FX Daily

(06:19 BST) **16 August 2017**

UK labour data to pressure GBP further?

Asia overnight

Following the volatility in the North American session, G10 FX was quiet during the Asian session. AUD was the only significant mover and grinded slowly higher on the back of positive risk sentiment and AUD/NZD buying. Australian wages data came out in line with consensus, confirmed weak wages growth and therefore had little impact on the AUD. The NZD was the worst performer weighed down by cross selling, a soft dairy auction overnight and higher US rates.

AUD: Second leg of the labour double

Australia's wage costs data showed that wages growth remains mired at a record low of 1.9% YoY, despite the fall in the underemployment in Q2. The RBA estimates Australia's NAIRU is around 5% and labour market tightness usually has a lagged impact on wages growth. So, further strengthening in the labour market is likely needed before wages growth significantly accelerates and nudges the RBA toward hiking rates. We get labour market data for July tomorrow and the data remains on a strong roll. Job advertisements data suggest this should remain the case. The market looks for form jobs growth of 20K and forecasts the unemployment rate to remain steady at 5.6%. The main focus for the RBA and the market will remain the full-time/part-time mix of employment growth and the underemployment rate. In 2017, jobs growth has shifted in favour full-time work, but the underemployment has only edged lower.

European morning: UK labour data due

Today's main focus will be on UK employment data, at least when it comes to economic data releases in Europe. The GBP has been under pressure of late, mainly due to weaker than expected July inflation data. Unless today's data indicates weaker wage price developments, we believe that GBP downside from the current levels will prove limited. At 2.0% YoY (prev. 2.0%) weekly earnings are expected to have stabilized in July. Elsewhere, medium-term inflation expectations as indicated by 5Y inflation swaps have remained well supported close to 3.40%. Last but not least, speculative positioning appears broadly balanced. This implies that a change to rate expectations and/or the capital flow situation is needed in order to trigger fresh buying/selling interest for causing any sustainable trend from the current levels. We believe that the bar for a negative surprise is quite high and therefore we remain of the view that GBP downside from the current levels is limited and dips a buy.

FOMC minutes likely less dovish than the statement

Stronger than expected retail sales data should help reassure the Fed that the recent inflation slowdown is indeed largely driven by idiosyncratic factors rather than an underlying slowing in the economy. If anything the reaction in rates and FX has been quite modest. The probability of a December hike rose to about 45% after the data and given the significant period of time until December where a number of risks could materialize, it appears unlikely that the rates market would be able to push the odds significantly higher. That said, we still think the USD can benefit from stronger US numbers as market positioning is quite short and at the moment and could come under more pressure.

On Wednesday, the main focus is on FOMC minutes. It's worth recalling that the initial reaction to the July FOMC announcement was quite dovish as the Fed was seen downgrading its inflation concern and not sending a clear signal on balance sheet policy. The latter point has been largely resolved though, with a number of Fed speakers clearly telegraphing a September balance sheet announcement. We thus expect the minutes to reinforce these expectations, with FOMC starting

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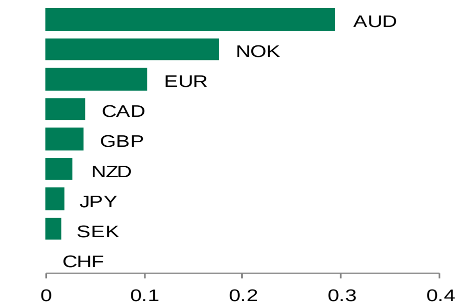
Latest Publications

10 Aug – G10 Market Rate Exp. Monitor – Rate expectations stable
10 Aug – FX Risk Index – No sustained increase in risk-aversion; buy EUR/CHF
09 Aug – FX Trade Idea – Buy EUR/CHF
09 Aug – FX Focus – AUD: outrageous fortune
07 Aug – FX Volatility Monitor – 1M EUR/USD vols attractive?

Overnight returns (%, vs USD)



Source: Bloomberg, Crédit Agricole CIB

G10 FX Forecasts

	Today	Dec-17	Mar-18	Jun-18
EUR/USD	*1.17*	1.18	1.18	1.19
USD/JPY	111	115	114	112
EUR/JPY	130	136	135	133
GBP/USD	1.29	1.31	1.33	1.35
EUR/GBP	0.91	0.90	0.89	0.88
USD/CHF	0.97	0.95	0.95	0.96
USD/CAD	1.28	1.35	1.33	1.31
AUD/USD	0.78	0.72	0.74	0.75
NZD/USD	0.72	0.68	0.70	0.71
EUR/NOK	9.34	9.10	9.00	8.80
EUR/SEK	9.48	9.40	9.30	9.20
EUR/CHF	1.14	1.15	1.15	1.16

Source: Bloomberg, Crédit Agricole CIB to implement balance sheet normalization in October. As for the rates outlook the minutes should be a battle between the 'inflation doves' (Bullard, Evans, Kashkari and Brainard) and those who are still confident that tightening labor market conditions will generate wage and inflation pressures down the road. Somewhat to the market's surprise this week, the latter camp appears to include NY Fed President Dudley who is typically considered close to Yellen's own views.

CAD: Beware of the NAFTA headlines

The long-awaited NAFTA negotiations between the US, Canada and Mexico are starting today. This will be more of a marathon than a sprint as talks are expected to take place over seven rounds by the end of the year. The nature of the discussions will be highly technical and we would not expect a major FX impact as we believe the agreement will ultimately be updated and modernized rather than scrapped. That said, there are a number of key issues at stake for Canada, namely Chapter 19 dispute resolution panels that the US sees as eroding its sovereign power to set trade policy. This week the Canadian government has outlined its own list of ten priorities such as extending free trade in procurement to the state and local level, creating stronger labour and environmental safeguards and expanding the free movement of professionals. It remains to be seen how negotiations play out but it's fair to say that some of Canada's objectives are likely to run contrary to the 'America first' principle declared by the US.

Thus despite high chance of ultimate success, NAFTA negotiations could still generate negative headlines for CAD. We see two specific risks: a temporary breakdown in talks and verbal pressure on negotiators from the White House. Indeed, we would not be surprised if President Trump uses this as an opportunity to re-inforce his 'America first' message by putting pressure on Canada and Mexico to comply with US demands and threaten to pull out of NAFTA, as he had done in the past.

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	9.3385	0.44%	0.01%
EUR/CHF	09-Aug-17	11:49:00	Long	3,000,000	1.1320	1.1800	1.1200	1.1424	0.92%	0.03%
									Open trades P&L	**0.04%**

Underlying	Date		Option Type	Notional	Strike	Barrier	Spot Entry	Cost	P&L Indiv.	P&L Portfolio
EUR/SEK	29-Jun-17	06:58:00	3M 1x1.5 Ratio put spr.	34,200,000	9.60/9.45	-	9.7251	0.23%	0.35%	0.12%
EUR/JPY	17-Jul-17	08:23:00	3M Call spread	28,627,500	134/136	-	128.82	0.25%	-0.05%	-0.01%
									Open trades P&L	**0.12%**

Key Events

BST	Country/ Zone	Indicator/Event	For	CA-CIB f/c	Cons.	Prev.	Comment
09:00	IT	GDP YoY	2Q			1.20%	
09:30	UK	**Jobless Claims Change**	Jul			5.9 K	
09:30	UK	Claimant Count	Jul			2.30%	
10:00	EZ	GDP YoY	2Q			2.10%	
13:30	CA	Intl Transactions	Jun			29.46 B	
13:30	US	Housing Starts	Jul		1225 K	1215 K	

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

The Chinese currency in the Year of the Rooster, 1 February

Metro, one foot in HY?, 19 January

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