



بنك الإمارات دبي الوطني
Emirates NBD

Weekly
10 February 2019

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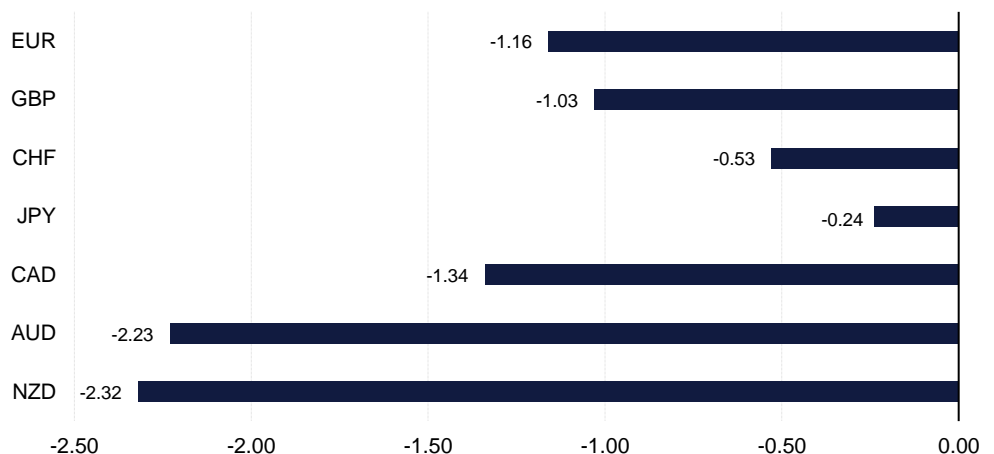
FX Week

Markets have been relatively quiet over the last week as Chinese New Year holidays have kept investors sidelined, combined with a relative dearth of economic data. Underpinning sentiment the most, however, was the message from the Fed a fortnight ago that it will remain 'patient' and hinting that its tightening cycle might be coming to an end. Other central banks have also suggested more dovish outlooks, including the Bank of England, the Reserve Bank of Australia and the Reserve Bank of India which last week cut interest rates by 25bps. Combined with downward revisions to growth estimates in many parts of the world, the perception is growing that monetary policy normalization is being postponed.

A positive end to the US-China trade dispute later this month could also add to recent positive sentiment. Investors appear hopeful that the current 'ceasefire' in the trade war can be extended beyond the 1st March deadline when US tariffs on USD200bn of Chinese imports are due to be increased to 25% from 10%. Trade talks between the two sides will resume in Beijing this week, less than three weeks before the current 'truce' expires.

With the Chinese Purchasing Manager's data pointing towards recession the markets need to see a resolution to this issue in order to prevent a more dramatic decline in business confidence. In the short term they probably also need to see a successful outcome from the US bi-partisan Congressional committee talks on border security, in order that another US government shutdown can be avoided. The temporary funding deal is due to expire on Friday of this week and the outcome will depend on whether President Trump will accept the recommendations of the committee. The Democrats are unlikely to agree to fund Trump's border wall which, given Trump's recent comments would suggest a new shutdown could still be on its way. US December retail sales, which were delayed by the last shutdown will be the data highlight of the week, alongside data on inflation and industrial production.

Weekly currency movement vs USD (%)



Source: Bloomberg, Emirates NBD Research

EURUSD

EURUSD remains under pressure...

Eurozone risks are building on a number of fronts. On the macro side the publication of forecasts by the European Commission last week certainly caught the markets wrong-footed. The EC slashed its Eurozone GDP growth forecast for 2019 from 1.9% in November to 1.3%. Among the biggest changes Italy's growth projection was cut from 1.2% to 0.2% and Germany's from 1.8% to 1.1%. The coming week will see if Germany avoided slipping into outright recession at the end of last year, with publication of Q4 GDP data on Thursday. German yields fell sharply on the news of the Commission's forecasts, with the spread between Germany and Italy widening. This will put renewed pressure on the ECB to restart QE, or roll out fresh TLTRO liquidity programs for banks. Most of all it should force it to delay its plan to raise interest rates later this year weighing on the EUR.

..With uncertainty unlikely to dissipate soon

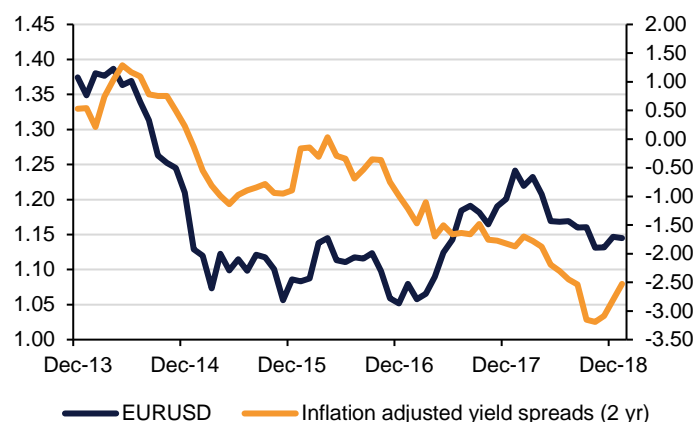
But this is not Europe's only problem. Political tensions are also mounting between key members of the Eurozone, with France recalling its ambassador from Italy last week in protest at 'interference' in its domestic politics following comments made by the Italian government. Finally awareness is also growing that a 'no-deal Brexit', which could result from the EU Commission's intransigent negotiating position with the UK, could make the Eurozone much worse-off given the region's sizeable trade surplus with Britain. If the markets can get beyond US-China trade, and avoid another US government shutdown, it may be in the Eurozone where volatility is likely to come from next.

Technical outlook

EURUSD fell by 1.17% last week, closing at 1.1323 in a move that saw the price break below the 100-day and 50-day moving averages (1.1424 and 1.1398 respectively). Also of note is that the 200-week moving average (1.1333) which had acted as a support line over the last fifteen weeks has been breached. This development is bearish for EURUSD and while the price trades below this level, a larger decline towards the one year low of 1.1216 cannot be ruled out.

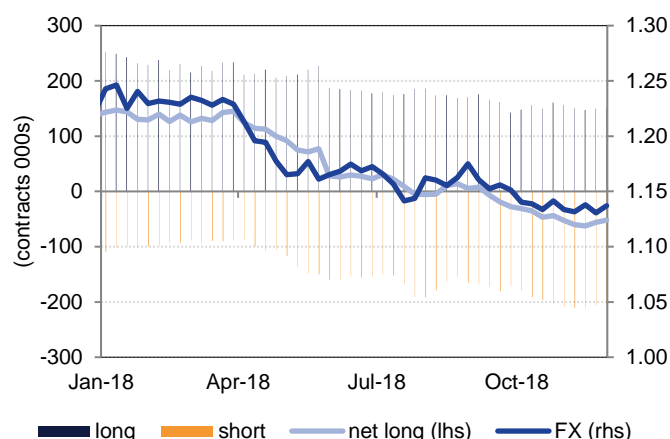
Forecasts	Spot	1 Week	1 month
EURUSD	1.1323	1.1500	1.1500
EURGBP	0.87405	0.9055	0.9200
EURJPY	124.26	127.08	128.80

Yield Spreads



Source: Bloomberg, Emirates NBD Research

Net Positioning



Source: Bloomberg, Emirates NBD Research

Weekly Candle Chart



Source: Bloomberg, Emirates NBD Research

USDJPY

USDJPY rises despite last week's decline in yields

Despite a decline in U.S. Treasury yields, USDJPY traded firmer last week as the dollar gained against all the other major currencies.

Despite economic data expected to show that the Japanese economy expanded 1.4% q/q annualized in Q4 2018, the major driver behind USDJPY's direction is likely to remain yields.

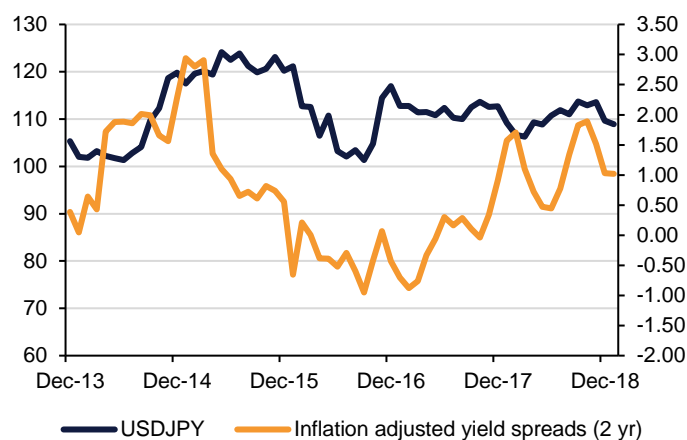
In addition, the JPY may benefit from safe haven bids as risks and uncertainties mount in the week ahead. With China and the U.S. meeting in Beijing this week to resume trade talks, any negative news or outcome is likely to be to the benefit of the yen and result in declines for USDJPY.

Technical outlook

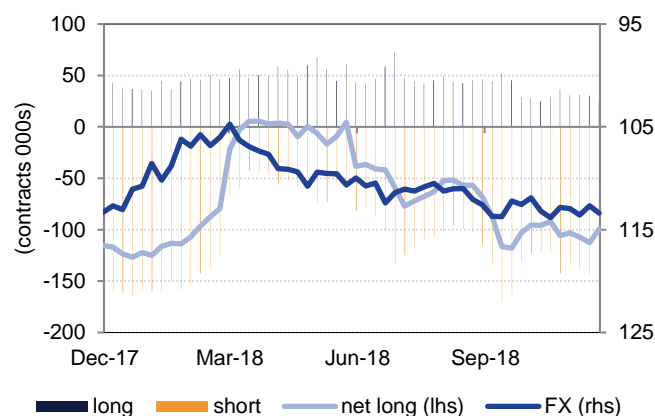
Over the last five days, USDJPY added an additional 0.22%, wiping out the declines of the previous two weeks and closing at 109.73. However despite these gains, the price remains below the critical 50-day moving average (110.42) and the 50-week moving average (110.38). In order to realize prolonged gains, a close above these two levels is required. However, as it stands, declines in price seem to be the path of least resistance, an outcome made more likely by last week's decline in UST yields.

Forecasts	Spot	1 Week	1 month
USDJPY	109.73	110.50	112.00
EURJPY	124.26	127.08	128.80
GBPJPY	142.04	140.34	140.00

Yield Spreads

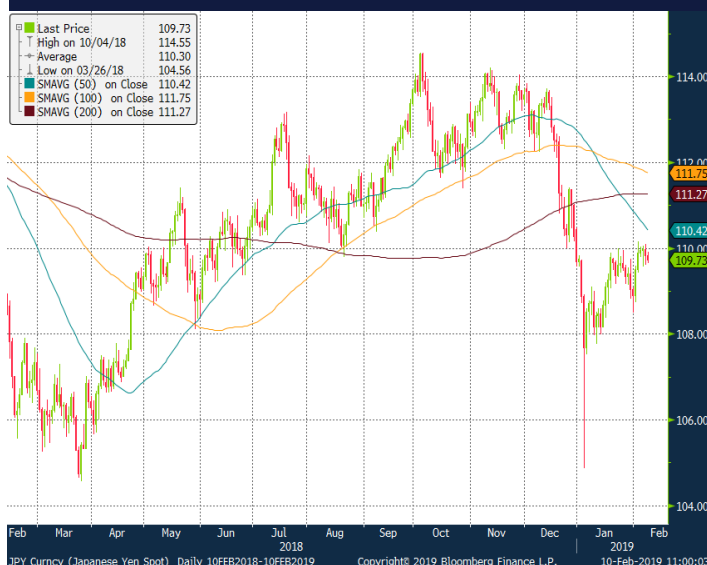


Net Positioning



Source: Bloomberg, Emirates NBD Research

Daily Candle Chart



Source: Bloomberg, Emirates NBD Research

GBPUSD

Brexit realities catalyze GBP softness.

Ten days into February, GBPUSD continues to find itself under pressure and is 1.27% lower since the start of the month. Despite being optimistic in January with market players downplaying the possibility of a no deal Brexit, or even no Brexit, investors seem to have woken up to reality. As the situation stands, the United Kingdom is currently on route to leave the European Union without a deal on March 29th, an increasingly probable outcome that has kept sterling under pressure.

When policy makers at the Bank of England held interest rates at last week's meeting, they released an inflation report which delivered a pessimistic outlook with Governor Mark Carney warning that the "fog of Brexit" was likely to result in economic growth slowing to its lowest level in a decade, with significant declines in investment and wage growth. As a result of this, the MPC have lowered their growth expectations for 2019 and 2020 to 1.2% and 1.5% respectively, compared with 1.7% expected for both in their November report.

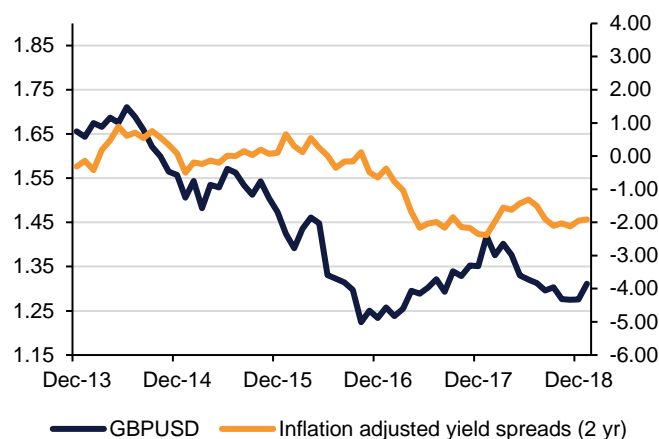
Looking forward, Brexit news and developments will be the biggest influence on the pound. With less than 50 days left, uncertainty remains the most significant hurdle for the UK economy, with BOE policy makers estimating that less uncertainty would result in stronger economic growth of 1.6% in 2019 and 2.092% in 2020.

Technical outlook

GBPUSD fell for a second week losing 1.05% to close at 1.2944. In the process, the price fell below the 200-week moving average (1.3023) an area that provided support towards the end of January. Further losses were only halted when support was found close to the 100-day moving average (1.2890) and 23.6% one-year Fibonacci retracement (1.2898). At these levels, the price remains vulnerable and a break below the 1.2890 level exposes the price to further slides towards 1.27.

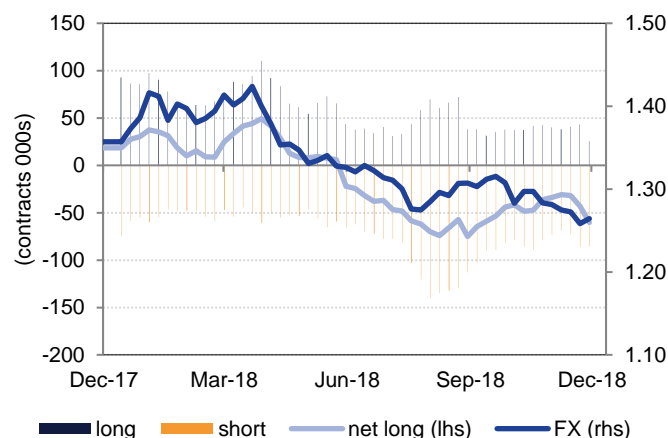
Forecasts	Spot	1 Week	1 month
GBPUSD	1.2944	1.2700	1.2500
EURGBP	0.8741	0.9055	0.9200
GBPJPY	142.04	140.335	140.00

Yield Spreads



Source: Bloomberg, Emirates NBD Research

Net Positioning



Source: Bloomberg, Emirates NBD Research

Daily Candle Chart

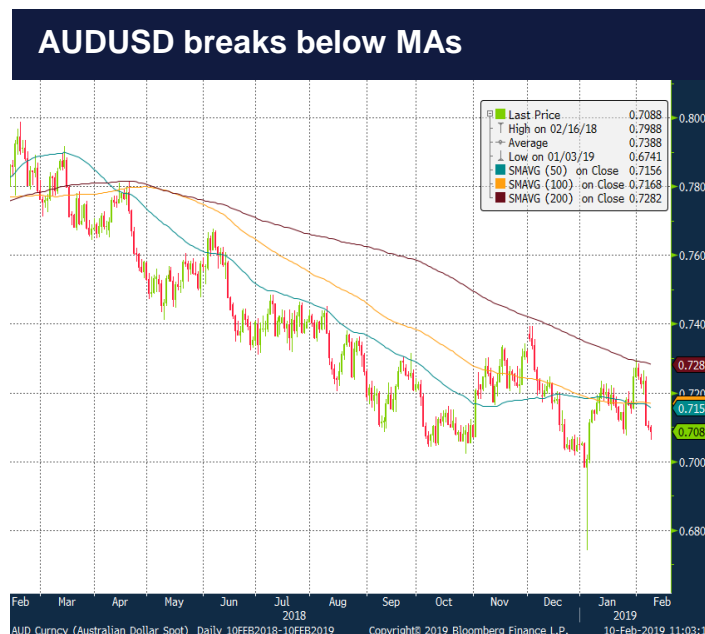


Source: Bloomberg, Emirates NBD Research

Other developments

AUD collapses as RBA shifts tone

A shift in tone from policy makers caused AUDUSD to capitulate towards the end of last week. The decline started on Wednesday, after comments from RBA governor Graham Lowe. The clear message that policy makers had shifted from a tightening bias towards a neutral stance regarding interest rates made the market lose its appetite for AUD and Wednesday alone, the cross fell by 1.81%, its largest daily decline in a year. This move took the price below both the 50 and 100-day moving averages (0.7156 and 0.7168) respectively with the price closing at 0.7088 on Friday.



Source: Bloomberg, Emirates NBD Research

FX Forecasts

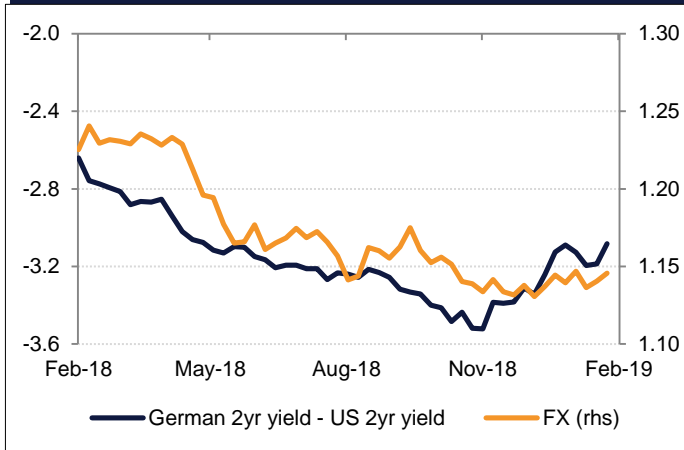
FX Forecasts - Major						Forwards		
	8-Feb	Q1 2019	Q2 2019	Q3 2019	Q4 2019	3m	6m	12m
EURUSD	1.1323	1.1500	1.1500	1.1800	1.2000	1.1410	1.1499	1.1682
USDJPY	109.73	111.00	113.00	112.00	110.00	108.93	108.11	106.42
USDCHF	1.0005	1.0000	1.0000	0.9800	0.9700	0.9919	0.9833	0.9659
GBPUSD	1.2944	1.2500	1.3000	1.3500	1.4000	1.3004	1.3062	1.3178
AUDUSD	0.7088	0.7300	0.7550	0.7700	0.8000	0.7097	0.7107	0.7129
NZDUSD	0.6740	0.6800	0.6900	0.7100	0.7400	0.6752	0.6764	0.6786
USDCAD	1.3278	1.3250	1.2850	1.2600	1.2500	1.3250	1.3226	1.3180
EURGBP	0.8741	0.9200	0.8846	0.8741	0.8571	0.8767	0.8796	0.8857
EURJPY	124.26	127.65	129.95	132.16	132.00	124.26	124.26	124.26
EURCHF	1.1329	1.1500	1.1500	1.1564	1.1640	1.1319	1.1307	1.1283
FX Forecasts - Emerging								
	8-Feb	Q1 2019	Q2 2019	Q3 2019	Q4 2019	3m	6m	12m
SAR	3.7503	3.7500	3.7500	3.7500	3.7500	3.7508	3.7519	3.7573
AED	3.6730	3.6730	3.6730	3.6730	3.6730	3.6737	3.6743	--
KWD	0.3037	0.3020	0.3020	0.3020	0.3020	0.1508	0.1503	--
OMR	0.3850	0.3850	0.3850	0.3850	0.3850	0.3855	0.3863	0.3888
BHD	0.3770	0.3770	0.3770	0.3770	0.3770	0.3761	0.3761	0.3789
QAR	3.6540	3.6400	3.6400	3.6400	3.6400	3.6547	3.6552	3.6578
EGP	17.6015	18.0000	18.1250	18.2500	18.2500	18.0150	18.5300	19.5550
INR	71.313	70.000	70.000	68.000	68.000	72.0400	72.8500	74.3000
CNY	6.7451	6.9000	7.0000	7.1000	7.2000	6.7830	6.7920	6.8045
SGD	1.3563	1.3500	1.3200	1.3000	1.2900	1.3541	1.3513	1.3459
FX Forecasts - MENA								
	2015	2016	2017	2018	2019			
MAD – End of Period	9.93	10.12	9.3283	9.5557	9.7			
MAD – Average Price	9.75	9.808	9.7036	9.389	9.6279			
TND – End of Period	2.0409	2.3161	2.4630	3.0013	3.2000			
TND – Average Price	1.9611	2.1484	2.4193	2.6398	3.1007			
TRY – End of Period	2.9172	3.0246	3.7982	5.2894	5.7000			
TRY – Average Price	2.7253	3.5235	3.6567	4.8399	5.4947			

Source: Bloomberg, Emirates NBD Research

*Denotes USD peg

Major FX and Nominal Interest Rates

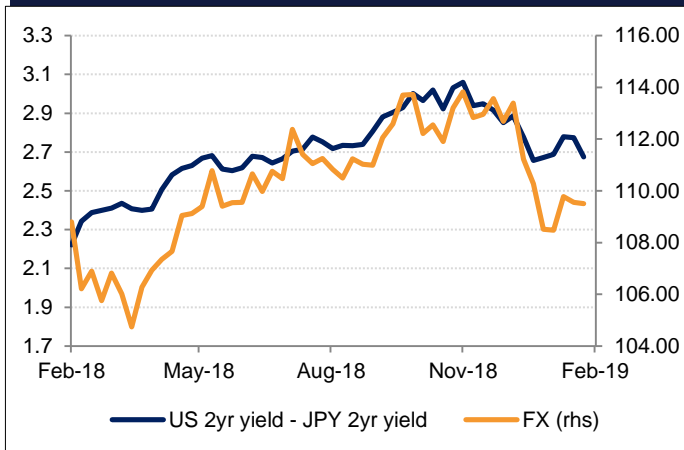
Interest Rate Differentials - EUR



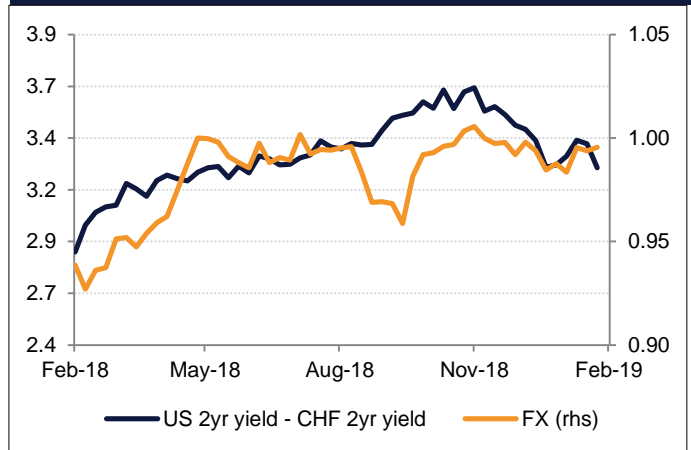
Interest Rate Differentials - GBP



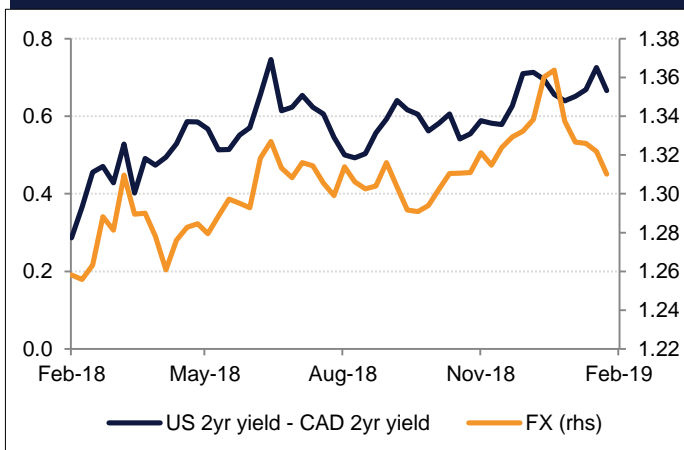
Interest Rate Differentials - JPY



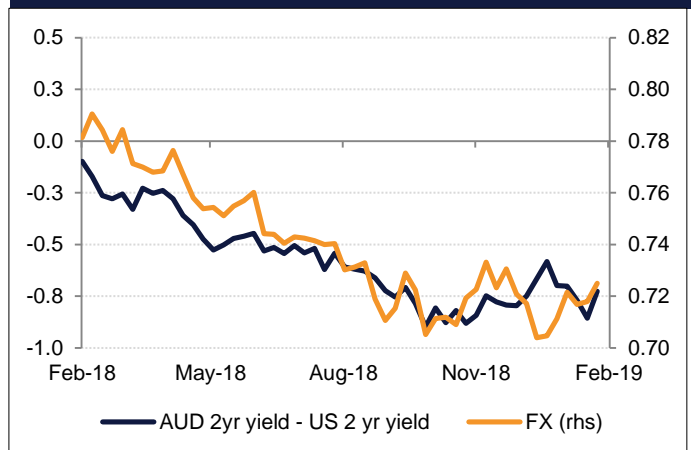
Interest Rate Differentials - CHF



Interest Rate Differentials - CAD



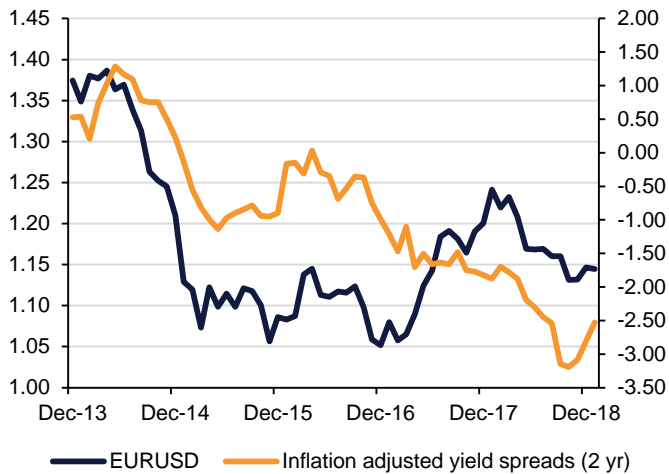
Interest Rate Differentials - AUD



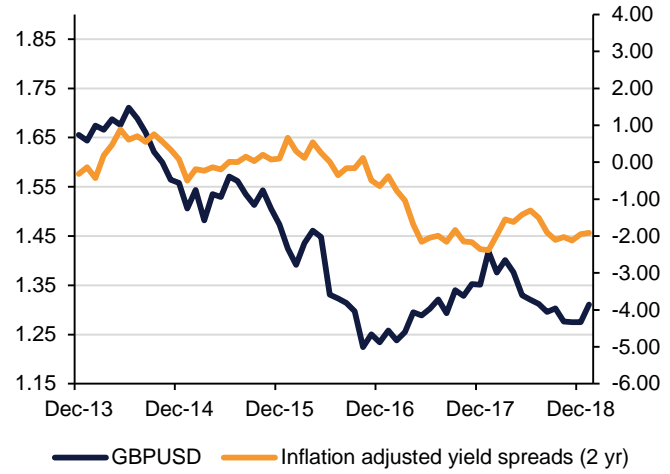
Source: Bloomberg, Emirates NBD Research

Major FX and Real Interest Rates

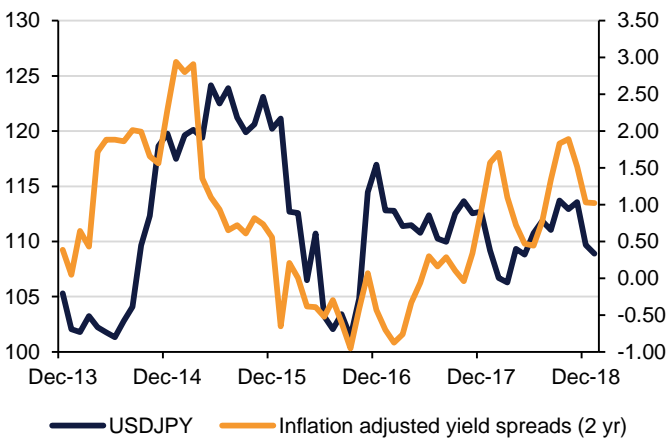
Interest Rate Differentials - EUR



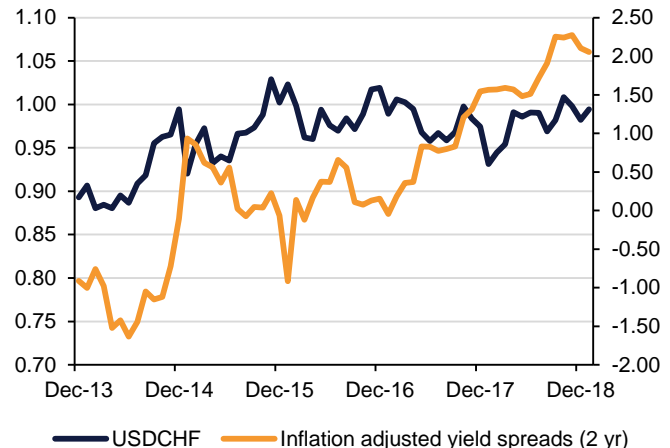
Interest Rate Differentials - GBP



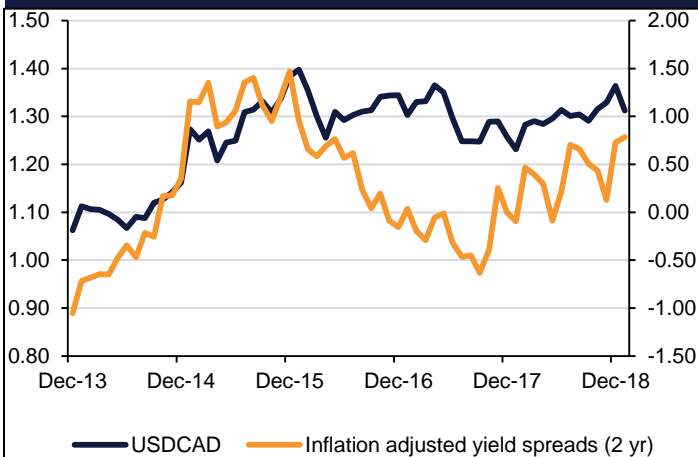
Interest Rate Differentials - JPY



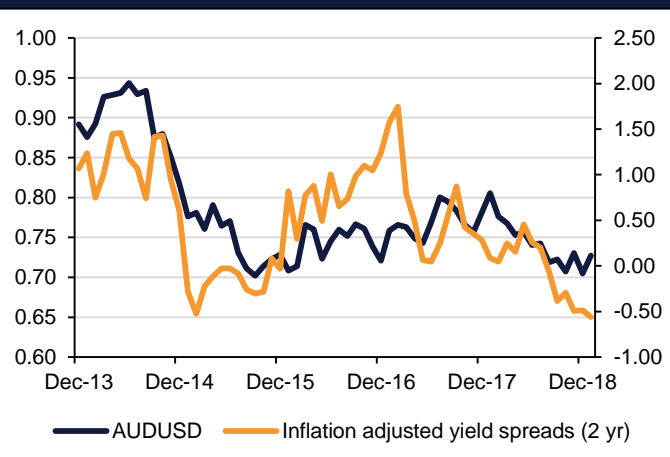
Interest Rate Differentials - CHF



Interest Rate Differentials - CAD



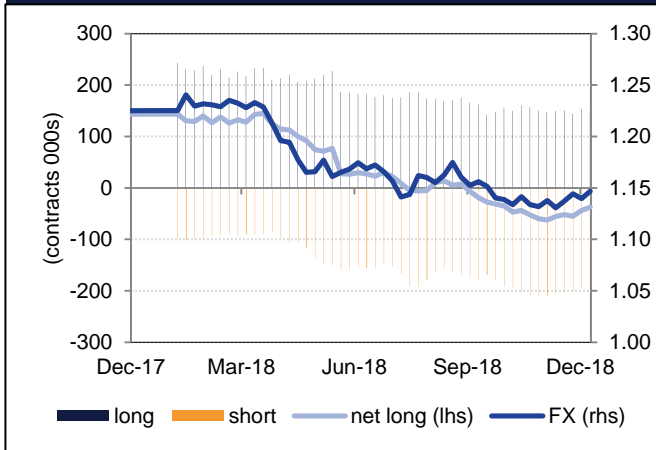
Interest Rate Differentials - AUD



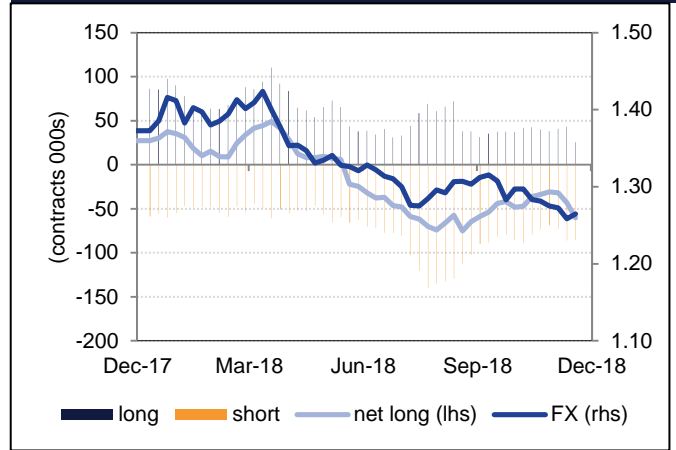
Source: Bloomberg, Emirates NBD Research

Major Currency Positions

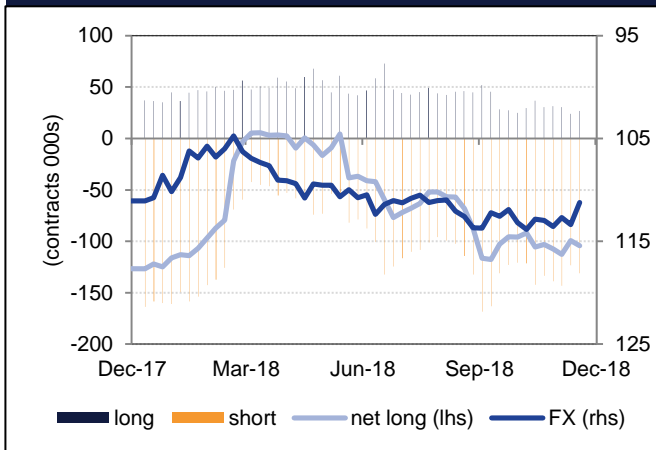
CFTC – Speculative Positions - EUR



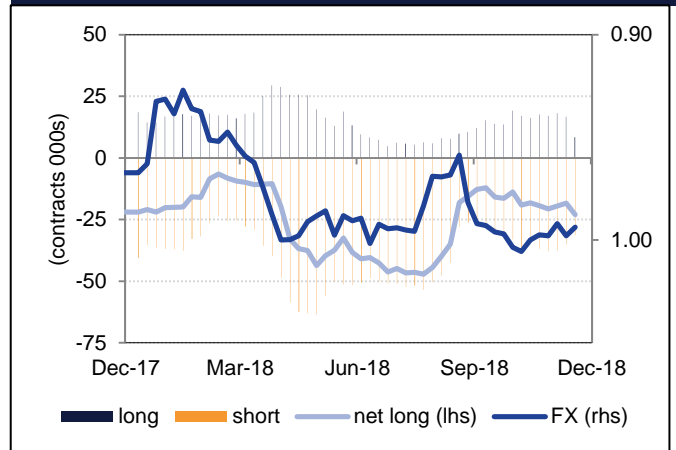
CFTC – Speculative Positions - GBP



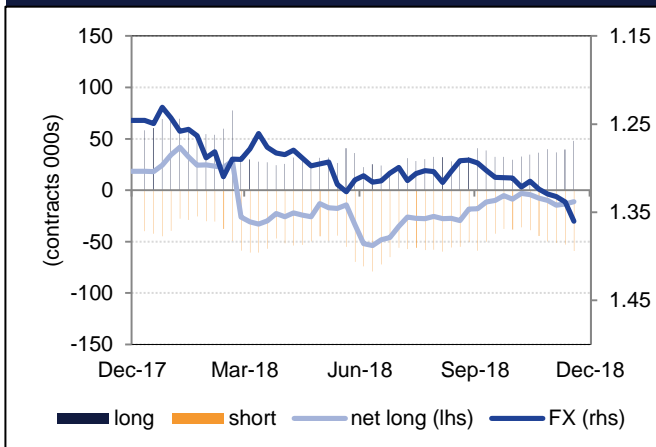
CFTC – Speculative Positions - JPY



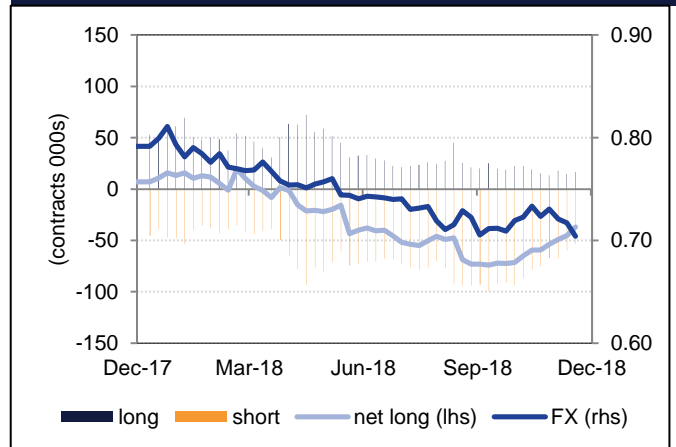
CFTC – Speculative Positions - CHF



CFTC – Speculative Positions - CAD



CFTC – Speculative Positions - AUD



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