Market Insights & Strategy
Global Markets

G10 FX & Rates Weekly

USD: It's been a good data week from the US with mortgage applications on the rise, the entire PPI set beating expectations and Jobless claims coming in lower than expected. This had moved hand in hand with hawkish rhetoric from various Fed speakers including non-voters George and Rosengren (twice), Kashkari (twice) and Kaplan. Some are focused on reducing the balance sheet sooner than later and all agreed another hike minimum was required. The base case for the FED to begin reduction looks for rates to be around 1-1.5% so it is quite likely that we'll see some repositioning towards year end/Q1 2018. Friday's Retail Sales missed the surveyed expectations and the upward revisions to last month's number were roundly ignored. The curve had been struggling to steepen for the last few weeks and the TY is back tapping the 125-09+ resistance level. A break of that could see an extension all the way through to 125-28+. The market now awaits this week's data including Empire Manufacturing, followed by Housing Starts, Industrial Production, Jobless Claim and the Philly Fed Outlook, enough to get our teeth into and that's before we look to Trump….

GBP: All eyes were on the MPC last week as super Thursday was billed as a hawkish event and proved somewhat disappointing. The most outstanding assumption from the BOE economists is that Brexit will be a smooth process which seems, ummmmm how to say, optimistic. Anyway, the MPC thinks that the curve is too flat in the front end, with less than one hike priced in over the next 2-3 years. On this point we struggle to agree with data softening, tricky Brexit negotiations and a general election, it's difficult to see much reason to price in hikes. Spreads have also compressed across the curve and entry levels look fairly attractive here although we prefer to play that in the USD market. Cable certainly lost its momentum yesterday hitting lows today of 1.285 which is the weekly support, if it breaks here look for further support at 1.2770. Expect USD strength to push us there ahead of Tuesday's inflation set, Wednesday's earnings data (which takes on more significance after yesterday's press conference) and Thursday for retail sales.

EUR: Macron's success seems long forgotten as the single currency has only moved lower since he was elected. It is fair to say that the 1.1023 high was somewhat overdone in Asia on Monday but the weakening has also been helped along by Super Mario. Last Wednesday's speech certainly lacked the hawkishness that the market was anticipating and we've been unable to break the 1.090 level since. Draghi also managed to disappoint those who were waiting for an indication of the cessation of QE commenting that although risks have definitely diminished the time has not yet come to discuss removing stimulus. Hence we broke the 1.0850 support yesterday and have been range bound through trading today. A close below 1.0850 would indicate further weakness.

JPY: This week has seen defensive price action from USDJPY which, after an initial climb from 113.20 has remained range bound see-sawing between 113.60 and 114.40. The market is certainly less reactive to Trump's twitter moments but we still expect interesting FED speak to drive the pricing action until at least Wednesday where we see the Machine Orders and Industrial Production numbers. Thursday brings Q1 prelim GDP numbers which should also be of interest with an uptick QOQ expected from the head line number. Further hawkish talk from the FED should bring a test of the 115.00 levels.

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Alison Higgins
G10 FX & Rates

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CHF: EURCHF skyrocketed after the French election drama ended with Macron's victory, and we are currently trading around October highs. It will take a market shock or Brexit related headlines for a sharp correction lower, but with the usual SNB intervention, the correction is likely to be supported around 1.0700.

AUD: AUD/USD has been bullish recently however, with gold and copper market prices rising we are seeing a challenge to the important 0.7400 resistance. This has been supported by the week numbers out of the US today although as above, that could reverse on the University of Michigan survey. AUD/JPY recovered from 83.52 to 83.78 and levels of trade is around 84.00 as the cross currency strengthened after the data of USA stocks drop more than 0.5%. Meanwhile following the RBNZ's dovish CB meeting we have seen people buying AUD vs NZD looking for further weakening from the NZD which is likely what the CB was intending.

NBAD Global Markets

Contact details

G10 FX & Rates

Alison Higgins
Alison.Higgins@nbad.com

Nourah Al Zahmi
Nourah.Alzahmi@nbad.com

Meera Al Marar
Meera.AlMarar@nbad.com

NBAD Global Markets

Tel: 00971 2611 0111

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