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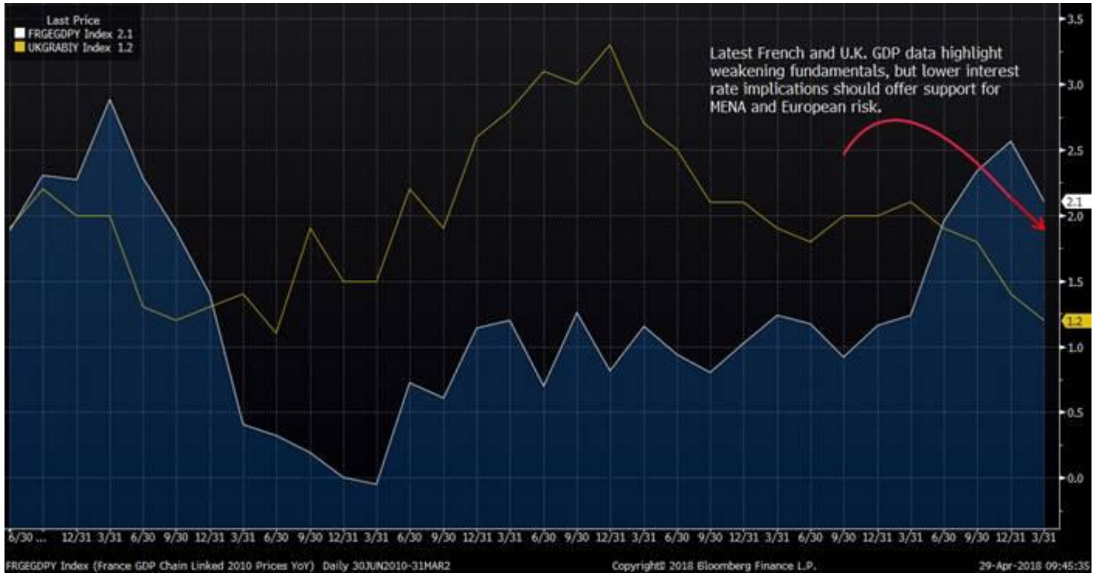
G10 Rates & FX - The Traders' Views

Macro Strategy View: ECB Rhetoric Seen Positive for DM and EM Risk

- That the European Central Bank apparently didn't even discuss monetary policy at its monthly governing Council meeting last Thursday's, should prove to be a positive for both developed and emerging market risk assets over the coming weeks. The tone of the latest ECB comments do support our belief though that investors need to retain a discerning bias to investment strategy at this juncture of macro growth and risk asset valuations.
- Mario Draghi, European Central Bank president, acknowledged a 'moderation' in the pace of the Eurozone recovery, but reiterated the Bank's commitment to ensuring that growth stays on a positive trajectory over the coming months. We would interpret this rhetoric as supportive for risk across both the high grade and emerging market universes. MENA credit markets should be buoyed by the prospect of an ongoing accommodative approach to monetary policy, with relative value in our region potentially further enhanced by the renewed question marks now surrounding the underlying (Eurozone) fundamental environment.



- A more cautious outlook to European economic growth – highlighted by well-below-consensus French and U.K. GDP data at the end of last week – should help to drive a defensive approach to risk, favoring high grade assets over lower-rated credit. Paradoxically though, while this more modest growth scenario may dampen demand for the Euro currency, the consequent anchoring effect on interest rates over the coming quarters should help to underpin near-term risk appetite in the higher yielding echelons of the credit curve. Indeed, the latest comments from the ECB suggest that Eurozone interest rates could remain at current accommodative levels until the latter half of 2019 - well past the horizon of net asset purchases, which are expected to be tapered from September this year – which should help to maintain fertile structural demand for EMENA risk.
  (Simon Ballard, Macro Strategist, Market Insights & Strategy)

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

3% is proving to be the big psychological level in CT10's. Wednesday's push to 3.03% failed to gather momentum and yields quickly reverted back below 3% in the latter half of the week. The yield curve has proved equally range bound with 2s/10s holding the key level of 27bps and 5s/10s holding around 18bps. We have taken profit on our steepeners in the US and UK and would now advocate a bias toward flatteners in the US at these levels. USD continues to be in demand as DXY reaches 91.7, EUR and GBP saw relative underperformance during the past week, losing 2.2% and 2.5% respectively.

G-10 FX	Macroeconomic/Fundamental Analysis	Views (Bearish/Bullish) 2-week Time Frame	Intermediate & Long-term Views (3mth & 12mth Time Frame)
EUR	Thursday's ECB meeting proved to be a fairly uneventful affair as Mr Draghi played a very straight bat giving no new real insight into the future of monetary policy. Positioning is weighing heavily on the EUR and downward momentum has pushed EURUSD through some pretty significant levels. 1.20 is a key level, which we feel offers attractive levels to longs to re-enter the market.	Bearish	3m 1.2500; 12m 1.3500
GBP	Friday's disastrous print on first quarter U.K GDP, (0.1% mom vs 0.3% est, pushing the YoY down to 1.2%), has caused most economists to revise their calls for a 25bp hike in May, to unchanged for the rest of the year; some economists are now changing their calls to unchanged for 2 years! The probability of a BOE May rate hike moved to 20% from 95% from last Thursday. GBP reacted accordingly, dropping 1% vs EUR and USD, to 0.877 and 1.377 respectively.	Bearish	3m 1.4500; 12m 1.5000
JPY	The interest rate divergence is back in play, driving the price action in G10 after the US 10Y yield broke 3%, which was a game changer to the greenback. Now the million dollar question is whether this is the beginning of a new trend? On the central bank front, the theme shifted to a slightly more cautious tone; the BOJ kept rates unchanged but revised down the 2018 inflation forecast to have an attainable and realistic goal and removed the reference to timing of achieving the 2% inflation target. Furthermore, the combination of subdued geopolitical risks and dovish BOJ intensified…	Bearish USDJPY with preference to sell above 110.00	3m 107.00; 12m 108.00

G-10 FX	Macroeconomic/Fundamental Analysis	Views (Bearish/Bullish) 2-week Time Frame	Intermediate & Long-term Views (3mth & 12mth Time Frame)
JPY	…the JPY selloff which helped USDJPY sustain seven consecutive higher daily closes and then USDJPY stabilized at the end of last week. Going forward, USDJPY looks to be heading for the psychological level 110.00, which is where most of the short USDJPY stops lie. The desk thinks that the move has been extended and will look to play the retracement down, by selling USDJPY above 110.50 with a stop around 111.30.	Bearish USDJPY with preference to sell above 110.00	3m 107.00; 12m 108.00
CHF	Exceptional week for USDCHF; the pair advanced 2.5 big figures this week, bring broader move to 8 big figures since February and now flirting with parity, buoyed by the risk off and stronger dollar. As for EURCHF, the pair hovered around 1.1980 for most of the week as a softer EUR could not counter the CHF weakness. Going into this week, the Swiss PMI manufacturing data will be watched closely and the lack of political headwinds is likely to support USDCHF in its march higher.	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	AUD/USD has been struggling since Jan a continuous weakening mode. The currency has touched a high in April of 0.7811, but then subsequently pulled back last week in the wake of disappointing Q1 CPI numbers. It closed the week around 0.7550. On the political side, trade war concerns caused by Trump's proposed tariffs may be among the key threats to the Australian economic growth outlook. This coming week, focus will be on Tuesday's RBA meeting, as well as commodity index, trading balance and building approvals data during the week.	Bullish	3m 0.7500; 12m 0.7500
NZD	Lately, commodity-linked currencies have suffered against the U.S. dollar and Kiwi has been no exception. Notably, NZDUSD depreciated 4.8% in just two weeks and last week's weaker than expected NZ trade data added an additional weight on Kiwi, which is an indication that the market was caught long. The upcoming price action is key and if the momentum wanes, it would indicate that a potential near-term retracement. The desk recommends going long NZDUSD at 0.7500 with a stop at 0.7400.	Neutral	3m 0.6800; 12m 0.6300
CAD	The recurring theme of dollar resilience on the back of stronger than expected US data and softer global data prints did not exempt USDCAD which tracked the market higher towards 1.2900. Looking ahead, the Canadian data slate this coming week includes GDP which will be watched closely especially now that the market is pricing in only a 30% probability of a rate hike this year. Key level to watch is 1.3000.	Neutral USDCAD	3m 1.2500; 12m 1.2200

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G10

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