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G10 Rates & FX - The Traders' Views

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

The US yield curve continued its recovery last week with ten-year govvies closing just off the weekly, and indeed monthly highs, of 2.357. This was a fairly decisive directional move from the lows of 2.0144 seen on the 8th September and was driven by the release of the Republican tax reform overview. The seven pager was fairly light on details but the key points were:

- Corporate tax rate of 20%
- 'Pass through' rate for small business cut to 25% (from 39.6%)
- The seven current tax brackets to be cut to 3 – 12%, 25%, 35% although the door was left open to add a fourth and appease the democrats
- Elimination of most itemised deductions although mortgages and charitable donations remain (no more 'work' jimmy choos)
- One-time repatriation tax on revenues held offshore by multi nationals

To reemphasise the brief was light on details and we don't know the repatriation rate but in the broader scheme of things it takes the spotlight away from the failing healthcare reform bill and looks to be a workable compromise for both parties. Now the hard and less headline grabbing work begins and the debt ceiling murmurings will begin again in the next few weeks to divert some of the shine.

In a separate but no less interesting development there seemed to be confirmation that Trump had chosen the next FED president in Kevin Warsh – son in law of Ron Lauer a close associate of trump. Warsh's background is Wall Street and Government having previously been a governor and vocal on the perils of QE. Yields had a boost with the news but it was soon confirmed that Trump is also speaking with others potentially including John Taylor (Stanford U economist), John Allison (BB&T former CEO), Jerome Powell (Fed Gov) and Randale Quarles (Fed VC for Supervision. A decision is likely forthcoming over the next 2-3 weeks.

With NK failing to launch further missiles and Rex Tillerson, in Beijing, confirming that the US is in direct communication with the regime we should see a further boost to yields in Asia on Monday morning with a continuation of the curve steepening seen on Friday. There is always the chance that the wonderful world of twitter throws us a curve ball or two before then.

G-10 FX	Macroeconomic/Fundamental Analysis	Views (Bearish/Bullish) 2-week Time Frame	Intermediate & Long-term Views (3mth & 12mth Time Frame)
EUR	I find the EUR a difficult one to be inspired by as its drivers are so convoluted and data has and continues to be lethargic at best even as they are steadily improving. The EC continues to wax lyrical about the improving consumer confidence but the biggest economies missed inflation expectations this past week and that is with the ongoing mammoth support from the ECB. Let's hope there has been enough escape velocity built in to support the upcoming tapering. The EUR suffered from USD strength at the beginning of last week although it did recover enough to close above 1.1800 on the week how it opens will largely depend on how Madrid handles the illegal referendum that Catalonians are trying to hold on Sunday. So far it has been with a mass show of force, arrests of public officials and reclamation of control over public financing which, unsurprisingly, appears to have tipped the vote towards independence. Considering that Catalonia accounts for about 20% of GDP with only 16% of the population and 11% of national spending if the vote can take place in a meaningful fashion and any moves to formalise were to occur then Spain's debt to GDP ratio would be looking quite dicey. We're a very long way from an independent Catalonia but then we were a long way from Brexit last year too.	Bearish the EUR – still like to sell rallies above 1.2000 but not expecting to see that opportunity this week	1.1600 3m 1.1700 12m
GBP	Cable has been under fire this past week a bit like beleaguered Prime Minister May even as some positive noises emerged from last week's Brexit discussions. Boris Johnson released another piece of writing in The Sun (I find it hard to call it a newspaper so we'll stick with paper) appealing to Brexiteers with his somewhat harder line stance on leaving the union. Is this the trigger for a back-bencher revolt or a cabinet mutiny against May's leadership? Who knows but the knives are back out and even the Palace has been pulled back into the headlines as a new book released focuses on the week's around the disastrous election, upsetting the Queen and emotional melt downs, none of which is very Prime Ministerial. This whole debacle has somewhat overshadowed Mark Carney's speech at the BOE's conference earlier in the week where he took the opportunity to reemphasise that the UK economy is looking ready for a rate hike. Andy Haldane followed this up with his own speech looking at a hike in the next few months so there should be any surprise if they do hike. To clumsily borrow from David Smith in The Times this past weekend I think that decision is one for the behavioural economists and if you like to fade November the Sonia MPC is pricing around 85% chance of a hike with a downside of 3bp and an upside of 22bp should 'ready' be more like February. Cable is well off its recent highs closing this past week below the psychologically important 1.3400 level and not much standing in the way of a move to 1.3300. With May's leadership looking altogether dicey with tough decisions, to fire or not to fire, expect Monday's Asia open to be interesting.	Bearish the pound	1.3200 3m 1.2800 12m

G-10 FX	Macroeconomic/Fundamental Analysis	Views (Bearish/Bullish) 2-week Time Frame	Intermediate & Long-term Views (3mth & 12mth Time Frame)
JPY	The yen continued its sell-off amid risk-on sentiment and the US tax reforms, with USDJPY printing a new two-month high of 113.26 by Wednesday. There was a bit of a pull back on Thursday as general dollar weakness gave the yen a boost but we close this past week just above where we started at 112.51. Earlier in the week we saw the release of the BOJ's July Meeting Minutes where most members were in agreement that wage and price inflation expectations have stopped declining. PM Abe's election date of October 22nd has now been approved by the cabinet. Friday's CPI and unemployment came out in-line with expectations with household spending and retail sales missing. Industrial production was better. South Korea are expecting more rhetoric/threats/missile tests from their neighbor to the North around October 10th and 18th, as those dates fall in-line with the anniversary of the NK Communist Party, so something to watch out for. While the market favours risk, expect the downtrend in the yen to continue but any move in USDJPY up to 113.20-50 should find exporters ready and waiting to sell dollars. See attached for EURJPY technical trade idea.	Neutral against the USD, bullish against EUR	114.00 3m 118.00 12m
CAD	Despite gains in the energy space, the loonie continued to weaken throughout the course of this past week. On Tuesday the currency gained some ground after finance minister Morneau said that the economy can still thrive even with CAD at these levels. The biggest move came on Wednesday after some comments from BOC Gov Poloz which sounded more dovish than a couple of weeks ago, noting that the economy is at risk of an extreme shock due to the high levels of household indebtedness. A global theme that has been gaining momentum the last couple of weeks. His words gave USDCAD a boost up to 1.2520 and chances of an October hike have now fallen to 25.7%, down from roughly 49% a week or so ago. The market is still pricing in a 63% chance of a hike in December. GDP numbers came in a little lower than expected for July but were revised higher for June in the last piece of data for the week. CAD weakened spiking above 1.2500 on the back of that but settled back below the resistance level to close the week at 1.2469. USDCAD has been moving up a trendline throughout September and I'd look for a solid downside break of 1.2340-ish before turning bullish on CAD again. This week in tier one data we look to Trade Balance & Employment data on Thursday & Friday respectively.	Neutral at these levels	1.2700 3m; 1.3000 12m
AUD	After a strong start AUD/USD weakened somewhat in the latter part of this past week due to a firmer US dollar and it is now treading water ahead of the RBA meeting on Tuesday where some are anticipating some potentially dovish comments. While the pair is still not far away from the year's high of 0.8125 we continue to look to sell into any rallies with a stop above 0.8000.	Bearish with a preference to sell rallies above 0.8000	0.7400 3m; 0.8400 12m

G-10 FX	Macroeconomic/Fundamental Analysis	Views (Bearish/Bullish) 2-week Time Frame	Intermediate & Long-term Views (3mth & 12mth Time Frame)
AUD	This week we have the Melbourne institute Inflation numbers as well as building approvals and the RBA on Tuesday. Expect no change from the RBA and keep your eyes on the Commodity Index released a couple of hours later.	Bearish with a preference to sell rallies above 0.8000	0.7400 3m; 0.8400 12m
NZD	The Kiwi suffered against the stronger dollar early on last week but the highlight for the currency was the RBNZ meeting and accompanying statement. This was a pretty uneventful meeting with a slightly hawkish shift of tone as the central bank left rates unchanged which had been expected. It did immediately bolster NZD from 0.7167 lows to the dizzy heights of 0.7239, so not very high at all, and we close out the week around 0.7210. With no real data next week its highly likely that the focus will remain on politics as the postal election votes continue to be counted, after that the coalition discussions can begin in earnest. House prices and ANZ Commodity prices the only two data points this week with the week of the 10th proving more interesting.	Bearish – look for a quick break of 0.7200 and extension to 0.6900	0.6900 3m; 0.7100 12m
CHF	A fairly quiet week this past week in Switzerland from a domestic perspective. However, the easing of NK tensions and some seeming traction towards tax reform in the US has weakened the safe haven currency. The dollar failed to sustain a break above some key resistance levels during the week, notably 0.9771 and the franc is now looking to challenge some near term support when we open on Monday – look for a break of 0.9666 for a run towards the figure. Market moving data is scarce for this week and there is little reason to see a break from the sideways range of the last few months.	Neutral USDCHF and EURCHF as the break of 1.1500 was decisively reversed in Monday's session. Slightly more bearish longer term although we watch for an escalation in NK carefully.	0.9900 3m; 1.0100 12m

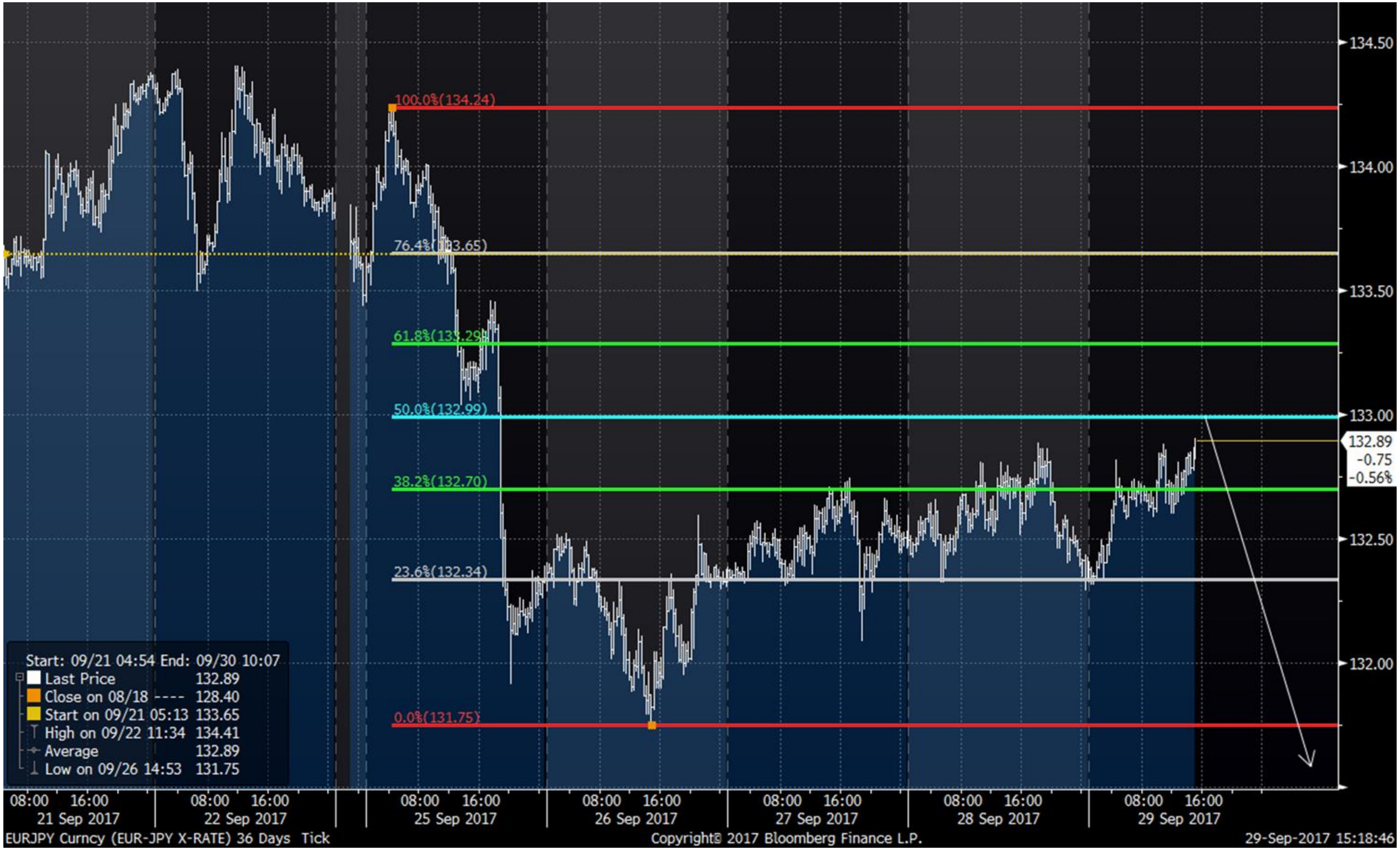
EUR/JPY technical trade idea

We still think the Euro weakness will continue and see the upward moves on Euro crosses as retracements. One of the clearest pairs that is playing out the technical retracement, in our view, is EUR/JPY. We would like to give a second try to short EUR. Sell EUR/JPY around 132.99 (+/- 5pips) with a stop loss at 133.45 (about 0.35%). We expect the pair at least to make new low below 131.75 and possibly to advance further towards 130.00.

Please contact the G10 desk if you need the pricing.

Update on previous ideas: we got stopped on our short EUR/JPY position for a loss of 0.10%. So our combined realized loss YTD is 0.45%.

Please note that (1) this is a solely technical view based on price charts and (2) 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 favourable risk-reward ratio.



Source: Bloomberg; FAB

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