GrowStronger.com

Market Insights & Strategy
Global Markets

13 October 2017

Please click here to view our recent publications on MENA and Global Markets

بنك أبوظبي الأول
FAB
First Abu Dhabi Bank

G10 Rates & FX - The Traders' Views

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

Sentiment in the US remains contained as the Trump tragedy continues to worry and a lack of key details on the tax reform bill stall a recovery in yields. 10y govvies haven't come close to challenging the 2.40% resistance this week with a slightly more dovish FOMC statement and Columbus Day outweighing the positive moves in inflation data. Friday's markets were further subdued by news of another earthquake in North Korea although it would seem that threats and counter threats are becoming the new normal and having less and less impact. The theme of weaker USD and lack of conviction with regard to the US recovery seems a difficult one to shake off even as the evidence mounts of a global recovery. Last week could be viewed as a sideways blip ahead of another push higher in yields which is the direction we believe the market should be heading towards. The week ahead is an interesting one from a data perspective with Empire Manufacturing, Industrial Production, Mortgage Apps, Housing Starts, Jobless Claims, Consumer Confidence, Philly FED and Home Sales to keep us occupied. We'll also be watching for soundbites from the IMF conference and oil prices to try to get some volatility back into the market.

Touching back on the FOMC minutes leads me to ask the bigger question, considering the Central Bank's group think mentality and growth heading in a positive direction just how important is inflation to CB's in achieving their mandates. Certainly the FOMC talked the market back from the edge of pricing a proper hiking cycle into the curve towards data dependency with the release of the minutes. However market dynamics have certainly evolved with the extraordinary measures that have been taken over the last ten years and we are currently in the unusual position of seeing higher growth, higher asset prices, higher bond prices and low volatility with the easiest monetary policy seen globally. This should not be sustainable but it has been and it is certainly something that the academics on the various monetary policy committees' are fully briefed on and something that the market seems to be underpricing. Carney wants to hike and Nov looks likely, Draghi wants to reduce (and technically is somewhat forced to) QE support to the Eurozone and Yellen, who is driving the strongest economy, seems to be the most cautious of the three. It should be clear that the US curve should not be flatter than the sterling curve and there are some nice box spreads to fade there either through OIS/SONIA or futures, and forwards, EUR looks like it has some room to steepen ahead of a more aggressive cut to easing.

Good week ahead.

G-10 FX	Macroeconomic/Fundamental Analysis	Views (Bearish/Bullish) 2-week Time Frame	Intermediate & Long-term Views (3mth & 12mth Time Frame)
EUR	The Catalonians' independence was the main driver for EUR as of late, cautioned Puigdemont decided to postpone the independence decision and was granted an extension by the Spanish government. On the central bank front, sources report that the ECB might reduce QE by €30Bio/ month, but with an added pledge to extend the APP until September at least. The market remains on edge with these mixed signals, but Draghi put an end to speculation when he noted that the guidance on rates remains at present levels well past the horizon of the net asset purchases, which has seen EURUSD give back half of its weekly gains. We remain bearish EUR, with an expectation that the ECB will not relinquish its easing stance, look out for Draghi's speech next week	Bearish whilst below 1.2000	1.1500 3m; 1.1700 12m
GBP	The weaker USD helped to propel cable off last week's lows and has continued to support even in the face of a downgrading of growth expectations from the IMF, continued political tensions, be they Brexit or leadership related, and the BOE Credit Conditions Survey putting unsecured lending/consumer credit back under the spot light. A late headline on Thursday that Barnier had offered a transition period to the UK helped propel the pound above 1.3250 and it has sat above since then ignoring all alarmist 'deadlock' Brexit headlines and the uncertainty surrounding Philip Hammond's future as Chancellor. We remain bearish on cable and feel that a November hike would be a one and done deal. The market is overpricing the aggression we'll see from the BOE in hiking after a decade and we do not feel that this hike will trigger a slew of movement. As the market approaches 90% priced for the 2nd look out for the inflation data on Tuesday to throw a potential spanner in the works, either way next week has more data to dig into with employment data Wednesday and retail sales Thursday. As well as Carney's testimony on Tuesday so should be a more interesting week from an economic perspective.	Bearish with the pound facing many headwinds	1.3000 3m; 1.2700 12m

JPY	Yen trading kicked off the week quietly as the Japanese celebrated Health and Sports Day on Monday. Lucky people. Trading within a big figure range throughout the week, the currency appreciated ever so slightly, with gains capped near the 200 DMA. Core Machinery Orders came out last week at 3.4%, much better than the expected 0.9% while PPI y/y was in-line at 3.0%. The latest Kyodo News poll showed that PM Abe's party is set to win a sweeping majority in the October 22nd election but that was pretty much a given. In the coming week we see Revised Industrial Production on Monday and Trade Balance on Thursday. Expect USDJPY to be capped on the upside for now around 113.20-ish by exporter offers and on the downside at 111.80 and then 111.50.	Still neutral against the USD, bullish against EUR	114.00 3m; 118.00 12m
CHF	Nothing really new in the land of chocolate, except the release of the new 10 Franc note, how exciting! This week has been quiet in terms of Swiss data and apart from the unemployment which ticked slightly lower, there were no additional material Swiss data leaving EURCHF to track EURUSD moves. Levels to watch on the topside are 1.1580 – 1600.	Neutral CHF and we are still alert for any escalation in NK for safe haven flows.	0.9900 3m; 1.0100 12m
AUD	Aussie has been gaining momentum every day this week against all odds, boosted by better consumer inflation, Westpac consumer confidence and higher home loans, printing a high of 0.7886 and observing September highs at 0.8125 as a next target. On the other hand, the rally might stall as the fundamental issues remain, commodities might reach the lows of this year and the RBA highlighted in the Financial Stability Review the household borrowing problem along with wage growth. Next week we will have the RBA October rate meeting minutes, along with Speeches from RBA Debelle and Ellis. Aussie bulls should feel warry as the central bank has always maintained its dovish stance.	Bearish whilst below 0.8000	0.7400 3m; 0.8400 12m
NZD	Kiwi remained in the consolidation mode most of this week, supported above 0.7050 and eventually broke above 0.7100 which opened the door for a move towards 0.7200 on the back of softer US data on Friday. Now that NZDUSD slightly retraced part of the selloff back in mid-September, the pair might enter an exhaustion period, weighed down by political uncertainties and recent weak economic releases. Look out for next week's inflation data.	Neutral	0.6900 3m; 0.7100 12m
CAD	After a quiet Monday due to both Canadian Thanksgiving and Columbus Day in the States, the loonie spent the week recovering from a month of losses but eventually found resistance at the 50 DMA (1.2457 in USDCAD). The big news was the liquidation of Sears Canada resulting in 12,000 job losses nationwide which is about equal to the amount of employment gains nationwide for the month of September. PM Trudeau met with his US and Mexican counterparts for NAFTA renegotiations but with no real outcomes seen as of yet. In USDCAD, on the downside we should see decent support around 1.2400 with the July low at 1.2412 and the 38.2% retracement of the September low to last week's high coming in…	Neutral	1.2700 3m; 1.3000 12m

CAD	…at 1.2397. A break of the 1.24 handle could open us up to 1.2333. On the upside look for resistance at 1.2604 and then 1.2665. Next week the only tier one data releases are CPI and Retail Sales on Friday which could give us a better idea of what the BOC may or may not decide to do at their December (or even October) meeting. The market is now pricing in a 34% chance of an October hike (5 percentage points higher than earlier last week) and a 56.9% chance of one in December (5 points lower than earlier in the week).	Neutral	1.2700 3m; 1.3000 12m

Contributors

FAB Global Markets FX & Rates

G10

Alison Higgins
Alison.Higgins@nbad.com

Nourah Al Zahmi
Nourah.Alzahmi@nbad.com

Meera Al Marar
Meera.AlMarar@nbad.com

GCC & EM FX

Husain Askar
Husain.Askar@nbad.com

Ahmed El Alami
Ahmed.ElAlami@nbad.com

Pinrath Wongtrangan
Pinrath.Wongtrangan@nbad.com

Danay Sarypbekov
Danay.Sarypbekov@nbad.com

Tel: +971 2611 0111