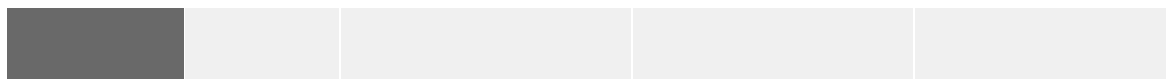


G10 FX Week Ahead: November strain

We're looking at two weeks of November rain here in the UK and, to misquote Guns N' Roses, prepare for November strain as the Brexit-centred election campaign ignites and GBP is caught in limbo. The dollar may face more hurdles on the back of grim data and broadly supported risk appetite. A possible RBA hawkish tilt could pave the way for a rally in AUD



Guns N' Roses made November Rain famous



EUR: Another chance to break 1.12

	Spot	Week ahead bias	Range next week	1 month target
EUR/USD	1.1167	Mildly Bullish 	1.1075 - 1.1250	1.1000

- The frequency of market-moving data releases is going to be much lower in the coming week. Only retail sales and German industrial production (both for September) are on the eurozone agenda while the ISM Non-Manufacturing and the University of Michigan sentiment index will be in the spotlight for the US. The ISM read will likely be pivotal as markets hope to cement their expectations that the Fed will stay put in December; a clear rebound in the gauge will be needed to dissipate fears that the slowdown in manufacturing has expanded to the service sector. Our economists see the risk of a weaker-than-expected read that may revive some expectations for a December cut (with the latest ISM manufacturing indicating a recession in the sector and keeping the case for a cut in place).
- Markets will also await more details on trade talks and on President Trump's impeachment process. The latter may continue to have a quite limited market impact, whereas a number of sticky points (as well as a timetable, after the APEC meeting got cancelled) are still to be outlined in the "phase-one" US-China trade deal. We still see the risk of markets having misplaced their optimism for a breakthrough in trade tensions, although we expect the news flow on trade to remain broadly supportive for risk sentiment this week. All this may translate into another unlucky week for the dollar and give another chance for EUR/USD to crawl back above 1.12.

JPY: Looking at more (limited) upside

	Spot	Week ahead bias	Range next week	1 month target
USD/JPY	108.06	Mildly Bearish 	107.00 - 109.10	108.00

- The yen has staged a solid one-figure gain vs the USD this past week on the back of the "hawkish" cut delivered by the Fed. The BoJ also came to the rescue of the currency by not cutting rates, although it sensibly trimmed its forecasts for inflation and growth. Currently, markets are torn about a 10bp cut in December (53% priced in the OIS curve).
- In such supported risk environment, neither the dollar nor the yen is likely to have an easy time next week. Of the two, the dollar is probably richer in negative catalysts (a possibly weak ISM non-manufacturing, for instance), which suggests the risk for USD/JPY may be slightly tilted to the downside this week. We expect the pair to keep edging lower and establish itself in the 107-108 area while waiting for a new clear catalyst (likely, on the trade front) in the coming weeks.

GBP: BoE a non-event

	Spot	Week ahead bias	Range next week	1 month target
GBP/USD	1.2948	Neutral	1.2850 - 1.3050	1.2600

- A very eventful week in the UK has set the sterling for a 1% gain before trapping it in a relatively narrow range. Parliament has voted to send Brits to the polls on Thursday 12 December, and all parties are gearing up for what will be a Brexit-centred electoral campaign. Sterling's recent strength suggests that the markets are positioned for a Conservative majority win, which would ultimately allow incumbent PM Johnson to have his deal ratified by the House. However, the vulnerability of the Conservatives in Scotland and some Southern-English areas suggests more caution, and we wouldn't rule out a Labour-led minority or a hung parliament as a result (though this is an outside risk at this point). For now, as long as opinion polls continue to point in the direction of a Tory triumph, it seems unlikely to see GBP fiercely correct lower just yet.
- In this context, the Bank of England meeting (Thursday) will once again be quite an uninteresting one, with the MPC likely sticking to a cautious approach ahead of lingering uncertainty ahead. With some signs that the jobs market is no longer tightening, the pressure to unfold monetary stimulus is probably lower and allows more time for policymakers to assess the internal and external backdrop before adjusting rates.

AUD: Upside risk on RBA's hold

	Spot	Week ahead bias	Range next week	1 month target
AUD/USD	0.6911	Bullish 	0.6850 - 0.7000	0.6750

- The Australian dollar has staged consistent gains this week, taking advantage of stable risk appetite and an encouraging inflation read, that allayed the lingering doubts on whether the RBA will keep rates on hold next week. The market is now pricing in only a 6% probability of a cut next Tuesday, so most of the reaction will likely be driven by the Bank's forward-looking language. Our base case is that the RBA will refrain from any more cuts at least through the end of 2019, so we would not be surprised to see Governor Lowe providing some indications of a more extended pause in the easing cycle. Alternatively, he may well err on the side of caution and keep the door open for more cuts, whilst expecting developments in the inflation and employment spheres as well as on the global trade backdrop.
- We think that a further stabilisation in risk sentiment and the possibility of a hawkish shift by the RBA suggests that the balance is skewed to the upside for AUD/USD in the next week. The 200d MA at 0.6955 should, however, prove to be a fairly solid resistance to AUD rallies for now.

NZD: Momentum to stay robust

	Spot	Week ahead bias	Range next week	1 month target
NZD/USD	0.6438	Mildly Bullish 	0.6380 - 0.6510	0.6350

- The good momentum for the New Zealand dollar will face some challenges next week, as unemployment is expected to have edged up above 4% in 3Q. The NZD has been lifted by a sizable repricing in the RBNZ rate expectations, with markets nearly halving the implied probability of a cut at the upcoming 13 November policy announcement. In order to keep fuelling such a resurgence in rates, markets may require some positive surprise in the labour data out on Tuesday.
- On the flip-side, the kiwi may find benefit from three key drivers: 1) a further stabilisation in global risk sentiment; 2) a possible hawkish tilt by the RBA; 3) more short squeezing, warranted by the extended net short speculative positions. All in all, we maintain a mildly bullish view on the NZD for the coming week and see NZD/USD break the 0.6465 100d MA, albeit facing some good resistance at the 0.65 psychological level.

CAD: Rising risk of a BoC cut

	Spot	Week ahead bias	Range next week	1 month target
USD/CAD	1.3158	Neutral	1.3075 - 1.3250	1.3100

- The Bank of Canada's unexpected dovish turn severely undermined CAD momentum, with the currency struggling to join any risk-on ride ever since. With markets now increasingly considering a cut in the coming months (we still see a chance for a move in December), the so-far immaculate rates attractiveness of the loonie is showing cracks. That might prompt some investors to look at the antipodeans as a valuable alternative to place pro-cyclical bets.
- Next week, the jobs report will be in the spotlight. The key question will be whether a rebound in private payrolls (which fell 21k last month) is on the cards. Should this not be the case, the perceived risk of a rate cut in the coming months will likely grow, thereby more than offsetting the positive spillover coming from a supported risk sentiment.

CHF: Only limited downside risk

	Spot	Week ahead bias	Range next week	1 month target
EUR/CHF	1.1016	Mildly Bullish 	1.0965 - 1.1060	1.0900

EUR/CHF seems to have built a fairly solid resistance at the 1.10 level as long as risk sentiment keeps undermining the franc's safe-haven appeal. In addition, the latest CPI numbers kept pointing at a very gloomy economic outlook in Switzerland.

Overall, we suspect the swiss franc will stay on the back foot next week as risk remains bid, although we expect eurozone data to keep on signalling an economic slowdown in the common area which suggests somewhat limited upside for the pair moving ahead.

NOK: Krone's rallies look fragile

	Spot	Week ahead bias	Range next week	1 month target
EUR/NOK	10.1510	Mildly Bearish 	10.0600 - 10.2800	10.2500

- The Norwegian krone has benefitted from a slew of positive data (PMI and unemployment) to extend its run, with EUR/NOK now aggressively approaching the 10.10 support. Next week, September industrial production is unlikely to have much market impact, which should allow NOK to keep enjoying the general risk-supportive environment, along with further stabilising oil prices.
- However, with the Norges Bank no longer providing a solid floor, the krone remains amongst the most fragile G10 currencies in case of a risk-off turn.

SEK: Lacking internal drivers

	Spot	Week ahead bias	Range next week	1 month target
EUR/SEK	10.0000	Mildly Bearish 	10.6200 - 10.8220	10.8500

- Despite some disappointing data, the Swedish krona retained some good momentum until the end of this week, following the global risk-on mood. Next week, SEK will lack an idiosyncratic catalyst given the shortage of market-moving data releases in Sweden and Europe. In turn, we expect SEK to move broadly in line with global risk sentiment, which suggests a mildly bearish view on EUR/SEK given our expectation for risk assets to stay generally supported.
- Meanwhile, markets remain quite undecided whether to align with the Riksbank indication that it will leave the negative rate zone in its December policy announcement: OIS pricing is showing a 60% implied probability of a rate hike at that meeting. We suspect that, even in the event of a Riksbank hike, its “one-off” character will prevent any considerable rally in SEK.

Author

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.