent EUR/SEK decline, which was in a large part driven by the stabilising global risk sentiment.
- The softer data should confirm our view that there is little reason for the Riskbank to rush and thus provide support to SEK. On the contrary, we expect the Riksbank to keep interest rate unchanged this year and in 1H19, which in turn means that SEK upside should be fairly limited in the months to come.

NOK: No news should be good news

	Spot	Week ahead bias	Range next week	1 month target
EUR/NOK	9.5400	Mildly Bearish 	9.4700 - 9.5900	0.0000

- Compared to Sweden, it is a rather calm week on the Norwegian data front, with June Retail sales (Mon) and the July unemployment rate (Fri) unlikely to affect NOK much. With risk appetite stabilising (following the EC President's visit to the White House) NOK is set to benefit following its non-negligible decline in the middle of July.
- We look for NOK/SEK to move above the 1.0900 level during the week as no news should be good news for NOK while softer Swedish data suggest an underperformance of SEK.

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THINK economic and financial analysis

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