



بنك الإمارات دبي الوطني
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FX Week

Markets hesitate

The dollar was firmer last week as the equity markets hesitated, but the extent of its gains was small. Market enthusiasm for economic stimulus measures remains high, and data has also improved overall, but concerns remain about a second wave of coronavirus and there were also geopolitical tensions last week between India and China. Global bodies like the OECD and World Bank are increasingly downbeat, as were the Fed and the BOE, and the IMF is expected to downgrade its forecasts later this week as well. Meanwhile longstanding problems remain in respect to UK-EU trade talks and the EU Council meeting on Friday failed to resolve differences over the EUR750bn recovery fund. The net result is a more cautious mood all around.

USD fundamentals not positive

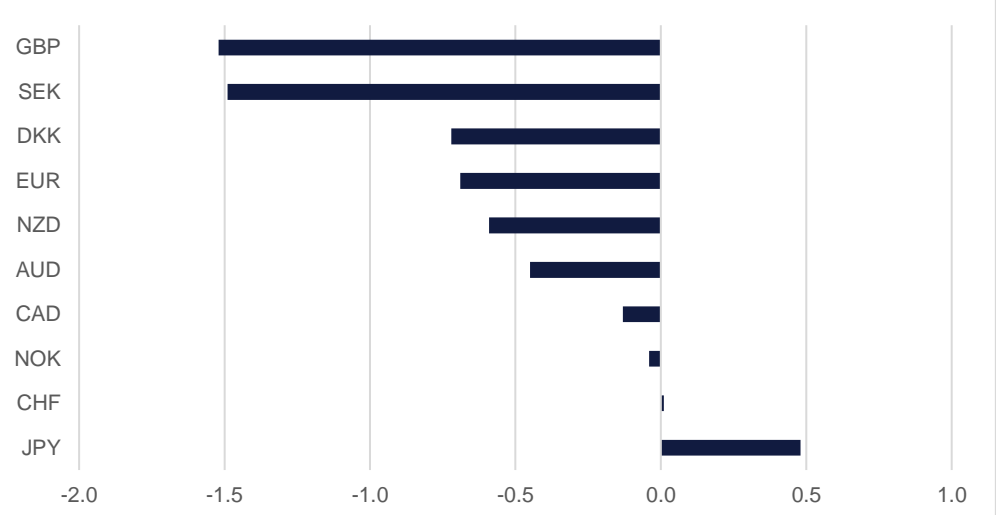
U.S. economic data last week was mixed, with strength in retail sales but weaker industrial production and jobless claims that showed that the labour market is not out of the woods. This week the U.S. calendar includes personal income, consumption, housing, durable goods, and consumer sentiment that will help fill out the performance of the month, with Markit PMI's also giving a glimpse into June. President Trump has talked up the possibility of a USD1 trillion infrastructure program which could help to generate jobs in time for the election, but the opinion polls appear to be moving against him and markets are starting to take notice.

Markets may also be noticing that the Fed for all its talk of maintaining its current pace of QE has been 'tapering' its purchases of US Treasuries to about USD 20bn a week. Its message on policy rates has also been very dovish and the futures market does not expect any increase in the fed funds rate before the end of 2023. So long as a further crisis sparking extreme risk aversion is avoided the aggressive cuts in US rates over the last three months and the prospect for them to remain low into the medium term is not particularly bullish for the dollar, especially given the US' twin budget and current account deficits.

EUR takes a pause

The EUR took a pause last week and this was even before EU leaders failed to settle their differences over the EUR750bn recovery fund on Friday. Discussions on the jointly funded recovery program were postponed until July, with disagreements remaining over the size of the fund and the way it is to be distributed. ECB head Christine Lagarde warned that failure to come to an agreement could lead to fresh market turbulence, and reopening markets on Monday could see the EUR marked lower as a result of the EU's indecision. Eurozone economic data in the coming week may lend the EUR some support, with consumer confidence, flash PMI indices and the German IFO index all due out. However, the extent of their improvements will be watched and may not be strong enough to see the EUR push up beyond its recent range.

Weekly currency movement vs USD (%)



Source: Bloomberg, Emirates NBD Research

GBP sees biggest losses

GBP also lost ground against the USD falling by 1.52% for the biggest loss in the week amongst G10 currencies. This came despite strength in retail sales of 12% m/m in May, and followed news that U.K. government debt rose above 100% of GDP in May for the first time since 1963. May CPI fell to a four-year low rate of just 0.5% y/y, and the BoE left its policy repo interest rate unchanged at 0.1% after the June Monetary Policy Committee meeting, but expanded QE by GBP100bn while pledging a further expansion if needed.

The UK also continued to relax its lockdown, and on the EU-UK trade front leaders declared a new intensity in their discussions. Preliminary PMI surveys for June can be expected to show a further improvement from April's lows but should still signal an economy deep in contraction.

JPY the strongest currency over the week

The JPY continues to move in line with risk sentiment and was the only currency to rise against the USD last week as risk aversion came to the fore in Asian markets amid fears of a second wave of the coronavirus. This is consistent with the yen's role as a safe haven currency based on its status as a current account surplus country (3.6% of GDP), where yield-seeking domestic investors invest in foreign assets during times of growing confidence and repatriate funds home at times of uncertainty. Japanese manufacturing and services PMIs for June will be watched on Tuesday, with the May manufacturing index having dropped to 38.4 from 41.9 in April for the lowest reading since March 2009. June Tokyo CPI is also due out later this week, and with the national data for May showing CPI at 0.1% markets will be watching for signs that prices might dip further.

Elsewhere in Asia China's calendar is quiet, and its markets are on holiday towards the end of the week. Singapore May CPI is expected to fall to a -1.0% y/y rate from -0.7% y/y in April, while May manufacturing production is also expected to be negative although recovering from March and April levels. In terms of central banks, New Zealand's RBNZ is seen on hold, with rates steady at 0.25%. The AUD and NZD traded mostly sideways for the majority of last week, both recording modest declines to reach 0.6836 and 0.6407 respectively.

FX Forecasts

FX Forecasts – Major						Forwards		
	19-Jun	Q2 2020	Q3 2020	Q4 2020	Q1 2021	3m	6m	12m
EURUSD	1.1178	1.1000	1.1200	1.1500	1.1700	1.1202	1.1225	1.1277
USDJPY	106.87	110.00	111.00	112.00	110.00	106.72	106.56	106.12
USDCHF	0.9523	0.9800	0.9500	0.9400	0.9200	0.9497	0.9471	0.9415
GBPUSD	1.2350	1.2500	1.3000	1.3500	1.4000	1.2356	1.2362	1.2375
AUDUSD	0.6835	0.6600	0.6600	0.7000	0.7000	0.6836	0.6835	0.6831
NZDUSD	0.6407	0.6400	0.6400	0.6800	0.6800	0.6404	0.6400	0.6394
USDCAD	1.3607	1.3800	1.3800	1.3500	1.3500	1.3604	1.3605	1.3605
EURGBP	0.9052	0.8880	0.8615	0.8518	0.8357	0.9066	0.9082	0.9114
EURJPY	119.46	121.00	124.32	128.80	128.70	119.46	119.46	119.46
EURCHF	1.0644	1.0780	1.0640	1.0810	1.0764	1.0638	1.0631	1.0617
	19-Jun	Q2 2020	Q3 2020	Q4 2020	Q1 2021	3m	6m	12m
SAR	3.7519	3.7500	3.7500	3.7500	3.7500	3.7548	3.7569	3.7633
AED	3.6730	3.6730	3.6730	3.6730	3.6730	3.6746	3.6764	3.6808
KWD	0.3079	0.3020	0.3020	0.3020	0.3020	0.3085	0.3090	-
OMR	0.3850	0.3850	0.3850	0.3850	0.3850	0.3864	0.3878	0.3912
BHD	0.3771	0.3770	0.3770	0.3770	0.3770	0.3773	0.3775	0.3779
QAR	3.6675	3.6400	3.6400	3.6400	3.6400	3.6704	3.6698	3.6696
EGP	16.1793	16.2000	16.0000	17.0000	17.0000	16.5700	16.9500	17.7800
INR	76.191	75.000	75.000	73.000	72.000	77.0800	77.8400	79.3500
CNY	7.0710	7.1500	7.2000	7.2000	7.2500	7.1055	7.1382	7.2031
SGD	1.3974	1.40	1.40	1.35	1.3000	1.3970	1.3963	1.3956
						3.7503		
	19-Jun	Q2 2020	Q3 2020	Q4 2020	Q1 2021			
MAD	9.6870	9.7500	9.7500	9.7000	9.7000	9.7413	9.7936	9.8469
TND	2.8586	2.9000	3.0000	3.0000	2.9000	2.9286	2.9986	3.2086
TRY	6.8525	6.8000	6.8000	6.6000	6.5000	-	-	-

Source: Bloomberg, Emirates NBD Research

*Denotes USD peg

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