

Draghi won't bring down EUR; Berlusconi may

Asia overnight

The CAD and the NZD were the most volatile G10 currencies in Asian trading. While the CAD initially benefited from strong Canadian ex-auto retail sales data, it gains were more than reversed on the back of President Trump's comments that NAFTA will probably be terminated. The NZ's government's pre-election budget update saw it trim growth and Budget forecasts, which limits the ability for any party to make big spending promises ahead of the upcoming election. The downgrades were a surprise and so weighed on the NZD. AUD was also a little weaker on the back of retreating iron ore prices. Trump's threat of a government shutdown in order to get funding for his border wall with Mexico also dented sentiment and risk-correlated currencies, which led to the JPY being the strongest performer in the session.

European morning: Draghi speech and Eurozone PMIs, EUR/GBP

The closer we get to Jackson Hole, the greater the market focus will be on comments by central bank officials. ECB President Draghi will speak at 8:25AM BST at the 6th Lindau meeting on Economic Sciences. While no specific topic of the speech has been released, chances are that Draghi would refrain from commenting on monetary policy outlook this close to the all-important September ECB meeting.

One potential risk for the FX markets going into the speech would be any attempts by the President to talk down the single currency given that the Governing Council has grown more worried about the impact of rapid EUR-appreciation on the Eurozone inflation outlook. We doubt that Draghi will make any specific reference to the single currency today or, for that matter, on Friday evening when the President will be speaking at the Jackson Hole central bank symposium.

While any lack of ECB jawboning of the EUR can prop it up, chances are that investors may wait for more clarity on the ECB's policy outlook before buying the single currency in earnest yet again. On the day, PMIs from the Eurozone could suggest that the business optimism, that has been the hallmark of the recovery in the region in recent months, maybe fading. In addition, some concerns seem to be re-emerging ahead of the Italian parliamentary election. Indeed, recent comments by Italy's ex-Prime Minister Berlusconi that seemingly endorsed the idea about funding government liabilities with paper denominated in a parallel currency have caught markets' attention and triggered renewed widening of the BTP-Bund yield spread. Depending on the persistence of the move, EUR downside risks could grow in the very near term.

EUR/GBP hit yet another multi-month high with the recent price action suggesting that investors are still very comfortable being long the cross despite its lofty levels. We believe that some cautiousness may be warranted, however, given that the latest bout of GBP-weakness has brought it into undervalued territory against both EUR and USD. On the day, the release of yet another Brexit paper by the UK government would highlight that the officials will be pragmatic and soften their stance on hitherto 'red lines' like the power of the European Court of Justice in the UK in order to speed up the negotiation process with the EU and thus allay the lingering fears about a 'cliff-edge Brexit' in the business community.

USD: tax reform hopes amid low expectations

The USD appears to be regaining some yield support as risk sentiment improves and markets take a less pessimistic view on the political and fiscal outlook. We suspect much of it is about low expectations: the President's speech on Afghanistan policy was seen as taking a more pragmatic approach while a Politico is helping revive some hopes for a tax reform. The report suggested



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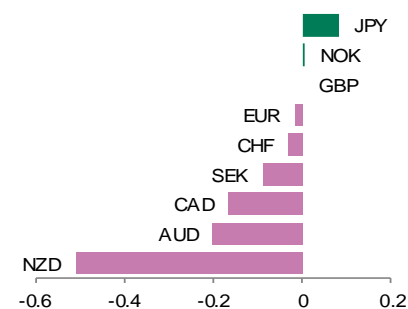
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Overnight returns (% , vs USD)



Source: Bloomberg, Crédit Agricole CIB

G10 FX Forecasts

	Today	Sep-17	Dec-17	Mar-18
EUR/USD	1.18	1.17	1.18	1.18
USD/JPY	109	113	115	114
EUR/JPY	129	132	136	135
GBP/USD	1.28	1.30	1.31	1.33
EUR/GBP	0.92	0.90	0.90	0.89
USD/CHF	0.97	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	0.72	0.73	0.72	0.71
EUR/NOK	9.30	9.30	9.10	9.00
EUR/SEK	9.53	9.50	9.40	9.30
EUR/CHF	1.14	1.14	1.15	1.15

Source: Bloomberg, Crédit Agricole CIB

broad consensus among Republican leaders on the main principles of tax reform, including revenue raising measures such as capping the mortgage interest deduction, ending the deductibility of state and local taxes from Federal tax and a one-off repatriation tax on overseas earnings.

Earnings repatriation would probably be one element of the tax reform to offer the most immediate support to the USD. It is not clear how realistic these proposals are once the usual tax lobbying kicks in (note the rapid demise of the border tax). Also, as the experience with healthcare reform has shown, even with the reconciliation procedure Republicans don't have a lot of votes to lose unless they try to get some Democrats on board which does not look very likely at the moment. Still, given low expectations for both fiscal policy and the Fed we remain of the view that there is scope for the USD to continue recovering this week as Chair Yellen should deliver a message of ongoing policy normalization at Jackson Hole. The US calendar remains light on Wednesday with July new home sales and August Markit PMIs scheduled.

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	9.3022	0.85%	0.03%
EUR/CHF	09-Aug-17	11:49:00	Long	3,000,000	1.1320	1.1800	1.1050	1.1388	0.62%	0.02%
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%	0.34%	0.12%
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										0.12%

Key Events

BST	Country/ Zone	Indicator/Event	For	CA-CIB f/c	Cons.	Prev.	Comment
07:00	NO	Unemployment AKU	Jun		4.30%	4.30%	
08:00	FR	PMI Manufact.	Aug		54.50	54.90	
08:00	EZ	ECB's Draghi Speaks in Lindau, Germany					
08:00	FR	Composite PMI	Aug		55.40	55.60	
08:30	GE	PMI Manufacturing	Aug		57.60	58.10	
08:30	GE	Composite PMI	Aug		54.70	54.70	
09:00	EZ	PMI Manufacturing	Aug		56.30	56.60	
09:00	EZ	Composite PMI	Aug		55.50	55.70	
14:45	US	PMI Manufacturing	Aug		53.50	53.30	
14:45	US	Services PMI	Aug		55.00	54.70	
15:00	EZ	Consumer Confidence	Aug		-1.80	-1.70	
15:00	US	New Home Sales	Jul		613 K	610 K	
23:45	NZ	Trade Balance	Jul		-200 M	242 M	
23:45	NZ	Merchand. Export	Jul		4420 M	4697 M	
23:45	NZ	Import	Jul		4600 M	4455 M	

Source: Bloomberg, Crédit Agricole CIB

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