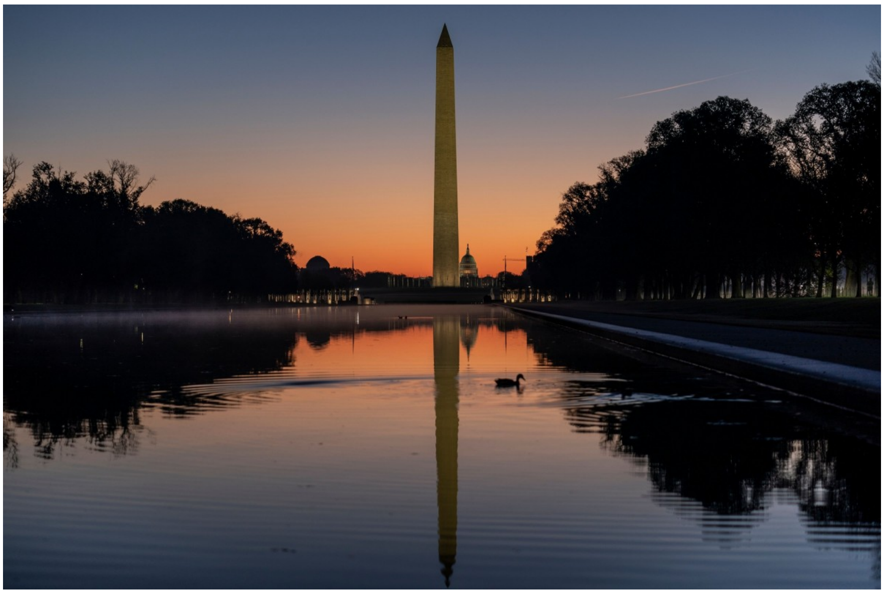
G10 FX Week Ahead: All quiet on the Western Front

A quieter week for US data and the Fed in blackout period could favour a continuation of benign market trends and a slightly weaker USD. EUR/USD can edge above 1.20 as the ECB tries to avoid rocking markets at its meeting on Thursday, while the BoC tapering may match consensus. Elsewhere, Biden's climate summit may drive different paths for the commodity bloc



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USD: Biden's climate summit is the highlight

	Spot	Week ahead bias	Range next week	1 month target
DXY	91.573	Mildly Bearish	91.3000 - 92.0000	91.0000

- The softening in US Treasury yields has been the big surprise and has pulled some of the tailwinds away from the dollar. Our team still favours higher US yields later in the quarter, but there seems no clear catalyst in the week ahead to drive US yields higher. On the data side, the only US numbers of note will come from the housing market in terms of existing and new home sales. And we are also entering the blackout period ahead of the April 28th FOMC meeting – meaning no Fed speakers. With US money market rates on the floor as US bank reserves held at the Fed approach US$4trn, and Treasuries seemingly less of a threat to risk assets, we favour a gently lower dollar this coming week.
- A quiet week will also allow greater focus on Joe Biden's virtual climate summit with world leaders. This takes place on Thursday. In advance, there is speculation that the US could announce more aggressive Greenhouse Gas emission reductions. We've yet to see energy transition directly play out in FX markets yet, but could this be the week that a big US announcement really hits the fossil fuel exporters and benefits those more exposed to the copper/aluminium story – the latter playing key roles in electric vehicles/solar and wind?

EUR: ECB will try to keep its head down this week

	Spot	Week ahead bias	Range next week	1 month target
EUR/USD	1.1980	Mildly Bullish	1.1880 - 1.2100	1.2000

- April has so far been a good month for EUR/USD – despite Europe still struggling with third Covid waves. It seems investors are being very forward-looking and using the recent inflection higher in European vaccination rates to draw confidence in a European recovery later in the quarter. The highlight for the EUR this week will be Thursday's ECB team meeting. Here our team sees the ECB doing its best to avoid being dragged into explaining its reaction function in Eurozone debt markets. And with little downside seen for European rates, one could argue that the EUR downside is limited too.
- The highlight of the data calendar will be a first look at the April PMIs and consumer confidence. Despite the lockdowns, activity levels appear to be rising and further improvement in both the manufacturing and service sector surveys should support the 2Q European recovery story. One slight word of caution here – let's see whether recent chip shortages show up in manufacturing confidence. The auto sector has been hit badly here.

JPY: Still looking at the Treasury conundrum

	Spot	Week ahead bias	Range next week	1 month target
USD/JPY	108.85	Neutral	108.40 - 109.40	109.00

- The big downside surprise in US yields over the last week took the steam out of the USD/JPY rally and the week ahead certainly looks more mixed. We're still trying to make sense of the positive $/JPY correlation with US yields. The surge in US yields in February and March seem to come from heavy Japanese selling of Treasuries. Could that Treasury selling have been accompanied with the unwinding of Japanese FX hedges on those Treasuries, i.e. Japanese investors bought dollars?
- As usual we doubt the Japanese calendar will mean much for USD/JPY, although further improvements in CPI – core expected to improve to -0.2% YoY in March – could suggest Japan was a little closer to exiting deflation. A neutral range seems likely for USD/JPY this week.

GBP: Plenty of bad news already in the price

	Spot	Week ahead bias	Range next week	1 month target
GBP/USD	1.3796	Mildly Bullish	1.3660 - 1.4000	1.4100

- Following the earlier vaccination related concerns, GBP got another hit by the resignation of the BoE Chief Economist Haldane (a hawk). Yet, we see the negative effect as one-off and temporary as this does not change the BoE policy outlook (imminent tightening was not on the table even prior to his resignation). While GBP has felt a big squeeze of meaningful long positions, we expect downside to the currency to be limited as the growth advantage vs its European peers for 2Q remains in place and the vaccination process is fast. GBP now screens undervalued both vs USD and EUR on a short-term basis. With EUR/USD recovering, this should also contribute to GBP/USD moving back above 1.40 in coming weeks.
- On the data front, March CPI (Wed) should bounce back from the February low reading, yet the more meaningful spike in prices is to come from April onwards. On Friday, the focus will turn to the April PMI Services, where optimism about reopening is likely to lift the reading. The focus will also be on Jobs data (Tue) and Retail sales (Fri). Generally, the UK data next week should give some meaningful support to GBP and with USD appearing to lose some steam, GBP should grind towards the 1.4000 level.

AUD: External factors firmly in the driver's seat

	Spot	Week ahead bias	Range next week	1 month target
AUD/USD	0.7735	Mildly Bullish	0.7670 - 0.7830	0.7800

- Australian's employment data for March, published this week, were quite encouraging on the surface, as unemployment dropped to 5.6% and employment rose 70k against the estimated 35k. Still, the rise was all attributable to part-time hiring, while full-time employment actually dropped 21k. This is not to say the jobs report was actually a grim one, but we doubt that was a main driver of AUD's good performance this week, and it's unlikely to change much in a monetary policy perspective.
- AUD is enjoying the good momentum for commodity currencies, and external factors should remain the primary drivers next week, where the domestic data calendar in Australia is rather quiet, with only March retail sales (which should be decent) and the Reserve Bank of Australia April meeting minutes in focus. On the latter, we may get some insights about the RBA's members' views on bond market interventions, but we doubt the release will have major market implications.

NZD: Good fundamentals emerging in price action

	Spot	Week ahead bias	Range next week	1 month target
NZD/USD	0.7138	Mildly Bullish	0.7100 - 0.7250	0.7300

- We did not expect the Reserve Bank of New Zealand meeting to be a market-moving event, and while it provided some short-lived extra support (possibly on the back of a more upbeat tone on the economy) to NZD this week, it was surely not at all a game-changer for the currency. The reiteration that monetary support is still needed – as well as with the cautious tone on house prices – was no surprise. Still, the lack of deviations in the RBNZ rhetoric implies that fundamentals in a rate-attractiveness perspective remain quite strong for NZD, especially when compared to AUD. Also thanks to a more balanced positioning, we expect AUD/NZD to consolidate in a downtrend in the coming months.
- Speaking of fundamentals, the 1Q inflation report in New Zealand is due Tuesday, and consensus is positioned for a marginal increase from 1.4% to 1.5%. Looking at the potential implications for NZD, we think the balance of risks is tilted to the downside. A disappointing figure will not be enough to force markets to re-price negative rates (considering the disastrous effect it would have on the housing bubble), while an upside surprise could indeed support speculation of earlier tightening.

CAD: Consensus tapering may not be enough to offset pandemic impact

	Spot	Week ahead bias	Range next week	1 month target
USD/CAD	1.2498	Neutral	1.2400 - 1.2600	1.2500

- The Covid-19 situation in Canada remains quite concerning, with cases rising at the pace last seen in December and at higher rates since the start of the pandemic in some provinces such as Ontario. So, despite the generally supported sentiment for commodity currencies and oil rallying, CAD was the worst performing currency in G10 after the dollar this week.
- Next week, it will all be about the Bank of Canada rate announcement on Wednesday, scheduled one-and-a-half hour after March's CPI numbers. It is widely expected that the BoC will taper its asset purchases: we are broadly in line with consensus and expect a the size of purchases to be trimmed by another CAD1bn to minimum CAD3bn per week. More details about the pace of the announced reduction in the BoC balance sheet will be in great focus, along with the updated forecasts on the economy. There is indeed room for hawkish surprises and for CAD to rally after the announcement, but we suspect that the Bank will not exceed consensus expectations considering the worsening contagion situation in Canada and the not-so-fast vaccination roll-out. This may leave CAD still vulnerable to the worsening domestic story. Some negatives may also come from the so-far supporting oil markets, as President Biden's Climate Summit on Thursday's may signal a quicker energy transition plan, possibly challenging crude prices at current levels. We expect CAD to keep underperforming other pro-cyclicals next week.

CHF: Switzerland given a reprieve from Washington

	Spot	Week ahead bias	Range next week	1 month target
EUR/CHF	1.1017	Mildly Bullish	1.0980 - 1.1100	1.1100

- EUR/CHF looks set to largely continue in its 1.10-1.11 range, although we prefer an upside break-out this summer. At the margin supporting that view is news Friday that the US Treasury has removed Switzerland from its list of currency manipulators – albeit the SNB never accepted it was involved in currency manipulation, more like currency intervention as part of monetary policy. Seemingly a greenlight for further currency intervention may help EUR/CHF.
- As we've been discussing over recent weeks, the Polish CHF mortgage story (circa CHF25bn in CHF mortgages still outstanding) still hangs over EUR/CHF as Polish banks await a local constitutional court ruling on May 11th. This story may hold EUR/CHF in check until mid-May.

NOK: Eyeing the psychological EUR/NOK 10.00 level

	Spot	Week ahead bias	Range next week	1 month target
EUR/NOK	10.0310	Bearish ↘	9.9000 - 10.1590	10.0000

With USD losing some steam and no longer reacting positively to solid US data, this makes cyclical FX the main beneficiary. Here NOK stands out given its high beta, a direct exposure to the most hawkish central bank in the G10 FX space, the oil price overlay as well as being the eventual beneficiary from the re-rating of the European growth outlook (after the disappointing first quarter). EUR/NOK is now back close to the 10.00 level and we expect this important support level to be tested yet again next week and be broken through on a more persistent basis this quarter

It is a very quiet week on the Norwegian data front. 1Q Industrial confidence (Thu) and April Economic Survey (Fri) should have a non-existent impact on the krone.

SEK: Back close to its EUR/SEK 10.10 gravity line

	Spot	Week ahead bias	Range next week	1 month target
EUR/SEK	10.1080	Mildly Bearish ↘	10.0100 - 10.2000	10.0000

EUR/SEK is back close to its 10.10 gravity line. The early April SEK sell-off proved short-lived and the currency is set to benefit by the fading USD strength and the expected recovery of the European economies. With Sweden being a small open economy levered to the eurozone and global growth, this should benefit SEK. We see further modest downside to EUR/SEK next week and eye a break of the psychological 10.00 level this quarter

Domestically, it is a quite week on the data front. Sweden home price index (Tuesday) and April Economic survey (Friday) to have a muted impact on SEK.

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