

Quiet FX markets belie stretched market positioning

Overnight: quiet markets but stretched market positioning

USD stabilised overnight after losing some ground at the start of the new week. The G10 FX markets continue to trade in very tight ranges on the back of thin liquidity and general lack of triggers of sustained market trends.

The quiet G10 FX markets of late may belie stretched market positioning with investors very long carry and risk-correlated currencies and short funders like JPY, however. In addition, according to our positioning gauge - G10 FX PIX – there has been a decent build-up of EUR longs in recent weeks as well. The upcoming Jackson Hole symposium, central bank officials could deliver another warning to the markets about the impending monetary-policy normalisation. Coupled with lingering global geopolitical risks, this could see some of these long-risk positions squeezed going into the second half of the week.

Elsewhere, despite its apparent resilience of late, some downside risks seem to linger for EUR ahead of the all-important September ECB meeting. Indeed, recent comments by the ECB and the Bundesbank have highlighted the official concerns about the impact of rapid FX appreciation on the Eurozone inflation. At the extreme, such fears may force the Governing Council to delay any decision to taper QE for later in the year. All that coupled with the recent build-up of EUR longs in the FX markets could make investors more cautious ahead of the speeches by the ECB President Draghi in Lindau on August 23 at 8AM BST and Jackson Hole on August 25 at 8PM BST.

European morning: back to fundamentals

The European data calendar is starting to fill up, with the German ZEW and the UK fiscal data on the agenda today. Market is looking for a slight deterioration in the German economic sentiment. Unless we see a sharper ZEW drop, however, the release is unlikely to challenge the investors' constructive view on the German economy that was further corroborated by the upbeat monthly report by the Bundesbank released yesterday. In all, it would take a sizeable disappointment to weigh on EUR on a more sustained basis in the very near term.

In the UK, market is looking for evidence that the fiscal deficit shrunk considerably in July consistent with seasonal pattern from recent years. Also on the positive side seem to be the latest upward revisions of the UK consumers' savings rate published by the ONS recently. The data could allay some concerns about the erosion of the UK households' spending power at a time of persistent cost-push inflation and falling real incomes. While these developments should be seen as positive for GBP, it remains to be seen whether the data in isolation could usher in a period of consolidation for the beleaguered pound.

Canada: focus on retail sales

There is little in terms of scheduled economic data in the US on Tuesday, so the focus will shift north or the border, where June retail sales will be the last leading indicator ahead of the Q2 GDP report next week. Market consensus expects a headline gain of 0.2% MoM and an ex-auto increase of 0.1% MoM after a decline of a similar magnitude in the prior month. So far the high frequency indicators for June output have been on the soft side, with manufacturing and wholesale sales volumes contracting by 1% MoM and 0.7% MoM respectively. However, a soft June would still leave the pace of Q2 GDP expansion as quite solid, with the BoC projecting a gain of 3% QoQ. This should keep the October hike expectations intact for now although we still see some risks to that view mainly on the CPI front which is yet to reflect the pass through from CAD appreciation. Meanwhile, NAFTA headlines, which have been flying under the CAD's radar, suggest talks



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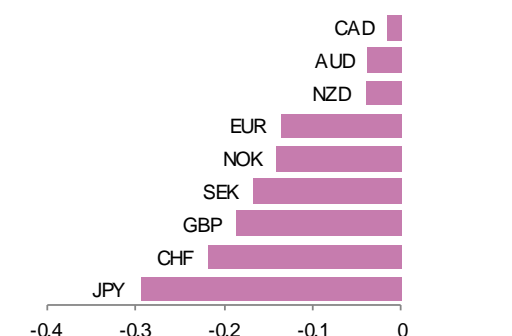
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21 Aug – FX Positioning Update – [Carry longs at risk into Jackson Hole?](#)

18 Aug – FX Weekly – [Two steps forward, one step back](#)

17 Aug – G10 Market Rate Exp. Monitor – [US rate expectations still subdued](#)

Overnight returns (% vs USD)



Source: Bloomberg, Crédit Agricole CIB

G10 FX Forecasts

	Today	Sep-17	Dec-17	Mar-18
EUR/USD	1.18	1.17	1.18	1.18
USD/JPY	109	113	115	114
EUR/JPY	129	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	1.26	1.26	1.25	1.24
AUD/USD	0.79	0.78	0.76	0.75
NZD/USD	0.73	0.73	0.72	0.71
EUR/NOK	9.33	9.30	9.10	9.00
EUR/SEK	9.54	9.50	9.40	9.30
EUR/CHF	1.14	1.14	1.15	1.15

Source: Bloomberg, Crédit Agricole CIB

will not be easy. According to a Globe and Mail report the US formally demanded that the Chapter 19 dispute resolution panels be scrapped from NAFTA, an issue over which the Canadian government had previously threatened to withdraw from negotiations.

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	9.3307	0.54%	0.02%
EUR/CHF	09-Aug-17	11:49:00	Long	3,000,000	1.1320	1.1800	1.1050	1.1377	0.52%	0.02%
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%	-0.12%	-0.03%
Open trades P&L										0.10%

Key Events

BST	Country/Zone	Indicator/Event	For	CA-CIB f/c	Cons.	Prev.	Comment
07:00	SZ	Trade Balance	Jul			2.81 B	
08:00	DE	Retail Sales	Jul			0.50%	
09:30	UK	PSNB ex Banking Groups	Jul		1.0bn	6.9bn	
10:00	GE	ZEW Sentiment	Aug		15.00	17.50	
13:00	EZ	ECB's Constancio Speaks at Economists' Congress in Lisbon					
13:30	CA	Retail Sales MoM	Jun		0.20%	0.60%	
14:00	US	FHFA House Price	Jun		0.50%	0.40%	
15:00	US	Richmond Fed Manufacturing	Aug		10	14	

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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