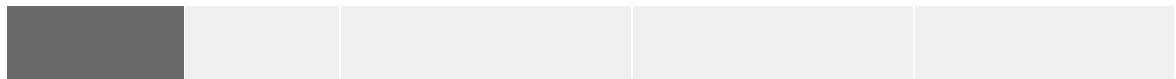


## G10 FX Week Ahead: “Scusa, no can do”

The dollar heads into this week's data releases on a high. While US retail sales and inflation should back the narrative of further Fed hikes, German GDP could actually show a QoQ contraction. And if Italy refuses to moderate its budget in response to criticism from Brussels, EUR/USD could break to new lows for the year



Italian Prime Minister,  
Giuseppe Conte



## EUR: Whatever happened to... growth?

	Spot	Week ahead bias	Range next week	1 month target
EUR/USD	1.1350	Bearish 	1.1190 - 1.1380	1.1200

- US data this week sees inflation and retail sales for October. Core inflation is expected to remain at 2.2% YoY and surveys suggest retail sales are set to stay strong. We'll also hear from a variety of Fed speakers, including Chair Powell. So far the mid-term results have done little to dent US growth optimism and the market will be keen to hear whether there is scope for bipartisan fiscal stimulus after all. Firm US rates should keep the dollar bid versus the low yielders.
- The Eurozone story remains challenged, however. The week ahead will see the second reading of Eurozone 3Q18 GDP, which disappointed at 0.2% QoQ. We'll also see the first reading of German growth, which some are expecting to have contracted. This is a far cry from the temporary slow-down story muted in the first half of 2018. We'll also get the next instalment of the Italian budgetary story. Having been sent back to the drawing board by the European Commission, there are no signs that the Italian government is yet ready to compromise on its spending plans. While this discord may just about be priced into the BTP:Bund spread, it still leaves EUR/USD vulnerable. A break down to new lows for the year to levels just below 1.12 look possible this week.

## GBP: The hard yards

	Spot	Week ahead bias	Range next week	1 month target
GBP/USD	1.3040	Neutral	1.2940 - 1.3100	1.3000

- GBP has been performing better on the view that the British Prime Minister, Theresa May, has a new Brexit deal to put in front of cabinet colleagues. Any news that a Brexit summit is back on the table for late November could also give GBP a boost. Assuming Brussels does not pull the rug from under Downing Street once again, the focus will then shift onto whether Mrs May can get the deal through parliament – which has been promised a 'meaningful' vote. Its passage looks highly uncertain.
- That said, the UK economy is performing reasonably well and this week should see UK wages, inflation and retail sales all coming in on the strong side. Thus were it not for Brexit, pressure would be building for another BoE rate hike. Currently, the market struggles to see the next BoE rate rise within a year. On balance we see GBP staying reasonably bid on temporary Brexit optimism, but larger gains look to be had against the EUR rather than the USD.

## JPY: In the frame for carry

	Spot	Week ahead bias	Range next week	1 month target
USD/JPY	113.77	Mildly Bullish ↗	113.20 - 114.50	115.00

- US equities continue to enjoy an impressive recovery and as above, investors are interested in whether any bi-partisan support for infrastructure projects can extend the US growth story through the entirety of 2019. The market is still contemplating where the top is for the Fed Funds' cycle and the bearish flattening theme for the US Treasury curve looks set to continue. If, as we suspect, the risk environment can hold up through November in the (unlikely) expectation of a US-China trade deal, then the JPY could find itself as the preferred funding currency for EM growth plays. That said, look out for Chinese IP growth this week and also take care as to how USD/CNY fares around 7.00.
- Locally, we'll see 3Q Japanese GDP data early Wednesday. A large QoQ decline is expected, adding to the narrative that the BoJ will be on hold through-out 2019. There's also the consumption tax hike to deal with as well. On balance, we see USD/JPY pushing up to the highs of the year at 114.50 – although presumably, we might be getting close to levels when the White House starts trying to talk the dollar lower.

## CHF: Dead as a dodo

	Spot	Week ahead bias	Range next week	1 month target
EUR/CHF	1.1415	Bearish ↘	1.1370 - 1.1470	1.1200

- EUR/CHF is still trading very narrow ranges and doesn't seem to be responding to Italian risk much these days. For what it's worth, we note that the one year 25 delta Risk Reversal is narrowing sharply – meaning the cost of insuring against a downside break in EUR/CHF is declining. Thus looking at EUR/CHF alone, it seems that investors are not increasing their bets on another Eurozone crisis.
- The Swiss data calendar is light, but in theory EUR/CHF should come under pressure from soft Eurozone 3Q18 activity data. Also, keep a watch on how USD/CHF trades near 1.0100. A break above here could encourage fresh follow-through buying from model-based funds and actually help EUR/CHF a little higher.

## CAD: USMCA trade agreement in focus

	Spot	Week ahead bias	Range next week	1 month target
USD/CAD	1.3200	Mildly Bullish ↗	1.3100 - 1.3290	1.3100

- The CAD has succumbed to stronger dollar rates and lower oil prices, with neither of those stories looking likely to change near term. On the oil side, six to seven weeks of US crude oil stocks rising at 5mn barrels per week have contributed to lower oil prices and it is probably too early to expect any significant changes in OPEC+ production policy – members meet on Sunday in Abu Dhabi.
- There's no major Canadian data this week, although we may hear some more news on the USMCA, Donald Trump's replacement for NAFTA. The ITC is due to provide feedback on it this week and leaders are expected to sign off on it at the end-month G20 meeting in Argentina. We'll back a stronger US dollar this week and USD/CAD moving close to 1.33.

## AUD: Macro or technicals?

	Spot	Week ahead bias	Range next week	1 month target
AUD/USD	0.7245	Neutral	0.7160 - 0.7290	0.7000

- AUD/USD managed to hold onto its gains quite well last week, despite a resurgent US dollar. Challenges this week will come from China, where Tuesday's October Industrial Production data and the ever-present risk of USD/CNY breaking above 7.00 pose downside risks to the AUD. Our bearish call on the month is largely on the back of a strong USD and a view that the prospects of a US: China trade deal will have evaporated by early December. Also look out for Australia October jobs data on Wednesday.
- That said, AUD/USD has recently broken out of a well-defined bear channel. This warns that any near-term losses may stall in the 0.7130/0.7160 area. If this is the case, then a subsequent break above the 0.7300 could deliver substantial follow-through. Just a word of caution here!

## NZD:RBNZ reality check

	Spot	Week ahead bias	Range next week	1 month target
NZD/USD	0.6750	Neutral	0.6680 - 0.6810	0.6500

- Some better employment 3Q18 employment data and a slightly more positive RBNZ has seen quite a substantial steepening of the NZD money market curve (some 10-30bp across 1-3 year maturities) has helped the NZD. This week the only big quarterly release is PPI, but we doubt this is a big market mover. Instead, we expect NZD to largely trade alongside, if not slightly outperform its AUD peer, both being driven by Chinese data.
- Similar to the AUD, a reassessment of very flat money market curves are helping the currency, but the headwinds from high US rates look here to stay. As such NZD could perform better on the crosses than against the USD.

## SEK: Will the next prime minister please step forward

	Spot	Week ahead bias	Range next week	1 month target
EUR/SEK	10.2700	Mildly Bearish 	10.1700 - 10.3200	10.4000

- Politics will dominate Swedish markets this week, where Wednesday will see the centre-right Moderates try to secure their leader, Ulf Kristersson, as the next Prime Minister. The vote will be close and should help the SEK should it succeed, but failure should not necessarily be a knock-out blow for the SEK. We say this because there would still be a chance of 2019 budget proposals being approved a day later, which would end some welcome uncertainty.
- This week will also see Swedish October CPI, which may come in on the high side and cement expectations of a December Riksbank rate hike. Those expectations may hold until some softer 3Q18 Swedish GDP data is released at the end of the month.

## NOK: GDP to power ahead

	Spot	Week ahead bias	Range next week	1 month target
EUR/NOK	9.5500	Bearish 	9.4600 - 9.5800	9.5000

- There'll be a lot of focus on Norway's release of 3Q18 GDP figures. Consensus expects mainland GDP to grow 0.5% QoQ; we see risks closer to 0.7-0.8% QoQ, which should help firm up 1Q19 as the timing for the next move in the Norges Bank tightening cycle.
- NOK has been suffering slightly on the lower oil price, but with Eurozone growth slowing and the timing of ECB normalisation being called into question, we suspect that NOK will find buyers on dips.

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