



بنك الإمارات دبي الوطني
Emirates NBD

Weekly
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FX Week

Last week was a momentous one in terms of economic data, policy responses, and in terms of political developments, all of which will have short and long term implications for financial markets.

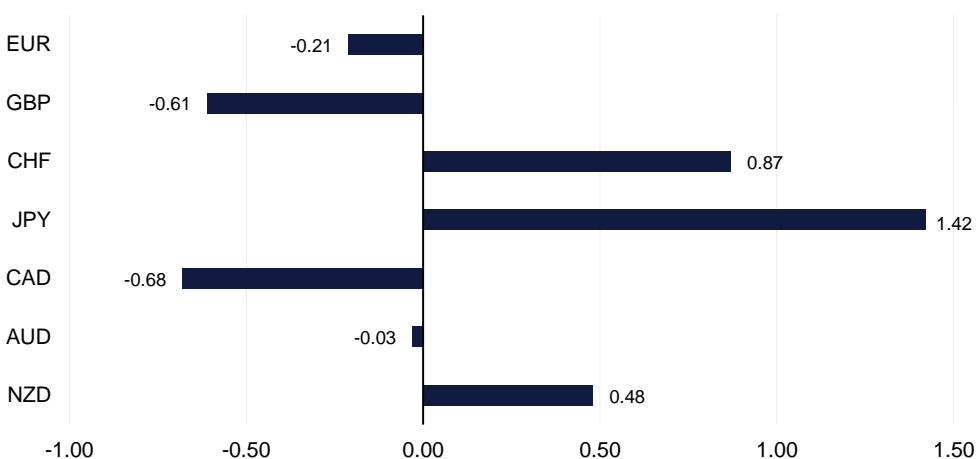
The most prominent news saw the U.S. Federal Reserve become more dovish after months of hinting that it was moving in this direction. At its March FOMC meeting the Fed saw fit to remove any tightening from its dot-plot projections through the rest of this year, only retaining one projected hike in 2020. The Fed's median GDP growth forecast was revised down for both 2019 and 2020, and while Fed Chairman Powell re-iterated that policy decisions remain data dependent, it would likely take a very strong rebound in growth and inflation to get the Fed back on its tightening path.

As this seems unlikely to happen the Fed has effectively finished its tightening cycle begun in 2015. This not only has implications for interest rates but also for the dollar which weakened initially on the news.

However, subsequent economic data released suggested that the dollar's course may not be straightforward. In many ways the Fed's message was eclipsed by bad European economic news at the end of the week which showed the Eurozone composite PMI falling to 51.3 in March from 51.9 in February, suggesting that the Eurozone economy barely grew in Q1. Most striking of all, the German manufacturing PMI dropped to 44.7, its lowest level since 2012 when the German economy was in recession. While the dollar reacted negatively to the message from the Fed on Thursday, the Euro saw even bigger falls on Friday highlighting that it is in the Eurozone where the biggest threat to global growth resides. **A tussle between the Euro and the Dollar appears to be looming as to which currency will weaken the most in the coming months, with the Euro for the moment appearing the most vulnerable.**

Not to be forgotten in these stakes is also Sterling, with Brexit still ominously hanging over it. Once again the week ended without a definitive conclusion to the Brexit saga after another turbulent few days. And with only five more days to go to the original 29th March deadline (now extended), rather remarkably all of the options are still on the table between Prime Minister May's deal, 'no-deal', a long term delay, revoke article 50 and another referendum, with an amalgam of other options also likely to be considered in the coming weeks as well. What did change, however, was the timeline, with Brexit effectively being postponed to either 22nd May if Parliament backs May's deal this week, or 12th April if they do not. EU patience with the May's government is clearly running thin, but somewhat surprisingly the market's patience with the pound appears more or less intact. **By now it might have been previously assumed that a 'no-deal' Brexit would have been written off as a possibility, but it is probably because it has not been that the pound remains rooted in the low 1.30's, seemingly steady, but in reality still sitting on a knife edge.**

Weekly currency movement vs USD (%)



Source: Bloomberg, Emirates NBD Research

EURUSD

EURUSD pressured by weak Eurozone data

Concerns over recovery in the Eurozone were reignited after PMIs showed renewed weakness in the manufacturing sector. The aggregate Eurozone Manufacturing PMI showed contraction in March, falling from 49.3 to 47.6 while in Germany, the Eurozone's largest economy, the Markit/BME Germany Manufacturing PMI showed the largest contraction in six years, at 44.7. These concerns have weighed on the common currency and last week, the euro pared its prior gains and ended the week lower.

U.S. GDP to be eyed in the week ahead

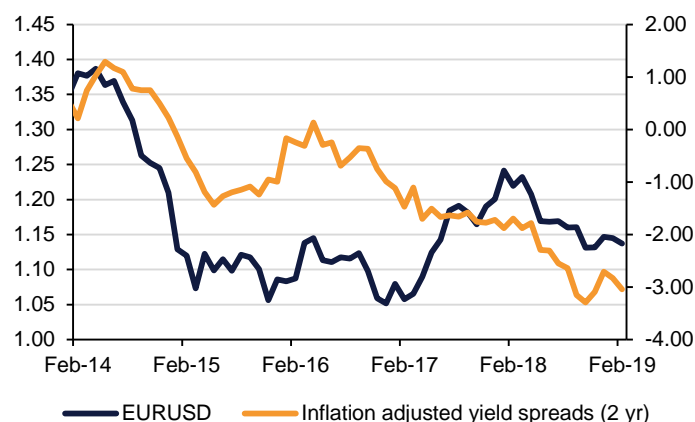
In the week ahead, investors will be looking towards the third estimates of U.S. Q4 2018 GDP to gauge the overall health of the U.S. economy. Currently, the analyst consensus is for personal consumption to be revised down from 2.8% to 2.6%, pushing down GDP from 2.6% annualized q/q to 2.3%. With data showing that the U.S. monthly budget deficit in February was the largest ever recorded at almost USD 234Bn, should the downward revisions for growth be greater than expected, it may result in renewed pressure on the USD.

Technical outlook

A significant decline on Friday resulted in EURUSD closing 0.21% lower last week at 1.1301. As a result of this loss, the price moved back below the 50 and 100-day moving averages (1.1352 and 1.1367 respectively) as well as the 200-week moving average (1.1339). This is the third consecutive week that there has been a close below the 200-week moving average which has a bearish short term outlook for the cross. While the price remains below this level, there is a risk of a retest of the 2019 lows of 1.1177.

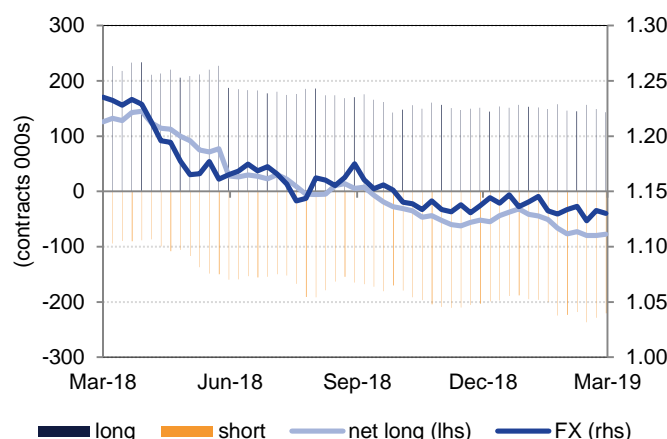
Forecasts	Spot	1 Week	1 month
EURUSD	1.1302	1.1400	1.1500
EURGBP	0.85587	0.8837	0.9200
EURJPY	124.24	124.26	128.80

Yield Spreads



Source: Bloomberg, Emirates NBD Research

Net Positioning



Source: Bloomberg, Emirates NBD Research

Weekly Candle Chart



Source: Bloomberg, Emirates NBD Research

USDJPY

JPY supported by safe haven bids

A negative performance across equity markets resulted in a lack of risk appetite last week, the MSCI World Index declining by 0.66%. At the same time yields on 10-year U.S. treasuries fell 16 bps to 2.44%. Under these conditions, the yen benefited from its appeal as a safe haven as well as from narrowing interest rate differentials, resulting in USDJPY falling below the psychologically significant 110 level.

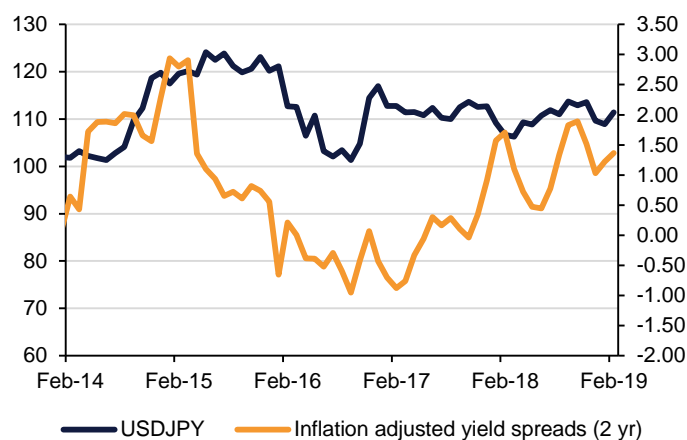
In the week ahead, Japanese inflation data is expected to show that headline consumer prices rose 0.9% y/y in March, up from 0.6% in February. However, despite the increase, the Bank of Japan's 2% inflation target remains far out of reach and this markets are likely to overlook this data and let risk appetite continue to be the main driving force behind USDJPY price action.

Technical outlook

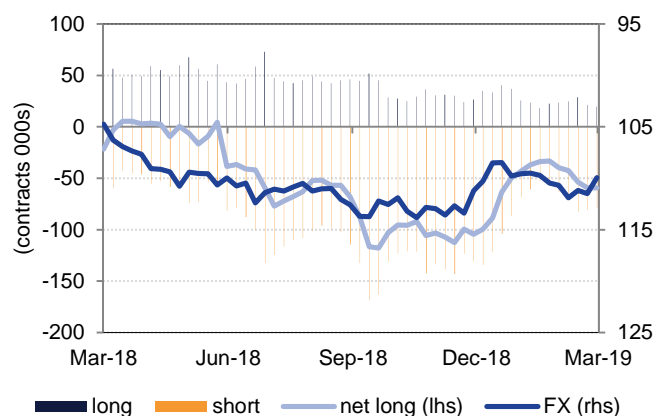
A 1.39% decline resulted in a close of 109.93 for USDJPY on Friday, the first weekly close below 110 in six weeks. The move is also technically significant as it resulted in a break below both the formerly supportive 50-week moving average (110.97) and the 100-week moving average (110.83). In the week ahead if the 50% one-year Fibonacci retracement (109.56) fails to provide support, a larger decline towards 108.50 cannot be ruled out.

Forecasts	Spot	1 Week	1 month
USDJPY	109.92	109.00	112.00
EURJPY	124.24	124.26	128.80
GBPJPY	145.19	140.61	140.00

Yield Spreads

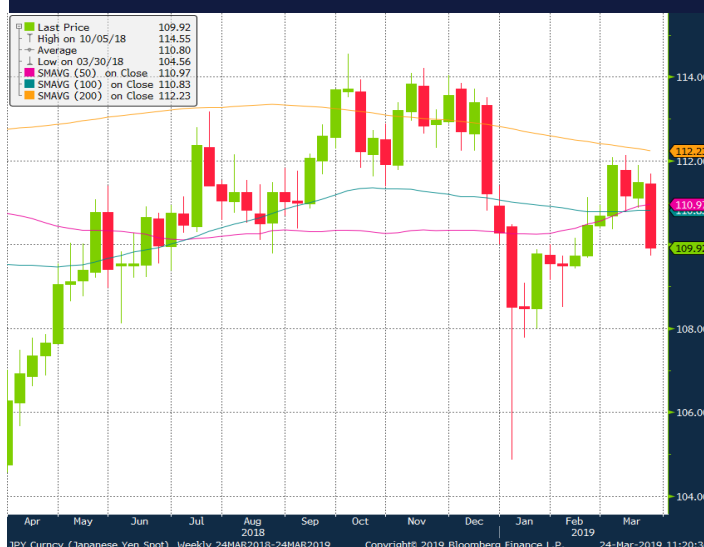


Net Positioning



Source: Bloomberg, Emirates NBD Research

Weekly Candle Chart



Source: Bloomberg, Emirates NBD Research

GBPUSD

GBPUSD declines as no-deal scenario remains a possible outcome

While the European Union agreed to extend the Brexit deadline by two weeks to April 12th, or May 22nd if Parliament passes Prime Minister May's deal, the pound remains under pressure as a no-deal exit remains a possible outcome. This fear is clearly demonstrated by the positioning of options which show that one-month risk-reversal "puts" on GBP are the largest since June 2016.

In the week ahead the pound will continue to be influenced by Brexit developments, mainly the outcome of Parliament's vote on May's deal. In addition to Brexit developments, there have been reports in the British media over the weekend that May's cabinet want her to step down and an interim leader to finalize the Brexit process. The Sunday Times are reporting that at least six senior ministers want her Deputy to replace her and will threaten a mass resignation on Monday if she does not step down.

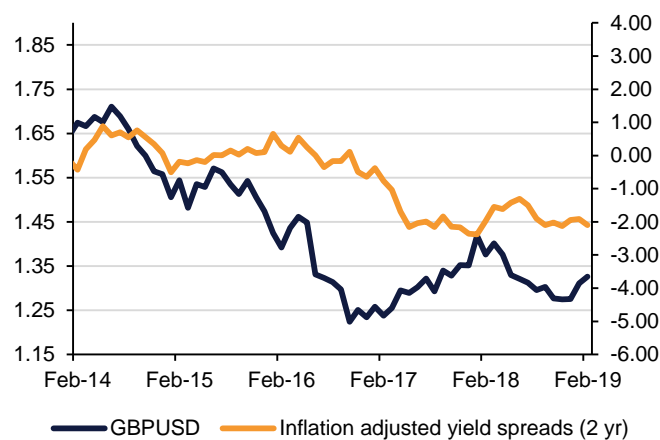
With so many unknowns and so much uncertainty ahead, it is likely to remain a volatile week for sterling, which at just above 1.30 is effectively sitting on a knife-edge.

Technical outlook

GBPUSD fell by 0.61% last week, closing at 1.3209 on Friday. The price had broken below the 50-day moving average (1.3066) and traded as low as 1.3004 before recouping some of the losses. Analysis of the weekly candle chart reveals that the price has closed below the 100-week moving average (1.3220). This was former resistance level that as breached last week and while the price remains below this level, risks remain to the downside.

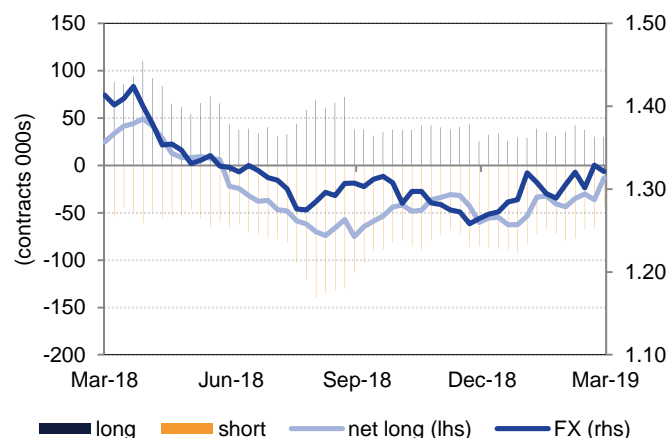
Forecasts	Spot	1 Week	1 month
GBPUSD	1.3209	1.2900	1.2500
EURGBP	0.8559	0.8837	0.9200
GBPJPY	145.19	140.61	140.00

Yield Spreads



Source: Bloomberg, Emirates NBD Research

Net Positioning



Source: Bloomberg, Emirates NBD Research

Weekly Candle Chart



Source: Bloomberg, Emirates NBD Research

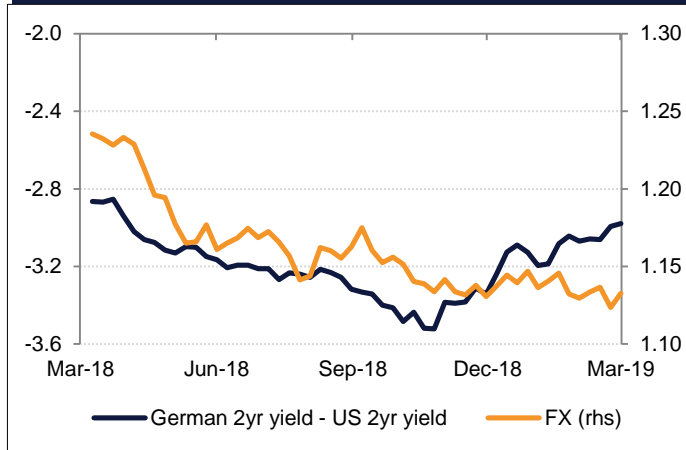
FX Forecasts

FX Forecasts - Major						Forwards		
	22-Mar	Q1 2019	Q2 2019	Q3 2019	Q4 2019	3m	6m	12m
EURUSD	1.1302	1.1500	1.1500	1.1800	1.2000	1.1390	1.1476	1.1645
USDJPY	109.92	111.00	113.00	112.00	110.00	109.13	108.35	106.81
USDCHF	0.9936	1.0000	1.0000	0.9800	0.9700	0.9851	0.9767	0.9606
GBPUSD	1.3209	1.2500	1.3000	1.3500	1.4000	1.3269	1.3328	1.3436
AUDUSD	0.7083	0.7300	0.7550	0.7700	0.8000	0.7095	0.7107	0.7134
NZDUSD	0.6879	0.6800	0.6900	0.7100	0.7400	0.6890	0.6901	0.6918
USDCAD	1.3429	1.3250	1.2850	1.2600	1.2500	1.3398	1.3369	1.3316
EURGBP	0.8559	0.9200	0.8846	0.8741	0.8571	0.8586	0.8613	0.8669
EURJPY	124.24	127.65	129.95	132.16	132.00	124.24	124.24	124.24
EURCHF	1.1228	1.1500	1.1500	1.1564	1.1640	1.1218	1.1207	1.1184
FX Forecasts - Emerging						3m	6m	12m
	22-Mar	Q1 2019	Q2 2019	Q3 2019	Q4 2019			
SAR	3.7503	3.7500	3.7500	3.7500	3.7500	3.7507	3.7515	3.7552
AED	3.6730	3.6730	3.6730	3.6730	3.6730	3.6736	3.6742	3.6762
KWD	0.3034	0.3020	0.3020	0.3020	0.3020	0.3034	0.3035	--
OMR	0.3850	0.3850	0.3850	0.3850	0.3850	0.3856	0.3865	0.3885
BHD	0.3770	0.3770	0.3770	0.3770	0.3770	0.3762	0.3762	0.3784
QAR	3.6535	3.6400	3.6400	3.6400	3.6400	3.6542	3.6546	3.6558
EGP	17.2540	18.0000	18.1250	18.2500	18.2500	17.8150	18.3200	19.2300
INR	68.958	70.000	70.000	68.000	68.000	70.0100	70.7000	71.9800
CNY	6.7182	6.9000	7.0000	7.1000	7.2000	6.7240	6.7330	6.7500
SGD	1.3526	1.3500	1.3200	1.3000	1.2900	1.3500	1.3476	1.3424
FX Forecasts - MENA						3.7503		
	22-Mar	Q1 2019	Q2 2019	Q3 2019	Q4 2019			
MAD	9.6234	9.5000	9.6000	9.6000	9.7000			
TND	2.9973	3.0800	3.1000	3.1500	3.2000			
TRY	5.7593	5.4000	5.5000	5.6000	5.7000			

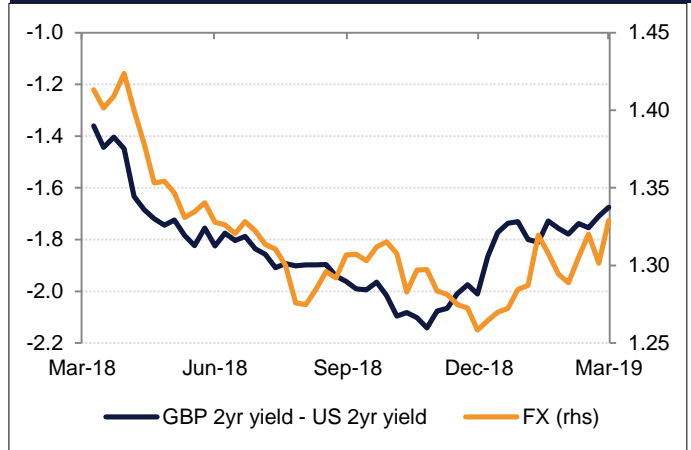
Source: Bloomberg, Emirates NBD Research
 *Denotes USD peg

Major FX and Nominal Interest Rates

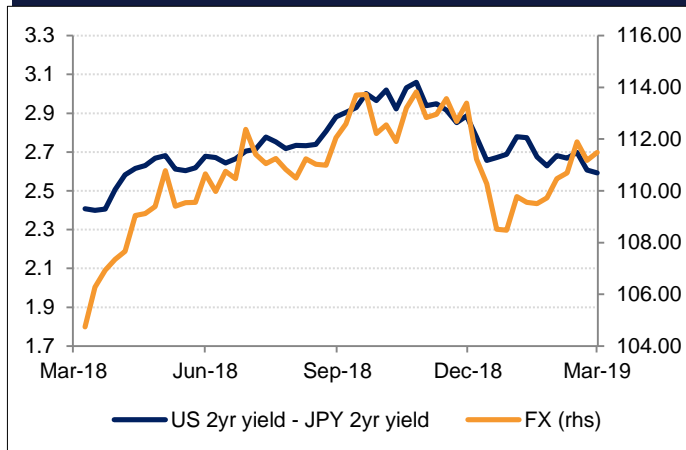
Interest Rate Differentials - EUR



Interest Rate Differentials - GBP



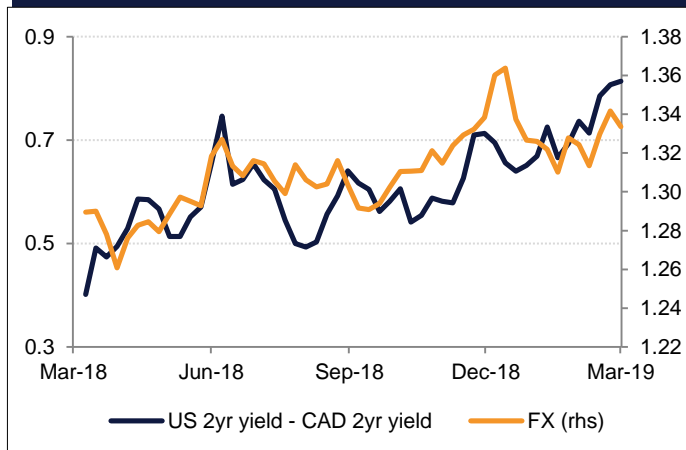
Interest Rate Differentials - JPY



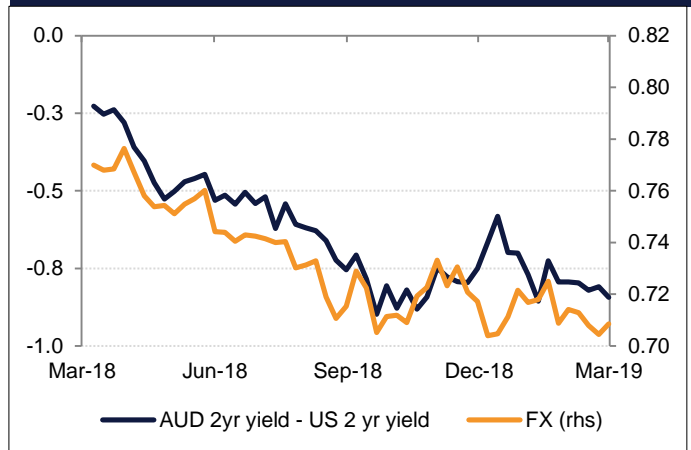
Interest Rate Differentials - CHF



Interest Rate Differentials - CAD

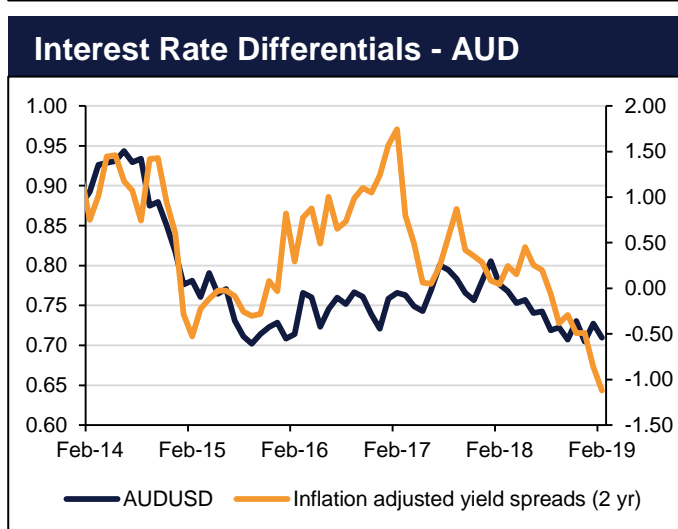
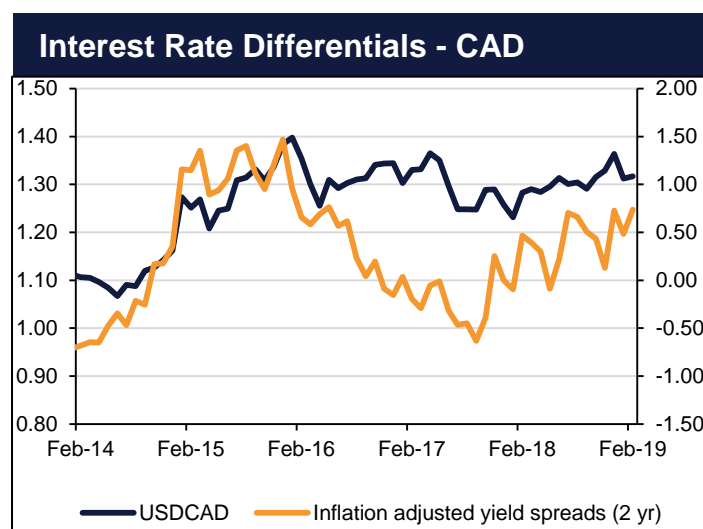
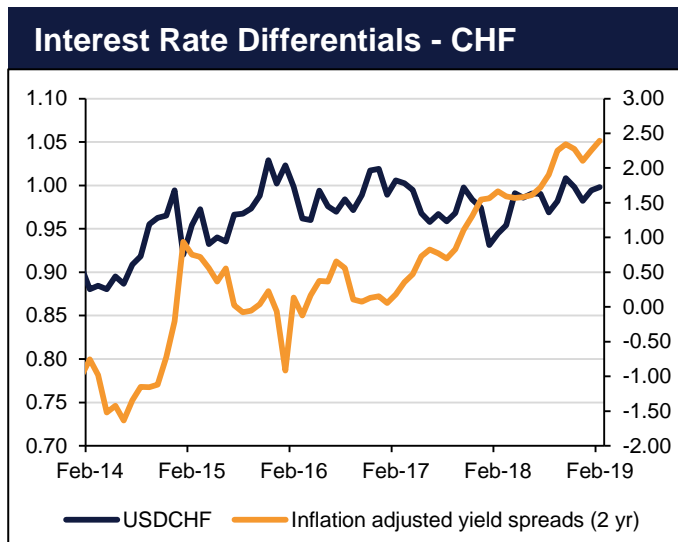
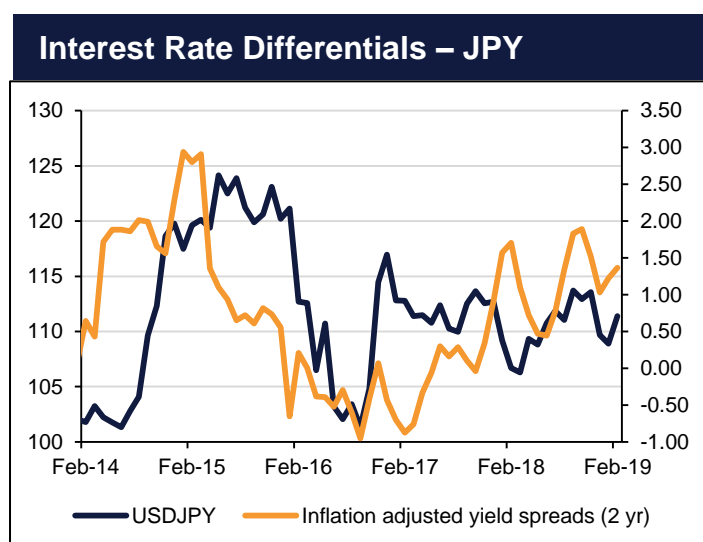
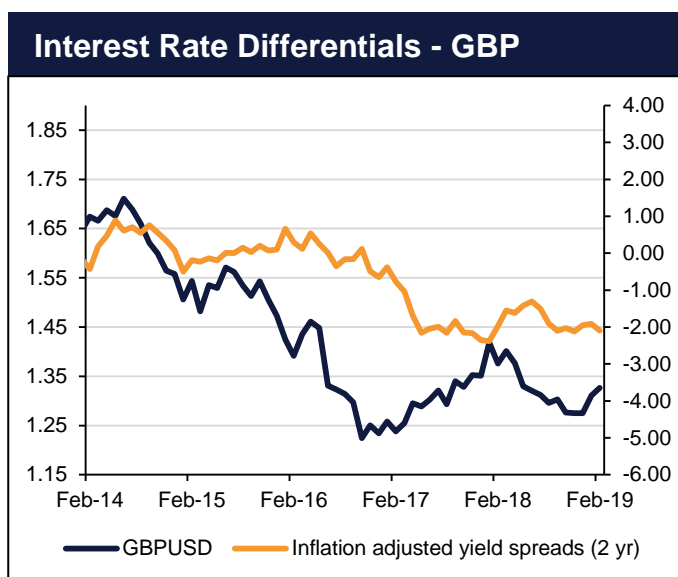
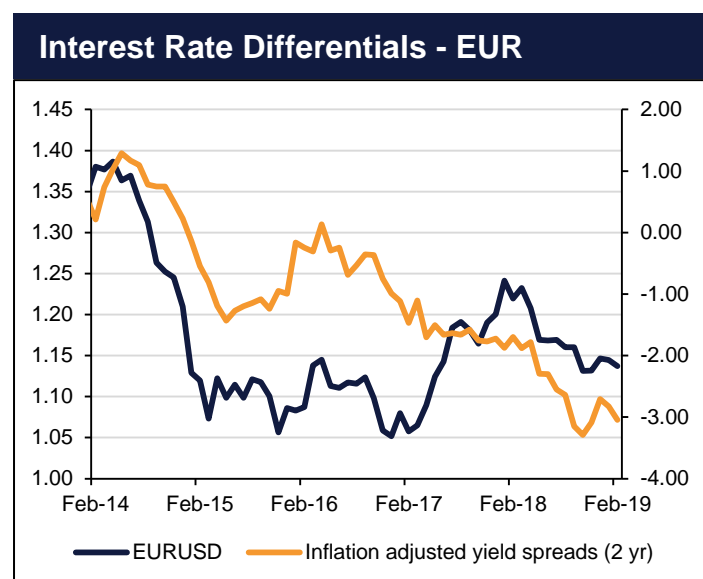


Interest Rate Differentials - AUD



Source: Bloomberg, Emirates NBD Research

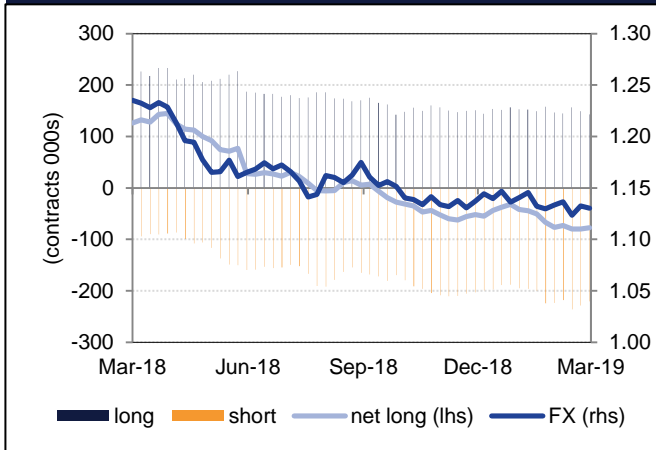
Major FX and Real Interest Rates



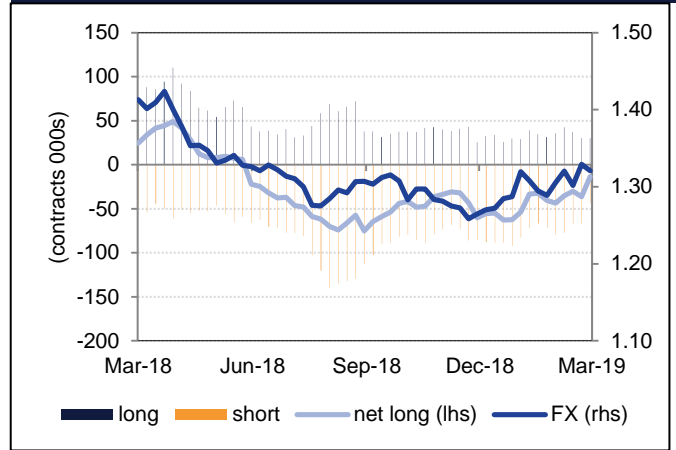
Source: Bloomberg, Emirates NBD Research

Major Currency Positions

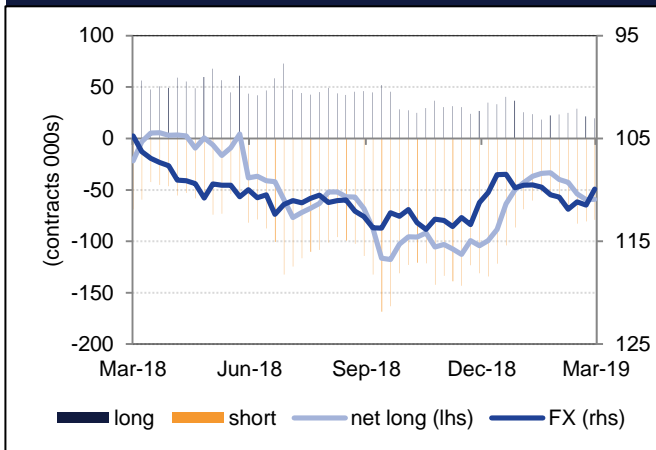
CFTC – Speculative Positions - EUR



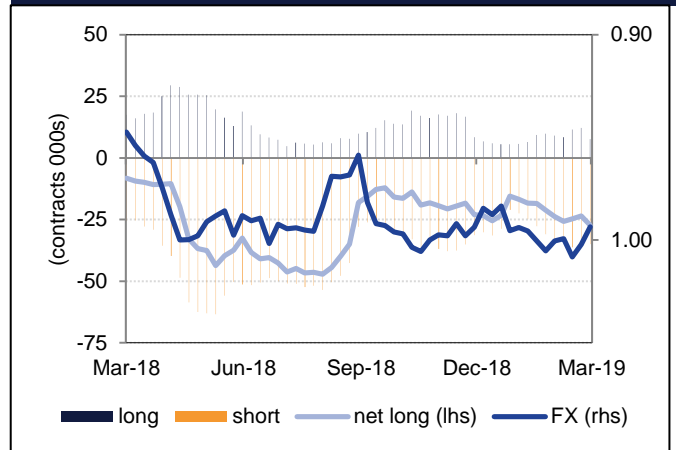
CFTC – Speculative Positions - GBP



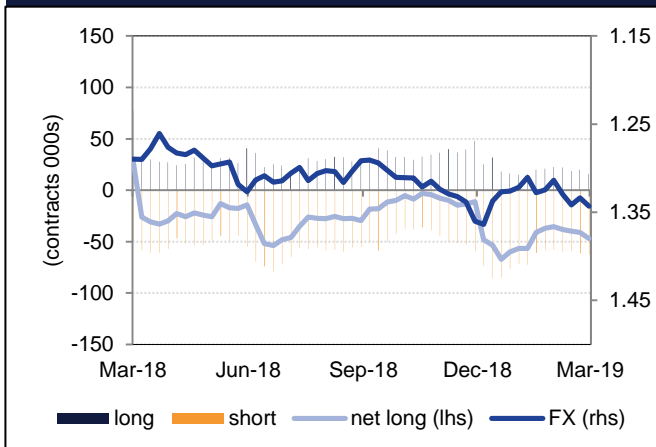
CFTC – Speculative Positions - JPY



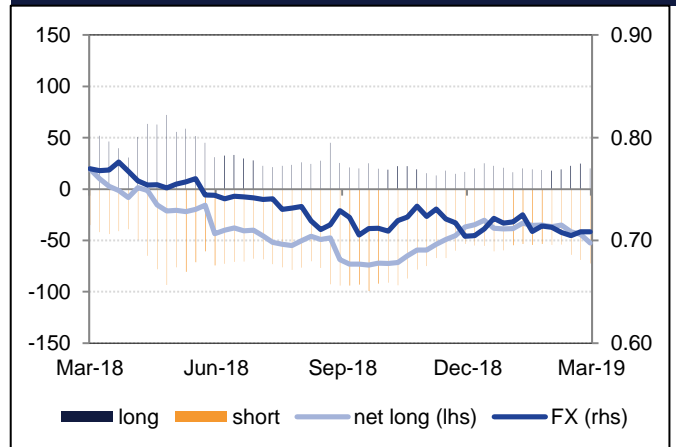
CFTC – Speculative Positions - CHF



CFTC – Speculative Positions - CAD



CFTC – Speculative Positions - AUD



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