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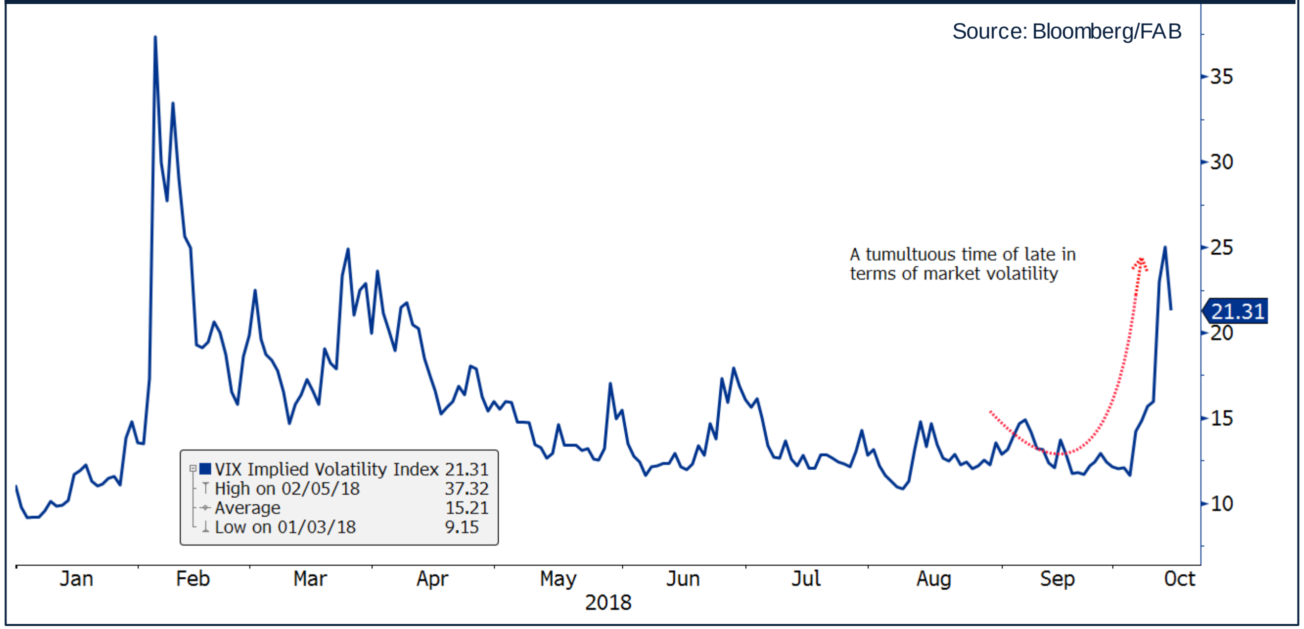
G10 Rates & FX, & Oil - The Traders' Weekly Views

Market Overview: Riding the Rollercoaster

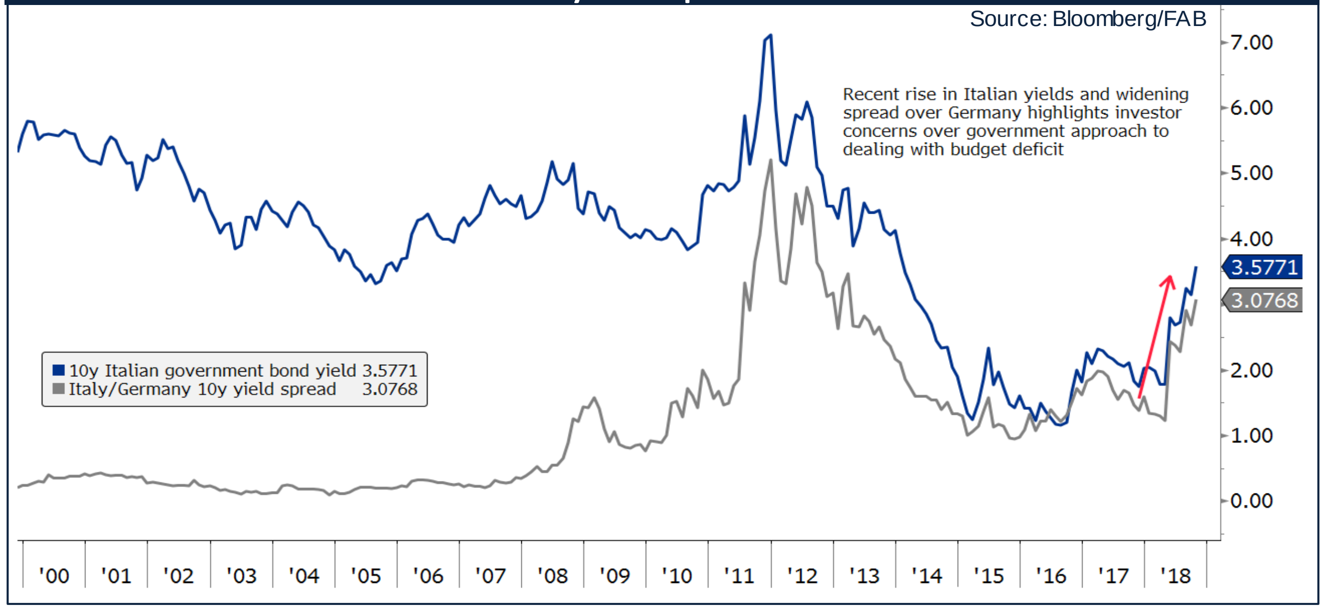
- Global market sentiment ended last week on a firmer note after several tumultuous sessions earlier in the week, nonetheless we would suggest that the propensity for further volatility remains elevated over the coming week. We should at least have a firm base to trade off initially though; global equities traded more than 1% higher on Friday and the iTraxx credit indices and high yield corporate bonds both saw spreads edge tighter.
- This said, market sentiment remains susceptible to headline risk and in this respect all eyes will now be on upcoming Q3 earnings data – as we seek confirmation or otherwise that Trump's fiscal stimulus/tax cuts are still boosting corporate balance sheets – as well as near-term high tier macro data.
- Key data this coming week will include U.S. September retail sales (Monday) and the latest Fed minutes (due Wednesday) as well as Eurozone CPI numbers (Wednesday). The macro data spotlight will then turn securely toward China Q3 GDP data, due for release on Friday, where the market will be bracing for any meaningful impact of U.S. tariffs; consensus is for a modest dip to +6.6% YoY from +6.7% YoY in Q2.

A rollercoaster time



- Robust Chinese trade data helped to assuage global trade war fears and negative sentiment toward the global growth outlook. All of this was buoyed by suggestions of a U.S./China meeting over trade terms that could take place next month. Meanwhile, solid third quarter bank earnings from JP Morgan Chase, Citigroup and Wells Fargo marked the start of the new earnings season and with the path of least resistance for the rates market expected to be higher over the coming months, this should offer further support to financials.
- In Europe, the market will likely be keeping a close eye on Italy over the coming weeks as the parlous balance sheet of the southern European sovereign weighs on sentiment. Indeed, such is the susceptibility of the market to headline risk that we expect continuing concerns about Italy and its broader strains on the Euro, to limit any potential near-term strength in the single currency.

Italy under pressure



- Indeed, question marks over Italy have been exacerbated of late by unidentified ECB sources suggesting that the ECB would not come to Italy's rescue unless Rome requests a formal bailout program. And with a potential sovereign credit rating downgrade looming from Moody's, we would conjecture that risk is still definitely tilted to the downside when it comes to Italy.
- Meanwhile, MENA/GCC markets remain susceptible to further bouts of broad market volatility, although the firm relative value macro fundamental strengths of the sector should continue to limit absolute downside risk in a flight to safety scenario and fuel relative outperformance versus any broader EM weakness. With the path of least resistance for bond yields being higher, we continue to advocate risk differentiation, with credit quality curves biased to steepen.

(Simon Ballard, Macro Strategist, Market Insights & Strategy)

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

G-10 FX	Macroeconomic/Fundamental Analysis	Views (Bearish/Bullish) 2-week Time Frame	Intermediate & Long-term Views (3mth & 12mth Time Frame)
EUR	A week of two halves for the single currency; it dipped as low as 1.1432 as BTP/Bund spread was trading above 3.00 and by contrast the second half of the week carried a mass risk-off on the back of the equity selloff. The second move can only be described as dollar positioning readjustment that fueled the EURUSD rally all the way to 1.1600 by the end of the week, and now we recommend closing the EURAUD long position in the money for the following reasons. Caution is advised against chasing the rally as Italy is still looming and last week unidentified ECB sources mentioned that the ECB will not come to Italy's rescue unless the country requests a bailout program. Risk is definitely tilted to the downside when it comes to Italy and Moody's potential downgrade might put a cap on the EUR rally.	Neutral	3m 1.1600 12m 1.1900
GBP	Continued positive noise around a Chequers/May transition has lifted cable back above 1.325 as the market reprices the probability of BOE rate movement in 2019. 10yr Gilt yields have also reacted accordingly and are at the year highs at 1.70%.	Bullish	3m 1.3000 12m 1.4500
JPY	Last week, USDJPY failed to sustain its gains above 114.00 because the worsening risk sentiment triggered a flight to quality move, treasuries rose and safe haven JPY flows increased which pushed USDJPY sub 112.00 by the end of last week. Looking into this week, all eyes on the US top tier data and softer prints could spur further USDJPY losses, especially now that the Trade worries eased after the release that Trump and Xi will be meeting after the g20 summit accompanied by Mnuchin's comments that China is not manipulating the CNY, both headlines seen as positive and might lead to a near-term consolidation.	Neutral	3m 110.00 12m 108.00
CHF	USDCHF continues to trade near its weakest in a month with the pair above the 50 and 100 day moving averages. Despite the equity turbulence for most of the week, the Swiss franc, which is traditionally a safe haven, remained stable for most of the trading week. Initial support on the pair is at 0.9850 while we expect resistance at parity.	Neutral	3m 0.9900 12m 0.9700

G-10 FX	Macroeconomic/Fundamental Analysis	Views (Bearish/Bullish) 2-week Time Frame	Intermediate & Long-term Views (3mth & 12mth Time Frame)
AUD	AUD/USD has had its breakouts for the past couple of month; Aussie has been facing a challenge in gaining back its loss. AUD/USD has been dragged along by global economic shocks; Trade War, Brexit, China slowdown growth, Trade tariffs and Italy sovereign debt problem. Aussie has dropped to the lows of 0.7042 on Monday as support level are at 0.7041 and for any downside move next level is 0.6900. Resistance level is at 0.7150 for any break upwards next level would be 0.720. Positive attitudes said by Luci Ellis assistant governor in the financial stability review; RBA upcoming outlook for the short run and long-term is economic growth support. Short run support will be focused on more job growth and ensure continues living standard increase; and in long-term trying to maintain a stable inflation environment that can create more investment attractions. Keep an eye for employment numbers on Thursday.	Bearish	3m 0.6900 12m 0.6500
NZD	New Zealand has been retracing some of it loses of the past week as it leads its way against G10 currencies. NZD/USD rises 0.5% to 0.6530 as Doller weakens after Trumps continuous criticizing the Federal Reserve for its “stringent monetary policy”. Market is short Kiwi as traders taking opportunity by fading the rally as the currency is expected to trade sideways as expectations that Kiwi might break 0.6560 and new resistance levels are at 0.6600 for next week. Keep an eye for CPI numbers on Tuesday.	Bearish	3m 0.6300 12m 0.6100
CAD	Contrast to its other G10 peers, the Loonie retreated against the dollar amidst the commodity selloff and equity tumble and CAD sold off in sympathy with Oil. USD/CAD struggling to break resistance level 1.3070 as the market new range is between 1.2940 and 1.3070. Furthermore, USDCAD traded as high as 1.3072 before reversing some of the gains at the end of the week on the back of positive finance minister Bill Morneau discussions about steel tariffs with the US, which resulted in USDCAD retracing back to 1.3000. Moving onto this week, the Loonie is likely to continue to track the Oil prices amid the lack of top tier Canadian data. Lookout for CPI numbers on Friday.	Bearish	3m 1.2500 12m 1.2200

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G10

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