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G10 Rates & FX - The Traders' Views

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

Once again the fundamentals took a back seat to lurid headlines of sexual misconduct this time the US political sphere has come under the microscope, realistically that was only a matter of time. Mr. Trump who just returned from Asia, a trip considered successful because he managed to almost behave like a global leader, is obviously coming under attack for not condoning all Republicans who stand accused. To place Trump's quandary into context, no one has been expelled from the US Senate since before the civil war. I think that says more about the swamp than anything Trump has done.

Bad behavior aside data in the US had a nice uptick last week with inflation data, mortgage applications, retail sales and industrial production all outperforming expectations. This didn't really help the curve which continues its flattening trend driven by a mix of front end repricing on positive FED speak and back end lethargy as yields struggle to break key resistance. The USD also took a hit overnight on Thursday as Mueller issued a subpoena for Trump campaign documents and 13 rather than the expected 10 Republicans voted against the tax reform bill. It still passed but the road ahead is long and is looking increasingly tricky to get through which may explain some of Trump's silence in condemning any Republican senators and reducing his tiny majority even further….

There were a plethora of officials speaking last week and the FED's representatives all seemed to be lining up on a similar page. Although somewhat data dependent the economy is in robust enough shape to manage one hike this year and another three next year. The December meeting is now pricing around 94% of a hike although there is still considerable scope for tightening across 2018 with a second full hike priced into September and only a 40% chance of an additional hike post that. We like to hold onto steepeners here and look for a 20bp move across 2018. Further out I think that we will see flatter levels over the longer term but like to play the ranges in 2s10s on the way tighter adjusting entry levels lower.

Brexit remains in the headlines and not for any particularly positive developments for the UK or the EU. David Davis spoke at a conference in Berlin on Thursday night making rather sensible comments although much like Mr. Trump's tax reform bill the devil is in the detail. Davis seems to be of the mindset that withholding a final settlement number is the only realistic way to leverage the EU's position and that the UK 'will be a third country partner like no other…much closer than Canada, much bigger than Norway and uniquely integrated on everything from energy networks to services'. Mr. Barnier has been quite clear that he considers the monetary settlement to be payment for historical commitments and it cannot be used as a negotiating tool for the future path of membership. All a bit of a mess really with little clarity from May and the Westminster crew, it doesn't bode well for the UK economy.

G-10 FX	Macroeconomic/Fundamental Analysis	Views (Bearish/Bullish) 2-week Time Frame	Intermediate & Long-term Views (3mth & 12mth Time Frame)
EUR	Fragile risk sentiment and US fiscal disappointment fueled EUR bids last Tuesday triggering few stops as the market was caught short since the last ECB meeting. The momentum picked up following the print of decent German data, notably German ZEW which rose for the third time in a row and EUR was also met with fresh buying demand from European equity hedging and real monies, pushing EURUSD to print a high of 1.1861 last week. The rally stalled after that, and now it is a question of the weight of positioning and I wonder if the scales will start to tilt. Since the last ECB meeting, the price action that follows official ECB comments reveals the market's complacency towards any ECB dovish comments and that hawkish comments have a greater and a lasting impact in comparison. Point made after ECB Mersch reminded the market that the ECB has access to other options than the APP, and that it would be wrong to expect further QE extension after the end of Sep 2018; his comments helped EURUSD recover above 1.1800. This week we have a plethora of ECB speakers and the ECB minutes release on Thursday which will be watched closely for any clues on the policy beyond the APP.	Neutral	1.1300 3m; 1.1700 12m
GBP	Despite average inflation data on Tuesday, multiple Brexit headlines and a rather scathing article on the dire state of the UK economy by Martin Wolf in the FT, cable proved remarkably resilient last week. Seemingly spurred by a weaker dollar the proud pound easily sliced through the 1.3201 resistance pushing up towards the October 25th close of 1.3262 on Friday morning. We're struggling to believe the hype and look to fade a close above 1.3321 for a break on the downside of 1.3030 with the background noise from Brexit the main trigger post the 'dovish hike' at the beginning of Nov.	Bearish – with preference to sell into rallies above 1.3300	1.2950 3m; 1.2650 12m
JPY	JPY remains surprisingly resilient and printed a low of 112.40 against the USD; a significant rally in risk last Thursday did surprisingly little to support the pair, especially after some headlines regarding North Korean ballistic missile submarine. Economic releases remain light and I feel JPY will respond more so to risk plays rather than Japanese data releases – despite the breakdown in correlation. The next level to watch is 112.30 but my feeling is the current risk-on tone (spurred on the back of the House of representatives passing the tax bill Thursday night) should see pair back above 113.00 soon. Volatility in JPY remains anchored and we prefer to buy options with strikes that are far away from spot – benefiting from a breakout above 115.00 or below 112.00 rather than being long outright volatility in the current risk-on environment. We look to the FOMC next month as the main risky event.	Bullish	114.00 3m; 118.00 12m

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CHF	Revival of the risk off mode and with tax plans underwhelming caused an inflow of CHF, which pushed USDCHF sub 0.9800 by mid last week. However, it was a completely different story in EURCHF, the rally in EURUSD spread through the crosses which pushed EURCHF to a high of 1.1722, a step closer to the infamous 1.2000 floor that started it all. This week, the data slate is fairly light, which means that EURCHF will continue to track EURUSD.	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 currency remains under pressure breaking a 5 month low to print 0.7546. Subdued domestic price pressure, concerns about a slow-down in China and further political turmoil in Australia should continue to reinforce the RBA's dovish stance and weigh on the AUD. Wages specifically were the focal point this week, RBA Debelle commented that there still a risk that wages growth stays low for longer and on Wednesday wages data pointed to a lower growth which caused AUD to drop by 0.67% immediately; even a significant rally in US equities as of late provided little support and a brief rally was faded above 0.76 the figure. Volatility in AUD has bounces off the lows but remains heavy regardless of new lows in spot; market makers don't appear interested to buy options and the demand for volatility in most pairs remains subdued.	Bearish	0.7400 3m; 0.7500 12m
NZD	Kiwi could not recover from the negative impact of the NZ political uncertainty, and despite the fact that we have not had any new headlines last week, the slide continued pushing NZDUSD sub 0.6800, levels we haven't seen since 2016. Indeed, from now until the end of the year the risks are pointing to the downside; the new immigration controls could be introduced along with a bill that would ban foreigners from buying existing properties and let's not forget the government's fiscal plans which will be published by mid-December. Therefore we like to express our bearish view by being short NZDJPY above 77.00, which will work well in the risk off environment, targeting 75.00 as an initial target followed by 74.00.	Bearish	0.6500 3m; 0.6300 12m

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CAD	The price action was fairly limited for Loonie last week, USDCAD ranged between 1.2700-1.2800, left to consolidate post the rally that started in September. Broad-based dollar weakness was the catalyst for pulling USDCAD to the lower end of the range while the resumption of NAFTA negotiations lifted the pair to the top of the range. Looking into this week, the focus will turn towards the CPI and retail sales; BOC Poloz commented numerous times that the central bank dismisses the gap between the CPI and the central bank's target, but any negative outcome in CPI likely to put us back towards 1.2800, which will provide decent opportunities to sell USDCAD for a move below 1.2600, as I would expect oil correlation to start to put its weight on USDCAD.	Bearish - USDCAD	1.2700 3m; 1.3000 12m

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