

USD – storms cloud the outlook?

Overnight

Improved sentiment following the measured response by US President Trump to North Korea's latest missile test led to the JPY being the weakest performer in the Asian session. The USD was looking firmer on the back of higher US yields following the release of strong US consumer confidence data, but a sharp move lower in USD/CNH spilled over into G10 space and weighed on the USD. The Antipodeans were the strongest performers on the back of the risk-on sentiment, with the AUD receiving an additional boost from firm construction and building approvals data as well as AUD/NZD buying. In his last speech as RBNZ Governor, Graeme Wheeler, used the opportunity to try and talk down the NZD.

USD weighed down by Hurricane Harvey?

While difficult to say how much, there was likely an element of US weakness relating the Hurricane Harvey its potential to delay FOMC rate hikes. Pictures of aeroplanes underwater in Houston made for sobering viewing. We cast our memories back to the tragedy of Hurricane Katrina, however, and the Fed did not cut rates back then. And while Harvey is also a tragedy, it is nowhere near on the same scale as Katrina. Estimates of Harvey's damage are in the range of USD20-40bn vs Katrina at USD110bn. A secondary issue for the USD, however, is that the US government's emergency funding could complicate the looming debt ceiling debate. We continue to assign a low probability to the debt ceiling not getting raised in time to avoid default. We remain long USD/JPY as a trade recommendation.

We expect the USD's near term direction to be determined by the US economic data and given the market pricing for the FOMC, we see that the bar is low for the data to push the Dollar higher. ADP employment data as well as the second reading for US GDP will be the highlights for the USD. Our economists looks for an above consensus 2.9% QoQ SAAR reading for GDP.

Private CAPEX data to help the AUD along?

Australia's private-sector CAPEX data will help determine if the AUD's run higher can continue. Within this data release there are three areas of significance. First, the headline level of investment in Q2. Second, the expected level of investment for 2017/2018, which is the important third reading as it consists of an equal mix of short and long-term investment intentions, and often is a good representation for investment in the coming fiscal year. Finally, there is the mix of investment where the RBA continues to look for stronger non-mining investment to offset weak mining investment.

Improving profitability as well as strong confidence and trading conditions suggest that investment should begin to pick up after several years of decline, so the market look for a rise in headline investment by +0.2% QoQ. While imports data also suggests a pickup in investment, they have proven false prophets in recent years. There is currently no consensus forecast for expected investment for 2017/2018, which in Q1 was estimated at AUD85bn and still early 6.5% below the same reading the previous year.

European morning – German inflation and Swedish business confidence

EUR remains supported across the board and we suspect that one key driver of the latest FX market price action is investors' anticipation that the upcoming inflation data out of Germany today and the Eurozone tomorrow will reinforce the case for QE-taper announcement at the ECB policy meeting on September 7. Indeed, market consensus is for further acceleration of the German EU harmonised inflation print in August to 1.7%YoY from 1.5%YoY in July. This



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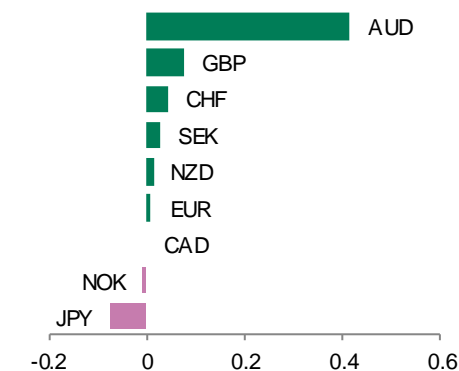


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- 29 Aug** – G10 FX Scorecard – [Weekly update: 29 August 2017](#)
- 29 Aug** – FX Positioning Update – [Markets long risk and EUR, short JPY and GBP](#)
- 25 Aug** – FX Weekly – [Will the FX convergence trade descend into a currency war?](#)
- 24 Aug** – FX Trade Idea – [Buy USD/JPY ahead of Jackson Hole](#)
- 24 Aug** – FX Month-End Rebalancing – [Preliminary signal: USD buying](#)

Overnight returns (% vs USD)



Source: Bloomberg, Crédit Agricole CIB

G10 FX Forecasts

	Today	Sep-17	Dec-17	Mar-18
EUR/USD	1.20	1.17	1.18	1.18
USD/JPY	110	113	115	114
EUR/JPY	131	132	136	135
GBP/USD	1.29	1.30	1.31	1.33
EUR/GBP	0.93	0.90	0.90	0.89
USD/CHF	0.96	0.97	0.97	0.97
USD/CAD	1.25	1.26	1.25	1.24
AUD/USD	0.80	0.78	0.76	0.75
NZD/USD	0.73	0.73	0.72	0.71
EUR/NOK	9.28	9.30	9.10	9.00
EUR/SEK	9.50	9.50	9.40	9.30
EUR/CHF	1.14	1.14	1.15	1.15

Source: Bloomberg, Crédit Agricole CIB

should be followed by accelerating headline and stable core HICP inflation prints out of the Eurozone on Thursday.

The above being said, some positives seem to have already been priced in even before EUR/USD tested the 1.20 level recently. Indeed, a look at the EUR TWI would suggest that the index has already recovered all of the losses incurred since the introduction of ECB QE in January 2015. This is further confirmed by evidence that investors have added to their EUR-longs in recent months. With many positives already in the price of EUR, we think that it would take a stronger inflation prints from Germany and the Eurozone to see EUR extending its gains on a more sustained basis.

More recently, the appreciating EUR has also triggered anxious comments by politicians and business representatives from the Eurozone. In addition, the combination of persistent FX appreciation and oil price deflation will likely force the ECB to cut its inflation forecast next week and, if the EUR-uptrend is sustained, in December as well. Needless to say, further unwarranted tightening of the Eurozone financial conditions could increase the risks that the ECB pushes back any significant changes in policy until later in the year.

Also today, we will get the latest Economic tendency survey out of Sweden. The market is looking for a slight cooling in business confidence in August. The print will likely attract some attention ahead of the Riksbank policy meeting next week. We suspect that it will take a sizeable data disappointment to undermine the resilient SEK. Indeed, the currency should continue to trade as a higher-beta proxy for EUR. In addition, strong real economy and improving inflation outlook should continue to make markets bet on the gradual removal of monetary stimulus in Sweden.

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	9.2791	1.12%	0.03%
EUR/CHF	09-Aug-17	11:49:00	Long	3,000,000	1.1320	1.1800	1.1200	1.1439	1.07%	0.03%
USD/JPY	24-Aug-17	13:14:00	Long	3,000,000	109.30	112.50	107.8000	109.7900	0.47%	0.01%
Open trades P&L										0.08%

Underlying	Date	Option Type	Notional	Strike	Barrier	Spot Entry	Cost	P&L Indiv.	P&L Portfolio	
EUR/SEK	29-Jun-17	3M 1x1.5 Ratio put spr.	34,200,000	9.60/9.45	-	9.7251	0.23%	0.43%	0.15%	
EUR/JPY	17-Jul-17	3M Call spread	28,627,500	134/136	-	128.82	0.25%	0.03%	0.01%	
Open trades P&L										0.15%

Key Events

BST	Country/Zone	Indicator/Event	For	CA-CIB f/c	Cons.	Prev.	Comment
07:00	NO	Retail Sales MoM	Jul		0.30%	-0.60%	
07:00	SZ	Cons Index	Jul			1.38	
08:00	SP	CPI YoY	Aug		1.80%	1.70%	
08:00	SW	Consumer Confidence	Aug		103.00	102.20	
08:00	SW	Business Confidence	Aug		119.30	120.30	
08:00	SW	Eco Tendency	Aug		111.80	112.40	
08:00	SZ	KOF Leading Indicator	Aug		107.00	106.80	
08:30	SW	Earnings	Jun			1.70%	
09:30	UK	M4 Money Supply YoY	Jul			5.30%	
09:30	UK	Net Lending Sec. on Dwellings	Jul		3.80 B	4.15 B	
09:30	UK	Mortgage Approvals	Jul		65.5 K	64.7 K	
10:00	EZ	Bus Climate	Aug		1.05	1.05	
10:00	EZ	Eurozone Economic Confidence	Aug		111.30	111.20	
10:00	EZ	Bus. Confidence	Aug		4.70	4.50	
10:00	EZ	Services Confidence	Aug		13.90	14.10	
10:45	UK	BOE's Charlotte Gerken speaks in Edinburgh					
13:00	GE	CPI YoY	Aug		1.70%	1.50%	
13:15	US	ADP Employment Change	Aug		185 K	178 K	
13:30	US	GDP QoQ	2Q		2.70%	2.60%	
13:30	US	Core PCE	2Q		0.90%	0.90%	
13:30	US	Personal Consumption	2Q		3.00%	2.80%	
14:15	US	Fed's Powell Speaks at Large-Bank Directors Conference					

BST	Country/ Zone	Indicator/Event	For	CA-CIB f/c	Cons.	Prev.	Comment
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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
- [Corporate hybrids: designed for times of tapering?](#), 12 July
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- [Banks - Spain vs Italy: a different view of BRRD, 29 June](#)
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- [Bail-in framework in Europe: solution à la française](#), 10 May
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- [French presidential election – your survival kit](#), 20 April
- [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
- [Metals & Mining: Any value left after the flow of positives?](#), 17 March
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