

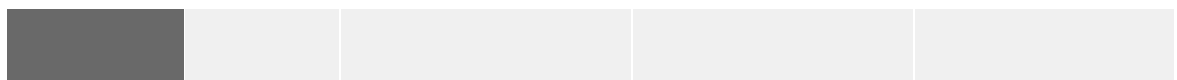
G10 FX Week Ahead: The art of trade wars

“The supreme art of war is to subdue the enemy without fighting” – Sun Tzu

- President Trump will feel vindicated that his blunt threats have brought North Korea and major trading partners to the negotiating table. FX markets have so far taken the news in their stride, although US Treasury auctions next week will show whether appetite for US assets remains robust.
- Eurozone finance ministers may also have something to say about US protectionism when they meet on Monday. Retaliatory tariffs anyone? Next week will also see monetary policy meetings in Switzerland and Norway - with potentially diverging implications for the CHF and the NOK.



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Europeans will struggle to rein in the EUR

	Spot	Week ahead bias	Range next week	1 month target
EUR/USD	1.2320	Mildly Bullish ↗	1.2250 - 1.2450	1.2500

- Subdued US wage data in February should prove positive for risk assets this coming week - and prove slightly dollar negative. We doubt the US CPI/Retail data on Tuesday and Wednesday will make much of a dent in sentiment, with core inflation remaining at 1.8% YoY.
- There is now some focus on the Euro area Finance Ministers meeting on Monday - where exchange rates and presumably protectionism will be discussed. With the Eurozone enjoying a massive 3.5% GDP current account surplus and the EUR not particularly volatile, it will be very hard for them to talk down the EUR. In fact, in March, 18 ECB staff projections saw the surplus rising to 4.5% in 2020.

Focus on US Treasury auctions

	Spot	Week ahead bias	Range next week	1 month target
USD/JPY	107.00	Neutral	105.70 - 107.50	103.00

- Trump's softening of tariffs and encouraging words from North Korea have taken USD/JPY back from the brink - but it remains fragile. A mildly positive equity environment (growth, without the inflation) should continue this coming week. One area of concern, however, could be US Treasury auctions (US\$12bn of 10 years Monday, US\$13bn of 30 years Tuesday). Poor bid to cover or low indirect bids could add to the narrative of declining appetite for US assets.
- Friday's Bank of Japan meeting did little to move the needle on the normalisation debate. The local data calendar is light this week (core machinery orders Tuesday), and we think the reality of protectionism and Washington's desire for a weaker dollar mean that any near-term upside in USD/JPY is quite limited.

Caught in global crossfires amid lower sensitivity to Brexit headlines

	Spot	Week ahead bias	Range next week	1 month target
GBP/USD	1.3870	Mildly Bullish ↗	1.3750 - 1.4000	1.4300

- The near-term focus for GBP remains on the 22-23 March EU leaders summit - and the odds of a Brexit transition deal being struck this month. However, while newsflow over this may give the pound some short-term directional impetus, we note that Brexit headlines are having less of a long-lasting impact on the currency - with investors opting to trade the reality of the UK economy (hard data) and the facts from any Brexit progress (actual agreements).
- In a quiet week for UK data and events, expect GBP to be caught in the crossfires of EUR and USD dynamics. Look for GBP/USD to partially re-couple with EUR/USD. We note the 60-day rolling correlation between the pair is at cyclical highs (0.75). Equally, our short-term GBP/USD financial model points to a fair value in the region of 1.38-1.40.

Spinning around... move out of my way?

	Spot	Week ahead bias	Range next week	1 month target
AUD/USD	0.7820	Neutral	0.7710 - 0.7900	0.7800

- The ever-changing external environment seems to have left the Australian Dollar (AUD) markets in a muddled state. On the one hand, President Trump's tariffs on steel and aluminium imports should have weighed on the AUD via the channel of negative sentiment over industrial metals (rather than a fundamental hit to the Australian economy - where steel and aluminium exports to the US only amount to around US\$400 billion). But the possibility of an Australian exemption on US tariffs - as well as a resilient global risk environment due to a plethora of factors (Trump-Kim Jong Un meeting, softer US wage inflation) - has in fact seen AUD/USD remain supported above the 200-dma level (0.7795).
- Bar a couple of RBA speakers - Bullock, Kent (Tuesday) and Debelle (Thursday) - the focus for AUD will be very much on global market developments. Cautious optimism could see the AUD/USD consolidate in the 0.78-0.80 region over the coming weeks.

Positive 4Q GDP may see revive RBNZ tightening sentiment

	Spot	Week ahead bias	Range next week	1 month target
NZD/USD	0.7290	Mildly Bullish 	0.7220 - 0.7440	0.7200

- The local highlight this week will be the fourth quarter New Zealand GDP release. Market consensus is a 0.8% QoQ print (3.1% YoY), and we note that a flat NZ OIS curve means that the risk-reward is for positive data surprises to have a greater impact in the near-term. Indeed, markets all but priced out expectations for any RBNZ policy move in 2018 (13bps priced in). We suspect sentiment could come back online were NZ data to remain constructive - and global risk aversion stays subdued.
- On the latter, expect NZD to trade in line with the global external environment this week. NZD being least vulnerable out of the commodity currencies to any US tariffs may be less sensitive to headlines, though equally may relatively outperform on any adverse developments (where CAD and AUD could fall further).

Cautious optimism following US tariff exemptions

	Spot	Week ahead bias	Range next week	1 month target
USD/CAD	1.2850	Mildly bearish	1.2720 - 1.2920	1.2600

- The loonie remains caught between a rock and a hard place - with signs of a resilient Canadian economy offset by heightened US trade policy risks. USD/CAD shifted its emphasis onto the latter this week - and traded up to 1.29-1.30 on the looming prospects of US steel and aluminium tariffs. But with Canada exempt for now, our view that this was an overshoot of short-term fair value (1.2750-1.2850) was vindicated given that the pair has now returned back towards the 1.28 level (a decent Canadian jobs report also helped).
- Looking ahead, the main domestic event will be a speech by Bank of Canada's (BoC) Governor Poloz on Tuesday - who is likely to shed further light on the central bank's policy outlook after this week's fairly ambiguous BoC statement. Markets remain 50:50 over the prospects of a May rate hike; it's likely that the Governor won't look to change this given the uncertainty around US trade policy and NAFTA. Elsewhere, Canadian data flow is light - with only manufacturing sales on Friday to keep an eye on.

Swiss central bank to out-dove the ECB

	Spot	Week ahead bias	Range next week	1 month target
EUR/CHF	1.1700	Mildly bearish	1.1650 - 1.1830	1.1900

- The highlight of the week will be Thursday's Swiss National Bank monetary policy meeting. If the ECB has managed to convince markets that inflation won't be an issue until 2020, then the SNB will do likewise. Expect it to (over)emphasise the risks of protectionism in a low inflationary environment - Swiss CPI is running at a mere 0.6% YoY. It may try and get the message across by cutting its CPI forecasts, which currently stand above 2.0% in 2020.
- EUR/CHF found good support under 1.15 over recent weeks, and a marginally improved geopolitical environment should prove supportive for a run up towards 1.18 this week - especially if the SNB manages to convince markets that it will be hiking substantially later than the ECB.

SEK enjoys a corrective rally

	Spot	Week ahead bias	Range next week	1 month target
EUR/SEK	10.1500	Mildly bearish	10.1000 - 10.2200	10.2000

- Having traded as high as 10.25, it looks as though EUR/SEK could be set for a further modest correction this year. This is on the assumption that the market focuses on tariff exemptions, rather than possible escalation, should the EUR or China retaliate. We look for a modest correction to 10.10, though believe we could still see 10.30 levels over coming weeks until we know a lot more about the trade story.
- Local data might be slightly SEK supportive too. There could be upside risks to February CPI (Wed) judging from Norway's release. And Wednesday's Valueguard housing data may also be SEK supportive as buyers looking to trade before tighter borrowing standards were introduced in March.

Norges Bank to sound more upbeat?

	Spot	Week ahead bias	Range next week	1 month target
EUR/NOK	9.5900	Mildly bearish	9.4500 - 9.6300	9.5000

- The highlight this week will be the Norges Bank monetary policy meeting on Thursday. We think they could be more hawkish, given recent slightly stronger activity data (including employment) and the slightly firmer February CPI data. At present they've managed expectations for a December rate hike, though that could be brought forward to the October meeting. Currently, money market rates only price around 10-12bp of Norges Bank tightening by September this year, but more tightening could be priced in.
- EUR/NOK is currently edging below support in the 9.60 area, and a hawkish Norges bank rate meeting could be enough to see support in the 9.52/54 area decisively broken.

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