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G10 Rates & FX - The Traders' Views

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

Tax, tax, tax, more tax, Asian trade deals, Westminster scandal and the Louvre opening were the main events we were watching last week. The Louvre opening was spectacular and well worth the wait, the Westminster harassment scandal is uncomfortable and the US tax reform is taking up way too much of the market's time. Thursday saw the hugely over anticipated release of the Senate's 'plan' which was different from the house version. This plan is likely to be more in line with a final offering than the initial releases due to the more stringent budget reconciliation rules in the senate – basically if it can pass the senate the chances of it actually being passed into law are higher and the Republicans desperately need a win. The alteration with the biggest impact was the delay in Trump's prized 20% corporate tax rate from 2018 to 2019 – this is an important factor as the Republicans have been vaunting this cut as a base for their growth projection so a delay unbalances their tax reform package. Saying that, it has been difficult to dig down into the tax reforms with scarce detail available, however, equities took a beating on news of the delay although showed some signs of recovery in Friday's early morning session.

From a rates perspective the market had been quite subdued all week with 10y govvie yields looking to challenge the 2.30% support mid-week having been in a downward channel since the 1st of the month. The equity move had a little drag on the Thursday but the sloth like tide seemed to have turned by the end of the week and the 10y recovered to the mid 30's. Our 2s10s trade worked nicely last week tapping lows of 44.50bp led by the weakness in the long end before recovering to 49bp+ by the end of the week. We look for a break of 50bp to see some continuation and move the stop to 48bp.

Next week has a little more interesting data points than this with PPI and CPI Monday and Tuesday. Expectations are quite low so any upside would be received well. Mortgage Applications also come on Tuesday, Empire Manufacturing and Retail Sales Wednesday, Claims, the Philly Fed and Industrial Production Thursday with Housing Starts rounding off the week on Friday. There is a whole plethora of speakers next week to add to the headline risk of Trump abroad although we remain quietly impressed with his ability to tweet from China and his potential $250bln worth of trade deals with the Chinese which when added to his $380bln with Saudi isn't too shoddy. The anticipated testing of missiles by North Korea during his visit didn't happen thankfully and he has certainly solidified his relationship with Shinzo Abe and the Japanese – 'Donald & Shinzo: Make Alliance Even Greater' caps have to be the next big thing. If only Theresa May could manage her cabinet members and focus on similar global relationship building the people of Britain might feel a little comfort.

G-10 FX	Macroeconomic/Fundamental Analysis	Views (Bearish/Bullish) 2-week Time Frame	Intermediate & Long-term Views (3mth & 12mth Time Frame)
EUR	The single currency has been caught consolidating around 1.1600 for the first half of November and lacked strong impetus to push in either direction. EURUSD clearly formed a solid base around 1.1580, which proved tough to break and caused some EUR bears to lighten their shorts on any bounce that was seen so far. At the end of last week, EURUSD managed to edge higher for a change, buoyed by a weaker US dollar and stronger than expected German Industrial orders which expanded by 3.6% QoQ. That said, the desk remains bearish EUR and 1.1675 resistance might once again prove its resilience, which is around our entry level. There has been no change in fundamentals that would steer EURUSD from its downward course and let us not forget Spain that will definitely be back in focus as early as December. Point made as the market completely ignored ECB Coeure's upbeat comments, he believes now is the time to prepare for future slumps and that the factors that have led to the recovery so far, namely (the monetary policy, the exchange rate and low commodities) will not last forever. This week we will hear from ECB speakers every day, which will have a much more material impact as the Eurozone data slate is considered light, and carries GDP, inflation data and German ZEW on Tuesday, followed by Eurozone trade balance on Wednesday.	Bearish	1.1300 3m; 1.1700 12m
GBP	Idiosyncratic trading week for the proud pound as Brexit headlines dominated the price action. Pritti Patel has resigned from government following her unsanctioned visits with the Israeli prime minister over the summer and the last Brexit negotiations are wishful to say the least. EU officials are hopeful for progress on the citizen rights issue, but the main problem remains the divorce bill which hasn't had any material breakthrough. PM May agreed to increase the bill amount, but it is unclear if the EU will accept her offer. All in all, until the market gets more clarity with regards to Brexit Cable will remain range bound 1.3000-1.3300. This week's is full with top tier data which includes inflation, PPIs, employment data and retail sales.	Neutral	1.2950 3m; 1.2650 12m
JPY	Last weekend Trump kicked off his Asian tour with a round of golf with PM Abe and gave us some tough rhetoric on North Korea. It was relatively quiet for the yen though which finished last week slightly stronger than where it began. On Monday, however, we did see comments from Mr. Kuroda giving USDJPY a boost, albeit briefly, to an eight month high of 114.74. He didn't mention anything out of the ordinary, but the reminder that the BOJ will continue…	Bullish	114.00 3m; 118.00 12m

G-10 FX	Macroeconomic/Fundamental Analysis	Views (Bearish/Bullish) 2-week Time Frame	Intermediate & Long-term Views (3mth & 12mth Time Frame)
JPY	…to ease under yield curve control was enough to give way to temporary yen weakness. By the end of the day the pair was back down a big figure lower. Tuesday's 1.7% rally in the Nikkei helped give USDJPY a boost during the Asian session with the pair giving back most of its gains later in the day. Core Machinery Orders missed on Thursday morning, coming in at a shocking -8.1% vs expectations of -1.8% with no reaction seen in the currency until later when the stock market opened and the Nikkei decided to plummet 4% lower, bringing USDJPY down to 113.09 by the end of the day. We should continue to see support around the 113.00 handle bar any negative news re the US tax reforms story. A break above 114.50 should open us up to 115.50.	Bullish	114.00 3m; 118.00 12m
CHF	Inspired by the rally in global equities, a global risk off wave hit safe haven currencies hard last week. The CHF selloff provided some relief to the SNB, but that did not stop the central bank from reiterating the desire for a lower franc and that it is still overvalued. SNB Jordan also commented that the central bank has room to manoeuver on negative interest rates and that negative interest rates remain extremely important to lessen pressure on the Swiss Franc. EURCHF is trading comfortably around 1.1600 following the footsteps of EURUSD, but the risks remain tilted to the downside especially if we see a clear break of 1.1550 in EURCHF.	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	The main focus in AUD last week was the 'race that stops a nation' aka the Melbourne Cup which was won by trainer Joseph O'Brien with Rekindling. At 24 he's the youngest trainer to ever win and beat his father's horse, the famous Aidan O'Brien, who managed to place second – go the Irish! Clearly the horses massively overshadowed the RBA who made no changes to the target rate and a relatively unchanged policy statement. The market had been quite bearish going into the meeting but the central bank didn't seem overly concerned about CPI or retail sales missing the mark the previous week. Focus moved to the Statement of Monetary Policy which was released on Friday with the currency in a very tight range all week 0.7627/0.7701. The statement was certainly a little more interesting as inflation forecasts were rounded down, which was a surprise, and would suggest that we'll be waiting a while to see the RBA jump on the global rate hiking bandwagon. The AUD certainly benefitted from USD weakness overnight on Thursday but we're not convinced it has much upside long term with a delayed hiking path and a slightly more hawkish RBNZ. This week we look to Westpac Consumer Confidence on Wednesday and the unemployment data on Thursday domestically.	Bearish	0.7400 3m; 0.8400 12m

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NZD	The long awaited RBNZ meeting ended with a bang! Against all odds the central bank sounded more hawkish than the market expected. The RBNZ kept rates unchanged as expected but upgraded its long term forecasts siting that the new policies will, in aggregate, add 0.5% to the annualized GDP growth. As for inflation, RBNZ expects to reach its inflation target by Q2 2018 vs Q1 2019 previously, setting itself to fail perhaps? Regardless, Kiwi breathed a sigh of relief and managed to rally to 0.6980 before it was rudely interrupted by the lingering political worries. The NZ treasury provided the terms of reference for the RBNZ mandate, after which the NZ finance minister Robertson expressed that the government targets 4% jobless rate in the first term, adding that he has no desire to include NZD$ in the RBNZ review and that 2% inflation focus could be up for discussion. NZDUSD gave back its gains and remained heavy as the market awaits further clarity on the RBNZ mandate, which in turn would provide support to AUDNZD for a move towards 1.1200 again.	Bearish	1.2700 3m; 1.3000 12m
CAD	The loonie continued to strengthen throughout last week amid fairly light data with the main drivers being the price of oil and a speech from BOC Gov. Poloz. Monday's better-than-expected PMI didn't have much effect on the currency but it was the 2.4% oil rally during the NY session which sent USDCAD tumbling off the highs down to 1.2700. It's nice to see CAD reacting again to oil price movements because throughout September and October all the market seemed to want to do was sell CAD even as oil started to gain momentum. On Tuesday the key take-home from Poloz was the use of the word 'cautious' in regards to adjusting policy rates. He's a different man than he was only a few months ago. Is he starting to think he may have been a bit over-hawkish back in the summer? Nevertheless, CAD ended the week on the highs with USDCAD around 1.2675 by Friday afternoon. Until we get some new fundamentals giving us a clearer picture of what the BOC may or may not do in January, I prefer to buy USDCAD on dips and it would take a break of 1.2440 on the downside for me to turn bearish on the pair. Note the chances of a BoC hike on Dec 6 ahead of the Fed have now diminished to a mere 17% from 60% only a few week ago with the possibility of a January hike now priced in at 40%. This week's CPI should give us a bit of an idea of what's to come with Retail Sales next week and GDP the following one.	Bearish - USDCAD	1.2700 3m; 1.3000 12m

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