

EZ vs US inflation

Asia overnight

Mixed data out of Japan and firm investor sentiment led to the JPY being amongst the worst performers in G10 FX in Asian trading. Japan's inflation data were not significantly different from consensus and cyclical data were mixed with IP data surprising modestly to the upside, but retail sales data to the downside. The worst performer in the session was the NZD as investors increasingly got the taste of the difficulty of forming government. The Deputy Leader of the incumbent National Party, Paula Bennett, remarked that the Nationals would be willing to talk to the Green Party. The two parties are unlikely coalition partners as the Green Party actively campaigned to unseat the National Party from government. The USD was the best performer in the session recovering some of its losses post the fall in UST yields overnight.

European morning: Eurozone inflation due

Today's main focus will be on the release of September inflation data for the Eurozone as a whole. After German CPI was released broadly in line with expectation, a similar outcome is expected from today's release. Such prospects would prove constructive enough in order to keep monetary policy expectations supported. Please note that we bought EUR/USD as a trade recommendation yesterday, targeting a move towards 1.22 by the end of the year. While political uncertainty as driven by Germany is unlikely to have sustained market impact, constructive central bank monetary policy expectations should prove the single currency's predominant driver.

In Switzerland, the main focus will be on the release of the September Kof leading indicator. Even if incoming data were to surprise on the upside, it is unlikely enough in order to compensate for the still overvalued franc's dampening impact on inflation. This implies too, that next week's inflation data is likely to indicate still muted price developments. Under such conditions there is little scope of the SNB considering a change in stance anytime soon. Given the central bank's aggressive policy mix consisting of negative rates and currency intervention we expect the franc to keep comparatively low safe haven appeal. We stay of the view that the franc is a sell against the EUR and remain long the cross as a trade recommendation.

In the UK, Q2 GDP will be released. Given it's the final revision we see very little surprise potential. There should be bigger focus on speeches with BoE's Broadbent speaking about central bank independence. When it comes to the GBP, we stay of the view that downside is limited from the current levels. This is largely due to the notion that the BoE is on track with tightening monetary policy in November while the market seems to under-price such prospects.

USD: core PCE prices to remain steady

US equities continue to edge higher but the yields and the dollar appear to be losing their positive momentum as early enthusiasm about tax reform seems to be subsiding. According to some rough early estimates the proposed tax framework could lead to a USD2.2trn net fiscal expense according to the independent Committee for a Responsible Federal Budget although Treasury Secretary Mnuchin has argued that under the (optimistic) assumption that growth will increase to 3% the tax plan could even lead to fiscal savings. On Friday the focus shifts to economic data with the release of August personal income and spending report. We expect spending to rise by a moderate 0.2% MoM. As for the headline PCE deflator we expect a 0.3% MoM gain, which would lead to an acceleration in the YoY rate to 1.5% from 1.4%. However, our economists models are pointing to a more modest 0.2% MoM gain in the core PCE, which would leave the core YoY rate at 1.4%. This is in line with market expectations and should not have a significant impact on the USD.



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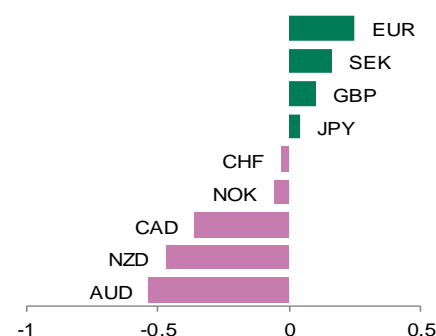
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Overnight returns (% vs USD)



Source: Bloomberg, Crédit Agricole CIB

G10 FX Forecasts

	Today	Dec-17	Mar-18	Jun-18
EUR/USD	1.18	1.22	1.22	1.23
USD/JPY	113	110	108	110
EUR/JPY	133	134	132	135
GBP/USD	1.34	1.36	1.36	1.37
EUR/GBP	0.88	0.90	0.90	0.90
USD/CHF	0.97	0.95	0.95	0.95
USD/CAD	1.25	1.24	1.22	1.21
AUD/USD	0.78	0.78	0.76	0.80
NZD/USD	0.72	0.69	0.68	0.70
EUR/NOK	9.37	9.15	9.00	8.80
EUR/SEK	9.59	9.40	9.30	9.20
EUR/CHF	1.15	1.16	1.16	1.17

Source: Bloomberg, Crédit Agricole CIB

CAD: GDP could further weigh on BoC expectations

In Canada market consensus expects July GDP to rise by 0.1% MoM which would be the smallest monthly gain since February, although that would still leave the YoY rate at a very firm 3.9%. Outside of the surge in wholesale sales advance monthly indicators have been somewhat soft, including real retail sales and manufacturing sales. The slowdown should come as no surprise to the BoC who have long signaled that the exceptional pace seen in Q2 will not be sustained. Still, a result in line or below expectations would probably feed into a further decline in October tightening expectations and weigh on the CAD.

Open Trade Recommendations

Underlying	Date	Opening Time	Direction	Notional	Entry	Target	Stop	Last	P&L Individ.	P&L Portfolio
EUR/NOK	07-Aug-17	10:37:00	Short	3,000,000	9.3765	9.1000	9.5500	9.3686	0.08%	0.00%
EUR/CHF	09-Aug-17	11:49:00	Long	3,000,000	1.1320	1.1800	1.1345	1.1459	1.22%	0.04%
EUR/USD	28-Sep-17	11:35:00	Long	3,000,000	1.1770	1.2200	1.1520	1.1775	0.04%	0.00%
Open trades P&L										0.04%

Underlying	Date	Option Type	Notional	Strike	Barrier	Spot Entry	Cost	P&L Individ.	P&L Portfolio	
EUR/JPY	17-Jul-17	08:23:00	3M Call spread	28,627,500	134/136	-	128.82	0.25%	0.01%	0.00%
AUD/NZD	12-Sep-17	10:16:00	1M one-touch	240,780	1.15	-	1.0985	10.00%	-9.96%	-0.02%
EUR/SEK	12-Sep-17	14:45:00	4M 1x1.5 Ratio put spr.	23,908,000	9.45/9.30	-	9.538	0.26%	-0.05%	-0.01%
Open trades P&L										-0.03%

Key Events

BST	Country/ Zone	Indicator/Event	For	CA-CIB f/c	Cons.	Prev.	Comment
07:00	NO	Retail Sales MoM	Aug			0.40%	
07:45	FR	CPI YoY	Sep			1.00%	
07:45	FR	Consumer Spending MoM	Aug			0.70%	
08:00	SZ	KOF Leading Indicator	Sep			104.10	
08:30	SW	Earnings	Jul			1.80%	
08:55	GE	Unemployment Change	Sep			-5 K	
08:55	GE	Unemployment	Sep			5.70%	
09:00	NO	FX Purchases	Oct			-650.0M	
09:00	NO	Unemployment	Sep			2.70%	
09:25	NO	Norway Central Bank Deputy Governors Speak in Hamar					
09:30	UK	M4 Money Supply YoY	Aug			4.40%	
09:30	UK	Net Lending Sec. on Dwellings	Aug			3.60 B	
09:30	UK	Mortgage Approvals	Aug			69 K	
09:30	UK	GDP YoY	2Q			1.70%	
10:00	EZ	CPI Estimate YoY	Sep			1.50%	
10:00	IT	CPI	Sep			1.40%	
10:00	IT	Italian HICP MoM	Sep			0.10%	
10:00	IT	IT CPI NIC Incl Tobacco YoY NSA					
13:30	CA	Industrial Production	Aug			-1.50%	
13:30	CA	Raw Mat Price	Aug			-0.62%	
13:30	CA	GDP	Jul			4.30%	
13:30	US	Personal Spending	Aug		0.20%	0.30%	
13:30	US	Personal Income MoM	Aug		0.30%	0.40%	
14:45	US	Chicago PMI	Sep		58.00	58.90	
15:00	US	U. of Mich. Sentiment	Sep			95.30	
		Fed's Harker Speaks at Fintech Event on Consumers and Banking					

Source: Bloomberg, Crédit Agricole CIB

Webcasts

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