

ECB to keep EUR to account

Asia overnight: Retail sales weigh on the AUD as households eat out less

The AUD was the only significant mover in an otherwise quiet session in Asia as investors await tomorrow's US non-farm payrolls data and local holidays continue to keep activity at a low level. While Australian trade data were better than consensus, a surprise decline in retail sales hurt the AUD. The market was also caught a little long the AUD after the move lower in the US rates and the USD in recent days as well as upbeat commentary from the RBA.

The increasingly upbeat rhetoric of the RBA post Tuesday's Board meeting and commentary by former RBA Board member, John Edwards, that the RBA could raise rates even with below-target inflation if growth were "ok", had the market nearly fully pricing in a rate hike by the RBA this time next year. The 0.6% MoM decline in retail sales (consensus +0.3%) saw the market back away a little from that pricing.

Despite increasingly strong employment growth, retail sales have seen their largest two-month decline in seven years. Today's drop was driven by households staying at home more to eat rather than go out and adds to anecdotal evidence that they are struggling under the burden of record levels of debt as well as weak incomes growth. These data are unlikely to significantly shift the RBA's view of the economy, however, as the Board already expects the combination of high debt and low incomes growth to weigh on household consumption going forward and to be a constraint on GDP growth. Firmer growth in non-mining investment including public infrastructure spending are expected by the RBA to help push growth higher in the coming year. So we do not expect much long-term impact on the AUD from today's retail sales data.

Australia continues to have a strong trade balance with the surplus just short of AUD1bn and above market expectations. Last month's surplus was also revised significantly higher. Importantly, Australia's strong trade balance helps reduce (not eliminate) the long-term impact on the currency of the erosion of its yield appeal as it reduces the need for the AUD to depreciate in order to attract financing for current account deficits, which are smaller due to the improving trade balance. Iron ore prices are off in recent months, which could way on Australia's trade balance in the coming months, however.

In the coming days, the strongest driver of the AUD will likely be UST yields and the non-farm payrolls data.

European morning: ECB meeting minutes & Swiss inflation

Ahead today, the main focus will be on August production data in Sweden and September CPI in Switzerland. When it comes to Sweden, we expect today's data to have only limited impact. This is not only due to its backward looking nature but also due to the Riksbank continuing to link its policy stance to external factors. Nevertheless, as we believe that further stabilizing ECB monetary policy expectations will enable the Riksbank to take note of better fundamentals when setting monetary policy, we stay of the view that the SEK is subject to a gradual appreciation trend. Accordingly we stick to our year-end EUR/SEK forecast of 9.40.

Focusing on Switzerland, consensus expectations target September CPI at 0.6% YoY. Still muted inflation suggests it remains about the overvalued currency to



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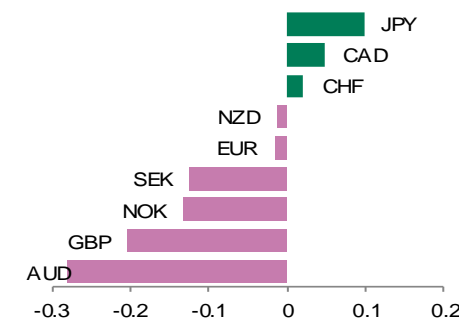
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Overnight returns (% vs USD)



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	1.32	1.36	1.36	1.37
EUR/GBP	0.89	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	9.39	9.15	9.00	8.80
EUR/SEK	9.57	9.40	9.30	9.20
EUR/CHF	1.15	1.16	1.16	1.17

Source: Bloomberg, Crédit Agricole CIB

prevent price developments from stabilizing more sustainably. From that angle there is little scope of the SNB considering a change in stance anytime soon. Accordingly, a policy mix consisting of negative rates and currency intervention will stay intact. With the SNB likely to keep interest rates low for longer as compared to the ECB there is room of diverging monetary policy expectations to the benefit of crosses such as EUR/CHF. It may be true that increased political uncertainty as related to Germany and Spain as well as geopolitical tensions have increased safe haven demand for the franc. However, we do not expect these developments to have sustainable impact on sentiment. It must be remembered too that the SNB's aggressive stance with respect to currency intervention is likely to keep the franc's safe haven appeal low. We stay long EUR/CHF as a trade recommendation, targeting a move towards 1.18 over the medium- to long term.

In the Eurozone, all eyes will be on the release of the ECB meeting minutes covering last month's policy announcement. Considering that the ECB has not yet decided on any details with respect to tapering as part of the September meeting, we see limited room for surprises. However, there may be some increased focus on any currency related remarks, especially when considering that it was explained that the higher Euro has become a bigger source of uncertainty. Nevertheless, it appears that growth momentum is strong enough in order to compensate for a stronger currency's dampening impact on inflation. This is also suggested by medium-term inflation expectations, as measured by 5Y inflations swaps, trading close to multi-quarter highs.

USD: Trade data & speakers

Data wise today's main focus will be on August trade data, which is expected to have narrowed to \$42.7bn from \$43.7bn in July. Our economists note, that in its advance report, Census estimated a surprisingly low merchandise deficit of \$62.9bn — an decrease of nearly \$1.0bn. When it comes to August factory orders, our economists' look for an increase of 1.3% MoM. Orders for durable goods increased 1.7% in the advanced report, and they look for nondurable goods orders (the new information in the report) to increase by around 0.9% in line with prices of crude oil and commodities. Elsewhere, several Fed members, including George and Williams will speak. However, just one day ahead of US labour data we expect today's events to have only limited market impact.

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	9.3600	0.37%	0.01%
EUR/CHF	09-Aug-17	11:49:00	Long	3,000,000	1.1320	1.1800	1.1345	1.1468	1.36%	0.04%
EUR/USD	28-Sep-17	11:35:00	Long	3,000,000	1.1770	1.2200	1.1520	1.1761	-0.11%	0.00%
Open trades P&L										0.05%

Underlying	Date	Option Type	Notional	Strike	Barrier	Spot Entry	Cost	P&L Individ.	P&L Portfolio	
EUR/JPY	17-Jul-17	3M Call spread	28,627,500	134/136	-	128.82	0.25%	-0.14%	-0.04%	
AUD/NZD	12-Sep-17	1M one-touch	240,780	1.15	-	1.0985	10.00%	-10.00%	-0.02%	
EUR/SEK	12-Sep-17	4M 1x1.5 Ratio put spr.	23,908,000	9.45/9.30	-	9.538	0.26%	0.01%	0.00%	
Open trades P&L										-0.06%

Key Events

BST	Country/ Zone	Indicator/Event	For	CA-CIB f/c	Cons.	Prev.	Comment
08:15	SZ	CPI YoY	Sep			0.50%	
08:30	SW	Industrial Production YoY	Aug			5.30%	
08:30	SW	Industrial Orders YoY	Aug			2.10%	
09:10	EZ	Retail PMI	Sep			50.80	
12:30	US	Challenger Job Cuts	Sep			5.10%	
12:30	EZ	ECB account of the monetary policy meeting					
13:30	US	Trade Balance	Aug		-43.70 B	-43.69 B	
14:15	US	Fed's Williams Speaks at Community Banking Conference					
15:00	US	Fed's Harker Speaks at Workforce Conference					
15:00	US	Factory Orders	Aug		0.50%	-3.30%	
21:30	US	Fed's George Speaks at Workforce Conference					
23:30	AU	PMI	Sep			55.30	

Source: Bloomberg, Crédit Agricole CIB

Webcasts

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