

G10 Rates & FX - The Traders' Views

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

The past week was another turbulent period across G10 markets, as investors digested the flow of heightened geopolitical risk, in addition to continued headlines on US trade policy and macro-economic data. G3 markets saw a continuation of the recent curve flattening trend, with some extremities now being expressed in the belly of the US curve. A good example, Dec FOMC is 2.17%, 1y1y 2.4025%, 2y1y 2.48625 and 3y1y is 2.4725, i.e. 2y1y/3y1y is inverted (that's happened only once, briefly, in 20yrs) with 2.75% being priced at the terminal rate! There are multiple structures to express a steepening view and we would very much like to engage with clients to present ideas on how to take advantage of this. In the front end, LIBOR continues to tick higher, with spot at 58. Forwards still look very low with U8 and Z8 holding around the mid 30's level; we would recommend buying on any pull back. DXY remains pretty friendless, while GBP remains top of the class. We have been highlighting for some time that the BREXIT discount is too large and we maintain our 1.50 end-2018 target for cable.

G-10 FX	Macroeconomic/Fundamental Analysis	Views (Bearish/Bullish) 2-week Time Frame	Intermediate & Long-term Views (3mth & 12mth Time Frame)
EUR	As we highlighted in last week's commentary, the large Eurozone negative Net Cash Requirement (NCR) for April, some EUR70bn, will keep a lid on yields, for now. Several ECB speakers voiced their concerns about the extent of Eurozone monetary policy accommodation. In a speech in London, Governing council member, Ewald Nowonty stated "the euro-area economy today clearly is in the middle of a strong and broad-based cyclical upswing", moreover, "now it is time for gradual normalization of monetary policy". We like paying 1y1y euribor at these levels.	Bullish	3m 1.2500 12m 1.3500
GBP	This past week was the last full week of APF reinvestment, Gilts had a superb run outperforming across the market and suppressing 10y yields to 1.46%. With the BOE set to raise rates in May and in our view, November, the yield curve is extremely flat; our high conviction trade is to pay 6mth forward 5/10 steepeners along with long Sep and Dec IMM FRA/Sonia spreads.	Bullish	3m 1.4500 12m 1.5000

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JPY	Geopolitical tension remains the focus for moves in JPY. However, despite tensions rising over Syria and rhetoric mounting on US trade policy, the flight to quality premium in JPY was relatively unchanged on the week, with USDJPY sitting at 107.60. Near-term outlook for the cross will likely gyrate with shifts in risk on/off sentiment.	Neutral USDJPY	3m 107.00 12m 108.00
CHF	While risk asset sentiment swung in both directions last week and safe haven flow picked up, there was little impact on the CHF, even as Swiss unemployment registered a +0.1% increase. Furthermore, a combination of EUR strength and noticeable outflow of CHF from Russian investors, due to the sanctions, saw EURCHF climb to 1.1890 last week, thereby taking another step towards 1.2000. Data wise, this coming week is fairly light and therefore EURCHF should continue to track EURUSD.	Neutral Swiss although we are still alert to any escalation in global political tensions for safe haven flow	3m 0.9300 12m 0.9700
AUD	Trump managed to calm the market with positive remarks regarding US-China trade and eased Syrian tensions with his tweets, all of which helped to buoy the risk on mood. Aussie led the G10 pack in terms of gains, pushing AUDNZD higher by nearly 1% by the end of the week. Going into this week, AUD strength might continue if we have stronger than expected Australian employment and business confidence data.	Bullish	3m 0.7500 12m 0.7500
NZD	Out of the G10 currencies, NZD stands out due to the fact that the US-NZ interest rate divergence is still at play, while in other G10 currencies the link has now broken. The desk remains bearish NZD since NZ data has not been particularly supportive of late, creating a more dovish short-term outlook for the RBNZ as monetary tightening expectations get pushed further out. The recent NZD rally will entice the market to take profit, as well as provide interesting opportunities to instigate short positions. However, we would advocate short positions against JPY above 80.00 with a tight stop loss.	Neutral	3m 0.6800 12m 0.6300
CAD	Improved risk appetite favored CAD last week as global trade concerns eased a little and solid oil price gains helped support the currency, with USDCAD trading above 1.2500 by the end of the week. Going into this week however, expect profit taking and/or position reduction to kick in ahead of the BoC meeting where the market is expecting the central bank to remain on hold. Levels to watch are 1.2500 and 1.2250	Neutral USDCAD	3m 1.2500 12m 1.2200

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G10

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