



بنك الإمارات دبي الوطني  
Emirates NBD

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# FX Week

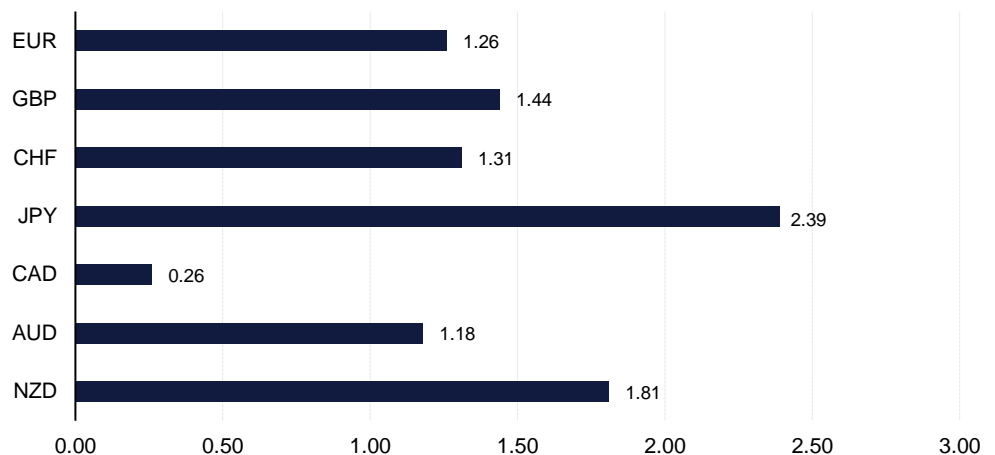
## Amid rising inflation...

With inflation data continuing to surprise positively in recent days the coming week will be interesting in terms of showing how central banks are likely to respond to it. US consumer and producer prices were both stronger than expected in January, rising by 0.5% and 0.4% respectively on a headline basis, and by 0.3% and 0.4% at the core level. These suggest that the pick-up in wage pressures reported earlier are unlikely to be a one-off and that a broad based upturn in prices is already underway. However, with the markets undergoing sharp volatility in response to the latest data there has also been uncertainty about how the Fed will respond to it, with past experience sometimes suggesting a preparedness to hold back from raising interest rates in a falling equity market, the so called 'Fed put'. However, comments from Fed officials in the past week suggest an intention to continue the process of monetary policy normalization, casting doubt on whether the 'Fed put' will continue to operate under new Fed Chair Powell. Powell is due to testify to Congress on February 28 before the House Financial Services Committee in which he will outline his approach. Ahead of this the Fed will release its Monetary Policy Report, due out on Friday 23rd of this week, which will be the basis for Powell's comments.

## The markets await Fed guidance

This will be the first major action coming out of the new Powell Fed, and may reflect a more optimistic mood about growth especially following the tax cuts enacted at the end of last year. Of course the Fed will also be aware of the additional USD300bn of spending that was announced last week, which give a boost to their growth and inflation forecasts. The minutes of the January 30-31 FOMC meeting, the last one to be chaired by Yellen, will also be looked at for changes of nuance although these are unlikely to be groundbreaking, with the focus being on what debate if any there was about the dot plot, and whether the Fed could do more or less than the 3 hikes currently implied.

## Weekly currency movement vs USD (%)

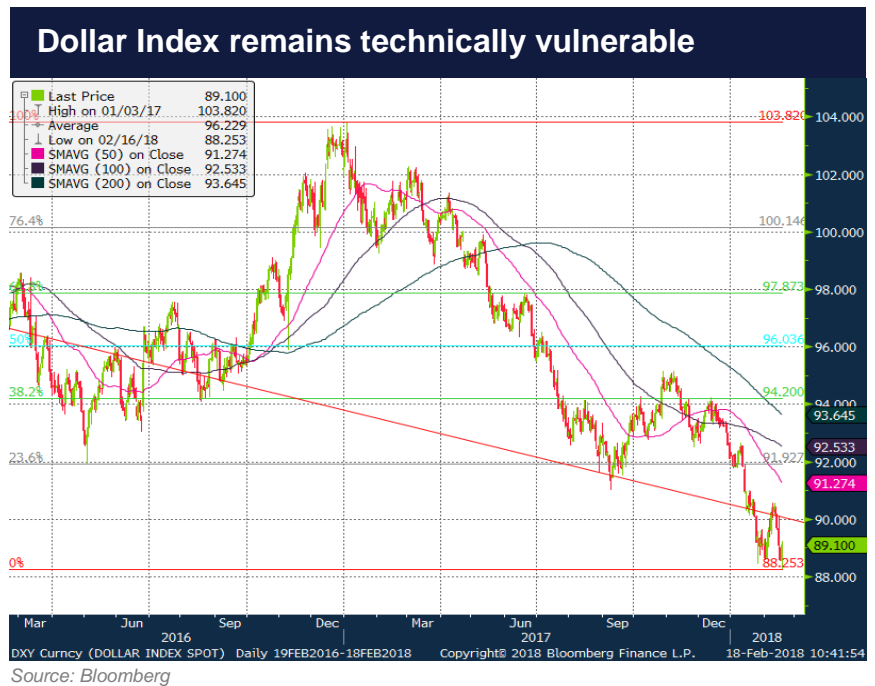


Source: Bloomberg, Emirates NBD Research

The dollar is likely to reflect the messages conveyed to a certain extent, although a striking feature of the last month has been how little it has responded to firmer bond yields. To the extent that yields rally further it may well be the case that the dollar continues to focus on the concerns that this might represent about inflation and about a rising fiscal deficit, rather than the positives that higher interest rates are usually associated with. Furthermore, the prospect of more trade tariffs being introduced increases existing concerns about protectionism and about the Administration's attitude towards the dollar, while the intensification of the Muller Inquiry adds another dimension of uncertainty to the White House policy outlook.

## Dollar reverses previous gains

The dollar declined last week, reversing the gains of the previous fortnight. Over the last week, the Dollar Index fell by 1.51% to 89.08, having hit a new 2018 low of 88.25 on Friday. Of note is that this move takes the dollar back below the supporting baseline that had held since September 2016 and leaves the index vulnerable to further declines. In the short term, there may be some reprieve as there was a decent reversal on Friday and the 14-day Relative Strength Index (currently at 39.13) looks bullish, however while the index remains below 90, the chance for further declines towards 85 cannot be ruled out.



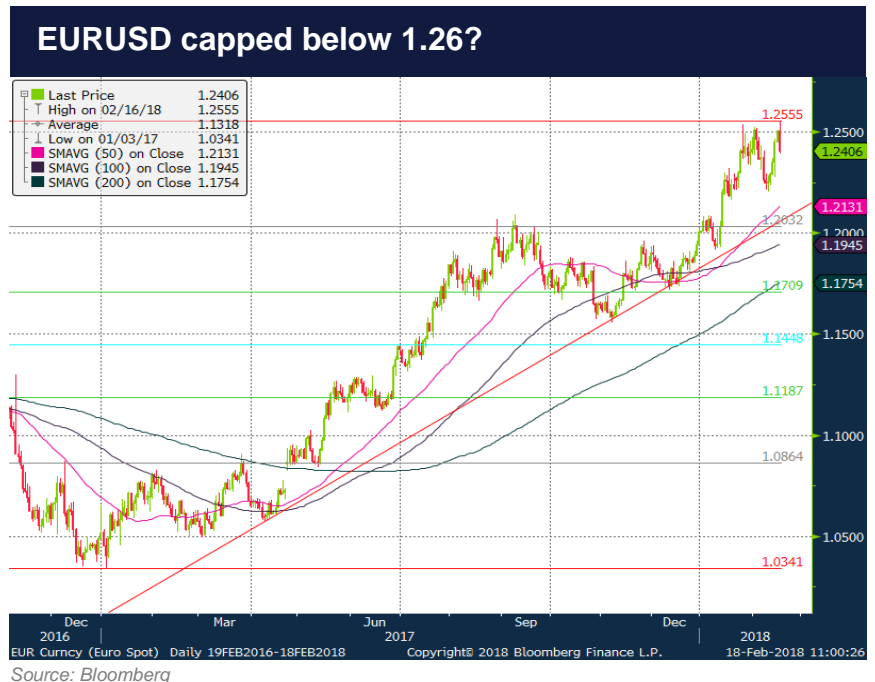
## EUR on lookout for hints about tapering

The EUR is likely to be influenced by the minutes of the January ECB council meeting (Thursday), which will be scrutinized for indications of how far the ECB's discussions about the expected change in guidance regarding an end to QE have moved forward. Before this the focus may also be on the appointment of a new ECB Vice President and what message this might also send about the outlook for monetary policy and whether the ECB will continue to do 'whatever it takes' to prevent another debt crisis from resurfacing. In this context the appointment of Spain's Luis de Guindos would likely be taken dovishly while that of Ireland's Central bank Head Lane would likely be viewed more hawkishly.

From a data perspective, the coming week is a relatively quiet one with only the German ZEW and IFO surveys of great significance.

## EUR rises but faces strong resistance

EURUSD rose 1.27% last week to reach 1.2407 and reverse most of the previous week's decline. Earlier on Friday, the price had even reached a new 2018 high of 1.2555, a level last seen in December 2014. Despite EURUSD remaining in a daily uptrend, the test of 1.2555 was repelled by extreme selling pressure, retreating back towards 1.24.

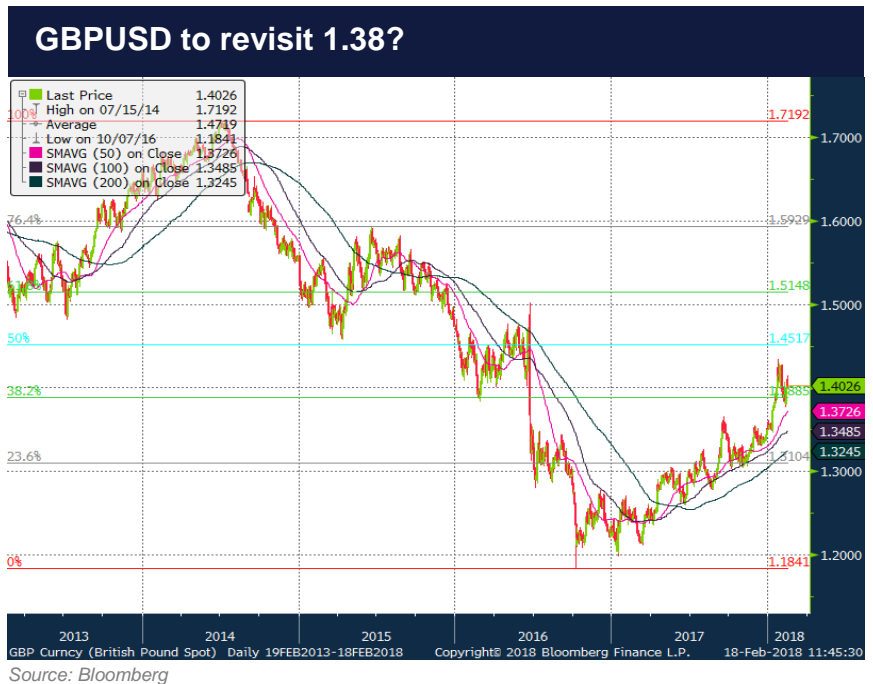


## GDP and employment data expected in UK

The UK data calendar will be a busier one by contrast, with February CBI surveys on industrial trends and retail sales, labor market data, and the second estimate of Q4 GDP due out in the week ahead. Last week ended with the official UK retail sales data for January disappointing relative to expectations, rising by just 0.1% helping the pound to end the week back below 1.40. The backdrop of Brexit negotiations that appear to be difficult is not very helpful either.

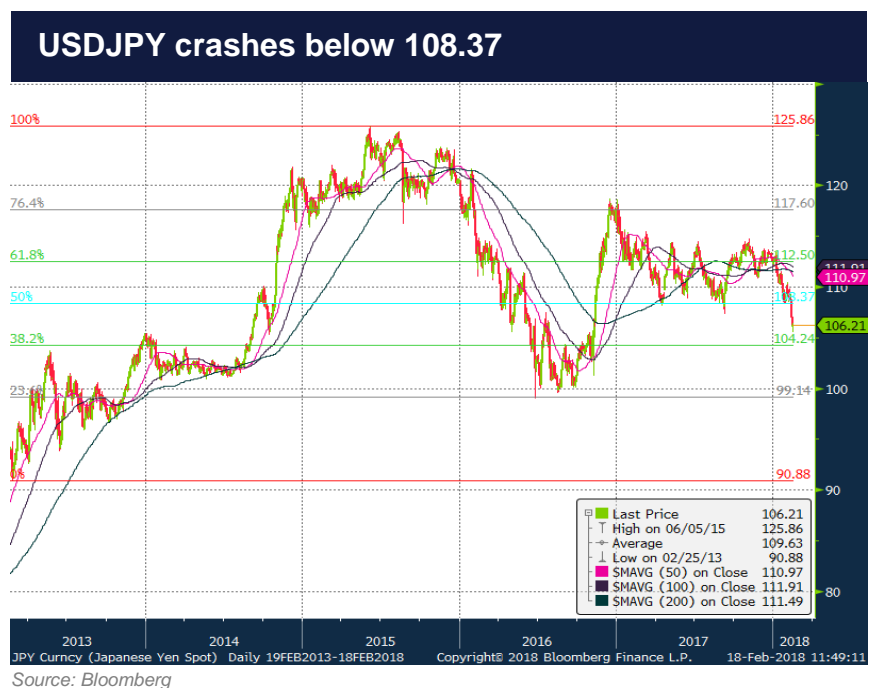
## GBPUSD finds support at 1.3885

GBPUSD rose 1.49% last week after finding support at the five year 38.2% Fibonacci retracement (1.3885), annulling most of the losses of the previous fortnight and reinstating the daily upward trend that has been in effect since January 2017. However, analysis of the daily candle chart shows that further losses may follow Friday's daily decline. The 14-day Relative Strength Index shows a bearish direction and cable has failed to sustain gains above 1.41. We expect a retest of 1.3885 in the week ahead, a break of which will result in further declines towards 1.38.



### USDJPY crashes below long term support

Asian markets will remain becalmed by the Chinese Lunar new year holidays. This is not preventing USDJPY from capitulating, however, as the JPY continued as the strongest major currency last week, defying interest rate differentials and breaking key support levels in the process. Despite the nomination of Governor Kuroda for another term at the BoJ, along with two dovishly perceived deputies, USDJPY crashed through its 50% five year Fibonacci retracement (108.37) to close the week 2.33% lower at 106.26, having gone as low as 105.55 on Friday morning. This is of great technical significant as the 108.37 level has acted as a firm support since November 2016. While the price stays below this level, further declines towards 105 are to be expected.



## FX Forecasts

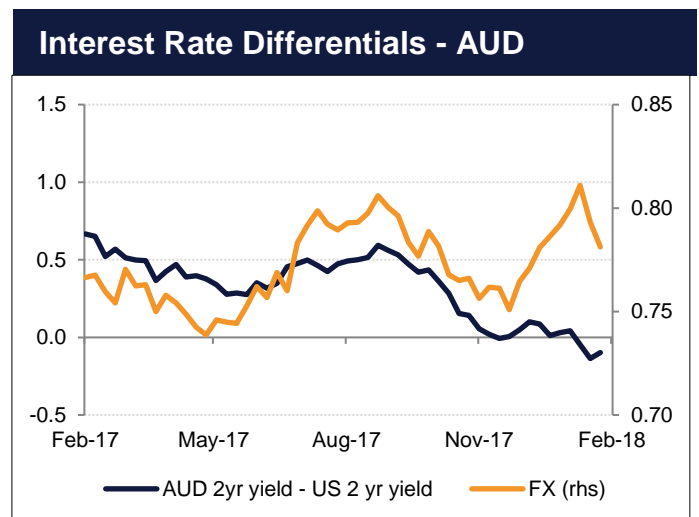
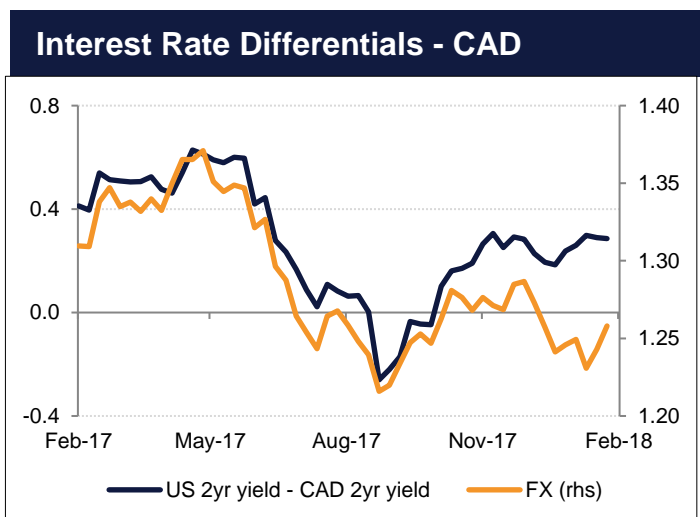
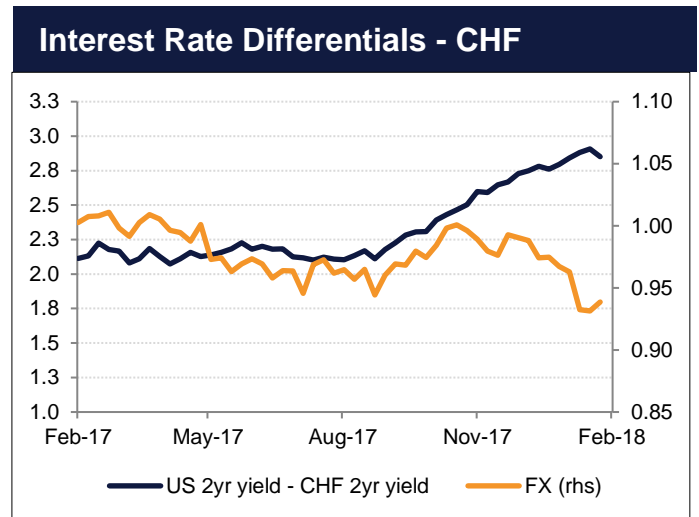
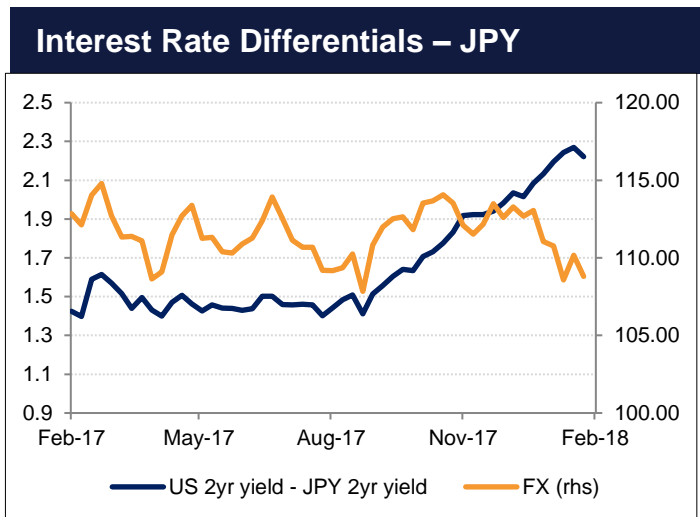
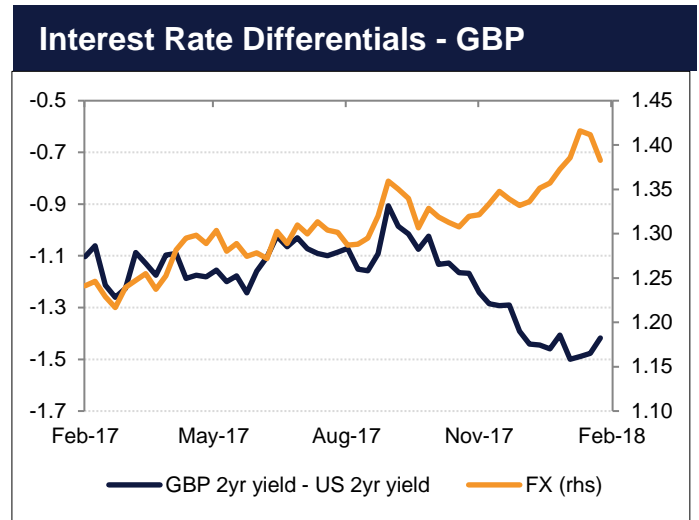
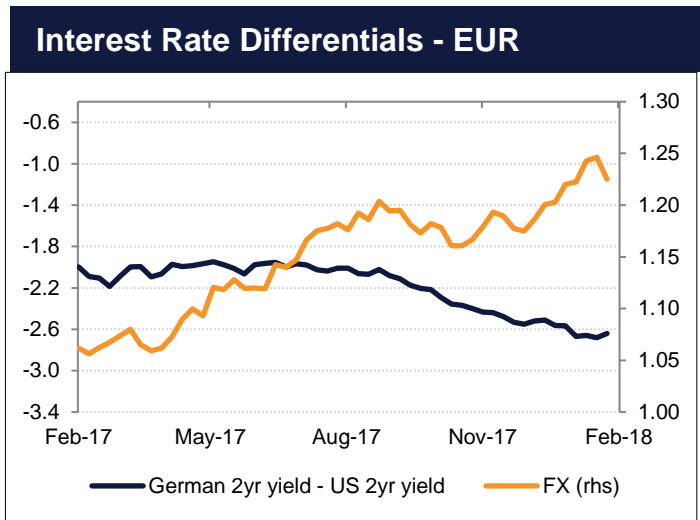
FX Forecasts - Major						Forwards		
	16-Feb	Q1 2018	Q2 2018	Q3 2018	Q4 2018	3m	6m	12m
<b>EUR</b>	1.2406	1.2200	1.2500	1.2200	1.2000	1.2485	1.2572	1.2769
<b>JPY</b>	106.21	110.00	113.00	116.00	118.00	105.59	104.90	103.35
<b>CHF</b>	0.9270	0.9600	0.9900	1.0100	1.0200	0.9201	0.9129	0.8969
<b>GBP</b>	1.4026	1.3800	1.4000	1.4200	1.4500	1.4079	1.4134	1.4254
<b>AUD</b>	0.7905	0.7600	0.7400	0.7200	0.7200	0.7905	0.7909	0.7922
<b>NZD</b>	0.7386	0.7000	0.7100	0.7100	0.7100	0.7381	0.7382	0.7387
<b>CAD</b>	1.2558	1.2500	1.2600	1.2600	1.2600	1.2540	1.2522	1.2490
<b>EURGBP</b>	0.8840	0.8841	0.8929	0.8592	0.8276	0.8863	0.8890	0.8953
<b>EURJPY</b>	131.88	134.20	141.25	141.52	141.60	131.88	131.88	131.88
<b>EURCHF</b>	1.1511	1.1712	1.2375	1.2322	1.2240	1.1500	1.1488	1.1463

FX Forecasts - Emerging						Forwards		
	16-Feb	Q1 2018	Q2 2018	Q3 2018	Q4 2018	3m	6m	12m
<b>SAR</b>	3.7505	3.7500	3.7500	3.7500	3.7500	3.7502	3.7512	3.7574
<b>AED</b>	3.6730	3.6730	3.6730	3.6730	3.6730	3.6737	3.6746	--
<b>KWD</b>	0.2993	0.3050	0.3050	0.3050	0.3050	0.2988	0.2998	--
<b>OMR</b>	0.3850	0.3850	0.3850	0.3850	0.3850	0.3856	0.3867	0.3892
<b>BHD</b>	0.3770	0.3770	0.3770	0.3770	0.3770	0.3762	0.3763	0.3792
<b>QAR</b>	3.6502	3.6400	3.6400	3.6400	3.6400	3.6600	3.6645	3.6768
<b>EGP</b>	17.6475	17.2500	17.0000	16.8000	16.8000	17.9650	18.3200	19.0300
<b>INR</b>	64.215	64.000	65.000	66.000	66.000	65.0900	65.7600	67.1100
<b>CNY</b>	6.3415	6.6000	6.8000	7.0000	7.1000	6.3422	6.3756	6.4353

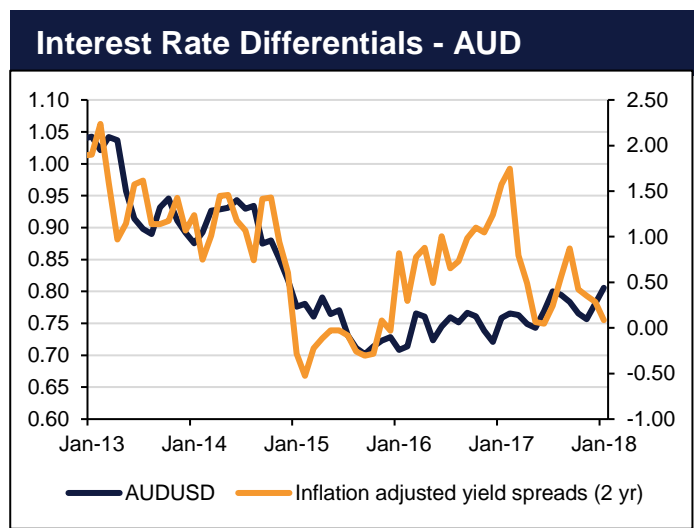
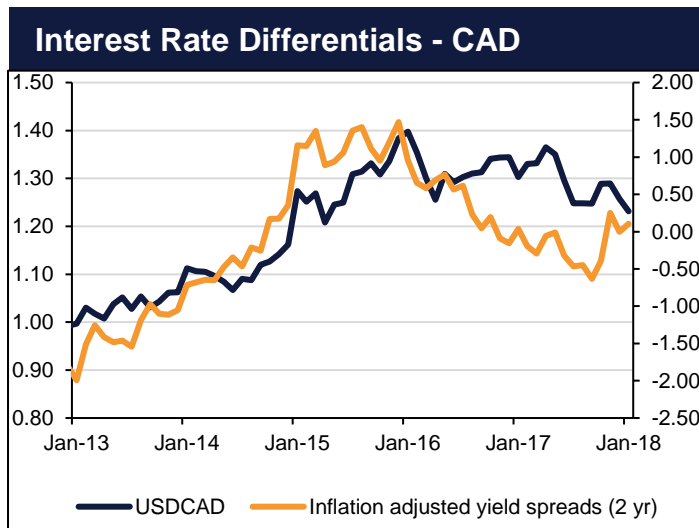
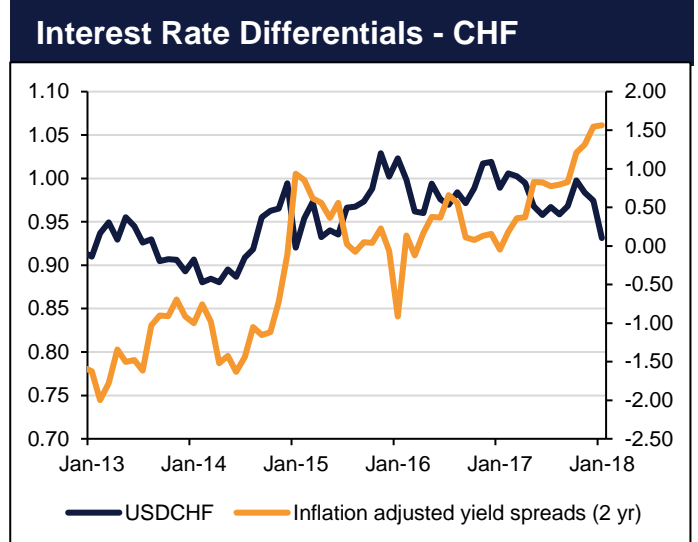
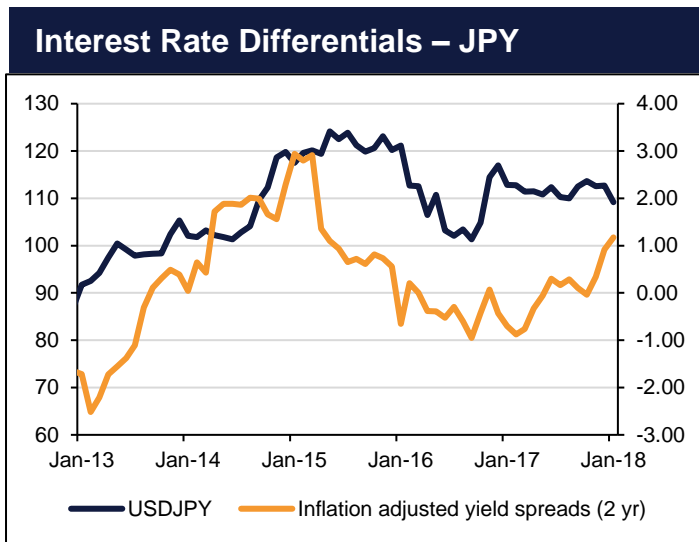
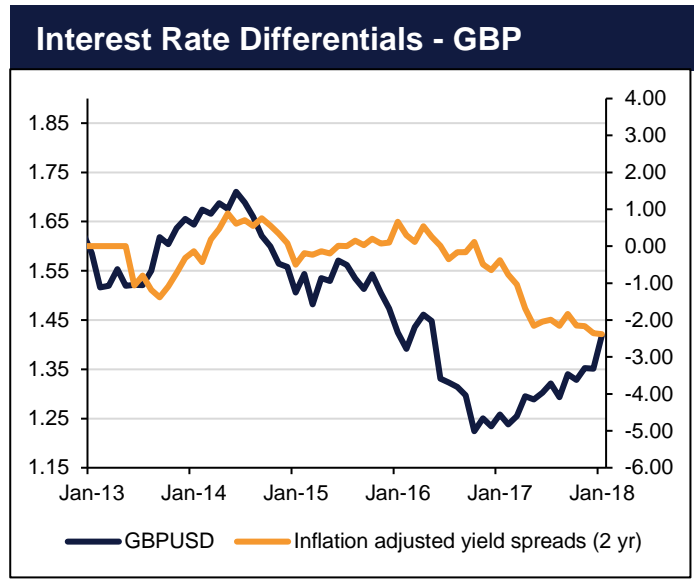
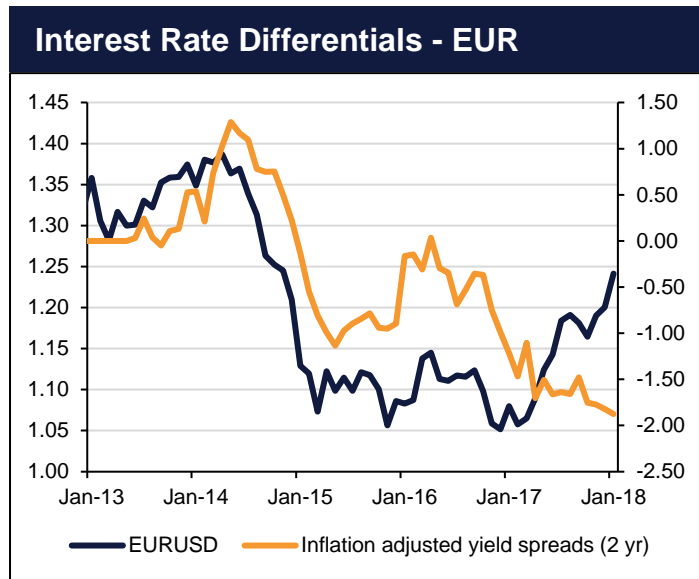
Source: Bloomberg, Emirates NBD Research  
 \*Denotes USD peg

## Major FX and Nominal Interest Rates



Source: Bloomberg, Emirates NBD Research

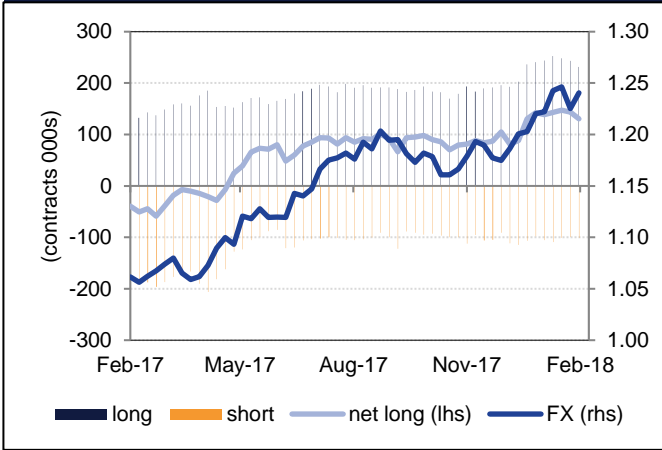
## Major FX and Real Interest Rates



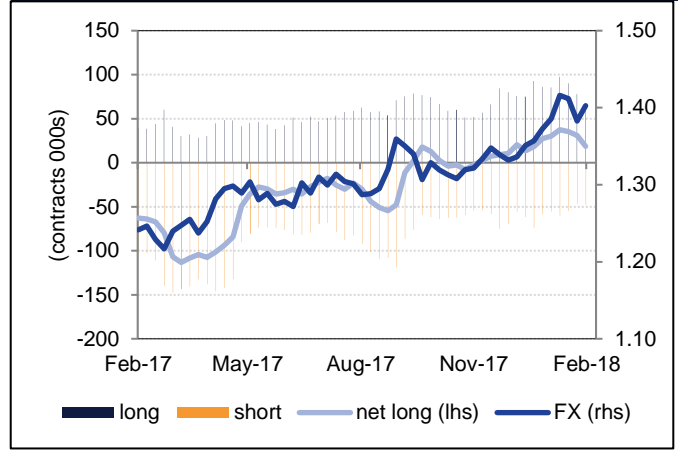
Source: Bloomberg, Emirates NBD Research

## Major Currency Positions

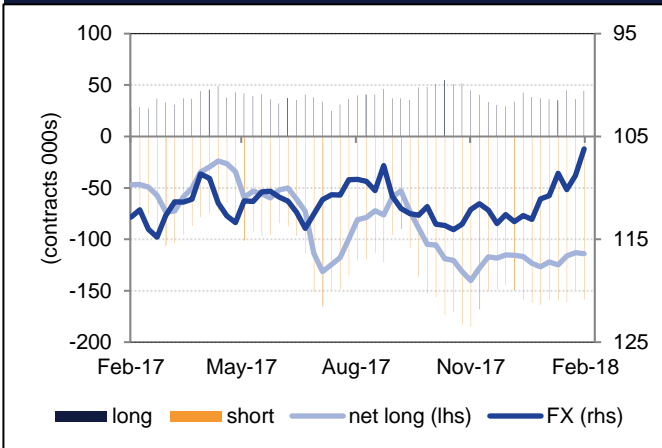
### CFTC – Speculative Positions - EUR



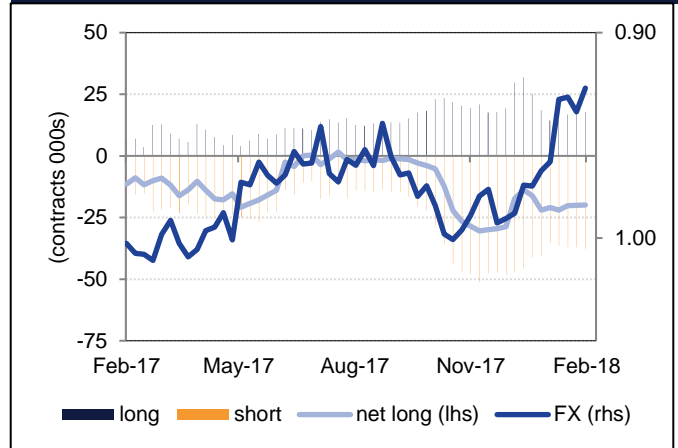
### CFTC – Speculative Positions - GBP



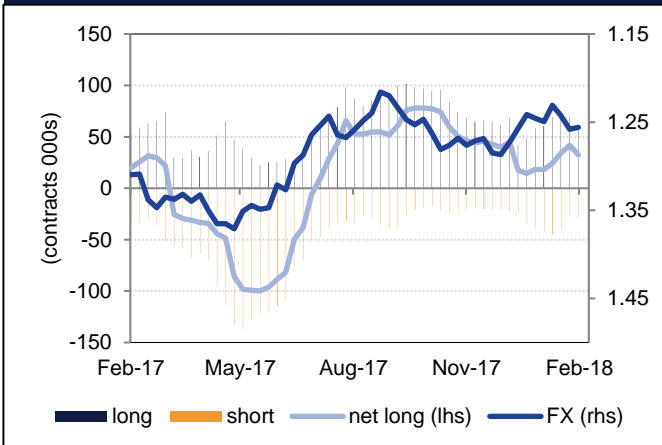
### CFTC – Speculative Positions - JPY



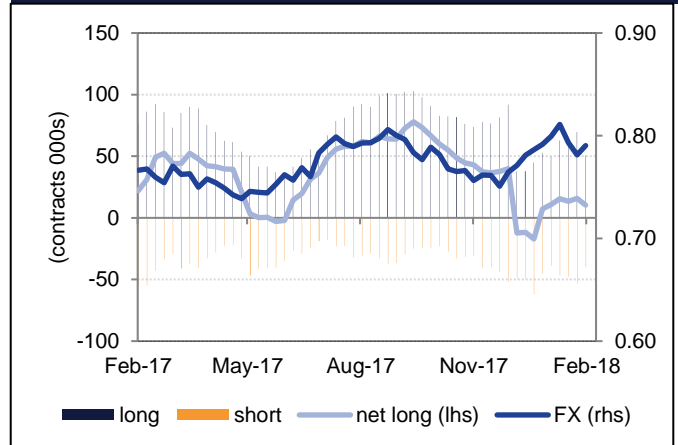
### CFTC – Speculative Positions - CHF



### CFTC – Speculative Positions - CAD



### CFTC – Speculative Positions - AUD





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