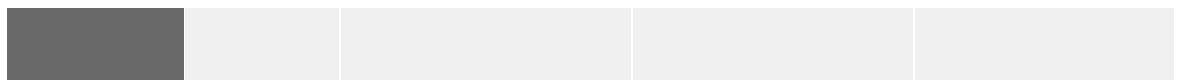


## G10 FX Week Ahead: Playing with fire

Donald Trump's threat to impose a 25% tariff on another \$200 billion of Chinese imports, along with strong domestic data, is keeping the dollar bid across the board. The risk is that Trump pushes too hard - but that looks like a risk he's prepared to take. Expect the dollar to stay in demand in the coming week



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## EUR: Balancing macro, trade and politics

	Spot	Week ahead bias	Range next week	1 month target
EUR/USD	1.1580	Bearish 	1.1510 - 1.1700	1.1500

- The US-China trade war is front-and-centre of global markets right now. The People's Bank of China has tried to stem the tide of Renminbi selling with the reintroduction of reserve requirements on forwards trading but further measures look likely if the US pushes ahead with rumoured plans to apply a 25% tariff on another \$200 billion of Chinese imports. That will keep emerging markets under pressure and the dollar bid against most G10 pairs – including the euro.
- The highlight of the US data calendar will be Friday's release of July CPI, pushing to a new cycle high of 3% year-on-year. We're short-term short term US dollar rates priced several years forward. At present, the market is pricing the top of the US rate cycle in the 2.60/70% area. Any range break-out to the upside could be the trigger for EUR/USD to go sub 1.15. In Europe, the focus will be on: a) German June industrial production on Monday and b) any fall-out from Italian budget discussions. EUR/USD risks look skewed to the downside again this week.

## JPY: Learning to live with JGB volatility

	Spot	Week ahead bias	Range next week	1 month target
USD/JPY	111.20	Neutral	111.00 - 112.60	112.00

- Were it not for the fragile risk environment, the USD/JPY trajectory would be firmly positive. A broadly stronger dollar, a Bank of Japan on hold indefinitely and the Asian FX complex under pressure on China would all point to the 113/115 area. That probably would be our bias at present given few signs that the dollar/tariff environment are going to change anytime soon.
- The market is learning to live with a little more volatility in the JGB market now that the BoJ targets 10-year yields at zero +/- 20bp versus +/- 10 bp previously. But the bottom line is that the BoJ remains committed to: i) a 2% inflation target and ii) keeping super-loose policy for an 'extended period'. Given that the BoJ has just cut its CPI forecasts, the bias will be for the JPY to stay soft if an equity collapse can be avoided.

## GBP: Needs to be a big 2Q GDP print to jolt markets from their Brexit lull

	Spot	Week ahead bias	Range next week	1 month target
GBP/USD	1.3000	Mildly Bearish ▼	1.2900 - 1.3080	1.2800

- A hawkish Bank of England rate hike was no game-changer for our short-term bearish GBP view – as we feel that Brexit political risks will continue to weigh on the currency over the coming months. However, given the Bank's optimistic rate hike outlook, positive UK data surprises over coming months could lift short-term UK rates – and jolt GBP markets out of their current Brexit lull. We've got the first look at 2Q UK GDP (Friday) – and if this were to positively surprise and come in at 0.5% (versus the broadly expect 0.4%) then one could imagine GBP finding a bit of support.
- So in the absence of any major newsflow on Brexit or any major data surprises, we expect to see GBP sitting on the fence now with the Bank of England event risk out of the way. We have pencilled in a 1.27-1.28 trough for GBP/USD to reflect peak 'no deal' Brexit risks (EUR/GBP risks moving up to 0.91-0.92).

## AUD: Risks that RBA plays it cool given political uncertainties

	Spot	Week ahead bias	Range next week	1 month target
AUD/USD	0.7390	Mildly Bearish ▼	0.7250 - 0.7450	0.7200

- The RBA meeting (Tuesday) will be a focal point for the Australian dollar in the week ahead – and we expect the broader uncertainties around global trade and the Chinese economy to dominate the agenda. The data flow has been mixed since the July meeting – with stronger jobs growth offset by a miss in 2Q CPI. However, the central bank may be forced to acknowledge recent political developments – and what could be a period of domestic political uncertainty ahead of early 2019 elections. The tail risk is that officials choose to cite two-way risks to the policy rate – which could see investors sharply re-pricing RBA policy expectations (a 25 basis point rate hike is currently fully priced in for August 2019). We also get the RBA's latest quarterly economic projections (Friday).
- The weaker Chinese yuan continues to be a source of risk for Asia-Pacific currencies. Risks of USD/CNY moving up to 7.00 could drag AUD/USD below the 0.73 level – although this may be partly reduced after the PBoC's recent FX policy announcements. In the absence of this, we would expect the 0.73-0.75 range to hold in the near-term.

## NZD: RBNZ to reiterate content with steady rates

	Spot	Week ahead bias	Range next week	1 month target
NZD/USD	0.6745	Mildly Bearish 	0.6600 - 0.6860	0.6700

- The RBNZ meeting this week (Wed) will also see the release of the Monetary Policy Statement (MPC) and a press conference with Governor Orr. Of particular interest will be the RBNZ's forward policy rate path - which tentatively shows a rate hike in late 2019. The 2Q employment data has provided the RBNZ with little need to deviate from this path and talk up rate hike prospects - with the moderate wage growth still below levels consistent with the central bank's 2% inflation target. However, one part of the RBNZ's dual-mandate element has been met - with the 4.5% unemployment rate indicative of the economy being close to 'maximum sustainable employment' (there's still room for it to move down towards 4.0%).
- Aside from the RBNZ meeting, we also get the 3Q inflation expectations survey (Wed) and manufacturing PMI (Thu). A slightly more dovish RBNZ than markets anticipate - coupled with general risk-off sentiment - could see NZD/USD breaching the 0.67 level this week.

## CAD: Mixed Canadian data and Nafta news flow

	Spot	Week ahead bias	Range next week	1 month target
USD/CAD	1.2980	Neutral	1.2920 - 1.3100	1.3000

- The May monthly GDP data came in stronger-than-expected (+0.5% versus +0.3% expected) - although it is to some extent old news for the Canadian dollar. The week ahead will see the more timely Ivey PMI (Monday) and July Canadian jobs report (Friday). The prior release saw overall +31.8k jobs added and wage growth coming in at 3.5% - similar figures will be needed to keep the Bank of Canada on their tightening path.
- The Nafta news flow has been mixed for the Canadian dollar. On the one hand, US officials continue to suggest a deal is within sight; however, a bilateral meeting between the US and Mexico on trade has created some noise over Canada potentially being sidelined from the negotiations. This risk may be slightly overblown - but may serve to keep USD/CAD above 1.30. The pair does look fair around current levels based on our short-term financial models - although we now see risks of a sustained move below 1.30 on any easing US trade policy risks.

## CHF: European risk returns

	Spot	Week ahead bias	Range next week	1 month target
EUR/CHF	1.1510	Bearish 	1.1470 - 1.1570	1.1500


- We've started to see some independent euro weakness coming through on the back of Italian politics. 2019 budget discussions are underway and the new government will have to present numbers by the end of September. The friction between meeting electoral promises and staying within Europe's Economic and Monetary Union budget rules may be a factor weighing on the euro over coming months.
- Locally, Swiss CPI has just moved to a cycle high of 1.2% year-on-year, but is expected to fall back by the end of the year. A difficult environment for risk/equities in August, as the US pushes ahead with sanctions and some Italian political risk look like a dangerous cocktail for EUR/CHF and is certainly curbing our upside enthusiasm for this cross.

## SEK: Low core inflation to prevent meaningful SEK upside

	Spot	Week ahead bias	Range next week	1 month target
EUR/SEK	10.3130	Neutral	10.2000 - 10.4000	10.5000

- While the headline Swedish CPIF is set to remain above the 2% target (at 2.2%YoY), the core CPIF price pressures should remain very muted, with CPIF ex-energy decelerating to 1.2% YoY. This should mitigate any positive impact of the headline inflation number on the Swedish krona, as low underlying prices suggest the inherently dovish Riskbank should remain on hold until summer next year (in turn not providing support to the krona).
- We thus see a very limited upside to SEK and don't look for the EUR/SEK to move materially below the 10.30 level, particularly with Italian politics back on investors' radar (where a further deterioration of the situation would be an initial negative for the higher beta, low liquid SEK).

## NOK: High CPI to further cement the September NB hike

	Spot	Week ahead bias	Range next week	1 month target
EUR/NOK	9.5330	Bearish 	9.4500 - 9.6000	9.4500

- With Norwegian July CPI inflation (Friday) expected to stay unchanged at 2.6% YoY and the core CPI ticking higher to 1.3%, this should further cement the odds of a September NB rate hike, particularly as oil prices have halted their decline and the Norwegian krone continues to trade on the softer side of its three month trading range (vs the euro).
- Unless we see a meaningful deterioration in risk appetite, the EUR/NOK upside should be bound by the 9.60 level, with the risk of the cross breaking the 9.5000 level next week in response to solid domestic CPI data. NOK/SEK to move higher next week in response to a divergence in core inflation data in the respective countries (rising Norway core CPI vs declining Swedish core CPI).

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