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G10 Rates & FX - The Traders' Views

Please find below views on G10 Rates & FX directly from our traders. The FX views include short-term (2wk), intermediate (3mth) and long-term (12mth) outlook on G10 FX.

In the space of three days there has been a distinct change of tone from the market as bond yields rise and equities start to look a little wobbly in the face of a united hawkish front from our mighty central bankers who met in Portugal last week. Reading the headlines generated you would think the MPC is raising rates on August the 3rd, Draghi was about to withdraw stimulus in September and the Bank of Canada had miraculously guided the country through weaker oil prices and were out the other side. Kuroda had clearly not drunk the same Kool Aid as the others and was a little less enthused but that might be because they are caught between a rock and a hard place – bond yields vs equity weakness.

USD Rates: The USD was the resounding loser in all the hullabaloo as the FED might not be the only game in town, data though was strong with notable performances from GDP (1.4%), Personal Consumption (1.1%) and Personal Income on the way up (0.4% isn't really something to get over excited about to be honest). Inflation measurements last week were a touch disappointing but nothing to force the FOMC off its path and with less than a 20% chance priced into September there's some room there. Further out the curve there's finally been some re steepening as 2s10s breaks 66 having averaged 60bp throughout the month of June driven by gains in the 10y which had an 18bp shift over the course of the week, like to see some further short-term gains there. Also look to see some reversal in basis which took another hammering across the curve this week driven by flow and the sheer weight of paid positioning (looking for wider spreads). Fundamentally, libor is creeping higher and with 10yr 3x1 sitting at 6.25bp a flat roll into spot I like to be paid.

Wednesday onwards will be busy in the US as the 4th July celebrations will make for a quiet start as many enjoy a 4-day weekend. The data doesn't stop with today's ISM's but as usual the star of the show will be payrolls on Friday, almost pipped by Wednesday's combo of Durable Goods and FOMC minutes, PMI's on Thursday are also worth watching. Bullard is speaking again today at the BOE conference but he's unlikely to deviate from his last Thursday's comments where he called the current policy path 'appropriate' and flagged a 5-year time frame to see the balance sheet at a more conventional size. Williams, Powell and Fischer speak on Thursday and Friday and the FED also releases its July Monetary Policy Report to Congress on Friday.

G-10 FX	Macroeconomic/Fundamental Analysis	Views (Bearish/Bullish) 2 week Time Frame	Intermediate & Long-term Views (3mth & 12mth Time Frame)
EUR	EUR: Draghi was so upset by the market's misinterpretation of his comments that the ECB actually issued a statement to tell us that the market was 'misjudging' his speech on stimulus. I've not seen that...	Bullish – with preference to buy the dips around 1.1250	1.1100 3m; 1.0900 12m

G-10 FX	Macroeconomic/Fundamental Analysis	Views (Bearish/Bullish) 2 week Time Frame	Intermediate & Long-term Views (3mth & 12mth Time Frame)
EUR	…before and clearly the market took it very seriously, for about five minutes, as the single currency dropped a big figure in the space of two minutes only to recover and make new daily highs. It continued its climb through Thursday and Friday to hit the dizzy heights of 1.1445, to put that in context it started the week at 1.1195 as the Venetian banking problems looked to be coming to some sort of resolution which is fundamentally a positive for the union. Interesting move to try to buy into from anything other than a technical perspective. It has paid to be positioned for higher yields in the 2-5y space over the last few weeks and clearly the world wants to buy into the recovery story. Whilst not convinced that this growth cycle isn't actually coming to an end, it is difficult to fade European rate strength with such a flat curve and data seeming to improve a little. One to monitor. The market is on high alert so any speakers this week will be monitored and as usual we have a few, Praet and Nowotny on Tuesday, Villeroy on Thursday, Praet again on Thursday and the ECB minutes, Weidman and Nowotny again, with Coeure rounding off the week in Aix en Provence with his MPC counterpart Cunliffe. Data wise Monday kicks off with a plethora of PMI data and Romania's CB announces interest rates – no change expected for those following. Tuesday Spanish unemployment and the Riksbank announces its IR (again no change expected), Wednesday has services and composite PMI for France Germany and the Eurozone as well as Retail Sales for the EC, Germany Factory orders are the highlight Thursday and Friday see's German and French Industrial Production and likely a quiet day ahead of the US data.	Bullish – with preference to buy the dips around 1.1250	1.1100 3m; 1.0900 12m
GBP	What a momentous turn in cable as it smashes through recent weakness and closed to week at 1.3025 as a combination of May's expensive new government removes some uncertainty and Blarney's flip flopping loses him even more credibility but convinces the market that the UK may be ready for rate hikes. Hmmmmmmmmmmmm well maybe, I mean house prices are still climbing, regardless of the Mail on Sunday's scare mongering, mortgage approvals are up, the Tories have painted themselves into a corner with austerity and public sector wage caps and there is no promise to keep taxes unchanged in this manifesto. Consumer credit is such a booming industry that the MPC took steps last week to attempt to contain its growth by increasing the bank's buffer rates, hastening bank stress tests on consumer credit exposures and clarifying mortgage insurance as many households have a worrying amount of debt. Surely a raise in the base rate can only be a positive thing, increase the debt burden whilst we have stagnation of wages but at least it will take us back to a place where we can cut rates again once a recession hits! To be somewhat fair to Blarney and co the market has been a little over eager to…	Bullish – targeting 1.3300	1.2600 3m; 1.3000 12m

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GBP	…embrace the idea of a rate hike and a move of four big figures in cable seems somewhat of an overreaction - anyone remember Brexit negotiations. Never one to pick up coins in front of a bull dozer I nonetheless feel this is one is over done in both short end rates and the currency. Further out the curve the was a drastic move but the curve had been so completely flat in the first place that there is still space for further steepening but I'd like to see the data and negotiations supporting it rather than CB speak. There is a decent data week ahead with PMI manufacturing data on Monday, Construction PMI on Tuesday (post which I expect the market to go to sleep with the US out), Services and Composite PMI's on Wednesday and to close the week Halifax House Prices, Industrial and Manufacturing Production. Our esteemed MPC governor is back on the wires today and you never know where he's going to go and Cunliffe is speaking again next Saturday but in his comments last week he seemed fairly balanced and I wouldn't expect any big change of tone from him.	Bullish – targeting 1.3300	1.2600 3m; 1.3000 12m
JPY	As mentioned above, Kuroda was a little bit of a damp squib at the CB forum stating the obvious about QE boosting corporate profits, investment in Japan cautious and no magic fix to growth and inflation. There was quite a glut of data from Japan last week with Retail Sales on Thursday disappointing but the real top tier numbers came on Friday and also proved to be somewhat discouraging as the Jobless Rate increased to 3.1% and the CPI's missed expectations across the board. Industrial Production also came in weaker than expected and so the currency continues to creep towards the upper realms of recent ranges and the 114.15 resistance looking very possible. This morning the Tankan report showed improvement as well as strong Manufacturing PMI but the data has been largely overshadowed by political events over the weekend where Shinzo Abe's LDP was crushed in Tokyo's Metropolitan elections by Yuriko Koike's Tomin party. Koike has promised major structural overhaul and reform to kick start the Japanese economy breaking up many of the interlinking companies and shareholdings known as the keiretsu. As we've seen with votes elsewhere in the world, this is what the general population wants to see. USDJPY gapped lower on the open but has closed the gap to meet Friday's highs already and with little domestic drivers left watch for the US for further direction.	Neutral - JPY longs look stretched but remain in place with exporter offers layered to 115.00	115.00 3m; 120.00 12m
CHF	USDCHF quickly sold off during Draghi's speech, hitting a low of 0.7553 while EURCHF seen shooting off from 1.0833 and it seems that it might lose some steam ahead of the 1.1000 psychological level. I would expect to see some correction to the move before posting year highs.	Neutral – speculators are gaining in confidence having breached 1.0900 with little difficulty.	USD CHF 0.9900 3m; 1.0000 12m

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AUD	House prices in Australia had a turn this morning rising 1.8% after last month's 1.1% decline however, building approvals deflated that little bubble of happiness dropping 5.6% compared to last months revised +4.8%. Combined with weaker auction volumes on the weekend the domestic pressures continue to store up some trouble in the medium term. Shorter term focus with the RBA meeting on Tuesday where expectations are for some comment on the positive moves in the housing market but unlikely to see any change to the general policy tone (neutral).	Bearish – ingrained negativity remains, only above 0.7800 concerns.	0.7500 3m; 0.7300 12m
NZD	Despite last week's disappointing trade balance, Kiwi continued its rally buoyed by better exports and imports. Overall NZ data seems to be encouraging, ANZ activity outlook, ANZ business confidence and the building permits all helped Kiwi remain bid through last week, especially against its antipodean neighbor. With that said 1.0550 marks a tough resistance for AUDNZD to break. As for NZDUSD the move from 0.6800 lows since May seems a bit stretched for me and we are nearing the long term resistance around 0.7400-0.7500 area.	Bearish – with preference to sell the rallies around 0.7450.	0.6900 3m; 0.7100 12m
CAD	Last week was an interesting one for the loonie as the idea of a reversal of 'emergency cuts' took hold and the currency strengthened three big figures to close the week at 1.2964. Quite the turn considering the recent weakness seen in oil prices although the real driver of CAD strength were the central bankers once again. BOC Governor Poloz believes growth is 'above potential' and that low interest rates have 'done their job' and Canada has absorbed the set back of the drop in oil prices. With their next meeting on the 12th July and an updated economic outlook to be released at the same time it's certainly one to watch and I'd suggest that the Canadians are in a stronger position than the Brits to be hiking. Ahead this week we have Manufacturing PMI's on Thursday and unemployment numbers on Friday.	Bearish - preference to buy CAD between 1.3350-1.3400.	1.3100 3m; 1.2800 12m

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