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G10 Rates & FX - The Traders' Views

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

The FOMC was the highlight of last week as Yellen and co somewhat surprised the market by their non-dovish tone and unchanged economic projections. They still see a hike on the table for 2017 and three more in 2018, and will also start their well flagged tapering of the balance sheet next month. The market is still not convinced in the US with around 60% priced for December – contrast this to their cousins across the pond in the UK where a November hike is over 80% priced – and only another 12.5bp priced into the end of 2018. I think this underlies a big issue in the US at the moment, low yields have been very supportive of zombie corporates and as the FED moves to 'normalise' their balance sheet we'll see more in the way of Toys-r-Us filing for bankruptcy.

The curve is still optically flat but any move towards a higher debt burden is going to put pressure on the economy and there just isn't that high level of conviction that the FED has got this under control. There is also ongoing doubt as to the light dismissal of lethargic inflation data as the market appears to take the data at face value and then struggles to understand where the bounce will come from.

There is no doubt that central bankers are in a predicament, with Draghi for me having the most difficult job. And with some deviation from the 'group think' that led them all down the same garden path, this change of tack has brought some welcome volatility back to markets post he summer haze. In the coming weeks we will hear from Draghi, Carney and Yellen alongside many of their colleagues which will certainly add headline pressure to markets.

Yellen especially, speaking on 'inflation, uncertainty and monetary policy' is one to watch on Tuesday as she may address some of the murky issues which continue to weigh on the US rates curve. That said post the FOMC it would seem that a hike in December is now the base case and should prove supportive of higher yields and a more bearish treasury market. There was a small pull back on Friday as Trump and his very own rocket man threw their toys out of the pram, again, and we watch for a launch in the Korean peninsula this weekend. We're also watching for anymore opposition to the healthcare bill after Senator John McCain said he couldn't support it on Friday - one or two more withdrawals of support would kill the bill and further undermine Trump's ability to bring about change.

Outside of that we maintain our short end fed fund steepeners (Nov17Feb18) which have performed nicely post FOMC although we have added a partial stop at 14.5bp (entry 7bp target 20bp). We closed the outright paid position on the curve post FOMC and look to add on further weakness Monday.

G-10 FX	Macroeconomic/Fundamental Analysis	Views (Bearish/Bullish) 2-week Time Frame	Intermediate & Long-term Views (3mth & 12mth Time Frame)
EUR	EURUSD has been edging slightly higher every day this week, lifted by the dollar unwinds ahead of the FOMC and supported by consistent Eurozone data namely inflation, ZEW German Survey, German PPIs and Markit PMIs. The pair dipped slightly on unofficial comments from the ECB regarding the strength of the currency and division amongst ECB members with regards to the date on the APP. However, the market quickly recovered, which indicates that only a comment from Draghi himself could dent the EURUSD rally that has been gaining momentum over the summer months. The single currency did lose the majority of its bi-weekly gains through the FOMC, but it quickly bounced back as the market prepares for the German elections this Sunday. Election polls shows Merkel is in the lead which is seen as supportive for EURUSD as the market contemplates the economic consequences of her income tax cut and expenditure plans. With that said, the impulsive EURUSD selloff during the FOMC triggered bearish technical signals and the desk believes that Merkel's victory is already built into the price, and should therefore have a limited impact. We see value in instigating EURUSD shorts around 1.2020 with a SL around 1.2120.	Bearish – with preference to sell the rallies above 1.2000	1.1700 3m; 1.1800 12m
GBP	May gave her long awaited Brexit outline in Florence on Friday which garnered a lukewarm reception as it was fairly light on details. The Prime Minister reiterated information that was already in the public domain and at this juncture – with the next negotiations beginning on Monday – the market needs to see more than broad strokes to boost sterling further although it would likely have given Europe enough to move the talks forward. A two year transition period post Brexit, expectations of a deal that is neither Norway or Canada but crucially no mention of a divorce settlement number (although €20bln has been bandied around) hurt the proud pound which has been en fuego for the last few weeks. Moody's joining its contemporaries in downgrading the UK to Aa2 and the weight of a non-dovish FOMC saw cable off yearly highs (1.3657) as it struggled to close above 1.3500. Domestically it appears that Boris has been taken to task and May asserted some authority as he flies home from the UN with her in a show of unity. For those in the UK who are just about managing (JAM's) the FCA has released a fairly damning report about the rising burden of debt in the UK. With house prices begin to tip over and wage inflation non-existent this problem is the one that, for me, weighs heaviest and makes me discount the idea of Carney moving rates higher as soon as November. The desk receives the November CB meeting via Sonia between 0.40-0.42 (downside 0.465 upside 0.215) looking for no hike on the 2nd Nov. We have GDP on Friday which is really the highlight of the week outside of house prices and mortgage approvals but the week is likely to be ruled by the ongoing Brexit discussions in Europe so expect lots of headline volatility.		1.3300 3m; 1.3000 12m

G-10 FX	Macroeconomic/Fundamental Analysis	Views (Bearish/Bullish) 2-week Time Frame	Intermediate & Long-term Views (3mth & 12mth Time Frame)
JPY	Last Monday, the Japanese press began speculating that PM Abe would call a snap-election for the end of October. Whilst we would apply a low probability to the incumbent losing, taxation and Abenomics are now on the table with any potential end to the accommodative policy likely negative for the USD JPY. The Yen continued its retreat for the second week in a row, supported by the 100 DMA on the downside at 111.07, USDJPY and breaking through the 200 DMA on the upside. It touched highs of 112.72 post-FOMC and bolstered by a no change from the BOJ before settling into a one figure range for the rest of the week. A close above 112.16 would have given us confidence in a continuation of JPY weakening over the next few session but it bounced off that resistance and closed at 111.97.	Neutral	112.00 3m; 118.00 12m
CHF	The SNB meeting passed without the need for comment although notably, the central bank's tone regarding the appreciation of CHF has softened substantially. This is somewhat surprising considering that safe-haven flows that have increased of late with the escalating rhetoric relating to North Korea. Away from the US we feel that the SNB takes some comfort from the EURCHF pair which continues to print fresh yearly highs and offers the Swiss economy some support. Next week we have second tier data and feel it more likely that the Swiss will be directed by events from abroad.	Neutral – speculators are gaining in confidence having breached EURCHF 1.1500 with little difficulty.	USD CHF 0.9900 3m; 1.0000 12m
AUD	Moody's reported that Aussie residential mortgage arrears had reached a five year high last Monday, which immediately put pressure on AUD. House prices are a sensitive topic for Australia and an ongoing concern for the central bank as prices refuse to stall for very long leaving households with high levels of debt. The RBA's meeting minutes flagged this as a concern when coupled with low inflation, and whilst not alone in this predicament, the recent strength in AUD has not helped. The yield curve flattened somewhat as Gov Lowe stated that rates are unlikely to move higher for some time although he did discount a move lower. With the USD finding its sea legs this week and iron ore prices sliding, AUD took a bit of a battering breaking the 50DMA for the first time since June although it bounced off the 0.7908 lows to close the week 0.7962. Look for any break of 0.7871 to test further downside of 0.7808	Bearish – with preference to sell the rallies above 0.8000	0.7500 3m 0.8500 12m
NZD	The threat of a hung parliament put pressure on the NZD all through last week as the election proved tricky with final polls showing the National Party leading Labour but too close to definitively call. The political turmoil overshadowed the positive GDP data which showed a m-o-m improvement and also some positive revisions to the previous release. Tuesday's Global Dairy Trade Price index also beat out expectations at +0.9% vs +0.3% prior but NZD's gains were erased post-FOMC on the back of universal USD strength. Once the election results are absorbed we look to the RBNZ meeting on Thursday where it is expected to hold.	Bearish – targeting 0.7200 initially, then 0.7100	0.7000 3m; 0.7100 12m

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CAD	The CAD market has been happily pricing in a string of interest rate hikes since the last BoC meeting which has seen CAD hit highs of 1.2062 vs the USD. The slight complacency that had crept in was shaken up last week as BoC's Lane made a speech in which he flagged that the CB is paying close attention to both higher yields and a stronger currency. This triggered an immediate 70pip rally in USDCAD which was then compounded by a miss, albeit a small 0.1% miss, in the inflation data. This has certainly made October's meeting more interesting as uncertainty rises and each data point until then becomes more important. We also have a speech from Gov. Poloz next week which we'll be watching closely. We look for any dip below 1.2100 to instigate new longs.	Bullish USDCAD	1.2500 3m; 1.2800 12m

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