



بنك الإمارات دبي الوطني
Emirates NBD

Weekly
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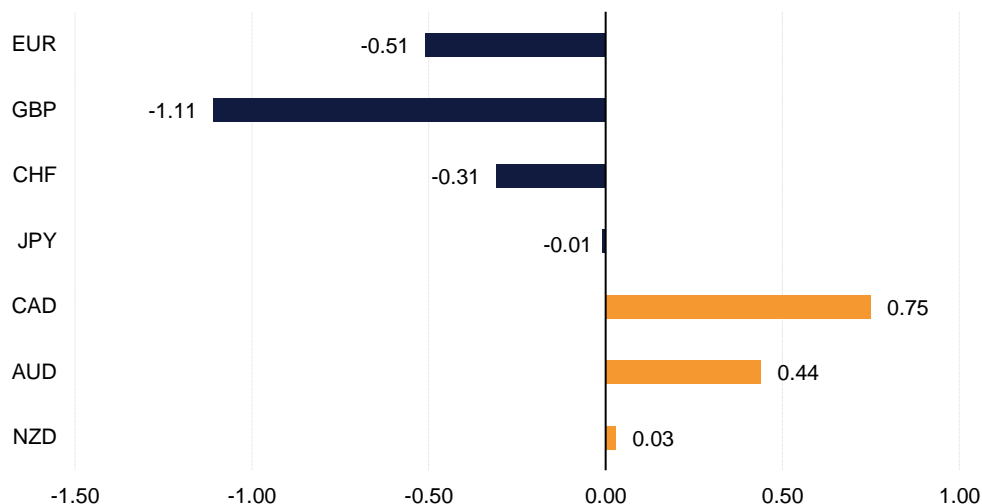
FX Week

After another week dominated by political uncertainty, the markets will pivot back to central banking in the coming one with the Jackson Hole symposium taking place at the end of it. The theme of this year's gathering will be 'Fostering a Dynamic Global Economy' and it will feature two key speeches by Fed Chair Yellen and ECB President Draghi. Yellen may discuss the balance sheet unwinding which is expected to be announced next month, and she may also comment on the softer trend in inflation, but she is likely to keep her options open regarding interest rates. The recent mood amongst central bankers about policy tightening has become a little bit more circumspect, causing bond yields to remain heavy, and investors may be disappointed if they expect overt signals about when further monetary tightening might occur.

Dollar whipsaws amidst uncertainty

The dollar continues to be whipsawed by political developments in the US as the departure of Steve Bannon, one of the more controversial advisors to President Donald Trump, was received initially as an opportunity for more establishment figures to have a greater influence over policy making and rhetoric. However, that sentiment had ebbed by the end of the day and US assets generally closed the day in risk-off positions with a weaker dollar, lower Treasury yields and a declining equity market. Despite the removal of Bannon, whose policy positions on trade and diplomacy appeared anathema to establishment Republicans, there are still major challenges for the administration to build bridges with Congress in time to approve a budget and raise the debt ceiling and a general loss of faith from corporate America with Trump's leadership. There is also anxiety among investors and business leaders about the reduced prospects for the implementation of tax reform and plans for huge infrastructure investment.

Weekly currency movement vs USD (%)



Source: Bloomberg, Emirates NBD Research

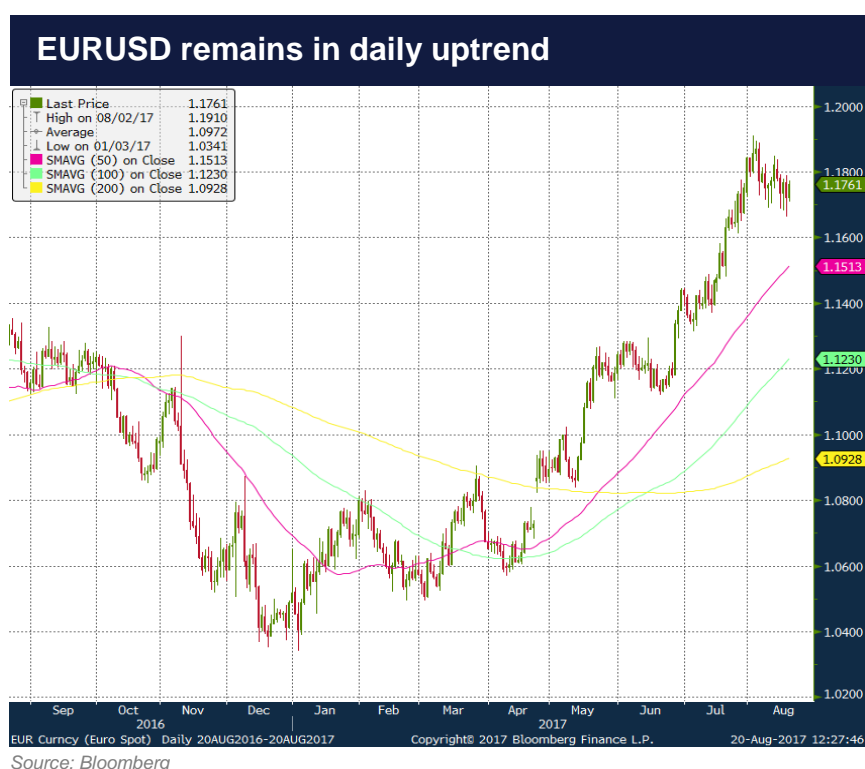
Despite the uncertainty surrounding politics, consumer confidence in the US is at buoyant levels. The University of Michigan consumer expectations index hit its highest level since January, no doubt helped by good labour market conditions and positive signals from equity markets. Consumption growth helped lead Q2 GDP performance and the strong levels of consumer sentiment should help keep Q3 on track for a decent outturn. Inflation may still be a challenge to the Fed when it comes to meeting its 2% target, but we still feel there is enough time before the end of the year for it to go higher and for the Fed to be able to pull the trigger on another rate hike, probably in December.

From a technical perspective, despite strengthening 0.38% to 93.42 over the course of last week, the Dollar Index remains vulnerable. The daily downtrend that has been in effect since January 6th 2017 remains firmly intact. In addition, the 14 day Relative Strength Indicator (RSI) remains bearish at 41.84, indicating that further downside towards the one year lows of 92.55 remains a distinct possibility.

Euro pauses after five weeks of gains

Eurozone inflation in July was flat m/m at 1.3% while core inflation which strips out food and energy prices rose slightly. The increase in core prices is welcome but is still far below the ECB's target of 2% price growth and the absence of inflation when balanced against improving economic performances sets clear the challenge for the ECB. Economic growth in the bloc is increasingly broad-based, with peripheral economies some way off their pre-crisis levels but at least heading in the right direction, while the core economies of Germany and Netherlands are effectively at full employment. The market will be closely watching Draghi's speech at Jackson Hole for any idea about how the ECB will avoid choking off the recovery in peripheral economies without overheating core markets.

Given the latest spike in risk aversion and ongoing geopolitical tensions, Draghi is unlikely to clarify the future of the ECB's quantitative easing program just yet. The ECB has confirmed that Draghi will be speaking on the general subject of the conference rather than on the Eurozone specifically, and a Reuters' story added that he is likely to stick to the script from the July ECB meeting. Indeed, the minutes from that meeting showed that discussions on future asset purchases, which so far have only been scheduled until the end of the year, have not developed much further. Any further signs of the ECB remaining non-committal as far as tapering is concerned will weigh on the EUR which has failed to build on the gains it made at the start of the month.



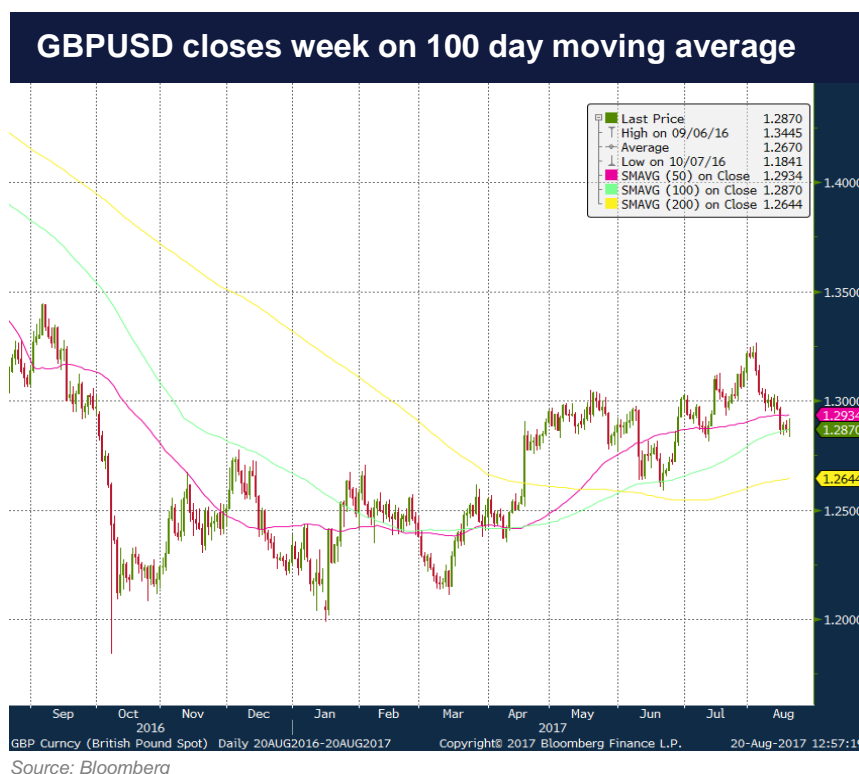
After 5 consecutive weeks of gains, EURUSD finished last week 0.52% lower at 1.1761. From a technical view, there are mixed signals. Analysis of the weekly candle chart shows a possible bearish reversal with a close below the previously breached 200 week moving average of 1.1771. However there has been

consistently strong support circa the 38.2% five year Fibonacci retracement (1.1736) which argues that the trend is still bullish. In addition, the daily uptrend that has been in effect since 21 December 2016 remains intact, as demonstrated by the chart above.

Sterling stumbles as inflation steadies

GBP lost further ground last week after UK inflation failed to move up in July from 2.6% y/y in June, casting doubt on any near term rate hike by the Bank of England. This week's main data highlight will be the second estimate Q2 GDP, which is likely to confirm growth at 0.3% q/q, half the Eurozone growth figure for the same quarter. This sharp divergence in growth trends underscores the pound's recent underperformance and keeps us skeptical about its ability to fully regain its uptrend while Brexit talks remain ongoing.

In line with our views last week, GBPUSD remained below the 76.4% one year Fibonacci level (1.3066), and proceeded to hit our two indicated levels. After breaking below the 50 day moving average (1.2934), further declines were realized with the 1.2850 level being breached, before support was found at the 61.8% one year Fibonacci retracement (1.2832). Currently, the cross sits at 1.2870 on the 100 day moving average and remains technically vulnerable. A break of the 1.2832 level opens the way for further declines towards 1.2644, a level at which both the 200 day moving average and 50% one year Fibonacci retracement both sit. It is worth noting that such a decline would also result in GBPUSD weakening for four consecutive weeks for the first time since Q1 2015.



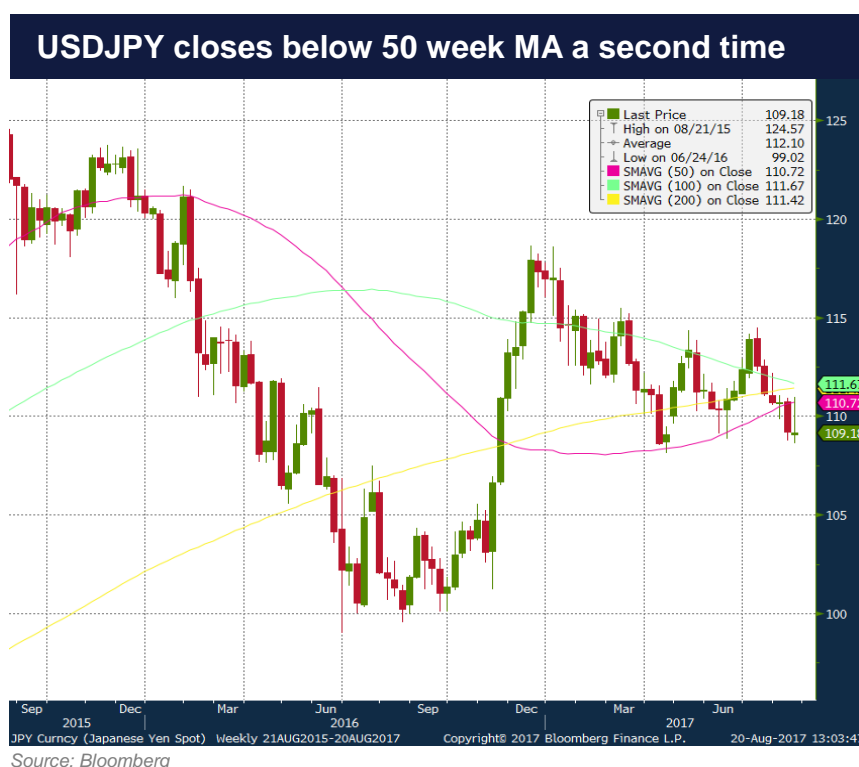
JPY benefits from risk aversion

The JPY ended last week supported by renewed risk aversion, and joint US-Korea military exercises from August 21-31 are likely to keep the markets nervous in the coming fortnight as well. The Asian economic calendar is a fairly light one this week dominated by Japanese inflation on Friday when national CPI for July is seen rising at a 0.5% y/y pace overall from 0.4 previously, and 0.5% y/y from 0.4% on a core basis. Tokyo CPI is also seen firming slightly in August, albeit from even

lower levels, but it is not clear, however, that the pick-up will be sufficient to alter views on monetary tightening and thereby influence the JPY.

Despite a break out earlier in the week, USDJPY closed below the 50 week moving average (110.72) for a second consecutive time. While USDJPY gained 0.02% over the last 5 days, the daily downtrend that has been in effect since January 4th 2017 remains intact.

The weekly close at 109.18 is both below the major psychological level of 110 and the 50% one year Fibonacci retracement of 109.30. While USDJPY remains below 110, the risks remain to the downside with a decline towards the 38.2% one year Fibonacci level being a distinct possibility.



CAD outperforms as inflation rises

The CAD outperformed last week, gaining on all the other majors, supported by an acceleration in inflation. Economic data showed that consumer price inflation accelerated to 1.2% y/y in July compared with 1.0% the previous month. Following the release of the data, market expectations for a rate hike by December 2017 from the Bank of Canada increased from 66.5% to 72.3%.

Over the course of last week, USDCAD declined 0.73% to close at 1.2585, levels last seen on August 4th 2017. This move preserves the daily downtrend that has been in effect since 5th of May 2017. While price action remains below the 23.6% one year Fibonacci retracement of 1.2739, the risk of further declines towards the one year low of 1.2414 remains significant. In addition the 14 day RSI currently stands at 42.47 and bearish in direction, which indicates further downside risks. Should the one year low be reached, strong support can be found just below at the 200 week moving average (1.2412).

FX Forecasts

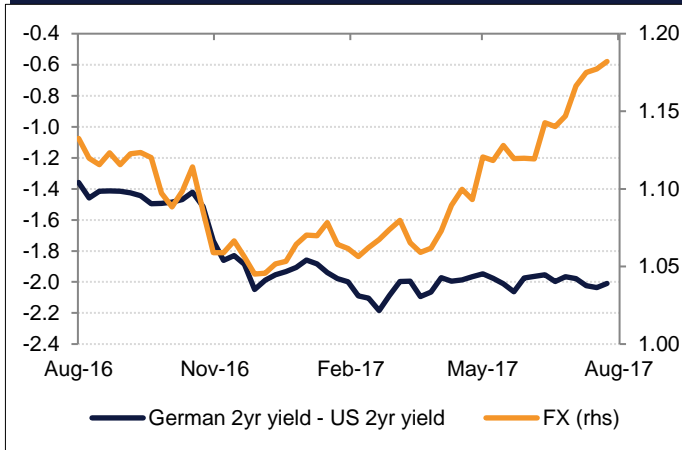
FX Forecasts - Major						Forwards		
	18-Aug	Q3 2017	Q4 2017	Q1 2018	Q2 2018	3m	6m	12m
EUR	1.1761	1.1500	1.1200	1.1000	1.1200	1.1819	1.1881	1.2008
JPY	109.18	114.00	116.00	118.00	120.00	108.70	108.13	107.03
CHF	0.9646	0.9800	1.0100	1.0400	1.0400	0.9589	0.9528	0.9410
GBP	1.2870	1.3200	1.3500	1.3800	1.4000	1.2909	1.2950	1.3029
AUD	0.7929	0.7500	0.7200	0.7000	0.7000	0.7920	0.7911	0.7893
NZD	0.7313	0.7100	0.6900	0.7000	0.7100	0.7300	0.7289	0.7266
CAD	1.2585	1.2700	1.3000	1.3000	1.3000	1.2572	1.2563	1.2550
EURGBP	0.9135	0.8712	0.8296	0.7971	0.8000	0.9152	0.9171	0.9213
EURJPY	128.40	131.10	129.92	129.80	134.40	128.40	128.40	128.40
EURCHF	1.1346	1.1270	1.1312	1.1440	1.1648	1.1334	1.1321	1.1301
FX Forecasts - Emerging						Forwards		
	18-Aug	Q3 2017	Q4 2017	Q1 2018	Q2 2018	3m	6m	12m
SAR	3.7502	3.7500	3.7500	3.7500	3.7500	3.7534	3.7573	3.7705
AED	3.6730	3.6730	3.6730	3.6730	3.6730	3.6745	3.6760	--
KWD	0.3019	0.3050	0.3050	0.3050	0.3050	0.3041	0.3065	#N/A N/A
OMR	0.3850	0.3850	0.3850	0.3850	0.3850	0.3861	0.3880	0.3920
BHD	0.3771	0.3770	0.3770	0.3770	0.3770	0.3776	0.3782	0.3795
QAR	3.6667	3.6400	3.6400	3.6400	3.6400	3.6835	3.6910	3.7155
EGP	17.7687	17.7500	17.5000	17.2500	17.0000	--	--	--
INR	64.146	65.000	65.000	66.000	66.000	64.6800	65.3200	66.6200
CNY	6.6704	7.0000	7.1000	7.2000	7.4000	6.7085	6.7521	6.8311

Source: Bloomberg, Emirates NBD Research

*Denotes USD peg

Major FX and Nominal Interest Rates

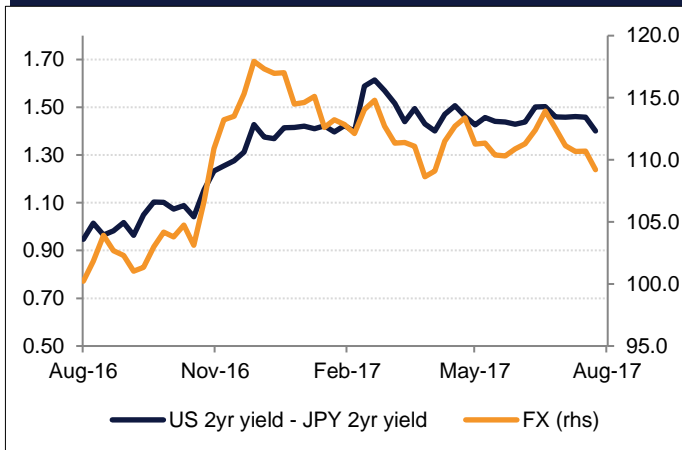
Interest Rate Differentials - EUR



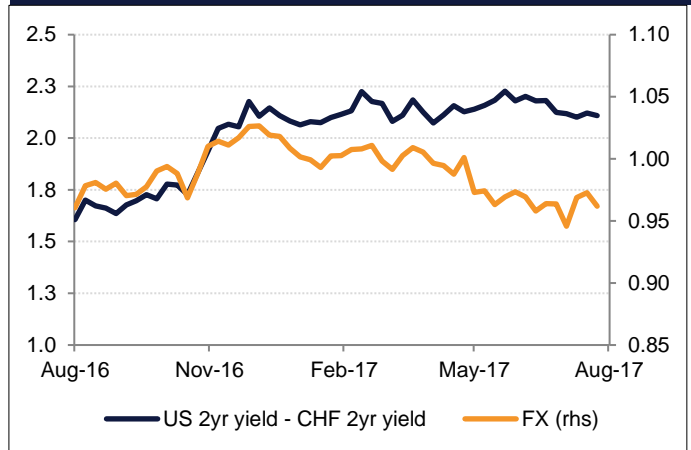
Interest Rate Differentials - GBP



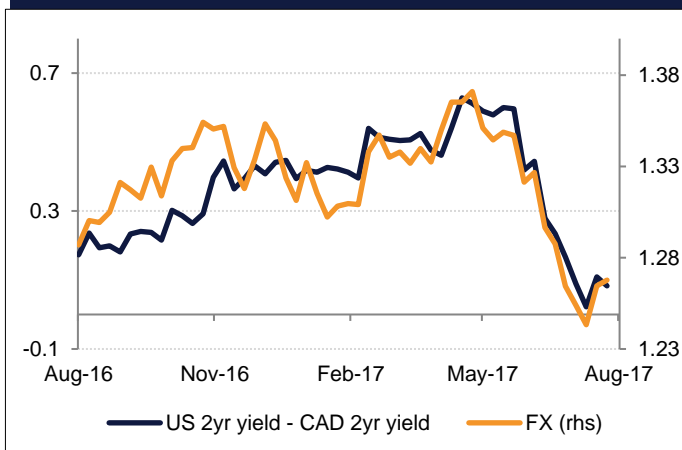
Interest Rate Differentials - JPY



Interest Rate Differentials - CHF



Interest Rate Differentials - CAD



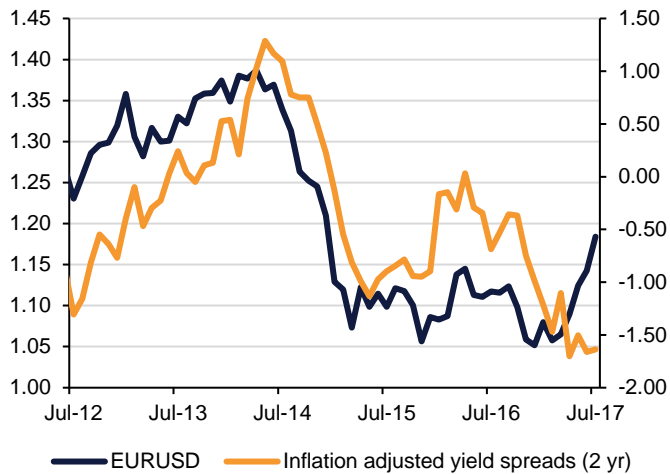
Interest Rate Differentials - AUD



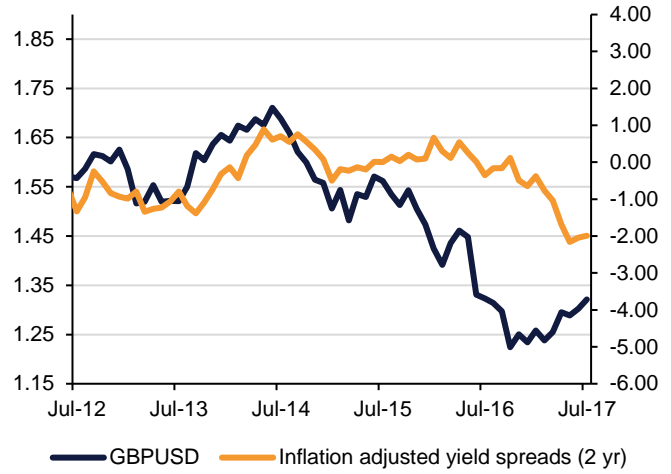
Source: Bloomberg, Emirates NBD Research

Major FX and Real Interest Rates

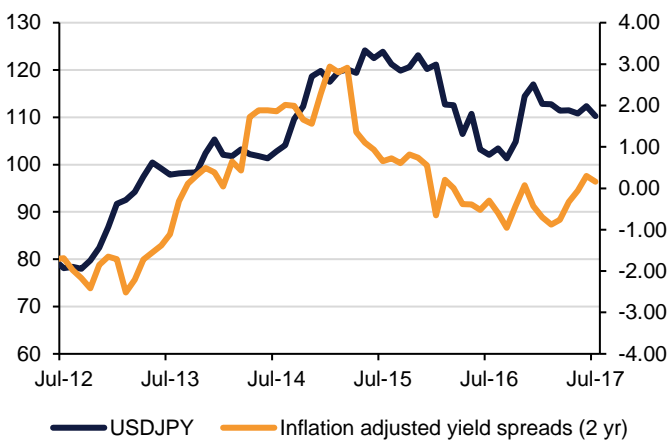
Interest Rate Differentials - EUR



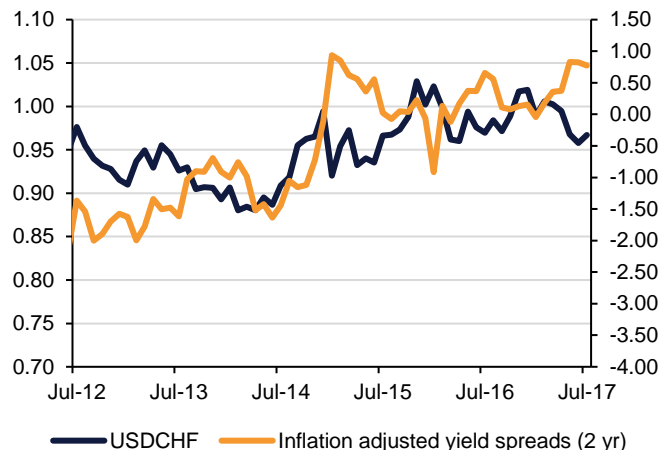
Interest Rate Differentials - GBP



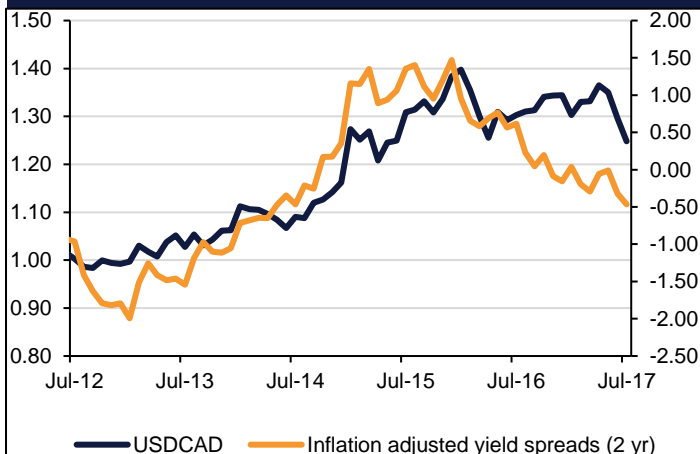
Interest Rate Differentials - JPY



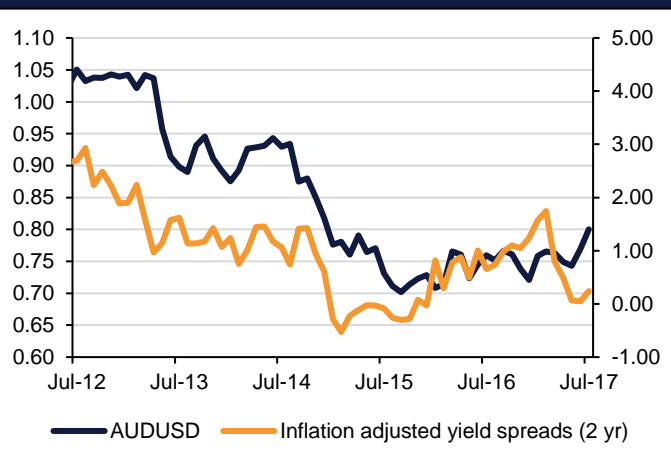
Interest Rate Differentials - CHF



Interest Rate Differentials - CAD



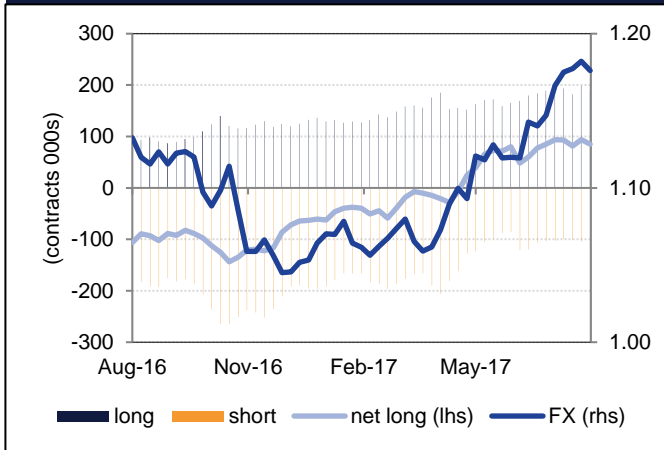
Interest Rate Differentials - AUD



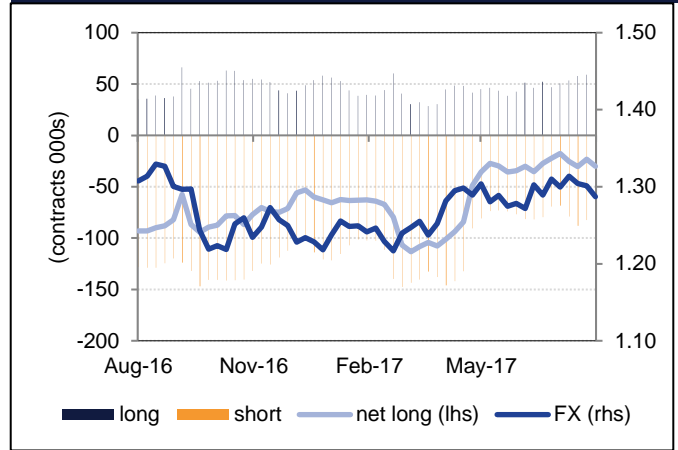
Source: Bloomberg, Emirates NBD Research

Major Currency Positions

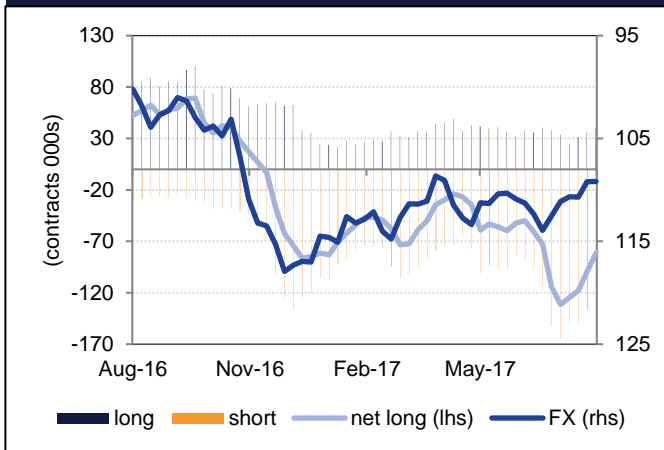
CFTC – Speculative Positions - EUR



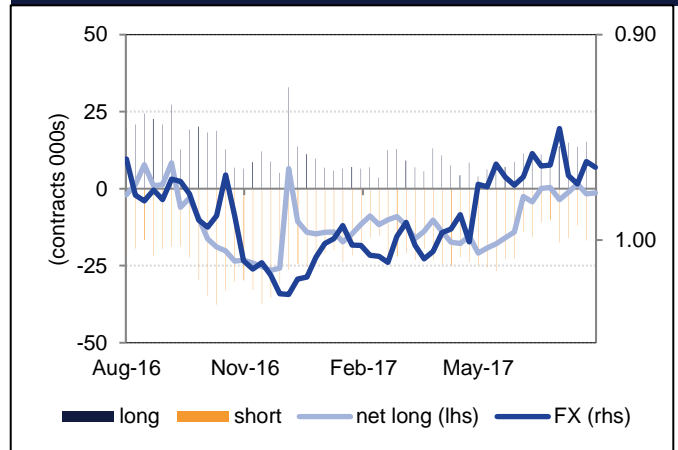
CFTC – Speculative Positions - GBP



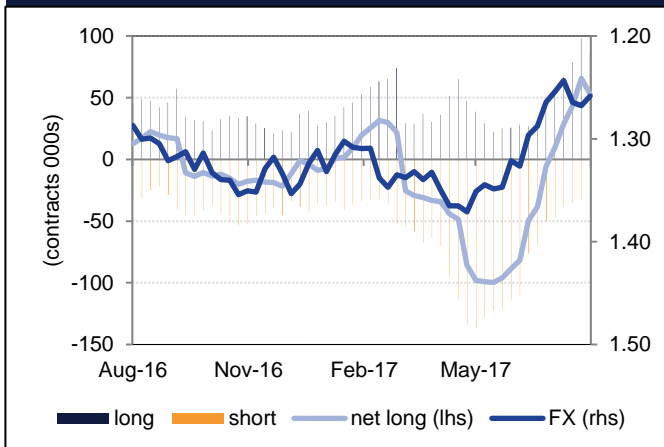
CFTC – Speculative Positions - JPY



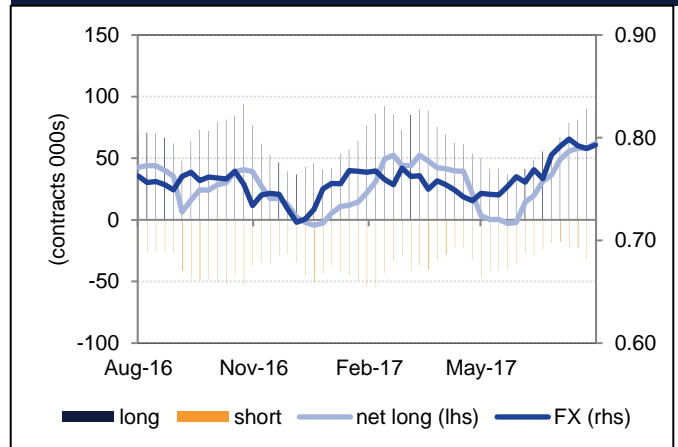
CFTC – Speculative Positions - CHF



CFTC – Speculative Positions - CAD



CFTC – Speculative Positions - AUD



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