

US tax cuts to Trump German inflation?

Asia overnight

It was a day of USD strength as Trump's tax plan spurred higher UST yields and the USD followed. The AUD was the worst performer as it was pressure lower by both higher UST yields as well as falling iron ore prices. The JPY also continued to weaken and was the second worst performer on the back of a combination of risk-on trading and higher UST yields. Japan formally dissolved its parliament today and announced 22 October as the election date, given the announcement was expected, it had little market impact. The RBNZ left rates on hold as widely expected and sounded a little more dovish on rates, but dialed back its jawboning of the currency, which left the NZD trading choppy and finishing a little lower.

NZD: RBNZ softer on growth and the currency

The new Acting Governor of the RBNZ, Grant Spencer, continued to express caution about inflation and growth and a neutral policy bias. There were two key changes in rhetoric: First, Spencer said growth was projected to "maintain its current pace going forward" vs former Governor, Graeme Wheeler, in August saying growth was expected to improve. The shift in rhetoric suggests that the RBNZ will likely lower its GDP growth forecasts modestly at its October MPS. Second, there was also a shift in currency rhetoric with Spencer saying that a lower currency would be "helpful" rather than "is needed". The RBNZ made significant noise about shifting the other way last month saying that it was an indication that it was prepared to intervene in the currency, so a shift back suggests that it is taking a step back from the intervention lever. Importantly, this step back is in response to the about 2% decline in the NZ TWI since the RBNZ's August meeting and the RBNZ would be willing to step back toward the lever if the currency were to rally from here. The NZD's eroding yield appeal as global rates push higher and the RBNZ remains on hold will continue to weigh on the NZD. Political uncertainty post the uncertain NZ election outcome adds weight to the currency.

European morning: All eyes on German inflation

Ahead today investors' main focus will be on September CPI in Germany. The release will be taken as a first meaningful indication ahead of Friday's inflation data for the Eurozone as a whole. At 1.8% YoY (prev. 1.8%) consensus expectations target no material change in price growth. Unless incoming data surprises considerably to the downside we see limited scope of changing monetary policy expectations. After all, most ECB members including central bank President Draghi already explained that most details with respect to tapering will be announced as part of the October meeting. In an environment of well supported central bank monetary policy expectations, we believe there is limited EUR downside risk from the current levels. This is also due to the notion that speculative long positioning has reached less elevated territory. If anything, we stay in favour of buying dips, against both the USD and CHF.

In Sweden, all eyes will be on August retail sales. At 2.7% YoY (prev. 3.7%) domestic demand conditions are expected to have softened somewhat. However, as it remains about external factors such as further stabilizing ECB monetary policy expectations to enable the Riksbank taking note of better fundamentals when setting monetary policy, market impact is likely to prove limited. It must be noted that regardless of more muted retail sales data a trend of improving conditions remains intact.

When it comes to speeches, BoE Governor Carney will talk as part of the BoE Independence Conference in London. He will make introductory remarks. Should he make comments with respect to monetary policy he is unlikely to surprise. We stay of the view that the BoE is on track with tightening monetary policy as part of



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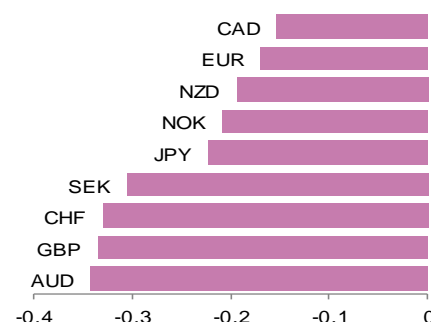
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Overnight returns (% vs USD)



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	112	110	108	110
EUR/JPY	132	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	1.24	1.24	1.22	1.21
AUD/USD	0.79	0.78	0.76	0.80
NZD/USD	0.72	0.69	0.68	0.70
EUR/NOK	9.31	9.15	9.00	8.80
EUR/SEK	9.59	9.40	9.30	9.20
EUR/CHF	1.14	1.16	1.16	1.17

Source: Bloomberg, Crédit Agricole CIB

the November meeting. This in turn suggests that there is room of rising central bank rate expectations to the benefit of the GBP.

Markets welcome White House tax reform proposal

Rising US yields are pushing USD higher amid renewed hopes for fiscal stimulus. The White House, the House Ways and Means Committee and the Senate Committee on Finance have released a joint framework to reform individual and corporate tax codes. The proposal contains a decrease in the corporate tax rate to 20% and the ability to immediately write off the cost of new capital investment. As far as the treatment of current retained overseas earnings the proposal went for the 'deemed tax' option (which is somewhat of a surprise). This implies that US corporates would automatically owe a tax liability on current retained earnings, irrespective of whether the funds are repatriated or not. To the extent that corporates could finance the liability out of their US revenues, this could limit the need for any actual repatriation and thus a positive 'flow' effect on the USD. With respect the individual taxes, most parameters were in line with what has been already flagged, namely a reduction in tax brackets from seven to three, a decrease in the top tax rate (although the proposal says an additional top rate may apply to highest-income taxpayers), an increase in the standard deduction and the elimination of most itemized deductions except the mortgage and charitable donations.

We continue to believe that comprehensive tax reform is challenging given disagreements within the Republican party, their slim majority in the Senate and a large number of special interest groups that could oppose specific provisions of the plan. For example the National Association of Realtors has already expressed concern that the increase in the standard deduction would significantly diminish the tax incentive to purchase a home. We suspect that the positive reaction in equities, rates and FX is reflects expectations that this is a "now or never" moment for Republican leadership, implying hopes that they will be able to pass at least a moderate version of the tax reform. More details and reactions are likely to transpire in the coming days but we view the recent bounce in yields and the USD as more of a normalization in expectations from a low base than a full revival of the 'Trump trade'.

Poloz pushes back rate hike expectations

Speaking on Wednesday BoC Governor Poloz focused on what 'data dependency' means and what factors the BoC will be watching going forward, namely economic capacity, inflation and technology, wage growth, elevated household debt. There were no particularly vocal concerns about CAD but at the same time Poloz was keen to separate the quick removal of the 'insurance' accommodation from 2015 (already done via two hikes) from the actual normalization cycle which is likely to be much more gradual. Indeed, the comment that the BoC was to proceed 'cautiously' has reduced the odds of an October hike to below 30% from around 45% before the speech. Overall this reinforces our view that absent significant data surprises the BoC should stay on hold on October 25 and instead tighten in December along with the Fed.

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	9.3105	0.87%	0.03%
EUR/CHF	09-Aug-17	11:49:00	Long	3,000,000	1.1320	1.1800	1.1345	1.1442	1.12%	0.03%
Open trades P&L										0.06%

Underlying	Date	Option Type	Notional	Strike	Barrier	Spot Entry	Cost	P&L Indiv.	P&L Portfolio	
EUR/JPY	17-Jul-17	3M Call spread	28,627,500	134/136	-	128.82	0.25%	-0.01%	0.00%	
AUD/NZD	12-Sep-17	1M one-touch	240,780	1.15	-	1.0985	10.00%	-9.43%	-0.02%	
EUR/SEK	12-Sep-17	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										-0.04%

Key Events

BST	Country/ Zone	Indicator/Event	For	CA-CIB f/c	Cons.	Prev.	Comment
07:00	GE	GfK Consumer Confidence	Oct			10.90	
07:00	NO	Credit Indicator Growth YoY	Aug			5.70%	
08:00	SP	CPI YoY	Sep			2.00%	
08:20	NO	Norway Central Bank Deputy Governor Matsen Speaks					
08:30	SW	Retail Sales YoY	Aug			3.70%	
10:00	EZ	Bus Climate	Sep			1.09	
10:00	EZ	Eurozone Economic Confidence	Sep			111.90	

BST	Country/ Zone	Indicator/Event	For	CA-CIB f/c	Cons.	Prev.	Comment	
10:00	EZ	Bus. Confidence	Sep			5.10		
10:00	EZ	Services Confidence	Sep			14.90		
13:00	GE	CPI YoY	Sep			1.80%		
13:30	US	Wholesale Inventories	Aug			0.60%		
13:30	US	GDP QoQ	2Q		3.20%	3.00%		
13:30	US	Core PCE	2Q			0.90%		
13:30	US	Personal Consumption	2Q			3.30%		
14:45	US	Fed's George Speaks on Economy and Monetary Policy						
16:00	US	Kansas City Fed	Sep			16.00		
22:45	NZ	Building Permits MoM	Aug			-0.70%		
	AU	RBA's Debelle Gives Speech in London						

Source: Bloomberg, Crédit Agricole CIB

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