



بنك الإمارات دبي الوطني
Emirates NBD

Weekly
17 December 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

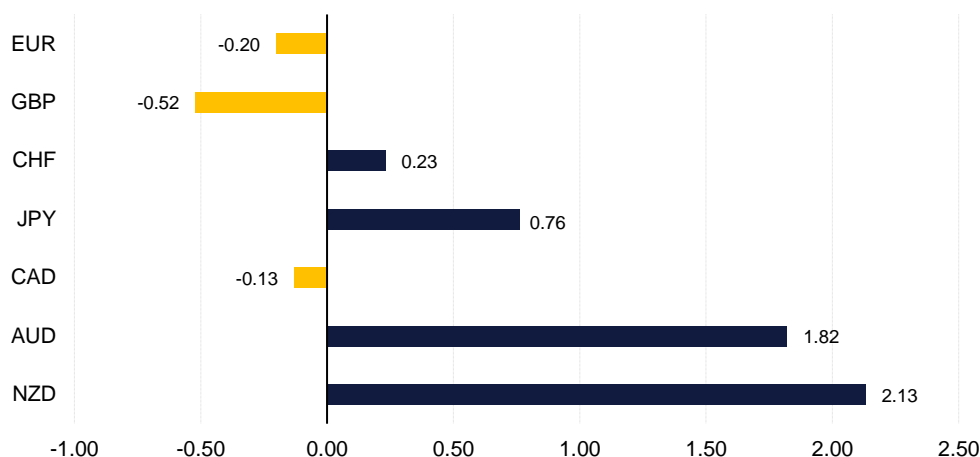
FX Week

Central banks fulfil expectations

The dollar is performing well following the interest rate rise announced by the Fed last week, the third hike of the year, taking the target rate to 1.25-1.50%. The Fed also projected three more rate hikes for 2018, which stands in contrast to the steady policy outlook for most of the other leading central banks. The ECB stuck to its dovish tone at last week's council meeting, while the Bank of England was also less hawkish than expected. A similar message is expected from the Bank of Japan when it meets this week.

Markets are now beginning to wind down into the holiday period amidst optimism that solutions to a number of outstanding issues might be on their way. The U.S. Congress is expected to pass the USD1.5 trillion tax reform package this week, perhaps as early as Wednesday, and send it to President Trump before the weekend to sign off. Agreement between the EU and U.K. about the financial terms of Brexit has also been made, paving the way for Brexit talks to move to the second stage, with trade talks likely to begin next March.

Weekly currency movement vs USD (%)



Source: Bloomberg, Emirates NBD Research

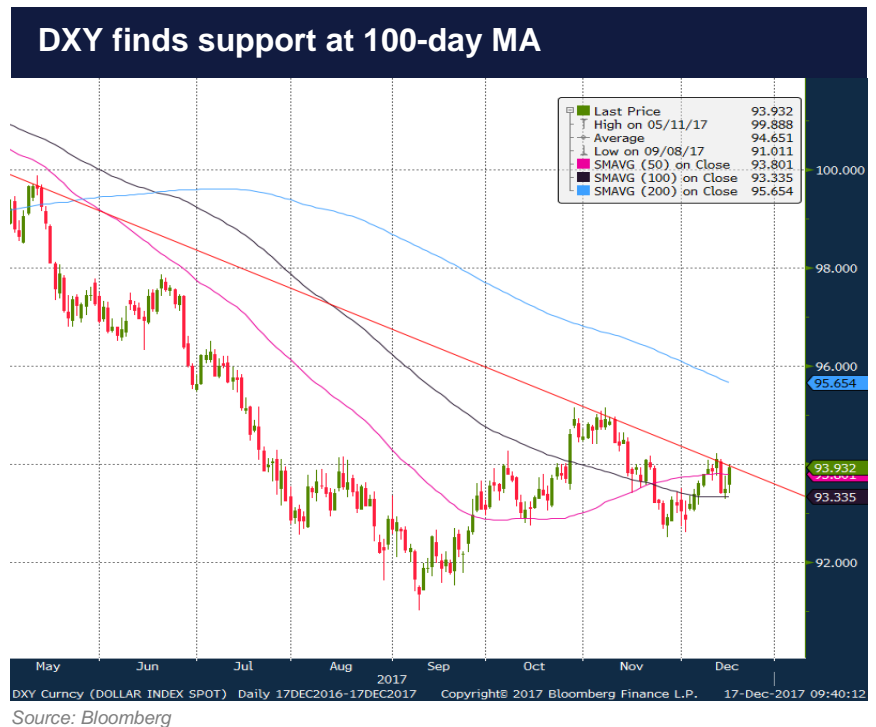
Markets remain cautious over impact of tax reforms

Markets remain uncertain about the likely impact of tax cuts on U.S. growth, with most expectations being for only a modest benefit. The Fed raised its 2018 growth forecast to 2.5% on the back of the likely passage of the tax bill, but this is still somewhat below the view of the Treasury which is hoping to achieve a 3.0% growth rate in coming years. Corporates look likely to get the biggest stimulus with a corporate tax cut from 35% to 21%, with the hope being that this will 'trickle down' to benefit the wider economy. Individuals will also benefit but the impact may be less clear as there will still be seven tax brackets.

The most important economic data of the month have already been released leaving the calendar quiet in the coming days. Housing reports, revised Q3 GDP, regional manufacturing surveys, personal income and spending data, and durable goods orders will all be published but it is unlikely if they will materially change assumptions about the outlook for growth but with still low inflation. The dollar is expected to remain relatively steady in 2018 against this backdrop, but the risks to it are more likely to come from political events than economic ones. The Muller Inquiry has the potential to destabilize perceptions about the Trump White House, while the mid-term elections near the end of next year could result in the Republicans losing power in at least one of the Houses of Congress, hampering policy-making over the second half of Trump's term.

Dollar Index rises for a third week

In a week which saw price action driven equally by technical and fundamental factors, the Dollar Index rose by 0.35%, closing at 93.93. Over the last trading sessions, the index found resistance at the 23.6% one-year Fibonacci retracement (94.30) before breaking below the 50-day moving average (93.80). Further declines were halted when support was found at the 100-day moving average (93.36) and the index was able to break back above the 50-day moving average with a firm close. Provided that economic data this week does not disappoint, there is a short-term risk for further USD appreciation. We look for a break of 94.03 level to pave the way for further gains towards 95.00, a level not seen since November 7, 2016. This risk is compounded by the possibility of further investor optimism on the U.S. tax reforms, as well as by seasonality which traditionally favours the greenback in Q4. Furthermore, with the market positioned short USDs through most of the year, the significance of these positions being unwound as the year ends should not be overlooked.



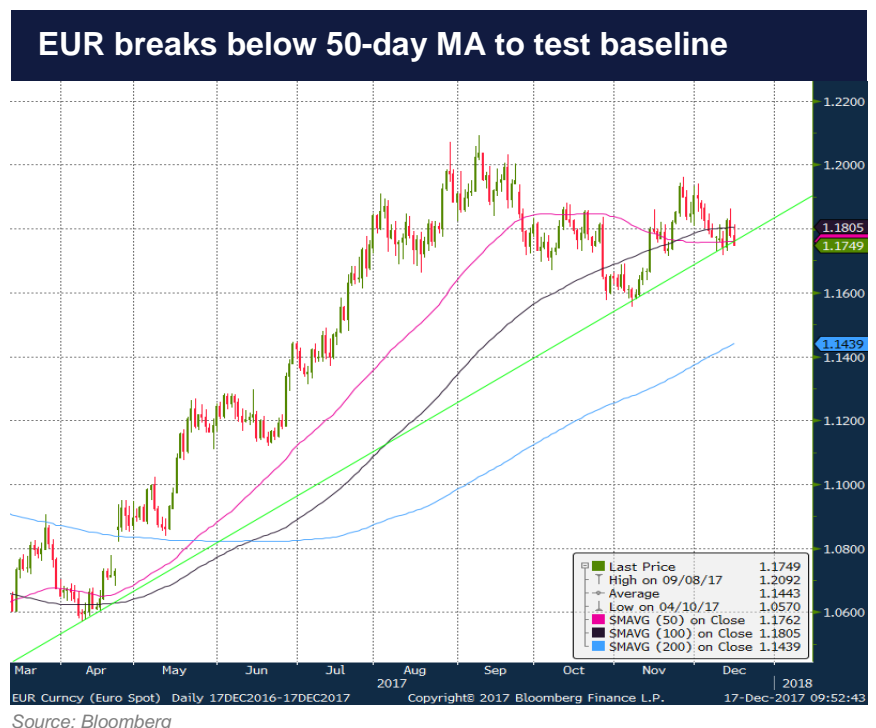
EUR falls as Draghi highlights low inflation

Europe's year is also coming to a close in better shape than might have been imagined a few months ago. The Eurozone economy appears to be on a high right now, even though inflation remains relatively dormant, with the preliminary December manufacturing index rising to 60.6 from 60.1 in November. The services PMI also rose to 56.5 from 56.2. Political pressures also seem to be receding, although the Catalonia election still remains a risk this week, and may renew concerns about what to expect in Italian elections next year. ECB President Draghi may in fact be holding back from normalizing monetary policy in part because of the risk that political uncertainties return.

EURUSD declined 0.20% last week to close at 1.1749, reversing earlier gains that saw the exchange rate trade as high as 1.1863. The price action of the previous week has a degree of technical significance as although there was a break and daily close above the former resistive 100-day moving average (1.1805), this break proved to be a false one and in fact the cross went on to close the week below its 50-day moving average (1.1762) and test the supporting baseline that has held since April 2017 (see chart below). A break of this level could result in

further declines towards the 76.4% one-year Fibonacci retracement (1.1679) in quick succession. Given tight liquidity, seasonality and ECB President Draghi's comments on low inflation, the case for this scenario is probably a strong one.

The Swiss National Bank also kept the interest rate on hold at a record low of -0.75% at its meeting last Thursday. The SNB also emphasized that the Swiss franc remained 'highly valued' and that it still needed to keep interest rates negative and to intervene in the currency markets as necessary. With the ECB reducing, but not halting net-asset purchases next year the SNB is unlikely to move first and risk a renewed appreciation of the CHF.



Sterling stumbles as Brexit progresses

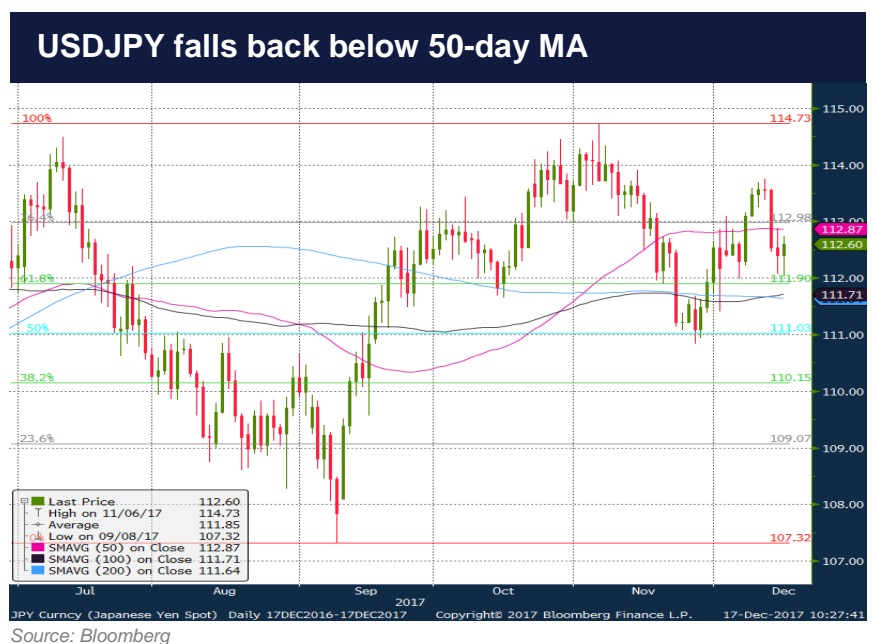
Progress on Brexit is of course also something that was not anticipated just a few weeks ago, and has been a welcome fillip to both UK and Eurozone markets. Negotiations on a post-Brexit trade deal are being billed as an even bigger challenge than the financial settlement, but these talks are unlikely to begin until March. A big uncertainty for GBP is that the final deal will still have to get the approval of the UK Parliament, something that is likely to keep PM May's position precarious. The Bank of England last week also provided little ground to believe that interest rates will be raised further any time soon. The MPC voted unanimously to leave Bank Rate unchanged at 0.5%, as expected, with little alteration to the guidance contained within the minutes.

GBP underperformed over the last week to depreciate against most of the other major currencies, with GBPUSD falling 0.48% to close at 1.3326. Despite these losses, however strong support can be expected at 1.3260, a level close to the 50-day moving average (1.3261) and the 76.4% one-year Fibonacci retracement (1.3263). While cable continues to trade above these levels, medium-term risks remain to the upside and we stick to our forecasts for GBPUSD to finish the year above 1.34 and to appreciate over the course of 2018.



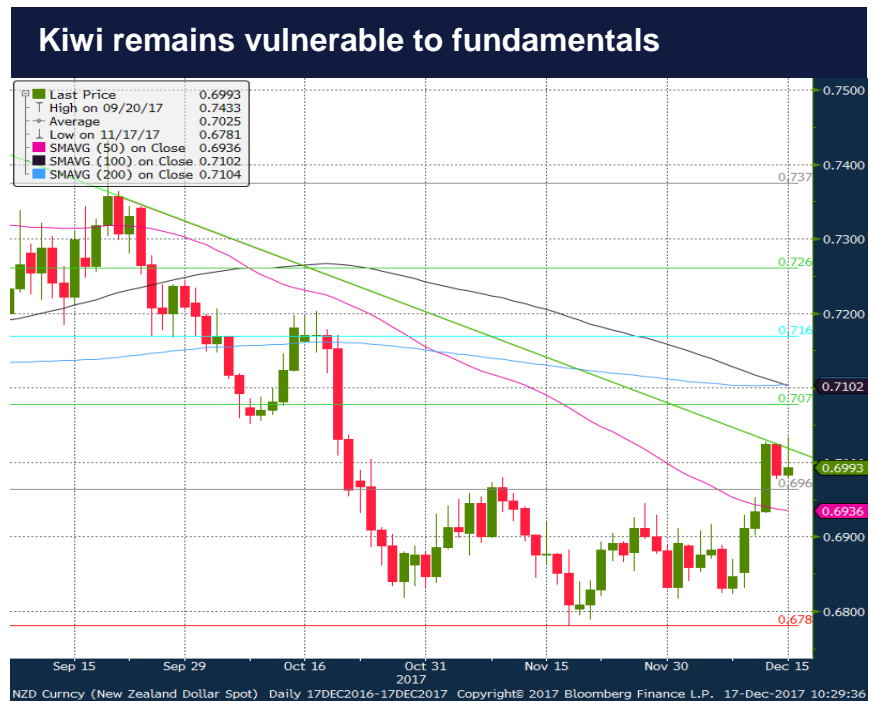
USDJPY remains under pressure

USDJPY was also under pressure last week, falling 0.76% to 112.60. Following a sustained break and daily close below the 50-day moving average (112.87) the currency is trying to consolidate with this key level now acting as resistance for two consecutive days. From a technical perspective, we expect strong support to be found at the 111.60-111.70 range, a zone which includes the 100 and 200-day moving averages as well as the 38.2% one year Fibonacci retracement. The headline Tankan index for large manufacturers rose to 25 in Q4 from 22 in Q3, although the equivalent for large non-manufacturers was unchanged at 23, and capital spending intentions were muted. In the coming week the Bank of Japan meeting is unlikely to result in any change to policy rates, although the BOJ is widely perceived to have been normalizing by stealth in recent months even as inflation underperforms.



NZD outperformance hides vulnerability

Finally NZDUSD is worthy of mention since despite being last week's outperformer, we feel that the currency's fortunes are about to reverse. It is noteworthy that last week's gains were principally driven by a short squeeze in the aftermath of the announcement of Adrian Orr as the new RBNZ Governor rather than a change in the underlying economy. When looking at the larger picture, further gains for the Kiwi seems unlikely. From a technical perspective, NZDUSD was unable to sustain its break above 0.70 and analysis of the daily candle charts shows a death cross forming on the 100 and 200-day moving averages indicating that further losses may lie ahead. Fundamentally the currency is vulnerable to disappointing economic data in the week ahead with reports expected to show a trade deficit of NZD 550m in November, a Q3 2017 Balance of Payments account of NZD -4.2bn and Q3 GDP slowing to 0.6% q/q from 0.8% in Q2. We look for a break below the 50-day moving average (0.6935) to open the possibility of a retest towards the one year lows of 0.6781.



Source: Bloomberg

FX Forecasts

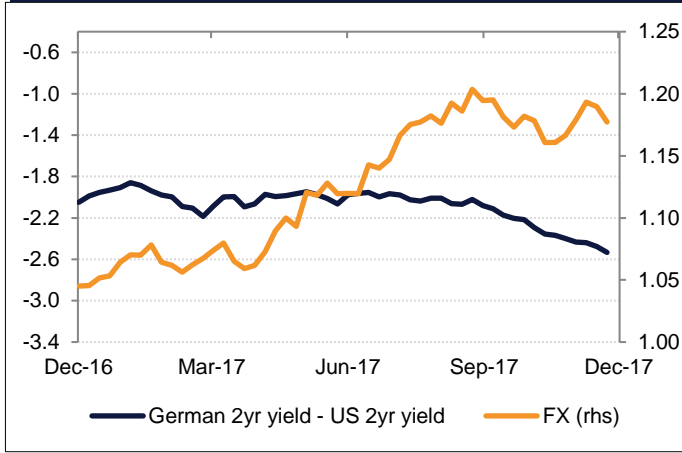
| FX Forecasts - Major | | | | | | Forwards | | |
|----------------------|--------|---------|---------|---------|----------|----------|--------|--------|
| | 15-Dec | Q4 2017 | Q1 2018 | Q2 2018 | Q3 2018 | 3m | 6m | 12m |
| EUR | 1.1749 | 1.1500 | 1.1500 | 1.1800 | 1.2000 | 1.1836 | 1.1908 | 1.2063 |
| JPY | 112.60 | 114.00 | 116.00 | 118.00 | 120.0000 | 111.94 | 111.32 | 109.97 |
| CHF | 0.9905 | 1.0000 | 1.0400 | 1.0400 | 1.0400 | 0.9821 | 0.9749 | 0.9605 |
| GBP | 1.3320 | 1.3400 | 1.3600 | 1.4000 | 1.4200 | 1.3382 | 1.3428 | 1.3521 |
| AUD | 0.7646 | 0.7500 | 0.7200 | 0.7000 | 0.7200 | 0.7643 | 0.7642 | 0.7642 |
| NZD | 0.6993 | 0.6800 | 0.7000 | 0.7100 | 0.7100 | 0.6984 | 0.6979 | 0.6972 |
| CAD | 1.2866 | 1.2600 | 1.2500 | 1.2600 | 1.2600 | 1.2840 | 1.2826 | 1.2805 |
| EURGBP | 0.8821 | 0.8582 | 0.8456 | 0.8429 | 0.8451 | 0.8845 | 0.8868 | 0.8923 |
| EURJPY | 132.30 | 131.10 | 133.40 | 139.24 | 144.00 | 132.30 | 132.30 | 132.30 |
| EURCHF | 1.1645 | 1.1500 | 1.1960 | 1.2272 | 1.2480 | 1.1631 | 1.1616 | 1.1594 |

| FX Forecasts - Emerging | | | | | | Forwards | | |
|-------------------------|---------|---------|---------|---------|---------|----------|---------|---------|
| | 15-Dec | Q4 2017 | Q1 2018 | Q2 2018 | Q3 2018 | 3m | 6m | 12m |
| SAR | 3.7503 | 3.7500 | 3.7500 | 3.7500 | 3.7500 | 3.7530 | 3.7564 | 3.7673 |
| AED | 3.6728 | 3.6730 | 3.6730 | 3.6730 | 3.6730 | 3.6742 | 3.6758 | -- |
| KWD | 0.3020 | 0.3050 | 0.3050 | 0.3050 | 0.3050 | 0.3026 | 0.3036 | -- |
| OMR | 0.3850 | 0.3850 | 0.3850 | 0.3850 | 0.3850 | 0.3863 | 0.3878 | 0.3925 |
| BHD | 0.3772 | 0.3770 | 0.3770 | 0.3770 | 0.3770 | 0.3777 | 0.3785 | 0.3808 |
| QAR | 3.6838 | 3.6400 | 3.6400 | 3.6400 | 3.6400 | 3.6756 | 3.6763 | 3.6825 |
| EGP | 17.8659 | 17.5000 | 17.2500 | 17.0000 | 16.8000 | 18.2100 | 18.6550 | 19.5550 |
| INR | 64.045 | 65.000 | 66.000 | 66.000 | 66.000 | 64.6500 | 65.3000 | 66.5800 |
| CNY | 6.6093 | 6.7000 | 6.80000 | 6.9000 | 7.0000 | 6.6545 | 6.6980 | 6.7680 |

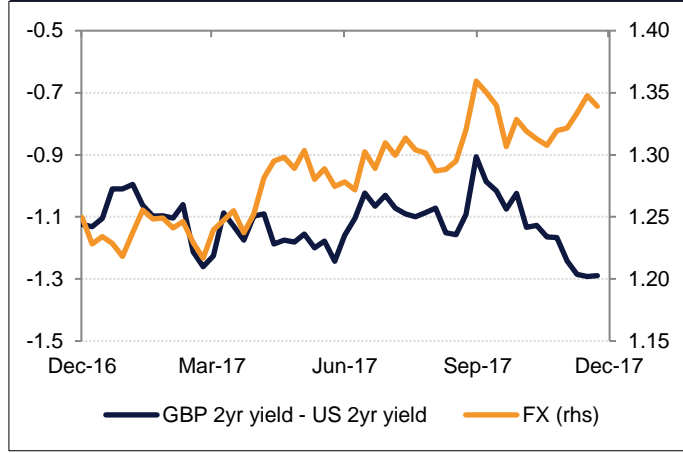
Source: Bloomberg, Emirates NBD Research
 *Denotes USD peg

Major FX and Nominal Interest Rates

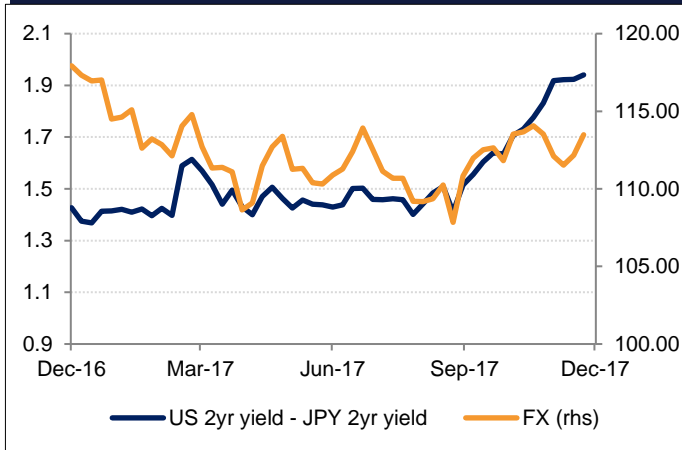
Interest Rate Differentials - EUR



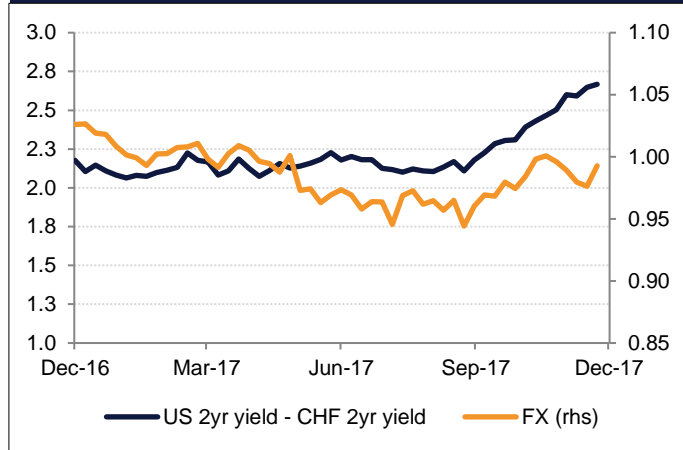
Interest Rate Differentials - GBP



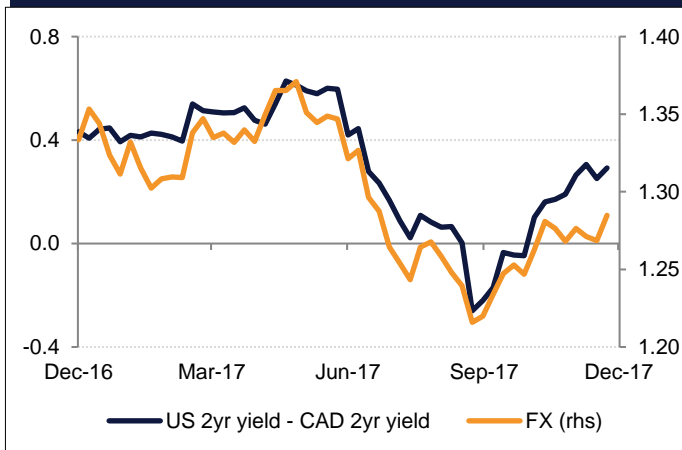
Interest Rate Differentials - JPY



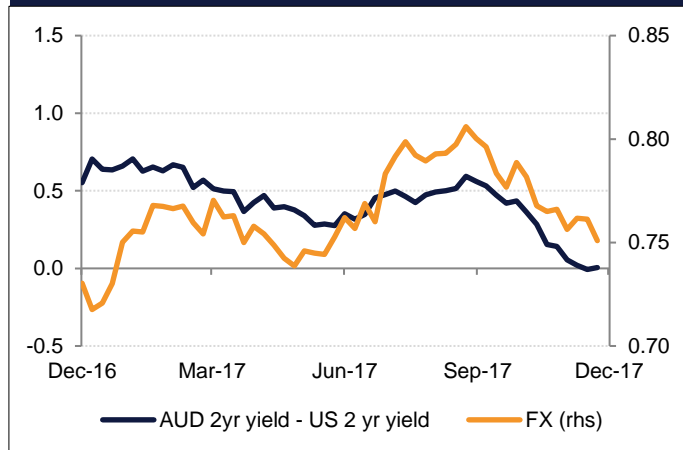
Interest Rate Differentials - CHF



Interest Rate Differentials - CAD

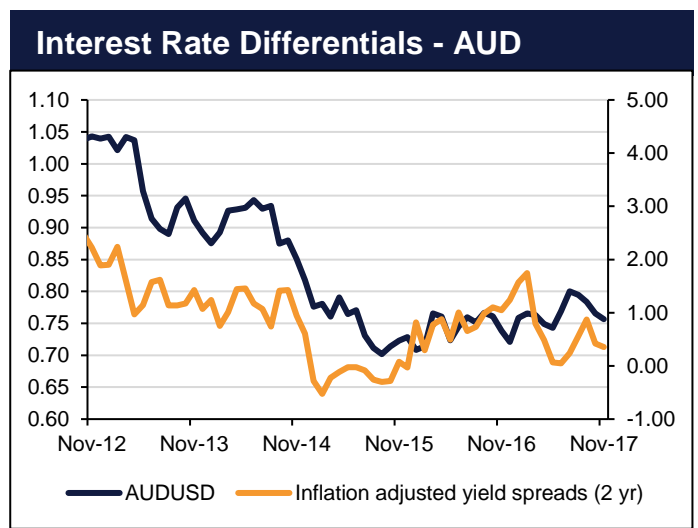
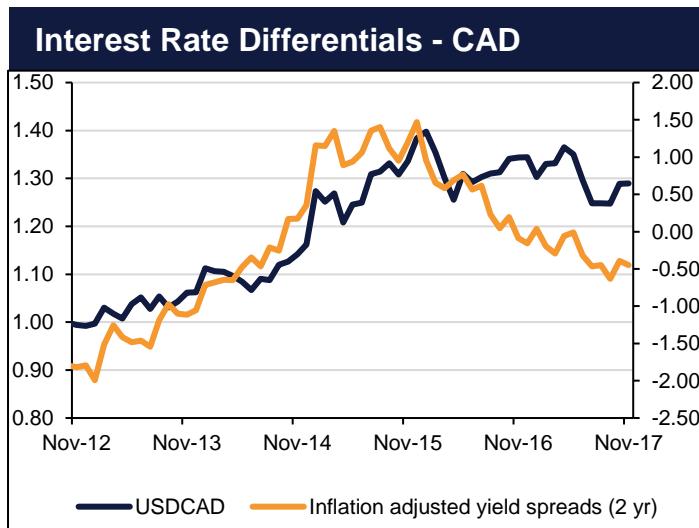
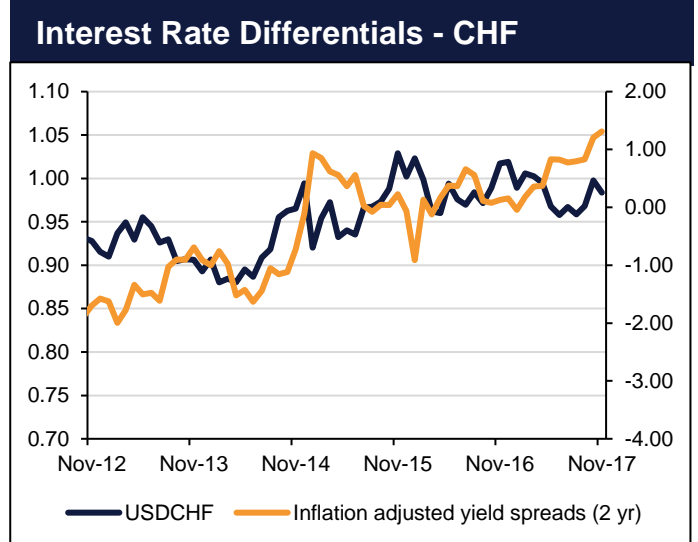
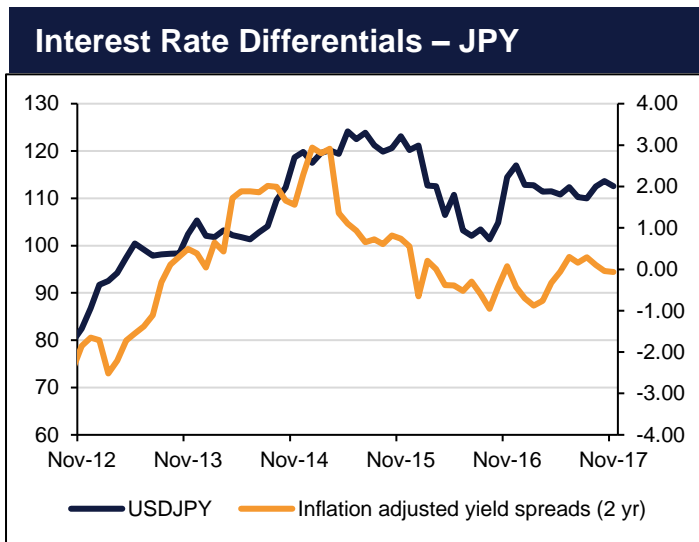
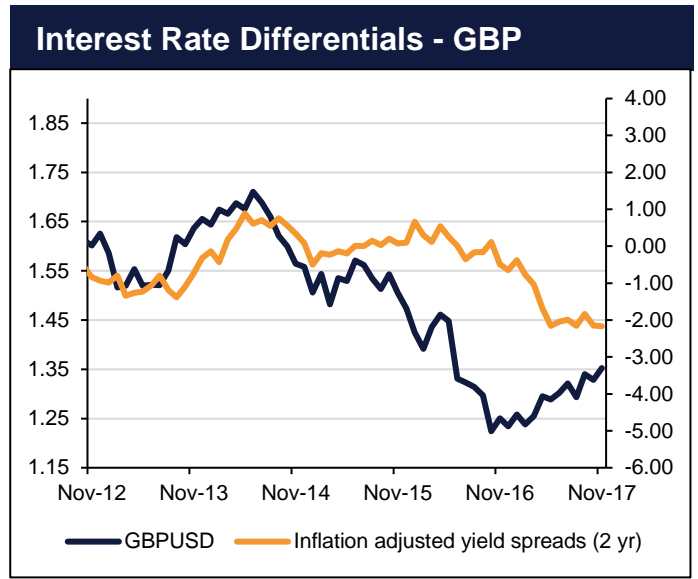
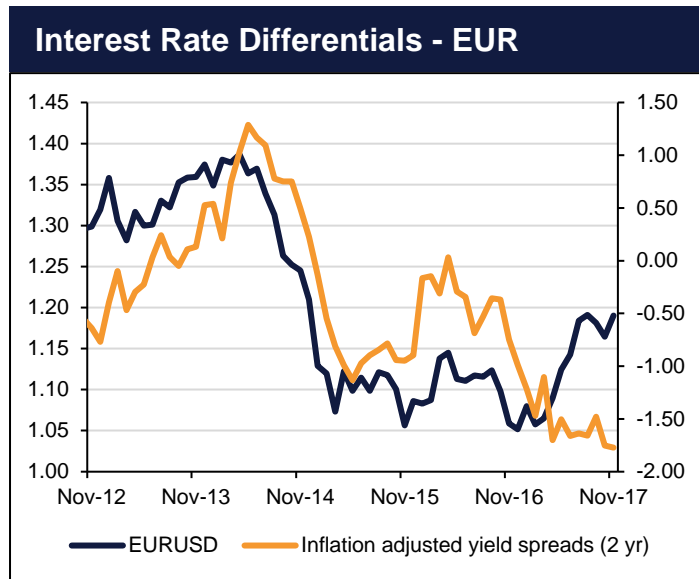


Interest Rate Differentials - AUD



Source: Bloomberg, Emirates NBD Research

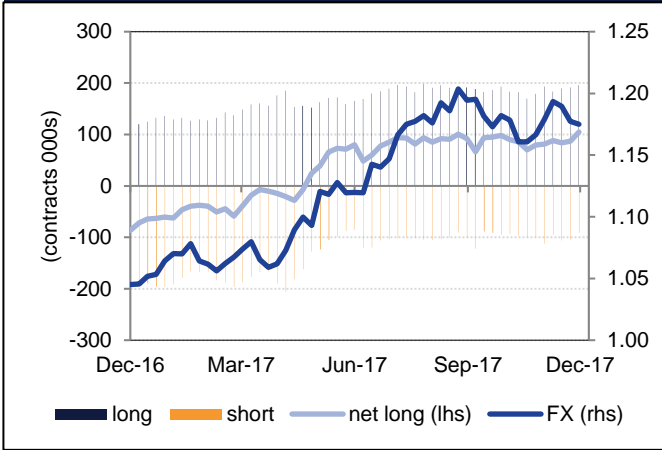
Major FX and Real Interest Rates



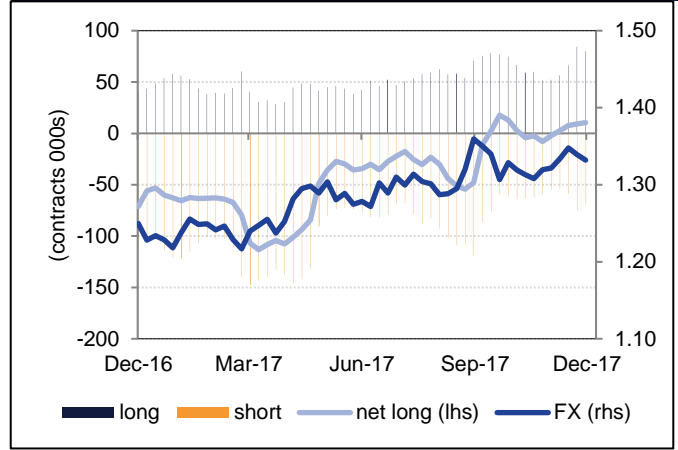
Source: Bloomberg, Emirates NBD Research

Major Currency Positions

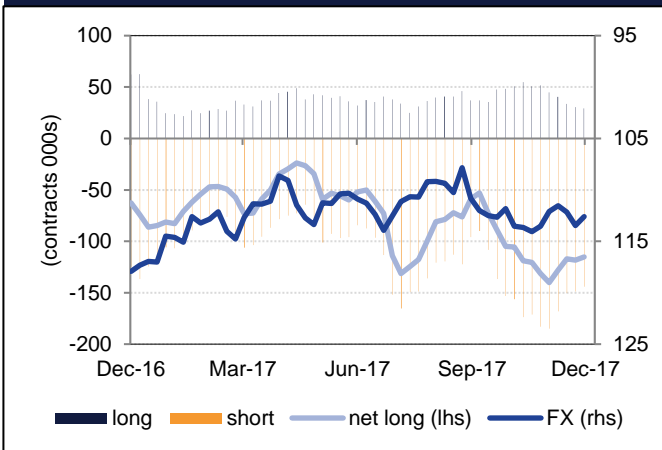
CFTC – Speculative Positions - EUR



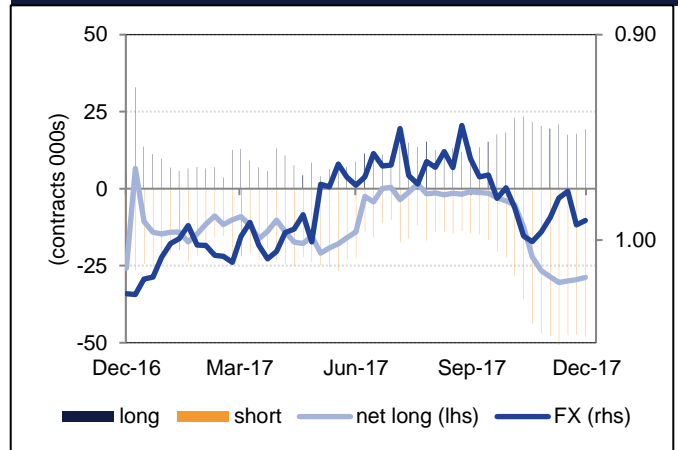
CFTC – Speculative Positions - GBP



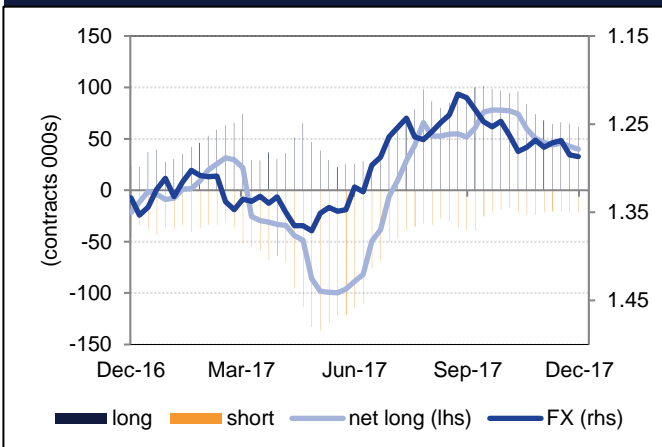
CFTC – Speculative Positions - JPY



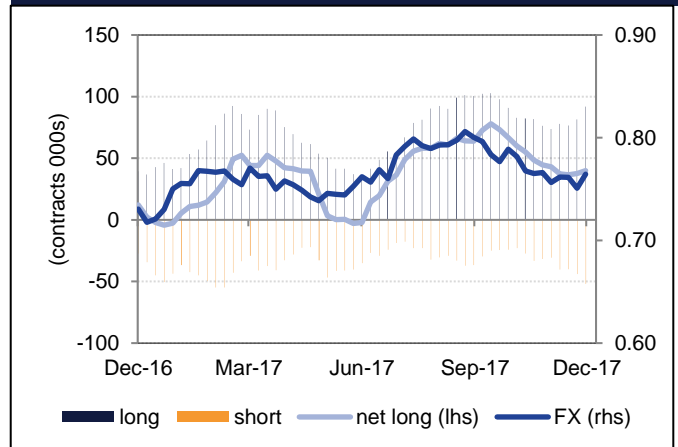
CFTC – Speculative Positions - CHF



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
12thFloor
Baniyas Road, Deira
P.O.Box777
Dubai

Jonathan Morris
General Manager Wholesale Banking
JonathanM@emiratesnbd.com

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

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

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

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

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