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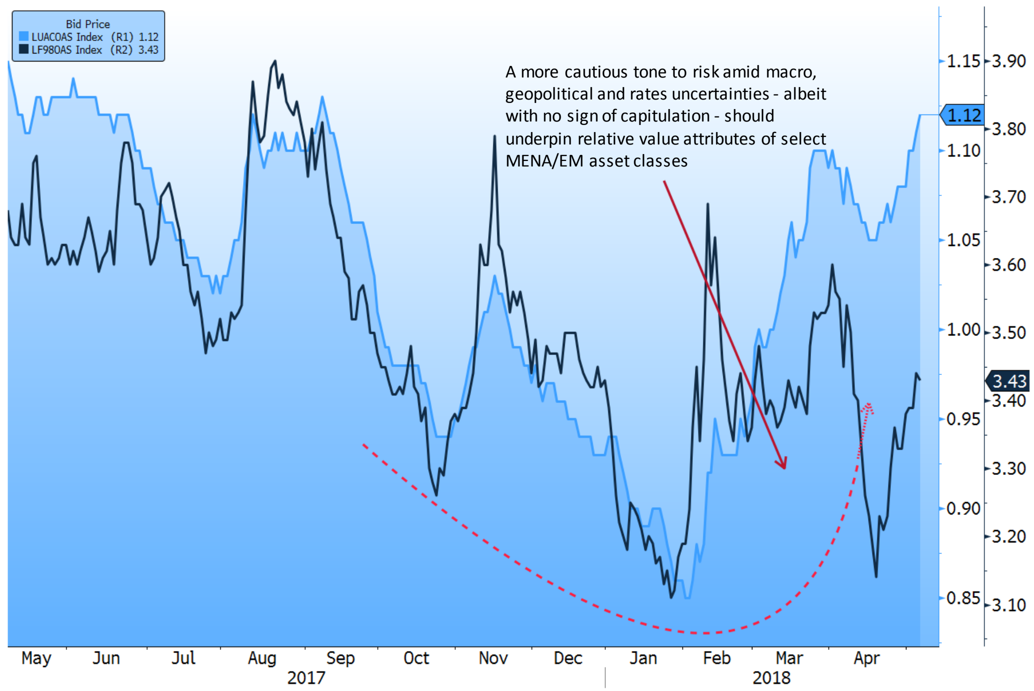
G10 Rates & FX - The Traders' Views

Macro Strategy View: Post NFP Risk Appetite to be Tested by Treasury Auctions

- Global markets ended last week on a buoyant note, thanks to the overall tone to the U.S. April employment report, but this could be short-lived over the coming weeks if a more hawkish bias begins to creep into the (U.S.) rates market. In this respect, focus this coming week will fall cleanly on the scheduled U.S. 3y, 10y and 30y treasury auctions. Investor demand for the paper – and analysis of bid/cover ratios – will be the latest litmus test in the rates outlook.
- The headline U.S. non-farm payroll number may have fallen short of consensus (+193,000) at +164,000, but it was the drop in the unemployment rate to 3.9% - the lowest in 18 years – that pushed equities higher into Friday's close. This said, there is an overarching element of caution to risk sentiment at current levels, due to lingering macro, interest rate and geopolitical uncertainties. In the corporate credit space for example, although the Bloomberg Barclays U.S. corporate high yield index edged 1bp tighter on Friday to 343bps OAS, the index has eased 29bps wider over the past two weeks amid concerns over the outlook for U.S. rate tightening and the withdrawal of monetary policy accommodation on both sides of the Atlantic. Meanwhile, the U.S. aggregate investment grade index has also adopted a clear widening trend year-to-date on the back of more such hawkish rate expectations; the index touched 112bps on Friday versus 85bps seen on February 1.



Source: FAB/Bloomberg

- Success or otherwise of this coming week's bond auctions will be key to broader market sentiment. The U.S. is due to auction a combined $73b of notes across the 3y, 10y and 30y maturities this week - $7b more than at the same juncture last quarter according to Bloomberg. As such, with the deteriorating outlook for the U.S. fiscal position and rising budget deficit expectations, any perceived weakness in investors' appetite for government debt and subsequent implications for the government's ability or otherwise to plug the gap with debt, could trigger a swift sell-off across the rates space.
- *We have seen in recent months how a more hawkish outlook for rates can quickly dampen risk appetite and steepen quality curves. Indeed, investors need to pay close attention to the dynamics and results of the treasury auctions this week, which will carry direct implications for the entire risk asset space. At the very least, elevated uncertainty surrounding the outlook for rates and risk should help to bolster our cautious bias and help to underscore the relative value, fundamental appeal of selective MENA/EM assets.*
  (Simon Ballard, Macro Strategist, Market Insights & Strategy)

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

Price action over the past week showed a clear risk off bias as weakness in equites and broader EM provided a flight-to-quality bid for fixed Income. CT10's moved lower to reach 2.94% on Friday after firmly rejecting 3% on Wednesday. The FOMC meeting provided little insight into the future path of monetary policy. Futures markets now price in 62.5bps of further Fed rate hikes over the remainder of 2018, which in our assessment seems fair value. In FX, the greenback remains in demand as DXY crossed its 200 day moving average to sit at 92.6, a move that was largely driven by relative weakness in EURUSD and GBPUSD.

G-10 FX	Macroeconomic/Fundamental Analysis	Views (Bearish/Bullish) 2-week Time Frame	Intermediate & Long-term Views (3mth & 12mth Time Frame)
EUR	For the moment, bullish momentum in EURUSD has stalled, which, coupled with a patch of softer Eurozone data, has taken the shine off the Euro. Rates markets have also repriced the terminal rate lower in Europe, as 10y bund yields have rallied back to 0.533% and 3y1y eonia below 0.53%.	Bearish	3m 1.2500; 12m 1.3500
GBP	Poor economic data has continued to be released in the UK; 1Q2018 GDP estimates showed the UK economy virtually grinding to a halt. Moreover, both manufacturing and services PMI data came in weaker than expected. Rates and FX markets reacted accordingly; cable has lost some 5% in the past two weeks and market expectations for the MPC have moved lower by 20bps for 2018 and 2019.	Bearish	3m 1.4500; 12m 1.5000
JPY	Multiple factors contributed to the recent dollar strength that pushed USDJPY in a single shot towards 110.00. The first such driver has been the trend of stronger US data relative to weaker data in the Eurozone and the rest of the world. The second is the fact that geopolitical concerns have eased amid improved sentiment toward US/China trade and the absence of provocative comments from President trump ion Twitter. All of this has fed a decent unwind of safe haven currencies. By the end of last week, USDJPY traded as high as 110.04 but …	Bearish USDJPY with preference to sell above 110.00	3m 107.00; 12m 108.00

G-10 FX	Macroeconomic/Fundamental Analysis	Views (Bearish/Bullish) 2-week Time Frame	Intermediate & Long-term Views (3mth & 12mth Time Frame)
JPY	…rejected the psychological level and sold off one big figure in just one day, which is an indication that the move might have reached extreme levels and a possible correction could be in the cards.	Bearish USDJPY with preference to sell above 110.00	3m 107.00; 12m 108.00
CHF	The Swiss franc has not been immune to USD strength over the past week. The currency continues to lose ground to the greenback, as it flirts with parity. CHF ended the week stronger against the EUR but in general it saw a fairly sideways move around the 1.20 level. This coming week should be more interesting domestically as CPI and Foreign Currency Reserves are announced on Monday.	Neutral Swiss although we are still alert to any escalation in global political tensions for safe haven flow	3m 0.9300; 12m 0.9700
AUD	The Aussie dollar was boosted last week by upbeat domestic trade balance data/modest USD retracement. Traders will now be looking toward upcoming US data for further impetus. Post the distraction of Wednesday's FOMC meeting; renewed US-China trade tensions prompted some USD weakness. This coupled with upbeat Australian trade balance data – showing A$1.53b trade surplus – provided an additional boost for the currency and underpinned the AUD/USD short-covering bounce. Moving ahead, the macro focus this week will turn to NAB business, retail sales and home loans data.	Bullish	3m 0.7500; 12m 0.7500
NZD	Last week, NZDUSD had a rough start but managed to pull back on better than expected building permits data and steady employment prints. The big psychological level 0.7000 held well as each dip below 0.7000 was followed by a correction higher. Furthermore, looking at the overall price action, the pair depreciated 5.48% in the month of April alone without any noticeable correction. The desk recommends going long NZDUSD at 0.7000 for a move towards 0.7150 as an initial target. Focus over the coming week will include the RBNZ meeting, although no change in policy rates is expected.	Bullish	3m 0.6800; 12m 0.6300
CAD	The CAD was well underpinned last week, holding onto recent strength as worries about global trade and weak European inflation data caused bonds to rally around the globe, driving yields lower and sinking the greenback. As trade talks between the U.S. and China get underway, both sides have been dialing back expectations. American delegates said a breakthrough is unlikely, and they might leave early if unsatisfied. Yields are lower globally as investors pare recent optimism about how much tightening central banks will be able to achieve. USD/CAD traded in a very tight range over the past week between 1.2804-1.2914. The 50-DMA is at 1.2825, which may provide some near-term support. Looking ahead, expectations for a BOC hike at the May 30 meeting are currently priced at around 40%, while Canadian housing starts and employment data this coming week will help drive the macro outlook.	Neutral USDCAD	3m 1.2500; 12m 1.2200

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