

G10 Rates & FX - The Traders' Views

Financial markets continue to trade with a firm bias to risk appetite in these opening weeks of 2018. The macroeconomic outlook may look encouraging with broad-based signs of growth, but this in itself may create a more challenging environment for investors over the coming quarters as inflationary pressures and the expected unwind of central bank stimulus begins to be priced in to the market. With risk asset valuations trading close to historic highs, perhaps the overarching driver of investor sentiment in 2018/2019 will be the (hopefully gradual) process of Central Bank balance sheet normalization.

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

The last week has seen TSY and EGB yields move higher as the market absorbed heavy supply of EGB and EUR corp/agency paper. CT10 pushed through the 2.50% key level reaching a high of 2.59% on Wednesday as headlines of China officials recommending a slowing or halting of their U.S. Treasury purchases. SAFE officials denied making such a statement, triggering a brief rally in fixed income markets on Thursday, before hawkish minutes were released from the ECB. Markets reacted in particular to the headline "ECB COULD CONSIDER GRADUAL SHIFT IN GUIDANCE FROM EARLY 2018"; Green and Blue Euribors sold off around 5bp. 10Y bund yields moved to 58bps, pushing 2/10 and 5/10 IRS to 108bp and 59bp respectively. There is now 10bps of rate hikes priced into Eonia markets by Jan-2019. EUR crosses also reacted with EURUSD trading on 3 year highs of 1.2135 and EURJPY at 134.57.

This week we have inflation data for the Eurozone and the UK, along with the Bank of Canada monetary policy meeting where the market is pricing an 80% chance of a rate hike.

G-10 FX	Macroeconomic/Fundamental Analysis	Views (Bearish/Bullish) 2-week Time Frame	Intermediate & Long-term Views (3mth & 12mth Time Frame)
EUR	A week of two halves for the single currency started with nervous long unwinds on the back of news that record long positioning being hit, pushing EURUSD to a low of 1.1916. Then the second half of the week carried more fortune for EURUSD on better German employment data and the coincidental Chinese rumours that lifted EURUSD to 1.2000 but it reversed back as soon as the reports were denied and China later said that the news was based on false ...	Bullish	1.2100 3m; 1.2200 12m

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EUR	...information and it is merely trying to diversify its FX reserves. As we look forward into 2018, the EU-US interest rate differentials will be the driving force behind EUR which will entail higher trading ranges for EUR-crosses as the market takes into account the ECB shifting their forward guidance.	Bullish	1.2100 3m; 1.2200 12m
GBP	Sterling markets have taken a back seat last week as headlines from the US and Eurozone has overshadowed any news on the Brexit negotiations. Currently markets have 25bp of rate hikes for 2018 which at this stage of the economic cycle seems fair value. Trade weighted GBP has remained relatively stable, so the move higher in cable has tracked the weakening of DXY. This week sees the release of CPI data which investors and analyst will heavily scrutinize against their forecasts both for inflation and for monetary policy.	Bullish	1.3500 3m; 1.2300 12m
JPY	A surprise move by BOJ took the market by storm, when the central bank cut its bond purchases by ¥10bn, a closer step to normalization, which means that the market now will be vary worry around the BOJ purchase dates this month. The buying of JPY against the crosses is adding further pressure on USDJPY, pushing it to 111.00, until it was lifted by better US inflation data release. This week we the Japanese data will be watched closely as it will be the last ahead of the BOJ meeting on the 23rd of Jan, with a special focus on inflationary related data.	Neutral	114.00 3m; 118.00 12m
CHF	EURCHF was range bound last week and a small uptick in the Swiss MoM CPI was offset by worse than expected unemployment rate, which left EURCHF tracking EURUSD higher and officially breaking 2017 highs. EURCHF now eyes the infamous 1.2000 level as a target this year.	Neutral Swiss although we are still alert to any escalation in global political tensions for safe haven flow	0.9900 3m; 0.9700 12m
AUD	AUDUSD seesawed last Tuesday on worse than expected Building approvals MoM as it dropped from -1.3% vs 11.7%. With housing being a major concern of the RBA, AUDUSD dropped 50 pips lower instantly on the release. However, the RBA lately have been constructive on the topic mentioning that the residential construction have peaked out but, prices will remain at healthy levels for now, which helped support AUDUSD along with better than expected retail sales which lifted AUDUSD to 0.7900. This week data slate carries the Melbourn institute inflation MoM, Westpac Consumer Conf SA MoM, Home Loans MoM and Employment data.	Bearish	0.7500 3m; 0.7500 12m

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NZD	<p>Softer dollar sentiment combined with the lack of top tier NZ data saw NZDUSD rising steadily despite the political uncertainty backdrop. This week however can prove challenging to Kiwi as we have the food prices data release along with housing data and business manufacturing. With the RBNZ meeting just two weeks away, the possibility of jawboning the appreciation of the currency has increased and I would expect some pull backs as the market participants start to take profit and/or reduce their longs into the meeting.</p>	Neutral	0.6800 3m; 0.6300 12m
CAD	<p>NAFTA related news triggered a mass CAD selloff last week and USDCAD was pushed to 1.2583 as Canadian officials were reported to be worried about US exiting NAFTA. Much like the Chinese rumors, the misunderstanding was rectified as White House denied such claims, but USDCAD will remain sensitive to NAFTA related headlines this year. Data-wise, CAD was boosted by stellar housing data which was responsible for a decent uptick in the market's pricing of a BOC hike this week. With the rate hike more than 80% priced in, USDCAD might start trading heavily and possibly revert to 1.2300.</p>	Neutral	1.2500 3m; 1.2200 12m

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