



بنك الإمارات دبي الوطني
Emirates NBD

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

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

www.emiratesnbdresearch.com

FX Week

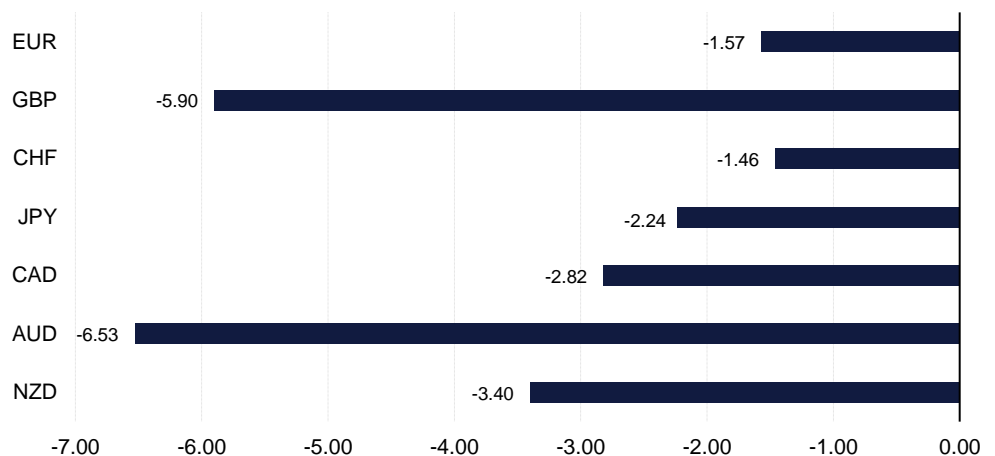
The intensification of unprecedented financial market volatility combined with the sense that the coronavirus lockdown is only in its early stages does not lend itself to markets recovering properly anytime soon, but it does mean that extreme policy reactions will probably become the norm and should now be assumed. With the world hunkering down massive monetary and fiscal stimulus helped equities recover on Friday, but underlying factors remain weighted to the downside as the markets struggle to see the end to this crisis. While equities fell bond yields rallied as a result of a rush to cash, creating a liquidity squeeze that threatened financial stability and necessitated record Fed repos and Treasury purchases.

After the Bank of England surprised with an emergency 50bps rate cut last week and the UK government announced a GBP30bn fiscal stimulus, while the ECB announced liquidity easing measures as well, it is probably fair to assume that the FOMC will face pressure not to hold back at this week's FOMC policy meeting either. As governments embrace increasingly extreme measures to contain the virus, central banks are doing the same, in order to maintain the orderly functioning of the financial system as best they can. Accordingly the Bank of Canada and Norges Bank also slashed policy rates by 50 bps in emergency actions, while the BoJ, RBA, and PBOC have been adding liquidity, with the PBoC also cutting reserve requirement ratios. These on top of government spending increases, including President Trump's declaration of a national emergency which freed up over 50 billion of dollars in federal funds, while the House passed a COVID-19 bill which the president also endorsed, and which will also release funds. Fiscal measures were also announced in the EU, as they finally caught up with the pressure from outside and from within for action.

In the face of steep drops in equity markets and widening credit spreads overall financial conditions became the tightest they have been since the global financial crisis. In response **the Fed significantly stepped up its repo offerings last week to help calm liquidity concerns and resumed Treasury purchases across all maturities**. Following on the from these steps the Fed will probably bring forward its move to zero interest rates this week, with a full 100 bps cut in the Fed funds rate priced in, seeing little benefit in holding back until future meetings.

FX markets are not surprisingly reflecting the liquidity challenge, seeing sharp movements. Of these GBP's losses were perhaps the most pronounced last week, dropping 6% against the USD, following the UK authorities' huge stimulus steps and as the government's coronavirus measures accelerated. With the a European (and probably worldwide) recession looming, markets are less confident about the upcoming trade negotiations between the UK and EU, with the UK's wish to leave the post-Brexit transition period by the end of the year looking more and more difficult. Needless to say another volatile weakness across FX markets looks in store.

Weekly currency movement vs USD (%)



Source: Bloomberg, Emirates NBD Research

Technical Observations

EURUSD falls below 50-week MA

EURUSD fell for the first time in four weeks, losing 1.57% to close at 1.1107. Earlier in the week, the price has climbed to a new 2020 high of 1.1495, breaking the 100-week and 200-week moving averages (1.1330 and 1.1347) before surrendering these gains and closing below the 50-week moving average (1.1122). While this is technically bearish for the price, analysis of the daily candle chart reveals that daily support was found at the 100-day moving average on Thursday and Friday (1.1068) and support at this level helped the price close the week above the 200-day moving average (1.1100). While the price remains higher than 1.1070 on the daily close, we expect a Q1 2020 finish above the 1.12 level. However, should the 1.1070 level fail to hold, we could see a quick retest of the 38.1% one year Fibonacci retracement (1.1052) and 50-day moving average (1.1044). Should these levels be breached, a more significant decline towards 1.0950 cannot be ruled out.

GBPUSD falls by nearly 6%

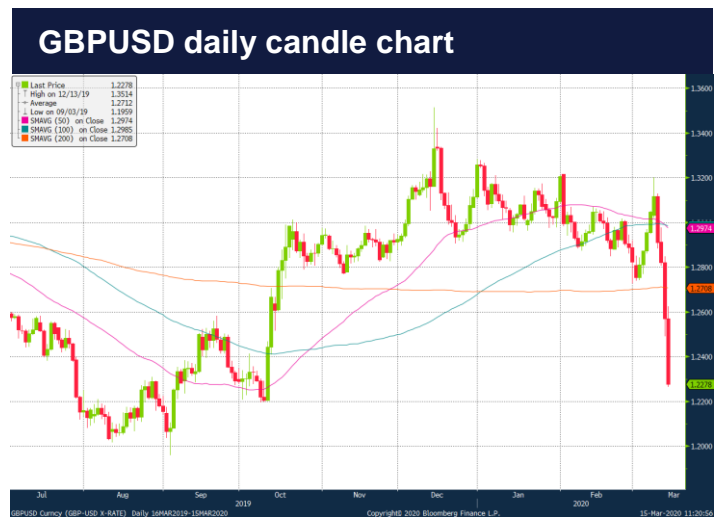
Over the last five trading days, GBPUSD declined by 5.92% to close the week at 1.2278, the lowest weekly close since October 2019. The movement involved in this decline saw the price break below many key technical levels including the 61.8%, 50%, 38.2% and 23.6% one year-Fibonacci retracements (1.2920, 1.2736, 1.2553 and 1.2326 respectively). In addition to this, the 50, 100 and 200-day moving averages were also broken (1.2974, 1.2985 and 1.2708). Finally the price broke below the 50-week moving average (1.2751) for the first time in 23 weeks, and sustained this break. This is technically bearish for the cross and while great volatility can continue to be expected, downside risks are likely to remain the path of least resistance.

USDJPY rises for first time in three weeks

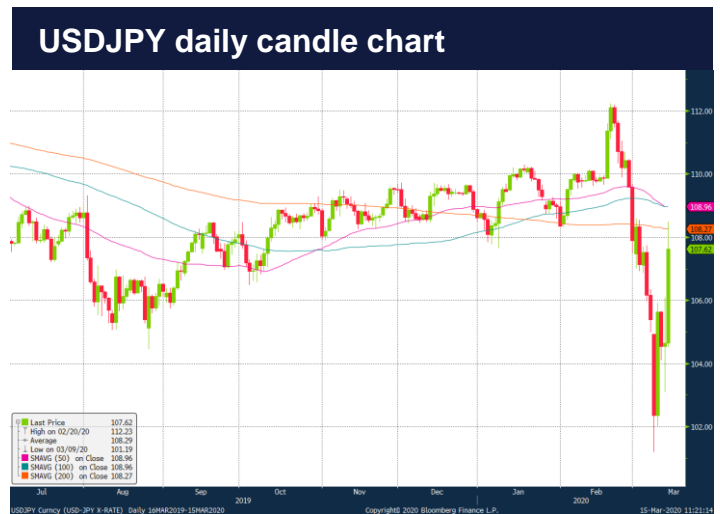
A 2.45% rise meant that USDJPY rose for the first time in three weeks and closed at the 107.96 level. The price found support at the new 2020 low of 101.19 last week and was able to recover and recoup the losses of the previous week. Analysis of the daily candle charts show that the price was successful in breaking back above the 23.6 and 50% one year-Fibonacci retracements (105.47 and 106.80) before failing to sustain the break of the 61.8% one-year Fibonacci retracement which has now provided resistance for two weeks. Should the price manage to break this level in the coming week, we would then need to see a daily close above the 50-day moving average (108.65) to see further gains.



Source: Bloomberg



Source: Bloomberg



Source: Bloomberg

FX Forecasts

FX Forecasts – Major						Forwards		
	13-Mar	Q1 2020	Q2 2020	Q3 2020	Q4 2020	3m	6m	12m
EURUSD	1.1107	1.1200	1.1400	1.1500	1.1700	1.1158	1.1189	1.1250
USDJPY	107.62	108.00	108.00	107.00	107.00	106.99	106.66	105.99
USDCHF	0.9517	0.9500	0.9400	0.9300	0.9300	0.9461	0.9426	0.9358
GBPUSD	1.2278	1.2600	1.3000	1.3400	1.3800	1.2303	1.2306	1.2309
AUDUSD	0.6203	0.6400	0.6600	0.6700	0.6900	0.6199	0.6194	0.6182
NZDUSD	0.6134	0.6200	0.6300	0.6500	0.6700	0.6124	0.6115	0.6100
USDCAD	1.3806	1.3600	1.3400	1.3200	1.3000	1.3800	1.3796	1.3792
EURGBP	0.9034	0.8889	0.8769	0.8582	0.8478	0.9057	0.9080	0.9128
EURJPY	119.46	120.96	123.12	123.05	125.19	119.46	119.46	119.46
EURCHF	1.0571	1.0640	1.0716	1.0695	1.0881	1.0558	1.0548	1.0527
FX Forecasts - Emerging								
	13-Mar	Q1 2020	Q2 2020	Q3 2020	Q4 2020	3m	6m	12m
SAR	3.7570	3.7500	3.7500	3.7500	3.7500	3.7553	3.7567	3.7675
AED	3.6730	3.6730	3.6730	3.6730	3.6730	3.6749	3.6770	3.6826
KWD	0.3077	0.3020	0.3020	0.3020	0.3020	0.3093	0.3102	--
OMR	0.3849	0.3850	0.3850	0.3850	0.3850	0.3902	0.3950	0.4040
BHD	0.3776	0.3770	0.3770	0.3770	0.3770	0.3761	0.3761	0.3792
QAR	3.6640	3.6400	3.6400	3.6400	3.6400	3.6665	3.6688	3.6748
EGP	15.7038	15.7500	15.7500	15.5000	15.5000	16.6300	17.2500	18.2600
INR	73.911	72.000	71.000	70.000	68.000	75.5500	76.3700	77.8900
CNY	7.0087	7.1000	7.2000	7.2000	7.2000	7.0435	7.0645	7.1160
SGD	1.4150	1.3500	1.3300	1.3100	1.3000	1.4140	1.4137	1.4133
FX Forecasts - MENA						3.7503		
	13-Mar	Q1 2020	Q2 2020	Q3 2020	Q4 2020			
MAD	9.5903	9.5000	9.5000	9.4000	9.4000			
TND	2.8449	2.8000	2.8000	2.7000	2.7000			
TRY	6.3331	6.0000	6.2000	6.2000	6.3000			

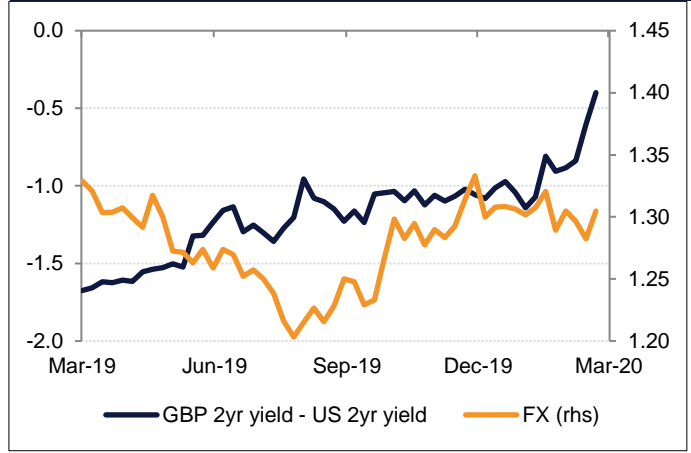
Source: Bloomberg, Emirates NBD Research
 *Denotes USD peg

Major FX and Nominal Interest Rates

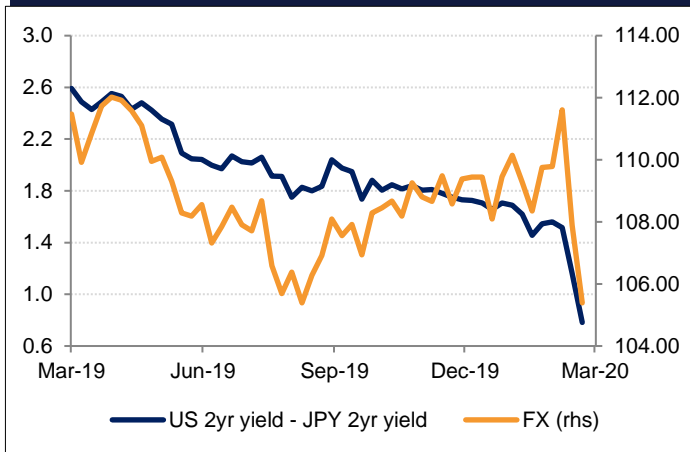
Interest Rate Differentials - EUR



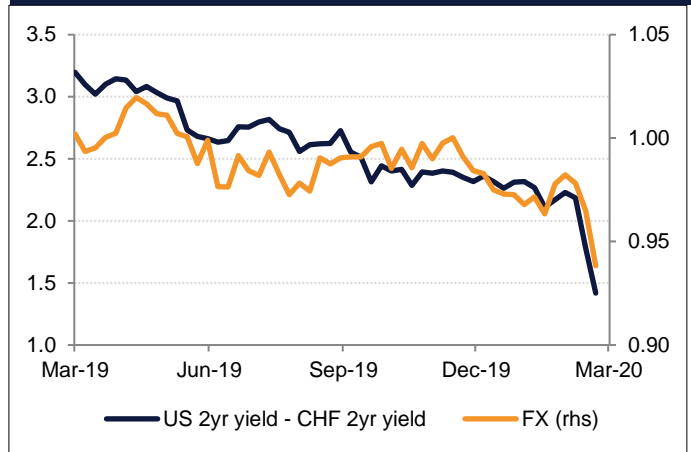
Interest Rate Differentials - GBP



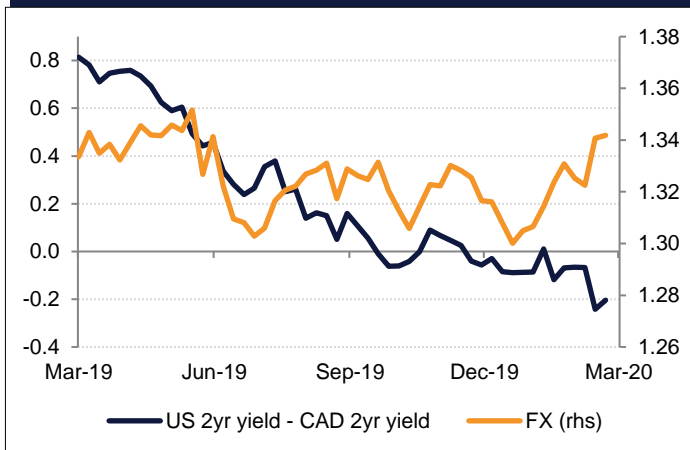
Interest Rate Differentials - JPY



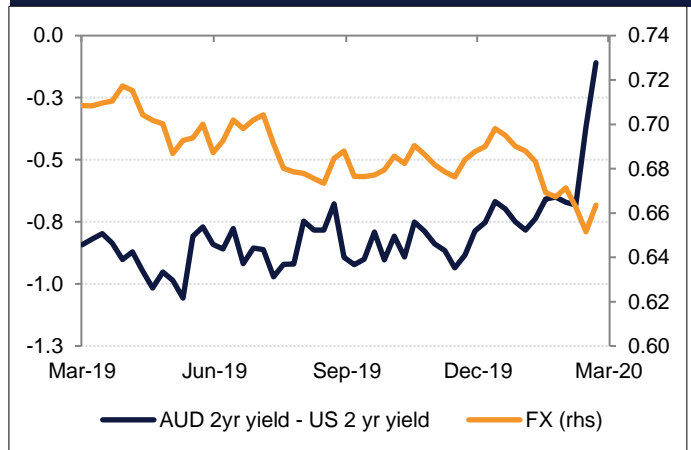
Interest Rate Differentials - CHF



Interest Rate Differentials - CAD

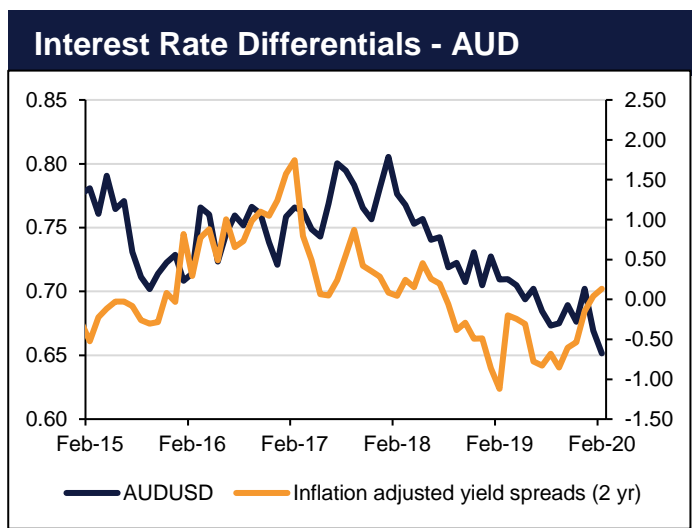
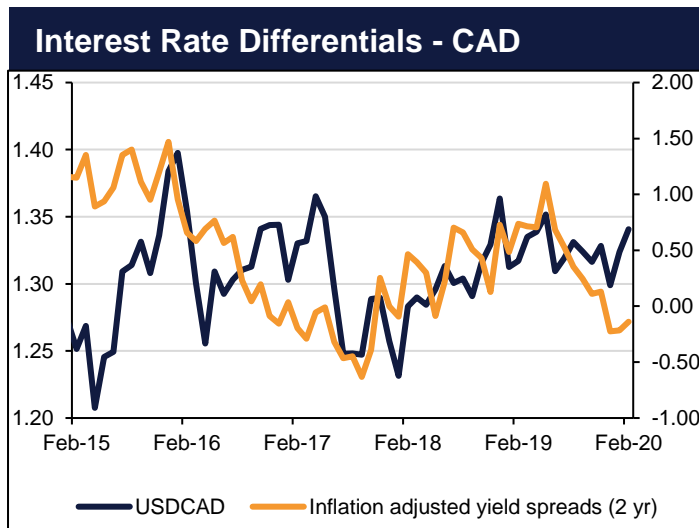
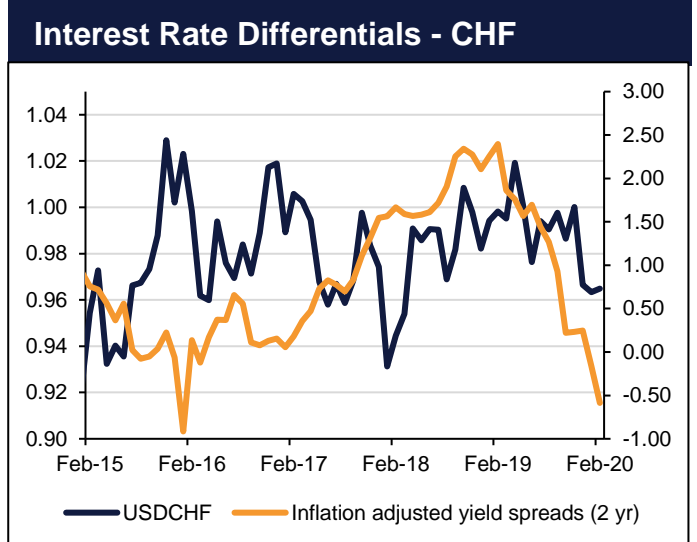
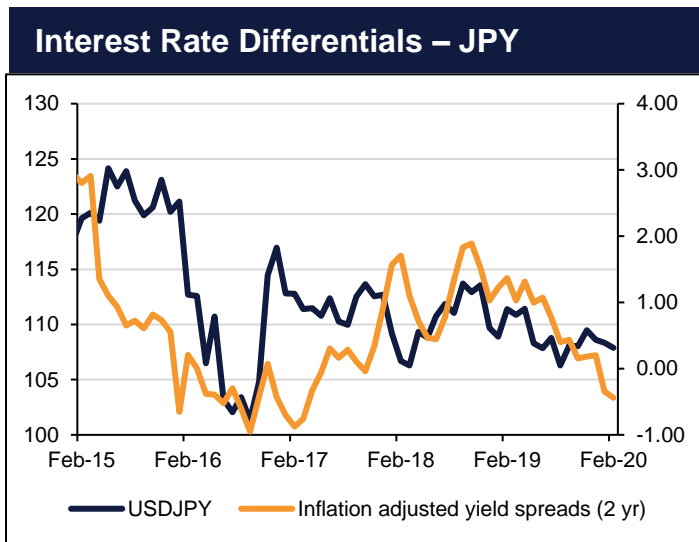
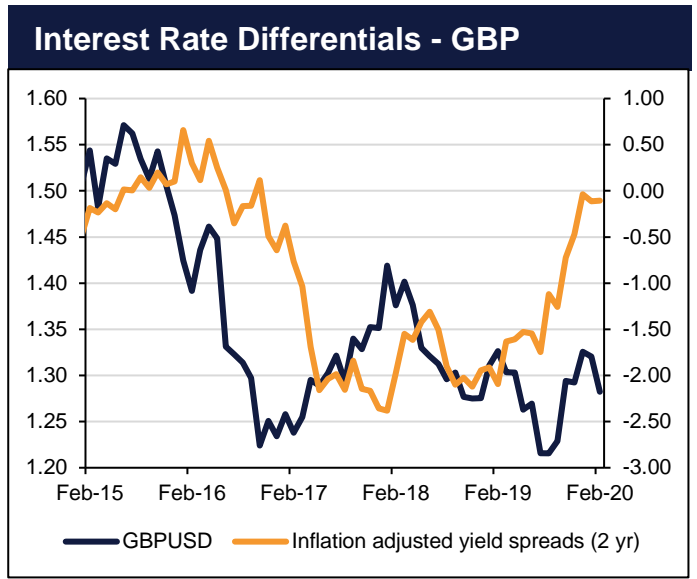
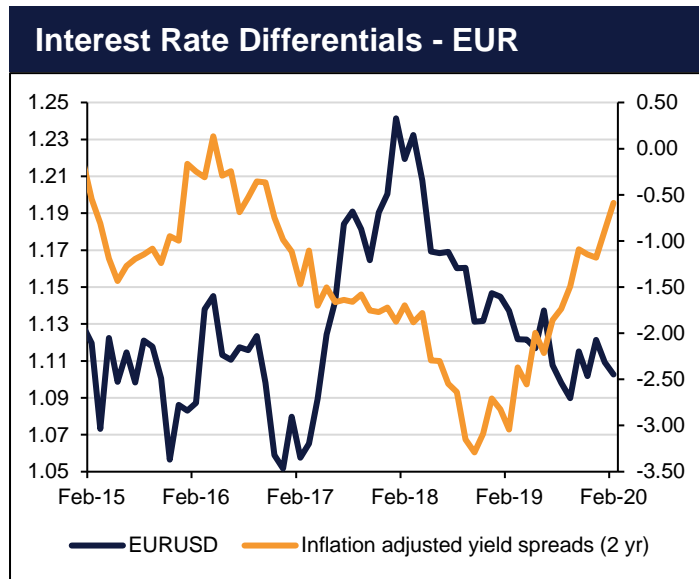


Interest Rate Differentials - AUD



Source: Bloomberg, Emirates NBD Research

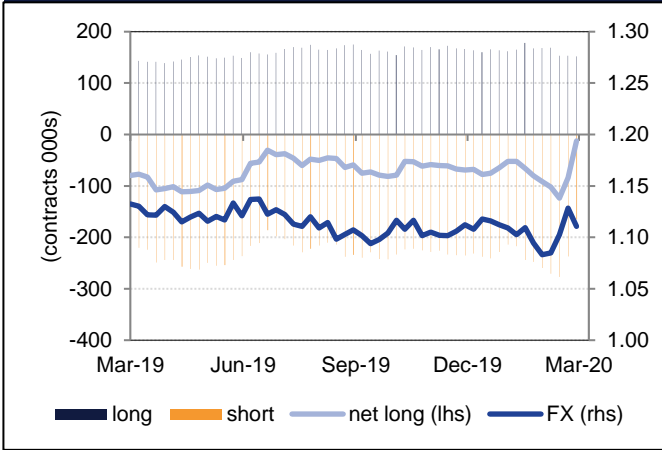
Major FX and Real Interest Rates



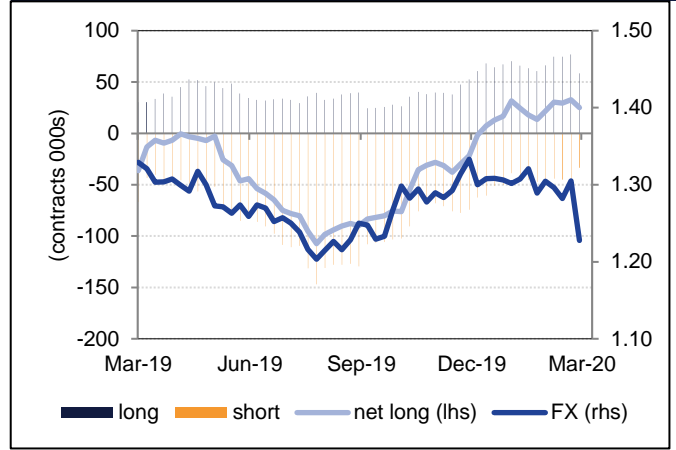
Source: Bloomberg, Emirates NBD Research

Major Currency Positions

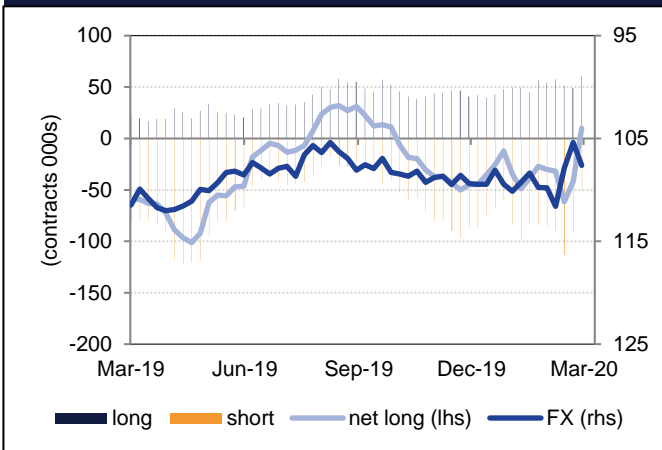
CFTC – Speculative Positions - EUR



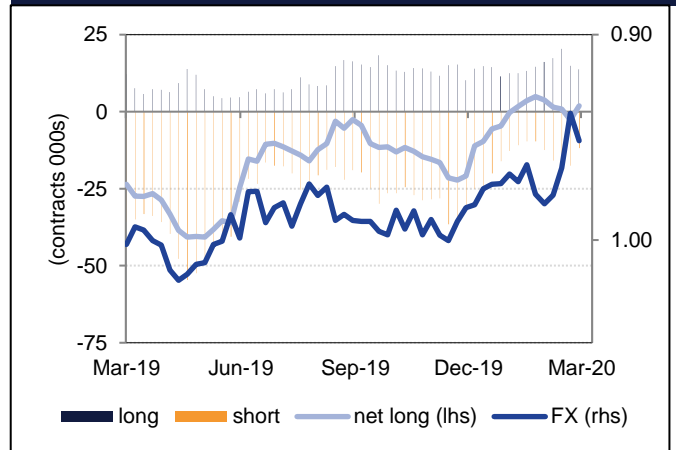
CFTC – Speculative Positions - GBP



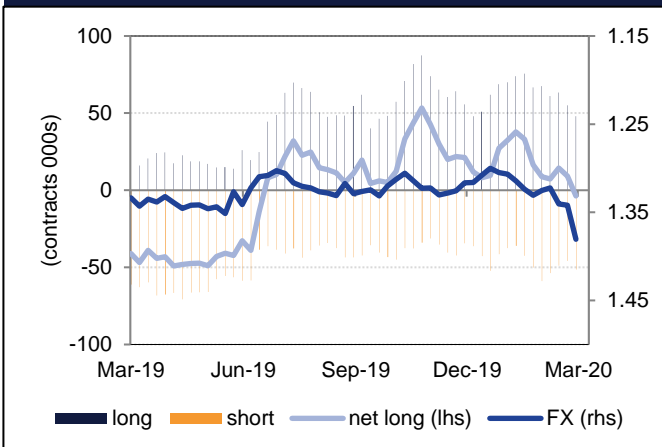
CFTC – Speculative Positions - JPY



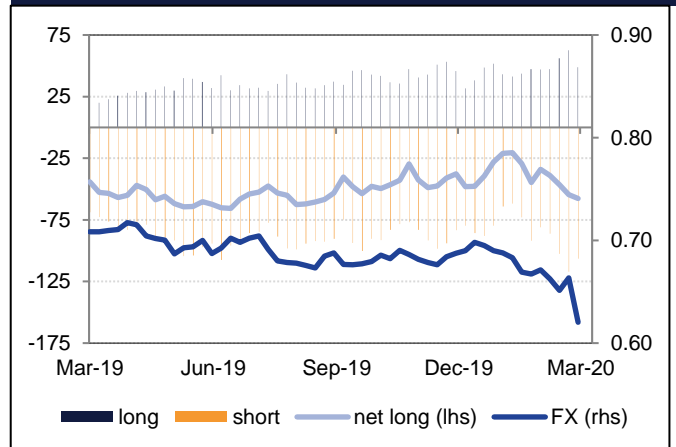
CFTC – Speculative Positions - CHF



CFTC – Speculative Positions - CAD



CFTC – Speculative Positions - AUD



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Emirates NBD Research & Treasury Contact List

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

Aazar Ali Khwaja
Senior Executive Vice President
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

Edward Bell
Senior Director, Market Economics
+9714 230 7701
edwardpb@emiratesnbd.com

Aditya Pugalia
Financial Markets Research
+9714 230 7802
adityap@emiratesnbd.com

Daniel Richards
MENA Economist
+9714 609 3032
danielricha@emiratesnbd.com

Mohammed Altajir
FX Analytics and Product Development
+9714 609 3005
mohammedtaj@emiratesnbd.com

Shady Shafer Elborno
Head of Macro Strategy
+9714 609 3015
shadyb@emiratesnbd.com

Jamal Mattar
Research Associate
+9714 444 3607
jamaly@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

Egypt
+20 22 726 5040

Emirates NBD Capital

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