



بنك الإمارات دبي الوطني  
Emirates NBD

Weekly  
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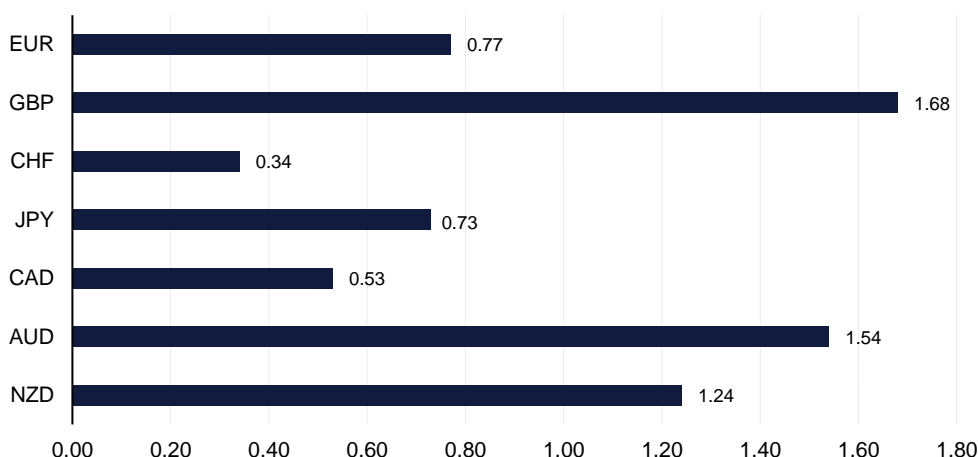
# FX Week

## Dollar declines for first time in five weeks

With EURUSD bouncing back last week following a pause in the Catalonia crisis the USD has itself experienced mixed fortunes in recent days. It fell further following softer than expected US core inflation data but some stability returned as retail sales and headline CPI were both strong. Overall, while the dollar lost ground from the start of the week to the end of it, its losses were not substantial and it remains poised with the potential to break out in either direction.

The end of the week showed the importance attached to economic data and the implications for the Fed. The softness of the core CPI which rose just 0.1%, leaving the y/y rate unchanged at 1.7%, was a clear disappointment but it does not seem to have materially altered expectations about the Fed raising interest rates by the end of this year which are still put at over 70%. The fall back in certain prices appears likely to be temporary, and in the context of strength in retail sales (1.6%) this also suggests that underlying drivers of future price gains are still largely in place. September industrial production is due out this week and is likely to be hurricane affected, with the risk being of further weakness on top of that already seen in August (-0.9%).

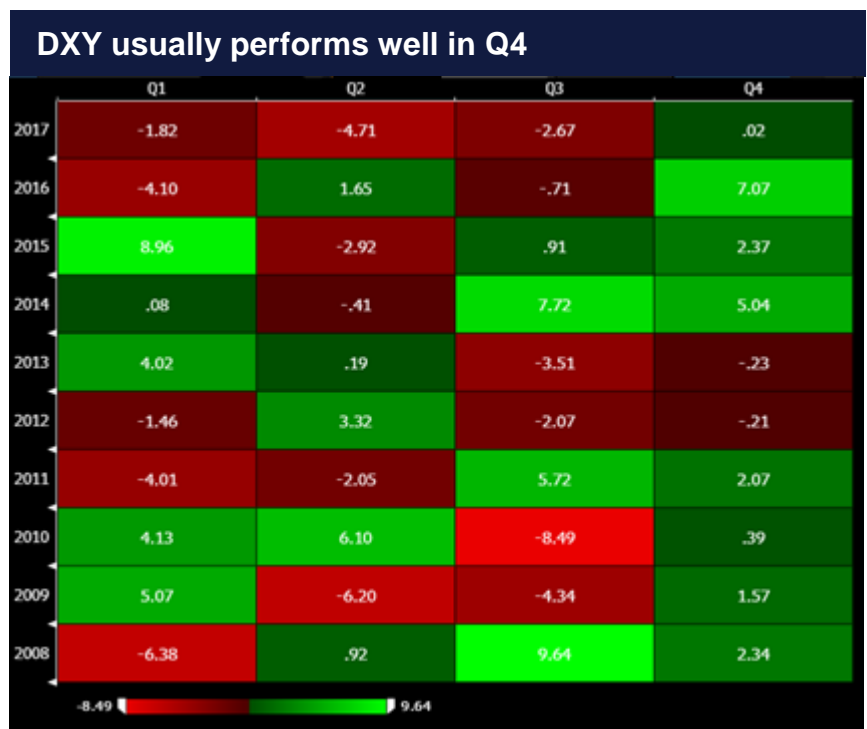
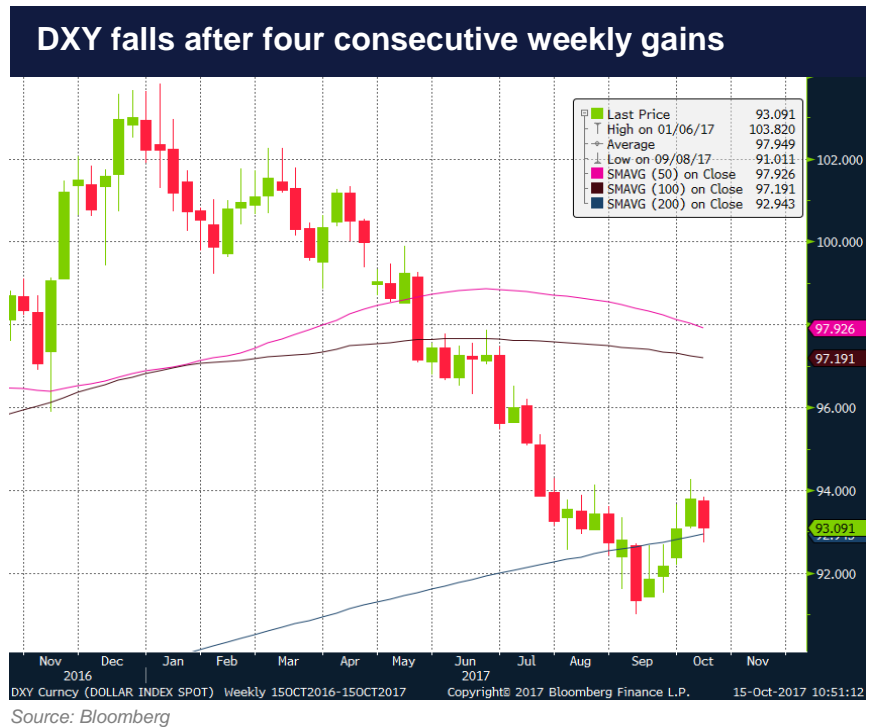
## Weekly currency movement vs USD (%)



Source: Bloomberg, Emirates NBD Research

The dollar may also show vulnerability to the latest headlines emanating from Washington DC, with the Trump White House deciding not to re-certify Iran as complying with the terms of the JCPOA, the international deal that has placed curbs on the country's nuclear program. The US Congress will now have to decide whether to impose new sanctions, a move opposed by the deal's European partners and Russia and China, or to put other restrictions on Iran. Politically, therefore, the US is becoming more isolated and this will further depress confidence in its role as a global leader on top of all the other domestic political distractions that exist.

Last week, the dollar index fell for the first time in five weeks, falling 0.79% to close at 93.055. Of technical significance is that further declines were halted after support was found at the 200 week moving average (92.943), which the index has closed above for a third consecutive week. While the weekly closes remain above this level, the often observed Q4 seasonality pattern of dollar strength (see heat map) has the possibility of re-exerting itself. A break of this level however is likely to catalyze a larger retest of the one year low (91.011).



### Political forces elsewhere too

The dollar is not unique, however, in having political noise to contend with. The Euro and the British pound have their own challenges, related to Brexit and to broader populist forces across the EU as a whole. Although Catalonia failed to push the independence button last week, the issue has not been resolved with the Spanish government raising the ante by demanding that the region confirm by Monday whether it had made a unilateral independence declaration, and giving it until Thursday to return 'constitutional order' to the region. Thus there is scope for

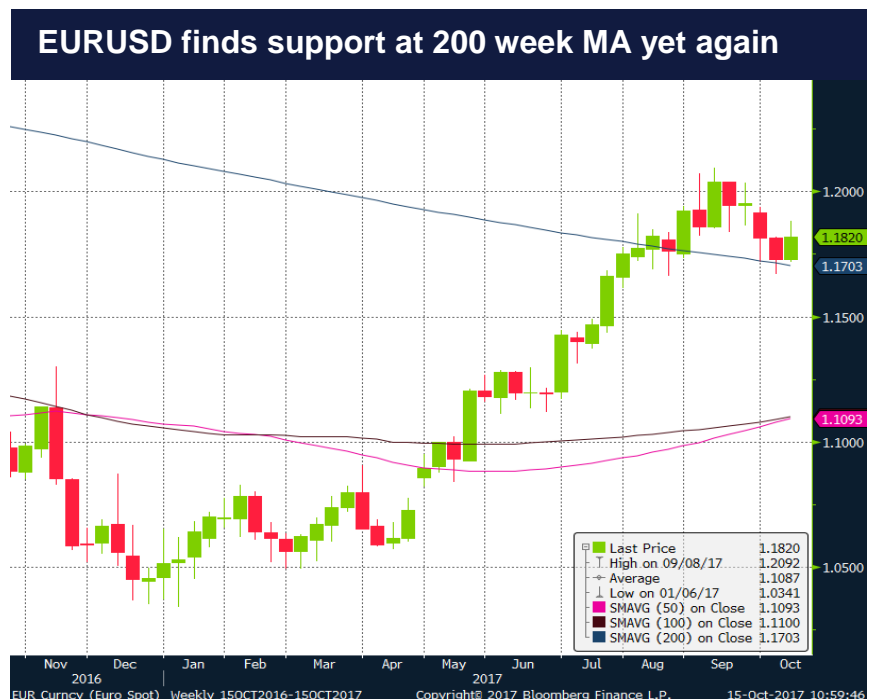
more political induced volatility in the single currency in the coming days, with this weekend's Austrian elections possibly also giving anti-EU forces fresh momentum. Separatist referenda are also looming in Italy later this month carrying the potential to extend this recent period of EUR fragility.

The other major issue facing the EUR is the tapering debate which should see some clarity start to appear towards the end of the month when the ECB meets on the 26th. Some reports have suggested that the ECB is considering a 9 months extension of QE but with bond purchases of EUR 30bn per month. This would cut the current months purchase volume in half, but with the longer than expected extension it would still mean an additional stimulus of EUR 270bn. At the same time, the ECB apparently wants to keep the option of another extension in place and strengthen the forward guidance on rates, which are only likely to rise after the end of asset purchases. So the upshot still appears to be that rates will not get hiked before 2019.

Such caution owes itself to the sluggishness of inflation, with the final reading of Eurozone September HICP this week likely to confirm the preliminary reading of 1.5% y/y. This is too low for President Draghi with the ECB highlighting that the amount of slack in the labor market is higher than official data suggests. The risk is rising therefore that the even at the end of this month the central bank will not be willing to commit to a firm end date for QE.

### EURUSD remains vulnerable despite climb

Following two weeks of declines, EURUSD rose 0.77% last week to close at 1.1820, having found support above the 200 week moving average (1.1703) and resistance at the 50 day moving average (1.1846). Despite the softer than expected US economic data, the cross was unable to hold onto much of its gains and looks unlikely to form a new higher high on the daily candle chart. This leads us to believe that there is a risk of a break of the 200 week moving average, which would result in a test of the 76.4% one year Fibonacci retracement (1.1679), an area which has held as a support since July 27, 2017. Should this level falter on the next test, a move towards 1.16 is likely to follow in quick succession.



Source: Bloomberg

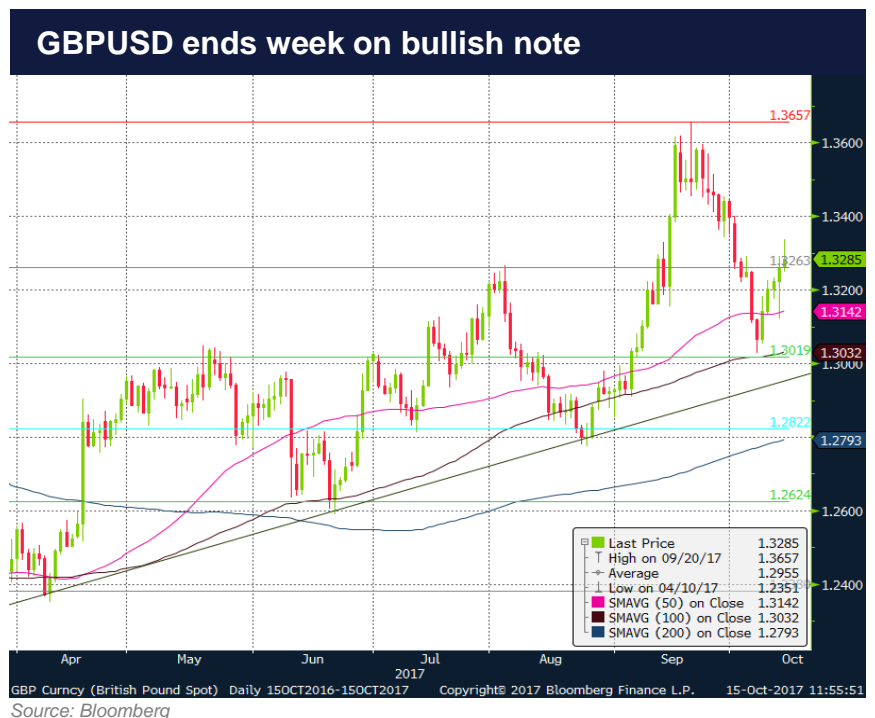
## GBP recovers to outperform

The pound meanwhile also managed to recover by over 1.6% versus the dollar and by about 1% versus both the euro and yen, after posting its biggest weekly loss since August 2016 a week ago. Stronger than expected production and BRC retail sales data helped sentiment improve, and sheltered GBP from the negative headlines about the slow progress of the Brexit talks. A downgrade to its long term UK economic growth forecast by the IMF is also likely to be overlooked given the IMF's poor recent track record of predicting the UK economy. The main news in the coming week is likely to be September's inflation data on Tuesday, where the headline rate is expected to rise to 3.0%, a new cycle high, after a 2.9% reading in August, and a core CPI reading of 2.8% y/y, up from 2.7% in the month before. Such outcomes would leave the central bank on course to raise interest rates by 25bps at the November MPC meeting.

Other monthly data will include labor data on Wednesday which should see the unemployment rate remain unchanged at 4.3%, and show average household earnings rising by 2.1% y/y in the three months to August, still significantly below inflation. Official retail sales on Thursday are also released and expected to show a small monthly contraction.

## Are further gains in store?

Sterling outperformed all the other major currencies last week with GBPUSD gaining every single day to finish the week 1.68% higher at 1.3286. Of note is that over the course of the week, the pound found support at the 50 day moving average (1.3142) before encountering and then eventually overcoming resistance at the 76.4% one year Fibonacci retracement (1.3263). This development reinforces our bullish sentiment on sterling and, unless UK data disappoints in the week ahead, we expect further gains towards 1.34 to be the likely path.



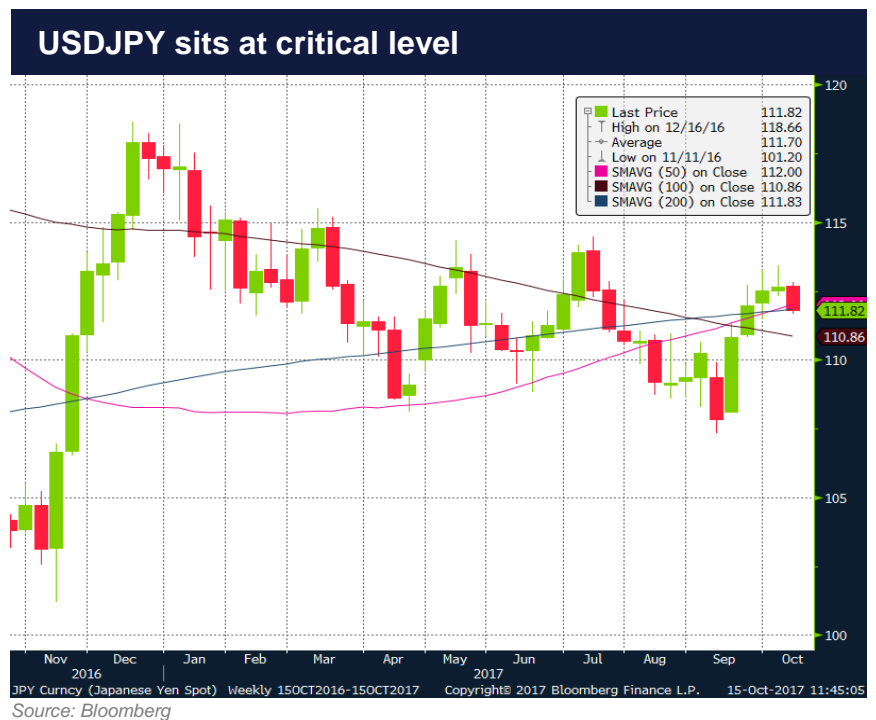
## Asian markets also await political headlines

Asian markets also face political headlines in the coming fortnight, with China's 19th National Congress of the Communist Party convening on Wednesday. President Xi is widely expected to be re-elected and is expected to outline another

broad plan for economic growth in the coming years. Meanwhile Japan also faces an election on October 22, where polls show PM Abe's LDP party in the lead, which will help to keep current expansionist policies intact. The data calendar will probably take second place to these political matters, although China sees a whole host of economic figures including CPI, retail sales and industrial production, with money supply data at the start of the week already showing an expansion in new loans and faster than expected growth. Japan's data calendar meanwhile is dominated by trade data.

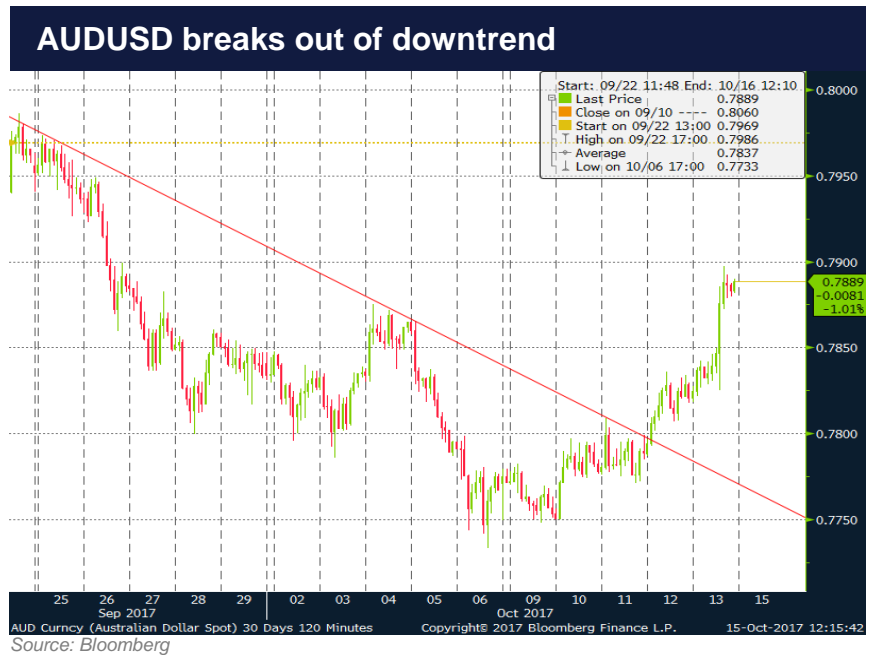
### USDJPY falls for first time in 5 weeks

USDJPY fell for the first time in 5 weeks, losing 0.74% to close at 111.82, a level which is technically very important. This level stands just below the 61.8% one year Fibonacci retracement (111.99) and above the 200 day moving average (111.81) as well as below the 50 week moving average (112.00) and the 200 week moving average (111.83). With little in the way of primary tier US data due for release over the next week, USDJPY price action will mainly be driven by market risk appetite. The next level of support is likely to be found at 110.80, not far from the 100 day moving average (110.86). While the price remains above this level, further appreciation can be expected towards 114.50. The risk of this remains significant in Q4 given USDJPY's seasonality performance has risks to the upside towards the end of the year.



### AUDUSD rises as data supports

AUD was the second best performer after Sterling last week, with AUDUSD gaining 1.57% to finish the week at 0.7887, only finding meaningful resistance at the 76.4% one year Fibonacci retracement (0.7897). The AUD found support after economic data showed increased business confidence, consumer confidence and inflation expectations. Surveys from NAB showed that business confidence increased to 7 in September, up from 5 the previous month, while surveys from Westpac showed that consumer confidence has increased 3.6% m/m in October, up from 2.5% the previous month. In addition, Treasurer Scott Morrison states that the AUD and interest rates are "at appropriate levels for the nation's economy", highlighting a degree of comfort among policy makers.



Last week's price movements illustrate a few key points. Firstly, AUDUSD was able to break and close above the 100 day moving average (0.7801) for two consecutive days after failing to fall below the support provided by the 61.8% Fibonacci retracement for three consecutive days. In addition, inspection of the hourly candle chart (see above) reveals that the previous downtrend has been firmly broken. This leads us to believe that short term risks for AUDUSD remain to the upside unless employment data disappoints in the week ahead or data from their significant trading partner, China, shocks the market.

## FX Forecasts

FX Forecasts - Major						Forwards		
	13-Oct	Q4 2017	Q1 2018	Q2 2018	Q3 2018	3m	6m	12m
EUR	1.1820	1.1500	1.1500	1.1800	1.2000	1.1883	1.1947	1.2087
JPY	111.82	114.00	116.00	118.00	120.00	111.28	110.74	109.51
CHF	0.9745	1.0000	1.0400	1.0400	1.0400	0.9683	0.9621	0.9493
GBP	1.3285	1.3400	1.3600	1.4000	1.4200	1.3324	1.3361	1.3433
AUD	0.7887	0.7500	0.7200	0.7000	0.7200	0.7879	0.7873	0.7861
NZD	0.7181	0.6900	0.7000	0.7100	0.7100	0.7169	0.7160	0.7143
CAD	1.2468	1.2400	1.2500	1.2600	1.2600	1.2460	1.2458	1.2455
EURGBP	0.8898	0.8582	0.8456	0.8429	0.8451	0.8919	0.8942	0.8998
EURJPY	132.21	131.10	133.40	139.24	144.00	132.21	132.21	132.21
EURCHF	1.1519	1.1500	1.1960	1.2272	1.2480	1.1507	1.1495	1.1474

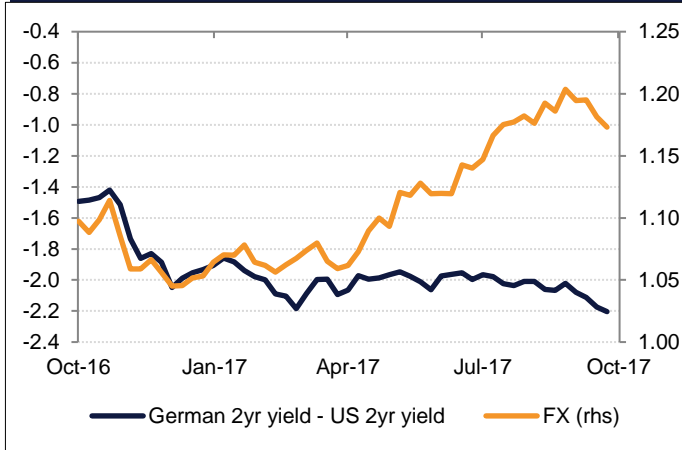
  

FX Forecasts - Emerging						Forwards		
	13-Oct	Q4 2017	Q1 2018	Q2 2018	Q3 2018	3m	6m	12m
SAR	3.7504	3.7500	3.7500	3.7500	3.7500	3.7516	3.7537	3.7633
AED	3.6730	3.6730	3.6730	3.6730	3.6730	3.6740	--	--
KWD	0.3021	0.3050	0.3050	0.3050	0.3050	0.3036	0.3055	--
OMR	0.3850	0.3850	0.3850	0.3850	0.3850	0.3856	0.3866	0.3893
BHD	0.3773	0.3770	0.3770	0.3770	0.3770	0.3776	0.3781	0.3793
QAR	3.6883	3.6700	3.6700	3.6700	3.6700	3.7410	3.7458	3.7553
EGP	17.6236	17.5000	17.2500	17.0000	16.8000	18.1250	18.5950	19.5850
INR	64.928	65.000	66.000	66.000	66.000	65.3500	66.0100	67.2300
CNY	6.5796	6.9000	7.0000	7.0000	7.1000	6.6140	6.6505	6.7215

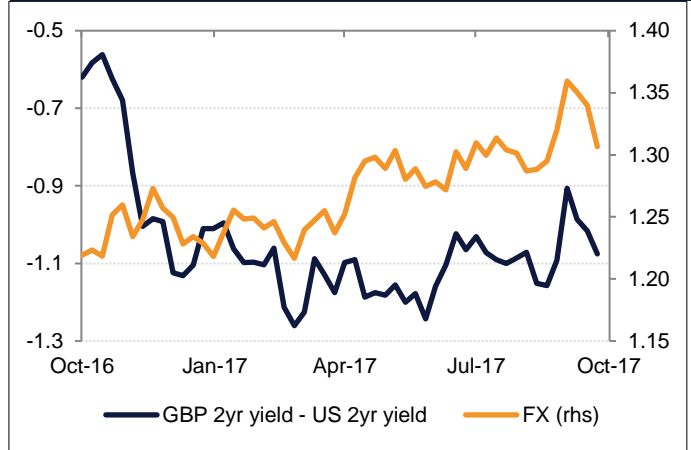
Source: Bloomberg, Emirates NBD Research  
 \*Denotes USD peg

## Major FX and Nominal Interest Rates

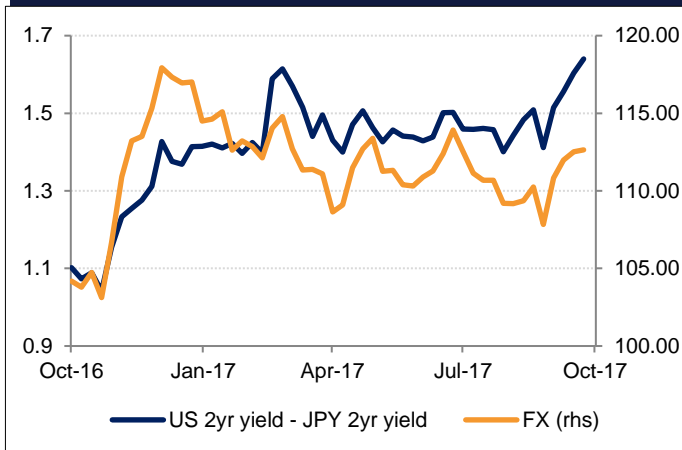
### Interest Rate Differentials - EUR



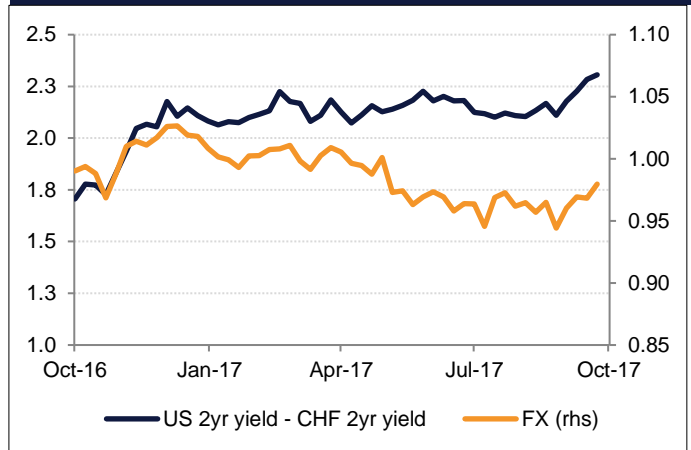
### Interest Rate Differentials - GBP



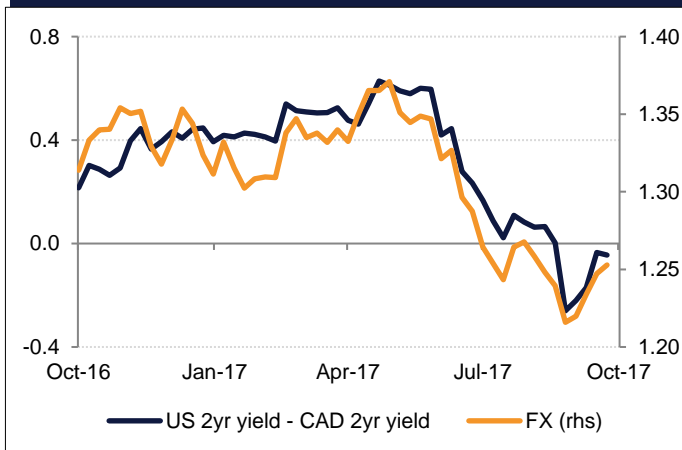
### Interest Rate Differentials - JPY



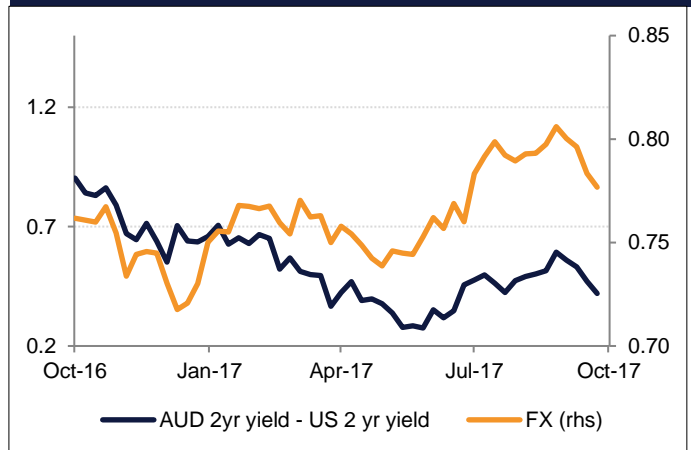
### Interest Rate Differentials - CHF



### Interest Rate Differentials - CAD



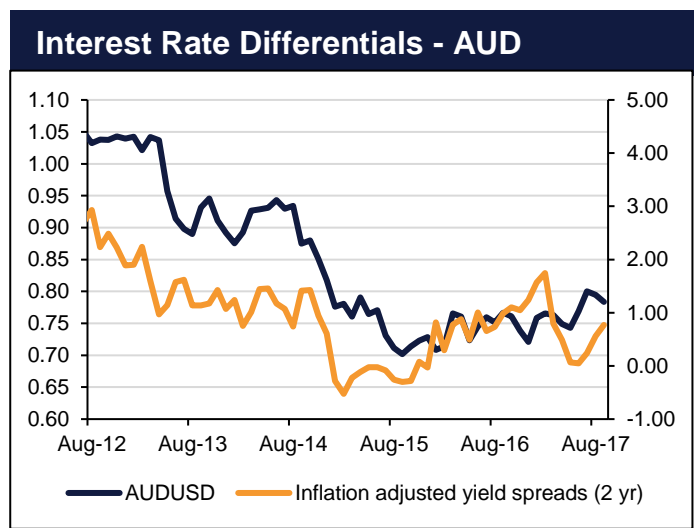
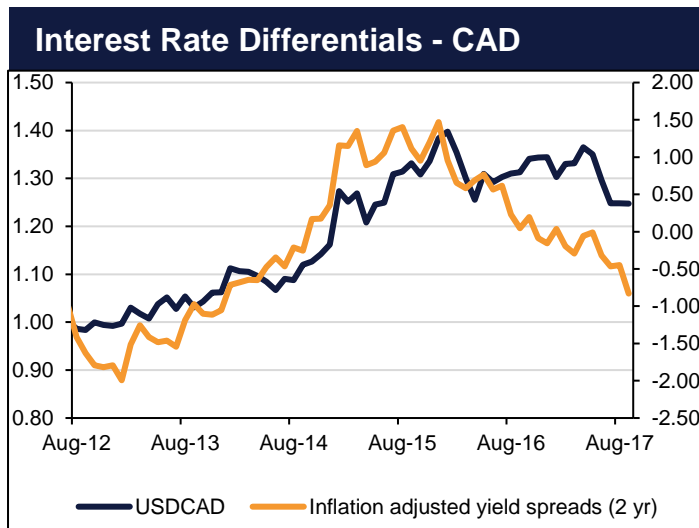
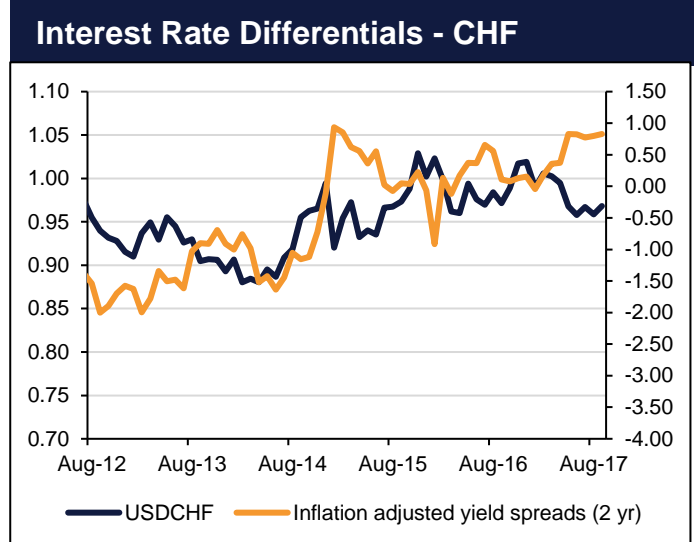
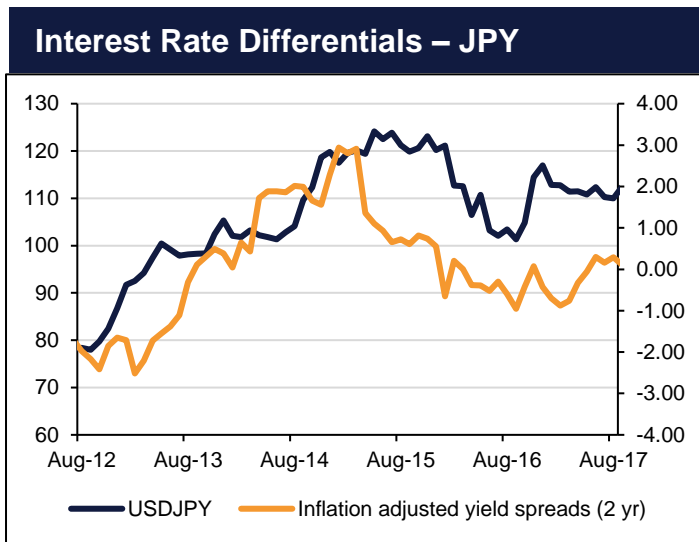
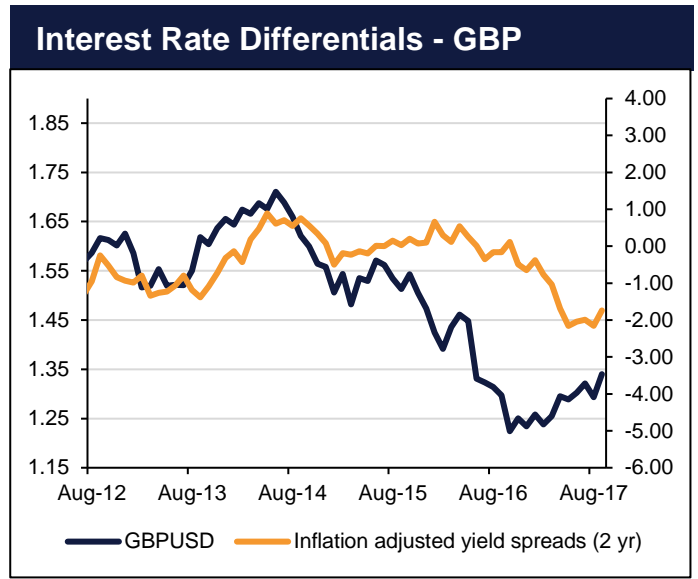
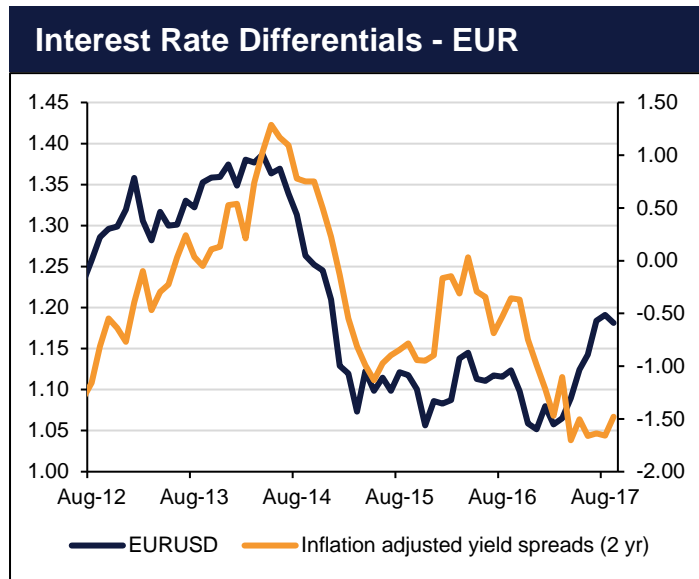
### Interest Rate Differentials - AUD



Source: Bloomberg, Emirates NBD Research



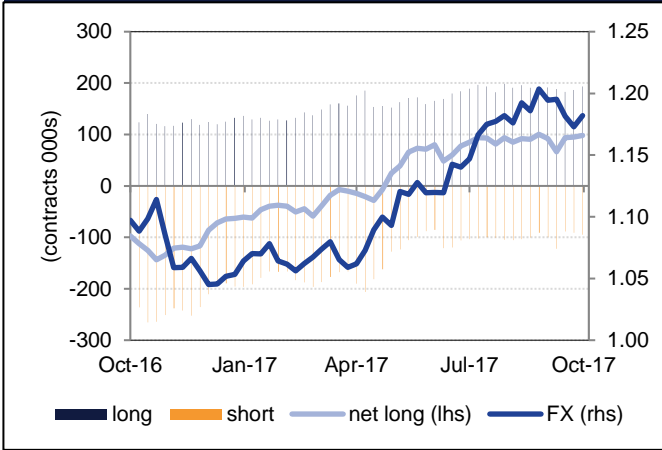
## Major FX and Real Interest Rates



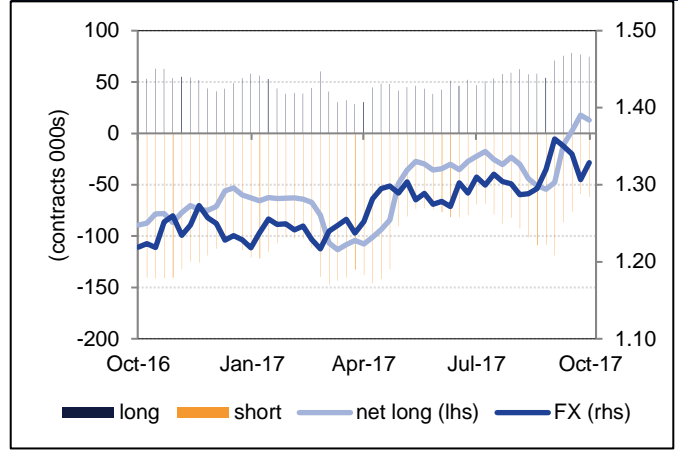
Source: Bloomberg, Emirates NBD Research

## Major Currency Positions

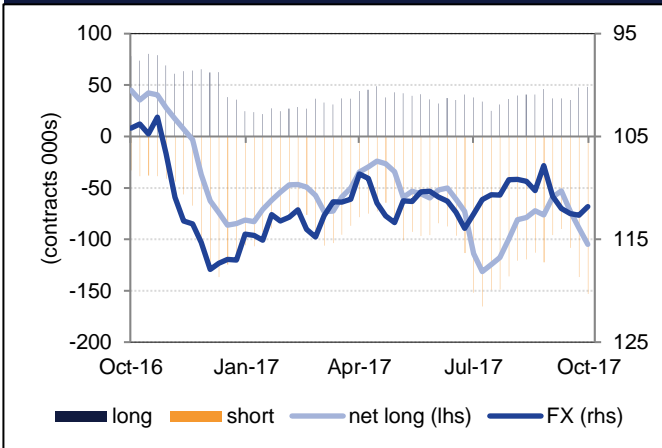
### CFTC – Speculative Positions - EUR



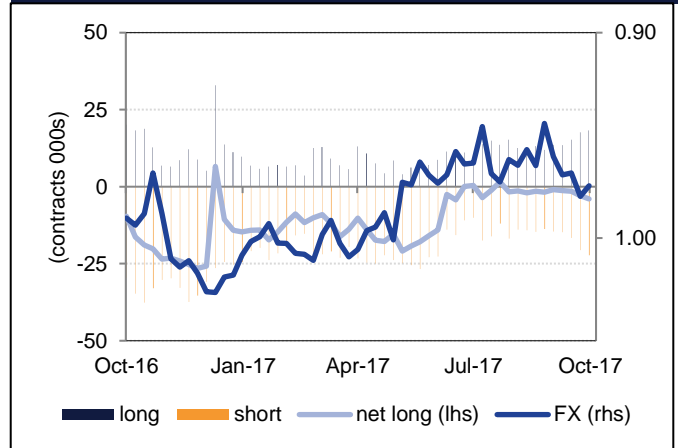
### CFTC – Speculative Positions - GBP



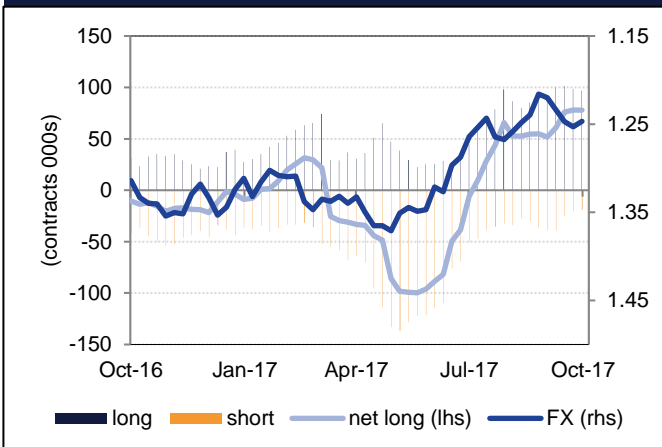
### CFTC – Speculative Positions - JPY



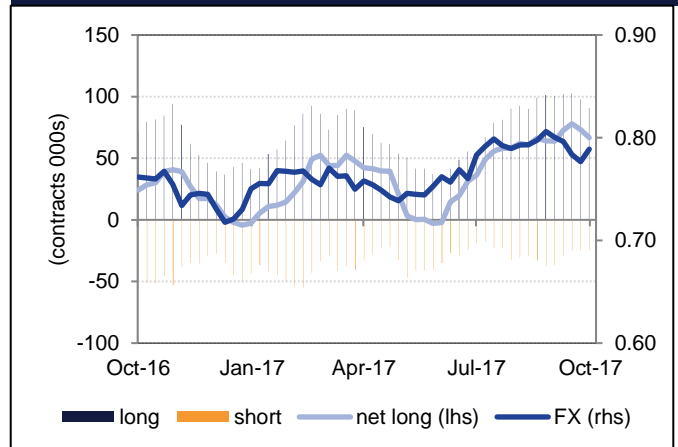
### CFTC – Speculative Positions - CHF



### CFTC – Speculative Positions - CAD



### CFTC – Speculative Positions - AUD



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