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Weekly Report

G10 Weekly FX Update

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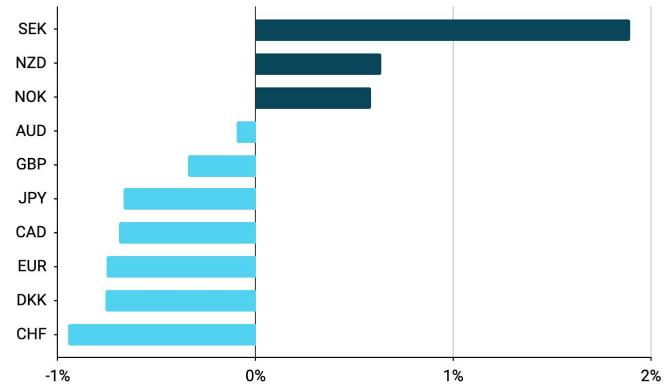
Dollar rally powers on as interest rates continue to rise

The trend towards higher rates and a higher US dollar did not abate last week. However, unambiguously positive inflation data out of the US and the Eurozone did partially reverse the moves on Friday and gave hope that we are near the top in rates and the bottom in European currencies. Commodities also reversed their rally sharply on Friday, and this year's winners, the Brazilian real and the Colombian peso, ended the week near the bottom of the rankings.

This week the US labour market will be in focus. The September non-farm payrolls report on Friday is at the centre of the spotlight, but traders will also be looking at the JOLTS job openings report and weekly jobless claims for confirmation of the loosening trend seen lately. August retail sales out of the Eurozone on Wednesday will also provide a read on the state of the economy there, albeit a lagged one. Beyond economic data, a slate of ECB and Fed officials are scheduled to speak throughout the week.

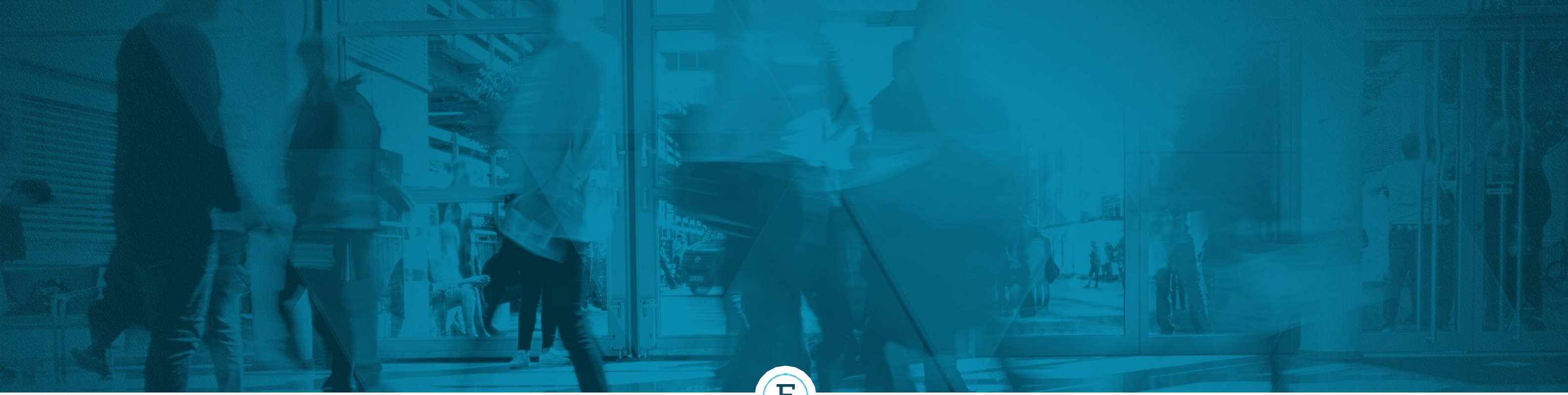
Figure 1: G10 FX Performance Tracker [vs. USD] (1 week)



Source: Bloomberg Date: 02/10/2023

GBP

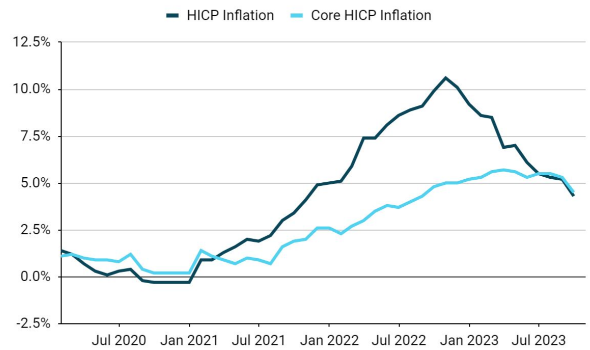
The gloom around the UK economy cleared a bit last week, as growth for the first quarter of the year was revised significantly upwards. Further positive revisions to historical data confirms that the UK economy's size is now solidly (1.8%) above its pre-COVID levels, although, like most European economies, remains below the pre-2019 trend. The pound continues to trade flat vs. its major peers, pressured lower by the Bank of England's dovishness but finding some support in the more upbeat tone of economic news.



EUR

The ECB received some unambiguously good news with the September flash HICP report last week. Both the headline and the core measures fell sharply, by a lot more than markets had been expecting. The disinflationary trend has crossed the Atlantic and can now be clearly seen in Europe.

Figure 2: Eurozone HICP Inflation (2020 - 2023)



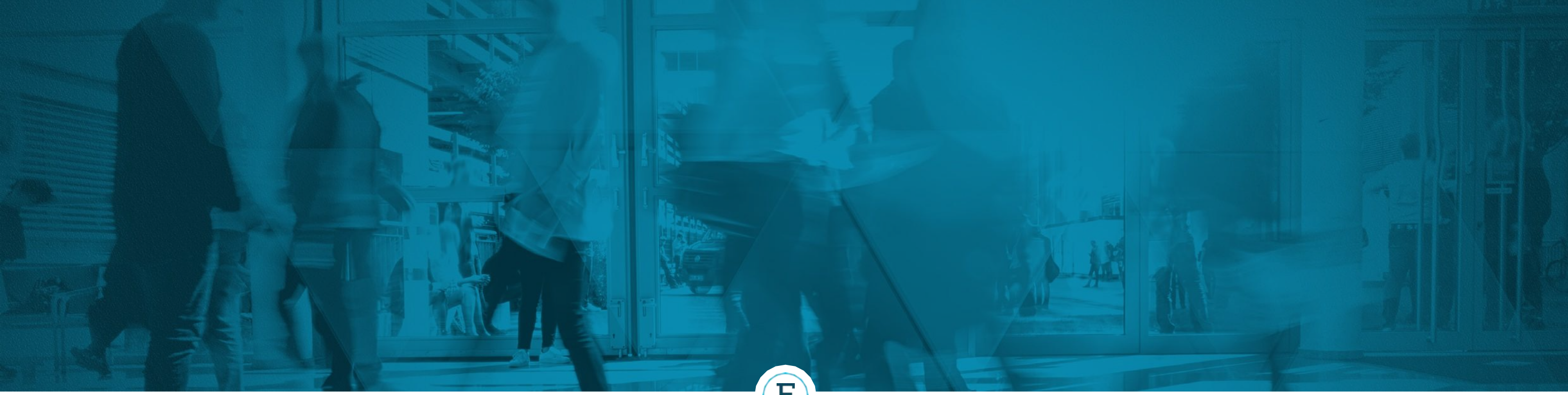
Source: Bloomberg Date: 02/10/2023

Markets are expecting no further hikes this cycle out of the ECB, and as in the US, the question seems to be how long will they be held at current levels. The news supported European government bonds and the common currency. With few economic publications of importance this week, the euro will trade off developments in the US, particularly the wealth of labour market data to be released this week.

USD

As in the Eurozone, inflation data in the US last week was a dose of welcome news for the Federal Reserve. The Fed's preferred measure of inflation, the Personal Consumer Expenditures index, also undershoot expectations both in its headline and core indices.

US rates had shot up to 16-year highs before the publication but regained some lost ground after the release. With markets not convinced that there will be further hikes this cycle, the investors' attention shifts back to economic data, particularly inflation and labour indicators. Friday's September payrolls report is the most critical data point out worldwide this week.



JPY

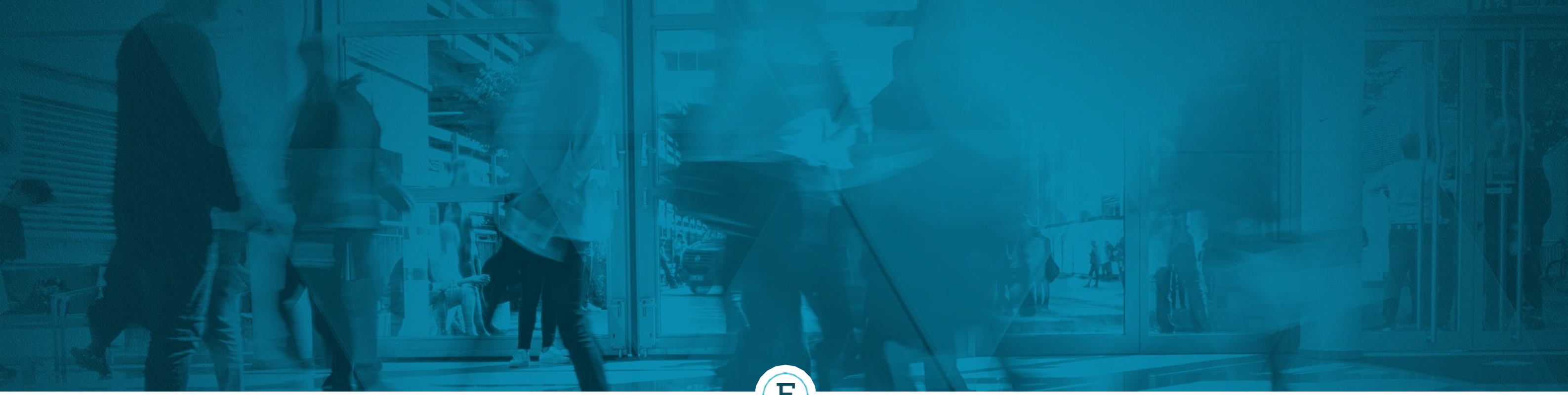
Further increases in the US dollar and US yields have pressured down the Japanese yen. As a result, the USD/JPY pair moved to the highest level since last October and is now close to the key 150 mark.

Recent news on the domestic economic front has mainly been positive. August retail sales and industrial production data from Japan released last week proved better than expected. The former, which showed a 7% YoY increase, is particularly noteworthy, as it signals a possible rebound in consumer demand in the third quarter. A Tankan survey from the BoJ, released today, showed a further improvement in business sentiment in Q3. It is not, however, broad-based, with small producers lagging behind. This week's PMI data revisions (Monday and Wednesday) and data on spending and earnings (Friday) will dominate the calendar. The yen, however, may continue to react to outside signals and, in particular, the behaviour of the US dollar and US yields.

CHF

The Swiss franc's bad streak continued last week as markets further dialled their bets for a rate increase. The currency's sell-off against the euro was very limited, but the franc ended the week at the bottom of the G10 dashboard.

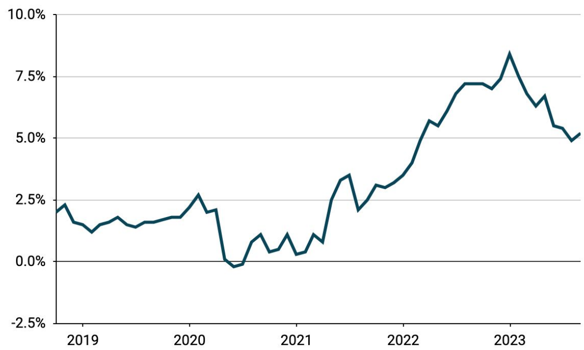
Last week's sentiment data did not rock the boat. The KOF index was almost unchanged in September, but at 95.9, it was better than expected, and the August reading was revised up significantly. The prospects for the Swiss economy don't look overly bleak, but anything beyond a minor expansion in the second half of 2023 would be a success. August retail sales data released today were unimpressive, but PMI numbers provided some optimism as both the manufacturing and services indices jumped sharply in September. Looking ahead, the focus will be on the September CPI data, out Tuesday. It may provide some guidance to markets with regard to further steps of the Swiss National Bank.



AUD

The Australian dollar appreciated against the US dollar last week as rising inflation (5.2% in August vs. 4.9% in July) increased the chances that the Reserve Bank of Australia will adopt a more aggressive stance. This week will be crucial for AUD as the RBA meets on Tuesday. In our view, the bank will keep rates unchanged and has likely ended its tightening cycle. However, it can't be entirely ruled out that rising inflationary pressures could open the door to a further rate hike in the coming months. Any indication that this could be the case might support the Australian currency.

Figure 2: Australia CPI Inflation (2018 - 2023)

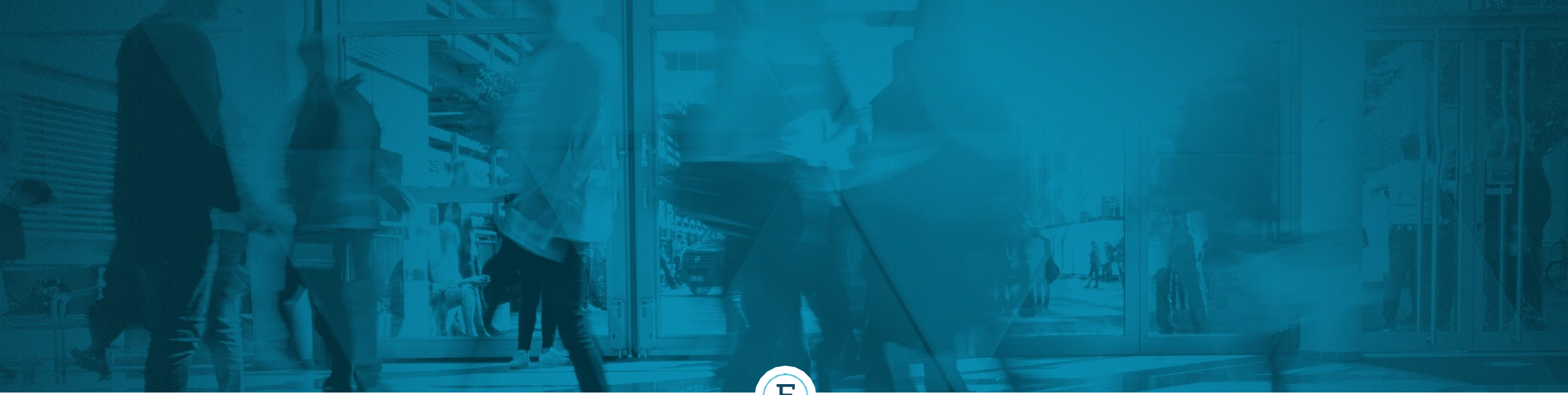


Source: Bloomberg Date: 02/10/2023

NZD

The New Zealand dollar closed the month on a positive note, placing only behind the Swedish krona last week. Some stabilisation in economic data of its key trading partner, China, an increase in commodity prices (the CRB Commodity Price Index has risen to a 15-month high), and a partial reversal in the upward trend in the US dollar and yields near the end of the week have been good news for the kiwi.

This week, the attention will be squarely on the RBNZ meeting. Rates have remained unchanged in New Zealand since May, standing at 5.5%. They are unlikely to be changed at this week's meeting either, the results of which will be known on Tuesday night. The markets, however, see another upward move in the coming months as a real possibility - due to the unexpectedly strong growth data, still fairly high inflation and not much lower wage growth, a hike in November or February is the current market baseline scenario. Any guidance on Tuesday can, therefore, be expected to leave an imprint on the currency's exchange rate. Beyond that, we will be looking at commodities price developments, as the economic calendar for New Zealand is relatively empty.



CAD

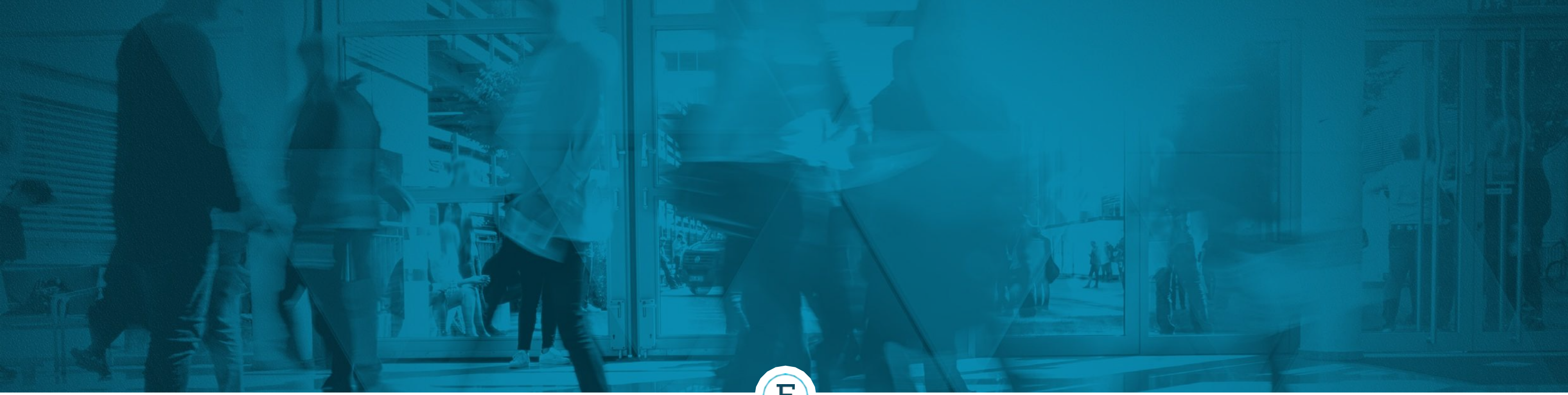
The Canadian dollar had a good first half of the week but was left behind its G10 peers as it took a hit on Friday due to a drop in oil prices, weak growth data, and the strong US dollar. Crude oil, a big support for the loonie, fell after reaching nearly US$98 per barrel, the highest level since November. August GDP figures, also on Friday, did little to help the CAD, marginally failing expectations with a softer print (0%; consensus: 0.1%). The economic slowdown and positive surprises on the inflation front suggest to us that the Bank of Canada might want to take an extended pause before beginning the easing cycle. Even though another hike is not entirely out of the table, it is not our base case scenario.

This week the labour market report (Friday) is going to be key for the CAD. Economists expect modest employment growth in September following the strong job figures in August, which exceeded expectations with a gain of 40k jobs - double the consensus forecast. Notably, markets will also be looking at the US nonfarm payrolls report on the same day, leading to an increase in volatility stemming from both events.

SEK

The hawkish stance adopted by the Riksbank at its September meeting (21.09) continued to support the krona, which ended last week higher against the euro and is trading near its highest level since late July.

The projection and the statement of the Riksbank that 'the forecast for the policy rate indicates that it could be raised further' lead us to think that decisionmakers will raise rates by 25 basis points for the last time in November. In addition, at its last meeting, the Riksbank conveyed a sense of urgency regarding the currency. To the extent that this reflects a credible commitment to counteract excessive krona weakness, there is some scope for the currency to remain supported. This week, the focus will be on the September PMI data. The manufacturing PMI released in the morning showed a further decline to 43.3, pointing to a gloomy situation of the sector. Ahead of us is the reading for the more resilient services sector, out on Wednesday.



NOK

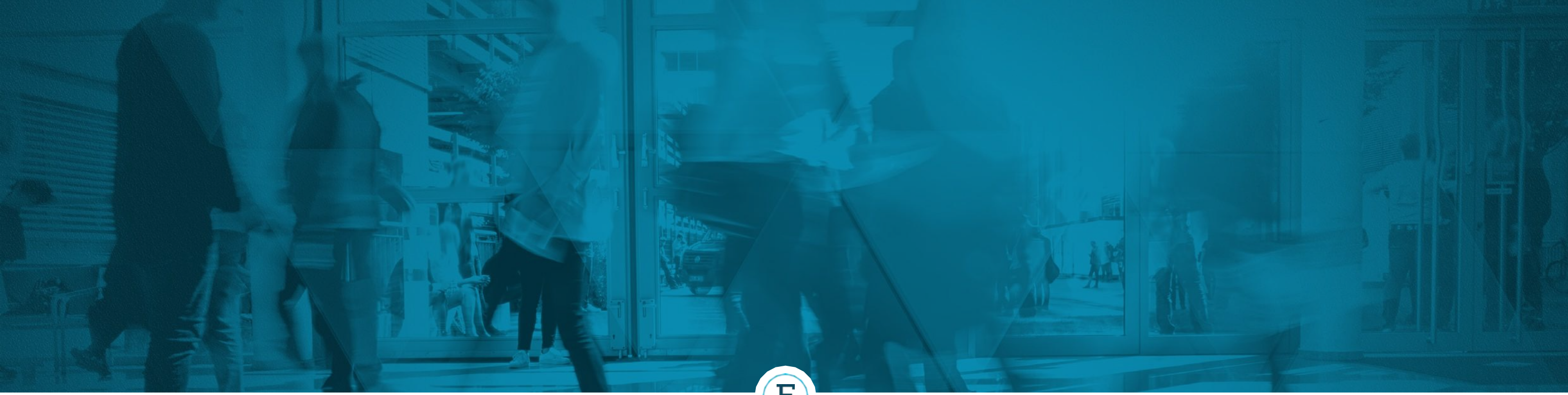
High oil prices, together with the aggressive stance taken by Norges Bank at its September meeting (21/09), allowed the krone to extend its rally last week.

At its latest policy meeting, Norges Bank pre-signaled one last hike in December for a terminal rate of 4.5%, which could continue to support the NOK. Economic data, however, is rather mixed and concerns about the effect of tightening on growth could limit the upward potential of the krone. Last week's data showed retail sales declining in August for the second consecutive month (-0.3% MoM), hinting at weaker consumer demand. This Friday, the industrial production reading will complete a picture of the economic situation in the middle of the third quarter.

CNY

The Chinese yuan outperformed most of its emerging market peers last week. The only data point released before the close of the week - industrial profits - showed a 17.2% YoY jump in August, the first increase in many months. It adds to the argument that the worst could be over for Asia's largest economy. That said, PMI data released over the weekend proved to be a bit of a headache. Official data was overall marginally better than expected and showed improvements compared to August. Private Caixin survey, however, was a mirror image of it, pointing to slow expansion in business activity, particularly in the services sector. It suggests that the Chinese economy - although could be stabilising - is not out of the woods yet. In addition, some major real estate concerns are still around.

This week sets up to be an empty one, with trading in the mainland and economic releases suspended for the Golden Week. Investors' attention will, therefore, likely focus on the outside news.



Economic Calendar (02/10/2023 - 06/10/2023)

Economic Calendar	Country	Day	Date	Time (BST)
BoJ Tankan Survey (Q3)	JP	Monday	02/10	00:50
Jibun Bank Manufacturing PMI Revision (Sep.)	JP	Monday	02/10	01:30
Real Retail Sales (Aug.)	SWI	Monday	02/10	07:30
procure.ch PMIs (Sep.)	SWI	Monday	02/10	08:30
Swedbank Manufacturing PMI (Sep.)	SWE	Monday	02/10	07:30
Unemployment Rate (Aug.)	EZ	Monday	02/10	10:00
RBA Monetary Policy Meeting	AUS	Tuesday	03/10	04:30
Inflation (Sep.)	SWI	Tuesday	03/10	07:30
Jibun Bank Services PMI Revision (Sep.)	JP	Wednesday	04/10	01:30
RBNZ Monetary Policy Meeting	NZ	Wednesday	04/10	02:00
Swedbank Services PMI (Sep.)	SWE	Wednesday	04/10	07:30
Retail Sales (Aug.)	EZ	Wednesday	04/10	10:00
Earnings/Spending Data (Aug.)	JP	Friday	06/10	00:30
Industrial Production (Aug.)	NOR	Friday	06/10	07:00
Employment Report (Sep.)	US	Friday	06/10	13:30
Employment Report (Sep.)	CAN	Friday	06/10	13:30

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