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G10 Rates & FX - The Traders' Views

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

Overall last week proved to be bullish for USD yields as the market shrugged off an equity led retracement on Thursday to embrace the data hits and seemingly celebrate Yellen falling out of the running for FED chair. Stellar tech sector earnings on Thursday night also served as a boost to the curve with ten year govvies briefly breaching 2.47%. There has been a clear break of the range we've been trapped in since March (2.42-2.03%) and we anticipate further solidification of a new higher trading range although the week ahead certainly throws up some interesting risk events including payrolls and the Treasury department's quarterly refunding announcement on Wednesday.

The US GDP release came in above consensus showing a solid growth of 3% in Q3, which is a nice surprise given the fact that it had to overcome the hurricane effect. Personal consumption and GDP price index both released better than expected and the U of Michigan was on par with the forecast. The strong set of data boosted the curve ever so slightly until rumors were released that Trump is leaning towards Powell as the next Fed chair which saw a deep reversal of the move.

On the FX side, price action as of the last week is very supportive for USD and considering that the momentum behind this strength is picking up, we can expect the greenback to continue to make gains in the next 3-4 weeks. The base of currencies against which the dollar is advancing is broadening and now includes EUR, NZD, AUD as well as TRY, ZAR, MXN. So it now becomes to look more like a broad trend rather than idiosyncratic moves various currency pairs. Also seasonally speaking Q4s are historically good for the US dollar. Please see our technical view on EURUSD below and the same technical outlook applies to the US dollar index DXY as it consists 66% of EUR.

This week has a plethora of data starting with Personal Income and Spending on Monday and the PCE series, Chicago Purchasing Manager and Consumer Confidence on Halloween, Mortgage Apps and the ADP employment change, Final October Markit PMI and the ISM's on Wednesday followed by the FOMC at 10pm. If that wasn't enough we round the week off with Non-Farm Payrolls and the Unemployment Rate on Friday.

G-10 FX	Macroeconomic/Fundamental Analysis	Views (Bearish/Bullish) 2-week Time Frame	Intermediate & Long-term Views (3mth & 12mth Time Frame)
EUR	A spectacular performance from Draghi, delivering a dovish message that took some market participants by surprise, even though Draghi did his best priming the market ahead of the meeting. The ECB will continue its asset purchase program at the pace of €60 until December, followed by €30 from January until September 2018 and the strong majority of the council preferred to keep QE open-ended. Furthermore, the ECB will keep reinvesting the principle "for as long as necessary" and left the door open to extend QE beyond September or raise amounts if needed. Being at the forefront of the most watched central banks of the world, the ECB proved that its easing stance is here to stay and prolonged the life of its current policy which saw a meltdown in the FX world especially in EURUSD as the EU-US policy divergence comes into play. The aftermath of the meeting saw a serious liquidation of the stubborn EUR longs pushing EURUSD to a low of 1.1588 closer to the psychological level 1.1550 where I would expect the pain to intensify causing the move to accelerate. The desk recommends short EURUSD in the current circumstances, especially now that the Catalan parliament declared independence while the Spanish government is set to trigger article 155 which will mean that EURUSD will be sensitive to any Spanish headlines next week. Please see below our EURUSD trade idea.	Bearish	1.1300 3m; 1.1700 12m
GBP	Headline GDP didn't disappoint in the UK beating expectations to show expansion of 0.4% mom and 1.5% yoy and seemingly cementing a rate hike next week. November MPC Sonia traded as high as 0.4375 (90%) before falling back a couple of bps. Data has not been hawkish across the board with weaker retail sales, wage inflation and employment growth but the inflation numbers coupled with the stronger GDP may have swayed some of the less aggressive members of the MPC. We still think the call will be closer than the market has priced and although Carney was fairly explicit in the September minutes, 'there may need to be some adjustment of interest rates in the coming months' he is not shy of disappointing – first meeting post Brexit market had fully priced a cut which did not come until the following meeting. Risk reward clearly favors fading the hike at these levels 2.5:22.5 and we look to fade some of the pricing built into the curve. Cable is not benefitting from the decent GDP data this week and drifted lower without a clear catalyst. Macro names seen pushing Cable even lower at the end of the week which triggered stops in its way after Bundesbank Dombret commented that banks need to prepare for Brexit negotiation failure. Notably in the FX world, GBP is holding its…	Neutral	1.3000 3m; 1.2700 12m

G-10 FX	Macroeconomic/Fundamental Analysis	Views (Bearish/Bullish) 2-week Time Frame	Intermediate & Long-term Views (3mth & 12mth Time Frame)
GBP	… grounds against the crosses with the exception of USD, which indicates that selloff in Cable might be short lived and I would expect some support to emerge above 1.3000 unless Fitch or the S&P downgrades the UK in its rating review over the weekend.	Neutral	1.3000 3m; 1.2700 12m
JPY	The decline in the Nikkei stock index futures and the eased Japanese political tensions saw JPY recover across the board. However, the new profound optimism around the US tax plan improved the dollar sentiment which in turn outshined the JPY recovery. Then the Japanese Yen was stuck between a rock and hard place as the ECB dovish message pushed EURJPY off the edge and the demand for JPY limited USDJPY from making any new highs above 114.50. With that said, the price action reveals that USDJPY is preparing to make way for a new range higher and a break of 115.00 will set the tone for further dollar gains against JPY.	Bullish USDJPY	114.00 3m; 118.00 12m
CHF	EURCHF continued its march higher this week before being rudely stopped in its tracks by Draghi's dovish leaning ECB meeting. The pair broke the 1.1700 psychological resistances but couldn't hold and dropped back almost a big figure, still trading well off recent lows and there is nothing ahead that would suggest an aggressive turn around in sentiment. PMI Manufacturing the highlight on Wednesday with the SNB releasing Q3 currency allocations on Tuesday.	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	AUD broke through the recent range weakening to lows of 0.7634 last week after Government lost its majority due to deputy PM Joyce's dual citizenship barred him from being elected to parliament under the constitution. The loss of majority is seen as temporary as a Joyce rescinded his NZ rights and a by election will be held on the 3rd Dec which he is expected to win comfortably. However, nothing is guaranteed and coupled with misses in CPI and PPI the currency suffered and repriced the chances of the RBA tightening any time soon. Decent week ahead with Home Sales, Commodity Index SDR, Building Approvals and Retail Sales to keep us busy.	Bearish	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)
NZD	The kiwi dollar hit yearly lows on Friday after Jacinda Ardern was formally signed in as Prime Minister after three weeks of coalition discussions between NZ First and the Labour party. She has already drawn international criticism for her approach to limiting immigration but in general her policy outline appears fairly balanced including some environmentally friendly deals with the Green party. Her stated approach to limiting foreign investment has impacted on the currency but we may see some respite as the new government settles in. Building Permits, Business Confidence and the Unemployment Data will keep us occupied next week.	Bearish	0.6800 3m; 0.7000 12m
CAD	BoC kept rates unchanged as widely expected especially post the weaker than expected CPI. The central bank adopted a cautious approach in its message regarding future hikes blaming stronger currency for the underperformance of exports which might entail slower growth and impose risks to inflation. Furthermore, BoC highlighted the risks from its neighbor and in the event of increased NAFTA risks the hike might be delayed further. On top of it all, in a recent interview BoC Poloz emphasized again his concerns regarding high household debt and would rather adopt data dependence when deciding on rate path and wished that the market does the same. The market is currently pricing in a 30% chance of a December hike, which I think is over optimistic, and the aftermath of the dovish policy statement USDCAD rallied to 1.2900. I would expect further CAD weakness in the near-term especially if the GDP data misses on Tuesday.	Bearish - USDCAD	1.2700 3m; 1.3000 12m

EUR/USD Technical Trade Idea

The technical picture on EURUSD is now clearly bearish after the downward move yesterday of around 1.5% and with the daily closes below the 100-day moving average (MA) at 1.1679. There are multiple technical patterns that all point towards further movement lowers in the single European currency. One of this is a complex head and shoulders with the neckline around 1.1665-1.1680. The projection of this pattern points towards the 200-day MA at 1.1245. According to the Elliot wave count the pair has already completed waves A and B, with the wave C in progress which is usually moves very quickly and very often exceeds wave A in its size. We think that the next immediate target level on the downside is around 1.1425-1.1445, followed by 1.1216-1.1245. The immediate resistance level for the exchange rate is around 1.1679.

The key question now is where to sell EURUSD and in our view the upward corrections/retracements will be shallow for the days to come and will not exceed 23.6% and 38.2% of the previous moves. Therefore for today we look to sell EURUSD between 1.1675-1.1706.

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