بنك الإمارات دبي الوطني
Emirates NBD

FX Week

Weekly
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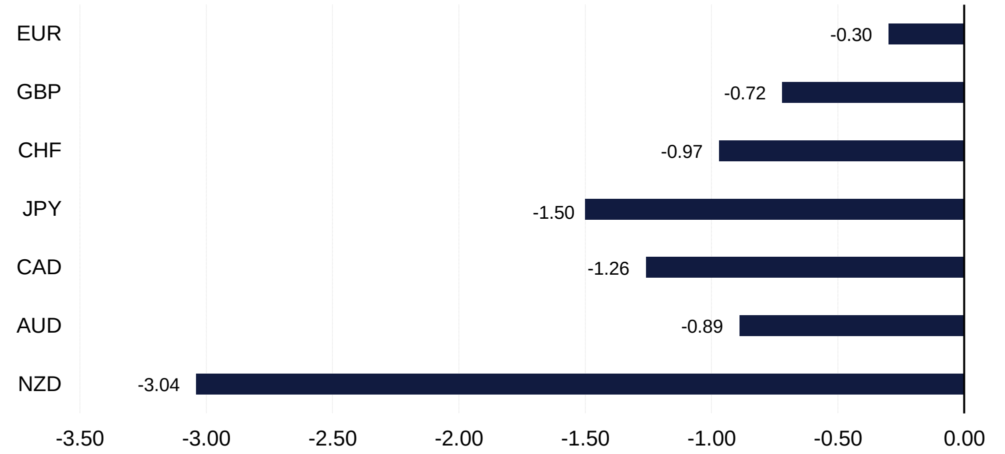
Positive sentiment underpins USD

Positive sentiment about the prospect for US tax cuts helped support the dollar at the end of last week, as well as benefiting other financial markets, with equities ending the week strongly and bond yields also firming. USDJPY in particular was the beneficiary of widening US interest rate differentials rising to a two-week high following the passage of a budget bill in the Senate, which was seen as paving the way towards a USD1.5 trillion tax cut. The positivity should extend into the start of this week even as political events are also making the headlines in Europe and in Asia. The week will also see important economic data, including U.S. Q3 GDP, and a key policy announcement from the ECB, with the issue of Trump's Fed nomination also likely to come to a head soon.

Reports at the end of last week suggested that the candidates for Fed Chairman were narrowing down to being effectively a race between the prominent economist John Taylor and the existing Fed Governor Jerome Powell, but with Janet Yellen still not being fully ruled out. According to reports Trump might have them fill both the Chair and Vice Chair positions, without indicating in which order, with an announcement probably due next week. John Taylor's likely inclusion in the shortlist is a surprise and is positive for interest rates, as his infamous 'Taylor Rule' already implies that the U.S. Fed funds rates should already be much higher than their current 1.0-1.25% range.

Weekly currency movement vs USD (%)



Source: Bloomberg, Emirates NBD Research

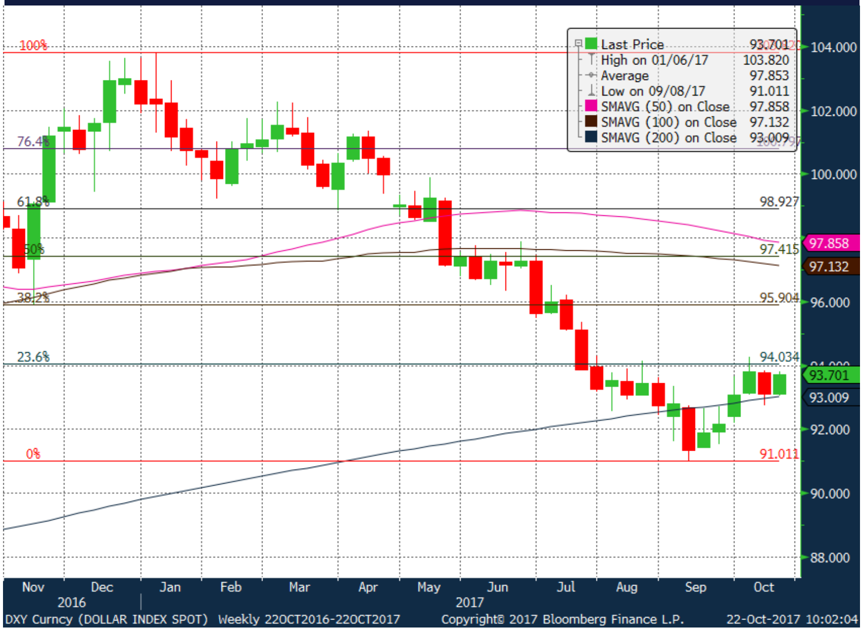
Rates are also firming on the back of optimism about the economy, with the prospect of tax cuts hardening after the Senate passed a 2018 budget resolution at the end of last week, with the next step being to harmonise the House and Senate versions of the budget. The House version looks for a deficit-neutral tax framework while the Senate version looks for USD1.5tr of tax cuts, so resolving these differences are likely to take some time, especially as some Republicans are also uncomfortable with a budget that raises the budget deficit further.

U.S. economic data last week was a little mixed, but Q3 GDP which is due out this week should show that growth overall grew strongly again, by at least 2.5% (annualized basis) after 3.1% in Q2.

USD outperforms

The USD was the best performing G10 currency last week, the dollar index rising 0.61% after finding support near the 200 week moving average (93.009). This is now the fourth consecutive week that this key level has held as a firm support, an observation which strengthens our conviction that further gains lie ahead in Q4 2017.

DXY finds support at 200 week MA



Source: Bloomberg

While the index remains above the 200 day average, the risks are that there are further gains towards 94.20, above the 100 day moving average (94.15) and the 23.6% one year Fibonacci retracement (94.034). A break of this level is likely to result in further gains towards 96.00, levels last seen in July 2017.

USDJPY higher on widening rate differentials

The start of the week may see greater attention on events elsewhere, with the results of the Japanese election becoming known and focus also falling on Spain as the government there seeks to impose direct rule on the rebellious Catalonia region. The Japanese election is expected to extend PM Abe's leadership with his coalition heading for a landslide victory according to opinion polls. Such an outcome would maintain continuity in economic policy, including the continuation of stimulatory monetary policy which has softened the JPY and helped to boost exports. Six straight quarters of positive growth and a move out of deflation are testimony to their effectiveness, with the JPY likely to continue to soften in the election's aftermath. CPI data towards the end of the week is expected to confirm the pick-up in pricing power, with the core CPI rate seen rising to 0.8% y/y from 0.7%.

USDJPY broke back above the 50% five year Fibonacci retracement last week (112.96) before encountering weak resistance to finish the week 1.52% higher at 113.52, a level last seen in July 2017. Of note is that the close at this level represents an aggressively bullish break of the capping trend line of the former daily downtrend that had been in effect since 10 March 2017. While the cross remains above 111.99 (the 61.8% one year Fibonacci retracement), we maintain our views that further gains towards 114.50 (the 76.5% one year Fibonacci retracement) can be expected.

USDJPY breaches former resistive cap

Source: Bloomberg

EUR vulnerable to political noise…

The EUR will have a number of important issues to confront in the coming week starting with the ongoing political turmoil in Spain's Catalonia region dominating to begin with. Catalan President Puigdemont has said that the region will not accept the plan for Madrid to impose direct rule, but it is unclear what the next steps will be and whether it will spark renewed instability. It may take time for Madrid to impose direct rule, but the hope is that it may lead to new elections in Catalonia which could result in the separatist parties losing their independence. Markets are still digesting the results of the Austrian election last week and the Czech election over the weekend which show that populist momentum is being maintained, which is likely to keep downward pressure on the EUR exchange rate.

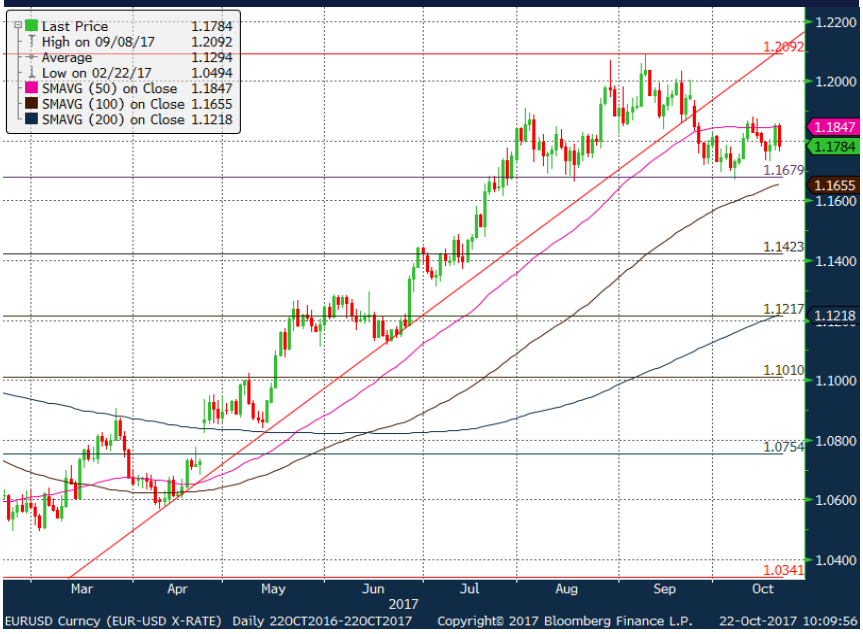
…as it awaits ECB meeting

Of more direct concern for the EUR however will be the ECB meeting on Thursday. The ECB is likely to announce another QE program, but it is likely that the monthly asset purchases will be cut back from their current EUR60bn a month. The main question is how much they will be tapered by, and how long the new program will last. While initially the ECB was expected to trim purchases to EUR40bn for six months, it now seems that a cut to EUR30bn a month may be more likely albeit with a longer nibe month timeline, leading to QE purchases ending next September. How this will be expressed, however, will be critical, with President Draghi thought to be unwilling to commit to a final QE end date just yet, while pushing the likelihood of rate rises out to 2019. Such a message would be perceived dovishly adding to the accumulating weight on the EUR coming from political events.

EURUSD risk remains biased down

EURUSD fell by 0.34% last week to close at 1.1780, below the resistance level that we had cited last week (the 50 day moving average of 1.1847). However, it has still been unable to break below the 200 week moving average (now 1.1693) and as such has spent another week range bound between these key levels. Analysis of the daily candle chart shows a clear failure to reach a new high and a failure to break the resistance at the 50 day moving average. As a result of these observations, we draw the same conclusion as in last week's publication. The risk remains biased towards a break of the 200 week moving average, a break of which will be followed by a test of 1.1680, close to the 76.5% one year Fibonacci retracement.

EURUSD remains below 50 day moving average



Source: Bloomberg

Brexit weighs on sterling

Sterling is also struggling under the weight of political risks related to the Brexit negotiations. While the EU has offered the prospect of trade talks beginning in December, overall progress remains slow which is raising concern about what the end deal will eventually look like. Last week UK inflation rose to 3.0% in September which will likely precipitate a rate hike in November, but GDP growth expected this week may still be slow meaning that markets will worry that the economy is in danger from both a bad Brexit deal and from monetary policy tightening.

Cable finds support at 50 day moving average

Source: Bloomberg

GBP finds support at its 50 day moving average

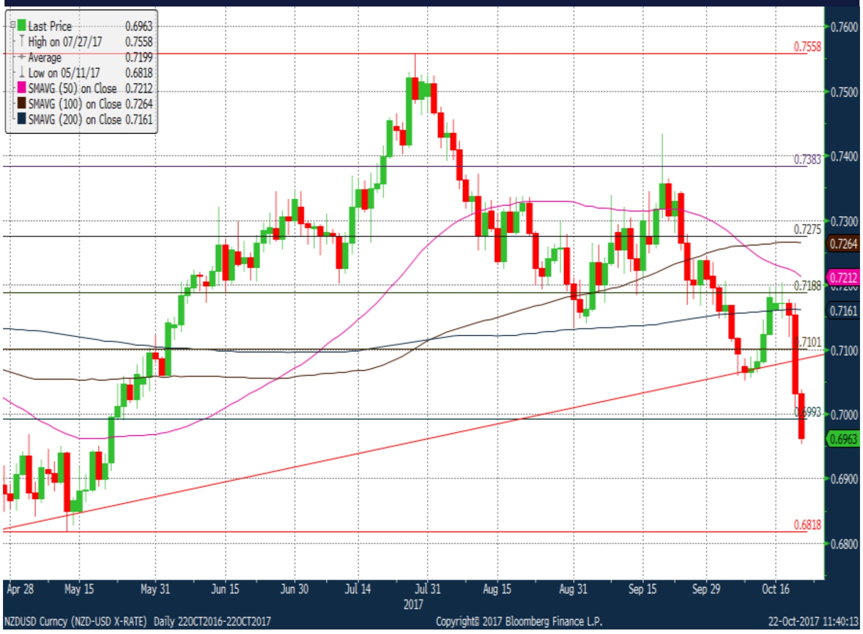
GBPUSD declined 0.73% over the last five trading days to close at 1.3189. Despite this, cable remains supported at the 50 day moving average (1.3161). In addition to this, analysis of the daily candle chart shows that the lows are still getting higher. Therefore while support continues to be found at the 50 day moving average, we can expect further gains in the medium term. However, should this support level falter, we can expect larger declines towards 1.3050.

Kiwi shot down by government uncertainty government

The kiwi was last week's worst performing G10 currency, coming under selling pressure amid concerns over the new government. Labour Party leader, Jacinda Ardern won the backing of the nationalist New Zealand First party to oust the incumbent National Party, becoming the youngest Prime Minister in over 150 years. Markets sold off the NZD amid concerns over slashes in immigration, reductions in foreign ownership of assets and a change in the central bank's mandate.

Over the course of the week, NZDUSD fell 3.03% to close at 0.6964, levels not seen since May 2017. This decline in price took the kiwi below the 200 day moving average (0.7161) as well as below the 38.2% and 23.6% one year Fibonacci retracement. The firm close below these levels enhances the risks of losses and the possibility of a decline towards the one year lows of 0.6818 cannot be ruled out.

NZDUSD takes out critical levels



Source: Bloomberg

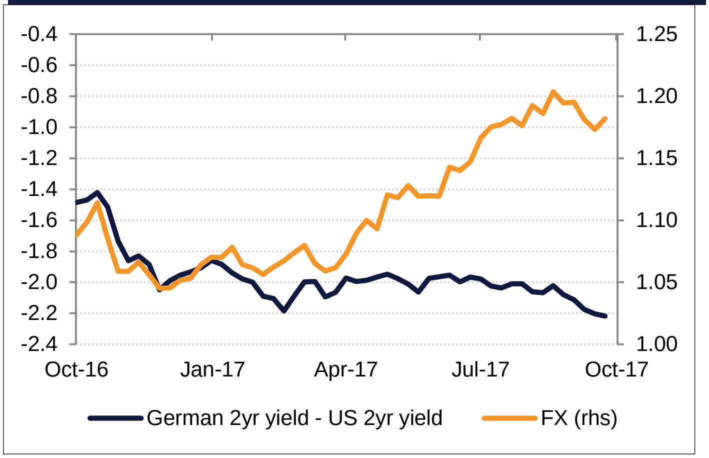
FX Forecasts

	FX Forecasts - Major					Forwards		
	20-Oct	Q4 2017	Q1 2018	Q2 2018	Q3 2018	3m	6m	12m
EUR	1.1784	1.1500	1.1500	1.1800	1.2000	1.1848	1.1912	1.2055
JPY	113.52	114.00	116.00	118.00	120.0000	112.98	112.41	111.14
CHF	0.9842	1.0000	1.0400	1.0400	1.0400	0.9779	0.9715	0.9583
GBP	1.3190	1.3400	1.3600	1.4000	1.4200	1.3229	1.3267	1.3343
AUD	0.7817	0.7500	0.7200	0.7000	0.7200	0.7810	0.7805	0.7794
NZD	0.6963	0.6900	0.7000	0.7100	0.7100	0.6952	0.6943	0.6929
CAD	1.2627	1.2400	1.2500	1.2600	1.2600	1.2617	1.2611	1.2600
EURGBP	0.8931	0.8582	0.8456	0.8429	0.8451	0.8953	0.8976	0.9032
EURJPY	133.77	131.10	133.40	139.24	144.00	133.77	133.77	133.77
EURCHF	1.1602	1.1500	1.1960	1.2272	1.2480	1.1590	1.1577	1.1556
	FX Forecasts - Emerging					**Forwards**		
	20-Oct	**Q4 2017**	**Q1 2018**	**Q2 2018**	**Q3 2018**	**3m**	**6m**	**12m**
SAR	3.7503	3.7500	3.7500	3.7500	3.7500	3.7517	3.7541	3.7628
AED	3.6729	3.6730	3.6730	3.6730	3.6730	3.6740	3.6754	--
KWD	0.3022	0.3050	0.3050	0.3050	0.3050	0.3037	0.3055	--
OMR	0.3850	0.3850	0.3850	0.3850	0.3850	0.3856	0.3866	0.3893
BHD	0.3772	0.3770	0.3770	0.3770	0.3770	0.3776	0.3781	0.3793
QAR	3.7725	3.6400	3.6400	3.6400	3.6400	3.7792	3.7805	3.7885
EGP	17.6479	17.5000	17.2500	17.0000	16.8000	18.1600	18.6500	19.6550
INR	65.0387	65.0000	66.0000	66.0000	66.0000	65.7600	66.4000	67.6300
CNY	6.6205	6.9000	7.0000	7.0000	7.1000	6.6650	6.7035	6.7760

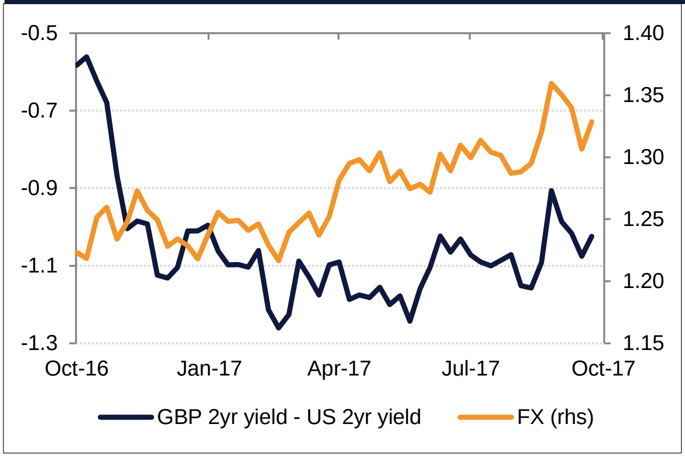
Source: Bloomberg, Emirates NBD Research
**Denotes USD peg*

Major FX and Nominal Interest Rates

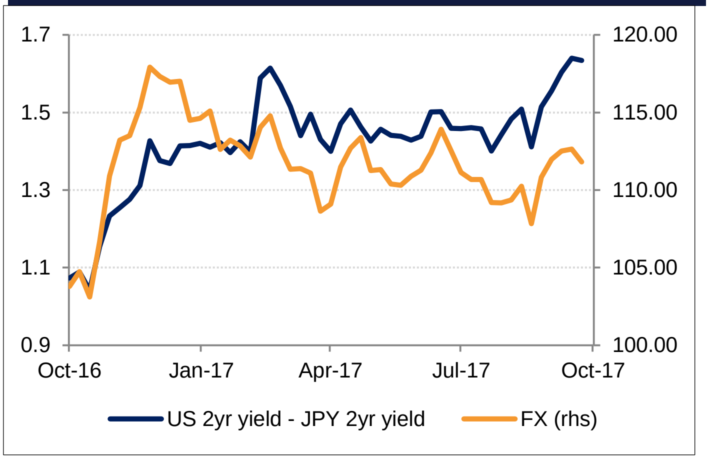
Interest Rate Differentials - EUR



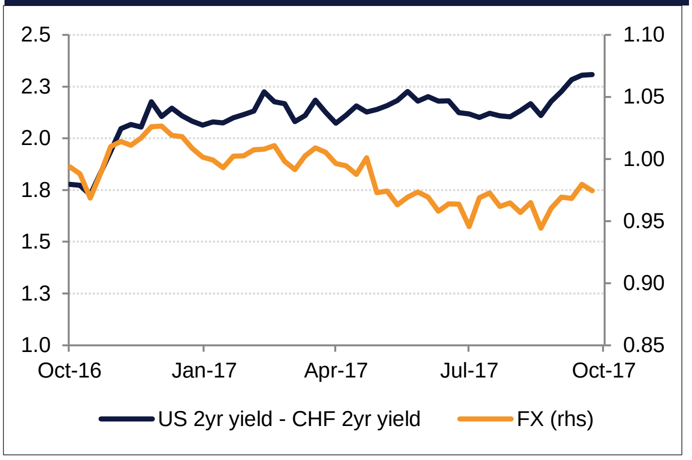
Interest Rate Differentials - GBP



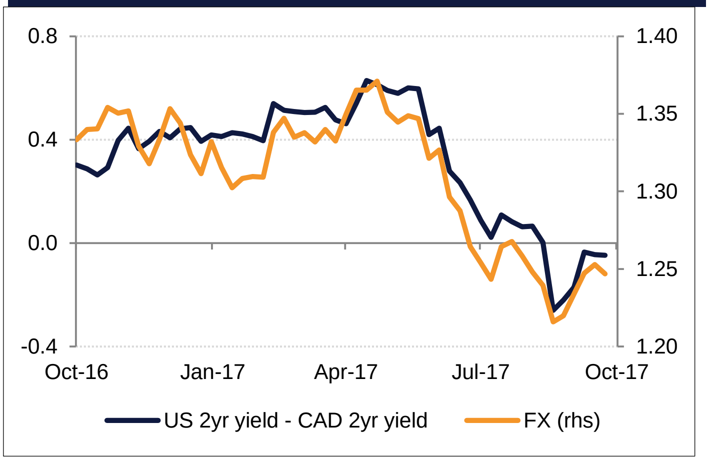
Interest Rate Differentials – JPY



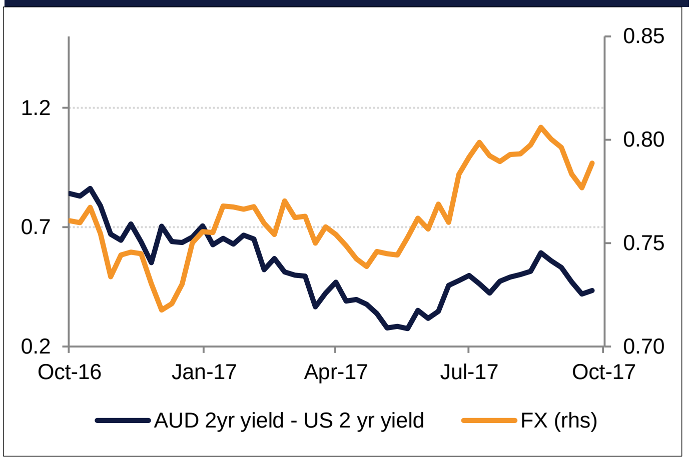
Interest Rate Differentials - CHF



Interest Rate Differentials - CAD



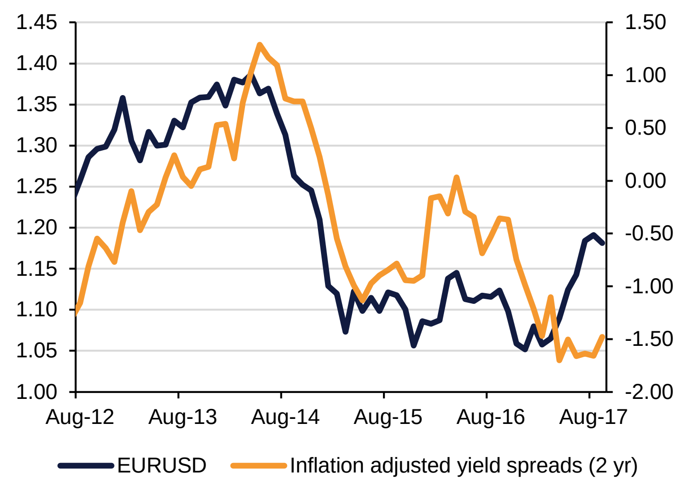
Interest Rate Differentials - AUD



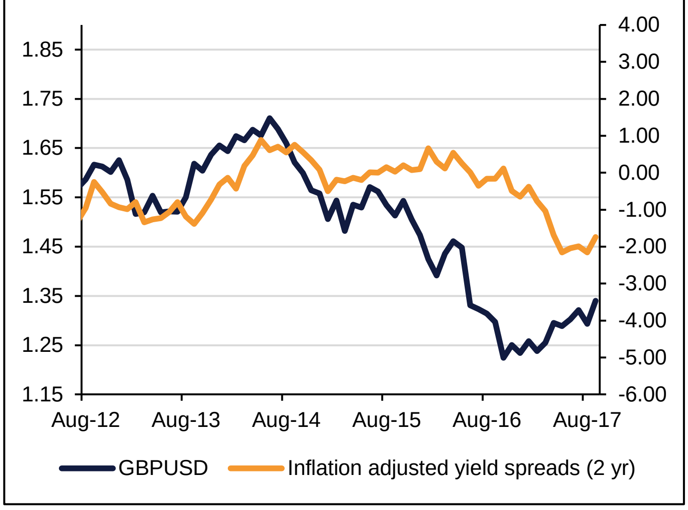
Source: Bloomberg, Emirates NBD Research

Major FX and Real Interest Rates

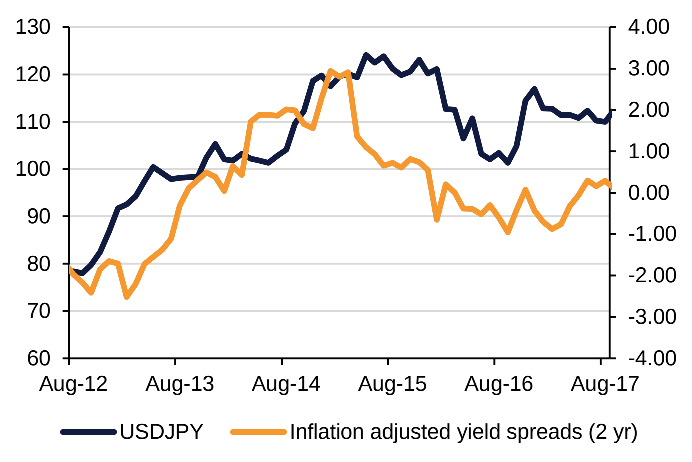
Interest Rate Differentials - EUR



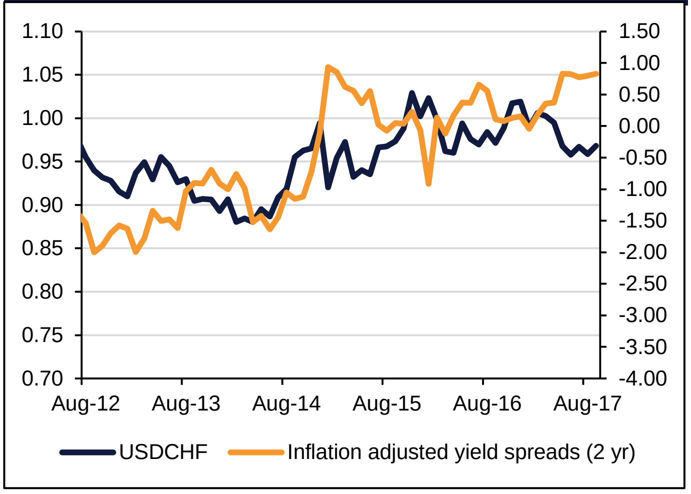
Interest Rate Differentials - GBP



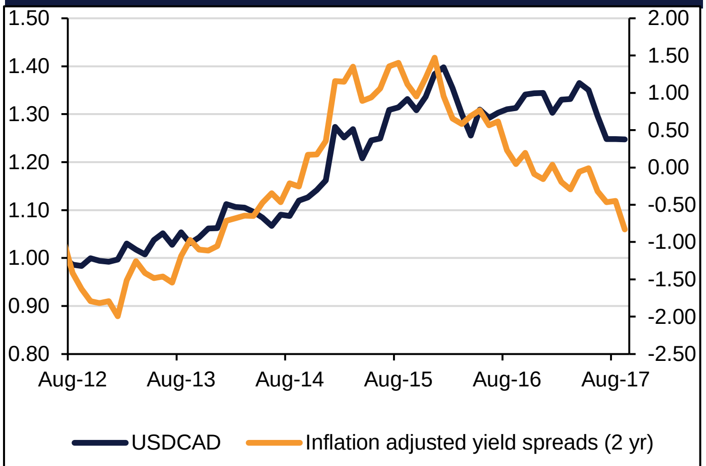
Interest Rate Differentials – JPY



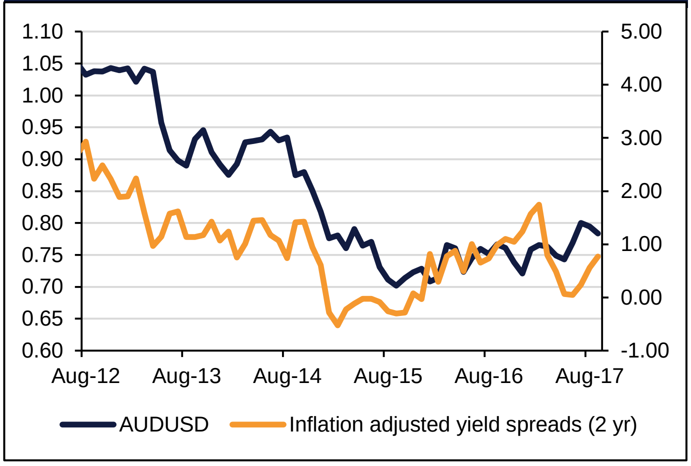
Interest Rate Differentials - CHF



Interest Rate Differentials - CAD



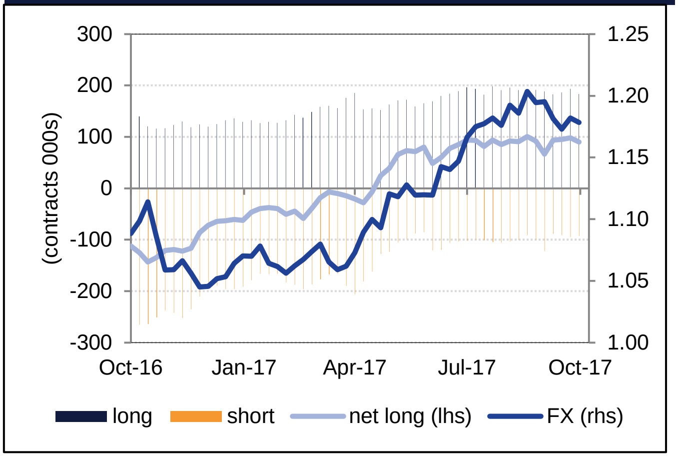
Interest Rate Differentials - AUD



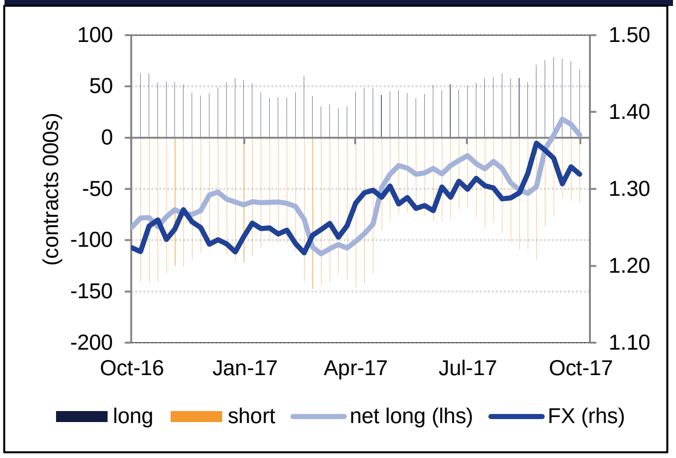
Source: Bloomberg, Emirates NBD Research

Major Currency Positions

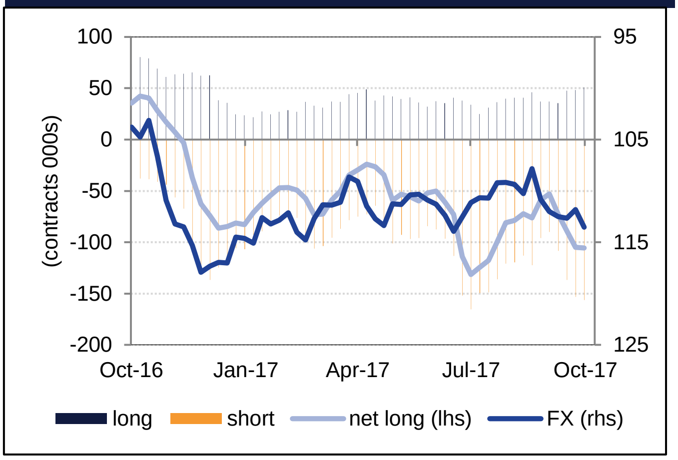
CFTC – Speculative Positions - EUR



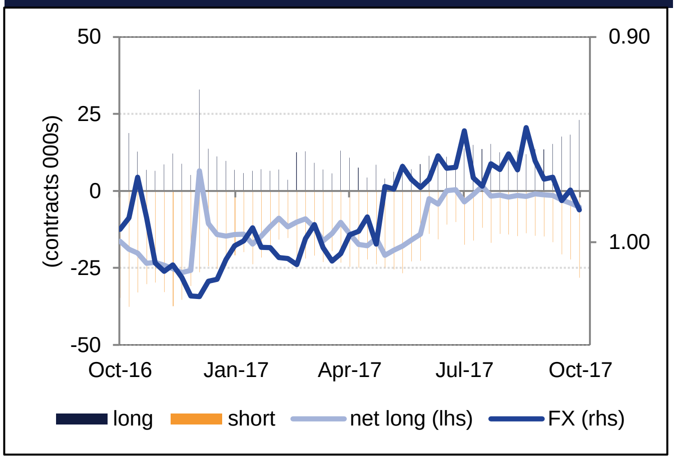
CFTC – Speculative Positions - GBP



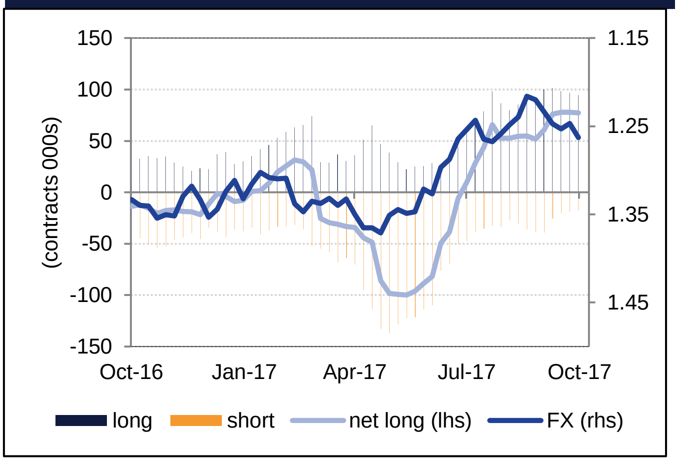
CFTC – Speculative Positions - JPY



CFTC – Speculative Positions - CHF



CFTC – Speculative Positions - CAD



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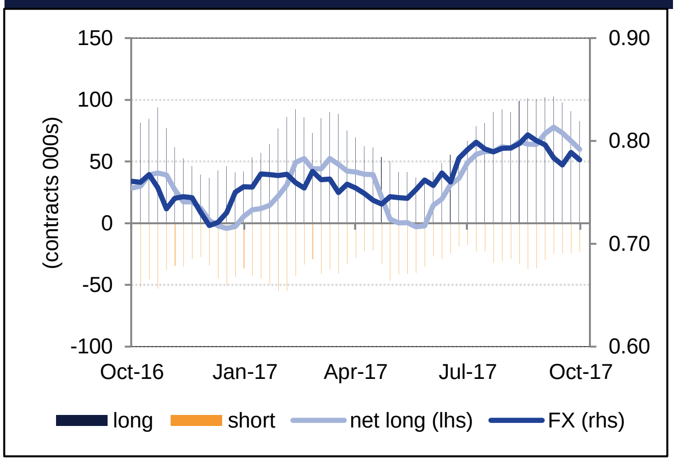

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