



بنك الإمارات دبي الوطني
Emirates NBD

Weekly
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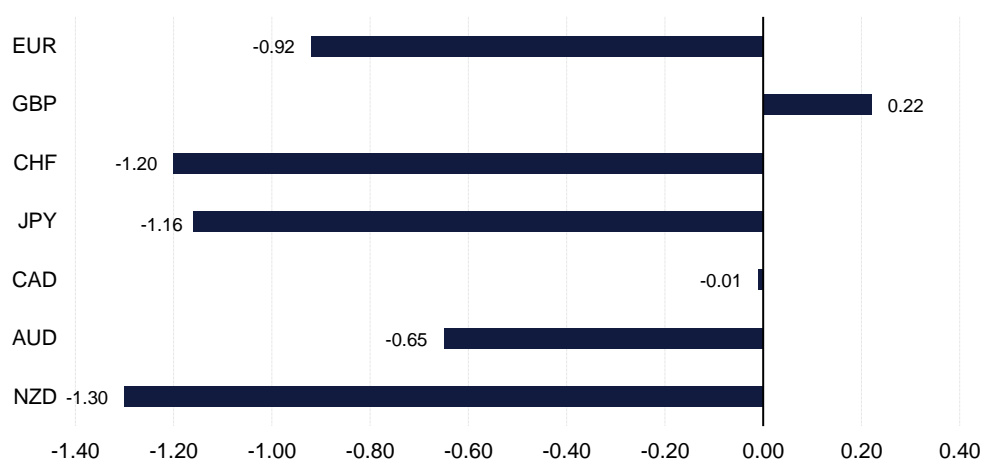
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FX Week

Deals are in the air, or at least the possibility of them. China is said to be proposing a USD1 trillion budget to boost imports from the U.S. over the next six years to eliminate the US-China trade imbalance. President Trump has agreed to hold a second summit with North Korean leader Kim Jung Un at the end of February. **Trump is also offering a deal to Democrats over the border wall to end the government shutdown.** Meanwhile, Chancellor Merkel is apparently hinting that a compromise might be possible to avert a harmful Brexit, signaling that the responsibility for getting the best possible deal rests with both the UK and the EU. Markets are bracing for UK PM May's Brexit plan B to be announced tomorrow, so any indication that the EU may soften its stance should be helpful. All in all there is a mood of compromise on some of the most intractable issues facing markets, which should on the surface provide support for risk appetite at the start of the week. Ordinarily this might be expected to cause the USD to soften, the JPY to weaken and GBP to strengthen. However, the reality may be very different from the headlines, especially when the details begin to be seen. So short term moves in response to these weekend developments should be viewed cautiously.

For example the Democrats already appear to have rejected Trump's latest overtures over the government shutdown, which will maintain a growing sense of alarm about the fate of economic growth. **New York Fed head John Williams warned that the shutdown will progressively darken the economic outlook, indicating that quarterly growth could be cut by between 0.5 and 1.0% per quarter depending on how long the closure lasts.** This will no doubt have implications for Fed policy as well, and may even eat into global growth which is already weakening. In terms of Brexit there are grounds to be skeptical for a number of reasons about whether a soft Brexit is now more likely following the government's loss in Parliament last week. Much of GBP's rally to date is probably more related to a short squeeze than any material change in how Brexit will eventually happen, which is likely to remain unclear even after May's update on Monday. One possible announcement that might be thought would provide more clarity is whether she will announce a delay to the article 50 process, kicking the Brexit can further down the road. However, even this cannot be guaranteed to provide more certainty about how Brexit will ultimately end, and may potentially lead GBP down false alleyways in the process. China is likely to announce that Q4 GDP growth slowed sharply in the coming week which will underscore the urgency for an end to the US-China trade impasse. Meanwhile the ECB meeting will likely show its policymakers finally starting to acknowledge the growing downside risks that are looming. So beyond the promising weekend headlines at the start of it, the actual developments of the week may turn out to be much less reassuring.

Weekly currency movement vs USD (%)



Source: Bloomberg, Emirates NBD Research

EURUSD

EURUSD falls on growth concerns

Fresh concerns surfaced over the outlook in the Eurozone following disappointing economic data. Eurozone aggregate production fell by 1.7% m/m in November, the worst performance since February 2016, while growth in October was revised down to 0.1% m/m from 0.2% m/m. In addition, German GDP slowed to 1.5% y/y in 2018, down from 2.2% the previous year and the lowest level since 2013. Under these circumstances, the euro found itself under pressure.

EURUSD direction dependent on ECB

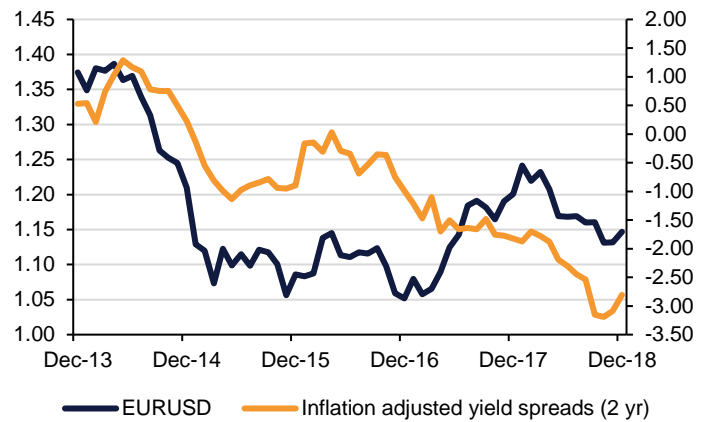
In the end EURUSD may not benefit much from the weekend headlines suggesting solutions to intractable problems over trade and the US government shutdown. A US holiday on Monday may allow for more stable trading conditions, but the ongoing absence of key economic data releases as well as the lack of progress between the White House and Congress over the shutdown will likely keep the USD in a state of limbo. Friday's December durable goods and new home sales data are both at risk of not being released, and last week ended with mixed data showing production holding up in December (industrial production rose 0.3%) while consumer confidence took a hit at the start of the year (The University of Michigan measure was 90.7 after 98.3 in December). In the end it may be that the ECB will be the greater influence on EURUSD, as it is likely to acknowledge the downside risks to its forecasts, and therefore imply a declining likelihood of rate hike in the second half of the year.

Technical outlook

EURUSD fell by 0.92% last week, cancelling the gains of the previous week to close at 1.1363. Having found resistance at the 100-day moving average on Monday (1.1462), the cross fell daily for the rest of the week, closing below the 50-day moving average (1.1383). Despite these gains, the price remains above the 200-week moving average (1.1324) which has acted as a support since August 2018. While the price closes the week above this level, a retest of 1.15 remains a likely outcome.

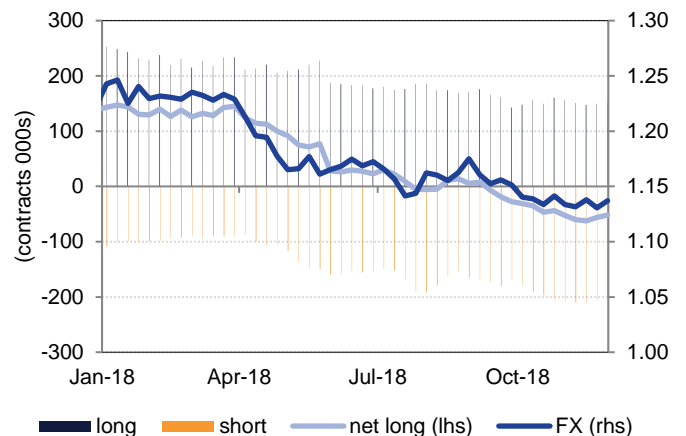
Forecasts	Spot	1 Week	1 month
EURUSD	1.1363	1.1500	1.1500
EURGBP	0.8829	0.9055	0.9200
EURJPY	124.74	127.08	128.80

Yield Spreads



Source: Bloomberg, Emirates NBD Research

Net Positioning



Source: Bloomberg, Emirates NBD Research

Daily Candle Chart



Source: Bloomberg, Emirates NBD Research

USDJPY

USDJPY rises on easing trade tensions

USDJPY ended the week firmer as fears about the trade stand-off between the US and China receded a little. However, with Chinese Q4 GDP likely to show a dip to a 6.3% y/y pace from 6.5% previously, these concerns will return if there is little follow through to the reported talk that China will seek to boost US imports as part of a trade deal.

Rate differentials to guide USDJPY

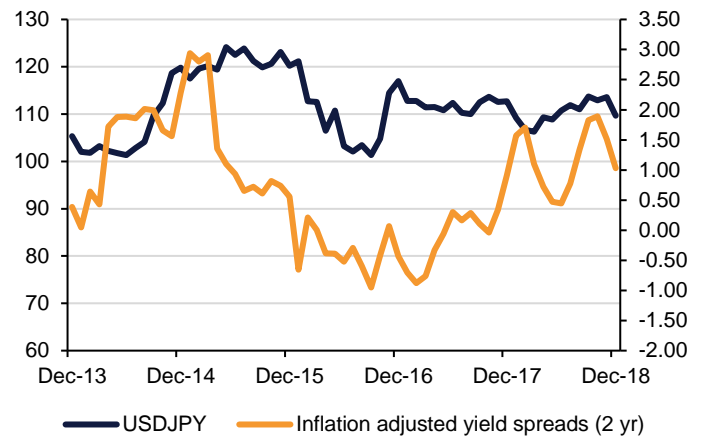
In Japan, the two-day Bank of Japan meeting ends on Wednesday, though no policy changes are expected either in terms of rates or guidance. There was a cooling in national CPI reported last week, with core rate excluding fresh food falling back to 0.7% y/y in December. This may cause the BOJ to downgrade its forecasts for inflation which in turn will be seen as reducing the prospects that the BOJ will begin normalizing monetary policy in the coming year. Assuming that there are no breakthroughs on the trade front, the evolution of interest rate differentials may be the other main determinant of USDJPY direction, and this trend may be positive to the extent that the BOJ remains dovish.

Technical outlook

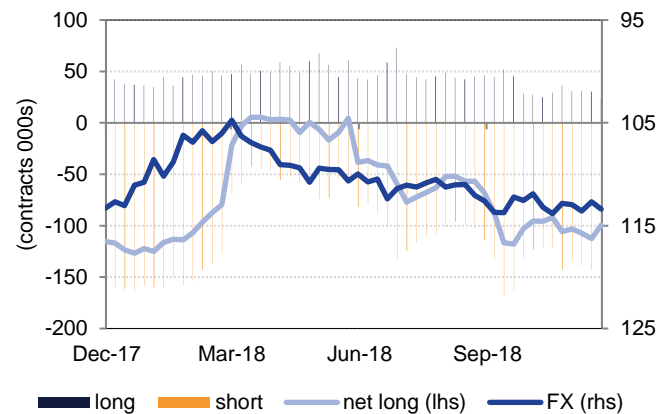
Over the last five days, USDJPY climbed for the first time in five weeks, gaining 1.20% to close at 109.78. These gains have taken the price back above the 38.2% and 50% one-year Fibonacci level respectively which is bullish in the short term. As a result of this, we expect further gains towards the 110.50 level over the next week.

Forecasts	Spot	1 Week	1 month
USDJPY	109.78	110.50	112.00
EURJPY	124.74	127.08	128.80
GBPJPY	141.32	140.34	140.00

Yield Spreads



Net Positioning



Source: Bloomberg, Emirates NBD Research

Daily Candle Chart



Source: Bloomberg, Emirates NBD Research

GBPUSD

GBPUSD rises for a fifth week

UK retail sales data caused GBP to give back some of the gains it made following the vote on May's Brexit plan last Tuesday. Sales volumes fell by 0.9% in December and 0.2% in Q4, highlighting the increasing sensitivity of the economy to the Brexit process. To the extent that that process now looks more complex hardly makes us confident about the chances of activity rebounding soon, or for GBP to continue recovering.

Brexit continues to be the main influence on GBP

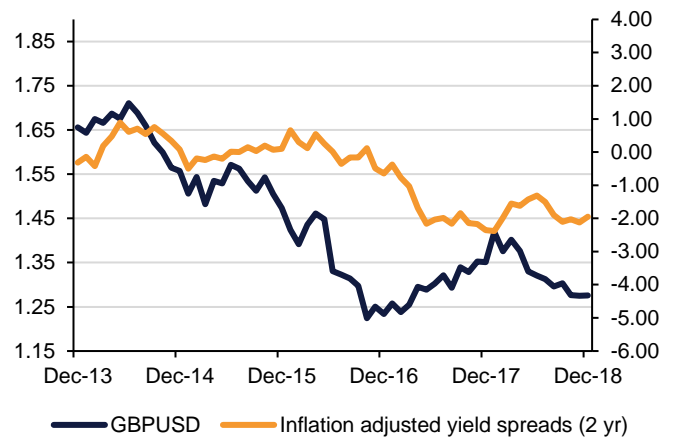
The main focus will now be on May's updated plans for Brexit to be revealed on Monday. At this stage it is unlikely that much new information will be offered, beyond the promise to begin negotiating with the EU again. The markets will be hoping that a delay to the Brexit process will be announced, but we would caution that even this would not provide much certainty about how any new talks will ultimately end up. In fact we see the near unanimity of view expecting a soft Brexit to emerge as flawed, and consequently retain a bearish view in the near term.

Technical outlook

GBPUSD gained for a fifth week, rising by 0.25% to close at 1.2872. Although the price was able to climb and close above the 100-day moving average (1.2890) on Thursday, the break was not sustained and losses on Friday saw the price remain below this level. In order to achieve further gains, the price needs to close above this level and therefore at present GBPUSD is vulnerable to further losses.

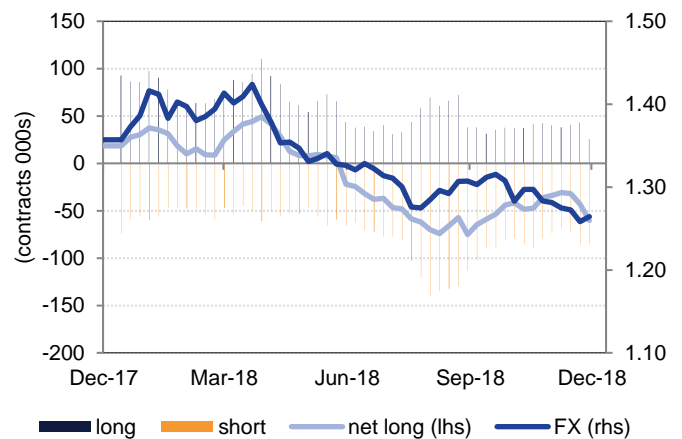
Forecasts	Spot	1 Week	1 month
GBPUSD	1.2872	1.2700	1.2500
EURGBP	0.8829	0.9055	0.9200
GBPJPY	141.32	140.335	140.00

Yield Spreads



Source: Bloomberg, Emirates NBD Research

Net Positioning



Source: Bloomberg, Emirates NBD Research

Daily Candle Chart

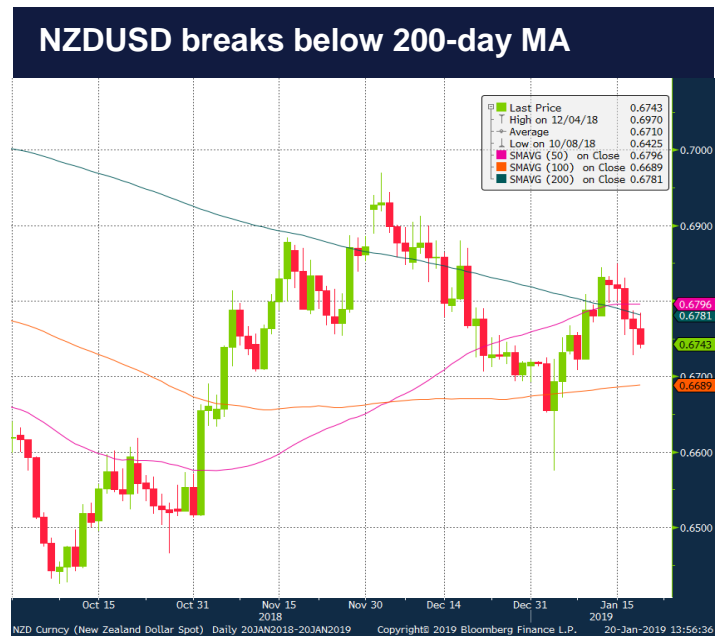


Source: Bloomberg, Emirates NBD Research

Other developments

NZDUSD breaks below key moving averages

NZD was last week's worst performing G-10 currency. A 1.34% fall saw NZDUSD break below both the 50-day and 200-day moving averages (0.6796 and 0.6781) to close at 0.6743. With the 200-day moving average now acting as a resistance level, while the price remains below this level there are further downside risks towards the 0.6680 level, not far from the 100-day moving average (0.6689).



Source: Bloomberg, Emirates NBD Research

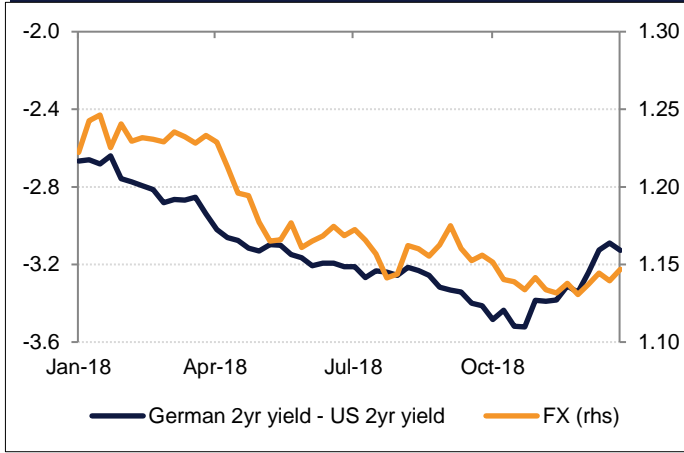
FX Forecasts

FX Forecasts - Major						Forwards		
	18-Jan	Q1 2019	Q2 2019	Q3 2019	Q4 2019	3m	6m	12m
EURUSD	1.1363	1.1500	1.1500	1.1800	1.2000	1.1452	1.1541	1.1730
USDJPY	109.78	114.00	116.00	114.00	112.00	108.97	108.14	106.39
USDCHF	0.9954	1.0000	1.0000	0.9800	0.9700	0.9868	0.9782	0.9603
GBPUSD	1.2872	1.2500	1.3000	1.3500	1.4000	1.2931	1.2988	1.3102
AUDUSD	0.7168	0.7300	0.7550	0.7700	0.8000	0.7177	0.7186	0.7208
NZDUSD	0.6743	0.6800	0.6900	0.7100	0.7400	0.6754	0.6765	0.6787
USDCAD	1.3260	1.3250	1.2850	1.2600	1.2500	1.3232	1.3207	1.3163
EURGBP	0.8829	0.9200	0.8846	0.8741	0.8571	0.8857	0.8887	0.8955
EURJPY	124.74	131.10	133.40	134.52	134.40	124.74	124.74	124.74
EURCHF	1.1310	1.1500	1.1500	1.1564	1.1640	1.1299	1.1288	1.1263
FX Forecasts - Emerging						7-Sep		
	18-Jan	Q1 2019	Q2 2019	Q3 2019	Q4 2019	3m	6m	12m
SAR	3.7508	3.7500	3.7500	3.7500	3.7500	3.7508	3.7516	3.7570
AED	3.6729	3.6730	3.6730	3.6730	3.6730	3.6737	3.6743	--
KWD	0.3033	0.3020	0.3020	0.3020	0.3020	0.3036	0.3035	--
OMR	0.3850	0.3850	0.3850	0.3850	0.3850	0.3857	0.3866	0.3892
BHD	0.3770	0.3770	0.3770	0.3770	0.3770	0.3761	0.3761	0.3795
QAR	3.6545	3.6400	3.6400	3.6400	3.6400	3.6545	3.6551	3.6590
EGP	17.8830	18.0000	18.1250	18.2500	18.2500	18.3250	18.8350	19.8200
INR	71.188	70.000	70.000	68.000	68.000	72.0200	72.8500	74.3700
CNY	6.7773	6.9000	7.0000	7.1000	7.2000	6.8165	6.8245	6.8360
SGD	1.3587	1.3500	1.3200	1.3000	1.2900	1.3559	1.3526	1.3463

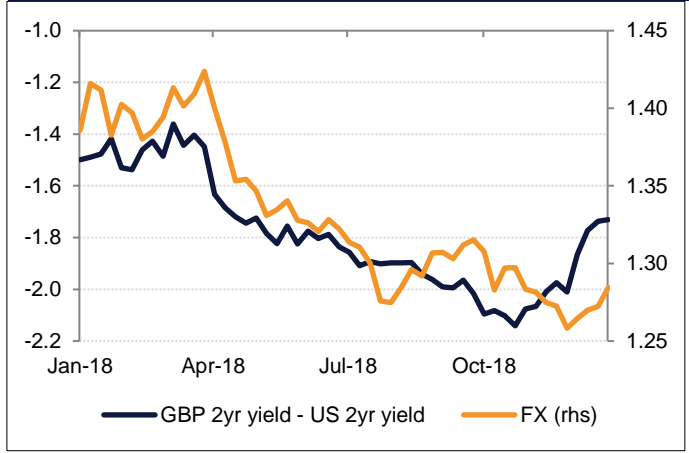
Source: Bloomberg, Emirates NBD Research
 *Denotes USD peg

Major FX and Nominal Interest Rates

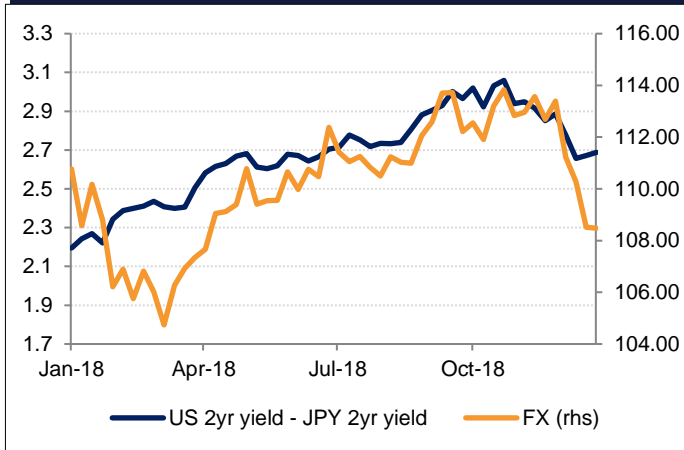
Interest Rate Differentials - EUR



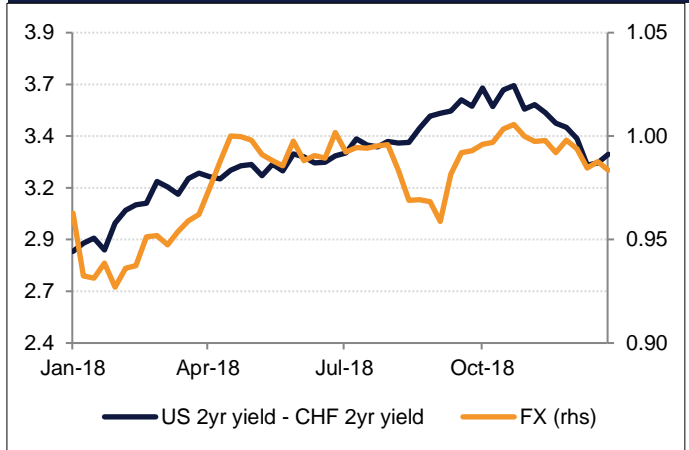
Interest Rate Differentials - GBP



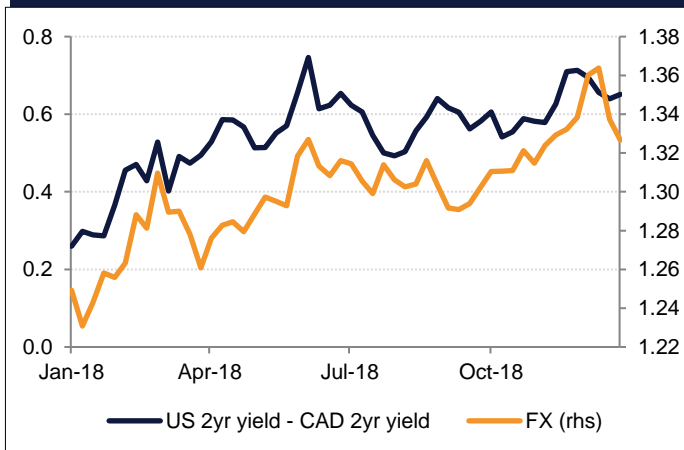
Interest Rate Differentials - JPY



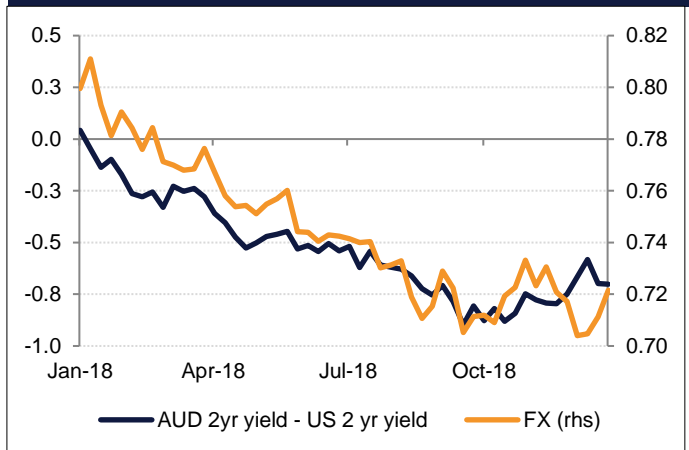
Interest Rate Differentials - CHF



Interest Rate Differentials - CAD

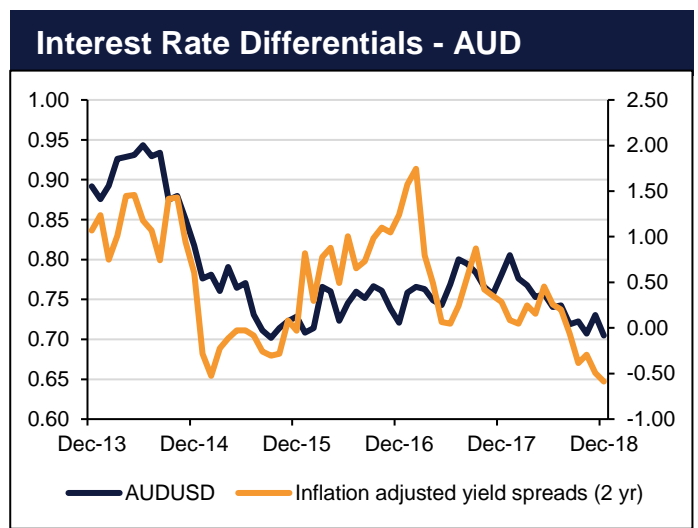
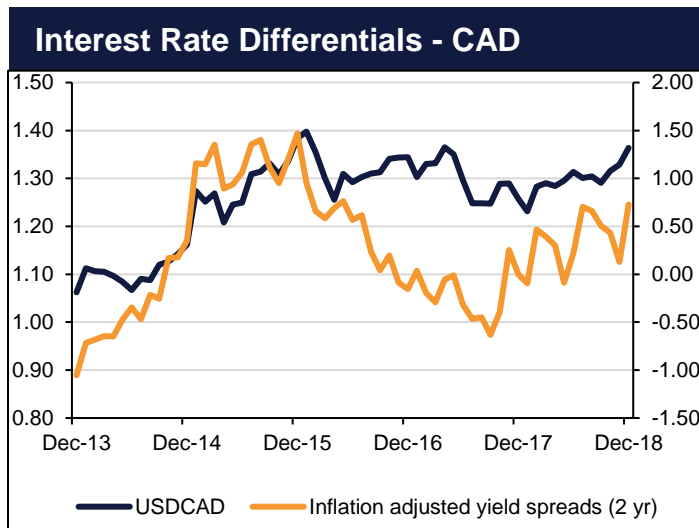
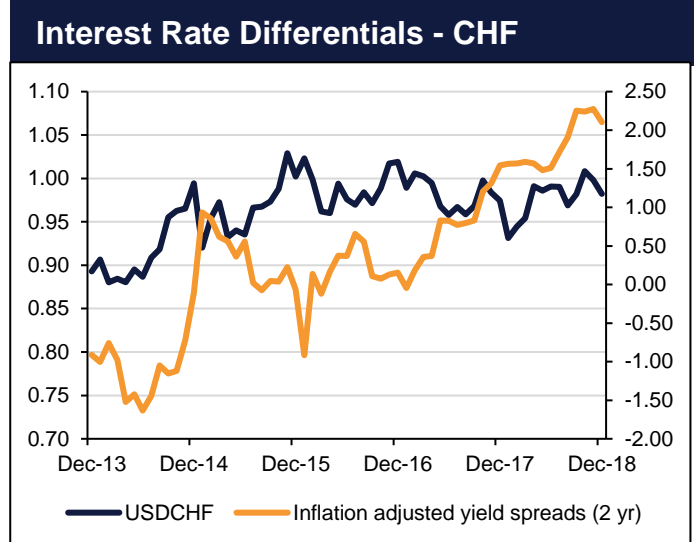
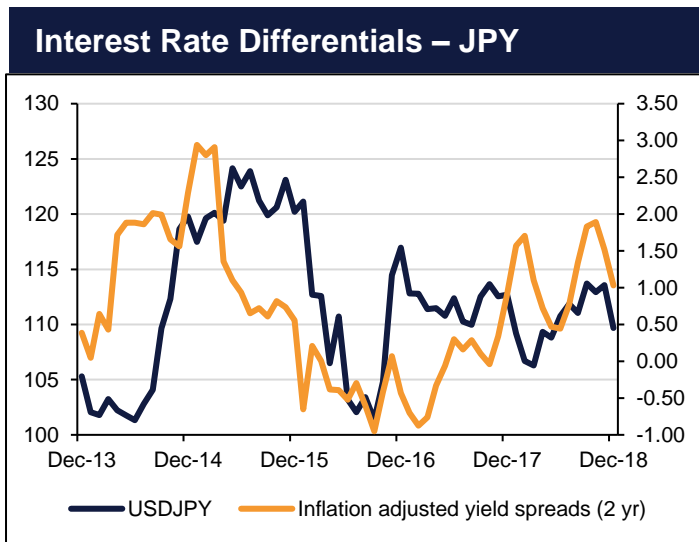
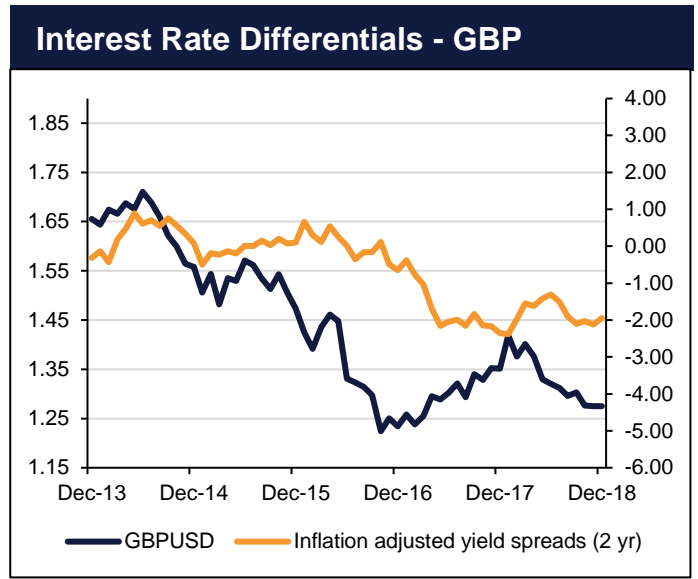
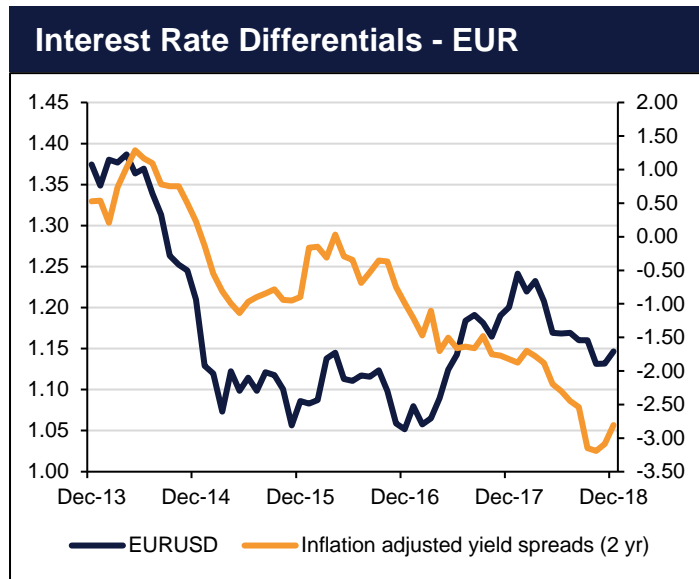


Interest Rate Differentials - AUD



Source: Bloomberg, Emirates NBD Research

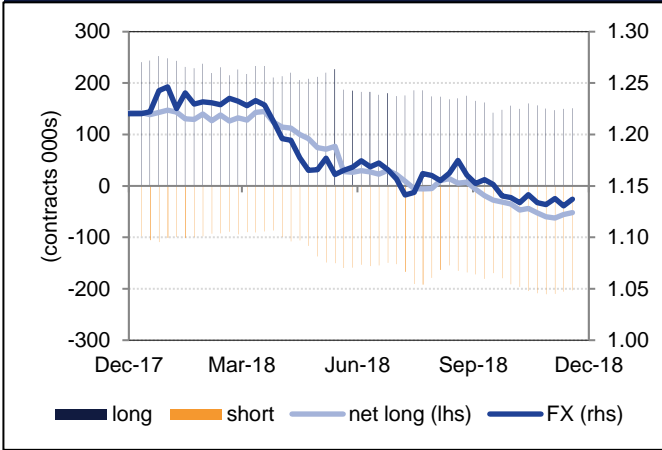
Major FX and Real Interest Rates



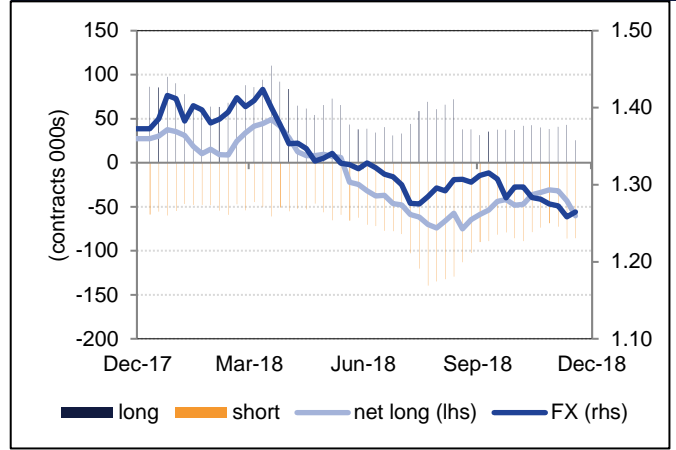
Source: Bloomberg, Emirates NBD Research

Major Currency Positions

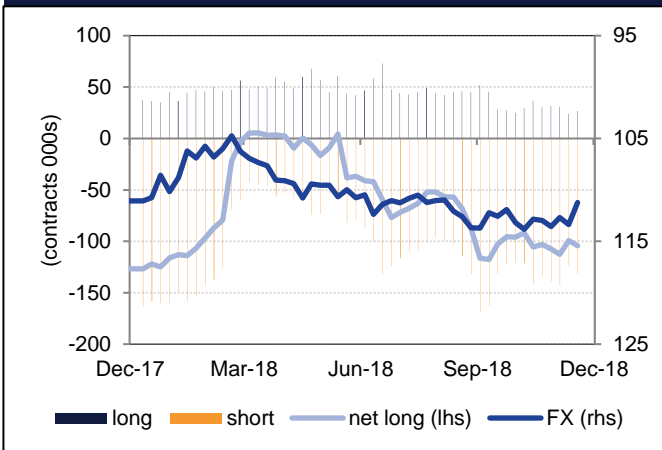
CFTC – Speculative Positions - EUR



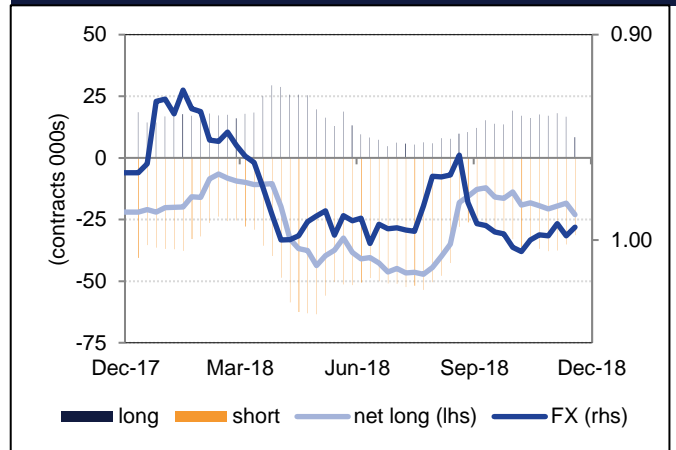
CFTC – Speculative Positions - GBP



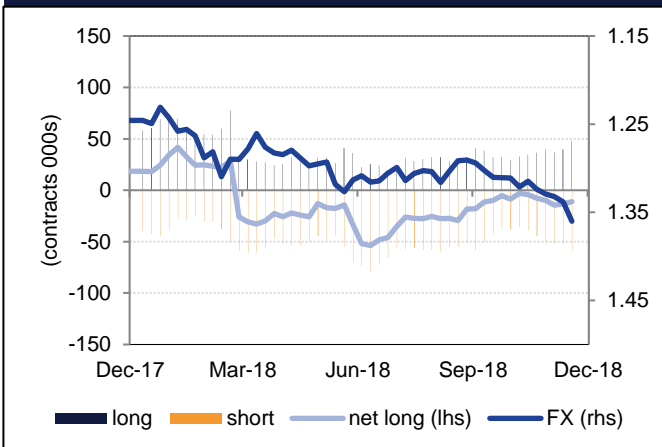
CFTC – Speculative Positions - JPY



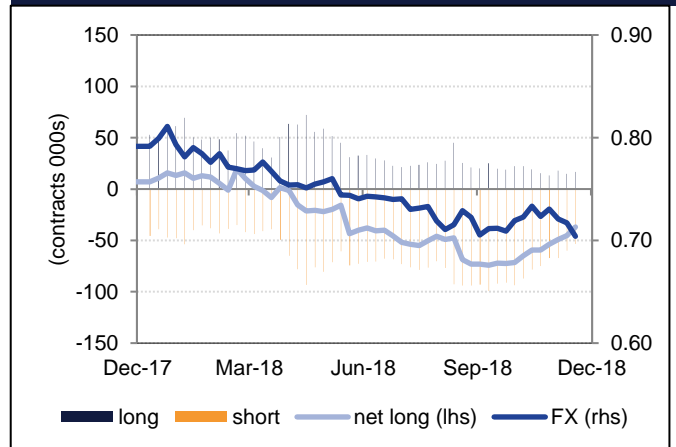
CFTC – Speculative Positions - CHF



CFTC – Speculative Positions - CAD



CFTC – Speculative Positions - AUD



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