


## G10 FX Week Ahead: Stuck in the middle

The coronavirus is causing some stall in FX markets by impeding both a recovery in risk and a full-fledged flight-to-safety. Time to focus on local stories then: GBP may drop on fading fiscal expectations and weak data, and the EUR could take another hit as PMIs contract. The dollar, in turn, may still be the safest option in G10



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## DXY: No catalysts for an inversion

	Spot	Week ahead bias	Range next week	1 month target
DXY	99.1100	Mildly Bullish 	98.9000 - 100.0000	98.0000

- The DXY has broken above 99.00 this week and we do not see many catalysts warranting an imminent inversion in the dollar resilience. The coronavirus story appears to be mutating into some background noise that is preventing any material recovery in risk but equally still not triggering a fully-fledged flight-to-safety. This is translating into breeding ground for the dollar to retain its recent strength as the absence of a slump in rates is pairing with robust domestic data and the notion that the US should be more protected than other economies (the Eurozone, above all) to the coronavirus downside risks. Next week, the DXY may be lifted by a few local stories driving some key G10 peers lower (namely, EUR, GBP and AUD), as highlighted in the sections below.
- Looking at the US calendar, the FOMC minutes (for the 29 January meeting) will likely take the centre stage, with particular attention on any mention of the coronavirus impact. A number of Fed officials are also set to speak but we do not expect any change in rhetoric after Fed Chair Powell recently reiterated that the Committee is quite comfortable with the current stance. On the political side, the Democratic primaries will be on pause until next Saturday (22 February) when there will be the Nevada Caucus. For now, the key takeaways from the first two round of votes are: a) Democrats seem have lost consensus in general, raising the chances of a re-election of President Trump; b) Sanders' and Buttigieg's campaigns appears to have more steam than the other contenders; and c) Biden's role as the front runner to challenge Trump in November is creaking.

## EUR: No rebound in sight

	Spot	Week ahead bias	Range next week	1 month target
EUR/USD	1.0841	Mildly Bearish 	1.0750 - 1.0889	1.1000

- EUR/USD has lost ground in seven of the last eight sessions as the already grim economic outlook was hit by a round of unsupportive data and mounting speculation around the negative impact of the coronavirus-related disruptions to supply chains and demand. On top of that, the funding characteristic of the euro prevent it to fully cash in on any recovery in risk sentiment (as we saw this week) and the dollar is showing more and more resilience. In light of this, it won't be easy for EUR/USD to invert the bear trend for now, and this week may actually make things worse.
- In the Eurozone, surveys will be particularly watched. The German ZEW will be the first post-coronavirus indicator and should therefore attract particular attention, despite the impact on the EUR having been quite negligible in the last instances. Elsewhere, Eurozone PMIs will be released on Friday and here we expect a contraction that should mostly be reflected in the manufacturing gauge. This may erase – or at least decisively postpone – those expectations for a rebound in the Euro Area economy that had been building since the second half of last year. The result may be another leg lower in EUR/USD as market extend their expectations that the ECB will keep rates on hold for longer. Speaking of the ECB, the minutes of the 23 January meeting will be published on Thursday and attention will likely be on any detail around the strategy review, although any sizable impact on the EUR does not seem likely. All in all, we see the balance of risks still tilted to the downside for the euro next week.

## JPY: Still unable to break free

	Spot	Week ahead bias	Range next week	1 month target
USD/JPY	109.80	Neutral	109.30 - 110.00	107.00

- The yen is still failing to rally on the coronavirus story and to see USDJPY back below 109.00, we would likely need to witness a decisive turn for the worse in the virus newsflow. That is, a switch from a Chinese-only story to global pandemic fears. Instead, for now, investors seem to have settled with the idea that repercussions on the global economy from the upcoming Chinese slowdown can be sizable but likely time-limited. This notion may continue to prevail next week and JPY gains may remain relatively capped, especially as equities continue to show a significant resilience and US yields fail to move materially lower.
- The slew of domestic data in Japan next week (GDP, Machine orders, CPI) should only have minor impacts on the JPY. Growth may come in mildly better than expected but still deep into negative territory for the quarter-on-quarter read while the CPI read for January should keep painting an uninspiring inflation picture. All in all, we expect a stabilization in USD/JPY in the upper half of the 109.50/110 area.

## GBP: Misplaced fiscal expectations and PMI to point south

	Spot	Week ahead bias	Range next week	1 month target
GBP/USD	1.3017	Bearish ▼	1.2800 - 1.3070	1.2900

- The bounce in GBP late this week came on the back of speculation that the UK government will move towards more aggressive fiscal stimulus. The trigger was the resignation of Chancellor Sajid Javid, who will be replaced by Rishi Sunak. We are very sceptical to endorse the market's prevailing view that the reshuffle in PM Johnson's cabinet will effectively lead to a change in the fiscal spending plans. While we would expect some fiscal stimulus, it's unlikely the government will want to use all of its ammunition with the next election so far off. In turn, markets may receive little indication to endorse such expectation next week which may fuel a correction in GBP.
- A slew of key data releases will also be closely watched next week. We suspect it is still early to see any post-election rebound in December jobs data (out on Tuesday): in line with consensus we expect a slowdown in employment growth, and wage growth may also inch lower. Inflation numbers (out on Wednesday) for January should get a boost from higher fuel prices, but we suspect it will not last through the spring. Last but not least, PMIs are due on Friday and we expect some reverse effect this month after the strong January print. The manufacturing gauge may start to suffer from coronavirus fears and the related concerns about the disruption in supply chains. All in all, we expect a slightly dovish tone of data next week in the UK, which should rise the perceived probability of BoE easing in the next months. When adding the possible reversal in fiscal stimulus expectations we expect some sizable downward pressure on sterling next week.

## AUD: Jobs data may trigger RBA rethink

	Spot	Week ahead bias	Range next week	1 month target
AUD/USD	0.6717	Mildly Bearish 	0.6650 - 0.6750	0.6600

- The AUD has found some respite this week on the back of a slight recovery in global sentiment especially in the first half of the week with booming loans data and some residual impact of the RBA hawkish surprise. However, next week might be a completely different story. While the sharp increase in coronavirus cases isn't proving particularly detrimental for pro-cyclical currencies – it simply limits any sustained recovery for now – data may come back to haunt the Aussie \$.
- Employment numbers for January should show the unemployment rate moving back to 5.2% according to consensus, and we do not exclude an even worse reading as the impact of the bushfires starts to creep in. We must also notice that the latest strong jobs reading was solely driven by part-time hiring: it will be worth keeping an eye on whether full-time employment extends its downward trend. Considering that the RBA referred to the resilience in the labour markets as one of the foundations of its surprisingly upbeat tone, we may start to see a reversal of that hawkish repricing that started last week and AUD may go back to being the key underperformer within the G10 commodity space.

## NZD: No data is better than bad data

	Spot	Week ahead bias	Range next week	1 month target
NZD/USD	0.6437	Neutral	0.6400 - 0.6480	0.6400


- The RBNZ surprised the markets this week with a quite hawkish message, somehow downplaying the rising fears around the impact of the coronavirus emergency on the highly exposed New Zealand economy. We have analysed what this new RBNZ stance means for the Kiwi \$ in [New Zealand: Central bank paves way for currency rebound in medium-term](#). In a nutshell, the RBNZ meeting reinforced our view that the NZD will be able to retain a relatively good carry to cash in on a stabilization in risk sentiment in the medium term.
- Next week will not bring us any local story from New Zealand and the coronavirus may have a neutral impact on risk-sensitive currencies for now. Looking at NZD vs its closest peer AUD, we think this week could see another leg lower in AUD/NZD (after the move prompted by the RBNZ) on the back of downside risk from Australian jobs data. Looking ahead, we are still expecting a move back to the 1.03 area in the pair in the near term.

## CAD: Oil looks bad, inflation looks better

	Spot	Week ahead bias	Range next week	1 month target
USD/CAD	1.3240	Neutral	1.3150 - 1.3320	1.3300

- We have highlighted in more than one occasion how the Canadian dollar is definitely less exposed to the coronavirus than its peers AUD and NZD and this is due to looser ties to China. Oil is a key channel through which the virus story is making its way to hit the loonie and the recovery in crude prices this week has given some support to the currency. The International Energy Agency did revise its oil demand forecasts but given the strength seen in the market this week, it suggests participants were factoring in even larger demand hits as a result of COVID-19. However, the developments in the OPEC+ action remains a key driver moving ahead and the indecisiveness of Russia to agree to more output cuts remains a key risk for the oil outlook.
- Unable to fully rely on an oil rebound, CAD bulls will need to direct their hopes once again to domestic data. They may well find some breeding ground as the inflation report is set to display headline CPI inch up and the core likely to stabilize at or marginally above the central bank target. The read may pair with the very strong jobs numbers last week to further dissipate bets on imminent BoC easing and provide some help to CAD to offset the negatives from coronavirus and a possible additional leg lower in oil prices.

## CHF: Another week, another headache for the SNB

	Spot	Week ahead bias	Range next week	1 month target
EUR/CHF	1.0645	Mildly Bearish 	1.0590 - 1.0680	1.0600

- EUR/CHF has rebounded right before approaching the 1.0600 mark, that may start to be perceived as the level at which the SNB will intervene in the FX market to stop the franc's appreciation. It is hard to tell how long the SNB tolerance can last, but the risks of the Bank's patience being heavily tested by speculators again next week are quite high.
- As highlighted in the EUR section, we expect another round of unhappy data in the eurozone next week, in particular PMI on Friday. When adding the rising expectation that the Euro Area will be a key victim of coronavirus disruptions, more pressure on the EUR seems warranted, and this should inevitably translate into additional EUR/CHF downside. Also, keep an eye on Italian politics. The dynamics in Italian rates suggest that market is positioned for a very "calm" year, but recently the coalition is showing some signs of weakness as a bill to change the statute of limitations is facing a parliamentary gridlock. There is a chance – albeit quite limited in our view – that this may generate a number of tensions in the always fragile coalition balance of powers and possibly revamp speculation around snap elections.

## NOK: No internal drivers

	Spot	Week ahead bias	Range next week	1 month target
EUR/NOK	1.0300	Mildly Bearish 	9.9500 - 10.0800	10.2000

- The oil story remains a key driver for the krone as markets await a response from Russia about more output gaps that would support oil prices. As highlighted in the CAD section, the downside risks for crude prices persist despite the recent rebound, which could be a drag to a sustained NOK recovery.
- The absence of domestic data next week suggests that – along with OPEC-related news – it will mostly be about risk sentiment to drive the NOK. We may therefore see some mild underperformance vs the dollar but the krone should hold up relatively well vs the euro (which may extend its bear trend). In a longer-term perspective, the NOK is still quite undervalued, but with the January seasonal strength factor now behind us, the pace of appreciation may be set to slow.

## SEK: Inflation to hold up amid unattractive FX prospects

	Spot	Week ahead bias	Range next week	1 month target
EUR/SEK	10.5200	Neutral	10.4600 - 10.6000	10.7000

- Last week's Riksbank meeting had little to none impact on SEK as there was barely any change to the Bank's forecasts and a 'wait and see' stance prevailed. Warmer weather and the resulting lower energy costs will keep Swedish inflation below target next week but the risks remain skewed to the downside as the Riksbank expects it even lower (1.5 vs ING's 1.7% for CPIF). However, we are a touch above consensus, which may give some short-lived help to SEK. The main trend going forward for inflation are the ongoing wage negotiations, driven by inflation expectations revealed in next week's Prospera survey. Nonetheless, none of next week's data should faze the Riksbank, widely expected to remain on hold for the foreseeable future.
- In terms of external drivers, the coronavirus continues to have a mixed impact on EUR/SEK but should in general terms prevent a further decisive downside move for now. Similarly, some European data disappointment (in particular PMI) may offer additional support to the pair given SEK high-beta to the EZ economic outlook. All this should erase any SEK upside coming from possible inflation surprise. In a longer-term perspective, we remain in the view that the low rates should lead SEK to trail behind other risk-sensitive currencies once sentiment stabilizes.

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