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G10 Rates & FX, & Oil - The Traders' Weekly Views

Market Overview: Volatility over the Mountain Tops

- Positive sentiment continued to characterize much of the risk asset space last week, amid optimism for progress in Sino-U.S. trade talks and as U.S. investment banks led by Goldman Sachs delivered better-than-expected earnings expectations on the back of solid investment banking revenues. With 56 of the S&P500 companies having reported Q4 earnings, Bloomberg data shows a very respectable current earnings growth rate of +16.62% and solid sales growth of +7.01%
- Meanwhile, the Chinese Central bank announced the injection of a record $83bn into the country's financial system, which follows the government signaling more stimulus measures in the form of tax cuts and increased spending this year. Clearly, the PBOC is now intensifying its efforts to reflate the economy, which has slowed down sharply in recent months. As such, there will likely be keen focus on Chinese Q4 GDP data due for release on Monday (Jan 21), which is expected to show the slowest rate of economic expansion in a decade, with GDP of +6.4% YoY.
- In the foreign exchange (FX) markets, the pound rose further against the dollar to hit a 2-month high of $1.2994 after Theresa May's Brexit deal was voted down in parliament, raising the prospect of a softer Brexit, or even a delayed or cancelled Brexit. Sterling was also buoyed by Mrs. May's government winning a vote of no-confidence that had been put to the house during the week by the opposition Labour Party. The incumbent administration's win by 325 to 306 votes, has helped to ease near-term political uncertainties. Indeed, the market now appears to be ruling out the possibility of a disruptive 'no deal' Brexit and leaning towards a softer Brexit or even no-Brexit at all.

Week Ahead

- Expect volatility to resume this week as China kicks off the week with the aforementioned (weak) Q4 GDP data. From a macro perspective, we will also be closely analyzing the latest global growth forecasts that are due to be published by the IMF on Monday. The IMF warned late last year that escalating U.S./China trade tensions risked derailing the global economic outlook.
- Meanwhile, market sentiment will also likely be susceptible to headlines coming out of Davos this week as the great and the good of the financial and industrial worlds rub shoulders at altitude at the World Economic Forum. The symposium begins on Tuesday and runs until Friday. Most world and business leaders are expected to attend except Theresa May, Donald Trump and Emmanuel Macron who are all battling more pressing, domestic issues back at home.
- News that President Trump has offered an olive branch to the Democrats in an effort to end the partial U.S. government shutdown could also be a fillip for risk appetite this week. Press reports suggest Trump will offer concessions on immigration ('Dreamers') in the hope of securing border funds.
- Meanwhile, there will be much focus on Brexit again. After her recent parliamentary defeats over her withdrawal deal, the British prime minister is now required to present her 'Plan B' to parliament on Monday (21st). Don't hold your breath though. Investors may doubt her ability to find such a Plan B in just a matter of days, given that her government has failed to put an acceptable deal during the past 2 years of preparation.

- Political pressures are also evident elsewhere across Europe, which are likely to buffet market sentiment in the coming days/weeks. Emmanuel Macron of France continues to face public opposition to his reform proposals, which have resulted in violent 'gilets jaunes' protests. And the splintering of the coalition government in Greece has piled pressure on Prime Minister Tsipras, while geopolitical tension remains elevated between Canada and China.
- Markets will be watching all these events closely as the volatility experienced late last year is still fresh in Investors' minds.

  (Simon Ballard, Macro Strategist, Market Insights & Strategy)
  (Tega Adeda, FX & Rates)

Please find below views on G10 Rates & FX, & Oil directly from our traders.

Last week, treasuries sold off with what seems like the well-established peak for now on the back of an improved risk sentiment and a healthy NFP, which outweighed the dovish Fed comments and the softer data prints. Notably, the disruptive US shutdown has taken a toll on the US data flow recently and is highly alarming considering that this week is full of top tier data. CT10s recovered to 2.76% and DXY was hovered around 96.00. We believe that G3 curve flattening introduces some interesting opportunities, please see the below trading idea from Simon Turner.

G-10 FX	Macroeconomic/Fundamental Analysis	Views (Bearish/Bullish) 2-week Time Frame	Intermediate & Long-term Views (3mth & 12mth Time Frame)
GBP	Theresa May's Brexit deal has been rejected and the market reacted surprisingly positive to the outcome. GBP/USD traded to lows of 1.2670 on Tuesday after a dramatic and immediate rebound to above 1.2850 levels. The Conservative government survived a vote of no confidence while the pound coasted on Wednesday and gilts, typically seen as a refuge from uncertainty, sold off showing increasing market confidence. Pressure is on to submit a revised plan as another rejection will see senior legislators from all parties take over negotiations and try to find a deal that Parliament can pass. Expectations of a hard Brexit have dwindled significantly and the possibility of a softer Brexit proposal has boosted sterling going into the end of the week. GBP/USD reached a high of 1.3000 late on Thursday but still remains stronger over all for the week.	Bullish	3m 1.300 12m 1.4500
EUR	The single currency was out of focus last week while the market was fixated on Brexit and a potential second EU referendum. The uncertainty pushed EURUSD sub 1.1400 ahead of the vote and thereafter the currency was anchored around 1.1400. Looking into this week however, the ECB meeting on Thursday should bring the attention back to EURUSD especially after the latest weakness in data in Italy and Germany. That said, the probability of a growth projection downgrade seems low and we expect the ECB to continue to voice that the council remains data dependent, which in turn marks March ECB as the next critical meeting.	Neutral	3m 1.1100 12m 1.1900

G-10 FX	Macroeconomic/Fundamental Analysis	Views (Bearish/Bullish) 2-week Time Frame	Intermediate & Long-term Views (3mth & 12mth Time Frame)
JPY	Yen has lost some of its momentum against dollar and strengthened by 0.8% this past week. The pair rallied at the end of the week after headlines spread that Trump is looking to ease Chinese tariffs which was later denied by the Treasury. Looking at the price action lately, USDJPY managed to retrace 50% of the infamous selloff without any notable pullbacks eyeing 110.40 as a next target where we would be cautiously instigating shorts. On the central bank front, the BOJ this week could be interesting after the fact that Japanese data had underscored expectations leaving the BOJ with a challenge after the inflation numbers dropped in December. CPI data numbers dropped from 0.8 to 0.3 and PPI numbers was also lower due to oil and gasoline prices. That said, the market is not expecting fireworks, the central bank is likely to reiterate its easing bias and commit to its former policies.	Neutral	3m 110.00 12m 104.00

Trade Idea:

Late 2018/early 2019 saw a dramatically flattening of g3 curvature and repricing of central bank meetings. Below is a summary of current market probabilities.

	FOMC	ECB	BOE
Jan	0.05%	9.00%	
Feb			0.92%
Mar	-0.05%	9.00%	2.52%
Apr		9.00%	
May	4.25%		22.52%
Jun	19.50%	9.00%	25.72%
Jul	16.45%	10.00%	
Aug			58.92%
Sep	14.80%	24.00%	61.32%
Oct	14.80%	29.00%	
Nov			78.52%
Dec	14.80%	49.00%	80.52

Assumption (hike move bp)	
FOMC	20
ECB	10
BOE	25

Trades we like

- 6mth fwd 5/10 GBP steepners at 12.5bp (+3bp annualized carry)
- Pay 5y5y UK/ER at 12bp (+15bp annualized carry)
- Pay 2y1y USDJPY xccy at -53 (+13bp annualized carry)
- Pay 4/5 US curve at +.5bp (-2bp annualized carry)

Disclaimer: these represent trading views and not those of FAB as a group

Commodities Commentary

- Oil complex, despite mixed inventory numbers, traded higher last week, with both Brent and WTI closing above their 50D Moving Average for the past 2 days. Brent went up by as much as 2.05% week on week (Brent trading at 61.72$/bbl at the time of writing), while WTI went up by 2.40 %.

- The ongoing US-China trade talks seemed to be one the main drivers of Oil prices over the week. It is widely expected that a positive outcome on trade talks over the next couple of weeks would drive oil prices higher.

- On the other hand, US crude inventory numbers were mixed, as a larger than expected oil inventories draw(-2683k vs expected -1489k) has been offset by a large/big products build (Gasoline: +7503k vs expected +2572k, Distillate: +2967k vs expected +1354k).

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