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G10 Rates & FX - The Traders' Views

Macro Strategy View: Goldilocks Sighted!

According to reports released over the weekend, Goldilocks is alive and well and living in the U.S. The February U.S. non-farm payrolls report on Friday not only showed better-than-expected monthly job creation of +313,000, but also still very contained underlying inflationary pressure. After years of quantitative easing and global monetary policy stimulus, the spectre of inflation is now perhaps a key concern for the market. However, while such fears were boosted last month by the IGMetal +4.3% wages increase agreement in Germany, sentiment early this week should be strengthened by latest U.S. data that showed wage growth dipping to +2.6% from +2.8% in January.

The overall picture painted by the jobs report should prove positive for risk assets early this week, with the market likely to pare back its Fed tightening expectations. The Fed futures market still anticipates three rate increases this year - with the first hike expected to materialise at March 20-21 meeting - but may now rein in the hawks who have been prescribing four increases by the end of this year.

Nonetheless, we believe that over the past month, global credit markets have established a structurally higher volatility norm. The VIX (U.S.) and V1X (European) implied volatility indexes may have receded from the spikes seen in early February, but importantly they are now expected to remain above their respective 12-14 average levels of the past year. Importantly, we believe that the magnitude and extent of the risk asset correction last month – where valuations were widely seen as ‘frothy’ – should serve to dampen any degree of risk complacency that had begun to creep into investors’ mindsets. A positive development, this should fuel a more idiosyncratic, fundamentally-driven approach to risk over the coming months. Goldilocks is cognisant that the bears could return home at any moment.
(Simon Ballard, Macro Strategist, Market Insights & Strategy)

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

For those cricket fans, this week’s price action across global fixed income has resembled the pitch on the 5th day of a test match, unpredictable with the occasional unplayable delivery. The week started with the resignation of Gary Cohen (Trump’s chief economic advisor) and left the market with a risk off tone, as US trade tension could start to intensify. CT10’s remain supported and yields have failed to materially break above the 2.90% and DXY stabilizes at 90. Across the pond, volatility in EUR and GBP markets followed the US, as the ECB press conference sent Bund and Gilts on a 12bp round trip and induced a 1.4% swing in the EUR. Trades we like: fwd 5/10 steeps in GBP, long belly US 3/1 basis, long u8&z8 US FRA/OIS, long 1y1y Sonia/FRA, short EURGBP, short BOBL ASW, short TSY at 2.85%.

G-10 FX	Macroeconomic/Fundamental Analysis	Views (Bearish/Bullish) 2-week Time Frame	Intermediate & Long-term Views (3mth & 12mth Time Frame)
EUR	As expected, the ECB left all operational rates unchanged, but in the post meeting press conference the governing council decided to unanimously remove the explicit pledge to step up asset purchases if needed. Initially EGBS sold off aggressively and the EUR rallied up to 1.244 vs the USD. However, as the press conference went on, rhetoric turned more dovish as staff projections lowered the inflation forecast below expectations. EGB and EUR sharply reversed as Bunds rallied 12bp to yield 0.62% and stops pushed the EUR below 1.23. Whilst the path for tighter monetary policy in the Eurozone remains on track, the pace of normalization may be slower than the market is demanding.	Neutral	3m 1.2500; 12m 1.3500
GBP	Whilst UK data remains relatively robust, the public and investors are looking for further information around the type of transition between the UK and the Eurozone. GBP remains range bound at 1.375-1.405 vs USD and 0.896-0.876 against the EUR. This coming week sees the start of 5 weeks of APF reinvestment which will continue to support gilts; watch the DMO remit on Tuesday where less issuance could be announced.	Bullish	3m 1.4500; 12m 1.5000
JPY	Last week, risk on was back in the driver seat and JPY was sold through the crosses aggressively on the latest North Korean developments as Kim showed willingness to meet with Trump as soon as May, along with a possible temporary halt of missile tests. USDJPY managed to rally to 107 even through the BOJ meeting, which was largely overlooked as the market remained fixated on North Korea. But nonetheless, BOJ kept rates unchanged and kept the monetary policy intact, reinforcing the idea that the easing bias should remain in place for the time being. Price action reveals that the market was caught long JPY, allowing USDJPY to bounce higher twice. The desk remains bearish USDJPY, however the bounce might provide better entry levels, perhaps above 107.50. This week's data includes PPIS, core machine orders and industrial productions.	Bearish USDJPY – with preference to sell the rallies above 108	3m 107.00; 12m 108.00
CHF	CHF underperformed last week as risk sentiment improved and the market embraced that by selling CHF against all majors. Notably, despite the fact that EURUSD has been trading on the back foot as of late, EURCHF managed to rally which should provide comfort to the SNB, but the usual rhetoric is to be expected about the currency being overvalued and the central bank is expected to stay on hold.	Neutral Swiss although we are still alert to any escalation in global political tensions for safe haven flow	3m 0.9300; 12m 0.9700

G-10 FX	Macroeconomic/Fundamental Analysis	Views (Bearish/Bullish) 2-week Time Frame	Intermediate & Long-term Views (3mth & 12mth Time Frame)
AUD	The Aussie had a softer tone this past week driven in part by slower Chinese domestic growth, triggered by higher inflation and consequent tighter lending. This in turn could affect overall AUS/ China trade. There were also some concerns at the start of the week over Trump's steel and aluminum tariffs threat, although, as with Canada & Mexico, it seems Australia will escape such a penalty. AUD/USD near-term technical resistance now lies at 0.7840 and support at 0.7770.	Bearish	3m 0.7500; 12m 0.7500
NZD	Last week saw a relative outperformance of Kiwi, with the market seemingly caught short. The desk remains bearish Kiwi with preference to express the view through NZDJPY above 78.00. This week's data includes food prices and REINZ house sale, current account, GDP and business manufacturing data.	Neutral	3m 0.6800; 12m 0.6300
CAD	The latest headlines regarding the possibility of excluding Canada and Mexico from the U.S. tariffs on steel and aluminum provided some relief for CAD which has gained against the dollar, as the world contemplates the implications of the tariffs and the prospect of global trade wars. On the central bank front, BOC has been a non-event as the market's focus was elsewhere, but the statement was slightly more dovish than the market expected as they have preferred a more cautious approach. Furthermore, BOC's Lane expressed his concern regarding the trade situation and commented that there were signs of labor market slack. In the FX world, USDCAD has failed to hold above 1.3000 four times so far which opens the scope for a correction possibly towards 1.2700 as an initial target.	Bearish USDCAD	3m 1.2500; 12m 1.2200

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