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Article

G10 FX Week Ahead: Powell's big debut

Jerome Powell delivers his first monetary policy testimony as Fed Chair on Tuesday. His remarks should re-assure the market that the Fed is going to deliver at least three hikes this year. This may keep the dollar supported, while European political risk on March 4th could see the euro start to underperform

Time to re-price European political risk

	Spot	Week ahead bias	Range next week	1 month target
EUR/USD	1.2300	Mildly bearish	1.2130 - 1.2410	1.2500

- The highlight of the week will be new Fed Chair Powell's testimony to the House Financial Services Committee on Tuesday. We expect him to echo the tone of the recent minutes and cement expectations of three Fed rate hikes this year. It looks too early for any hints of extra tightening at this stage. US data should be mixed with DGOs a little softer, but manufacturing ISM quite strong. Overall, we think the Fed tightening cycle looks fairly priced now and doubt the dollar can gain much further benefit from positive Fed rhetoric.
- However, the euro could come under some independent pressure this week from next Sunday's political risk in the form of Italian elections and the SPD vote on the grand coalition. Both could contribute to uncertainty, be it hung elections in Italy or SPD members rejecting the coalition with the CDU. We think the market under-prices the risk of the latter. On the data front, we'll get our first look at February inflation in the Eurozone (Germany on Tues, EZ on Wed). Our team thinks prices will remain flat at best or could dip on softer energy and a stronger EUR. So no fuel to the ECB tightening story.

More focus on FY18/19 Lifer intentions

	Spot	Week ahead bias	Range next week	1 month target
USD/JPY	106.80	Neutral	105.80 - 107.90	105.00

- USD/JPY price action has been poor, but the Fed story may help maintain a floor around 106.00. At this time in the fiscal year, USD/JPY faces the trade-off of Japanese investors selling foreign bonds, versus the myriad of interviews with Japanese Lifers regarding FY18/19 investment plans. It wouldn't be a surprise to hear more reports of increased allocations to unhedged foreign bond purchases.
- Local Japanese data should see a healthy industrial production figure on Tuesday and the first look at Feb CPI data, in Tokyo, on Thursday. This has been picking up a little, although it is hard to see any real signs of the market pricing an early Bank of Japan exit. With a consumption tax hike due in 2019, the BoJ might miss the window to start normalising - especially because we see $/JPY heading to 100 by year-end.

Brace yourselves for another bumpy Brexit ride

	Spot	Week ahead bias	Range next week	1 month target
GBP/USD	1.3980	Mildly Bullish	1.3850 - 1.4200	1.4500

- GBP markets will need to brace themselves for a bumpy Brexit ride in the week ahead - with the key event being Prime Minister Theresa May's speech outlining the UK's official position on its future relationship with the EU (Fri). Ahead of this, we'll also hear the opposition Labour party's Brexit position - with Jeremy Corbyn scheduled to deliver a speech at the start of the week (Mon). While similar speeches and events have typically proved to be a damp squib in terms of actual content, investors will first and foremost be looking for some official guarantees on a Brexit transition agreement - with actual policy over long-run access to the single market and customs union likely to be a secondary factor. Either way, any form of clarity - and even the smallest reduction in medium-term economic uncertainty - would be positive for an undervalued pound.
- Domestic data will play second fiddle over the next week - especially given the absence of any hard macro data. Still, worth keeping an eye on what sentiment signals consumer confidence (Wed) and the latest set of PMIs - beginning with manufacturing (Thu) - are sending.

US tariffs on steel imports would send AUD sharply lower

	Spot	Week ahead bias	Range next week	1 month target
AUD/USD	0.7820	Neutral	0.7750 - 0.7950	0.7800

- While AUD/USD drifted lower in the early part of the week, the pair has found some support around the 0.78 level as the USD recovery looks to have run out of steam. In the absence of any catalysts for isolated USD strength (which we do not foresee), the onus shifts to the local AUD story to determine the near-term direction of travel. The standout data point in the week ahead is the 4Q Private Capex report (Thu); markets are looking for another muted 1% QoQ increase, which is unlikely to be game-changing for our assessment on the 'lowflation' Australian economy.
- A bigger risk for the AUD, however, stems from US trade policy and the prospect of US tariffs on steel imports. There seems to be greater noise on Capitol Hill over a forthcoming announcement by President Trump - and should anything material transpire, then AUD could slide even lower (initially via the negative sentiment channel). Worst case scenario - which includes a broader risk-off global market - could see AUD/USD trade down to 0.75 (AUD/JPY below 0.80).

Kiwi in consolidation given lack of material catalysts

	Spot	Week ahead bias	Range next week	1 month target
NZD/USD	0.7290	Neutral	0.7240 - 0.7400	0.7200

- NZD/USD looks be in consolidation mode given the absence of any fresh directional catalysts. It's another quiet week in the NZ calendar, with only Jan trade data (Mon) and the official 4Q Terms of Trade index (Wed) to note. Support from higher NZ terms of trade had been waning towards the back-end of 2017, though dairy prices have broadly bounced back this year - enough to not worry the kiwi dollar.

- We expect the pair to broadly bounce around within the 0.72-0.74 range in the near-term - especially if the USD fails to push on from here and global markets remain somewhat stable.

Solid 4Q GDP and non-event federal budget to support CAD

	Spot	Week ahead bias	Range next week	1 month target
USD/CAD	1.2660	Neutral	1.2560 - 1.2760	1.2400

- While disappointing Canadian retail sales data saw USD/CAD move above 1.27 for the first time since late Dec-17, the positive CPI surprise - with both headline and the core-common inflation readings beating estimates - is likely to have restored sentiment over a near-term BoC rate increase. Markets now see a 70% probability of a May hike - which seems fair given the lower imminent NAFTA risks.
- A fairly eventful week ahead for the Canadian dollar - with Finance Minister Bill Morneau's Federal Budget (Tue) and 4Q Canadian GDP data (consensus 2.1% QoQ annualised) to watch out for. Also we'll get industrial production (Wed), 4Q current account data and manufacturing PMI (both Wed). Signs of a resilient domestic economy and a non-event budget should help keep CAD supported below the 1.27 level.

Political risk expressed in CHF

	Spot	Week ahead bias	Range next week	1 month target
EUR/CHF	1.1510	Mildly bearish	1.1450 - 1.1550	1.1700

- With the BTP:Bund spread starting to widen ahead of Italian elections on March 4, we're also seeing EUR/CHF pressured under 1.1500. We imagine this trend will continue through the week - with market complacency over these event risks potentially exposed. We also see the stronger Swiss franc leading to a re-assessment of the 2019 SNB tightening - with about 10bp of the peak 63bp of tightening removed over recent weeks.
- 4Q17 Swiss GDP will be the data highlight this week, expected at 0.5% QoQ after 0.6% QoQ in the prior quarter. SNB's business cycle indicators were quite positive in 4Q17, perhaps suggesting upside risk to consensus. We presume the Swiss National Bank will still be intervening - but the question is whether 1.1450 is the new line in the sand or will a deeper correction be allowed?

4Q17 Swedish GDP should be ok

	Spot	Week ahead bias	Range next week	1 month target
EUR/SEK	10.0500	Mildly Bullish	9.9400 - 10.1500	10.0000

- A Riskbank in no hurry to tighten is keeping the Swedish krona on the back foot and could see EUR/SEK move up to 10.15 this week. Recently released minutes show a Riksbank fixated on the view that premature tightening could undo all the good work of raising inflation expectations over recent years. The market is happy to ignore the lone dissenter Henry Ohlsson.
- The macro highlight this week will be 4Q17 GDP data, seen at 0.8% QoQ. This should be

solid, but releases this week of the Economic Tendency Survey and manufacturing PMIs may add to views of a softening of activity in 1Q18. SEK is cheap, but may well get cheaper.

NOK's best friend is a weaker SEK

	Spot	Week ahead bias	Range next week	1 month target
EUR/NOK	9.6740	Mildly bearish	9.6300 - 9.7300	9.6000

- The Norwegian krone may be enjoying some benefit at the expense of the Swedish krona, with NOK/SEK looking set to break through 1.04. SEK weakness may be the biggest support to NOK this week. Local data looks second-tier in the form of retail sales and manufacturing PMIs - and looks unlikely to dent expectations of the first Norges Bank hike not coming until 1Q19.
- Crude prices holding onto gains at the moment - our team are still holding onto a bearish oil scenario for the rest of the year.

Chris Turner
Global Head of Strategy and Head of EMEA and LATAM Research
+44 20 7767 1610
chris.turner@ing.com

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