G10 FX Week Ahead: Stunned into silence by the Tweeter-in-Chief

The myriad of Trumpian uncertainties - each with conflicting economic implications - have rendered currency investors in a state of passivity. Pockets of near-term opportunities do exist - not least in GBP, CAD and NZD, which are the current 'darlings of the currency world'. Equally, one needs to be brave to bet against the safe-haven JPY in this nervy geopolitical environment

Hot Topics: Will the White House take their trade war into the currency arena?

- **US Treasury FX Report:** One of the bigger risks specific to FX markets in the near-term is whether the US administration chooses to take its trade clampdown into the currency arena. We're expecting the US Treasury's FX report anytime now – and we note in our preview how officials could technically label Thailand a 'currency manipulator' (for more see Risks of trade war spilling into currency war increase). Doing so, in our view, would put additional pressure on trade surplus countries – such as Germany, Japan and China – to stay clear of any policies that depress their

currencies, which naturally lends itself to a weak USD (and strong EUR, JPY and CNY) trading environment. And under this backdrop, we feel the trade-weighted US dollar could still fall another 5-10% over a multi-year period.
- **Bank of Canada policy meeting (Wed 18 April):** While we expect the BoC to stay on hold; the upcoming meeting will also see the release of the central bank's latest set of economic projections (MPR). April MPR's are of particular significance given that the BoC will give us its annual update on the supply-side of the economy - including estimates of potential GDP growth and the neutral interest rate (r-star). The risks to both lie to the upside if based on Governor Poloz's speech last month. We feel only a clear hawkish signal - one that all but confirms a May rate hike - would drive CAD materially higher in the week ahead.

EUR: Trade war no longer the sole concern for global investors

	Spot	Week ahead bias	Range next week	1 month target
EUR/USD	1.2310	Neutral	1.2200 - 1.2420	1.2500

- The White House remains front-and-centre for global markets - with a trade war no longer the sole concern. Risks of a geopolitical war may continue to trump US trade policy in the near-term, while the upcoming semi-annual US Treasury FX report could see the administration take its trade clampdown into the currency arena. In this ever-changing risk environment, FX investors have broadly adopted a state of passivity- whilst keeping a watchful eye on developments in Washington. On that note, potential escalations in the week ahead include more forceful US intervention in Syria, as well as the US Trade Representative presenting the constructed list of $100bn tariffs on Chinese imported goods. The US calendar sees March retail sales (Mon), industrial production (Tue) and the Beige Book (Wed). We also note 10 different FOMC speakers in the week ahead - in particular, we'll be tuning in to see what the more dovish Governor Lael Brainard (Thu) has to say on the latest outlook.
- The build-up to the 26 April ECB meeting will see the final March Eurozone CPI readings (Wed); our economists are not expecting any changes to the readings (headline: 1.4% YoY; core 1.0% YoY). The softening of leading indicators - partly due to global trade uncertainties - has been of some concern, though a bounce back may be indicative of an initial overreaction. The latest ZEW survey (Tue) is likely to be something that ECB officials will be keeping an eye on.

JPY: Brave to bet against the yen in this nervy geopolitical world

	Spot	Week ahead bias	Range next week	1 month target
USD/JPY	107.70	Neutral	106.50 - 108.80	0.00

- USD/JPY's slow creep higher is largely a reflection of the lack of escalation in the myriad of Trumpian uncertainties facing global investors; front-end risk reversals have turned less JPY bullish as investors adopt a more wait-and-see approach to both trade and geopolitical concerns. Moreover, with each subsequent Presidential tweet, the bar for what actually constitutes risk-off in global FX markets tends to increase – and it's now at a stage where one of these risks, be it a trade or geopolitical war, needs to materially escalate to influence currency markets that tend to track fundamentals.
- Long JPY positioning against the USD may not look stretched - though we have seen a significant turnaround year-to-date (with JPY positioning moving from net short 54% to net long 2%). In this instance, it's easy to see how USD/JPY's move lower has taken a short-term breather - especially in the absence of any bearish catalysts. Data wise, Japanese CPI (Fri) and the March trade figures (Wed) will be the domestic highlights of the week.

GBP: Back to good-old fashioned UK data watching

	Spot	Week ahead bias	Range next week	1 month target
GBP/USD	1.4280	Mildly Bullish ↗	1.4150 - 1.4400	1.4500

- While one may be inclined to chalk down GBP's bullish bias of late to seasonal factors, we've also been noting how 2018 is very much a different Brexit trading environment for the pound. Gone are the days of noisy Brexit headlines stirring sharp – and almost sentimental rather than fundamental – knee-jerk moves in the currency, with the buffer of last month's Brexit transition deal buying GBP investors some extra time to assess the Brexit facts. With the next stage of negotiations surrounding a future UK-EU trade deal, which begin next week, likely to be long-winded and complex, it appears that we're back to good old-fashioned UK data watching to determine the short-term direction for the currency.
- The week ahead shouldn't disappoint here given the array of key data releases to watch out for – including the latest UK labour market report (Tue), CPI data (Wed) and retail sales (Thu). We think signs of firming wage growth next week may seal the deal for a May BoE rate hike – though it is the UK activity side that may hold the key to the pace of BoE normalisation and GBP's cyclical re-pricing. It's evident that the UK economy has been performing soft in 1Q18 - though a large chunk of this may be due to transitory factors (weather and Brexit uncertainties). Our base case remains for GBP/USD to move up to 1.45 in 2Q18 – while risks are that our EUR/GBP year-end target of 0.85 is met much earlier.

AUD: Australian jobs report unlikely to alter mixed RBA signals

	Spot	Week ahead bias	Range next week	1 month target
AUD/USD	0.7800	Neutral	0.7690 - 0.7900	0.7800

- AUD's underperformance amid rising US-China trade tensions and the adjustment in industrial metals (iron ore) has been evident in recent weeks - it is now the second-worst performing G10 currency against the USD (behind SEK). The uncertain global backdrop means that we expect relief rallies to be limited and short-lived; reports that the US administration is ready to unveil its $100bn tariffs on Chinese imports could easily see AUD trade lower. We look for the pair to stay below the 200-dma (0.7814).
- The domestic focus will be on the March jobs report (Thu) and the April RBA meeting minutes (Tue). Governor Lowe's latest message is that the next rate move will likely be up, not down - and while a rate hike may come as a shock, further progress on unemployment and inflation is still needed before the RBA will consider any tightening. Recent upticks in the unemployment rate (from 5.4% in 2H17 to 5.6%) will, therefore, need to start reversing in order to generate confidence around an RBA rate hike. Markets still remain on-board with a fairly neutral RBA in the near-term, with the AUD OIS curve flat out until end-2018.

NZD: Commodity haven amid rising trade and geopolitical concerns

	Spot	Week ahead bias	Range next week	1 month target
NZD/USD	0.7380	Neutral	0.7240 - 0.7440	0.7400

- Amid the rising trade and geopolitical uncertainties, the kiwi has been one of the preferred haven destinations for speculative FX markets - with net long NZD/USD positioning having spiked in recent weeks to its highest levels since the 2017 New Zealand general election. New Zealand's relatively low direct exposure to any US-China trade conflict has kept NZD crosses well-bid - with AUD/NZD notably falling to the 1.05 level.
- New Zealand 1Q CPI data (Thu) could test the kiwi's bullish positioning in the coming week - though the RBNZ's recent admission that near-term price pressures are likely to "weaken further" has partly lowered the bar for what constitutes a constructive report. Only a notable negative quarter-on-quarter CPI print would trigger a sharp positioning adjustment in our view. In the absence of this, look for NZD/USD to take its cue from the global backdrop (which remains choppy, to say the least).

CAD: Further uplift requires explicit hawkish BoC signal

	Spot	Week ahead bias	Range next week	1 month target
USD/CAD	1.2560	Mildly Bearish ↘	1.2400 - 1.2600	1.2500

- CAD has been the best performing currency in the G10 FX space so far in April – buoyed by a re-pricing of NAFTA risks. While negotiations continue to take place in the background - and could linger on 'forever' in the eyes of President Trump - both the BoC policy outlook and the loonie's re-coupling with oil markets amid rising geopolitical tensions have turned into short-term positives for the currency. Elevated Middle East tensions may continue to see CAD as the preferred petro haven.
- The April BoC policy meeting (Wed) will dominate the agenda in the week ahead - especially as this month will also see the release of the central bank's latest set of economic projections. The risks are that the BoC's language this month - and in particular the reiteration of US trade policy risks and a gradual normalisation cycle in order to allow the economy to grow to higher equilibrium - may be perceived in a dovish way. USD/CAD's formation of a head-and-shoulders top - with the neckline around the 1.2550 level - may elicit some CAD profit-taking in the absence of any fresh hawkish BoC impetus.

SEK: Looking like a lost cause

	Spot	Week ahead bias	Range next week	1 month target
EUR/SEK	10.3800	Mildly Bearish ↘	10.3000 - 10.5000	10.3000

- SEK has been the worst-performing G10 currency so far year-to-date (down close to 3% against a politically weak USD). A miss in Swedish inflation didn't help - and we look for EUR/SEK to remain above the 10.00 level throughout 2018. In the near-term, it's hard not to see SEK posting fresh lows (EUR/SEK bias towards 10.50).
- The week ahead is extremely quiet for SEK in terms of domestic catalysts - which means it's likely to remain caught in the crossfires of a bid NOK/SEK (oil trade) and global trade tensions.

NOK: Higher oil prices add to Norges Bank tailwind

	Spot	Week ahead bias	Range next week	1 month target
EUR/NOK	9.5620	Neutral	9.4750 - 9.6560	9.5500

- Rising oil prices on the back of heightened geopolitical tensions in the Middle East has kept the petro-sensitive NOK supported in the near-term (EUR/NOK has the second highest correlation with Brent after EUR/COP out of the major EUR crosses). We suspect these dynamics will remain a short-term positive for NOK - especially if Brent continues to stabilise above $70/bbl.
- After reiterating that Norges Bank will only raise rates "after summer", Governor Olsen's speech in the week ahead will largely be a non-event (Thu). There is a trivial risk that we see markets bring forward expectations for a 4Q18 rate hike - though data and the global external backdrop may be the drivers here. The week ahead sees trade data (Mon) and 1Q industrial confidence (Fri).

CHF: Breaking bad as 1.20 looms for EUR/CHF

	Spot	Week ahead bias	Range next week	1 month target
EUR/CHF	1.1850	Mildly Bullish	1.1760 - 1.2000	1.2000

- EUR/CHF moved to its highest levels since the SNB removed the 1.20 peg in January 2015 following the US sanctions on Russia - with Swiss equity markets also trading volatile (as we noted last week indicative of Russian money leaving Switzerland). While US-Russia tensions may have eased, we still think the risks are for EUR/CHF to move up towards 1.20 in the near-term - not least due to perennially dovish SNB and the Swiss franc's relative expensiveness.
- The Swiss calendar in the week ahead will provide little in the way of impetus - with producer price inflation and sight deposit data (both Mon) to note.

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