

EUR: lose-lose?

Asia overnight

Lower UST yields and a weaker USD post the US CPI release helped perk up investor sentiment in Asia. While the US inflation data surprised marginally to the upside, it was not enough to shift market expectations for the Fed to stay on hold next week. At the time of writing, most Asian bourses and S&P 500 futures were trading in the green. The USD was weaker across the board in Asia with the NOK and AUD leading gains, the latter on the back of firm Australian labour market data. Lower UST yields also caused the JPY to make significant gains against the USD.

EUR: lose-lose?

The September ECB meeting is the key event for the EUR this week; it could determine the outlook for the single currency until the end of the quarter and potentially beyond. Ahead of the meeting, we think that the Governing Council could deliver another hike but note that the risks of a 'hawkish skip' have grown of late in response to the steady flow of disappointing data out of the Eurozone. A look at the market expectations would suggest that, at the time of writing, rates investors are attaching a better than 60% chance to a 25bp rate hike today while a 4% terminal rate is fully priced in by year-end.

Turning to the FX market reaction, we doubt that an ECB rate hike would fuel a sustained EUR rebound, especially if the bank downgrades its economic outlook while maintaining its 'sticky' inflation outlook. The updated forecasts could thus confirm the market expectation that the ECB has delivered the final rate hike of its tightening cycle and may even fan concerns about a potential policy mistake that could precipitate a hard landing in the Eurozone. We further worry that a potential ECB rate pause today that is accompanied by hawkish forward guidance could be seen as less credible by market participants, especially if the updated forecast mix fuels market stagflation fears. In all, the outcome of the ECB meeting could result in a lose-lose situation for the EUR that could leave the single currency vulnerable to further correction lower.

USD: sailing along

The USD whipsawed in the aftermath of the US CPI release yesterday, but ended up being hardly changed just like interest rates. August developments proved too close to expectations and showed the expected dichotomy between a rebound in headline inflation and a cooling in underlying pressures, which is in turn unlikely to sway US policymakers much. Today, the US macro agenda gets busier with the latest retail sales, PPI and jobless claims figures, as the focus could primarily be on how resilient US consumer spending was last month. July's spending spree may have struggled to get more traction over the summer as higher prices in the month, especially for gasoline, could possibly conceal a slight decrease in volumes. In any case, only a significant deviation from the market consensus could eventually spur some reaction from the USD, which may in the end already be more eagerly awaiting next week's FOMC outcome.

AUD: everybody wants a job... and is getting one

Higher mortgage payments and rising living costs have Australian households seeking work in record numbers. Australian employment gained by 64.9k jobs in August and well above the consensus forecast for a 24.3k job gain. The unemployment rate was down only slightly from 3.72% to 3.69% due to the labour force participation rate rising to a record high of 67%. After rounding, the unemployment rate is in line with the consensus forecast. Australia's employment rate is also close to a record high. Almost all of the new jobs created were part-time and hours worked dropped -0.5% MoM. The underemployment rate, which is what really impacts wages growth, jumped from 6.39% to 6.55% and its highest since February 2022. So while record numbers of people are looking for and finding



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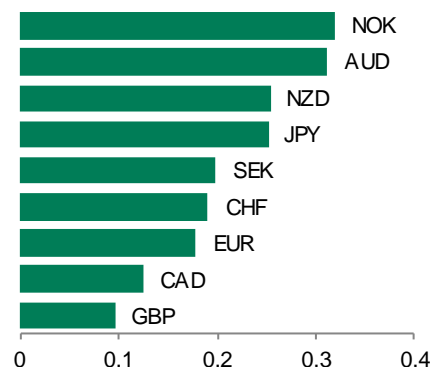


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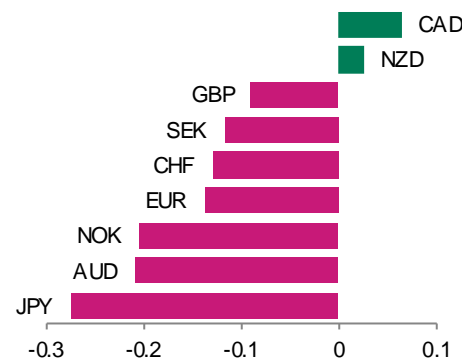
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- 11 September** – FAST FX Fair Value Model: [Still selling USD/CAD](#)
- 06 September** – FX Focus: [We should talk about the Euro](#)

Overnight returns (% vs USD)



Source: Bloomberg, Crédit Agricole CIB

1M implied volatility daily change (net, vs USD)



Source: Bloomberg, Crédit Agricole CIB

work, they are not getting as many hours as they want, which will keep a cap on wages growth and leaves less pressure on the RBA to continue hiking rates. Indeed, the market continues to price in about a one-in-three chance of another 25bp rate hike by the RBA this tightening cycle. So, the labour market data is a neutral for the AUD and the main drivers of the currency remain the US and China data. Today's ECB meeting could impact the AUD modestly depending on how much movements in the EUR lead to a stronger/weaker USD. China's cyclical data for August are released on Friday and are expected by our China economist to show only modest improvement relative to July on the back of the policymakers' modest easing measures as well as the normalisation of weather following extreme heat in July.

SEK: fighting this deflated feeling

The SEK is among the G10 FX laggards of September, as it keeps threatening to post new all-time lows against the EUR. Today's release of the September CPIF figures may be able to offer the SEK some modest reprieve, but only if domestic inflation proves stickier than expected. Both the headline and core rates look poised to cool significantly in August, with the greater focus being possibly on the latter. That is especially true as (1) underlying pressures faced some greater resistance to abating in previous months and (2) the Bloomberg consensus stands 0.5ppt above the Riksbank's own forecasts (7.4% vs 6.9% YoY). In the end, as long as the core CPIF rate comes out well above the Riksbank's mark, prospects of a more hawkish Riksbank next week could be raised next week. The delivery of another 25bp rate hike is already almost a given, with the focus being on whether chances of additional tightening is strengthened substantially from the 20% for a November move. In comparison to most other central banks, upcoming FX developments, in particular whether excessive SEK weakness is to have longer legs, could play a more important role as the Riksbank continues to struggle to fight such a trend. Ultimately, higher interest rates relative to its regional peers could be the most influential feature to give the SEK some sort of edge.

Open trade recommendations

	Date	Opening Time	Direction	Entry	Target	Stop	Last/ Close	P&L*
USD/CAD (FAST FX MODEL)	9/11/2023	09:00 BST	SELL	1.3599	1.3428	1.3745	1.3532	0.49%
AUD/USD (FX Positioning MODEL)	9/11/2023	09:00 BST	Buy	0.6376	0.6628	0.6338	0.6442	0.09%

*Returns calculated as %VaR with 2% risk allocation per trade

Key events

GMT	Country/ Zone	Indicator/Event	For	CA-CIB f/c	Cons.	Prev.	Comment
07:00	SW	CPIF YoY	Aug			6.40%	
07:30	SZ	PPI YoY	Aug			-0.60%	
09:00	NO	Norges Bank Regional Network Report					
13:15	EC	ECB Marginal Lending Facility	Sep		4.75%	4.50%	
13:15	EC	ECB Deposit Facility Rate	Sep		3.88%	3.75%	
13:15	EZ	ECB	Sep		4.38%	4.25%	
13:30	US	Init. Jobl. Claims	Sep		216 M	216 M	
13:30	US	Retail Sales Advance MoM	Aug		0.20%	0.70%	
13:30	CA	Wholesale Trade	Jul			-3.00%	
13:30	US	PPI final Demand YoY	Aug			0.80%	
13:45	EC	ECB Christine Lagarde Holds Press Conference					
15:00	US	Business Inventories	Jul		0.10%	0.00%	
23:30	NZ	BNZ Manufacturing PMI	Aug			46.30	
00:00	JN	Tokyo Dpt Store Sales YoY	Aug			12.20%	
03:00	CH	Industrial Production YTD YoY	Aug		3.80%	3.80%	
03:00	CH	Retail Sales YoY	Aug			2.50%	
05:30	JN	Tertiary Industry Idx MoM	Jul			-0.40%	

Source: Bloomberg, Crédit Agricole CIB

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