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FX Week

The dollar was mixed last week with the DXY index ending it with minimal gains at 99.712 after last week's closing price of 99.482. The JPY and the GBP gained slightly against the USD while the EUR softened, with declining volatility a function of improving risk appetite. Developed market equities extended their gains from the previous week as investors held onto views that more countries will soon begin to relax economic restrictions with President Trump recently giving "guidelines" to governors on reopening state economies. Reports of some progress in finding a coronavirus treatment also supported investor sentiment. The key area to look out for will once again be the 100.00 resistance level, but the USD may struggle to overcome it if the markets continue to perceive that progress is being made in terms of tackling the virus, and relaxing the lockdowns, even as prominent states like New York are at least a month away from reopening, and despite the economic data continuing to weaken sharply.

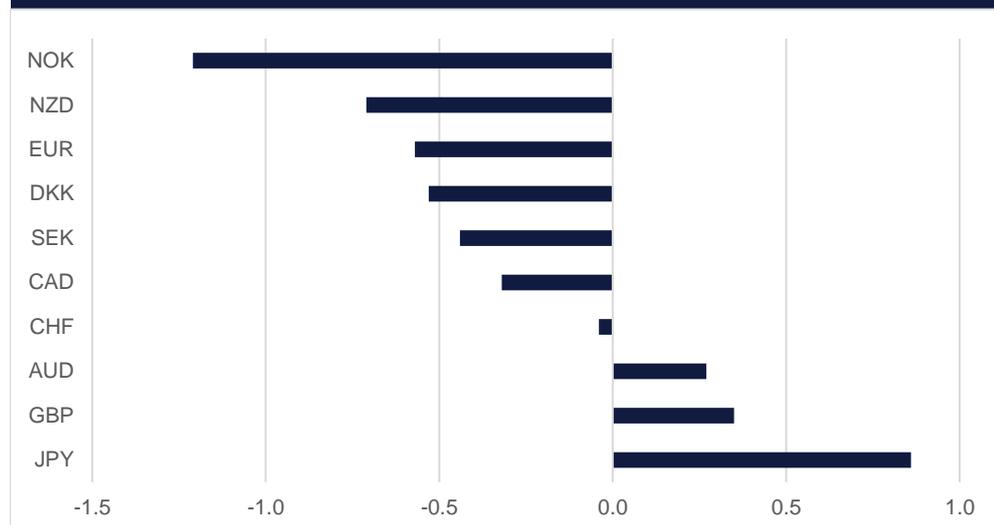
Last week saw US economic indicators such as industrial production, housing starts, business surveys and retail sales all reveal monthly declines that are at, or near, record lows. US initial jobless claims over the past four weeks reached 22 million, or nearly 15% of the US workforce, effectively wiping out all the US employment gains since the end of the last US recession in December 2009.

The coming week will see more dismal news economically as well as on the earnings front. As highlighted in our Equity Weekly, blended earnings growth at the end of last week came in at -14.5% according to Factset. If this rate of decline holds, then this will be the largest y/y decline in earnings since Q3 2009. The main U.S. economic data in the coming week will be the flash Markit PMI readings for April, which will be the first indicator of national economic activity over a month since the lockdowns began, with the service sector expected to perform particularly badly. March durable goods orders are also expected to fall sharply, with the consensus expectation being for a drop of -12.0%.

The EUR was little changed against the dollar, but it fell 0.57% last week reflecting disappointment that the EU had failed to come up with a way of joint funding the initiatives announced to support the hardest hit EU economies. The EU Council will meet again this week to discuss this issue, but the focus will also be on the first business surveys for April, including the flash Markit PMI readings, the German IFO and ZEW indices and EU consumer confidence for the month. All are expected to reveal deteriorating sentiment which will continue to weigh on the EUR at a time when markets doubt the cohesion of the EU response to the pandemic.

GBP only managed to eke out a small gain of 0.35% against the USD last week as doubts also circled about the UK's response to the virus, and over the timeline for the UK economy being reopened. The UK government confirmed that lockdown measures will be maintained until at least the 7th May.

Weekly currency movement vs USD (%)



Source: Bloomberg, Emirates NBD Research

Brexit also remains a weight around GBP with the UK government arguing last week that pandemic has strengthened the need or the UK to be free of EU regulation after 2020, emphasizing that there will not be any extension to the post-Brexit transition which expires at the end of the year adding another layer of uncertainty. UK PMI data for April as well as March retail sales in the coming week can both be expected to be disappointing adding to the GBP's difficulties in rallying much further.

USDJPY declined last week but met support at the 107.00 region, finishing at 107.54, marking a -0.85% drop from the prior week's closing price. The JPY's resilience is testimony to the remaining level of uncertainty particularly in Asia where coronavirus cases are still resurfacing, which is to some extent in contrast to the optimism being felt elsewhere and in markets more generally.

FX Forecasts

| FX Forecasts – Major | | | | | Forwards | | | |
|----------------------|---------|---------|---------|---------|----------|---------|---------|---------|
| | 17-Apr | Q2 2020 | Q3 2020 | Q4 2020 | | 3m | 6m | 12m |
| EURUSD | 1.0875 | 1.0500 | 1.1000 | 1.1200 | | 1.0900 | 1.0925 | 1.0980 |
| USDJPY | 107.54 | 107.00 | 110.00 | 112.00 | | 107.32 | 107.08 | 106.54 |
| USDCHF | 0.9666 | 0.9600 | 1.0000 | 1.0000 | | 0.9637 | 0.9607 | 0.9540 |
| GBPUSD | 1.2499 | 1.2000 | 1.3000 | 1.3500 | | 1.2507 | 1.2511 | 1.2517 |
| AUDUSD | 0.6366 | 0.6000 | 0.6000 | 0.5900 | | 0.6367 | 0.6367 | 0.6367 |
| NZDUSD | 0.6035 | 0.6000 | 0.5800 | 0.5800 | | 0.6031 | 0.6026 | 0.6018 |
| USDCAD | 1.4001 | 1.400 | 1.3800 | 1.3500 | | 1.3990 | 1.3980 | 1.3970 |
| EURGBP | 0.8695 | 0.8750 | 0.8462 | 0.8296 | | 0.8710 | 0.8727 | 0.8766 |
| EURJPY | 116.95 | 112.35 | 121.00 | 125.44 | | 116.95 | 116.95 | 116.95 |
| EURCHF | 1.0520 | 1.008 | 1.1000 | 1.1200 | | 1.0512 | 1.0503 | 1.0483 |
| | | | | | 3.7503 | | | |
| | 17-Apr | Q2 2020 | Q3 2020 | Q4 2020 | | 3m | 6m | 12m |
| SAR | 3.7571 | 3.7500 | 3.7500 | 3.7500 | | 3.7615 | 3.7638 | 3.7735 |
| AED | 3.6731 | 3.6730 | 3.6730 | 3.6730 | | 3.6752 | 3.6775 | 3.6822 |
| KWD | 0.3118 | 0.3020 | 0.3020 | 0.3020 | | 0.3118 | 0.3124 | - |
| OMR | 0.3851 | 0.3850 | 0.3850 | 0.3850 | | 0.3886 | 0.3929 | 0.4030 |
| BHD | 0.3778 | 0.3770 | 0.3770 | 0.3770 | | 0.3777 | 0.3777 | 0.3777 |
| QAR | 3.6614 | 3.6400 | 3.6400 | 3.6400 | | 3.6643 | 3.6623 | 3.6588 |
| EGP | 15.7463 | 15.7500 | 16.0000 | 16.0000 | | 16.3500 | 16.9400 | 18.2300 |
| INR | 76.404 | 75.000 | 73.000 | 71.000 | | 78.0400 | 78.8900 | 80.4200 |
| CNY | 7.0737 | 7.2000 | 7.2000 | 7.2000 | | 7.0885 | 7.1035 | 7.1355 |
| SGD | 1.4231 | 1.40 | 1.40 | 1.35 | | 1.4210 | 1.4201 | 1.4197 |
| | | | | | 3.7503 | | | |
| | 17-Apr | Q2 2020 | Q3 2020 | Q4 2020 | | | | |
| MAD | 10.1985 | 10.5000 | 10.5000 | 10.0000 | | 10.2246 | 10.2501 | 10.3122 |
| TND | 2.8927 | 3.0000 | 3.2000 | 3.0000 | | 2.9627 | 3.0377 | 3.1527 |
| TRY | 6.9294 | 6.9000 | 7.0000 | 6.7000 | | - | - | - |

Source: Bloomberg, Emirates NBD Research
 *Denotes USD peg

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