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G10 Rates & FX - The Traders' Views

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

Friday morning in Abu Dhabi and post Draghi's press conference the USD has continued to collapse allowing EUR to power through major resistance levels on its seemingly unstoppable path to 1.2250 and further, 1.2500. Ten-year govvies look set to break 2%, next stop 1.80%? That is with a FED expected to taper before Christmas and a Federal Government granted some breathing space with the debt ceiling extension until mid-December.

So what is weighing so heavy on the US? Western press agencies have certainly taken hold of the Korean peninsula story and the idea of a nuclear holocaust has captured the imagination of many. The powerful hurricane battering the Caribbean and expectations of devastation to the South coast, so soon after tropical Storm Harvey hit Texas, will stretch emergency resources to the max. Trump has reacted with his usual bombastic rhetoric but it's at times of desolation that people need to see positive, active responses from leadership and his ability to secure funding for victims of Harvey very quickly – admittedly not a hard sell – could prove a small turning point in his thus far underwhelming presidency.

Back to markets though and we seem set to see further flattening from 2s10 which broke the 50 support this morning, a close below would indicate further room for the curve to flatten, next stop 46bp. Hike chances in December are below 20% with less than a 50% chance priced in through to the end of 2018. Even with the recent lackluster data points from the US including this week's misses in durable goods, PMI's and increases in jobless claims the economy is still showing broad based recovery and growth (although the total damage from this season's storms are yet to be seen http://www.marketwatch.com/story/no-hurricanes-are-not-good-for-the-economy-2017-08-28). The FED remains consistent in expecting a turnaround in inflation but they are unlikely to hike until the numbers show some signs of definite improvement which we are still waiting for.

In the meantime, for less active portfolio's, this move and potential continuation provides a good opportunity to hedge. For those in the markets daily, tight stops and short-term plays should prove the more profitable strategy in current conditions as we see stops triggered daily pushing FX and rates through technical supports and resistance levels.

The FX&Rates teams are happy to explore any of the topics discussed below, via phone, email or in person so please feel free to reach out if you should need further clarification or colour.

G-10 FX	Macroeconomic/Fundamental Analysis	Views (Bearish/Bullish) 2-week Time Frame	Intermediate & Long-term Views (3mth & 12mth Time Frame)
EUR	The long awaited ECB meeting came and went. The ECB left rates unchanged as expected, upgraded their growth forecasts but reduced the inflation outlook. Furthermore, Draghi indicated that the future of the AAP past December will be discussed at the upcoming October meeting, which means that we could be reliving the same scenario then. EURUSD had a relief rally on the back of the meeting printing a high of 1.2092 so far. With that said, it is apparent that the currency appreciation could be a concern to the council and is important to watch its deflationary implications on the monetary policy. All in all, we thought the statement was balanced just as expected from Draghi, having both dovish and hawkish elements to it, therefore we think the market will consolidate above 1.2000 and at current levels it is extremely difficult to pursue the move higher.	Neutral	1.1700 3m; 1.1800 12m
GBP	The disconnect between FX and rates markets is very clear in sterling as spot rallied from 1.2857 to highs of 1.3147 today whilst gilts have been a fully paid up member of the global rally in duration, settling for the week just above 1%. It is surprising to see cable holding its own with the continuing weight of Brexit talks hanging over the economy although the lack of supply into the market has also subdued the yield curve this summer. PMI's continue their glacial drift lower although house prices remain strong – not good news for those trying to get on the ladder amidst stalling wage inflation. Tuesday is inflation day and all eyes will be on the CPI and retail price index, followed by earnings on Tuesday and the unemployment data with little new expected from the BOE on Thursday.	Bullish – targeting 1.3300	1.2600 3m; 1.3000 12m
JPY	Sunday's alleged successful hydrogen bomb test and continued rhetoric from North Korea set the stage for a week of Yen strength. USDJPY gapped lower on the open by about 75 points and never looked back. Comments from former BOJ board member Kiuchi that the BOJ has already begun moving away from radical stimulus only added fuel to the fire. On Wednesday we saw dismal wage data and former currency chief Watanabe saying that the BOJ can start tapering now, before reaching its 2% inflation target. Not even Friday's disappointing Q2 final GDP could stop the train as it broke through April's USDJPY low of 108.13, finally grinding to a halt at 107.57 and bouncing about 20 pips at the time of writing. The next big technical level to lookout for is 107.49 for a weekly close, a breach of which could open up a move towards 106.91.	Neutral - USDJPY shorts look stretched but remain in place – levels to watch are 106.91 followed by 105.00	112.00 3m; 118.00 12m

G-10 FX	Macroeconomic/Fundamental Analysis	Views (Bearish/Bullish) 2-week Time Frame	Intermediate & Long-term Views (3mth & 12mth Time Frame)
CHF	Persistent dollar weakness has eroded all of USDCHF gains we saw at the end of august and even a slight miss in the Swiss YoY GDP could not slow down this selloff. What is interesting to note is that, the ECB inflicted EUR rally did not result in EURCHF closing above 1.1500, could it be a sign of exhaustion? Furthermore, CHF remains significantly overvalued as viewed by the SNB, and the backdrop of the global political worries just means more safe haven demand for CHF and at next week's SNB meeting I would expect to hear the same rhetoric about the strength of the currency and a test of 0.9400 could be in the cards next week if the USD selloff continues.	Neutral – speculators are gaining in confidence having breached 1.1200 with little difficulty.	USD CHF 0.9900 3m; 1.0000 12m
AUD	The AUD remains in bullish mode supported by a soft US dollar and firmer commodity prices and ignoring North Korean tensions and a slightly lower than expected GDP number. While the RBA does not appear to be too happy about AUD/USD being above 0.8000 this recent break is a strong bullish signal and opens up room for a test of 0.8160 in the near term. Looking at the week ahead we have the employment and RBA speakers.	Bullish	0.8100 3m 0.8500 12m
NZD	After spending all of August retreating from a two year high, Kiwi-dollar started the month on a positive note, stopping short of the 200-day moving average and recouping almost half of its losses throughout the week. Monday's Treasury Monthly Economic Indicators revealed retail spending up in Q2 and likely Q3 while inflation and wage growth remain subdued. Kiwi dollar traded in a tight 30-point range for the session. On Tuesday, construction activity missed expectations of +1.6%, coming in at -0.5% q/q, with post-earthquake construction efforts having pretty much come to an end. Nevertheless, NZDUSD had rallied about 1.5% by the end of the NY session on the back of dollar weakness across the board. By Thursday, almost all of the Kiwi's gains were erased before another massive USD-weakness based rally with the currency moving up 2.3% against the dollar in less than 24 hours, breaching the 50-day moving average (.7318) by 20 points but has settle around .73-figure at the time of writing.	Bullish – below 0.7100 negates	0.6900 3m; 0.7100 12m
CAD	USDCAD extended its move lower after the BoC hike and 1.2000 does not look far from reach right now. It is interesting to see the FX market ahead of the rates curve as we've seen CAD strength apparent ahead of the July meeting where the first hike happened, followed by an extended period of CAD strength where even most economists did not price in the second hike at this meeting. The BoC is playing catch up and as we stand the market is pricing in another hike by December. Additionally, the Canadian employment data released on Friday was decent with the unemployment ticking down to 6.2% and the overall strength of the headline data is likely to be CAD positive for the time being.	Bearish – preference to sell USDCAD around 1.2500	1.3100 3m; 1.2800 12m

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