

## G10 Rates & FX - The Traders' Views

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

The 39th Economic Policy Symposium in Jackson Hole, Wyoming was the big focus for the week as global financial leaders met to work out how to “Foster a Dynamic Global Economy”. Expectations were high for Yellen and Draghi to give some indications of monetary policy changes so that the market could move past the summer long funk it has been in. Unfortunately for us Yellen focused solely on financial sector regulation and that seemed to be Draghi’s theme also. Conflicting statements from Powell, Mester and Kaplan gave no further support to higher yields and treasuries had the rally they’d been holding off on since the weaker Durable Good’s number earlier in Friday’s session. The rally was led by the belly and the curve slightly bull flattened but remained in a fairly tight range even as ten year govies made new monthly lows tapping 2.16 before closing at 2.1656. We’re still off the 2.10 lows seen in June but for a dollar curve in the midst of a hiking cycle to see 2s10s sub 55bp is interesting. Hopefully Trump will be focused on the Category 3 storm hitting Texas this weekend and we’ll have a quiet twitter but you never know! UK holiday on Monday will mean a quiet session although look for some outperformance in Asia.

10y Govvie yields due a correction?



25 August 2017

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G-10 FX	Macroeconomic/Fundamental Analysis	Views (Bearish/Bullish) 2-week Time Frame	Intermediate & Long-term Views (3mth & 12mth Time Frame)
EUR	<p>Draghi's speech in Jackson Hole and the rhetoric in the upcoming ECB meeting has been greatly debated. Draghi, in efforts to tone down the market's expectation, said multiple times that he would not use the JH platform to announce any policy changes, and even added that ECB members had agreed not to discuss dates to avoid knee jerk market reactions. This didn't stop headlines on Friday morning, citing unidentified ECB officials, claiming that the ECB is set to discuss terminating the QE program at the September meeting. Market didn't react ahead of JH and Draghi gave us nothing to work with saying nothing of note in relation to monetary policy. He was positive about the global recovery 'firming up' and took the opportunity to outline concern over reversing regulations 'regulators should be wary of rekindling the incentives that led to the crisis' but otherwise it was a bust.</p> <p>It has reached a point where it is confusing the market. A the lack of cohesion from the ECB and data that has not been convincing enough to really warrant policy changes in the upcoming ECB meetings. The market is primed for the ECB to reduce the QE amount or have a short extension of the purchases this year at the Sep or Dec meeting. Realistically though more clarity is needed.</p> <p>In the FX world, this has translated into choppy price action amid thin liquidity conditions and EURUSD seesawed for most of the week between 1.17090 and 1.1820 on nervous unwinds ahead of Draghi's speech. I'm still not 100% sure what spurred the jump from 1.1820 to highs of 1.1941 but jump it did and we closed out the week with the EUR at 2 year highs.</p> <p>Next week's data slate sees Eurozone M3 money supply, consumer confidence, inflation and employment data from Germany along with Italian GDP, Eurozone PMIs. Expect plenty of discussion regarding EUR strength in the coming days even as the curve remains unaffected.</p>	Bearish – above 1.1900 negates	1.1700 3m; 1.1800 12m
GBP	<p>Cable finished the week on a high having been subdued all week with political angst at the fore and USD strength pushing it below the 1.2800 support. It wasn't a convincing break as the lows only hit 1.2774 before the market decided the dollar was a lost cause after JH and it bounced back up to 1.2883. This rally doesn't look overly convincing to me as the currency didn't get close to 1.2900 and the fairly average data last week and lowering of growth outlook should fundamentally see a lower pound. This week starts with a bank holiday to herald the end of summer (not sure it really ever started in the UK) and then nationwide house prices on Tuesday, Mortgage Approvals and the PMI Manufacturing numbers are the other ones to watch but all in all it could be another subdued week.</p>	Neutral 1.2700 – 1.3100 range to hold in the near term	1.2600 3m; 1.3000 12m

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JPY	<p>With the lack of material data this week ahead of JH, USDJPY was capped around 109.80, and risk off mid-week saw USDJPY drift towards 108.80. The dip was seen by Japanese investors as a good buying opportunity which lifted USDJPY back to the weekly highs. Domestic data took a back seat this week as JH dominated and even CPI coming in with the highest reading since March 2015 couldn't change this. The number, 0.5% was driven by a rise in energy prices although it should be noted that we are still miles away from the BOJ target of 2%. This rise, although encouraging, will not be enough to change the bank's monetary policy.</p> <p>With the current market conditions, we think USDJPY will continue to consolidate below 110.00 and next week's Japanese data includes the Jobless rate, retail sales, Industrial productions and PMIs.</p>	Neutral – 108.00 – 111.00 range to hold.	112.00 3m; 118.00 12m
CHF	<p>EURCHF still lingering above 1.1300 and likely to remain supportive there on the back of safe haven inflows especially if we see any escalation in threats from North Korea into the UK. There was a nice boost from general EUR strength to 1.1402 still off the weekly highs of 1.1424. Should the cross slip below 1.1000, expect to see some FX intervention rhetoric from the SNB to resurface again after being on hold for most of the summer. No major data until Friday when we have Retail Sales and PMI Manufacturing.</p>	Neutral – speculators are gaining in confidence having breached 1.1500 with little difficulty.	USD CHF 0.9900 3m; 1.0000 12m
AUD	<p>AUD-Summarizing last week's points on AUD the currency failed to hold at 0.7950 levels as the highs were 0.7963 and lows 0.7870. The bigger player in Aussie was the employment rate; employment increased 27.9k vs 20.0k, full-time employment dropped 20.3k and part-time employment jumped 48.2k those numbers moved spot up 20% to 07950 levels. Early in the week optimism about Donald trump's pro-growth economy weakened dollar which proved further supportive to the AUD but as with any market there was some fluctuation as spirits were lifted in the US on rumors that Trump's tax reform bill was nearing completion. The Aussie has had further support from a rise in aluminum and copper prices in a light data week from China although it struggled against the Yen and in general was in a fairly tight range this week.</p> <p>Looking forward for next weeks China's manufacturing PMI, caixin China PMI and Australia commodity index</p>	Bearish – ingrained negativity remains, only above 0.8300 concerns.	0.7500 3m; 0.8500 12m

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NZD	<p>A quiet week data wise in New Zealand with a fall in spending and a positive surprise to the trade balance numbers neither of which had a big impact on the currency. The main domestic headline was the treasury cutting its growth forecast in its fiscal update report. It also reduced its budget surplus expectations and pushed back another hike until June (market had been expected a Q1 hike). This didn't really have a major impact with the kiwi dipping from weekly highs of 0.7337 down to 0.7192 before it settled back into the low 0.7200's, still a long way from the dizzy lows of May where it bounced of 0.6800 support. There is some decent data this week with Building Permits, Business Confidence and the QV House Price index but attention is turning towards the election next month.</p>	Neutral	0.7000 3m; 0.7100 12m
CAD	<p>It has been a one way move for USDCAD since mid-August, where the pair was sold from 1.2778 without any notable correction so far. A break of 1.2414 could be in the cards this month especially if we have another NAFTA headline, on Wednesday Trump said that he does not think they can make a deal, which immediately saw USDCAD sell off. Next week's Canadian GDP data could set the tone for USDCAD.</p>	Neutral USDCAD	1.3100 3m; 1.2800 12m

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