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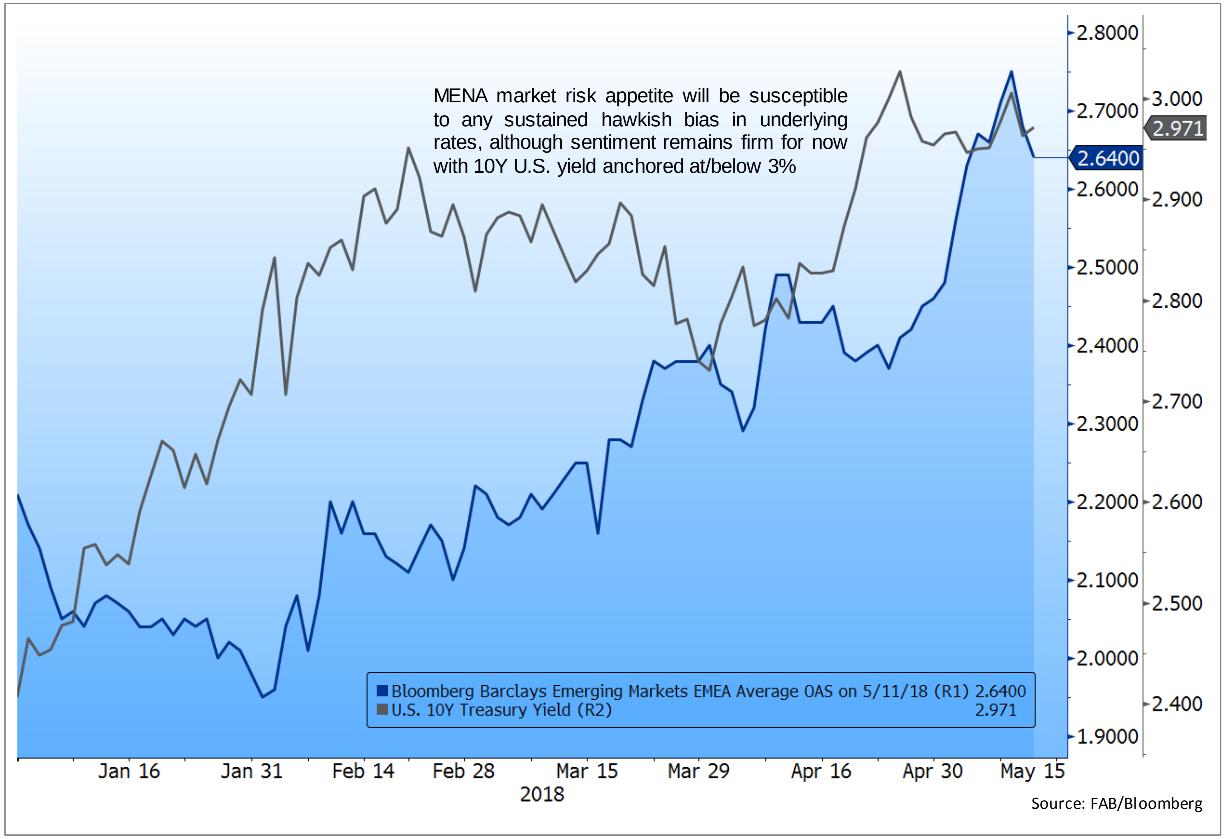
G10 Rates & FX - The Traders' Views

Macro Strategy View: Staring at the Ceiling

- Markets closed last week on a reasonably buoyant note with U.S. equity indexes edging higher into Friday's close, the US dollar steady and corporate credit markets well underpinned. Market sentiment appears to be optimistic both that inflationary pressures will remain muted over the coming months and that the specter of global trade tensions will not materialize.
- As the implicit 3% ceiling on the U.S. 10Y treasury holds – we tested 3% again last week, but closed back around the 2.97% level - the hunt for yield appears to be alive and kicking. With the rates market anchored for now, we would interpret such a macro environment as positive for MENA markets.



- Indeed, risk appetite remains evident across the credit quality spectrum. European investment grade spreads were firm throughout last week – the Bloomberg Barclays European investment grade index was steady at 93bp OAS – and the Bloomberg Barclays European high yield index tightened 8bps to 286bps OAS. Meanwhile, US investment grade credit edged 3bps tighter to 109bps OAS and US high yield rallied 8bps to 333bps.
- The outlook for underlying global yield structures will remain key to MENA market performance though and underscores our advocated strategy of a fundamentally driven approach to investing. We note that during the course of last week the Bloomberg Barclays EMEA EM index pushed wider from 266bps to 275bps as the 10Y U.S. tested 3%, before rallying on the coattail of the U.S. 10Y back to 264bps by the end of the week.
(Simon Ballard, Macro Strategist, Market Insights & Strategy)

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

Again 3% provided the key resistance to 10Y U.S. treasury yields over the past week, as the rates market failed to break higher. TSY yields fell 5bps as US data surprised to the downside; CPI ex food and energy came in at +2.1% YoY and real average wages declined by 0.5% vs the prior month. Despite the weaker data, USD strength continued for much of the week, with DXY reaching a high of 93.4 on Wednesday, before coming off to settle at 92.5. Libor volatility has continued as the pace of fixings has slowed and FRA/OIS spreads compressed during the week. This now creates a great opportunity, in or view, to hedge floating rate Libor exposure at attractive levels.

G-10 FX	Macroeconomic/Fundamental Analysis	Views (Bearish/Bullish) 2-week Time Frame	Intermediate & Long-term Views (3mth & 12mth Time Frame)
EUR	A week of two halves for the single currency that started with a continuation of dollar strength, pushing EURUSD to a low of 1.1823 before it corrected higher above 1.1900 by the end of the week. On the data front better than expected Italian numbers last week seem unlikely to change the market's current outlook on the Eurozone and investors remain wary especially after the ECB shifted to a slightly more conservative than expected bias. Moreover, we are keeping a close eye on Italian politics, which continue to simmer in the background; 5-Star movement are in talks with the far-right league to form a coalition and the talks will end Sunday. That said, the direct market impact of the talks is expected to be limited; Italy's exit from the Euro is not among the priorities of the far right league party. Therefore, expect EUR to enjoy a short term correction higher provided that the coming week's data stabilizes. To play the short term correction, the desk recommends going long EURJPY at current market levels targeting 131.80 as an initial target.	Bullish	3m 1.2500; 12m 1.3500
GBP	Super Thursday provided an eventful affair as the BOE left rates unchanged and revised its growth and inflation expectations lower. Carney faced a tough press conference, some great questions from the media as they sought clarification on the BOE communication strategy. Several members of the press accused the governor as being an "unreliable boyfriend", Carney defended the BOE communication policy stating "households we speak to don't trade short sterling", boom! Current market pricing expects a hike of 25bp in q4 in 2018 and another in late 2019.	Bullish	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	Last week movement in the yen was largely driven by underlying gyrations in the dollar, even as Japanese domestic data perked up. Wage data had its strongest showing since 2003 well ahead of expectations, although gains were tempered by the looming rain cloud of the imminent hike in sales tax. Any appreciation in the yen was restrained as the 2y UST hit ten year highs, adding fuel to the recent USD rally. The good news for JPY bulls is that 110.00 has remained intact over the last ten trading sessions; it has been challenged twice but has held thus far. In terms of near-term market direction, we note a plethora of top tier domestic data this coming week, including PPI, GDP, Industrial Production.	Neutral	3m 107.00; 12m 108.00
CHF	Questions marks surround USD/CHF in terms of whether the recent high of 1.0057 is the beginning of a correction. The Dollar weakened 0.50% in Friday's Asian session in the wake of weak inflation numbers. Sentiment now is hoping for CHF strength to break 0.9840, while resistance is seen at 1.0060 and support at 0.9980.	Bullish	3m 0.9300; 12m 0.9700
AUD	Aussie has been depreciating for the past month in the absence of any more hawkish rhetoric from the RBA. Moreover, the currency has been pressured by poor retail sales and home loans data. However AUD/USD might be coming off its lows now; the pair was stronger last week thanks to a steeper yield curve. AUD has dropped 5% since the Fed rate hike and the proposed import tariffs announcement. From a recent low of 0.7425, the currency has strengthened to 0.7555 – close to a 3% increase. Resistance on AUD/USD is 0.7560 and if the market breaks the support level of 0.74120 we anticipate that it could fall towards 0.7300. Looking ahead to the coming week, key data releases will include Westpac consumer and employment numbers.	Bullish	3m 0.7500; 12m 0.7500
NZD	The main event last week was the RBNZ meeting which saw the central bank leave rates unchanged as widely expected. This was Governor Orr's first meeting since his appointment and he made it clear that monetary policy was unlikely to change anytime soon. The front end of the curve flattened – understandably – and the Kiwi dollar gapped lower to touch 0.6904 before benefiting from USD weakness later on Friday and recovering to 0.7000. It does look like it will struggle to break the recent channel and we have shifted to a bearish bias in the short term against both the USD and AUD. The latter broke key resistance at 1.08, in the wake of the meeting and continued to creep higher on Friday.	Bullish	3m 0.6800; 12m 0.6300

G-10 FX	Macroeconomic/Fundamental Analysis	Views (Bearish/Bullish) 2-week Time Frame	Intermediate & Long-term Views (3mth & 12mth Time Frame)
CAD	The greenback enjoyed consecutive higher daily closes during April and a healthy correction could be in the cards soon. Last week, the Loonie managed to overcome the dollar and track oil and commodities higher while the dollar rally seemed to be running out of steam. USDCAD retreated from a high of 1.2998 to 1.2740 ahead of the Canadian employment data and the next target is around 1.2680 followed by 1.2580. This coming week, the market is likely to focus on the upcoming inflation data along with the retail sales numbers as the market prices a 40% probability of a rate hike this month.	Bearish	3m 1.2500; 12m 1.2200

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