



بنك الإمارات دبي الوطني  
Emirates NBD

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## FX Week

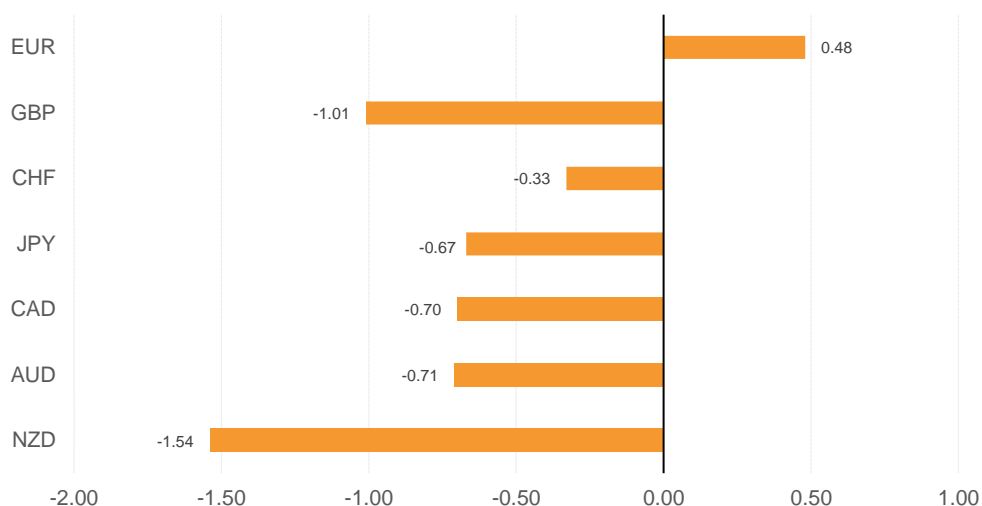
### US jobs data cement Fed rate hike

A strong US February jobs report on Friday appears to have cemented the likelihood of a Federal Reserve rate hike this week. Non-farm payrolls rose by 235k in February with the unemployment rate dropping to 4.7% from 4.8%, and average hourly earnings rising by 0.2% m/m and 2.8% y/y. The dollar fell back on the news as the data was broadly in line with expectations causing profit-taking to kick-in. The key going forward will be what the Fed actually says on Wednesday beyond announcing a 25bp rate move, and whether Janet Yellen gives further clues about the pace of tightening through the rest of the year.

### Dollar reaction depends on guidance

A 25bps US rate hike would take the policy rate to a 0.75% - 1.00% policy band, up from 0.5%-0.75% currently. The key for the outlook will be the Fed's dot plot, as well as any discussion regarding reducing the size of the Fed's balance sheet. Given the improved data and more hawkish rhetoric, it is likely the Fed will confirm its three hikes implied in the December dot plot, and there is a risk the central tendency forecast shifts to four hikes this year. Should this happen it is likely that the dollar will recapture its bid tone after the softness experienced after the jobs data.

### Weekly currency movement vs USD (%)



Source: Bloomberg, Emirates NBD Research

Also worth watching out for will be any upward revisions in the official economic forecasts. The Fed's central tendency for 2017 Q4/Q4 real GDP is 1.9%-2.3% so the markets will be sensitive to any upward revision to this. Similarly the markets will be alert to any revision to the 2017 central tendency for the Q4/Q4 2017 chain price rise, currently 1.7%-2.0%.

The week will also be a data heavy one with CPI and retail sales amongst the most prominent releases. The risk is that y/y inflation will rise to 2.7% from 2.5%, largely on account of base effects as the m/m rate is expected to be unchanged. Core CPI is also expected to have risen. Retail sales may be a little more subdued than in January, with the consensus expectation being for a small monthly fall.

## **Euro faces conflicting pressures**

The EUR faces conflicting pressures in the coming week, with the single currency still absorbing the slight change to the ECB's policy statement made last Thursday, but also facing political risk from an election in the Netherlands.

The ECB maintained its commitment to buying assets throughout the year and keeping interest rates at current or lower levels for an extended period. While the ECB recognizes that downside growth risks have diminished it will not consider normalizing policy until core inflation is rising and it still sees the balance of risks as tilted to the downside. The central bank lifted its inflation forecast for this year to 1.7% from 1.3% and to 1.6% from 1.5% for 2018, and Draghi once again stressed that the recent inflation pick up was likely to be transitory, being mainly due to energy and food prices. The new growth projections lifted growth forecasts for this year and next by 0.1% points to 1.8% and 1.7% respectively, but the overall message was that tapering will not be happening for some time to come, probably not until 2018.

The Dutch parliamentary elections on Wednesday may also complicate things with the eurosceptic Party for Freedom seeking to become the biggest party in the Dutch parliament. While its leader Geert Wilders looks unlikely to become Prime Minister, strong support for his party would provide further momentum for other anti-EU parties across Europe, especially in France where the Front National are in the lead. Such an outcome could see regional interest rate spreads between the peripherals and the core widen out, as well as returning pressure onto the Euro in the second half of the week.

## **Sterling soft as UK readies to trigger Brexit**

This reaction may be accentuated if the UK announces that it is triggering article 50 of the Lisbon Treaty to leave the EU as early as Tuesday, which is currently being rumoured.

The UK government is under a lot of pressure to move swiftly forward with its Brexit negotiations, and it is also dealing with a mishandling of part of the budget announcement last week. For these reasons the pound is likely to remain under pressure, at least in the early part of this week until the uncertainty is removed. Softer than expected UK economic data recently is making matters worse for it as well, with UK industrial production and manufacturing output both slipping in January by -0.4% and -0.9% respectively. In the coming week labour market data may show the UK economy in a better light, while the Bank of England MPC is expected to keep the repo rate at 0.25% and QE settings unchanged, both by unanimous vote.

## **USDJPY poised to benefit from Fed tightening**

The Bank of Japan (BOJ) also announces its policy decision on Thursday after its 2-day meeting. No policy changes are expected, keeping short term rate at -0.1%, and targeting a zero yield for 10-year bond. The BOJ is likely to maintain a wait and see stance to see how the modest recovery pans out, although it may lift its near-term outlook for inflation. In view of the expected unchanged BOJ policy USDJPY looks best placed to benefit from any widening in US-Japan rate differentials generated by the FOMC decision. January Japanese machinery order data are expected to slip back after the 6.7% increase in December, while February PPI inflation has upside risks from January's 0.5% outcome.

## **SNB keeping watchful eye on CHF**

The Swiss National Bank is also widely expected to keep policy on hold at this month's policy meeting on Thursday. Like the ECB, the Swiss central bank is keeping a further policy easing in reserve in case things deteriorate and stands

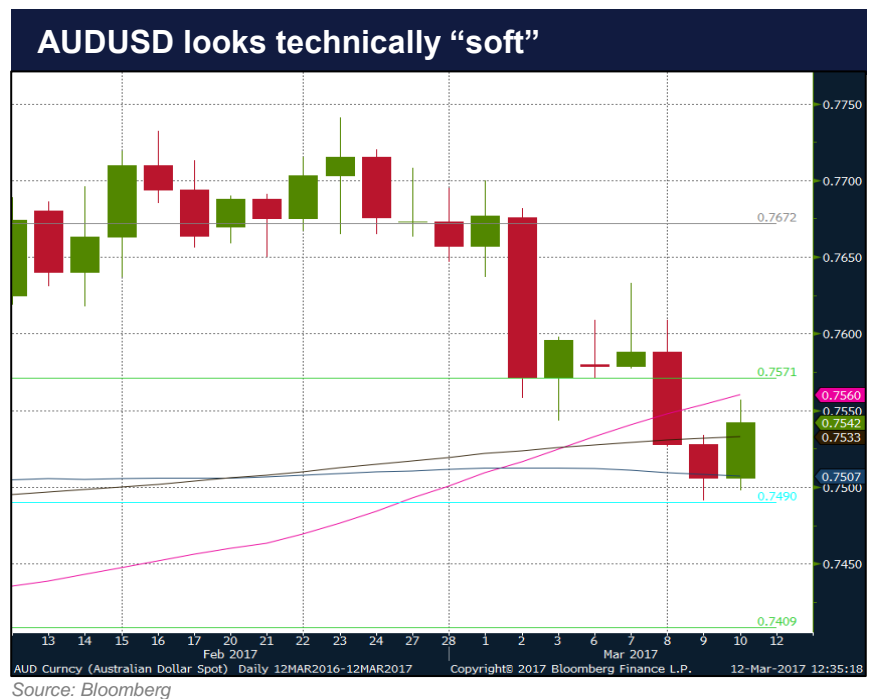
ready to intervene or tweak negative policy rates if necessary. The SNB's main focus remains on the franc, and the risk of safe haven inflows amid political jitters in the Eurozone and with Brexit negotiations about to start.

### AUDUSD to be driven by US data

While remaining the top performing currency of 2017, the AUD underperformed last week, losing against most of the other major currencies. The AUD found itself under pressure due to a combination of softer commodity prices and disappointing economic data.

For the week ahead, with Australian unemployment expected to remain at 5.7%, we expect the main drivers for the AUDUSD pair to be from the US, with a hawkish Fed and constructive US data likely to weigh on it.

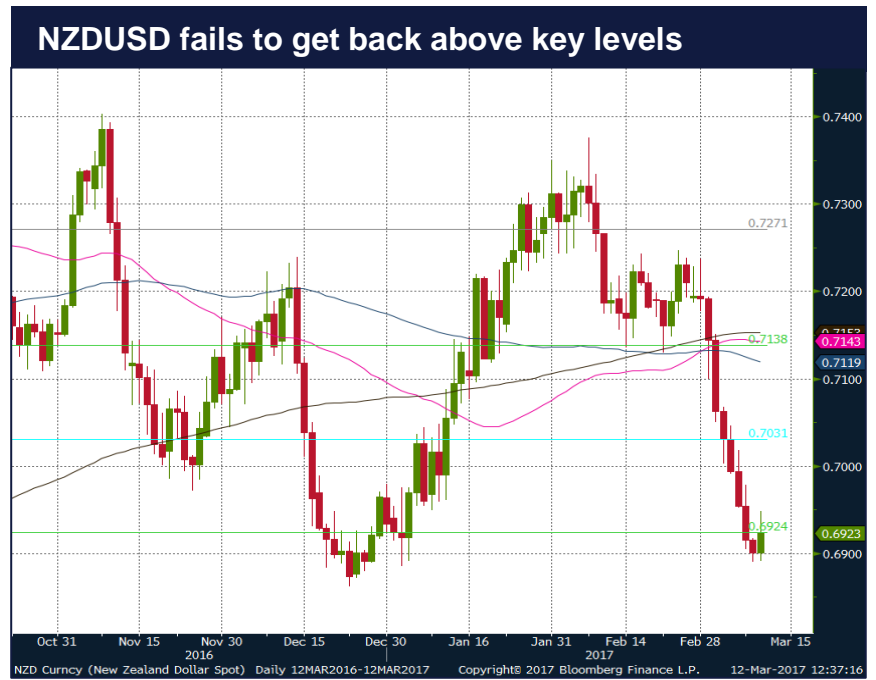
Technical considerations also point to further declines. While support was found on Thursday and Friday at the 100 day moving average of 0.7507, the pair failed to close the week above the 50 day MA of 0.7560. In addition, it remains below the 61.8% one year Fibonacci retracement of 0.7571, which acted as a support from the 2<sup>nd</sup> of March until the 8<sup>th</sup> of March. In the week ahead, we look for a break below 0.7490 to open the way for further declines towards 0.73, which remains our Q1 2017 target.



### NZDUSD hits our Q1 2017 target of 0.69

NZD underperformed again last week, softening against all the other G10 currencies (with the exception of the NOK), with NZDUSD reaching our Q1 2017 target (see below). The kiwi became a casualty of weak economic data, which showed that retail card spending had declined 0.6% m/m and 1.0% y/y in February. In addition, the volume of manufacturing activity fell 1.8% q/q in Q4 2016 pointing to a further slowdown in the economy. To add to pressure, the March 7<sup>th</sup> dairy auction was disappointing with whole milk power prices declining for a second consecutive time.

The week ahead has first tier data in the form of Q4 2016 GDP. However, with the data expected to show GDP slowed to 0.7% q/q, the NZDUSD is unlikely to enjoy support unless the report surprises on the upside. Furthermore, from a technical viewpoint, the pair looks vulnerable. Despite significant profit taking on USD post NFPs, the pair was only able to reverse a small portion of its losses and closed the week just below the 38.2% one year Fibonacci retracement of 0.6923. We expect further losses in the week ahead with a close below 0.68 a realistic prospect.



Source: Bloomberg

## FX Forecasts

FX Forecasts - Major						Forwards		
	10-Mar	Q1 2017	Q2 2017	Q3 2017	Q4 2017	3m	6m	12m
EUR	1.0673	1.0500	1.0200	1.0000	1.0000	1.0718	1.0770	1.0888
JPY	114.79	116.00	120.00	122.00	124.00	114.34	113.78	112.55
CHF	1.0109	1.0300	1.0500	1.1000	1.1000	1.0055	0.9993	0.9857
GBP	1.2167	1.2200	1.1800	1.2500	1.3500	1.2194	1.2227	1.2305
AUD	0.7542	0.7300	0.7200	0.7000	0.7000	0.7529	0.7518	0.7500
NZD	0.6923	0.6900	0.6700	0.6500	0.6700	0.6906	0.6892	0.6867
CAD	1.3471	1.3500	1.3400	1.3200	1.3000	1.3454	1.3433	1.3386
EURGBP	0.8776	0.8607	0.8644	0.8000	0.7407	0.8793	0.8812	0.8852
EURJPY	122.53	121.80	118.32	120.00	122.00	122.53	122.53	122.53
EURCHF	1.0787	1.0815	1.0710	1.1000	1.1000	1.0774	1.0760	1.0729

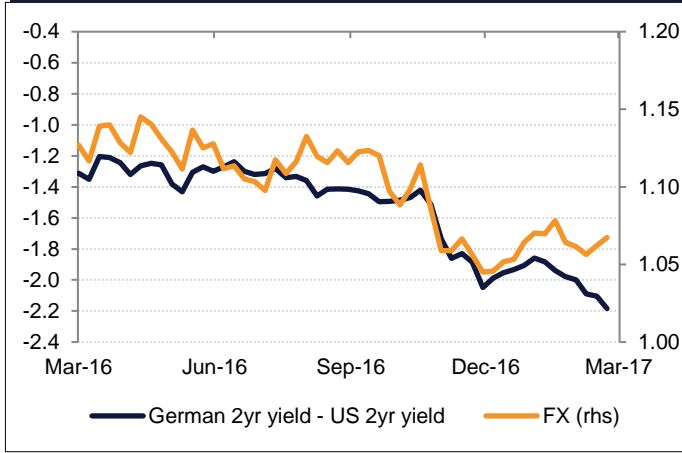
  

FX Forecasts - Emerging						Forwards		
	3-Mar	Q1 2017	Q2 2017	Q3 2017	Q4 2017	3m	6m	12m
SAR	3.7503	3.7500	3.7500	3.7500	3.7500	3.7520	3.7554	3.7700
AED	3.6729	3.6700	3.6700	3.6700	3.6700	3.6749	3.6768	-
KWD	0.3058	0.2900	0.2900	0.2900	0.3000	0.3062	0.3081	-
OMR	0.3850	0.3800	0.3800	0.3800	0.3800	0.3859	0.3874	0.3913
BHD	0.3770	0.3760	0.3760	0.3760	0.3760	0.3774	0.3776	0.3785
QAR	3.6413	3.6400	3.6400	3.6400	3.6400	3.6448	3.6488	3.6598
EPN	17.6044	18.0000	18.5000	18.7500	19.0000	17.8150	18.1150	18.8500
INR	66.605	68.000	66.000	65.000	65.000	67.1200	67.8800	69.4100
CNY	6.9093	7.0000	7.1000	7.2000	7.4000	6.9720	7.0321	7.1425

Source: Bloomberg, Emirates NBD Research  
 \*Denotes USD peg

## Major FX and Nominal Interest Rates

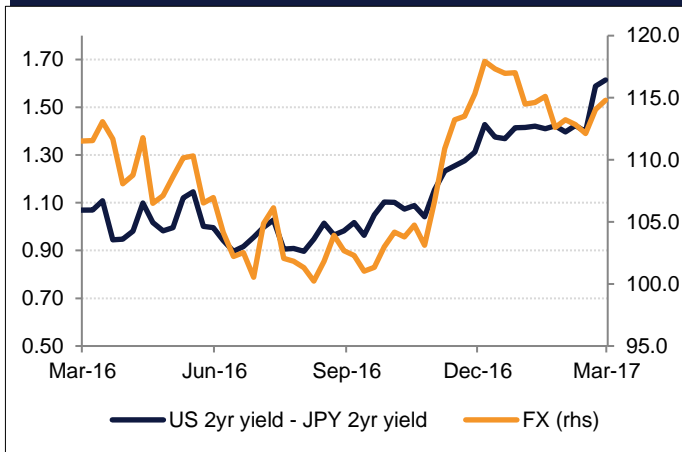
### Interest Rate Differentials - EUR



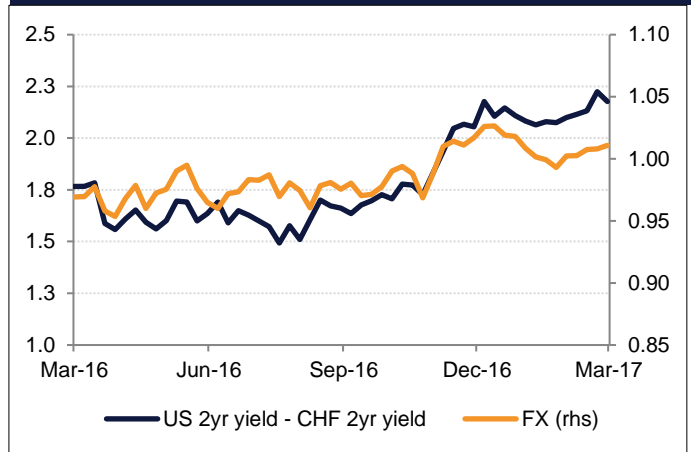
### Interest Rate Differentials - GBP



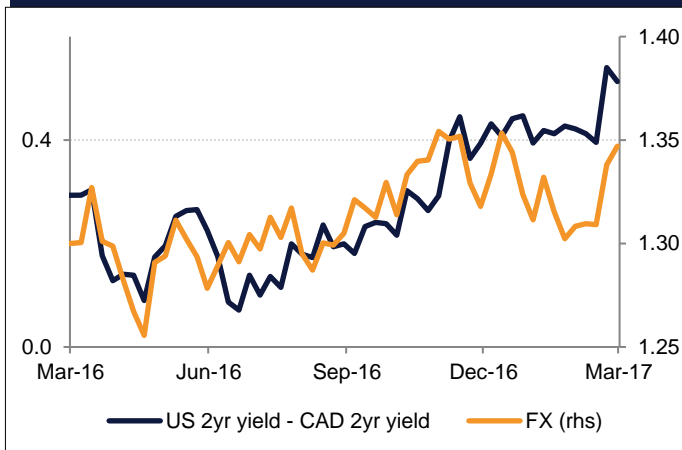
### Interest Rate Differentials - JPY



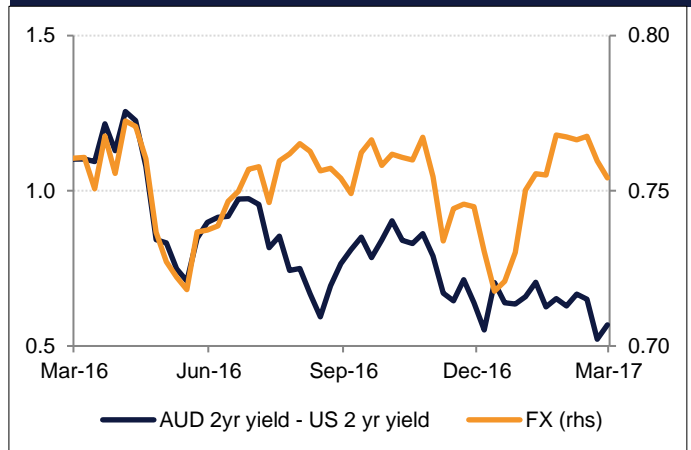
### Interest Rate Differentials - CHF



### Interest Rate Differentials - CAD

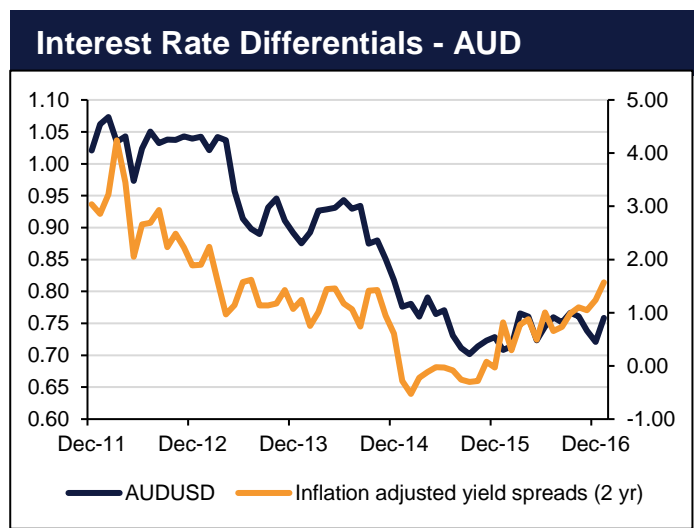
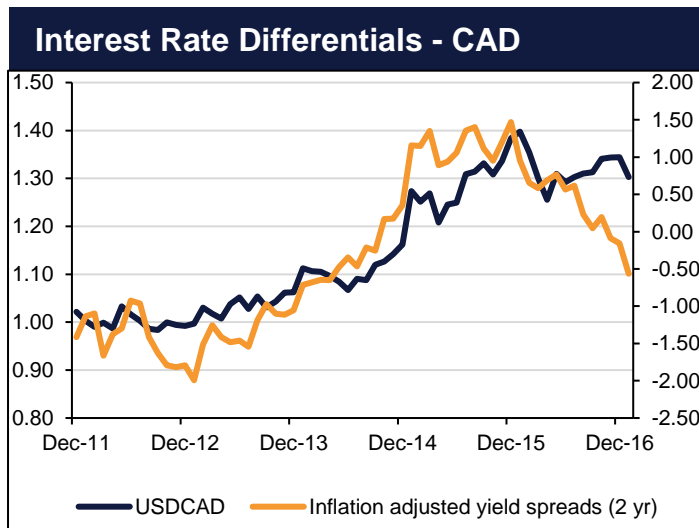
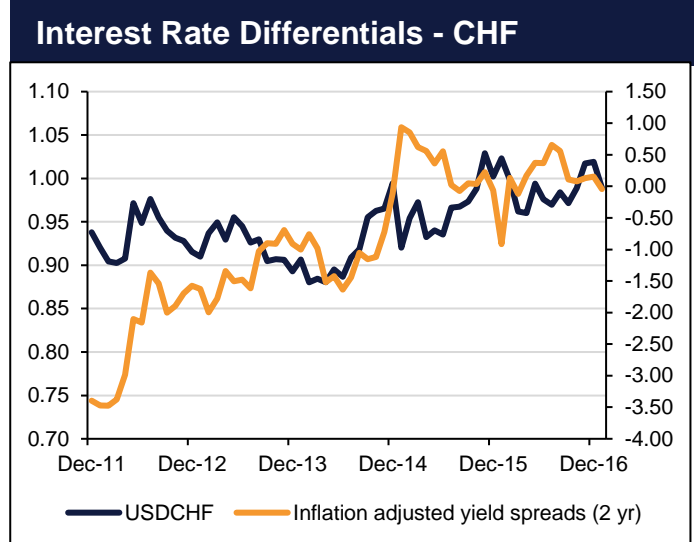
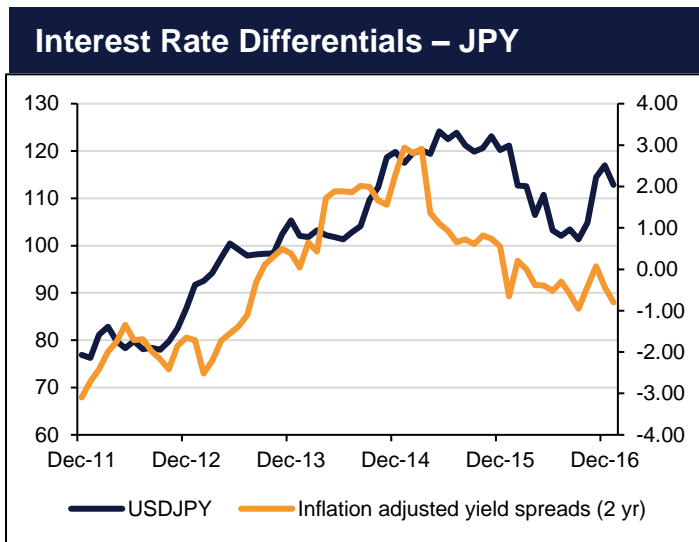
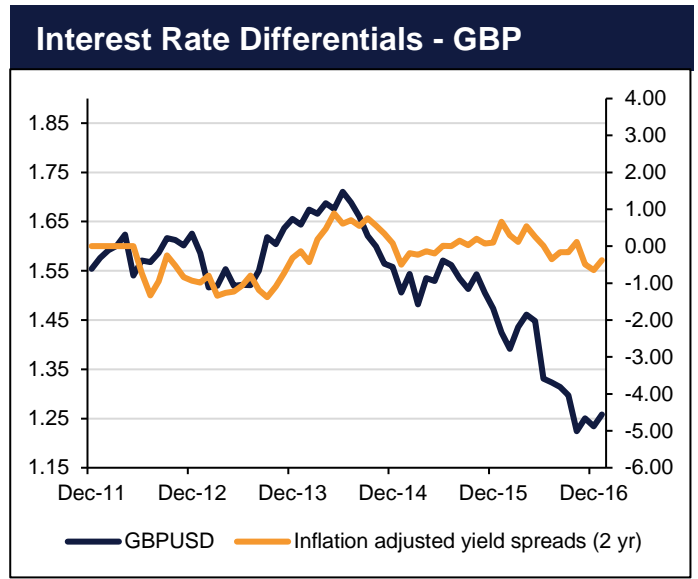
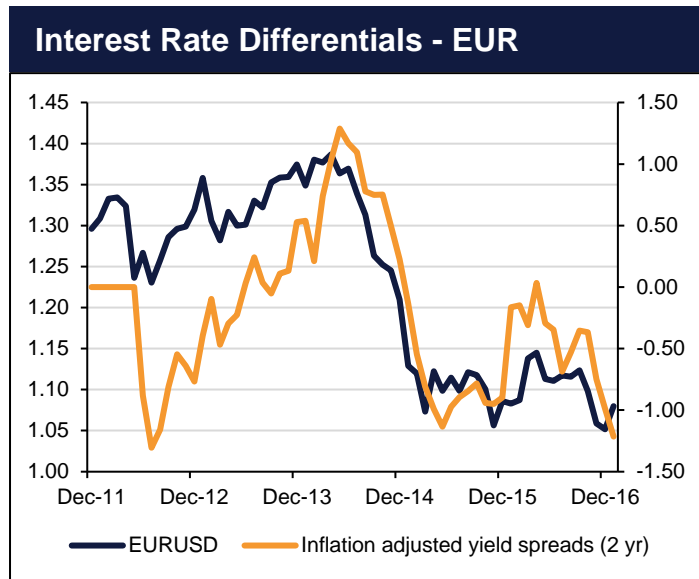


### Interest Rate Differentials - AUD



Source: Bloomberg, Emirates NBD Research

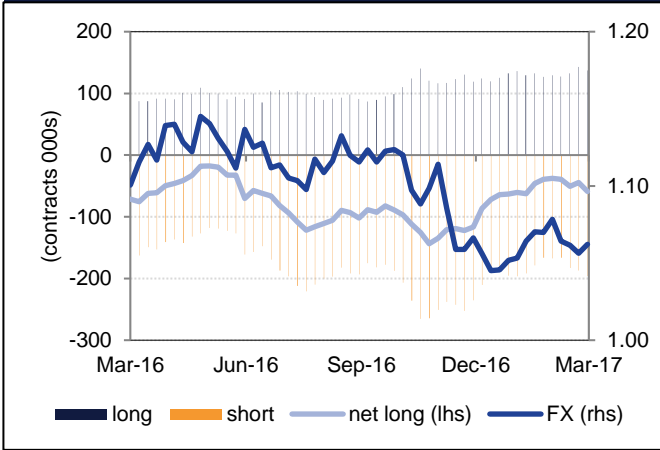
## Major FX and Real Interest Rates



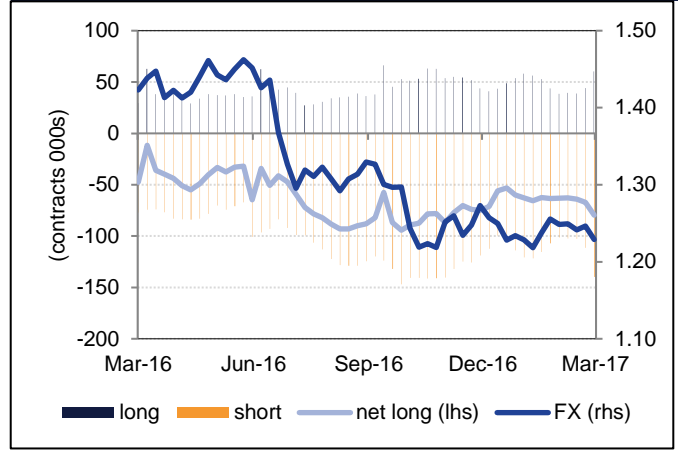
Source: Bloomberg, Emirates NBD Research

## Major Currency Positions

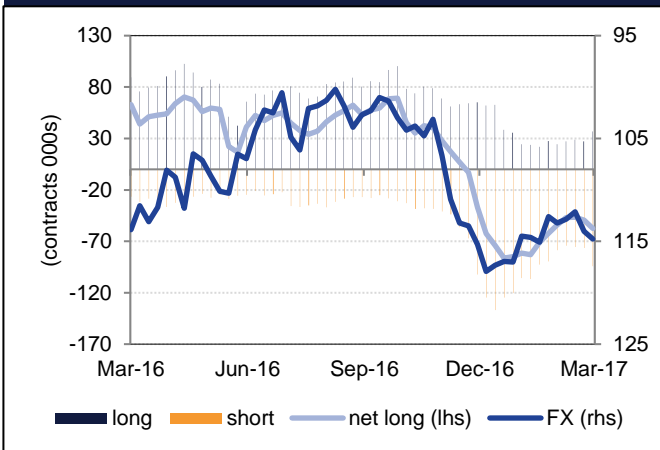
### CFTC – Speculative Positions - EUR



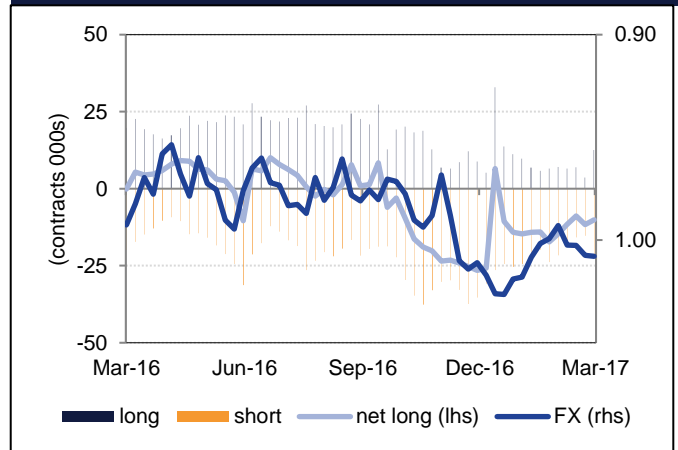
### CFTC – Speculative Positions - GBP



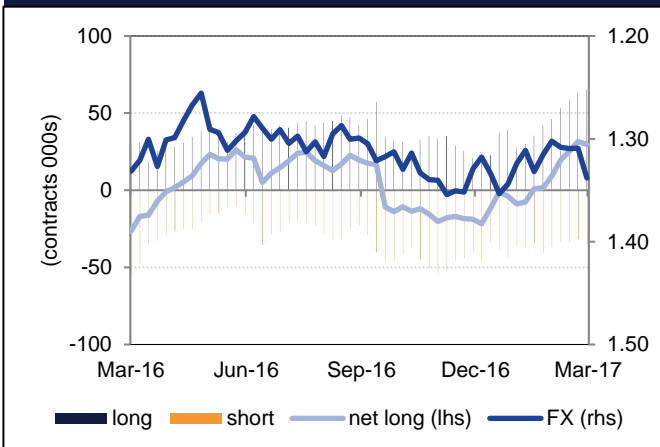
### CFTC – Speculative Positions - JPY



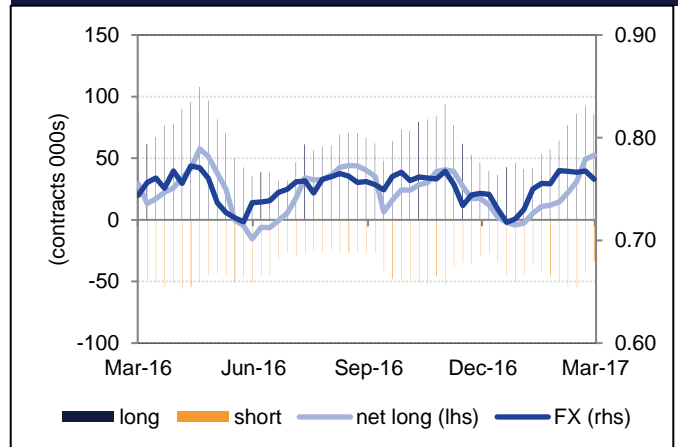
### CFTC – Speculative Positions - CHF



### CFTC – Speculative Positions - CAD



### CFTC – Speculative Positions - AUD





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