G10 FX Week Ahead: Dollar isolationism

The week ahead will be dominated by the aftermath of the G7 leaders' meeting in Quebec, Trump's meeting with Kim Jong Un, a likely Fed hike and a more hawkish ECB. With Trump and the Fed forging ahead with their domestic agendas, expect the dollar to stay supported and the risk environment to stay fragile

Fed trumps ECB?

	Spot	Week ahead bias	Range next week	1 month target
EUR/USD	1.1760	Mildly Bearish ↘	1.1600 - 1.1850	1.1700

The first challenge of the week will be whether President Trump has been talked down from his protectionist stance by fellow G7 leaders. That seems unlikely, and the stage will be set for the EU to follow through with retaliatory tariffs in July. A fragile environment for risk assets probably won't be helped by the Federal Reserve. Wednesday's FOMC meeting should conclude with a 25bp rate hike, an upward drift in the Fed dots and perhaps some material changes to the statement as it focuses more on the growing momentum in the domestic economy. US CPI and retail sales will also be in the spotlight.

Thursday's ECB meeting will be closely watched as well. We look for the ECB to announce a further tapering and extension in QE purchase (to EUR 10bn per month for 4Q18), but still, trying to retain some flexibility about the end date. This could provide a modest lift for the euro, but in a strong dollar environment, it's hard to see EUR/USD making it much above 1.1850. Next week will also see Eurozone industrial production data for April. The 2Q18 bounce-back has so far been weak.

Limited fall-out from the Singapore summit

	Spot	Week ahead bias	Range next week	1 month target
USD/JPY	109.50	Mildly Bearish ↘	108.00 - 110.00	108.00

Tuesday's Singapore summit between the US and North Korean leaders will capture the attention of USD/JPY early in the week. Perhaps we are under-estimating its impact on the JPY, but we tend to doubt that the prospect of peace breaking out in the Korean peninsula driving USD/JPY to 112/113 – given the fragile international investment environment.

There is also a Bank of Japan meeting on Friday. 1Q18's poor GDP figure confirmed at -0.2% quarter on quarter and the risk that safe haven JPY strength is never far away will probably deter the BoJ from any consideration of normalising policy. Were it not for global protectionism; we would probably be looking for the JPY to underperform given the Fed and ECB policy cycles. Instead, nervousness over the next move in the trade war should keep the JPY in demand.

GBP positives align

	Spot	Week ahead bias	Range next week	1 month target
GBP/USD	1.3370	Mildly Bullish	1.3300 - 1.3500	1.3600

GBP faces a big week of macro and political risk, which we think will combine to drive expectations of an August Bank of England rate hike and GBP higher. On the macro side, we see upside risks to April wage data due on Tuesday) and May CPI data due Wednesday. That could provide some support to current expectations (58% probability currently priced) of an August hike from the BoE. GBP, therefore, could be better placed to withstand some dollar strength.

Tuesday will be a big day in the Brexit calendar. The government is undertaking votes on major to amendments in the EU withdrawal bill. There is a chance the government loses one of the key votes, such that parliament, after all, does have a chance for a 'meaningful' say in the final Brexit deal. This would lessen the chances of a hard Brexit and could again help sterling.

Vollgeld fall-out

	Spot	Week ahead bias	Range next week	1 month target
EUR/CHF	1.1600	Mildly Bullish	1.1480 - 1.1650	1.1700

Monday morning will be dominated by the fall-out to Sunday's Vollgeld referendum. Polls currently show 55% of voters will reject a proposal that would see the Swiss National Bank made the sole creator of CHF – i.e. sovereign money. Were a 'Yes' vote to materialise, we think EUR/CHF could trade 1.25/30 on the uncertainty. Some other analysts think EUR/CHF could trade 1.10 as it would limit the SNB's ability to intervene – but let's not forget the initiative would take two-three years to implement and the SNB would still be intervening this year in what would be a very deflationary environment.

Assuming Vollgeld is rejected, we assume EUR/CHF is instead dominated by Thursday's ECB meeting. Modest EUR strength on the day could see EUR/CHF push towards 1.17 – given the SNB will definitely want to lag any normalisation of ECB policy.

Battling external headwinds

	Spot	Week ahead bias	Range next week	1 month target
AUD/USD	0.7590	Mildly Bearish	0.7470 - 0.7650	0.7500

So far the Australian dollar has withstood protectionist headwinds surprisingly well, perhaps on the back of signs that the Chinese economy is managing to weather the de-leveraging of the shadow banking system quite well. This week we'll see Chinese retail sales and industrial production data on Thursday for fresh insights to the May data. Despite what should be the positive Asian mood around the Singapore summit, we still think AUD may be vulnerable to protectionist rhetoric and higher rates this week.

Locally the Australian dollar sees NAB May business conditions on Tuesday and employment data on Thursday. The Reserve Bank of Australia has shown no inclination to discuss tightening rates anytime soon and unless the local employment data surprises on the upside, we expect AUD to succumb to US dollar strength this week.

Trump vs Trudeau

	Spot	Week ahead bias	Range next week	1 month target
USD/CAD	1.2990	Mildly Bullish	1.2880 - 1.3180	1.3000

Trade talks continue to dominate here. So far Trump is showing no signs of backing down from imposing steel and aluminium tariffs on Canada and is now highlighting Canada's dairy tariffs – seen as key to making progress on NAFTA. Canada Prime minister Justin Trudeau is seeking safety in numbers, but the collective push-back against Trump seems to be making little impression. Further tough trade talk may well push USD/CAD through strong resistance at 1.3070/3120 over the week – especially if the Fed is hawkish.

There's not much Canadian data this week, and instead, the CAD may also be driven by oil trends. We're still of the view that OPEC and non-OPEC may agree to increase supply by 800,000-1 million barrels per day at the June 22nd meeting – slightly negative for crude and the CAD.

Move along there, nothing to see

	Spot	Week ahead bias	Range next week	1 month target
NZD/USD	0.7020	Neutral	0.6960 - 0.7060	0.7000

NZD/USD continues to perform quite well, although we see 0.7060/70 as a difficult hurdle. Away from what should be a difficult external environment, the local calendar should see reasonably optimistic business PMI on Thursday. Recent Reserve Bank of New Zealand threats that the next rate move could be down or up has not had a large effect on policy rate expectations, which still err towards a hike in 2Q19.

Thursday sees an auction of NZD 200mn worth of 2025 bonds. Settling these auctions can occasionally support the NZD – but overall we're backing the US dollar this week.

Headline inflation to edge to target

	Spot	Week ahead bias	Range next week	1 month target
EUR/SEK	10.2700	Neutral	10.2500 - 10.3800	10.4000

The Swedish krona has held up quite well despite the pick-up in trade tensions. We think it remains vulnerable to the EU following through on retaliatory tariffs could well elicit a US response on the EU auto sector. Sweden is very exposed to this sector. So despite SEK being under-valued, we still think it will be a difficult summer for the SEK.

The local data highlight this week is Thursday's May CPI data. Consensus sees headline CPIF rising back to 2.1% YoY, we see 2.0%. However, with core staying at 1.5% and a difficult trade environment we doubt market pricing of the Riksbank cycle will move much, and SEK won't receive support from this theme.

Core inflation on the rise

	Spot	Week ahead bias	Range next week	1 month target
EUR/NOK	9.5000	Mildly Bearish ↘	9.4600 - 9.5600	9.4000

Our core view remains that Norges Bank will hike 25bp at the September 20th meeting unless inflation somehow falls away. Data released this week should generally support the Norges bank story, where Monday's release of May inflation data should see CPI staying near 2.4/2.5% YoY and core inflation nudging up to 1.5%. This should help set the tone for the next Norges Bank update at the June 21st meeting.

EUR/NOK continues to trade near the lows of the year at 9.46/47, and the NOK may be one of the best placed European currencies to withstand some ECB-related EUR strength this week.

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