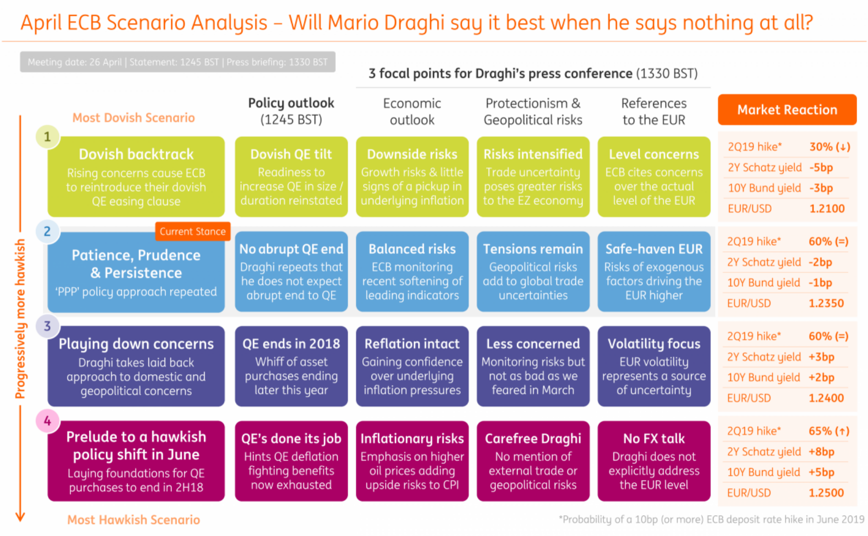
G10 FX Week Ahead: Will it be a carefree or careful Draghi that turns up?

FX markets will be looking for some direction from key policy meetings in Europe and Japan in the week ahead - though with trade and geopolitical risks still bubbling in the background, expect central bankers to remain fairly tight-lipped over their policy intentions

Source: Andrej Klizan



Source: ING estimates. *Note EUR/USD scenario estimates based of spot price at 1.2280 (as of 20 Apr 2018)

EUR: Dovish Draghi expected to turn up

	Spot	Week ahead bias	Range next week	1 month target
EUR/USD	1.2280	Neutral	1.2200 - 1.2420	1.2500

- Markets are seemingly getting used to the President's market-related tweet rants; Trump may have tweeted about 'currency devaluation games' played by China and Russia - as well as OPEC keeping oil prices 'artificially high' - but it appears that investors have broadly brushed off these passing comments. While trade and geopolitical risks are still bubbling in the backdrop, we note that it is becoming increasingly difficult to actively position for the US administration's ever-changing policy stance. This week's US focus will be primarily on the 1Q GDP print (Fri); our economists are looking for a +2.5% QoQ print, though note that this could be largely inventory driven (with the range of estimates within markets also varying). It's also worth keeping an eye on what the Employment Cost Index (Fri) does - with expectations that it may have nudged up to 0.7% in 1Q18. Other data includes Apr consumer confidence (Tue), Mar durable goods (Thu) and the advanced Mar goods trade balance (Thu) - the latter being important in the context of President Trump's US trade deficit focus.
- The April ECB meeting will be a key focal point for EUR markets; it feels that investors are bracing themselves for a dovish Draghi given the recent softening of leading EZ growth indicators and relatively fragile geopolitical backdrop. While our economists expect a broadly similar message to what we saw in March, we are one step closer towards the potential end to QE purchases - so investors will be looking for subtle clues on what the ECB's next policy steps are (note reports suggest the ECB won't make any QE policy decisions until the July meeting). Still, Draghi reiterating confidence over the EZ growth and inflation backdrop could keep the EUR supported above the 1.22 level for now. There will also be some focus on the April PMI data (Mon) - with signs of resilience in business activity welcome following the recent slip in the data (albeit from cyclical highs). We also get German Ifo data (Tue) - as well as Apr EZ business confidence data (Fri), which will also have the latest survey data on EZ business competitiveness sentiment.

JPY: Watch out for a big BoJ policy meeting

	Spot	Week ahead bias	Range next week	1 month target
USD/JPY	107.60	Neutral	106.80 - 108.30	106.00

- Rising US yields have dragged $/JPY close to 107.90/108.00 resistance and barring any bad news, the short squeeze risk is still there. We're mixed on the dollar near-term and indeed fresh news on protectionism - eg, limiting Chinese ownership of US strategic sectors could be enough to see resistance largely hold.
- The Japanese highlight of the week will be a big BoJ meeting on Friday, including the release of a new quarterly outlook report. Expect another 8-1 vote to leave policy unchanged and a downward revision to the CPI forecasts - thus potentially dovish risks here. There is also some focus on whether the BoJ softens up its target to buy JPY80tr of JGBs per year - since it has a 10-year JGB yield target - but such a move would tend to create more uncertainty and could be confused with tapering.

GBP: Solid 1Q UK GDP to revive May BoE rate hike bets

	Spot	Week ahead bias	Range next week	1 month target
GBP/USD	1.4020	Mildly Bullish	1.3950 - 1.4200	1.4400

- Despite reaching a post-Brexit high, it's been a pretty dismal week for GBP - with a string of UK data misses and cautious policy comments dramatically weighing on the currency. Our call for a May BoE rate hike remains intact; the growth-inflation trade-off in our view still warrants higher BoE policy rates, while Governor Carney's comment that a rate increase is likely this year was probably about as hawkish a signal he could send three weeks out from a meeting.
- 1Q UK GDP (Fri) will be of extreme importance in the week ahead; we think an in line with expectations print of +0.3% QoQ - which is also ING's forecast - will be enough to trigger renewed sentiment over a May BoE rate hike. With the market-implied probability of this having slumped to below 50%, we think a decent GDP print reviving a 'buy the BoE rate hike rumour, sell the fact' price action in GBP markets. It's also worth noting that we have CBI business survey data (Tue), CBI retail data (Wed) and consumer confidence (Thu) - and we would like to see these nudging higher given the reduced economic uncertainty brought about by a Brexit transition deal. Were the 1.3980-1.4000 support to hold, risk-reward favours chasing tactical GBP upside ahead of the May meeting and we continue to target 1.43-1.44. Note we do have Carney and Haldane due to speak after the UK GDP release at a BoE event (Fri) - and there's a tail risk that we see some market-moving policy comments here.

AUD: 1Q CPI data unlikely to be an RBA game-changer

	Spot	Week ahead bias	Range next week	1 month target
AUD/USD	0.7670	Neutral	0.7600 - 0.7800	0.7800

- Australian 1Q CPI data (Tue) is the standout event in the calendar next week and we note that markets are looking for a broadly constructive print (consensus for headline CPI is 2.0% YoY). Still, while this may nudge inflation back into the RBA's 2-3% target band, we doubt this will spur any 2018 rate hike bets - with markets barely pricing in any RBA tightening bias this year. We also get the 1Q PPI data (Fri), while the RBA's Kent speaks on housing market issues (Mon).
- AUD/USD's slide below 0.77 - amid a broadly recovering dollar and subdued global risk appetite - could potentially extend to 0.75-0.76 should risky assets remain under pressure. We're scratching our heads to find any significant positive AUD catalysts - with only the $ side providing support.

NZD: Kiwi longs bail amid directionless global markets

	Spot	Week ahead bias	Range next week	1 month target
NZD/USD	0.7210	Neutral	0.7150 - 0.7320	0.7400

- While the 1Q NZ CPI surprised slightly to the upside, we note at 1.1% YoY it remains well below the mid-point of the RBNZ's 1-3% target band. The release had little impact on market expectations for a 2018 RBNZ rate hike - which still is priced at slim-to-none. With the 1Q GDP print not due until 20 June, we think the odds of any RBNZ-led rally in NZD will remain low in the near-term. Data wise, we have trade and confidence to note (both Thu).
- The external environment remains choppy - and has lent itself to a fairly directionless FX market. As such, we've seen NZD/USD fail to make a topside breakout - with broad profit-taking and a short USD squeeze seeing the pair drift back towards the 0.72 level. We look for consolidation in a quiet week.

CAD: BoC won't adopt a 'hike on NAFTA deal' approach

	Spot	Week ahead bias	Range next week	1 month target
USD/CAD	1.2745	Neutral	1.2620 - 1.2820	1.2500

- A 'dovish' BoC statement - with the central bank taking a more cautious stance on future rate moves - as well as softer Canadian CPI and retail sales data has weighed on CAD. So too has a Trump-led drop in crude prices, with the President tweeting that OPEC's artificially high oil prices "will not be accepted". However, we still think tailwinds remain for the loonie – not least a NAFTA deal, which media reports suggest could be reached within three weeks.
- While we don't think the BoC was as 'dovish' as the initial CAD reaction suggests – noting the upward revision to Canada's potential growth rate – a key takeaway from the recent BoC meeting was that the central bank will not adopt a 'hike on NAFTA deal' policy approach. Governor Poloz noted that investment or export data may need to recover for the BoC's conviction over a near-term rate hike to pick up. As such we place significant emphasis on near-term data to determine the central bank's next policy steps. The week ahead is fairly quiet, with only wholesale trade data due (Mon). Look out for Poloz's testimony to Parliament (Mon) - though we would expect a broadly similar neutral message to what we saw at the April BoC.

CHF: What's the deal with 'Vollgeld'?

	Spot	Week ahead bias	Range next week	1 month target
EUR/CHF	1.1970	Neutral	1.1880 - 1.2000	1.2100

- EUR/CHF touched 1.20 last week driven by a variety of factors which will likely to remain in play. One of the largest factors is the fall-out from Russian sanctions prompting divestments from Swiss assets, eg, Sulzer AG. We also think that the SNB avoiding criticism from the US Treasury on its CHF selling may be helping CHF lower. Next week look out for export data on Tues, SNB earnings on Thursday and SNB's Jordan speech on Friday.
- Presumably SNB 1Q18 earnings should be good given the rise in EUR/CHF inflating Swiss FX reserves. However, this may not have much bearing on the 10 June 'Vollgeld' referendum where supporters want to curtail the scope for the banking industry to create CHF liquidity - blaming the banks for inflating asset bubbles and requiring bail-outs. This referendum will create a lot of uncertainty and can hang over the CHF for the next couple of months.

SEK: Riksbank to delay the first expected hike

	Spot	Week ahead bias	Range next week	1 month target
EUR/SEK	10.3800	Mildly Bullish	10.3000 - 10.5000	10.4000

- The highlight in Sweden this week will be Thursday's Riksbank rate meeting. A dovish outcome is expected since growth is slowing (not helped by slowing housing, protectionism and Russia sanction) and inflation is slow to return to target. We expect the Riksbank to push back the first expected Riksbank hike to December from September. While this outcome looks largely understood (Dec hike priced at 50%) it should nonetheless keep SEK soft.

- We also want to see how these Russian sanctions are affecting Sweden, where the large aluminium smelter, Kubal, (owned by the sanctioned Rusal) is already having to pay higher prices for its electricity. While the SEK looks cheap, we doubt investors will want to go near it in the current climate.

NOK: Dining out on Russian sanctions?

	Spot	Week ahead bias	Range next week	1 month target
EUR/NOK	9.6100	Mildly Bearish	9.5200 - 9.6300	9.5000

- Despite all the Russian-related volatility in commodity prices, EUR/NOK has traded in exceptionally narrow ranges. We've got a slight bias that it goes lower, helped by the jump in oil and aluminium prices as well as what should be another soft week for the SEK, keeping the NOK/SEK bull trend supported.

- The only NOK data this week is the unemployment rate on Friday and the market only looks for the first Norges Bank hike in 2Q19.

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