GrowStronger.com

Market Insights & Strategy
Global Markets

14 July 2017

Please click here to view our recent publications on MENA and Global Markets

بنك أبوظبي الأول
FAB
First Abu Dhabi Bank

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.

A week behind us where FED speak and alleged Russian influence over the White House dominated headlines, as well as trading mindset or so it seemed until Friday's Retail Sales had a decent downward surprise coupled with average CPI numbers. The only bright spot being a solid improvement in weekly and hourly earnings, not enough to turn the general negative sentiment we've seen this week and the curve continues to flatten – 2s10s back to 66bp off the recent dizzy heights of 72 and 10y government bonds looking to close below 2.30% again, 2.25% is a key support here and any break suggests further weakness. I didn't really hear anything new from Yellen but she certainly wasn't striking a hawkish tone and with Trump looking like more of a sitting duck than Obama ever did it is tempting to discount any chance of the FED hiking ever again. However, all of last week's speakers continue to talk about gradual hikes and reduction of balance sheets and the market is really not pricing aggressively enough in the front end. December now has around 40% chance of a 25bp move and July 2018 is the first date pricing a full hike.

There is a full slate of CB noise next week with minutes from the RBA and Riksbank as well as an ECB meeting and Draghi press conference. Let's see how we go but we'll have tricky summer markets for a few weeks to come.

G-10 FX	Macroeconomic/Fundamental Analysis	Views (Bearish/Bullish) 2 week Time Frame	Intermediate & Long-term Views (3mth & 12mth Time Frame)
EUR	For the past two months EURUSD has been moving purely on its own merits, driven by market expectations of the ECB which has shifted from tightening to tapering, with the meeting in September to announce the latter starting in January. Next week's ECB meeting carries a lot of volatility because the market is expecting a hawkish ECB, with a broad adjustment to the language. So what could happen to EURUSD?	Bearish – with preference to sell the rallies above 1.1600	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	We see two main options: (1) Draghi could deliver a hawkish message focusing on exiting QE coupled with a reduction of the pace of purchases starting in December. In this case EURUSD would rally towards 1.1600, entering our preferred selling area. (2) Draghi's message could be balanced or even dovish, disappointing the market. EURUSD could see a correction towards 1.1300.	Bearish – with preference to sell the rallies above 1.1600	1.1100 3m; 1.0900 12m
GBP	Cable has proven to be extremely resilient this week in the face of a continued political battering, both domestically and from those across the water, over the shambolic approach to the Brexit negotiations and governance in general. Maybe the multitude of tiara's on display at this week's state banquet has given the market a false impression of the fullness of the UK's coffers but a brief perusal of Friday's FT certainly tarnished that shine. Martin Wolf, as usual not particularly quantitative, was particularly negative about the UK's chances away from the mothership and whilst I usually dismiss his hyperbole, his picture of chaos is not far from the general impression that May's government is projecting. With yet another concession, admittedly a sensible and unavoidable one, in the initial stages of negotiations that the UK will be liable for an exit bill, there are the questions of ability and cohesive strategy hanging over the conservatives. The market seems to be trading a different story and one with a wholly more positive tone. I'm just not seeing it. Cable took a beating post payrolls last Friday and looked to be heading well away from 1.3000 until a little boost in the form of lower unemployment (4.5%) as well as the green shoots of wage inflation. Yellen's tuppence worth didn't help and it hasn't looked back, proving a painful short hold as it heads back to 1.3000 levels. Next week may prove to be a different story with inflation Tuesday and retail sales on Thursday as well as continued machinations in government. It seems a little unfeasible that cable can remain at these levels with such fundamental uncertainty for the United Kingdom, that said it looks as though we'll need to see a wash out of positioning in order to get a decent correction. In the meantime, the desk still looks to sell GBP into new highs between 1.2972 - 1.3018.	Bullish – targeting 1.3300	1.2600 3m; 1.3000 12m
JPY	The Japanese are like the odd ones out at the Central Bank party, whilst all the other central banks look for the exit, BOJ finds every opportunity to remind the market of its commitment to loose monetary policy. The central bank increased purchases of 3-5Y bonds earlier this week and the market is not expecting any change in tone at next week's meeting with the focus on the quarterly outlook report. In the FX world, USDJPY has gracefully maintained…	Neutral - JPY longs look stretched but remain in place with exporter offers layered to 115.00	115.00 3m; 120.00 12m

G-10 FX	Macroeconomic/Fundamental Analysis	Views (Bearish/Bullish) 2 week Time Frame	Intermediate & Long-term Views (3mth & 12mth Time Frame)
JPY	… its long-term uptrend it started back in June, but currently facing tough offers around 115.00 that it needs to overcome in order for the trend to resume.	Neutral - JPY longs look stretched but remain in place with exporter offers layered to 115.00	115.00 3m; 120.00 12m
CHF	The Swissie traded in a big figure range between .96 and .97 vs the dollar throughout the course of last week, ultimately ending the week near the lows. #Snoozefest. Thursday's PPI figure came in at -0.1% missing expectations (0.0%). On Monday EURCHF rallied back over 1.1000 for the first time in ten months and managed to stay up there throughout the week. Safe-haven out flows? Possibly, but as always seems to be the case, talk made the rounds of the SNB being on the bid, with EURCHF making a high of 1.1074 on Friday at the time of writing. The 1.1000 level has been thought of as the target area of the central bank since the abandonment of the 1.20 floor in Jan 2015.	Neutral – USDCHF range bound .9600-.9750 EURCHF, fade rallies toward 1.1130 Intermediate.	USD CHF 0.9900 3m; 1.0000 12m
AUD	Refreshing on points of interest for Australia last week, we had business confidence, home loans, and Westpac consumer confidence. Alongside the data we had a UK/AUSSIE love in as May hosted Turnbull and trade agreement talk made headlines as well as the FRB's speech. All in all a little eventful for AUD/USD which was on the move from 0.7600 open on Monday to highs of 0.7766 on Friday at time of writing. It was supported by stronger business conditions and confidence which both rose and had revisions higher to previous numbers. The capex was also strong all giving hints of rising costs and some inflation. AUD/NZD really broke out, along with AUD/USD, on the back of Chinese exports rose that 17.3% from yoy remember China is a key importer of Australian goods predominantly commodities. This seems to have been enough to restart chatter of an RBA hike although I think we'll need to see the central bank take a more hawkish tone before that story gains momentum, we expect AUDUSD to stay range bound 0.7700 – 0.7800. Keep an eye out for employment data next week and the RBA minutes. We have some speakers namely; RBA's heath speech, RBA's Debelle and Bullock speech.	Bearish – ingrained negativity remains, only above 0.7800 concerns.	0.7500 3m; 0.7300 12m
NZD	The data on retail sales spending released earlier this week caused a minor setback for Kiwi, which is took two days to recover from into a late show of strength. It has failed to show much strength against its neighbor as AUDNZD hit new highs on Friday of 1.0628 and we look for that strength to continue spurred by the AUD.	Bearish – with preference to sell the rallies around 0.7450.	0.6900 3m; 0.7100 12m

G-10 FX	Macroeconomic/Fundamental Analysis	Views (Bearish/Bullish) 2 week Time Frame	Intermediate & Long-term Views (3mth & 12mth Time Frame)
NZD	Looking towards next week, the NZ Q2 CPI will be of interest, especially as the RBNZ has fallen into the habit of lowering its inflation forecasts. The market expects the number to undershoot even the RBNZ forecast, due to the recent decline in Oil and commodities along with the slack in retail sales. This would be a reality check for the RBNZ, and we would like to use this opportunity to instigate our short NZDJPY position around 83.50-83.90 area.	Bearish – with preference to sell the rallies around 0.7450.	0.6900 3m; 0.7100 12m
CAD	The Loonie took a breather and gave its wings a rest at the start of the week while all eyes were on Wednesday's rate decision from the BOC. Tuesday's Housing Starts came in slightly higher than expected and the next day, after several weeks of hawkish rhetoric, Poloz & co. delivered with an as-expected 25bps hike. With the market having priced in an 80% chance of the first lift-off in seven years, the risk was to the downside, yet the currency still managed to bang out another 2% gain following the announcement. USDCAD printed a twelve-and-a-half-month low of 1.2699 and the yield on the benchmark 5yr jumped above 1.5% for the first time since late 2014 from 0.9% only a month ago. With the over-inflated housing bubble showing signs of bursting (prices of detached resale homes in Canada's largest market, the Greater Toronto Area, are down 13% since the March peak), this rate rise should only add fuel to the fire created in April by the province's 15% foreign buyer tax. Contrary to the resale figures, Thursday's New House Price Index showed monthly gains of 0.7%, beating expectations. With the market anticipating one more hike this year and two next year, Poloz will have to keep a close eye on the housing market and the FOMC as he can't afford to move ahead of the Fed at the risk of over-strengthening the CAD. Technically speaking, CAD has been in overbought territory for several weeks now and in the near term I see CAD weakening vs USD back towards the 1.3000 level.	Bearish – CAD	1.3100 3m; 1.2800 12m

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.AlMarar@nbad.com

GCC FX Spot

Husain Askar
Husain.Askar@nbad.com

EM FX Spot

Danay Sarypbekov
Danay.Sarypbekov@nbad.com

Pinrath Wongtrangan
Pinrath.Wongtrangan@nbad.com

Tel: +971 2611 0111