



بنك الإمارات دبي الوطني
Emirates NBD

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FX Week

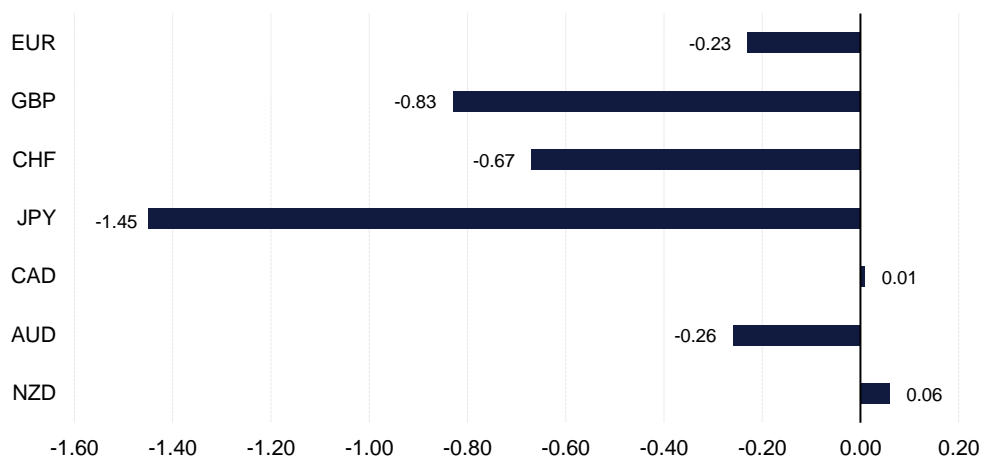
Dollar softens in Q1

Holidays in the UK, Europe and many other parts of the world will dominate at the start of the week, reducing activity and liquidity across markets. The dollar had a stronger end to last week than at the start, recovering from its early week lows as the quarter-end helped sentiment, even as the Chicago PMI data and the Michigan consumer sentiment data were disappointing. In particular GBPUSD dropped sharply back to 1.40 from highs of 1.4250 seen at the beginning of last week. However, over the quarter as a whole the USD lost value, marking its fifth quarterly decline. Beyond the holidays the short term macro focus in the week ahead will be on PMI activity indicators, while US payrolls figures at the end of the week will be the highlight and inflation data will also feature. However, FX market reactions may be driven more by policy messages and politics rather than specific data points, with the overhang from weak equities and bond markets during the quarter also a likely factor, especially with technology companies still under a cloud. The Q1 earnings season looms next week as a near-term influence, with Fed Chair Powell due to speak on the economic outlook towards the end of this week and central bank decisions due in India and Australia.

EUR eyes inflation data

EURUSD ended the quarter at 1.2324, down from early week highs close to 1.25, and only a little above our 1.22 end-Q1 forecast. Quarter-end dollar repatriation was rumored to have been a factor, and suggests that the EUR will face more consolidation before being able to break out of its current 1.20-1.25 range. The ECB has started to signal a rate hike for next year, which suggests that asset purchases will be phased out later this year, although Draghi may wait until July before indicating this. This week's data highlight is the preliminary Eurozone HICP inflation reading for March (Wednesday), where an acceleration in the headline rate to 1.4% y/y is expected from 1.2% y/y in the previous month, and nudge higher in core CPI to 1.1% from 1.0%. Meanwhile final PMI readings are likely to confirm the marked dip in confidence seen in recent weeks on the back of heightened trade tensions and geopolitical uncertainty.

Weekly currency movement vs USD (%)



Source: Bloomberg, Emirates NBD Research

Currently, the Dollar Index is trading at 89.974, after posting a 0.60% gain last week and breaking back above the 50 day moving average (89.74). This appreciation in the index has nullified most of the losses of the previous week and leaves the price testing the resistive trend line that has halted advances since 15 December 2017. A sustained break of this level (90.01) is required in order for USD to realize and hold onto further gains.

DXY breaks back above 50 day MA to test trend

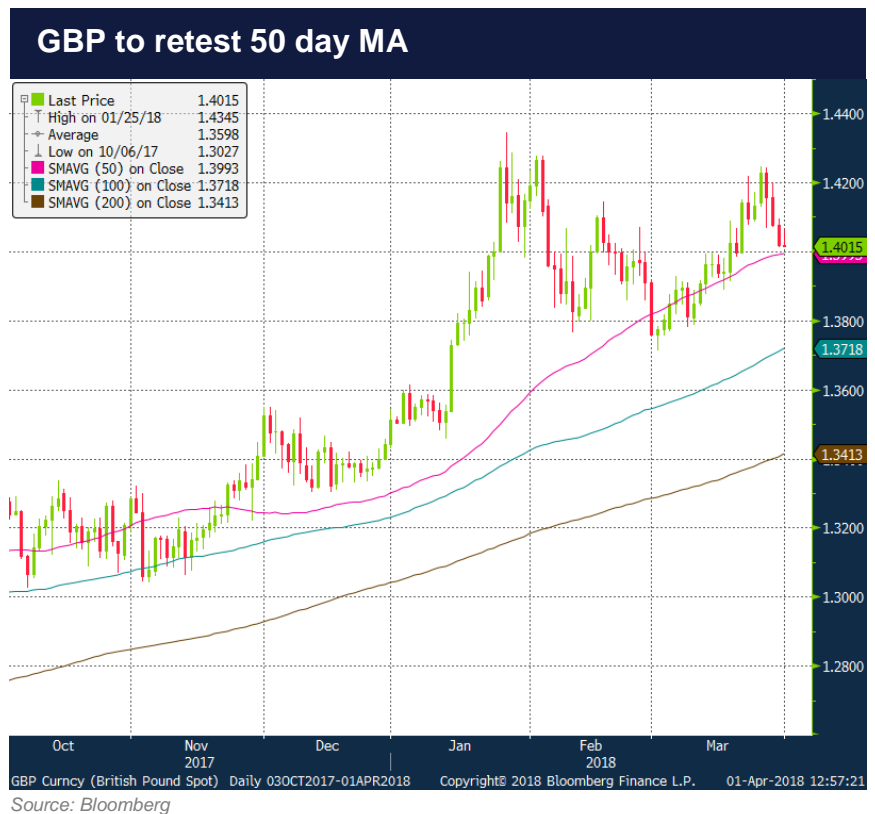


Source: Bloomberg

GBP steadies above 1.40

Meanwhile GBPUSD declined for a third straight day and made an eight-day low of 1.4035 on Friday. Month and quarter-end demand in EURGBP was partly responsible as is often the case at this time of year. Final Q4 GDP came in unrevised at 0.4% q/q and 1.5% y/y, while monthly lending figures from the BoE were mixed. London markets will reopen on Tuesday after the four-day Easter weekend, with Markit PMI data likely to be the highlight with slightly softer readings expected. Sterling markets are factoring in about 80% likelihood of a 25bp rate hike at the May Monetary Policy Committee meeting, which will coincide with the BOE's next release of its quarterly inflation report.

Currently, GBPUSD looks to test a key support level at the 50 day moving average (1.3993), a level which has held since breached on 12 March 2018. Should this level hold, further gains towards 1.42 can be expected. However, should it break additional declines towards 1.38 can be expected.



JPY strength a theme in Q1

The JPY had its best quarter since mid-2016 benefiting from speculation of an end to Japan’s stimulus policies as a well as safe haven demand in a quarter that saw stock market losses. USD.JPY dropped 5.8% over the quarter, although in line with other currency pairs it recovered a little into the end of the quarter to finish above 106, from a 16-month low of 104.56 recorded a week ago. The Q1 Tankan report is expected to show an unchanged 26 reading for large manufacturers, and an unchanged 25 outcome for large non-manufacturers. The risk is for a slightly weaker report given the bearish impact of the firmer yen, and worries over protectionism and a global trade war. However, the March Nikkei/Markit manufacturing PMI is expected to rise to 54.3 (the March preliminary reading was 53.2) versus the 54.1 final February reading.

Rate decisions in India and Australia

Elsewhere in Asia the official China manufacturing PMI rose to 51.5 in March from 50.3, while the services PMI rose to 54.6 from 54.4, leaving the composite reading also stronger at 54.0 from 52.9. It will be interesting to see if this strength carries over to the Caixin/Markit version released on Monday, especially in view of the concerns over trade generated by Donald Trump last month. India’s RBI meets on Thursday to set policy, with rates seen holding steady at 6.00%. The rate has been on hold since the 25bp easing on August 2 last year, although the RBI turned more hawkish in February, firming up its growth outlook to a 6.6% y/y pace for 2018. Finally from a policy perspective the RBA is also expected to maintain rates at 1.50% but the statement may allude to an eventual tightening. The AUD finished last quarter only a fraction above our 0.76 forecast, and in the context of a relatively passive RBA and further Fed rate hikes the likelihood is that it will remain somewhat heavy.

FX Forecasts

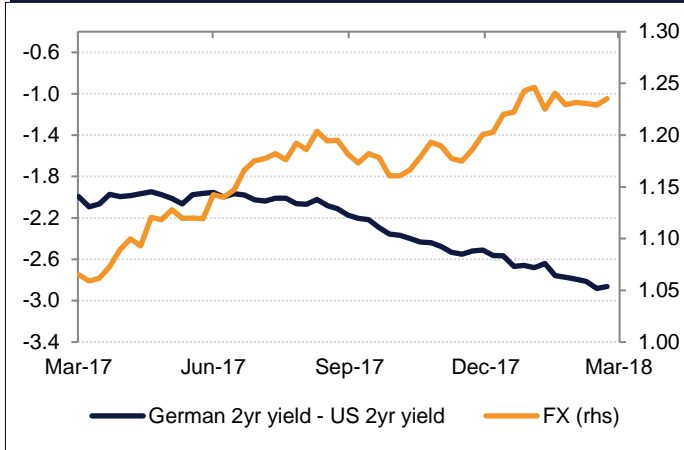
FX Forecasts - Major						Forwards		
	30-Mar	Q2 2018	Q3 2018	Q4 2018	Q1 2019	3m	6m	12m
EUR	1.2324	1.2500	1.2700	1.2700	1.2800	1.2409	1.2499	1.2699
JPY	106.28	105.00	108.00	108.00	110.00	105.63	104.94	103.40
CHF	0.9540	0.9800	0.9800	0.9800	0.9800	0.9465	0.9387	0.9223
GBP	1.4015	1.4200	1.4500	1.4500	1.4800	1.4070	1.4123	1.4236
AUD	0.7679	0.7600	0.7700	0.7800	0.7800	0.7681	0.7686	0.7701
NZD	0.7237	0.7200	0.7200	0.7200	0.7200	0.7235	0.7235	0.7242
CAD	1.2900	1.2600	1.2600	1.2600	1.2600	1.2878	1.2857	1.2819
EURGBP	0.8791	0.8803	0.8759	0.8759	0.8649	0.8817	0.8848	0.8918
EURJPY	130.97	131.25	137.16	137.16	140.80	130.97	130.97	130.97
EURCHF	1.1754	1.2250	1.2446	1.2446	1.2544	1.1742	1.1730	1.1709

FX Forecasts - Emerging						Forwards		
	30-Mar	Q2 2018	Q3 2018	Q4 2018	Q1 2019	3m	6m	12m
SAR	3.7501	3.7500	3.7500	3.7500	3.7500	3.7500	3.7506	3.7537
AED	3.6729	3.6730	3.6730	3.6730	3.6730	3.6737	3.6746	--
KWD	0.2997	0.3020	0.3020	0.3020	0.3020	0.2982	0.2976	--
OMR	0.3850	0.3850	0.3850	0.3850	0.3850	0.3855	0.3864	0.3893
BHD	0.3771	0.3770	0.3770	0.3770	0.3770	0.3773	0.3762	0.3792
QAR	3.6571	3.6400	3.6400	3.6400	3.6400	3.6735	3.6770	3.6850
EGP	17.6526	17.2500	17.2500	17.0000	17.0000	17.9900	18.3600	19.0525
INR	65.177	65.000	66.000	66.000	66.000	65.8400	66.5100	67.7500
CNY	6.2755	6.7000	6.9000	7.1000	7.1000	6.3545	6.3820	6.4360

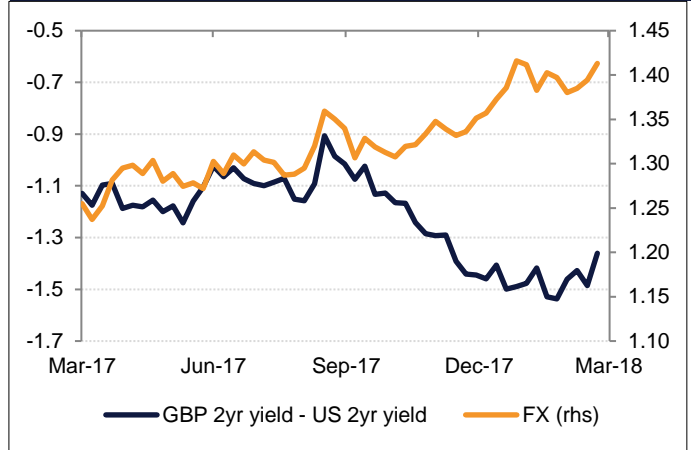
Source: Bloomberg, Emirates NBD Research
 *Denotes USD peg

Major FX and Nominal Interest Rates

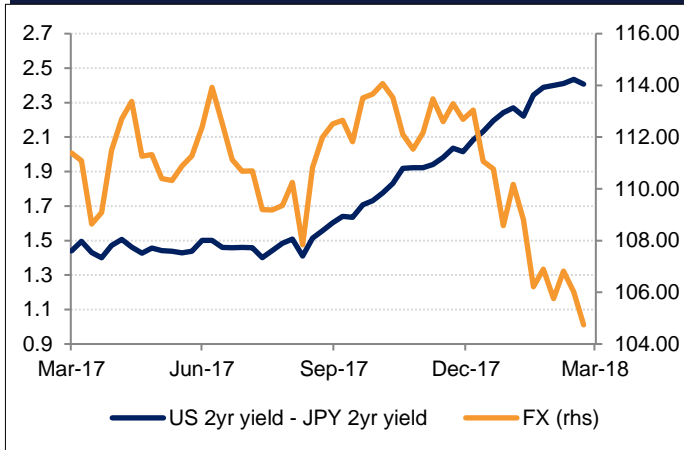
Interest Rate Differentials - EUR



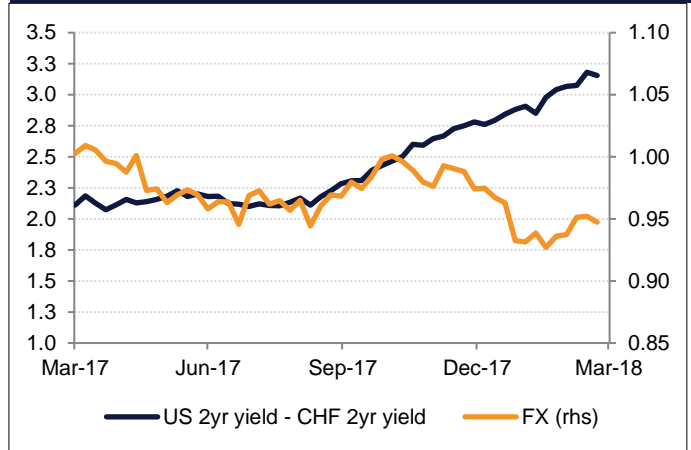
Interest Rate Differentials - GBP



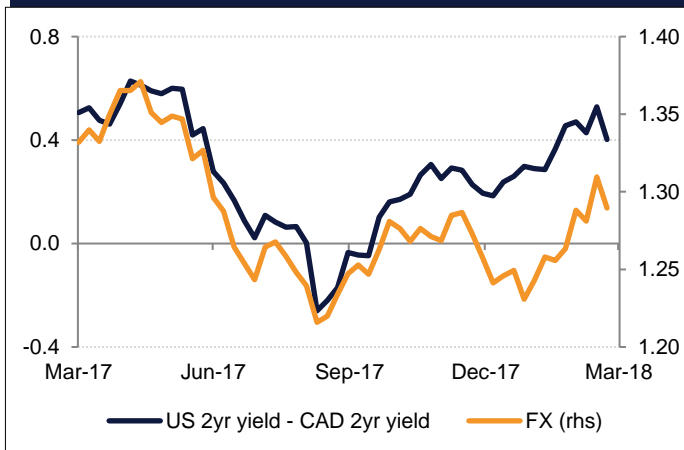
Interest Rate Differentials - JPY



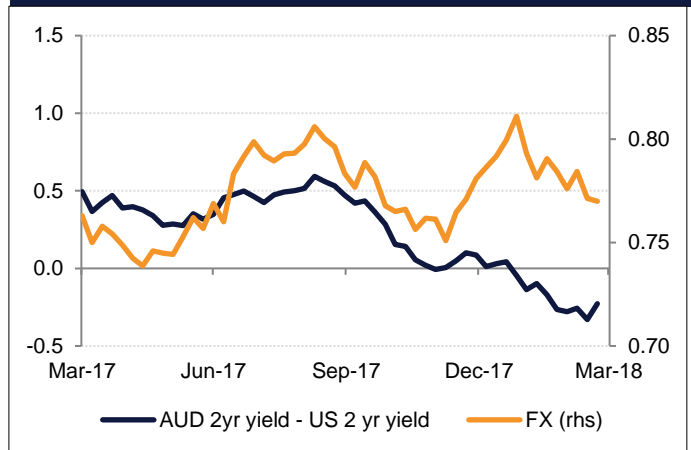
Interest Rate Differentials - CHF



Interest Rate Differentials - CAD

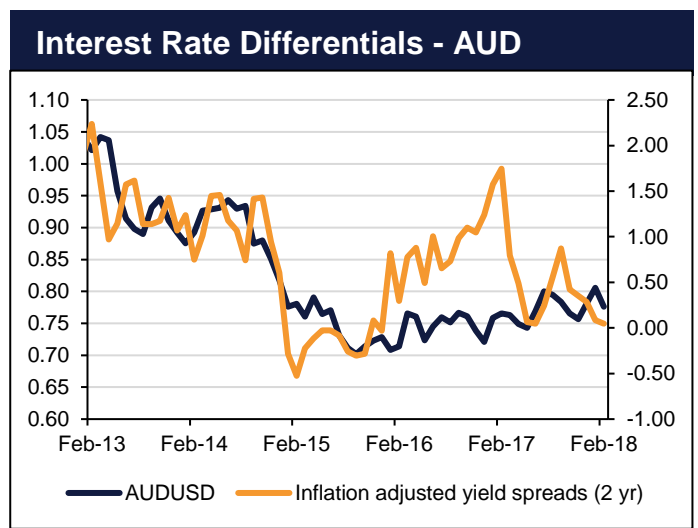
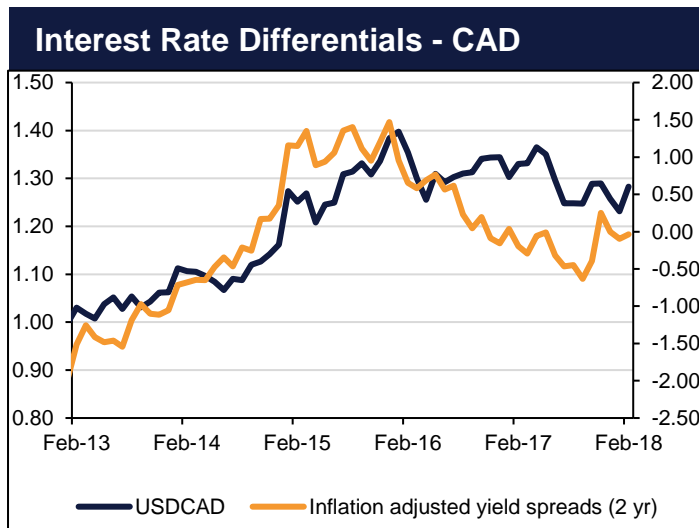
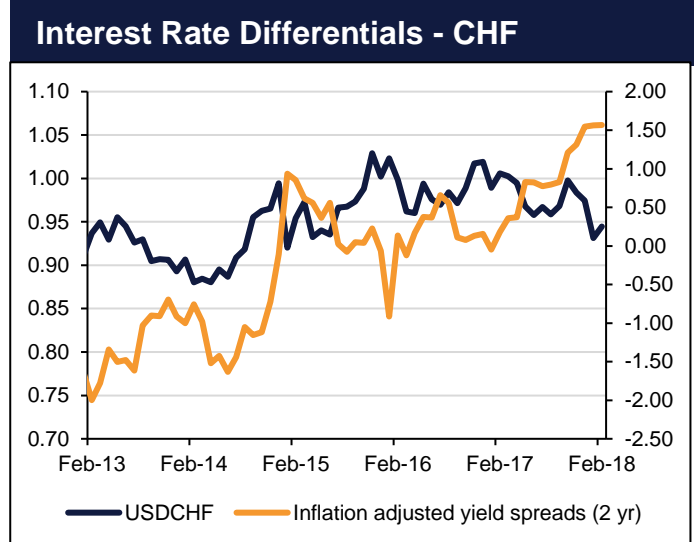
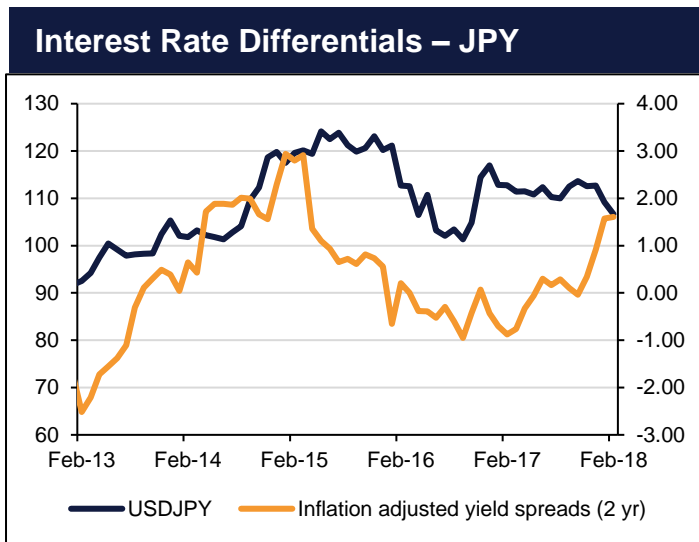
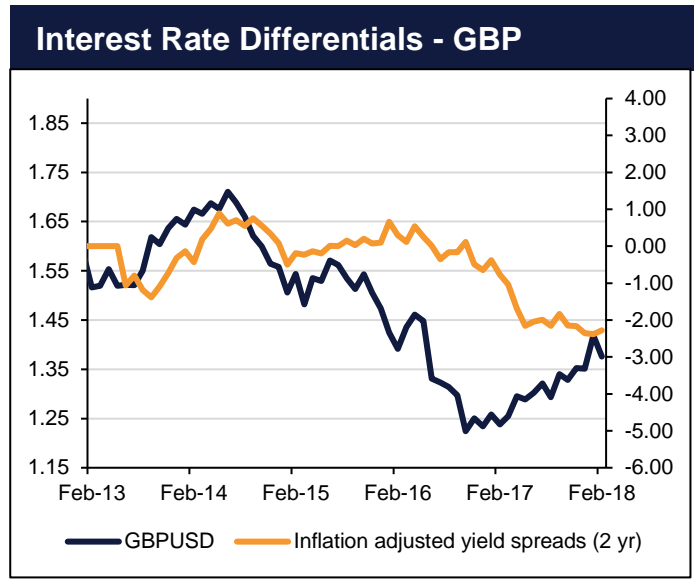
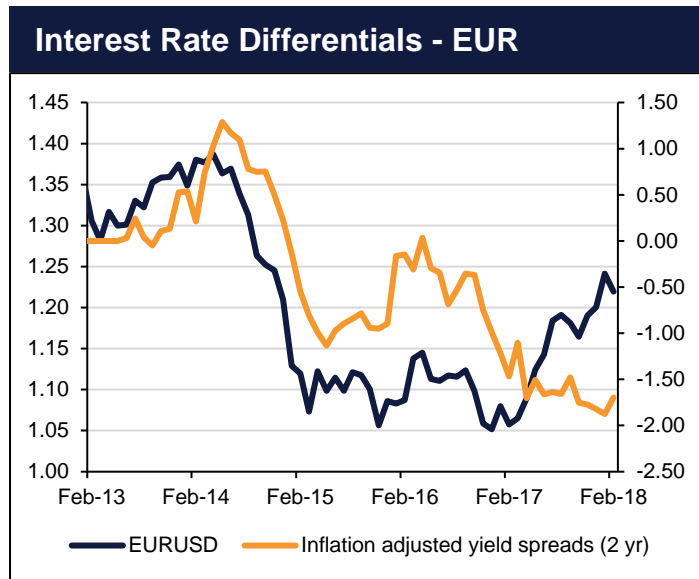


Interest Rate Differentials - AUD



Source: Bloomberg, Emirates NBD Research

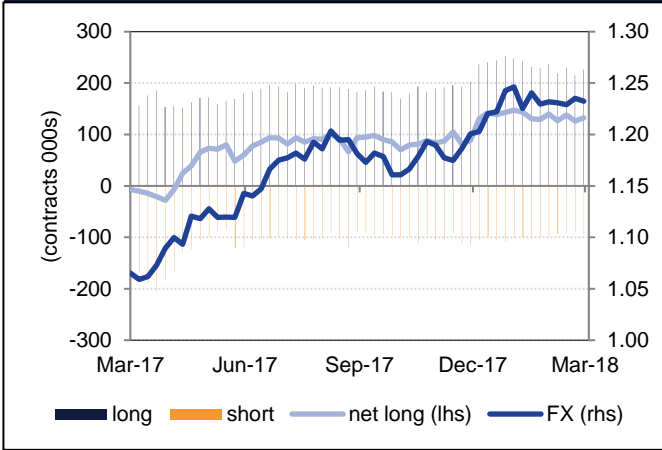
Major FX and Real Interest Rates



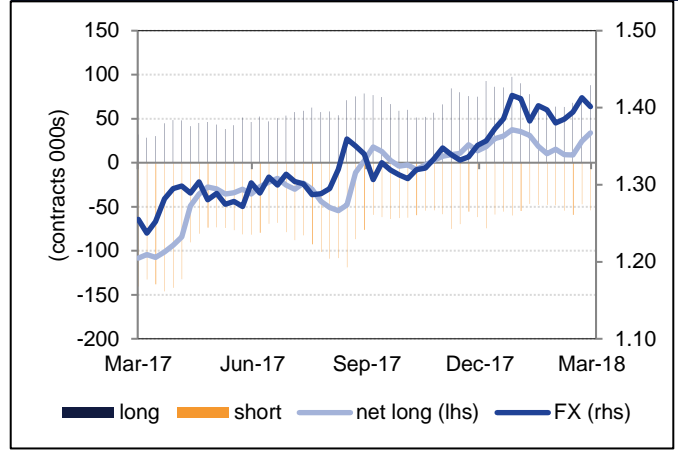
Source: Bloomberg, Emirates NBD Research

Major Currency Positions

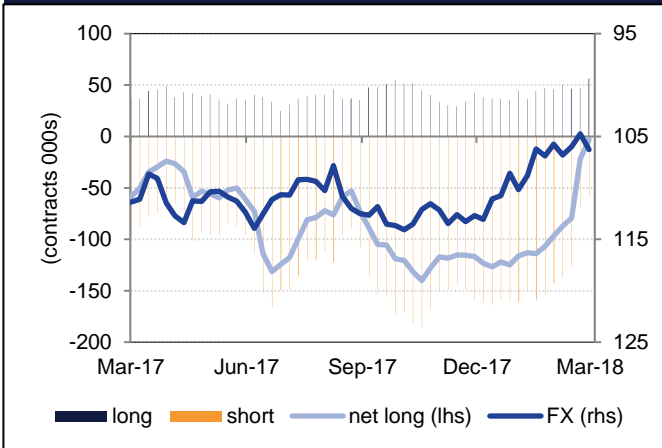
CFTC – Speculative Positions - EUR



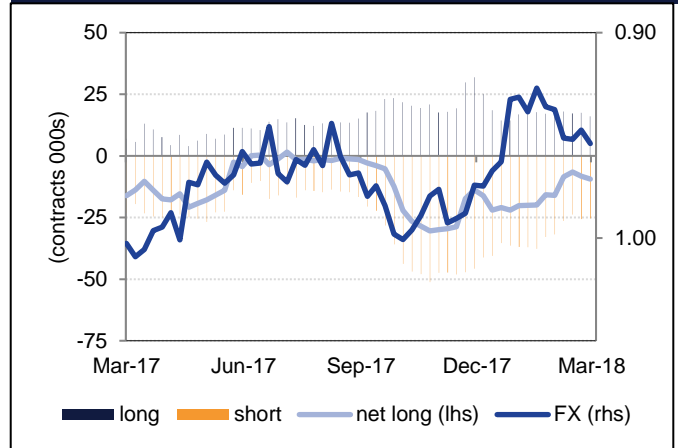
CFTC – Speculative Positions - GBP



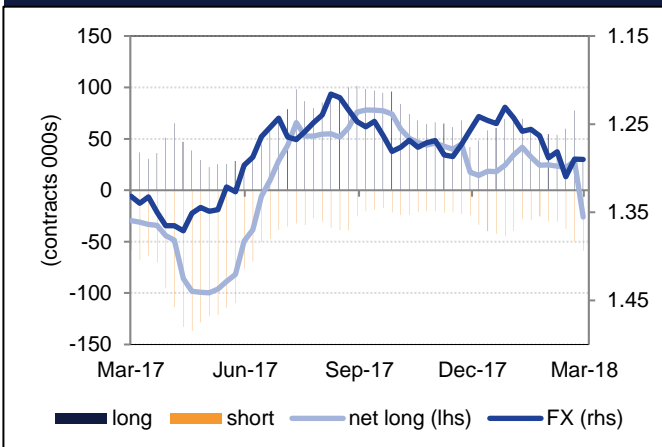
CFTC – Speculative Positions - JPY



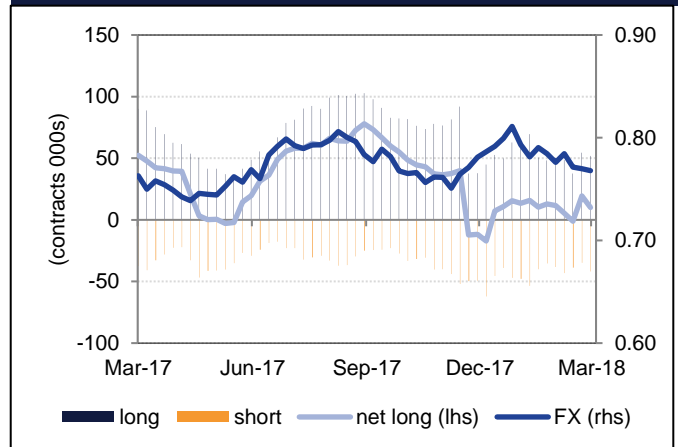
CFTC – Speculative Positions - CHF



CFTC – Speculative Positions - CAD



CFTC – Speculative Positions - AUD



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