Time for global reflection

A timely opportunity to reflect on the state of the global economy with both US inflation data and the IMF's latest World Economic Outlook offering clues

		Week ahead bias	Range next week	1 month target
EUR/USD	Spot ref: 1.1700	Mildly Bearish	1.1590-1.1850	1.18
USD/JPY	Spot ref: 113.30	Mildly Bullish	112.00-114.00	115
GBP/USD	Spot ref: 1.3040	Mildly Bullish	1.2960-1.3300	1.33
AUD/USD	Spot ref: 0.7740	Mildly Bearish	0.7670-0.7850	0.78
NZD/USD	Spot ref: 0.7070	Mildly Bearish	0.7000-0.7200	0.70
USD/CAD	Spot ref: 1.2560	Mildly Bullish	1.2410-1.2660	1.27
EUR/CHF	Spot ref: 1.1490	Mildly Bullish	1.1400-1.1500	1.17
EUR/SEK	Spot ref: 9.5460	Mildly Bearish	9.4520-9.6090	9.50
EUR/NOK	Spot ref: 9.3910	Neutral	9.3210-9.4310	9.30

Source: Source: ING

Theme of the week: Time for reflection on the global economy

A quiet week for key events will allow us to stop and reflect on where we are in terms of the global economic cycle. There are two areas of focus here:

1. **Uncertainty over the long-run trajectory of the US economy.** The Sep FOMC minutes (Wed) and US CPI inflation data (Thu) will be carefully scrutinised this week as investors seek further guidance on the Fed's near-term policy reaction function. While the notable uptick in the latest wage growth data has led markets to believe that a Dec rate hike is in the bag, we detect an air of caution over whether the latest batch of data is actually game-changing for the broader US economic outlook. While hawks will point to underlying inflationary pressures as evidence for further tightening, Fed doves may be wary of reading too much into the hurricane-distorted figures. This dichotomy within the Fed will be evident in the Sep minutes, which once again may show little consensus on key long-run issues related to the

US economy (such as the reading of secular low bond yields and easy financial conditions). Uncertainty over the Fed's long-run policy framework is a key factor behind the depressed US rate curve.

2. **How synchronised is this global economic recovery?** The IMF will release their 2017 World Economic Outlook (Tuesday) and we'll be keeping an eye on revisions made to the world growth estimate (3.6% in 2018). The composition of any revision will also be of interest - we suspect the story will be one which sees advanced economies contributing less to global growth, with emerging markets taking on a greater share of the burden. This supports our view that while the overall global growth outlook remains precarious, there are still constructive local growth stories to chase.

Bottom line: The USD may find support from near-term data this week, but we – as well as markets – are likely to remain sceptical over the long-run trajectory of the US economy. It'll take more than one set of good data releases to convince us that markets are underestimating US fundamentals.

Majors: How far will the USD correct?

Our current line of questioning is still 'How far can the $ correction persist?' A rebound in US inflation and retail sales data may support the USD this week, though we still remain sceptical over whether this is actually game-changing for the broader US economic outlook.

EUR: Consolidation with modest downside risks

- We expect EUR/USD to hover around the 1.1700 level this week with modest downside risks. Following the strong US wage growth data last week, the focus will shift to US CPI (Friday) - where we and the market look for an increase to 2.2%. A recovery in US inflation data may support the USD, though we remain sceptical about whether one month's data is game-changing for the broader US economic outlook.
- Politics will likely overshadow ECB policy for EUR markets this week as media reports suggest that a swift resolution over Catalan independence looks unlikely at this stage. There will be some focus on President Draghi's speech (Thursday), with investors still looking for hints over the central bank's taper options ahead of the Oct ECB meeting. Any signal that QE tapering will remain in place "for longer" could keep EUR upside in check for now.

		Week ahead bias	Range next week	1 month target
EUR/USD	Spot ref: 1.1700	Mildly Bearish	1.1590-1.1850	1.18

Source: Source: ING

JPY: Geopolitical risks a lingering concern for yen bears

- Speculation about a North Korea missile test - as well as reports of an earthquake off Fukushima - saw USD/JPY whipsaw after strong US wage figures late last week. While the pair moved up towards the 113.40 high on the US data, both a lack of follow-through on USD buying and modest risk-off sentiment has seen a retrace to the mid-112 area. Geopolitics may keep USD/JPY upside contained, though the risks may be skewed to the upside if US yields break higher.
- The local calendar sees trade data (Tuesday) and PPI data (Thursday). BoJ's Kuroda speaks on Tuesday as well. Japanese politics also worth keeping an eye on ahead of 22 Oct snap elections, although any strong opposition to Abe looks unlikely at this stage after Tokyo governor Koike said she will not be running.

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USD/JPY	Spot ref: 113.30	Mildly Bullish	112.00-114.00	115

Source: Source: ING

GBP: Pound to bounce back as Westminster chaos averted

- Prime Minister Theresa May is set to bounce back this week from what has been described as a 'disastrous' Tory party conference speech by attempting to get a grip on both the internal strife within her government and the ongoing deadlock in Brexit negotiations. Talk of a Cabinet reshuffle dominated the weekend press, though the Sunday Times notes that the PM will wait until after the critical Brexit-focused European Council meeting on 19-20 Oct before making any changes to her Cabinet. Still, the tentative show of unanimity within the Cabinet looks to have – at least for now – drawn a line under questions about the PM's leadership. This might help to ease some of the downward pressure on GBP as fears of imminent chaos in Westminster have been thwarted.
- We look for GBP to recover its politically-induced losses this week. We target GBP/USD moving up to 1.3250-1.3300 and EUR/GBP to 0.8850-0.8880. The fifth round of Brexit talks isn't expected to yield any meaningful new developments, while we believe that EU leaders voting 'No' to there being any sufficient progress in Brexit negotiations at next week's Council meeting is already in the price of GBP. Therefore an easing of domestic political risks can only be good news for GBP, allowing the focus to shift back to the cyclical BoE and economic recovery story.

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GBP/USD	Spot ref: 1.3040	Mildly Bullish	1.2960-1.3300	1.33

Source: Source: ING

Dollar bloc: Trending lower

While AUD and NZD have been under pressure from a backdrop of gently rising US yields, we think any mass fallout in these high-yielding currencies looks unlikely in the absence of a

AUD: Move lower running out of steam

- The negative retail sales in Australia has left our economists scratching their heads; it could delay our bias for a 1Q18 RBA rate hike, but certainly the prospects of a rate cut - as floated by one RBA Board Member recently - is not our central scenario (nor the market consensus). Neutral RBA bias remains the overarching theme, with markets only pricing in 25 basis points worth of hikes over a one-year horizon. Limited data in the Australian calendar this week to test this assumption.
- Tumbling commodity prices are also weighing on AUD - with iron ore prices having fallen by 20% in Sep - and not starting Oct on any better footing. We expect external factors - namely how far US yields push higher - to drive dollar-bloc currencies in the week ahead. A benign open in Chinese markets following the Golden Week holiday has also eased any further near-term pressure on Asian currencies.

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AUD/USD	Spot ref: 0.7740	Mildly Bearish	0.7670-0.7850	0.78

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NZD: Still looking for clarity on the next government

- We may get some political clarity this week - after the final votes for the New Zealand general election were counted over the weekend. We now expect to see NZ First's Winston Peters make greater strides towards choosing which of the main two parties he wants to form a coalition with. The initial NZD reaction will be negative if we get a Labour-led coalition given the uncertainty this throws up over domestic policies.
- The kiwi has traded lower after breaking the 0.7150 support - and we now think there are risks of a deeper technical correction towards 0.70. However, in the absence of a sharp uptick in US yields, further downside in NZD beyond this key support level is unwarranted. The domestic calendar sees consumer confidence and PMI data (both Thursday).

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NZD/USD	Spot ref: 0.7070	Mildly Bearish	0.7000-0.7200	0.70

Source: Source: ING

CAD: BoC's Wilkins could tame rate hike expectations

- Dismal trade data - which saw the deficit widen unexpectedly - provided evidence that the Canadian economy might not be as bright as many had anticipated. We suspect a strong CAD is starting to take its toll (in what we define as second-round effects). This supports the view that a pause in the BoC hiking cycle is likely and we continue to see downside risks to the pricing in of a Dec rate hike (currently 66%). Watch for any dovish rhetoric by BoC Deputy Governor Wilkins - who speaks on Tue and Thu.
- Quiet week on the data front - with only a string of housing data due. Oil prices have moved sharply lower and this is likely to keep CAD on the backfoot (though we note the correlation between USD/CAD and oil is not as tight as it once was).

		Week ahead bias	Range next week	1 month target
USD/CAD	Spot ref: 1.2560	Mildly Bullish	1.2410-1.2660	1.27

Source: Source: ING

EUR crosses: Scandi inflation to drive central bank sentiment

Inflation data in Sweden and Norway will dominate the Scandi currencies this week but to differing effects. While above-target Swedish inflation could see a knee-jerk move higher in SEK, signs of more muted price pressures in Norway may weigh on NOK. We expect NOK/SEK to trade with a negative bias this week.

CHF: SNB stick to the overvalued franc script

- Swiss National Bank's Jordan continued to cite the franc as being overvalued, which has given some impetus to both EUR/CHF upside. EZ political risks are likely to keep the EUR soft, with noise over Catalan independence set to remain in place.
- The pickup in CPI to 0.7% hasn't changed the view that the SNB will sit tight with policy settings far longer than the ECB – and that EUR/CHF is set to move significantly higher on monetary divergence. EUR/CHF 1.20 remains in sight over 3-6 months.

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EUR/CHF	Spot ref: 1.1490	Mildly Bullish	1.1400-1.1500	1.17

Source: Source: ING

SEK: Reversal in EUR\SEK lower to continue

- We expect the downtrend in EUR/SEK to continue this week, with Swedish CPI (Thu) being the key driver for the cross. As another push higher further above the 2% YoY target looks likely (CPIF expected at 2.5%YoY), SEK should benefit - particularly in the context of its still oversold levels.
- While positive, the data-driven impact on the currency should be one-off as it is unlikely to affect Riksbank's cautious monetary stance (under the re-appointed dovish Governor Ingves).

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EUR/SEK	Spot ref: 9.5460	Mildly Bearish	9.4520-9.6090	9.50

Source: Source: ING

NOK: Below target inflation to weigh on krone

- Focus turns to the Sep CPI (Tue). While some modest rebound is likely (to 1.7%YoY vs. 1.3% previously), the inflation is still well below the 2.5% target. The Sep reading should thus not alter market expectations of the NB policy path following the modestly hawkish Sep NB meeting and unlikely to affect market expectations of the 26 Oct Norges Bank meeting.
- With the oil price expected to remain around the current levels this week, we look for a broadly rangebound EUR/NOK trading and lower NOK/SEK.

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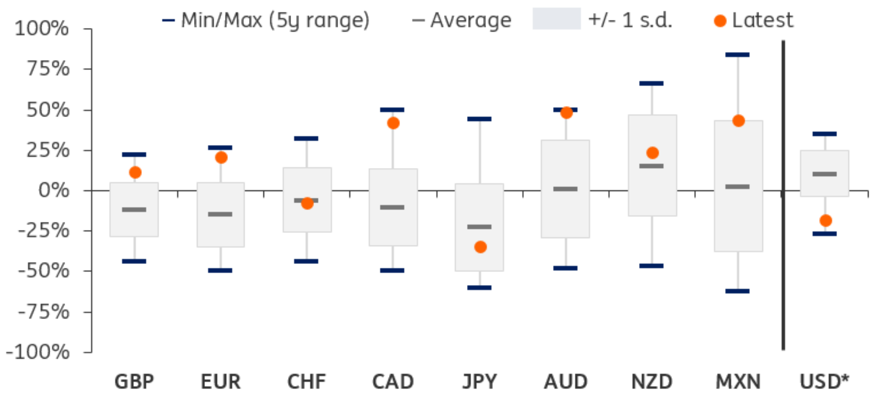
EUR/NOK	Spot ref: 9.3910	Neutral	9.3210-9.4310	9.30

Source: Source: ING

G10 FX Positioning: Neutralisation in motion

- Most G10 currencies registered a neutral bias on our weekly signal for positioning - suggesting that the reversal in the bearish USD positioning is starting to take hold. Indeed, the USD weekly signal was bullish given that there was no change in the aggregate net short positioning.
- AUD long positions look vulnerable to a correction amid a bearish commodity backdrop, while CAD net longs are also too high for our liking.
- Though GBP long positions increased in the latest CFTC data, we suspect some of this has already unwound over the past week following the Tory Party conference.

Speculative positioning (% of open interest)



Source: Source: CFTC, Bloomberg, ING as of 9 Oct 2017 (data reported with a lag). *Aggregate USD positioning against G10

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