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بنك أبوظبي الأول
FAB
First Abu Dhabi Bank

G10 Rates & FX - The Traders' Views

The Middle Eastern week looks set to maintain a positive tone across financial markets today after what was as a largely buoyant past week in terms of corporate earnings and macroeconomic data. News also that Saudi Prince Alwaleed was released yesterday after nearly 3 months in detention should help sentiment toward the region, as well as toward the companies in which Alwaleed has significant shareholdings.

So while global equities continue to experience their best ever start to a year – US stocks +8% ytd; Europe +4% ytd approx. – as yet there is little sign of any imminent dip or consolidation to the trend. There are several key elements to keep a close eye on though over the coming weeks as central banks' bias remains toward monetary stimulus withdrawal and balance sheet normalization.

U.S. 4Q GDP data released Friday was below expectations at +2.6% (consensus had been +3.0%), down from 3.2% in Q3, but still very respectable in comparison to the +0.5% growth seen in the UK in the same period (even if the latter beat the +0.4% forecast). A tighter rates market outlook may now be the key threat to economic growth and risk asset sentiment and in this respect we note the hawkish comments Friday from European Central Bank board member Benoit Coeure.

Coeure's remarks included the suggestion that "we are now at the point where we are starting to see wages ticking up in a very tentative way, also core inflation ticking up in a very limited way in the euro zone". As we have suggested previously, inflationary pressure and the prospect of a higher yield structure could be key catalysts in dampening, if not arresting, the year-to-date strong performance seen across risk assets.

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

This past week saw a continuation of the weaker USD trend, as the World Economic Forum at Davos saw a host of speakers; most notable of which was US treasury secretary, Steven Mnuchin. Mnuchin's dovish rhetoric of "a weaker dollar is good" come at a time when the market is already happy to sell USD. The headline further compounded the move in DXY through the key level of 90 (currently at 88.9), taking it to its lowest level since 2014.

Both USD and GBP were in vogue as the ECB monetary policy meeting and strong UK wage inflation triggered hefty appreciation in both crosses. Despite volatile sessions across the week, bond yields remained contained with CT10 at 2.63%, Bunds at 0.61% and Gilts at 1.40%. This coming week sees month end extension flows and NFP on Friday.

G-10 FX	Macroeconomic/Fundamental Analysis	Views (Bearish/Bullish) 2-week Time Frame	Intermediate & Long-term Views (3mth & 12mth Time Frame)
EUR	The ECB left rates unchanged at Thursday's meeting as expected and maintained their forward guidance. The central bank also acknowledged the improving economic activity and even improved the GDP forecasts for 2018 and 2019 to 2.3% and 1.9% respectively, leaving the ECB on track to end the APP this September and perhaps hike as early as mid-2019. As for the conference, Draghi skillfully dodged the FX questions and merely said that it adds uncertainties which helped EURUSD test 1.2500, levels not seen since 2014, which enticed some market participants to take profit and a retracement lower followed on the next day. As long positions get crowded especially after the outcome of the meeting, I expect a correction lower in EURUSD to 1.2300, especially if the GDP prints lower than the forecast. That said, the dip will be bought as the broad-based improved Eurozone economics will support higher EUR over the course of this year.	Bullish	1.2500 3m; 1.3500 12m
GBP	A stellar week for sterling as GBPUSD hits multi-year highs of 1.43, the currency strength can be attributed to a multitude of factors, namely, the markets improved assessment of Brexit negotiations, stronger economic performance and hefty short positioning. The pound has appreciated particularly strongly against the USD – up by 8% since the early-November Bank of England decision. However, the move against the EUR and the UK's other main trading partners has been far more limited. Hence in trade weighted terms, the appreciation has been more limited – more like 2¾%. The pound has risen strongly against the USD, but the move in trade weighted terms is more important and the lags are pretty long. The rise in GBPUSD has offset some of the impact of the rise in oil, but only around half of it. Higher oil has raised near term inflation projections, while stronger sterling has been a drag on the medium term. Both have the potential to take a little heat out of growth, but this is hardly slamming the brakes on, we still see upside in GBP.	Bullish	1.4500 3m; 1.5000 12m
JPY	Dollar weakness seems to be the key theme in G10 and USDJPY is case in point, testing 108.50 on the back of US Mnuchin's attempts to jawbone the dollar. USDJPY then was mildly saved by Trumps attempts to control the damage and even Draghi expressed his discontent with Mnuchin's comments. Going forward, the possibility of another comment regarding the dollar strength will haunt USDJPY, limiting the scope of any pull backs to 111.00 and thus supporting a stronger JPY vs USD over the course of this year. Point made when a softer than expected Tokyo CPI print could not manage to lift USDJPY and in the case of any increase in JPY safe haven flows could push USDJPY even lower.	Bearish USDJPY – with preference to sell the rallies above 110.00	107.00 3m; 108.00 12m

G-10 FX	Macroeconomic/Fundamental Analysis	Views (Bearish/Bullish) 2-week Time Frame	Intermediate & Long-term Views (3mth & 12mth Time Frame)
CHF	CHF has been outperforming in G10 as of late especially against the dollar and notably USDCHF dropped nearly 7.5% since October. By comparison, EURCHF also did not manage to hold on to the gains after the ECB meeting and has been on a freefall since then from 1.1800 to 1.1650. With the SNB meeting a month and a half away, that leaves plenty of room for the usual SNB rhetoric regarding the currency being overvalued, but the market has become immune to such words, therefore CHF outperformance could be sustained for the time being.	Neutral Swiss although we are still alert to any escalation in global political tensions for safe haven flow	0.9300 3m; 0.9700 12m
AUD	A weaker dollar couple with higher oil has seen AUDUSD appreciate this year, and whilst last week was filled with risk events, AUDUSD managed to rally to 0.8100 with relative ease. However, it is worth to note that 0.8100 has been a key level which AUDUSD failed to break three times last year, and similarly last week. Thus providing decent risk-reward opportunities to fade the move, especially as no material pull back has been seen since mid-December last year. Next week key Aussie data includes consumer price index, AiG performance of manufacturing index, the NAB business confidence index and building approvals data.	Bearish	0.7500 3m; 0.7500 12m
NZD	Similar to its antipodean neighbor, the overbought signals seemed to have reached its highs; Kiwi failed to break 0.7400 and reversed back to 0.7300 on the back of the disappointing CPI data and lower card spending despite the holiday seasons. With the RBNZ coming up in two weeks, the market has been wary of adding to long positions as the possibility of currency related rhetoric have been elevated and now the risks are to the downside, with a possible correction to 0.7100. To express our bearish stance, the desk recommends shorting NZDJPY between 80.80 and 81.50 targeting 79 as an initial target followed by 77.50.	Bearish	0.6800 3m; 0.6300 12m
CAD	BoC Poloz comments in Davos were partially ignored as the market's focus was elsewhere, leaving room for CAD to appreciate against the dollar, but this week could be more of interest as NAFTA comes back in the picture, which could see heightened volatility in USDCAD, that said, a strong GDP print this week could help USDCAD test 1.2200. Over the long run. However, there are plenty of reasons to support a stronger CAD, mainly higher Oil coupled with strong Canadian data and more specifically inflation and higher wages which support future rate hikes.	Neutral	1.2500 3m; 1.2200 12m

Contributors

FAB Global Markets FX & Rates

G10

Alison Higgins
Alison.Higgins@bankfab.com

Simon Turner
Simon.Turner@bankfab.com

Nourah Al Zahmi
Nourah.Alzahmi@bankfab.com

Meera Al Marar
Meera.AlMarar@bankfab.com

GCC & EM FX

Husain Askar
Husain.Askar@bankfab.com

Ahmed El Alami
Ahmed.ElAlami@bankfab.com

Pinrath Wongtrangan
Pinrath.Wongtrangan@bankfab.com

Danay Sarypbekov
Danay.Sarypbekov@bankfab.com

Rashid Rasul
Rashid.Rasul@bankfab.com

Tel: +971 2611 0111