

Will Jackson Hole become Sintra number 2?

Overnight price action

It was a quiet start the week, with most of G10 FX trading sideways as the USD held onto its gains post the firm University of Michigan consumer sentiment and the departure of White House Chief Strategist, Steven Bannon. Investors in Asia remain nervous, however, as US-South Korea joint military exercises started today and will last until 31 August. So, the markets are sensitive to any North Korean headlines.

European morning: the quiet before Jackson Hole?

The main event of the week will likely be the central bank symposium hosted by the Fed at Jackson Hole between July 24 and 26. The key question for the FX investors is whether the gathering will deliver another warning to the markets about the impending global monetary policy normalisation. Indeed, the topic of the symposium is "Fostering a Dynamic Global Economy" while Fed Chair Yellen's speech will focus on the topic of financial stability. Both seem to echo the message from Sintra that highlighted that several G10 central banks think about removing some policy accommodation in order to guarantee the persistence of their monetary stimulus at a time of ongoing economic recovery, still low inflation and mounting concerns about the impact of their policies on financial stability.

Sintra will go down in history as the central bank gathering where Mario Draghi pre-announced the end of ECB QE. There is still little information about the title of the President's speech at the Jackson Hole symposium. Ahead of the event, media reports have already suggested that Draghi may leave any discussion of the near-term policy outlook until September and/or October. Even so, we suspect that the speech will attract considerable attention as it may give the President an opportunity to comment on the sharp appreciation of EUR in recent months. In our view, Draghi is less likely to make any explicit references to the currency gains and this could prop up EUR once again. Even if the President were to try to talk down EUR, however, we suspect that any ensuing correction lower would ultimately represent a buying opportunity against JPY and CHF.

Elsewhere, the Jackson Hole symposium may encourage the markets to revisit the so-called FX convergence trade. So far, EUR, the Scandinavian currencies and CAD have emerged as the big winners of that trade whereas the JPY and CHF were the laggards. Comments from Jackson Hole may reinforce these trends. The directional impact on USD is discussed below.

On the day, the European data calendar is relatively empty. That said, markets may focus on the release of five new papers outlining the UK government's position on several Brexit topics – ranging from regulation of goods to data protection. Uncertainty about the progress of the Brexit negotiations continues to cloud the outlook for GBP. In particular, the EU representatives remain committed to settling questions regarding the so called 'divorce settlement' as well as the rights of EU and British nationals that are currently living in Britain and the EU respectively. At the same time, the British negotiators are keen to focus their attention on the future ties between Britain and the EU with a particular emphasis on trade and security. The latest price action in GBP seems to suggest that some negatives related to the darkening UK economic outlook and the political uncertainty linked to Brexit are already in the price, however. This much could imply that the currency impact of any disappointing data or resurfacing Brexit risks this week maybe more muted than the impact of positive surprises.

Subdued Fed expectations ahead of Jackson Hole

The USD remains caught between the White House controversies on the one hand and better economic data on the other. Stronger than expected consumer



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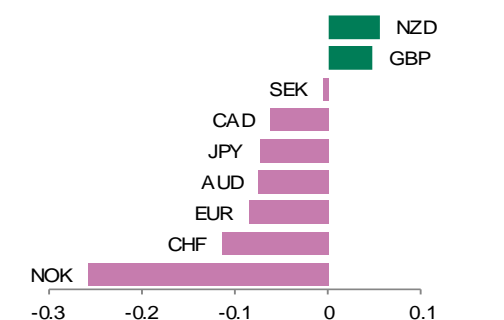
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Overnight returns (% , vs USD)



Source: Bloomberg, Crédit Agricole CIB

G10 FX Forecasts

	Today	Sep-17	Dec-17	Mar-18
EUR/USD	1.18	1.18	1.18	1.19
USD/JPY	109	115	114	112
EUR/JPY	128	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	1.26	1.35	1.33	1.31
AUD/USD	0.79	0.72	0.74	0.75
NZD/USD	0.73	0.68	0.70	0.71
EUR/NOK	9.31	9.10	9.00	8.80
EUR/SEK	9.54	9.40	9.30	9.20
EUR/CHF	1.13	1.15	1.15	1.16

Source: Bloomberg, Crédit Agricole CIB

sentiment data is consistent with other reports suggesting spending activity is looking fairly positive in Q3. Meanwhile the departure of Stephen Bannon from the White House was greeted with relief as it suggests a higher probability that NEC Director Gary Cohn will stay in his job. For the moment, any revival of the 'positive' tax reform agenda appears remote, suggesting that the USD's best hope is that negative political headlines will subside, allowing the dollar to take advantage of better economic news.

The week ahead is light in terms of US economic data and much of the focus is likely to be on the Jackson Hole symposium. The full program will be available at 8pm ET on Thursday. It has already been announced that Fed Chair Yellen will speak on the topic of financial stability at 10am ET. While the Chair is unlikely to signal the presence of asset bubbles, she could highlight that very loose financial conditions support the ongoing process of policy normalization, which would be positive for the USD. It's also worth watching for comments on the sidelines amid emerging divisions between the FOMC 'inflation doves' and those (still in the majority) who remain confident that the closing of the output gap will generate more inflation down the road.

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	9.3148	0.70%	0.02%
EUR/CHF	09-Aug-17	11:49:00	Long	3,000,000	1.1320	1.1800	1.1050	1.1349	0.26%	0.01%
Open trades P&L									0.03%	

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%	0.30%	0.10%
EUR/JPY	17-Jul-17	08:23:00	3M Call spread	28,627,500	134/136	-	128.82	0.25%	-0.14%	-0.04%
Open trades P&L									0.10%	

Key Events

BST	Country/Zone	Indicator/Event	For	CA-CIB f/c	Cons.	Prev.	Comment
08:00	JN	Retail Sales	Jul			-0.10%	
08:00	SZ	Money Supply	Jul			4.10%	
13:30	CA	Wholesale Trade	Jun			0.90%	
13:30	US	Chicago Fed National Activity	Jul			0.13	
14:00	BE	Consumer Confidence	Aug			2.00	

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

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[Utilities: Corporate actions back to the forefront](#), 6 April

[Key G10 FX views update: less USD strength, but for longer](#), 5 April

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[Impact of political risk on covered bond and SSA spreads](#), 27 March

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