

## G10 FX Week Ahead: Waiting for the ECB

The key focus for FX markets is the ECB meeting on Thursday. Here's our view of major currency pairs



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**1.20** EUR/USD one-month target  
Neutral

### EUR/USD: 1.1670-1.2060 range this week; Bullish

The key focus of the week is on the ECB October meeting (Thursday). We expect the ECB to announce a 'lower for longer' QE tapering, reducing the monthly QE purchases to €25bn and extending them until the end of 2018. We look for a knee-jerk reaction in EUR/USD higher, potentially testing the 1.20 level. Yet:

(a) the lower for longer QE is anchoring the scale of Bund sell-off; and

(b) Italian elections in early 2018,

suggest only a 'one-off' EUR/USD upside.

Unless President Trump announces the next Fed Chair next week, US data should play a second fiddle to the ECB.

**115** USD/JPY one-month target  
Mildly bullish

### USD/JPY: 113.50-114.50 range this week; Bullish

Week-end Japanese elections saw Abe's LDP party performing exceptionally well and securing the two-thirds super-majority in the lower house. This confirms a continuity of Abe's policies, namely another consumption tax hike in 2019, but super-loose BoJ policy - another term for the dovish BoJ Governor Kuroda looks more likely now. Thus the BoJ remains last in the queue to normalise monetary policy, keeping the JPY soft. On the dollar side of the equation, our above consensus call for US 3Q17 GDP (Friday) and the likely rise in the core yields on the back of the ECB QE tapering announcement suggest higher USD/JPY this week. 114.50 is significant resistance and looks likely to be pressed.

**1.35** GBP/USD one-month target  
Mildly bullish

### GBP/USD: 1.3050-1.3340 range this week; Neutral

3Q17 UK GDP (Wednesday) looks set to come in just as sluggish as it was in the first and second quarters (at 0.3% QoQ) as consumer spending has remained fragile, and persistent Brexit uncertainty means investment is unlikely to pick up the mantle. Coupled with the rising nervousness about the direction of the Brexit negotiations, there is a little scope for more persistent GBP strength.

In the US, our economists look for an above-consensus 3Q GDP (2.9% YoY, vs 2.5% consensus) suggesting a gentle downside to GBP/USD purely based on growth dynamics. GBP should benefit from higher EUR/USD to a very limited extent, thus limiting the scope for a pronounced GBP/USD strength

**0.96** USD/CHF one-month target  
Neutral

### USD/CHF: 0.9700-0.9850 range this week; Neutral

We look for EUR/CHF to break the 1.1700 level in response to the ECB QE tapering announcement

(Thursday) and the knee-jerk jump in eurozone yields higher as well as EZ curve steeping. With the ECB monetary policy normalisation ahead, EUR/CHF now became more responsive to the diverging monetary policy outlook and should continue pushing higher.

The Swiss/SNB side should facilitate the EUR/CHF upside given:

- (a) the SNB's unwillingness to change its current dovish stance; and
- (b) the lack of spill-over from Swiss data points into the CHF.

However, for USD/CHF, this should be offset by higher EUR/USD (see above).

**0.80** AUD/USD one-month target  
Mildly bullish

### **AUD/USD: 0.7770-0.7880 range this week; Mildly bearish**

We expect AUD to come under a modest pressure against USD next week being a function of solid US 3Q GDP (Friday) and the likely rise in the core yields in response to the ECB QE tapering announcement (Thursday). The latter should put some pressure on high yielders, with AUD ticking this box in the G10 FX space.

The fly away from NZD in response to the new coalition and the likely reallocation of funds (on relative value basis) from NZD into AUD should be AUD supportive, though unlikely to derail AUD/USD downside next week

**0.69** NZD/USD one-month target  
Neutral

### **USD/NZD 0.6900-0.7100 range this week; Mildly bearish**

We believe the Labour-NZ First coalition is a game-changer for NZD, particularly on the RBNZ policy front given the pledged policies to reform RBNZ and move it closer to the Fed-like dual mandate. This would suggest a looser/less hawkish policy for longer. However, given the already meaningful decline in NZD in response to the political news, we expect further near-term downside to be more limited, though the downside pressure should remain in place.

**1.27** USD/CAD one-month target  
Mildly bullish

## USD/CAD 1.2500-1.2790 range this week; Bullish

Following the modest miss in the Canadian September CPI and the large downside surprise to the September retail sales (both on Friday) it looks all but certain that the BoC will remain on hold during its meeting on Wed. The move from hawkish to a somewhat cautious stance should be confirmed in the Governor's news conference on the same day.

With 3Q US GDP (Friday) likely surprising on the upside, we look for the reversal in USD/CAD higher to continue throughout the week, with the cross likely grinding towards the 1.2700 level.

**9.50** EUR/SEK one-month target  
Mildly bearish

## EUR/SEK 9.5600-9.700 range this week; Mildly bullish

All eyes are on the Riksbank rate setting meeting (Thursday). However, as the meeting takes place a few hours before the all-important ECB meeting, we expect the inherently cautious Riksbank to adopt a wait-and-see mode and postpone any decision on QE until the December meeting. Equally, we would not expect material changes to the Riksbank macro forecasts.

As this is largely expected, the impact on EUR/SEK should be limited. Yet, given the risk for a stronger EUR in response to the ECB QE tapering announcement (Thursday), we see modest upside risks to EUR/SEK next week.

**9.30** EUR/NOK one-month target  
Mildly bearish

## EUR/NOK 9.3530-9.4630 range this week; Mildly bullish

As per the Riksbank, we look for no surprise from the Norges Bank rate setting meeting (Thursday). The neutral for longer Norges Bank stance is well known (as per Governor Olsen's comments about the first rate hike coming only "well into 2019"), hence the upcoming NB meeting should only reiterate the current stance. The ECB QE tapering announcement should limit the scale of EUR/NOK downside ahead of Thursday's announcement and potentially weaken the NOK against EUR on the day.

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