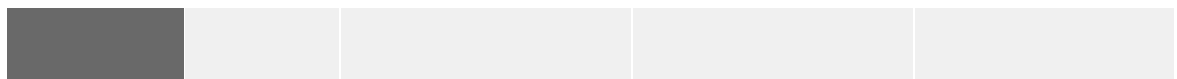


G10 FX Week Ahead: Looking pretty bleak

The US economy looks to be hitting new heights, while Europe remains once again plagued by politics. Throw into the mix the strongest US wage growth figures since the global financial crisis - and it's hard to see the US dollar not remaining bid in the near-term. The only thing to caution is that much of this story is already priced into global FX markets



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EUR: Strong US, weak Europe theme to continue

	Spot	Week ahead bias	Range next week	1 month target
EUR/USD	1.1340	Mildly Bearish 	1.1300 - 1.1450	1.1400

- Following a strong US GDP print, the US data focus in the week ahead shifts to the October jobs report. Our economists expect a strong employment rebound after a weather-depressed September reading caused by Hurricane Florence - and they had even hoped for an even stronger outcome than our 200,000 forecast for payrolls, but note that Hurricane Michael hit Florida the week of October payrolls data collection. In terms of wages, we think the annual rate will move up to 3.2%, which would make the fastest rate of pay growth since April 2009, while the unemployment rate could drop to the lowest since December 1969. While markets are broadly expecting this - any strong US inflationary signs could give US Treasury yields another boost and see global risky assets take a hit. The USD would likely remain bid in this scenario.
- We expect the EUR to stay under pressure as we struggle to see the Italian government backing down on the budget impasse (despite all of Mario Draghi's best efforts to inject a bit of calm into the situation). Italy's position seems unmoved with both deputy prime ministers Salvini and Di Maio stressing their reluctance to change the current budget draft. While forward-looking indicators have been more tepid, the only potential support for the EUR could come from stronger GDP and inflation data in the week ahead. At the time of writing, we haven't seen yet the key decision by S&P on the Italian debt rating outlook - so we can expect some reaction to this when markets open on Monday. Our Rates team say that if S&P mimics Moody's decision from last week and delivers a rating downgrade spreads could struggle to fall (much) below 300bp - and in fact widen substantially. If, however, S&P just switches the outlook to 'negative' - which we definitely don't rule out - the 10Y BTP-Bund spread could fall back to 250bp, especially if Rome and Brussels try to find some sort of compromise. The latter benign scenario could see a partial relief rally in the EUR - although upside may be limited to around 1.15 as there's still a long way to go before the Italian budget deadlock is resolved.

JPY: More stealth BoJ tightening to come

	Spot	Week ahead bias	Range next week	1 month target
USD/JPY	112.10	Mildly Bearish 	111.10 - 112.90	112.00

- The key Japanese event in the week ahead will be the all-important October BoJ meeting (Wed). Our economists note that BoJ Governor, Haruhiko Kuroda, has been dropping hints about changes to BoJ policy. Kuroda has been sounding more positive about inflation, with core (ex-fresh food) inflation now at 1.0%. The elusive 2% level may still be the official target, but there is a sense that a more pragmatic 'good enough' rate of about 1% could pave the way for the BoJ to start tweaking its policy stance. We think that we may see more stealth tightening steps to come this week - and this could be mildly supportive for the yen.
- With global markets still looking fairly fragile, the combination of a hawkish BoJ and sell-off in risky assets could be quite supportive for the yen. While USD/JPY could drift lower here towards 111.00-111.50 - we suspect that it'll be other JPY crosses where we'll see the greater price action (eg, EUR/JPY and AUD/JPY). The week ahead also sees Sep jobless rate (Mon) and Sep industrial production data (Tue).

GBP: Budget, Bank of England and Brexit... it could be messy

	Spot	Week ahead bias	Range next week	1 month target
GBP/USD	1.2780	Neutral	1.2660 - 1.2950	1.3000

- It's a big week of event risks for GBP - with the Nov Bank of England meeting (Thu) and Chancellor's Autumn budget (Mon) on the agenda. But make no mistake, they'll be no hiding from Brexit - and we suspect the UK's future relationship with the EU will be firmly in the spotlight at both events. Our economists note that given all the near-term unknowns of Brexit, UK Chancellor Philip Hammond appears keen to avoid making any dramatic changes as part of next week's Autumn Budget. But that could prove tricky, following the government's recent commitments to boost spending on health, as well as to bring the long-running austerity programme to an end from 2019. If Hammond wants to stick to his fiscal goals, which include bringing debt down as a percentage of GDP by the end of the current Parliament, he knows he will need to find extra sources of funding to help square the circle.
- In terms of the Bank of England meeting, we're likely to see a unanimous vote to keep policy unchanged next week, and we don't expect a rate hike before May 2019 at the earliest. But having stayed relatively quiet on Brexit risks at recent meetings, probably the most interesting question for markets next week will be whether Governor Carney voices greater concern about the short-term outlook. In the absence of Brexit, we think the Bank would be eyeing up another rate hike in the next 3-6 months. GBP/USD trading 2 big figures below the 'neutral' sentiment level of 1.30 presents a good opportunity to buy GBP again - if one believes that Brexit will, in fact, be alright on the night.

AUD: Getting ready for a figure of 0.6-something

	Spot	Week ahead bias	Range next week	1 month target
AUD/USD	0.7030	Mildly Bearish 	0.6900 - 0.7100	0.6900

- As [ING's Rob Carnell notes](#), we should get ready for an AUD figure of 0.6-something. [Our forecasts reflect this](#) - and we've pencilled in a potential trough point for the pair around 0.68-0.69 over the next few months. It's more a reflection that we think more things are likely to go wrong (US-China trade war, geopolitical uncertainties, global stock market correction) - rather than right over the next few months. Indeed, Rob notes that the AUD's weakness is more than just a China story - it's been all about the slowdown in global activity in 2018 (one that FX markets were not positioned for) that's weighed on the archetypal activity currency that is the Aussie dollar.
- The RBA is quite happy with a weaker AUD - and despite some likely good inflation data next week (3Q CPI due Wed), we doubt that investors will have any solid reasons to chase the currency higher. Our team feel that any Australian CPI uptick next week will be transitory - with higher oil prices the main reason for stronger inflationary pressures. In fact, we don't think underlying price pressures (wage growth) will pick up anytime soon - and that will keep the RBA hawks in check for a while longer. We could see a test of the 0.70 level over the coming week - and if we do go down and under here, look for 0.6930/40 as the next key support test.

NZD: Sliding lower as global optimism fizzles out

	Spot	Week ahead bias	Range next week	1 month target
NZD/USD	0.6470	Mildly Bearish 	0.6400 - 0.6580	0.6400

- It's another quiet week in the New Zealand calendar - although it's probably worth keeping an eye on Oct business confidence data (Wed). The kiwi could be quite sensitive to this release - not least given that rising speculation of an RBNZ rate cut in recent months has been largely due to waning business confidence.
- With NZD/USD having broken the 0.65 level, and very few positive catalysts on the horizon, there's a risk that we could see a decline to 0.61-0.62 (2015 lows) on the back of rising US Treasury yields in the coming months. For now, we think NZD/USD will spend most of its time below 0.65 in 4Q18 - with investors retaining a sell on rallies bias.

CAD: Bank of Canada hikes, loonie depreciates

	Spot	Week ahead bias	Range next week	1 month target
USD/CAD	1.3145	Neutral	1.3050 - 1.3230	1.3000

- It may have been a slightly more hawkish tone struck by the BoC at the October meeting than what many on the Street had expected ([see our reaction here](#)) - but as we pointed out, a lot of good monetary policy news is priced into the loonie. So it's no surprise to us to see USD/CAD trading back above 1.30 this week - although the bigger marginal drivers for CAD weakness have been lower oil and general global risk aversion.
- As for the week ahead, the focus will be on Aug GDP (Wed) and the Oct Canadian jobs report (Fri). Our economists forecast no change from July in the August growth figure; but at an estimated 2.4% YoY, the growth story is still upbeat as Canada continues to reap benefits from the strong foreign demand. We see the unemployment rate stable at 5.9%. Possible upward pressure should be noticeable in the full-time employment figures. Firms hinted recently in the Bank of Canada's 3Q Business Outlook survey that hiring plans will be extended. But the typical post-summer dip we see in participation rate could put a ceiling on the availability of labour, slightly dampening employment figures. Solid Canadian data may help to keep a lid on USD/CAD below 1.32 - we would look to fade any move above as it would appear out of sync with relative US/Canadian fundamentals.

CHF: Italy and Brexit remain the two big elephants in the room

	Spot	Week ahead bias	Range next week	1 month target
EUR/CHF	1.1370	Mildly Bearish 	1.1280 - 1.1450	1.1200

- We think EUR/CHF could drift lower for at least two European political reasons: (1) it's hard to argue that the stand-off between the Italian government and Brussels will be resolved anytime soon and (2) it's highly unlikely that a solution to the Brexit negotiations will be found as early as next week - and instead, increasing uncertainty surrounding a 'no deal' could bring about a string of further negative headlines.
- On the other hand, despite a fairly muted week on the Swiss macro side, we see some upside risk on EUR/CHF to partly offset a more bearish outlook stemming from potential negative headlines on complicated negotiations between Switzerland and the EU for the market equivalence of Swiss stock exchange. As our economist Charlotte de Montpellier suggests, the chances of reaching an agreement is at stake and the Swiss financial system could run into difficulty should an agreement not be reached early next year. Messy European politics usually means a lower EUR/CHF - but with Switzerland caught up in the mess, stability around 1.13-1.14 looks the most likely outcome.

SEK: Taking its cue from global risk

	Spot	Week ahead bias	Range next week	1 month target
EUR/SEK	10.4010	Mildly Bullish ↗	10.3300 - 10.5000	10.7000

- The high-beta krona has weakened as global equity markets have fallen sharply. We expect this correlation to continue to drive EUR/SEK over the coming week, especially in a relatively data-light week ahead. Further risk-off moves in equities could easily push EUR/SEK towards the 10.50 level. While this week's Riksbank meeting proved a non-event, the minutes of the October meeting published on Friday may provide some support for the krona if there are indications that the expected rate hike could come as soon as December. Set against that, we expect another weak PMI reading (on Thursday) could weigh on SEK.
- Meanwhile, the post-election political stalemate continues with no end in sight; barring a surprise development over the weekend, PM Lovfen's mandate to propose a government will expire unsuccessfully on Monday. We don't see a solution on the horizon, but new elections (which would likely see the re-introduction of a small political risk premium in SEK) are also not likely to be called for some time yet.

NOK: Struggling a little as oil price declines

	Spot	Week ahead bias	Range next week	1 month target
EUR/NOK	9.5160	Neutral	9.4160 - 9.5760	9.5000

- Like SEK, NOK has moved closely with global equity markets over the past week, and this is likely to remain the case over coming days as well. And with Brent oil falling into the mid-70s, the krone has lost a key supportive factor. This, combined with a continued gradualist stance from Norges Bank, means we see another move towards the key support level at 9.40 as unlikely in the near term.
- The key data to watch over the coming week is the PMI survey on Thursday, which we expect will show the Norwegian economy is holding up somewhat better than peers in Sweden and the Eurozone (where near-term indicators have turned down over recent months). The relative resilience of the domestic economy means we remain constructive on NOK compared to other high-beta currencies such as SEK, AUD, NZD.