بنك الإمارات دبي الوطني
Emirates NBD

Weekly
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FX Week

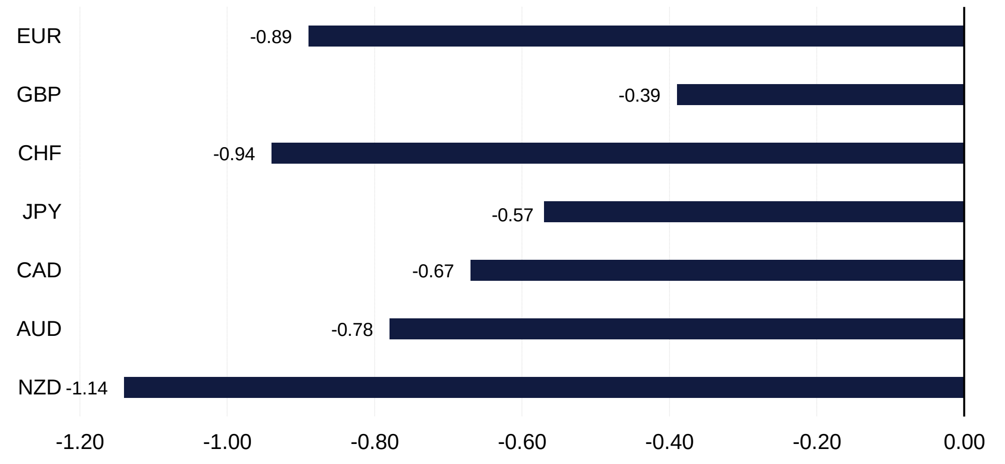
March already looms as a crucial month

Markets have calmed down since their mini-correction at the start of the month, leaving the dollar a little bit firmer as well. Central banks last week continued to emphasize the gradual nature of policy normalization, with the Fed's minutes interpreted as a little more hawkish, while the ECB gave few clues as to when asset purchases will come to an end. UK economic data was also softer than expected, introducing some doubt as to whether the Bank of England will go ahead and raise interest rates in May. March is building up to be a crucial month, with key central bank meetings due to be held in the US and the Eurozone, and with political risks in Europe also coming to a head. In the meantime this week the focus will be on new Fed Chair Jerome Powell's first testimony to Congress.

Dollar firmer as markets calm

The dollar's firmer tone owes itself to a calming down in global markets in general, as well as to the appearance that the Fed will look through market volatility and continue to raise interest rates gradually. The minutes of the January FOMC meeting, the last one that Janet Yellen chaired, showed that the majority of FOMC participants felt that a stronger outlook for economic growth raised the likelihood that further gradual policy firming would be appropriate. The addition of 'further' in the accompanying policy statement was interpreted as slightly more 'hawkish', especially as the FOMC minutes pre-date the recent Congressional agreement to remove spending caps, which means that the overall fiscal stimulus could be even bigger over the next few years than was assumed at last month's FOMC meeting. The market implied probability of rate hikes in 2018 still remains at three hikes this year but has now increased from one to one and half for 2019.

Weekly currency movement vs USD (%)



Source: Bloomberg, Emirates NBD Research

A subsequent monetary policy report (MPR) by the Federal Reserve released on Friday, which will serve as the basis for new Chairman Jerome Powell's congressional testimony on Tuesday, showed little difference with the last thoughts of the Yellen Fed. The report said that activity increased at a solid pace over H2 2017 and that the labour market continued to strengthen. It also mentioned that inflation has remained below target, and added that despite the tight labor market wage growth has been moderate, in part held down by low productivity growth. One thing that stood out was a warning of "elevated valuation pressures across a range of assets even after accounting for the corporate tax cut and current Treasury yields." However, the Fed seems confident in the financial system overall, and in its position to deal with any possible shocks.

Powell's first testimony awaited

The main interest in Powell's testimony will be whether the Committee can glean out of him any nuances about policy, and whether he shows an inclination to be more hawkish or dovish when interpreting economic data. In particular his observations about inflation will be under scrutiny, with the MPR noting the Fed's understanding is 'imperfect' but with the FOMC minutes indicating that it still sees value in the Phillips curve. There will be a number of other Fed officials speaking over the course of the week as well, and their views will also be taken into account, but at the end of the day it will be Powell's observations that will leave the biggest impression.

Dollar in range with upside bias

The dollar gained against a basket of other major currencies over the last week, the Dollar Index rising by 0.88% to close at 89.88. The index had climbed as high as 90.235 before finding resistance at the capping resistive trend line of the daily downtrend that has been in effect since 18 December 2017. Analysis of the weekly candle hourly candle chart shows that the index has been in a sideways range bound movement between 89 and 90 for the majority of February and we expect this pattern to continue in the absence of any catalyst to break the range. Should a sustained break of 90.40 occur, we expect further upside towards the 50 day moving average of 90.867, a break of which would result in a further climb towards 91.56, the 23.6% one year Fibonacci retracement. On the other hand a break below the 38.2% five year Fibonacci retracement of 88.42 paves the way for a greater decline towards 85.

Dollar Index finds resistance at 90.24

Source: Bloomberg

ECB concerned about EUR volatility

The Euro has been a little more settled in the past week, an outcome that will likely be welcomed by the ECB. In its January meeting minutes the ECB referenced the 'recent volatility in the exchange rate of the Euro was a source of uncertainty' for price stability. While the ECB failed to signal when asset purchases are likely to come to an end, it implied that it would drop its easing bias from its policy statement at the upcoming Council meeting on the 8th March. This meeting is now coming into view, and the number of council members urging an end to QE seems to be growing. ECB President Draghi will have a chance to clarify the central bank's stance at his testimony to the European Parliament on Monday, although it seems unlikely that anything will be decided until closer to March meeting itself. By then the other uncertainties about political developments in the Eurozone will hopefully be settled, including the March 4 election in Italy and the issue of whether Germany will need another election, as SPD members have until March 2 to vote in a postal ballot whether to support another grand coalition with Angela Merkel's CDU/CSU. Bundesbank President Weidmann will also deliver the bank's annual report on Tuesday, with speculation growing about whether he will succeed Draghi at the helm of the ECB in late 2019.

Euro declines on the week

EURUSD fell 0.89% last week to close at 1.2295. Analysis of the two hour candle chart shows that a triple top may have formed and the price may now be testing the supporting baseline that has been in effect since 17 December 2017. While the price remains below the 1.2350 level, we expect further declines towards our Q1 2018 forecast of 1.22. The short term risk of this is increased as shown by the 14 day Relative Strength Indicator (RSI) currently sits at 49.07 and is bearish in direction indicating that further selling pressures lie ahead. In addition, the price has now closed below the 26 day base of the daily Ichimoku clouds (1.2380) for four consecutive days indicating that further gains may face stubborn resistance.

EURUSD capped below 1.26?

Source: Bloomberg

Pound sensitivity to Brexit and BOE

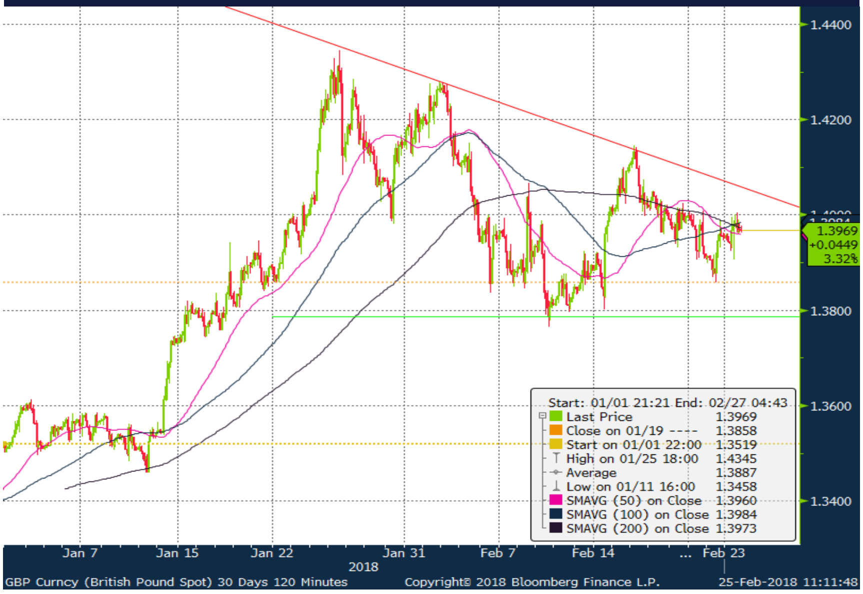
GBP ended last week little changed overall, but this masked volatility within the week that saw it reach almost as high as 1.4150 before dropping back below the psychological 1.40 level. GBP benefited at one point from the appearance of coordinated UK government position with regard to a post-Brexit trading relationship with the EU, described as 'managed divergence'. The proposal aims to establish a free trade deal similar to the one Canada achieved with the EU, but with better access to the EU's single market through close regulatory alignment. PM May will detail the plan publicly in a speech later this week, but it still stands the chance of being undermined by members of her own party who along with the opposition Labour party object to the UK withdrawing from the EU's customs union. The Brexit negotiation process will also enter a crucial phase in March, with both sides seeking to have settled positions ahead of the EU leaders' summit late in the month. The pound also lost ground last week following economic data that cast doubt on whether the Bank of England will raise interest rates after all in May.

In particular UK Q4 GDP was revised lower to 0.4% q/q, while surveys of industrial activity and of retail activity this month also showed a weaker than expected performance.

GBPUSD trending lower

Despite a recovery on Thursday evening, GBPUSD still finished the week trading 0.41% lower at 1.3969. It had reached lows of 1.3857 earlier on Thursday, not far from our Q1 2018 forecast of 1.38. Analysis of the two hour chance chart shows downtrend confirmed by lower highs and lower lows has been in effect since 25 January 2018. We expect this trend to continue while the daily closing price remains below 1.4040 and stick to our expectations for the price to be close to 1.38 within a month.

GBPUSD to trend lower?



Source: Bloomberg

JPY shrugs off data and firmer dollar…

Japanese January inflation data released last week had limited impact overall, with USDJPY still struggling to recover even in a firmer dollar environment. National headline CPI rose to a rate of 1.4% y/y, and the more relevant core-core CPI figure lifted to 0.4% y/y, which both exceeded the consensus forecast by 0.1 percentage point. The core-core figure remains well off the BoJ's 2% target, and Japan's finance minister Aso said today that it is important that the BoJ maintains its current accommodative policy. Whether the JPY’s stronger performance can be checked by economic data will again be tested this week with the usual month-end data releases from Japan, including industrial production, retail sales, manufacturing PMI, employment, PCE, and Tokyo CPI.

…realizing only limited gains

USDJPY gained 0.64% over the last week to reach 106.89. The cross had traded as high as 107.90 on Wednesday before being paring most of those gains in the absence of risk appetite. Of note is this is the second time in February that 107.90 acts as a resistance. This level is the 23.6% one year Fibonacci retracement which formerly acted as a support, but no is a resistance level. While the price remains below this level, it is vulnerable to further short term declines.

USDJPY finds resistance at 107.90

Source: Bloomberg

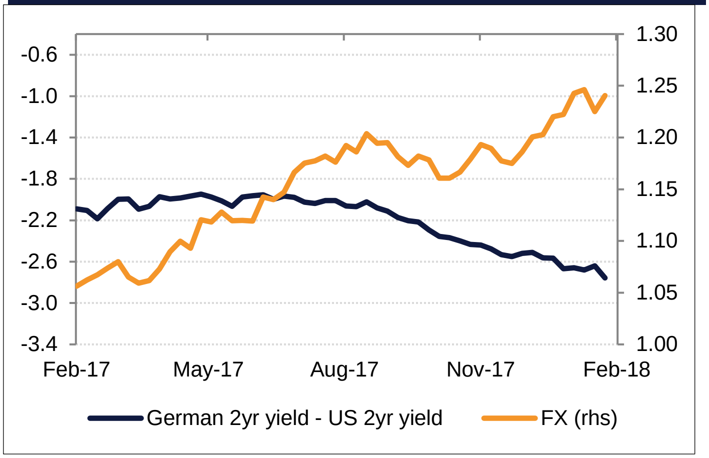
FX Forecasts

	FX Forecasts - Major					Forwards		
	23-Feb	Q1 2018	Q2 2018	Q3 2018	Q4 2018	3m	6m	12m
EUR	1.2295	1.2200	1.2500	1.2200	1.2000	1.2376	1.2463	1.2658
JPY	106.89	110.00	113.00	116.00	118.00	106.24	105.54	103.97
CHF	0.9361	0.9600	0.9900	1.0100	1.0200	0.9290	0.9215	0.9053
GBP	1.3971	1.3800	1.4000	1.4200	1.4500	1.4025	1.4078	1.4196
AUD	0.7843	0.7600	0.7400	0.7200	0.7200	0.7844	0.7849	0.7861
NZD	0.7302	0.7000	0.7100	0.7100	0.7100	0.7297	0.7298	0.7302
CAD	1.2633	1.2500	1.2600	1.2600	1.2600	1.2614	1.2594	1.2557
EURGBP	0.8805	0.8841	0.8929	0.8592	0.8276	0.8829	0.8857	0.8921
EURJPY	131.41	134.20	141.25	141.52	141.60	131.41	131.41	131.41
EURCHF	1.1512	1.1712	1.2375	1.2322	1.2240	1.1500	1.1487	1.1461
	FX Forecasts - Emerging					**Forwards**		
	23-Feb	**Q1 2018**	**Q2 2018**	**Q3 2018**	**Q4 2018**	**3m**	**6m**	**12m**
SAR	3.7503	3.7500	3.7500	3.7500	3.7500	3.7501	3.7509	3.7553
AED	3.6730	3.6730	3.6730	3.6730	3.6730	3.6737	3.6746	--
KWD	0.2999	0.3020	0.3020	0.3020	0.3020	0.2988	0.2998	--
OMR	0.3850	0.3850	0.3850	0.3850	0.3850	0.3856	0.3867	0.3892
BHD	0.3770	0.3770	0.3770	0.3770	0.3770	0.3762	0.3762	0.3792
QAR	3.6535	3.6400	3.6400	3.6400	3.6400	3.6633	3.6683	3.6808
EGP	17.6880	17.2500	17.0000	16.8000	16.8000	18.0000	18.3050	19.0100
INR	64.729	64.000	65.000	66.000	66.000	65.6100	66.2600	67.5300
CNY	6.3372	6.6000	6.8000	7.0000	7.1000	6.3713	6.4030	6.4620

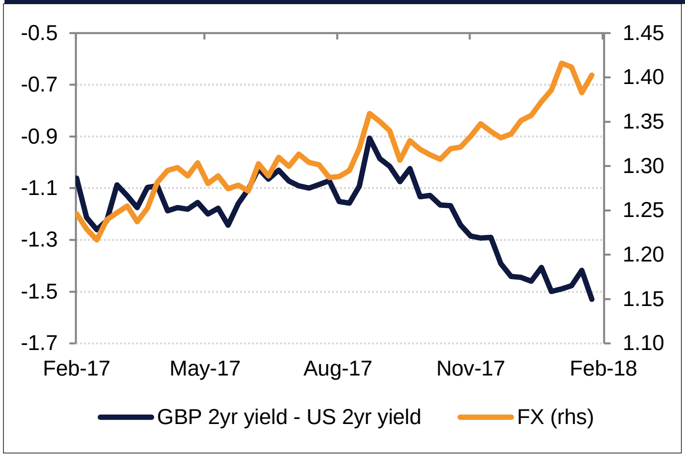
Source: Bloomberg, Emirates NBD Research
**Denotes USD peg*

Major FX and Nominal Interest Rates

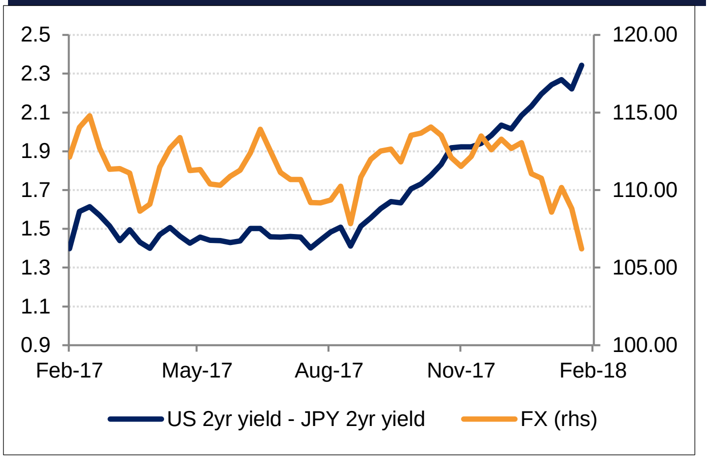
Interest Rate Differentials - EUR



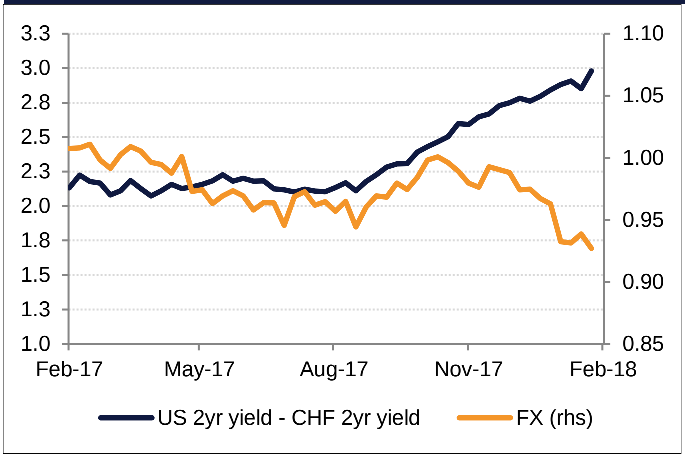
Interest Rate Differentials - GBP



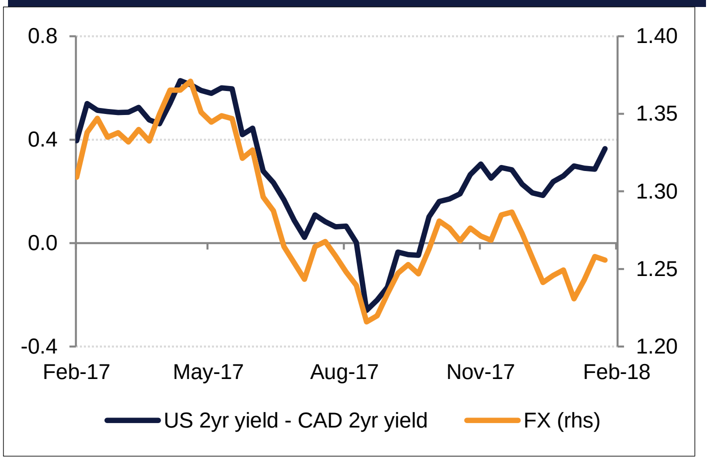
Interest Rate Differentials – JPY



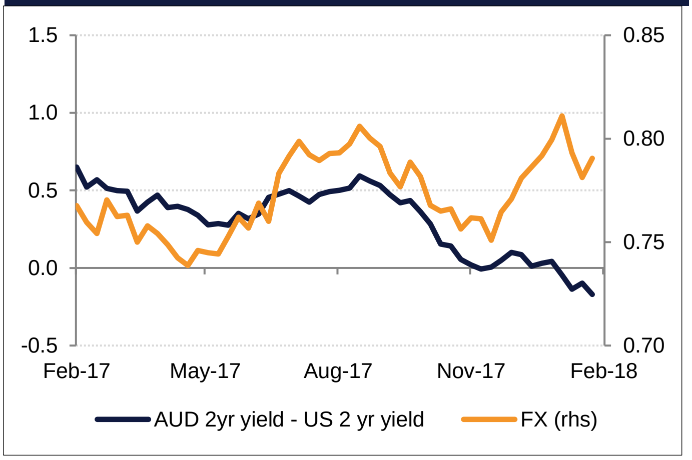
Interest Rate Differentials - CHF



Interest Rate Differentials - CAD



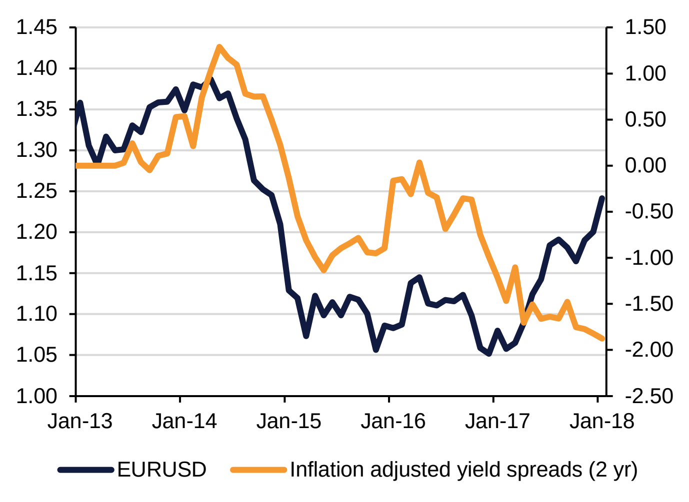
Interest Rate Differentials - AUD



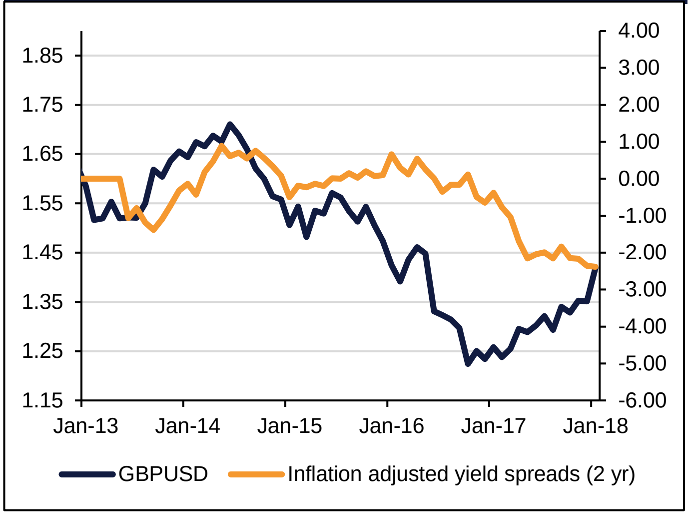
Source: Bloomberg, Emirates NBD Research

Major FX and Real Interest Rates

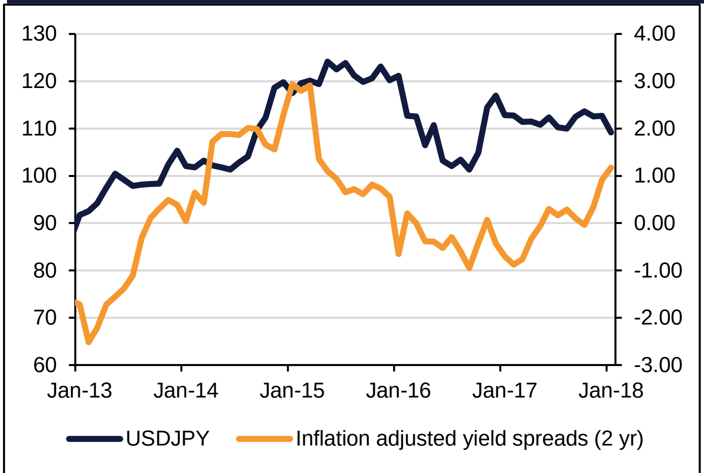
Interest Rate Differentials - EUR



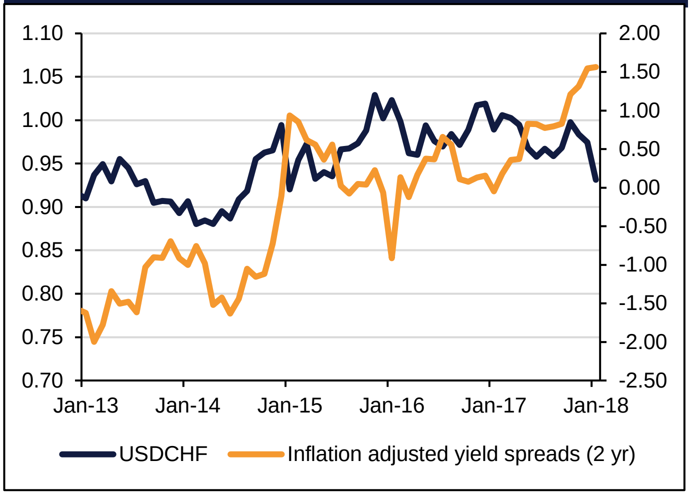
Interest Rate Differentials - GBP



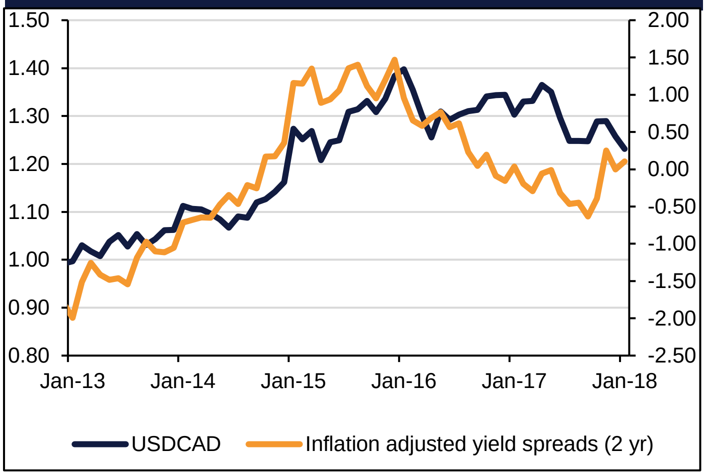
Interest Rate Differentials – JPY



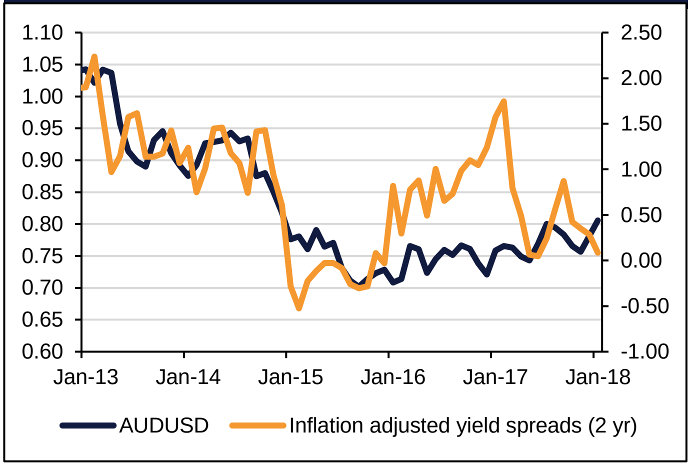
Interest Rate Differentials - CHF



Interest Rate Differentials - CAD



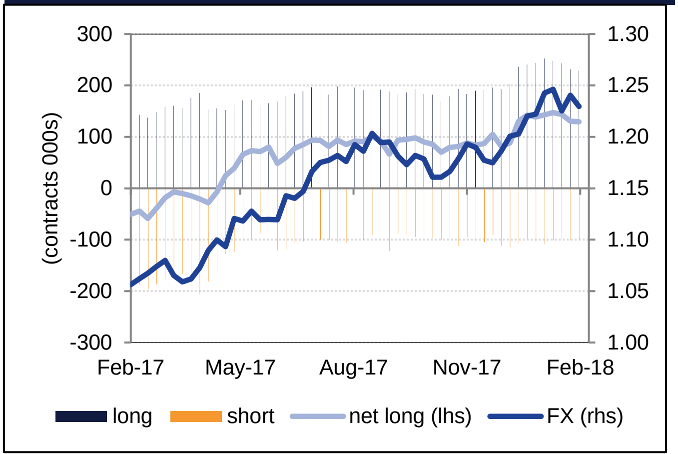
Interest Rate Differentials - AUD



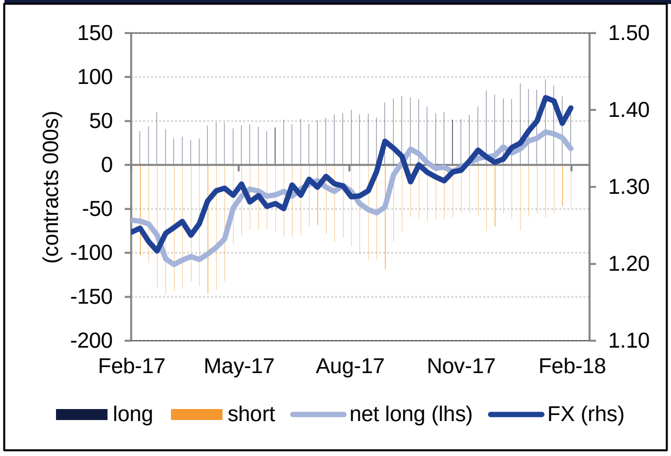
Source: Bloomberg, Emirates NBD Research

Major Currency Positions

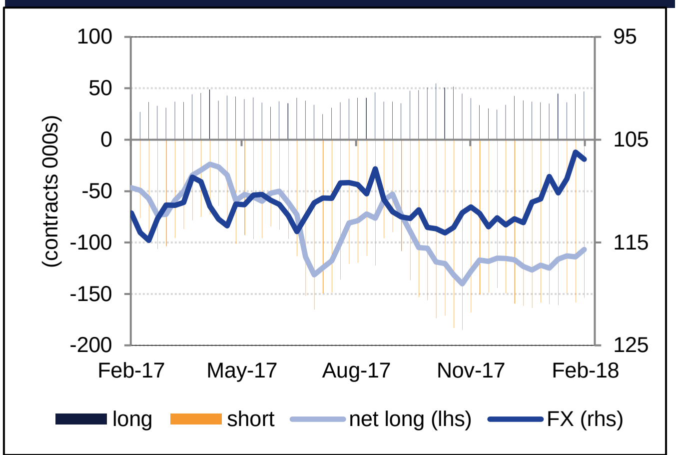
CFTC – Speculative Positions - EUR



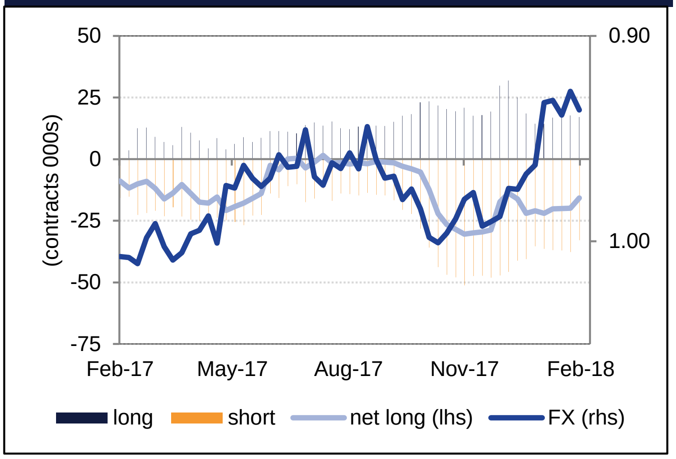
CFTC – Speculative Positions - GBP



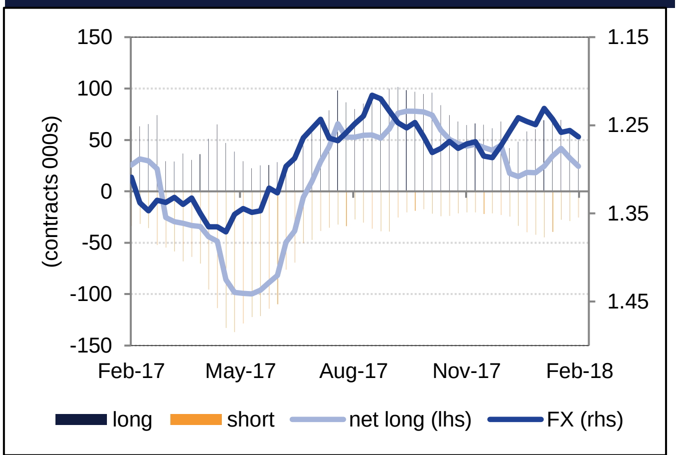
CFTC – Speculative Positions - JPY



CFTC – Speculative Positions - CHF



CFTC – Speculative Positions - CAD



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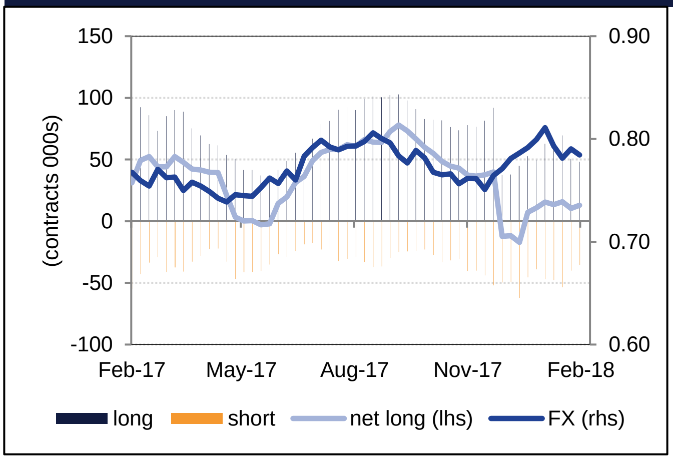

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