



بنك الإمارات دبي الوطني  
Emirates NBD

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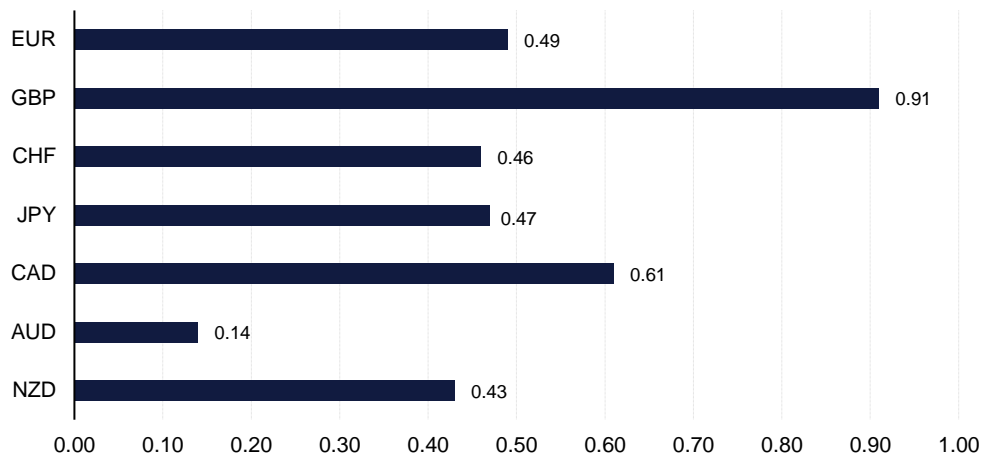
# FX Week

## Attention is on tax reforms and global risks

Geopolitical uncertainties are vying with more prosaic issues of US tax reform for market attention. Despite improving global growth, markets face significant distractions in Asia where President Trump is visiting, in the Middle East where tensions are rising, and in Europe over Brexit. The coming week will see more of the same, with tax reform at the top of the US domestic agenda, even as Trump's Asia trip continues to dominate the headlines. Inflation data will also be important in the US and the UK in determining how quickly and how much by interest rates will be raised further.

The focus in Washington will be on the House and Senate as they try to reconcile their respective tax plans in time for a possible vote before the end of the year. Differences are likely to emerge over the Senate's bill which would delay the proposed 20% corporate tax cut until 2019, while uncertainties over other aspects of it will also be a potential limit to further equity market gains. Rising yields are helping to underpin the dollar for now, which is sustaining its recent gains, as bond markets are becoming concerned about a possible surge in the budget deficit. Inflation data has the potential to add to such pressures if they show underlying prices turning higher, which is expected, even as headline prices may be tamer as last month's headline energy price rises moderate. Other data releases from the US are also likely to be largely reassuring, showing that retail sales and industrial production go off to a strong start in Q4. Speeches by Fed officials will also draw attention now that Yellen's successor Jerome Powell is known, with Yellen herself speaking at an ECB sponsored event on Tuesday alongside Mario Draghi, the BoJ's Kuroda and the BOE's Mark Carney.

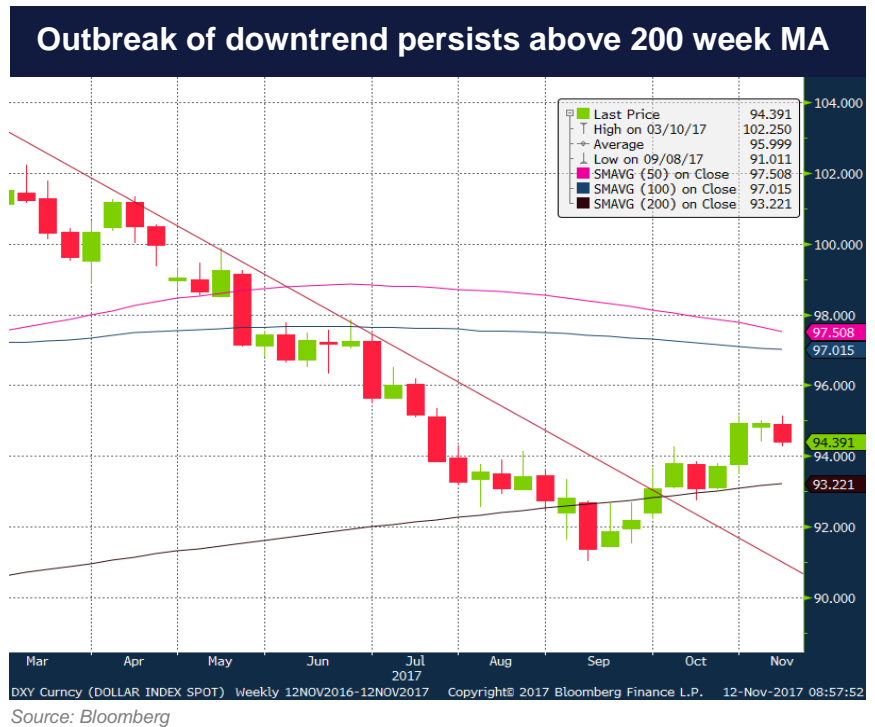
## Weekly currency movement vs USD (%)



Source: Bloomberg, Emirates NBD Research

## USD posts weekly decline for first time in a month

The Dollar Index (DXY) declined by 0.58% last week to close at 94.391, snapping three consecutive weeks of gains. Despite this decline, both the daily and weekly candle charts reveals that the reversal of the former 2017 YTD downtrend remains in effect. Also of note is that the index has remained above the 200 week moving average (93.221) for seven consecutive weeks now. While the index continues to trade above this level, we expect the usual Q4 dollar strength to be the prevalent theme for the rest of the year, even amidst volatile global conditions, and look for further gains in the dollar index towards 97.00, not far from the 100 week MA.



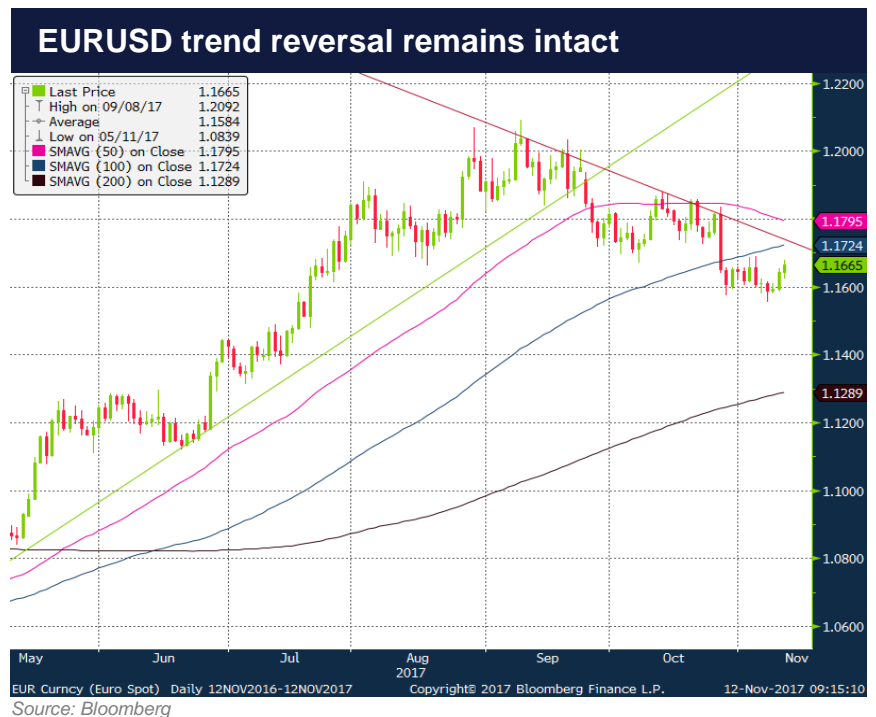
## Markets remain uncertain over ECB intentions

The Euro will also face more conjecture and uncertainty over ECB monetary policy with a large number of ECB officials doing the conference rounds and likely to once again reveal a growing divergence between the hawks and the doves at the central bank. Final Eurozone inflation data for October will be the main economic release which may lend a hand to the dovish camp with core inflation expected to be confirmed at 0.9%. Against this however, growth indicators are expected to be largely positive in Italy and Germany.

## Euro remains bearish despite second week of gains

EURUSD gained 0.49% last week, rising for a second consecutive week, to close at 1.1665. This weekly close took it just above the 200 week moving average (1.1662) which had acted as a support level for many previous weeks. However, the gains were still not sufficient enough to take the price back above the 76.4% one year Fibonacci retracement (1.1679).

Further analysis of the daily candle charts shows that EURUSD appears to be in a new daily downtrend that has been in effect since 11 September 2017 as evidenced by the pattern of lower highs and lower lows. For this new downtrend to be put in jeopardy, we would need to see a firm daily close above the 100 day moving average (1.1724) and the 50 day moving average (1.1795). While the daily price stays below this level, risks remain to the downside and we expect further declines towards 1.15 over the next month, with a break of this psychological level paving the way for further declines towards 1.1420, not far from the 61.7% one year Fibonacci retracement (1.1423).



### Further tests lie ahead for the pound...

Sterling is facing another testing week as political risks mount for the UK government. The loss of a second cabinet minister in recent weeks is prolonging the sense of decay surrounding the May leadership, with the EU adding to the pressure on it by imposing a two-week deadline for reaching a financial settlement over Brexit. The UK economy does appear to be reaping some rewards from a softer GBP as industrial production rose strongly in September (0.7%), and the trade deficit narrowed. However, projections for future growth are being reined in, a situation not made any easier by inflation which is expected to reach a new cycle high in October of 3.1% this week. The BoE is still anticipating CPI to decline to 2.4% in 2018 after 3.0% this year, and to drift lower to 2.2% y/y in 2019, but any sharper upturn in near term prices might spark concerns about the Bank having to tighten policy more aggressively than the two hikes that are priced in over the next two years.

### ..which has snapped three weeks of declines

Following three weeks of consecutive declines, GBPUSD managed to rise 0.87% last week to close at 1.3196, taking the price back between the 50 and 100 day moving averages (1.3246 and 1.3107 respectively). Further gains in the week ahead are likely to be severely hindered as just ahead lie many zones of resistance. These include the 76.4% one year Fibonacci retracement (1.3263), the 200 week moving average 1.3217 and the 50 day moving average (1.3246). Should cable be able to overcome these levels, further gains towards 1.34 might follow. However, on the downside a break of 1.3107 could lead to a retest of 1.3050, and in these circumstances a further descent towards 1.28 (close to the 50 week MA of 1.2792) cannot be ruled out.

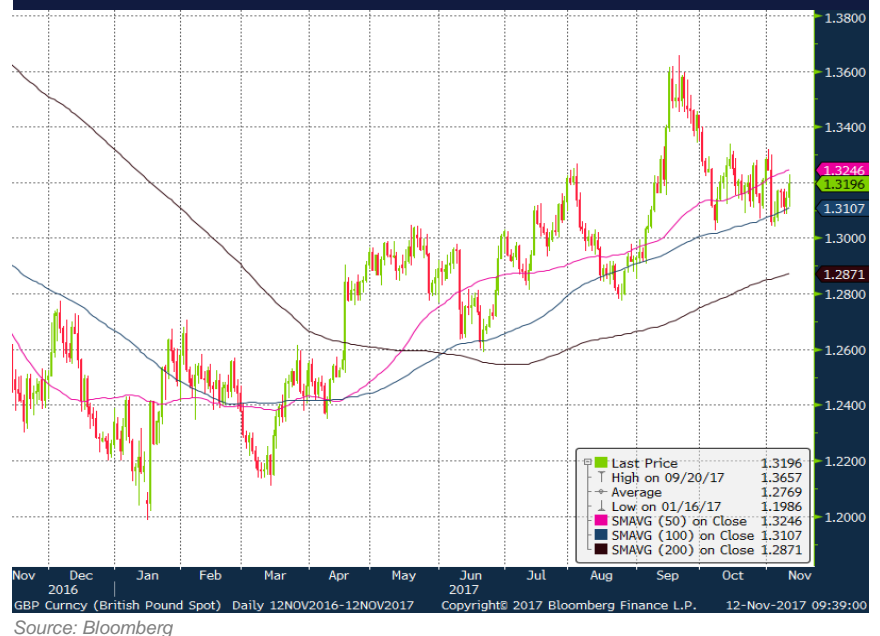
### Cable trades sideways between 50 and 100 day MAs



### GDP to drive JPY

The main domestic focus for the JPY this week will be on Japan's Q3 GDP data, although widening international rate differentials are probably the main factor propelling USDJPY to higher levels currently. After six consecutive quarters of economic expansion the interest will be over whether such momentum can be maintained. USDJPY declined 0.47% last week to close at 113.53. The exchange rate had traded as high as 114.73 on Monday before failing to hold gains above the 114.20 capping resistance level which has been halting further gains since May 2017. At present we expect risk appetite and the 10 year yield gap to drive the price action of USDJPY with resistance being found at 114.20 and support being found at 112.59 (the 50% one year Fibonacci retracement).

### 114.20 continues to halt USDJPY advancement



### Busy data calendar in week ahead

Elsewhere in Asia, Chinese October industrial production, retail sales and fixed investment figures are all due out this week. India also has October CPI and WPI which have upside risks limiting the potential for further rate cuts. In Australia the focus will be on employment data, as well as on a speech by the RBA Deputy Governor Debelle. More interest may fall on the NZD however. The kiwi was bought following the RBNZ meeting on Thursday at which the central bank kept interest rates at a record low level of 1.75% but raised their inflation forecasts and brought forward the time of expected rate hikes from Q3 2019 to Q2 2019. In addition economic data showed that credit card spending grew by 0.4% m/m in October compared with a 0.1% contraction the previous month. NZDUSD advanced for a second week gaining 0.4% to close at 0.6937, but the potential for further gains look to us to be more limited. We expect any further advances to be capped initially by the 23.6% one year Fibonacci retracement (0.6993) and then more firmly by the 100 week moving average of (0.7042). Indeed the path of least resistance appears to be a retest of the one year lows (0.6818), a break of which would catalyze an even bigger move towards 0.6769, the 23.6% five year Fibonacci retracement.



## FX Forecasts

FX Forecasts - Major						Forwards		
	10-Nov	Q4 2017	Q1 2018	Q2 2018	Q3 2018	3m	6m	12m
EUR	1.1665	1.1500	1.1500	1.1800	1.2000	1.1731	1.1797	1.1944
JPY	113.53	114.00	116.00	118.00	120.0000	112.97	112.38	111.05
CHF	0.9961	1.0000	1.0400	1.0400	1.0400	0.9893	0.9827	0.9687
GBP	1.3196	1.3400	1.3600	1.4000	1.4200	1.3236	1.3275	1.3356
AUD	0.7661	0.7500	0.7200	0.7000	0.7200	0.7656	0.7652	0.7647
NZD	0.6937	0.6900	0.7000	0.7100	0.7100	0.6927	0.6920	0.6907
CAD	1.2682	1.2500	1.2500	1.2600	1.2600	1.2668	1.2657	1.2639
EURGBP	0.8841	0.8582	0.8456	0.8429	0.8451	0.8865	0.8888	0.8944
EURJPY	132.39	131.10	133.40	139.24	144.00	132.39	132.39	132.39
EURCHF	1.1618	1.1500	1.1960	1.2272	1.2480	1.1605	1.1592	1.1569

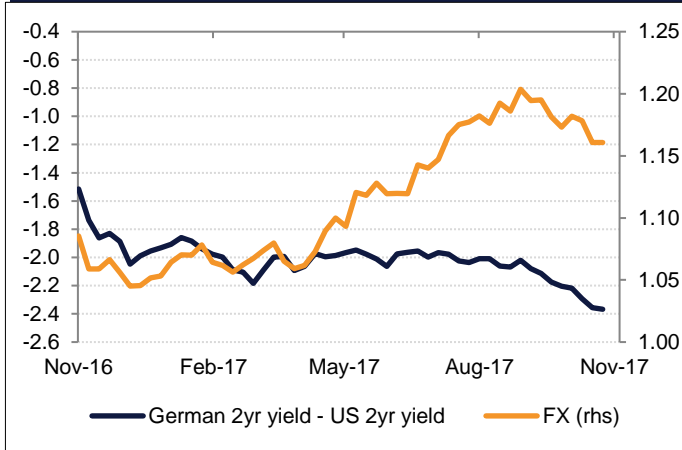
  

FX Forecasts - Emerging						Forwards		
	10-Nov	Q4 2017	Q1 2018	Q2 2018	Q3 2018	3m	6m	12m
SAR	3.7505	3.7500	3.7500	3.7500	3.7500	3.7545	3.7590	3.7785
AED	3.6731	3.6730	3.6730	3.6730	3.6730	3.6748	3.6765	--
KWD	0.3026	0.3050	0.3050	0.3050	0.3050	0.3035	0.1540	--
OMR	0.3850	0.3850	0.3850	0.3850	0.3850	0.3857	0.3868	0.3905
BHD	0.3780	0.3770	0.3770	0.3770	0.3770	0.3786	0.3792	0.3811
QAR	3.8387	3.8400	3.8400	3.8400	3.8400	3.8530	3.8430	3.8475
EGP	17.6501	17.5000	17.2500	17.0000	16.8000	18.1050	18.5700	19.5550
INR	65.166	65.000	66.000	66.000	66.000	66.0900	66.7200	67.9500
CNY	6.6409	6.7000	6.9000	7.0000	7.1000	6.7070	6.7455	6.8141

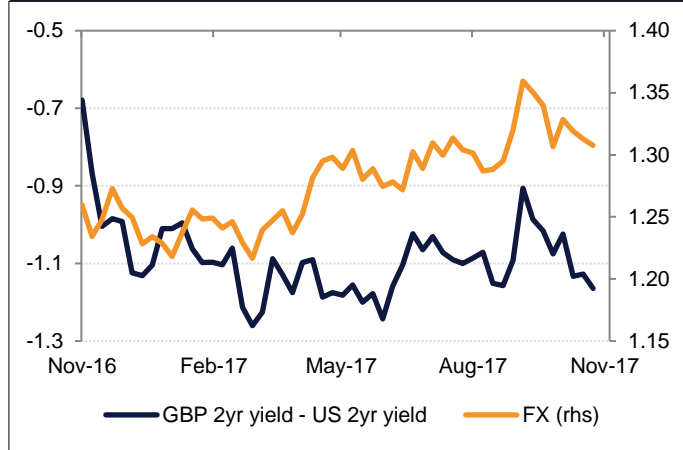
Source: Bloomberg, Emirates NBD Research  
 \*Denotes USD peg

## Major FX and Nominal Interest Rates

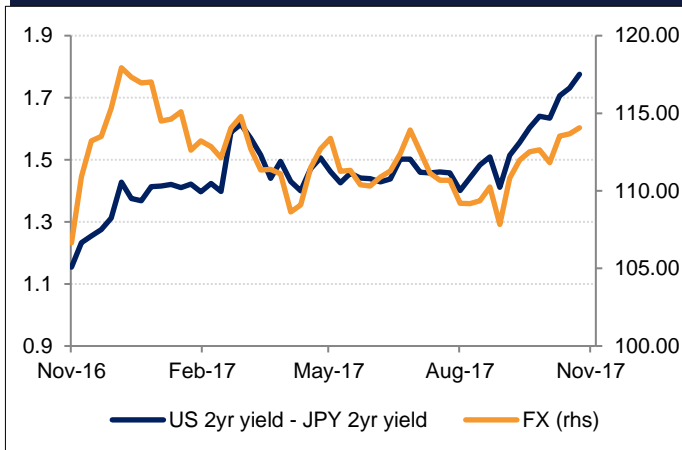
### Interest Rate Differentials - EUR



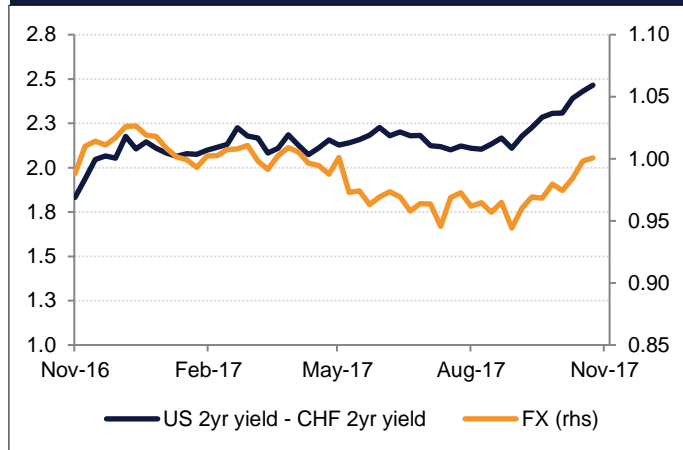
### Interest Rate Differentials - GBP



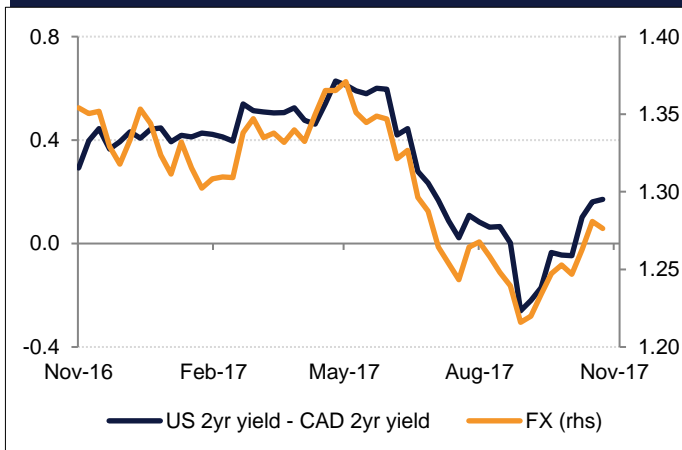
### Interest Rate Differentials - JPY



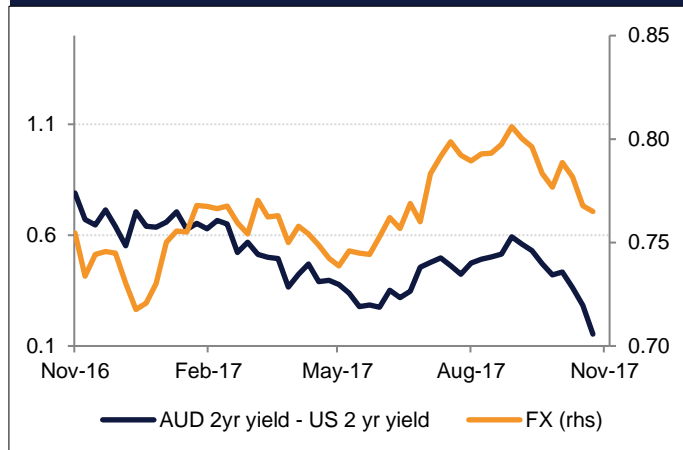
### Interest Rate Differentials - CHF



### Interest Rate Differentials - CAD

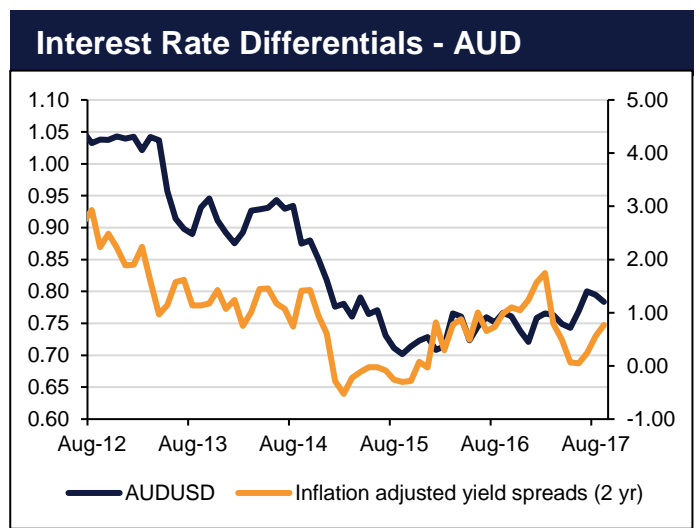
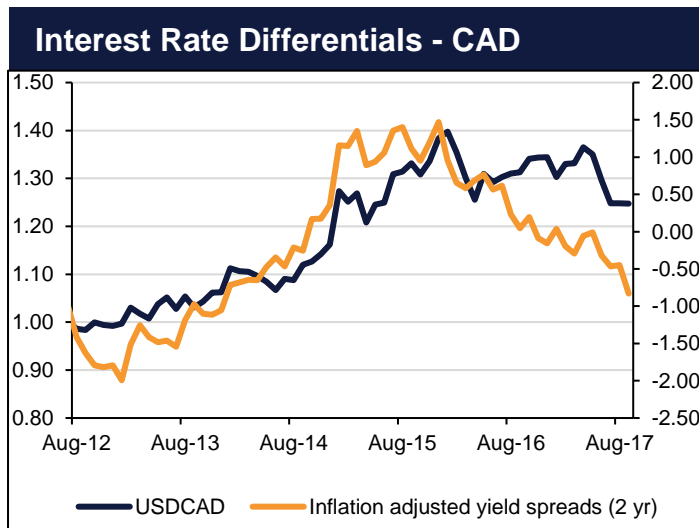
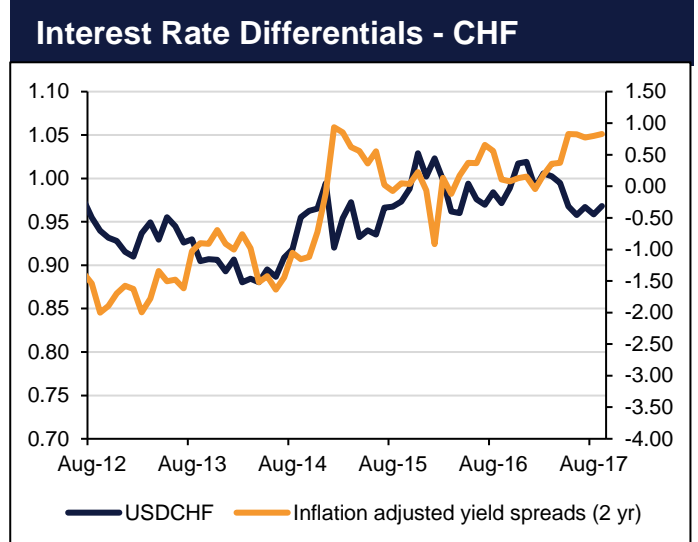
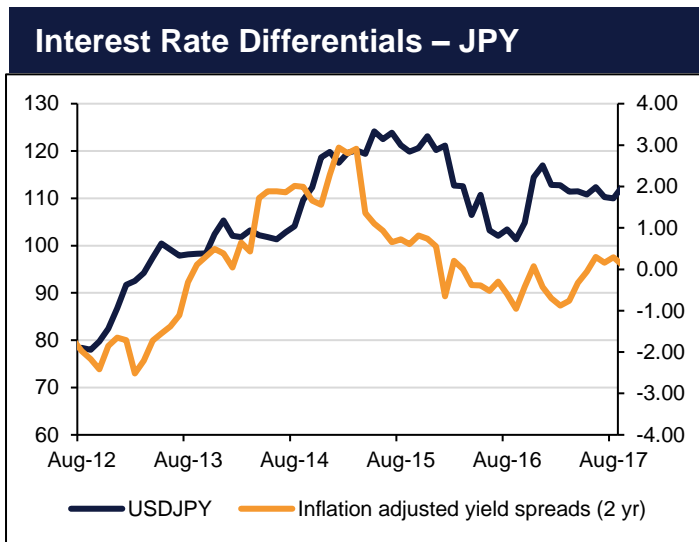
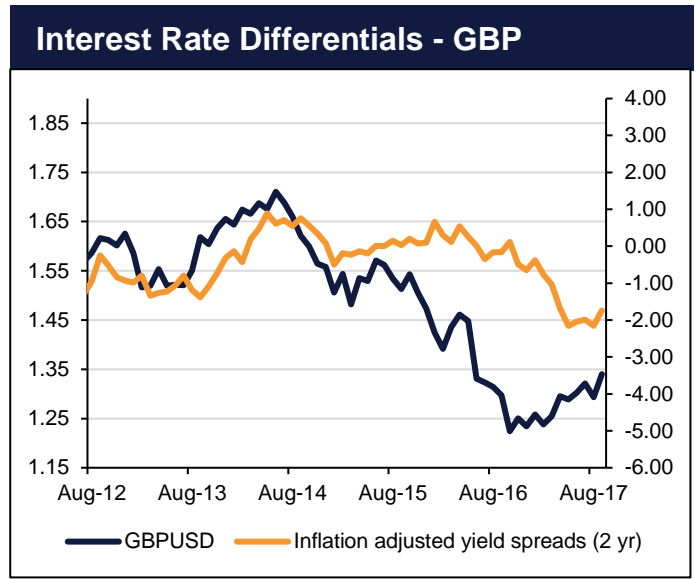
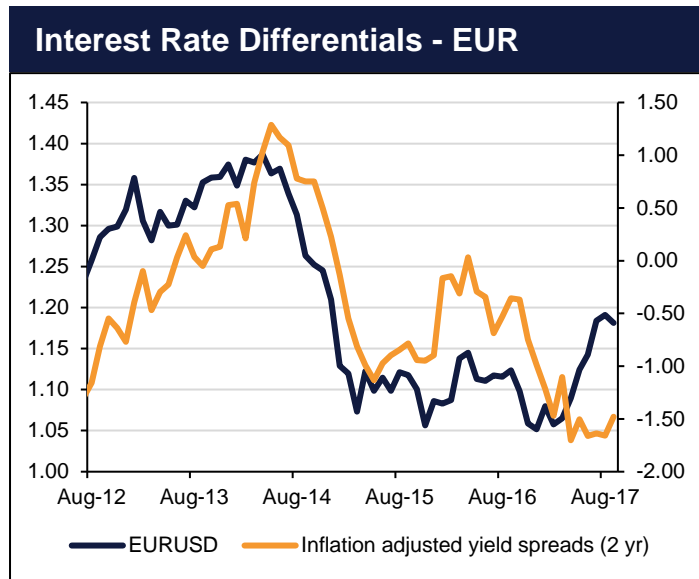


### Interest Rate Differentials - AUD



Source: Bloomberg, Emirates NBD Research

## Major FX and Real Interest Rates

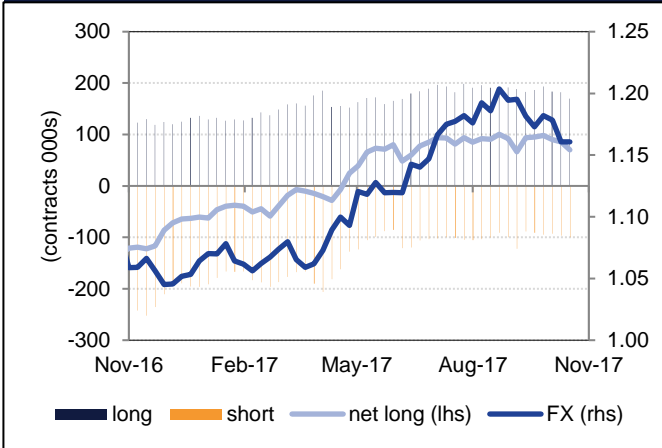


Source: Bloomberg, Emirates NBD Research

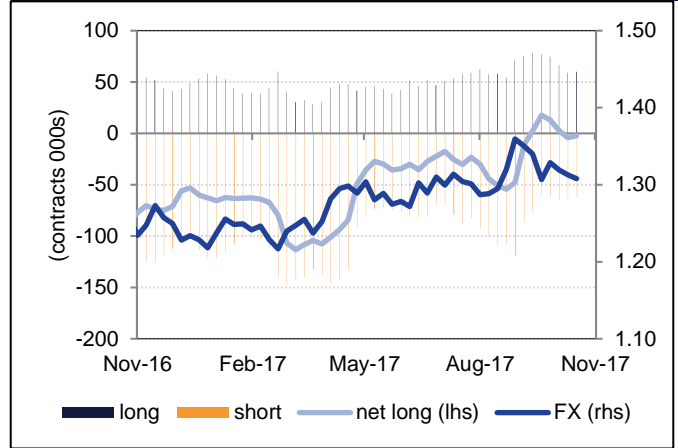


## Major Currency Positions

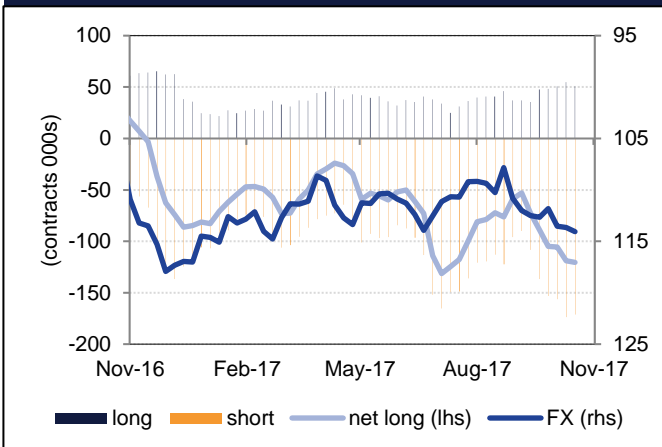
### CFTC – Speculative Positions - EUR



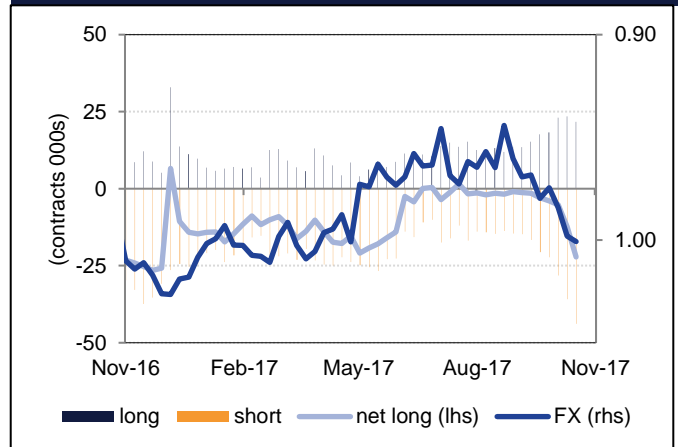
### CFTC – Speculative Positions - GBP



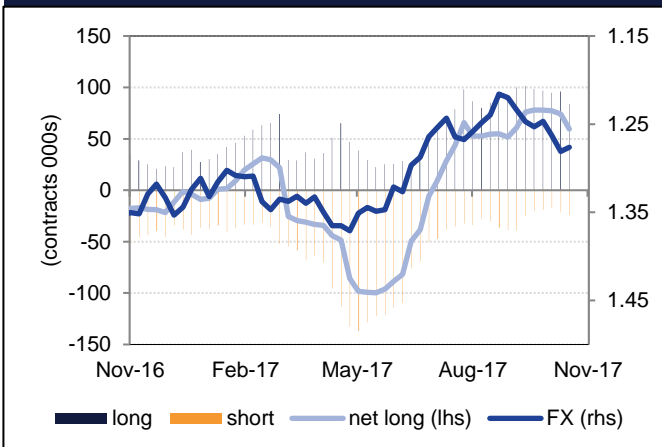
### CFTC – Speculative Positions - JPY



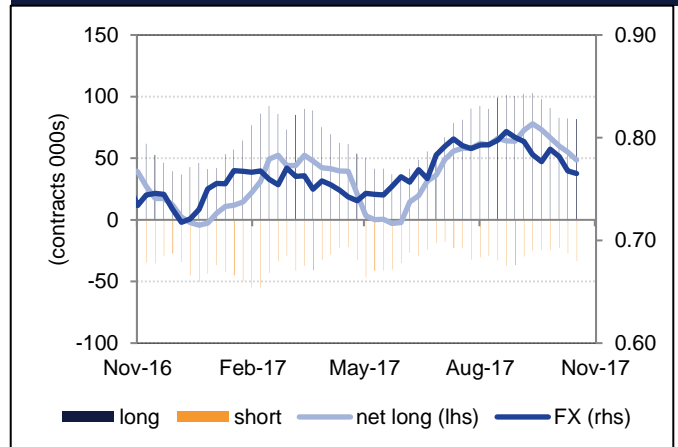
### CFTC – Speculative Positions - CHF



### CFTC – Speculative Positions - CAD



### CFTC – Speculative Positions - AUD



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