BARCLAYS

Foreign Exchange Research

1 October 2017

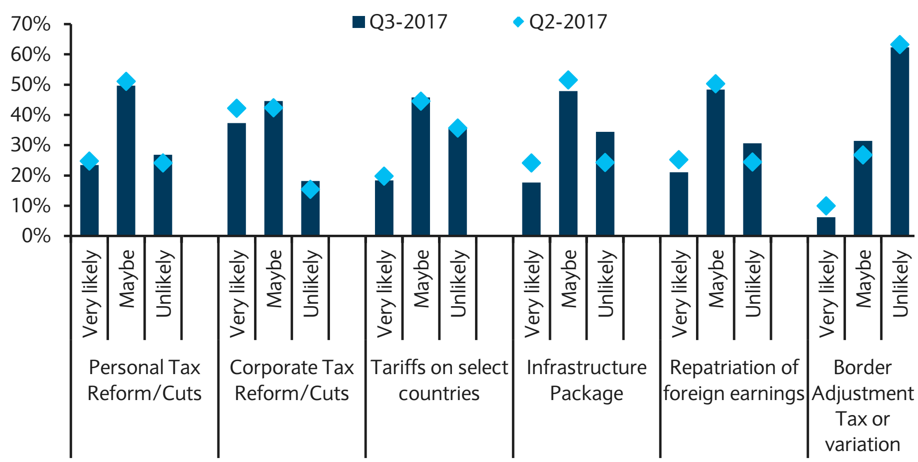
Thoughts for the Week Ahead

Trading politics

- The prospect of US tax cuts and a more assertive Fed have engendered a revival of USD strength, but investors will likely want to see more details on the tax plan and gauge the political viability of the proposals.
- The German election reminded markets that the *Politics of Rage* are still alive, and we expect investors to reassess euro area political risks. In the very near term, Sunday's Catalonia referendum adds headline risks to the EUR.
- The UK's Conservative Party Conference adds downside risks to GBP this week, as the relative strengths of the leadership members is reassessed for the governing party.
- The RBA will likely keep policy unchanged (Tuesday), maintaining a cautious stance. The meeting should be neutral for AUD, which will likely continue to be driven by short-term iron ore price dynamics. Elsewhere, the RBI and NBP (both Wednesday) will also keep policy settings unchanged.
- **Trade for the week ahead: Buy a one-week EURGBP strangle to benefit from a likely pick-up in volatility amid European political risks.**

FIGURE 1

Investors remain skeptical with regards to the US political backdrop



Note: respondents to our *Global Macro Survey* (27 September 2017) answered to the question Which of the following policies do you think are likely to be implemented in the US before the November 2018 mid-term elections?". Source: Barclays Research

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Overview: Trading politics

Investors likely on hold on tax reform, waiting for more details

Renewed expectations of a December Fed hike and the prospect of US tax cuts have engendered a revival of USD strength, but investors will likely want to see more details on the tax plan and gauge the political viability of the proposals. The outline was similar to previous GOP proposals, but left all the relevant details to be worked out by Congress. The framework now moves to the Committee level, where the specifics should take shape in the coming weeks.

After the initial market excitement, we think the USD will likely take a pause as markets assess the viability of the proposals. Indeed, investors have become more sceptical that policies will be implemented (see Figure 1 and *Global Macro Survey: Brexit confusion and political fears persist*, 27 September 2017). **Moreover, Fed Chair Yellen's speech (Wednesday) is unlikely to provide further support to the USD, as markets remain reluctant to price a full December Fed hike**. Further ahead, we forecast broad-based USD weakness, mainly versus EM and have consequently lowered our USD forecasts (see *FX & EM Macro Strategy Outlook: Rotate funding as EM outperforms*, 28 September 2017).

The German election saw a return of the Politics of Rage *with risks around coalition formation adding volatility to the EUR*

While our forecast for even stronger euro area growth next year should keep the EUR on an appreciating medium-term trend, the German election reminded markets that euro area political risks are still alive and could weigh on the currency (see *German election: Welcome to Jamaica*, 25 September 2017). Risks around coalition formation could add volatility to the EUR in the coming weeks, as the CDU/CSU negotiates a potential government with Gruene and FDP. **The return of *Politics of Rage* will likely be an important theme for markets ahead of next year's Italian elections** (see *Euro Themes: Italy: In search of governability*, 27 September 2017).

Catalan referendum could also be a source of EUR vol this week

Tensions between the Spanish central and the Catalan regional governments have escalated ahead of Sunday's referendum and could also act as a source of currency volatility. The judiciary has declared the vote illegal and it is unclear whether only some or all of the voting stations will be open. If the referendum takes place, it likely will see a low participation rate and a largely separatist majority among those who decide to vote (see *Spain: Catalonia Referendum: What to expect*, 29 September 2017). The most likely event following the referendum is for the regional government to call elections, likely inducing some volatility in local bonds markets (see *EGB Market Outlook: Currency to force a dovish ECB*, 28 September 2017).

Further political risks could weigh on GBP this week

The UK's Conservative Party Conference introduces downside risks for GBP. While attempts to extend the status-quo relationship to the transition period seemed to bode well for the currency, the Conference could provide a chance for a reassessment of the relative strengths of the leadership members, adding headline risks (see *GBP: Curb your enthusiasm*, 14 September 2017). Over the medium term, we expect a weak and volatile GBP as it remains caught between upside-limiting Brexit negotiations and the downside-limiting BoE.

Iron ore and the USD should be bigger drivers for the AUD rather than RBA policy

A few central banks will hold policy meetings this week but we expect no surprises. The RBA (Tuesday) is unlikely to be a significant driver of the AUD, as the Board will likely continue to advocate patience in policy normalization. Although the RBA has maintained a cautiously optimistic bias on growth in recent months, low wage growth and worries of the impact of higher rates on household debt servicing will likely keep it restrained. Instead, we think movement in the USD and commodity prices will be more important drivers of the AUD, with industrial surprises from China potentially introducing further risks for iron ore and the currency.

RBI likely on hold after unfavorable developments

Finally, we expect the RBI and NBP to keep policy settings unchanged (both Wednesday). In India, developments since the August cut, including higher inflation and rupee weakness, favor a cautious stance. While INR still offers high carry, slowing growth, and indications that the government may loosen its fiscal target add downside risks for the currency.

Trade for the week ahead: Buy a 1-week EURGBP strangle

Conservative Party Conference and Catalan referendum should see an uptick in EURGBP vol

The UK's Conservative Party Conference will likely introduce headline downside risks to GBP (see *GBP: Curb your enthusiasm*, 14 September 2017), as party leaders seem to hold heterogeneous views within the Party around the future relationship with the EU. The EUR will also likely be volatile early in the week in the aftermath of the Catalan referendum. Yet near-term EURGBP volatility looks surprisingly low. We recommend buying a 1-week (expiry: 6 October 2017) EURGBP strangle (spot ref: 0.8815, put strike: 0.8750, call strike: 0.8900), for a total cost of 25.5bp (vega: EUR 0.076%).

This trade recommendation is valid from the Wellington open Monday morning to the New York close Friday.

What to look for this week

USD: Move along, nothing to see here

The recent boost to USD coming from the tax plan is likely to be short lived

The GOP finally unveiled its framework for tax cuts last week. The outline is similar to previous GOP proposals, but left all the relevant details to be worked out by Congress. The framework now moves to the Committee level, where the specifics should take shape in the coming weeks. The plan cuts corporate tax rates, limits deductions, eliminates AMT and estate taxes, and provides no indications on how these cuts would be paid for. As such, it is likely to face opposition from fiscal hawks, and it will have to rely heavily on optimistic dynamic scoring assumptions to fulfil reconciliation rules. The USD's recent resurgence on the back of Fed hawkishness and the tax plan is likely to take a break as market participants wait for the release of details and the evolution of political consensus to assess the likelihood of tax cuts' approval.

Nonfarm payrolls will be distorted by the hurricanes

The main data releases are the September employment report and ISM PMIs. We forecast nonfarm payrolls to have increased 75k (consensus: 70k) and expect average hourly earnings to rise by 0.3% m/m and 2.6% y/y, while average weekly hours remain unchanged at 34.4. This month's data will reflect the effect of the hurricanes that hit the US and will provide little information about the underlying state of the job market. We forecast the ISM manufacturing to fall to 56.8 in September and the non-manufacturing index to index to be broadly unchanged at 55.0. Chair Yellen will speak at the annual Community Banking conference in St. Louis, but we do not expect new monetary policy content at this stage, following her most recent speeches. Other Fed speakers this week include Kaplan, Williams, Harker, George, Bostic, Dudley and Rosengren.

EUR: German coalition building continues

Support from the real economy likely to battle resurgent political risks for the EUR

The EUR downside seems bounded by the continued, solid pace of the real economy. While the recent strength of the currency likely will reduce net exports, we revised our forecasts for the euro area for annual GDP growth to 2.2% in 2017 (see *Economic Outlook: And the beat goes on*, 28 September 2017). However, the German election likely will result in the formation of a Jamaica coalition – composed by CDU/CSU, FDP, and Gruene – that would reduce the prospects for euro area reform (see *German election - Economics & Strategy View: Welcome to Jamaica*, 25 September 2017). In the very near term, the German coalition formation process is likely to add only limited two-sided volatility to the EUR.

Italy is the next theater for the Politics of Rage

Over the medium term, however, *The Politics of Rage* (2 March 2017) continues to gain momentum across European elections, limiting a large EUR upside appreciation. Indeed, contrary to the Dutch, French, and German elections, where 'alternative' parties were never in realistic contention to form a government, there is a non-negligible risk that the anti-euro party Five Star Movement (M5S) could lead an anti-establishment coalition to secure a parliamentary majority (see *Euro Themes: Italy: In search of governability*, 27 September 2017).

The Catalan referendum, if it happens, likely will have limited consequences for the EUR

This week, the vote on Catalan independence (Sunday) could add volatility to the EUR but is unlikely to result in large EUR downside. The Constitutional Court has declared the referendum illegal and it is unclear whether it will happen at all. The likelihood of independence in the near term is very low, but events over the weekend could certainly provide momentum for further independence discussions in the coming quarters (see *Update: Euro themes: Spain: The Catalonia issue*, 14 September 2017). The Spanish headline risks will start a week light on data releases.

GBP: Conservative Party Conference

The Conservative Party Conference adds short-term risks to GBP

The Conservative Party Conference introduces two-sided political risks to GBP. Investors will be on the outlook for Tory Brexiteers to challenge PM Theresa May's view that the UK wants to be Europe's "strongest friend and partner", as suggested in Florence (see *A new era of cooperation and partnership between the UK and the EU*, 22 September 2017). Last week, the fourth round of Brexit negotiations were judged positively by both sides but did not introduce further substantial progress, paving the way for PM May to seek to appease the Brexiteers while keeping the negotiations alive. Concerns about economic activity returned last week after data disappointed, including a downward revision to Q2 GDP. This week, we expect the manufacturing and services PMIs to move down to 56.2 and 53.1, respectively (previous: 56.9 and 53.2).

JPY: Election update

USDJPY likely to be supported in the near term due to snap election

PM Abe dissolved the lower house of parliament on 28 September and the snap election is expected to be held on 22 October. Although, PM Abe set the election victory threshold at 233 seats (50%) for the LDP-NKP coalition, the focus will be whether the coalition can secure a stable majority, two-thirds, which is required for constitutional amendment. LDP's approval rate has increased in September when North Korea tension escalated but the ruling party might face tough battle depending on the newly formed Party of Hope's ability to cooperate with other opposition parties. The Party of Hope merged with the Democratic Party (the largest opposition) last week, which raises risks to the widely-expected (at least until recently) scenario of LDP's retention of a simple majority and the two-thirds as the default choice. While LDP's victory could lead to near-term yen depreciation (extent of which could however be limited without further catalyst), LDP loss could lead to significant political uncertainty with diverse market implications.

We revised up our near-term USDJPY forecast slightly, but medium-term JPY appreciation story remains the same

We revised up our near-term USDJPY outlook slightly in the recent Global Outlook (see *Rotate funding as EM outperforms*, 28 September 2017). Greater expectations for the Fed's December rate hike and the upcoming snap election in Japan could support USDJPY in the near term and we now forecast the pair to trade around 110 into Q1 18 (versus 108 in our previous forecast). However, risks are still tilted to the downside and we continue to look for medium-term JPY appreciation given the extended undervaluation of the JPY despite Japan's closed output gap, BoJ's potential step towards policy normalization in 2018 and reversal of long-term USD appreciation trend.

BoJ Tankan will be highlighted

In terms of economic data releases in Japan this week, the September BoJ Tankan survey of Japanese enterprises (Monday and Tuesday) will be watched. We expect the large manufacturer DI to improve to +19 in September from +17 in June (consensus: +18), while the large non-manufacturer DI holds at +23(consensus: +24). This would indicate more improvement than manufacturers and non-manufacturers themselves predicted at the time of the June survey (+15 and +18, respectively). The key highlight of the September Tankan will be the Inflation Outlook of Enterprises (Tuesday). If the September Tankan fails to reveal a clear improvement in corporate inflation expectations, we believe the BoJ could revise down its inflation forecasts once again in the October Outlook Report. This, in turn, could reinforce perceptions that the BoJ remains far from exiting its current policies.

CAD: Data dependency

BoC will be very cautious with future interest rate decisions

The loonie underperformed last week after BoC Governor Poloz reiterated that there is no predetermined path on hiking rates and highlighted data dependency, as we had expected. Market pared expectations of an October hike, and now only prices 17bp for December. We expect the next BoC move in Q1 18. The bank will be closely monitoring the evolution of economic capacity, wage growth, inflation and the effect of interest rates in the economy, given the high level of household debt. The July GDP print was flat, in line with our forecast, foreshadowing a moderation in activity after the strong growth in H1. Deputy Governor Leduc will speak on "Firm creation and productivity" on Tuesday.

The loonie is likely to be driven by USD sentiment and later in the week by the dual employment report. Attention will be paid to the average wage earnings, which stood at a low 1.8% y/y last month. Other data includes Markit manufacturing PMI, international merchandise trade and Ivey PMI.

SEK, NOK, CHF: Swiss reserves to suggest no evidence of SNB intervention

No evidence of SNB intervention from Swiss FX reserves data

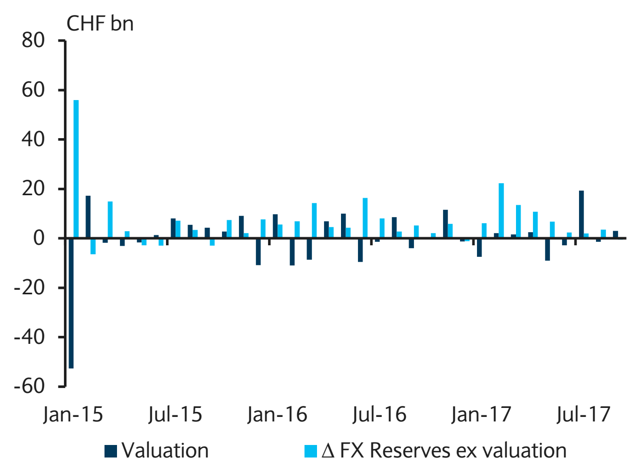
Swiss CPI has seen a modest upside resurgence since the beginning of the year and we expect this week's print to point to further progress, amid continued weakness in the CHF. This trend is likely to continue as we expect the SNB to remain expansionary for the foreseeable future (see *SNB on hold, no change on currency concerns*, 14 September 2017). The month of September was not a particularly active one for the SNB according to our estimates. We forecast September FX reserves data (Friday) to increase c.CHF2.3bn to CHF719bn, due to valuation effects (Figure 2).

We expect the Riksbank to wait for the ECB's next move before committing to a path for its QE program

In Sweden, the General Council of the Riksbank last week extended Governor Ingves' mandate for another five years, and First Deputy Governor af Jochnicks' for another six years, ensuring a continuity of monetary policy. The announcement, together with the hearing at the Riksdag and the minutes of the September 2017 Riksbank meeting, suggest the continuation of a dovish stance, and as a result we expect the Riksbank to wait until the ECB's policy path is revealed before revealing plans around its QE program. This change in view adds upside risks to our year-end EURSEK forecast (see *SEK: Ingves vol 3: Patient stimulus withdrawal*, 29 September 2017).

FIGURE 2

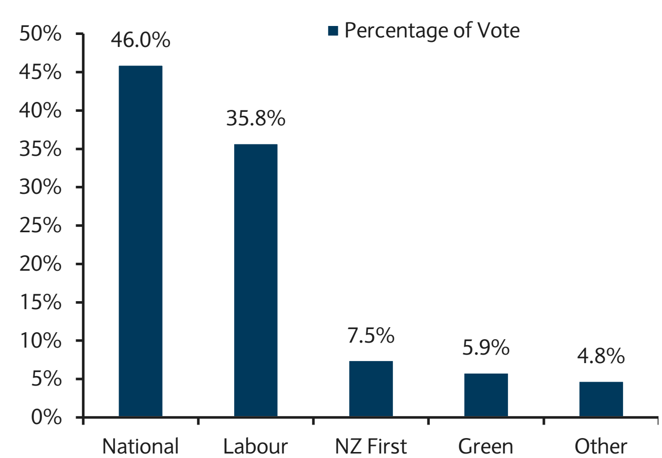
No evidence of intervention from SNB's upcoming FX reserves data



Source: Bloomberg, Haver Analytics, SNB, Barclays Research

FIGURE 3

New Zealand 2017 general election preliminary result



Source: NZ Electoral Commission, Barclays Research

AUD, NZD: Uncertainty extended on coalition government outcome; RBA less of a driver than USD and commodity prices

The NZ First Party is deferring decision on coalition choices until after 7 October

NZD came under pressure last week, after the preliminary count of the 2017 General Election held on 23 September showed that the ruling National Party had won the most votes (Figure 3), but not enough to form a government without the support of other parties. Political uncertainty is likely to remain elevated in the coming weeks, with both the National Party and Labour Party going into negotiations with other parties to try to form a coalition government. With 7.5% of the votes, the New Zealand First Party is now widely seen as the "kingmaker". But Winston Peters, leader of the NZ First Party, has said that he is in no hurry to pick a side, and would wait for the announcement of the final results by the Electoral Commission on 7 October before making a decision. We continue to closely monitor coalition talks to gauge the potential outcomes. History suggests that the NZD could remain volatile in the post-election coalition negotiation period.

We retain our short AUDNZD option expression

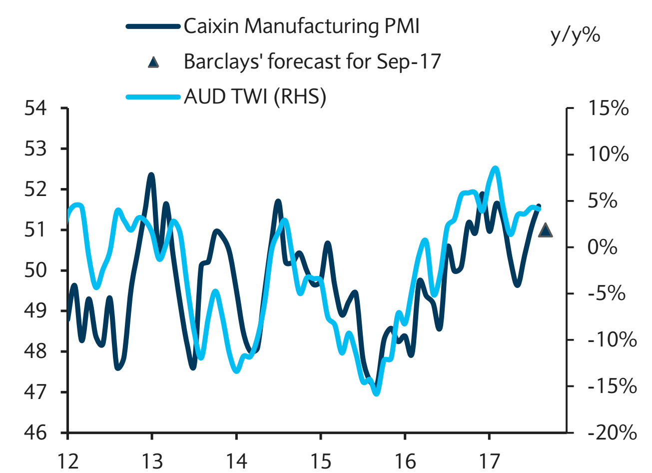
While we continue to think that the election outcome holds few significant immediate implications for the economy or monetary policy, recent price action and the likely less growth negative immigration policies of any National-NZ First coalition suggest that the NZD could strengthen should the National Party be successful in forming a coalition government. We retain our short AUDNZD option expression, given its limited downside. We bought a 1-month (expiry: 6 October 2017) ATMF (strike: 1.1104) RKO (1.0690) AUDNZD put for 62bp and this structure can be sold for 54bp currently (see *New Zealand Election 2017: Economics and FX Strategy: Concern overdone*, 7 September 2017).

We think movements in the USD and commodity prices will be more important drivers of the AUD than the RBA

In Australia, we do not see the RBA policy statement (Tuesday) as a significant driver of the AUD this week, as the Board will likely continue to advocate patience in policy normalization, even though the commentary from the RBA could be more upbeat given the ongoing improvement in the labour market. Although the RBA has maintained a cautiously optimistic bias on growth, we think there is no urgency on the part of the RBA to raise rates, given low wage growth and worries of the impact of higher rates on household debt servicing. Rather, we think movements in the USD and commodity prices would be more important drivers of the AUD. Chinese government's forceful action to address overcapacity and pollution problems lately is likely to weigh on industrial activity and business outlook. Indeed, commodity prices could pose downside risk for AUD going forward (Figure 4). Our commodities analysts think copper and iron ore are at risk of a further correction due to a few factors. First, China's 19th Communist Party Congress raises the risk of "demand side"

FIGURE 4

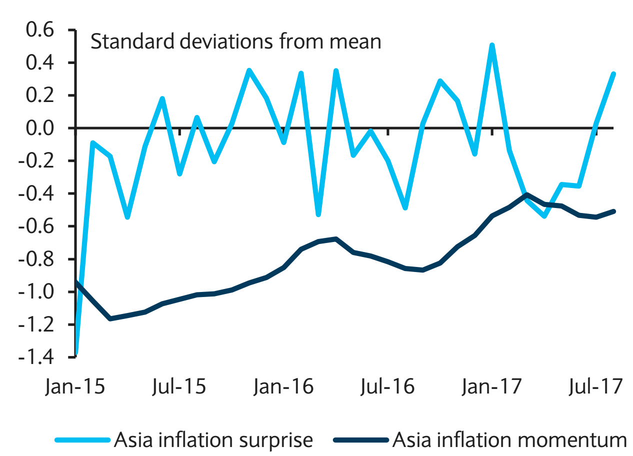
China's tighter environmental regulations pose downside risks to industrial activity, commodities and the AUD



Source: Haver Analytics, Barclays Research

FIGURE 5

Inflation in Asia has been surprising to the upside



Source: Bloomberg, Barclays Research

rationalization in the coming quarters, damping downstream demand for steel, copper, and iron ore. Second, the macro economy is showing signs of cooling off within China, with the real estate sector in particular looking vulnerable (see *Metals Monitor Special Report: Prepare for Icarus's descent*, 25 September 2017).

NJA: We expect RBI on hold

NJA currencies weakened against USD

Asian currencies followed the paths of their G10 and EM peers in weakening against the USD last week, as optimism over the US tax plan and re-pricing of the Fed's rate path buoyed the greenback. Nonetheless, we forecast USD weakness in the next quarter or two, mainly versus EM, including NJA, currencies due to a robust global economic backdrop and high real yield differentials (see *FX & EM Macro Strategy Outlook: Rotate funding as EM outperforms*, 28 September 2017).

We expect RBI on hold

We expect the RBI on hold, after having cut its policy rate in August, and for the MPC to maintain a nuanced stance given its repeated emphasis on a 4% CPI target in recent statements. Developments since the cut, including higher inflation and rupee weakness, favour the Bank remaining on hold. INR fell to its weakest level since March amid indications that the government could loosen its fiscal target and recent softness in data, although the latter is likely a consequence of demonetisation, a one-off factor. We think further rupee weakness could provide opportunities to long INR, which we view as a resilient currency with attractive carry (see *India Quarterly Outlook: Fears of structural dip appear exaggerated*, 29 September 2017).

Inflation data to generally show moderation in price pressures as overall trajectory remains upward

We expect Thailand CPI to print higher on an increase in fuel prices and normalization in food prices (Monday; Barclays: 0.44% y/y, consensus: 0.50%, last: 0.32%). Meanwhile inflation is expect to print lower in Indonesia (Monday; Barclays: 3.7% y/y, consensus: 3.7%, last: 3.8%), Taiwan (Friday; Barclays: 0.5% y/y, consensus: 0.9%, last: 1.0%) and the Philippines (Thursday; Barclays: 3.0% y/y, last: 3.1%) due to food prices. However, inflation surprises are becoming less negative (Figure 5) and in some cases like India, China and Korea, have actually come in stronger than market expectations. As negative inflation surprises diminish, we see limited room for easing by EM central banks, and expect most NJA central banks to deliver small policy hikes in 2018 (see *Emerging Markets Overview: Uncomfortable Goldilocks*, 29 September 2017).

MXN: A test of resilience

Banxico on hold; we recommend buying real rates

Last week, Banxico kept the policy rate unchanged. The board sees the possible effects of the recent earthquakes and hurricanes on inflation and activity as moderate and temporary, and medium-term expectations should not be affected. The risks of NAFTA negotiations taking longer than planned were also discussed (see *Mexico monetary policy: Neutral tone*, 28 September 2017). We expect Banxico to remain on hold at least until the elections are over. Political risk premia could build in FX and local rates if AMLO were to improve in opinion polls. The resolution of political uncertainty after the elections is likely to bring a reduction of risk premia, inducing the market to price deeper rate cuts, reflected in a lower real rate. We recommend buying the 2y Udibono (June 19s) as current real rates are above neutral (see *Mexico Quarterly Outlook: A test of resilience*, 29 September 2017).

The MXN was under pressure following a resurgence of the dollar driven by a more hawkish Fed and expectations on the US tax plan. With enthusiasm about US fiscal policy likely dwindling down, MXN should remain relatively stable. We forecast USDMXN to stay at 18.00 by year-end, but volatility could increase as the elections get closer. We recommend buying a USDMXN 12m vs. 9m calendar put spread (buy 12m vs. sell 9m) as MXN should recover after the elections.

USD and EM sentiment likely to drive MXN

The week is light on data, and Markit manufacturing PMI and July gross fixed investment are the main releases. We expect fixed investment to decline 1.5% in seasonally adjusted terms during July.

BRL: One ballot to judge them all

New charges against President Temer will be voted in a single ballot

New charges against President Temer were formally filed and will be discussed in the Lower House Committee for Constitution and Justice Affairs. The voting on the chargers will be through a single ballot, meaning that all the accusations will be grouped together, making the process faster. Even so, the legal procedures in Congress will take time and political capital away from progress in the reform effort. We think the external environment remains favorable, and still-high carry supports the currency in the near term. But we remain skeptical on reform progress as the 2018 elections come closer. We forecast USDBRL to reach 3.30 by Q3 18.

IPCA should remain stable at the recent lows

On the data front, we expect September IPCA to remain stable at the bottom of 2.5% y/y (Friday). We anticipate industrial production to show a slight monthly increase of 0.1% m/m sa in August. Low inflation should allow BCB to keep its easing cycle going. We forecast the Selic rate to reach 7% this year and expect the BCB to stay on hold for most of 2018. We recommend receiving the Jan 20 vs. paying the Jan 19 DI swap as the market is pricing a steep hiking cycle in 2018-19 (see *Brazil Quarterly Outlook: More tunnel than light*, 29 September 2017).

EMEA: NBP on hold, Turkish and Russian inflation in focus

Unfavorable short-term Turkish inflation dynamics expected by markets

Inflation dynamics in Turkey (Tuesday) and Russia (Wednesday) will be the market's focus this week. We expect near-term Turkish inflationary dynamics to remain unfavourable given the recent EUR strength and emerging price pressures from the acceleration of growth. Yet, an increase is expected by us and markets (Barclays: 11% y/y; consensus: 11.1% y/y) and should not be a big market mover for the TRY. We remain broadly constructive on the lira given compelling vol-adjusted carry and less stretched positioning following recent USD strength. We expect CBT liquidity to be kept tight at least until Q1 18 and expect investors to re-engage in long TRY positions. We recommend a basket of long TRY and RUB vs. short HUF (see *Turkey Quarterly Outlook: Sweet and sour*, 29 September 2017) given persistently dovish NBH stance and the HUF's compelling funding properties (Figures 6 and 7).

Record-low Russian inflation highlights high real rate advantage

On the contrary, Russian inflation dynamics continue to look favourable, further highlighting the country's real rate advantage over other high yielding EMs. The combination of seasonal weakness in food inflation and weak underlying price pressures likely kept headline CPI at record lows of 3.3% (Wednesday; consensus: 3.2 %y/y). We remain short CADRUB spot. Our forecast of 150bp of cuts over the next year augurs for some further steepening in the front-end of the xccy swaps curve but we think stronger CBR forward guidance on the magnitude of the easing cycle is needed and may not be forthcoming (see *Russia Quarterly Outlook: As good as it gets*, 29 September 2017).

NBP to look through recent spike in inflation – we like long Sep 22 PolGBs

Finally, we and the consensus expect the NBP to keep policy unchanged (Wednesday). Last week's upside inflation surprise will likely be short-lived and we expect the NBP to look through it. Indeed, the NBP has repeatedly re-iterated that it will look through external price level shocks. This is one of the reasons policy rates were not lowered in response to food and energy price induced deflation (see *Poland: NBP to look through higher inflation*, 29 September 2017). We continue to see limited scope for inflationary pressures and expect NBP policy to remain unchanged over the forecast horizon. We recommend fading the recent weakness in PolGBs through long Sep 22 PolGBs (see *Poland Quarterly Outlook: Spare capacity eroding slowly*, 29 September 2017).

FIGURE 6

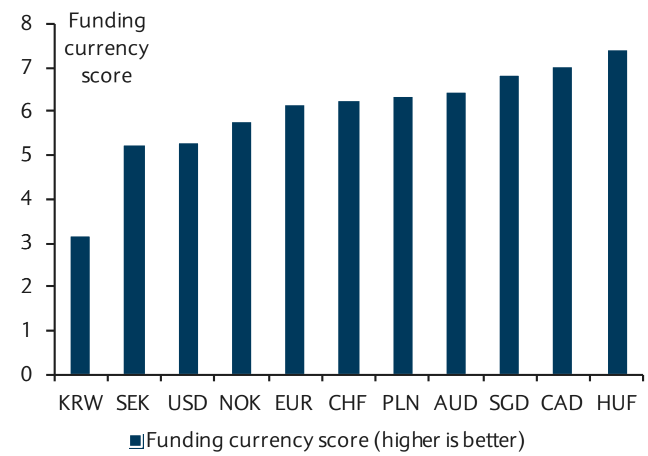
A framework for determining attractive funding currencies…

	3m realized vol (2y ave)	3m implied carry vs. USD (%)	BEER misvaluation (# SDs)	3m RR adjusted for carry (2y z-score)	Sens. of long EM basket vs. CCY to risks
HUF	10.0	-1.8	1.7	1.4	5.0
PLN	9.6	-0.2	0.6	1.7	5.8
SGD	6.8	-0.4	0.8	0.3	6.3
KRW	10.3	-0.4	-0.5	-4.4	4.8
EUR	10.2	-1.9	-0.2	1.6	4.8
AUD	8.0	0.5	1.5	1.0	8.3
CAD	7.2	-0.2	0.0	1.3	8.3
CHF	10.6	-2.3	1.7	0.2	5.3
SEK	10.0	-2.0	-1.9	1.2	5.3
NOK	9.1	-0.8	-1.7	1.2	6.0
USD	8.4	0.0	1.1	0.0	6.5

Source: Bloomberg, Barclays Research

FIGURE 7

…allows us to come up with relative ranks (higher score is better)



Note: Score is calculated by averaging ranks on the 2y average level of 3m realized vol for long EM basket (equal weighted BRL, MXN, TRY, RUB, ZAR, IDR and INR) funded in different currencies, the current level of 3m carry implied by forwards, current overvaluation on BEER basis, current risk reversals adjusted for carry on a 2y z-score basis and sensitivity of the short funding currency long EM basket to the particular events. Source: Bloomberg, Barclays Research

Data calendar

Sunday 01 October	Period	Previous	Forecast	Consensus
Portugal: Local elections				
Spain: Catalonia referendum scheduled				
UK: The Conservative party holds its annual party conference in Manchester (to 04/10)				
Korea: Exports, % y/y	Sep	17.4	26.0	25.0
Peru: CPI inflation, % m/m	Sep	0.67	-	0.01
Australia: AIG/PWC manufacturing PMI, index	Sep	59.8	-	-
Japan: Tankan DI for mftg/non-mftg, index	Q3	17 / 23	19 / 23	18 / 24

Monday 02 October	Period	Previous	Forecast	Consensus
E19: ECB Executive Board Member Praet speaks at the MMF Monetary and Financial Policy Conference 2017 in London, UK				
US: Dallas Fed President Kaplan (FOMC voter) speaks in El Paso, TX				
South Africa: Naamsa Vehicle sales, % y/y	Sep	6.7	-	-
Australia: TDMI inflation gauge, % m/m	Sep	0.1	-	-
Thailand: CPI - headline/core, % y/y	Sep	0.32 / 0.46	0.44 / 0.49	0.5 / 0.5
Indonesia: CPI - headline/core, % y/y	Sep	3.8 / 3.0	3.7 / 2.8	3.7 / 3.0
Japan: Auto sales, % y/y	Sep	4.7	-	-
Russia: Manufacturing PMI, index	Sep	51.6	52.0	52.2
Sweden: Manufacturing PMI, index	Sep	54.7	-	-
Switzerland: Retail sales, % y/y	Aug	-0.7	-	-
Switzerland: Manufacturing PMI, index	Sep	61.2	-	60.3
E19: "Final" manufacturing PMI, index	Sep	58.2 P	58.2	58.2
UK: Manufacturing PMI, index	Sep	56.9	56.2	56.2
South Africa: Barclays Manufacturing PMI, index	Sep	44.0	-	-
E19: Unemployment rate, %	Aug	9.1	-	9.0
Singapore: PMI, index	Sep	51.8	-	-
Singapore: Electronics PMI, index	Sep	53.2	-	-
US: Final Markit US manufacturing PMI	Sep	53.0 P	-	-
US: ISM manufacturing index	Sep	58.8	56.8	57.5
US: Construction spending, % m/m	Aug	-0.6	0.7	0.4

Tuesday 03 October	Period	Previous	Forecast	Consensus
Romania: Interest rate announcement, %	**Oct**	**1.75**	**1.75**	**1.75**
Australia: RBA cash rate, %	**Oct**	**1.50**	**1.50**	**1.50**
US: Fed Governor Powell (FOMC voter) speaks at a Reuters Conversation on U.S. Financial Regulation event in Washington				
US: Vehicle sales, mn saar	Sep	16.03	17.60	16.60
Australia: HIA new home sales, % m/m	Aug	-3.7	-	-
Australia: Job advertisements, % m/m	Sep	2.0	-	-
Australia: Building approvals, % m/m	Aug	-1.7	-	1.0
Turkey: CPI, % y/y	Sep	10.7	11.0	11.1
E19: PPI, % m/m (y/y)	Aug	0.0 (2.0)	-	0.1 (2.3)
Brazil: Industrial production, % y/y	Aug	2.5	2.5	4.8
New Zealand: House prices, % y/y	Sep	4.8	-	-
Australia: AIG/CBA services PSI, index	Sep	53.0	-	-

Wednesday 04 October	Period	Previous	Forecast	Consensus
Poland: Repo rate, %	**Oct**	**1.50**	**1.50**	**1.50**
E19: ECB Governing council non-monetary policy meeting in Frankfurt, Germany				
India: RBI repo rate, %	**Oct**	**6.00**	**6.00**	**6.00**
India: RBI reverse repo rate, %	**Oct**	**5.75**	**-**	**5.75**
E19: ECB Governing council non-monetary policy meeting in Frankfurt, Germany				
US: Fed Chair Yellen (FOMC voter) speaks on Community Banking in St. Louis, MO				

Wednesday 04 October (continued)	Period	Previous	Forecast	Consensus
Russia: CPI, % y/y (to 05/10)	Sep	3.3	3.3	3.2
New Zealand: Commodity prices, % m/m	Sep	-0.8	-	-
Sweden: Services PMI, index	Sep	55.4	-	-
South Africa: Standard Bank PMI, index	Sep	49.8	-	-
E19: "Final" services PMI, index	Sep	55.6 P	55.6	55.6
E19: "Final" composite PMI, index	Sep	56.7 P	56.7	56.7
UK: Services PMI, index	Sep	53.2	53.1	53.1
UK: Composite PMI, index	Sep	54.0	-	-
E19: Retail sales, % m/m (y/y)	Aug	-0.3 (2.6)	-	0.3 (2.6)
US: ADP private payrolls, chg, k	Sep	237	-	138
Mexico: Gross fixed investments, % y/y	Jul	-0.9	-3.2	-
US: ISM non-manufacturing index	Sep	55.3	55.0	55.1
Uruguay: CPI inflation, % m/m	Sep	0.77	-	-
Colombia: PPI inflation, % m/m	Sep	0.17	-	-

Thursday 05 October	Period	Previous	Forecast	Consensus
E19: ECB Executive Board Members Praet and Cœuré speak at 7th ECB conference on CESEE in Frankfurt, Germany				
E19: ECB minutes	Sep			
US: San Francisco Fed President Williams (non-voter) speaks in St. Louis, MO				
US: Philadelphia Fed President Harker (non-voter) speaks at Investing in America's Workforce Conference in Austin, TX				
US: Kansas City Fed President George speaks at Investing in America's Workforce Conference in Austin, TX				
Australia: Trade balance, AUD mn	Aug	460	1000	870
Australia: Retail sales, % m/m	Aug	0.0	0.3	0.3
Philippines: CPI - headline/core, % y/y	Sep	3.1 / 3.0	3.0 / 2.9	3.2 / 3.1
Switzerland: CPI, % m/m (y/y)	Sep	0.0 (0.5)	-	0.2 (0.6)
Sweden: Industrial production, % m/m (y/y)	Aug	-0.9 (5.3)	-	-0.8
Sweden: Service production, % m/m (y/y)	Aug	1.5 (4.1)	-	-
Canada: Int'l merchandise trade, $ bn	Aug	-3.0	-	-
US: Initial jobless claims, k (4wma)	Sep-30	272 (278)	265 (270)	-
US: Trade balance, $ bn	Aug	-43.7	-42.6	-43.4
US: Factory orders, % m/m	Aug	-3.3	0.9	0.9
US: Durable goods orders, % m/m	Aug	1.7	-	-
US: Durable goods ex transportation, % m/m	Aug	0.2	-	-
US: Core capital goods orders, % m/m	Aug	0.9	-	-
Australia: AIG construction PCI, index	Sep	55.3	-	-
UK: REC Permanent Staff Placements, index	Sep	58.0	-	-
UK: REC Permanent Staff Salaries, index	Sep	61.5	-	-

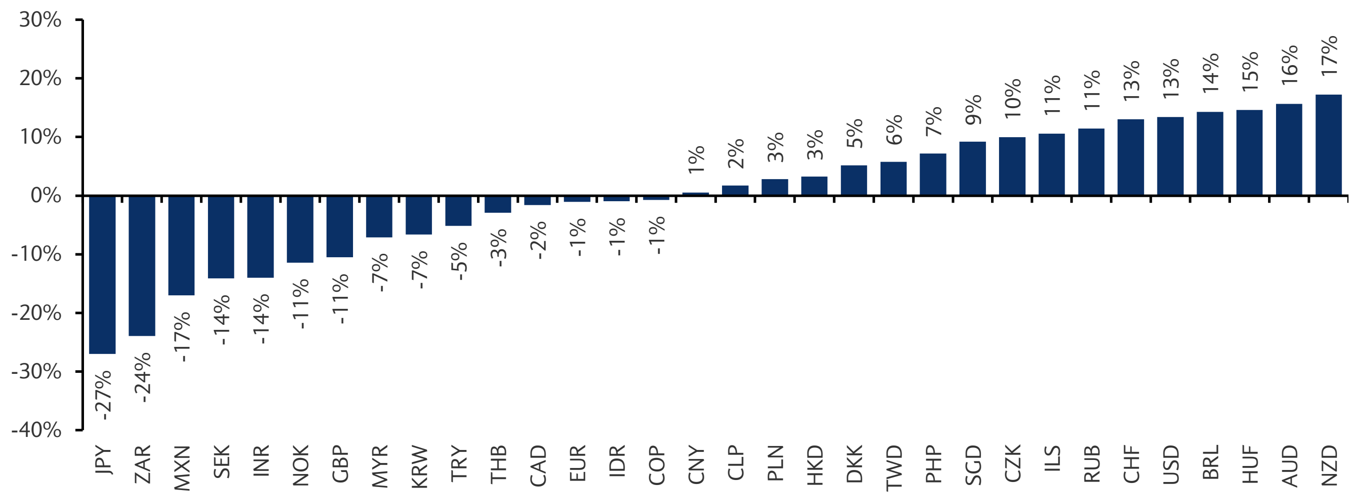
Friday 06 October	Period	Previous	Forecast	Consensus
US: Atlanta Fed President Bostic (non-voter) speaks at Investing in America's Workforce Conference in Austin, TX				
US: New York Fed President Dudely (FOMC voter) speaks in New York				
US: Dallas Fed President Kaplan (FOMC voter) speaks at Investing in America's Workforce Conference in Austin, TX				
US: St. Louis Fed President Bullard (non-voter) speaks on Economy in St. Louis, MO				
Indonesia: Foreign Reserves, $ bn	Sep	128.8	130	-
Japan: Wages per worker, % y/y	Aug	-0.6	0.3	0.5
Colombia: CPI inflation, % m/m	Sep	0.14	-	0.18
Malaysia: Exports, % y/y	Aug	30.9	18.0	23.6
Germany: Factory orders, % m/m (y/y)	Aug	-0.7 (5.0)	0.0 (3.9)	0.7 (4.7)
Norway: Manufacturing production, % m/m (y/y)	Aug	1.9 (1.4)	-	-0.7
Taiwan: CPI, % y/y	Sep	1.0	0.5	0.9

Friday 06 October (continued)	Period	Previous	Forecast	Consensus
Brazil: IPCA inflation, % m/m	Sep	0.19	0.09	0.08
Canada: Net change in employment, k	Sep	22.2	-	-
Canada: Unemployment rate, %	Sep	6.2	-	-
Canada: Participation Rate, %	Sep	65.7	-	-
US: Nonfarm payrolls, chg, k	Sep	156	75	75
US: Private payrolls, chg, k	Sep	165	70	53
US: Unemployment rate, %	Sep	4.4	4.4	4.4
US: Average hourly earnings, % m/m (y/y)	Sep	0.1 (2.5)	0.3 (2.6)	0.3 (2.6)
US: Average weekly hours	Sep	34.4	34.4	34.4
Canada: Ivey PMI, index	Sep	56.3	-	-
US: Wholesale inventories, % m/m	Aug	1.0	-	-

Source: Reuters, Market News, Bloomberg, Barclays Research

Currency valuation

Percent deviation from BEER (+ overvaluation/ - undervaluation)



Note: Spot data are as of 29 September 2017. For the details of our BEER model, see *Currency valuation from a macro perspective*, 14 June 2011.
Source: Bloomberg, Barclays Research

Trade for the week ahead performance

We provide the performance of our weekly trade recommendations year-to-date and since 2016 in Figure 8.

FIGURE 8
Trade for the week ahead performance

	TWA trade (year to date)	Since 2016
Average weekly return	0.22%	0.55%
St. Dev.	0.94%	1.64%
Information Ratio (annualized)	1.73	2.41
Hit Ratio	58.3%	65.8%
Average gain	0.8%	1.3%
Average loss	0.6%	0.9%
Max Weekly Gain	2.86%	9.60%
Max Weekly Loss	-2.15%	-3.17%

Source: Barclays Research

Barclays Live Tools

Link to Oasis

Oasis allows you to identify opportunities and themes in the FX volatility markets, view historical vol data and term structures, and perform backtests on vanillas to payout of a multi-leg option strategy.

Link to VolT

Volume Trends (VolT) helps identify and analyse volume and positioning trends for spot FX volumes.

Link to TRENDS

TRENDS is a tool designed to provide a quick snapshot of the technical condition of the FX market as well as back-test specific technical indicators.

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