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G10 Rates & FX - The Traders' Views

Global markets could be susceptible to headline risk early this week, particularly that surrounding the US government shutdown and political blame game between the Republicans and Democrats. However, while the subsequent uncertainty of the polemic could weigh on investor sentiment across asset classes, we would expect the absolute market impact to be limited, as suggested by the resilient tone to US (and European) equities during Friday's session.

Aside from the US cashflow situation, perhaps the greater market impact could come from corporate earnings and the macro outlook for inflation and interest rates. Earnings headlines this week will include figures from dozens of companies, including consumer giant Procter & Gamble as well as General Electric. Any disappointments would likely be punished by a market running close to historical high valuations.

Meanwhile, keep a close eye on government bond yields and inflation expectations. With the 10y UST yield having spiked more than 25bps ytd to the current 2.66% level, investors should be cognizant of the negative impact that the move may have on risk appetite if sustained over the coming weeks. A continued rise in underlying yields will dampen the appeal of (lower-rated) credit exposure and could see some asset allocation flows out of equities and credit into (now higher yielding and better rated) fixed income.

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

This has seen a continued theme of rising bond yields, rising equity markets and suppressed volatility in global markets. CT10 has continued its trend higher reaching 2.63% (8bp higher on the week), 10year bund yield are unchanged at .58% and gilts a smidge higher this week at 1.336%. The market continues to digest rhetoric from both the ECB and FED ahead of the governing council meetings on 25th and 31st respectively. DXY broke below 91, currently 90.40, the lowest level in three years; this has pushed EURUSD to 1.2260, GBPUSD to 1.387 and USDJPY to 110.68. For those CAD watchers, the BOC hiked as expected this week, but rhetoric was on the dovish side as subsequent meeting dated OIS's moved lower by 2/3bp.

G-10 FX	Macroeconomic/Fundamental Analysis	Views (Bearish/Bullish) 2-week Time Frame	Intermediate & Long-term Views (3mth & 12mth Time Frame)
EUR	<p>This week saw the release of EUR CPI data coming in line with expectations at .4% Mom/1.8% YoY. EUR medium term inflation expectations remain contained, with 5y5y still at 1.75%, this compares with the UK at 3.50% and the US at 2.35%. EUR remains strong at 122.54 and EURJPY at 135.62</p>	Bullish	1.2100 3m; 1.2200 12m
GBP	<p>This week also saw the release of inline UK CPI data, short sterling quickly repriced probabilities of an MPC rate hike in coming months, a 25bp move in bank rate is fully priced into the November meeting. GBP took the news rather better and shrugged off the mildly disappointing data, cable reached up to 1.3940. For GBP, the rates market and FX markets are indicating very different paths for the UK economy. Gilt yields remain stubborn at 1.31% and look rich cross market with gilt/ty at 127bp and gilt/bund at 75bp, the GBP IRS curve remains extremely flat with the 1 year gaps pricing 15bp of a premium per year and terminal rate suppressed at 1.75%. Our models are suggesting GBP yield differential/FX structures are starting to look attractive, in particular 2y2y uk/us vs weighted GBP.</p>	Bullish	1.3500 3m; 1.2300 12m
AUD	<p>The Aussie dollar market was characterized by periods of volatility around the various market data releases over the past week. However, while the overall tone of the data showed a weak bias - in home loans, employment and unemployment rate data - it did little to shift the bullish consensus towards the currency. The trend in AUD/USD to rally to break 0.800 remains intact; indeed, the currency touched a high this week of 0.8039. Looking ahead, there is less on the data calendar this coming week to drive meaningful currency direction.</p>	Bearish	0.7500 3m; 0.7500 12m

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