USD declines as Jackson Hole speech by Fed Chair Yellen disappoints

Top FX drivers:

- **USD**: The dollar index (DXY) ends the week on the back foot as Fed Chair Yellen avoids any mention of the US economic outlook and Fed policy. Instead, markets interpret her speech as a farewell note to potentially lend credence to the appointment of a new Fed chair Gary Cohn (currently Trump’s chief economic advisor and seen as a “low interest rate type”) when her terms ends in January 2018. The USD Index trades back down to 92.74 (about 85 pips away from the 2016 low of 91.90) while EURUSD roars climbs above 1.1900.

- **USD**: An FT interview with Trump's chief economic advisor Gary Cohn sounds positive on tax reform, with him saying it is now the administration’s number one priority, and a significant speech this Wednesday will kick-off the reform campaign. He also reveals a framework has already been agreed upon by the leadership and is confident this could be done by year end.

- **USD**: Unexpected strength in the US durables goods report released Friday leads Citi analysts to revise up their Q3 GDP growth forecast by 0.2ppt to 2.8% but uncertainty about the looming government shutdown as threatened by Trump and the market’s focus on US inflation rather than growth continues to cap any prospect for a sustained rally in USD.

USD & JPY: Strong US data is overlooked Friday

- The US durable goods report misses on headline but orders ex-transportation advance 0.5%, above median expectations for 0.4% and capital goods orders non-defense ex-air rise 0.4%, matching consensus. The result sees Citi analysts revising up their forecast for US Q3 GDP to now 2.8%, up two-tenths from 2.6%. **US growth continues on a solid footing, but policymakers and markets remain focused on the subdued US inflation outlook.**

- The data calendar begins to heat up again towards the end of this week with PCE, payrolls and ISM the highlights. Citi analysts expects a solid payroll headline of 170k in August (consensus: 180k) to show a fairly robust labor market, with the unemployment rate steady at 4.3% and wage inflation at 2.6%YY (0.2%MM) slightly up from the 2.5% recorded over the past four months.
EUR, GBP & CHF: ECB’s Draghi more forthright on the macro outlook than Janet Yellen, German ifo reaches a high cruising altitude

- ECB President Draghi’s speech at Jackson Hole is more forthright than Janet Yellen’s and gives EUR bulls hope of more tightening to come. He flags the euro zone recovery consolidation as coming at an earlier stage than the US and notes the firming of the global recovery.

- German economic sentiment stays elevated through 3Q with no evidence of any slowdown, not even from a stronger euro. The ifo business climate index comes in nearly unchanged in August, edging down by 0.1pp from its all-time high in July, to 115.9 in August (consensus 115.5, Citi 115.8). Surprisingly, the expectations component rises from 107.3 to 107.9, defying expectations for a decline (consensus and Citi 106.8). This component usually correlates well with business investment and reaches its highest level since January 2014.

- This week sees the release of euro zone CPI data that probably carries focus given the prospects of the potential to tapering later this autumn. ECB’s Nowotny headlines the ECB speaking calendar with an appearance on a panel on Friday. UK manufacturing PMI data is the highlight across the channel, with no MPC speakers on the docket.

Commodity Bloc: Stuck in a range but hurricane Harvey may put a bid into oil (and CAD)

- There are no releases of note in Australia and NZ this week though the NZ election in the latter part of September should draw attention. Concerns on a potential coalition involving NZ First have tended to weigh on NZD in recent sessions, but with AUDNZD now approaching 1.1000, the market may well be overplaying NZD’s vulnerability. In Canada, monthly GDP may draw some focus, where the economy likely expanded at a robust pace of 3.0 percent annualized in Q2’17. Aside from this, market attention will remain on Hurricane Harvey in the US that may constrain oil supply and potentially support higher prices that in turn may be CAD positive.

Asia EM: CNY & SGD – Singapore’s MAS seen standing pat in October

- With both growth and inflation in line with MAS assumptions in April, Citi analysts continue to see MAS standing pat in October though the Bank may be less averse to see SGD strengthen within the band.
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