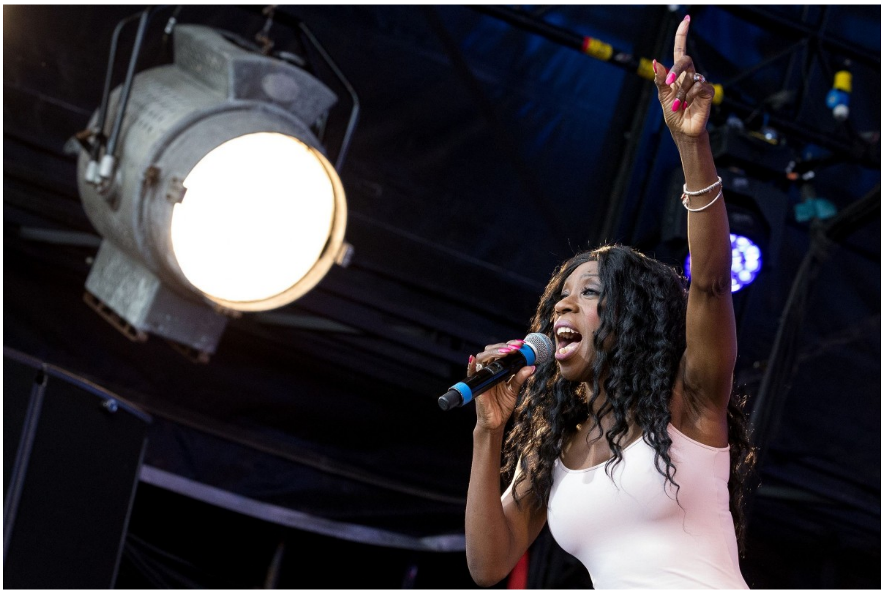
G10 FX Week Ahead: Moving on up

Stronger-than-expected growth in China, de-escalating tensions in the Middle East and the signing of the Sino-American phase-one deal should all pave the way for a good week for risk sentiment. In FX, the New Zealand dollar may lead the pack and move on up, as M People might have put it, while JPY looks set to break the 110 level



Heather Small of M People moved on up in 1993

EUR: Wake Me Up Before You Go-Go

	Spot	Week ahead bias	Range next week	1 month target
EUR/USD	1.1107	Neutral	1.1065 - 1.1180	1.1100

- Barring any week-end surprises out of the Middle East, risk sentiment should start the week on the front foot and be mildly supportive for the dollar against the low yielders such as the EUR. The highlight of the week, in theory, should be the signing of the phase-one of the trade deal in Washington on Wednesday. Warm words should be backed on the macro side, where our team see Chinese 4Q19 GDP (released Friday) beating the 6.0% consensus figure. In terms of US data, we'll get updates on inflation, retail sales and industrial production. The soft December manufacturing ISM reading is still sending warning signals over the industrial sector, but there are no signs yet that weakness here is spreading to other sectors. And notably even events in the Middle East did not budge the market from its thinking that the Fed policy rate will remain untouched throughout 1H20.
- The European data calendar is relatively quiet. We'll see November industrial production data on Wednesday and the minutes of the December European central bank meeting. The focus here will probably be on what is to be expected of the strategic review on monetary policy, e.g. a change in the inflation target. EUR/USD has started the year in a quiet fashion despite events in the Middle East and at the margin is showing a negative correlation with risk – as the EUR builds out its status as a funding currency.

JPY: Breaking into a new range?

	Spot	Week ahead bias	Range next week	1 month target
USD/JPY	109.58	Mildly Bullish	108.80 - 110.50	108.00

- As above, we are looking at a constructive week for risk assets which could briefly drive USD/JPY through 110. This is all premised on no escalation in Middle East tension and benign/positive US data, which could briefly see the US 2-10 year Treasury curve steepen back to the highs of the year. Even though dollar hedging costs have fallen for Japanese investors (now 2% per annum versus 3% this last time last year), they are still expensive in a world of low bond yields.
- Japanese data this coming week sees the November Balance of Payment data and core machinery orders. Neither of these is likely to excite the JPY. Instead, the local focus will be on whether the Nikkei 225 can push to a new cycle high above the 25,000 mark, representing the highest levels since the early 1990s.

GBP: BoE back in business

	Spot	Week ahead bias	Range next week	1 month target
GBP/USD	1.3068	Mildly Bearish	1.2970 - 1.3170	1.3000

- Comments from Bank of England governor Mark Carney and Silvana Tenreyro suggest that the central bank may have ended their Brexit moratorium and be edging towards a rate cut. If so, this would probably take place at the 7 May meeting. The UK jobs data will probably have the biggest say as to whether the BoE cuts rates. We do not get any jobs data this week, but instead, receive updates on inflation (Tuesday) and retail sales (Friday.) The former should not be a big market mover, but indications of poor Christmas sales points to downside risks to the December retail sales figure.
- The Brexit withdrawal agreement bill is making its way through parliament, but not playing a decisive role in GBP pricing right now. Instead, news that the BoE is turning a little more dovish, plus no signs of a serious US slow-down, suggests GBP/USD may be spending more time at the lower end of its 1.29-1.35 trading range.

AUD: Bushfires limiting the upside

	Spot	Week ahead bias	Range next week	1 month target
AUD/USD	0.6890	Mildly Bullish	0.6850 - 0.6970	0.6800

- A strong retail sales read overnight helped the Aussie dollar gain some momentum, although AUD/USD remains well below the year-end highs (0.70). With the US-Iran story increasingly out of the picture, focus will be on the Sino-American deal signing (15 January) and the Chinese GDP. If, as we expect, Chinese growth exceeds expectations, the AUD (the quintessential China proxy-currency in G10) will likely find further support in the next week.
- The bushfires emergency, however, is not ending anytime soon. Reports suggest that multiple fires will merge over the weekend at the border of New South Wales and Victoria. With such environmental crisis in place and uncertainty around the impact on the Australian economy, we think many investors may remain reluctant to enter long-AUD positions. This should translate in limited upside potential for AUD compared to its risk-sensitive peers if global risk sentiment keeps improving.

NZD: Some help from China

	Spot	Week ahead bias	Range next week	1 month target
NZD/USD	0.6622	Bullish	0.6590 - 0.6725	0.6600

- Just like in the past few days, the Kiwi dollar will lack a domestic story next week to move independently from the risk-sensitive bloc. The signing of the trade deal along with some possible data surprises in China should both benefit the currency. In particular, we expect NZD to keep outperforming AUD and AUD/NZD to face further downside risk.
- A very positive end of the year has lifted the NZD above our short-term expectations, and we have recently revised our 4Q20 forecast to 0.69. We continue to see the Kiwi dollar amongst the most attractive currencies in 2020 thanks to a supportive rate environment and medium-term undervaluation, although a more balanced speculative positioning may suggest a somewhat more limited upside room in the short-term.

CAD: Recovering, but heavily dependent on oil

	Spot	Week ahead bias	Range next week	1 month target
USD/CAD	1.3049	Mildly Bearish	1.2930 - 1.3100	1.3000

- Jobs recovered in December after the dreadful November reading, with the unemployment rate falling to 5.6% and full-time hiring displaying a solid rebound. Ultimately, this should ease worries about an imminent downturn in the Canadian labour market and keep the pressure off the loonie for now.
- A positive week for risk appetite should help USD/CAD fall below 1.30, although much will depend on the developments in the oil prices, that have curbed most CAD gains as geopolitical risk ebbed. In terms of data releases, the Bank of Canada Business Outlook Survey will be watched amid an otherwise empty calendar.

CHF: Facing less downside risk than the yen

	Spot	Week ahead bias	Range next week	1 month target
EUR/CHF	1.0819	Mildly Bullish	1.0800 - 1.0850	1.0900

- The Swiss franc has been more immune to the rollercoaster in middle-east tensions compared to its safe-haven peer JPY. In line with such dynamics, if risk aversion keeps slipping next week, we see EUR/CHF upside to be broadly limited. The pair may, however, face some volatility around the release of the ECB monetary policy meeting minutes, especially if details around a possible review of the inflation target is mentioned.
- If global risk aversion rise again and CHF finds renewed support, the question will be wheather 1.08 will represent the line in the sand for the SNB to intervene and devaluate the currency. Such risk should have the potential to put a floor below the pair.

NOK: Counting on oil price recovery

	Spot	Week ahead bias	Range next week	1 month target
EUR/NOK	9.8740	Mildly Bearish	9.9300 - 9.7800	9.8000

- A weak inflation read left only minor marks on NOK as markets conviction around a flat rate path by the Norges Bank proved hard to dent. Next week offers little reasons to think of any independent NOK move.
- Like CAD, the rebound in risk appetite will be able to show its benefits to the currency insofar as oil prices find some support. EUR/NOK is trading very close to the key 9.8884 200D MA but we expect the pair will have room to stir away from such level and move back towards the bottom of the 9.80/9.90 range.

SEK: Stable inflation & nothing to faze the Riksbank

	Spot	Week ahead bias	Range next week	1 month target
EUR/SEK	10.5600	Mildly Bearish	10.4500 - 10.6000	10.6000

- We've had a bit of a surprise with the December minutes last week, coming out slightly more dovish than expected, as the Riksbank seemed still far from ruling out bringing back negative rates in the future.
- Turning to next week's calendar, CPIF is expected to have remained around 1.7% YoY in December – a view shared with the Riksbank, which won't change their 'wait and see' approach. Though we might see some risk on the upside due to stronger oil, our economics team sees little scope for a surprise. In turn, next week will mostly be about global risk dynamics for SEK and in line with our expectations for a further drop in risk aversion, EUR/SEK should face some downward risk.

Authors

Chris Turner
Global Head of Markets and Regional Head of Research for UK & CEE
chris.turner@ing.com

Francesco Pesole
FX Strategist
francesco.pesole@ing.com

Disclaimer