

RBA & SNB cap AUD & CHF

Asia overnight

The JPY and CHF were again the best performers in the Asian session as investors remain nervous about the Korean Peninsula. Indeed, there were newswire reports of North Korean moving an ICBM in preparation for launch on Saturday. UST 10Y yields were weaker throughout the session, which led to the USD being the underperformer in the session. While Australian net exports data surprised to the upside and led to economists pushing higher their forecasters for tomorrow's Q2 GDP release, the RBA's continued complaints about currency strength held the AUD back.

RBA's upgrades to growth & employment help offset its jaw boning of AUD

The RBA left rates unchanged as widely expected, it also retained a neutral policy bias. There were some modest changes to the decision statement, which are slightly supportive of the AUD and help offset the RBA's continued attempts to jaw bone the currency lower. The wording on the AUD is almost identical to the last decision statement, with the RBA continuing to note that "An appreciating exchange rate would be expected to result in a slower pick-up in economic activity and inflation than currently forecast." With the AUD TWI only 1% below where it was last meeting, the Board was always going to keep complaining about currency strength. We continue to see that this is an implicit threat to hold rates low for longer, but given the flatness of the bills strip, this rhetoric has only a modest impact on the AUD.

While the Board upgraded its rhetoric on investment and employment growth referring to an improved outlook for non-mining investment and expectations for "...solid growth in employment..." vs previously "continuous growth..." It still expects only a gradual pickup in inflation and for wages growth to remain low for a "while yet". The Board adds that "...stronger conditions in the labour market should see some lift in wages growth over time..."

The RBA is feeling less pressure to raise rates to head off systemic risks being generated by the residential property market, with the Board noting signs of cooling in Sydney. The Sydney and Melbourne markets have been the main areas of concern for the RBA and indications that Sydney is cooling signals that the macroprudential measures are beginning to work.

European morning: Franc upside limited, irrespective of geopolitics

Ahead today the main focus will be on CPI in Switzerland and UK Services PMI for the month of August. Franc upside has been limited of late, especially against the Euro and regardless of renewed geopolitical tensions. This remains largely due to the currency's reduced safe haven appeal on the back of the SNB's aggressive policy stance as when it comes to a policy mix consisting of negative rates and currency intervention. Unless there is any indication regarding sustainably improving inflation developments, we see little scope of the central bank changing course. While inflation in August is expected to have grown by 0.5% YoY, such an outcome is unlikely to change the above outlined conditions. In fact, it appears that growth momentum remains far from constructive enough in order to compensate for the still overvalued franc's dampening impact on price developments. As a result to the above outlined conditions we remain of the view that there is additional room of diverging central bank monetary policy expectations to the benefit of crosses such as EUR/CHF, at least in the longer term. Hence, we stay long the pair as a trade recommendation.

When it comes to the UK, all eyes will be on the release of the August Services PMI. At 53.5 (prev. 53.8), consensus expectations target stable business activity. Even if data were to weaken more considerably, there is limited room of falling



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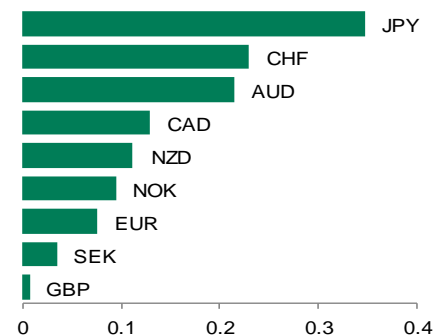
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Overnight returns (% vs USD)



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	109	113	115	114
EUR/JPY	130	132	136	135
GBP/USD	1.29	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	9.29	9.30	9.10	9.00
EUR/SEK	9.48	9.50	9.40	9.30
EUR/CHF	1.14	1.14	1.15	1.15

Source: Bloomberg, Crédit Agricole CIB

monetary policy expectations to the detriment of the GBP. As balanced speculative positioning suggests changing rate expectations may be needed in order to trigger a sustainable currency trend from the current levels, we therefore expect the currency to stay subject to range-bound trading.

USD: Greenback faces only limited downside risks

Data wise, today's focus will be on July factory goods orders, which our economists expect to have dropped by 3.1% MoM. Orders for durable goods dropped 6.8% in the advanced report and this suggests that today's data is unlikely to prove a major market mover. If anything it will remain about global risk sentiment as well as Fed monetary policy expectations to drive the USD from here. While there is limited scope of Fed members considering a change in stance for now we do not expect risk sentiment to deteriorate more considerably. Such prospects coupled with a market that is running a USD short positioning close to multi-year extremes supports the view that the greenback is likely to bottom out, especially against low yielders such as the JPY. Accordingly, we stay of the view that USD/JPY is a buy on dips and we stay long the pair as a trade recommendation.

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	9.2885	1.03%	0.03%
EUR/CHF	09-Aug-17	11:49:00	Long	3,000,000	1.1320	1.1800	1.1200	1.1380	0.56%	0.02%
USD/JPY	24-Aug-17	13:14:00	Long	3,000,000	109.30	112.50	107.8000	109.3400	0.08%	0.00%
Open trades P&L									0.05%	

Underlying	Date	Option Type	Notional	Strike	Barrier	Spot Entry	Cost	P&L Indiv.	P&L Portfolio
EUR/JPY	17-Jul-17	3M Call spread	28,627,500	134/136	-	128.82	0.25%	-0.09%	-0.02%
Open trades P&L									-0.02%

Key Events

BST	Country/ Zone	Indicator/Event	For	CA-CIB f/c	Cons.	Prev.	Comment
07:30	SW	PMI		Aug			
08:15	SZ	CPI YoY		Aug			
08:45	IT	Composite PMI		Aug			
08:50	FR	Composite PMI		Aug			
08:55	GE	Composite PMI		Aug			
09:00	EZ	Composite PMI		Aug			
09:30	UK	Composite PMI		Aug			
09:30	UK	Reserves		Aug			
10:00	EZ	GDP YoY		2Q			
10:00	EZ	Retail Sales YoY		Jul			
10:10	AU	RBA Governor Lowe's Remarks at Board Dinner					
12:30	US	Fed's Brainard Speaks to The Economic Club of New York					
15:00	US	Durable Goods Orders		Jul			
15:00	US	Factory Orders		Jul			
18:10	US	Fed's Kashkari Holds Townhall Event in Minneapolis					

Source: Bloomberg, Crédit Agricole CIB

Webcasts

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