

A tale of two inflation prints

Overnight

While US rates barely budged on the firm US economic data, the USD saw significant strength, which spilled over into the Asian session. The USD was the best performer in the session, with the JPY and the NZD bearing the brunt of USD strength. Soft Japan IP and weak NZ business confidence data helped the JPY and NZD on their way. Further AUD/NZD buying on the back of strong Australian private CAPEX data added to the NZD's woes. The CAPEX data helped the AUD/USD hold its ground. China's PMI data were mixed – while manufacturing PMI surprised to the upside non-manufacturing data were weak and the combined data points to further slowing in the economy, according to our China economist. The data's impact on the market was neutral in the end.

AUD: Australia's investment drought ending

Private CAPEX was up 0.8% QoQ (consensus +0.2% QoQ), which is a modest upside surprise in these data given their volatility. This was the second consecutive QoQ rise in investment, the first such occurrence nearly three years. There was also an upward revision to investment intentions from AUD86.6bn to AUD101.8bn, which is the largest rise in the second to third reading of year-ahead expectations in 7 years. The drop off in total expected investment relative to same reading last year has declined to 3.6% from 5.2%, so the hole in investment hole continues to be filled in.

Over half of the rise in investment intentions is in the services sector and three-quarters in the non-mining sector. These data validate the RBA's view that the end is nigh for the drag of investment on growth. We continue to see that the RBA is unlikely to cut rates again and the next move is up, but probably nine months away.

The RBA is right to be concerned about the AUD, however, as the sectors ramping up investment intentions are sensitive to the currency. So, further rises in the AUD could lead to weakening in investment growth. The RBA will likely reiterate these concerns in its post decision statement next week.

Relative to the strong US GDP and ADP employment data and significant long positioning in the AUD, the CAPEX data were not strong enough to boost AUD/USD. US data out over the coming days will be important. Against weak NZ business confidence data, however, the CAPEX should keep AUD/NZD in an uptrend, especially given the rising chance of the NZ election weighing on the NZD, as we highlight in [AUD & NZD: political risks – a whole lot of noise](#).

European morning: Eurozone HICP and BoE's Saunders

The key event during the European morning will be the inflation data out of the Eurozone. Ahead of the release, market consensus is for a 1.4%YoY gain in the headline HICP print in August, up from 1.3% in July, and 1.2%YoY gain in the core inflation, unchanged from the previous month. CACIB's own forecast is for 1.5%YoY gain in the headline inflation and unchanged to, potentially, somewhat lower annual core inflation print in August compared to July.

Following the stronger than expected inflation out of Spain and Germany yesterday, the bar for a positive inflation surprise maybe somewhat higher on the day. In addition, it seems that investors' focus may have shifted to the upcoming ECB meeting next week. Indeed, cautiousness about potential jawboning of EUR by President Draghi as well as indications that the ECB become less constructive in its inflation outlook because of the EUR appreciation this year, could keep the currency close to recent lows in the very near term.

Elsewhere, investors will focus on the speech by the MPC member Michael Saunders at 8:25AM BST. While no topic has been released at the time of



Valentin Marinov

Head of G10 FX Strategy

+44 20 7214 5289

valentin.marinov@ca-cib.com



David Forrester

FX Strategist

+852 2826 1529

david.forrester@ca-cib.com

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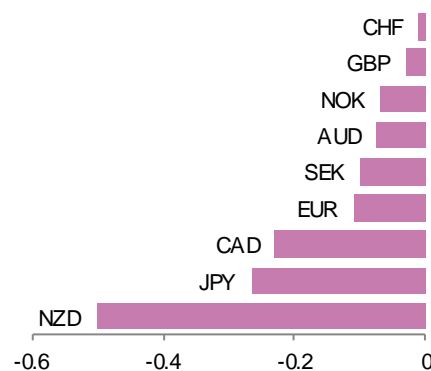
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25 Aug – FX Weekly – [Will the FX convergence trade descend into a currency war?](#)

Overnight returns (% , vs USD)



Source: Bloomberg, Crédit Agricole CIB

G10 FX Forecasts

	Today	Sep-17	Dec-17	Mar-18
EUR/USD	1.19	1.17	1.18	1.18
USD/JPY	111	113	115	114
EUR/JPY	131	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	0.72	0.73	0.72	0.71
EUR/NOK	9.28	9.30	9.10	9.00
EUR/SEK	9.48	9.50	9.40	9.30
EUR/CHF	1.14	1.14	1.15	1.15

Source: Bloomberg, Crédit Agricole CIB

writing, we suspect that Mr Saunders may use the opportunity to discuss his outlook for the UK economy and the impact from Brexit. Of particular importance for the FX markets will be his views on the BoE's rate outlook especially given the latest renewed GBP weakness across the board. We think that Mr Saunders will not disappoint those looking for more hawkish overtones from the BoE today. That said, given the currency's more recent gains against EUR and JPY, it remains to be seen whether this will be enough to boost the near-term outlook for GBP on a more sustained basis.

NA session: US core PCE inflation and Canadian Q2GDP

A slew of data out of the US today could keep investors focusing on the improving outlook for the economy and even help them put aside risks linked to the lingering tensions with North Korea as well as the political impasse in Washington DC. In that, positive surprises from the personal income and spending data could more than offset any evidence that the core PCE inflation has slowed down further to 1.4%YoY in July from 1.5%YoY in June.

We also suspect that the US jobless claims and even the Chicago PMI would confirm the positive message from the ADP data yesterday and keep markets betting on a favourable outcome from the NFP tomorrow. In all, we believe that the US data should not stand in the way of the latest rebound in USD against majors like EUR and JPY. Month-end flows as well as unwinding of some of the USD-shorts that investors have put in place recently could help as well.

Elsewhere, GDP data out of Canada will attract some attention as well. Market is looking for a slowdown in activity in June which could push the rate of growth to 4.1%YoY from 4.6%YoY prior. In the absence of significant downside surprises, the data is less likely to affect market rate expectations. Indeed, investors may continue to expect the next BoC hike in October while positioning for an uneventful September policy meeting next week. We suspect that the latest price action in CAD reflects stretched long positioning as well as lacklustre oil price performance of late. The latter may reflect the impact of hurricane Harvey that is expected to disrupt the demand for crude at a time where oil inventories remain historically high.

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	9.2774	1.14%	0.03%
EUR/CHF	09-Aug-17	11:49:00	Long	3,000,000	1.1320	1.1800	1.1200	1.1441	1.09%	0.03%
USD/JPY	24-Aug-17	13:14:00	Long	3,000,000	109.30	112.50	107.8000	110.5300	1.15%	0.03%
Open trades P&L										0.10%

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%	0.48%	0.16%
EUR/JPY	17-Jul-17	08:23:00	3M Call spread	28,627,500	134/136	-	128.82	0.25%	0.00%	0.00%
Open trades P&L										0.16%

Key Events

BST	Country/ Zone	Indicator/Event	For	CA-CIB f/c	Cons.	Prev.	Comment
07:45	FR	CPI YoY	Aug		1.00%	0.80%	
08:55	GE	Unemployment Change	Aug			-8 K	
08:55	GE	Unemployment	Aug		5.70%	5.70%	
09:00	NO	FX Purchases	Sep		-850.0M	-850.0M	
10:00	EZ	CPI Estimate YoY	Aug		1.40%	1.30%	
10:00	EZ	Unemployment	Jul		9.10%	9.10%	
10:00	IT	CPI	Aug			1.20%	
10:00	IT	Italian HICP MoM	Aug			-1.90%	
10:00	IT	IT CPI NIC Incl Tobacco YoY	Aug			1.10%	
12:30	US	Challenger Job Cuts	Aug			-37.60%	
13:30	CA	GDP	Jun		4.10%	4.60%	
13:30	US	Personal Spending	Jul		0.40%	0.10%	
13:30	US	Personal Income MoM	Jul		0.40%		
14:45	US	Chicago PMI	Aug		58.00	58.90	
15:00	US	Pending Home Sales	Jul		0.50%	1.50%	
18:00	NZ	House Price	Aug			6.40%	

BST	Country/ Zone	Indicator/Event	For	CA-CIB f/c	Cons.	Prev.	Comment
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Source: Bloomberg, Crédit Agricole CIB

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Yann Marhic
Global CACIB MiFID II contact
yann.marhic@ca-cib.com

Audrey Thouvenin
MiFID II research contact
audrey.thouvenin@ca-cib.com

Please send your questions on
MiFID II to:
research.mifid2@ca-cib.com
Global Markets Research contact details
Jean-François Paren Head of Global Markets Research +33 1 41 89 33 95

	Asia (Hong Kong & Tokyo)	Europe (London & Paris)		Americas (New York)
Macro Strategy	Kyohei Morita Chief Economist Japan +81 3 4580 5360	Louis Harreau ECB Strategist +33 1 41 89 98 95	Xavier Chopard Global Macro Strategist +33 1 41 89 13 45	Michael P. Carey ** Chief Economist US +1 212 261 7134 Evan Carmean ** US Associate +1 212 261 3360
Interest Rates	Yoshiro Sato Economist / Strategist - Japan +81 3 4580 5337	Mohit Kumar Global Head of Rates Strategy +44 20 7214 6651 Orlando Green CFA Senior IRD Strategist +44 20 7214 7467	Afsaneh Mastouri Interest Rates Strategist +44 20 7214 6737 Jean-François Perrin Inflation Strategist +33 1 41 89 94 22	Alex Li ** Head of US Rates Strategy +1 212 261 3950
Emerging Markets	Dariusz Kowalczyk Senior Emerging Market Strategist +852 2826 1519 Samsara Wang Emerging Market Strategist +852 2826 1590 Gary Yau Emerging Market Strategist +852 2826 1553	Sébastien Barbé Head of Emerging Market Research & Strategy +33 1 41 89 15 97 Guillaume Tresca Senior Emerging Market Strategist +33 1 41 89 18 47	Jakub Borowski Chief Economist - Crédit Agricole Bank Polska SA +48 22 573 18 40 Alexander Pecherytsyn Chief Economist - Crédit Agricole Bank Ukraine +38 44 493 9014	Italo Lombardi ** Senior Emerging Market Strategist +1 212 261 7994
Foreign Exchange	David Forrester FX Strategist +852 2826 1529	Valentin Marinov Head of G10 FX Research & Strategy +44 20 7214 5289 Jennifer Hau FX Strategist +44 20 7214 7468	Manuel Oliveri FX Strategist +44 20 7214 7469	Vassili Serebriakov ** FX Strategist +1 212 261 3309

** employee(s) of Crédit Agricole Securities (USA), Inc.

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Manuel Oliveri, David Forrester, Vassili Serebriakov

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