

Focus turns to RBNZ

In Asian hours risk sentiment was broadly stable with Asian stock market indices trading higher at the time of writing. In G10 FX the AUD and NZD were among the strongest currencies. In Australia, RBA Governor Stevens stressed that monetary policy cannot dial up the economic growth they need and that undershooting the inflation target with reasonable economic growth may be the least bad option. Overall it appears that he made a bigger case of fiscal action being needed in order to stabilize conditions more efficiently. If anything, his remarks are not indicative of further easing in the short-term and we don't expect a more aggressive policy stance as soon as in September. In an environment of more stable rate expectations the AUD should stay driven by external factors such as global risk sentiment, which appears to be supported still. Hence, further AUD upside cannot be excluded from here.

Ahead today investors will closely watch Norwegian July inflation data, which is widely expected to have stabilized further. Considering that stronger price developments have been only partially driven by improving growth conditions, we believe incoming data is unlikely to have any major impact on rate expectations and the currency. This is especially true as intact uncertainty as related to the oil sector is keeping the Norges Bank in a position to consider lower rates later this year. As such we stay of the view that NOK rallies should be sold, for instance against the SEK.

Today's final German CPI print for the month of July as well as Swedish June industrial production are unlikely to have any bigger market impact. When it comes to the SEK we stay of the view that incoming data is unlikely to make a case of a more dovish monetary policy stance by the Riksbank. On the contrary, constructive growth conditions should make a case of further stabilizing inflation expectations and renewed currency upside. We remain short EUR/SEK as a trade recommendation.

Today's main focus will be on this evening's RBNZ monetary policy announcement. The market is 100% priced for a 25bp rate cut and almost fully priced for a follow up rate cut by year-end. So, the RBNZ will have to sound very dovish to beat this pricing and it will likely lead to further decline in the NZD. The most important part of the MPS will be the RBNZ's 90-day bank bill rate forecasts. The market currently looks for the RBNZ to reduce this forecast profile by 15-25bp relative to its June forecasts and this indicates a strong chance of another rate cut after next week.

Elsewhere, the central bank's rhetoric regarding the strong currency will be closely followed. In its Economic Update, the RBNZ said that further rate cuts were likely given the strong currency. Specifically, that the TWI was well above the scenario it outlined in its June MPS. So the RBNZ could limit NZD upside by continuing to tie the prospect of further rate cuts to currency strength and outlining a TWI profile declining from current levels. Elsewhere, it must be noted that speculative positioning has been broadly balanced. This in turn suggests only limited reaction potential, even in the case of a surprise.

Open Trade Recommendations

Underlying	Date	Direction	Notional	Entry	Target	Stop	Last	P&L Indiv.	P&L Portfolio
GBP/CHF	15-Jul-16	Long	2,000,000	1.3088	1.3800	1.2640	1.2640	-2.16%	-0.04%
XAU/CHF	27-Jul-16	Long	2,000,000	1,311	1,445	1,215	1,324	0.96%	0.02%
Open trades P&L									-0.02%

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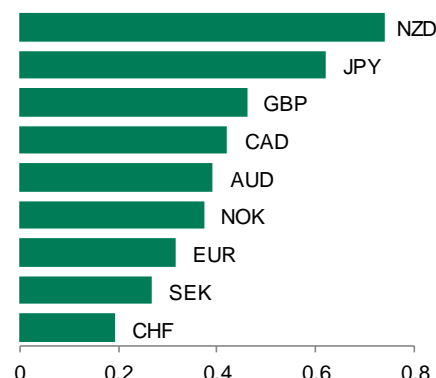
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1 Aug – FX Trade Idea: [Sell EUR/SEK; buy a 2M put spread](#)

Overnight returns (% vs USD)



Source: Bloomberg, Crédit Agricole CIB

G10 FX Forecasts

	Today	Sep-16	Dec-16	Mar-17
EUR/USD	1.12	1.11	1.10	1.10
USD/JPY	101.25	103	105	106
EUR/JPY	112.93	114	116	117
GBP/USD	1.31	1.32	1.29	1.31
EUR/GBP	0.85	0.84	0.85	0.84
USD/CHF	0.98	0.97	0.99	1.00
USD/CAD	1.31	1.33	1.35	1.36
AUD/USD	0.77	0.75	0.74	0.73
NZD/USD	0.72	0.69	0.67	0.66
EUR/NOK	9.34	9.35	9.35	9.35
EUR/SEK	9.49	9.40	9.30	9.20
EUR/CHF	1.09	1.08	1.09	1.10

Source: Bloomberg, Crédit Agricole CIB

Underlying	Date	Option Type	Notional	Strike	Barrier	Spot Entry	Cost	P&L Indiv.	P&L Portfolio
USD/CAD	06-May-16	4M Ratio call sp.	20,000,000	1.32/1.3550	-	1.2847	0.20%	0.16%	0.03%
AUD/NZD	10-Jun-16	3M Call spread	37,000,000	1.08/1.10	-	1.0452	0.36%	0.07%	0.03%
USD/NOK	08-Jul-16	1M Call spread	20,000,000	8.70/8.90	-	8.5185	0.42%	-0.42%	-0.08%
USD/JPY	11-Jul-16	1M Call spread	20,000,000	104.5/106.5	-	102.17	0.42%	-0.41%	-0.08%
EUR/SEK	01-Aug-16	2m Put spread	27,842,500	9.30/9.45	-	9.5725	0.35%	0.13%	0.04%
Open trades P&L									-0.07%

Key Events

GMT	Country/ Zone	Indicator/Event	For	CA-CIB f/c	Cons.	Prev.	Comment
07:45	FR	Industrial Production YoY	Jun		-0.4%	0.50%	
07:45	FR	Manufacturing Prod. YoY	Jun		0.1%	0.60%	
08:00	DE	CPI YoY	Jul			0.30%	
08:30	SW	Industrial Production YoY	Jun		3.7%	1.70%	
08:30	SW	Industrial Orders YoY	Jun			-0.50%	
09:00	NO	CPI YoY	Jul		3.8%	3.70%	
09:00	NO	PPI YoY	Jul			-9.70%	
12:00	US	MBA Mortgage Appli.	Aug			-3.50%	
19:00	US	Budget Statement	Jul		-117.5 B	149.2 B	
22:00	NZ	RBNZ Rate announcement	Aug		2.00%	2.25%	
23:00	NZ	RBNZ's Wheeler News Conference					
23:45	NZ	Food Prices MoM	Jul			0.40%	

Source: Bloomberg, Crédit Agricole CIB

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