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G10 Rates & FX - The Traders' Views

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

This week, Russia and OPEC committed to extend their oil output-cut by nine additional months, i.e. end of 2018. This agreement was fully priced by the market and could lead oil prices to stabilize in 2018 around $60 per barrel.

USD yields remained stable this week and have been trading within a 10 basis points range last week. Despite the fact that central banks have been quiet, markets are in risk-on mode due to the political agenda. Risk appetite is back due to strong economic momentum coupled with constructive political news.

The final version of the US tax reform could happen before year-end, which would increase US GDP growth. EU and UK have reached a first breakthrough in the Brexit deal, paving the way for trade talks to start before year-end. From an economic data standpoint, inflation numbers in developed markets are promising and the global manufacturing PMI rose to a new high since 2011.

The macroeconomic calendar for the beginning of the following week will be relatively light. The ECB and the Fed will probably remain silent before their December meetings. Market participants will focus on the US employment data release, as well as Brexit negotiations and US fiscal reforms. We expect the risk appetite to remain strong going into end of year given the stable inflation and the strong economic momentum.

G-10 FX	Macroeconomic/Fundamental Analysis	Views (Bearish/Bullish) 2-week Time Frame	Intermediate & Long-term Views (3mth & 12mth Time Frame)
EUR	The single currency has been trading on the back foot last week with an apparent theme to lighten long positions ahead of the ECB and the FOMC meetings. Then EURUSD started drifting lower, driven by the seasonal year-end dollar funding demand, which spilled over the forwards market leading to more exaggerated moves than usual. Furthermore, positive dollar related news has reinforced the dollar demand even further on a report that Trump will release his infrastructure plans as early as next month while the US congress averted government shutdown, which led EURUSD to firmly break 1.1750.	Neutral	3m 1.1600 12m 1.2200

G-10 FX	Macroeconomic/Fundamental Analysis	Views (Bearish/Bullish) 2-week Time Frame	Intermediate & Long-term Views (3mth & 12mth Time Frame)
EUR	Looking into the risk coming this week, the Fed hike is almost 100% priced in, but they could deliver a dovish hike whereas the ECB is expected to remain on hold while revising up the GDP growth forecasts, my have the tables turned!. At this stage, an unexpected turn of events can lead to further losses in EURUSD, and perhaps even breaking the big level that started it all at 1.1550, if that happens it will lead to a stop-chase mania as investors rush to protect their 2017 long EURUSD profits.	Neutral	3m 1.1600 12m 1.2200
GBP	It was a tug-war for the pound last week; pulled back and forth on Brexit headlines as the DUP proved to be a roadblock for UK PM May's negotiations and delaying the Brexit talks. As the week progressed with not much progress, Cable started to drift lower and traded sub 1.3350. Then Cable was lifted as the DUP and May reached a last minute deal on the Irish boarded and then UK PM May issued a joined statement with Junker saying that there has been sufficient progress on Brexit talks. The market was thrilled to see any kind of progress in the Brexit takes, regardless of the outcome, which explains the move towards 1.3500 at the end of week. As soon as the market started thinking of the trade details, an EU official released that it was not realistic to expect UK trade deal March 2019, and the immediate release saw an unwind of the move. Notably, there has been an apparent take profit flows that followed the release of the statements, and the last move triggered bearish signals and we maintained our short position for a move towards 1.3300 as an initial target, please see attached graph.	Bearish – above 1.3550 negates	3m 1.3050 12m 1.2300
JPY	USDJPY continued its bid tone throughout last week breaking through the resistance at 113.40 to a high of 113.57 as the risk on tone emerged as Trump's tax reform continues to boost equity markets. Trump is rumored to release his infrastructure proposal in early January adding to the momentum. Additionally, US NFP on Friday was better than expected at 228k for the month, while the small miss in earnings offset the move, simultaneously news were released that the congressional investigators received an email that proves that Trump, his son and others in his campaign received an email in Sep 2016 offering a decryption key and website address for hacked WikiLeaks documents. USDJPY remains vulnerable to headline risk but has not broken any major levels lately and the last real risky event for the year is the Fed rate hike announcement on the evening of the 13th Dec where a rate hike is almost fully priced in. The options desk have bought near date 112.50 USD puts to protect from a potential downside move this evening and next week.	Bullish	3m 114.00 12m 118.00

G-10 FX	Macroeconomic/Fundamental Analysis	Views (Bearish/Bullish) 2-week Time Frame	Intermediate & Long-term Views (3mth & 12mth Time Frame)
CHF	USDCHF was torn last week between rising political tensions and stronger dollar, but at the end the greenback prevailed pushing USDCHF to a high of 0.9980 at the end of the week. Looking into EURCHF, it seems unable to break 1.1750 and the fact that EUR and its crosses were trading heavy last week did not help either. With both the ECB and FOMC having their rates decision released this week, the risks are definitely more tilted to the downside for EURCHF.	Neutral Swiss although we are still alert to any escalation in global political tensions for safe haven flow	3m 0.9900 12m 0.9700
AUD	Aussie had a strong start last week and rallied on Tuesday to three weeks high in Asia morning marking a high of 0.7654 with retail sales 0.5% vs 0.3%. However, the move could not last long as the Q3 GDP numbers came lower than excepted 0.6% vs 0.7% and the YOY 2.8% vs 3%. AUD/USD support has faded after the new GDP data released which had burdened the Aussie into falling from 0.7654 to below 0.7580. The anxiety continued as Trade Balance has missed $1400m vs $105m AUD/USD have extended the fall from 0.7560 to 0.7544 and have dipped further to 0.7502 as the home loans also missed from -2% vs -0.6%. Next week’s data focus is on the employments and unemployment numbers.	Bearish	3m 0.7400 12m 0.7500
NZD	Kiwi traded aimlessly last week, range bound for the most part as the focus was elsewhere globally. Despite a better than expected volume of all building release and QV house prices, Kiwi started to slide lower but was saved at the end of the week by the selloff in AUDNZD. The data slate this week carries Card spending, house sales, food prices and business manufacturing. Unless Kiwi firmly breaks 0.6950 on the top side, the desk remains bearish NZD through NZDJPY.	Bearish	3m 0.6500 12m 0.6300
CAD	USDCAD continued its grind higher touching 1.2869 (twice) after the BoC kept rates unchanged last week and reiterated a ‘cautious stance’, erasing all gain from Canadas strong employment numbers last Friday. The USD has been stronger across the board this week with UST yields continuing to push higher and risk trading fairly bid across the board. Canadian housing starts printed a stellar 252.2K and the softer than expect US earnings release saw USDCAD give back its gains. That said, look for short term support at 1.2780 with resistance 1.2900 then 1.3000.	Neutral	3m 1.2700 12m 1.2200

GBP Currency (British Pound Spot)

Source: Bloomberg; FAB

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G10

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