G10 FX Week Ahead: Lock, Stock and Two Smoking Barrels

Like in Guy Ritchie's 1998 landmark film, things can heat up quickly in a week packed with events. Brits go to the polls on Thursday and all points to a Tory victory, while the US-China trade deal is facing the risk of a delay. Elsewhere, it's time for a break in the Fed easing cycle and for Lagarde to speak her mind on monetary policy, as the FOMC and ECB meet

EUR: Remaining range bound

	Spot	Week ahead bias	Range next week	1 month target
EUR/USD	1.1062	Neutral	1.0980 - 1.1160	1.1000

- Despite a fairly busy week on the US and EZ data fronts, the impact on EUR/USD should be limited, with the cross remaining range bound. In the US, the FOMC meeting (Wed) is unlikely to deliver a major surprise, with the central bank on hold after delivering three cuts so far this year. Chair Powell should re-emphasise the data-dependent approach of the committee. With Nov US CPI inflation to print 2%YoY (Wed) and Nov retail sales (Fri) rising, the case for no urgent rate cuts should remain in place. Also, today's labour market data further supported the notion of stability in interest rates for now.
- In the EZ, new ECB President Lagarde is hosting her first press conference. No material change is expected with QE just being reintroduced this quarter. New ECB staff projections will be published with both CPI and growth projections for 2020 lowered (and 2022 projections newly revealed). We also don't expect any clarity about Lagarde's preference on the ECB strategic review. We expect a modest improvement in the Dec German ZEW Index. A possible Conservative party victory in the UK election and the associated sterling strength may push EUR/USD modestly higher via the GBP/USD flow channel.

JPY: Risk of re-exploring the 110 area

	Spot	Week ahead bias	Range next week	1 month target
USD/JPY	108.75	Bearish ↘	107.00 - 109.80	108.00

- After a week of gains, the JPY momentum collapsed on today's strong US payrolls, with USD/JPY now pushing up to 109. Next week, a calendar packed with market-moving events worldwide will likely overshadow the impact of the numerous data releases in Japan (PMIs, machine orders, PPI). The US-China trade negotiations will inevitably be the key driver throughout the week: the yen will likely find support on any indication that the deal will be delayed.
- With the regards to the UK parliamentary vote effect, we see the spillover into other currencies including yen as asymmetric, with the yen benefiting more from a non-market-friendly outcome vs the expected Conservative party victory. On the latter, the subsequent risk-on spillover should not be significant to cause material USD/JPY upside. Conversely, a hung parliament result would likely trigger a more meaningful yen appreciation. Elsewhere, the Fed is also unlikely to support JPY as it will probably hold a neutral tone whilst hitting the pause button in the easing cycle. All in all, considering that USD/JPY is the highest correlated G10 pair with risk sentiment (correlation at -0.57 with the MSCI World, in the last 3 months), expect the pair to come out as one of the biggest movers in the market.

GBP: Bracing for a big move

	Spot	Week ahead bias	Range next week	1 month target
GBP/USD	1.3121	Bullish	1.2785 - 1.3500	1.3300

- The overriding event of the week for GBP is the Parliamentary election (Thu). The market is currently partly pricing in the Conservative party victory, with our short-term final fair value model suggesting that more than 2% Brexit resolution premium is currently priced into GBP. Should the Conservative party gain a majority (as the latest polls suggest), we expect GBP/USD to move into 1.34-35 area. A large Conservative party majority is to have a more positive effect on GBP than a thin majority as the latter would raise concerns about the extension of the transition period beyond 2020 (which we see as necessary).
- Conversely, a hung Parliament outcome would lead to a full pricing out of the GBP Brexit resolution premium, a re-building of sterling speculative shorts and GBP/USD likely dropping to the 1.28 level. Regarding the GBP reaction time line, the first exit poll should be out at 10pm UK Time on Thu, with more clarity on the key battle field seats to come early Friday morning (2-3am UK Time). Data wise, Oct Industrial and Manufacturing Production (Tue) should be a limited impact on GBP.

AUD: No internal drivers

	Spot	Week ahead bias	Range next week	1 month target
AUD/USD	0.6830	Mildly Bullish	0.6772 - 0.6915	0.6900

- Speculation about the restart of the RBA easing have mounted this week, mostly on the back of weak GDP and retail sales data, and despite the Bank retaining a constructive tone in its policy announcement. This has prevented AUD/USD of taking full advantage of the trade optimism and weaker dollar environment, although it has now consolidated in the 0.68 area.
- Next week will not have many local stories driving the AUD, except for a speech by RBA Governor Philip Lowe on Monday, although it is not clear whether any monetary policy topic will be touched. Most of the moves next week will be steered by global sentiment dynamics and given the number of key events (trade negotiations, British vote, FOMC), expect a bumpy ride for the risk-sensitive AUD.

NZD: Likely to keep outperforming AUD

	Spot	Week ahead bias	Range next week	1 month target
GBP/USD	0.6559	Mildly Bullish	0.6500 - 0.6650	0.6500

- The diverging expectations on monetary policy in Australia and New Zealand continue to put pressure on AUD/NZD, which has dropped in 14 of the last 15 trading sessions. As we highlighted in our recent publication "Three reasons to stay bearish on AUD/NZD", we think that not only policy differential but also a better commodity outlook in New Zealand than Australia and extended short positioning in NZD make a case for further downside in AUD/NZD.
- Similarly to AUD, no key data events next week in New Zealand, so expect NZD to move in line with market risk sentiment. However, it will be worth keeping an eye on the budget policy statement on Wednesday, where the size and details about the announced infrastructure investment plan will be disclosed.

CAD: BoC neutral stance under scrutiny

	Spot	Week ahead bias	Range next week	1 month target
USD/CAD	1.3260	Neutral	1.3130 - 1.3350	1.3230

- The Canadian dollar erased most of its weekly gains (mainly triggered by a hawkish BoC policy message) as the employment staged the biggest drop (-71k) since 2009. The unemployment rate rose to 5.9%, although wage growth remained solid. A solid jobs market has been the basis of the BoC resistance to follow the global easing trend and – while it is still early to call for a downturn just yet – markets may be less convinced that the Bank will keep such neutral stance for long after today's data.
- In this sense, it will be interesting to analyze Governor Poloz's words at a scheduled speech on the 12th. Unless Poloz (who has just announced he will step down in 2020) decisively downplays the bad jobs numbers we suspect that the soft CAD momentum will prompt the currency to underperform its risk-sensitive peers.

CHF: SNB a non-event

	Spot	Week ahead bias	Range next week	1 month target
EUR/CHF	1.0956	Bearish ↘	1.0900 - 1.1060	1.1000

- There will be a combination of external and internal drivers driving the Swiss franc next week. Of the two, we expect the external part to dominate, in particular the British elections, considering the relevant spillover effect on the highly-exposed European assets.
- In terms of local stories, the SNB will announce monetary policy right before the ECB on Thursday. We think it is unlikely (in line with market expectations) that the SNB will deliver any surprising shift in its monetary policy message, with the grim economic outlook keeping the need for negative yields still in place. In this sense, it will be worth keeping an eye on the KOF Institute economic forecasts (also on Thursday).

NOK: Inflation dropping but carry remains attractive

	Spot	Week ahead bias	Range next week	1 month target
EUR/NOK	10.1090	Mildly Bullish ↗	10.0260 - 10.1880	10.1000

- In Norway, both November headline and underlying inflation should drop (Tuesday), justifying the case for the pause in the NB tightening cycle. This may also add to some NOK weakness, which from a seasonal point of view tends to be the most pronounced in December. Still, EUR/NOK is unlikely to breach the 10.20 level next week.
- While December tends to be a seasonally weak month for NOK, January in contrast tends to be the strongest. Coupled with the appealing NOK carry (the only G10 currency which yields more than the US dollar) we look for front-loaded NOK strength in the early part of 2020. The cross should drop below the 10.00 level early next year.

SEK: Softer CPI won't derail Riksbank from hiking

	Spot	Week ahead bias	Range next week	1 month target
EUR/SEK	10.5040	Mildly Bullish ↗	10.4700 - 10.6400	10.7000

- In Sweden, we expect the November CPI print (Wed) to come in line with market consensus. This means that the Riksbank is likely to deliver the signalled hike this December, but uninspiring Swedish CPI and growth data suggest that the Dec hike will be of a one-and-done nature.
- As per our 2020 FX Outlook, we expect SEK to be the laggard among cyclical G10 currencies next year, with still the lowest carry (among higher beta G10 currencies) and soft economic outlook not making the currency attractive.

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