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G10 Rates & FX - The Traders' Views

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

A week of event risk globally with central bank meetings, ongoing political headlines and a terrorist attack on Manhattan.

The week started with a political scandal involving Trump's campaign and Russia. The press have jumped all over the idea that there was collusion between Trump and the Russians. With two arrests and one guilty plea to 'making false statements' from campaign managers and associates, the FBI is trying its best to get there too. Let's see how that unfolds but obviously that will add volatility to yields.

As for the FED, they opted to keep rates unchanged as expected, noting that the labor market has been rising at a solid pace and risks to the outlook were roughly balanced keeping the December hike live and currently priced at 90%.

The market however was fixated over the appointment of the next Fed chair and Trump confirmed that Powell is his nomination for the Fed chair, which is slightly boring as it would mean business as usual. Powell shares same FOMC view on monetary policy and sees low inflation as a reason to raise rates "gradually."

In the meantime, the tax plan unfolds at a glacier pace leaving us to focus on the NFP. The headline came in around 261K below the consensus of 313K, unemployment ticked lower to 4.1% with a slightly lower participation rate, and average hourly earnings were flat. Looking at the numbers overall, it has not reached a stage where it could be alarming to the FOMC taking into account hurricane distortions.

Now at the end of the week, 10y govies is currently sitting around 2.34% having failed to hold above the 2.40% resistance, it might be time to play the longer end USD yield strength and looking around 2s10s below 50s for a move towards 60 bps, now that we have fewer risks to navigate.

| G-10 FX | Macroeconomic/Fundamental Analysis | Views (Bearish/Bullish) 2-week Time Frame | Intermediate & Long-term Views (3mth & 12mth Time Frame) |
|------------|---|---|---|
| EUR | <p>Consolidation has been the theme for EURUSD this week after the ECB, it popped briefly towards 1.1690 but quickly gravitated back towards the middle of the range. It is just a matter of time before the idea of the ECB's "lower for longer" rates sinks in further and ECB speakers have consistently tried to manage the market's expectations, latest being Noteworthy as he reiterates that it is too early to discuss QE end date. Furthermore, the price action this week reveals nervous EUR bulls whilst the techs have started to lean bearish in EUR and its crosses. Notably, EUR longs got trimmed on any EUR rally we saw this week, which is an indication of the discomfort level to pursue the EUR long trade and I would expect the pain level to intensify once EURUSD closes below 1.1550. The desk remains bearish EUR and having reached our entry level, we are short EURUSD targeting 1.1250 as a final target (please see below)</p> | Bearish | 1.1300 3m; 1.1700 12m |
| GBP | <p>The Bank of England voted to raise rates by 25bp with a majority of 7-2 on Thursday and the preceding statement and press conference was broadly interpreted as dovish. Cable took a battering on the day having tapped highs of 1.3297 it dropped like a stone to lows of 1.3046 before a small recovery kept it range bound through most of Friday's session. There was plenty of information to interpret with economic projections, MP statement and the press conference. The removal from the statement of the line that alluded to the bank maybe needing raise rates more than the market expects certainly had an impact as the curve flattened and yields finished the day 4-6bp lower. On closer inspection, the economic projections for growth and inflation were little changed in line with the more hawkish tone we've seen from the MPC. Concerns about the impact of Brexit were flagged as the projections assume a smooth transition which seems optimistic to say the least. We have been finding it difficult to swallow the idea of three hikes through until 2019 and remain unconvinced through Thursday's meeting. The MPC will be data dependent moving forward and it seems likely that the SEP's will require adjustment to fit the reality of Brexit rather than the little fluffy cloud view.</p> <p>Westminster shenanigans threaten to overwhelm May as Secretary of Defense Michael Fallon becomes the first casualty of allegations of inappropriate behavior. If you can step away from the hysteria and analyze the actual allegations – key word – then it is a shame to lose a talented leader. However, his resignation suggests there may be more serious allegations to come and the ongoing investigations suggest he will not be the last to go.</p> <p>This week we have Halifax House Prices, Industrial and Manufacturing Production...</p> | Bearish | 1.2950 3m; 1.2650 12m |

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| GBP | ... as well as the NIESR GDP estimates for October. No speakers are tabled but look out for political headlines to keep us on our toes. | Bearish | 1.2950 3m; 1.2650 12m |
| JPY | The BoJ kept its policy unchanged this week as widely expected, yet the central bank did not change its inflation outlook anticipating to reach its inflation target of 2% by 2019 but it did lower its median inflation forecasts for 2017 and 2018. Finally, BoJ reduced its monthly JGB purchase amount, which is a balanced approach by the central bank, keeping USDJPY fairly anchored around 114.00. Next week, Trump is visiting Japan and no doubt North Korea will be at the top of the topics discussed, along with business deals and trade deficits. Expect USDJPY to remain sensitive to North Korean headlines, especially after the unconfirmed rumors of yet another upcoming missile test. Data wise next week, the market will focus on the results of the Nikkei PMI services, machine orders and trade balance. | Bullish | 114.00 3m; 118.00 12m |
| CHF | Uneventful week for EURCHF and the lack of key drivers kept the pair trading in a very tight range (1.1570-1.1670), and apart from the Swiss inflation release, next week's data slate for Switzerland is fairly light. Unless the sentiment for EURUSD changes EURCHF will continue to be in its comfort zone above 1.1500. But as we mentioned above, the technical indicators have already started to show key bearish signs and EURCHF is no exception as it failed to hold to its gains above 1.1700, we believe that a firm break of 1.1600 is the next target. | Neutral Swiss although we are still alert to any escalation in global political tensions for safe haven flow | 0.9900 3m; 1.0100 12m |
| AUD | Last week saw the AUD move gently higher breaking the 0.7700 resistance on Thursday as building approvals beat out expectations. The move reversed on Friday, driven by a miss in PMI and Retail Sales as focus moves to this week's RBA meeting. We expect the RBA to maintain a similar tone to October's meeting with data ticking along but the CPI data disappointing enough to keep the outlook fairly neutral. Ahead of the RBA on Tuesday we have the Melbourne Institute Inflation report and Home Loans follow on Thursday. | Bearish | 0.7400 3m; 0.8400 12m |
| NZD | RBNZ meets this week less than a fortnight after the coalition government was formed and with an Acting Governor helming the central bank it is unlikely that there will be much change to monetary policy. Data has behaved in a fairly unexceptional way since the last meeting although the Unemployment rate fell 0.2bp last week to 4.6% which gave the Kiwi a boost. The dollar traded in a 120pip range all week and we don't see much coming up to break that. | Bearish | 1.2700 3m; 1.3000 12m |

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| CAD | <p>BoC cautious approach hit CAD very hard as of late, resulting in a relentless unwind of CAD longs and just as we mentioned last week a miss of the GDP numbers was the final straw pushing USDCAD to a high of 1.2913. Recent data has not been great and BoC Poloz has always reiterated his concern over the impact of higher rates on household debt. With that said, we think that the rally is over extended now and a near-term correction is in need and no doubt the correction has already started, aided by better than expected employment data. Unemployment ticked higher by 0.1% and a 35K net addition to employment in October beat the forecasts, the results gave CAD some relief against the greenback and USDCAD now rests below 1.2730. Next week's housing data will be of focus and is key for further CAD strength.</p> | Bearish - USDCAD | 1.2700 3m; 1.3000 12m |

EUR/USD Technical Trade Ideas

*As we had mentioned last Friday (see below), the sell zone in EURUSD is between 1.1675 and 1.1706. Well it took longer than we expected but the pair finally reached 1.1675 yesterday. Thus we are short EURUSD at 1.1675 (+/- 5pips) with a stop loss at 1.1725 (about 0.40%). We expect the pair to eventually reach 1.1200-1.1250.



*If you would like to express the idea below via options, you may want to take advantage of the recent drop in EUR volatility front-end, below 7 handle.

3 month One Touch with Knock-Out

Trigger: 1.1200

Knock-Out at 1.1800

13% Offer



*Please note that these are solely technical views based on price charts and although in many cases these types of trades will be stop-lossed, few winning trades will more than compensate the losing trades due to the favorable risk-reward ratio.

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