G10 FX Daily Report

EUR

So many themes here hard to keep up with the narrative du jour in this market. Growth is fine (global final PMIs point to growth above potential this quarter, Lupton) but the market freaks out every now and then when energy prices spike like earlier in the week which is hard to watch then 24 hours later oil stuck at the highs and everything retraces, we still have no edge as to what happens next in the Middle East. Is the Fed hawkish or on hold, Williams and Waller struck a patient tone this week versus Warsh last week and going into the data today at 50/50 for the September FOMC feels fair to me. Are long end yields a problem and if so for which economies, are they reflecting a solid economic backdrop or requiring additional risk premium and does this translate into any particular flow dynamic in the FX space (GPIF speculation, Petroleum Fund headlines in FT overnight, on other side Octavia from Strategy put out a piece yesterday saying hedge ratios were returning to normal levels post the scare from last year). Given it’s a US holiday on Monday and CPI next week had suggested that the back to school trades would not necessarily come this week despite payrolls today and that probably still rings true so not looking for huge reactions if honest unless a really extreme surprise one way or another.

As above, hard to figure out what matters when and with some wild moves this week it has been easy to make good and bad decisions on timing and getting spun around (good cut in chf shorts, less good in aud longs!), so if honest ex yen am fairly close to home right now. I remain convicted on the yen story overall (took half my cash back yesterday but still running decent position including some downside), if the ducks are lining up in a row this can be quite significant, whilst still some doubt from our Strategy there is no smoke without fire to me and the price action yesterday was indicative of real flow going through, some are pointing to the fact we bottomed at the same level as the intervention lows from last month as a fail but to me we have just dropped 5 figures in two days people always want more!! Elsewhere I retain some very small euro length via options and cut cable given the fail above 0.86 in eurgbp, cut all my eur/CE on the dip back off the extremes (a bit above here in eurhuf unf!) and have small usdils shorts.

Fusezi put an extra hike into his ECB forecasts last night, the market is already there in terms of pricing but reinforces the upbeat narrative around the region despite headwinds from commodities and geopolitics and leaves me with a modest bullish exposure. As we head into the end of the year with gas stocks at low levels and prices here maybe the narrative can turn sour, but if the US data is soft in the next week that won't matter right now and coupled with renewed stories around US assets (Norway story overnight, Dutch bringing gold back to London) think still a chance to test higher first. One wildcard to watch out for which I don't think is market moving but you never know is upcoming State elections in Germany the first of which is this weekend in Sachsen-Anhalt where the AfD could win an outright majority. Gun to head 1.18 before 1.15 but I wouldn't bet the ranch on it!

GBP	The dollar was a notable underperformer yesterday, initially driven by the sharp move higher in JPY before Waller's dovish comments added further downside pressure later in the session. Waller noted that he would be inclined to support holding rates at current levels if the recent disinflation trend continues, helping to push September Fed pricing from around 16.5bps yesterday to roughly 13bps this morning. Some of BoE Chief Economist Pill's comments were also interesting. He suggested that the BoE could raise rates without necessarily embarking on a prolonged hiking cycle, noting that "raising Bank Rate on this basis need not be the start of a prolonged and aggressive series of increases." Focus today is on NFP, we continue to run a small long EURGBP position here.

JPY	All eyes were on JPY yesterday as USDJPY extended its sharp decline, falling a further 2% and printing fresh recent lows near 155.30. The move, which initially began earlier in the week following the GPIF headlines, gathered further momentum after Waller's dovish remarks weighed on the dollar more broadly. We received plenty of questions around whether the rally was being driven by local accounts and, while we saw very little direct evidence of this in our franchise flow, the nature of the move during the Asia session would suggest some sizeable, likely domestic, supply of USDJPY was being executed away. Flow-wise, the international hedge fund community was by far the largest source of USDJPY supply yesterday, with more modest selling also coming from real money and systematic accounts. Notably, much of the flow was executed in a steady TWAP-like fashion through the London session. As I have been writing all week, I continue to think this marks an important medium-term shift for the yen. The GPIF story is particularly interesting as the market increasingly starts to assess the potential implications of any future reallocation towards domestic assets. Any such adjustment would likely be gradual, but with positioning still broadly skewed towards short JPY exposure, even a modest change in expectations could trigger a much larger unwind of yen shorts than the market is currently pricing. We continue to see risks tilted towards further USDJPY downside and remain short the pair here, looking to add further on any spikes.

CHF	Firmer inflation yesterday, although we note the averages are still below SNB forecasts. With however the move lower in USDJPY we have reduce our USDCHF for now, and wait for better levels to re-enter, especially with recent Fed speak quite dovish. This isn’t because we have moved from our medium term bearish stance, it is more because we are worried positioning could see CHF continue to rally, and also want to see upcoming US data. In terms of flow we did see decent CHF demand from HFs, but interestingly RM selling CHF, on the small move lower in EURCHF.

AUD **NZD**	USDJPY led the dollar complex lower, extending further after Waller’s dovish comments. AUDUSD moved above 0.72 for a second time this week while NZDUSD got a look above 0.59, although both have been trickling lower since London sat down. We have been bullish on AUD for well-trodden reasons, but with the pair generally struggling at these levels, we have been waiting for a pullback towards 0.7080/00 before topping up on longs. NFPs are today, although with Waller drawing attention to next week’s CPI, I am a little less inclined to chase a surprise print today. Flow-wise, RM were large buyers of oz and, to a lesser extent, NZD yesterday, whereas systematics were LHS in AUD.

CAD	USDCAD continued to grind lower yesterday alongside the broader dollar complex, with JPY once again leading the move. Waller also delivered a surprisingly dovish message, noting that “we are finally seeing signs of disinflation. If this continues in the data over the next two weeks, I would be inclined to support holding the target for the federal funds rate at its current setting.” Those comments added further downside pressure on the greenback and helped reinforce the move lower in the pair. I think the case for CAD outperformance is strengthening once again following this week’s more hawkish-than-expected BoC meeting and press conference. Combined with resilient domestic data and firmer oil prices, the balance of risks increasingly appears tilted in favour of the loonie. Attention now turns to this afternoon’s dual payroll release. If the data delivers anything close to last month’s outcome, I will be looking to add to USDCAD shorts once again. Good luck!

SEK **NOK**	Oil did move higher at one point yesterday but the market and also NOK largely ignored it. I wrote a more comprehensive piece yesterday on why, but we have entered into some downside in NOKSEK on the move above 1.03, looking for a move back to parity. Interesting yesterday to see SEK demand from RM and systematics, although we do also continue to see NOK demand, albeit smaller sizes from RM and HFs. I do find it interesting that EURNOK can’t break below 10.80, whilst EURSEK rallies quickly fade, encouraging for the view!