G10 FX Daily Report

London FX Trading

EUR

FX was really the poor man's asset class last week given volatility in other markets versus net displacement here. Lot of questions why the euro is not lower (obviously on the crosses some visibility but not enough!) and the dollar unable to respond to general risk aversion in the traditional sense leading to plenty of disappointment. Would say that just too many crosscurrents here, obviously Europe has issues with France and increasingly crippling gas prices but with the combo of US yields/Nasdaq moves leading to potential equity outflows/fully priced Fed/Midterms not entirely clear what to do here but clearly not many positives.

For the Fed the latest inflation readings should keep Warsh on the hawkish side at the very least whilst sticking to his non-forward guidance so unlikely to be too market moving. Arguably the ECB and BOJ meetings will be garnering far more attention with the former likely to get plenty of questions on the bond markets and the latter the assessment of whether the inflation target has been reached and implications for policy going forward albeit with December nearly fully priced.

Still running long yen versus a combo of dollars, euros and kiwi. Also have a reduced eurchf core as the reaction to OAT yields last week was so disappointing. With the gas price still climbing eur/CE finally made a comeback on Friday so taken advantage by getting out of some eurczk and leaking out some eurhuf against eurpln longs. Also have a token usdils short here into the elections as feel a non-definitive result is in the price and the worst case scenario is unlikely (although maybe should learn a lesson from Brazil!!) so from a risk reward perspective looks ok.

The euro remains stubborn here at 1.12 and with Moodys giving France a reprieve from a downgrade late Friday and protests over the weekend seemingly less violent the case for further stability (frustration) increases with maybe some respite on the crosses in the very short term. Having said that the PMIs whilst not terrible on Friday suggest the summer economic resilience may have been as good as it gets and with gas prices continuing to make new highs daily the outlook doesn't look particularly rosy admittedly. The ECB is likely to be less about the current state of the economy and more about further hikes in the face of the growing headwinds and how bad things need to get in terms of bond yields before any sort of rescue mechanism is activated (likely not close in my opinion). The other focus will likely be on Lagarde herself and how that opens up the question of the next ECB head. With the market clearly short the currency still some work to do here unfortunately to correct oversold conditions but would still prefer to sell closer to 1.13 if possible.

GBP	Budget week for the UK but truth be told it does not seem like it will be a big event. The most market unfriendly tax grab – on Banks – has already been leaked and digested while the recent strength in UK growth data and relaxation in global yields has come at a simply wonderful time for Healey and Burnham. Allan thinks the OBR headroom could come in around £20bn which is a big improvement on expectations that it would be halved from £24bn to £12bn some weeks ago. We had been writing that more focus would start to fall on the European summit next month and I do think there has been some building excitement about the prospect of rejoining the EU in the sterling market although the headlines this morning leave potential impetus a little flatter going forward: BURNHAM: I'M NOT PROPOSING REJOINING EU IN THIS PARLIAMENT, I'D LIKE TO SEE UK REJOIN EU IN MY LIFETIME, RULES OUT EARLY ELECTION IN ITV INTERVIEW Decent break lower (again) in EURGBP, GBP was the top bought currency by RM last week (second for SHF) while DHF took a little bit of profit, next support in EURGBP is 0.8333 (1.20 GBPEUR) while 0.8425/35 is short term resistance. For cable we remain constrained by the familiar 1.3150/1.34 range, neutral GBP for now. UK GDP was better than expected – again! – and will be music to Healey's ears this morning, with cable longs now on my radar I must admit I did not have the strength of resolve to fade as it broke the bottom of the of recent range to make fresh YTD lows at 1.3137 so I guess I will have to grimace and nibble a few in here although I must admit if the AI cente-

	red tech sell off continues it is hard to put GBP at the top of the tree as beneficiaries. Warsh's words will be in focus tonight given the proximity of the blackout and yesterday's print while we have PPI and Sales at 13.30 later. 1.3280/00 will be important to watch topside while I guess you could argue 1.3140/50 remains support, net flow for sterling was surprisingly meek yesterday.
CHF	Weak European PMIs Friday especially from France, although the move lower in EURCHF was short lived and we are now back above the 200 day. A little frustrating as coupled with Bund/Oats widening significantly last week, EURCHF should be lower, with our strategy flagging it should be closer to a 6% move when based off the 2024 beta. Positioning appears to larger than first thought and therefore a headwind for CHF longs, whilst there could also be some SNB pushback given their preferences for a weaker franc. Some of this Oat move has also been technical and positioning related, so the pass through to FX is perhaps less significant. Anyway, I still thinks EURCHF shorts make sense especially with the macro backdrop looking so poor, and so have started to add back to some of what I reduced on Friday, looking for 0.9285 to hold.

JPY	BoJ decision on Friday along with the Q4 outlook, comments from officials have made it quite clear that they are not in favour of back to back hikes so the market is correctly pricing zero but the meeting still has the potential to be very interesting given the heat in the September inflation data. In line with the recent cacophony from Government officials regarding the end of deflation, our economist team think the BoJ will declare victory on inflation. It will be very interesting to see the noises around this with Kiuchi, Sato and Asada the ones to watch, the other thing to look for is the characterization of the neutral rate, I am not so sure we get anything too ground breaking but expect December pricing to gravitate towards fully priced (from 19bp). The break down through 157.50 was meaningful last week and we saw participation from SHF, offshore RM and DHF (in that order), the follow through has been a little disappointing truth be told and we would expect there to be reductions back through 157.50. I still expect there to be local offers on rallies – staying short USDJPY here; 158.44/54 (cloud top, 200d) is important on a closing basis while the bottom of the cloud comes in at 156.07. Month end is Friday so we could have some USD demand to contend with come Wednesday while an amateur look at WEI shows Nikkei at the bottom of the pile in majors so maybe some JPY demand through the end of the week for rebalancing.

AUD **NZD**	Q3 inflation for Australia and the RBNZ rate decision make for an integrating week. With recent RBA commentary suggesting the inflation fight is “not quite done yet” and November 3 priced close to a 50/50 call, Wednesday’s CPI could prove pivotal. AUDUSD is testing the 0.7033/0.7074 window, where the 50, 100 and 200-day averages converge. A clean break higher would open the way towards the year's highs around 0.7300. Throw in the FOMC and month-end flows and there are plenty of moving parts, which should at least make for an interesting trading week. The RBNZ decision lands just 30 minutes after the Australian data, with a hike to 3.00% expected and around 22bp priced. Q3 core inflation was slightly softer than RBNZ forecasts, but annual core moved above the target band and Chief Economist Conway made little attempt to push back against market pricing, leaving a hike as the path of least resistance. With 110 bps priced, which looks too aggressive to me, the messaging should be equally as important. That said, with the election less than two weeks away, conviction in chasing any post-RBNZ move may prove limited, although it could be an interesting session for AUDNZD.

CAD	USDCAD bounced sharply off Friday's lows and closed back around 1.40, with the desk seeing better demand for the pair through the London afternoon, mainly from RM and Systematic accounts. All eyes this week will be on the BoC, with a 25bp hike now expected on Wednesday. Core inflation remains contained, but the combination of higher longer-term inflation expectations, greater expected cost pass-through and a more resilient growth backdrop has reinforced the Bank's recent hawkish shift and pushed expectations firmly towards a hike. That said, with a hike now fully priced and with USDCAD having already reversed sharply lower over the past few weeks, I think it makes sense to turn small long USDCAD here again. I'll be keeping a close eye on our flows this week, but below 1.40 I think the risk/reward for rebuilding some USD longs looks more attractive.

SEK **NOK**	EURNOK drops even further into oversold territory, which means that I remain reluctant to re-engage at current levels, which admittedly has been a costly missed exercise. NOKSEK meanwhile continues its recent ascent. Buying it up here is uncomfortable, but a simple RV overlay versus Brent and Gas still has the cross around fair value, which is difficult to argue with. For those waiting to short NOKSEK, and I've fielded a few questions on this recently, my answer remains the same: we need to see a turn in energy prices first. At least I got that part right so far. Unfortunately, I have no particular edge on when that turn arrives. Trump hardly clarified matters over the weekend, asking, "Do I make a deal with them, or do I finish them off? That's the only question." Set against his previous comments suggesting no escalation ahead of the mid-terms, that leaves markets stuck in a state of flux. What I would say though, with NOK momentum indicators in increasingly overbought territory, any hint at a resolution, will likely see a nasty retracement in NOK. All eyes on the wires then for any credible headlines. Swedish PPI for September was released this morning, which jumped MoM from 0.9% to 3.4% but has had no impact on markets.

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