

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 Rates: A volatile week for the USD with data hits, data misses, a 13 tick range in 10y govies and a somewhat more hawkish than expected Yellen. The disappointing CPI and Retail Sales data on Wednesday threatened to outshine the FED meeting later that day as the USD collapsed against the majors and EM and the rates sold off aggressively with 10y govies bouncing off 2.10. There was a period of calm before the 25bp hike which had been widely expected. Yellen's press conference seemed to be an attempt to capture the imagination of the market, borrowing from Thursday's round up:

'The key flags were that inflation weakness is considered temporary (driven by one off adjustments like wireless phone services), one more hike is considered appropriate this year and the FED wants to normalise the B/S 'relatively soon'. She did flag that they will be monitoring inflation closely but in general a fairly positive FOMC.'

Thursday was also shaping up to be an interesting day as most currencies had lost all strength against the dollar and reversed Wednesday's moves. We had a glut of top tier data to entertain and it didn't disappoint with universally stronger numbers including Empire Manufacturing at 19.8 nearly four times expectations and the Philly Fed coming in at 27.6 vs the 24.9 survey median. The curve made hard work of reversing Wednesday's collapse with 10y yields climbing back to 2.17, still 3bp off resistance and TY tapping the 126-17+support line. Housing Starts, Building Permits and U of Michigan all disappointed Friday afternoon and proved the catalyst to push TY through 126-26+ and it looks likely to hover around these levels if not higher.

Full calendar starting Wednesday next week with housing data, Thursday sees more jobless data and consumer confidence with the Markit PMI set on Friday. Its been great to be able to trade the market rather than Trump but I think we're back to political posturing for the start of the week likely on both sides of the Atlantic.

G-10 FX	Macroeconomic/Fundamental Analysis	Views (Bearish/Bullish) 2 week Time Frame	Intermediate & Long-term Views (3mth & 12mth Time Frame)
EUR	Calming EU politics and expectations of a hawkish ECB have pushed EURUSD nearly four big figures since May and we have started to see an unwind of the move after some participants have thrown in the...	Bearish –above 1.1500 negates	1.0800 3m; 1.0700 12m

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EUR	...towel post Draghi's comments. Lessons learned are that the ECB has always been one of the most predictable central banks and that the ECB stresses on forward guidance, according to ECB Rimsevics. We still believe that Draghi will be extending QE come September than anything else and for now 1.1100 still marks a material support and a break below sets the tone for a lower range.	Bearish –above 1.1500 negates	1.0800 3m; 1.0700 12m
GBP	The UK in general has had a bit of a rough ride the last few weeks and hopes that the heatwave would brighten things up sadly missed the mark with the terrible fire in London. The BOE brought its own unwelcome surprise yesterday as 3 of its members voted for a hike. Yes that's right of the eight current members of the MPC Forbes, McCafferty and Saunders, believe that a hike is necessary even as data has deteriorated since the last meeting where only one member (Forbes) believed the same. This caught the market totally off-guard and reversed Wednesday's flattening move. The curve is now building in 50% chance of rate hikes by Q1 2018. I don't consider the front end to have overpriced chances as yet but will look to fade substantial strength in 2017 as I try to understand the true rationale for a hike.	Bearish – above 1.2900 negates	1.2400 3m; 1.3000 12m
AUD	...across the board, notably AUDNZD seemed to have formed a decent support around 1.0400. With that said, RBA Lowe's speech on Monday along with the RBA minutes released on Tuesday should provide some clarity. But for me, the global backdrop still weighs on AUD and is a constant challenge for the Aussie economy. Case in point Iron Ore prices which have been falling all week, and might hinder AUD's advance.	Bearish – above 0.7800 negates.	0.7600 3m; 0.7800 12m
CHF	The SNB kept its policy rate unchanged at -0.75% as expected and reiterated its usual comments about the fact that the currency is overvalued. The central bank also downgraded its inflation forecast for 2018-2019, which sounded a bit contradictory when the SNB said that "they anticipate the economic developments to remain favorable", a cautious approach to the political uncertainties perhaps. The central bank renewed its pledge to stay active in the FX markets, which does not seem to phase EURCHF at the moment marching towards 1.0900 comfortably.	Neutral – Speculators appear to have given up on the cross's downside much to the relief of an appreciative SNB.	USD CHF 0.9900 3m; 1.0000 12m
JPY	Local Japanese data failed to have any real impact on JPY which has been swayed by events in the US, namely the shocking US CPI and the FOMC. Then some gains materialized after BoJ left its policy unchanged and upgraded the outlook for consumption. Some USDJPY gains materialized after the central bank skillfully dodged commenting about any tapering plans, especially that the inflation is way below the target. The	Bullish – with preference to buy the dips below 110.00	115.00 3m; 120.00 12m

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JPY move then was intensified after the US data showed some promise, however the next US data should be key to further upside momentum along with Fed speaks next week.	Bullish – with preference to buy the dips below 110.00	115.00 3m; 120.00 12m
NZD	The RBNZ meeting next week will be the highlight for Kiwi, especially after the softer Q1 GDP data, which should keep the central bank cautious. Our tactical long AUDNZD position should benefit from the divergence, especially after the RBNZ dovish bulletin comments regarding consumption and construction. In the meantime, 1.0550 stands as a strong resistance in the fact of the upside move.	Bearish – above 0.7300 negates	0.6900 3m; 0.7100 12m
CAD	This week witnessed a strong performance of the loonie after BoC Governor Poloz's comments that the interest rate moderation is less required since the economy has progressed well in its adjustment to lower oil prices and the economic slowdown. The implication is that interest rates in Canada will start increasing in the future. The Canadian dollar rallied from 1.3450 to reach a weekly low of 1.3165. As we said before we anticipate the loonie outperformance to continue and after a period of consolidation, the exchange rate should have a test of 1.30-1.3100. The intention is to buy CAD between 1.3350-1.3400 next week.	Bearish - preference to buy CAD between 1.3350-1.3400.	1.3400 3m; 1.3600 12m

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