Momentum in vogue

Momentum trades are in vogue. This week is about a dovish FOMC reinforcing the USD bear trend and GBP rally facing pivotal test from May's Brexit speech

Theme of the week: Will a dovish Fed reinforce the USD bear trend?

The Sep FOMC meeting will be the main event of the week (Wed), with investors looking to see if there is any change in policy bias in light of the recent negative developments in the US economy. We think this may be one of the more difficult meetings and press conferences for Chair Yellen to navigate, not least because of the growing dichotomy within the FOMC over the appropriate near-term policy approach. Our base case is for the doves to prevail, with a lower conviction over the pace and extent of future policy tightening visible in the Fed's dot plot. While the median 2017 dot is still set to tentatively pencil in a Dec rate hike, we expect to see more members calling for a pause for the remainder of the year; anything more than five would suggest that hopes of a Dec hike stand on a fragile footing. More telling of a dovish shift would be if the 2018 dot also moves lower; here we require five or more members to downgrade their views over future policy hikes, a scenario that cannot be ruled out given the softer US inflation dynamics. What is highly likely is that we'll see the 2019 and longer-run dots moving lower – with Fed officials acknowledging that a 2% handle for the terminal Fed funds rate is more realistic in the prevailing US economic environment.

While we do not expect US yields or the USD to move much on what would be a well-telegraphed balance sheet announcement this week, there is a slight risk of the Fed delaying the start of this process. This would be indicative of the Fed's more pessimistic view of the US economy and we would expect this tail risk scenario to be outright USD negative - more so through the sentiment channel, rather than any major move lower in US yields.

Majors: Dovish Fed to trump cautious ECB & BoE

While a dovish FOMC could reinforce the USD bear trend, ECB officials will look to keep their QE taper cards close to their chest this week. The BoE-fuelled GBP rally faces a big test from PM May's keynote Brexit speech in Florence on Friday.

EUR: Dovish Fed confirmation could see a 1.20 handle again

- The September FOMC meeting is the main focus this week (Wednesday) and we will be looking to see how Chair Yellen manages the two emerging camps within the committee – that is those members looking for a continuation of the current normalisation cycle and those looking for an extended (or even permanent) pause in hikes until there is greater confidence in the US inflation outlook. We note that it's typically hard for the dollar to rally post-FOMC meetings and this time may not be any different; any hawkish Fed cries could again fall on deaf ears given the lack of convincing economic evidence to point to. Moreover, we do not expect to see US yields or the USD moving much on what would be a well-telegraphed balance sheet announcement this week - especially as offsetting this will be a downshift in the distribution of Fed dots and signs of less conviction from the committee over the pace and extent of future monetary tightening.
- While Fed officials will also follow up the meeting with their own views (Williams, George and Kaplan all on Friday), the focus in the European calendar will be on ECB talk - including two speeches by President Draghi (Thursday and Friday). We would expect much of the same script as the September ECB meeting, with Mr. Draghi likely to keep his QE taper cards close to his chest. Our economists also expect no change in the final release of EZ CPI data (Monday).

		Week ahead bias	Range next week	1 month target
EUR/USD	Spot ref: 1.1940	Mildly Bullish	1.1870-1.2170	1.20

Source: Source: ING

JPY: BoJ a backseat driver as Fed enters cruise control

- The ongoing geopolitical overhang and news of another North Korean missile test last week was met with a limited fallout in global markets; we put this down to investors placing a high probability on a diplomatic solution being achieved. In the absence of any additional geopolitical noise, USD/JPY will be driven by Fed and BoJ policy meetings this week. The latter takes place on Thursday and the status quo of a firm commitment to an ultra-loose monetary policy stance is once again expected from Japanese policymakers. This shouldn't come as much of a surprise to markets; with the Fed in the driving seat - and the BoJ at best a backseat driver - we see modest downside risks to USD/JPY this week in a fairly subdued dollar environment.
- Japanese press over the weekend also reporting that PM Abe is set to call a snap election for late October. If this is confirmed, we could see the JPY trade with a small political uncertainty premium in the short-run. Note that Japanese markets are closed on Monday for a national holiday.

		Week ahead bias	Range next week	1 month target
USD/JPY	Spot ref: 111.30	Mildly Bearish	109.40-112.20	109

Source: Source: ING

GBP: A tale of two speeches

- We believe the main objective of the Bank of England (BoE)'s hawkish signal was to realign markets with the notion of a gradual tightening path, rather than prepping for an imminent rate increase. A November rate hike shouldn't be viewed as a sure-fire bet; we think that it is conditional on two factors: signs of a rebound in domestically generated inflation (namely wage growth) and a reduction in near-term political uncertainty. Any BoE-fuelled GBP rally may be on its last legs; what we define as a 'withdrawal of stimulus' hiking cycle is now priced in given that the 2-3 year part of the UK rate curve implies 65-75bp worth of BoE tightening. Anything more would be an overshoot in our view and we would look for Governor Carney's speech (Monday) to acutely manage market expectations.
- The medium-term narrative for GBP will continue to be dominated by Brexit, with Prime Minister Theresa May's keynote speech in Florence taking centre stage this week (Friday). The risks are that it provides little clarity on the near-term obstacles - such as the divorce bill and transitional arrangements - required to move onto the next stage of Brexit talks and lift the veil of political uncertainty clouding GBP markets. Indeed, while most of the media focus has been on the political motivations behind Boris Johnson's *Daily Telegraph* article, the Foreign Secretary's unsolicited intervention over the weekend does suggest a lack of consensus within the cabinet over the PM's Brexit vision. Limited clarification on the government's transitional deal preferences - or anything short of a two or three-year status-quo transition period - means that we could see the uncertainty channel act as a limiting factor for GBP upside.

		Week ahead bias	Range next week	1 month target
GBP/USD	Spot ref: 1.3580	Neutral	1.3450-1.3700	1.33

Source: Source: ING

Dollar bloc: Big week ahead for NZD

It's a big week for the NZD with 2Q GDP data providing a temporary distraction ahead of this weekend's New Zealand general election. Risks that RBA and BoC talk this week sparks a policy reassessment in the respective domestic markets.

AUD: Too early for RBA to open rate hike door

- Communications from the Reserve Bank of Australia (RBA) will be in focus this week; the September meeting minutes (Tuesday) - as well as a speech by Governor Lowe (Thursday) - may shed some light on the near-term policy path. We are not expecting any major deviation from the current neutral policy bias, though our economists note that another healthy jobs report - and further evidence of diminishing slack - suggests greater risks of an RBA rate hike in 1H18. It may be too early for officials to open the door to this just yet, but we'll be reading between the lines for any subtle hawkish shifts and clues over when a potential RBA hiking cycle could begin.
- The summer rally in iron ore looks to have firmly have fizzled out, with risks that industrial metal prices begin to turn sharply lower in the absence of any strong demand support. This may keep AUD bulls sidelined in the near-term and we expect to see rangebound activity around the 0.80 level in a soft USD environment.

		Week ahead bias	Range next week	1 month target
AUD/USD	Spot ref: 0.8010	Mildly Bullish	0.7900-0.8150	0.78

Source: Source: ING

NZD: 2Q GDP to distract from election build-up

- The run-up to the New Zealand elections (23 Sep) continues to dominate near-term NZD price action; conflicting polls this week - putting both the National and Labour parties in the lead at different times - suggest that the outcome remains too close to call. This will undoubtedly keep the nervous NZD sentiment in place. We still believe the only clear positive NZD election outcome remains the incumbent National party gaining a significant majority and forming a coalition with one of the smaller parties - but not NZ first. All other scenarios - and in particular a Labour majority - would be NZD negative. For more, see our NZ election preview.
- 2Q New Zealand GDP data (Tuesday) may provide a temporary distraction from politics. The market consensus is looking for a 0.8% QoQ print, but any good news may have a dampened positive effect on Reserve Bank of New Zealand (RBNZ) policy expectations ahead of the election. Look for the 0.7330/40 area to provide near-term resistance, with risks of a big gap move in either direction post the weekend elections.

		Week ahead bias	Range next week	1 month target
NZD/USD	Spot ref: 0.7300	Neutral	0.7150-0.7350	0.71

Source: Source: ING

CAD: Looking for a dovish BoC policy reassessment

- A big week for domestic data will test the Bank of Canada (BoC)'s hawkish resolve; while headline CPI (Friday) is expected to bounce back sharply in line with higher oil prices, we prefer to focus on measures of underlying inflation to determine the scope for future rate hikes. Other data to note include retail sales (also Friday), manufacturing sales (Tuesday) and trade (Thursday); on the activity front, the former is likely to command the most attention given that strong domestic consumption has been one of the factors underpinning the current BoC tightening cycle.
- While Deputy Governor Wilkins signalled that every BoC meeting is 'live', a pause in the hiking cycle for the rest of this year remains our base case. Look out for comments by the other Deputy Governor Tim Lane this week (Monday), who may seek to strike a slightly more cautious tone. We still look for a dovish BoC policy reassessment to trigger a one-time corrective move up to 1.24-1.25.

		Week ahead bias	Range next week	1 month target
USD/CAD	Spot ref: 1.2180	Neutral	1.2000-1.2350	1.24

Source: Source: ING

EUR crosses: Let the hard times roll-on

The tricky period for CHF, SEK and NOK may continue this week as local factors keep all three currencies on the backfoot. Dovish Riksbank minutes may already be in SEK's price, while Norges Bank policy meeting could see a knee-jerk move lower in NOK.

CHF: Scope for a new EUR/CHF high this week

- The Swiss National Bank (SNB)'s policy meeting was suitably dovish, with the modest downgrade to the language used to describe the CHF overvaluation barely causing a ripple in domestic markets. EUR/CHF remains very well bid and we think the pair could push to marginal new highs at any time. Low growth and low inflation support the SNB's position.
- Local Swiss events include August trade data on Thursday and then a speech from the SNB's Moser this Friday. If we're right about EUR/USD pushing up to 1.2100 this week, EUR/CHF could easily get dragged above the August high near 1.1540.

		Week ahead bias	Range next week	1 month target
EUR/CHF	Spot ref: 1.1470	Mildly Bullish	1.1440-1.1550	1.16

Source: Source: ING

SEK: Unlikely to move lower on Riksbank minutes

- A fairly quiet week in the Swedish calendar, with the main release being the September Riksbank meeting minutes (Thursday). We don't expect any major SEK fallout given that the knee-jerk reaction to the Riksbank meeting itself was negative, which suggests limited scope for any further dovish re-pricing.
- With a lack of Eurozone data as well this week, we expect EUR/SEK to broadly trade around 9.50 and look for the 9.5900 level to provide very strong resistance.

		Week ahead bias	Range next week	1 month target
EUR/SEK	Spot ref: 9.5130	Neutral	9.4520-9.5900	1.16

Source: Source: ING

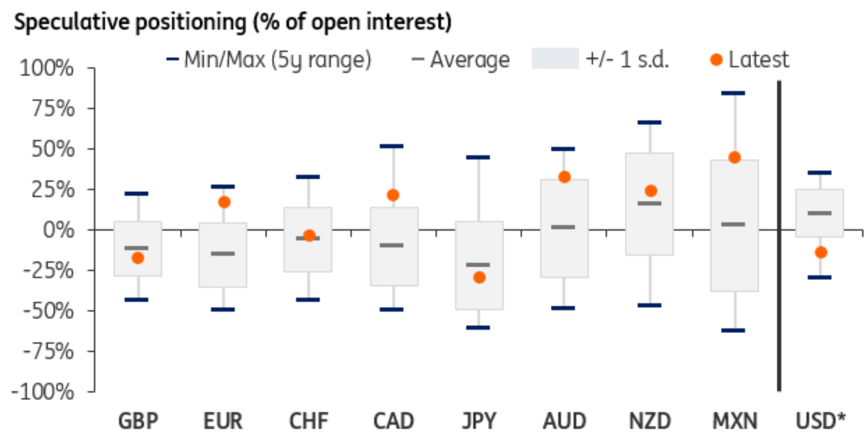
NOK: Norges Bank on hold despite lower inflation

- The key focus this week is on Norges Bank meeting (Thursday). Despite yet another decline in Norwegian inflation, we expect the central bank to look through the below-target CPI prints in the same way it looked through the inflation overshot last year.
- We expect the central bank's forecasts to reiterate the first rate hike in 2019. All in all, we don't look for a material and persistent Norges Bank-induced sell-off in the NOK, with EUR/NOK unlikely to move above 9.4620 even if the central bank strikes a very dovish tone.

		Week ahead bias	Range next week	1 month target
EUR/NOK	Spot ref: 9.3680	Mildly Bullish	9.3000-9.4620	9.30

Source: Source: ING

G10 FX Positioning: Dollar shorts less extreme ahead of FOMC meeting



Source: Source: CFTC, Bloomberg, ING as of 12 Sep 2017 (data reported with a lag). *Aggregate USD positioning against G10

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