



بنك الإمارات دبي الوطني
Emirates NBD

Weekly
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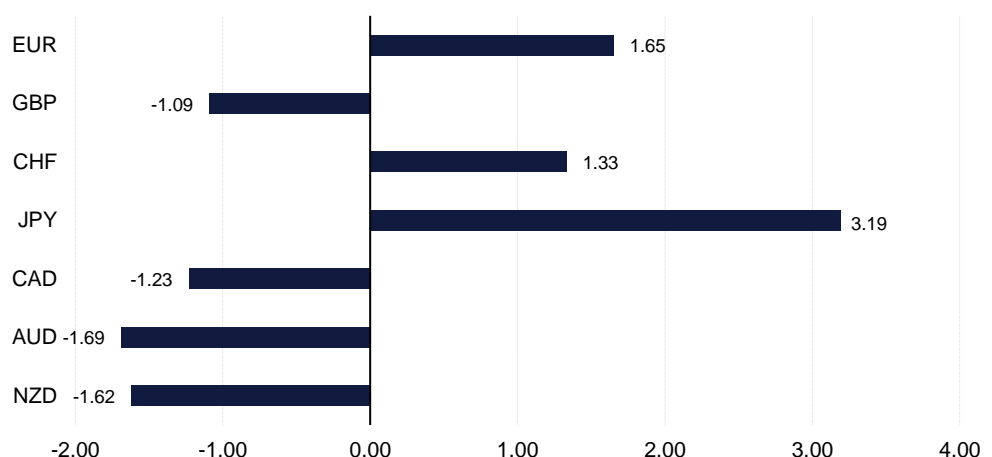
FX Week

Global markets endured a torrid week last week, centered on the deepening concerns over the effect of coronavirus on the world economy, and prompting speculation that policymakers will have little option but to respond via cuts to interest rates in addition to any potential easing in fiscal policy and of course to tackling the virus itself.

Stock markets plunged last week, catching up to some degree with the risk aversion that had already manifest itself in gold, currency and Treasury bond markets previously. The Dow fell by 12.3%, while the S&P dropped 11.49%, with other global indices falling by similar amounts, making it the worst week since the global financial crisis. Treasury bond yields also continued down to reach historic lows (10-year and 2-year at 1.148% and 0.913% respectively), while the dollar and gold finally succumbed to some rotation in risk aversion and margin calls, losing ground having earlier benefited from uncertainty. Needless to say the VIX index climbed sharply to almost reach 50, finishing the week at 40.1. The geographic spread of coronavirus was the most concerning aspect of it last week, even as the cases in China showed signs of slowing. Instead the focus turned to South Korea, Italy and Iran, where large outbreaks were seen carrying risks for neighboring countries as well as deepening the challenges for trade flows and supply chains. Towards the end of the week cases in the US were also gaining attention, as well as what were seen as inadequate responses from the White House. This contributed to a weaker tone for the USD which lost ground against the JPY and the EUR in particular, with the **JPY rallying against it by 3.45% over the whole week. GBP by contrast was held back by domestic political concerns in the UK, with a prominent senior resignation from the Home Office, as well as threats from the government that it may pull out of trade talks with the EU.**

Over the weekend there was news that the Chinese manufacturing PMI index fall to 35.7 in February, a record low, with the non-manufacturing index even weaker at 29.6. This probably sets the stage for a slew of other weak PMI readings around the world being released this month, which will continue to increase the pressure on governments and central banks to respond if only to inject some confidence into markets. Fed Chair Powell issued a statement noting that the U.S. economy is strong but that the virus poses risks, adding that the Fed will use its tools and act as appropriate. **Following on from this we think the odds are increasing that the Fed will cut rates by 25bps at the March 17/18 FOMC meeting, and we are also now assuming another move by the Fed around the middle of the year.** Whether other central banks will respond remains less clear, however, with the efficacy of an ECB move debatable with its key rate already negative at -0.50%, but with growth still sub-par. The coming week will see Bank of Canada and RBA policy meetings where easing decisions cannot be ruled out.

Weekly currency movement vs USD (%)



Source: Bloomberg, Emirates NBD Research

Technical Observations

EURUSD closes at four-week high

EURUSD rose by 1.66% last week to close at 1.1027, the highest weekly close in a month. Of note is that on Friday of last week, the price was able to break the 50-day moving average (1.1029) before encountering resistance at the 100-day moving average (1.1055) before retreating just below the former. In addition, while the price was able to momentarily breach the 38.2% one-year Fibonacci retracement (1.1034), the weekly close was below this level. A break and daily close above this level has the potential to catalyze a retest of the 100-day moving average. Should these developments be realized, the price could climb further towards the 1.12 level in the medium term.

GBPUSD fails at 100-day moving average

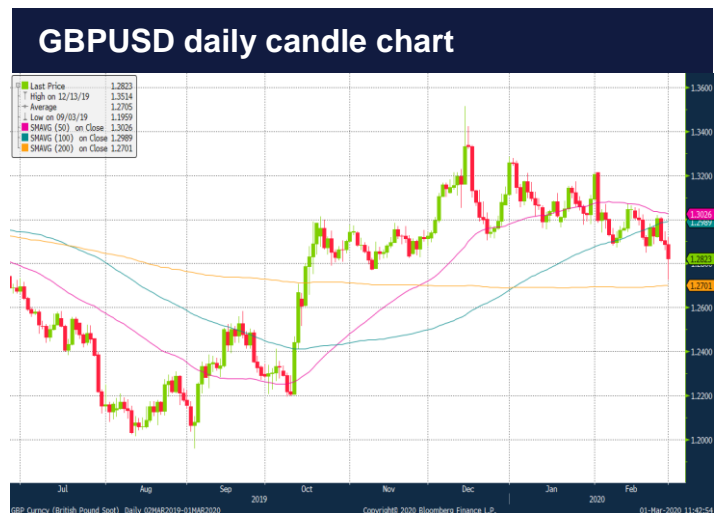
A fall of 1.13% last week took GBPUSD to 1.282, the lowest close of 2020. Over the course of the week, the price did manage a break and daily close above the 100-day moving average (1.2989), but was unable to hold onto these gains and finished the week lower. Analysis of the weekly candle chart shows that the 100-week moving average (1.2943) which provided support the previous week failed and it took support near the 50% one-year Fibonacci retracement (1.2736) to prevent further declines. With the 14-day RSI (Relative Strength Index) showing bearing momentum, the downside risks for GBPUSD remain in the short-term. As a result of this should the 50-week moving average break in the week ahead (1.2769), we can expect further pressure on the price.

USDJPY plummets by more than 3%

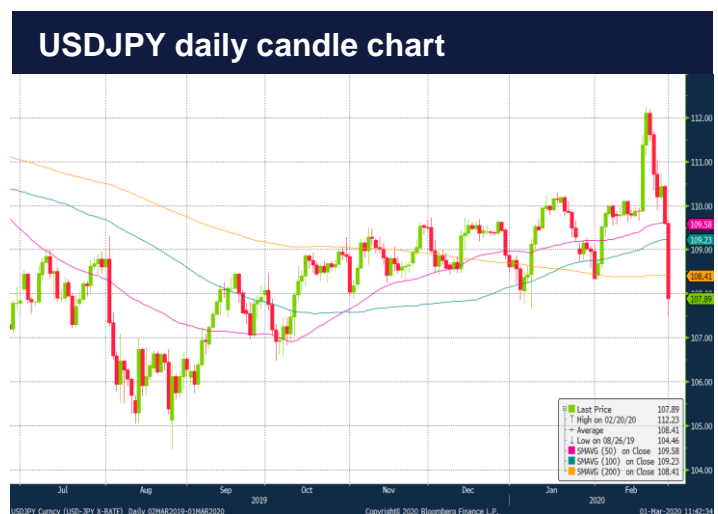
A 3.13% loss took USDJPY from 111.61 to 108.11 over the last five trading days. The daily candle chart shows that the 50-day moving average (109.58) was breached on Thursday. With this level acting as a resistance level on Friday, the price quickly fell below both the 100-day and 200-day moving averages in quick succession (109.23 and 108.41 respectively). In addition to this both the 61.8% one-year Fibonacci retracement (109.37) and the 50% one-year Fibonacci retracement (108.43) failed to prevent further declines. Finally the breaking of and weekly close below the 50-week (108.80), 100-week (109.85) and 200-week (109.69) moving averages are bearish for the price. Should we see a daily close below 107.50, not far from the 38.2% one-year Fibonacci retracement (107.49), it could trigger a larger decline towards the 105 level.



Source: Bloomberg



Source: Bloomberg



Source: Bloomberg

FX Forecasts

FX Forecasts – Major						Forwards		
	28-Feb	Q1 2020	Q2 2020	Q3 2020	Q4 2020	3m	6m	12m
EURUSD	1.1026	1.1200	1.1400	1.1500	1.1700	1.1084	1.1133	1.1227
USDJPY	107.89	110.00	108.00	107.00	107.00	107.39	106.97	106.15
USDCHF	0.9649	0.9500	0.9400	0.9300	0.9300	0.9590	0.9539	0.9442
GBPUSD	1.2823	1.3300	1.3600	1.4000	1.4400	1.2852	1.2871	1.2904
AUDUSD	0.6515	0.6700	0.6850	0.7000	0.7100	0.6527	0.6536	0.6549
NZDUSD	0.6246	0.6500	0.6600	0.6700	0.6700	0.6251	0.6254	0.6255
USDCAD	1.3407	1.3250	1.3200	1.3000	1.2800	1.3408	1.3411	1.3421
EURGBP	0.8603	0.8421	0.8382	0.8214	0.8125	0.8629	0.8654	0.8705
EURJPY	118.99	123.20	123.12	123.05	125.19	118.99	118.99	118.99
EURCHF	1.0646	1.0640	1.0716	1.0695	1.0881	1.0637	1.0627	1.0607
FX Forecasts - Emerging						3m	6m	12m
	28-Feb	Q1 2020	Q2 2020	Q3 2020	Q4 2020			
SAR	3.7517	3.7500	3.7500	3.7500	3.7500	3.7513	3.7516	3.7544
AED	3.6730	3.6730	3.6730	3.6730	3.6730	3.6738	3.6748	3.6767
KWD	0.3058	0.3020	0.3020	0.3020	0.3020	0.3069	0.3073	--
OMR	0.3851	0.3850	0.3850	0.3850	0.3850	0.3854	0.3861	0.3880
BHD	0.3770	0.3770	0.3770	0.3770	0.3770	0.3772	0.3773	0.3776
QAR	3.6662	3.6400	3.6400	3.6400	3.6400	3.6659	3.6664	3.6667
EGP	15.6373	15.7500	15.7500	15.5000	15.5000	15.9050	16.2450	16.9650
INR	72.175	72.000	71.000	70.000	68.000	72.2600	72.9400	74.3800
CNY	6.9920	7.1000	7.2000	7.2000	7.2000	7.0352	7.0527	7.0866
SGD	1.3932	1.3500	1.3300	1.3100	1.3000	1.3986	1.3981	1.3972
FX Forecasts - MENA						3.7503		
	28-Feb	Q1 2020	Q2 2020	Q3 2020	Q4 2020			
MAD	9.7415	9.5000	9.5000	9.4000	9.4000			
TND	2.8692	2.8000	2.8000	2.7000	2.7000			
TRY	6.0885	6.0000	6.2000	6.2000	6.3000			

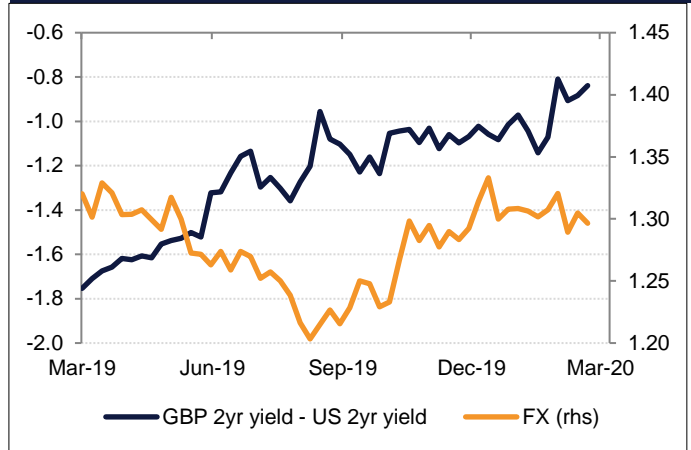
Source: Bloomberg, Emirates NBD Research
 *Denotes USD peg

Major FX and Nominal Interest Rates

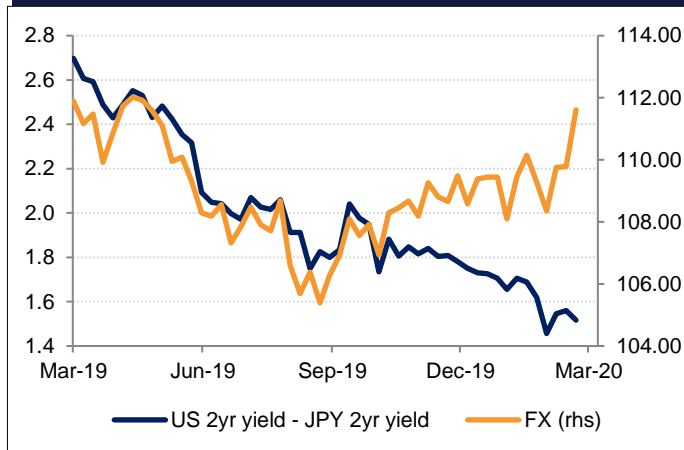
Interest Rate Differentials - EUR



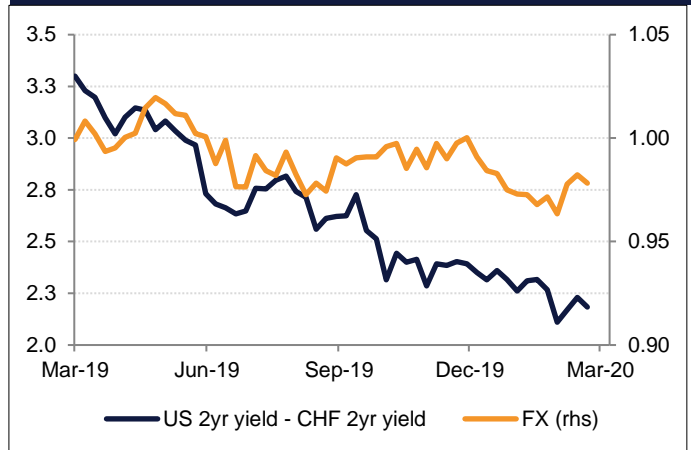
Interest Rate Differentials - GBP



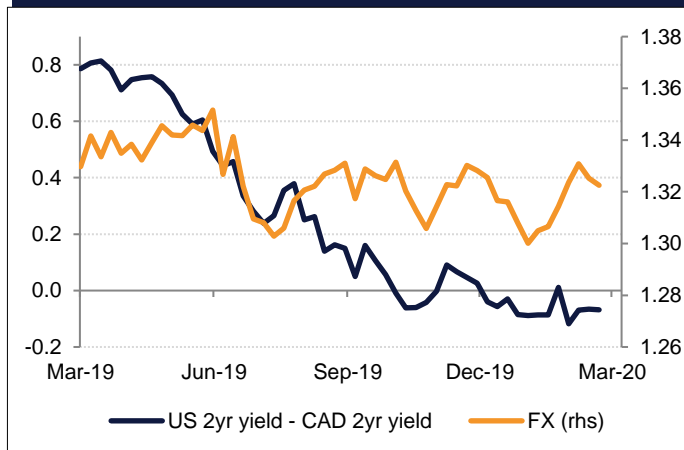
Interest Rate Differentials - JPY



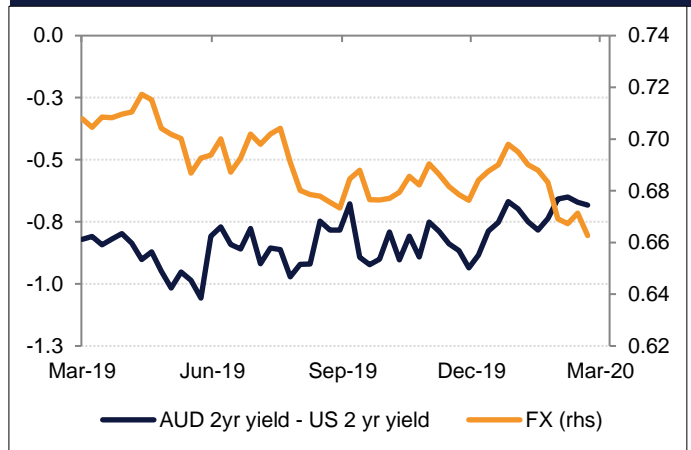
Interest Rate Differentials - CHF



Interest Rate Differentials - CAD



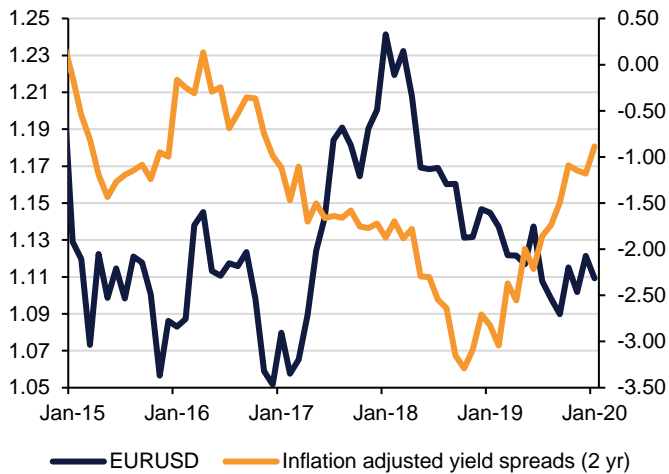
Interest Rate Differentials - AUD



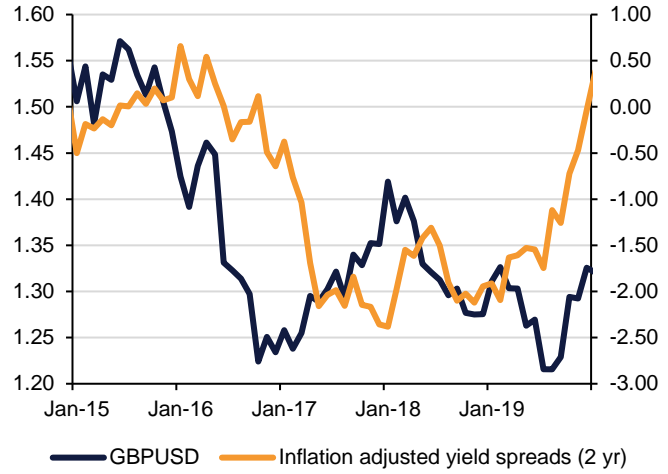
Source: Bloomberg, Emirates NBD Research

Major FX and Real Interest Rates

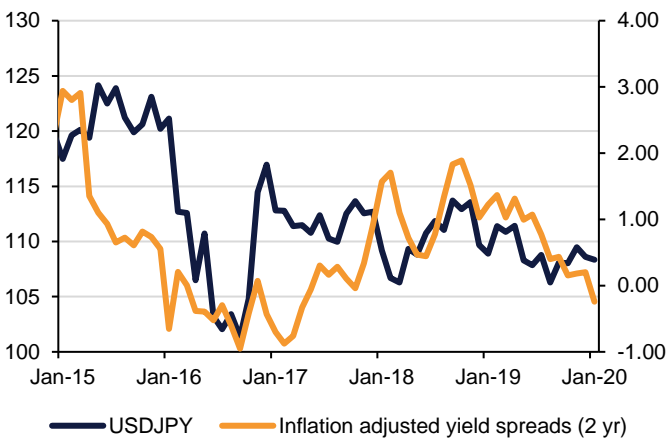
Interest Rate Differentials - EUR



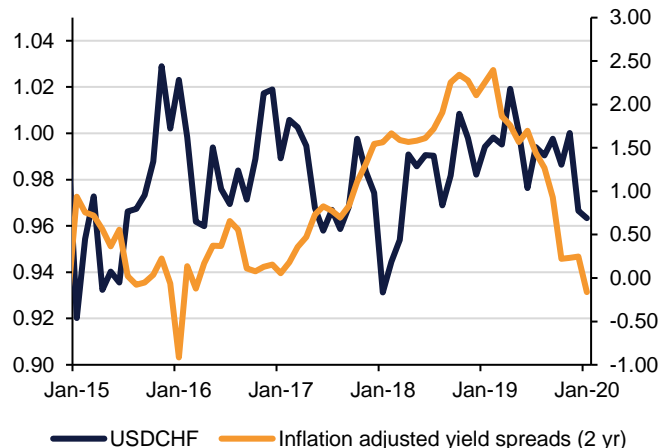
Interest Rate Differentials - GBP



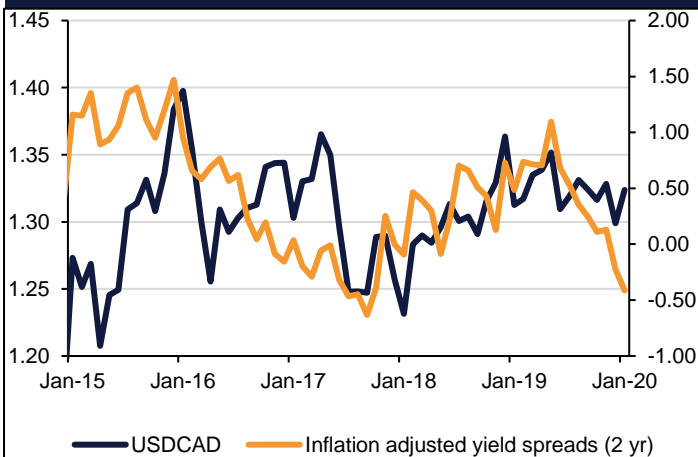
Interest Rate Differentials - JPY



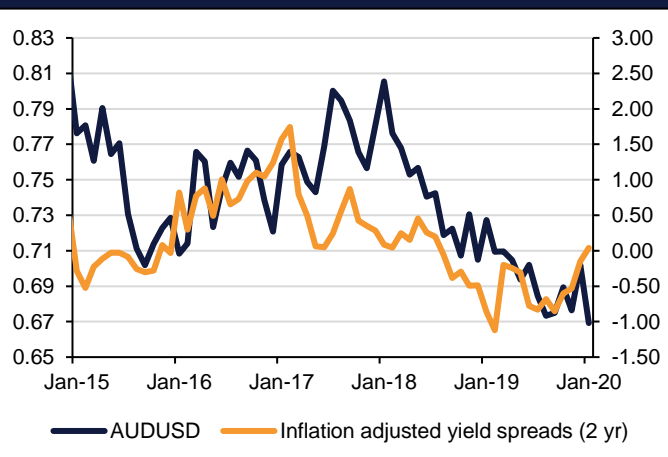
Interest Rate Differentials - CHF



Interest Rate Differentials - CAD



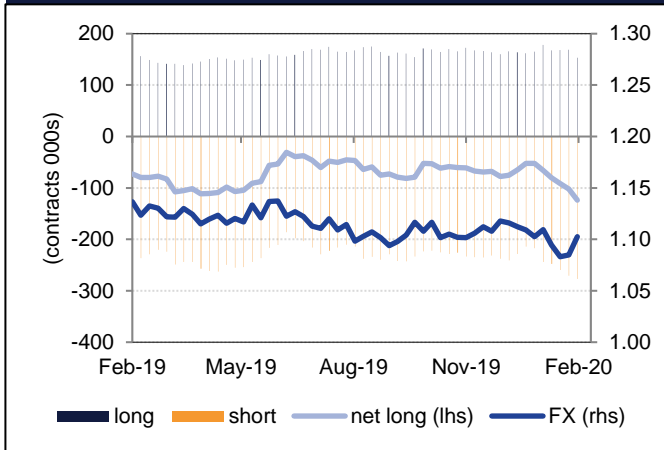
Interest Rate Differentials - AUD



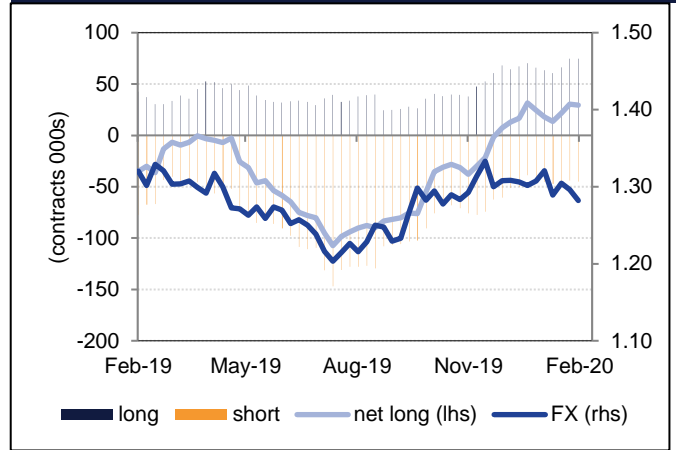
Source: Bloomberg, Emirates NBD Research

Major Currency Positions

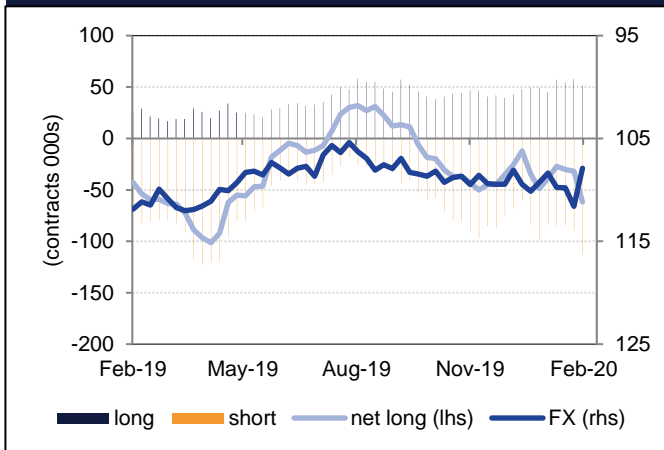
CFTC – Speculative Positions - EUR



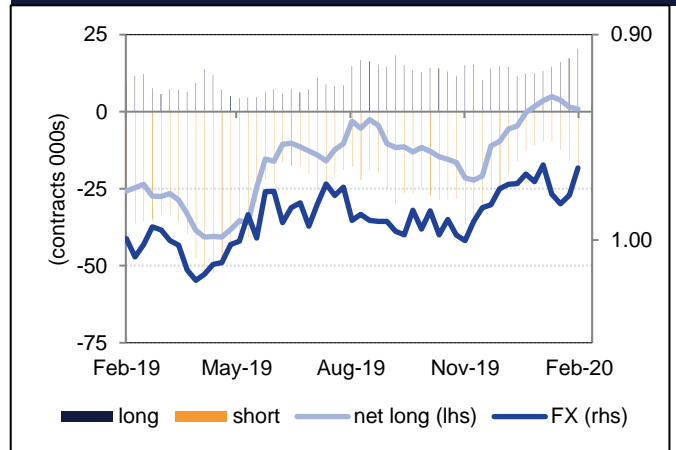
CFTC – Speculative Positions - GBP



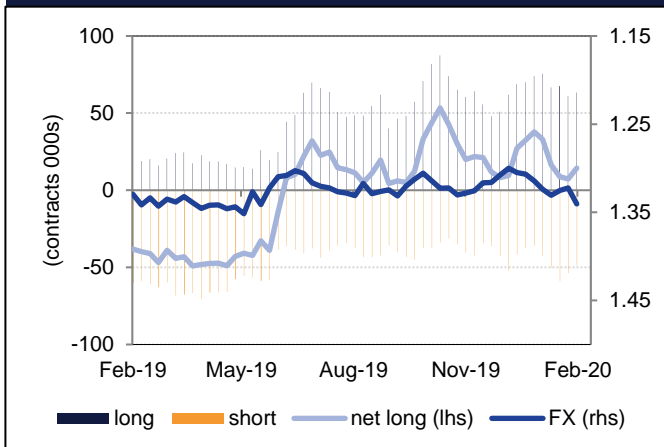
CFTC – Speculative Positions - JPY



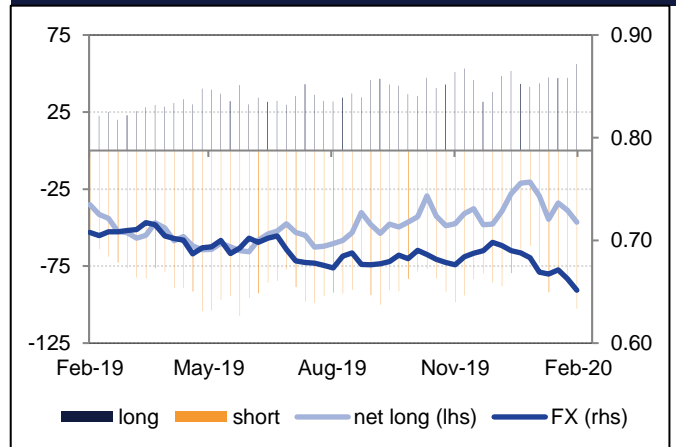
CFTC – Speculative Positions - CHF



CFTC – Speculative Positions - CAD



CFTC – Speculative Positions - AUD



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