



بنك الإمارات دبي الوطني  
Emirates NBD

## FX Insights

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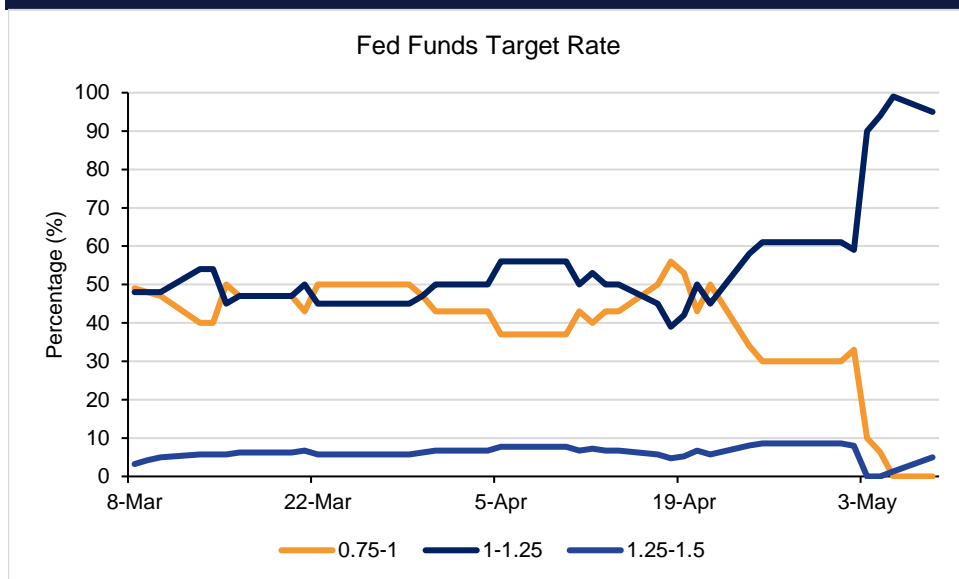
# USDJPY to 116+ before June?

After many constructive changes to market confidence over the last 30 trading days, the USD has appreciated 1.58% against JPY, USDJPY rising from 110.90 to 112.64. While USDJPY remains a proxy for risk appetite and hence vulnerable to further risk off events, it is currently trading at a crucial level, presenting great upside opportunity with handsome risk vs reward metrics.

## Fundamentals are supportive

The latest hard economic data out of the US have outperformed expectations and support the FOMC projections of two additional hikes over the remainder of 2017. April's non-farm payrolls report showed 211,000 new jobs were created, while the unemployment rate fell to a near decade low of 4.4%. In addition, the broader U-6 measure of unemployment fell to 8.6%, another near decade low prompting swap traders to price in a 100% chance of the Federal Reserve raising interest rates at their next meeting on June 14<sup>th</sup>. These renewed expectations of faster than initially expected tightening firms the Fed's divergence from the BOJ, who are expected to maintain the existing accommodating framework of monetary policy for the foreseeable future. This will put upward pressure on the pair.

## Odds of June hike rise to 100% according to SWAP traders



Source: Bloomberg, Emirates NBD Research.

While the pair was previously under pressure from geopolitical factors, Macron's victory in the French Presidential elections puts to rest some concerns over this major risk event.

## Risks posed by data are limited

Risks before the Fed meeting include the possibility of softer than expected US consumer price inflation data in April. The consensus among Bloomberg polled analysts is that the data due for release on the May 12 will show a 2.3% y/y increase. While a miss is always possible, a rebound in gasoline prices during this period reduces the risks of softer than expected data.

## Technical analysis remains USD supportive...

**Traditionally USD strength has always had a blatant positive correlation with US yields.** The last few weeks have seen this relationship weaken as since mid-April, 2 year generic US government bond yields have risen by over 12 bps, while the dollar index has declined almost 1.5%. This decline can be explained by an appreciation of the Euro, which makes up 57.6% of the index weighting rather than being a reflection on USD strength alone. **Analysis of the moving average convergence divergence (MACD) trend indicator on generic US 2 year yields points to further gains, looking bullish above zero which leads us to expect further gains for the dollar and adds to our conviction on the USD gaining against JPY.**

## ...particularly against JPY

Looking directly at USDJPY, technical analysis of the pair reveals many key technical developments over the previous two weeks. As can be seen below, **the pair has managed to break above the 200 day (109.27) and 50 day (111.70) moving averages**, before finding some resistance at the 100 day moving average (113.16). **In addition the pair is testing the resistive trend line (112.70) of the daily downtrend that has been in effect since January 2017.**



Source: Bloomberg, Emirates NBD Research.

## Expectations for the pair

**A sustained break of 112.70 is likely to be followed in quick succession by a break of the 100 day moving average (113.16) and 50% 2017 YTD Fibonacci retracement (113.36).** Closing above these levels increases the risk for further appreciation for the pair and we would expect a test of the one year Fibonacci retracement of 114.02 to be the next key level of resistance. Should the pair successfully surmount this level, we see an advance towards our Q2 forecast of 116 being a realistic scenario. On the other hand, a close below 111.30 would negate our view for the aforementioned scenario.

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