



European Edition

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Non Independent Research – Marketing Communication

■ The USD heading into the FOMC

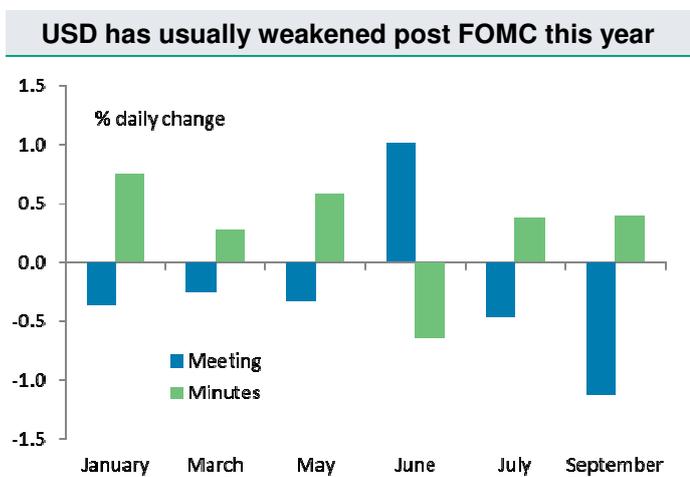
History has gone against the USD heading into FOMC meetings; the USD has gained ground only once following an FOMC meeting this year (see chart). However, market participants have already pushed back expectations for Fed tapering into next year. Also, market positioning has swung from significantly long USD heading into the September 18 event to modestly net short now according to our BNP Paribas Positioning Analysis. Hence, in the event of a broadly unchanged statement (our base case) where the Fed only acknowledges uncertainty caused by the data drought, the USD should recover some of its post-employment report weakness. However, we would keep a close eye for tail risks, particularly surrounding the characterisation of inflation. At the September statement, the Fed dropped its long held usage of the word "transitory" in describing below target inflation. Any further changes towards a more dovish message on inflation i.e. showing a lowered tolerance on low inflation outcomes would be a dovish surprise. Meanwhile, on the data calendar we will get September production, retail sales, price data as well as the ISM, consumer confidence and the ADP employment report. We expect the ISM to moderate to 54.5 after rising for four straight months to 56.2, but this will still leave the US near the top of the G10.

■ China data and money market operations key for commodity bloc

We expect no change in RBA or RBNZ policy at this week's meetings and the commodity bloc will focus on China's manufacturing PMI on Friday. We expect a stable reading near last month's 51.1 level, which should allow AUD and NZD to recoup some of last week's setback. The recent tightening in China money market rates has held both currencies back last week. The market this week speculates on whether the PBOC injects liquidity at its regularly scheduled operation tomorrow. China 7d repo rates are already some 20bps lower today in anticipation of such a move while the AUD is trading better.

■ Watch inflation for negative EUR catalyst

EURUSD is fast approaching the 1.4000 level where our economists anticipate rising ECB concern. However, some ECB speakers (like Asmussen) last week made clear that the exchange rate was only a concern to the extent it shifts inflation risks to the downside. This week's October German preliminary CPI should show the HICP rate slowing to 1.5% y/y from 1.6% last month. A softer print would place EUR under pressure as the market increases the probability that the ECB downgrades its assessments of risks surrounding inflation (from "balanced" to the "downside") at the November 7 meeting. This risk seems under priced at the moment. We also remain attentive to ECB speakers, with board members Coeure, Constancio, and Asmussen on the schedule.



GMT	Country	Release	BNPP	Mkt	Last
11:00	GB (Oct)	CBI Reported Sales	25	33	34
13:15	US (Sep)	Industrial Production % (m/m)	0.4	0.4	0.4
13:15	US (Sep)	Capacity Utilisation Rate %	77.7	78.0	77.8
14:00	US (Sep)	Pending Home Sales % (m/m)	0.5	-0.3	-1.6
23:30	JP (Sep)	Unemployment Rate % (sa)	4.0	4.0	4.1
23:30	JP (Sep)	Household Consumption % (y/y)	0.2	0.5	-1.6

Reuters Ecowin, Bloomberg, BNP Paribas

