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# FX Week

## USD recovers some ground

The USD recovered some its recent lost ground at the end of last week as risk appetite sputtered for the first time in a number of weeks, hampered by an accumulation of bearish economic forecasts from the World Bank, OECD and the Fed. With sentiment turning in favour of U-shaped recoveries rather than V-shaped ones, currencies lost modest ground although the softer dollar trend is likely to remain broadly intact.

## Downgraded growth forecasts dampen V-shaped hopes

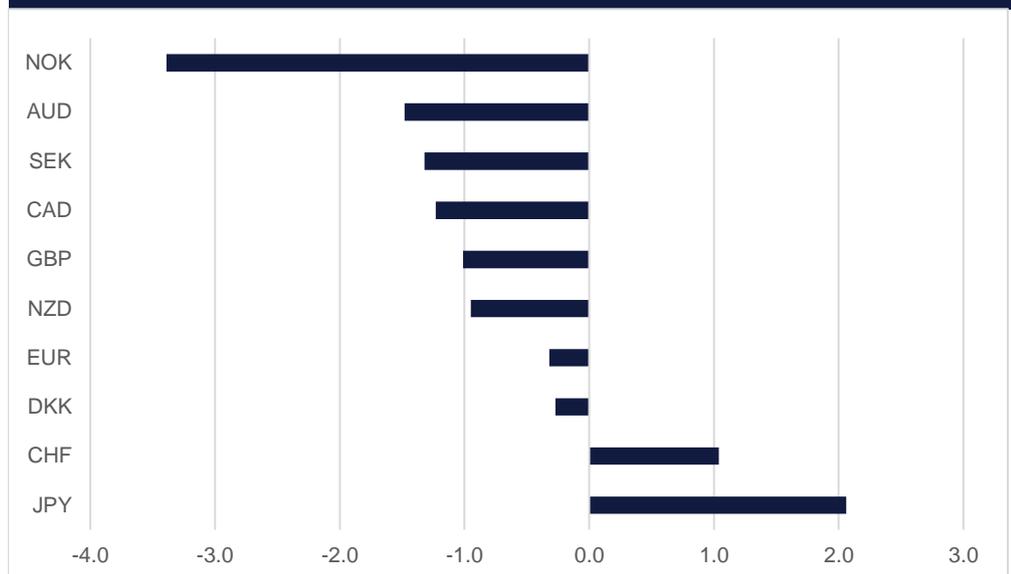
After U.S. jobs growth in May of 2.5 million supported the view that the that the US economy was on course for a V-shaped economic recovery, last week saw major global institutions like the World Bank, the OECD and the Fed take a more sanguine view . The World Bank forecast the world to shrink by 5.2% this year, while the OECD saw global GDP dropping by 6% if a second virus wave is avoided, while under another scenario it falls 7.6% if a second wave is seen. Crucially as well, recovery next year was only put at 2.8% with output not returning to pre-recession levels for at least two years. The IMF is also expected to revise down its economic forecasts before the end of the month according to its Managing Director Kristalina Georgieva.

The Fed's views were also dovish, with its dot plot showing that all but two members expect interest rates to remain at the current level through 2022, much longer than previously assumed. US GDP is expected to contract by 6.5% in 2020 before rebounding only partially in 2021 by 5.0%, while inflation was forecast to remain below the central bank's target through 2022. The unemployment rate will only fall to 9.3% at the end of 2020 and to 6.5% in 2021, with no indication of a return to pre-Covid levels of below 4%.

## Second-wave virus fears also harm risk appetite

As stock markets sold-off on Thursday, the USD recovered especially as concerns grew that second waves of the virus are starting to be seen, with EM currencies especially badly hit. In China parts of Beijing were locked down to prevent the city's first coronavirus cases in fifty days from spreading, while in America new cases were also reported to be increasing in some states, while the World Health Organization said that the number of new infections globally were also rising. The DXY index recovered all of its losses for the week to finish trading at 97.089, a 0.16% increase for the week. In the coming week Jerome Powell will give his semi-annual monetary policy testimony to Congress on Tuesday, where he will likely restate the Fed's cautious views. Meanwhile retail sales are likely to have recovered in May which might provide some reassurance about the outlook, although industrial production is likely to weighed on by weakness in the mining sector.

## Weekly currency movement vs USD (%)



Source: Bloomberg, Emirates NBD Research

The JPY was the only currency to improve at the USD's expense further highlighting the reversal in risk appetite, with USDJPY declining by over 2% for the week to reach 107.38. The Bank of Japan is not expected to change interest rates at this week's meeting, although it is expected to continue injecting liquidity into markets, and BoJ Governor Kuroda may also try to paint an optimistic picture of eventual economic recovery.

### **EURUSD steps back**

After briefly breaching the 1.1400 level earlier in the week, EURUSD then declined to 1.1255 against the dollar as market sentiment towards the single currency soured. Still the Eurozone continues to show a downtrend in Covid-19 cases whilst gradually opening up, giving markets some support. Eurozone events will be the key focus this week with a video conference scheduled for Monday between U.K. PM Johnson and EU leaders to discuss Brexit (see GBP below), and another video conference to be held on Friday to discuss the EU's budget plans. This will include the proposal for a jointly funded fiscal stimulus package worth EUR750bn of recovery loans and grants, the first step towards controversial debt mutualization. Resistance continues to be heard from the so-called 'frugal four' of the Netherlands, Austria, Denmark and Sweden, while Germany and France will likely promote the idea. The EUR may struggle if the voices against the plan are seen to prevail, while recovering Eurozone economic data may provide some support. The SNB and Norges Bank meanwhile will meet on Thursday but policy rates at both meetings are likely to be left unchanged.

### **GBPUSD falls on weak GDP**

One central bank meeting where action can be expected is the Bank of England's meeting on Thursday. Sterling declined by 1% last week to finish it at 1.2540 despite being seemingly bullish up until Thursday. The pound fell as U.K. GDP plunged by 20.4% in April, the largest monthly contraction on record, following a -5.8% contraction in March. Manufacturing, construction and services were all badly hit. The OECD also singled out the UK as likely to be the worst performing major economy this year, with growth falling by 11.5% in its main scenario without a second wave of coronavirus while dropping by 14.0% under its second scenario with a second wave. The data will add pressure on the BoE to add further stimulus measures at this week's policy meeting, with talk that GBP150bn of new asset purchases will be added as officials seek to avoid moving to negative rates. It will also put pressure on the U.K. government to relax the lockdown further even as Covid-19 has not been eradicated.

The other event that could affect GBP is the EU-UK leaders meeting on Monday to discuss trade post-Brexit. The UK has now formally ruled out extending its post-Brexit transition access to the EU's single market and customs union, and will exit the single market on January 1st next year. At this stage of the negotiations it seems unlikely that there will be a compromise over key differences over fisheries and EU regulations which could keep GBP struggling.

## FX Forecasts

FX Forecasts – Major						Forwards		
	12-Jun	Q2 2020	Q3 2020	Q4 2020	Q1 2021	3m	6m	12m
EURUSD	1.1256	1.1000	1.1200	1.1500	1.1500	1.1280	1.1304	1.1356
USDJPY	107.38	110.00	111.00	112.00	112.00	107.22	107.04	106.59
USDCHF	0.9524	1.0000	1.0000	1.0200	1.0200	0.9497	0.9470	0.9413
GBPUSD	1.2540	1.2500	1.3000	1.3500	1.3500	1.2547	1.2552	1.2564
AUDUSD	0.6866	0.6600	0.6600	0.7000	0.7000	0.6866	0.6866	0.6862
NZDUSD	0.6445	0.6400	0.6400	0.6800	0.6800	0.6442	0.6438	0.6431
USDCAD	1.3589	1.3800	1.3800	1.3500	1.3500	1.3588	1.3588	1.3588
EURGBP	0.8976	0.8880	0.8615	0.8518	0.8518	0.8990	0.9005	0.9038
EURJPY	120.89	121.00	124.32	128.80	128.80	120.89	120.89	120.89
EURCHF	1.0720	1.1000	1.1200	1.1730	1.1730	1.0713	1.0705	1.0689
	12-Jun	Q2 2020	Q3 2020	Q4 2020	Q1 2021	3m	6m	12m
SAR	3.7539	3.7500	3.7500	3.7500	3.7500	3.7554	3.7572	3.7639
AED	3.6730	3.6730	3.6730	3.6730	3.6730	3.6744	3.6761	3.6809
KWD	0.3077	0.3020	0.3020	0.3020	0.3020	0.3083	0.3088	-
OMR	0.3850	0.3850	0.3850	0.3850	0.3850	0.3864	0.3879	0.3915
BHD	0.3771	0.3770	0.3770	0.3770	0.3770	0.3760	0.3760	0.3778
QAR	3.6623	3.6400	3.6400	3.6400	3.6400	3.6626	3.6620	3.6609
EGP	16.1814	15.8500	16.0000	17.0000	17.0000	16.6000	17.0200	17.8500
INR	75.846	75.000	73.000	72.000	72.000	76.7100	77.3600	78.9800
CNY	7.0835	7.1500	7.2000	7.2000	7.2500	7.1074	7.1389	7.1984
SGD	1.3926	1.40	1.40	1.35	1.3000	1.3919	1.3911	1.3902
						3.7503		
	12-Jun	Q2 2020	Q3 2020	Q4 2020	Q1 2021			
MAD	9.6736	9.7500	9.7500	9.7000	9.7000	9.7141	9.7540	9.8435
TND	2.8432	2.9000	3.0000	3.0000	2.9000	2.9132	2.9832	3.1932
TRY	6.8140	6.8000	6.8000	6.6000	6.5000	-	-	-

Source: Bloomberg, Emirates NBD Research

\*Denotes USD peg

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