

G10 FX Week Ahead: Dollar haunted by Voodooconomics

Tightening financial conditions in China – characterised by rising bond yields and the biggest three-day decline in the Shanghai Composite equity index since June 2016 – has instilled a sense of nervousness within global markets. The safe-haven JPY could be a currency trader's best friend amid a jam-packed week in the US – which could see rogue Republican senators vote down the Trump tax bill, a de facto changing of the guard at the Federal Reserve and the structural low US inflation concerns of investors vindicated in the data.

Majors: Can the dollar find support from tax cuts, Powell or inflation?

EUR: Ain't no stopping us now... we're on the move to 1.20 (again)

- The core PCE inflation reading (Thu) will be the highlight of a busy US calendar in the week ahead, with investors mindful of the Fed's structural low US inflation concerns as noted in the latest FOMC minutes. Core PCE is the central bank's preferred measure of inflation - and with the prior month's reading running significantly below the 2% target at 1.3% YoY - it's no surprise why the Fed doves are sounding the alarm. We may need to see more than just a trickle up to 1.4% YoY (consensus) to spur any major inflationary sentiment. In addition, we'll also have the Senate confirmation hearing for incoming Fed Chair Powell (Tue) - while outgoing Fed Chair Yellen will also separately testify to Congress (Wed). Markets will be closely watching for any subtle disparity of views on Fed policy and big picture outlook for the US economy. Data wise there's also trade balance (Tue), second estimate of 3Q US GDP (Wed) and ISM manufacturing (Fri) - among a host of other second-tier releases - to note.
- The focus will also be on inflation data in Europe this week, with the Nov flash EZ CPI release due (Thu). Consensus is looking for a slight uptick in both the headline and core readings; while the latter may only nudge up to 1% YoY, this could be marginally supportive for the EUR - given that EZ markets are arguably underpricing similar inflation and policy risks relative to their US counterparts.

	Week ahead bias	Range next week	1 month target
EUR/USD Spot ref: 1.1920	Neutral	1.1800-1.2040	1.18

Source: ING

JPY: A currency trader's best friend this week?

- In the US, there will also likely be a Senate vote on the Tax Cuts and Jobs Act (TCJA) - though it's difficult to see that what gets passed isn't (a) watered-down to meet the Senate's stricter fiscal rules and (b) not questionable in its actual benefits for the real economy. If the bill does get through the Senate - it would still need reconciling between both houses (the hard part). But on sentiment, and the ever so slightly higher odds of US tax reforms, it could be mildly supportive for the USD. Equally, and rightly so in our view, investors are becoming a bit more cleverer in understanding the messy US politics and big picture limited reflation impetus of this tax bill - meaning that any major USD upside seems unlikely.
- On the flip side, the global risk environment remains cautious - with the latest story a potential wobble in Chinese markets that draws parallels to the summer of 2015. This could be spilling over into some JPY safe-haven flows. The holiday period lent itself to thin USD/JPY liquidity and potentially an overshoot in the downside move; we would expect some stability in the 111.00-112.00 range given conflicting factors, with the \$ potentially recovering some of its losses. Japanese CPI data and 3Q capital spending (both Thu) may be a sideshow for USD/JPY this week.

		Week ahead bias	Range next week	1 month target
USD/JPY	Spot ref: 111.40	Neutral	110.80-112.50	115

Source: ING

GBP: Hoping for a 'gentlemen's agreement' over a Brexit transition

- While a rally in GBP/USD was our conviction call last week, admittedly it was more of a bearish USD story - as opposed to a isolated bullish GBP move. The pair has moved up to the 1.33 level but has failed to push on - likely due to the lack of appetite amongst investor to take a clear directional view ahead of the key Brexit-focused Dec EU summit. The next couple of weeks will see a lot of noise in the build up to this - noise that we think could be ultimately positive for GBP, especially if it continues to ascribe a 'good chance' to there being progress made in Brexit talks. Reports of PM May being ready to pay a £40bn Brexit Bill is constructive - though we think GBP's price action will be more contingent on the prospects of whether we get a 'gentlemen's agreement' over a transition deal.
- The UK calendar is light - watch out for the BoE's Financial Stability Report (Tue), UK confidence data (Thu) and manufacturing PMI (Fri). Latest foreign investor holdings of UK gilts data in the BoE monetary stats (Tue) will be quite interesting as well - especially to see whether short-term domestic political risks have dampened UK asset sentiment. We think the bar is fairly high for domestic politics to actively weigh on GBP - the real focus will be on factors that could meaningfully delay Brexit talks.

		Week ahead bias	Range next week	1 month target
GBP/USD	Spot ref: 1.3320	Mildly Bullish	1.3250-1.3450	1.35

Source: ING

Dollar bloc: CAD vulnerable to negative OPEC and GDP surprises AUD: Weak investment epitomises 'lowflation' economy

- Slightly dovish RBA talk has left the AUD curve pretty flat, with markets barely pricing in a full 25bp rate hike in 2018. We think the flattening story looks to be done - and it'll be up to the data to determine future movements. After a stunning 3Q construction work done print (+15.7%), the data focus shifts to the 3Q Private Capex report (Thu). It's no surprise to see Australian investment weak when you look at a long-run time series of capex spending; the 5-year average trend in the mid-2000s was around 3.2% quarterly growth in capex, while the latest equivalent reading has slumped to -2.7%. That puts some context on this week's reading - where a modest 1% QoQ pick up in 3Q17 won't change the negative historical average much.
- We look for AUD/USD to remain supported in a benign US rate and global risk environment, with the bias more skewed towards a return up to the 200-dma average (0.7695).

		Week ahead bias	Range next week	1 month target
AUD/USD	Spot ref: 0.7610	Neutral	0.7550-0.7700	0.78

Source: ING

NZD: Still pricing in an RBNZ uncertainty premium

- Acting RBNZ Governor Spencer will testify to the New Zealand parliament (Wed) this week, though discussions may be more related the Financial Stability Report. Any macro discussions will be interesting, especially in the context of gauging the central bank's latest thoughts on how they are incorporating the new Labour government policies. Here we already know that the RBNZ policy reaction function hasn't been materially thwarted, with a chance of a 2H18 rate hike still likely in an economy that has little slack left.
- However, inflation surprises in 1H18 hold the key to any RBNZ re-pricing story. For now, we look for NZD to remain buffered by a soft USD environment and this could see stability in the 0.68-0.70 range (risks to the bullish side).

		Week ahead bias	Range next week	1 month target
NZD/USD	Spot ref: 0.6870	Neutral	0.6800-0.6970	0.70

Source: ING

CAD: Busy week with OPEC and GDP data in focus

- 3Q Canadian GDP (Fri) is the highlight of the domestic calendar; after the large negative surprises in Sep trade and retail sales data last week, the risks are tilted to the downside. This will put a reality check on the Canadian growth story from earlier this year - which in part was down to base effects - as opposed to a massively overheating economy. It's therefore no surprise to see the CAD OIS curve pricing in little prospects of a Jan-2018 BoC rate hike (33%). The risks are still that the curve flattens further, though in the absence of a string of disappointing data releases - the repricing in the Canadian 2-year swap rates looks to be largely done.
- The OPEC meeting (Thu) will be the focal point for oil markets and reports of an extension to output cuts looks to be supporting crude. This might keep CAD supported too, with \$/CAD moving to the lower end of the 1.26-1.28 range.

		Week ahead bias	Range next week	1 month target
USD/CAD	Spot ref: 1.2720	Neutral	1.2600-1.2800	1.27

Source: ING

EUR crosses: Will buoyant Swedish GDP help support SEK?

CHF: Strong industrial activity points to healthy 3Q Swiss GDP

- EUR/CHF ended the week on a strong footing despite some very strong 3Q17 IP data (+8.6% YoY, highest since early 2008). This imparts upside risk to 3Q17 GDP released on Thurs, where consensus now 0.6% QoQ, but some analysts are going for 1% QoQ. However, we doubt whether that will lift CHF.
- Instead, we continue to favour EUR/CHF, probably to a new high for the year this week. Triggering the move could be any progress on Merkel forming a coalition with the SPD, or any upside surprises with the flash release of Eurozone CPI. EUR/CHF looks well supported, SNB still dovish.

		Week ahead bias	Range next week	1 month target
EUR/CHF	Spot ref: 1.1690	Mildly Bullish	1.1630-1.1770	1.18

Source: ING

SEK: Solid 3Q GDP may lift the krona (a bit)

- We look for EUR/SEK to stay around the 9.90 level as the recent negative sentiment towards the currency may have reached its near-term peak, while Sweden Q3 GDP (Wed) should print above consensus 1.1% YoY - the near-term Swedish growth momentum remains strong and the recent weakness in the housing market is unlikely to have affected 3Q data.
- However, with Stibor under a downward pressure ahead of the year-end (due to resolution banking fee and the QE related liquidity) and concerns about the housing market, EUR/SEK should stay flat this week rather than falling materially.

		Week ahead bias	Range next week	1 month target
EUR/SEK	Spot ref: 9.8840	Neutral	9.7760-9.9740	9.70

Source: ING

NOK: Taking a breath after the sell-off

- In line with SEK, we expect NOK to stabilize following the sell-off over the previous weeks. We don't expect this month's highs of EUR/NOK 9.8000 to be breached. Given the NOK's weakness, we see scope for somewhat more hawkish NB meeting later in December, providing some caution NOK.
- On the data front, we expect Nov Manufacturing PMI (Fri) to rise again, mirroring the strong PMIs in the EZ. Oct retail sales (Thu) should increase while the unemployment rate (Fri) should remain at 2.4%. All this should provide some marginal support to NOK.

		Week ahead bias	Range next week	1 month target
EUR/NOK	Spot ref: 9.7150	Neutral	9.6000-9.8000	9.50

Source: ING

Author

Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

chris.turner@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 <http://www.ing.com>.