



بنك الإمارات دبي الوطني  
Emirates NBD

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# FX Week

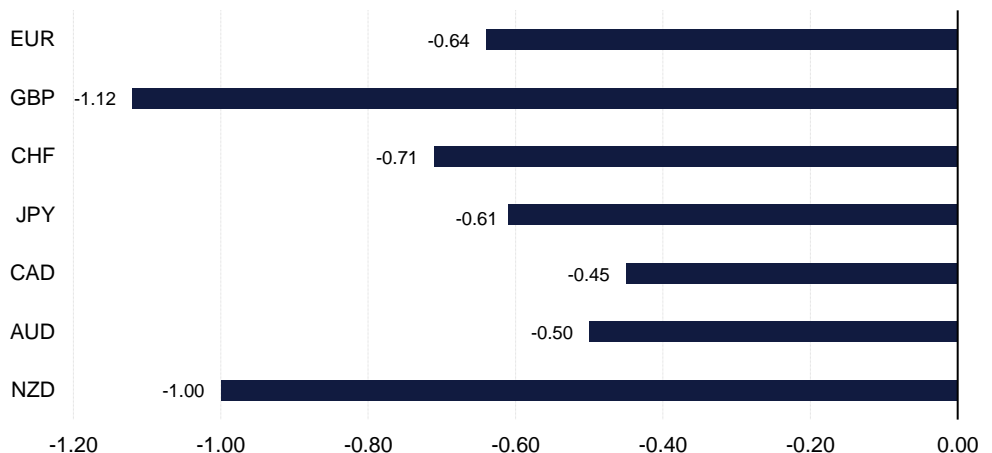
Markets are approaching the end of the year with considerable anxiety amidst ongoing trade tensions, Brexit uncertainties, slowing Chinese growth, and political volatility in the US and in Europe. The dollar is firmer than a week ago reflecting the larger uncertainties elsewhere, while Wall Street and bond yields in the US remain heavy and the Trump White House faces its own problems, with the risk of partial government shutdown at the end of the year. **Thinning liquidity is also a potential issue that could see outsized responses to headlines, fanning the risk of end-year volatility.**

**Into all of this will step the Fed on Wednesday, with the FOMC meeting expected to deliver a 25bps rate hike with a dovish twist.** Other central bank meetings this week include the BoE and the BOJ, but the dovish tone was set by the ECB last week. Net asset purchases will end, but the ECB is in no rush to hike rates or reduce the balance sheet, all of which brought an end to the EUR's brief rally above 1.14. Apart from raising rates, the Fed's message will be delivered through some tweaks in forward guidance, a downshift in the dots, and in the tone of Chairman Powell's press conference. This may not be as dovish as the markets are expecting, however, with some recent thought even being given to whether the Fed will tighten at all. **Strength in retail sales and upward revisions to Q4 GDP forecasts have put paid to these, and may also make the Fed's message more balanced than many expect. This could in turn help to keep the USD underpinned, especially with other currencies continuing to languish.**

Chief amongst these is GBP which unwound most of the gains it made in the wake of Theresa May winning the vote of confidence within her Conservative party. With her subsequent talks in Brussels failing to get any concessions over the infamous 'backstop' arrangement in Ireland, the signs are increasing that her Withdrawal Agreement from the EU will fail to get support in the UK parliament, with the vote having now been postponed until the middle of January. With political activity likely to die down in coming weeks, there will be little news to provide a more positive narrative, which should ensure that the downside for GBP remains favoured. **Needless to say the BoE meeting this week will be a relative non-event, but any weakness in UK inflation data may also compound the pound's soft position.**

**The BOJ meeting which concludes on Thursday will also be something of a non-event.** GDP contracted in Q3, and inflation at 1.0% remains well below the BOJ's 2.0% target. Along with these are worries over spillover effects from China's slowing, and downside risks to global growth, all of which will keep the BOJ sidelined for another year at least. However, unless US-Japan rate differentials widen on the back of the Fed's rate hike this week, it may be difficult for USDJPY to gain ground, with external risks another factor that could keep the JPY underpinned.

## Weekly currency movement vs USD (%)



Source: Bloomberg, Emirates NBD Research

# EURUSD

## EURUSD falls as ECB ends stimulus

As expected, the ECB formally ended its \$3 trillion asset purchase program last week. However, markets are questioning whether the program was effective and if more is needed. These views have been supported by economic data released showing that growth, PMI's and investor confidence are in fact lower than when the program began in 2015.

The Eurozone is ending 2018 on softer footing, with a slowdown in growth and other risks on the horizon. From trade disputes, Brexit and geopolitics, great uncertainty lies ahead and as such, the path of monetary policy from the ECB is far from clear. Compared with a 51.5% chance of a rate hike by October 2019 at the start of last week, markets are now pricing in a 33.9% chance of this outcome. This uncertainty has weighed on the common currency, and as a result EURUSD has declined over the last week.

## Fed's communication to be key

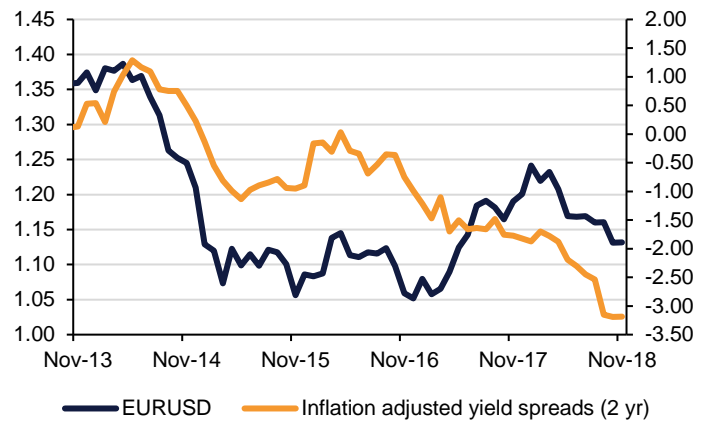
The FOMC meeting this week is likely to be the biggest influence on EURUSD. As we go to print, the market widely expects a 72.4% chance of a 25bps rate hike. With this already priced in, greater importance will be placed on the future path of normalization of monetary policy from the Federal Reserve. U.S. President Trump has already commenting that it would be a mistake for the central bank to raise interest rates in December and Fed Chair Powell has shifted to a more dovish tone in recent weeks. This leaves us thinking that a softening in the projected rate-hike path for 2019 is possible. Should this be communicated by the Fed's dot plot, it is likely to catalyze a selling of dollars and drive EURUSD higher.

## Technical outlook

Over the last week, a decline of 0.65% took EURUSD to 1.1305 after having reached a new December low of 1.1270 during the week. Despite two attempts to break above the 50-day moving average (1.1397) at the start of the week, EURUSD was unable to hold onto gains and sustain these breaks and this level now provides resistance. Analysis of the daily candle chart reveals that the price has been in a downtrend since September 26<sup>th</sup> 2018, and while the daily close remains below the 1.1380 level, this trend remains intact.

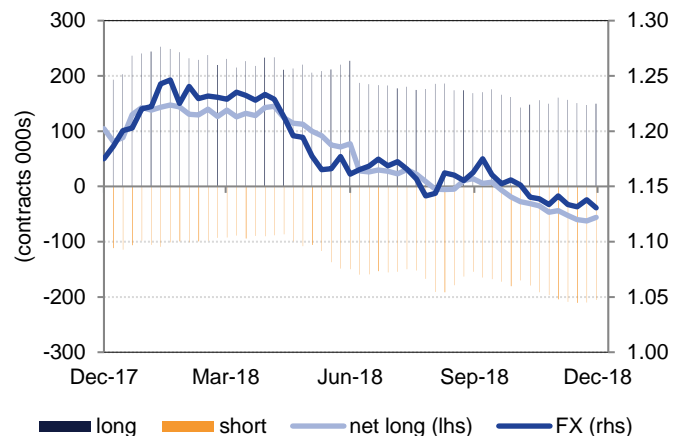
Forecasts	Spot	1 Week	1 month
EURUSD	1.1306	1.1450	1.1500
EURGBP	0.8984	0.9160	0.9200
EURJPY	128.19	128.24	131.10

## Yield Spreads



Source: Bloomberg, Emirates NBD Research

## Net Positioning



Source: Bloomberg, Emirates NBD Research

## Daily Candle Chart



Source: Bloomberg, Emirates NBD Research

# USDJPY

## USDJPY rises despite equity declines

Despite U.S. and Japanese equities falling more than 1% across the board last week, USDJPY was able to rise, paring most of the losses of the previous week and closing back above the 200-week moving average (112.91). The main cause of JPY weakness was a perceived easing of trade tensions between the U.S. and China, with the potential of a deal being announced.

## Risk appetite to be the driver

The Bank of Japan policy meeting this week is likely to be a non-event with no changes in monetary policy. Therefore USDJPY can be expected to move in synchronization with risk appetite.

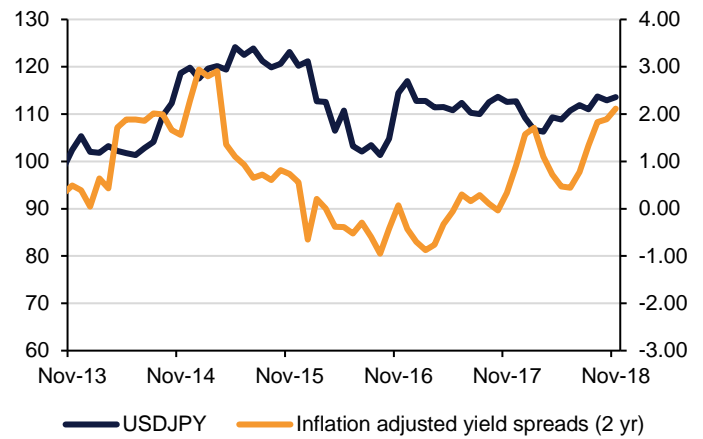
It is worth noting that yield differentials, both nominal and inflation adjusted (see pages 6 and 7) show downside risks for USDJPY. Therefore unless the differentials widen in the aftermath of the FOMC rate hike and policy statement, USDJPY may be headed lower in the short term.

## Technical

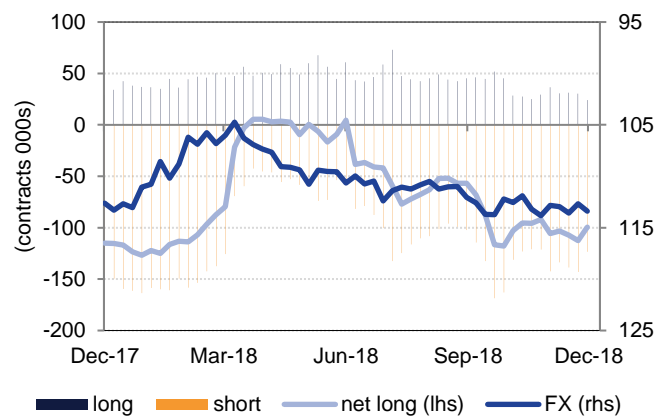
USDJPY rose by 0.61% last week to reach 113.38. Over the course of the week, the cross found support at the 100-day moving average (112.38) and then rose to close above the 50-day moving average (113.01) on every day of the week. While the price remains above this new support level, further gains are likely.

Forecasts	Spot	1 Week	1 month
USDJPY	113.39	112.00	114.00
EURJPY	128.19	128.24	131.10
GBPJPY	142.67	140.00	142.50

## Yield Spreads

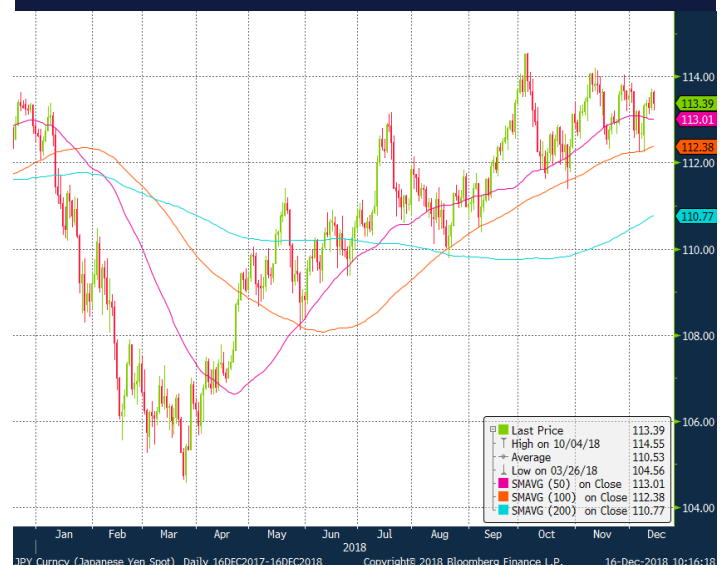


## Net Positioning



Source: Bloomberg, Emirates NBD Research

## Daily Candle Chart



Source: Bloomberg, Emirates NBD Research

# GBPUSD

## GBPUSD falls for a sixth week

GBPUSD hit a new 20-month low of 1.2470 last week as geopolitics and Brexit concerns continued to pile pressure on the pound. Despite Prime Minister May surviving a bid to remove her from office, the pound's rally quickly unraveled as investor sentiment shifted back to the Brexit deal. With Parliament unlikely to pass the deal in its current form, May will need further concessions from the European Union, in order to win the necessary support in the House of Commons.

## BOE and data to play second fiddle to Brexit

While the Bank of England meet this week to discuss monetary policy, no change in the status quo is expected. Governor Mark Carney may again continue to fan fears about a no-deal Brexit and sour sentiment on sterling even further, but the markets main interest will be in finding out how the current Brexit scenario plays out.

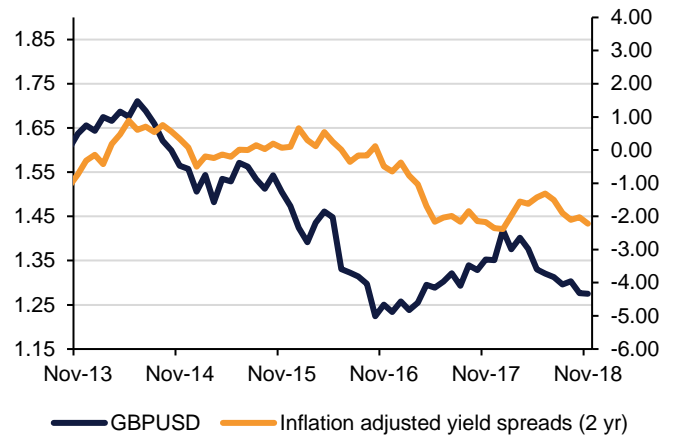
With the path still unclear, there are many possible scenarios. May might secure further concessions from the EU, Article 50 could be revoked, a second referendum could take place. With these being only a fraction of the possible outcomes, the only certainty is that volatile times lie ahead for GBP, but mostly with downside risks.

## Technical

After a volatile week of trading between the 1.25-1.27 handles, GBPUSD closed at 1.2584 on Friday, realizing a weekly decline of 1.12%. Also of noteworthy, the price reached a new 20-month low of 1.2478 on Wednesday. Technical analysis reveals that further downside risks may emerge. The 14-day RSI is bearish in momentum and shows that on a daily basis, more selling may lie ahead. In addition, following six weeks of declines, the weekly close remains below the 100-week moving average. These observations indicate that further downside is likely in the short and medium term.

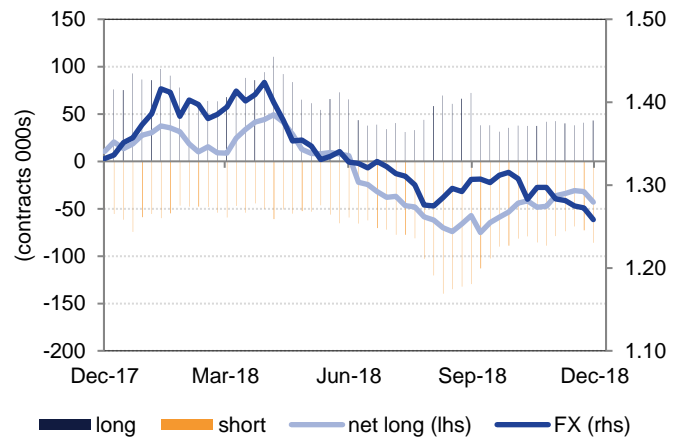
Forecasts	Spot	1 Week	1 month
GBPUSD	1.2583	1.2500	1.2500
EURGBP	0.8984	0.9160	0.9200
GBPJPY	142.67	140.00	142.50

## Yield Spreads



Source: Bloomberg, Emirates NBD Research

## Net Positioning



Source: Bloomberg, Emirates NBD Research

## Weekly Candle Chart



Source: Bloomberg, Emirates NBD Research

## FX Forecasts

FX Forecasts - Major						Forwards		
	14-Dec	Q4 2018	Q1 2019	Q2 2019	Q3 2019	3m	6m	12m
EURUSD	1.1306	1.1500	1.1500	1.1800	1.2000	1.1397	1.1489	1.1678
USDJPY	113.39	114.00	116.00	114.00	112.00	112.50	111.64	109.86
USDCHF	0.9980	1.0000	1.0000	0.9800	0.9700	0.9890	0.9801	0.9622
GBPUSD	1.2583	1.2500	1.3000	1.3500	1.4000	1.2642	1.2699	1.2812
AUDUSD	0.7172	0.7300	0.7550	0.7700	0.8000	0.7180	0.7191	0.7216
NZDUSD	0.6797	0.6800	0.6900	0.7100	0.7400	0.6805	0.6815	0.6837
USDCAD	1.3384	1.3250	1.2850	1.2600	1.2500	1.3356	1.3334	1.3291
EURGBP	0.8984	0.9200	0.8846	0.8741	0.8571	0.9013	0.9046	0.9114
EURJPY	128.19	131.10	133.40	134.52	134.40	128.19	128.19	128.19
EURCHF	1.1281	1.1500	1.1500	1.1564	1.1640	1.1269	1.1257	1.1235
FX Forecasts - Emerging						7-Sep		
	14-Dec	Q4 2018	Q1 2019	Q2 2019	Q3 2019	3m	6m	12m
SAR	3.7511	3.7500	3.7500	3.7500	3.7500	3.7517	3.7530	3.7587
AED	3.6730	3.6730	3.6730	3.6730	3.6730	3.6736	3.6747	--
KWD	0.3045	0.3020	0.3020	0.3020	0.3020	0.2999	0.2964	--
OMR	0.3850	0.3850	0.3850	0.3850	0.3850	0.3855	0.3862	0.3884
BHD	0.3770	0.3770	0.3770	0.3770	0.3770	0.3775	0.3781	0.3794
QAR	3.6522	3.6400	3.6400	3.6400	3.6400	3.6516	3.6526	3.6545
EGP	17.9590	18.0000	18.1250	18.2500	18.2500	18.4200	18.9400	19.9650
INR	71.899	70.000	70.000	68.000	68.000	72.8300	73.6400	75.2100
CNY	6.9076	6.9000	7.0000	7.1000	7.2000	6.9205	6.9320	6.9460
SGD	1.3764	1.3500	1.3200	1.3000	1.2900	1.3739	1.3702	1.3630

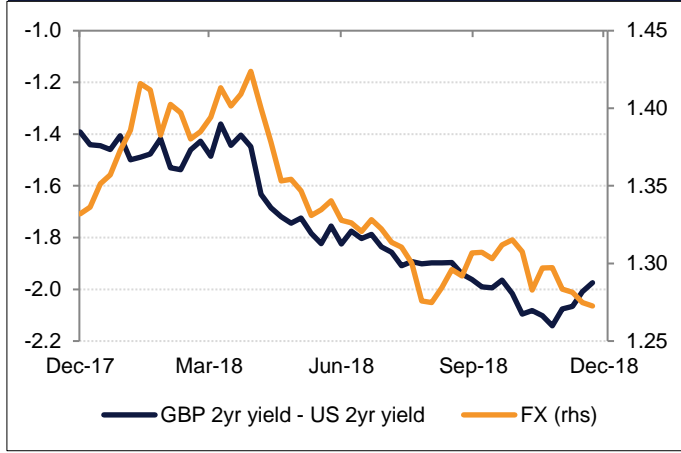
Source: Bloomberg, Emirates NBD Research  
 \*Denotes USD peg

## Major FX and Nominal Interest Rates

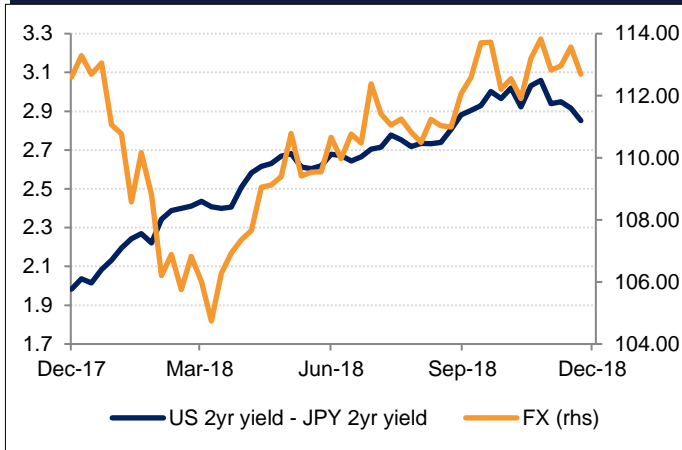
### Interest Rate Differentials - EUR



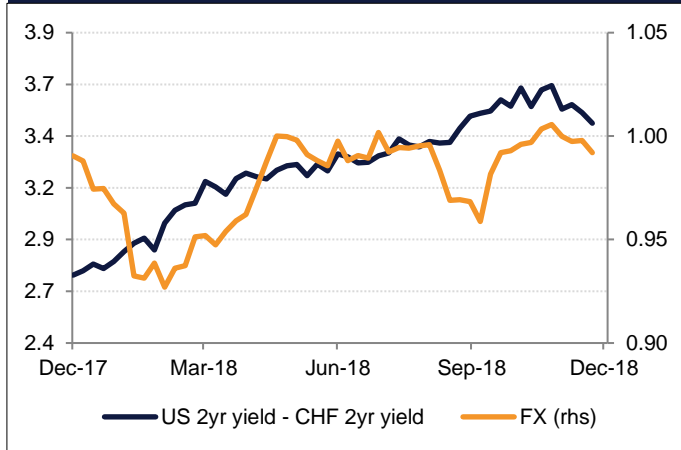
### Interest Rate Differentials - GBP



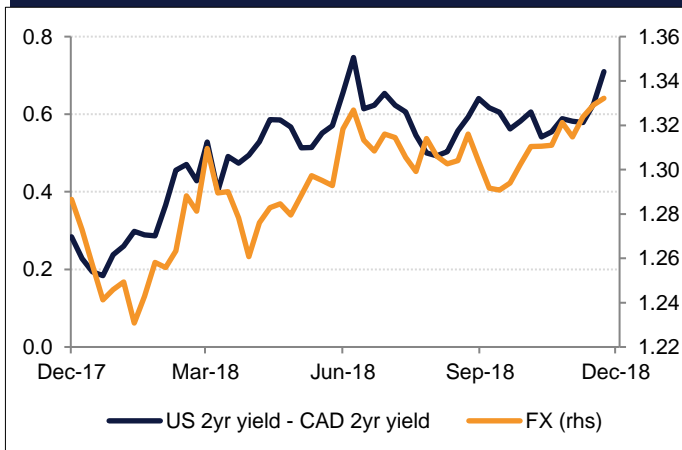
### Interest Rate Differentials - JPY



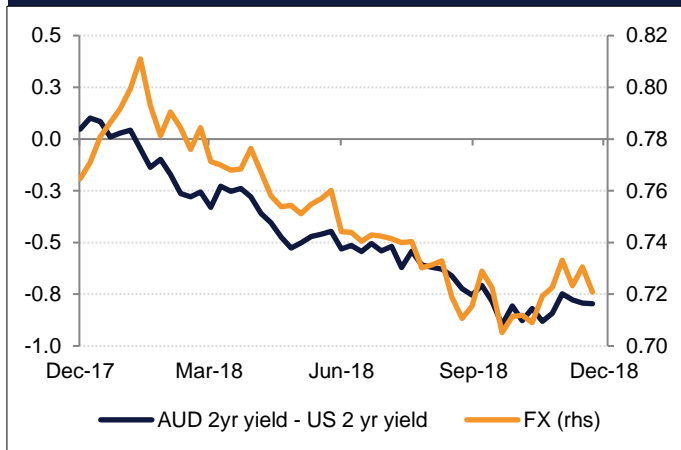
### Interest Rate Differentials - CHF



### Interest Rate Differentials - CAD

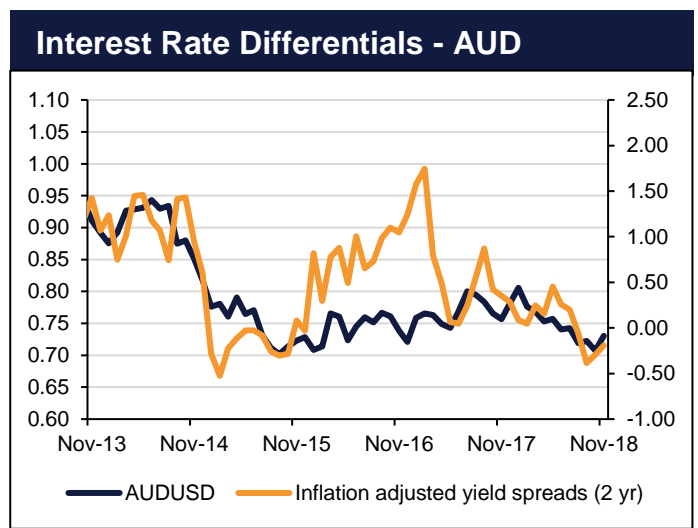
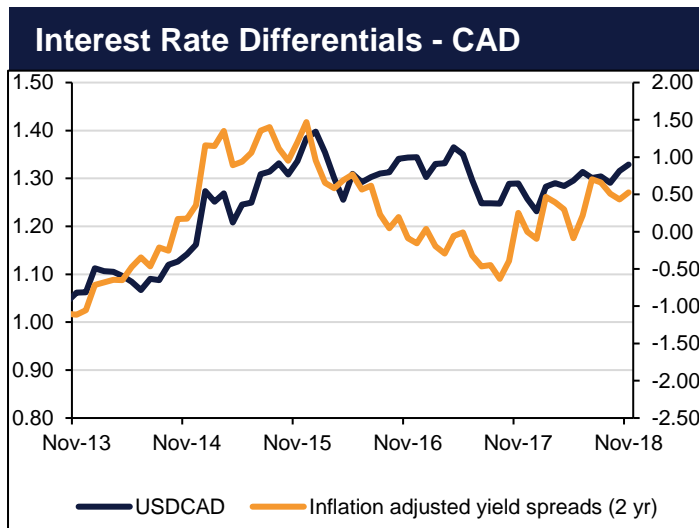
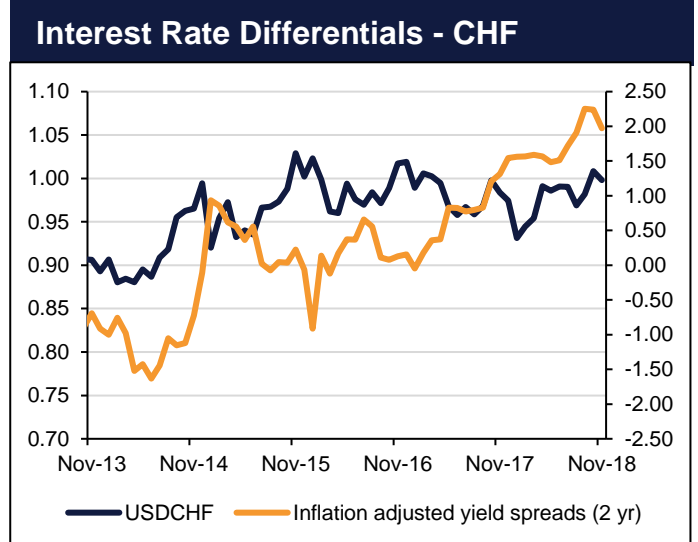
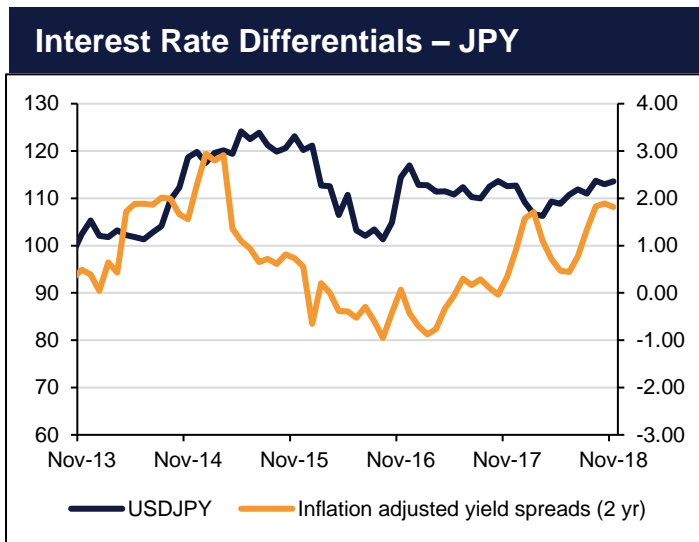
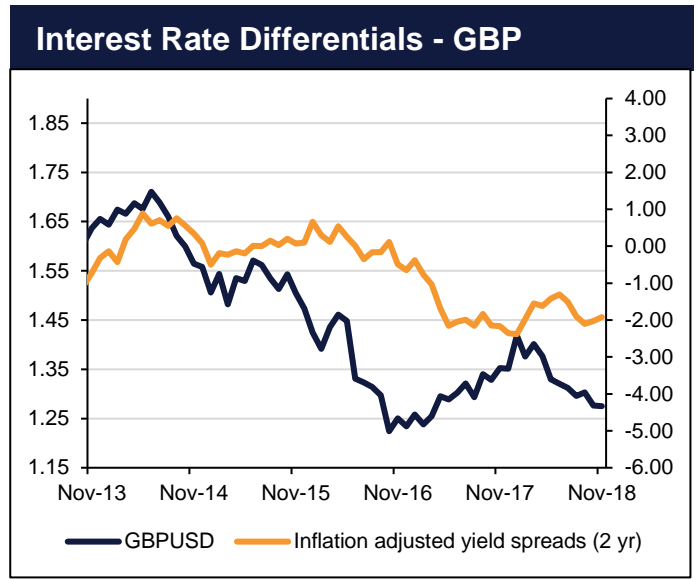
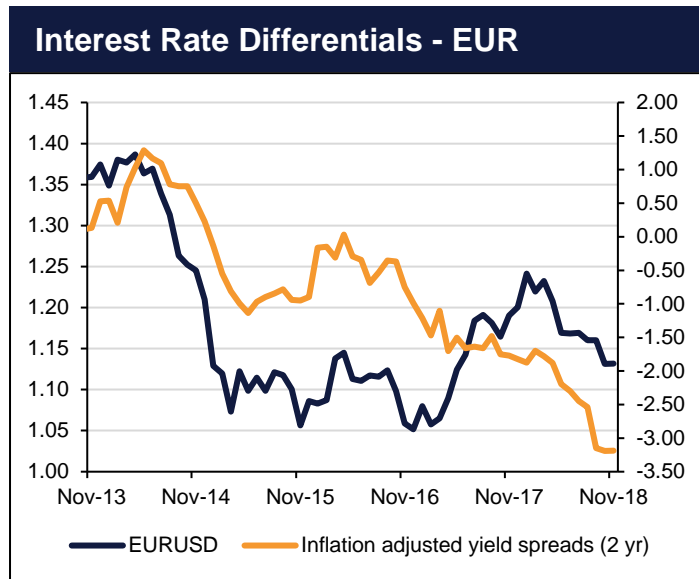


### Interest Rate Differentials - AUD



Source: Bloomberg, Emirates NBD Research

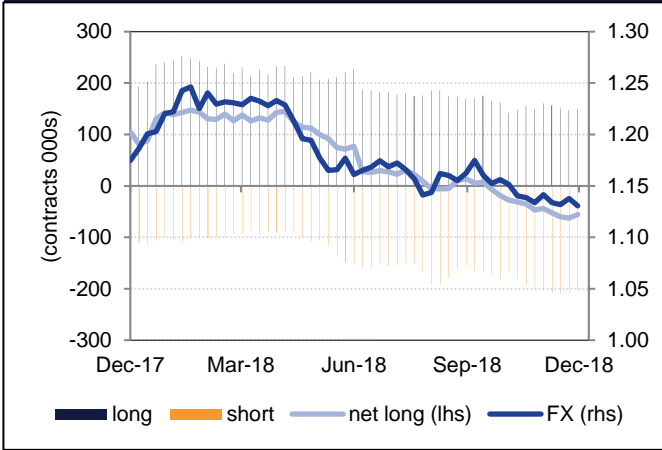
## Major FX and Real Interest Rates



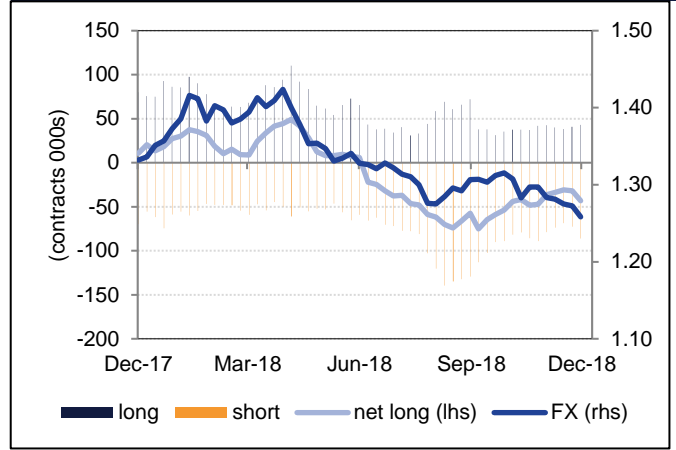
Source: Bloomberg, Emirates NBD Research

## Major Currency Positions

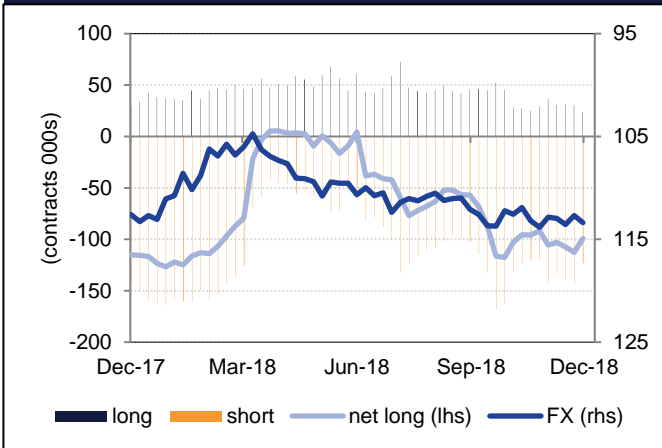
### CFTC – Speculative Positions - EUR



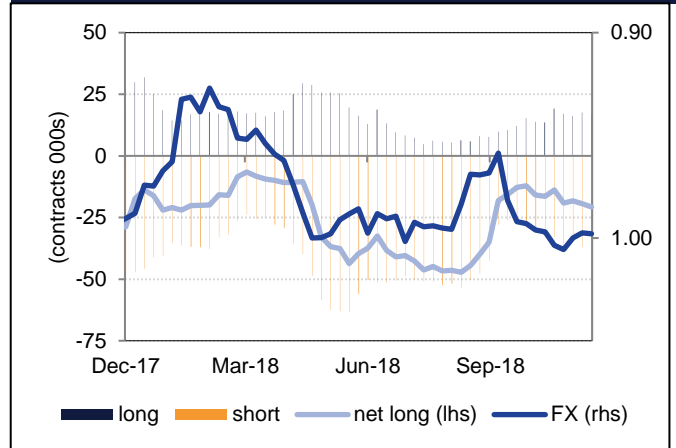
### CFTC – Speculative Positions - GBP



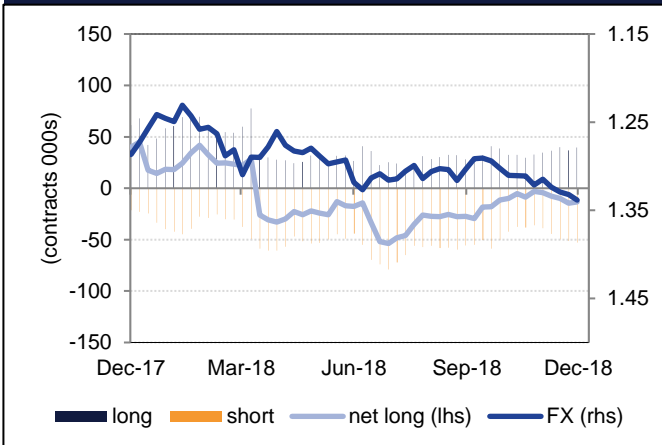
### CFTC – Speculative Positions - JPY



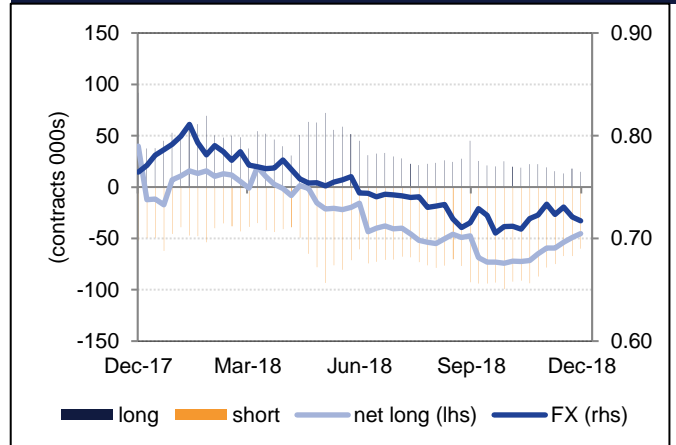
### CFTC – Speculative Positions - CHF



### CFTC – Speculative Positions - CAD



### CFTC – Speculative Positions - AUD





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