

## G10 FX Week Ahead: Gimme guidance

With central bank meetings in the eurozone, Japan and Canada unlikely to trigger big currency moves, markets will keep a close eye on the guidance provided by US banks as the earning season kicks in. Elsewhere, EU members may take steps towards a compromise on the EU recovery fund. Overall, risk assets may stay supported and the US dollar gently offered



## USD: Earnings in focus this week

	Spot	Week ahead bias	Range next week	1 month target
DXY	96.6000	Mildly Bearish ▼	96.2000 - 97.5000	95.0000

- FX markets head into the new week with an open mind about the recovery. The tone has been mildly positive, however, with equity, credit and commodity markets bid. The strong rally in Chinese equities and USD/CNY breaking below 7.00 has also added support to the risk-on tone – a mood that could be supported if Thursday's release of Chinese 2Q20 GDP does not disappoint. The tone would also be helped if our team's slightly above consensus calls materialise for US June industrial production and June retail sales. The week will also see the June US NFIB and CPI data.
- The higher frequency, 'soft' US data on retail sales and unemployment is not quite as encouraging as the headline figures suggest. With this in mind, the market will closely watch out for any guidance provided by US banks as earnings season gets into gear on Tuesday. Any significantly higher provisioning for souring loans or a lowering in guidance (although only 49 of the S&P 500 companies currently provide guidance!) stand to insert more equity volatility into the equation. One final point, 15 July marks the new US federal tax deadline, having been extended from 15 April back in March. This may see tight USD cash and repo markets and slightly firmer short-end USD rates, proving a temporary bullish dollar factor.

## EUR: Getting the EU Recovery Fund over the line

	Spot	Week ahead bias	Range next week	1 month target
EUR/USD	1.1303	Neutral	1.1220 - 1.1380	1.1300


- The highlight of the week will be the EU leaders' summit starting Friday and whether it concludes with an agreement on the €750bn Recovery Fund. Our team is cautiously optimistic, believing that concessions already agreed on the joint funding of the programme should lead to an eventual deal. As always, these discussions could be noisy (plenty of side-briefings going on) which could add to volatility during the week. Less volatility should emerge from the European Central Bank meeting and press conference on Thursday, where a period of reflection is expected.
- In terms of the data calendar, we'll see eurozone May industrial production and the July German ZEW index. We may also reflect on whether the ECB has allowed Bulgaria and Croatia to enter the ERM II - and at what central parity rate.

## JPY: BoJ in focus

	Spot	Week ahead bias	Range next week	1 month target
USD/JPY	106.80	Neutral	106.20 - 107.50	107.00

- Wednesday's Bank of Japan policy meeting will be the local highlight of the week for the yen. Don't expect any changes to their elaborate QE and yield curve control policy. Moves by the BoJ to support the corporate bond market do seem to be paying dividends, however, where corporate bond issuance by Japanese companies surged in June. There also seems little need to alter the yield curve control measures, where the recent 10-30 JGB curve steepening trend has started to reverse.
- Expect USD/JPY to continue to trade well within the confines of a 106-108 range. Equity volatility would probably favour a test of the downside.

## GBP: The one-off sterling positive is behind us

	Spot	Week ahead bias	Range next week	1 month target
GBP/USD	1.2610	Mildly Bullish 	1.2430 - 1.2820	1.2300

UK Chancellor Rishi Sunak's fiscal support announcement had a one-off positive impact on sterling (with sterling in fact reacting ahead of the event to the leaked details rather than to the actual announcement). With this now fully priced in, the upside to GBP should be fairly limited from here. We don't expect any progress in the Brexit talks next week or over the summer as a whole, meaning that positive catalysts for GBP upside should be rather scarce. It would be a EUR/USD rally rather than GBP strength that would push GBP/USD meaningfully higher from here.


On the data front, headline CPI (Wednesday) should stay at around half a percent, and is likely to stay around that level over the summer. The unemployment rate (Thursday) may tick marginally higher, but its rise has so far been limited given the furlough scheme. We look for a further rise in unemployment in coming months following already announced job cuts and as more firms announce layoffs. None of these data points should have a meaningful impact on GBP given their backward-looking nature.

## AUD: Still restrained by virus fears

	Spot	Week ahead bias	Range next week	1 month target
AUD/USD	0.6959	Neutral	0.6890 - 0.6040	0.6700

- The Aussie dollar has been a laggard in the G10 space despite the risk-on winds coming from China (good Chinese sentiment would normally disproportionately benefit AUD and the New Zealand dollar compared to other procyclicals) as a severe Covid-19 wave in Australia has forced Victoria into a lockdown. As we have learned in the past few months, there is a lag between the start of a lockdown and when we actually start to see cases slowing so AUD may continue to feel the pressure next week: even if we expect a risk-supportive environment, AUD/USD may fail to sustainably trade above 0.70.
- Labour data in Australia will also be closely watched: investors are likely expecting a rebound in the employment figures to the +100k region. The impact on AUD, however, may be limited by the notion that fresh lockdown measures are already neutralising any improvement seen in June.

## NZD: Reaping all benefits from China

	Spot	Week ahead bias	Range next week	1 month target
NZD/USD	0.6580	Mildly Bullish 	0.6520 - 0.6690	0.6400


- NZD was the best performer in the \$-bloc this week as it was able to reap all the benefits from the bull run in Chinese stocks while facing no idiosyncratic downside pressure.
- We may continue to see this outperformance next week as the economic calendar should not prove to be a hindrance to upside moves. CPI for 2Q will be monitored closely but inflation numbers have had a quite limited impact on currencies at the moment as the pandemic-induced deflation has already been vastly factored into asset prices. Service and Manufacturing PMIs will be interesting to watch to gauge any material rebound in June, but have generally a small impact on NZD.

## CAD: Macklem's debut no game-changer

	Spot	Week ahead bias	Range next week	1 month target
USD/CAD	1.3590	Mildly Bearish 	1.3450 - 1.3630	1.3500

- The loonie is the worst performer in the G10 this week, as its attractiveness as a pro-cyclical bet is starting to be dented by its exposure to US virus waves and lockdowns, while the sharp rise in debt-to-GDP forecasts may have fuelled investors' fears of another rating downgrade. This is despite some quite encouraging jobs figures, with headline employment rising by almost 1 million in June.
- Next week will mostly be about the Bank of Canada meeting. We discuss this in detail in: ["Bank of Canada preview: Macklem on tiptoes"](#). We expect Macklem's debut to be characterised by cautious language aimed at ensuring a smooth transition from his predecessor. Negative rates appear to be off the table, so more quantitative easing is the main option for additional stimulus, but we do not identify any urgency at the moment and expect the BoC to pause next week. The impact on the Canadian dollar may be a bit more pronounced than around previous meetings as markets may be more sensitive to the new governor's rhetoric, but we expect any CAD move to be quite short-lived. Away from the BoC meeting, another good week for sentiment and a leg higher in oil prices may help CAD recover some ground to its risk-sensitive peers next week.

## CHF: EU Recovery Fund and ECB could lift EUR/CHF

	Spot	Week ahead bias	Range next week	1 month target
EUR/CHF	1.0630	Mildly Bullish 	1.0620 - 1.0720	1.0700

- EUR/CHF could see a push to the upside this week if any progress is made on the EU Recovery Fund. And despite recent suggestions from some ECB members that the Bank may not need to use the entire Pandemic Emergency Purchase Programme's envelope, we would assume that President Christine Lagarde would want to avoid being backed into a corner – and thus would not echo those remarks.
- The above should combine to keep eurozone peripheral risk well-contained and even see EUR/CHF nudge above the 1.07 area. Also monitor developments in USD/CHF, which is quietly making its way towards our targets in the 0.92/93 area.

## SEK: Slow grind higher

	Spot	Week ahead bias	Range next week	1 month target
EUR/SEK	10.4030	Mildly Bearish 	10.3000 - 10.5210	10.5000

Should progress on the EU recovery fund and solid US data help risk sentiment, EUR/SEK is poised to break below the 10.40 level on a more persistent basis. If progress on the fund translates into higher EUR/USD, this will be beneficial for the Swedish krona, as the currency exerts the second highest sensitivity to EUR/USD in the G10 FX space.

On the domestic data front, the focus is on June CPI (Tuesday) which should bounce from 0% to 0.5%. Prospera's Swedish inflation expectations survey will be published the day after. As the domestic data is unlikely to be a game changer for the Riksbank, markets should look through it, with the general risk environment being the more important SEK driver next week. In general, the mix of a relatively less dovish Riksbank (vs its peers), global economic recovery (helping the currencies of a small open economies such as Sweden) and one of the highest real rates in the G10 space, should support SEK in the remainder of the year.

## NOK: The highest beta to risk

	Spot	Week ahead bias	Range next week	1 month target
EUR/NOK	10.7150	Mildly Bearish 	10.5410 - 10.8220	10.7000

It is a super quiet week on the Norwegian data front and this should further underline the importance of global risk appetite for the krone, with the currency currently exerting the highest correlation with risk (gauged by global equities) in the G10 FX space. Our modestly bullish view on risk for next week points to EUR/NOK re-testing the 10.60 support level, which proved an important horizontal resistance to the cross over the course of the past month.

With oil prices remaining stable and Brent oil staying above the US\$40/bbl level, NOK should benefit next week. The currency still screens as the most undervalued in the G10 FX space.

## Authors

### Chris Turner

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

[chris.turner@ing.com](mailto:chris.turner@ing.com)

### Francesco Pesole

FX Strategist

[francesco.pesole@ing.com](mailto:francesco.pesole@ing.com)

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