

## Breaking up is hard to do

### Asia overnight

The delay by Catalan President, Carles Puigdemont, in declaring independence yesterday in favour of talks with Madrid continued to boost sentiment in Asian trading, and led to JPY and CHF underperformance relative to the rest of the G10. Following an in line with consensus USD/CNY fix, USD/CNH retraced some of its move lower yesterday, which helped the USD recover some ground in the Asian session. NZD was the best performer, however, on the prospect that of a new government being formed soon and potentially being led by the incumbent National Party. AUD was given a boost from consumer sentiment data as well as a strong record-sized government bond sale (AUD3.5bn). The bid-to-cover ratio for the auction was of 3.68 and while below average, was still taken by the market as representing strong demand.

### NZD: Government likely by Friday

While king or queenmaker NZ First leader, Winston Peters, continues to say that all parties making very good progress in terms of moving toward an agreement to form government. He also said that an official announcement will not likely be made before his self-imposed deadline of Thursday, but will be as soon as possible after the deadline.

A deal will likely be struck Thursday, but then will have to be ratified by the parties concerned. This ratification would be relatively quick in the case of a National-NZ First coalition government and so the announcement could be Thursday night NZ time. A three-way coalition government consisting of the Labour and Green Parties as well as NZ First would take longer as the Green Party constitution requires a 75% approval from the party membership through regional delegates and the vote would take time to arrange. So, delay in announcing the final makeup of the government would indicate higher probability of the three way coalition between Labour-Green- NZ First.

Peters has also indicated that he would not expect the Green Party to be a "major party" in a three-way coalition between Labour, Green and NZ First, which conflicts with Green Party leader, James Shaw's, view that in such a coalition the Green Party should not be "left out in the cold". So Peters' rhetoric indicates less chance of a Labour-led government.

### Is EUR out of the Catalan woods?

The Catalan President Carles Puigdemont announced the temporary suspension of the independence referendum results yesterday and called for a dialogue with Madrid. On the face of it, the outcome may increase the likelihood of a more constructive resolution of the standoff. Indeed, the Catalan President highlighted a list of potential demands - ranging from greater fiscal autonomy for the region to "fairer" treatment by the central government of prominent Catalan politicians - which may be met by the central government as a way to diffuse the tensions between the two to a degree.

That said, it remains to be seen whether Rajoy's government will want to engage in any talks regarding Catalan independence. An extraordinary meeting of the cabinet has been convened for 9AM CET today to discuss the latest developments in Catalonia. Any indications that the Spanish officials may be willing to explore ways to ease the political tensions could help EUR regain more ground across the board. At the same time, a continuation of the government's previous stance on the matter and even a temporary suspension of the Catalan autonomy could sent EUR lower once again.

In all, we believe that yesterday's decision may take the edge off the "Catalan independence drama" to a degree and may even transform it into a drawn-out



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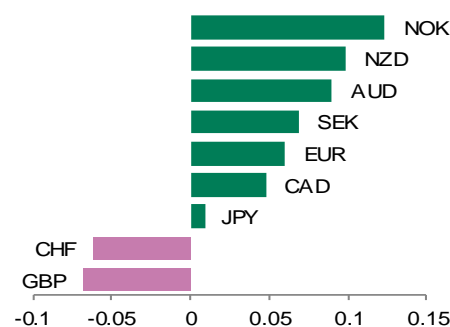
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### Overnight returns (% vs USD)



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	133	134	132	135
GBP/USD	1.32	1.36	1.36	1.37
EUR/GBP	0.90	0.90	0.90	0.90
USD/CHF	0.98	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	0.71	0.69	0.68	0.70
EUR/NOK	9.38	9.15	9.00	8.80
EUR/SEK	9.53	9.40	9.30	9.20
EUR/CHF	1.15	1.16	1.16	1.17

Source: Bloomberg, Crédit Agricole CIB

negotiation process. In addition, the pro-independence coalition may be facing an existential crisis given that the decision to call for a dialogue with Madrid was not supported by all parties. Potential snap elections in Catalonia could follow as a result further diluting the impact of the independence drama on the markets.

Should the political risks in Spain become less acute from here, this could allow investors to refocus their attention on the Eurozone fundamentals and the ECB outlook. While the political cloud has not been lifted completely, the skies are brightening up and this could offer some support for EUR. We continue to expect more EUR upside vs USD, JPY and CHF from here.

### European morning: Riksbank and Norges Bank speakers

Apart from the release of the final CPI print for September out of Spain, the European data releases calendar is relatively empty today. Against this backdrop, speeches by the Riksbank's Skingsley and Af Jochnick as well as the Norges Bank's Nicolaisen may attract some attention. We suspect that the Riksbank speakers in particular may have a stronger directional impact on the market especially if they corroborate the market view that the policy will be turning less accommodative before long. This much could help SEK rebound against EUR and NOK as we head into the release of the Swedish CPI data tomorrow which should point at continuing improvement in the inflation outlook.

### USD: FOMC minutes to discuss inflation "mystery"

One of the highlights from the September FOMC meeting was the discussion surrounding the inflation outlook and in particular the comment by Chair Yellen that low inflation readings of late constituted somewhat of a "mystery". The minutes will shed more light on the divisions between those who see the recent inflation readings as a significant warning signal and those who see them related to temporary factors and have confidence that tight labor markets will eventually generate price pressures. While the former group is sizeable and probably includes Governor Brainard as well as regional Fed Presidents Kashkari, Bullard and Evans, the latter group appears to have prevailed at the meeting to the extent that the FOMC kept its dot plot unchanged. Financial conditions, which continued to ease despite recent Fed tightening, are a key theme for the more hawkish camp and will be monitoring any further comments on that topic in the minutes. A December rate hike is now 75% priced in and we don't expect the minutes to change these odds significantly. With the US rate environment fairly stable, particularly in the front end of the curve, this week's USD sell-off is unlikely to intensify, in our view.

## 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	9.3836	0.13%	0.00%
EUR/CHF	09-Aug-17	11:49:00	Long	3,000,000	1.1320	1.1800	1.1345	1.1530	1.91%	0.06%
EUR/USD	28-Sep-17	11:35:00	Long	3,000,000	1.1770	1.2200	1.1520	1.1816	0.33%	0.01%
<b>Open trades P&amp;L</b>										<b>0.07%</b>

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%	-0.18%	-0.05%	
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%	
<b>Open trades P&amp;L</b>										<b>-0.07%</b>

## Key Events

BST	Country/Zone	Indicator/Event	For	CA-CIB f/c	Cons.	Prev.	Comment
07:00	JN	Machine Tool Orders YoY	Sep			36.20%	
07:00	SW	TNS Sifo Prospera Inflation Expectations Survey					
08:00	SP	CPI YoY	Sep		1.80%	1.80%	
09:00	SW	Riksbank Deputy Governor Skingsley Speaks in Kalmar					
10:00	SW	Riksbank Deputy Governor Af Jochnick Speaks in Stockholm					
12:00	NO	Norway Central Bank Deputy Governor Nicolaisen Speaks					
12:15	US	Fed's Evans Speaks on Economy and Monetary Policy					
13:00	NO	Norway Central Bank Deputy Governor Nicolaisen Speaks					
19:00	US	FOMC Meeting Minutes					
19:40	US	Fed's Williams Gives Community Leaders Speech					
19:50	EZ	ECB's Praet Speaks in New York					

BST	Country/ Zone	Indicator/Event	For	CA-CIB f/c	Cons.	Prev.	Comment
22:45	NZ	Food Prices MoM	Sep			0.60%	

Source: Bloomberg, Crédit Agricole CIB

## Webcasts

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