



بنك الإمارات دبي الوطني
Emirates NBD

Weekly
18 March 2018

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

Firm data helps USD to rise

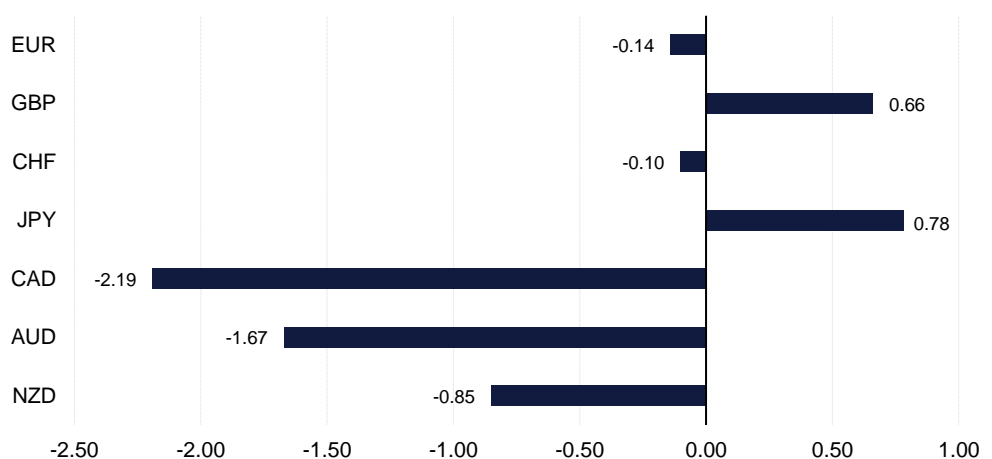
The dollar rose modestly last week helped by stronger than expected industrial production data as well as firm inflation. The 1.1% February industrial production surge sharply exceeded estimates thanks to big gains in manufacturing and mining. The February headline CPI rose 0.2%, while the core index also rose 0.2% with the growth rate y/y ticking up to 2.2% from 2.1% in January, and the core y/y rate holding steady at 1.8%. Consumer confidence also surprised to the upside showing a preliminary reading of 102.0 in March, up from 99.7 in February and higher than expectations for a reading of 99.3.

Markets await Fed rate hike with focus on the 'dots'

Fed Chairman Powell's first FOMC meeting will be the main focus in the coming week with unanimous expectations of a 25bps rate hike, raising the Fed funds band to 1.50-1.75%. In fact regionally SAMA has already raised interest rates by 25bps ahead of the meeting which is being widely seen as pre-emptive move to get ahead of the Fed and help to lessen the impact on the Saibor-Libor spread which turned negative in February.

The most important part of the Fed's decision will probably be the FOMC's 'dot plot' projections along with the forecasts for growth, unemployment, and inflation. Powell and some other Committee members have indicated that they already boosted their own economic outlooks due to the recent fiscal stimulus measures, but these have not been recognized in official forecasts, and it is not clear that it means the median dot will be increased from three to four hikes this year. Data is relatively light this week and most of the crucial reports for the month are out of the way. However, other central banks will also meet in the coming week, notably in the UK and also in Asia. There are also expectations that President Trump could announce more tariffs on imports from China in response to China's alleged violations over intellectual property.

Weekly currency movement vs USD (%)



Source: Bloomberg, Emirates NBD Research

FOMC Forecast revisions, to be released Wednesday alongside the FOMC statement should reveal big boosts in the 2017 GDP estimates, alongside modest upward revisions to the 2018 inflation estimates and small downward revisions to the unemployment estimates across the forecast horizon. GDP growth could be boosted by 0.2%-0.3% through 2019, with a smaller boost in 2020. A 0.1% increase in the Fed's 2018 inflation estimate might also be seen, while the jobless rate estimate could be reduced by 0.1% across the board, given a stronger growth path for payrolls. The dollar's reaction will likely be to the 'dot plot' with an unchanged three hikes this year likely to be met with some disappointment and a softer dollar tone.

Dollar gains for fourth week

The dollar gained for a fourth consecutive week, the Dollar Index rising 0.16% to reach 90.233. While these gains are relatively modest, there are observations which support the likelihood of further near term gains. Analysis of the daily candle chart shows that the index has broken above the 50 day moving average (90.045). This is a key level which the index has remained below since 18th December 2017 and which has provided resistance multiple times over the course of the last month. In addition, the 14 day RSI (Relative Strength Indicator) currently shows bullish momentum at 53.60 showing that further buying pressures seem to be likely in the days ahead. While the price stays above the 50 day moving average, we expect the path of least resistance to be further climbs towards 91.30, not far from the 23.6% one year Fibonacci retracement of 91.34.



Brexit and EU confidence in focus

It will be a busy week in the Eurozone with EU confidence data the main focus economically, but also a European Council meeting on March 22/23 which will hopefully set out the EU's guidelines for the future relationship with the U.K after Brexit, and may also address Trump's tariff plans. Confidence readings may come down a little, but will still remain at high levels overall consistent with healthy growth and with the expectation that the ECB will proceed towards policy normalization later this year. The focus of the European Council meeting will be largely on whether there is an agreement with the U.K. over a transition period after Brexit comes into effect in 2019. A free trade agreement between the EU and the UK will probably take a long time to reach, making an agreement on a transition period an important element of the initial Brexit deal. However, this is also being held hostage by negotiations over the UK-Irish border, over which there is little sign of compromise. Any progress on these two issues would clearly be welcome and would probably be positive for both GBP and the EUR to varying extents.

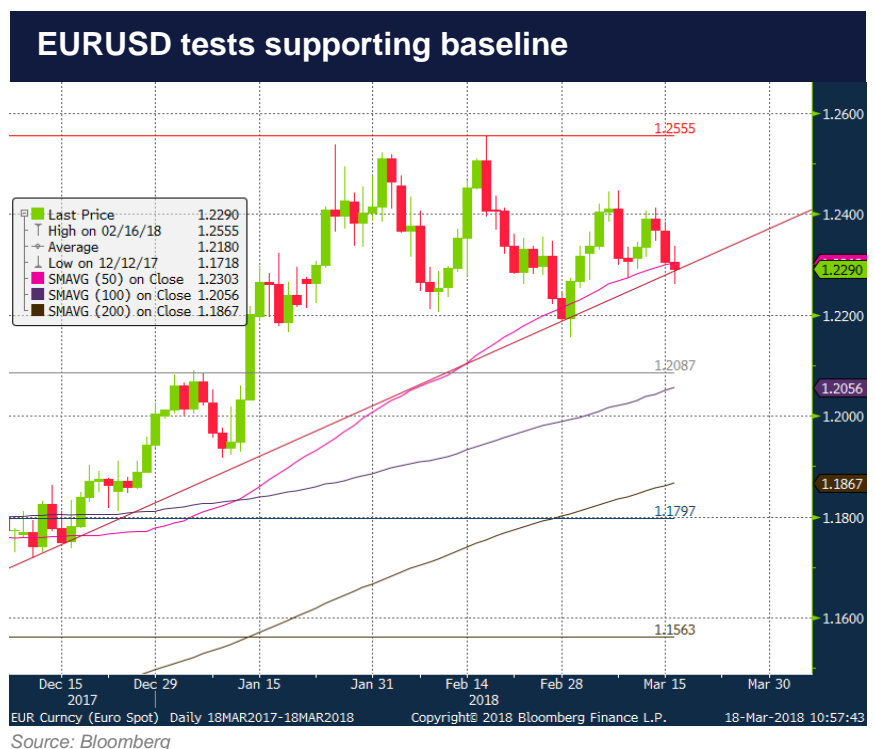
EU reaction to US tariffs also awaited

The EU reaction to Donald Trump's proposed trade tariffs will also be important for the EUR, as signs of a ratcheting up of trade tensions could weigh on the single currency and potentially create ripple effects across FX markets more generally.

The EU has begun the process of identifying a range of U.S. products it will impose tariffs on if it does not secure exemptions on the steel and aluminum tariffs being applied by the U.S. EU President Tusk has proposed that EU leaders have an extraordinary trade debate at the upcoming summit to discuss the subject and prepare for retaliatory steps if the U.S. goes ahead with its tariffs.

EURUSD falls 0.14%

Over the course of last week, EURUSD fell 0.14% to reach 1.2290. This decline is significant, as it represents a daily close below the 50 day moving average (1.2303) as well as a test of the supporting baseline that had been in effect since 15 December 2017. A break of this level looks likely in the week ahead and we see further losses towards our Q1 2018 forecast of 1.22 being the most likely course of action.



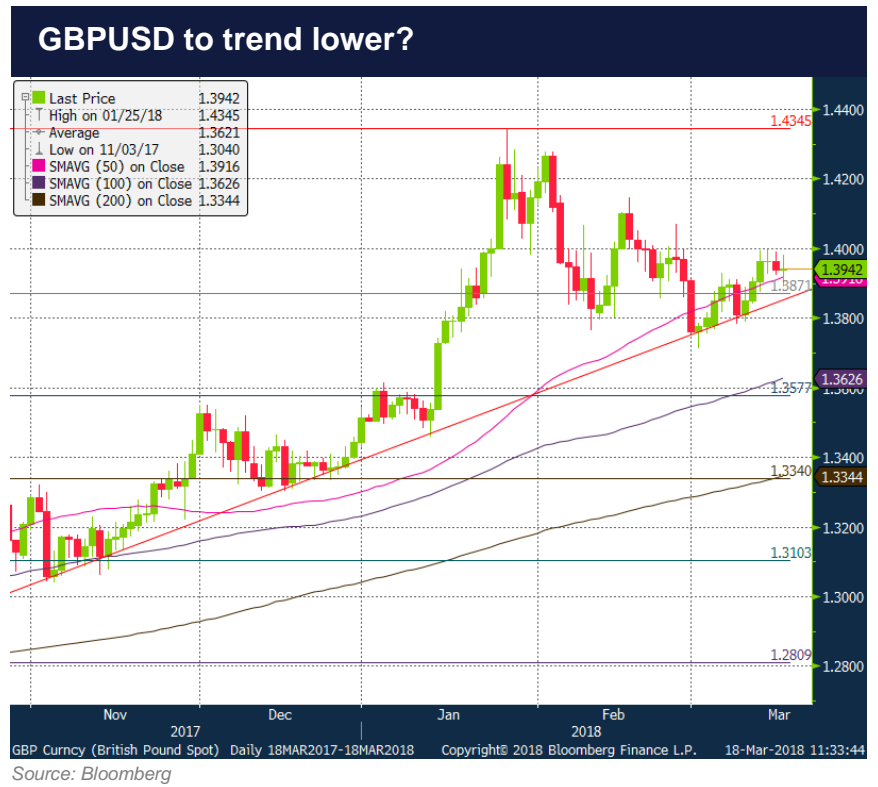
GBP to be guided by BOE and inflation...

Another issue for GBP this week will be the Bank of England MPC meeting on Thursday, although its impact is likely to be relatively muted as the repo rate is likely to be left unchanged at 0.5%. The May MPC meeting is widely viewed as the more likely occasion for the Bank to raise interest rates again, although inflation data this week may even cast doubt on this depending on how much CPI retreats from last month's 3.0% y/y rate. With Sterling markets presently pricing in about 80% chance for there being a 25bp hike in the repo rate in May, and fully discounting a hike by August, there is clearly room for GBP to slip back should inflation undershoot.

GBPUSD breaks above key levels

GBPUSD finished the week 0.66% higher at 1.3942 in a move which showed some key technical developments. The price was able to break and close above the 76.4% one year Fibonacci retracement of 1.3871 as well as the 50 day moving average of 1.3916. This is noteworthy as both these levels acted as resistance over the previous weeks and yet acted as support over the current week. However, with this in mind, we believe that the recent 200 pip rally in Sterling is due a

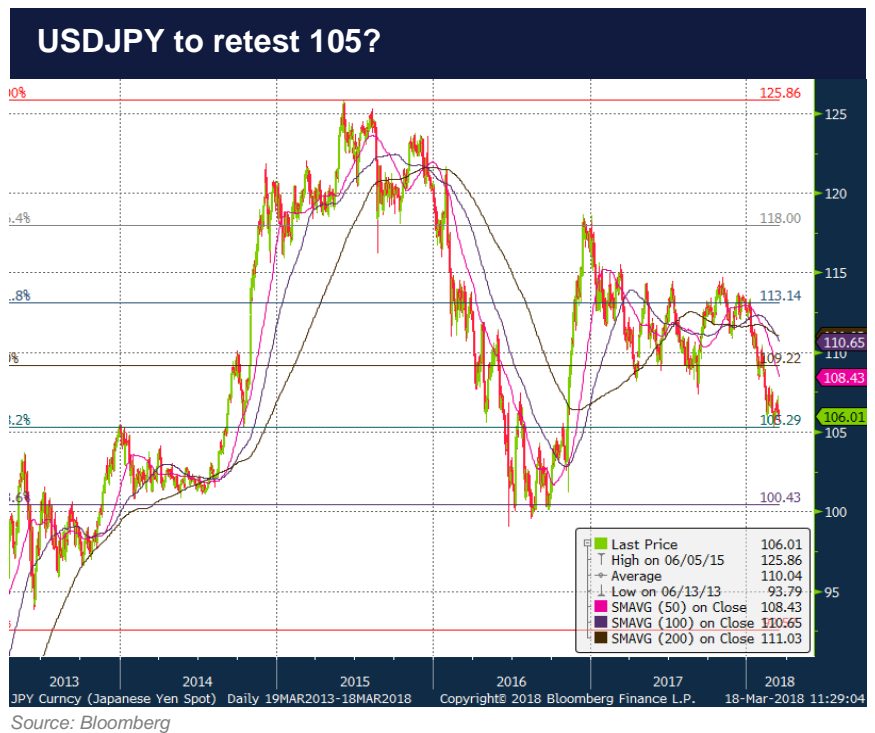
correction. Analysis of the daily candle chart show that rallies are failing to reach their previous highs and as a result the risk of a downtrend forming cannot be ruled out. We look for a break below 1.3871 to catalyze larger declines and maintain our Q1 2018 forecast of 1.38.



USDJPY vulnerability persists

USDJPY continues to struggle against a background of political tensions in Washington and global trade war rhetoric. Its inability to recover meaningfully above 106 leaves it vulnerable to further losses, while Japanese inflation is expected to have lifted slightly in February which may also help the JPY to remain firm.

USDJPY finished last week 0.76% lower at 106.01, paring most of the gains of the previous week. Analysis of the daily candle chart shows that a series of lower highs and lower lows appear to be in effect and while the price remains below the key resistance of 107.50 (close the 23.6% one year Fibonacci retracement of 107.49 and an area which has halted advances for the previous two months) the cross remains vulnerable to further declines. A break below the 38.2% five year Fibonacci retracement of 105.29 can expose the price to much larger additional declines towards the major psychological level of 100.



AUD hits 2018 lows

AUDUSD finished the week with a 1.67% decline, closing at 0.7713, not far from the 2018 YTD low of 0.7710. Over the course of the last week, AUDUSD failed to break back above the 50 day moving average (0.7894) before falling below the 100 and 200 day moving averages on Friday. From a technical observation, the break below these key levels as well as the 50% one year Fibonacci retracement (0.7732), leaves the price vulnerable to further declines towards 0.76. Should the labour report due out on Thursday fail to meet market expectations, the risks of this decline are likely to be compounded.

RBNZ to guide NZD

Much like its neighbor, the NZD was under pressure last week, with NZDUSD losing 0.85% to fall to 0.7218. In the process, the price broke below the 50 day MA (0.7292) and the 61.8% one year Fibonacci retracement (0.7261) indicating a vulnerability to further declines. On Thursday morning, markets will be turning their attention towards the RBNZ meeting at which the central bank is expected to keep the Official Cash Rate at a record low of 1.75%. However, given the previous downside revisions to growth and inflation at the central bank's previous meeting, investors will be anxious to hear if communication from policy makers has become more dovish. Should this be the case, the kiwi may find itself under greater selling pressure.

FX Forecasts

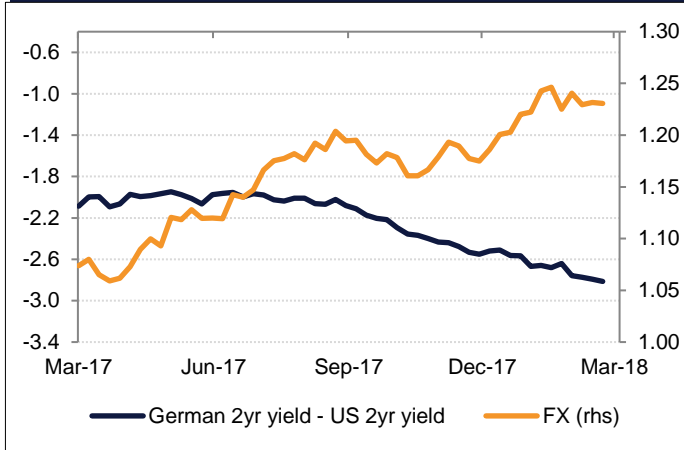
FX Forecasts - Major						Forwards		
	16-Mar	Q1 2018	Q2 2018	Q3 2018	Q4 2018	3m	6m	12m
EUR	1.2290	1.2200	1.2500	1.2200	1.2000	1.2377	1.2469	1.2667
JPY	106.01	107.50	111.00	114.00	118.00	105.33	104.62	103.06
CHF	0.9520	0.9600	0.9900	1.0100	1.0200	0.9444	0.9364	0.9199
GBP	1.3942	1.3800	1.4000	1.4200	1.4500	1.3999	1.4056	1.4176
AUD	0.7713	0.7600	0.7400	0.7200	0.7200	0.7716	0.7722	0.7738
NZD	0.7218	0.7100	0.7100	0.7100	0.7100	0.7215	0.7216	0.7220
CAD	1.3096	1.2950	1.2600	1.2600	1.2600	1.3071	1.3046	1.2999
EURGBP	0.8817	0.8841	0.8929	0.8592	0.8276	0.8842	0.8872	0.8937
EURJPY	130.28	131.15	138.75	139.08	141.60	130.28	130.28	130.28
EURCHF	1.1701	1.1712	1.2375	1.2322	1.2240	1.1689	1.1677	1.1654

FX Forecasts - Emerging						Forwards		
	16-Mar	Q1 2018	Q2 2018	Q3 2018	Q4 2018	3m	6m	12m
SAR	3.7501	3.7500	3.7500	3.7500	3.7500	3.7504	3.7513	3.7565
AED	3.6730	3.6730	3.6730	3.6730	3.6730	3.6737	3.6746	--
KWD	0.2999	0.3020	0.3020	0.3020	0.3020	0.2985	0.2988	--
OMR	0.3850	0.3850	0.3850	0.3850	0.3850	0.3855	0.3863	0.3892
BHD	0.3771	0.3770	0.3770	0.3770	0.3770	0.3762	0.3762	0.3792
QAR	3.6695	3.6400	3.6400	3.6400	3.6400	3.6752	3.6780	3.6845
EGP	17.6230	17.2500	17.0000	16.8000	16.8000	17.9950	18.3450	19.0200
INR	64.940	64.000	65.000	66.000	66.000	65.8300	66.4900	67.7200
CNY	6.3348	6.5500	6.7000	6.9000	7.1000	6.3670	6.3985	6.4565

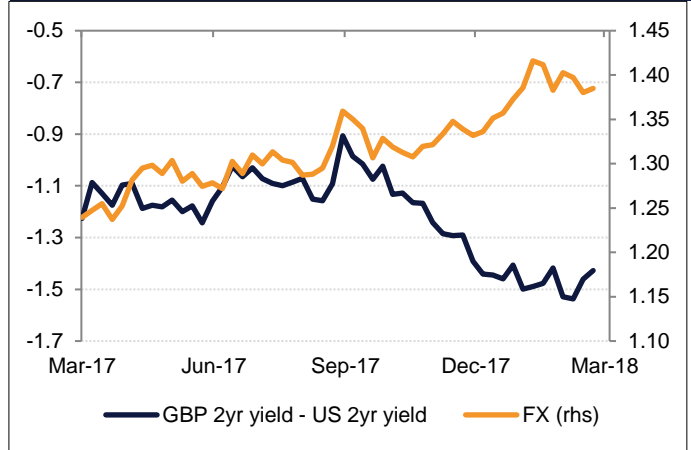
Source: Bloomberg, Emirates NBD Research
 *Denotes USD peg

Major FX and Nominal Interest Rates

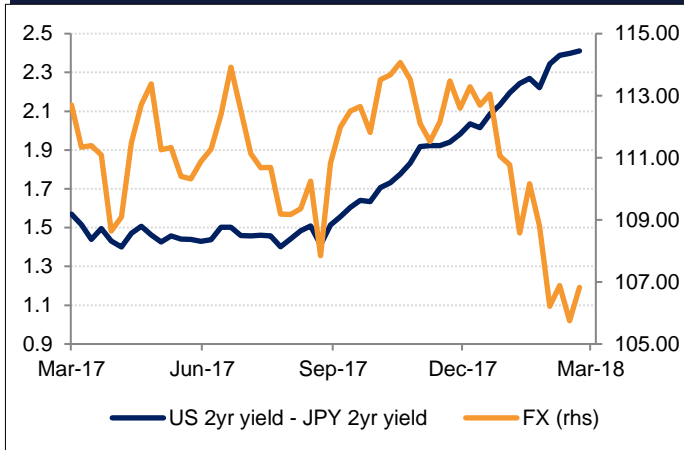
Interest Rate Differentials - EUR



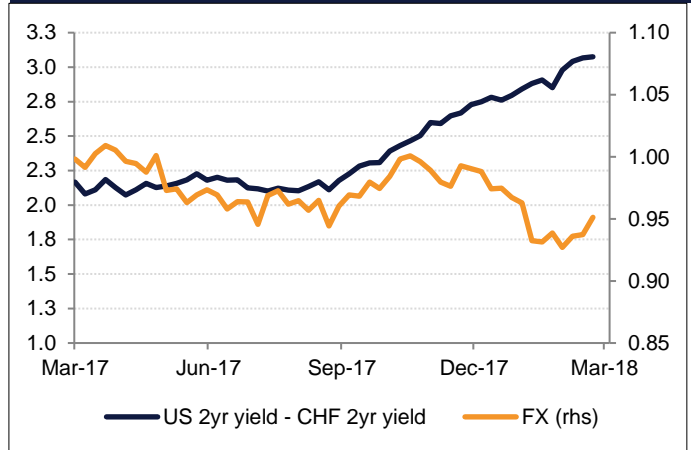
Interest Rate Differentials - GBP



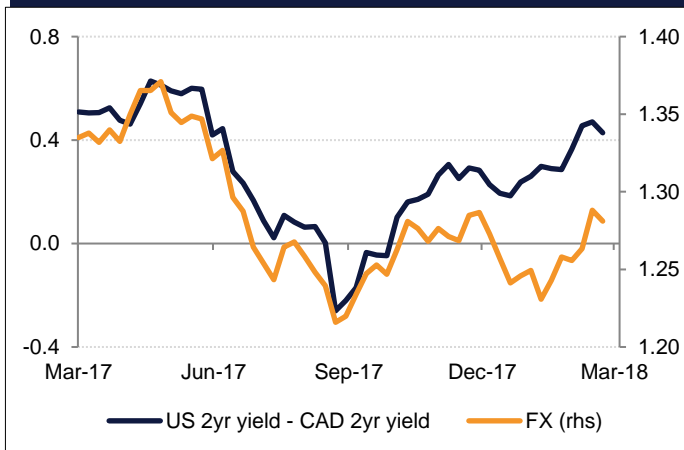
Interest Rate Differentials - JPY



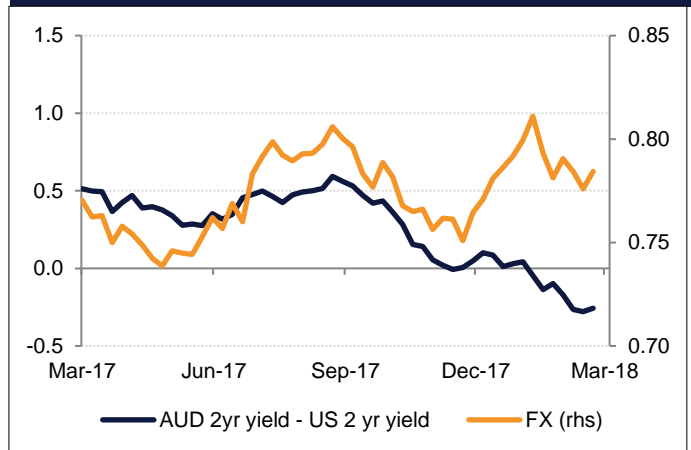
Interest Rate Differentials - CHF



Interest Rate Differentials - CAD

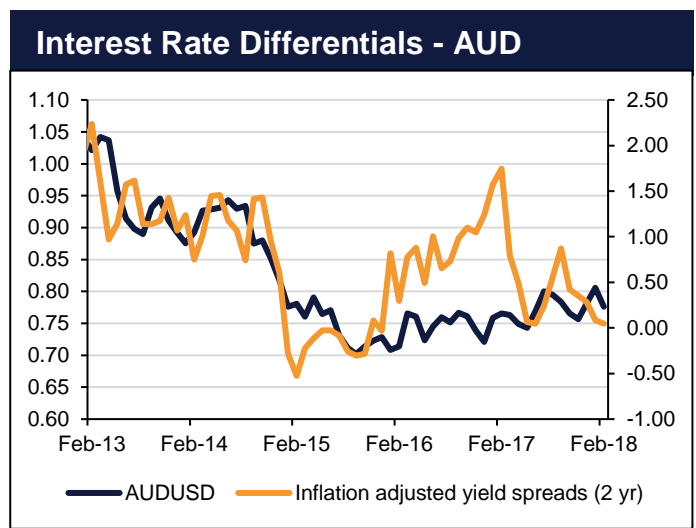
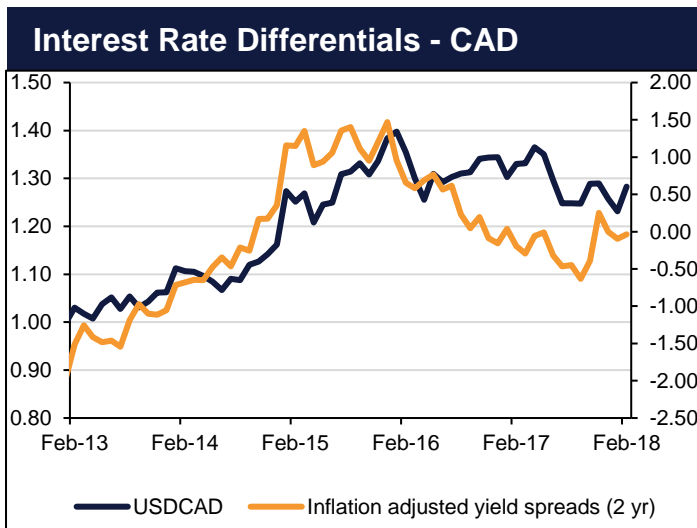
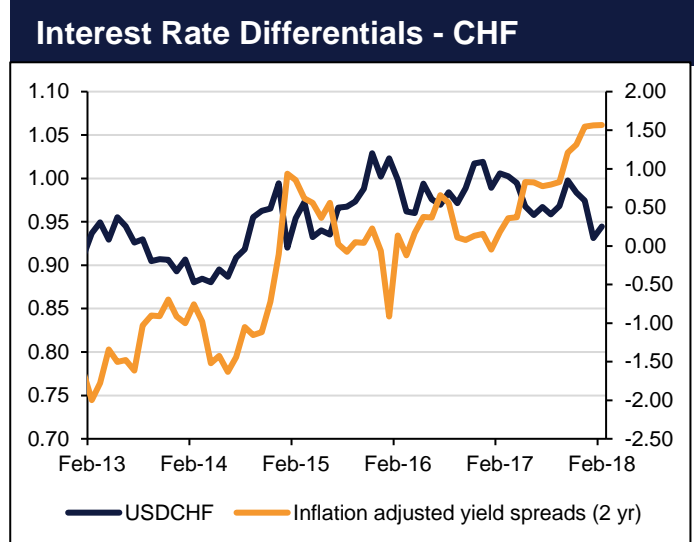
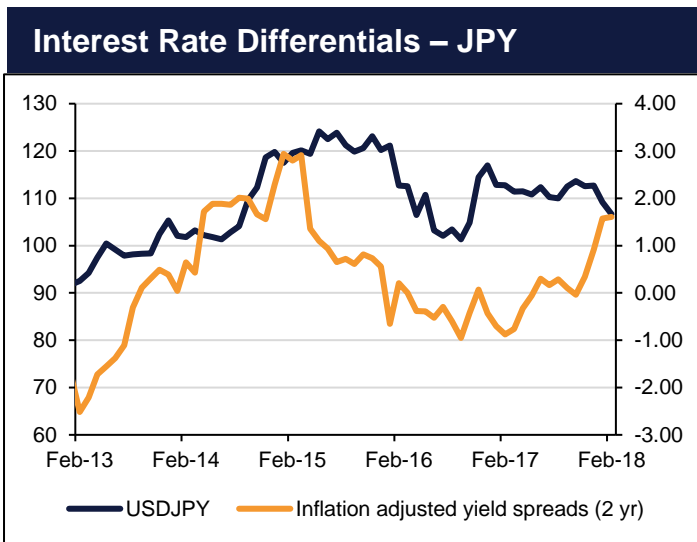
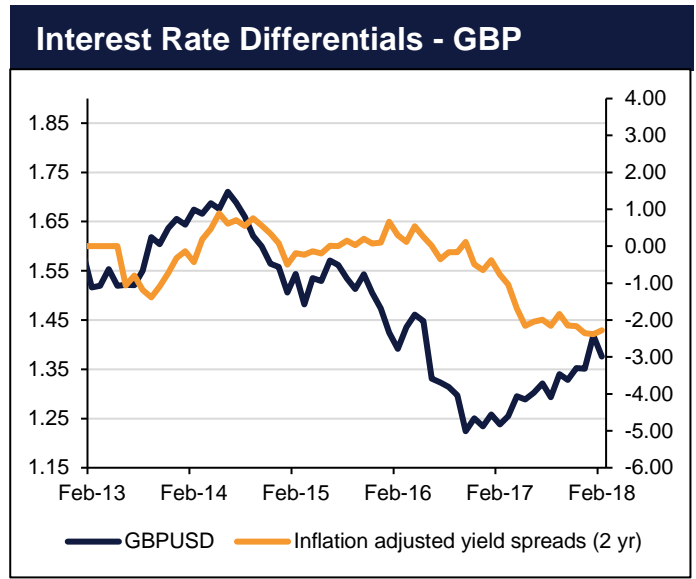
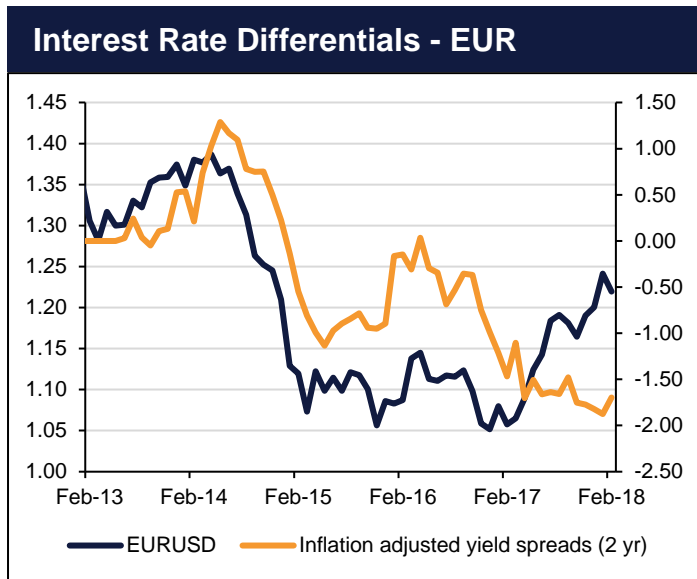


Interest Rate Differentials - AUD



Source: Bloomberg, Emirates NBD Research

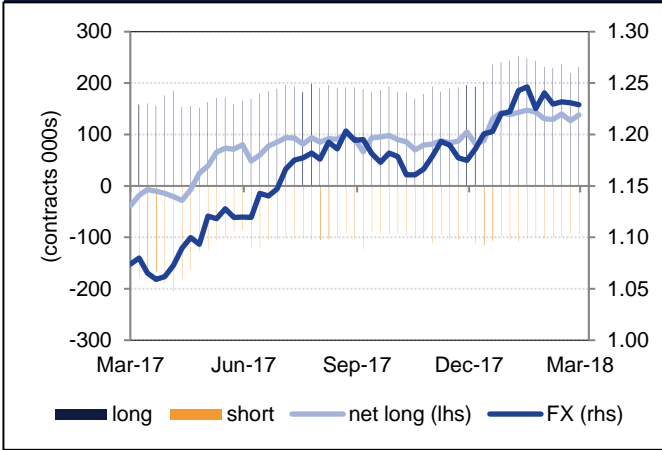
Major FX and Real Interest Rates



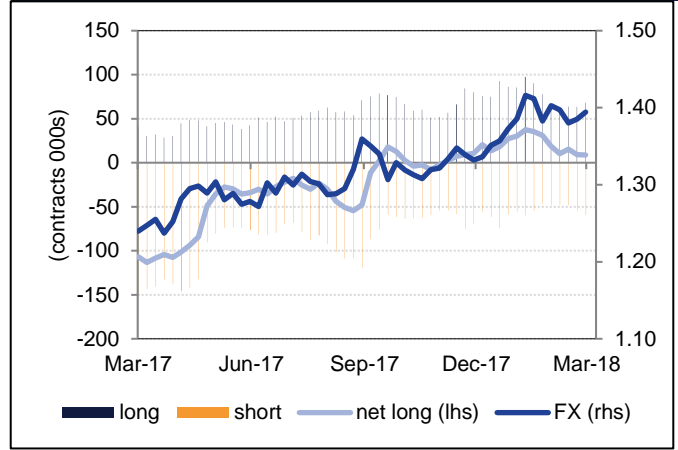
Source: Bloomberg, Emirates NBD Research

Major Currency Positions

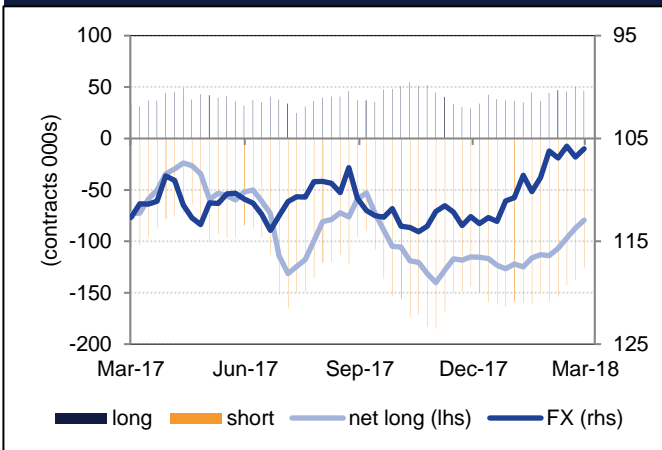
CFTC – Speculative Positions - EUR



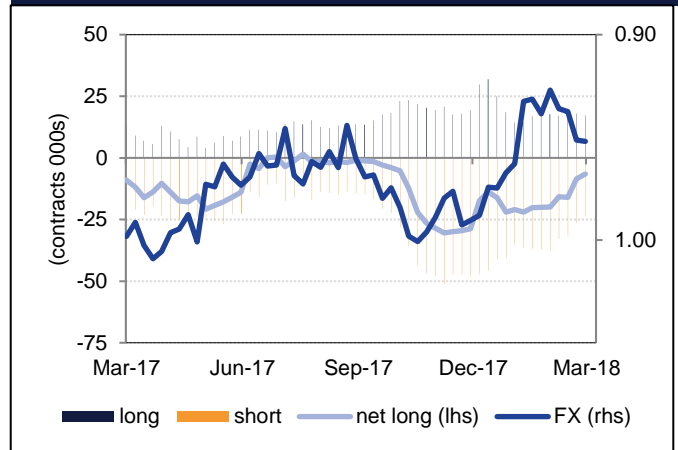
CFTC – Speculative Positions - GBP



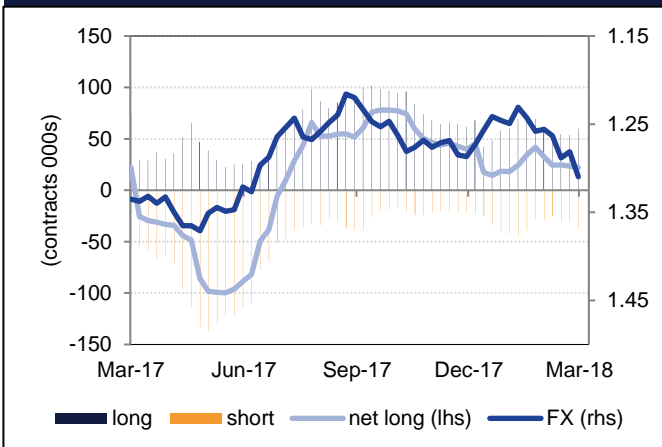
CFTC – Speculative Positions - JPY



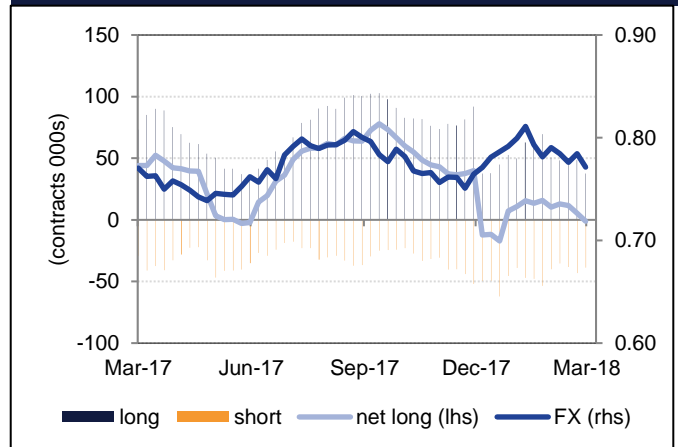
CFTC – Speculative Positions - CHF



CFTC – Speculative Positions - CAD



CFTC – Speculative Positions - AUD



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Emirates NBD Research & Treasury Contact List

Emirates NBD Head Office
12th Floor
Baniyas Road, Deira
P.O.Box 777
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

Aditya Pugalia
Director, Financial Markets Research
+9714 230 7802
adityap@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

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