



بنك الإمارات دبي الوطني
Emirates NBD

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FX Week

Constructive US data but USD dips as Trump era draws nearer

The USD lost ground last week despite economic data that remains constructive for growth and ultimately for a further increase in US interest rates. Markets however, appear to be pausing ahead of the US Presidential inauguration this week with recent comments from President-elect Trump drawing attention to his unpredictability and the potential for surprises once he has taken office.

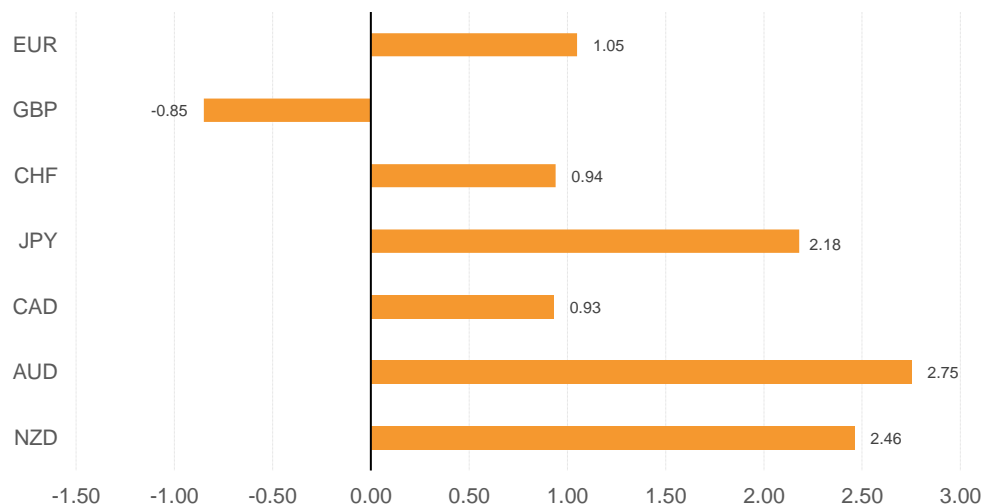
US economic data continues to show steady improvement. Economic data released on Friday showed that a rebound in vehicle sales was responsible for boosting retail sales growth to 0.6% m/m in December, compared with 0.1% growth in November. While, the control retail sales group grew only 0.2%, missing expectations for 0.5%, November's figure was revised upwards from 0.2% to 0.3%. In addition, we have begun to see the recent recoveries in hydrocarbon prices put upward pressure on inflation, with producer prices growing 0.3% m/m in December, a level sufficient enough to boost annualized PPI growth from 1.3% to 1.6%.

Further encouraging signs were evident in the University of Michigan Consumer Sentiment Index, which although narrowly missing market expectations, posted a 98.1 outcome, still close to its 12 year high of 98.2 posted in December.

Consumer prices and industrial production data are scheduled for release in the week ahead, with the former expected to show that consumer prices rose to 0.3% m/m and 2.1% y/y in December, effectively taking inflation above the Federal Reserve's 2% target. Should the data live up to expectations, we could see the dollar benefit, although eyes will also be on the Presidential inauguration which will quickly be followed by expectations about how quickly Trump's stimulus policies will begin to be implemented. Any delays in enacting regulatory changes and/or tax cuts, would be seen as disappointing, while moves towards protectionism or policies seen as damaging to foreign policy relationships would also be viewed poorly.

Last week, we saw the dollar index retreat by just over 1%, falling from 102.95 to 102.22. While this resulted in the index closing the week below its 50 day MA (101.42), the index remains in a daily upward channel commended on 3rd October 2016, with the 76.4% one year Fibonacci of 101.18 acting as a support on Thursday and Friday. Failure to achieve a sustained break below this level means that risks remain to the upside.

Weekly currency movement vs USD (%)



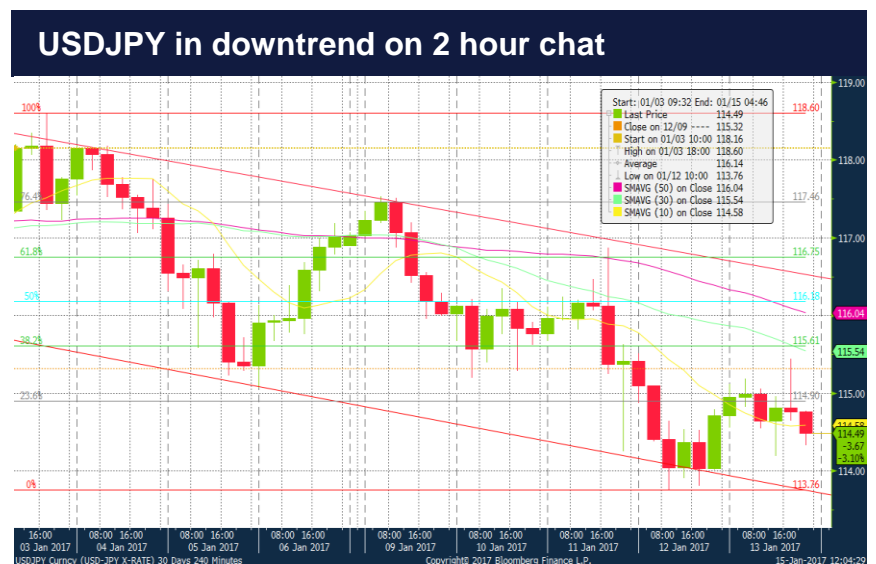
Source: Bloomberg, Emirates NBD Research

ECB on hold, EUR steady

The ECB is widely expected to keep policy on hold this after President Draghi effectively spelt out the 2017 policy outlook following his December meeting, with asset purchase targets cut to EUR60bn from April, but with the ECB continuing to expand its balance sheet for longer, even as inflation lifts higher and growth is starting to look more encouraging. This week's final German HICP inflation reading of at 1.7% may add to the arguments of those who see the ECB taking too many risks with inflation, and the headline Eurozone rate has also been trending higher to 1.1% in December. The EUR is firmer on the back of these factors, but its strength could quickly evaporate should the dollar recover ground in the early days of the Trump White House, especially if his team is quick to move ahead with his expansionary agenda.

USDJPY finds initial support at 50 day MA

USDJPY depreciated by 2.16% last week, declining from 117.02 to 114.49 after rebounding on its 50 day MA on Thursday. Analysis of the candle charts show that on a daily basis the pair remains in an uptrend, while the two hour candles show that the pair has commenced a downward as of the 3rd January 2017. However, with 113.75, the lower channel of the downtrend continuing to act as a support, the risk is that constructive US data and risk appetite could drive the pair towards its 30 day MA of 115.54 in the week ahead. It is also worth noting that the 14 day RSI (Relative strength index) has shifted from bearish to neutral, further increasing the probability of a rebound.



Source: Emirates NBD Research, Bloomberg

Pound remains volatile ahead of event rich week

Sterling was the FX markets underperformer last week, depreciating against all the other major currencies, realizing declines of over 3% against AUD, JPY and NZD. This was in spite of supportive economic data which was overshadowed by concerns over the possibility of a "Hard Brexit". Economic data showed that house prices increased 1.7% m/m in December, greater than the 0.3% expected and in the same month, industrial production grew 2.1% while manufacturing production grew 1.3% compared with expectations for growth of 1.0% and 0.5% respectively.

The week ahead looks primed to be equally volatile with politics likely to be the main contributor. While investors will await employment, retail sales and inflation reports, the main theme is likely to be Tuesday's address by Prime Minister May

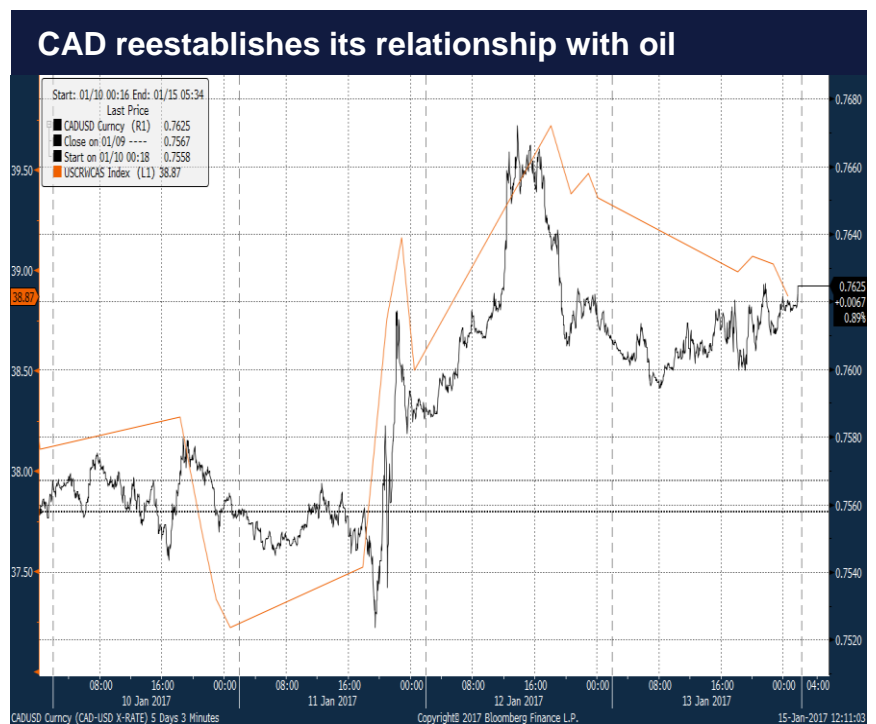
on her Brexit approach. Expectations are building that she will take a relatively hard line by recommending that the UK withdraws from the EU's customs union and the single market, in order to achieve a clean and quick break from the EU and all of its institutions.

AUD outperforms

The AUD spent the last 5 trading days outperforming and gaining on all the other majors, with AUDUSD rising 2.75% to 0.7502 in a move catalyzed by a rally in commodity prices. Technically, this leaves the pair close to its 100 and 200 day MA of 0.7501. From this level, we see the path of least resistance being downwards, aided by constructive US data with light support at 0.7450 and stronger support at 0.7333, the 30 day MA and one year 50% Fibonacci retracement. We would look to sell the pair on advances towards 0.7540 with a target of 0.7350 and a stop of 0.7585.

CAD re-establishes relationship with oil

The Canadian dollar appreciated against the USD with USDCAD declining by 0.93% to close at 1.3114. The movements over the course of the week saw the pair break below the 200 day MA of 1.3100 on Thursday, a level which coincides with the lower channel of the daily upward trend that has been in effect since May 3rd 2016. However, of note is that the break below this key level was not sustained with the pair failing to close below this level on Thursday and Friday. In addition, the 14 day RSI at 31.67 shows that the pair is almost oversold and that this combined with the key level the pair currently sits at is strongly supportive of a rebound. Over the next week, we expect the key drivers behind price action to remain US data and hydrocarbon prices. Indeed, as shown by the chart below, the CAD reestablished its strong relationship with hydrocarbon prices towards the end of last week.



Source: Emirates NBD Research, Bloomberg

FX Forecasts

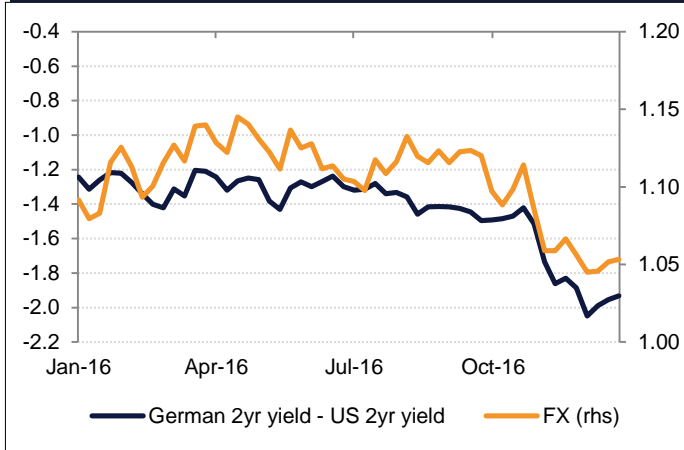
FX Forecasts - Major						Forwards		
	13-Jan	1m	3m	6m	12m	3m	6m	12m
EUR	1.0643	1.0500	1.0200	1.0000	1.0000	1.0690	1.0741	1.0860
JPY	114.49	118.00	120.00	122.00	124.00	114.01	113.46	112.21
CHF	1.0084	1.0300	1.0500	1.1000	1.1000	1.0029	0.9970	0.9837
GBP	1.2182	1.2200	1.1800	1.2500	1.3500	1.2210	1.2240	1.2313
AUD	0.7502	0.7200	0.7000	0.6800	0.6500	0.7486	0.7471	0.7446
CAD	1.3114	1.3500	1.3400	1.3200	1.3000	1.3101	1.3087	1.3051
EURGBP	0.8717	0.8607	0.8644	0.8000	0.7407	0.8735	0.8755	0.8800
EURJPY	121.87	123.90	120.36	120.00	122.00	121.87	121.87	121.87
EURCHF	1.0734	1.0815	1.0710	1.1000	1.1000	1.0723	1.0710	1.0684
NZDUSD	0.7131	0.6900	0.6700	0.6500	0.6700	0.7111	0.7093	0.7057

FX Forecasts - Emerging						Forwards		
	13-Jan	1m	3m	6m	12m	3m	6m	12m
SAR	3.7507	3.7500	3.7500	3.7500	3.7500	3.7538	3.7598	3.7818
AED	3.6729	3.6700	3.6700	3.6700	3.6700	3.6757	-	-
KWD	0.3055	0.2900	0.2900	0.2900	0.3000	0.3047	0.3054	-
OMR	0.3850	0.3800	0.3800	0.3800	0.3800	0.3862	0.3875	0.3965
BHD	0.3770	0.3760	0.3760	0.3760	0.3760	0.3773	0.3779	0.3799
QAR	3.6409	3.6400	3.6400	3.6400	3.6400	3.6458	3.6533	3.6632
EPN	18.7285	18.0000	18.5000	18.7500	19.0000	19.0000	19.5100	20.5000
INR	68.156	68.000	66.000	65.000	65.000	68.9000	69.6600	71.1600
CNY	6.9005	7.0000	7.1000	7.2000	7.4000	6.9995	7.0700	7.1795

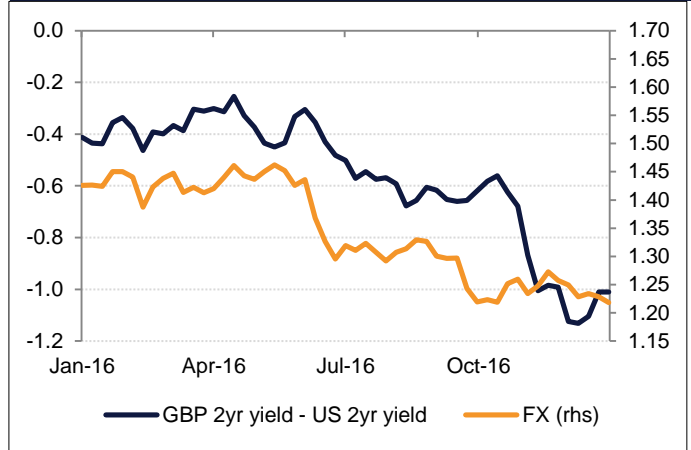
Source: Bloomberg, Emirates NBD Research
 *Denotes USD peg

Major FX and Nominal Interest Rates

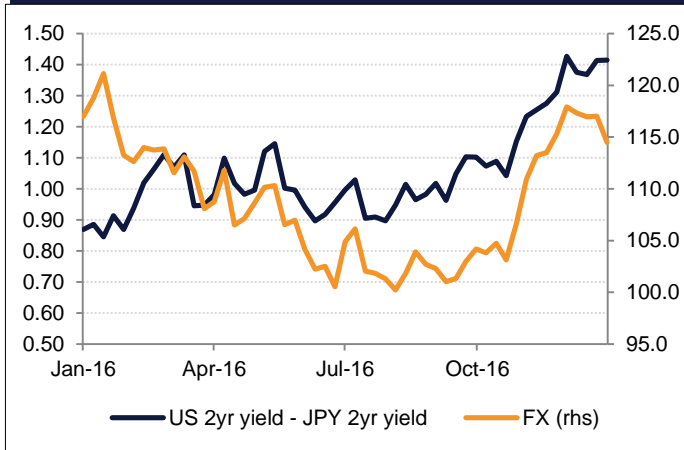
Interest Rate Differentials - EUR



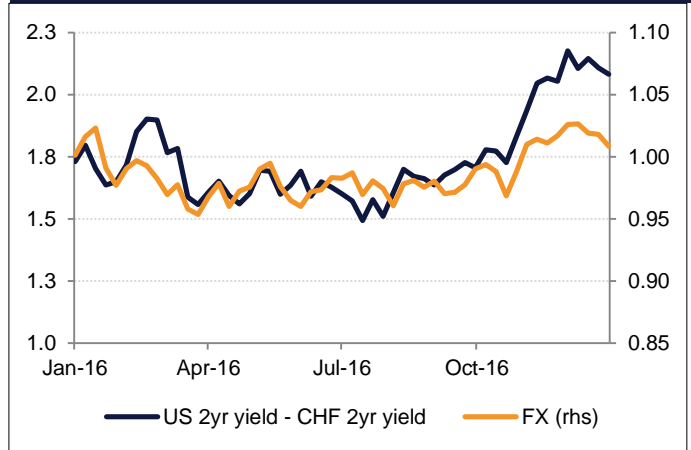
Interest Rate Differentials - GBP



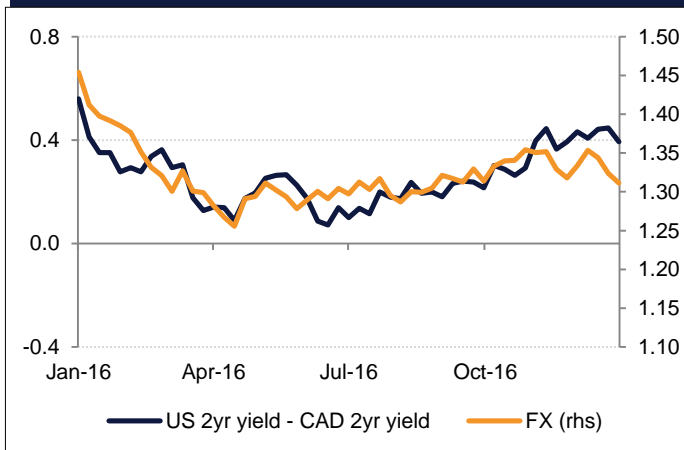
Interest Rate Differentials - JPY



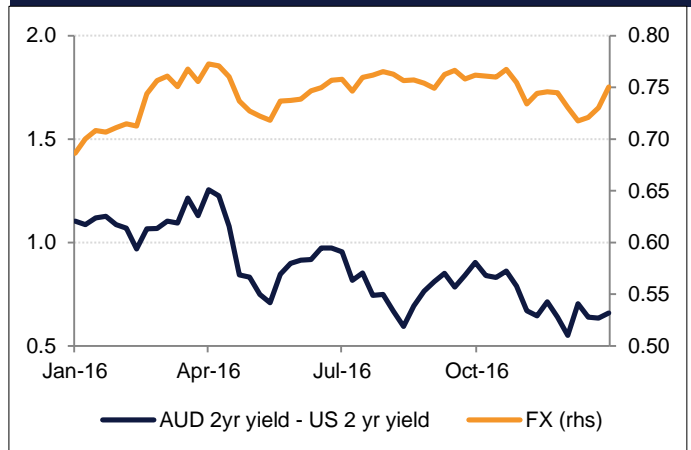
Interest Rate Differentials - CHF



Interest Rate Differentials - CAD

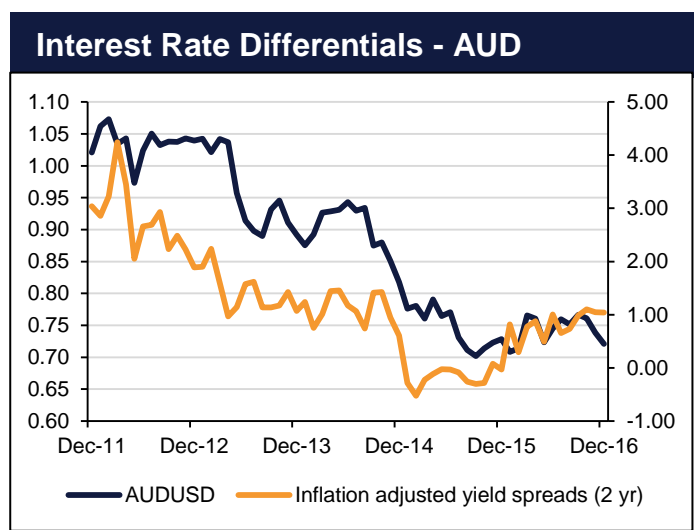
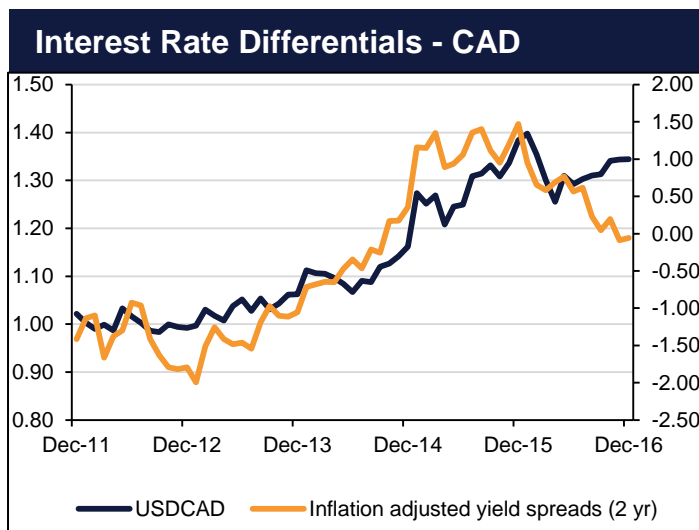
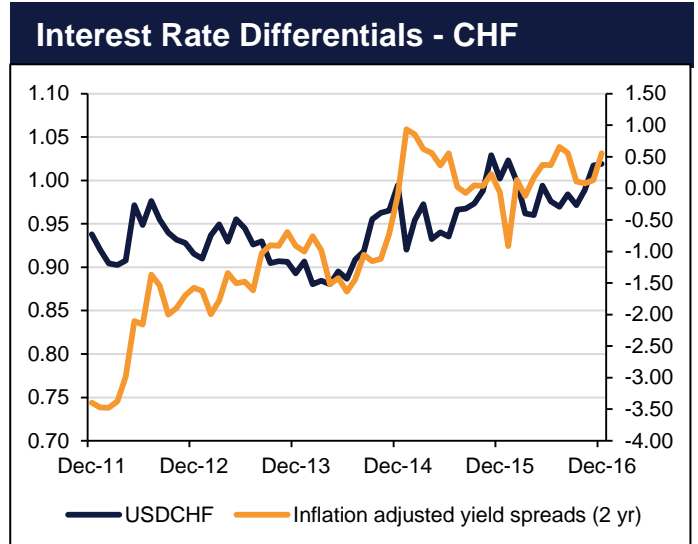
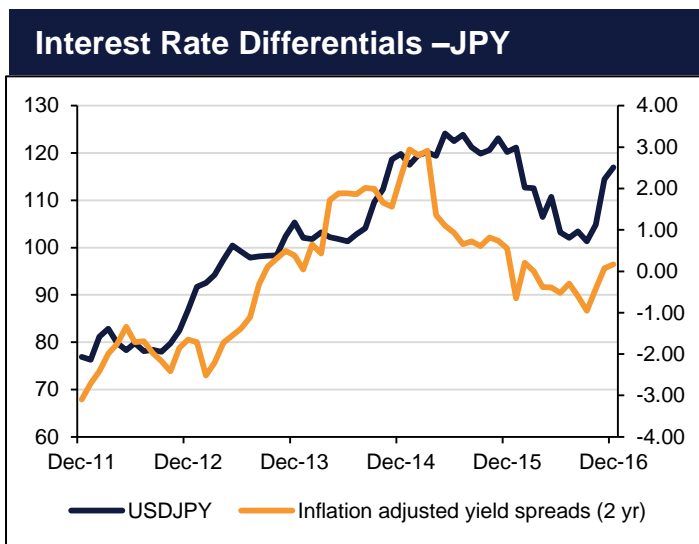
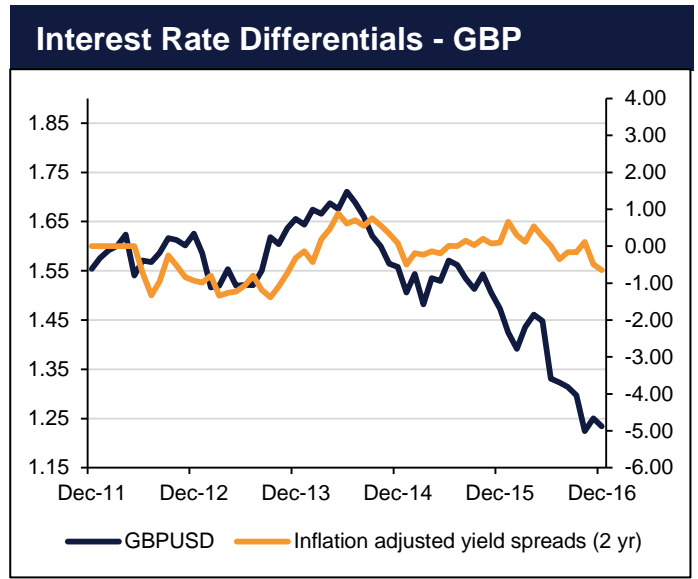
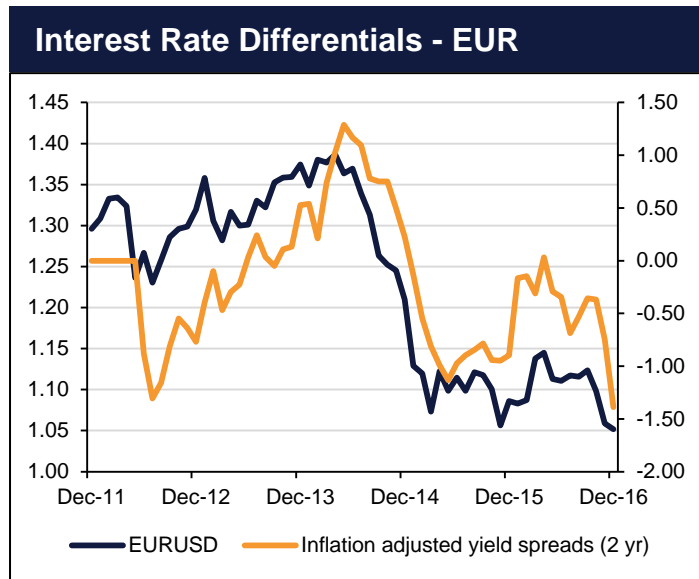


Interest Rate Differentials - AUD



Source: Bloomberg, Emirates NBD Research

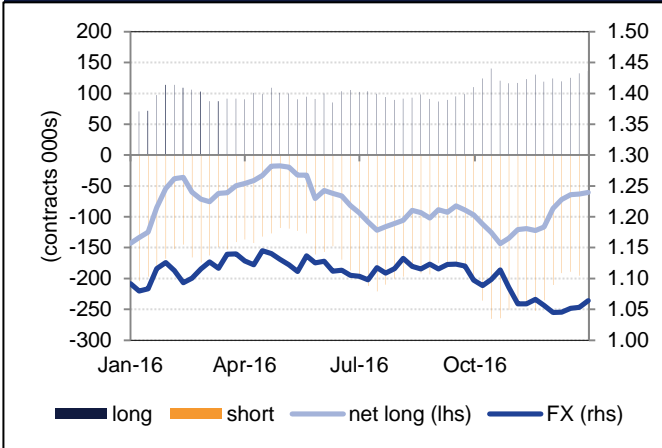
Major FX and Real Interest Rates



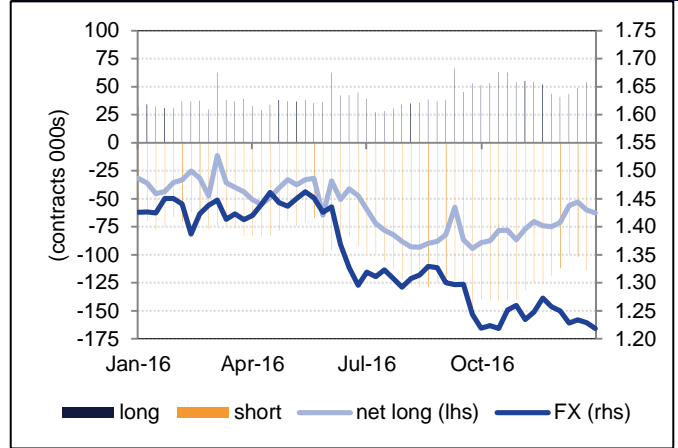
Source: Bloomberg, Emirates NBD Research

Major Currency Positions

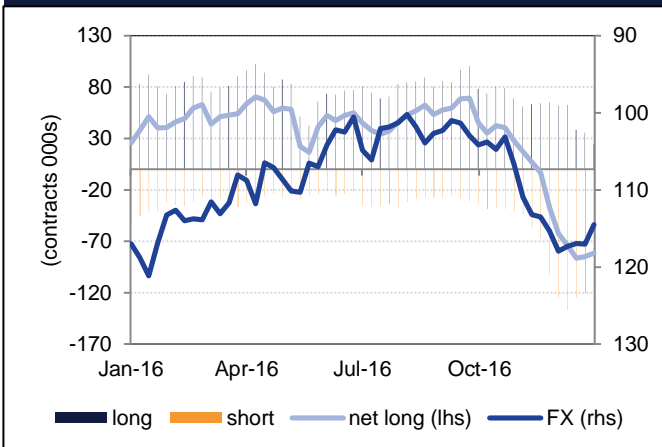
CFTC – Speculative Positions - EUR



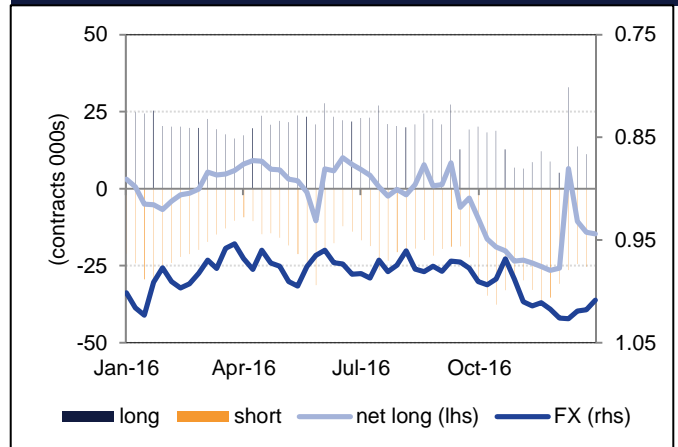
CFTC – Speculative Positions - GBP



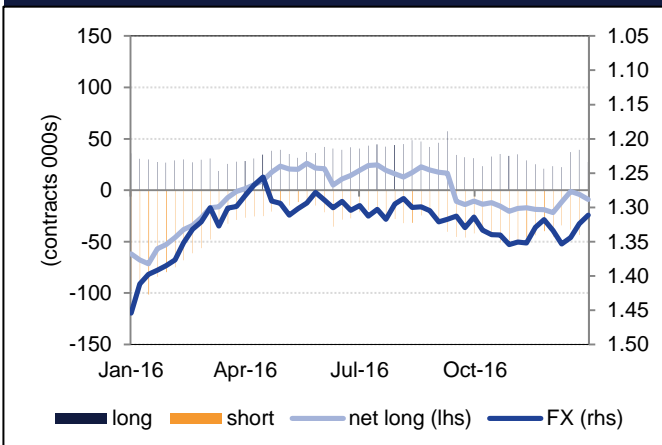
CFTC – Speculative Positions - JPY



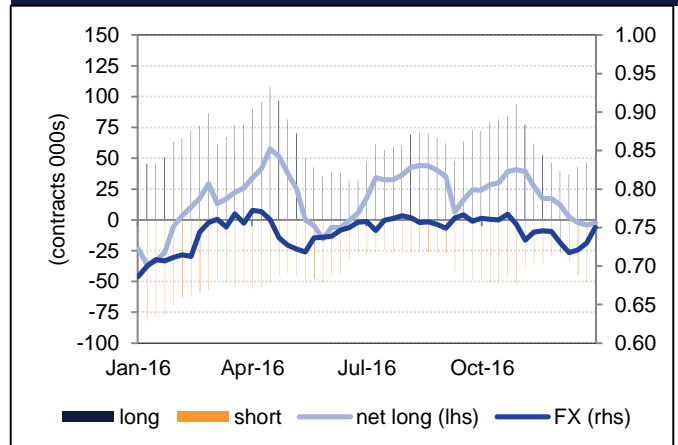
CFTC – Speculative Positions - CHF



CFTC – Speculative Positions - CAD



CFTC – Speculative Positions - AUD



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