



بنك الإمارات دبي الوطني
Emirates NBD

Weekly
14 May 2017

Tim Fox
Chief Economist
+971 4 230 7800
timothyf@emiratesnbd.com

Mohammed Al-Tajir
Manager, FX Analytics and Product
Development
+971 4 609 3005
MohammedTAJ@emiratesnbd.com

www.emiratesnbdresearch.com

FX Week

Dollar pares its gains as inflation disappoints

After a strong start to the week the dollar lost ground on Friday as softer than expected inflation data caused it to weaken ending at 99.25 on its DXY index measure, although this was still up from the beginning of the week. The correction came as 10-year bond yields also fell back from mid-week highs of 2.42% to end at 2.33%. April CPI data showed the core rate falling back to 1.9% from 2.0% in March, while the headline rate slowed to 2.2% from 2.4%. The April headline rate rose by 0.2% m/m while the core index was up 0.1%.

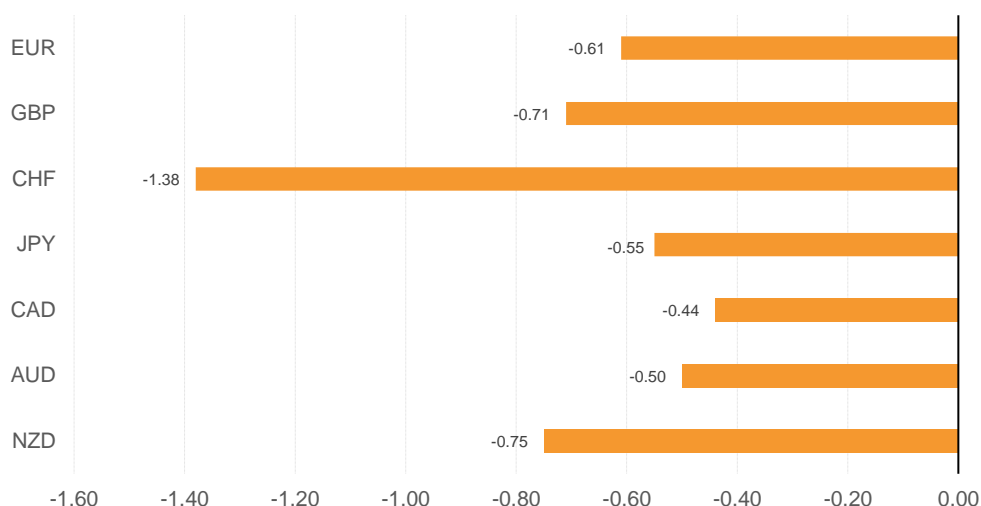
While other data was mixed

Retail sales were also a bit softer than expected at 0.4% in April against 0.6% expected, but there was also some better news as the University of Michigan reading of consumer sentiment showed confidence was high at 97.7 in May up from 97.0 in April. Also April PPI was rose by 0.5% while the core index was up 0.4%, suggesting that the fall back in CPI might be short lived. On balance the data should not alter expectations about a June rate hike by the Fed, with the Philadelphia Fed President Patrick Harker reiterating his support for two more hikes in 2017, noting that the economy is normalizing and the labor market is at full health. However, the bigger threat might be to expectations of a second rate hike, with the market becoming concerned by President Trump's political travails, which could derail progress on his economic agenda.

Contrasting messages on trade

That the dollar had actually recovered in the first place last week is perhaps the bigger story than the setback at the end of it, as it managed to overcome some key technical resistance levels in the process. The EUR's rally ran out of steam after Emmanuel Macron was confirmed as the President of France at the start of the week. The focus is now turning to the June 18 legislative elections in France, while Italy's next general election remains a potentially bigger problem in 2018. The G7 meeting saw global finance ministers water down their language regarding the promotion of free trade, with US Treasury Secretary Mnuchin reserving the right to retaliate if the US sees trade that it is unfair. More positively, however, the US and China announced a trade accord promoting US exports of gas and beef to China, suggesting that US rhetoric and deeds may be different.

Weekly currency movement vs USD (%)



Source: Bloomberg, Emirates NBD Research

Growth picks up in Germany

Meanwhile Q1 GDP growth accelerated in Germany to 0.6% q/q from 0.4% q/q in Q4 last year and in line with expectations. Both domestic and external demand underpinned the quarterly growth rate as investment growth strengthened. The French result and the firm German data paves the way for Draghi to move to a more neutral stance at the June ECB meeting. Tapering is unlikely to commence before the end of the year though, and the main question is how the ECB will adjust its guidance on normalization steps. Another good round of data in May will strengthen the arguments for a change in the central bank's forward guidance and a move to a neutral stance.

The highlight on the data from this week is German ZEW Investor confidence index which is seen rising to 22.0 from 19.5 reflecting reduced political uncertainty, improving growth and firm equity markets. Other data releases are more backward-looking. Eurozone Q1 GDP is expected to be confirmed at 0.5% q/q and 1.7% y/y, in line with the preliminary estimate. Meanwhile final Eurozone inflation April should confirm the headline rate at 1.9% y/y and the core at 1.2% y/y.

GBP takes losses after the BOE inflation report

Sterling has remained heavy in the wake of the BoE policy announcement and inflation report, where the central bank said that it had over-estimated growth in Q1 and this quarter, consequently lowering its 2017 growth projection to 1.9% from 2.0%. A -0.5% m/m drop in UK production data also encouraged some selling, with manufacturing output falling by an even greater -0.6%. The next domestic focus will be the release of April inflation data on Tuesday. As the BoE stated, the higher pound and lower oil prices can be expected to contain the rising price trend, although this is more likely to come later (probably next year) while for now the headline CPI is expected to reach a new cycle high of 2.6% y/y in April from 2.3% in March as the impact of past exchange rate weakness is still being felt.

USDJPY drops amid risk aversion

USDJPY drifted moderately lower at the end of the week, with a pause in global stock markets weighing on it. North Korea's testing of another ballistic missile over the weekend and a global cyber-attack is likely keep risk appetite muted early on, before economic data returns as the main driver. Japanese Q1 GDP is expected to expand by 0.4% q/q, although the risks appear to be on the upside of this. However, it will more likely be US data that has the biggest influence, with any renewed firmness in US interest rates likely to cause USDJPY to rebound.

Technical Outlook

AUDUSD looks vulnerable

Despite rallying on the final three trading days, AUDUSD still declined 0.50% last week to close at 0.7387. Inspection of the daily candle chart reveals that further losses may lie ahead. The daily downtrend that has been in effect since 21st of March 2017 remains intact and should provide strong resistance to any advances towards 0.7460. In addition, the 50 day moving average looks poised to perform a "death cut" of the 100 and 200 day moving averages, indicating further losses as the most likely path.

As we go to print, AUDUSD sits exactly at its one year 38.2% Fibonacci retracement (0.7387), a level it has failed to close above since its break below on the 9th of May 2017. With the RBA minutes likely to confirm the dovish tone of the RBA and no improvements expected in the labour market next week, we see further losses, with the first key level of support being 0.7294, the 23.6% one year Fibonacci retracement (not far from our Q2 2017 forecast of 0.73). A break below

this level will result in further declines towards the twelve month low of 0.7145. On the other hand, a daily close above 0.7460 would indicate a possible reversal of the daily downtrend, nullifying our view.



Source: Bloomberg, Emirates NBD Research

NZDUSD at key level

NZDUSD fell 0.75% last week to close at 0.6866, just below its one year 23.6% Fibonacci retracement of 0.6867. Despite gains on Friday, the daily downtrend in effect since February 2017 remains firmly intact. Further recovery is likely to be hindered by strong resistance at 0.6965 (both the 50 day moving average and capping trend line from the daily downtrend) and we expect further declines in the coming weeks. A rise and firm close above 0.6965 would nullify this view and potentially lead to a reversal in the trend.



Source: Bloomberg, Emirates NBD Research

FX Forecasts

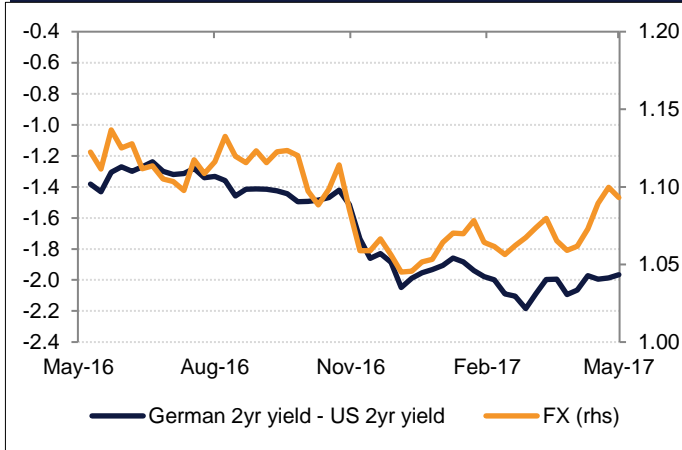
FX Forecasts - Major						Forwards		
	12-May	Q2 2017	Q3 2017	Q4 2017	Q1 2018	3m	6m	12m
EUR	1.0931	1.0500	1.0200	1.0000	1.0000	1.0982	1.1036	1.1152
JPY	113.38	116.00	120.00	122.00	124.00	112.93	112.44	111.33
CHF	1.0009	1.0300	1.0500	1.1000	1.1000	0.9952	0.9892	0.9768
GBP	1.2890	1.2500	1.3000	1.3500	1.4000	1.2925	1.2961	1.3039
AUD	0.7387	0.7300	0.7200	0.7000	0.7000	0.7376	0.7367	0.7352
NZD	0.6866	0.6800	0.6700	0.6500	0.6700	0.6852	0.6839	0.6813
CAD	1.3710	1.3500	1.3400	1.3200	1.3000	1.3690	1.3666	1.3614
EURGBP	0.8476	0.8400	0.7846	0.7407	0.7143	0.8493	0.8511	0.8549
EURJPY	123.89	121.80	122.40	122.00	124.00	123.89	123.89	123.89
EURCHF	1.0941	1.0815	1.0710	1.1000	1.1000	1.0930	1.0918	1.0894

FX Forecasts - Emerging						Forwards		
	12-May	Q2 2017	Q3 2017	Q4 2017	Q1 2018	3m	6m	12m
SAR	3.7505	3.7500	3.7500	3.7500	3.7500	3.7514	3.7540	3.7640
AED	3.6729	3.6720	3.6720	3.6720	3.6720	3.6743	3.6757	--
KWD	0.3048	0.3050	0.3050	0.3050	0.3050	0.3056	0.3075	--
OMR	0.3850	0.3850	0.3850	0.3850	0.3850	0.3856	0.3862	0.3893
BHD	0.3770	0.3770	0.3770	0.3770	0.3770	0.3775	0.3778	0.3786
QAR	3.6413	3.6400	3.6400	3.6400	3.6400	3.6464	3.6509	3.6624
EPN	18.0509	18.0000	18.5000	18.7500	19.0000	18.4100	18.7750	19.6300
INR	64.310	66.000	64.000	65.000	65.000	64.8500	65.5900	67.0700
CNY	6.8995	7.0000	7.1000	7.2000	7.4000	6.9500	6.9996	7.0926

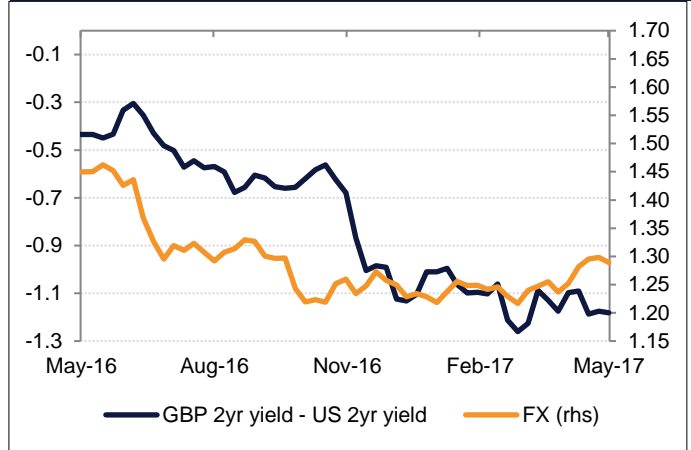
Source: Bloomberg, Emirates NBD Research
 *Denotes USD peg

Major FX and Nominal Interest Rates

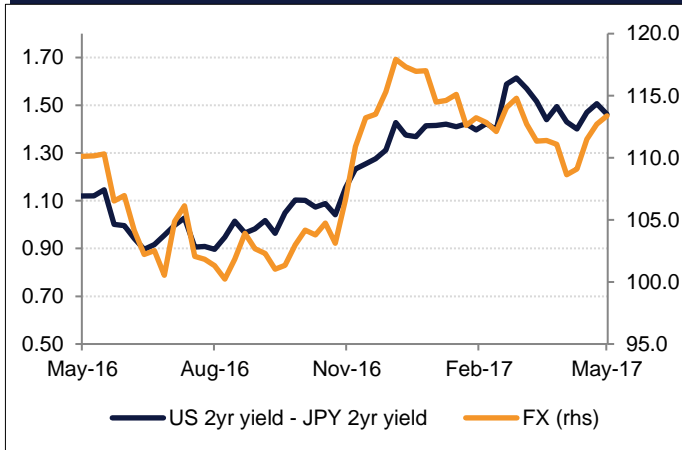
Interest Rate Differentials - EUR



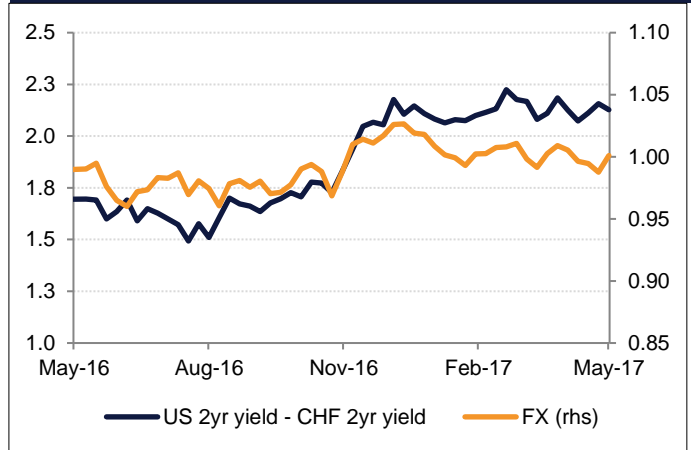
Interest Rate Differentials - GBP



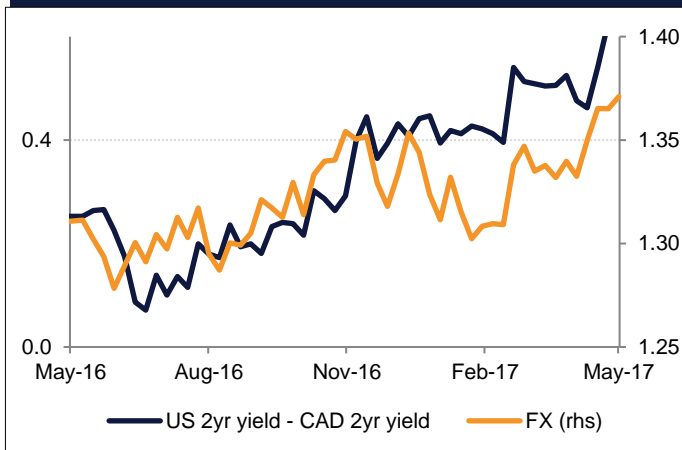
Interest Rate Differentials - JPY



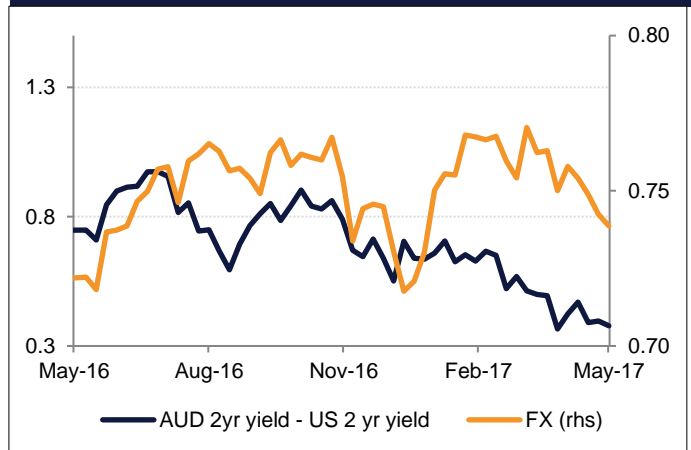
Interest Rate Differentials - CHF



Interest Rate Differentials - CAD

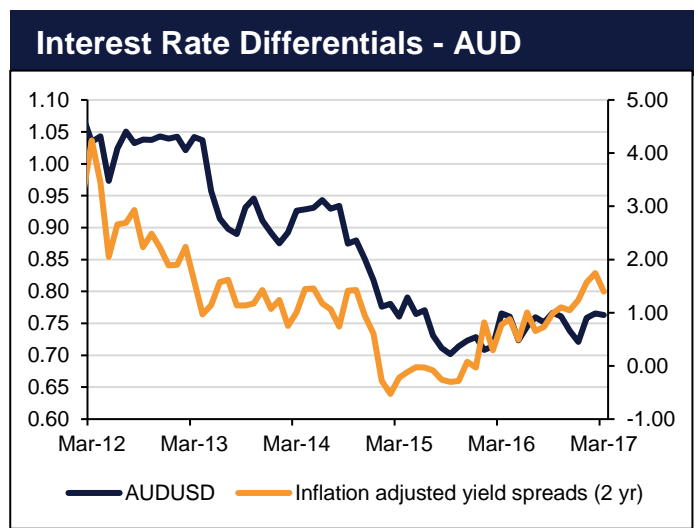
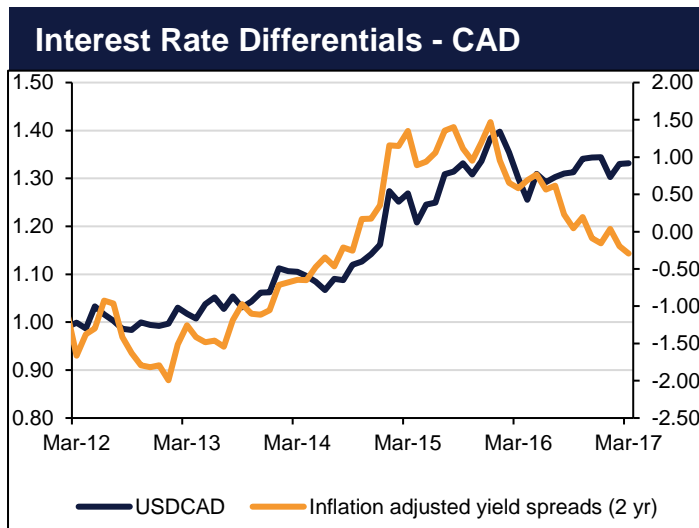
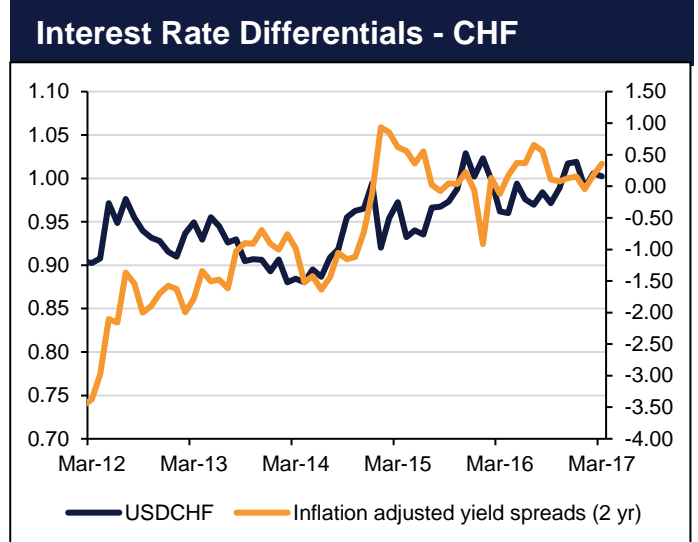
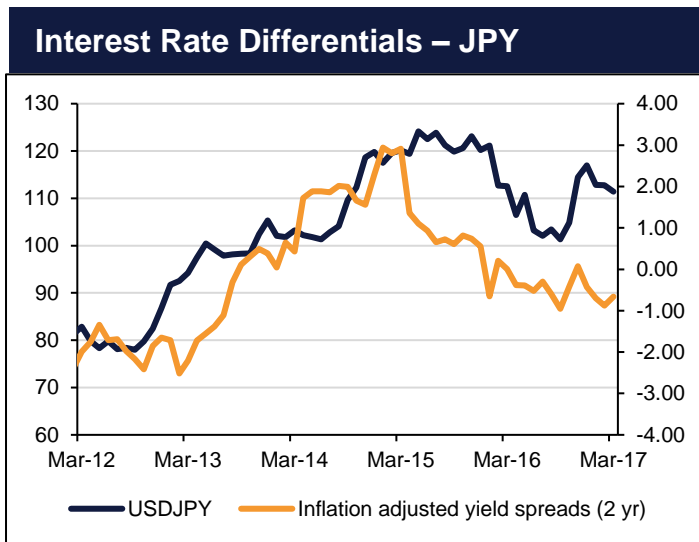
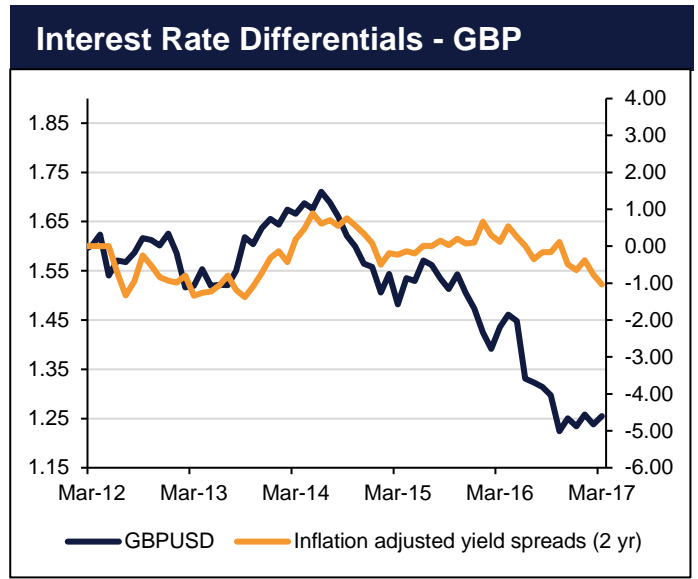
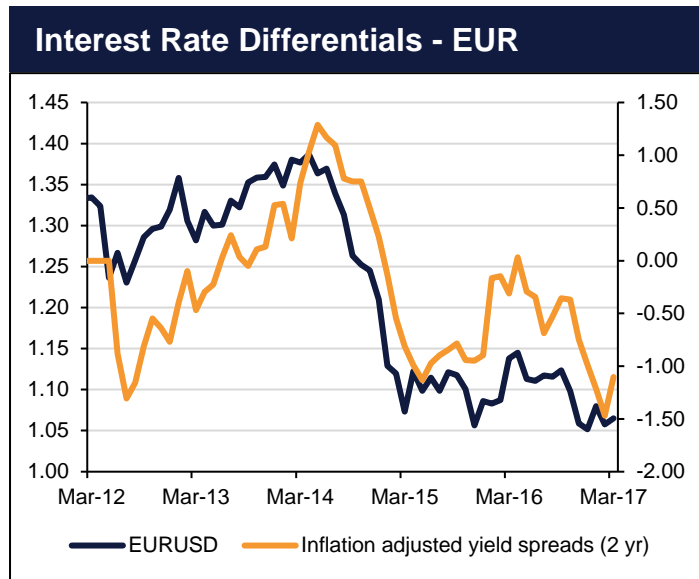


Interest Rate Differentials - AUD



Source: Bloomberg, Emirates NBD Research

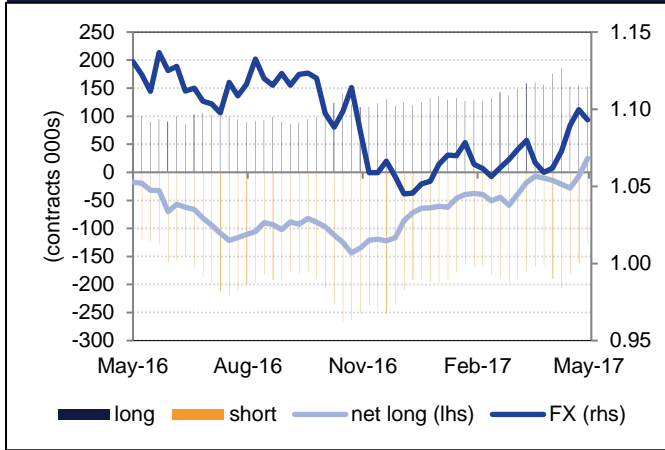
Major FX and Real Interest Rates



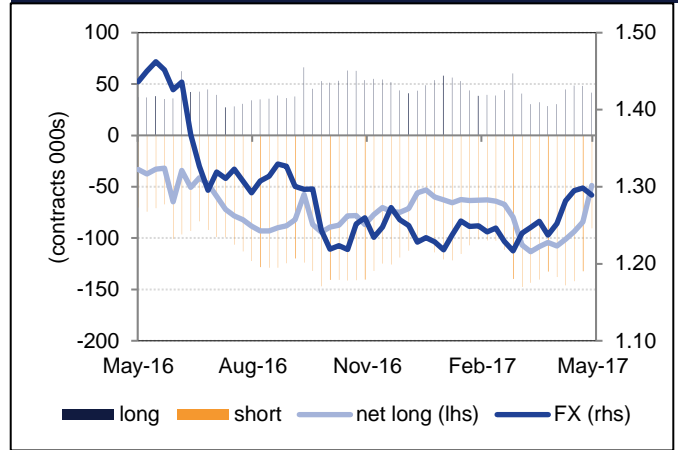
Source: Bloomberg, Emirates NBD Research

Major Currency Positions

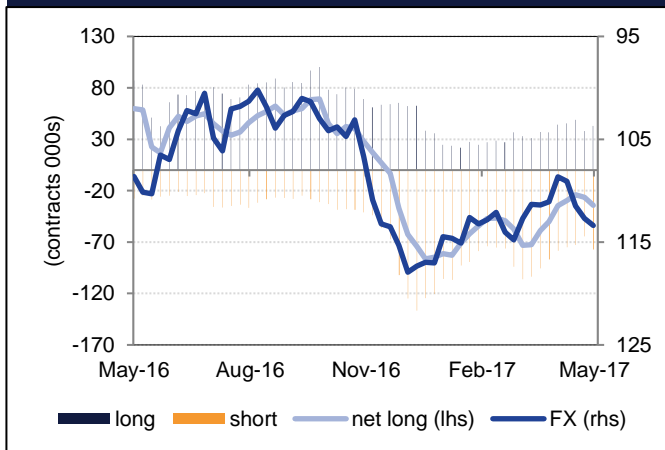
CFTC – Speculative Positions - EUR



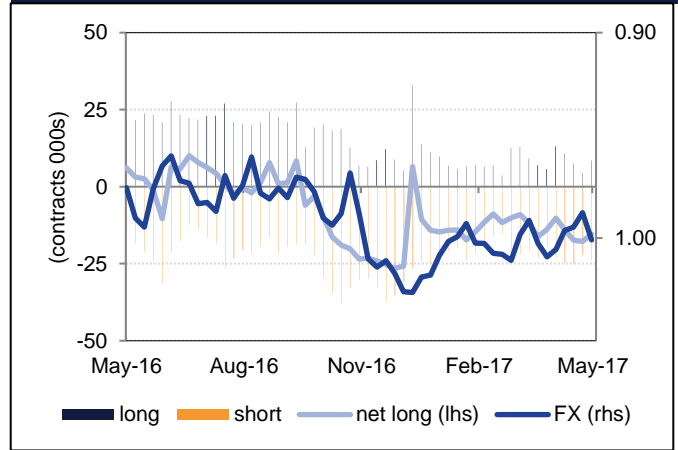
CFTC – Speculative Positions - GBP



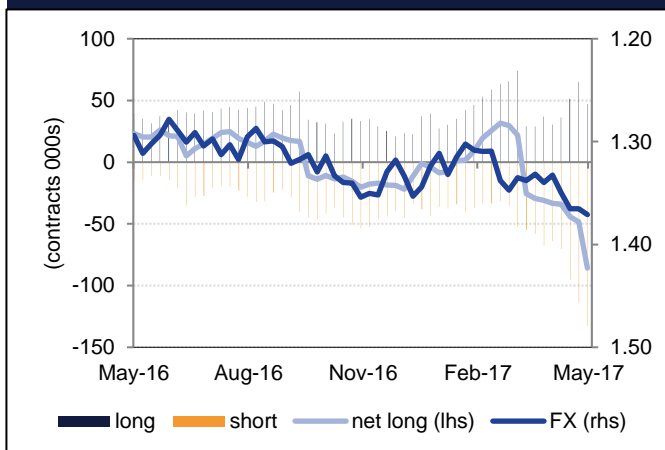
CFTC – Speculative Positions - JPY



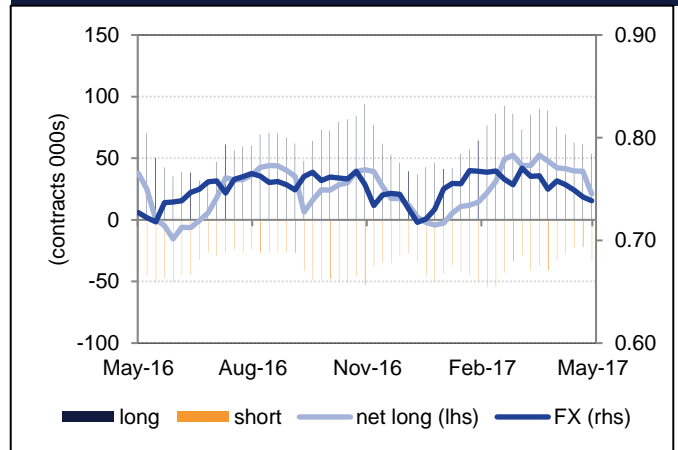
CFTC – Speculative Positions - CHF



CFTC – Speculative Positions - CAD



CFTC – Speculative Positions - AUD



Disclaimer

PLEASE READ THE FOLLOWING TERMS AND CONDITIONS OF ACCESS FOR THE PUBLICATION BEFORE THE USE THEREOF. By continuing to access and use the publication, you signify you accept these terms and conditions. Emirates NBD reserves the right to amend, remove, or add to the publication and Disclaimer at any time. Such modifications shall be effective immediately. Accordingly, please continue to review this Disclaimer whenever accessing, or using the publication. Your access of, and use of the publication, after modifications to the Disclaimer will constitute your acceptance of the terms and conditions of use of the publication, as modified. If, at any time, you do not wish to accept the content of this Disclaimer, you may not access, or use the publication. Any terms and conditions proposed by you which are in addition to or which conflict with this Disclaimer are expressly rejected by Emirates NBD and shall be of no force or effect. Information contained herein is believed by Emirates NBD to be accurate and true but Emirates NBD expresses no representation or warranty of such accuracy and accepts no responsibility whatsoever for any loss or damage caused by any act or omission taken as a result of the information contained in the publication. The publication is provided for informational uses only and is not intended for trading purposes. Charts, graphs and related data/information provided herein are intended to serve for illustrative purposes. The data/information contained in the publication is not designed to initiate or conclude any transaction. In addition, the data/information contained in the publication is prepared as of a particular date and time and will not reflect subsequent changes in the market or changes in any other factors relevant to their determination. The publication may include data/information taken from stock exchanges and other sources from around the world and Emirates NBD does not guarantee the sequence, accuracy, completeness, or timeliness of information contained in the publication provided thereto by or obtained from unaffiliated third parties. Moreover, the provision of certain data/information in the publication may be subject to the terms and conditions of other agreements to which Emirates NBD is a party.

None of the content in the publication constitutes a solicitation, offer or recommendation by Emirates NBD to buy or sell any security, or represents the provision by Emirates NBD of investment advice or services regarding the profitability or suitability of any security or investment. Moreover, the content of the publication should not be considered legal, tax, accounting advice. The publication is not intended for use by, or distribution to, any person or entity in any jurisdiction or country where such use or distribution would be contrary to law or regulation. Accordingly, anything to the contrary herein set forth notwithstanding, Emirates NBD, its suppliers, agents, directors, officers, employees, representatives, successors, assigns, affiliates or subsidiaries shall not, directly or indirectly, be liable, in any way, to you or any other person for any: (a) inaccuracies or errors in or omissions from the publication including, but not limited to, quotes and financial data; (b) loss or damage arising from the use of the publication, including, but not limited to any investment decision occasioned thereby; (c) UNDER NO CIRCUMSTANCES, INCLUDING BUT NOT LIMITED TO NEGLIGENCE, SHALL EMIRATES NBD, ITS SUPPLIERS, AGENTS, DIRECTORS, OFFICERS, EMPLOYEES, REPRESENTATIVES, SUCCESSORS, ASSIGNS, AFFILIATES OR SUBSIDIARIES BE LIABLE TO YOU FOR DIRECT, INDIRECT, INCIDENTAL, CONSEQUENTIAL, SPECIAL, PUNITIVE, OR EXEMPLARY DAMAGES EVEN IF EMIRATES NBD HAS BEEN ADVISED SPECIFICALLY OF THE POSSIBILITY OF SUCH DAMAGES, ARISING FROM THE USE OF THE PUBLICATION, INCLUDING BUT NOT LIMITED TO, LOSS OF REVENUE, OPPORTUNITY, OR ANTICIPATED PROFITS OR LOST BUSINESS. The information contained in the publication does not purport to contain all matters relevant to any particular investment or financial instrument and all statements as to future matters are not guaranteed to be accurate. Anyone proposing to rely on or use the information contained in the publication should independently verify and check the accuracy, completeness, reliability and suitability of the information and should obtain independent and specific advice from appropriate professionals or experts regarding information contained in the publication. Further, references to any financial instrument or investment product is not intended to imply that an actual trading market exists for such instrument or product. In publishing this document Emirates NBD is not acting in the capacity of a fiduciary or financial advisor.

Emirates NBD and its group entities (together and separately, "Emirates NBD") does and may at any time solicit or provide commercial banking, investment banking, credit, advisory or other services to the companies covered in its reports. As a result, recipients of this report should be aware that any or all of the foregoing services may at times give rise to a conflict of interest that could affect the objectivity of this report.

The securities covered by this report may not be suitable for all types of investors. The report does not take into account the investment objectives, financial situations and specific needs of recipients.

Data included in the publication may rely on models that do not reflect or take into account all potentially significant factors such as market risk, liquidity risk and credit risk. Emirates NBD may use different models, make valuation adjustments, or use different methodologies when determining prices at which Emirates NBD is willing to trade financial instruments and/or when valuing its own inventory positions for its books and records. In receiving the publication, you acknowledge and agree that there are risks associated with investment activities. Moreover, you acknowledge in receiving the publication that the responsibility to obtain and carefully read and understand the content of documents relating to any investment activity described in the publication and to seek separate, independent financial advice if required to assess whether a particular investment activity described herein is suitable, lies exclusively with you. You acknowledge and agree that past investment performance is not indicative of the future performance results of any investment and that the information contained herein is not to be used as an indication for the future performance of any investment activity. You acknowledge that the publication has been developed, compiled, prepared, revised, selected, and arranged by Emirates NBD and others (including certain other information sources) through the application of methods and standards of judgment developed and applied through the expenditure of substantial time, effort, and money and constitutes valuable intellectual property of Emirates NBD and such others. All present and future rights in and to trade secrets, patents, copyrights, trademarks, service marks, know-how, and other proprietary rights of any type under the laws of any governmental authority, domestic or foreign, shall, as between you and Emirates NBD, at all times be and remain the sole and exclusive property of Emirates NBD and/or other lawful parties. Except as specifically permitted in writing, you acknowledge and agree that you may not copy or make any use of the content of the publication or any portion thereof. Except as specifically permitted in writing, you shall not use the intellectual property rights connected with the publication, or the names of any individual participant in, or contributor to, the content of the publication, or any variations or derivatives thereof, for any purpose.

YOU AGREE TO USE THE PUBLICATION SOLELY FOR YOUR OWN NONCOMMERCIAL USE AND BENEFIT, AND NOT FOR RESALE OR OTHER TRANSFER OR DISPOSITION TO, OR USE BY OR FOR THE BENEFIT OF, ANY OTHER PERSON OR ENTITY. YOU AGREE NOT TO USE, TRANSFER, DISTRIBUTE, OR DISPOSE OF ANY DATA/INFORMATION CONTAINED IN THE PUBLICATION IN ANY MANNER THAT COULD COMPETE WITH THE BUSINESS INTERESTS OF EMIRATES NBD. YOU MAY NOT COPY, REPRODUCE, PUBLISH, DISPLAY, MODIFY, OR CREATE DERIVATIVE WORKS FROM ANY DATA/INFORMATION CONTAINED IN THE PUBLICATION. YOU MAY NOT OFFER ANY PART OF THE PUBLICATION FOR SALE OR DISTRIBUTE IT OVER ANY MEDIUM WITHOUT THE PRIOR WRITTEN CONSENT OF EMIRATES NBD. THE DATA/INFORMATION CONTAINED IN THE PUBLICATION MAY NOT BE USED TO CONSTRUCT A DATABASE OF ANY KIND. YOU MAY NOT USE THE DATA/INFORMATION IN THE PUBLICATION IN ANY WAY TO IMPROVE THE QUALITY OF ANY DATA SOLD OR CONTRIBUTED TO BY YOU TO ANY THIRD PARTY. FURTHERMORE, YOU MAY NOT USE ANY OF THE TRADEMARKS, TRADE NAMES, SERVICE MARKS, COPYRIGHTS, OR LOGOS OF EMIRATES NBD OR ITS SUBSIDIARIES IN ANY MANNER WHICH CREATES THE IMPRESSION THAT SUCH ITEMS BELONG TO OR ARE ASSOCIATED WITH YOU OR, EXCEPT AS OTHERWISE PROVIDED WITH EMIRATES NBD'S PRIOR WRITTEN CONSENT, AND YOU ACKNOWLEDGE THAT YOU HAVE NO OWNERSHIP RIGHTS IN AND TO ANY OF SUCH ITEMS. MOREOVER YOU AGREE THAT YOUR USE OF THE PUBLICATION IS AT YOUR SOLE RISK AND ACKNOWLEDGE THAT THE PUBLICATION AND ANYTHING CONTAINED HEREIN, IS PROVIDED "AS IS" AND "AS AVAILABLE," AND THAT EMIRATES NBD MAKES NO WARRANTY OF ANY KIND, EXPRESS OR IMPLIED, AS TO THE PUBLICATION, INCLUDING, BUT NOT LIMITED TO, MERCHANTABILITY, NON-INFRINGEMENT, TITLE, OR FITNESS FOR A PARTICULAR PURPOSE OR USE. You agree, at your own expense, to indemnify, defend and hold harmless Emirates NBD, its Suppliers, agents, directors, officers, employees, representatives, successors, and assigns from and against any and all claims, damages, liabilities, costs, and expenses, including reasonable attorneys' and experts' fees, arising out of or in connection with the publication, including, but not limited to: (i) your use of the data contained in the publication or someone using such data on your behalf; (ii) any deletions, additions, insertions or alterations to, or any unauthorized use of, the data contained in the publication or (iii) any misrepresentation or breach of an acknowledgement or agreement made as a result of your receiving the publication.

Emirates NBD Research & Treasury Contact List

Emirates NBD Head Office
12th Floor
Baniyas Road, Deira
P.O.Box 777
Dubai

Jonathan Morris
General Manager Wholesale Banking
JonathanM@emiratesnbd.com

Aazar Ali Khwaja
Group Treasurer & EVP Global Markets &
Treasury
+971 4 609 3000
aazark@emiratesnbd.com

Tim Fox
Head of Research &
Chief Economist
+9714 230 7800
timothyf@emiratesnbd.com

Research

Khatija Haque
Head of MENA Research
+9714 230 7803
khatijah@emiratesnbd.com

Anita Yadav
Head of Fixed Income Research
+9714 230 7630
anitay@emiratesnbd.com

Shady Shafer Elborno
Head of Macro Strategy
+9714 2012300
shadyb@emiratesnbd.com

Athanasios Tsetsonis
Sector Economist
+9714 230 7629
athanasiost@emiratesnbd.com

Edward Bell
Commodity Analyst
+9714 230 7701
edwardpb@emiratesnbd.com

Mohammed Al-Tajir
Manager, FX Analytics and Product Development
+9714 609 3005
mohammedtaj@emiratesnbd.com

Aditya Pugalia
Analyst
+9714 230 7802
adityap@emiratesnbd.com

Sales & Structuring

Group Head – Treasury Sales
Tariq Chaudhary
+971 4 230 7777
tariqmc@emiratesnbd.com

Saudi Arabia Sales
Numair Attiyah
+966 11 282 5656
numaira@emiratesnbd.com

Singapore Sales
Supriyakumar Sakhalkar
+65 65785 627
supriyakumars@emiratesnbd.com

London Sales
+44 (0) 20 7838 2241
vallancel@emiratesnbd.com

Egypt
Gary Boon
+20 22 726 5040
garyboon@emiratesnbd.com

Emirates NBD Capital

Ahmed Al Qassim
CEO- Emirates NBD Capital
AhmedAQ@emiratesnbd.com

Hitesh Asarpota
Head of Debt Capital Markets.
+971 50 4529515
asarpotah@EmiratesNBD.com

Investor Relations

Patrick Clerkin
+9714 230 7805
patricke@emiratesnbd.com

Group Corporate Affairs

Ibrahim Sowaidan
+9714 609 4113
ibrahims@emiratesnbd.com

Claire Andrea
+9714 609 4143
clairea@emiratesnbd.com