

The FX week ahead

Is missing US inflation transitory or transitional?



EUR/USD: The return of US pricing power

A solid US jobs report has dented any immediate prospect of EUR/USD hitting 1.20 and we think a little more downside could be seen this week. Driving this should be firmer US price data (PPI on Thursday, CPI on Friday), where PMI indices are starting to warn of a slight uptick in US pricing power. Some modest uptick in US rates (and quite a negative pattern on the weekly candle chart), warns that EUR/USD could make a run to 1.1650/80. Yet what should be good German IP data should keep the downside limited.

EUR/USD: Mildly bearish

EUR/USD <hr/> Spot ref: 1.1880	Week ahead bias:	Mildly Bearish
	Range next week:	1.1680-1.1830
	1 month target:	1.20

USD/JPY: Playing the 110-115 range

USD/JPY remains a key vehicle to play both Trump's political travails and also the US growth/rates story. On the former, it's hard to know when the bad news will hit, but on the latter, this week should prove positive for the dollar. The US rates curve is very flat & higher US prices should steepen the curve. In Japan this week, we'll see surveys on activity (Mon & Tue), June trade & regular portfolio data. We're still of the opinion that Japanese residents should be accelerating foreign bond purchases around now.

USD/JPY: Mildly bullish

<div>USD/JPY</div> <hr/> <div>Spot ref: 110.10</div>	Week ahead bias:	Mildly Bullish
	Range next week:	110.10-112.10
	1 month target:	115

GBP/USD: A UK rate hike's for 2018

The combination of a dovish Bank of England disappointment and a slightly rejuvenated USD has seen GBP/USD fall back to 1.30; we see near-term risks of a move below here as the BoE's patient policy approach could see GBP take on more of a funding currency role in a diverging monetary policy environment. Expect GBP to remain sensitive to UK data outcomes as markets continue to reassess 2017 BoE rate hike odds; Jun industrial production and trade (Fri) to note this week, with both important for any second quarter UK GDP revisions.

GBP/USD: Neutral

<div>GBP/USD</div> <hr/> <div>Spot ref: 1.3150</div>	Week ahead bias:	Neutral
	Range next week:	1.2850-1.3150
	1 month target:	1.25

AUD/USD: More information this week

The August RBA meeting noted greater concern over the recent AUD rise (albeit USD related), though the central bank's slightly more optimistic projections have limited any meaningful fallout below 0.80. We think a neutral RBA policy bias will remain in place and see limited scope for AUD rates moving higher. Focus will be on speeches by the RBA's Kent (Tue) and Lowe (Fri) for clarity on

the inflation outlook. Watch out for the latest consumer and business confidence indicators.

AUD/USD: Neutral

AUD/USD <hr/> Spot ref: 0.7970	Week ahead bias:	Neutral
	Range next week:	0.7870-0.8050
	1 month target:	0.78