

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.

USD continued its bull steepening path last week with 2s10s breaking the 70bp mark with hikes being priced out but expectations of balance sheet reduction holding firm. The next FED hike is priced for Mar 2018 and it does appear that the market is behind the curve but maybe I'm overly optimistic. The currency market certainly looked at Friday's employment data in a more positive light than the rates market which continues to underprice hike chances for 2017. I agree two hikes is unlikely, but not impossible, and I saw nothing in the earnings data to turn the FED's course. Certainly, the inflation data earlier last week was supportive and expectations for June PPI (Wed) are reasonable, any outperformance should give rates and the dollar another boost. Retail sales are also one to watch on Thursday although it does seem the summer malaise has started early this year.

G20 over the weekend will be closely watched - especially whether Trump or Putin get close enough to do their secret squirrel handshake – but I'm not sure I expect actual leadership and any decisions made are non-binding so one could ask what's the point? I guess that question becomes more pertinent if you are a resident of Hamburg trying to go about your business whilst avoiding riots this weekend and wondering if the G20 might actually aid a deterioration in global relations. It should be a good opportunity for the US to sit with China and Russia (Trump, Xi and Putin) to come up with some sort of action plan for North Korea. However, the domestic pressure on Trump to avoid being too friendly with Putin due to allegations of corruption linked to Russia it's hard to see a positive result. With The Donald though you just never know what is going to happen.

G-10 FX	Macroeconomic/Fundamental Analysis	Views (Bearish/Bullish) 2 week Time Frame	Intermediate & Long-term Views (3mth & 12mth Time Frame)
EUR	A slight change of rhetoric from the ECB has been supportive of the single currency as the minutes showed some consensus gaining to remove QE support with Weidman and Coeure in particular voicing...	Bearish – with preference to sell the rallies around 1.1600	1.1100 3m; 1.0900 12m

07 July 2017

Please click [here](#) to view our recent publications on MENA and Global Markets

G-10 FX	Macroeconomic/Fundamental Analysis	Views (Bearish/Bullish) 2 week Time Frame	Intermediate & Long- term Views (3mth & 12mth Time Frame)
EUR	<p>...support. The market potentially overreacted, as reading between the lines, unless the fundamentals pick up it is unlikely that there will be any substantial policy changes and our view here is that it is unlikely that there will be any tightening at the September meeting. However, the recent improvement in data, although subtle, could support another push higher in EURUSD towards 1.1600. We would consider that a great entry level for a reversal in trend as I would expect the language from the ECB to correct to the dovish side.</p>	<p>Bearish – with preference to sell the rallies around 1.1600</p>	<p>1.1100 3m; 1.0900 12m</p>
GBP	<p>Cable ended the week with another disappointing set of data and broke the 1.29 support level leaving the door open. Misses from Industrial and Manufacturing production, a fall in Construction Output and falling House Prices have certainly not aided the case for a hike in the coming months. One could say the MPC seems mightily premature in its recent hawkishness or maybe they were just having a moment as McCafferty appears as the voice of reason on Thursday night stating that data over the next 3,6,12 months would be the guide for what steps the MPC takes next. He also felt that if data stayed at current levels that would only support a couple of small hikes over the next few years – data has deteriorated so please draw your own conclusions. Next week the focus moves to employment and I'll be watching Wednesday's wage inflation with interest as that has the real impact on normal people.</p> <p>The desk shorted GBP at 1.2934 and next target 1.2810 with stop at 1.2989.</p>	<p>Bullish – targeting 1.3300</p>	<p>1.2600 3m; 1.3000 12m</p>
JPY	<p>Tankan report was the big domestic data set last week and it was solid as were the various PMI releases. Unfortunately, they were not strong enough and JPY weakened against the crosses aided by some BOJ intervention. The central bank stepped in and offered to buy unlimited amount of the 10Y JGBs at 0.11, which took USDJPY to a new high. With North Korean tensions escalating with the successful launch of an ICBM (Inter Continental Ballistic Missile), safe haven flows should cap the rallies. The G20 summit this weekend is worth a watch but we start the week with machine orders and current account balances which could be influential.</p>	<p>Neutral – JPY longs look stretched but remain in place with exporter offers layered to 115.00</p>	<p>115.00 3m; 120.00 12m</p>
CHF	<p>The Swiss unemployment rate came in as expected on Friday but the miss in CPI earlier in the week and the recent strength in EUR has pushed EURCHF closer to the big psychological level of 1.1000.</p>	<p>Neutral – speculators are gaining in confidence having breached 1.0900 with little difficulty.</p>	<p>USD CHF 0.9900 3m; 1.0000 12m</p>

G-10 FX	Macroeconomic/Fundamental Analysis	Views (Bearish/Bullish) 2 week Time Frame	Intermediate & Long-term Views (3mth & 12mth Time Frame)
AUD	<p>AUD had a bit of a lackluster week kick started with a less than hawkish RBA statement which triggered an 80pip move lower on Tuesday. Iron ore and Oil prices have not been supportive although some stabilization into the end of the week helped in a light domestic data week. There was a quick spike higher on the USD payrolls and wage data on Friday but it didn't hold for long and the weekend's G20 meeting could help direct sentiment into the Monday open. Next week's NAB business conditions, home loans and consumer confidence are ones to watch out for.</p>	<p>Bearish – ingrained negativity remains, only above 0.7800 concerns.</p>	<p>0.7500 3m; 0.7300 12m</p>
NZD	<p>Alongside its larger neighbour, the kiwi has also failed to excite this week with no top tier data or political headlines to give us a hand. With the recent weakening in whole milk powder prices and expectations for next week's food prices to be subdued it will be a challenge for NZD to sustain any break 0.7400 especially as the whole milk powder prices have weakened as of late. We look to sell on any positive surprises in next week's data but prefer to express that through NZDJPY. Please see attached trade idea.</p>	<p>Bearish – with preference to sell the rallies around 0.7450.</p>	<p>0.6900 3m; 0.7100 12m</p>
CAD	<p>USDCAD made session and weekly lows on Friday as jobs added increased by 45k vs expectations of 10k and the unemployment rates fell to 6.5%. The market didn't seem bothered that the jobs added were part time as that's still putting money into the economy and coupled with building permits smashing expectations earlier in the week and slightly disappointing US data CAD broke the 1.2900 support and is looking more and more likely to blink last in the rate hiking games. Housing starts on Tuesday will be the highlight of the start of the week before the BOC's rate decision on Thursday where expectations are for a 25bp move higher.</p>	<p>Bearish - preference to buy CAD between 1.3350-1.3400.</p>	<p>1.3100 3m; 1.2800 12m</p>

FAB Global Markets Rates & FX team

G10 Rates

Alison Higgins

Alison.Higgins@nbad.com

G10 FX Spot

Nourah Al Zahmi

Nourah.Alzahmi@nbad.com

Meera Al Marar

Meera.AIMarar@nbad.com

EM FX Spot

Danay Sarypbekov

Danay.Sarypbekov@nbad.com

Pinrath Wongtrangan

Pinrath.Wongtrangan@nbad.com

Tel: +971 2611 0111

Disclaimer:

To the fullest extent allowed by applicable laws and regulations, First Abu Dhabi Bank (the “Bank”) and any other affiliate or subsidiary of the Bank, expressly disclaim all warranties and representations in respect of this communication. The content is confidential and is provided for your information purposes only on an “as is” and “as available” basis and no liability is accepted for or representation is made by the Bank in respect of the quality, completeness or accuracy of the information and the Bank has undertaken no independent verification in relation thereto nor is it under any duty to do so whether prepared in part or in full by the Bank or any third party. Furthermore, the Bank shall be under no obligation to provide you with any change or update in relation to said content. It is not intended for distribution to private investors or private clients and is not intended to be relied upon as advice; whether financial, legal, tax or otherwise. To the extent that you deem necessary to obtain such advice, you should consult with your independent advisors. Any content has been prepared by personnel of the Global Markets division at the Bank and does not reflect the views of the Bank as a whole or other personnel of the Bank.