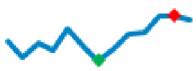
G10 | Currency Summary

USD

1.0%



Our view: Bullish **Risk skew: Bullish**

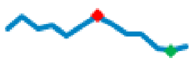
Watch: IP, Housing Starts, Jobless Claims, Existing Home Sales, Markit PMIs

DXY **Support:** 93.75, 93.00, 92.00, 91.50/75, 90.50, **Resistance:** 94.50/75, 96.00, 97.75, 98.75

We remain bullish on the USD versus low yielders such as EUR, JPY, and CHF via options. Real yields in the US continue to have scope to rise, particularly as markets seem to be overly concerned about stagflation, which has kept a lid on growth expectations and thus real yields. Stagflation may not be our base case, but we think buying the USD could serve as a good hedge for stagflation versus risk-sensitive currencies such as NZD, SEK, BRL, and ZAR.

EUR

-1.3%



Our view: Bearish **Risk skew: Bearish**

Watch: CPI, PMIs

EUR/USD **Support:** 1.1525, 1.1450, 1.1400, 1.1325, 1.1250, **Resistance:** 1.1625, 1.1675, 1.1750, 1.1800

We remain short EUR/USD, targeting 1.14. The ECB continues to be dovish as it sees the current high inflation as transitory. This keeps eurozone nominal yields low while allowing inflation breakevens to rise, putting downward pressure on eurozone real yields to weaken the currency. At the same time, eurozone data have also been missing market expectations lately, consistent with our economists' projection of growth momentum in the bloc moderating in 4Q. This stands in contrast with the acceleration in US growth that our economists are expecting, which should also put downward pressure on EUR/USD.

JPY

3.2%

Our view: Neutral **Risk skew: Bearish**

Watch: Weekly Mof data, national CPI

USD/JPY **Support:** 113.25, 11200, 111.50, 111.00, **Resistance:** 114.50, 115.25, 118.50/75, 121.50

We remain bearish on risk skew for JPY, and extend our long USD/JPY target from 112.50 to 115.00. JPY started to weaken post the US NFP number, with the UST yield breaking above its recent trading range. Outperformance of cyclical stocks suggests that the global economy will continue to recover from the Covid Delta variant despite facing strong inflationary pressures. As a robust funding currency, this is likely to lead to JPY weakness, in our view. Higher US real yields on the back of Fed tightening and accommodative risk sentiment are likely to be the best pre-conditions for the JPY to weaken against all other G10 currencies .

GBP

-0.2%

Our view: Neutral **Risk skew: Neutral**

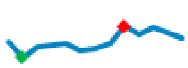
Watch: CPI, PMIs, Retail Sales

GBP/USD **Support:** 1.3575, 1.3425, 1.3300/25, 1.3200, **Resistance:** 1.3750/75, 1.3900, 1.3975/1.4000

We remain neutral on GBP, caught in the cross-currents of concerns over slowing growth and rising inflation, hawkish BoE market pricing, and already very bearish sentiment on GBP. Until we get more clarity on the growth outlook, we think GBP will remain range-bound, much like how the bond market remains confused. A steeper 2s10s curve and higher long-end yields, even if this means BoE rate hike expectations are priced out, would likely make us turn more positive on GBP. We think this would likely come from better growth and labour market data, something we will be watching closely over the coming weeks.

CHF

0.4%



Our view: Bearish **Risk skew: Bearish**

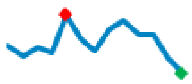
Watch: SNB Sight Deposits, Money Supply

EUR/CHF **Support:** 1.0675/1.0700, 1.0575/1.0600, 1.0500, **Resistance:** 1.0750, 1.0850, 1.0925, 1.0975

We remain long USD/CHF via options. Our expectation for higher US real yields means the USD should continue to move higher against low-yielders such as CHF. However, long USD/CHF positioning remains substantial, making the pair vulnerable to a pullback if USD weakens broadly or global bond yields fall. We would view dips in USD/CHF as buying opportunities, though. EUR/CHF has diverged from the move higher in German Bund yields recently, with the weakness in EUR/USD weighing on the pair. A dovish ECB and our expectation for further EUR/USD weakness may thus keep EUR/CHF under pressure even if global risk sentiment improves. The November 2020 low of ~1.066 is the next key support level for EUR/CHF. We will also be watching the upcoming sight deposits release for any signs of FX interventions by the SNB.

CAD

-1.7%



Our view: Neutral **Risk skew: Bullish**

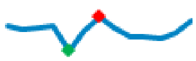
Watch: Business Outlook Survey, CPI, Retail Sales

USD/CAD **Support:** 1.2325, 1.2275, 1.2175, 1.2075, **Resistance:** 1.2500, 1.2650, 1.2750, 1.2900, 1.3100

We see scope for CAD gains, driven by oil prices and movements in yield differentials. The price at which oil demand erodes is evidently higher than we initially estimated and, as a result, our commodity strategists believe oil prices may continue rising. Higher oil prices should boost CAD broadly. Expectations for near-term BoC policy look somewhat stretched, limiting further upside in front-end Canadian rates. However, CAD trades well below the levels implied by its historical relationship with yield differentials. We therefore expect continued CAD gains against low-yielding G10 currencies such as JPY, EUR, and CHF – particularly as US real rates are set to rise, in our view, which should spill over to higher Canadian real rates. We are watching near-term CAD/CHF resistance at 0.75; a break above that level would allow a re-test of 2019 highs at 0.76.

AUD

0.7%



Our view: Neutral **Risk skew: Bullish**

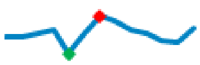
Watch: RBA Minutes, Business Confidence, Markit PMIs

AUD/USD **Support:** 0.7325, 0.7175, 0.7125, 0.7000/25, **Resistance:** 0.7425/50, 0.7500, 0.7575/0.7600

We remain neutral on AUD/USD overall but see risks still skewed to the upside. Vaccinations have proceeded in Australia, and lockdowns are beginning to be lifted We think risks are increasing that economic data surprise to the upside as pent-up demand is exercised. Meanwhile, positioning remains short AUD, so there is scope for a pullback there. Thinking more long term, we are beginning to become more concerned that markets are overestimating the RBA's hawkishness, particularly vis-à-vis wage growth, but to us that's more of a 2022 story. For now, the AUD upside correction on crosses such as AUD/NZD should be able to continue.

NZD

1.1%



Our view: Neutral **Risk skew: Bearish**

Watch: CPI, Credit Card Spending

AUD/NZD **Support:** 1.0450, 1.0400, 1.0300, 1.0250, **Resistance:** 1.0600, 1.0675, 1.0725, 1.0800

We remain neutral on NZD/USD overall though we continue to see downside skew for NZD on crosses, particularly versus AUD. The RBNZ is pursuing a fairly aggressive pace of tightening, which is fully priced by the market, and we think the risk of inadvertent overtightening may be rising as the policy tightening that has already taken place and subsequent hikes pass through to the economy. NZD positioning is also long, suggesting risks of a pullback. Should the outlook for GBP begin to brighten, we think GBP/NZD might also be an interesting cross to investigate.

SEK

-0.8%

Our view: Neutral **Risk skew: Neutral**

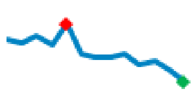
Watch: Unemployment Rate

EUR/SEK **Support:** 10.00, 9.88, 9.75, 9.71, 9.67, **Resistance:** 10.10, 10.21/23, 10.28, 10.32, 10.41

EUR/SEK has broken below the key support level at 10 amid the broad USD weakness, which could open room toward the next support at ~9.80 if risk appetite remains strong. We remain neutral on EUR/SEK though. On the one hand, we think stagflation concerns are overblown, and global growth staying strong is SEK-positive. On the other hand, the Riksbank remains one of the most dovish G10 central banks. It sees no need to respond to the current transitory high inflation, and is happy to see inflation overshooting its 2% target for some time. This should put a drag on Swedish real yields and the currency. NOK/SEK is one pair to watch – the upside momentum in the pair has slowed and could provide some support for SEK if long NOK positioning gets reduced there.

NOK

-5.2%



Our view: Neutral **Risk skew: Bullish**

Watch: Oil Prices, Bank Lending Survey

NOK/SEK **Support:** 1.0200, 1.0100, 1.0000, 0.9950, **Resistance:** 1.0275, 1.0400/25, 1.0550, 1.0700

We maintain our constructive bias on NOK, but flag that positioning remains a key risk. NOK is the largest long position in G10 FX and Norges Bank's hawkish rhetoric and forecasts have been priced in by the market, making NOK vulnerable to a sell-off in equity markets or oil prices. Our oil strategists remain constructive, however, noting that demand has proved resilient despite oil prices surpassing $80/bbl. A further steepening of the US 2s10s curve should also support NOK, particularly against low-yielders. Domestically, the proposed reduction of fiscal spending for 2022 should have a limited effect on NOK, as it is unlikely to steer Norges Bank off its current hiking cycle. The upcoming OPEC+ meeting and the potential increase in European gas supply from Russia in November are clear risks we are watching.

Charts show 3M performance against USD, as normally quoted and DXY for USD. Click on any currency for a reference webpage on Matrix.