



بنك الإمارات دبي الوطني
Emirates NBD

Weekly
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FX Week

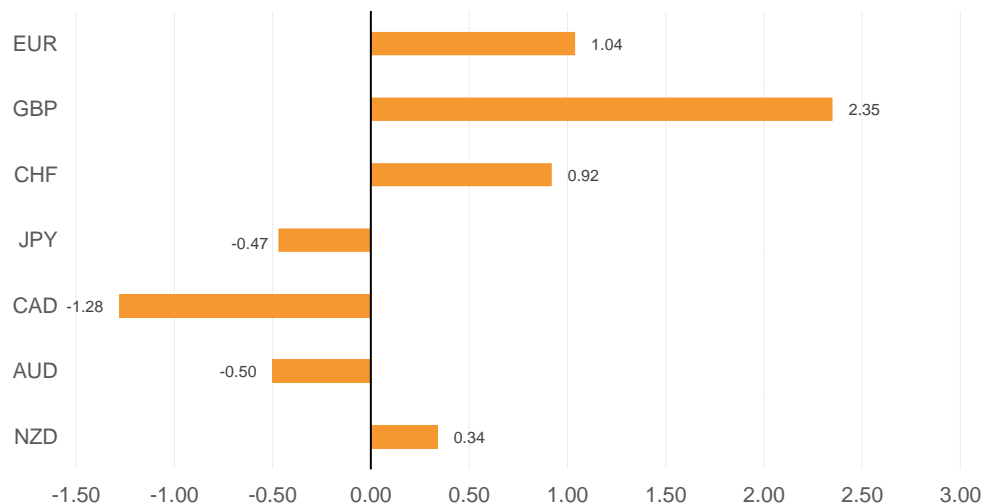
Risk sentiment still driving FX

The last month has been characterized by rising event risk stemming from deteriorating relations between the US and Russia over Syria, the ratcheting up of risk aversion over North Korea, and more recently the surprise announcement of a UK general election to be held in June as well as the countdown to the French elections which begin today. On top of these political factors the dollar has also been undermined by a perceived reduction in the likelihood of a Fed rate hike at the June FOMC meeting, in part stemming from more mixed economic data from the US but also from the resurgence of global risk aversion.

Immediate tone to be set by French elections

The starting point for the week's events will be the French presidential election, with the results of the first round being known tonight which will set the tone for FX markets tomorrow. The latest polling data has seen the four main candidates clustered around 20 percent, with the markets most uneasy about the possibility that the two most extreme contenders - Marine Le Pen on the right and Jean-Luc Melenchon on the left – might come out on top. Even if only one of them makes it through to the second round to face off against Francois Fillon or Emmanuel Macron, there will be a sense of uncertainty about what the next few weeks could bring. Any outcome that appears to strengthen the position of the latter two (Macron or Fillon) will be welcomed and would likely give the EUR a boost meanwhile.

Weekly currency movement vs USD (%)



Source: Bloomberg, Emirates NBD Research

However, the secondary impact might be also to increase risk appetite which might in turn be conducive for the Fed to think about tightening again, an outcome that could in the end be USD supportive, especially if the US Treasury unveils its tax reform proposal in the middle of this week. This possibility was alluded to by Treasury Secretary Mnuchin last week, and it could be very positive for the USD by further encouraging belief in the Trump reflation trade. Much will depend on the details that are unveiled, however, and how believable they seem. The other key event will be the release on Friday of the advance estimate of US Q1 GDP growth. However, with the consensus estimate for this being an annualised increase of just 1.2% down from 2.1% in Q4, the risk is that the USD could end the week with a slightly softer tone.

ECB and BOJ to set policy

The ECB and BoJ both hold policy meetings this week. The ECB faces pressure to start moving away from its unconventional policy program though the ECB will want to maintain an accommodative stance until the cyclical economic recovery moves onto a more secure footing later in the year, seeing greater evidence of price pressures. The BoJ faces a challenge in sticking with its yield curve control program and end-week data will show that CPI inflation is still some distance from the BoJ's 2% inflation target, with its core rate expected to rise to just 0.3% y/y in March from 0.2% in February. This means that the BoJ will have little choice to keep policy on hold. This message was delivered unambiguously by BOJ Governor Kuroda last Friday when he said 'the BOJ will continue its ultra-easy monetary policy to achieve its 2% inflation target at the earliest date possible'. It is therefore more or less certain that the BOJ's policy meeting this week will keep its monetary policy settings unchanged. That being so, and if risk appetite starts to recover, then USDJPY could finally begin to recover back above 110.

GBP boosted by snap election

Last week's announcement of a snap UK election for 8 June gave the pound 2.34% boost which was largely maintained at the end of the week despite softer than expected March UK retail sales figures (-1.8% m/m). The election is expected to significantly increase the Government's majority, which is currently only 17, and will therefore facilitate an easier Brexit deal with an emphasis on free trade, open markets and immigration controls. A stronger and more stable UK government post-election will stand in sharp contrast to election uncertainty and fragile governments elsewhere in Europe, with elections still to be held in Germany and Italy this year. There may still be some volatility for the pound in the run-up to the June vote, as opinion polls maybe erratic and headlines can be misleading, but we are raising our Q2 forecast for GBPUSD to 1.25 and are more confident that our end-year forecast of 1.35 will be met. Q1 GDP data at the end of the week is expected to show UK growth slowing from a strong 0.7% in Q4 to a still respectable 0.5% in the first quarter.

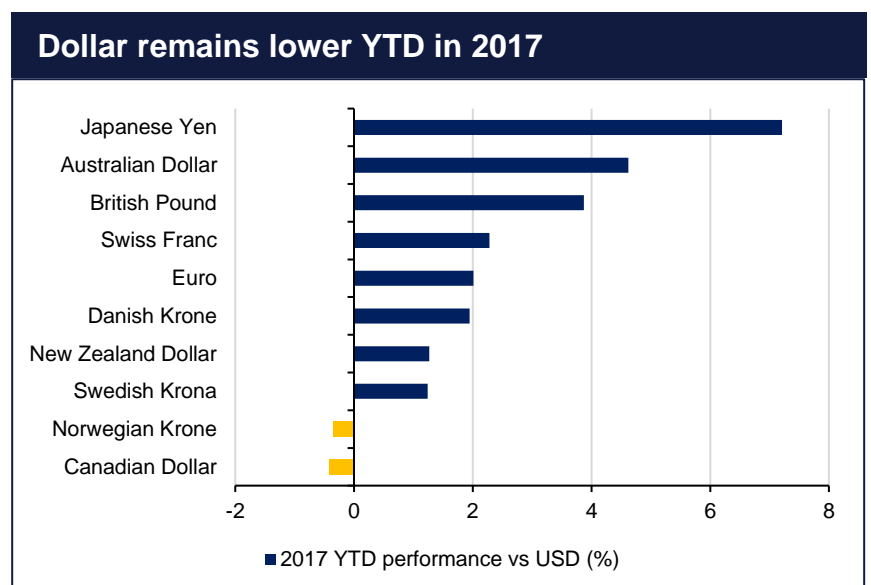
Technical Outlook

Further downwards pressure on the USD

The dollar remains lower YTD in 2017 respective to the other major currencies, with the exception of CAD. As shown in the graph below, the Dollar Index downtrend that has been in effect since the start of the year, and remains intact with recent closes indicating further softness in the month ahead. After finding resistance at the 100 day moving average on April 7th, the index proceeded to breach the 50 day moving average support on April 12th. While the 100.03 level (the 23.6% 2017 year to date Fibonacci retracement) initially served as another support, the index made a sustained breach of this level on 18th April 2017. With the index currently trading at 99.98 below these key levels, the short term outlook looks bearish and sets up a test of the 200 day moving average of 99.10.



Source: Bloomberg, Emirates NBD Research



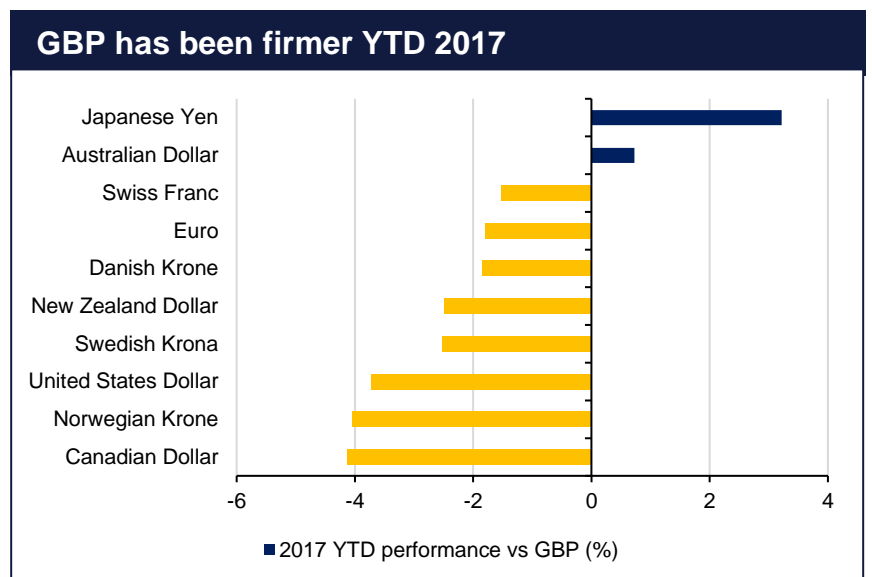
Source: Bloomberg, Emirates NBD Research

Sterling continues to add to 2017 gains

Sterling has continued to build on its 2017 gains, with GBPUSD currently trading at 1.2817 after gaining 2.34% last week. This move was accompanied by many key technical developments. Firstly, the pair has broken the daily downtrend that had been in effect since August 29th 2016. Secondly, the pair performed a sustained break of the 100 day and 200 day moving averages (see below). With this in consideration, we see a high risk of a retest above 1.30 (close to the one year 61.8% Fibonacci retracement) which could be catalyzed by short covering of the near record level of 99.5k net short position on GBP according to the CFTC's commitment of traders report (see chart on page 8). A break of this level would increase our confidence of the pair ending the year above our Q4 2017 forecast of 1.35 as highlighted above.



Source: Bloomberg, Emirates NBD Research



Source: Bloomberg, Emirates NBD Research

FX Forecasts

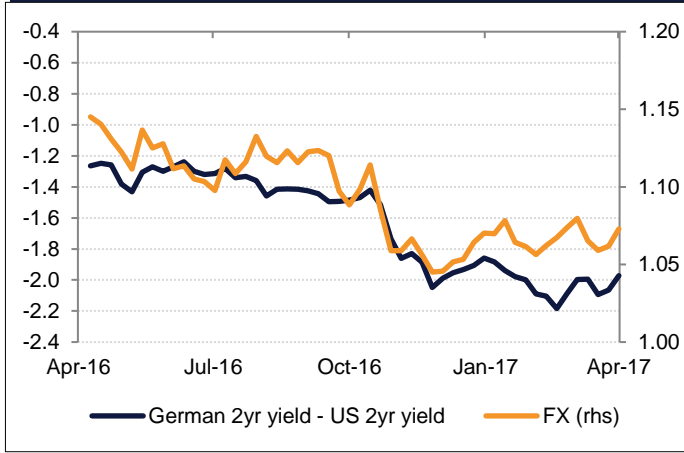
FX Forecasts - Major						Forwards		
	21-Apr	Q2 2017	Q3 2017	Q4 2017	Q1 2018	3m	6m	12m
EUR	1.0728	1.0500	1.0200	1.0000	1.0000	1.0777	1.0830	1.0945
JPY	109.09	116.00	120.00	122.00	124.00	108.68	108.20	107.12
CHF	0.9963	1.0300	1.0500	1.1000	1.1000	0.9907	0.9845	0.9716
GBP	1.2817	1.2500	1.3000	1.3500	1.4000	1.2848	1.2881	1.2955
AUD	0.7541	0.7300	0.7200	0.7000	0.7000	0.7529	0.7520	0.7503
NZD	0.7022	0.6900	0.6700	0.6500	0.6700	0.7006	0.6992	0.6963
CAD	1.3498	1.3500	1.3400	1.3200	1.3000	1.3481	1.3460	1.3418
EURGBP	0.8378	0.8400	0.7846	0.7407	0.7143	0.8396	0.8416	0.8456
EURJPY	116.94	121.80	122.40	122.00	124.00	116.94	116.94	116.94
EURCHF	1.0690	1.0815	1.0710	1.1000	1.1000	1.0679	1.0664	1.0635

FX Forecasts - Emerging						Forwards		
	21-Apr	Q2 2017	Q3 2017	Q4 2017	Q1 2018	3m	6m	12m
SAR	3.7503	3.7500	3.7500	3.7500	3.7500	-	-	3.7588
AED	3.6730	3.6720	3.6720	3.6720	3.6720	3.6743	-	-
KWD	0.3046	0.3050	0.3050	0.3050	0.3050	0.3044	0.3047	-
OMR	0.3850	0.3850	0.3850	0.3850	0.3850	0.3853	0.3858	0.3890
BHD	0.3770	0.3770	0.3770	0.3770	0.3770	0.3775	0.3778	0.3785
QAR	3.6415	3.6400	3.6400	3.6400	3.6400	3.6461	3.6509	3.6628
EPN	18.0936	18.0000	18.5000	18.7500	19.0000	18.4150	18.7925	19.6000
INR	64.613	66.000	64.000	65.000	66.000	65.3400	66.1000	67.6200
CNY	6.8859	7.0000	7.1000	7.2000	7.4000	6.9410	6.9865	7.0765

Source: Bloomberg, Emirates NBD Research
 *Denotes USD peg

Major FX and Nominal Interest Rates

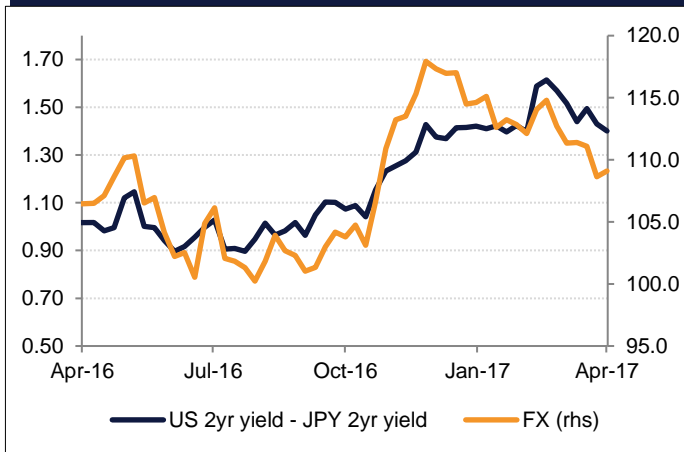
Interest Rate Differentials - EUR



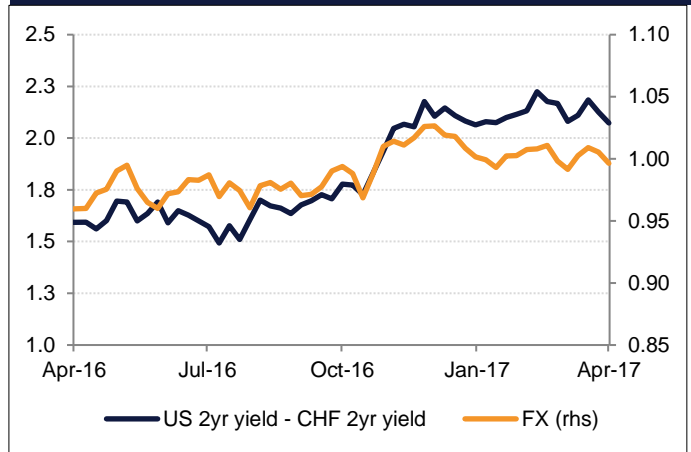
Interest Rate Differentials - GBP



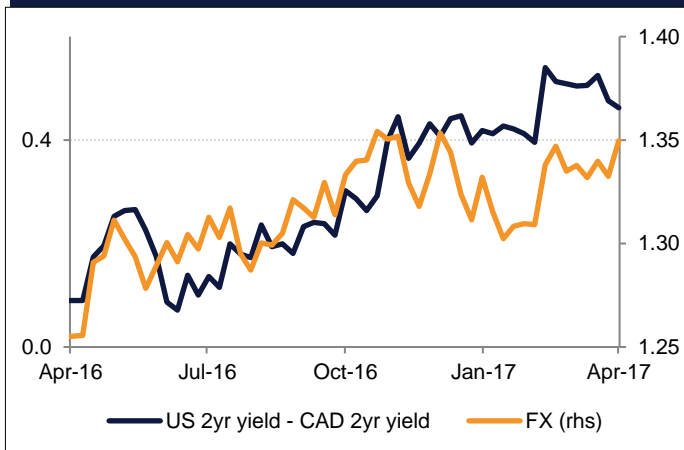
Interest Rate Differentials - JPY



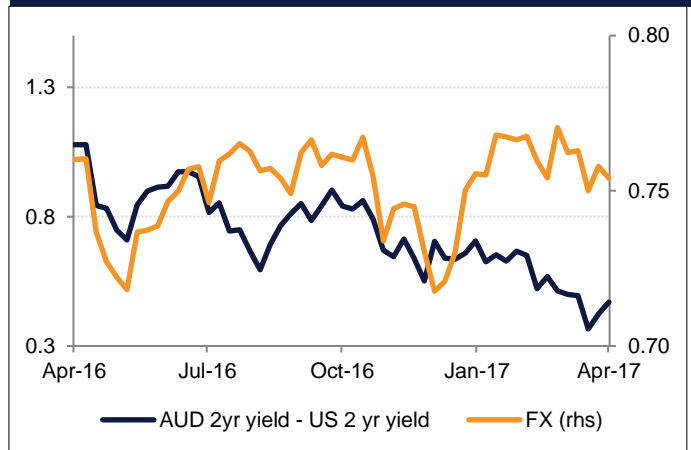
Interest Rate Differentials - CHF



Interest Rate Differentials - CAD

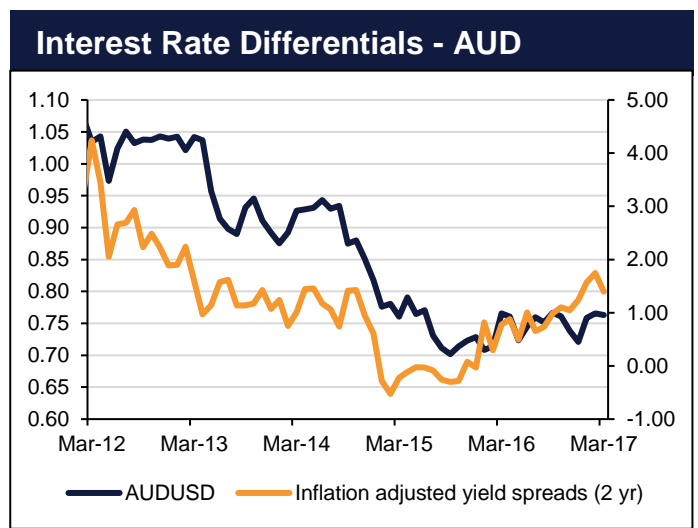
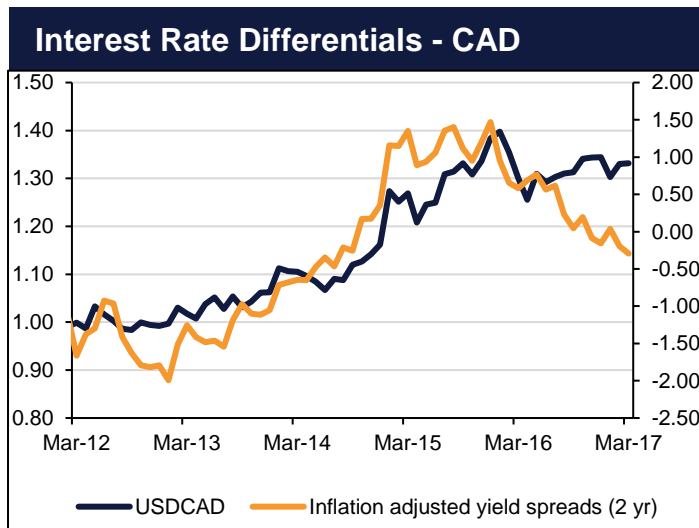
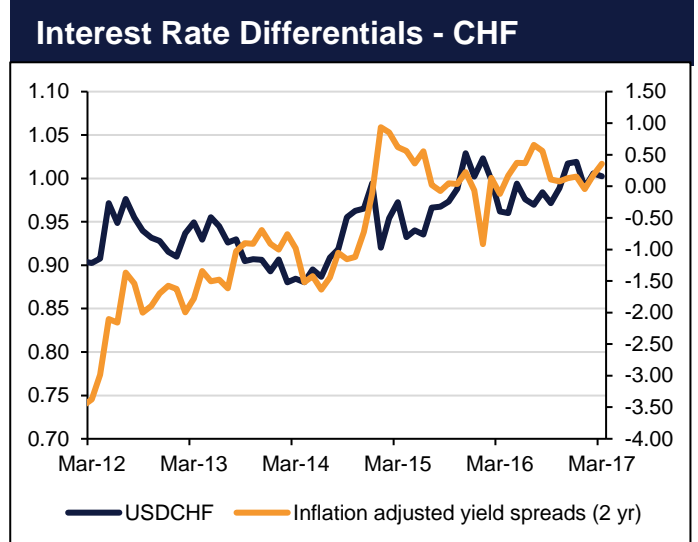
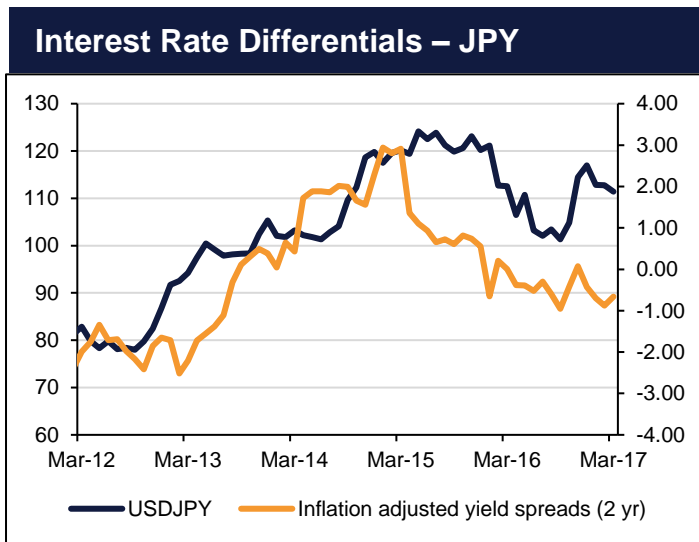
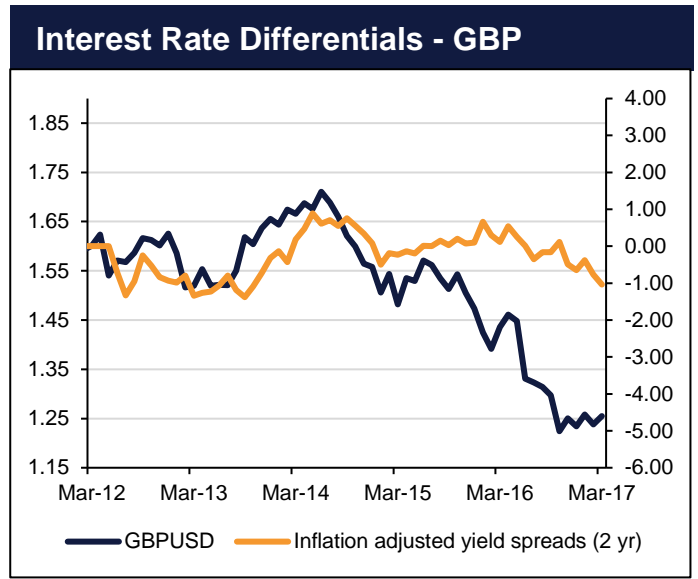
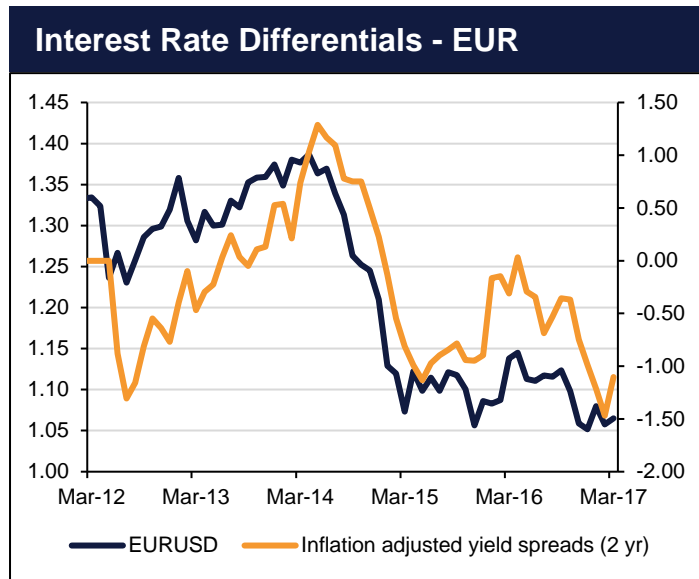


Interest Rate Differentials - AUD



Source: Bloomberg, Emirates NBD Research

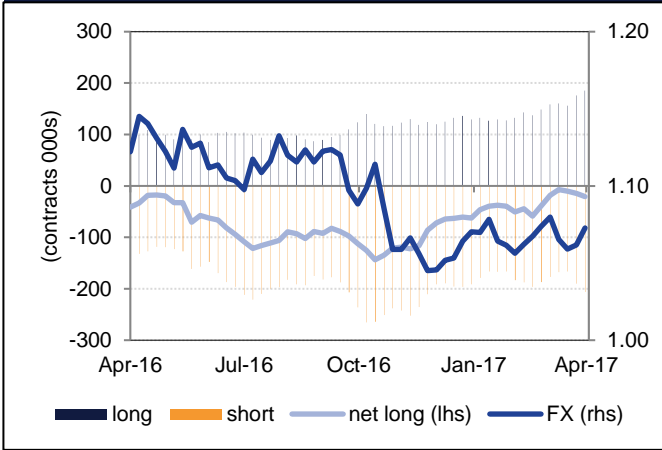
Major FX and Real Interest Rates



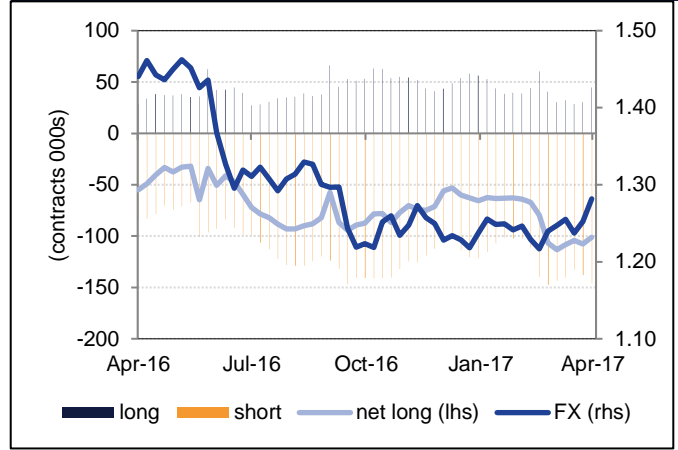
Source: Bloomberg, Emirates NBD Research

Major Currency Positions

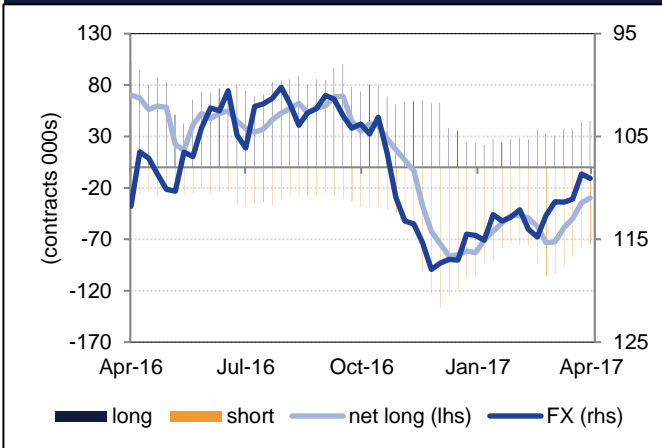
CFTC – Speculative Positions - EUR



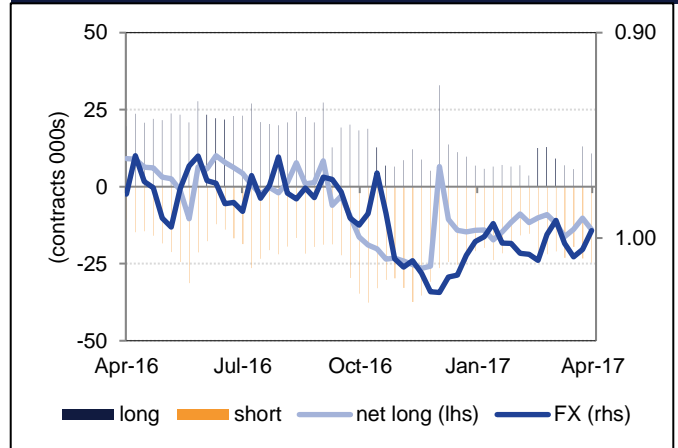
CFTC – Speculative Positions - GBP



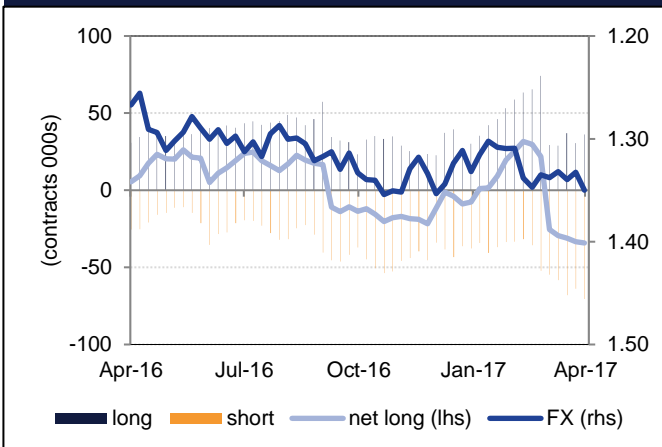
CFTC – Speculative Positions - JPY



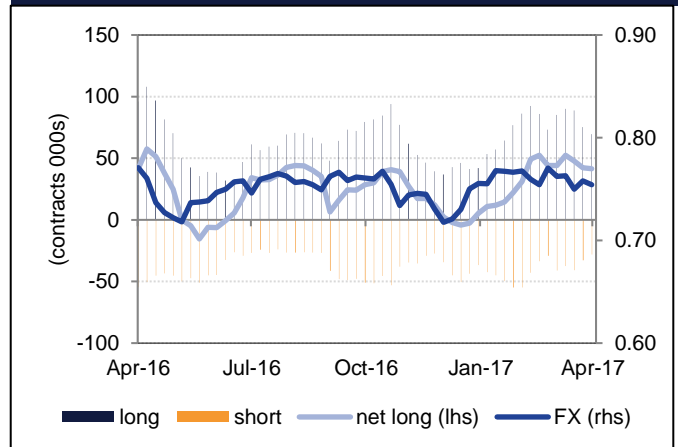
CFTC – Speculative Positions - CHF



CFTC – Speculative Positions - CAD



CFTC – Speculative Positions - AUD



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