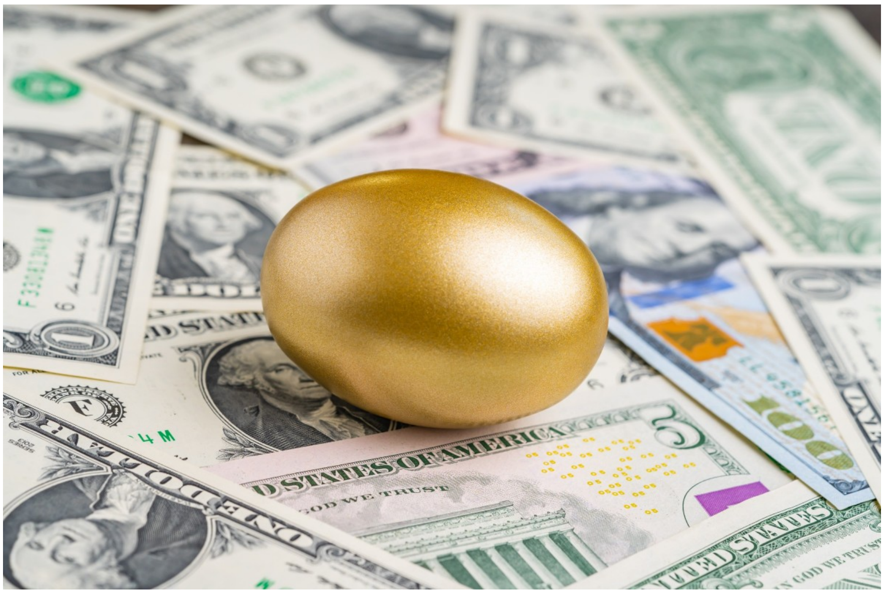
G10 FX Week Ahead: Easter hunt

Easter brought along more evidence that the USD has topped and therefore started the hunt for the best value for money in G10. We are still reluctant to buy into the AUD and the commodity bloc's rally and see instead more value in the low-yielders EUR and JPY



USD: Safe haven premium eroding

	Spot	Week ahead bias	Range next week	1 month target
DXY	99.1700	Mildly Bearish	98.5000 - 100.0000	95.0000

- The dollar is starting to edge lower as confidence very slowly returns to financial markets and the Fed's balance sheet continues to surge. This week will see the start of the Fed's commercial paper buying programme, intended to improve the functioning of USD funding markets. If successful (encouraging higher volumes and lower rates), a little more of the dollar's safe-haven premium should erode.
- US data this week comes in the form of March retail sales (Wed) and initial claims and housing data (Thursday). Friday's 1Q20 China GDP release will also set the tone into the weekend, where our economist is above the -6% YoY consensus on the view that fiscal stimulus will limit the downside. Such an outcome would add to the tentative recovery in asset prices and keep the dollar gently offered.

EUR: Monitoring the fallout on Italy

	Spot	Week ahead bias	Range next week	1 month target
EUR/USD	1.0947	Mildly Bullish	1.0880 - 1.1050	1.1200

- The market will be keeping watch of Italian BTP yields this week to see if investors remain confident that the ECB will remain the buyer of last resort. The Eurogroup's bail-out package still leaves concerns over Italy's debt to GDP trajectory into 2021. Overall, we think the Fed money-printing story wins out in the near term and EUR/$ heads above 1.10.
- European data this week sees Eurozone Industrial Production for February (Thursday) and the final March CPI, expected as low as 0.7% YoY. We are also starting to hear more from governments about the expected size of the contraction this year. Paris has just said it expects an 8% decline in French GDP this year. Our team is looking for a 5% decline in Eurozone growth.

JPY: Participating in the dollar decline

	Spot	Week ahead bias	Range next week	1 month target
USD/JPY	107.47	Mildly Bearish	106.80 - 108.80	105.00

- USD/JPY is participating in the broad dollar decline and we think that the dollar will take over the JPY's role as the preferred funding currency this year. The JPY should also prove relatively insulated in the case of a dip back in financial assets during 2Q20, given its stable current account surplus.
- Japanese data this week includes the regular foreign bond and stock buying data and the final release of February Industrial Production. Our team is also looking for a 5% contraction in Japanese GDP this year, despite Japan's JPY108trn fiscal stimulus.

GBP: More recovery ahead

	Spot	Week ahead bias	Range next week	1 month target
GBP/USD	1.2548	Mildly Bullish	1.2360 - 1.2830	1.2700

- GBP largely looked through the news that the BoE aims to temporary monetise debt. As we discussed last week, the effect on GBP should be limited given the temporary nature of the measures coming from a highly credible central bank.
- With PM BorisJohnson having left hospital after suffering from Covid-19, this a short-term positive factor for GBP as concerns about the UK government's leadership should ease. The stabilising risk sentiment and equity markets are also positive for GBP. As EUR/USD is likely to test the 1.1000 level this week, this also opens a further upside for GBP/USD

AUD: A big rally, but can it last?

	Spot	Week ahead bias	Range next week	1 month target
AUD/USD	0.6385	Neutral	0.6235 - 0.6565	0.6000

- The AUD has been on the forefront of the recovery in pro-cyclical currencies as a global rebound in risk sentiment (and a weaker USD) have paired with signals that the RBA has started scaling back its bond purchases.
- Labour data this week might be the trigger to a halt in the AUD should numbers prove particularly grim. In the big scheme of things, we suspect the AUD has factored all the positives in the price already and may start to face some correction soon as a) tapering expectations may be overdone (RBA minutes this week will give some colour on that); b) prices of key Australian exports (iron ore, above all) may fail to recover; and c) a looming global recession and slowing trade bodes ill for the export-dependent Australian economy.

NZD: Following AUD, with a discount

	Spot	Week ahead bias	Range next week	1 month target
NZD/USD	0.6084	Neutral	0.5950 - 0.6225	0.5800

- AUD/NZD has had quite a run (back at 1.05, after briefly touching parity in March) as the right leg of the pair has lagged AUD in the risk-sentiment rebound. The key factor driving the pair up appears to be monetary policy divergence: the RBNZ seems determined to ramp up its asset purchase programme while the RBA has given signs of tapering (see AUD section above).
- It must also be noted that New Zealand has adopted more stringent lockdown measures than Australia, and this is also likely contributing to the NZD relative underperformance, which may continue this week. Looking at NZD/USD, we remain reluctant like for the rest of the proc-cyclical bloc to see a big extension of the current rally, although the weak dollar may still provide some support for now.

CAD: BoC on hold, but larger QE possible

	Spot	Week ahead bias	Range next week	1 month target
USD/CAD	1.3917	Neutral	1.3600 - 1.4200	1.4300

- As the BoC meets on Wednesday, the chances of another cut (i.e. bringing rates to 0%) are minimal as the Bank already indicated it is currently at the lower bound. However, markets will closely watch whether the BoC will expand its asset purchase scheme (both quantitatively and qualitatively) to further assist the bold stimulus pack unfolded by the government. Also, it will be worth keeping an eye on the new economic projections included in the monetary policy report.
- CAD's fate for this week will, however, depend quite heavily on the ability of oil to stage any sustainable rebound on the back of the OPEC+ deal. Our commodities team think that this will hardly be the case, which should contribute to keeping USD/CAD downside relatively limited despite USD weakness.

CHF: Do we have a new floor at 1.05?

	Spot	Week ahead bias	Range next week	1 month target
EUR/CHF	1.0546	Mildly Bearish ↘	1.0525 - 1.0590	1.0600

- Volatility has ebbed out of EUR/CHF, bearing all the hallmarks of heavy FX intervention from the SNB. It may well be that we have a new floor at 1.05 that the SNB is defending and will cause its balance sheet to surge again. SNB's CHF sight deposits have grown CHF42bn since mid-March – suggesting large intervention.
- The only Swiss data of note this week is March PPI data – expected at -3.7% YoY. This will be the lowest since early 2016 and will heap more pressure on the SNB that continues to struggle with Swiss deflation.

NOK: Downside risk to oil price suggest limited NOK gains

	Spot	Week ahead bias	Range next week	1 month target
EUR/NOK	11.2800	Neutral	10.0000 - 10.5000	10.3000

- Despite stabilising risk appetite, we expect the cheap krone to stay above the EUR/NOK 11.00 level this week as the production cuts announced by OPEC+ on Sunday still fall short of bringing the market to balance over 2Q20. As our commodities team notes, the stock overhang this quarter should still see prices trading lower from current levels, with brent moving back below the US$30/bbl level this quarter.
- This should ease the appreciation pressure on NOK, which already recovered a non-negligible part of its early March losses. It is a very quiet week on the Norwegian data front, meaning a limited spillover into the krone. The EUR/NOK implied volatility should continue falling

SEK: March CPI set to fall to multi-year low

	Spot	Week ahead bias	Range next week	1 month target
EUR/SEK	10.8900	Neutral	10.7670 - 11.0340	10.9000

- Swedish March headline CPI (Wed) is set to dip to the lowest level since early 2016. But given the general global trend of falling prices, this is unlikely to lead to an imminent response from the Riksbank, with the central bank likely putting a larger focus on the Covid-19 related hit to the economy. We continue to see the bar for bringing rates back into negative territory set rather high, with the Riksbank likely focusing on the liquidity measures / the pace of QE re-investment. But as all global central banks are easing via conventional and unconventional measures, the possible Riksbank easing would unlikely hurt SEK much this time around
- We expect NOK/SEK to remain below the 0.9800 level this week as a limited upside to the oil price should lead to the reduced scope for NOK outperformance vs SEK.

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