

EUR: the last of the ECB hikes

Asia overnight

Upside surprises in US and China economic data bolstered investor sentiment during the Asian session. Strong US retail sales data boosted hopes the Fed can engineer a soft economic landing. China's cyclical data all surprised to the upside, pointing to a stabilising economy. An improving outlook for global growth gave Asian stocks a boost, and most bourses were trading higher at the time of writing. S&P 500 futures were also trading higher. The USD was weaker across the board with its safe-haven appeal waning. The upside surprises in the China data meant the Antipodean currencies led the gains against the weaker USD. Fellow safe havens, the CHF and the JPY, tracked the USD's weaker relative performance against the rest of the G10. The EUR remains on the ropes following yesterday's ECB meeting.

EUR: the last of the ECB hikes but many negatives already in the price

At its September policy meeting, the ECB delivered what seems to be its final rate hike of the current tightening cycle. Indeed, while the updated statement flagged the bank's concerns about the historically elevated and sticky Eurozone inflation, the updated staff economic projections have been revised to the downside. During her press conference, President Christine Lagarde signalled that the current level of policy rates should help bring inflation down to its 2% target even though she further indicated that the ECB has not fully shut the door on future hikes. Looking ahead, on the day focus will be on speeches by the ECB's Lagarde and Francois Villeroy as FX investors try to determine the extent of support for the current policy stance at the Government Council.

Turning to the FX market outlook, the EUR has come under severe selling pressure in the aftermath of the ECB meeting. Looking ahead, however, we think that the EUR/USD outlook could be more balanced in part because we believe that many EUR-negatives are already in the price. This would be consistent with the results from the short-term fair value model, which is signalling that EUR/USD is close to its equilibrium level that is consistent with the EUR-USD 2Y rate spread among other drivers. Indeed, the EUR sell-off stands in contrast to the fact that the relative policy rate outlook between the ECB and the Fed has not changed of late.

USD buying becoming less indiscriminate

King USD continues to reign supreme over FX markets, supported by its growing rate and yield advantage as well as by demand for high-yielding, safe-havens that intensifies whenever global risk aversion rears its ugly head. USD-buying has become less indiscriminate of late, however. In that, the European G10 currencies could continue to bear the brunt of the USD's strength given that their outlook is plagued by stagflation risks. At the same time, the CAD, AUD and NZD could hold up relatively better, supported by the stabilising CNH outlook and the recent supportive commodity price developments.

Following the upside surprises from the August US retail sales and PPI data yesterday, focus today will be on University of Michigan Consumer Sentiment Indicator and Empire Manufacturing for September as well as industrial production and capacity utilisation for August. Today's releases could be seen as less likely to inform the September Fed policy decision and may thus have less of an FX market impact than the US CPI and retail sales earlier in the week. In that, the USD will continue to follow the price action in the US fixed income markets and the ebb & flow of global risk sentiment.

EUR/JPY: further to go?

It has been a big week for EUR/JPY. The ECB's rate hike coupled with a strong indication it is finished hiking rates led to the drop in Eurozone yields. Japan's yields also headed higher as investors began pricing in a chance the BoJ could



Valentin Marinov
Head of G10 FX Strategy
+44 20 7214 5289
valentin.marinov@ca-cib.com



David Forrester
Senior FX Strategist
+65 6439 9826
david.forrester@ca-cib.com



Alexandre Dolci
FX Strategist
+44 20 7214 5064
alexandre.dolci@ca-cib.com

Latest publications

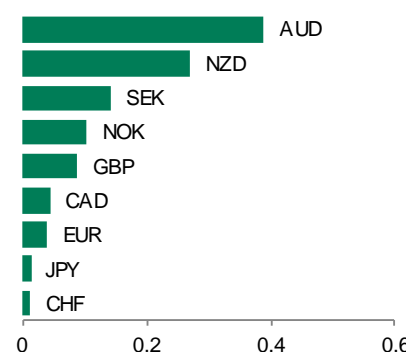
14 September – FX Focus: [USD: what 50 years of history can teach us about the next 6-12 months](#)

13 September – FX Risk Index: [Investors a little nervous ahead of US inflation data](#)

11 September – FX Positioning Update: [FX investors no longer short the USD but still very long the EUR](#)

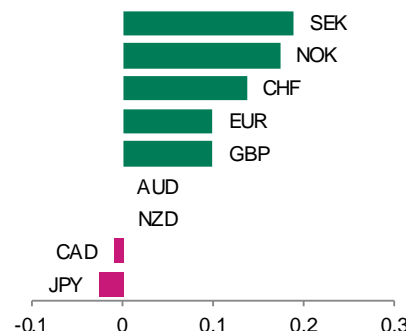
11 September – FAST FX Fair Value Model: [Still selling USD/CAD](#)

Overnight returns (% vs USD)



Source: Bloomberg, Crédit Agricole CIB

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



Source: Bloomberg, Crédit Agricole CIB

end its NIRP within the coming six months. BoJ Governor Kazuo Ueda indicated the central bank might have enough data on wages to judge if it will keep growing by year-end. The market took this rhetoric as indicating greater willingness to adjust monetary policy. Indeed, 2Y JGB yields hit a 9M high and 10Y JGB yields a 10Y high. We think Ueda's rhetoric was designed more as verbal FX intervention to support the JPY than any significant shift in rhetoric about monetary policy, however. Nonetheless, according to a preliminary update to our FAST FX model, EUR/JPY's short-term fair value has fallen from 154.78 to 153.92. The final update will occur after the New York close later today. Declines in the Eurozone-Japan short-term rates differential as well as a flattening the EGB yield curve relative to the JGB curve were strong drivers of this decline. A jump in peripheral EGB yield spreads relative to bunds also weighed on the exchange rate's short-term fair value. So, the fall in EUR/JPY is justified according to short-term fundamentals. Indeed, the exchange rate is so far trailing the move lower in its short-term fair value and is looking overvalued. Spot EUR/JPY's overvaluation would become significant above 157.50.

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	1.3502	0.71%
AUD/USD (FX Positioning MODEL)	9/11/2023	09:00 BST	Buy	0.6376	0.6628	0.6338	0.6465	0.44%

*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	NO	External Trade Balance	Aug			61.32 B	
07:45	FR	CPI YoY	Aug			5.70%	
07:45	EZ	ECB's Villeroy speaks					
10:00	IT	CPI	Aug			5.50%	
10:00	EZ	Trade Balance NSA	Jul			23030 M	
10:00	IT	Trade Balance	Jul			7718 M	
10:45	EZ	ECB's Lagarde speaks					
13:30	CA	Manufacturing Sales	Jul			-1.66%	
13:30	US	Import Price MoM	Aug		0.30%	0.40%	
13:30	US	Empire Manufacturing	Sep		-10.00	-19.00	
13:30	CA	Intl Transactions	Jul			12.56 B	
14:00	CA	Home Sales	Aug			-0.70	
14:15	US	Capacity Utilization	Aug		79.3%	79.30%	
14:15	US	Industrial Production MoM	Aug		0.20%	0.99%	
15:00	US	U. of Mich. Sentiment	Sep		69.50	69.50	

Source: Bloomberg, Crédit Agricole CIB

Global Markets Research contact details

Jean-François Paren Head of Global Markets Research +33 1 41 89 33 95					
	Asia (Hong Kong, Singapore & Tokyo)		Europe (London & Paris)		Americas (New York)
Macro Strategy	Takuji Aida Chief Economist Japan +81 3 4580 5360	Arata Oto Japan Market Economist +81 3 4580 5337	Louis Harreau Head of Developed Markets Macro & Strategy +33 1 41 89 98 95	Valentin Giust Global Macro Strategist +33 1 41 89 30 01	Nicholas Van Ness ** US Economist +1 212 261 7601
Interest Rates			Bert Lourenco Head of Rates Research +44 (0) 20 7214 6474	Guillaume Martin Interest Rates Strategist +33 1 41 89 37 66 Matthias Loise Inflation Strategist +33 1 41 89 20 06	Alex Li ** Head of US Rates Strategy +1 212 261 3950
Emerging Markets	Xiaojia Zhi Chief China Economist Head of Research, Asia ex-Japan +852 2826 5725 Eddie Cheung CFA Senior Emerging Market Strategist +852 2826 1553	Jeffrey Zhang Emerging Market Strategist +852 2826 5749 Yeon Jin Kim Emerging Market Analyst +852 2826 5756	Sébastien Barbé Head of Emerging Market Research & Strategy +33 1 41 89 15 97		Olga Yangol ** Head of Emerging Market Research & Strategy, Americas +1 212 261 3953
Foreign Exchange	David Forrester Senior FX Strategist +65 6439 9826		Valentin Marinov Head of G10 FX Research & Strategy +44 20 7214 5289	Alexandre Dolci FX Strategist +44 20 7214 5064	
Quant Research			Alexandre Borel Data Scientist +33 1 57 87 34 27		

** employee(s) of Crédit Agricole Securities (USA), Inc.

Certification

The views expressed in this report accurately reflect the personal views of the undersigned analyst(s). In addition, the undersigned analyst(s) has not and will not receive any compensation for providing a specific recommendation or view in this report.

Valentin Marinov, David Forrester, Alexandre Dolci

Important: Please note that in the United States, this fixed income research report is considered to be fixed income commentary and not fixed income research. Notwithstanding this, the Crédit Agricole CIB Research Disclaimer that can be found at the end of this report applies to this report in the United States as if references to research report were to fixed income commentary. Products and services are provided in the United States through Crédit Agricole Securities (USA), Inc.

Foreign exchange disclosure statement to clients of CACIB

https://www.ca-cib.com/sites/default/files/2017-02/2016-05-04-cacib-fx-disclosure-april-2016_0.pdf

Additional recommendation obligations – available from analyst(s) upon request:

- A list of all the recommendation changes on any financial instrument or issuer disseminated within the last 12 months.
- Where Crédit Agricole CIB is a market-maker or liquidity provider in the financial instruments of the issuer.

Valuation and methodology

Based on their expertise, each analyst defines the information that is relevant to produce their recommendations. This information may change over time. All recommendations focus on FX instruments, either G10 FX spot or G10 FX derivative markets. Crédit Agricole CIB is currently disclosing investment recommendations either at the issuer level, at the financial instrument level or at the country level. Credit Agricole CIB investment recommendations are based on a risk and reward analysis:

- Risk analysis may be conducted at the financial instruments level. Among the information normally used to define the risks, are (1) publications produced by other research teams within Crédit Agricole CIB (Economics, FX, Credit Research, Emerging Markets), (2) country analysis, (3) regulatory filings; (4) regular discussions with relevant stakeholders such as experts or regulatory bodies or (5) any other publicly available sources.
- Reward analysis is usually based on valuation models. Valuation may be based on proprietary models or external models provided by sources considered as reliable (eg, Bloomberg). Among other factors, valuation models may be based on relative value models, quantitative models, cross-asset models.
- Investment recommendations may also be based on other technical aspects, including positioning flows and observing the market and underlying movements in particular instruments or issuers. This analysis will take into account key criteria such as market liquidity of the financial instrument at the time of production of the recommendation.

Any change in recommendation is disclosed via specific documents indicating both the new and the previous recommendation and the rationale backing the change.

Credit Agricole CIB expressly disclaims any responsibility for: (i) the accuracy of the models or estimates used in deriving the recommendations; (ii) any errors or omissions in computing or disseminating the valuations; and (iii) any uses to which the recommendations are put. Any valuation provided may be different from the valuation of the same product that Credit Agricole CIB may use for its own purposes, including those prepared in its own financial records.

MiFID II contact details

Andrew Taylor MiFID II Research contact andrew.taylor@ca-cib.com	Please send your questions on MiFID II to: research.mifid2@ca-cib.com
--	---

Disclaimer

© 2023, CRÉDIT AGRICOLE CORPORATE AND INVESTMENT BANK All rights reserved.

This research report or summary has been prepared by Crédit Agricole Corporate and Investment Bank or one of its affiliates (collectively "Crédit Agricole CIB") from information believed to be reliable. Such information has not been independently verified and no guarantee, representation or warranty, express or implied, is made as to its accuracy, completeness or correctness.

This report is provided for information purposes only. Nothing in this report should be considered to constitute investment, legal, accounting or taxation advice and you are advised to contact independent advisors in order to evaluate this report. It is not intended, and should not be considered, as an offer, invitation, solicitation or personal recommendation to buy, subscribe for or sell any of the financial instruments described herein, nor is it intended to form the basis for any credit, advice, personal recommendation or other evaluation with respect to such financial instruments and is intended for use only by those professional investors to whom it is made available by Crédit Agricole CIB. Crédit Agricole CIB does not act in a fiduciary capacity to you in respect of this report.

Crédit Agricole CIB may at any time stop producing or updating this report. Not all strategies are appropriate at all times. Past performance is not necessarily a guide to future performance. The price, value of and income from any of the financial instruments mentioned in this report can fall as well as rise and you may make losses if you invest in them. Independent advice should be sought. In any case, investors are invited to make their own independent decision as to whether a financial instrument or whether investment in the financial instruments described herein is proper, suitable or appropriate based on their own judgement and upon the advice of any relevant advisors they have consulted. Crédit Agricole CIB has not taken any steps to ensure that any financial instruments referred to in this report are suitable for any investor. Crédit Agricole CIB will not treat recipients of this report as its customers by virtue of their receiving this report.

Crédit Agricole CIB, its directors, officers and employees may effect transactions (whether long or short) in the financial instruments described herein for their own accounts or for the account of others, may have positions relating to other financial instruments of the issuer thereof, or any of its affiliates, or may perform or seek to perform securities, investment banking or other services for such issuer or its affiliates. Crédit Agricole CIB may have issued, and may in the future issue, other reports that are inconsistent with, and reach different conclusions from, the information presented in this report. Crédit Agricole CIB is under no obligation to ensure that such other reports are brought to the attention of any recipient of this report. Crédit Agricole CIB has established a "Policy for Managing Conflicts of Interest in relation to Investment Research" which is available upon request. A summary of this Policy is published on the Crédit Agricole CIB website. This Policy applies to its investment research activity.

None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party without the prior express written permission of Crédit Agricole CIB. To the extent permitted by applicable securities laws and regulations, Crédit Agricole CIB accepts no liability whatsoever for any direct or consequential loss arising from the use of this document or its contents.

France: Crédit Agricole Corporate and Investment Bank is authorised by the Autorité de Contrôle Prudentiel et de Résolution ("ACPR") and supervised by the European Central Bank ("ECB"), the ACPR and the Autorité des Marchés Financiers ("AMF"). Crédit Agricole Corporate and Investment Bank is incorporated in France with limited liability. Registered office: 12, Place des États-Unis, CS 70052, 92 547 Montrouge Cedex (France). Companies Register: SIREN 304 187 701 with Registre du Commerce et des Sociétés de Nanterre. **United Kingdom:** Crédit Agricole CIB is authorised and regulated by the Autorité de Contrôle Prudentiel et de Résolution (the "ACPR") and supervised by the European Central Bank (the "ECB"), the ACPR and the Autorité des Marchés Financiers (the "AMF") in France. Crédit Agricole CIB London is authorised by the Prudential Regulation Authority and subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of our regulation by the FCA and the PRA are available from Crédit Agricole CIB London on request. Crédit Agricole Corporate and Investment Bank is a public limited company ("société anonyme") under French law, incorporated in France under SIREN number 304187701 at the Nanterre Trade and Companies Registry, with limited liability and its head office address at 12, Place des États-Unis, CS 70052, 92547 Montrouge Cedex, France. It is registered in England and Wales as an overseas company at Companies House under company number FC008194, with a UK establishment at Broadwalk House, 5 Appold Street, London, EC2A 2DA, United Kingdom (UK establishment number BR001975). **United States of America:** This research report is distributed solely to persons who qualify as "Major U.S. Institutional Investors" as defined in Rule 15a-6 under the Securities and Exchange Act of 1934 and who deal with Crédit Agricole Corporate and Investment Bank. This report does not carry all of the independence and disclosure standards of a retail debt research report. Recipients of this research in the United States wishing to effect a transaction in any security mentioned herein should do so by contacting Crédit Agricole Securities (USA), Inc. (a broker-dealer registered with the Securities and Exchange Commission ("SEC") and the Financial Industry Regulatory Authority ("FINRA")). The delivery of this research report to any person in the United States shall not be deemed a recommendation of Crédit Agricole Securities (USA), Inc. to effect any transactions in the securities discussed herein or an endorsement of any opinion expressed herein. This report shall not be re-distributed in the United States without the consent of Crédit Agricole Securities (USA), Inc. **Italy:** This research report can only be distributed to, and circulated among, professional investors (operatori qualificati), as defined by the relevant Italian securities legislation. **Spain:** Distributed by Crédit Agricole Corporate and Investment Bank, Madrid branch and may only be distributed to institutional investors (as defined in article 7.1 of Royal Decree 291/1992 on Issues and Public Offers of Securities) and cannot be distributed to other investors that do not fall within the category of institutional investors. **Hong Kong:** Distributed by Crédit Agricole Corporate and Investment Bank, Hong Kong branch. This research report can only be distributed to professional investors within the meaning of the Securities and Futures Ordinance (Cap.571) and any rule made there under. **Japan:** Distributed by Crédit Agricole Securities Asia B.V. which is registered for financial instruments business in Japan pursuant to the Financial Instruments and Exchange Act (Act No. 25 of 1948), and is not intended, and should not be considered, as an offer, invitation, solicitation or recommendation to buy or sell any of the financial instruments described herein. This report is not intended, and should not be considered, as advice on investments in securities which is subject to the Financial Instruments and Exchange Act (Act No. 25 of 1948). **Luxembourg:** Distributed by Crédit Agricole Corporate and Investment Bank, Luxembourg branch. It is only intended for circulation and/or distribution to institutional investors and investments mentioned in this report will not be available to the public but only to institutional investors. **Singapore:** Distributed by Crédit Agricole Corporate and Investment Bank, Singapore branch. It is not intended for distribution to any persons other than accredited investors, as defined in the Securities and Futures Act (Chapter 289 of Singapore), and persons whose business involves the acquisition or disposal of, or the holding of capital markets products (as defined in the Securities and Futures Act (Chapter 289 of Singapore)). **Switzerland:** Distributed by Crédit Agricole (Suisse) S.A. This report is not subject to the SBA Directive of January 24, 2003 as they are produced by a non-Swiss entity. **Germany:** Distributed by Crédit Agricole Corporate and Investment Bank, Frankfurt branch and may only be distributed to institutional investors. **Australia:** Distributed to wholesale investors only. This research, and any access to it, is intended only for "wholesale clients" within the meaning of the Australian Corporations Act.

Benchmarks are the subject of recent and on-going reform, which include changes in methodology, discontinuation and/or replacement. Where implemented, reforms may cause benchmarks to perform differently than in the past or have other consequences which may have a material adverse effect on products and services provided by Crédit Agricole CIB currently and/or in the future. You should therefore consult your own independent advisers and make your own assessment about the potential risks imposed by benchmark reforms, when making any investment decision with respect to a product or service linked to or referencing a benchmark. Reforms include (i) the expectation that LIBOR will cease after year-end 2021 and be replaced by Alternative Reference Rates on each currency (e.g. USD/GBP), impacting LIBOR and other benchmarks which are pegged to it and (ii) EONIA will stop being published on 3 January 2022 and be replaced by €STR.

THE DISTRIBUTION OF THIS DOCUMENT IN OTHER JURISDICTIONS MAY BE RESTRICTED BY LAW, AND PERSONS INTO WHOSE POSSESSION THIS DOCUMENT COMES SHOULD INFORM THEMSELVES ABOUT, AND OBSERVE, ANY SUCH RESTRICTIONS. BY ACCEPTING THIS REPORT, YOU AGREE TO BE BOUND BY THE FOREGOING.

16/08/21