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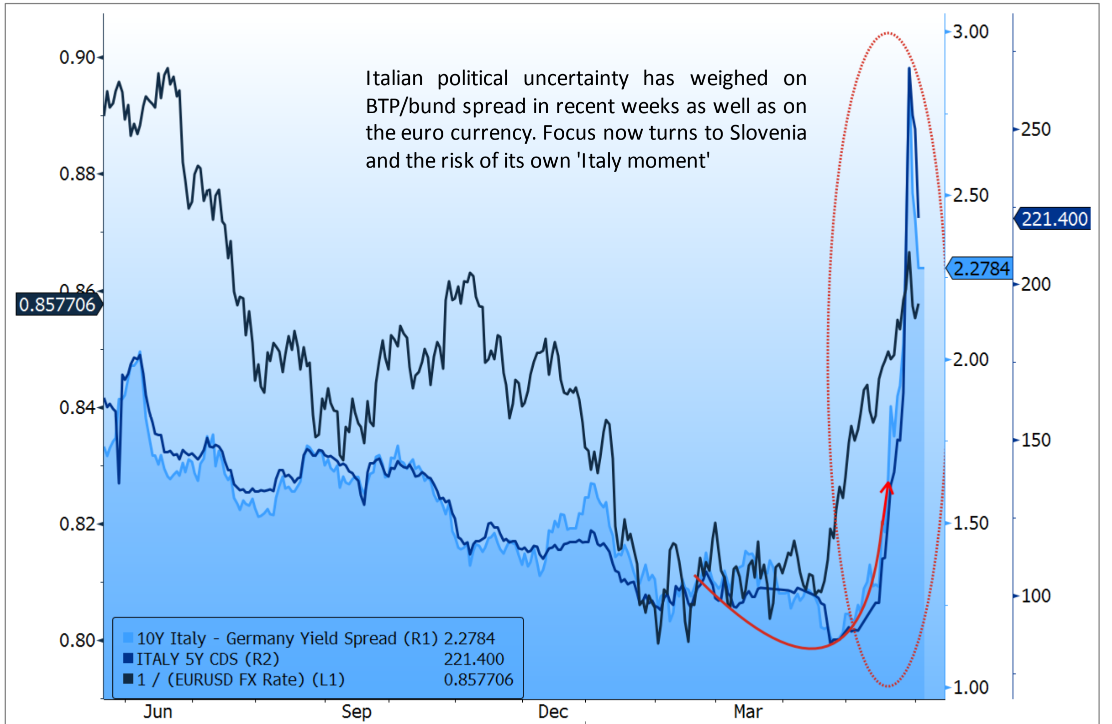
G10 Rates & FX - The Traders' Views

Macro Strategy View: Aligning Stars Amid the Clouds

- Late last week it seemed as though the stars could be aligning for what should be a positive near-term outlook for risk assets. The U.S. May non-farm payrolls report on Friday easily beat expectations with the addition of 223,000 jobs and a dip in the unemployment rate to 3.8%. Solid macro fundamentals and the expectation that the Federal Reserve will continue to tighten monetary policy at a measured pace and dependent on macro data, should help to underpin a Goldilocks-type scenario for the U.S. economy. Meanwhile, Italy managed to avoid the need for a new, snap election – at least for now – by electing Giuseppe Conte as Prime Minister and forming a new anti-establishment government, thereby assuaging concerns of imminent political chaos and possible existential threat to the euro currency itself.
- Any meaningful bounce in broad market sentiment could be short-lived though, as a number of macro and political question marks continue to hang over global markets. Not least of these is the imposition by the U.S. of new tariffs on steel and aluminum imports, fueling concerns of possible retaliation and reigniting fears of global trade wars. This comes at a time when the markets were just beginning to feel a little more encouraged by U.S. Commerce Secretary Ross' trade talks in China. As stated previously, we believe there can be no winner from a trade war, the spectre of which could weigh on risk appetite and add fresh momentum to the flight to safety trade.



Source: FAB/Bloomberg

- Meanwhile, on the political front we will also be keeping a close eye today on the parliamentary elections taking place in Slovenia. With anti-refugee former Prime Minister Janez Jansa hoping to stage a return to power, the concern is that the former Yugoslav state that joined the Eurozone in 2007 could be about to experience its own 'Italy moment'. If Jansa does win the election and as is seen as able to form a viable (anti-establishment) coalition government then the euro could come under renewed speculative selling pressure in the coming days.
- As such, market sentiment looks set to remain susceptible to macro and political headlines over the coming days, with trading volumes and broad risk appetite likely dampened by uncertainty. With the central bank spotlight turning to the anticipated Fed rate rise next week (June 13), moves in the rates market and the shape of the (flattening) yield curve will continue to determine fixed income returns performance (or lack thereof).
(Simon Ballard, Macro Strategist, Market Insights & Strategy)

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

The past week has been extremely volatile across the fixed income space, with the political events in Italy and consequent gyrations in BTP's spooking global markets. At one stage the 10yr BTP/BUND yield spread reached 320bp, its widest level since 2012. This caused a huge flight to safety, risk off move across the board, with G3 rates falling dramatically. Towards the end of the week though we did see a reversal in risk sentiment; the BTP/Bund spread compressed back to around the 230bp level. CT10's currently stand at 2.90%, 10yr Bunds at 0.386% and 10yr Gilts at 1.278%. DXY remained strong as risk off sentiment rose breaking above 95 on Tuesday, before consolidating back toward 94. EUR came under heavy selling pressure from the political uncertainty in Italy and

G-10 FX	Macroeconomic/Fundamental Analysis	Views (Bearish/Bullish) 2-week Time Frame	Intermediate & Long-term Views (3mth & 12mth Time Frame)
EUR	Political concerns in Italy have dominated market pricing as turmoil around the governance of Italy and ramifications for the Eurozone caused investors to aggressively sell BTP's and seek risk havens. This triggered some of the largest daily moves seen since the height of the Eurozone sovereign debt crises. At one stage 10yr BTP/BUND yield spreads reached 320bp before settling back around 230bps. Meanwhile, EUR came under heavy selling pressure as key levels around 1.15 were tested; the currency did manage to recover to 1.1685 shortly before Fridays NFP announcement. On Friday, Spanish parliament voted a no-confidence motion against Prime minister Rajoy, the vote was widely expected and policy is unlikely to change, BONO/Bunds spread saw a very limited 3bp reaction on the news.	Bearish	3m 1.2500; 12m 1.3500
GBP	Not for the first time the sterling market is playing second fiddle to its European neighbors. As one would expect in a heavy risk off move, Gilts benefited from the flight to quality bid as 10yr yields fell to a low of 1.20% before recovering to 1.265%. MPC Sonia meeting dates also fell as the probability of the first BOE hike shifted out to May 2019.	Neutral	3m 1.4500; 12m 1.5000

G-10 FX	Macroeconomic/Fundamental Analysis	Views (Bearish/Bullish) 2-week Time Frame	Intermediate & Long-term Views (3mth & 12mth Time Frame)
JPY	It was a roller-coaster for JPY last week as the risk sentiment deteriorated, coupled with month end rebalancing flows which mostly involved selling USD. On the central bank front, the BOJ surprised the market on Friday as it cut its purchases of 5-10y bonds by 20bn, although this had only a limited impact ahead of the US NFP data release. The coming week will offer a busy top tier data calendar, culminating on Friday with current account, trade balance and GDP numbers. That said expect JPY to remain hostage to moves in the USD to generic risk appetite.	Neutral	3m 107.00; 12m 108.00
CHF	Activity in the CHF market has been closely tied to safe haven flows in the past week in the wake of Italian and Spanish political headlines. Notably though, even after Italy avoided the snap election, USDCHF was unable to break 0.9900 as market uncertainty kept the safe haven bid elevated. As for EURCHF, it established support around 1.1400, which may increase the probability of SNB FX intervention. This coming week's data will be watched closely especially the inflation, unemployment and foreign currency reserve numbers.	Bearish USDCHF	3m 0.9300; 12m 0.9700
AUD	Aussie has been unlucky lately as it got tangled with the increase in geopolitical risk, selling off to a low of 0.7480 mid last week. Then it recovered on the back of easing political tensions but the move was capped around 0.7593 as the market looked towards the RBA meeting this week, where rates are expected to remain unchanged. Furthermore, the market has already pushed back the pricing of the first hike to Q3 2019, which is likely to weigh on AUD ahead of the meeting.	Bearish	3m 0.7500; 12m 0.7500
NZD	The dollar selloff has benefited the Kiwi, which saw a 1.5 big figure rally last week. The next target for Kiwi is 0.7060 which could be reached especially if the AUDNZD selloff continues. That said, the upside in NZDUSD now seems fairly limited as RBNZ policy divergence widens compared to other major central banks, which will weigh on NZD in the long run.	Neutral	3m 0.6800; 12m 0.6300
CAD	Volumes in CAD were buoyed last week by the BOC meeting and Trade tariff headlines, all of which caused USDCAD to drop from 1.3000 to a low of 1.2800, before recovering to above 1.2950. The BOC kept rates unchanged, but showed a hawkish tilt which they must now be regretting; GDP data released just one day after the meeting missed consensus by 0.5%. Adding insult to injury, Trump struck once again and imposed tariffs on Canadian steel and aluminum imports, as well as from other countries. This has reignited fears of possible retaliations and/or a break of NAFTA rules. All in all, CAD now remains vulnerable to trade headlines in the near-term and the downside in USDCAD looks well established around 1.2800.	Bullish USDCAD	3m 1.2500; 12m 1.2200

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