Eurozone - FX

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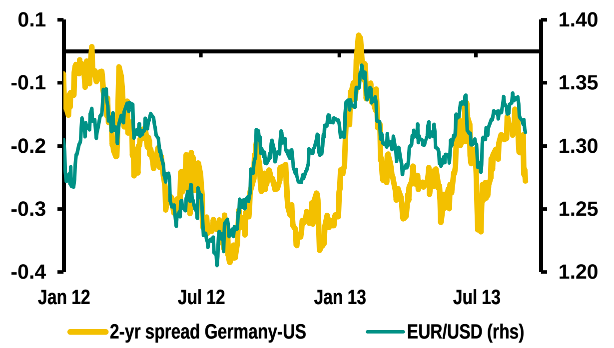
EUR/USD

EUR/USD continues to track movements in the 2-yr yield spread between Germany and the US. The better-than-expected US data releases at the start of the week pushed US yields higher and this resulted in support for the dollar versus the EUR. On Thursday, Mr. Draghi's comments resulted in intraday volatility. Initially he was able to talk down German yields and this pushed EUR/USD lower. But halfway through the press conference markets started to doubt Mr. Draghi's determination to take strong action to lower interest rate expectations. This resulted in a rebound in German yields and at the end of the Q&A session German 2-Y yields were at the same level as before the ECB rate decision, but the EUR/USD was still lower reflecting stronger initial jobless claims data. Later in the day, the stronger than expected US ISM non-manufacturing pushed EUR/USD to the low 1.31, but on Friday weaker-than-expected US employment report resulted in the USD partly giving back gains. We remain of the view that US economic outperformance will drive the dollar higher against the euro.

EUR/USD

2-Y spread Germany-US EUR/USD



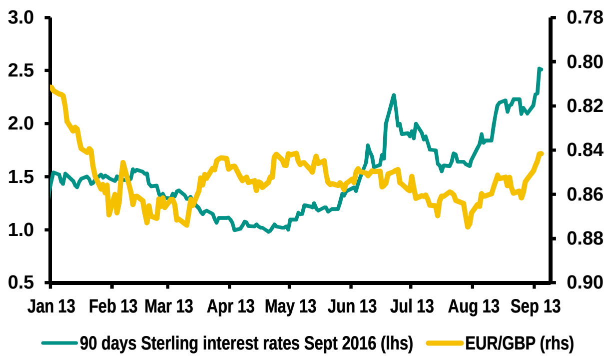
Source: Thomson Reuters Datastream

EUR/GBP

The Bank of England left monetary policy unchanged as widely expected. It has already communicated explicitly that it does not expect (given its view of unemployment and inflation) to have to raise interest rates before 2016Q3. However, the challenge the BoE has in convincing financial markets is greater than in case of the ECB because inflation is already above target, while the economy is already picking up at a much stronger pace compared to the eurozone (GDP looks to be running at an annualized rate above 4% this quarter according to surveys). So it is difficult to see the MPC convincing financial markets. Earlier in the week PMI manufacturing and services index came in far above expectations and this confirms the current strength of economic growth. The stronger than expected UK data supported the GBP versus the EUR and pushed UK yields higher. EUR/GBP is on track for our end of September forecast of 0.84.

EUR/GBP, interest rate expectations

Interest rate in % EUR/GBP in reverse order



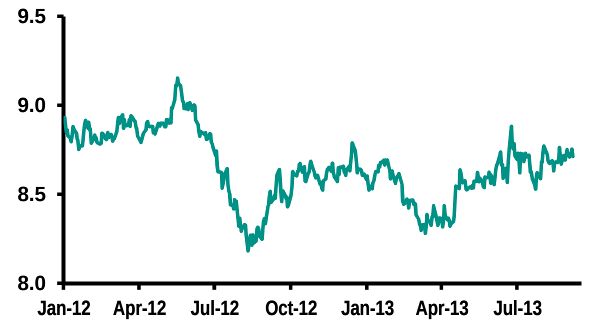
Source: Bloomberg

EUR/SEK

The Swedish central bank left interest rates unchanged as widely expected, but surprised the market with a dovish forward guidance. It stated that 'the repo rate is not expected to be raised until the end of 2014…the repo rate need to remain low to support the economic upturn and contribute to inflation rising towards 2%'. As a result, the Swedish krona came under pressure. The Riksbank's communication is directly challenging our view of one more rate hike this year when the economy recovers strongly. Indeed, a rate hike looks less now especially if inflation remains low, but we are convinced that the Swedish economy will outperform the eurozone economy and that the central bank will start the tightening process before the ECB does. In addition, the SEK performs well in an environment of improving global growth and market sentiment. As a result we see little downside for SEK at current levels, only upside. We stick to our forecast of EUR/SEK at 8.5 for the end of September and 8.3 for the end of this year.

EUR/SEK

level



Source: Bloomberg

EUR/CHF

EUR/CHF

Level

Source: Bloomberg

As the overall sentiment in financial markets improved during the week, traditional safe haven assets such as the Swiss franc (CHF) and gold fell under pressure. The CHF lost about 1% versus the EUR during the week and the pair moved towards 1.24 again. If investor sentiment further improves, as we expect, EUR/CHF should reach our target of 1.25 at the end of September. Swiss economic data was rather mixed with the PMI manufacturing coming in below expectations, but GDP surprising on the upside. On balance, the economic reports do not change our view that the central bank will remain on hold this year and next. The behaviour of inflation also remains an important variable. CPI came in at 0.0% yoy and -0.4% mom. This was below market consensus. This shows that inflation is not an issue in the foreseeable future and will unlikely be a reason to end the ultra-loose monetary policy stance of the SNB.

Asia FX

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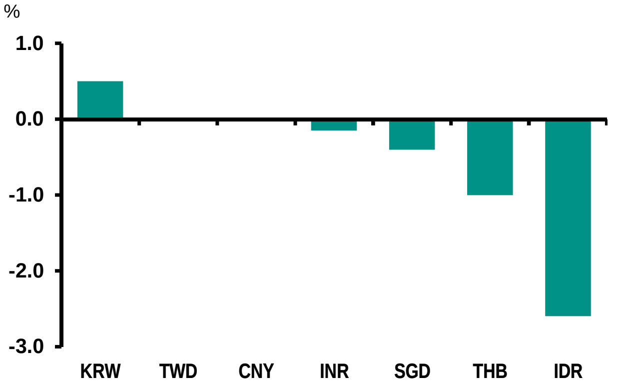
CNY, THB, INR, IDR

Sentiment in Asian currencies was mixed last week. The South Korean won (KRW) strengthened as the outlook in the economy improved. The Chinese yuan (CNY) was stable as there were no surprises in economic data, which continued to point to a recovery. On the other hand, weak data releases continue to pressure the Indonesian rupiah (IDR), Thai baht (THB) and Indian rupee (INR). Concerns that the trade deficit in Indonesia will widen pushed the IDR lower by more than 2%. The INR recovered after the new RBI governor Rajan left a strong impression with financial markets. He sounded serious about liberalizing the financial sector and about greater capital mobility. He also stressed that low and stable inflation must be achieved. His first monetary policy statement was postponed to 20 September. The market has given him the benefit of the doubt but he needs to keep up the positive momentum he has started. Lower current account deficits should support the INR later this year. We expect Asian currencies to benefit from global growth picking up later this year.

Asian currencies' spot returns last week

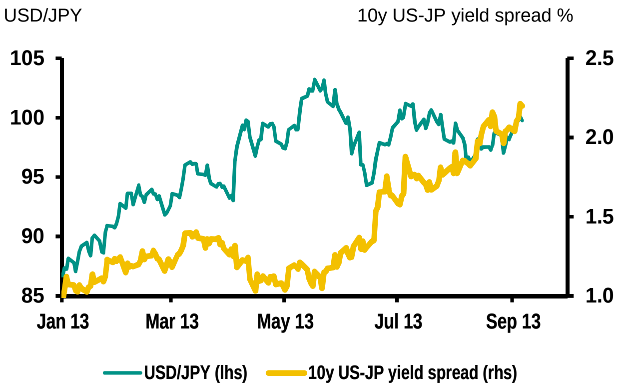


Source: Bloomberg, ABN AMRO Group Economics

JPY

The JPY declined last week as the outlook on global growth and investor sentiment improved. Better domestic data and company reports have increased the likelihood of the VAT increase going through. As a result, the market has become somewhat worried about the impact on the economy and changed its expectations of more monetary stimulus next year. The government is expected to make a decision early October on the VAT hike to take effect in April 2014. We continue to believe that more monetary stimulus is needed to support the economy once the VAT hike comes into effect. Governor Kuroda has continued to signal that the government should go ahead with this VAT increase and that the BoJ will then support the economy if needed. The JPY broke above 100 briefly after BoJ governor Kuroda said that they will take appropriate steps if they see risks that their 2% inflation target will not materialize. We expect the JPY to weaken towards 110 against the USD later this year due to increasing divergence between monetary policies in the US and Japan.

USD/JPY and 10y spread between US and Japan



Source: Bloomberg

Commodity FX

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AUD/NZD

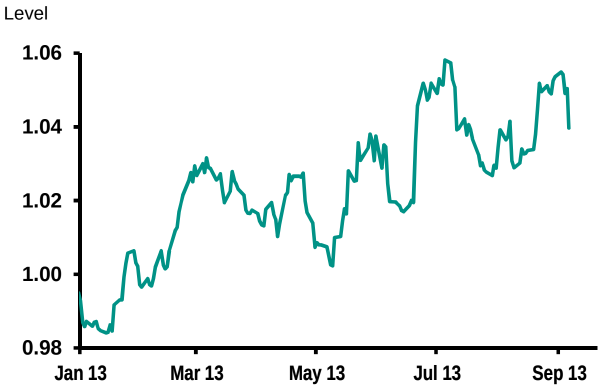
Dec 13 futures implied cash rate in Australia

Source: Bloomberg, ABN AMRO Group Economics

The AUD rose by 2 cents to above 0.91 last week as the RBA was less dovish than expected and Q2 GDP came in stronger than forecast. The improvement in investor sentiment supported both AUD and NZD. As a result, the market has reduced its rate cut expectations to only 10bp by the end of this year. We continue expect a 25bp rate cut in November. We suspect that the RBA wanted to maintain a neutral bias ahead of the elections on 7 September. We remain comfortable with our view that further rate cut is needed to accelerate the rebalancing of the economy and hence the current rally in the AUD is unlikely to be unsustainable. We stick to our year end forecast of 0.86. The NZD was also supported due to stronger than expected rise in the terms of trade. This week, the RBNZ is widely expected to leave the cash rate unchanged. Looking ahead, given our general USD view, the NZD is likely to ease lower towards 0.76 by the end of this year.

CAD

USD/CAD

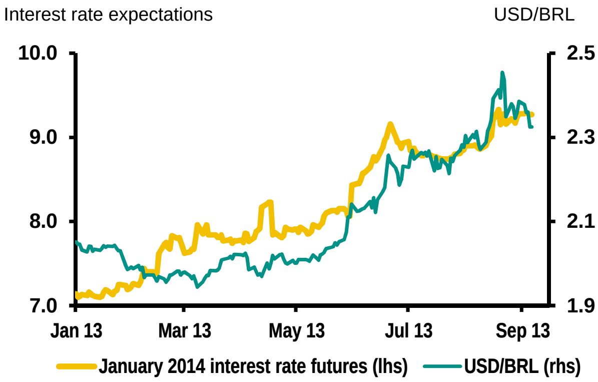


Source: Bloomberg

There was no clear direction in the CAD at the start of the week. However, the CAD strengthened on Wednesday in line with a broader improvement in investor sentiment (visible in other FX and gold). What also helped was that the Bank of Canada (BoC) signalled no change in course despite some recent softer economic data, and that WTI prices started to edge higher. The BoC left the overnight target rate at 1% as widely expected. The central bank remains optimistic that the slack in the economy will gradually decline in 2014. As a result, both headline and core inflation will rise to the 2% target, paving the way for tighter monetary policy. This is consistent with our 25bp rate hike expectation in 2014 Q4, which is priced in by the market. On Friday, the weaker than expected US employment report pushed the USD lower across the board and the CAD was able to profit. However, we keep our 2013 and 2014 USD/CAD forecasts at 1.06 and 1.08 in place, as growth in Canada is expected to underperform the US during the same period.

BRL

USD/BRL



Source: Bloomberg

The movements in emerging market currencies diverged last week. The Mexican peso, South African rand and Turkish lira remained under pressure while the Brazilian real recovered further in a volatile manner over the week. The recent run-up in US yields again was partly responsible for the pressure on emerging market currencies. The sentiment on Brazil looks to be improving mainly because of a vigilant and credible central bank and interventions in currency markets. The minutes from the latest COPOM minutes showed that the current pace of rate hikes will continue. But the central bank left inflation forecasts for 2013 and 2014 unchanged and signaled confidence in fiscal policy. The market translated these minutes as being less hawkish than expected resulting in some downward adjustment in interest rate expectations. If in the current environment, domestic economic data come in better than expected and overall investor sentiment improves, the BRL should post a stronger recovery.

WEEKLY ECONOMIC CALENDAR

Day	Date	Time	Country	Market indicator	Period	Latest outcome	ABN AMRO	Expectation consensus
Monday	09/09/2013	01:50:00	JP	BOP Current account - JPY bn	Jul	336.3		477.5
Monday	09/09/2013	01:50:00	JP	GDP - % qoq	2Q F	0.6		0.9
Monday	09/09/2013	03:30:00	CN	CPI - % yoy	Aug	2.7	2.6	2.6
Monday	09/09/2013	07:45:00	CH	Unemployment - %	Aug	3.2		
Monday	09/09/2013	08:00:00	JP	Economy Watchers Survey - index	Aug	52.3		53.7
Monday	09/09/2013	13:59:00	CN	M2 money growth - % yoy	Aug	14.5		14.5
Monday	09/09/2013	15:00:00	MX	CPI - % yoy	Aug	3.5		3.5
Monday	09/09/2013	21:00:00	US	Fed Reserve consumer credit - USD bn	Jul	13.8		12.2
Tuesday	10/09/2013	01:01:00	GB	RICS house price balance - %	Aug	36.0		37.8
Tuesday	10/09/2013	07:30:00	CN	Fixed investments - % yoy	Aug	20.1	20.0	20.2
Tuesday	10/09/2013	07:30:00	CN	Retail sales - % yoy	Aug	13.2	13.1	13.3
Tuesday	10/09/2013	07:30:00	CN	Industrial production - % yoy	Aug	9.7	9.8	9.9
Tuesday	10/09/2013	08:45:00	FR	Industrial production - % mom	Jul	-1.4		
Tuesday	10/09/2013	09:30:00	SE	Industrial production - % mom	Jul	3.0		
Tuesday	10/09/2013	10:00:00	NO	CPI - % yoy	Aug	1.8		
Tuesday	10/09/2013	13:30:00	US	NFIB small business optimisme - index	Aug	94.1	95.0	
Wednesday	11/09/2013	01:00:00	KR	Unemployment - %	Aug	3.2		3.2
Wednesday	11/09/2013	07:30:00	FR	Change in employment - % qoq	2Q F	-0.2		
Wednesday	11/09/2013	10:30:00	GB	Claimant count unemployment rate - %	Aug	4.3	4.2	4.3
Wednesday	11/09/2013	10:30:00	GB	Change in claimant count - thousands	Aug	-29.2	-20.0	-22.9
Wednesday	11/09/2013	13:00:00	ZA	Manufacturing production - % yoy	Jul	0.4		
Wednesday	11/09/2013	15:00:00	MX	Industrial production - % yoy	Jul	-2.7		-0.7
Wednesday	11/09/2013	23:00:00	NZ	Policy rate - %	Sep 12	2.5	2.5	2.5
Thursday	12/09/2013	01:50:00	JP	Machinery orders private sector - % mom	Jul	-2.7		1.7
Thursday	12/09/2013	03:00:00	KR	Policy rate - %	Sep 12	2.5		2.5
Thursday	12/09/2013	03:30:00	AU	Unemployment - %	Aug	5.7		5.8
Thursday	12/09/2013	09:30:00	SE	Unemployment - %	Aug	7.2		
Thursday	12/09/2013	11:00:00	EC	Industrial production - % mom	Jul	0.7	0.0	0.1
Thursday	12/09/2013	14:00:00	BR	Retail sales - % yoy	Jul	1.7		2.2
Thursday	12/09/2013	14:00:00	IN	CPI - % yoy	Aug	9.6		
Thursday	12/09/2013	14:00:00	IN	Industrial production - % yoy	Jul	-2.2		
Thursday	12/09/2013	14:30:00	US	Initial jobless claims - thousands	Sep 7	323.0	325.0	332.9
Friday	13/09/2013	00:30:00	NZ	PMI manufacturing - index	Aug	59.5		
Friday	13/09/2013	06:30:00	JP	Industrial production - % mom	Jul F	3		
Friday	13/09/2013	07:00:00	SG	Retail sales - % mom	Jul	-6.9		2.3
Friday	13/09/2013	09:30:00	SE	GDP - % qoq	2Q F	-0.1		
Friday	13/09/2013	11:00:00	EC	Trade balance external EU - EUR bn	Jul	14857.8		
Friday	13/09/2013	13:59:00	RU	Policy rate - %	Sep 13	8.25	8.25	8.25
Friday	13/09/2013	14:30:00	US	Retail sales - % mom	Aug	0.2	0.5	0.4
Friday	13/09/2013	14:30:00	US	Prod. prices index - % mom	Aug	0.0	0.2	0.2
Friday	13/09/2013	14:30:00	US	Prod. prices index - % yoy	Aug	2.1	1.3	1.2
Friday	13/09/2013	14:30:00	US	Prod. prices index excl food and energy - % mom	Aug	0.1	0.1	0.1
Friday	13/09/2013	14:30:00	US	Prod. prices index excl food and energy - % yoy	Aug	1.2	1.3	1.3
Friday	13/09/2013	15:55:00	US	Univ. of Michigan cons. confidence - index	Sep P	82	82.5	82.2
Friday	13/09/2013	16:00:00	US	Business inventories - % mom	Jul	0.0	0.3	0.3

Source: Bloomberg, Reuters, ABN Amro Group Economics