



بنك الإمارات دبي الوطني
Emirates NBD

Weekly
12 August 2018

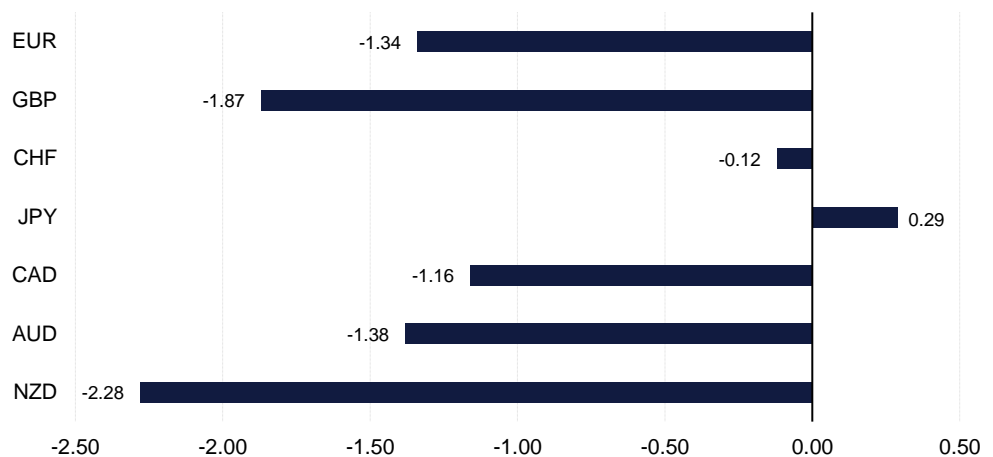
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FX Week

- **EURUSD:** Brexit concerns and soft German data have contrasted with stronger U.S inflation and resulted in EURUSD having the softest weekly close since July 2017.
- **USDJPY:** As the U.S. announces new tariffs on China, who retaliate with “an eye for an eye” approach, escalating trade tensions have resulted in JPY outperforming rival currencies after enjoying support from safe haven bids.
- **GBPUSD:** Pounded by continued uncertainties over Brexit, sentiment on sterling continues to sour and GBPUSD has fallen to new 2018 lows as markets chose to overlook constructive Q2 2018 GDP data.
- **NZDUSD:** With the RBNZ communicating a more dovish approach to monetary policy, the NZD has fallen to levels last seen in March 2016.

Weekly currency movement vs USD (%)



Source: Bloomberg, Emirates NBD Research

Forecasts	Spot	1 Week	1 month
EURUSD	1.1413	1.1350	1.1700
USDJPY	110.83	110.00	112.00
GBPUSD	1.2758	1.2700	1.2700
EURJPY	126.51	124.85	131.04
EURGBP	0.8936	0.8937	0.9213
GBPJPY	141.41	139.70	142.24

EURUSD

EURUSD declines as U.S. CPI accelerates

Soft data out of the Eurozone and Brexit uncertainties contrasted with firmer U.S. economic data, helping to put further weight on EURUSD, driving the pair below the 100-week moving average (1.1464) in line with our expectations last week (page 2). A report from the Bureau of Labor Statistics showed that core consumer price inflation accelerated to 2.4% y/y in July, compared with 2.3% the previous month, supporting the Federal Reserve's resolve to raise interest rates two more times in 2018, lending support to the dollar. This was in contrast with reports showing that German industrial production and factory orders had fallen significantly amid U.S. trade threats and resulted in pressure on the cross.

Q2 GDP and July CPI to determine direction

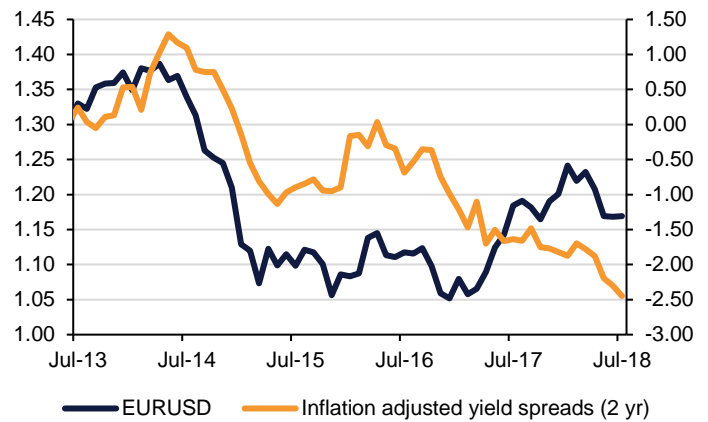
Over the next week, EUR strength will largely be determined by economic data. The Market will be paying attention to the ZEW sentiment surveys, final revisions to July's aggregate Eurozone CPI data and preliminary data for Q2 2018 Eurozone aggregate GDP. While there is a risk that survey data may be softer as trade threats weigh on sentiment, an expected upwards revision on CPI from 2.0% to 2.1% y/y may be constructive towards euro strength. However the influence of renewed Brexit developments cannot be underestimated and it may very well be the case of politics determining the euro's direction in the week ahead.

Technical outlook

EURUSD fell 1.34% last week, to reach 1.1413, having reached new 2018 lows of 1.1388 on Friday. This represents a third week of consecutive declines and has resulted in the lowest weekly close since July 2017. The 14-day RSI (Relative Strength Indicator) currently stands at 30.91 and shows bearish momentum, however it is approaching over-sold territory, which may result in temporary relief for the price. The weekly close below the 100-week moving average of 1.1464 is technically bearish for the price and should there be a weekly close below 1.1367 (the 200-week moving average) in the week ahead, it could trigger a larger move towards 1.12, not far from the 23.6% five-year Fibonacci retracement (1.1203)

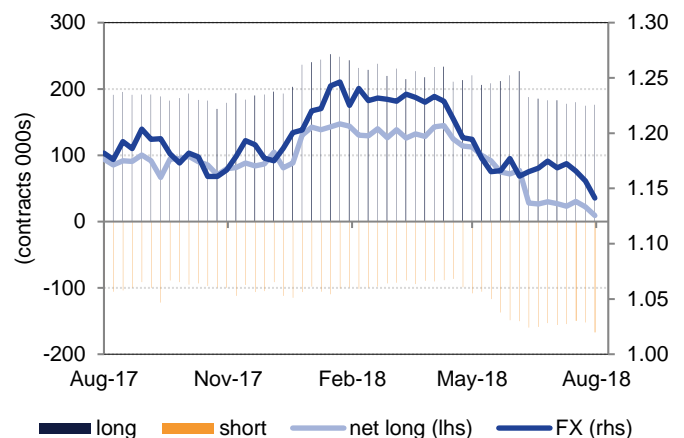
Forecasts	Spot	1 Week	1 month
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EURGBP	0.8936	0.8937	0.9213

Yield Spreads



Source: Bloomberg, Emirates NBD Research

Net Positioning



Source: Bloomberg, Emirates NBD Research

Daily Candle Chart



Source: Bloomberg, Emirates NBD Research

USDJPY

Trade escalations support JPY

Data showed that compared with expectations for growth in Q2 2018 of 1.4% q/q, the Japanese economy expanded 1.9%. However the same report showed a downwards revision in Q1 data from 0.6% q/q contraction to 0.9% q/q contraction. Despite these developments, JPY held is outperformed over the last week and gained against the other major currencies.

The main driver behind this yen appreciation can be attributed to escalating trade tensions between the U.S. and China. The U.S. announced intentions to start imposing 25% duties on an additional USD 16Bn of Chinese goods on August 23rd, in addition to having previously levied 25% duties on USD 34Bn of goods on July 6th. Furthermore, the U.S. is currently reviewing the imposing 10-25% tariffs on an additional USD 200Bn of Chinese imports. In retaliation, China responded by announcing a like for like 25% tariff on USD 16Bn of U.S. goods starting on August 23rd.

Market risk appetite to be key to JPY direction

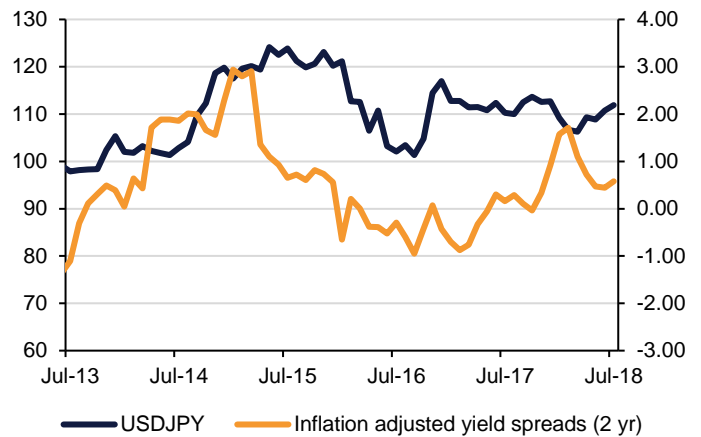
With only July's Japanese trade data expected in the week ahead, the most likely drivers of USDJPY are likely to be investor appetite for U.S. dollars and risk appetite in the market. With trade concerns weighing heavily on market sentiment last week, with actions being taken by both the U.S and China, it is very likely that further escalations may be seen in the week ahead. Such escalations may banish risk appetite from the market and result in JPY appreciation due to safe haven bids.

Technical

USDJPY finished the week 0.33% lower at 110.83, just below the 50-day moving average (110.92) and 61.8% one-year Fibonacci retracement (110.85). We expect the next level of support to be close to the psychologically significant 110 level which also sits close to the 200-day moving average (109.97).

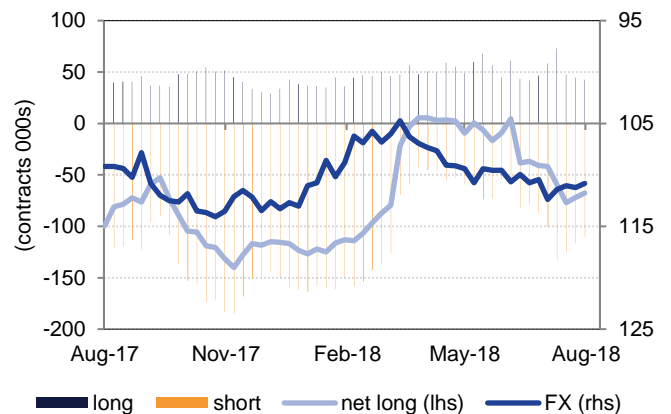
Forecasts	Spot	1 Week	1 month
USDJPY	110.83	110.00	112.00
EURJPY	126.51	124.85	131.04
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Yield Spreads



Source: Bloomberg, Emirates NBD Research

Net Positioning



Source: Bloomberg, Emirates NBD Research

Daily Candle Chart



Source: Bloomberg, Emirates NBD Research

GBPUSD

Positive data meaningless as pound plummets

The preliminary report for Q2 2018 GDP was more encouraging for the UK, showing that growth had doubled to 0.4% q/q from 0.2% q/q in the previous quarter. However, markets overlooked this and the pound continued to be pressured by Brexit uncertainties. With Prime Minister May facing rising anger from Eurosceptics in the Conservative Party, the probability of negotiating a successful deal are falling.

Such is the fear over the economic damage that leaving the EU with no deal in March 2019 could trigger, that recent polls have shown that more 112 Westminster constituencies that backed Leave in the 2016 referendum, how now switched their allegiance. This means that according to these polls, Remain now have a majority with 341 constituencies compared to 229 in 2016.

Brexit concerns to overshadow data this week

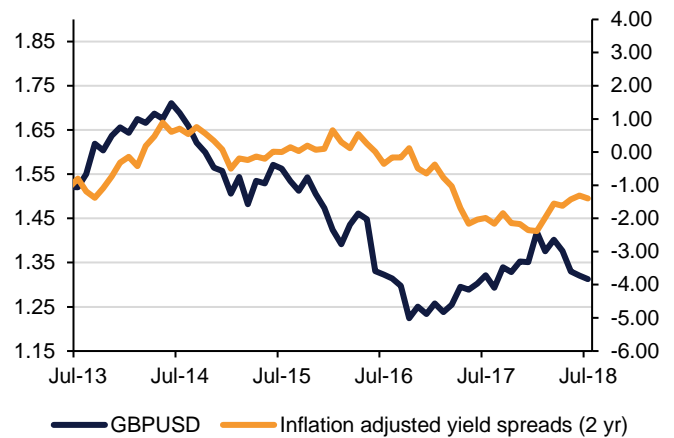
Economic data in the week ahead is expected to show that the UK labour market continues to tighten, inflationary pressures are increasing and retail sales were robust in July. However, should the data live up to expectations, it is unlikely to support the pound, as sentiment will continue to be negative while there remains so much uncertainty surrounding Brexit. Indeed, the risk remains that should there be downside surprises in the economic data, the pound may find itself under even further pressure.

Technical

GBPUSD declined 1.80% over the last five trading days, to close at 1.2758. This is the second consecutive weekly close below the 100-week moving average (1.2758), which is technically bearish for the cross, however net short positions on the pound are at their highest level in 2018 and the 14-day RSI (Relative Strength Indicator) is showing oversold conditions at 24.07. This means that despite GBPUSD being vulnerable to further declines in the medium term, profit taking may result in a short squeeze and temporary relief.

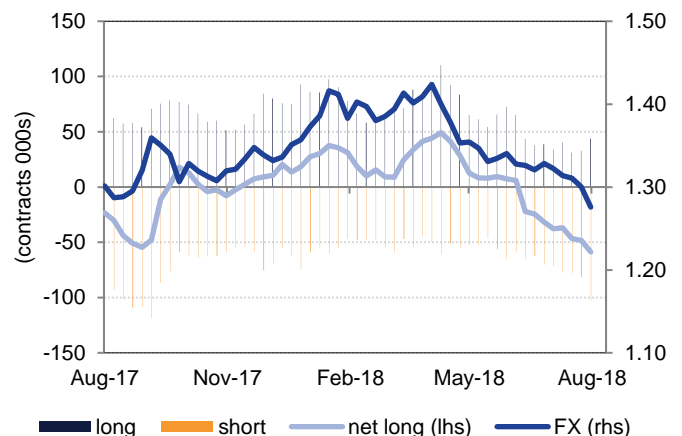
Forecasts	Spot	1 Week	1 month
GBPUSD	1.2758	1.2700	1.2700
EURGBP	0.8936	0.8937	0.9213

Yield Spreads



Source: Bloomberg, Emirates NBD Research

Net Positioning



Source: Bloomberg, Emirates NBD Research

Daily Candle Chart



Source: Bloomberg, Emirates NBD Research

NZDUSD

NZD sold off in aftermath of RBNZ

At their August meeting, the Reserve Bank of New Zealand were decidedly more dovish on the economy and monetary policy. Policy makers lowered their growth forecasts for 2018 maintained interest rates at their record low of 1.75% and pushed back forecasts for an interest-rate increase to late 2020.

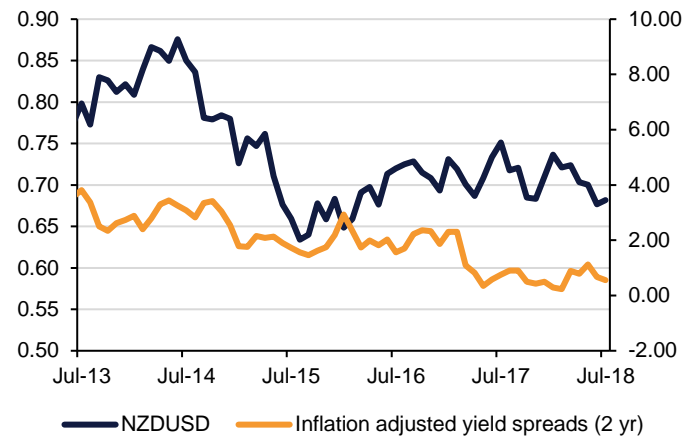
In the aftermath, the NZD has underperformed and lost ground against all the other major currencies, breaking below the 0.66 handle for the first time since March 2016.

Technical

NZDUSD fell by 2.41% over the last week, closing at 0.6590. The price has now on target to close below the 200-month moving average (0.7028) for a third month in a row and has also closed below the five-year 23.6% Fibonacci retracement (0.6769). While the price remains below this level, the path of least resistance is a retest of the 0.65 level. If a weekly break and close below this level is achieved, there is a significant risk of further declines towards the 0.62.

Forecasts	Spot	1 Week	1 month
NZDUSD	0.6590	0.6500	0.6700

Yield Spreads



Source: Bloomberg, Emirates NBD Research

Daily Candle Chart



Source: Bloomberg, Emirates NBD Research

FX Forecasts

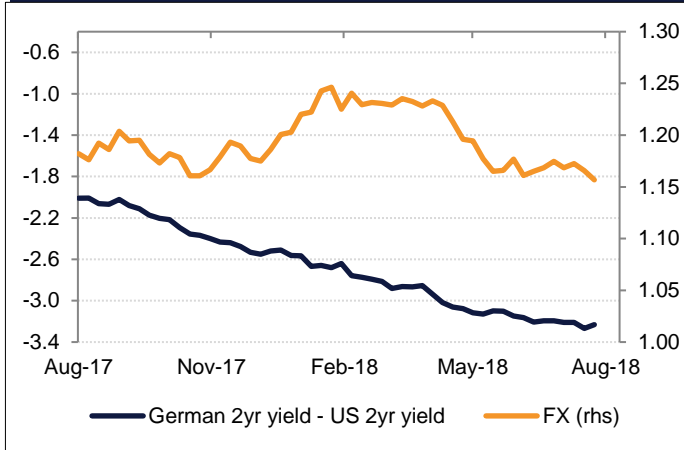
FX Forecasts - Major						Forwards		
	10-Aug	Q3 2018	Q4 2018	Q1 2019	Q2 2019	3m	6m	12m
EUR	1.1413	1.1800	1.2000	1.2300	1.2500	1.1493	1.1584	1.1768
JPY	110.83	110.00	112.00	110.00	110.00	110.11	109.27	107.62
CHF	0.9952	0.9800	0.9800	0.9800	0.9800	0.9873	0.9785	0.9612
GBP	1.2758	1.2700	1.3100	1.3500	1.4000	1.2808	1.2868	1.2986
AUD	0.7302	0.7550	0.7550	0.7550	0.7550	0.7304	0.7308	0.7324
NZD	0.6590	0.6900	0.7100	0.7100	0.7100	0.6589	0.6594	0.6611
CAD	1.3140	1.2800	1.2700	1.2700	1.2700	1.3119	1.3101	1.3071
EURGBP	0.8936	0.9291	0.9160	0.9111	0.8929	0.8963	0.8992	0.9052
EURJPY	126.51	129.80	134.40	135.30	137.50	126.51	126.51	126.51
EURCHF	1.1359	1.1564	1.1760	1.2054	1.2250	1.1348	1.1336	1.1313

FX Forecasts - Emerging						Forwards		
	10-Aug	Q2 2018	Q3 2018	Q4 2018	Q1 2019	3m	6m	12m
SAR	3.7504	3.7500	3.7500	3.7500	3.7500	3.7501	3.7508	3.7559
AED	3.6730	3.6730	3.6730	3.6730	3.6730	3.6733	3.6739	--
KWD	0.3031	0.3020	0.3020	0.3020	0.3020	0.2971	0.2921	--
OMR	0.3850	0.3850	0.3850	0.3850	0.3850	0.3857	0.3863	0.3886
BHD	0.3773	0.3770	0.3770	0.3770	0.3770	0.3762	0.3762	0.3799
QAR	3.6530	3.6400	3.6400	3.6400	3.6400	3.6532	3.6537	3.6598
EGP	17.8597	17.2500	17.0000	17.0000	17.0000	18.4850	18.9600	19.9700
INR	68.835	67.000	67.000	67.000	67.000	69.8500	70.6300	72.1200
CNY	6.8466	6.7000	6.9000	7.1000	7.1000	6.8750	6.8855	6.9065
SGD	1.3734	1.3100	1.2900	1.2900	1.2900	1.3707	1.3673	1.3603

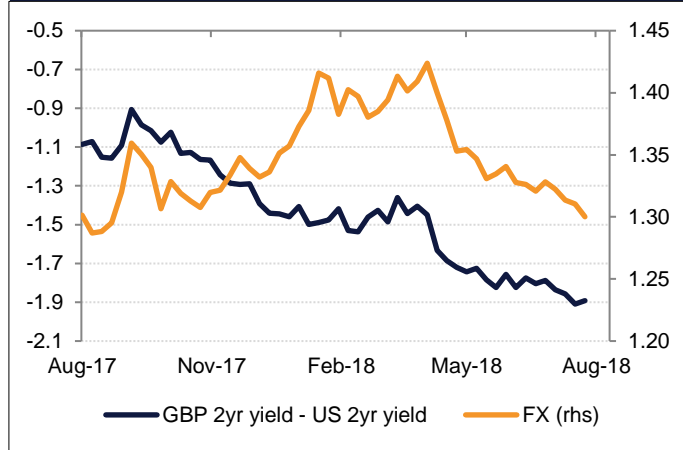
Source: Bloomberg, Emirates NBD Research
 *Denotes USD peg

Major FX and Nominal Interest Rates

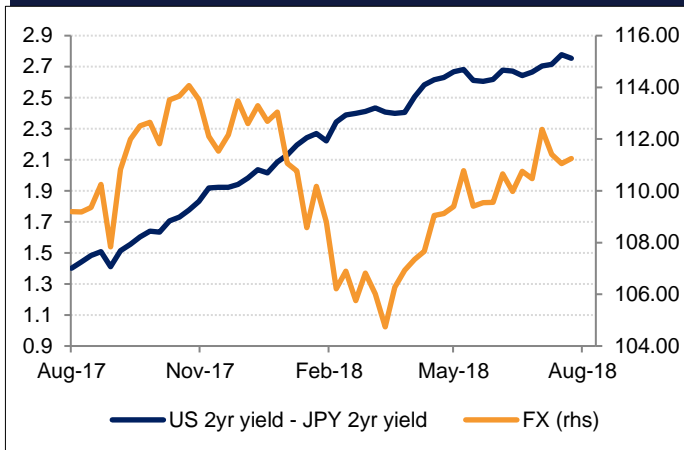
Interest Rate Differentials - EUR



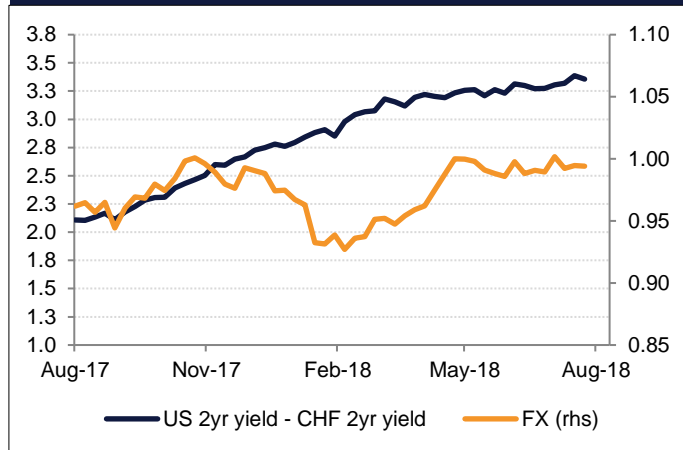
Interest Rate Differentials - GBP



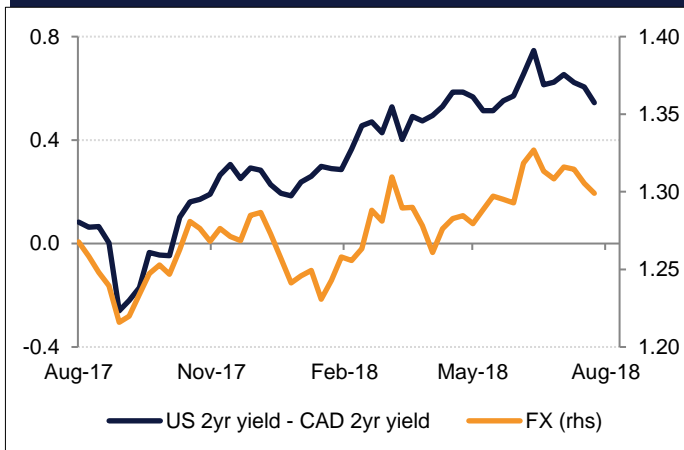
Interest Rate Differentials - JPY



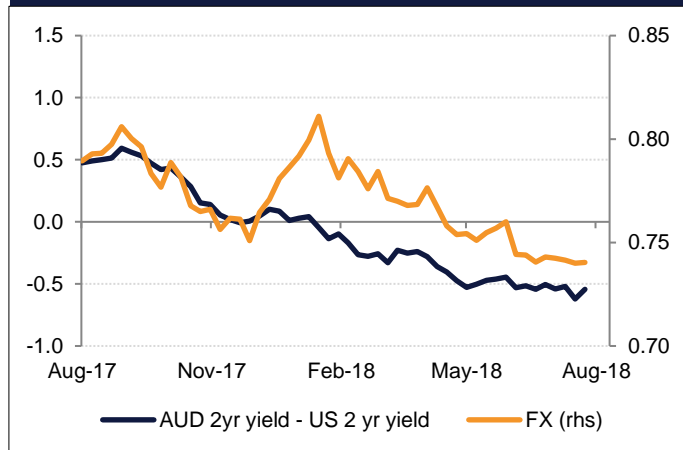
Interest Rate Differentials - CHF



Interest Rate Differentials - CAD

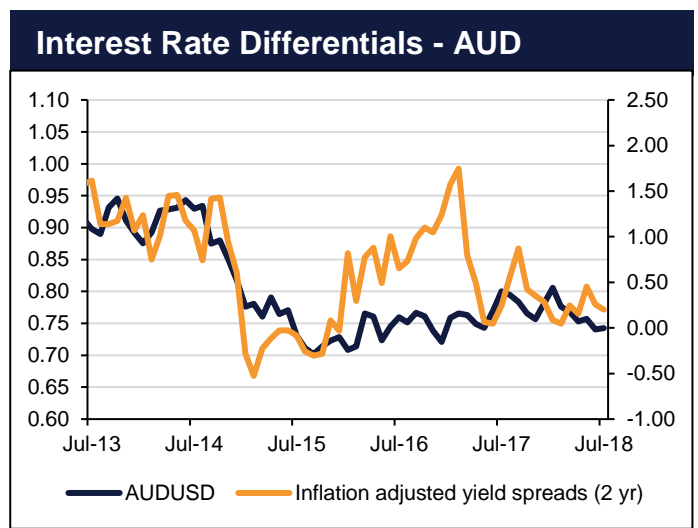
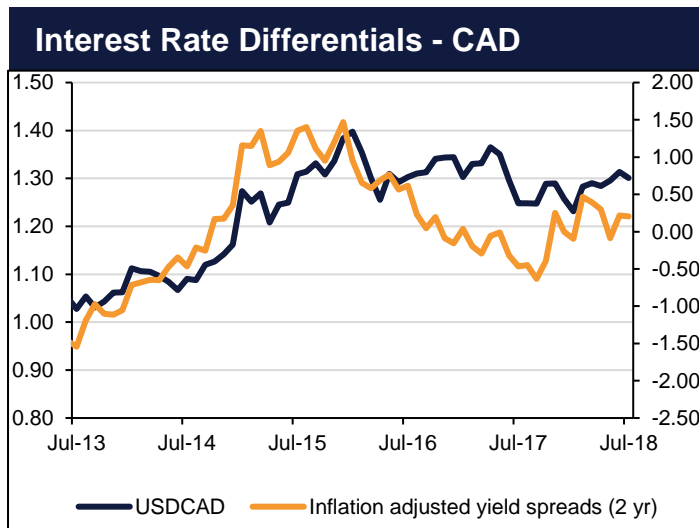
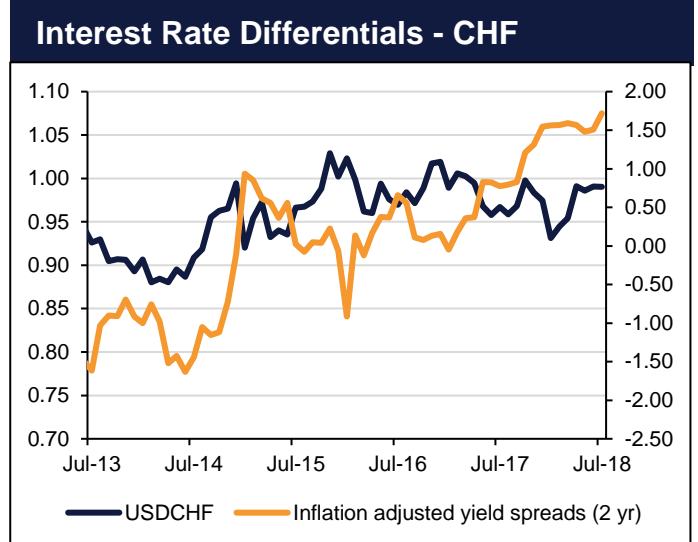
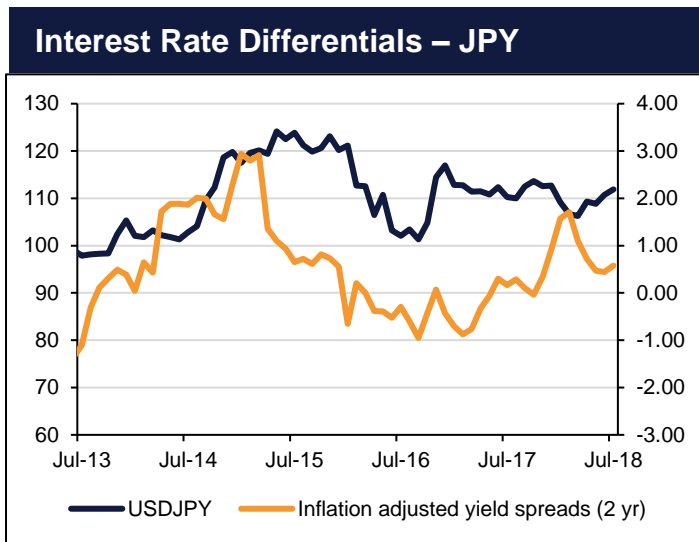
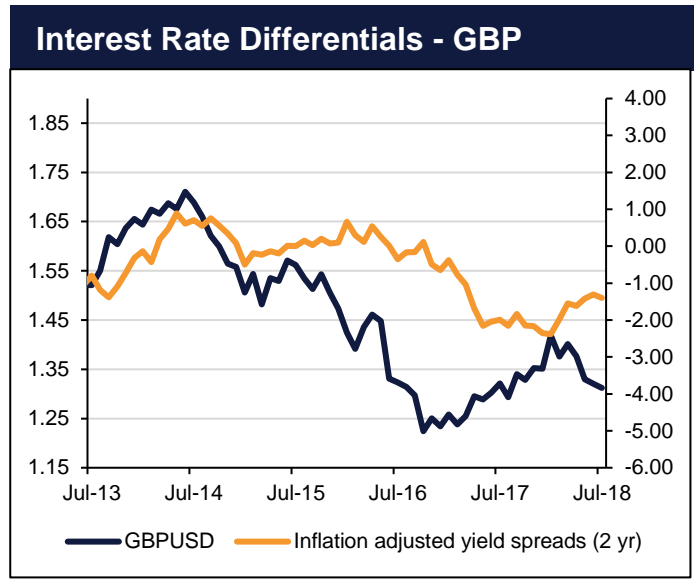
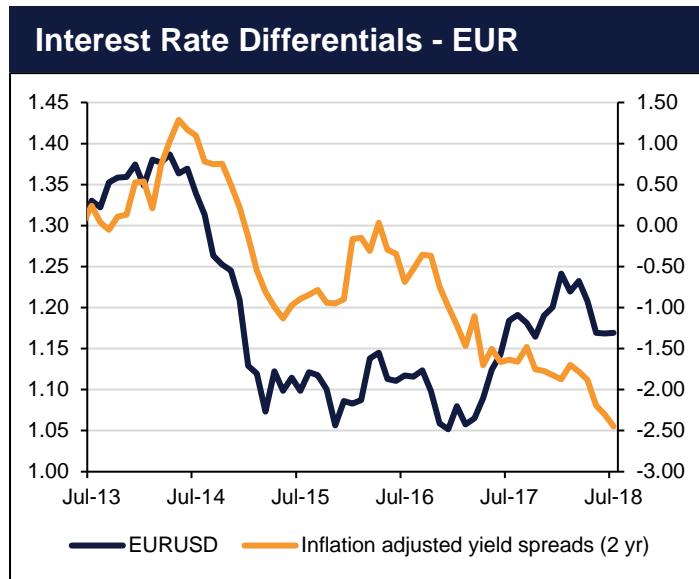


Interest Rate Differentials - AUD



Source: Bloomberg, Emirates NBD Research

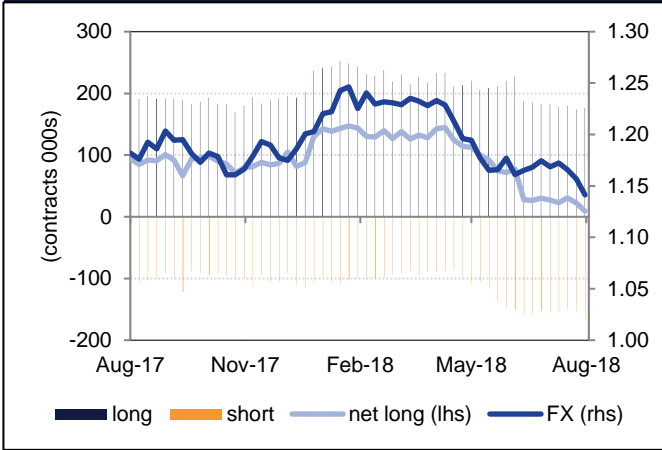
Major FX and Real Interest Rates



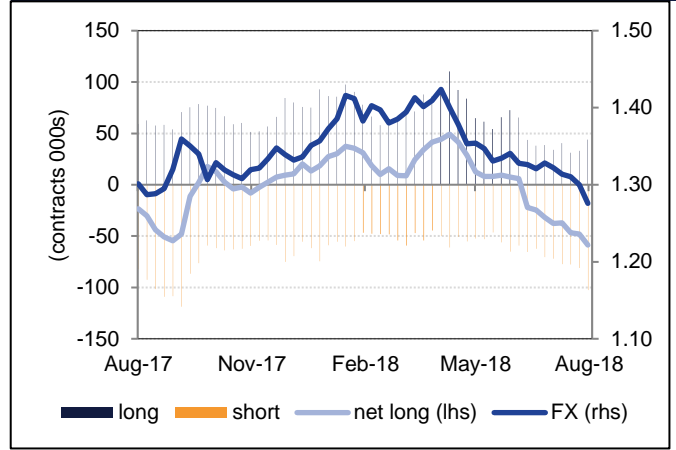
Source: Bloomberg, Emirates NBD Research

Major Currency Positions

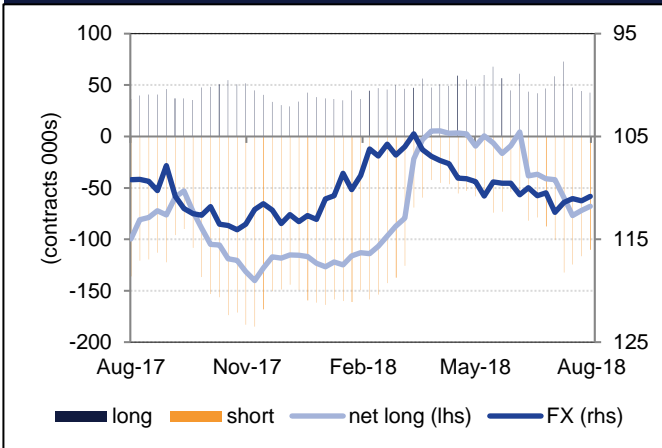
CFTC – Speculative Positions - EUR



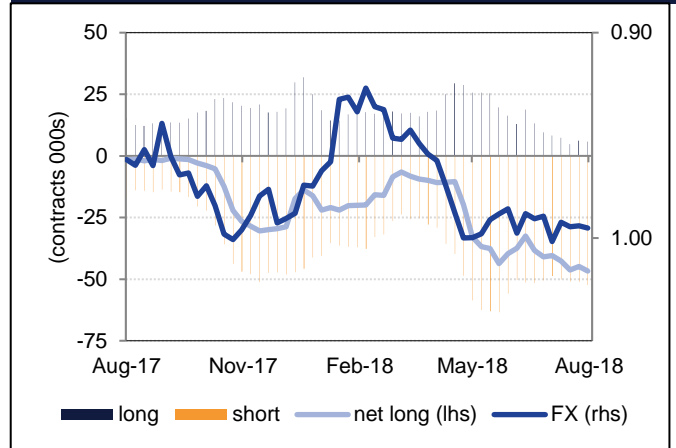
CFTC – Speculative Positions - GBP



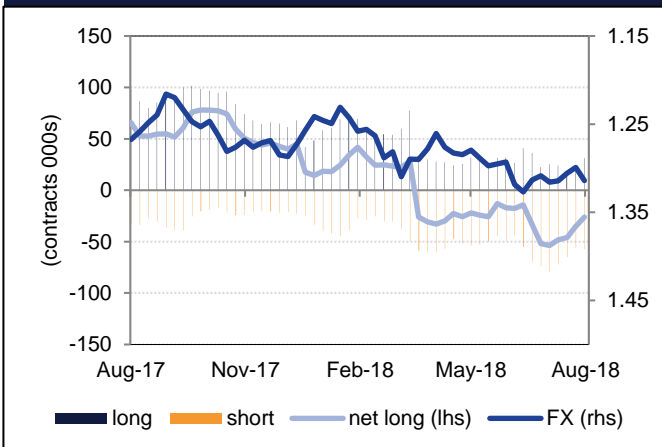
CFTC – Speculative Positions - JPY



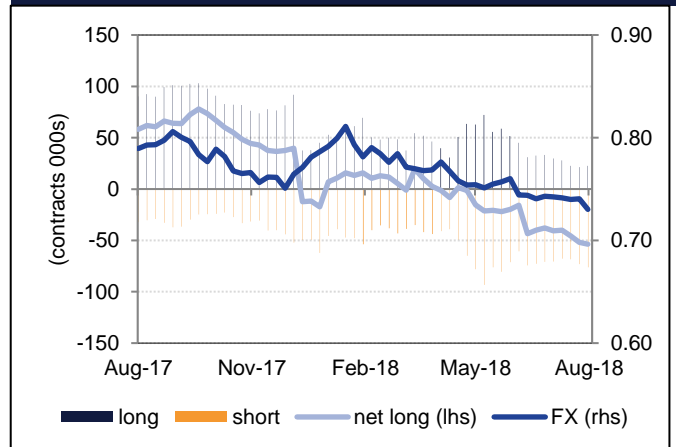
CFTC – Speculative Positions - CHF



CFTC – Speculative Positions - CAD



CFTC – Speculative Positions - AUD



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