



بنك الإمارات دبي الوطني
Emirates NBD

Weekly
23 September 2018

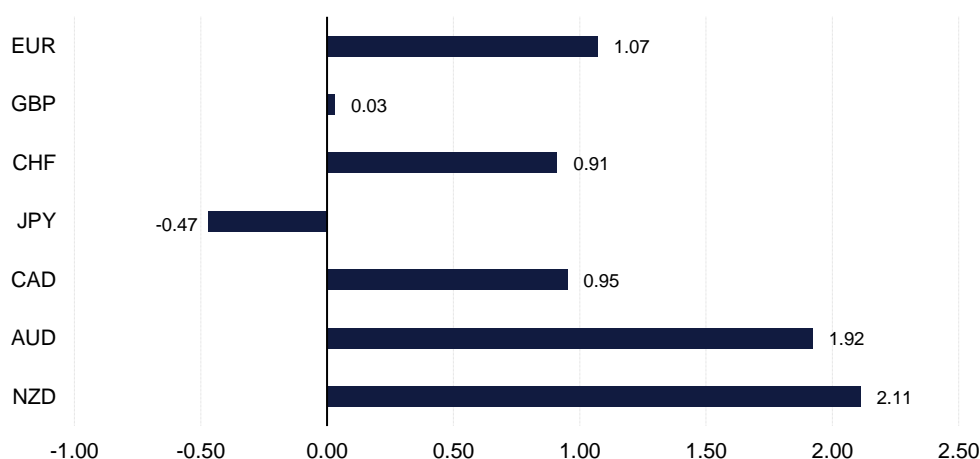
FX Week

Reduced anxiety over the US-China trade stand-off is allowing the rally in US equities to continue and the 10-year bond yield to consolidate above 3.0%. **The dollar is also reversing the strength that was previously associated with trade tensions**, with only USDJPY gaining slightly as it benefits from widening US-Japan yield differentials. Whether the market will remain quite so sanguine over trade remains doubtful however, as the imposition of new tariffs this week appears likely to be only the start of a deteriorating relationship. Markets appear to be taking heart from the fact that the US is 'only' imposing 10% tariffs on USD200bn of imports from China, with China responding with tariffs of between 5-10% on USD60bn of US imports. However, China is also likely to pursue 'qualitative measures' against US companies operating in China, applying more regulations on them, inspection requirements, and licensing requirements which will add to the burden of doing business in China for many US firms.

The Fed will be in the spotlight this week, with a near 100% certainty that it will raise interest rates by a further 25bps. Thereafter the market believes that another hike will be made in December, and it will be the communication around this that will be most important for the USD's reaction. Thus the forward guidance will be key, including the dot plot, and whether the Fed continues to characterize policy as accommodative, especially the message conveyed in the press conference by Chairman Jerome Powell.

Meanwhile, pressure on GBP has resumed following the EU summit in Salzburg which saw the expectations of Brexit progress disappointed, with the pound having its largest fall this year in the aftermath. The EU rejected the British prime minister's proposals over trade and over the Irish border, and Theresa May said that the EU has to treat the UK with greater respect. She went on to emphasize that there will not be a second referendum and implied that a 'no deal Brexit' was very much an option. Even after GBP's latest fall, however, the markets are still not pricing such an outcome, implying further downside risks as the tortuous negotiations continue to play out.

Weekly currency movement vs USD (%)



Source: Bloomberg, Emirates NBD Research

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Forecasts	Spot	1 Week	1 month
EURUSD	1.1749	1.1800	1.1900
GBPUSD	1.3072	1.3100	1.3200
USDJPY	112.59	113.00	112.00
EURJPY	132.29	133.34	133.28
EURGBP	0.8982	0.9008	0.9015
GBPJPY	147.22	148.03	147.84

EURUSD

EURUSD rises for a second week

EURUSD rose for a second week flirting with the 1.18 handle before realizing its highest weekly close in eleven weeks. The main drivers behind the gains are market expectations that the European Central Bank is on target to end its asset purchase program at the end of the year and begin to normalize monetary policy in 2019. This view was supported by inflation data which showed that Eurozone aggregate consumer prices increased 2.0% y/y in August. In addition, Executive Board members Benoit Couere and Peter Praet have indicated that they want the ECB to be more transparent with the market about the pace of tightening monetary policy. Such commentary has revealed that the cycle of accommodative monetary policy has come to an end and has boosted the euro.

Appetite for dollars to drive the cross

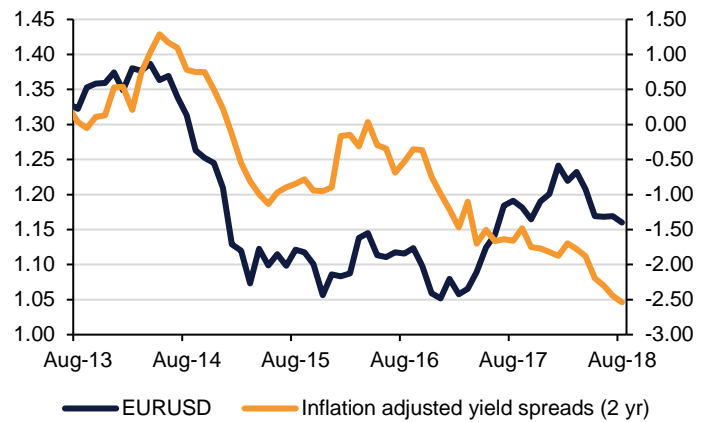
While IFO surveys, German employment data and Eurozone consumer confidence as expected in the week ahead, the main driver of EURUSD is likely to be the FOMC on Wednesday. At the time of writing, the market is currently pricing in 100% of a 25bps rate hike from the central bank, however it is the monetary policy statement that will have the most impact. With a 73% chance of a second rate hike being priced in for December 2018, any hawkish language from the FOMC that increases expectations of accelerated rate hikes will catalyze dollar strength and drive EURUSD lower.

Technical outlook

EURUSD posted a 1.07% rise last week to climb to 1.1749 after encountering resistance at the 1.18 handle on Friday. Of technical significance is that over the course of the week, the price was able to break and close above the 100-day moving average (1.1633) for the first time since April 2018. While the price remains above this level, we expect a retest of the 38.4% one-year Fibonacci retracement (1.1780). A break and daily close above this level will catalyze a move towards the 50-week moving average

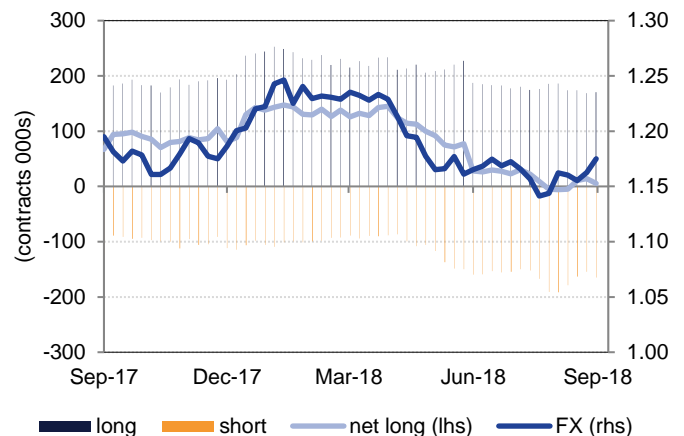
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EURJPY	132.29	133.34	133.28

Yield Spreads



Source: Bloomberg, Emirates NBD Research

Net Positioning



Source: Bloomberg, Emirates NBD Research

Daily Candle Chart



Source: Bloomberg, Emirates NBD Research

USDJPY

Despite looming trade war, JPY declines

JPY was the worst performing major currency for a second week. This decline was despite the market being nervous as trade tensions escalated between the U.S and China. President Trump announced that he would implement a 10% duty on USD 200bn of Chinese goods on the 24th September 2018, with the tariff rising to 25% in 2019. In addition, he announced that any retaliation from Beijing would result in an additional USD 267bn being subject to tariffs. Despite this, USDJPY cross held on to its gains above the 112 handle as it continued to be dragged higher by the U.S. 10-year yield which closed the week above 3%.

FOMC and risk appetite are next weeks drivers

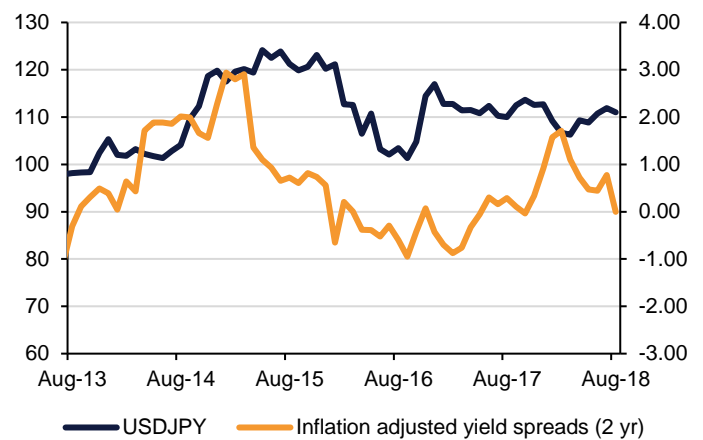
Inflation, production and employment data are expected to be released in Japan next week and will give further insight into the state of the Japanese economy. However, the main drivers of USDJPY will be the market's sentiment on USD post FOMC and overall risk appetite. Over the last week, we witnessed an escalation in trade tensions between the U.S and China. As we near the time of implementation of some of these tariffs (24th September), further escalations may result in the JPY being supported by safe haven bids.

Technical

In line with our expectations last week, USDJPY broke above the 76.4% one-year Fibonacci retracement (112.33) and rose 0.47% to close at 112.59, not far from our forecast of 112.50. While the price remains above this level, further gains towards the 200-week moving average of 113.27 remain a possibility.

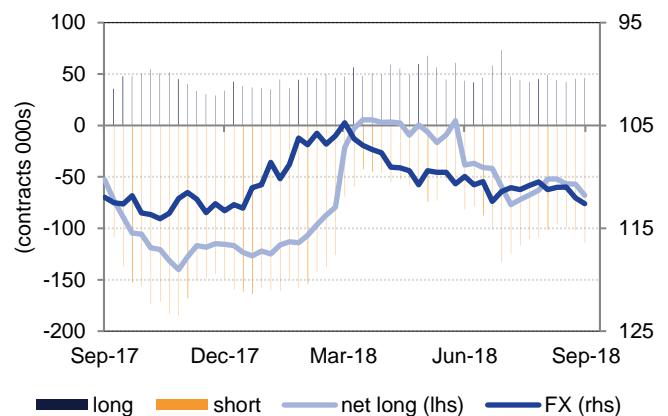
Forecasts	Spot	1 Week	1 month
USDJPY	112.59	113.00	112.00
EURJPY	132.29	133.34	133.28
GBPJPY	147.22	148.03	147.84

Yield Spreads



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Daily Candle Chart



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GBPUSD

GBP rises on data and falls on politics

Politics weighed on GBP at the end of last week, cancelling out positive economic data that supported it earlier. Negative sentiment surrounding Brexit increased starting with the IMF warning about the consequences of the UK leaving the EU without a deal. The Fund stated that it would entail “substantial costs” and cause “a reduction in size of the UK economy” and warned that the task of achieving a deal in before the deadline was “daunting”. To add to gloom, comments from EU leaders at the Salzburg summit were more pessimistic than expected with EU President Jean Claude Juncker saying that a deal was still far away while UK Prime Minister May said there would be no extension of the deadline.

Supporting GBP was UK economic data showing that inflationary pressures remain persistent. CPI increased 2.7% y/y in August compared with 2.5% y/y the previous month while core CPI accelerated from 1.9% y/y to 2.1% y/y. The increase in prices appears to be on account of some volatile components in the basket and may be temporary, but the expected timing of a rate hike from the Bank of England has been brought forward a little with the OIS now showing a 34.2% chance of a rate hike in February 2019, compared with a 25.4% chance before the data was released.

Brexit to be the dominant theme.

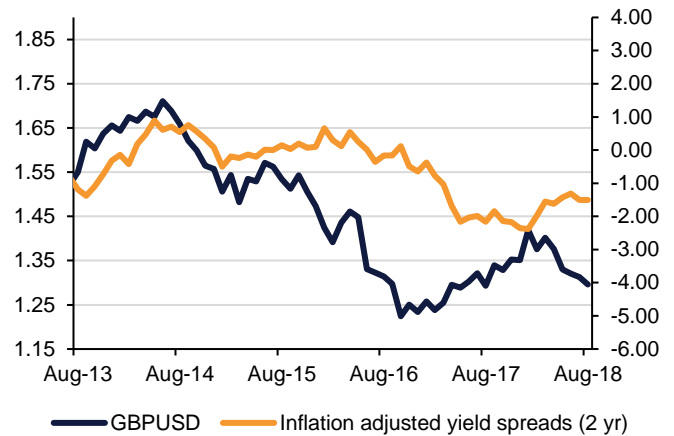
While economic data is expected to confirm that the UK economy expanded 1.3% y/y in Q2 2018, markets are likely to largely overlook the data with GBP’s value being driven more by Brexit headlines. These developments have added to the pressure on PM Theresa May, with renewed speculation about the possibility of an early general election.

Technical

GBPUSD was almost unchanged last week, posting a modest 0.10% rise to close at 1.3072. While there was a break of the 100-day moving average (1.3157), this break was not sustained. We expect support at the 50-day moving average (1.2984) to limit short term losses, this level having provided support on two previous occasions in September. While the price remains above this level and above the 23.6% one-year Fibonacci retracement (1.3067), further tests of the 100-day moving average can be expected.

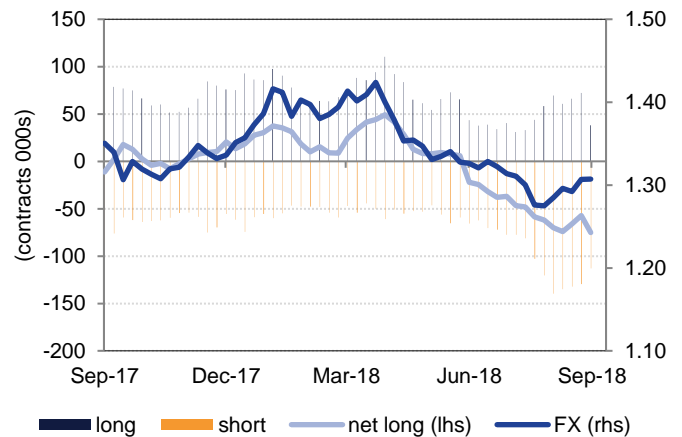
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GBPUSD	1.3072	1.3100	1.3200
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Yield Spreads



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Net Positioning



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Daily Candle Chart



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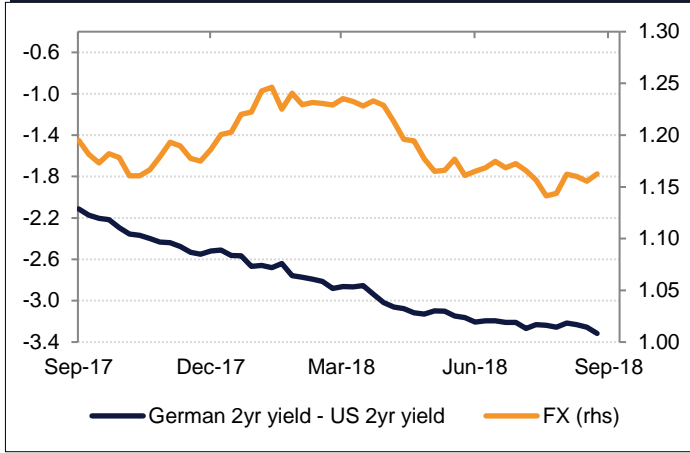
FX Forecasts

FX Forecasts - Major						Forwards		
	21-Sep	Q3 2018	Q4 2018	Q1 2019	Q2 2019	3m	6m	12m
EUR	1.1749	1.1700	1.2000	1.2300	1.2500	1.1835	1.1931	1.2136
JPY	112.59	110.00	112.00	110.00	110.00	111.84	110.97	109.18
CHF	0.9587	0.9800	0.9800	0.9800	0.9800	0.9508	0.9421	0.9244
GBP	1.3072	1.2900	1.3100	1.3500	1.4000	1.3127	1.3189	1.3316
AUD	0.7290	0.7300	0.7500	0.7550	0.7550	0.7293	0.7302	0.7326
NZD	0.6687	0.6700	0.6900	0.7100	0.7100	0.6689	0.6696	0.6719
CAD	1.2916	1.2950	1.2700	1.2700	1.2700	1.2894	1.2872	1.2833
EURGBP	0.8982	0.9070	0.9160	0.9111	0.8929	0.9010	0.9040	0.9108
EURJPY	132.29	128.70	134.40	135.30	137.50	132.29	132.29	132.29
EURCHF	1.1261	1.1466	1.1760	1.2054	1.2250	1.1250	1.1238	1.1215
FX Forecasts - Emerging						7-Sep		
	21-Sep	Q2 2018	Q3 2018	Q4 2018	Q1 2019	3m	6m	12m
SAR	3.7505	3.7500	3.7500	3.7500	3.7500	3.7501	3.7504	3.7535
AED	3.6730	3.6730	3.6730	3.6730	3.6730	3.6737	3.6742	--
KWD	0.3027	0.3020	0.3020	0.3020	0.3020	0.2962	0.2912	--
OMR	0.3850	0.3850	0.3850	0.3850	0.3850	0.3857	0.3862	0.3883
BHD	0.3771	0.3770	0.3770	0.3770	0.3770	0.3761	0.3761	0.3789
QAR	3.6595	3.6400	3.6400	3.6400	3.6400	3.6548	3.6535	3.6528
EGP	17.9120	17.2500	17.0000	17.0000	17.0000	18.3600	18.8500	19.8800
INR	72.204	71.000	70.000	70.000	68.000	73.2400	74.1000	75.6800
CNY	6.8571	6.7000	6.9000	7.1000	7.1000	6.8862	6.9062	6.9407
SGD	1.3640	1.3500	1.3300	1.2900	1.2900	1.3616	1.3585	1.3513

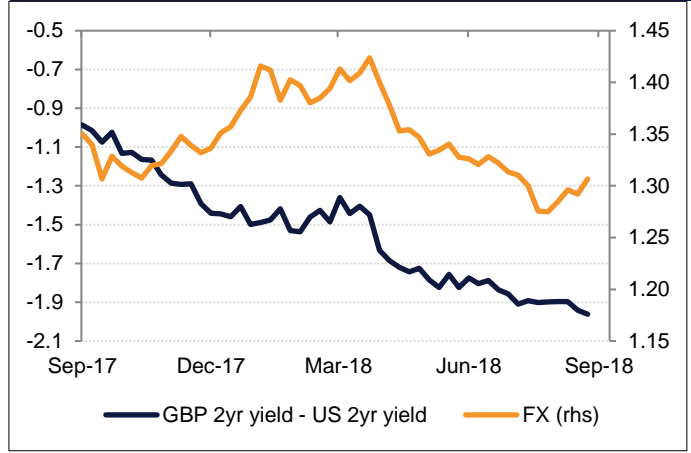
Source: Bloomberg, Emirates NBD Research
 *Denotes USD peg

Major FX and Nominal Interest Rates

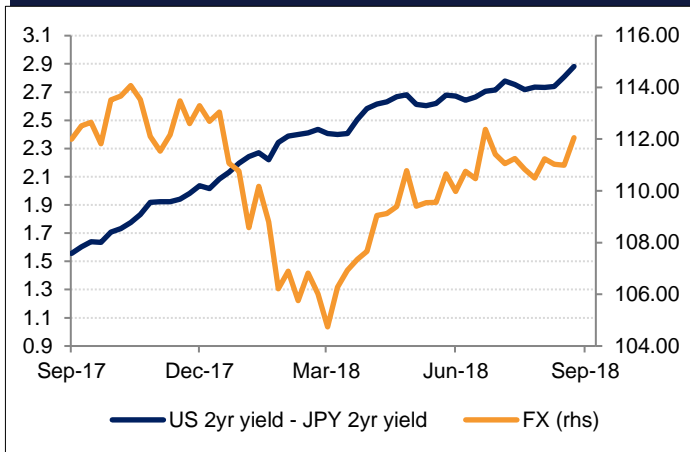
Interest Rate Differentials - EUR



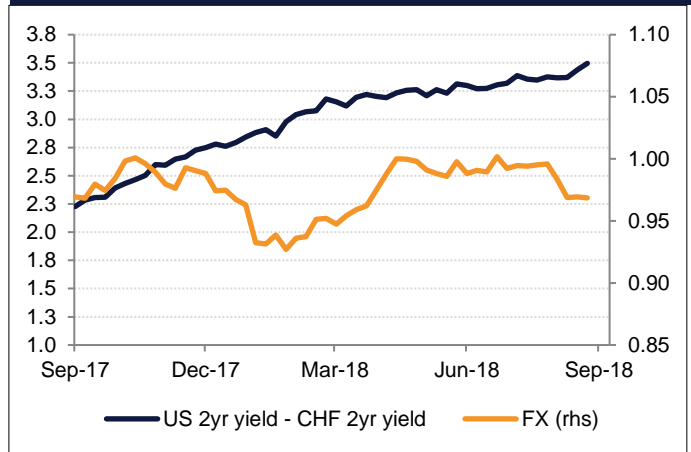
Interest Rate Differentials - GBP



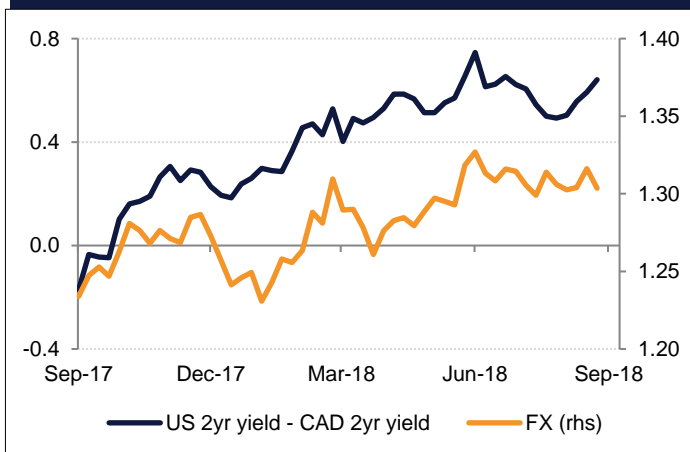
Interest Rate Differentials - JPY



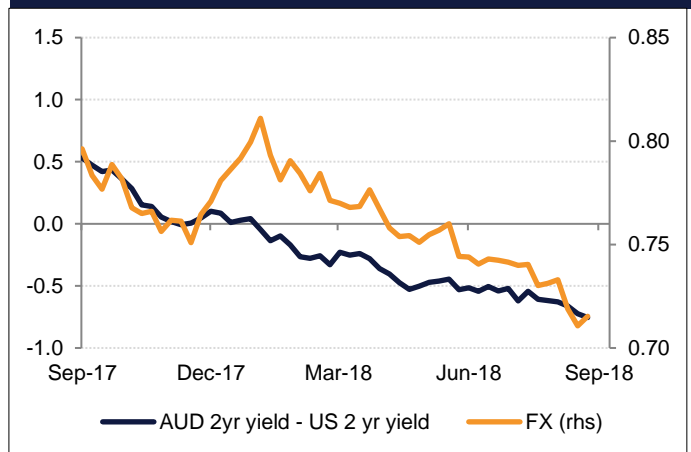
Interest Rate Differentials - CHF



Interest Rate Differentials - CAD

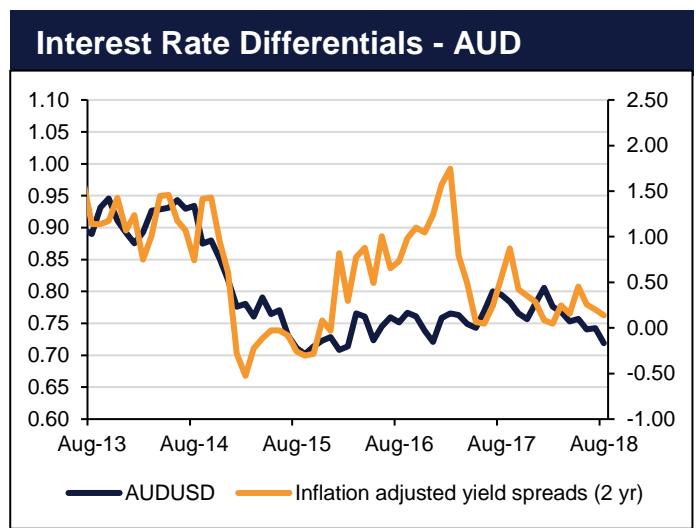
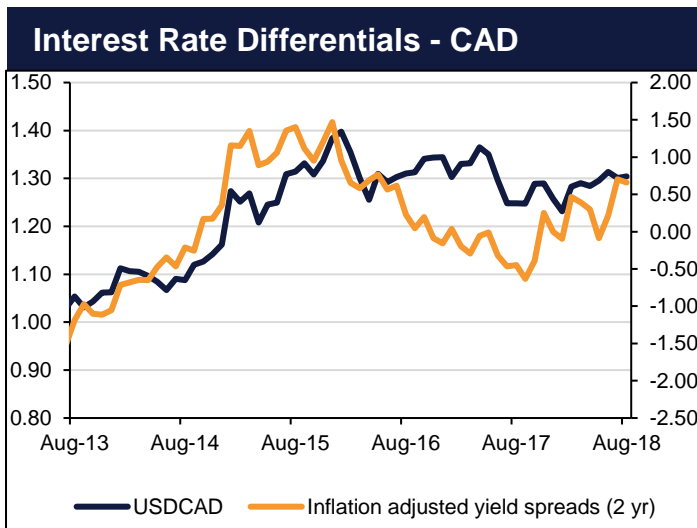
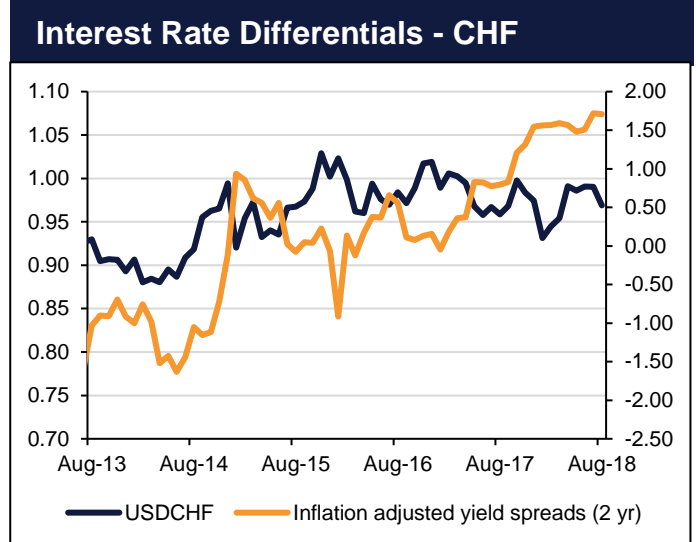
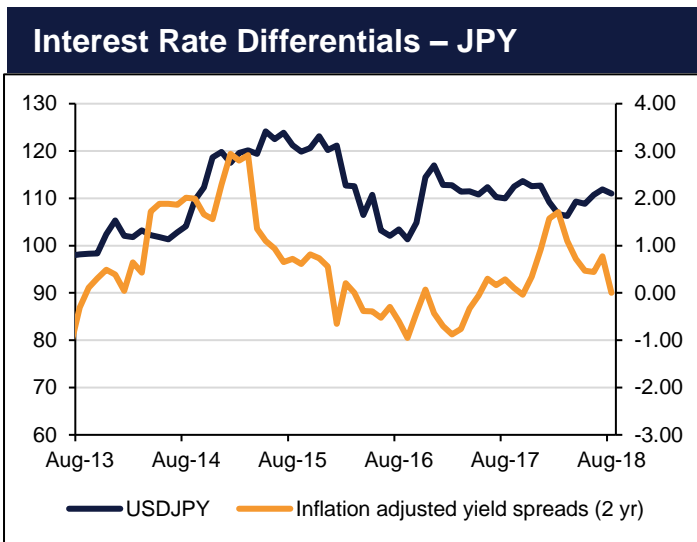
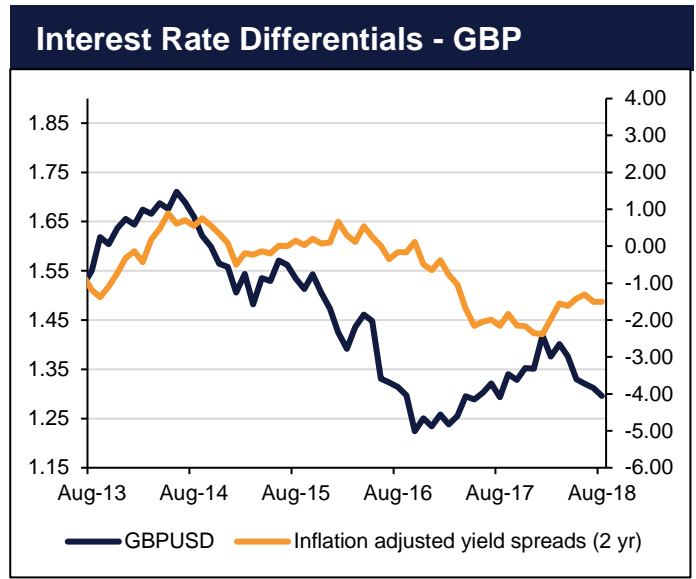
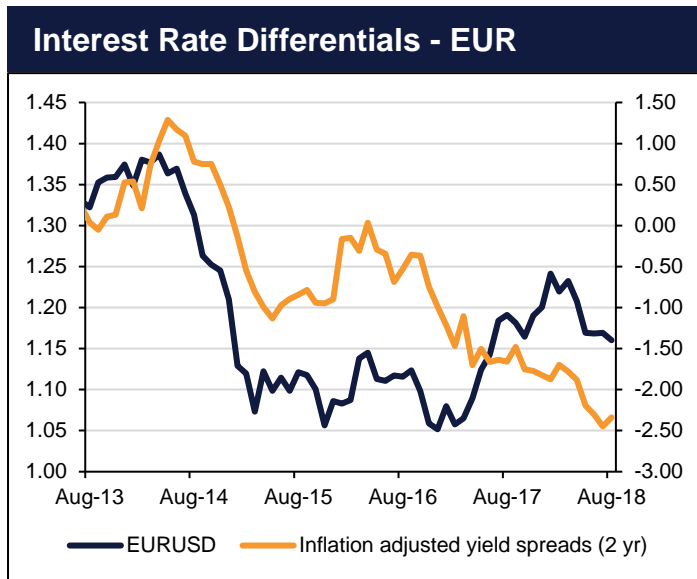


Interest Rate Differentials - AUD



Source: Bloomberg, Emirates NBD Research

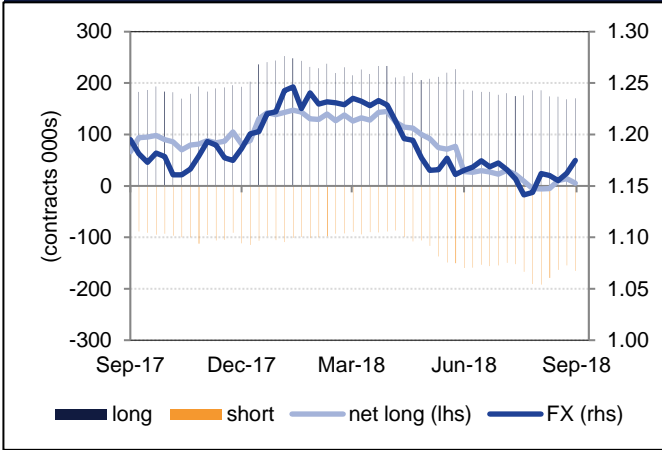
Major FX and Real Interest Rates



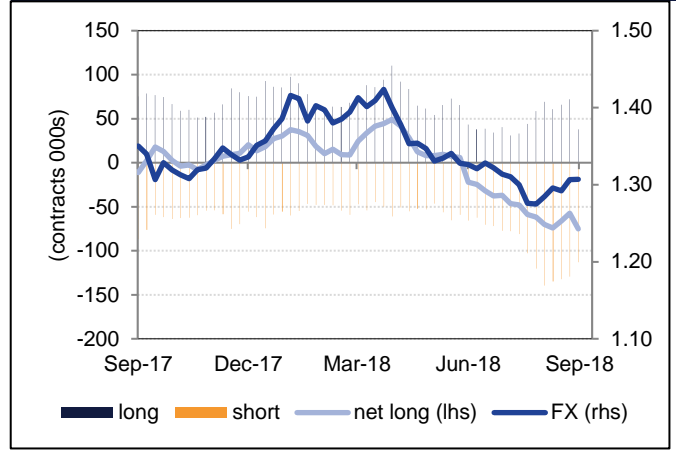
Source: Bloomberg, Emirates NBD Research

Major Currency Positions

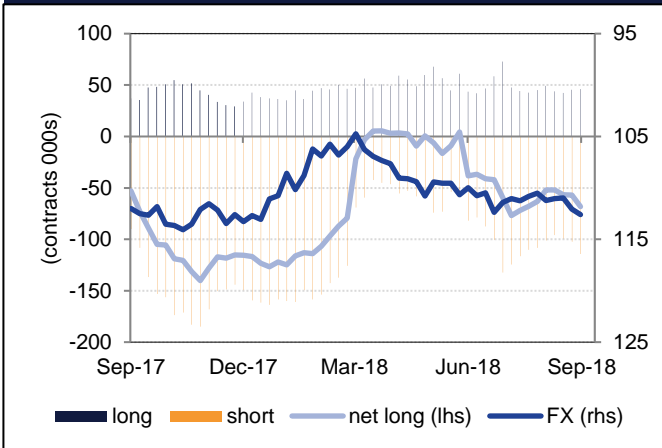
CFTC – Speculative Positions - EUR



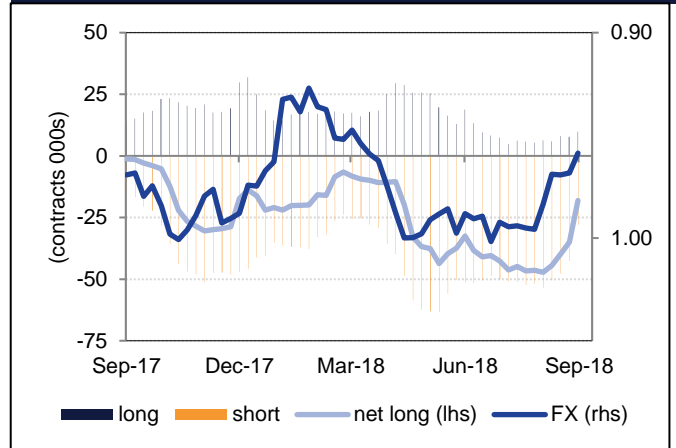
CFTC – Speculative Positions - GBP



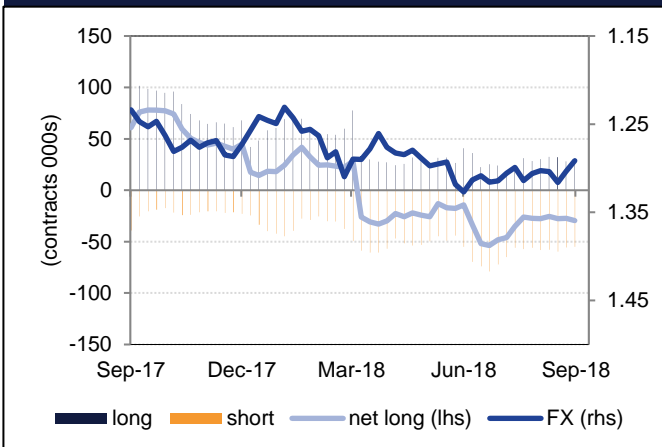
CFTC – Speculative Positions - JPY



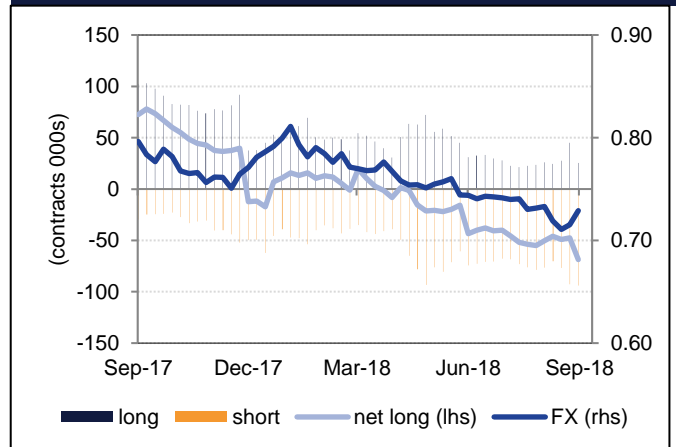
CFTC – Speculative Positions - CHF



CFTC – Speculative Positions - CAD



CFTC – Speculative Positions - AUD



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