



بنك الإمارات دبي الوطني
Emirates NBD

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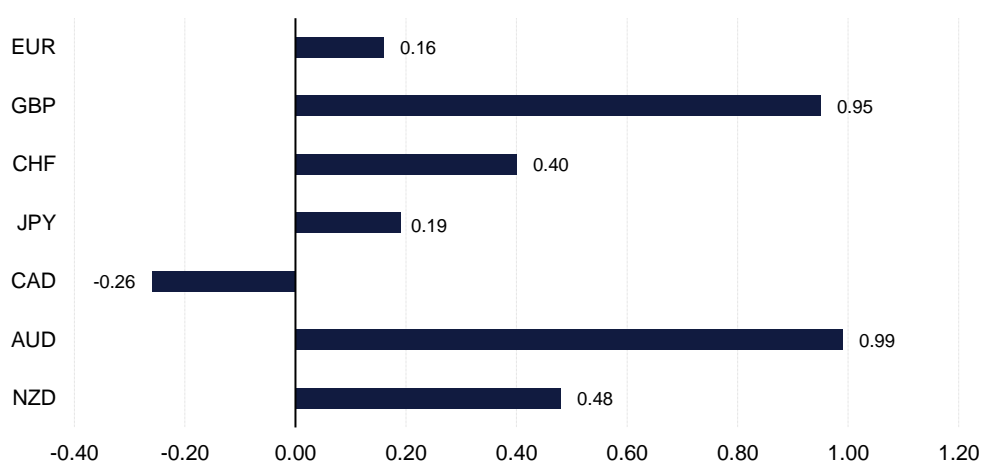
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FX Week

Dollar continues to decline...

The Dollar Index has declined for a fifth consecutive week, continuing its longest losing streak since February 2017. Over the last five trading days the index has fallen a further 0.31% to close at 90.69, having earlier hit lows of 90.11, levels last seen in December 2014. Technical analysis of the weekly candle chart shows that the index may be prone to further declines for a number of reasons. Firstly, the weekly downtrend that has been in effect since 30 December 2016 remains intact with a series of lower highs and lower lows being clearly visible. Furthermore, the index has now closed below the 200 week moving average for a fifth week as well as broken below the supporting baseline which had held since June 2015 (see chart below). Therefore, unless the dollar finds support shortly, further declines towards 88.42 (the 38.2% five year Fibonacci retracement) remain a possibility.

Weekly currency movement vs USD (%)



Source: Bloomberg, Emirates NBD Research

...despite constructive data expectations

Fundamentally, US economic data in the week ahead should be supportive of USD with data expected to show that Q4 2017 GDP remained healthy at 3.0% q/q annualized while personal consumption for the same period expanded to 3.6% from 2.2% the previous quarter. However, US data may be shrugged off by the markets as their focus turns to guidance from the ECB at their meeting on Thursday 25th. We have previously observed that the soft performance of USD can be attributed to more constructive global data rather than lackluster US data (which is currently not being seen) and we expect this focus on global deflation to continue being a headwind to dollar strength for the time being. Political factors may also be contributing to the dollar's softness, with the government shutdown in the US raising the stakes between the White House and Trump's opponents in Congress. This dollar weakness may by extension be partly the explanation for the equity markets' more constructive response to the political drama, which appears at first hand to be incongruous.

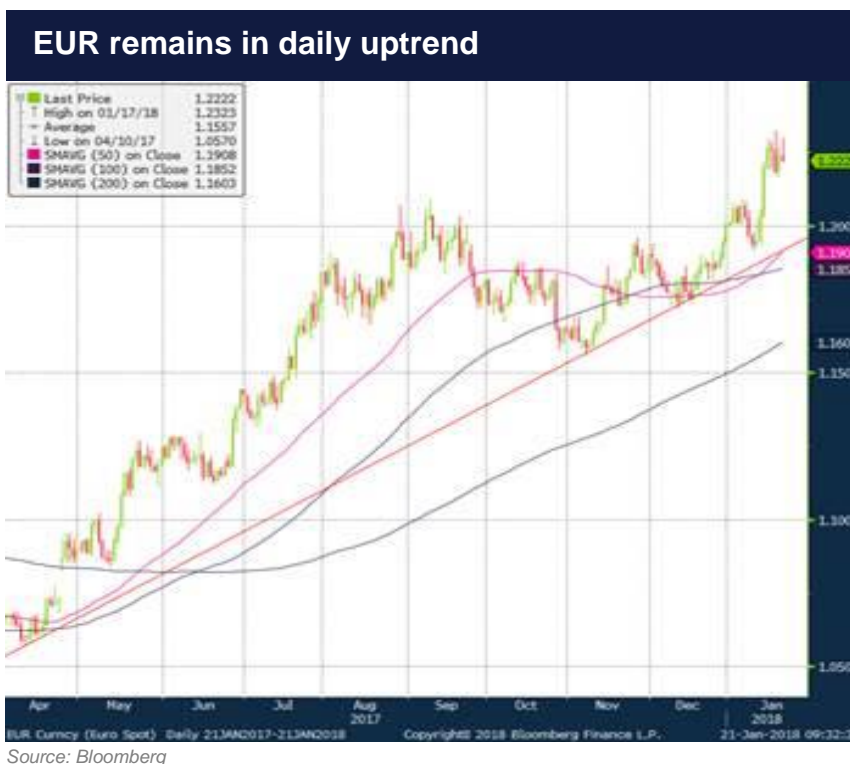


Source: Bloomberg

EUR appreciation driven by fundamentals

EURUSD appreciated for a fifth week, gaining 0.13% to close at 1.2218. With the fundamentals continuing to provide support, investors increased their appetite for the single currency with the result that last week, EURUSD traded as high as 1.2323, levels last seen in December 2014. A major supporting catalyst was the minutes of the ECB's December meeting which showed officials agreeing that growth had been stronger than anticipated. In addition, the minutes reflected that some officials called for a firm date for the termination of the central bank's asset purchase program and a review of communication of policy in 2018. Further appreciation was only halted after ECB Vice President Vitor Constancio highlighted that policy makers were in "no rush" to change their messaging on stimulus plans and his concerns over euro appreciation which didn't "reflect changes in the fundamentals".

Technical analysis of the daily candle chart shows that EURUSD remains in a daily uptrend and that the break of the 50% five year Fibonacci retracement (1.2167) has been sustained. While the price remains above this key level, risks are skewed to the upside. Over the week ahead the main driver for EURUSD is likely to be the communication of policy from the ECB on Thursday 25th, an event that we feel should be approached with caution. While growth has been better than expected, inflation (last reported at 1.4% y/y in December, with the core rate stuck at 0.9%) remains far from the ECB's 2% target. In addition with unemployment remaining at 8.97%, wage pressures are likely to remain absent for some time. Therefore, it is likely that the market may have heightened expectations for tapering from the ECB beyond realistic levels and we may see Euro trade lower in the meeting's aftermath as the market adjusts its appetite. Political risks may also impact on the Euro negatively if the SPD in Germany votes to reject the Grand Coalition deal that is on offer with Chancellor Merkel's CDU. Any rejection of the deal would bring new elections back on the table increasing uncertainty about Merkel's future.



JPY continues to strengthen after “stealth tapering”

JPY strengthened against the dollar for a second week, USDJPY falling 0.22% to 110.81 after having tested a new 2018 low of 110.19 in the 17th of January. The main drivers behind this move have been the uncertainty in the build up to the US government shutdown, which has helped the USDJPY maintain its break in correlation from the 10 year US yields. Like the Euro, the JPY has also benefitted from speculation that its central bank’s (BOJ’s) stance of ultra-loose monetary policy may be coming to end. This speculation was initially fueled after the Bank of Japan reduced its purchases of debt maturing in 10-25 and over 25 years at the bond auction on 9th January 2017 in a move seen by the markets as “stealth tapering”. Further JPY strength was only prevented after comments from Deputy Prime Minister and Minister of Finance, Taro Aso, that “sudden moves in currency are a problem” and that BOJ Governor Kuroda “is sticking to goal of price stability”.

Our technical view of USDJPY remains the same as in our last monthly analysis. In our view, USDJPY sits at a critical level with the weekly candle chart showing that further gains remain capped by a resistance trendline that has held since December 2016 (see chart below). With the price currently at 110.81, it is likely to test of the supporting baseline that has held since September 2016. Thus far the 110.20 level has been able to halt further declines, but if this level should falter it can quickly lead to a test of the psychological 110 level and the 100 week moving average of 109.95. A close below these levels is likely to lead to larger declines towards 108, levels last seen in September 2017.



Source: Bloomberg

With the BOJ meeting to set monetary policy on Tuesday 23rd, the risks are that the market is informed that expectations of premature tightening from the Bank of Japan are unmerited. Such communication would result in JPY weakness in the immediate aftermath and possibly help recouple USDJPY and 10 year yields. While growth in Japan has remained constructive, with data showing that GDP has now expanded for seven consecutive quarters, inflation remains muted, wage pressures absent and JPY appreciation a hindrance to the BOJ's price goals. Under such conditions the central bank is likely to favour ultra-loose monetary policy for longer.

GBP outperforms at start of 2018

Sterling has continued to advance and outperform in 2018, with GBPUSD's 0.9% gain last week taking 2018's total gains to 2.51%. Currently trading at 1.3852, GBPUSD is back at levels last seen on 24th June 2016, the day of the Brexit referendum. The pound has found itself the subject of bids as the fundamentals continue to show that concerns over the Brexit may have been overestimated. Economic data has shown that industrial production increased 0.4% m/m in November, growing for a seventh month (the best run in two decades). In addition, inflation in December remains at 3.0% (ahead of the Bank of England's 2.0% target) and GDP data has continued to be better than expected, with the final print for Q3 2017 showing 1.7% y/y growth.

Over the week ahead, the markets will be looking towards UK employment data which is expected to show that unemployment remained at 4.3% in December with wages showing 2.5% y/y growth. Any evidence of further tightening of the labour market is likely to increase pressure on the Bank of England to continue normalizing monetary policy, with the OIS currently pricing in a 55.9% chance of a hike by August 2018. In addition to labour market data, investors will also be eyeing the first release of Q4 2017 GDP data due for release on Friday 26th January which is expect to show 1.4% y/y growth. Any disappointment with the

initial release may trigger some selling of GBP as traders lock in profits and await further direction from upcoming data and/or Brexit related developments.



CAD softens despite rate hike

Despite the Bank of Canada raising interest rates for third time since July 2017 (to 1.25%), CAD upside was limited. The central bank indicated that there was no rush to pursue aggressive interest rate hikes due to “important unknowns” such as the future of NAFTA, prompting sentiment on the CAD to become less bullish. Over the course of last week, USDCAD rose 0.29% to close at 1.2493, closing above the 23.6% one year Fibonacci retracement of 1.2471, which served as a resistance line for most of last week. Next week, markets will be eyeing retail sales and inflation data out of Canada, with reports expected to show that consumer price inflation slowed to 1.9% y/y in December from 2.1% the previous month, while retail sales slowed to 0.8% m/m in November from 1.5% the previous month. Any upside surprises in the economic data may result in greater market appetite for CAD as expectations for further rate hikes increase.

FX Forecasts

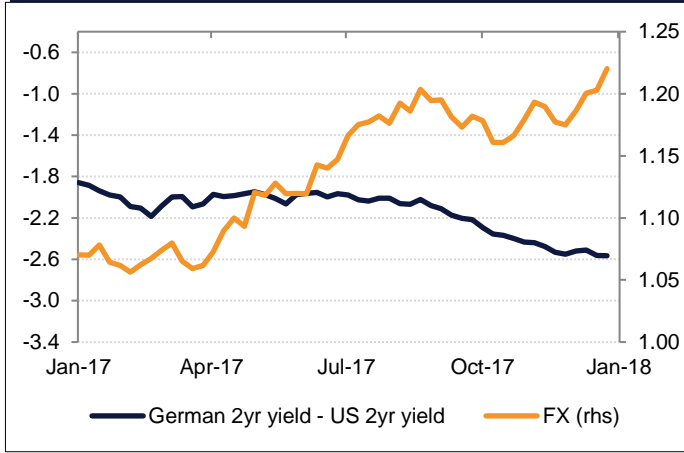
FX Forecasts - Major						Forwards		
	19-Jan	Q1 2018	Q2 2018	Q3 2018	Q4 2018	3m	6m	12m
EUR	1.2222	1.2200	1.2500	1.2200	1.2000	1.2293	1.2372	1.2552
JPY	110.77	112.00	114.00	118.0000	120.0000	110.20	109.56	108.09
CHF	0.9628	0.9800	1.0000	1.0100	1.0200	0.9562	0.9491	0.9337
GBP	1.3858	1.3800	1.4000	1.4200	1.4500	1.3904	1.3954	1.4066
AUD	0.7995	0.7600	0.7400	0.7200	0.7200	0.7993	0.7994	0.7998
NZD	0.7277	0.7000	0.7100	0.7100	0.7100	0.7271	0.7267	0.7265
CAD	1.2493	1.2500	1.2600	1.2600	1.2600	1.2481	1.2469	1.2448
EURGBP	0.8818	0.8841	0.8929	0.8592	0.8276	0.8840	0.8864	0.8922
EURJPY	135.45	136.64	142.50	143.96	144.00	135.45	135.45	135.45
EURCHF	1.1777	1.1956	1.2500	1.2322	1.2240	1.1765	1.1753	1.1730

FX Forecasts - Emerging						Forwards		
	19-Jan	Q1 2018	Q2 2018	Q3 2018	Q4 2018	3m	6m	12m
SAR	3.7503	3.7500	3.7500	3.7500	3.7500	3.7511	3.7526	3.7581
AED	3.6730	3.6730	3.6730	3.6730	3.6730	3.6737	3.6747	--
KWD	0.3005	0.3050	0.3050	0.3050	0.3050	0.3018	0.1528	--
OMR	0.3850	0.3850	0.3850	0.3850	0.3850	0.3862	0.3872	0.3905
BHD	0.3770	0.3770	0.3770	0.3770	0.3770	0.3775	0.3782	0.3799
QAR	3.6750	3.6400	3.6400	3.6400	3.6400	3.6770	3.6778	3.6853
EGP	17.7185	17.2500	17.0000	16.8000	16.8000	17.8800	18.1900	18.9000
INR	63.846	64.000	65.000	66.000	66.000	64.4400	65.1000	66.3900
CNY	6.4040	6.6000	6.8000	7.0000	7.1000	6.4393	6.4705	6.5293

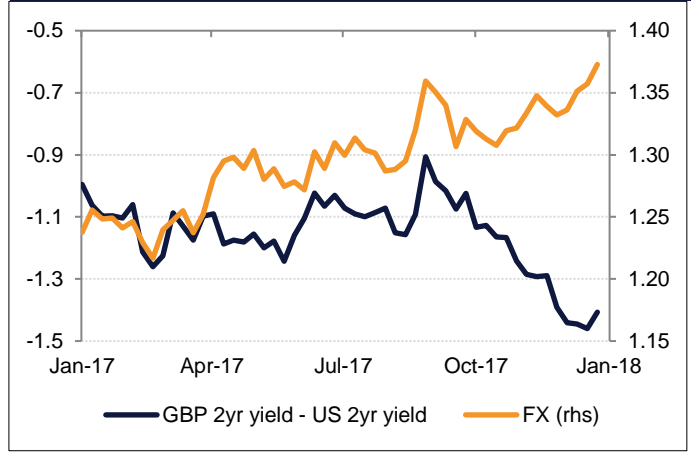
Source: Bloomberg, Emirates NBD Research
 *Denotes USD peg

Major FX and Nominal Interest Rates

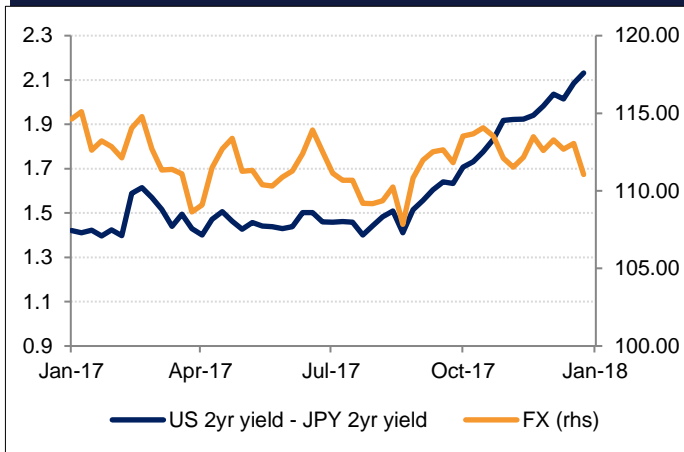
Interest Rate Differentials - EUR



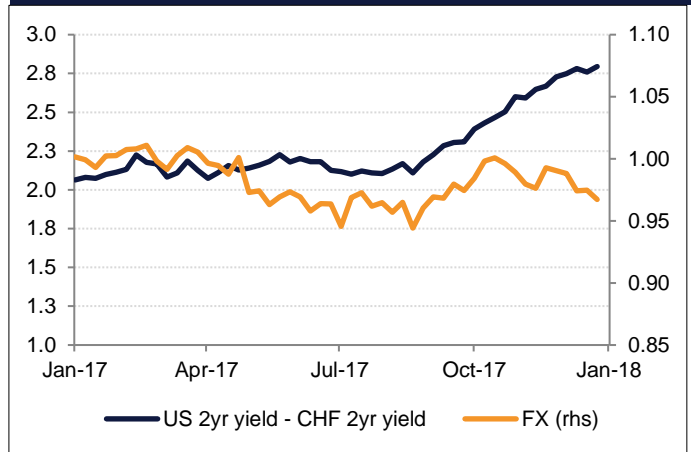
Interest Rate Differentials - GBP



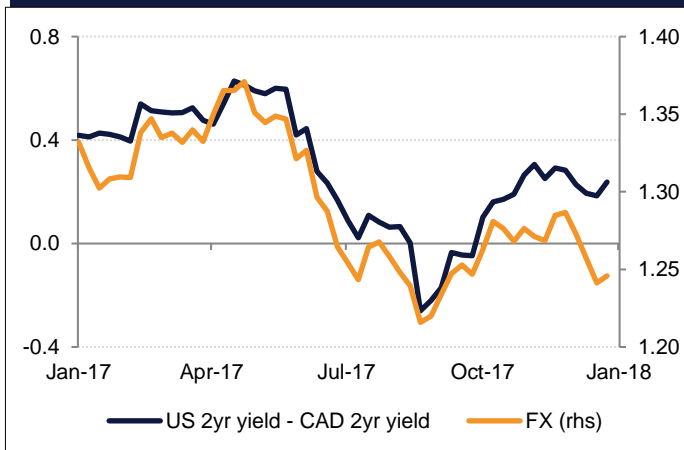
Interest Rate Differentials - JPY



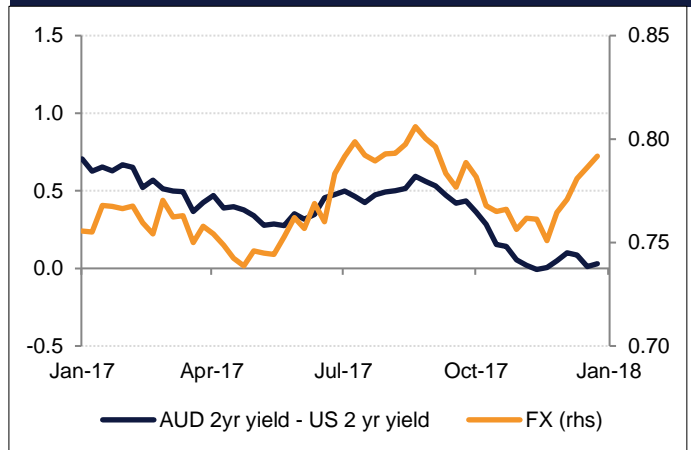
Interest Rate Differentials - CHF



Interest Rate Differentials - CAD

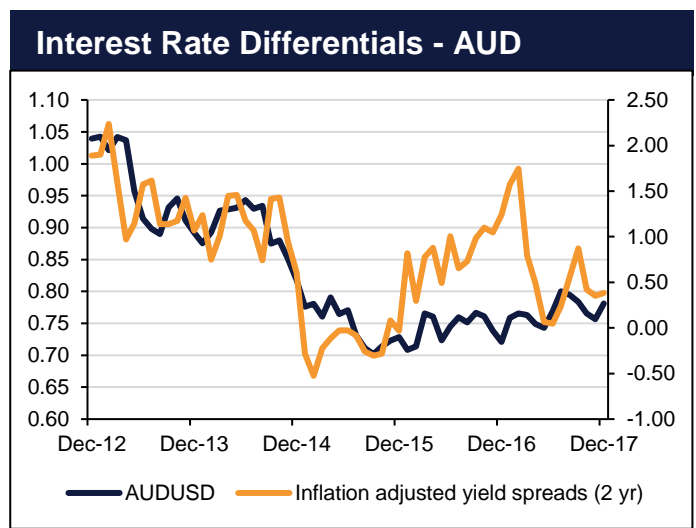
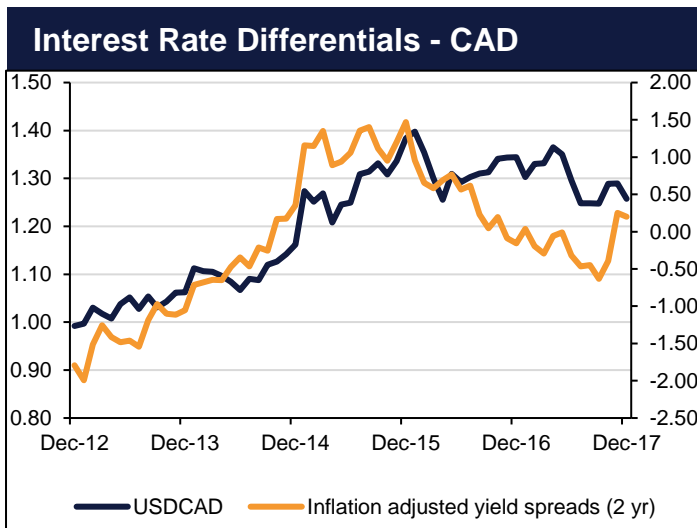
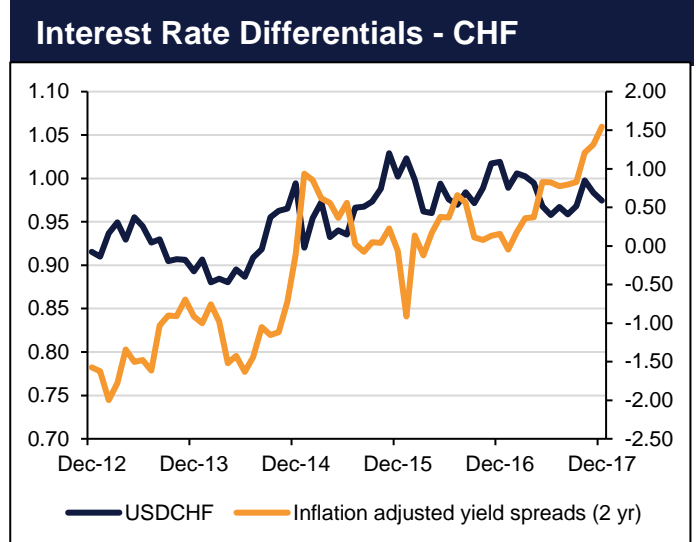
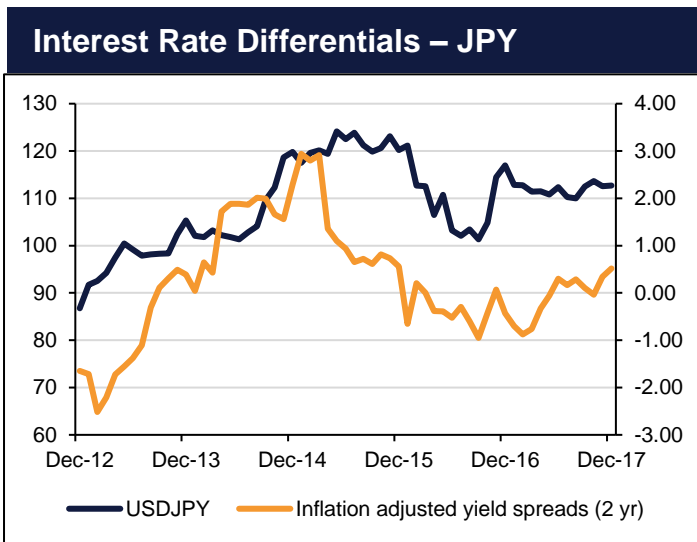
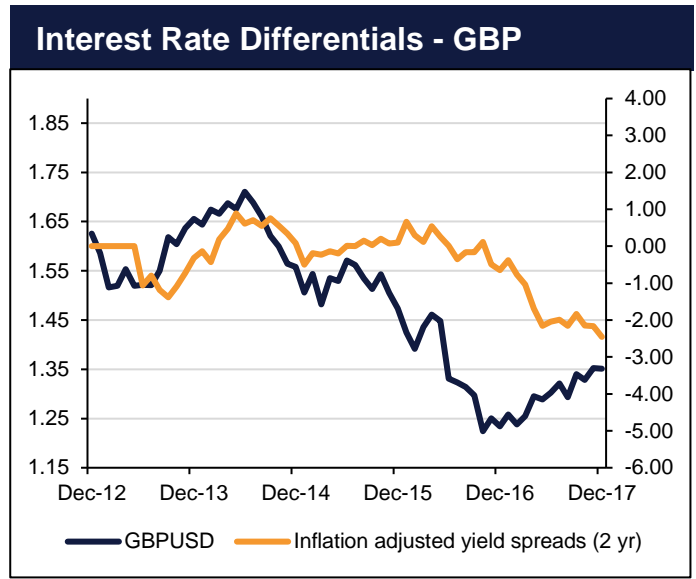
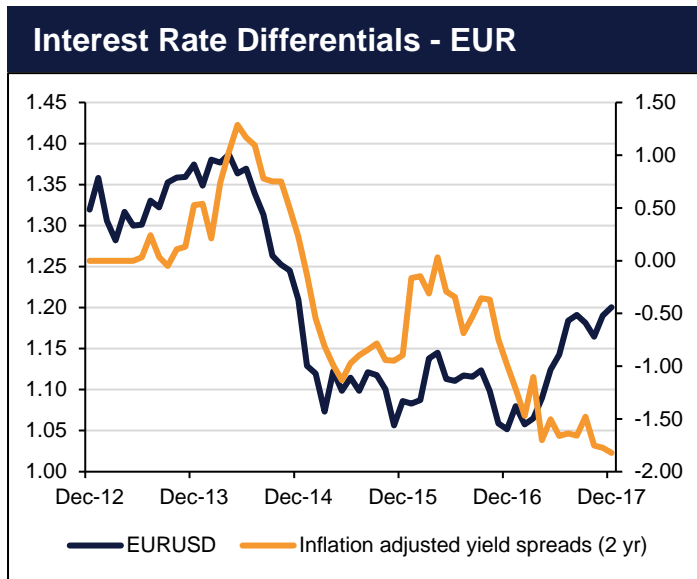


Interest Rate Differentials - AUD



Source: Bloomberg, Emirates NBD Research

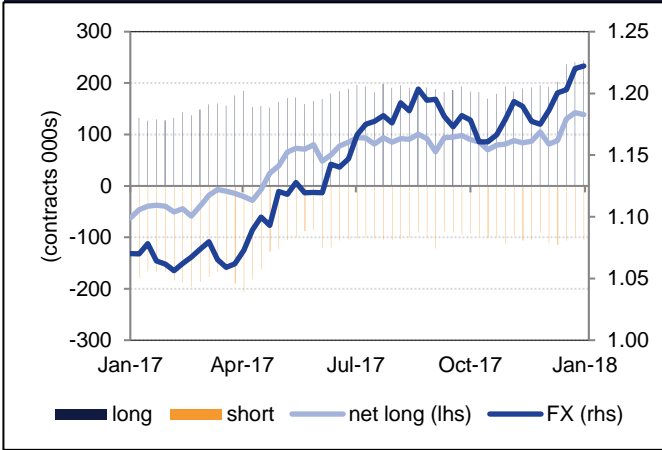
Major FX and Real Interest Rates



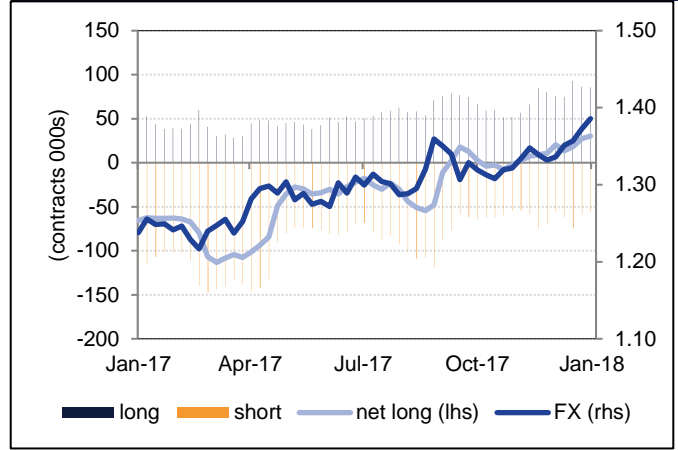
Source: Bloomberg, Emirates NBD Research

Major Currency Positions

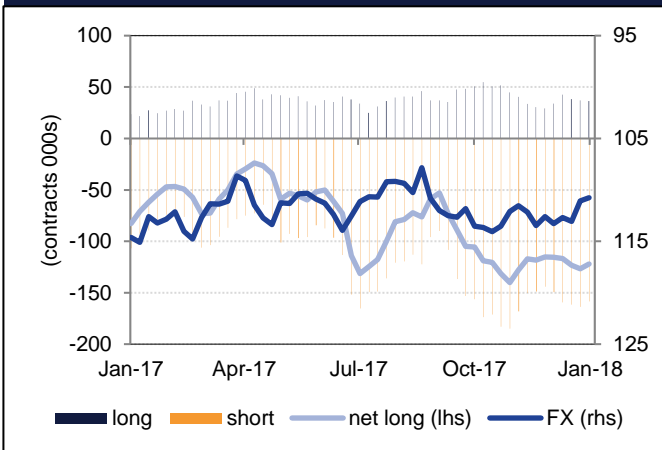
CFTC – Speculative Positions - EUR



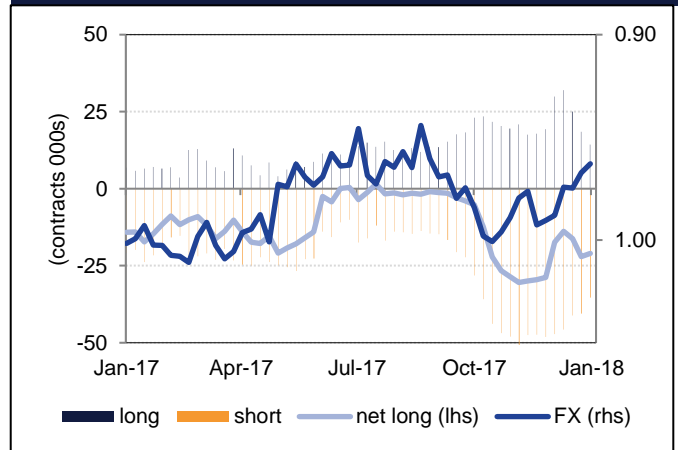
CFTC – Speculative Positions - GBP



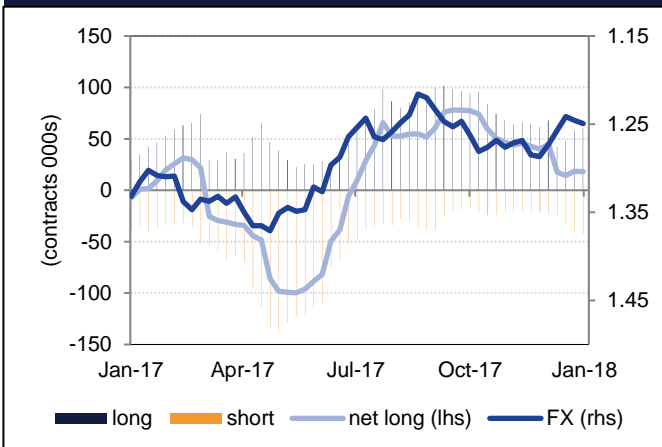
CFTC – Speculative Positions - JPY



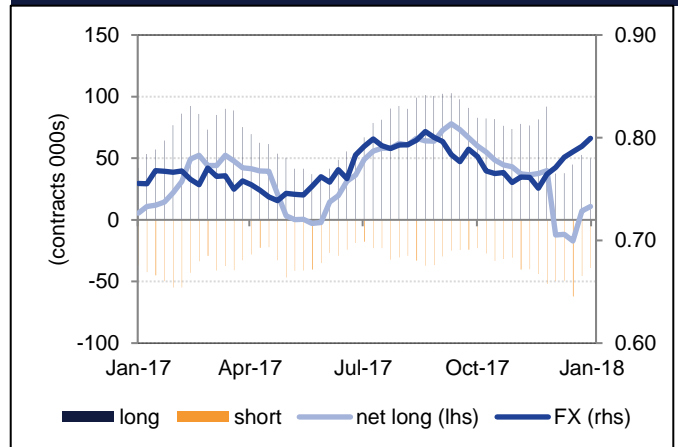
CFTC – Speculative Positions - CHF



CFTC – Speculative Positions - CAD



CFTC – Speculative Positions - AUD



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