# G10 FX Week Ahead: Running on faith

The optimistic tone in the markets may extend into this week as major economies plan to ease lockdown measures. However, the Fed and ECB will have to maintain an accommodative tone to prove investors' "faith" in them has not been misplaced and avoid hindering the recovery in sentiment. We think they will: mostly to the detriment of USD and to the benefit of AUD

## USD: Fed won't let the guard down

| | Spot | Week ahead bias | Range next week | 1 month target |
|---|---|---|---|---|
| DXY | 99.9290 | Mildly Bearish ↘ | 98.8000 - 100.6000 | 95.0000 |

- As global economies lay down their plans for easing lockdown measures, news around the re-opening of economic activity may take centre stage this week. Barring another slump in oil prices, this should imply less safe-haven support to the dollar.
- In its policy announcement scheduled for Wednesday, the Federal Reserve is unlikely to announce new measures and should instead simply provide some colour on its quantitative easing schemes. It is equally unlikely, in our view, that the Bank will take away its pledge for more action if necessary to smooth market functioning, given the significant risk to hamper the equity market's still quite fragile recovery. This means that – while the market impact will be smaller than previous instances – the policy message may endorse the recovery in sentiment and a weaker dollar with it.

## EUR: ECB preventing further euro downfall

| | Spot | Week ahead bias | Range next week | 1 month target |
|---|---|---|---|---|
| EUR/USD | 1.0853 | Mildly Bullish ↗ | 1.0700 - 1.0950 | 1.1000 |

- The euro is enjoying a little reprieve from eurozone debt stress after S&P avoided downgrading Italy on Friday. In contrast to last week (where EUR stayed offered into the disappointing EU summit), the EUR could find gentle support ahead of Thursday's European Central Bank meeting where the Bank could potentially add fallen angels (High Yield) to its bond buying programmes and may perhaps expand the size of its Pandemic Emergency Purchase Programme scheme to head off concerns that PEPP would be exhausted by late Summer.
- If the PEPP scheme is not expanded this week it should be done by the June ECB meeting at the latest. All this should prevent a material build-up in the euro risk premia, with the ECB unlikely to want a repeat of the post March meeting sell-off following the communication missteps by President Christine Lagarde (which led to around 2% risk premia widening in the EUR/USD, based on our estimates).

## JPY: Flattening up

| | Spot | Week ahead bias | Range next week | 1 month target |
|---|---|---|---|---|
| USD/JPY | 107.12 | Neutral | 105.20 - 108.80 | 105.00 |

- The Bank of Japan's decision to lift the limit on JGB purchases and expand its corporate debt buying bodes well for the recovery prospects of the Japanese economy and has helped the Japanese yen to build some resilience against the mounting risk appetite.
- With the dollar likely to come under the most pressure from an improvement in global sentiment this week, the JPY – albeit unlikely to outperform in the crosses for now – should be able to trade mostly below 108 and possibly make a move towards 105.

## GBP: Bouncing off the GBP/USD 1.2300 level

| | Spot | Week ahead bias | Range next week | 1 month target |
|---|---|---|---|---|
| GBP/USD | 1.2443 | Mildly Bullish | 1.2300 - 1.2650 | 1.2500 |

- The recent GBP/USD decline was more of a function of the general USD recovery and the modest decline in EUR stemming from the uncertainty about the sustainability of the long term EUR fiscal stance, which also dragged GBP lower vs USD. However, with the USD likely to trade on the soft side this week, GBP/USD should recover somewhat. Prime Minister Boris Johnson's return and speculation about an eventual gradual exit from the restrictive measures may also be modestly positive for GBP.
- It is also a very light week on the UK data front (the highlight being the April PMI Manufacturing on Friday). Still, as seen last week, the dismal UK data is not affecting sterling negatively (poor March retail sales or April PMIs) as it is in line with the trend of global and European data, meaning that the negative effect on GBP is fairly limited, even if the UK economy returns to pre-Covid 19 levels only by 2022 at the earliest.

## AUD: Solid fundamentals

| | Spot | Week ahead bias | Range next week | 1 month target |
|---|---|---|---|---|
| AUD/USD | 0.6464 | Bullish | 0.6350 - 0.6680 | 0.6400 |

- AUD continued its rally on news that two Australian states are taking steps to reopen their economies sooner than expected. If global economies keep easing restrictions and contagion continues to slow, AUD remains the best positioned currency to take advantage of better risk sentiment this week.
- Iron ore prices continue to show some resilience to the turmoil in oil prices as demand from China has not dried up and supply from Brazil is proving slow to resume. Along with speculation that the Reserve Bank of Australia may be ready to taper and a large fiscal stimulus plan, the fundamentals for AUD appear quite solid.

## NZD: RBNZ ultra-dovishness hinders recovery

| | Spot | Week ahead bias | Range next week | 1 month target |
|---|---|---|---|---|
| NZD/USD | 0.6069 | Mildly Bullish | 0.5970 - 0.6200 | 0.6000 |

- The Kiwi dollar is likely to keep trailing its closest peer, the AUD, despite receiving some help from the New Zealand government's plans to reopen and recovering risk sentiment.
- The Reserve Bank of New Zealand is likely to remain the key obstacle to a sustained recovery in NZD. After hinting at a possible move to negative rates, markets will likely continue to see this as an option, at least until the Bank better clarifies its position. This might not happen this week and AUD/NZD may be set to rise again.

## CAD: Oil is still a concern

| | Spot | Week ahead bias | Range next week | 1 month target |
|---|---|---|---|---|
| USD/CAD | 1.4054 | Neutral | 1.3820 - 1.4270 | 1.4300 |

- The woes in the oil market may still not be over. Barring another major slump, global sentiment might be less affected by the weakness in crude, but highly correlated currencies such as the Canadian dollar may still suffer.
- We are reluctant to buy into CAD's relative resilience to the turmoil in crude markets and see the chance of a delayed impact on the currency, especially as the implications for the Canadian economy become clearer. In turn, CAD should underperform its procyclical peers.

## CHF: Back above 1.06?

| | Spot | Week ahead bias | Range next week | 1 month target |
|---|---|---|---|---|
| EUR/CHF | 1.0557 | Mildly Bullish | 1.0500 - 1.0680 | 1.0500 |

- The disappointment about the Eurogroup's response to the Covid-19 economic fallout appears partly on the backburner, as attention shifts to the ECB, which could provide some support to the euro (see EUR section above for more details).
- This should translate into EUR/CHF finding its way back above 1.06, especially if European countries continue to discuss plans to re-open their economies (Italy announced its "phase-two" yesterday, starting 4 May) and risk sentiment remains supported.

## NOK: Constrained by the near-term bleak oil price outlook

| | Spot | Week ahead bias | Range next week | 1 month target |
|---|---|---|---|---|
| EUR/NOK | 11.4480 | Neutral | 11.1650 - 11.8120 | 10.5000 |

- With the near-term outlook for oil being bleak, the risk of WTI falling back into negative territory again in May and the recent oil price rebound driven more by geopolitics rather than fundamentals (with the positive effect stemming from the former likely being short-lived), the scope for the Norwegian krone rally remains fairly limited.
- We look for a EUR/NOK 11.50 level as the gravity line for coming weeks (including this week). It is a fairly quiet week on the Norwegian data front (March retail sales on Tuesday are expected to dip, in line with the global trend), with NOK being primarily driven by risk sentiment and the oil price direction.

## SEK: Riksbank staying hold

| | Spot | Week ahead bias | Range next week | 1 month target |
|---|---|---|---|---|
| EUR/SEK | 10.8600 | Mildly Bearish | 10.7390 - 10.9750 | 11.0000 |

- We expect the Riksbank to stay on hold this week (Tuesday). Interest rates are at zero and the bank has a low appetite to move it back into negative territory. While the board decision is unlikely to be unanimous, the majority should still favour an unchanged interest rate. The central bank already extended its QE programme (by SEK 300 billion for 2020) which is likely to be a sufficient response for now. Hence, the Riksbank meeting should be non-negative for the Swedish krona.
- We expect EUR/SEK to stay around / below 11.00 during the week. In risk-off days, SEK is more insulated than its cyclical G10 peers given the lack of commodity exposure, while during risk-on days, SEK no longer exerts characteristics of the obvious funding currency of choice, as the interest rate disadvantage vs its peers has narrowed (by more than two thirds, from an average 1.3% in late 2019 to 0.4% currently).

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