



ForeX focus: Maybe September?

Key Market Themes

1 September 2016

Overview

Having spent much of August waiting for Jackson Hole, we suspect markets will probably spend much of September waiting for the Fed and that wait will likely go unrewarded.

Cross	Direction	Comment
EUR/USD	▼	Euro to weaken into ECB meeting
USD/JPY	►	Neutral but see downside risks into BoJ/ FOMC
GBP/USD	▼	BoE easing outweighs rebound risks
USD/CHF	▼	Soft data weighs on CHF
USD/CAD	▼	Oil less of a drag
AUD/USD	►	Buy dips to 0.7450.
NZD/USD	►	Dairy prices remain supportive
AUD/NZD	►	Risks still point lower short term.
EUR/JPY	►	Softening in ECB meeting next week
DXY Index	▲	Softer EUR supportive even if NFP disappoints
USD/CNH	►	CNY (and CNH) to remain stable

Trade Recommendations

Current trade recommendations:

We are square. Rolling 12 month return for our portfolio -8.76%; number of trade recommendations 32; winning trades 11.

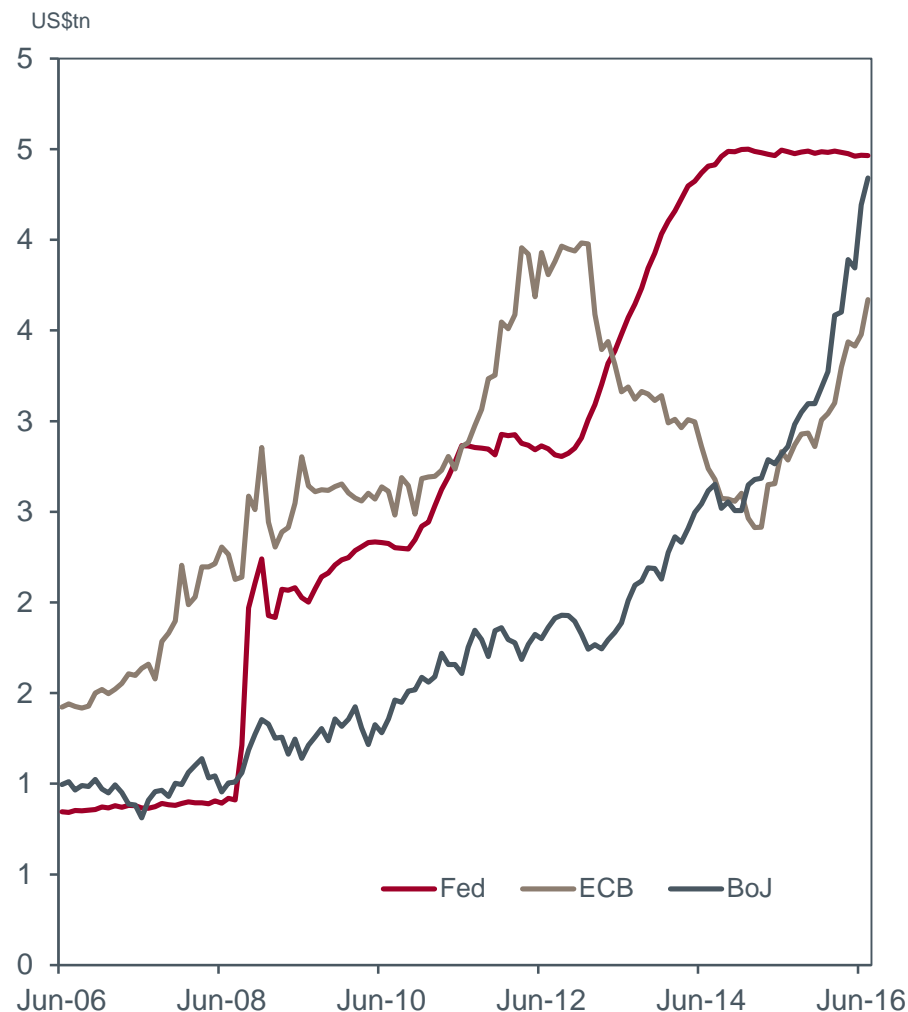
Strategic Overview

Maybe September?

- Fed Vice Chair Fischer did a great job of putting rate hike(s) back on the agenda. We went into Jackson Hole expecting a robust discussion on the “significant decline in the neutral rate of interest”. Instead it will be remembered for Yellen’s ‘hawkish’ comments that “the case ... has strengthened”, and the US\$ should continue to garner near term support.
- However, we find it hard to embrace outright longs. Yellen’s guidance was ‘data dependent’ and as Rich notes on page 12, it’s not clear that tomorrow’s NFP report will support the September case. So while Sep 20/21 looms large on the horizon, we are not convinced about a US\$ breakout and see the DXY rebound stalling around 97/98.
- September also brings with it a comprehensive review of monetary policy in Japan, a ‘live’ ECB meeting, RBA Governor Steven’s last interest rate decision and another update on RBNZ guidance. The ECB meeting Sep 8 should keep € probing back towards the 1.08/1.10 region.
- The BoJ Sep 20/21 may see signs of QE exhaustion setting in. While we are neutral USD/JPY at current levels, we see increased volatility with initial downside risks over the BoJ/ FOMC meetings Sep 20/21.
- Meanwhile central bank balance sheets are expanding strongly (see chart) and demand for yield remains solid. For the A\$, increased Fed pricing, a stronger US\$ and slightly weaker iron ore prices has weighed on sentiment. However, the A\$ looks cheap to us into the 0.7450/ 0.75 region and assuming a weak NFP print, the multi-week rally in the NZ\$ should resume (we are still targeting 0.74 on a one month basis).
- Having spent much of August waiting for Jackson Hole, we suspect markets will probably spend much of September waiting for the Fed and that wait will likely go unrewarded. Maybe September for a higher US\$? We think not and still prefer that move to come later in the year.

Robert Rennie, Sydney

When will the BoJ ‘beat the Fed’?



Source: Bloomberg, Westpac Strategy

Strategy Views: USD

Event risk:

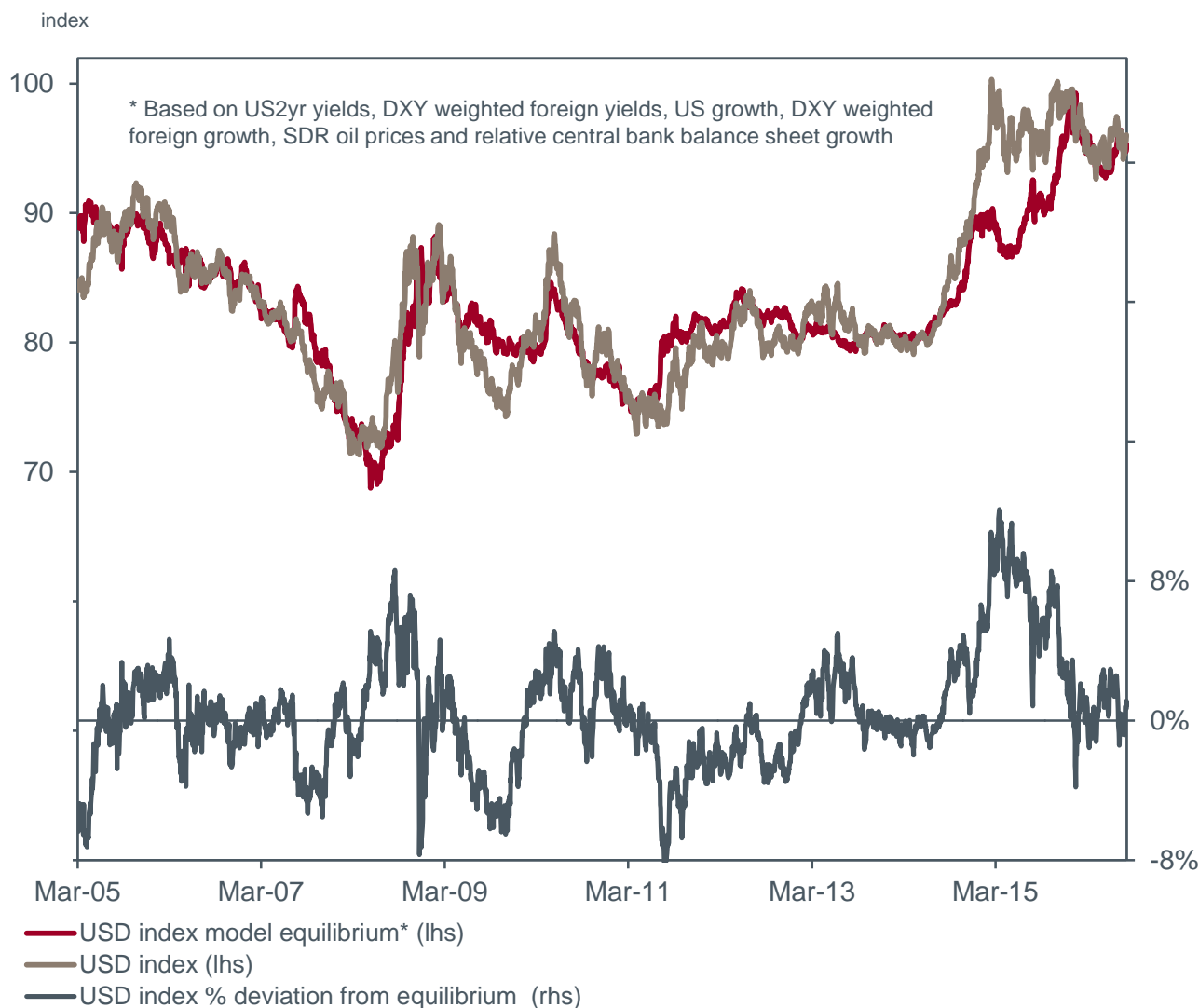
- The Markit and ISM services sector PMIs and the Fed's Beige Book are the main releases in a Labor day holiday shortened week. The PMIs have returned to a softening track in the last couple months, next week's surveys should extend that trend for another month.

Bias:

- USD likely forms a short term peak week's end if payrolls soften, certainly that's where the risks seem to lie in the wake of 2 outsized consecutive gains averaging +274k. Aug payrolls have surprised on the downside in each of the last 5 years and in 14 of the last 18 years too (see page 12). This sharp USD bounce likely stalls into recent highs in the 97.0-97.5 range.
- Would not get too carried away with downside USD though – the ECB looks set to deliver a small nod in the direction of easier policy 8 Sep. Brexit inspired staff downward revisions to GDP/CPI, notably weaker surveys and CPI in August should galvanise the Council into action. Tweaks to the QE parameters such as a 6mth formal extension of QE beyond March 2017 the safe/consensus option.

Richard Franulovich, New York

USD index – fairly valued right here



Source: Bloomberg, Westpac Strategy

Strategy Views: CAD

Event risk:

- A big week ahead, headlined by the BoC but also including the RBC and IVEY PMI surveys and August employment. Q2 GDP (-1.6% annualised) was weaker than both the BoC (-1%) and markets (-1.5%) expected but the Bank will breathe a sigh of relief that June monthly GDP printed on the strong side at +0.6%. They are likely to stick with a steady “the current stance of monetary policy is appropriate” message. Look for a big bounce back in full time jobs after a steep 112k in jobs losses the last two months.

Bias:

- A punchy 0.6% rise in June GDP confirms the much hyped recovery from recent wildfires is now well underway (the BoC assumes 3.5% for Q3 GDP).
- Trudeau's fiscal stimulus kicks in Q4 too and Canada's terms of trade hit is moderating as oil spends more time in higher ranges (\$40-\$50/bbl) than seen earlier this year (\$25-\$35/bbl).
- The BoC likely sticks to a cautious neutral view 7 Sep.
- USD/CAD a sell into the late July 1.3250 highs if seen.

Richard Franulovich, New York

USD/CAD – still mostly an oil trade



Source: Bloomberg, Westpac Strategy

Strategy Views: Europe

Event risk:

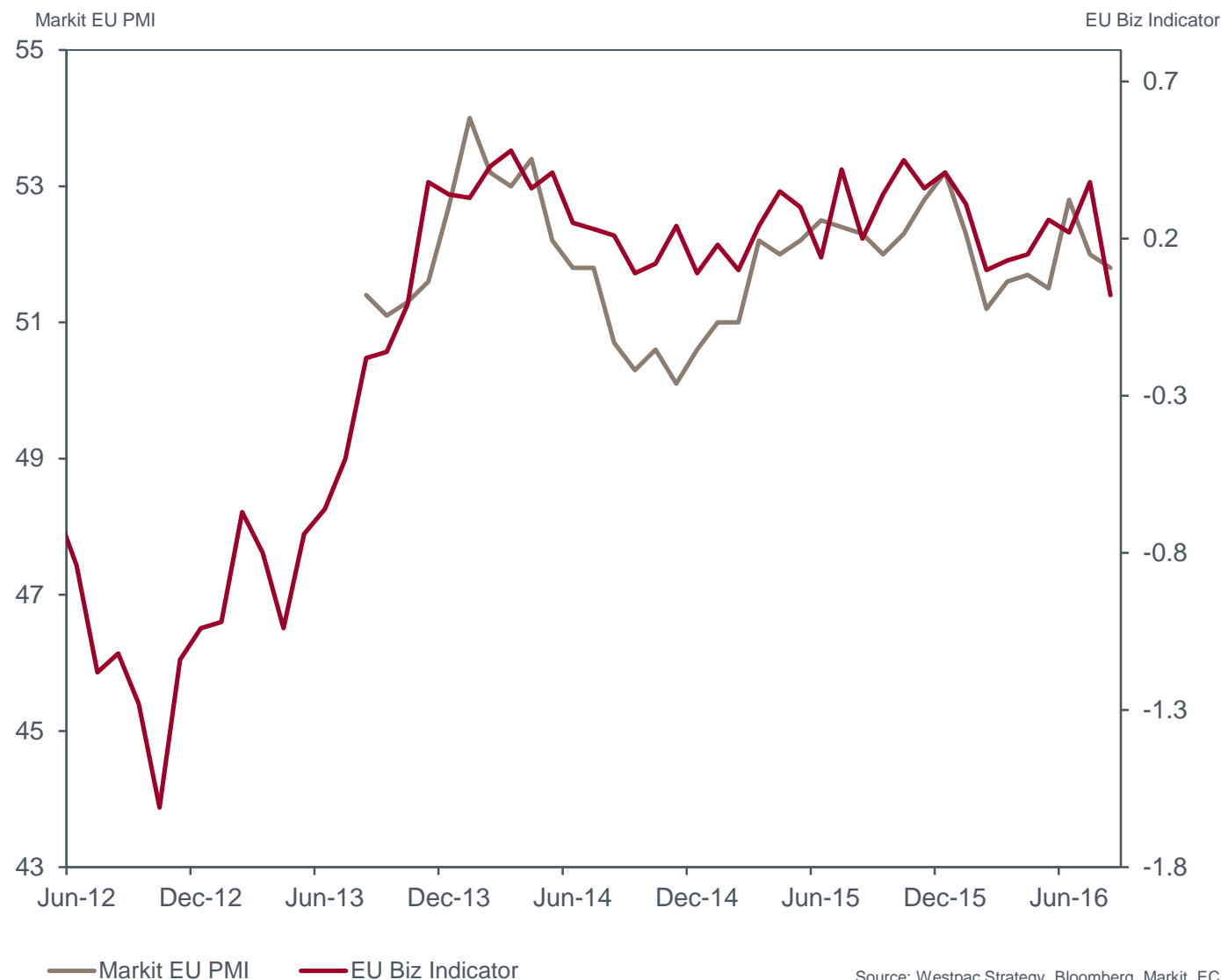
- After a prolonged 7 week break, the ECB meeting on 8th Sept may well be “live”. Final Aug PMIs, German and other key country industrial production and trade data are unlikely to alter the profile of a persistently vulnerable EU recovery.

Bias:

- Some six months after the ECB cut their refi. rate to zero, pan-EU inflation has remained below 1% and unemployment above 10%. Previously firm survey data began to slip into late August. As market participants return, they will focus on the ECB’s meeting. The flagging survey data began to weigh on EUR even before USD started to outperform. Problems in the Italian banking sector may also come back into focus and Draghi may repeat comments after the last ECB meeting about action to support banks.
- EUR/USD has drifted to the centre of its range of the past year. Potential of ECB action could see EUR/USD slide towards the lower bounds of its 1.05-1.15 range.
- A weak KOF survey saw USD/CHF push towards 0.99 and a break above 1.00 could occur if PMI data is also weak.

Tim Riddell, London

Slipping EU Business and PMI surveys



Source: Westpac Strategy, Bloomberg, Markit, EC

Strategy Views: GBP

Event risk:

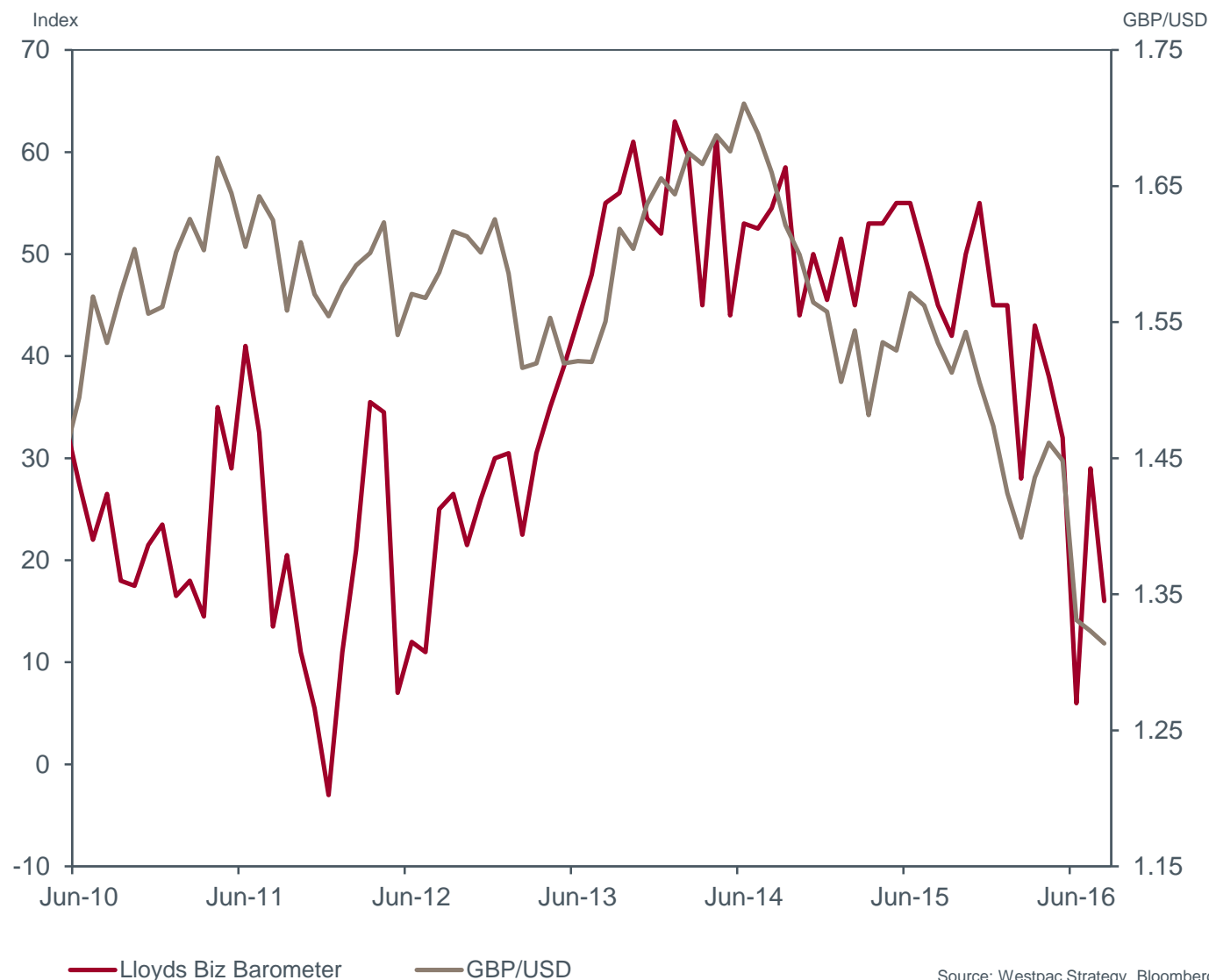
- Housing and further activity survey data, notably Markit PMIs, will be keenly watched in front of July's industrial production and trade data. Meanwhile positioning has stabilised at extreme levels but GBP has shown little indication of substantial squeeze risks.

Bias:

- Survey data began to show a more mixed profile into late August as shown with Lloyds Business Barometer slipping again after its initial relief rebound in July. Confidence and activity have not collapsed, but mortgage data, highlighted last week, is lower. Further housing and construction data should be closely watched to affirm whether medium term uncertainty starts to postpone purchases and activity. With another two weeks before the BoE meets again, the extent of their current easing will continue to weigh on any GBP rebounds.
- Although GBP/USD has been remarkably stable over the past month, the failure to breach 1.3250 will leave GBP at risk of sliding once more to the post-Brexit low of 1.2800, with persistent background risk of declining towards measured targets around 1.2500.

Tim Riddell, London

Lloyds Business Barometer slips after July rebound



Source: Westpac Strategy, Bloomberg

Strategy Views: AUD

Event risk:

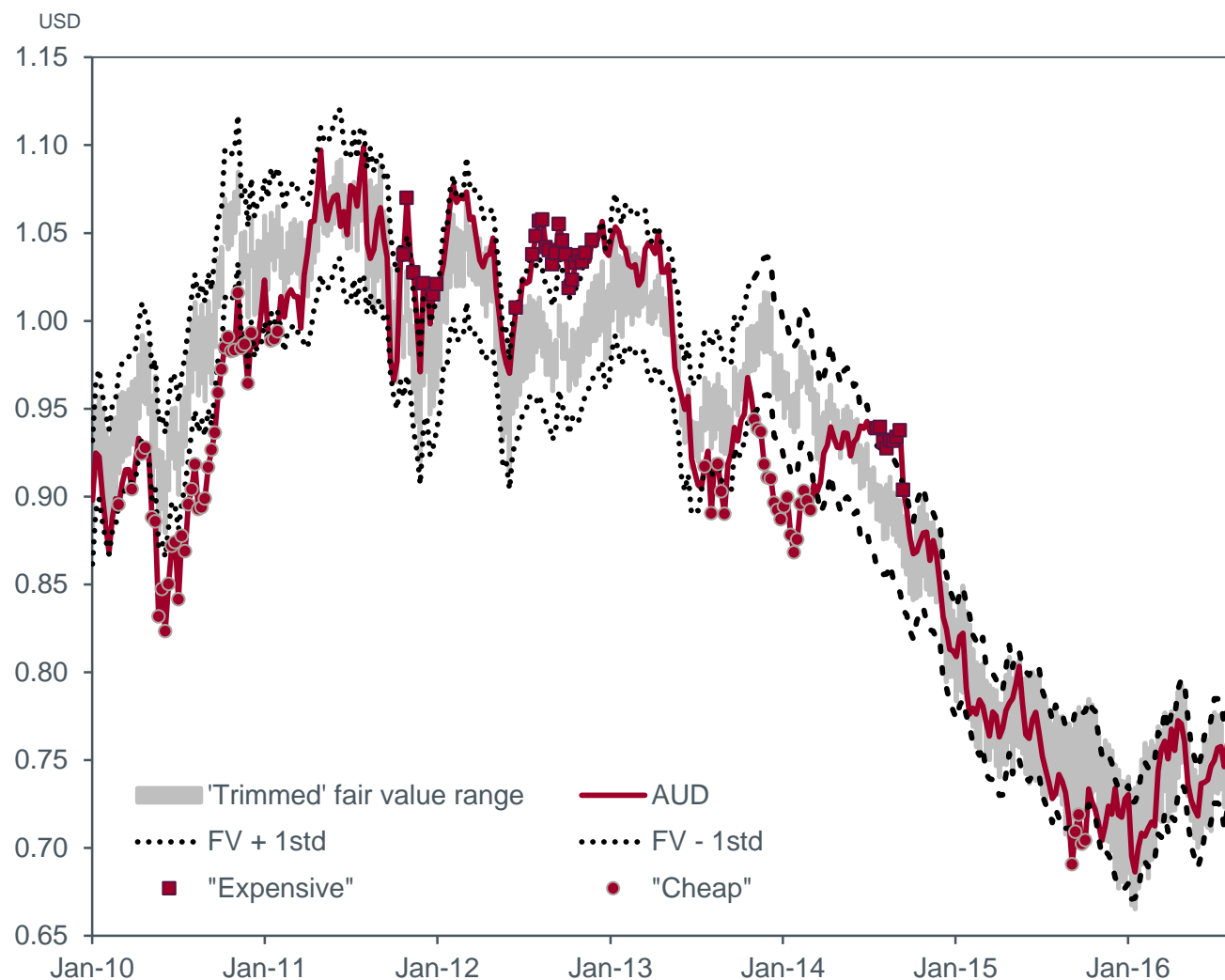
- Q2 inventories is due on Mon with company operating profits, and on Tue it's balance of payments which includes net exports. Q2 GDP on Wed is the highlight of the data calendar. The RBA meets Tue. An on-hold decision is widely expected but we will be watching for any guidance. There's also the MI inflation gauge on Mon.

Bias:

- Hawkish Wyoming headlines knocked AUD/USD into lower ranges but unless US data is very strong our base case of no Fed hike until Dec is intact, taking some heat out of USD. This should limit AUD/USD dips to 0.7450, especially with Australia's near term domestic outlook supportive.
- The RBA's focus remains CPI meaning very low pricing for a cut in either Sep or Oct. Commodities also argue against a major AUD pullback, our export price basket holding near 18mth highs. Still, until the Sep FOMC decision becomes clearer, AUD/USD rallies should be capped around 0.7650, just shy of the mid-Aug highs.

Sean Callow, Sydney

AUD/USD remains well within fitted fair value range



Source: Bloomberg, Westpac Strategy

Strategy Views: NZD

Event risk:

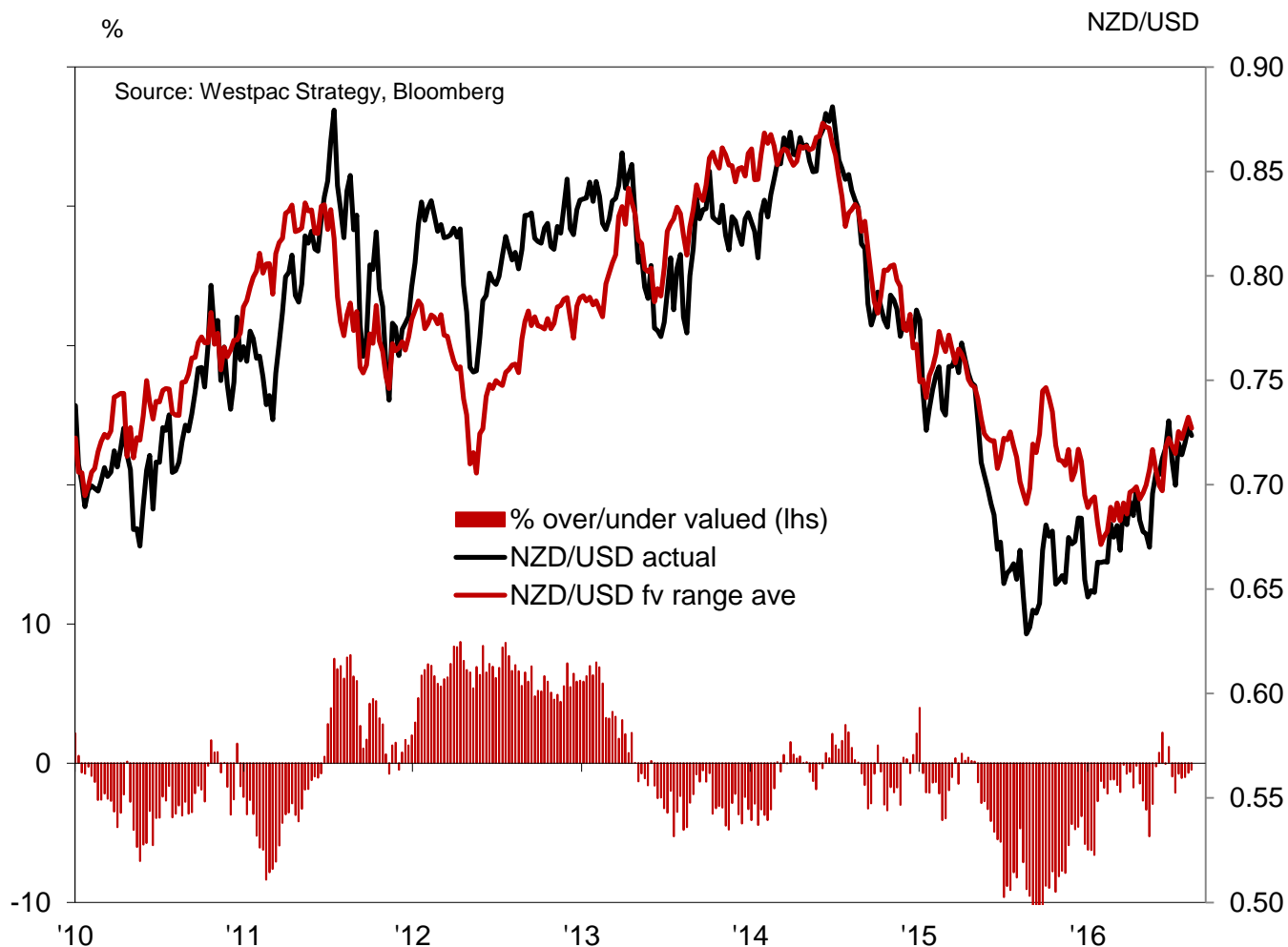
- NZ's data calendar next week remains second-tier. We have housing data from QV (Tue) and REINZ (Fri), Q2 manufacturing activity (Wed), and electronic retail sales (Fri). Probably of more interest for markets will be the first of the two GDT dairy auctions for September (Tue), futures prices currently signalling an 8% rise (which would follow gains of 10% and 20% in August).

Bias:

- NZD/USD has stalled around 0.7250, which is very close to weekly fair value of 0.7270 (chart across).
- From here, much will depend on US payrolls tomorrow: a strong print would probably push NZD/USD below 0.7200 and target 0.7090. But a weak print would allow the multi-week rally to resume, with further assistance from the GDT results on Tue.

Imre Speizer, Auckland

NZD/USD near fair value of 0.7270



Strategy Views: JPY

Event risk:

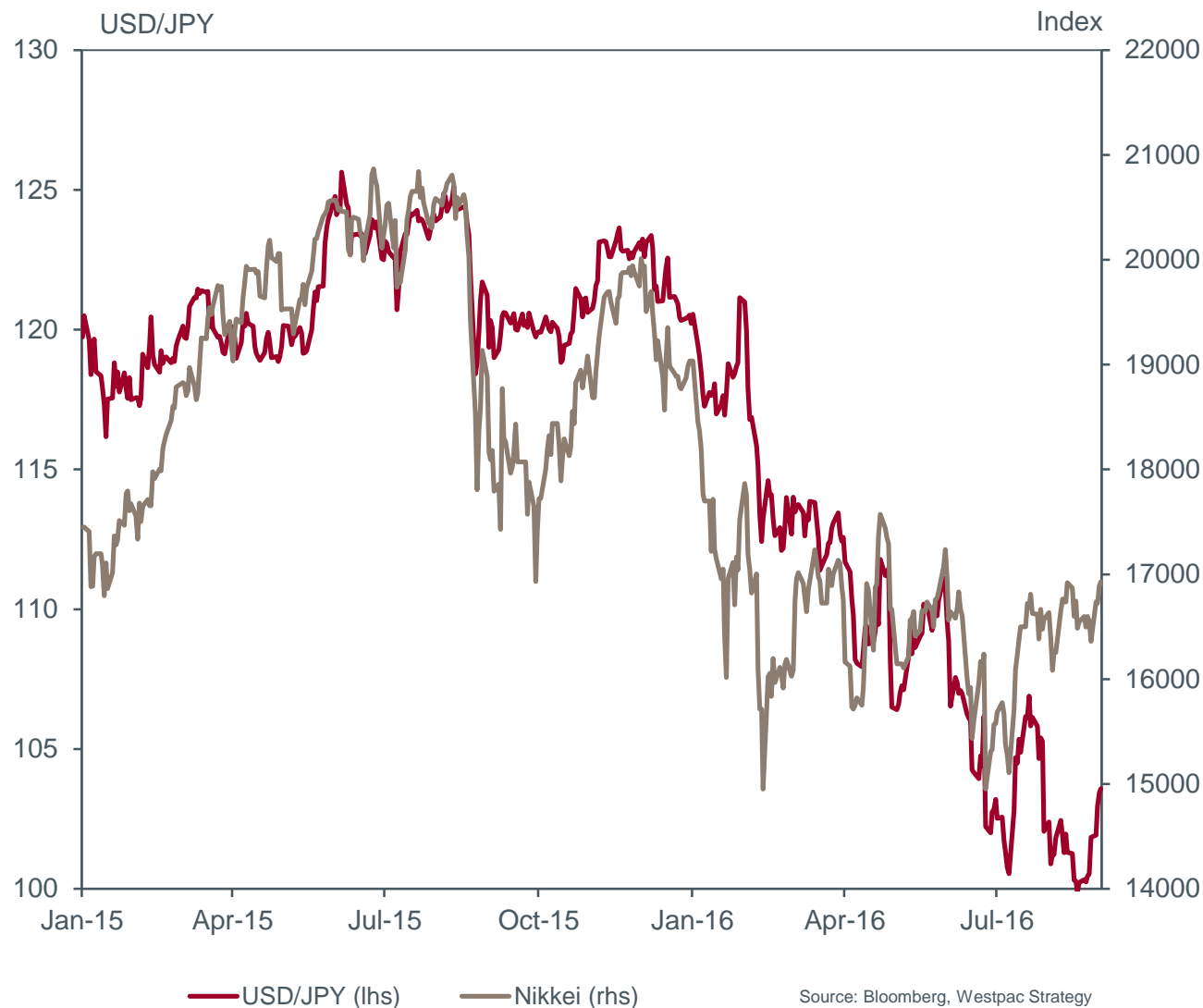
- Services PMI are out on Mon, balance of payments and final Q2 GDP on Tue, then the economy watchers survey on Wed.

Bias:

- We are neutral here. JPY has underperformed against the majors since the Jackson Hole speeches. Futures suggest that there were substantial spec positions (long JPY, short USD/JPY) going into the weekend, which would have provided plenty of fuel for USD/JPY short-covering rallies.
- Near term direction will be driven by the US dollar. But with inflation still falling well short of its target (Jul ex-fresh food at -0.5%/y), focus will soon shift to the Bank of Japan meeting (21 Sep) and available monetary policy levers. Markets are likely to be disappointed if they expect increased JGB purchases; instead we could see increased NIRP, 'operation twist' or more REIT purchases.

Martina Song, Sydney

Nikkei leading USD/JPY higher?



Strategy Views: Asia

North Asia

Event risk:

- The G20 leaders summit will be held in Hangzhou, China Sun and Mon. China Aug foreign reserves will be released on Wed. This should remain steady with the US dollar soft over the month. Trade balance is out next Thu. Taiwan CPI is out on Tue and trade balance Wed. The South Korean calendar is limited to final Q2 GDP this Fri.

Bias:

- USD/Asia has been mostly range-bound over the last few days, like many other markets, watching US payrolls for direction.
- USD/CNY fixes have been uncontroversial ahead of the G20 summit as expected and CNY has been strengthening against the CFETS basket. Recent commentary from the Ministry of Finance has suggested that the yuan remains stable from here. USD/CNH too has been well contained below 6.70. While we see a firmer US dollar over the week ahead, USD/CNY and USD/CNH topside should be limited to 6.70 and 6.72 respectively for now.
- It seems we have seen the low in 1 month USD/KRW NDFs. 1110/15 should be support. We are watching for a break above 1130 but USD rallies are unlikely to be that strong.

Martina Song, Sydney

South East Asia and India

Event risk:

- The calendar is low key until Philippines CPI next Tue. Wed, Malaysia trade balance is released and the BNM decides on policy.

Bias:

- MYR has underperformed the other Asian currencies as crude prices have weakened. There should be some resistance around 4.1000/50 but with crude prices soft, 1 month USD/MYR NDFs should remain supported.
- Recent demand for Indonesian bonds has been weaker but auction sizes larger. With offshore demand for the bonds seems to be sated for now, suggesting that USD/IDR has further to run to the topside.
- With Rajan's term ending on Sep 4, and Patel's just beginning, its not surprising to see the INR performing well within Asia. However, the softer Q2 GDP outcome does not help much near term and CPI week after next will be closely watched given stronger outcomes.

Martina Song, Sydney

Weekly trading bias and forecast ranges

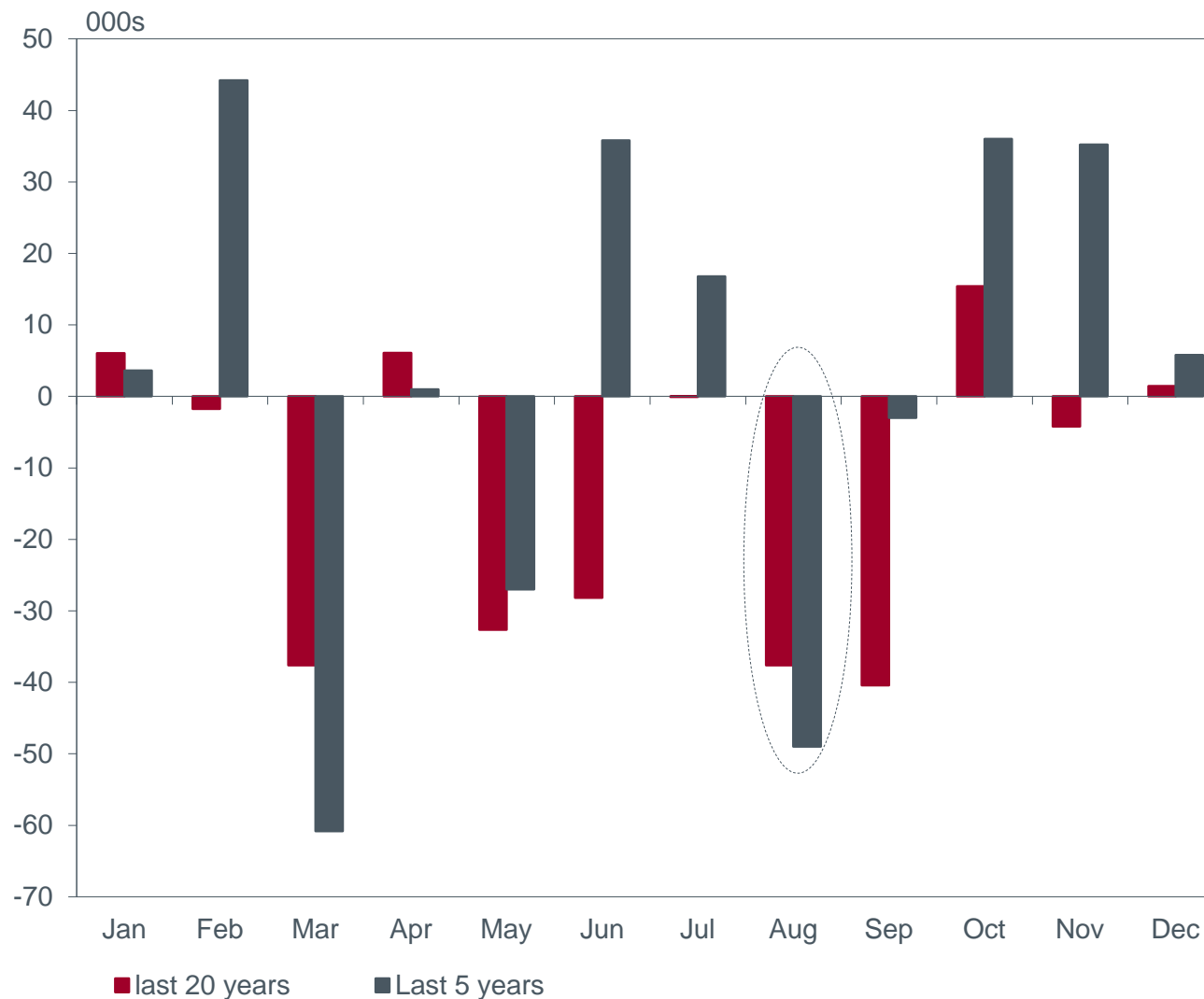
Cross	Weekly Bias	1m target	3m range	1m trend	3m trend
EUR/USD	▼	1.09	1.08 / 1.15	Down	Down
USD/JPY	►	103	96 / 106	Neutral/Down	Neutral/Up
GBP/USD	▼	1.28	1.25 / 1.35	Down	Down
USD/CHF	▼	1.00	0.95 / 1.01	Down	Neutral
USD/CAD	▼	1.28	1.24 / 1.32	Down	Down
AUD/USD	►	0.76	0.73 / 0.79	Neutral	Down
NZD/USD	►	0.74	0.68 / 0.76	Neutral	Down
AUD/NZD	►	1.03	1.03 / 1.08	Neutral	Up
EUR/JPY	►	112	110 / 120	Neutral	Neutral/Up
DXY Index	▲	98	92 / 98	Down	Up
USD/CNH	►	6.65	6.55 / 6.75	Down	Neutral

Chart focus

- The first release for August US non-farm payrolls is typically weaker than expected.
- August is a tricky month for the statistician, peak summer holidays affecting the response rate. In subsequent months August payrolls are usually revised up, often substantially.
- August payrolls have been weaker than consensus expectations in each of the last 5 years and in 14 of the last 18 years of available data. August has produced the fewest positive surprises over both the last 5 years and 20 years.
- The average shortfall to consensus in the last 5 years has been -49k. The average shortfall to consensus in the last 18 years has been -38k.
- The average final revision to August over the last five years has been +71k, the largest average final revision for any month of the year.

Richard Franulovich, New York

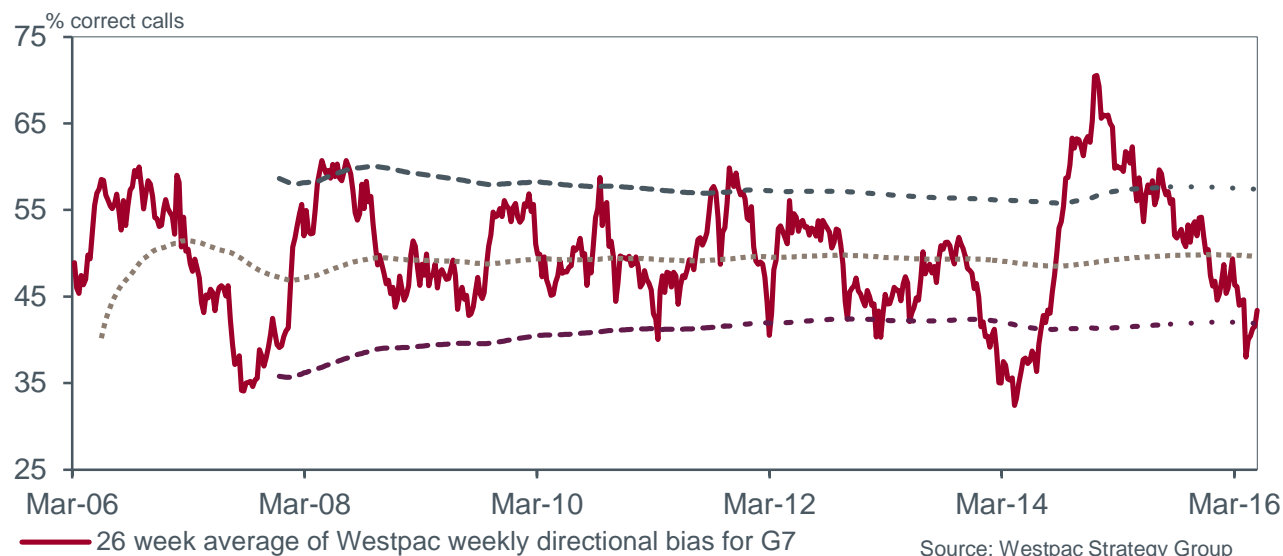
Non farm payrolls average deviation from consensus



Source: Bloomberg, Westpac Strategy Group

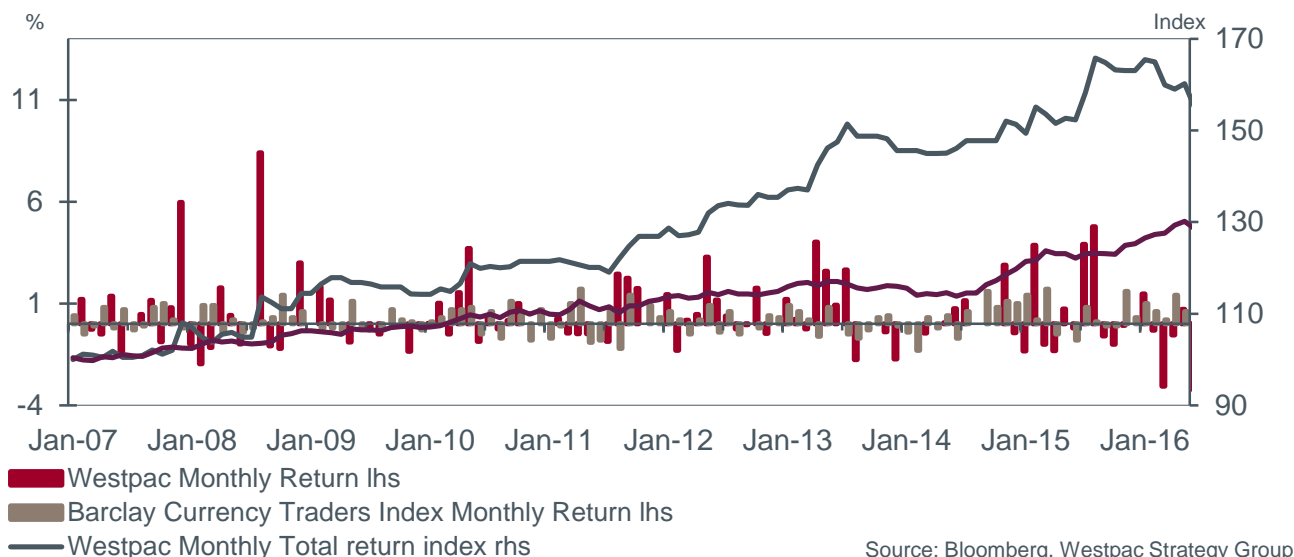
Trading bias and trade recommendations

Westpac weekly directional bias measure



- The chart across plots the results of our weekly trading bias from the previous page. When we have a positive (negative) bias on a currency, we record it as a buy (sell). When we have a neutral bias we record no position. We then measure the moves in the currency from Friday NY close to Friday NY close. If the currency moves in line with our bias, we record a positive result. If it moves against our bias, we record a negative result. We average these calls for EUR, CAD, JPY, GBP, CHF and AUD on a rolling 26 week basis.

Monthly return on ForeX Focus portfolio



- The chart across plots the returns of our trade recommendations since January 2007. Note that further history is available on request. We plot both the total monthly return and cumulative return as an index. We plot these returns versus the Barclay Currency Traders Index (see FXTG GO on Bloomberg). Note trades are recommended both as spot and options. When options are used we include both the cost of the option and any returns at expiry. On spot deals we do not include any carry. All execution costs are included.

Trading bias and trade recommendations

Recent trading recommendations and positions

Date	Long / Short	Unit	Currency	Spot / Options	Entry / Strike	Exit	Exit date	Return %
01/09/15	Short	0.30	NZD/USD	Spot	0.6376	0.6415	17/09/15	-0.18
08/09/15	Long	0.30	USD/CAD	Spot	1.3194	1.3015	18/09/15	-0.41
22/09/15	Long	0.30	USD/CAD	Spot	1.3238	1.3260	01/10/15	0.05
22/09/15	Long	0.30	USD/CAD	Spot	1.2950	1.3005	13/10/15	0.13
20/10/15	Long	0.30	NZD/USD	Spot	0.6835	0.6710	21/10/15	-0.55
22/10/15	Long	0.30	EUR/USD	Spot	1.1230	1.1110	23/10/15	-0.32
22/10/15	Short	0.30	USD/JPY	Spot	120.25	121.50	26/10/15	-0.31
11/04/15	Long	0.30	NZD/USD	Spot	0.6585	0.6515	07/11/15	-0.32
07/11/15	Long	0.30	AUD/USD	Spot	0.7070	0.7086	17/11/15	0.07
11/11/15	Long	0.30	USD/CHF	Spot	1.0070	1.0130	24/11/15	0.18
09/12/15	Long	0.30	USD/CAD	Spot	1.3584	1.4250	21/01/16	1.47
08/02/16	Long	0.30	USD/JPY	Spot	116.05	114.85	09/02/16	-0.31
23/02/16	Short	1.00	GBP/USD	Spot	1.4108	1.4170	04/03/16	-0.44
23/02/16	Long	1.00	USD/CHF	Spot	0.9945	0.9840	11/03/16	-1.06
05/03/16	Short	1.00	EUR/USD	Spot	1.0995	1.1110	11/03/16	-1.04
16/03/16	Long	0.50	USD/CAD	Spot	1.3170	1.3030	17/03/16	-0.53
14/04/16	Long	0.50	NZD/USD	Spot	0.6850	0.6850	23/03/16	0.00
23/03/16	Short	0.50	GBP/USD	Spot	1.4450	1.4610	26/04/16	-0.55
18/04/16	Short	0.50	USD/CAD	Spot	1.2925	1.2709	03/05/16	0.85
28/04/16	Long	0.50	AUD/USD	Spot	0.7585	0.7495	03/05/16	-0.59
10/05/16	Short	0.50	USD/JPY	Spot	109.30	109.09	11/05/16	0.10
03/05/16	Short	0.50	GBP/USD	Spot	1.4710	1.4605	18/05/16	0.36
02/06/16	Short	1.00	GBP/USD	Spot	1.4480	1.4640	07/06/16	-1.09
03/06/16	Short	0.50	NZD/USD	Spot	0.6840	0.6910	03/06/16	-0.51
03/06/16	Long	0.50	USD/CHF	Spot	0.9805	0.9695	03/06/16	-0.56
08/06/16	Long	1.00	EUR/USD	Spot	1.1358	1.1240	13/06/16	-1.04
12/07/16	Short	0.50	USD/JPY	Spot	103.30	104.40	12/07/16	-0.53
12/07/16	Short	0.50	GBP/USD	Spot	1.3295	1.3430	14/07/16	-0.50
29/07/16	Long	0.50	USD/CAD	Spot	1.3030	1.3118	02/08/16	0.34
29/07/16	Short	0.50	EUR/USD	Spot	1.1120	1.1200	02/08/16	-0.36
29/07/16	Long	1.00	EUR/USD	Spot	1.1220	1.1095	02/08/16	-1.11
10/08/16	Short	1.00	GBP/USD	Spot	1.3057	1.3057	17/08/16	0.00

Financial Markets Strategy

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