

G10 Rates & FX - The Traders' Views

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

The 10Y US Treasury broke the 3% yield barrier last week and saw a wave of fresh selling and stop outs pushing yields to multi year highs. This despite continued pressure in Turkey as the Lira weakened significantly and political developments in Italy pushed the BTP/Bund spread 18bps wider. CT10's traded as high as 3.12% late in the week before consolidating back to the 3.05% level by Friday's close. Meanwhile, bunds and gilts are tracking, but still outperforming cross market. At current yield levels we now have around 60bp of additional Fed rate hikes priced in for 2018, too much in our desk's view. The greenback has continued to perform, as DXY crosses above 93.6. EUR remains the weakest link with EURUSD having broken through 1.18.

| G-10 FX | Macroeconomic/Fundamental Analysis | Views (Bearish/Bullish) 2-week Time Frame | Intermediate & Long-term Views (3mth & 12mth Time Frame) |
|---------|--|---|--|
| EUR | Italian politics have dominated movement in European rates and FX markets. As Five Star and the League reached a coalition agreement to form a government, 10yr BTP yields moved significantly higher to 2.21%, some 18bp wider to bunds. The coalition will have significant ramifications for the national fiscal position, thus we expect volatility to remain high in both BTP's and the spill over into over European fixed income. The EUR also took the news badly as EURUSD broke below 1.18; long positions have certainly lightened up on risk, and fresh selling continues to put downward pressure on the cross. | Bullish | 1.2500 3m; 1.3500 12m |
| GBP | Wednesday's labour report showed slightly improved data in the UK. The market revised its expectations of a MPC rate hike in the August meeting up to a 52% probability; we still believe the June/August MPC OIS spread at 11bp offers significant value. | Bullish | 1.4500 3m; 1.5000 12m |

18 May 2018

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|------------|---|---|---|
| JPY | <p>Higher US treasury yields in conjunction with better risk sentiment supported the greenback across G10 and in particular against the defenseless JPY that failed to get much support from the Japanese data last week. Furthermore, the market obsession with the psychological 3% US yield level has helped USDJPY sustain 5 consecutive higher daily closes, with the next resistance around 111.20, which is the upper band of the long term trading channel. That said, the USDJPY rally now faces the risk of slower momentum and the emergence of JPY repatriation, which should support JPY in the near-term. Therefore, the desk recommends selling USDJPY above 111.50 for a move towards 109.50.</p> | Bearish USDJPY with preference to sell the rallies above 111.50 | 107.00 3m; 108.00 12m |
| CHF | <p>The 1.2000 physiological level in EURCHF remained intact for yet another week whilst the total sight deposits continued to be stable around 576b. The EURCHF rate remains mainly driven by move sin the EUR and if the selloff continues, we believe that FX intervention rhetoric is likely from the cautious and watchful SNB. On the other hand, the desk favors adding to CHF longs against the greenback as a proxy hedge, with the expectation that USDCHF will correct as US yields stabilize and if the pressure on equities and bubbling trade and political worries intensify then CHF safe haven inflows would increase, which supports our argument.</p> | Bearish USDCHF | 0.9300 3m; 0.9700 12m |
| AUD | <p>AUD depreciated from its highs of 0.8100 in Feb to lows of 0.7400 in May as the USD continues to rally. The market move has steepened the sovereign yield curve to a two month high, highlighted by the 3y-10y spread widening by 2bps to 65.5bps, the highest since March. Westpac Consumer Confidence data came in as expected, unchanged on the prior month. Q1 wage price index data showed a 0.1% decline to +0.5%, while employment showed better-than-expected employment growth, albeit with the unemployment rate creeping up to 5.6% in April from 5.5% in March. The employment data gave a slight boost to the Aussie currency, although it did not last as it struggles against the Dollar.</p> | Bullish | 0.7500 3m; 0.7500 12m |
| NZD | <p>Kiwi experienced a volatile week last week, being pulled in both directions and not on its own merits or on the back of any clear catalyst. It massively underperformed against USD, GBP, AUD and CAD, while it appreciated against EUR, JPY and CHF. That said, this Monday brings NZ retail sales and Credit card spending data, which has previously proven to be market moving. Elsewhere, the NZ trade balance is due at the end of the week and whilst any weakness could threaten the 0.6800 level again, it is likely to bounce, just as it has more than 6 times now since 2017.</p> | Neutral | 0.6800 3m; 0.6300 12m |

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| CAD | <p>The recent soft US inflation data helped fuel a moderate drop in USD/CAD, but this was followed by a strong rebound over the past week on the back of higher US yields. CAD remains highly influenced by the recent increase in crude oil prices as a result of Trump's announcement to withdraw from the Iran nuclear deal. Higher than expected wage growth caused the mixed employment figures to be taken largely positively by the markets. Looking forward, the pair is recovering from its recent high just below 1.3000, a key resistance level. If this week's Canadian data is better than expected it could overshadow both Oil and US yields and drive USD/CAD to trade lower.</p> | Neutral | <p>1.2500 3m; 1.2200 12m</p> |

Contributors

FAB Global Markets FX & Rates

G10

Alison Higgins

Alison.Higgins@bankfab.com

Simon Turner

Simon.Turner@bankfab.com

Nourah Al Zahmi

Nourah.Alzahmi@bankfab.com

Meera Al Marar

Meera.AIMarar@bankfab.com

GCC & EM FX

Pinrath Wongtrangan

Pinrath.Wongtrangan@bankfab.com

Danay Sarypbekov

Danay.Sarypbekov@bankfab.com

Rashid Rasul

Rashid.Rasul@bankfab.com

Tel: +971 2611 0111

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