

## 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



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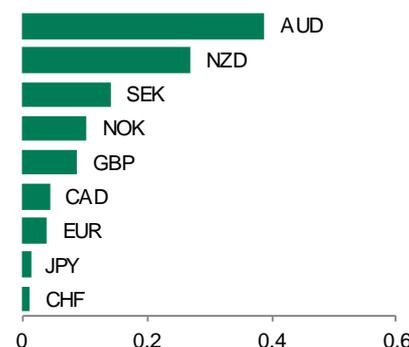
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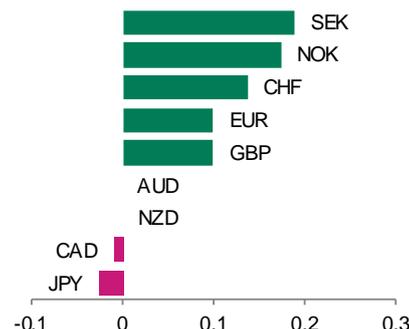
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### Overnight returns (% vs USD)



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*
<a href="#">USD/CAD (FAST FX MODEL)</a>	9/11/2023	09:00 BST	SELL	1.3599	1.3428	1.3745	1.3502	0.71%
<a href="#">AUD/USD (FX Positioning MODEL)</a>	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, Cr dit Agricole CIB

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