FX Daily

(06:36 BST) **04 September 2017**

A central bank marathon is about to start

Valentin Marinov
Head of G10 FX Strategy
+44 20 7214 5289
valentin.marinov@ca-cib.com

David Forrester
FX Strategist
+852 2826 1529
david.forrester@ca-cib.com

Overnight

The JPY and CHF were the best performers in the session on the back of North Korea's nuclear test on Sunday. The Nikkei and S&P futures gapped down at open, but quickly quietened down to recover some of their losses. Similarly in FX markets, JPY and CHF crosses weakened at open, but ground higher through the day to reduce their losses. AUD was the worst performer, the market once again being caught long. Australian inventories and company profits data were soft and dented the AUD's bounce back. These data generate some downside risks for Wednesday's Australian GDP release.

Investors have been hesitant to get behind this latest round of risk-off trading as they lacked the guide of UST yields with the US on holiday today. They also recall the sharp snap back in JPY and CHF crosses after US President Trump's measured response to North Korea's missile test last week. The official line of the US Administration so far is to increase pressure on China to impose trade sanctions on North Korea (stop selling it oil). The US is threatening more sanctions and even tariffs against companies and countries that do business with North Korea. While China was not specifically mentioned, it was clear that the threat was levelled at them. So there are some concerns amongst investors that Km Jong Un's actions could lead to a US-China trade war.

AUD: RBA to send mixed messages

We expect the RBA to remain on hold and to re-iterate its mild protest against a stronger currency: "An appreciating exchange rate would be expected to result in a slower pick-up in economic activity and inflation than currently forecast". We read this rhetoric as the Board threatening to leave rates on hold for longer, which has only a mild currency impact as the bills strip is already very flat. RBA Governor Lowe has also said that the RBA is prepared to intervene in FX in "extreme" circumstances, which is hardly a significant threat to sell the currency. So, the impact of the RBA's rhetoric on the currency will likely be offset by the Board's continued upbeat outlook for the economy. Indeed, CAPEX data reinforce that the investment drought is coming to an end, which is in line with the RBA's thinking.

The RBA will continue with its neutral bias on rates, however, as the labour market data were a little softer last month and the underemployment rate headed higher. Wages growth also remains mired at record lows. So the RBA will continue to expect weak wages growth for "some time" and a benign outlook for inflation. Outside of Melbourne, the housing markets continue to show early signs of cooling post the new round of macroprudential measures in April. So, the housing market is not pressuring the Board to raise rates either.

European morning: the quiet before Draghi, UK services PMI

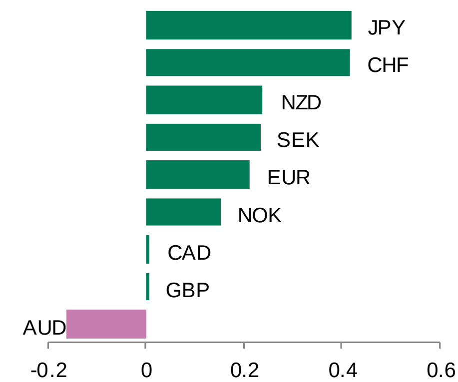
The ECB could announce a QE-taper on Thursday but they may defer the announcement of any details until later in the year. In addition, the latest price action in the FX markets may argue for a downside revision to the bank's inflation projections. Any deliberate vagueness in the ECB's message, as well as more aggressive jawboning of EUR by the President, could keep the single currency under pressure in the near-term.

We have recently argued that some positives are already in the price of EUR. Indeed, investors have been adding to their EUR-longs in recent months. In addition, the latest EUR/USD rally has been in excess of the moves in the currency pair's short-term relative fundamentals. To estimate the short-term fair value of EUR/USD, we use a EUR-USD 2Y rate spread, the Bund-UST 10Y yield spread as well as the ration between Eurostoxx and S&P 500. This much would

Latest Publications

01 Sep – *Capital Flows Monitor* – *Foreign demand for Eurozone bonds fades*
31 Aug –*G10 Market Rate Exp. Monitor* – *Draghi has markets on tenterhooks*
31 Aug – *FX Focus* – *Calling Draghi's bluff (part two)*
31 Aug – *FX Risk Index* – *Stabilising risk sentiment: stay long USD/JPY*
30 Aug – *FX Focus* – *AUD & NZD: political risks – a whole lot of noise*

Overnight returns (%, vs USD)



Source: Bloomberg, Crédit Agricole CIB

G10 FX Forecasts

	Today	Sep-17	Dec-17	Mar-18
EUR/USD	*1.19*	1.17	1.18	1.18
USD/JPY	110	113	115	114
EUR/JPY	130	132	136	135
GBP/USD	1.30	1.30	1.31	1.33
EUR/GBP	0.92	0.90	0.90	0.89
USD/CHF	0.96	0.97	0.97	0.97
USD/CAD	1.24	1.26	1.25	1.24
AUD/USD	0.80	0.78	0.76	0.75
NZD/USD	0.72	0.73	0.72	0.71
EUR/NOK	9.26	9.30	9.10	9.00
EUR/SEK	9.49	9.50	9.40	9.30
EUR/CHF	1.14	1.14	1.15	1.15

Source: Bloomberg, Crédit Agricole CIB suggest that investors could unwind some of these longs while waiting for more clarity on the ECB's outlook.

GBP TWI remains close to the lows dragged down by a combination of investor pessimism about the outlook of the UK economy and lingering uncertainty about the outcome of the ongoing Brexit negotiations. The release of the UK services PMI today may help ease the worst of the market fears about an impending economic slowdown on the back of Brexit. We continue to see the outlook for GBP as a function of two seemingly conflicting drivers. On the one hand, economic fundamentals should continue to make GBP an unattractive long. On the other, already stretched currency undervaluation should limit its downside across the board.

Open Trade Recommendations

Underlying	Date	Opening Time	Direction	Notional	Entry	Target	Stop	Last	P&L Indiv.	P&L Portfolio
EUR/NOK	07-Aug-17	10:37:00	Short	3,000,000	9.3765	9.1000	9.5500	9.2555	1.38%	0.04%
EUR/CHF	09-Aug-17	11:49:00	Long	3,000,000	1.1320	1.1800	1.1200	1.1419	0.90%	0.03%
USD/JPY	24-Aug-17	13:14:00	Long	3,000,000	109.30	112.50	107.8000	109.7900	0.49%	0.01%
									Open trades P&L	**0.08%**

Underlying	Date		Option Type	Notional	Strike	Barrier	Spot Entry	Cost	P&L Indiv.	P&L Portfolio
EUR/JPY	17-Jul-17	08:23:00	3M Call spread	28,627,500	134/136	-	128.82	0.25%	-0.07%	-0.02%
									Open trades P&L	**-0.02%**

Key Events

BST	Country/ Zone	Indicator/Event	For	CA-CIB f/c	Cons.	Prev.	Comment
09:30	EZ	Investor Confidence	Sep			27.68	
09:30	UK	Construction PMI	Aug			51.90	
10:00	EZ	PPI	Jul			2.50%	
15:00	DE	Reserves	Aug			-0.05 B	

Source: Bloomberg, Crédit Agricole CIB

Webcasts

*** NEW *** A tapering of the tantrum: Credit markets and an ECB taper

Green Bonds: feeling lost in the 'what is green?' debate?, 20 July

Corporate hybrids: designed for times of tapering?, 12 July

Telecoms: consolidation versus convergence – time to choose?, 11 July

Banks - Spain vs Italy: a different view of BRRD, 29 June

G10 FX Outlook: resurgent EUR, subdued USD, vulnerable GBP, 29 June

Autos 2017 Roadmap: risks increasing but valuations tight, 12 June

Bail-in framework in Europe: solution à la française, 10 May

French presidential election – all eyes on the second round, 24 April

French presidential election – your survival kit, 20 April

Utilities: Corporate actions back to the forefront, 6 April

Key G10 FX views update: less USD strength, but for longer, 5 April

Czech Republic: the end of the peg?, 31 March

Impact of political risk on covered bond and SSA spreads, 27 March

Metals & Mining: Any value left after the flow of positives?, 17 March

Hedging European political risks with FX, 14 March

India & the INR outlook post-budget and post-RBI, 9 February

Asia: protectionism angst, 6 February

Airlines: the benefits of travelling light, 3 February

For regular updates click through to our

CACIB Research Newsletter - MIFID II	**Yann Marhic** Global CACIB MiFID II contact yann.marhic@ca-cib.com	**Audrey Thouvenin** MiFID II research contact audrey.thouvenin@ca-cib.com	*Please send your questions on MiFID II to:* research.mifid2@ca-cib.com

Global Markets Research contact details

Jean-François Paren **Head of Global Markets Research** **+33 1 41 89 33 95**

	Asia (Hong Kong & Tokyo)	Europe (London & Paris)		Americas (New York)
Macro Strategy	Kyohei Morita Chief Economist Japan +81 3 4580 5360	Louis Harreau ECB Strategist +33 1 41 89 98 95	Xavier Chapard Global Macro Strategist +33 1 41 89 13 45	Michael P. Carey ** Chief Economist US +1 212 261 7134 Evan Carmean ** US Associate +1 212 261 3360
Interest Rates	Yoshiro Sato Economist / Strategist - Japan +81 3 4580 5337	**Mohit Kumar** **Global Head of Rates Strategy** **+44 20 7214 6651** Orlando Green CFA Senior IRD Strategist +44 20 7214 7467	Afsaneh Mastouri Interest Rates Strategist +44 20 7214 6737 Jean-François Perrin Inflation Strategist +33 1 41 89 94 22	Alex Li ** Head of US Rates Strategy +1 212 261 3950
Emerging Markets	Dariusz Kowalczyk Senior Emerging Market Strategist +852 2826 1519 Samsara Wang Emerging Market Strategist +852 2826 1590 Gary Yau Emerging Market Strategist +852 2826 1553	**Sébastien Barbé** **Head of Emerging Market Research & Strategy** **+33 1 41 89 15 97** Guillaume Tresca Senior Emerging Market Strategist +33 1 41 89 18 47	Jakub Borowski Chief Economist - Crédit Agricole Bank Polska SA +48 22 573 18 40 Alexander Pecherytsyn Chief Economist – Crédit Agricole Bank Ukraine +38 44 493 9014	Italo Lombardi ** Senior Emerging Market Strategist +1 212 261 7994
Foreign Exchange	David Forrester FX Strategist +852 2826 1529	**Valentin Marinov** **Head of G10 FX Research & Strategy** **+44 20 7214 5289** Jennifer Hau FX Strategist +44 20 7214 7468	Manuel Oliveri FX Strategist +44 20 7214 7469	Vassili Serebriakov ** FX Strategist +1 212 261 3309

** employee(s) of Crédit Agricole Securities (USA), Inc.

Certification

The views expressed in this report accurately reflect the personal views of the undersigned analyst(s). In addition, the undersigned analyst(s) has not and will not receive any compensation for providing a specific recommendation or view in this report.

Manuel Oliveri, David Forrester, Vassili Serebriakov

Important: Please note that in the United States, this fixed income research report is considered to be fixed income commentary and not fixed income research. Notwithstanding this, the Crédit Agricole CIB Research Disclaimer that can be found at the end of this report applies to this report in the United States as if references to research report were to fixed income commentary. Products and services are provided in the United States through Crédit Agricole Securities (USA), Inc.

Foreign exchange disclosure statement to clients of CACIB

https://www.ca-cib.com/sites/default/files/2017-02/2016-05-04-cacib-fx-disclosure-april-2016_0.pdf

Additional recommendation obligations – available from analyst(s) upon request:

- A list of all the recommendation changes on any financial instrument or issuer disseminated within the last 12 months.
- Where Crédit Agricole CIB is a market-maker or liquidity provider in the financial instruments of the issuer.

Valuation and methodology

Based on their expertise, each analyst defines the information that is relevant to produce their recommendations. This information may change over time. All recommendations focus on FX instruments, either G10 FX spot or G10 FX derivative markets. Crédit Agricole CIB is currently disclosing investment recommendations either at the issuer level, at the financial instrument level or at the country level. Credit Agricole CIB investment recommendations are based on a risk and reward analysis:

- Risk analysis may be conducted at the financial instruments level. Among the information normally used to define the risks, are (1) publications produced by other research teams within Crédit Agricole CIB (Economics, FX, Credit Research, Emerging Markets), (2) country analysis, (3) regulatory filings; (4) regular discussions with relevant stakeholders such as experts or regulatory bodies or (5) any other publicly available sources.
- Reward analysis is usually based on valuation models. Valuation may be based on proprietary models or external models provided by sources considered as reliable (eg, Bloomberg). Among other factors, valuation models may be based on relative value models, quantitative models, cross-asset models.
- Investment recommendations may also be based on other technical aspects, including positioning flows and observing the market and underlying movements in particular instruments or issuers. This analysis will take into account key criteria such as market liquidity of the financial instrument at the time of production of the recommendation.

Any change in recommendation is disclosed via specific documents indicating both the new and the previous recommendation and the rationale backing the change.

Credit Agricole CIB expressly disclaims any responsibility for: (i) the accuracy of the models or estimates used in deriving the recommendations; (ii) any errors or omissions in computing or disseminating the valuations: and (iii) any uses to which the recommendations are put. Any valuation provided may be different from the valuation of the same product that Credit Agricole CIB may use for its own purposes, including those prepared in its own financial records.

Disclaimer

This research report or summary has been prepared by Crédit Agricole Corporate and Investment Bank or one of its affiliates (collectively "Crédit Agricole CIB") from information believed to be reliable. Such information has not been independently verified and no guarantee, representation or warranty, express or implied, is made as to its accuracy, completeness or correctness.

This report is provided for information purposes only. Nothing in this report should be considered to constitute investment, legal, accounting or taxation advice and you are advised to contact independent advisors in order to evaluate this report. It is not intended, and should not be considered, as an offer, invitation, solicitation or personal recommendation to buy, subscribe for or sell any of the financial instruments described herein, nor is it intended to form the basis for any credit, advice, personal recommendation or other evaluation with respect to such financial instruments and is intended for use only by those professional investors to whom it is made available by Crédit Agricole CIB. Crédit Agricole CIB does not act in a fiduciary capacity to you in respect of this report.

Crédit Agricole CIB may at any time stop producing or updating this report. Not all strategies are appropriate at all times. Past performance is not necessarily a guide to future performance. The price, value of and income from any of the financial instruments mentioned in this report can fall as well as rise and you may make losses if you invest in them. Independent advice should be sought. In any case, investors are invited to make their own independent decision as to whether a financial instrument or whether investment in the financial instruments described herein is proper, suitable or appropriate based on their own judgement and upon the advice of any relevant advisors they have consulted. Crédit Agricole CIB has not taken any steps to ensure that any financial instruments referred to in this report are suitable for any investor. Crédit Agricole CIB will not treat recipients of this report as its customers by virtue of their receiving this report.

Crédit Agricole CIB, its directors, officers and employees may effect transactions (whether long or short) in the financial instruments described herein for their own accounts or for the account of others, may have positions relating to other financial instruments of the issuer thereof, or any of its affiliates, or may perform or seek to perform securities, investment banking or other services for such issuer or its affiliates. Crédit Agricole CIB may have issued, and may in the future issue, other reports that are inconsistent with, and reach different conclusions from, the information presented in this report. Crédit Agricole CIB is under no obligation to ensure that such other reports are brought to the attention of any recipient of this report. Crédit Agricole CIB has established a "Policy for Managing Conflicts of Interest in relation to Investment Research" which is available upon request. A summary of this Policy is published on the Crédit Agricole CIB website: https://www.ca-cib.com/sites/default/files/2017-02/2011-politique-gestion-conflits-interets-ca-cib-va.pdf. This Policy applies to its investment research activity.

None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party without the prior express written permission of Crédit Agricole CIB. To the extent permitted by applicable securities laws and regulations, Crédit Agricole CIB accepts no liability whatsoever for any direct or consequential loss arising from the use of this document or its contents.

France: Crédit Agricole Corporate and Investment Bank is authorised by the Autorité de Contrôle Prudentiel et de Résolution ("ACPR") and supervised by the European Central Bank ("ECB"), the ACPR and the Autorité des Marchés Financiers ("AMF"). Crédit Agricole Corporate and Investment Bank is incorporated in France with limited liability. Registered office: 12, Place des Etats-Unis, CS 70052, 92 547 Montrouge Cedex (France). Companies Register: SIREN 304 187 701 with Registre du Commerce et des Sociétés de Nanterre. **United Kingdom:** Approved and/or distributed by Crédit Agricole Corporate and Investment Bank, London branch. Crédit Agricole Corporate and Investment Bank is authorised by the ACPR and supervised by the European Central Bank ("ECB"), the ACPR and the AMF in France and subject to limited regulation by the Financial Conduct Authority and the Prudential Regulation Authority. Details about the extent of our regulation by the Financial Conduct Authority and the Prudential Regulation Authority are available from us on request. Crédit Agricole Corporate and Investment Bank is incorporated in France with limited liability and registered in England and Wales. Registered number: FC008194. UK establishment number: BR001975. Registered office: Broadwalk House, 5 Appold Street, London, EC2A 2DA. **United States of America:** This research report is distributed solely to persons who qualify as "Major U.S. Institutional Investors" as defined in Rule 15a-6 under the Securities and Exchange Act of 1934 and who deal with Crédit Agricole Corporate and Investment Bank. This report does not carry all of the independence and disclosure standards of a retail debt research report. Recipients of this research in the United States wishing to effect a transaction in any security mentioned herein should do so by contacting Crédit Agricole Securities (USA), Inc. (a broker-dealer registered with the Securities and Exchange Commission ("SEC") and the Financial Industry Regulatory Authority ("FINRA")). The delivery of this research report to any person in the United States shall not be deemed a recommendation of Crédit Agricole Securities (USA), Inc. to effect any transactions in the securities discussed herein or an endorsement of any opinion expressed herein. This report shall not be re-distributed in the United States without the consent of Crédit Agricole Securities (USA), Inc. **Italy:** This research report can only be distributed to, and circulated among, professional investors (*operatori qualificati),* as defined by the relevant Italian securities legislation. **Spain:** Distributed by Crédit Agricole Corporate and Investment Bank, Madrid branch and may only be distributed to institutional investors (as defined in article 7.1 of Royal Decree 291/1992 on Issues and Public Offers of Securities) and cannot be distributed to other investors that do not fall within the category of institutional investors. **Hong Kong:** Distributed by Crédit Agricole Corporate and Investment Bank, Hong Kong branch. This research report can only be distributed to professional investors within the meaning of the Securities and Futures Ordinance (Cap.571) and any rule made there under. **Japan:** Distributed by Crédit Agricole Securities Asia B.V. which is registered for financial instruments business in Japan pursuant to the Financial Instruments and Exchange Act (Act No. 25 of 1948), and is not intended, and should not be considered, as an offer, invitation, solicitation or recommendation to buy or sell any of the financial instruments described herein. This report is not intended, and should not be considered, as advice on investments in securities which is subject to the Financial Instruments and Exchange Act (Act No. 25 of 1948). **Luxembourg:** Distributed by Crédit Agricole Corporate and Investment Bank, Luxembourg branch. It is only intended for circulation and/or distribution to institutional investors and investments mentioned in this report will not be available to the public but only to institutional investors. **Singapore:** Distributed by Crédit Agricole Corporate and Investment Bank, Singapore branch. It is not intended for distribution to any persons other than accredited investors, as defined in the Securities and Futures Act (Chapter 289 of Singapore), and persons whose business involves the acquisition or disposal of, or the holding of capital markets products (as defined in the Securities and Futures Act (Chapter 289 of Singapore)). **Switzerland:** Distributed by Crédit Agricole (Suisse) S.A. This report is not subject to the SBA Directive of January 24, 2003 as they are produced by a non-Swiss entity. **Germany:** Distributed by Crédit Agricole Corporate and Investment Bank, Frankfurt branch and may only be distributed to institutional investors. **Australia:** Distributed to wholesale investors only**.** This research, and any access to it, is intended only for "wholesale clients" within the meaning of the Australian Corporations Act.

THE DISTRIBUTION OF THIS DOCUMENT IN OTHER JURISDICTIONS MAY BE RESTRICTED BY LAW, AND PERSONS INTO WHOSE POSSESSION THIS DOCUMENT COMES SHOULD INFORM THEMSELVES ABOUT, AND OBSERVE, ANY SUCH RESTRICTIONS. BY ACCEPTING THIS REPORT YOU AGREE TO BE BOUND BY THE FOREGOING. *23/08/17*