بنك الإمارات دبي الوطني
Emirates NBD

Weekly
17 February 2019

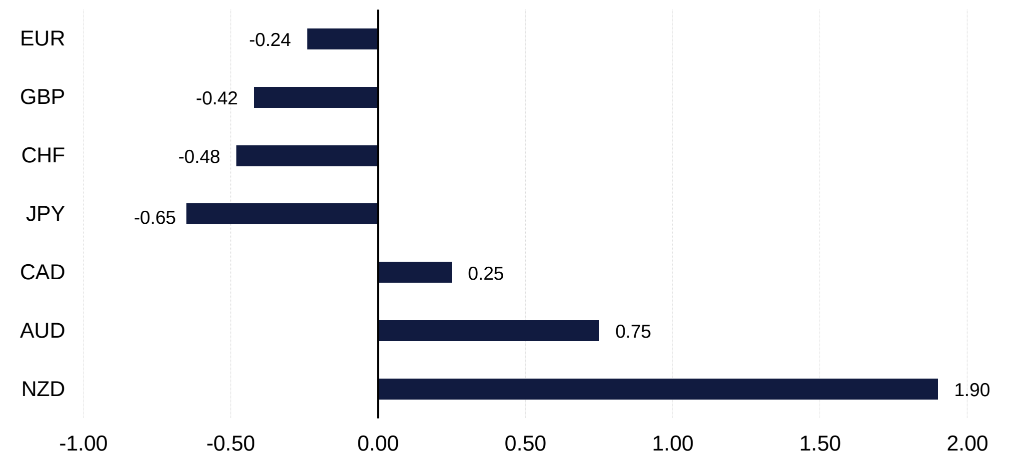
FX Week

The dollar is continuing to benefit from recent events, even as the Fed has adopted a more dovish posture. The dollar is largely a beneficiary by default as the situation in a number of other economies is becoming of greater concern than that in the United States where consumer confidence actually improved during early February. By contrast Germany only just avoided a recession at the end of 2018, and political risks are rising across the Eurozone with Spain becoming the latest to come into the spotlight, calling a snap general election on April 28th. Elsewhere Brexit continues to dog sterling, with the impression increasing that this will not be resolved until the final week of March, just before the UK is due to leave the EU.

Meanwhile, US-China trade talks last week failed to achieve an agreement, although they are due to resume in Washington this week, as both parties acknowledged making some progress. However, some very difficult issues remain including structural reforms and intellectual property theft. President Trump also signed the border security funding bill that averted another government shutdown, although in the process he also declared a national emergency, which will likely trigger lengthy court battles. On the positive side monetary policy has turned supportive with the FOMC now advocating patience, and the ECB contemplating new TLTROS. This week's focus will be on the FOMC minutes to the January policy meeting as we look to gain more information on the Fed's switch to a more dovish stance. There will also be a large number of speakers from the ECB, with the market looking for confirmation that they are also looking at loosening policy again. Not only is the Eurozone struggling with growth, but there is again speculation that it may also be the next in line when it comes to facing US trade tariffs.

For the UK the next key event is February 27, when parliament will vote on the government's Brexit plan again, leaving the upcoming week in a kind of limbo, except for the monthly labour market data. Even here though with the Bank of England effectively in 'wait and see' mode it will have to be strikingly different from the consensus forecast to elicit any significant response from GBP, causing it to break out of its downward trend.

Weekly currency movement vs USD (%)



Source: Bloomberg, Emirates NBD Research

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EURUSD

EURUSD falls for a second week

Economic data which pointed to a slowdown in the Eurozone took its toll on the common currency last week and caused EURUSD a second week of losses. A 0.9% m/m decline in industrial production in December, following a 1.7% decline the previous month has reignited fears that the Eurozone remains vulnerable to a recession. This is even more alarming as at the country level, the report shows that the weakness was broad-based.

On the other side of the Atlantic, U.S. consumer confidence rebounded in February, with the University of Michigan Consumer Confidence Index rising to 95.5 from 91.2. This was one positive data point for the U.S. which otherwise reported that monthly CPI was flat in January, with the headline figure declining to 1.6% y/y from 1.9% y/y due to declines in energy prices as evidenced by core CPI remaining steady at 2.3% y/y. Combined with a decline in 5-10 year inflation expectations to 2.3%, the lowest since 2016, this data gives policy makes room to “wait and see” before further tightening of monetary policy.

Data to play role in the week ahead

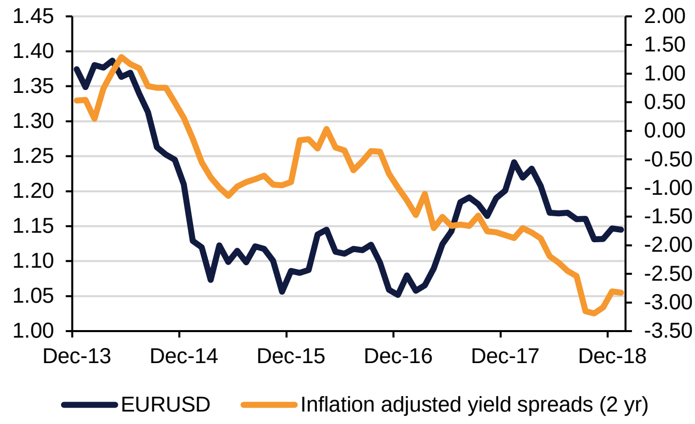
In the week ahead, there are balanced risks to EURUSD in terms of economic data. From the U.S. the FOMC minutes for January’s meeting are due to be released. With Fed Chairman Powell taking a decidedly more dovish approach in recent months, any additional dovish language in the minutes may result in USD weakness. At the same time, a raft of data is expected from the Eurozone, including final German GDP, ZEW surveys, IFO surveys and January’s aggregate CPI data. With inflation expected to slow to 1.4% y/y from 1.6%, German GDP expected to be confirmed as stagnant in Q4 2018 and the survey data expected to show decreasing business confidence, the euro may find itself under renewed pressure and slip to new 2019 lows.

Technical outlook

EURUSD posted a second week of losses, falling by 0.22% to close at 1.1296. This close is technically significant as it represents the second weekly close below the 200-week moving average (1.1335). As this level had provided support for the previous 15 weeks, its failure to halt losses is bearish for the price and while the cross trades below this level, further declines seem likely and a retest of the November 2018 lows of 1.1216 cannot be ruled out in the week ahead.

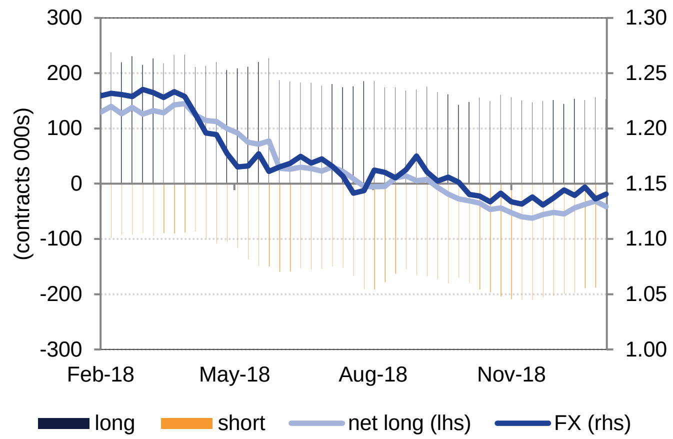
Forecasts	Spot	1 Week	1 month
EURUSD	1.1296	1.1200	1.1500
EURGBP	0.87621	0.8819	0.9200
EURJPY	124.78	124.32	128.80

Yield Spreads



Source: Bloomberg, Emirates NBD Research

Net Positioning



Source: Bloomberg, Emirates NBD Research

Weekly Candle Chart

Source: Bloomberg, Emirates NBD Research

USDJPY

USDJPY rises despite rebound in Japanese growth

Japan's economy grew 1.4% q/q in Q4 2018, a rebound from the 2.6% contraction reported the previous quarter. In addition, consumption recovered from the 0.2% dip in Q3, growing by 0.6% and a 2.4% increase in business investment was accompanied by a 0.9% growth in exports. However, despite this more positive news, USDJPY was driven higher by a rise in U.S. Treasury yields, a move induced by improved risk appetite in the market.

This improvement in optimism can be attributed to many factors, principally a second U.S. government shutdown being avoided after Republicans and Democrats reached an agreement in principle regarding border security, and increased optimism over a trade agreement being reached between the U.S. and China.

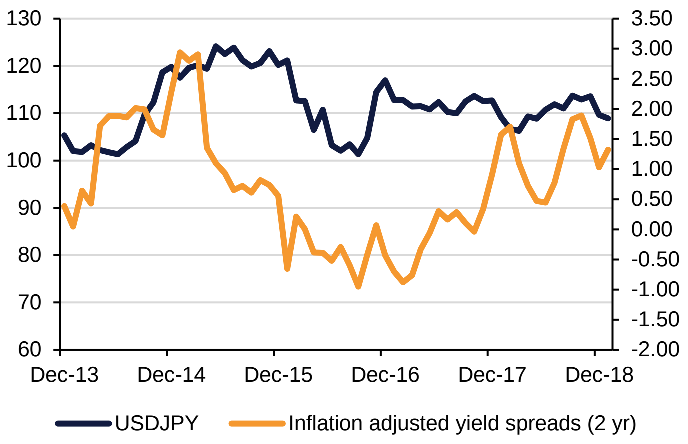
Looking forward, we expect the price of USDJPY to continue to be driven by yields, the biggest influencer of which will be the release of the FOMC minutes from January's meeting on Wednesday February 20th.

Technical outlook

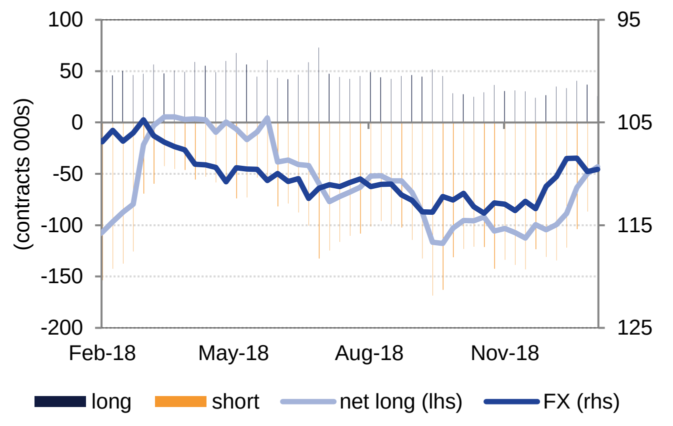
A 0.67% rise in USDJPY resulted a second week of gains and took the price to 110.47, close to our expectations last week for 110.50. Of technical significance is that the price was able to break above the formerly resistive 50-day moving average (110.18) on Tuesday and sustain closes above this key level for the remainder of the week. That the price has broken above this level for the first time in 2019 is technically bullish and the initial break of the 61.8% one-year Fibonacci retracement (110.73) was reversed, a retest of this level seems likely. Should this level be broken, it may result in a further climb towards 111.30, the 200-day moving average.

Forecasts	Spot	1 Week	1 month
USDJPY	110.47	111.00	112.00
EURJPY	124.78	124.32	128.80
GBPJPY	142.41	140.97	140.00

Yield Spreads

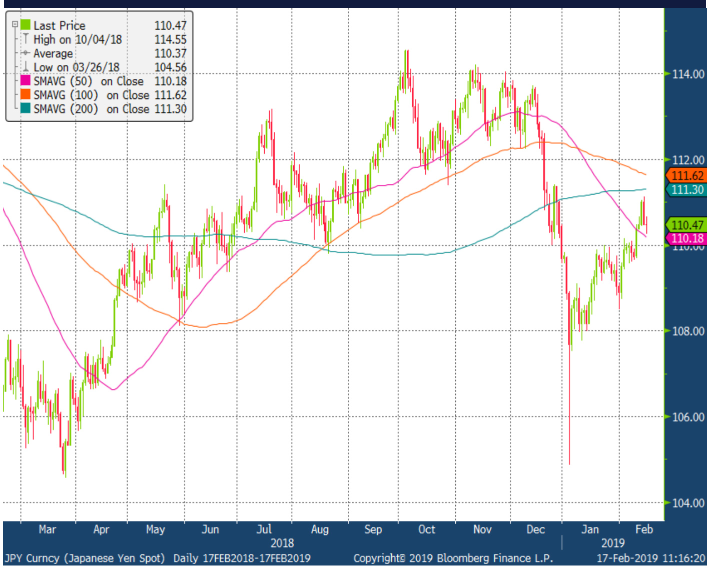


Net Positioning



Source: Bloomberg, Emirates NBD Research

Daily Candle Chart



Source: Bloomberg, Emirates NBD Research

GBPUSD

GBPUSD continues to decline

GBPUSD goes into the third week of February trading 1.66% softer. This weakness while mostly attributed to Brexit uncertainties has also been a result of softer economic data. Last week Bank of England Governor Mark Carney again stated his concerns over the impact of Brexit and that "certainly in the short term, there will be a hit to incomes" and that it could go "quite badly". With the deadline getting closer and as of yet no deal secured by Prime Minister Theresa May, sterling continues to find itself under pressure.

Last week's economic reports did little to remedy the situation. GDP slowed to 0.2% q/q in Q4 2018, down from 0.6% in the third quarter, while business investment declined 3.7% y/y following a 1.8% decline in Q3. To add to the gloom even further, industrial production which had fallen 0.3% m/m in November, added a further contraction of 0.5% m/m in December and headline CPI fell to 1.8% y/y in January from 2.1% the previous month. This was the first time that it has fallen below the Bank of England's 2% target.

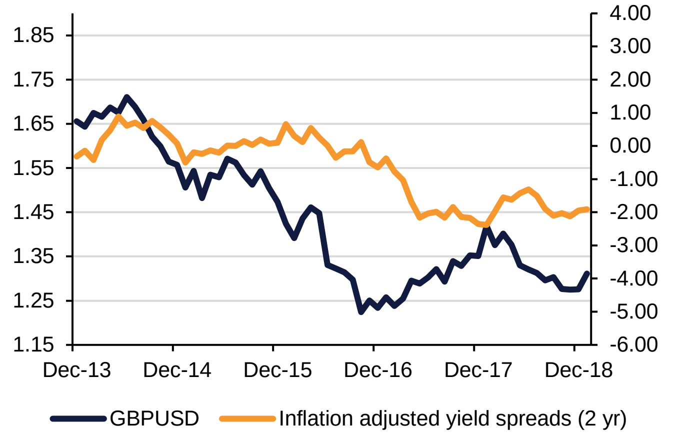
With data continuing to show a slowdown in the economy and with Brexit uncertainties mounting, it is unlikely that the pound will recover in the near future and the risks remain skewed to the downside.

Technical outlook

Following a 0.42% loss, GBPUSD fell for a third week to close at 1.2889. In the process, the fell below the 100-day (1.2877) and 50-day (1.2821) moving averages, falling as low as 1.2773 before recovering above these levels on Friday. However the price remained below the 23.6% one year Fibonacci retracement (1.2898) and the 14-week RSI (Relative Strength Indicator) is bearish in momentum which leads us to believe that further losses may lie ahead.

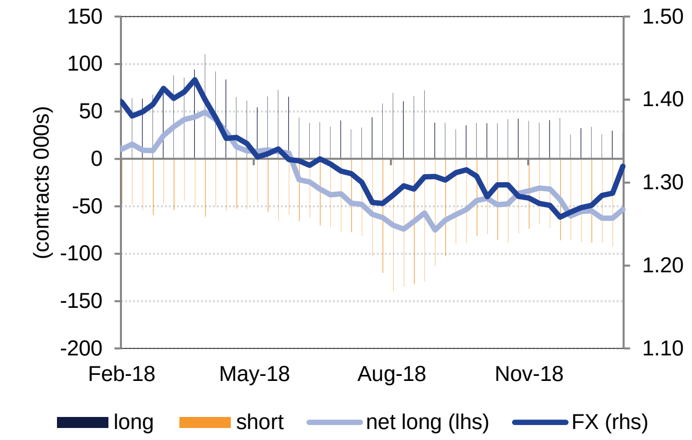
Forecasts	Spot	1 Week	1 month
GBPUSD	1.2889	1.2700	1.2500
EURGBP	0.8762	0.8819	0.9200
GBPJPY	142.41	140.97	140.00

Yield Spreads



Source: Bloomberg, Emirates NBD Research

Net Positioning



Source: Bloomberg, Emirates NBD Research

Daily Candle Chart

Source: Bloomberg, Emirates NBD Research

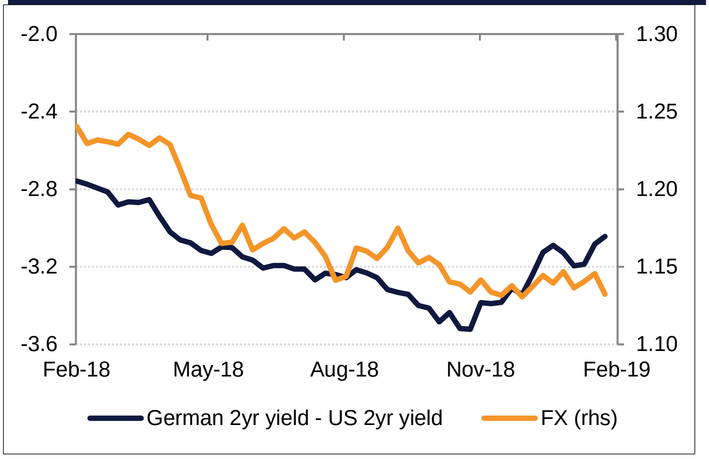
FX Forecasts

FX Forecasts - Major						Forwards		
	15-Feb	Q1 2019	Q2 2019	Q3 2019	Q4 2019	3m	6m	12m
EURUSD	1.1296	1.1500	1.1500	1.1800	1.2000	1.1383	1.1471	1.1655
USDJPY	110.47	111.00	113.00	112.00	110.00	109.66	108.85	107.14
USDCHF	1.0052	1.0000	1.0000	0.9800	0.9700	0.9966	0.9880	0.9704
GBPUSD	1.2889	1.2500	1.3000	1.3500	1.4000	1.2948	1.3006	1.3122
AUDUSD	0.7141	0.7300	0.7550	0.7700	0.8000	0.7150	0.7159	0.7180
NZDUSD	0.6868	0.6800	0.6900	0.7100	0.7400	0.6880	0.6891	0.6912
USDCAD	1.3244	1.3250	1.2850	1.2600	1.2500	1.3215	1.3189	1.3141
EURGBP	0.8762	0.9200	0.8846	0.8741	0.8571	0.8789	0.8818	0.8880
EURJPY	124.78	127.65	129.95	132.16	132.00	124.78	124.78	124.78
EURCHF	1.1353	1.1500	1.1500	1.1564	1.1640	1.1342	1.1331	1.1309
FX Forecasts - Emerging								
	15-Feb	Q1 2019	Q2 2019	Q3 2019	Q4 2019	3m	6m	12m
SAR	3.7504	3.7500	3.7500	3.7500	3.7500	3.7508	3.7520	3.7579
AED	3.6730	3.6730	3.6730	3.6730	3.6730	3.6737	3.6743	3.6764
KWD	0.3039	0.3020	0.3020	0.3020	0.3020	0.3040	0.3041	0.3042
OMR	0.3850	0.3850	0.3850	0.3850	0.3850	0.3856	0.3866	0.3890
BHD	0.3770	0.3770	0.3770	0.3770	0.3770	0.3761	0.3761	0.3788
QAR	3.6558	3.6400	3.6400	3.6400	3.6400	3.6547	3.6550	3.6565
EGP	17.5400	18.0000	18.1250	18.2500	18.2500	17.9250	18.4300	19.4450
INR	71.228	70.000	70.000	68.000	68.000	72.2500	73.0500	74.5300
CNY	6.7731	6.9000	7.0000	7.1000	7.2000	6.7677	6.7775	6.7880
SGD	1.3566	1.3500	1.3200	1.3000	1.2900	1.3539	1.3512	1.3457
FX Forecasts - MENA								
	2015	2016	2017	2018	2019			
MAD	9.93	10.12	9.3283	9.5557	9.7			
TND	2.0409	2.3161	2.4630	3.0013	3.2000			
TRY	2.9172	3.0246	3.7982	5.2894	5.7000			

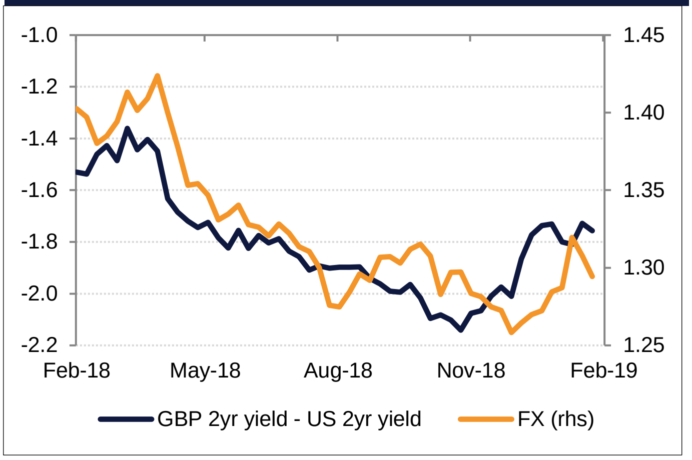
Source: Bloomberg, Emirates NBD Research
**Denotes USD peg*

Major FX and Nominal Interest Rates

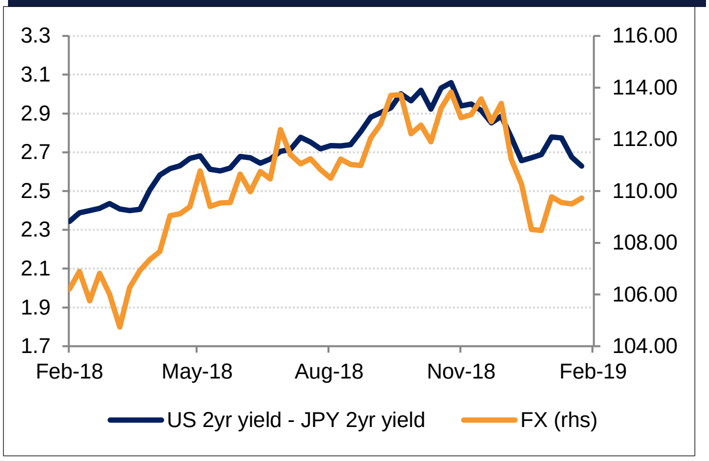
Interest Rate Differentials - EUR



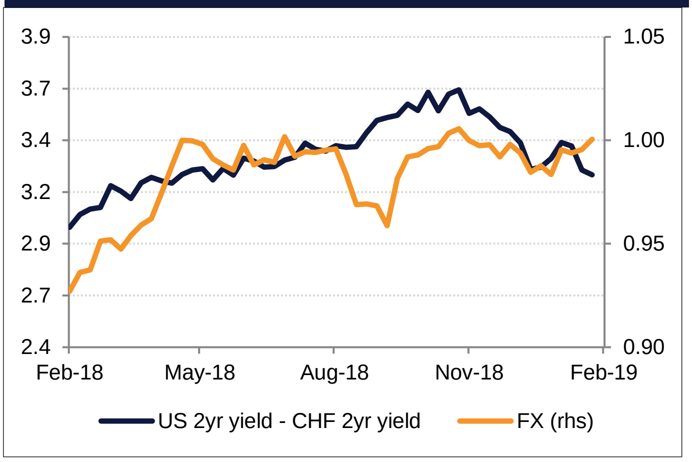
Interest Rate Differentials - GBP



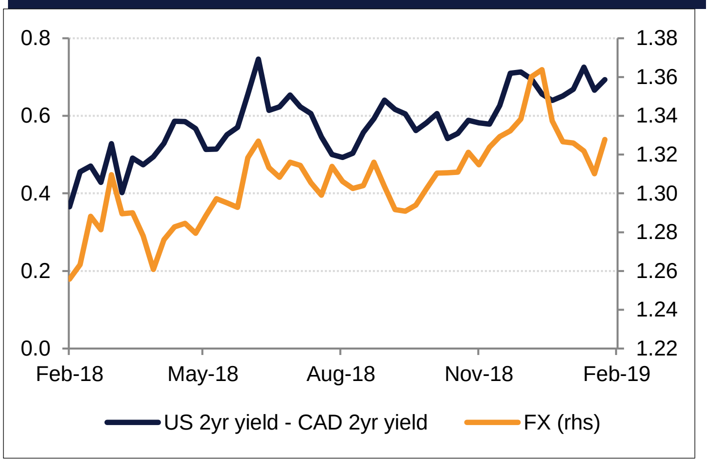
Interest Rate Differentials – JPY



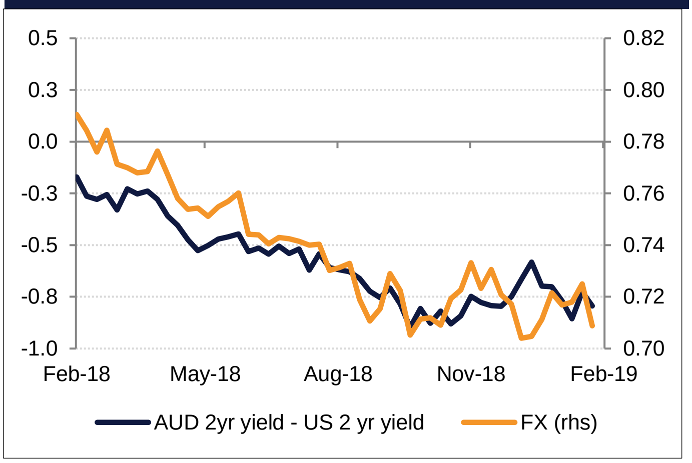
Interest Rate Differentials - CHF



Interest Rate Differentials - CAD



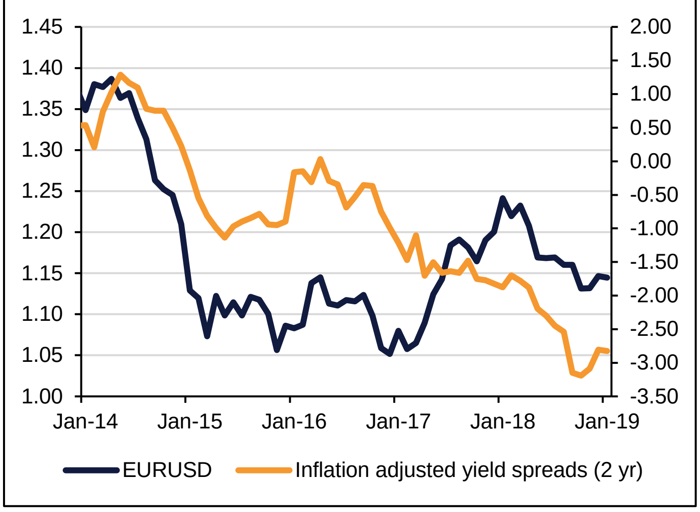
Interest Rate Differentials - AUD



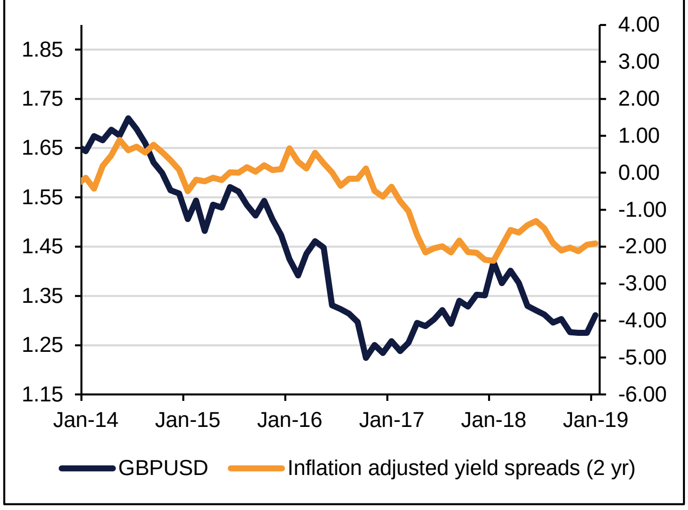
Source: Bloomberg, Emirates NBD Research

Major FX and Real Interest Rates

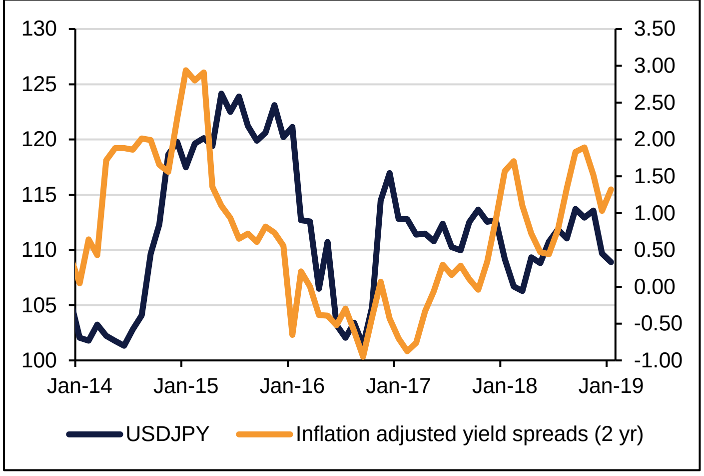
Interest Rate Differentials - EUR



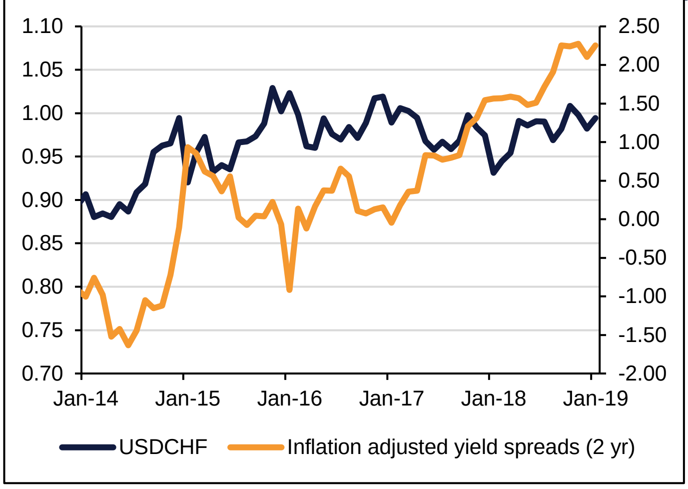
Interest Rate Differentials - GBP



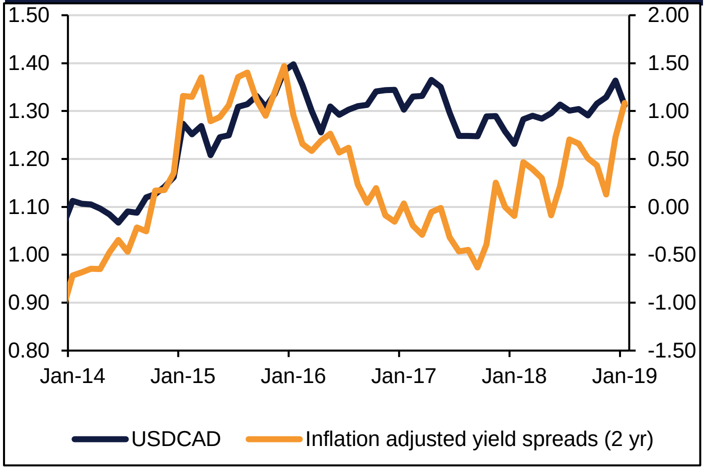
Interest Rate Differentials – JPY



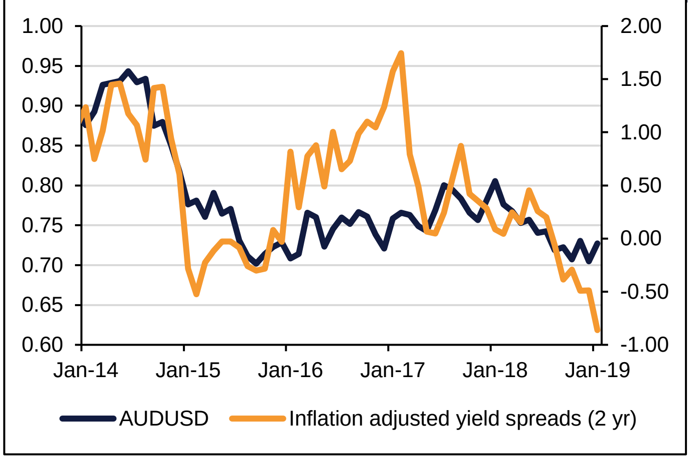
Interest Rate Differentials - CHF



Interest Rate Differentials - CAD



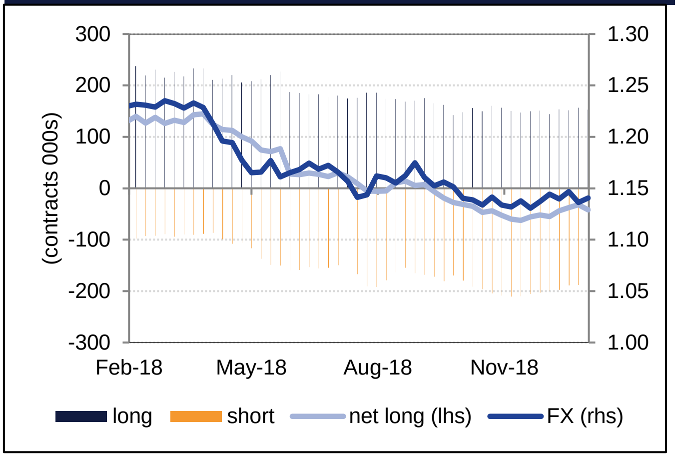
Interest Rate Differentials - AUD



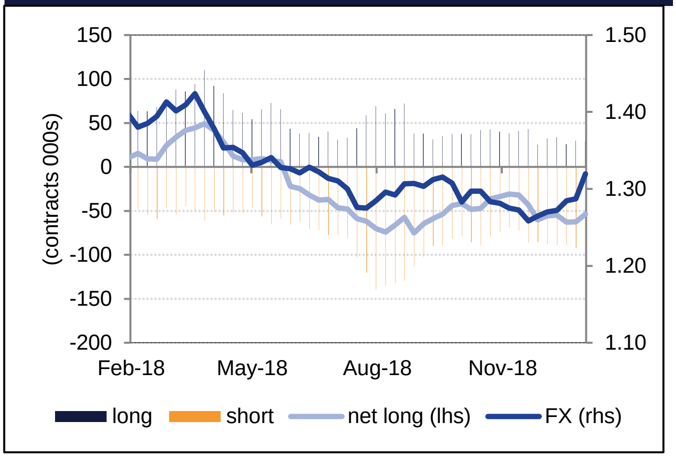
Source: Bloomberg, Emirates NBD Research

Major Currency Positions

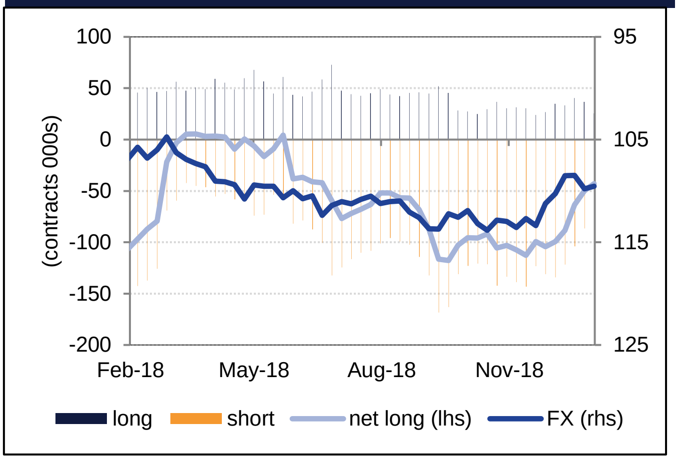
CFTC – Speculative Positions - EUR



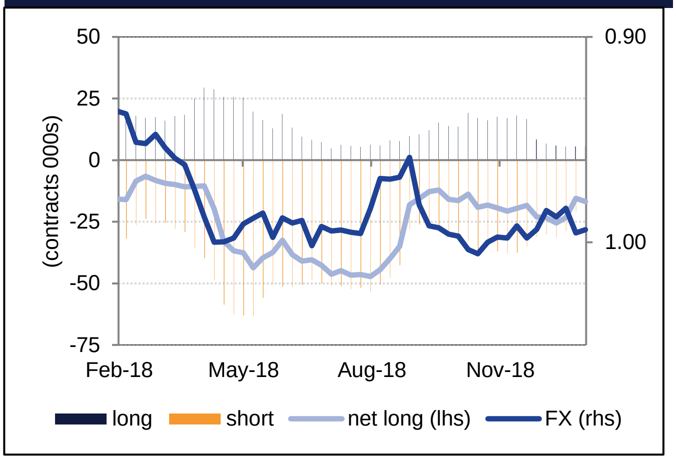
CFTC – Speculative Positions - GBP



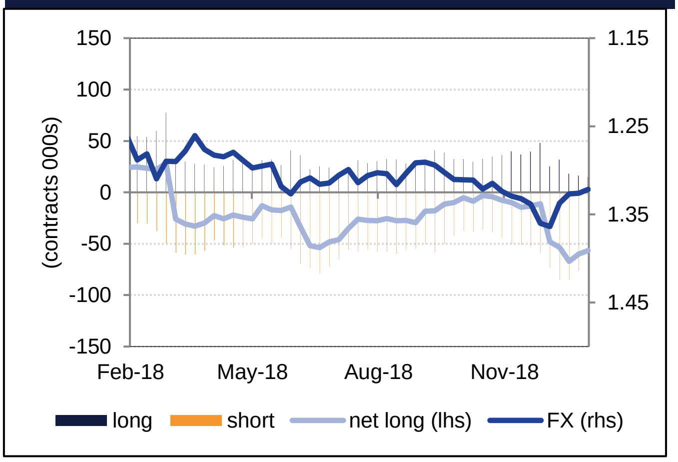
CFTC – Speculative Positions - JPY



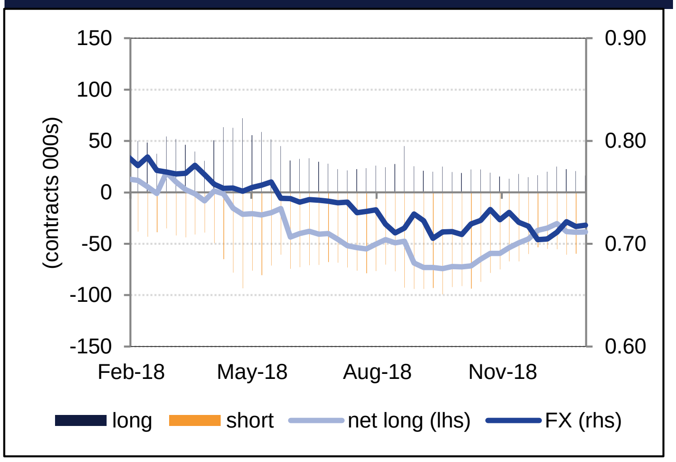
CFTC – Speculative Positions - CHF



CFTC – Speculative Positions - CAD



CFTC – Speculative Positions - AUD



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