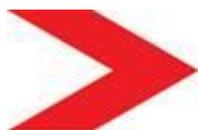


CitiFX Wire Market Commentary - FXLM - Intended for Institutional clients only

Welcome back (to a mad world)

Best of Wire



- CitiFX Global Flows: [Safe Haven and USD Selling?](#)
- CitiFX Technicals: [Tuesday snapshot: Peaking at 30](#)
- CitiFX Strategy: [EUR rallies on ECB, sell EUR-X's after](#) & [BoC Preview – No actions expected but avoid Canadian Bears](#)

The US returns from a long weekend with several things to digest – the latest escalation of the North Korea situation, a circus of central bankers and the return of Congress. The fallout from North Korea's latest actions is likely to continue to weigh on market sentiment, and we would be wary of further headlines (or tweets).

Today may bring headline galore for **USD** between Fed speak and Congress' return. Central bankers are back on the radar, with the BoC leaving **CAD** market participants conflicted, and what we think are topside risks for **EUR** come the ECB. Full previews are available in the links above. Overnight, the RBA kept rates on hold but also steered clear of stronger language on AUD appreciation. As a consequence, **AUD** and **NZD** are trading in relief.

What you missed

- **The North Korea situation has escalated again** this weekend after the country launched its sixth and largest nuclear test. Risk sentiment remains vulnerable to any further developments, with South Korean intelligence agencies expecting a new ICBM test to be carried out by this Saturday (North Korea National Day).
- Headlines overnight suggest that this test could in fact come earlier than Saturday, as reported by South Korea's Asia Business Daily. **USDJPY** and broader risk sentiment remains hinged on any headlines, but the market reaction has been mostly orderly.
- [Our London trader remains an optimist](#). "I am still of a mind to buy dips between 109.20-00 as this North Korea situation will most likely end the same way the others have, with more diplomacy. The key level is still 108.00, so that's your clear stop level. Resistance comes in at 110.20 and 110.95."
- The US response has been calm and measured thus far. The US is pushing for more stringent sanctions via the UN this week, and China will be watching closely.
- Elsewhere, **AUD** is the top performer on the back of a number of factors:
 - No nasty surprises from RBA. No changes were made and fears that there would be stronger RBA language on AUD appreciation did not transpire. Governor Lowe's language was very neutral: "An appreciating exchange rate would be expected to result in a slower pick-up in economic activity and inflation than currently forecast", and a note that appreciating AUD would not be helpful for tourism, education and rural industries.
 - While Australia's BoP current account disappointed, Q2 net exports of GDP rose to +0.30 from -0.7 in Q1 (smashing the consensus estimate of 0.00) – this was the first catalyst to send AUD higher in early Asia trading.

- Chinese PMI numbers provided another boost for AUD – the Caixin Composite number for August hit a six month high.
- At least today, **EURGBP** seems to be driving choppy price action. **EURUSD** was suspect to an inexplicable squeeze earlier today, and there was nothing obvious to trigger the move.
- Markets did seem to get a bit nervous ahead of the services PMI. There were some concerns that the overall Eurozone services PMI would be revised lower after soft individual country prints. Notably the services PMI print for Spain, Italy, France all worryingly missed expectations, with only Germany coming in a touch above consensus forecasts. However the revisions were modest. Composite PMI was revised to 55.7 from 55.8 flash and services was a touch lower 54.7 from 54.9 flash.
- After failing to break 9.2200 for the seventh time late Monday, EURGBP looks to be heading lower. Stops have driven the cross through 0.92000 to test 0.91800. However we are some distance before any significant levels.
- EURUSD is similar, where the next downside is not until the August 31/September 1 low at 1.1850-23 while on the topside, pre-NFP resistance has held at 1.1925
- For **USD**, there's plenty to get busy with. The US Congress returns from the summer recess today and top of the agenda is emergency relief funding for Harvey.
 - House Majority Leader Kevin McCarthy [announced](#) on Twitter overnight that the House will meet for legislative business at 10:00 EDT on Wednesday, with votes on funding for the Harvey recovery beginning an hour later (11:00 EDT). The Trump administration will be asking for approval of USD7.85bn.
 - Harvey aid may be linked to the debt ceiling. [Multiple sources cited by Axios](#) say that when the Harvey bill reaches the Senate after passing the House vote on Wednesday, Republican leaders will attach a debt limit raise before sending it back to the House (this would be less controversial in the Senate than in the House).
 - [Politico exclusively reported](#) on Sunday that Trump will end the DACA program (with a six month delay), which grants work permits to undocumented immigrants who arrived in the country as children. DACA has had bi-partisan support across Congress, including House Speaker Paul Ryan. White House press secretary Sarah Huckabee Sanders said a statement will be made today.
- We would also watch out for Fedspeak. Fed Governor Brainard is speaking on monetary policy and economic outlook at 07:30 EDT. We haven't heard from her in a while, and it will be interesting to see how she characterizes inflation.
- G10 central bank meetings this week loom in the horizon.
 - **CAD** is skittish ahead of the BoC on Wednesday, but Citi does not expect any hikes until October. CitiFX Strategy's preview can be found in the Best of Wire section above.
 - For **EUR**, Thursday's ECB meeting approaches. CitiFX Strategy's preview has just been published and argues there are topside risks on the ECB with recent leaks lowering expectations. [The full note explains why](#) you should sell **CrossEUR** after. Sneak peak, flows has something to do with it:

Figure 1. 4-week accumulated EUR flow among Real Money clients



Source: CitiFX, Bloomberg

Figure 2. 4-week accumulated EUR flow among Leveraged clients



Source: CitiFX, Bloomberg

- Expect a pick up in Brexit headlines and perhaps positively for **GBP**, some clarity. Brexit secretary David Davies is expected to deliver a statement to the House of Commons detailing process on the latest round of talks today as the House of Commons return from summer recess.
- Meanwhile Guy Verhofstadt, the European Parliament's representative on Brexit matters alluded to "an important intervention" by UK PM that would delay the next round of negotiations by a week. This seems to confirm an expected Brexit speech from Theresa May, still very much in [draft form](#), is intended to move the Brexit process forward and "intensify negotiations."
- Data had little impact. UK services PMI was the lowest since September 2016, and pointed to stronger cost pressures. Consensus expected 53.5 and the August print came in at 53.2 vs 53.8 prior.
- **CHF**: The economy grew at a pace of 0.3%QoQ, considerably subdued compared to the 0.5%QoQ expected by the market. Prior readings for Q1 were also revised significantly lower. However FX markets were little moved, with CHF being driven by broader risk sentiment and the appetite for safe havens.

EM – It's all about data

- On Monday, **USDCNY** made a 71bps intraday move – the largest appreciation from the midpoint since the USD's resurgence in 2014. The meant that trade weighted CNY (CFET's index) rose to the highest level since mid-June 2016. Consequently, some ask whether this was just a (big) blip or a mark of a new trend.
- [Our note here explains](#) that despite the slightly higher CNY fix today, there's more to come (fundamentals, technicals and volatility all have a play). Hold onto the handrail and enjoy the ride.
- It's been a heavy data session overnight and this helps to explain the top underperformers.
- Coming in first place is **TRY**. At 10.7%YoY, the August inflation print came in markedly higher than the consensus (10.2%YoY). Core inflation measures displayed a marked deterioration in August – this lends support to Citi Economics' belief that there is no room for easing monetary policy in the short run.
- Turkey has returned from a long holiday to get into a selling mode – USDTRY tests 3.45 but we're someway to go before the significant level at 3.51.
- **CEE** also looks worse for wear, with weaker retail sales across the board. For **CZK**, headline retail sales came in at just 2.5%YoY in July vs 5.9% expectations, with core also missing. The silver lining is that stronger wages which will be positive for inflation. Meanwhile for **HUF**, retail sales similarly showed a miss at 4.1%YoY in July vs 5.6% expected.
- On a brighter note, **ZAR** has exited recession in Q2. GDP was expected to slow down on a YoY basis to 0.5% from 1.0% prior. Instead Q2 GDP had a strong showing of 1.1%YoY. As such we saw a knee jerk reaction in USDZAR lower with QoQ growth coming in at 2.5% vs 2.3% consensus expectations. The broader trading range of 12.86-13.01 still holds.
- CPI data overnight meanwhile:
 - **PHP**: Despite the slightly stronger CPI print for August - 3.1% vs 3.0% estimate, local players and local end clients shrugged this off and continued the buying momentum.
 - **TWD**: CPI came in at 0.96%YoY vs 1.12% consensus expectations. A break of 30.00 would be significant.
- **MXN** should be watching out for Nafta headlines as the second round of negotiations conclude today. In the meantime, let's take a moment to consider the inflation puzzle.
- Citi Economics does a deep dive into the persistent weakness in inflation in its latest note - [Mexico Economics View - Inflation: Past, Present and Future](#). While there is still some uncertainty on the actual moment of the turning point for annual inflation, the factors we revise in this piece suggests that it should materialize soon.
- Looking ahead, there's plenty more data to look forward to:
 - **CLP**: The BCCh's monthly GDP proxy, the IMACEC, probably increased 2.5% YoY in July, the would be highest annual growth rate since May 2016. Citi Economics cite the higher-than-expected partial activity indicators.
 - **COP**: August's CPI is expected to show a 0.07%MoM increase according to Citi Economics. While yearly headline inflation has been trending down this year, this has been tied to a high statistical base

lingering from high inflation figures in early 2016. August's print should begin to show this effect wearing off.

European ranges

11:22 GMT	Current	Open	High	Low	NY Close	Europe High	Europe Low
EURUSD	1.1899	1.1889	1.1911	1.1868	1.1889	1.1910	1.1868
USDJPY	109.36	109.70	109.83	109.21	109.70	109.56	109.27
EURJPY	130.12	130.42	130.64	129.87	130.42	130.71	130.13
GBPUSD	1.2953	1.2919	1.2953	1.2909	1.2919	1.2953	1.2908
EURGBP	0.91858	0.9203	0.9213	0.9181	0.9203	0.9219	0.9174
USDCHF	0.9593	0.9584	0.9614	0.9544	0.9584	0.9615	0.9560
EURCHF	1.14138	1.1395	1.1421	1.1368	1.1395	1.1432	1.1373
AUDUSD	0.7981	0.7949	0.7985	0.7942	0.7948	0.7985	0.7959
AUDJPY	87.278	87.20	87.45	86.86	87.19	87.34	87.11
NZDUSD	0.7188	0.7168	0.7191	0.7158	0.7168	0.7191	0.7169
USDCAD	1.2389	1.2408	1.2418	1.2384	1.2408	1.2411	1.2384

Source: Bloomberg

Other markets

	Current	Change
Nikkei	19385.81	-0.63%
SHCOMP	3384.317	0.14%
DAX	12201.51	0.82%
FTSE 100	7422.47	0.15%
S&P Futures	2468.9	-0.21%
2y UST	1.326%	-1.6bps
10y UST	2.146%	-1.9bps
10y Bunds	0.374%	0.8bp
Brent Futures	52.46	0.23%
WTI Futures	47.8	1.08%
Gold	1331.18	-0.09%

Source: Bloomberg

Major releases ahead

	GMT	Period	Indicator	Citi	Street	High	Low	Prior
US			Congress Returns from Recess					
UK			Commons Reconvenes After Summer Recess					
US	12:30		Fed's Brainard Speaks on Economic Outlook and Monetary Policy					
	15:00	Jul	Factory Orders, %MoM		-3.3	-2	-3.6	3
	17:30		Fed's Kashkari Speaks at University of Minnesota					
	18:10		Fed's Kashkari Holds Townhall Event in Minneapolis					

Source: Citi/Bloomberg

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