

## Bank of Canada to keep rates on hold

### Asia overnight

In Asian hours risk sentiment was unstable, with most regional stock market indices trading lower at the time of writing. However, in the absence of any major developments weaker stock prices should be taken as a reaction to yesterday's weak performance of US markets. This is especially true as US stock futures are trading broadly flat at the time of writing. Data wise, the main focus was on Australia, where Q2 GDP was released at 1.8% YoY (cons. 1.9%, prev. 1.7%). Given its backward looking today's data is unlikely to have sustainable market impact. Central bank rate expectations have been well supported on the back of the RBA sounding more constructive on growth. However, stabilizing risk sentiment may be needed in order to push the AUD higher.

### European morning: Swedish production data eyed

Ahead today it will be quiet in terms of top tier data releases. If anything there may be some limited focus on July production data in Sweden. However, given it is dated, we anticipate only limited currency impact. It must be noted too that investors' focus will be on Thursday's Riksbank monetary policy announcement. When it comes to the SEK, we believe the currency should stay subject to a gradual appreciation trend. We stick to our year-end EUR/SEK forecast at 9.40. While we see little scope of the Riksbank considering a change in stance as soon as this week, it must be remembered too that the central bank reacted to the last few quarters' trend of improving growth and price developments only marginally. This suggests that there is little scope for dovish surprises, even though it should still be noted that a quickly strengthening currency may increase downside risks to inflation anew. Ultimately it will depend on the ECB moving towards a more hawkish stance to enable the Riksbank considering better fundamentals in setting monetary policy.

The GBP has been benefitting from a combination of both, relatively constructive data and stronger expectations with respect to UK Prime Minister softening her stance with respect to Brexit. This is partly due to the Labour party stressing that it cannot vote for her Brexit Repeal Bill. When it comes to data, UK Services PMI was released marginally below expectations. However, details were more constructive. This is especially true as job creation strengthened to a 19 month high. We stay of the view that the GBP faces upside risks. This is largely due to additional position squaring related upside risks. It must be noted that speculative oriented investors have been building up a GBP short position over the last few weeks. This suggested by our FX positioning gauge. Please note too that PM Theresa will face questions from Labour Party leader Corbyn this afternoon.

### Risk-off turns into USD-off

Markets started the week in a risk-off mode, which is increasingly translating into 'USD-off' as US markets return from holiday. It appears that the North Korea-related move lower in US rates was aggravated by comments from Fed Governor Brainard. While the overall tone of her remarks was consistent with her dovish bias, there were some new elements. In particular, she highlighted that rising long-term bond premia (in response to the balance sheet unwind by the Fed as well as QE exits elsewhere) may imply less need to raise short-term interest rates. The markets have largely overlooked the positive revisions to the durable goods orders data on Tuesday, while on Wednesday the focus will be on the July trade balance and August non-manufacturing ISM. The scope for any USD stabilization in the latter part of the week would depend on some combination of easing geopolitical tensions, more constructive Fed commentary (particularly



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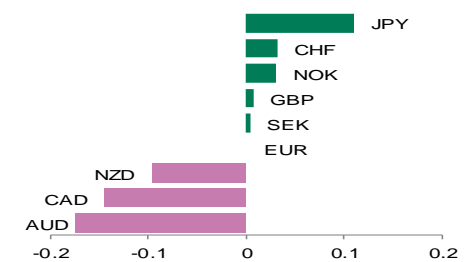
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### Latest Publications

- 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	109	113	115	114
EUR/JPY	129	132	136	135
GBP/USD	1.30	1.30	1.31	1.33
EUR/GBP	0.91	0.90	0.90	0.89
USD/CHF	0.95	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	9.27	9.30	9.10	9.00
EUR/SEK	9.50	9.50	9.40	9.30
EUR/CHF	1.14	1.14	1.15	1.15

Source: Bloomberg, Crédit Agricole CIB

from Dudley on Thursday) and signs that Congress is making progress towards reaching a debt ceiling agreement.

### BoC to hold steady, but not for long

We expect the Bank of Canada to keep rates on hold at 0.75% in line with the majority, although this appears to be a fairly close call as markets are now pricing in a 45% chance of a hike. Either way, an increase of 25bp by October looks like a done deal after the recent GDP data and our economists have changed their forecast to an October hike, followed by 3 more rate increases in 2018. The Governing Council will likely feel like its June hike has been validated by data with Q2 GDP printing growth of 4.5% QoQ, well above the 3% QoQ projection made in the July Monetary Policy Report. Inflation news has also been more positive with core CPI recently accelerating to 1.5% YoY.

The question is whether the BoC will start managing expectations more carefully to avoid an overshoot in rates and the CAD which could result in an excessive tightening in financial conditions. This would support signaling an ongoing but gradual pace of tightening in the statement. Such an approach makes sense to us but we will admit that we have seen little evidence yet that the BoC is particularly concerned about markets getting ahead of themselves. We suspect the bar to push CAD higher is relatively high (a hike and a positive statement) but even if the BoC under-delivers we do not expect a significant sell-off in CAD. We do think a corrective pullbacks is on the cards in the coming months as past CAD strength starts feeding through to CPI data, somewhat tempering 2018 tightening expectations.

### 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	9.2656	1.28%	0.04%
EUR/CHF	09-Aug-17	11:49:00	Long	3,000,000	1.1320	1.1800	1.1200	1.1377	0.53%	0.02%
USD/JPY	24-Aug-17	13:14:00	Long	3,000,000	109.30	112.50	107.8000	108.6900	-0.51%	-0.02%
<b>Open trades P&amp;L</b>										<b>0.04%</b>

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%	-0.12%	-0.03%
<b>Open trades P&amp;L</b>										<b>-0.03%</b>

### Key Events

BST	Country/ Zone	Indicator/Event	For	CA-CIB f/c	Cons.	Prev.	Comment
07:00	GE	Factory Orders MoM	Jul				
08:30	SW	Industrial Production YoY	Jul				
08:30	SW	Industrial Orders YoY	Jul				
09:00	IT	Retail Sales YoY	Jul				
09:10	EZ	Retail PMI	Aug				
13:30	US	Trade Balance	Jul				
14:45	US	<b>Services PMI</b>	Aug				
15:00	CA	<b>BoC</b>	Sep				
15:00	US	ISM Non-Manufact.	Aug				
19:00	US	U.S. Federal Reserve Releases Beige Book					

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

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