



بنك الإمارات دبي الوطني
Emirates NBD

Weekly
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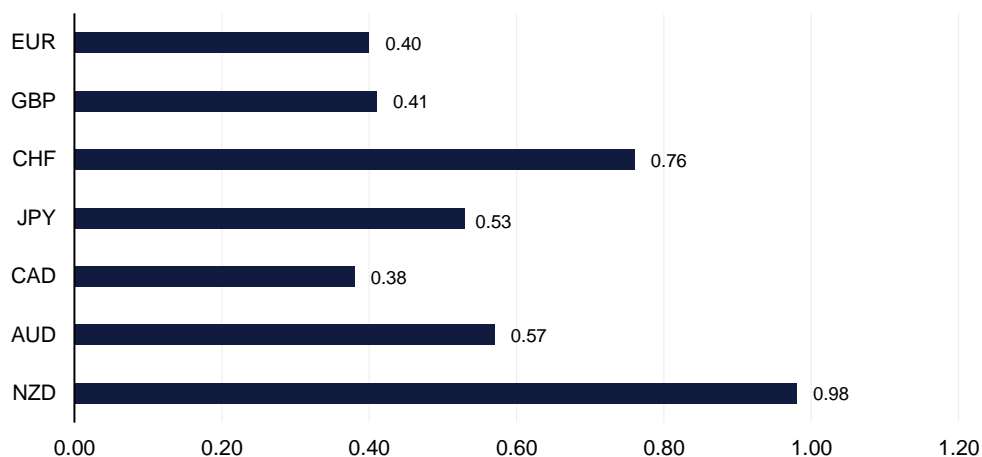
FX Week

With Fed Chair Jerome Powell validating July rate cut expectations last week the USD sold off. Powell cited concerns over trade tensions, poor business sentiment and sluggish inflation and wage growth, which he saw as overriding the positive jobs data in June. Last week saw US CPI rise 0.1% m/m in June, while the core rose 0.3% m/m, more than expected. On a y/y basis, headline prices slowed to a 1.6% y/y pace versus 1.8% y/y, and excluding food and energy, it increased to 2.1% y/y versus 2.0% y/y before. PPI also saw a 0.3% m/m rise in the core rate, which might also have implications for headline inflation down the road. We had thought it more likely that the Fed would wait through the summer before easing monetary policy, but with its mind seemingly made up the risk is that it begins to be seen as more of a political decision, after vocal pressure exerted by the White House. **Powell reaffirmed the independence of the Fed in his latest testimony and stated that he would serve to the end of his four-year term, but it is almost certain that in deciding to cut interest rates later this month Powell will face even greater pressure from President Trump to be more aggressive in cutting rates in the future, especially heading into an election year in 2020.** Indeed, the markets are again seeing a decent 20% chance of a 50bps cut at the July meeting, with two rate cuts now fully discounted between now and the end of the year.

This should in turn add to downside pressure on the USD over time, especially with President Trump increasingly arguing for a weaker USD. Much will depend on how the rest of the world responds. There is already considerable speculation about the ECB easing policy at its next July 25 meeting, while the BoE has also turned less hawkish in the context of rising Brexit uncertainty.

There are a number of U.S. economic reports and Fed officials speaking in the coming week, but it is unlikely if any of these will alter the outlook for the July FOMC meeting. Chinese Q2 GDP, industrial production and retail sales data will be monitored for signs that trade tensions are weighing on global growth, with Singapore GDP last week contracting by 3.4% q/q in Q2. The Bank of Korea and Bank Indonesia could both cut interest rates in the coming days, while in the Eurozone it will be a quiet week as holidays take hold. **The last full week before the new UK Prime Minister is known will also keep GBP sentiment guarded, but with all the signs pointing to a Boris Johnson victory, maintaining concerns about the possibility of a 'no deal' Brexit.**

Weekly currency movement vs USD (%)



Source: Bloomberg, Emirates NBD Research j

EURUSD

EURUSD rises as FED turns dovish

Over the last week, comments from the Federal Reserve have kept the dollar under pressure. The President of the Richmond Fed, Thomas Barkin stated that risks are more tilted to the downside rather than balanced. Charles Evans, the president of the Chicago Fed has stated that a rate cut could be justified as a result of absent inflationary pressures and slower global growth. But most importantly, Fed Chairman Jerome Powell was also dovish in his congressional testimony failing to dampen rate cut expectations, and in so doing validating market expectations of a July cut. All of this, combined with dovish Fed minutes and U.S. Treasury Secretary Steven Mnuchin's warnings on the US debt limit, which may be reached as early as the first week of September, catalyzed dollar weakness to the benefit of EURUSD.

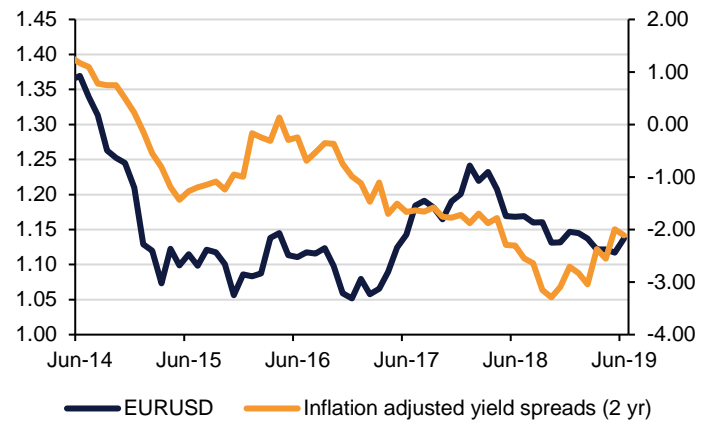
The next week brings reports of retail data, consumer confidence and production data out of the United States. However, such data is unlikely to give the dollar much relief. As we go to print, the market is currently pricing in a 100% chance of a rate cut at the central bank meeting scheduled to take place later this month. This is likely to support EURUSD in the medium term.

Technical outlook

A 0.23% rise over the last five days saw EURUSD close the week at 1.1270. Over the course of the week the price was able to break above the 50-day and 100-day moving averages (1.12542 and 1.1255 respectively). These former resistance levels are now providing support. In the week ahead, a break of the 23.6% one-year Fibonacci retracement (1.1274) has the potential to trigger a larger move towards 1.1350, with the chances of this increasing while the price remains above the 100-day moving average.

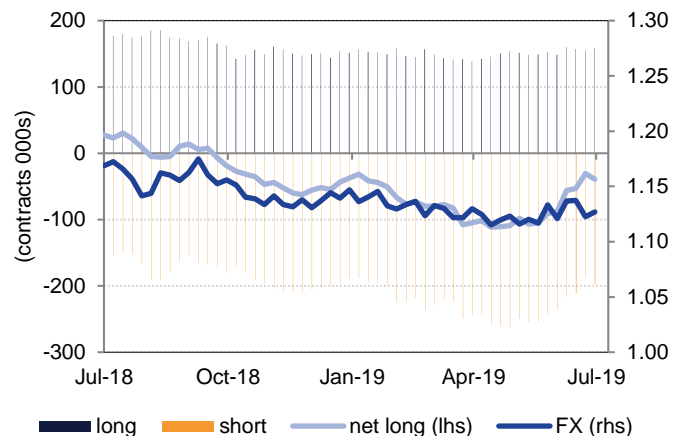
Forecasts	Spot	1 Week	1 month
EURUSD	1.1270	1.1350	1.1500
EURGBP	0.8965	0.9080	0.9200
EURJPY	121.62	121.45	124.20

Yield Spreads



Source: Bloomberg, Emirates NBD Research

Net Positioning



Source: Bloomberg, Emirates NBD Research

Daily Candle Chart



Source: Bloomberg, Emirates NBD Research

USDJPY

USDJPY falls amid growth concerns

USDJPY fell for the first time in three weeks amid concerns over global growth and increasing expectations for looser US monetary policy. With President Donald Trump taking to Twitter and criticizing China over a failure to buy more US agricultural goods, trade concerns have resurfaced. In addition, economic data has shown that Chinese exports fell 1.3% y/y in June, while Singapore's Q2 2019 GDP showed a 3.4% q/q contraction. Amid this environment of risk aversion haven assets such as the Japanese yen have performed well.

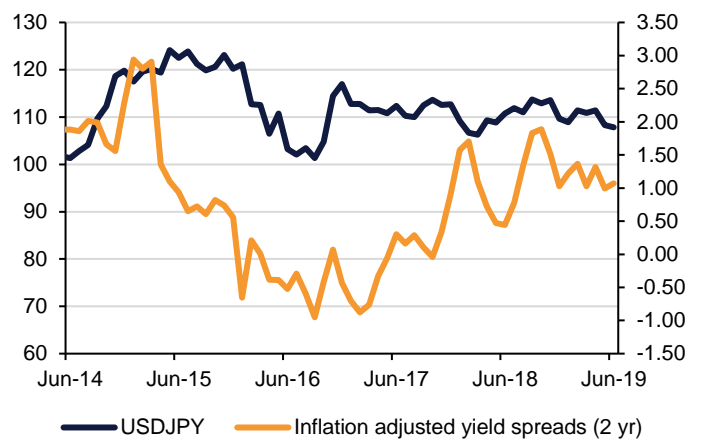
In the week ahead risk appetite (or lack of) and yields are likely to be the main drivers of USDJPY price action. The principle driver may very well be GDP, retail and production data expected from China. Investors are very likely to use these as a proxy to determine the impact of trade tensions on global growth and the risk is that any softness in the data will trigger renewed risk aversion.

Technical outlook

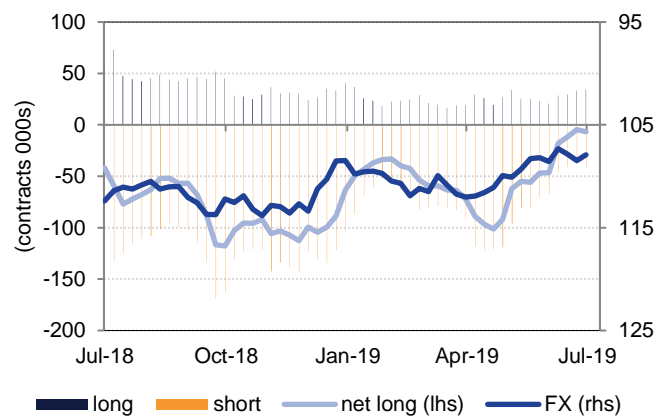
Over the last week, USDJPY fell by 0.51% to close at 107.91. Despite gaining ground at the start of the week, further gains were capped by the 50-day moving average (108.79) a level which has provided resistance since May 3rd 2019. In addition to this, for a second week, the price closed below the 38.2% one year Fibonacci retracement (108.57). As a result of this bearish indicator, we believe that the path of least resistance is for USDJPY to realize further declines in the week ahead. Inspection of the 14-day RSI shows the indicator is at 42.594 and bearish in momentum which increases the potential risk of further declines.

Forecasts	Spot	1 Week	1 month
USDJPY	107.91	107.00	108.00
EURJPY	121.62	121.45	124.20
GBPJPY	135.67	133.75	135.00

Yield Spreads



Net Positioning



Source: Bloomberg, Emirates NBD Research

Daily Candle Chart



Source: Bloomberg, Emirates NBD Research

GBPUSD

GBP drops to two year low and then recovers

Last week the pound fell to a two-year low against the dollar before being able to finish the week on firmer footing. The initial decline was due to a combination of Brexit concerns and weaker than expected economic data. Firstly, the next most likely Prime Minister Boris Johnson has refused to rule out a no-deal departure, even if it meant dissolving parliament. Secondly, weaker than expected economic data has resulted in increased probability of a rate cut from the Bank of England. Like-for-like retail sales data released by BRC declined by a bigger than expected -1.6% y/y in June, following a -3.0% drop in May. A survey by Bloomberg News showed that economists now expect the UK economy to contract in Q2 2019. As a result, the OIS is now pricing in a 39.2% chance of a rate cut by the end of the year.

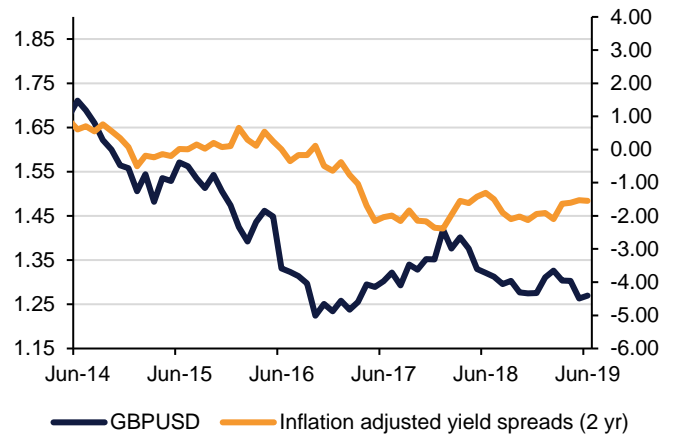
In the week ahead, UK employment data is expected to show that the labour market remains firm and consumer price inflationary pressures for June are likely to remain at 2.0% y/y. However, we expect Brexit headlines to continue to be the dominant driver behind sterling and as such, economic data is likely to take a secondary role to politics.

Technical outlook

GBPUSD had an active week finishing 0.42% higher at 1.2574. However this overall move does not reflect the true volatility of the cross during the week and the price had traded as low as 1.2440, a two year low. While the price remains below the 23.6% one-year Fibonacci retracement (1.2662), there is a vulnerability to additional declines.

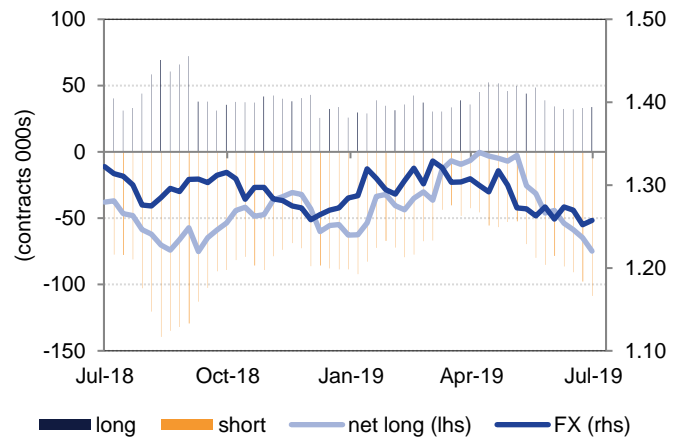
Forecasts	Spot	1 Week	1 month
GBPUSD	1.2572	1.2500	1.2500
EURGBP	0.8965	0.9080	0.9200
GBPJPY	135.67	133.75	135.00

Yield Spreads



Source: Bloomberg, Emirates NBD Research

Net Positioning



Source: Bloomberg, Emirates NBD Research

Daily Candle Chart



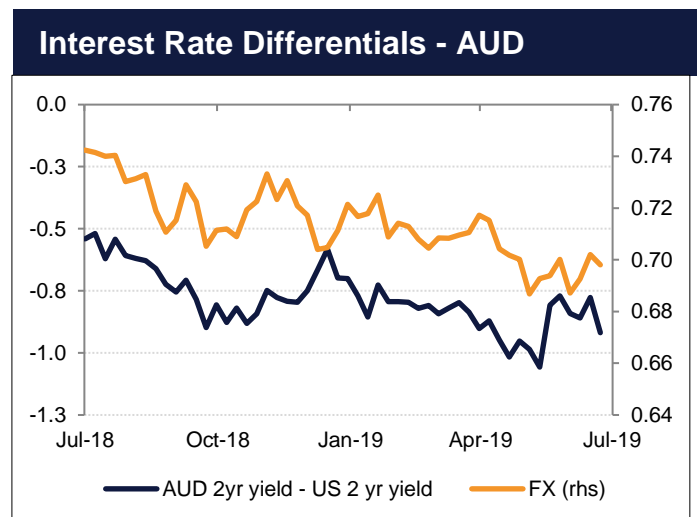
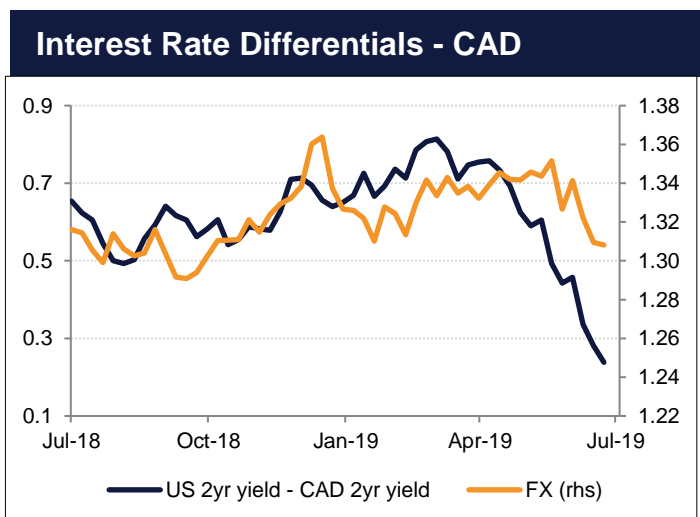
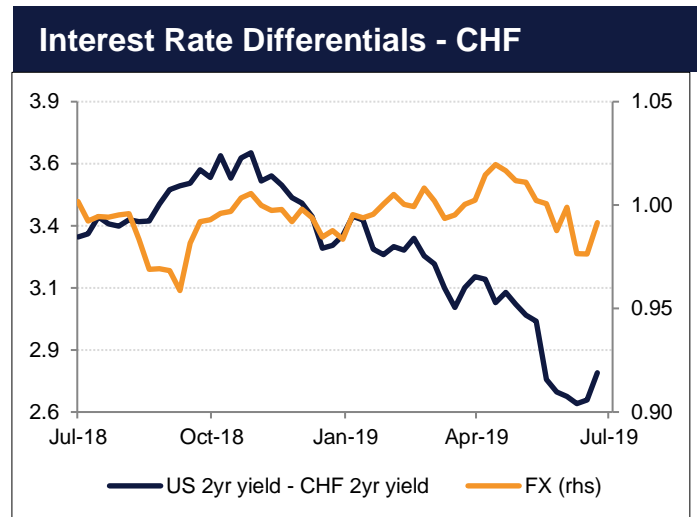
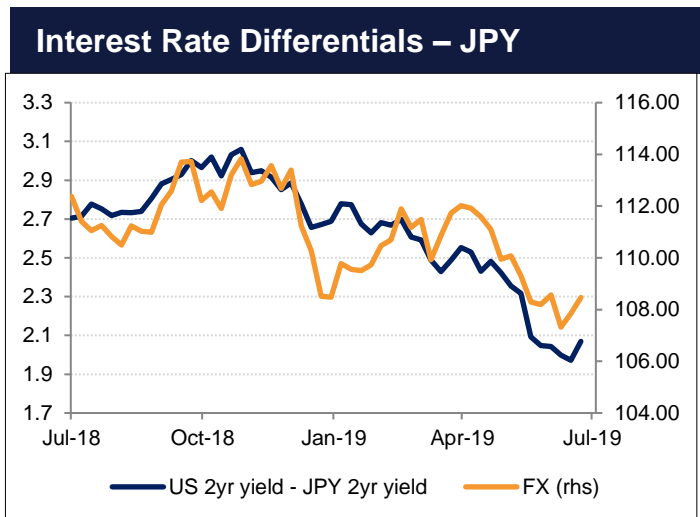
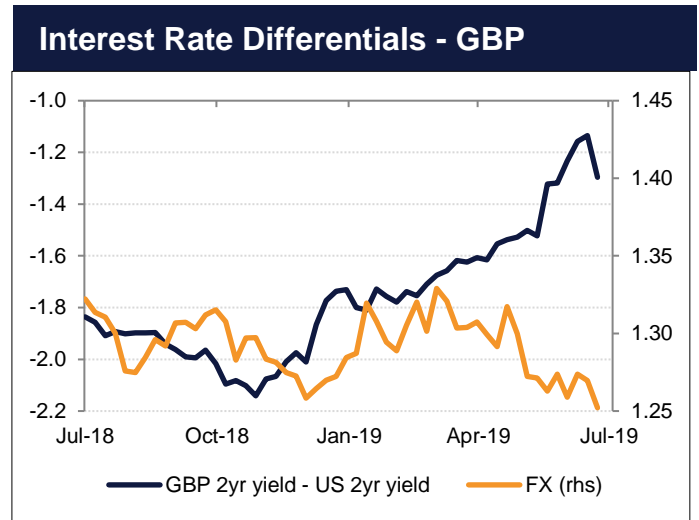
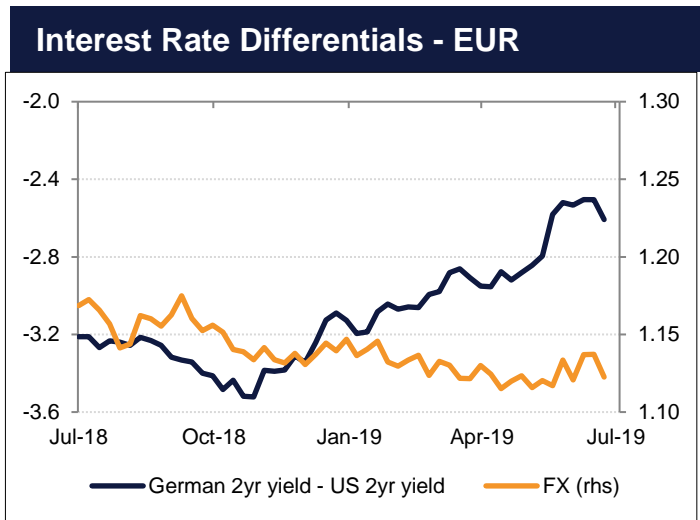
Source: Bloomberg, Emirates NBD Research

FX Forecasts

FX Forecasts - Major						Forwards		
	12-Jul	Q3 2019	Q4 2019	Q1 2020	Q2 2020	3m	6m	12m
EURUSD	1.1270	1.1600	1.2000	1.2200	1.2400	1.1352	1.1434	1.1578
USDJPY	107.91	108.00	110.00	110.00	108.00	107.17	106.40	105.19
USDCHF	0.9842	0.9800	0.9700	0.9500	0.9400	0.9761	0.9679	0.9540
GBPUSD	1.2572	1.2500	1.2800	1.3000	1.3300	1.2623	1.2671	1.2744
AUDUSD	0.7020	0.7200	0.7400	0.7400	0.7600	0.7039	0.7053	0.7078
NZDUSD	0.6693	0.6900	0.7100	0.7100	0.7300	0.6705	0.6713	0.6727
USDCAD	1.3028	1.2600	1.2500	1.2200	1.2000	1.3008	1.2994	1.2986
EURGBP	0.8965	0.9280	0.9375	0.9385	0.9323	0.8993	0.9024	0.9085
EURJPY	121.62	125.28	132.00	134.20	133.92	121.62	121.62	121.62
EURCHF	1.1092	1.1368	1.1640	1.1590	1.1656	1.1080	1.1067	1.1046
FX Forecasts - Emerging						Forwards		
	12-Jul	Q2 2019	Q3 2019	Q4 2019	Q1 2020	3m	6m	12m
SAR	3.7506	3.7500	3.7500	3.7500	3.7500	3.7510	3.7518	3.7561
AED	3.6730	3.6730	3.6730	3.6730	3.6730	3.6744	3.6759	3.6789
KWD	0.3043	0.3020	0.3020	0.3020	0.3020	0.3044	0.3045	--
OMR	0.3850	0.3850	0.3850	0.3850	0.3850	0.3857	0.3866	0.3887
BHD	0.3770	0.3770	0.3770	0.3770	0.3770	0.3761	0.3761	0.3780
QAR	3.6590	3.6400	3.6400	3.6400	3.6400	3.6547	3.6527	3.6512
EGP	16.6225	17.5000	17.7500	17.7500	17.7500	16.9950	17.4033	18.2816
INR	68.684	70.000	68.000	68.000	68.000	69.3000	70.1300	71.6200
CNY	6.8808	7.0000	7.1000	7.2000	7.2000	6.8770	6.8880	6.9170
SGD	1.3570	1.3200	1.3000	1.2900	1.2900	1.3559	1.3540	1.3513
FX Forecasts - MENA						3.7503		
	12-Jul	Q2 2019	Q3 2019	Q4 2019	Q1 2020			
MAD	9.5583	9.8000	9.8000	9.9000	9.9000			
TND	2.8832	3.0500	3.1000	3.1000	3.1000			
TRY	5.7212	6.3000	6.4000	6.5000	6.5000			

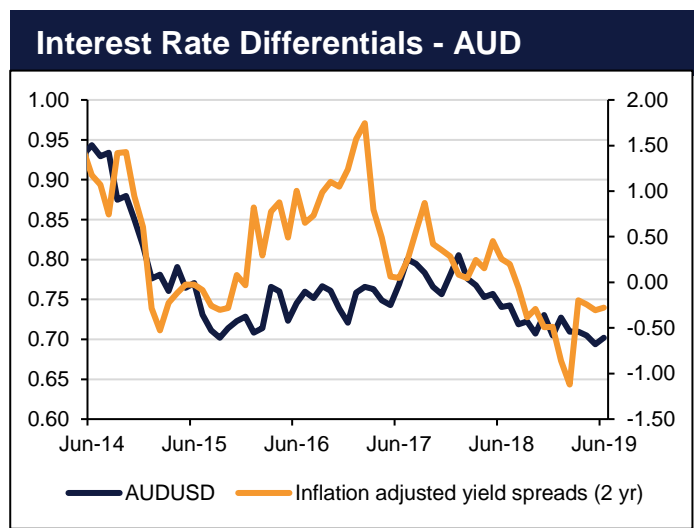
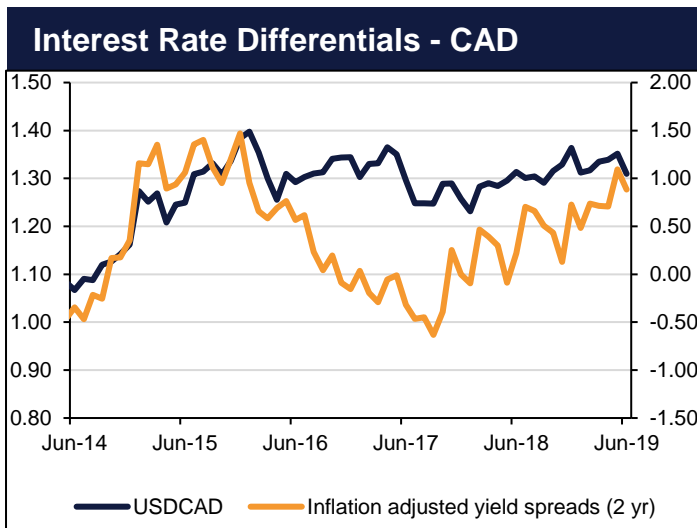
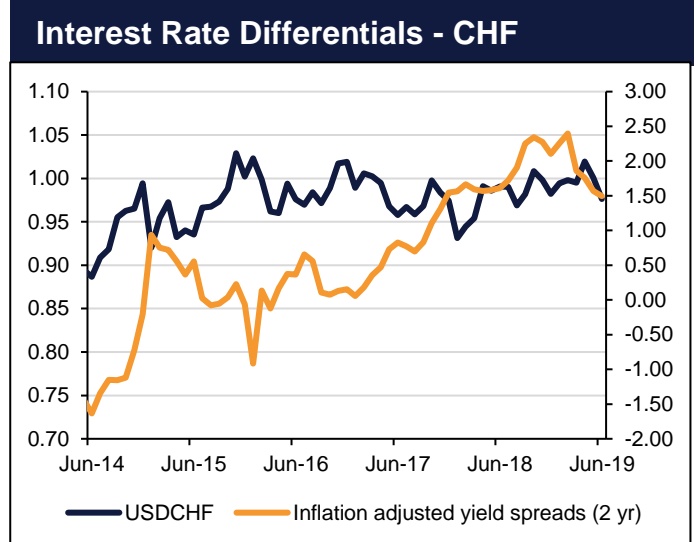
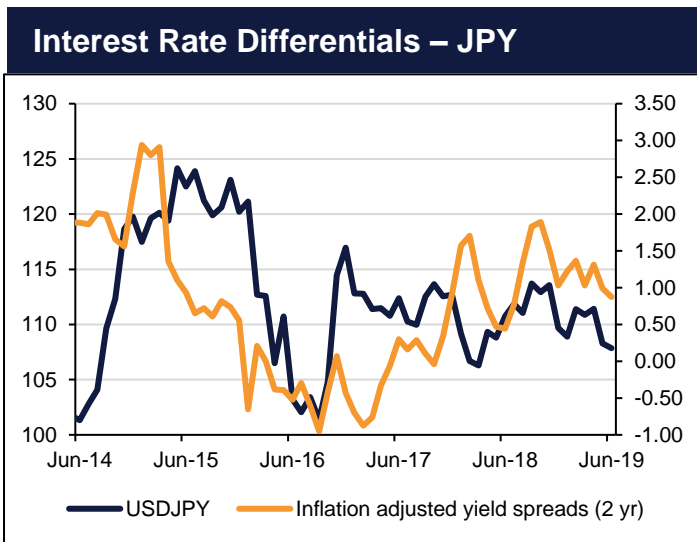
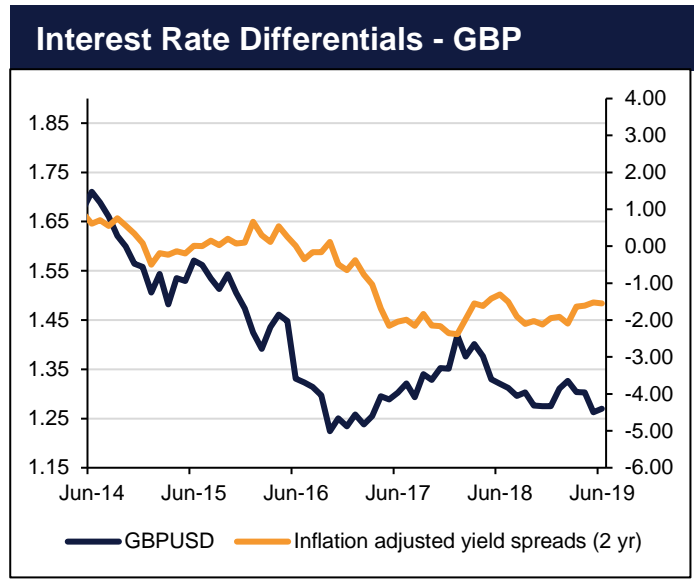
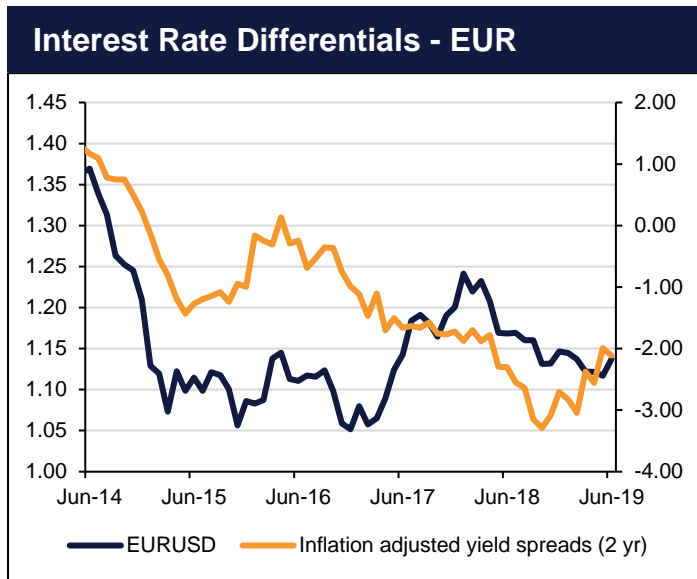
Source: Bloomberg, Emirates NBD Research
 *Denotes USD peg

Major FX and Nominal Interest Rates



Source: Bloomberg, Emirates NBD Research

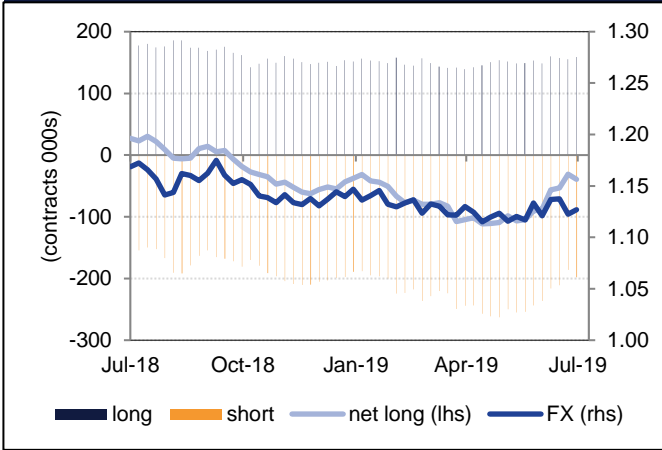
Major FX and Real Interest Rates



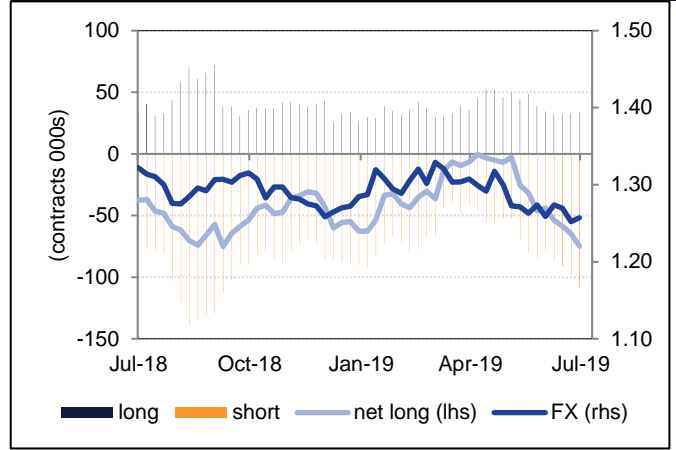
Source: Bloomberg, Emirates NBD Research

Major Currency Positions

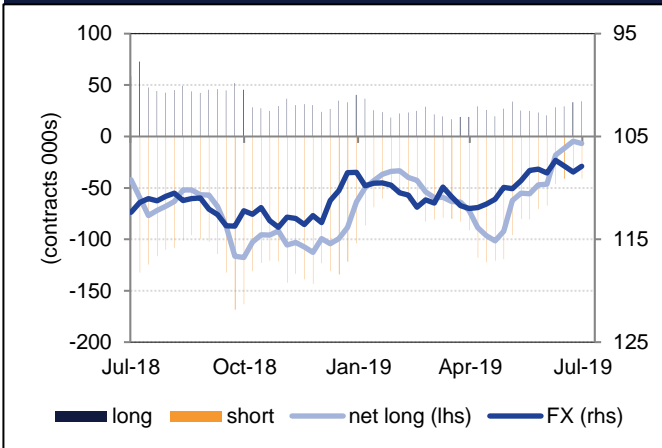
CFTC – Speculative Positions - EUR



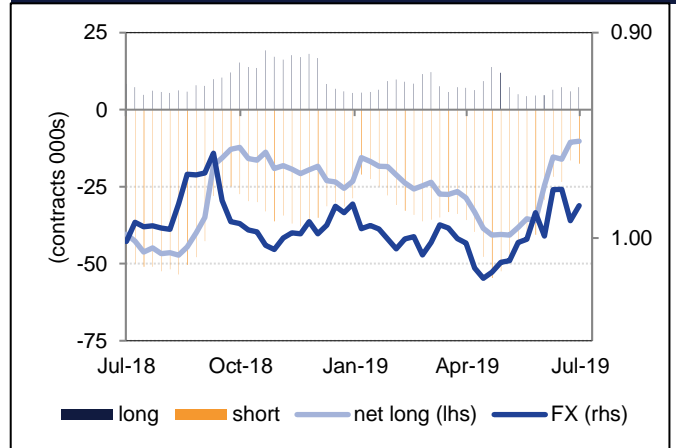
CFTC – Speculative Positions - GBP



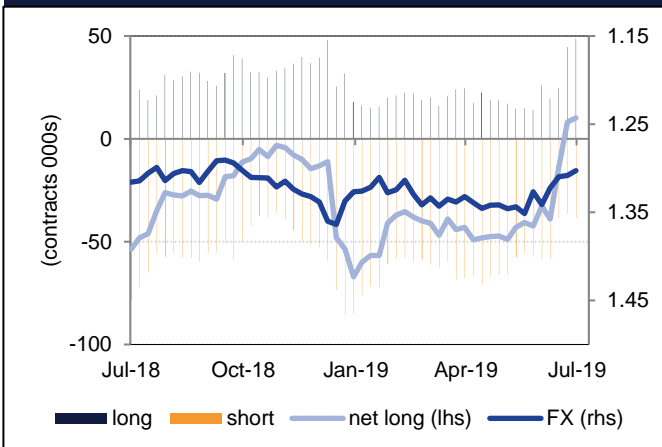
CFTC – Speculative Positions - JPY



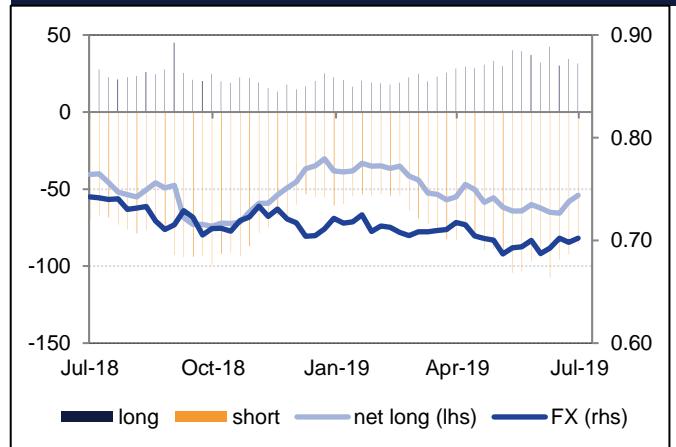
CFTC – Speculative Positions - CHF



CFTC – Speculative Positions - CAD



CFTC – Speculative Positions - AUD



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