

## G10 Rates & FX - The Traders' Views

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

Friday started off well for President Trump as it appeared his tax reform bill had garnered enough support to pass through the senate after multiple amendments – some written into the bill by hand the outraged Democratic Senator from New Jersey tweeted. Still this is a positive development and showed a lot more willingness to move the process along than I and many others had anticipated. Expect the results from a final round of voting over the weekend and there will be great interest indeed to see what the final repatriation tax is on corporate global earnings. This is not the final hurdle in passing the tax bill, the next step is for it to pass the committee where House and Senate Republicans have to vote but it does show a major willingness to compromise and work together which should bode well for the future. Or maybe I'm too optimistic on a future with Mr. Trump at the helm as Michael Flynn pled guilty to lying to the FBI in regards to his relations with Russia. As White House lawyer Cobb said, "Nothing about the guilty plea or the charges implicates anyone other than Mr. Flynn", this does not reflect well on the administration. Bloomberg and NBC are both reporting that Jared Kushner is the senior team member who directed Mr. Flynn to reach out to foreign ambassadors before Mr. Trump was in transition. The term transition is a key here as previous allegations were reportedly surrounding the run up to the election and possible Russian interference in Trump's victory. At that level of politics naivety is no excuse.

The markets took a tumble on the news with equities and the dollar lower and treasuries well bid. They closed the week off the lows but the yield curve flattened once again with 2s10s settling just above 40bp unwinding its two day rally where it had hit highs of nearly 45bp. The front end is holding up well as multiple FED officials spoke last week and the market has priced in 50% more hikes into 2018 (1.5 hikes expected now in addition to December's hike). Despite the noise, ten year govies close the week higher than they started, in the middle of the weekly range – 2.308/2.432. If the tax plan does pass over the weekend I would expect to see higher outright levels and some steepening of the curve. There is a plethora of top tier data ahead this week with final Durable Goods numbers for October, PMI's for November, Mortgage Applications, ADP employment, Consumer Comfort and the ever popular Nonfarm Payrolls which the surveys average around 199k – watch out for revisions to last month's 261k number. This will round off the week nicely before the FOMC on the 13th.

Of note last week that passed a little under the radar was the White House nominating Marvin Goodfriend to the FED's Board of Governors. There is a good round up of his background from the New York Times [here](#). He appears to be a proponent of higher interest rates, a critique of QE and also a supporter of greater congressional oversight of the FED. If he is not passed by the time Yellen leaves in Feb the board will be down to three members although five from the broader population of FED Chairs also vote.

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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)
<b>EUR</b>	<p>The price action in EURUSD has been volatile last week and the single currency has not been able to maintain a trend in either direction. Month end flows were supportive of the dollar with a mixed data bag on the week as German CPI hit the mark yet Retail Sales missed, Italy also saw some misses in GDP and the EUR hit intra week lows of 1.1817. However, the dip was quickly bought by investors which lifted the single currency to 1.1940, still off the weekly high. As further positive developments were announced regarding the US tax plan these gains reversed until late news regarding the FBI's investigation into the Trump campaigns ties to Russia saw the dollar crumble against the majors. We expect EURUSD volatility to remain elevated in light of those developments and with both the ECB and FOMC meetings this month.</p> <p>This week is filled with first tier data, namely the German factory orders, Industrial productions, Eurozone GDP and retail sales.</p>	Neutral	1.1600 3m; 1.2200 12m
<b>GBP</b>	<p>The most interesting thing to happen in the UK last week was Prince Harry announcing his engagement to the impressive and accomplished Ms. Markle. Outside of that happy news the usual political whining and calls from the left for Trump to be banned from visiting the UK – which would clearly be a sensible move as we walk away from Europe or maybe not. Still the magic money tree will continue to support all those wonderful social services available in the UK so we could just let Corbyn photo shop his way into leadership.</p> <p>Brexit talks are progressing although whether or not they will pass any serious vote is open for question. I have to confess to being caught off guard by last week's highs in sterling as headlines hit on Thursday morning that a deal was close on the Northern Ireland open border it was one pip away from breaching 1.3550. This after a week of data misses, albeit most second tier, including House Prices and Consumer Confidence with a notable exception of Friday's Manufacturing PMI – a notoriously volatile series. Look out for the conclusion of this round of talks on Monday and likely some more posturing from the unelected in Brussels.</p> <p>Fundamentally I'm bearish but the adage of pennies in front of a steam roller is lurking in the back of my mind so we step out of cable to see if these new levels hold and invoke a new range.</p>	Neutral	1.3050 3m; 1.2300 12m

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JPY	<p>In USDJPY the range 108/115 has proven to be hard to break in recent months with last week no exception. The pair began the week at around 111.00 then headed higher to 112.50 mainly due to the excitement about US Tax Bill and higher US rates. The risk-on mood has been only temporarily affected by a new North Korea missile launch. JPY price action is driven by external global factors rather than by domestic data/themes where there is no real catalyst for movement at the moment. Friday morning CPI print (data mixed) caused no reaction. This week main data is Q3 GDP.</p>	Bullish	114.00 3m; 118.00 12m
CHF	<p>The franc took a breather last week from the gains it had been making throughout November vs the dollar. On Monday we saw Q3 NFP for Switzerland come in at 4.956m vs 4.915m prior. Wednesday saw the SNB's Zurbruegg making comments that the franc was still considered a safe haven and that the SNB is ready to intervene at any time, the usual SNB chit chat which had little impact on the currency. Against the EUR, the Swissie continued to weaken and looks set to attempt a clear break of 1.1700, not seen since before the SNB EURCHF floor collapsed back in January 2015! Last Monday saw the pair print a high of 1.17245 although the level failed to hold into the close of the week with the CHF strengthening back to close at 1.1612 on Friday. This week we look to CPI on Wednesday and Unemployment rate on Thursday.</p>	Neutral	0.9900 3m; 0.9700 12m
AUD	<p>AUD/USD fell for consecutive days during last week as the interest rate differentials continue to weigh heavy. We expect further losses to materialize should the upcoming data miss the forecast and point to slower growth - the RBA is expecting a 3% average growth over the next few years. We expect little change from the central bank in relation to rates which should remain around 1.5% and we would also expect to see inflation forecasts lowered as the engine of the Aussie economy idles over. AUD also benefitted from the dollar weakness on Friday as the currency recovered pretty much all of the week's losses to close above 0.7600. Next week data releases are Melbourne Institute Inflation MoM, BoP Current Account Balance, Retail Sales MoM, RBA Cash Rate Target, GDP numbers, Trade Balance and Home Loans.</p>	Bearish	0.7400 3m; 0.7500 12m

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NZD	<p>The highlight of last week was the RBNZ Financial Stability Report on Wednesday which saw the central bank announcement that home buyers will now only require a 35% deposit as opposed to a 40% one in an attempt to help first time buyers enter the overheated housing market. New Zealand recently announced that next year foreigners will be banned from buying property due to the increased risk of unaffordable housing. Speaking in parliament RBNZ's Spencer said that there is still a shortage of housing and that not enough houses are being built. Also on Wednesday October Building Permits came in at -9.6% m/m vs -2.3% prior. On Thursday we saw ANZ Business Confidence come in at a disappointing -39.3 vs -10.1 last month, sending the currency about 70 pips lower, down to a low of 0.6830. Light week ahead in terms of data with the dairy auction on Tuesday and Manufacturing Sales on Friday. Look for range trading in the currency 0.6800 - 0.6900.</p>	Bearish	0.6500 3m; 0.6300 12m
CAD	<p>CAD was under pressure last week and has briefly broached the 1.2900 handle – this despite the extension of the OPEC cut being agreed. In general we have noted a decrease in correlation between Oil price action and Oil currencies this year (NOK also a good example of this).                      Solid Q3 GDP and November Employment Report did give CAD a boost against the greenback sending the pair nearly a big figure and a half lower, because they have a direct impact on inflation measures. While the market priced in a lot of tightening earlier this year, inflation has remained below target, therefore the BOC is likely to stay on hold in the next months. Volatility levels reflect it as well with ATM volatilities at 6 handle.                      Apart from BOC meeting on Wednesday, next week is light in data from CAD.</p>	Neutral	1.2700 3m; 1.2200 12m

## AUD/SGD Technical Trade Ideas

We like to position for the reversal in the downward trend in AUDSGD as in our view the Aussie weakness is overdone at this stage and the pair is ripe for a good correction. The downward momentum has been waning since October, the wave count seems complete and the wave equality as well as good support levels were hit around 1.0180 yesterday. Thus we like to buy AUDSGD at 1.0210 (+/- 5pips) with a stop loss at 1.0150 (about 0.60%). We expect the pair to reach 1.0430/40 levels in the next 2-3 weeks.

Please contact the G10 desk if you need the pricing.

Please note that (1) this is a solely technical view based on price charts and (2) although in many cases these types of trades will be stop-losed, few winning trades will more than compensate the losing trades due to the favourable risk-reward ratio.



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