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Asia overnight

A dovish set of FOMC Minutes and speculation over who will be the next FOMC Chairperson led to the USD continuing a three-day slump. The biggest beneficiaries of the weaker USD were the Antipodeans as a dovish Fed and firm investor sentiment encouraged investors into carry trades. These currencies ignored the uncertainty over some local political dramas, and in the case of the AUD weak iron ore prices, to outperform the rest of the G10 in Asian trading. Strong housing loans data also gave the AUD a boost. A weaker JPY also helped boost the EUR as EUR/JPY long positions continue to be re-established post the easing of Catalan political concerns.

AUD waiting on the unfolding of its political drama

The AUD ignored weaker iron ore prices to push higher on the back of strong investor sentiment as well as local housing loans data. While the 1% MoM rise in total home loans was modest, it was the 4.3% MoM rise in investor loans that attracted some attention, especially given that these loans could be re-accelerating after several months of decline post APRA's new macroprudential measures introduced back in April. The bounce in investor lending today about offsets a large decline last month, however, so it will take another few observations of stronger loans growth to get the RBA worried about housing market bubbles again. Indeed, weaker auction clearance rates suggest further cooling in the housing market at this time.

The Australian High Court ruling on the eligibility of several MPs to sit in parliament given their 'dual citizenship' status is expected later today. The key ruling is the eligibility of Deputy PM Barnaby Joyce. If he is disqualified from parliament, it would trigger a by-election that would place in jeopardy the government's one-seat majority in the House of Representatives. It would increase the political uncertainty in the AUD in the near term, but given Joyce would likely win the by-election, it would unlikely impact the medium-term trend in the AUD. Joyce can stand in the by-election as he has renounced his de facto claim on NZ citizenship

NZD is also still waiting

King or queen maker, Winston Peters, indicated today that a final decision on the form of government may not be known before the weekend. Peters' party, NZ First, and potentially the Green Party, will have to vote on the coalition deals they have been offered by the incumbent National Party and the Labour Party. We continue to think that while not ideal, a National-NZ first coalition would likely lead to a bit of a relief rally in the NZD, a Labour-Green-NZ First coalition would weaken the NZD and a potential third outcome of NZ First sitting on the cross bench and supporting the Nationals on supply and confidence motions, while considering each piece of legislation independently would be the second worst outcome for the NZD as it would allow political uncertainty to persist.

El Clasico!

The Catalan officials stopped well short of proclaiming an Unilateral Declaration of Independence (UDI) in the wake of the controversial independence referendum and instead reached out to Rajoy's government calling for dialogue. Madrid now seems less likely to engage in any discussions about a Catalan independence than before however, leaving the proverbial ball back in the half of the team from Barcelona. We believe that there are two potential outcomes from here.

[According to our economists](#), the most likely course of action will be for the Catalan President Carles Puigdemont to refrain from declaring official



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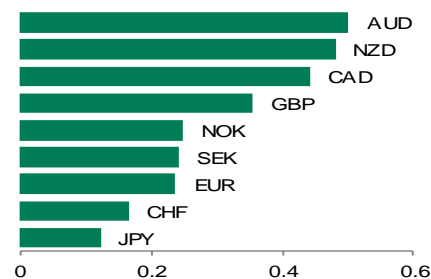
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Overnight returns (% vs USD)



Source: Bloomberg, Crédit Agricole CIB

G10 FX Forecasts

	Today	Dec-17	Mar-18	Jun-18
EUR/USD	1.19	1.22	1.22	1.23
USD/JPY	112	110	108	110
EUR/JPY	133	134	132	135
GBP/USD	1.33	1.36	1.36	1.37
EUR/GBP	0.90	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	0.78	0.78	0.76	0.80
NZD/USD	0.71	0.69	0.68	0.70
EUR/NOK	9.39	9.15	9.00	8.80
EUR/SEK	9.54	9.40	9.30	9.20
EUR/CHF	1.15	1.16	1.16	1.17

Source: Bloomberg, Crédit Agricole CIB

independence on the basis of the referendum outcome alone. This should pave the way for snap elections in Catalonia, potentially as soon as Q118. It is worth highlighting also that the pro-independence coalition may be facing an existential crisis and that this could precipitate in early elections as well. Our risk scenario would be for the Catalans to go ahead with an UDI and force Madrid to suspend the region's autonomy in the coming days. This could still lead to new elections in Catalonia against the backdrop of a weaker EUR and higher implied volatility.

All in all, we expect that the 'Catalan independence drama' will lose its intensity from here. Growing prospects of a snap election in Catalonia in early 2018 could turn into a drawn-out process with relatively limited FX and EGB market impact in the near-term.

Should the political risks in Spain become less acute from here, this could allow investors to refocus their attention on Eurozone fundamentals and the ECB outlook. While the political cloud has not completely lifted, 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: Swedish CPI, ECB speakers

Focus on the day will be on the ECB speakers as well as the release of the September CPI numbers out of Sweden. Starting with the former, we suspect that the appearances by Draghi and Praet will attract most of the market attention. We expect the officials to confirm that the ECB will be announcing the details of its QE recalibration later this month. Even though the Catalan political continues to hang over EUR, it seems that the FX investors are starting to shift their focus back towards the improving Eurozone fundamentals and the ECB.

Indeed, we are seeing short-dated FX volatility around October 26 – the day of the ECB meeting - growing. In addition, we believe that the Catalan independence drama has lost some of its intensity after the recent calls by the Catalan separatists for a dialogue with Madrid. In all, we expect that continuing improvement of the Eurozone data from here as well as positioning ahead of the ECB meeting could help push EUR higher more broadly.

Turning to the Swedish CPI data, markets are looking for continuing acceleration of both the headline and the core inflation print. This much could corroborate the market view that the Riksbank is heading towards the exit of its easing program. We further suspect that positive surprises today could have a disproportionately greater impact than any disappointments. As such, we continue to expect further SEK outperformance against EUR and, to a degree, NOK from here.

USD: Fed leadership uncertainty a bigger driver than the minutes

The minutes of the September FOMC meeting suggested that "many" participants thought another hike was warranted while "several" wanted more confirmation on the inflation front. This appears consistent with the 75% chance of a hike currently priced in the rates market. The most dovish element in the minutes pertained to "many" participants expressing concern that low inflation could reflect "more persistent" developments and not just transitory factors, although it must be noted that Chair Yellen had already discussed both factors extensively.

Ultimately we suspect markets will take any current Fed communications with grain of salt given the uncertainty about Fed leadership and the composition of the FOMC next year. Indeed, the USD move lower after the minutes was mostly attributable to a Politico report that Treasury Secretary Mnuchin was pushing "strongly" for Jerome Powell as the next Fed Chair. Powell is considered more dovish than Warsh and would probably be similar to Chair Yellen in terms of the overall policy bias. Subsequently, the USD recovered somewhat on reports that President Trump had also met with John Taylor who would probably be considered the most hawkish of the candidates given his preference for monetary rules which would argue in favor of a higher Fed funds rate at the moment. Since historically the time between nomination and confirmation of the Fed Chair has varied between 2-3 months, we are likely to find out who the nominee is within the next two weeks.

On Thursday, there could be some focus on President Trump possibly 'decertifying' the Iran nuclear deal. We don't believe this is likely to have

significantly negative implications for risk however as the move would not end the deal but rather send a signal of the President's position to Congress. The latter has been much more cautious on the prospects of pulling out of the agreement as have most political and military advisors. In terms of economic data we'll get the September PPI release and the latest jobless claims.

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	9.3904	0.06%	0.00%
EUR/CHF	09-Aug-17	11:49:00	Long	3,000,000	1.1320	1.1800	1.1345	1.1544	2.04%	0.06%
EUR/USD	28-Sep-17	11:35:00	Long	3,000,000	1.1770	1.2200	1.1520	1.1874	0.82%	0.02%
Open trades P&L									0.09%	

Underlying	Date	Option Type	Notional	Strike	Barrier	Spot Entry	Cost	P&L Individ.	P&L Portfolio	
EUR/JPY	17-Jul-17	08:23:00	3M Call spread	28,627,500	134/136	-	128.82	0.25%	-0.14%	-0.04%
AUD/NZD	12-Sep-17	10:16:00	1M one-touch	240,780	1.15	-	1.0985	10.00%	-10.00%	-0.02%
EUR/SEK	12-Sep-17	14:45:00	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
07:45	FR	CPI YoY	Sep		1.10%	1.10%	
08:30	SW	CPI YoY	Sep		2.40%	2.10%	
10:00	EZ	Industrial Production MoM	Aug		0.60%	0.10%	
13:30	CA	New House Price YoY	Aug			3.80%	
13:30	US	PPI final Demand YoY	Sep		2.60%	2.40%	
13:30	CA	New Housing Price Idx	Aug		0.20%	0.40%	
15:30	EZ	ECB's Draghi, Fed's Brainard Speak on Monetary Policy Panel					
15:30	US	Fed's Powell Speaks at IIF Conference in Washington					
15:30	US	Fed's Brainard Speak on Monetary Policy Panel with ECB's Draghi					
15:30	EZ	ECB's Praet speaks in Washington					
18:30	SW	Riksbank Deputy Governor Skingsley Speaks in Washington					
20:15	CA	BOC's Wilkins speaks at IIF panel in Washington					
20:30	SW	Riksbank Governor Ingves Speaks in Washington					
20:45	UK	BOE Chief Economist Haldane Speaks in Washington					
21:00	EZ	ECB's Coeure speaks at panel in Washington					
21:10	EZ	ECB's Lautenschlaeger speaks at panel in Washington					
22:30	NZ	BNZ Manufacturing PMI	Sep			57.90	

Source: Bloomberg, Crédit Agricole CIB

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