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G10 Rates & FX - The Traders' Views

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

A rather subdued week last week with Thanksgiving on Thursday allowing many to take Friday off and make a nice long weekend of the celebration. Over 50 million turkeys will have been consumed last Thursday and over $2.9trln spent on food across the country. 'Black Friday' has been adopted globally (and with zero irony in the UK) as ailing high street retailers look for a boost in sales and over $20bln is expected to have been spent in the US alone.

These expectations are already built into economic projections and although there is always room for a surprise it is unlikely to make a huge difference to the FOMC and their hike in December. The minutes released on Wednesday have not swayed the market from the near term path although discussion regarding the future path of rate hikes saw the dreaded phrase 'data dependency' take root once more. The focus continues to be on low inflation which looks less transitory and more like a perpetual state. Inflation is only one part of the FED's dual mandate though, with employment the other. This is where, like many other economies, the US success story lies and is one of the reasons that low inflation has been difficult to explain away.

The treasury market failed to break out of recent ranges last week but certainly found support from a big miss in durable goods orders and softer U of Michigan readings. 2s10s hit lows of sub 41bp before recovering a touch but are well off the month's highs of 52bp and look difficult to hold on a close below 40.5bp. Front end steepeners continued to creep higher as conviction for the higher path of hikes in 2018 gains momentum but it is proving to be a slow burner.

This week sees New Home Sales, Consumer Confidence, Richmond Fed Manufacturing Index, Mortgage Apps and probably the most interesting of the week GDP. The FED also releases its beige Book on Wednesday which is another one to watch out for. I'm also interested in the PCE series and the ISM's on Friday.

G-10 FX	Macroeconomic/Fundamental Analysis	Views (Bearish/Bullish) 2-week Time Frame	Intermediate & Long-term Views (3mth & 12mth Time Frame)
EUR	Economic recovery optimism conquers all, even political uncertainties, point made last week when EURUSD brushed away the German political worries and gained on the back of the solid EU data, including the PMIs from Germany and France. In the political space, there is ongoing pressure on the Social Democratic Party to avoid fresh elections and to enter talks with Merkel, which is set to happen this Thursday. A positive turn to the political dreadlock likely to offer further support to EURUSD, which is already making monthly highs and on the verge of threatening the psychological 1.2000 level again if the upcoming data continues to be supportive.	Neutral	1.1600 3m; 1.2200 12m
GBP	An interesting week for UK politics as May managed to unify her cabinet behind an increase in the ‘divorce settlement’ as she moves closer to crucial Brexit talks which kick off this week. There are many issues at stake with the sticking points being: • No negotiation of trade deal before a divorce settlement is agreed • EU citizens rights in the UK • Free movement between Northern and Southern Ireland and latterly Gibraltar • Intelligence sharing • Jurisdiction of courts and EU laws in the UK It would seem unlikely that any major progress will be made at these talks but cable is certainly hopeful spending all of last week above 1.3200. Let’s see if the 4th December proffers a move to the second phase of trade talks. The pound was also boosted by an Autumn Budget which was well received on Wednesday and saw the pound push above 1.3300. Hammond has been under pressure and it looks as though he may have given himself some breathing room as he delivered emergency money for the NHS, reduced stamp duty to zero for certain first time buyers as well as supporting those on the breadline with some adjustments to universal credit. Outside of the headlines productivity growth, business investment and GDP growth were all adjusted lower and borrowing is expected to increase from 2019 onwards – the budget is unlikely to balance anytime soon.	Bearish – with preference to sell into rallies above 1.3375	1.3050 3m; 1.2300 12m

G-10 FX	Macroeconomic/Fundamental Analysis	Views (Bearish/Bullish) 2-week Time Frame	Intermediate & Long-term Views (3mth & 12mth Time Frame)
JPY	It appears the market is now paying more attention to BoJ policy and its effect on JPY rather than general risk sentiment in equity markets. On Wednesday during early Asian trading, Reuters released that the BOJ is "dropping subtle, yet intentional, hints that it could edge away from crisis-mode stimulus earlier than expected". The yen strengthened throughout the course of the day and by COB the FOMC Meeting Minutes were enough to push USDJPY over the hedge and fall through both the 100 and 200 DMA which happened to be around the same level near 111.70. The rally in JPY was also spurred by the lack of liquidity in the FX spot market over the Thanksgiving period and the increased activity by Japanese exporters before year-end with exports growing in the double digits for the fourth month running. What was unusual was the break down in negative correlation between the JPY and equity markets given that equity indices broke new all-time highs yet again. We favor being long options with low and high strikes to take advantage of more extreme spot moves next year – these strategies cost less in terms of option decay as activity may be muted over the late December period.	Bullish	114.00 3m; 118.00 12m
CHF	EURCHF fell hard on last week's opening on the back of the tumbling German coalition talks, but the pair quickly reversed back the losses on the same day as the German FDP announced that they would support a minority government. As the week progressed, lack of first tier Swiss data and positioning kept the pair range bound. I would expect the price action this week to track EURUSD higher, unless the Swiss GDP beats the forecast. Levels to watch on the topside are 1.1700 and 1.1750, and a weekly close above 1.1700 will set a new higher trading range for EURCHF.	Neutral Swiss although we are still alert to any escalation in global political tensions for safe haven flow.	0.9900 3m; 0.9700 12m
AUD	General USD weakness was the main theme across most currency pairs last week, especially the AUD which rallied to 0.7639 Thursday night. A strike in Chile threatened to disrupt copper output and therefore boost commodity prices also giving support to the AUD. Further debate about tax reform and the RBA rates decision to be release on the 5th December may be the catalyst for further selling pressure and a break below the 0.7533 looks likely given the likelihood that investors lighten up on risk and take profit on equities going into year end. We prefer to be long volatility and hope to profit from the strategy if spot breaks lower.	Bearish	0.7400 3m; 0.7500 12m

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NZD	There were a few data misses last week in New Zealand with both the quarterly Retail Sales figure and Trade Balance missing expectations, coming in at 0.2% vs 0.4% and -871M vs -750M respectively. Nevertheless, NZD ended last week slightly higher against both the dollar, due to general dollar-weakness post-FOMC Minutes, and it's Australian counterpart. Last week's dairy auction saw lower prices for the fourth week in a row with increased production to blame. In other news the NZ Finance Minister announced the setup of a new working group looking into the possibility of both a Goods and Services Tax and Capital Gains tax. Next week we look to the RBNZ Financial Stability Report and ANZ Business Confidence and the desk maintains its bearish view on NZ in the near-term, holding shorts in NZDJPY targeting 74.00	Bearish	0.6500 3m; 0.6300 12m
CAD	The loonie strengthened throughout the course of last week as front-month WTI crude reached a new two year high. A fairly uneventful week for Canadian data bar Thursday's weak Core Retail Sales figure which came in at a disappointing 0.3% vs expectations of 0.9%. On a positive note though the prior months figure was revised up from -0.7% to -0.4%. USDCAD rallied about 80 pips on the back of the data up to 1.2757 before settling down around 1.2720. The coming week sees a speech from BOC Governor Poloz on Tuesday, OPEC meetings on Wednesday and then GDP, Employment Change and Unemployment on Friday which should give us a clearer taste of what's to come or not from the BOC in early 2018. Support for the pair comes in around 1.2660 and then 1.2600 with resistance at 1.2840.	Neutral	1.2700 3m; 1.2200 12m

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