



بنك الإمارات دبي الوطني  
Emirates NBD

Weekly  
25 November 2018

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# FX Week

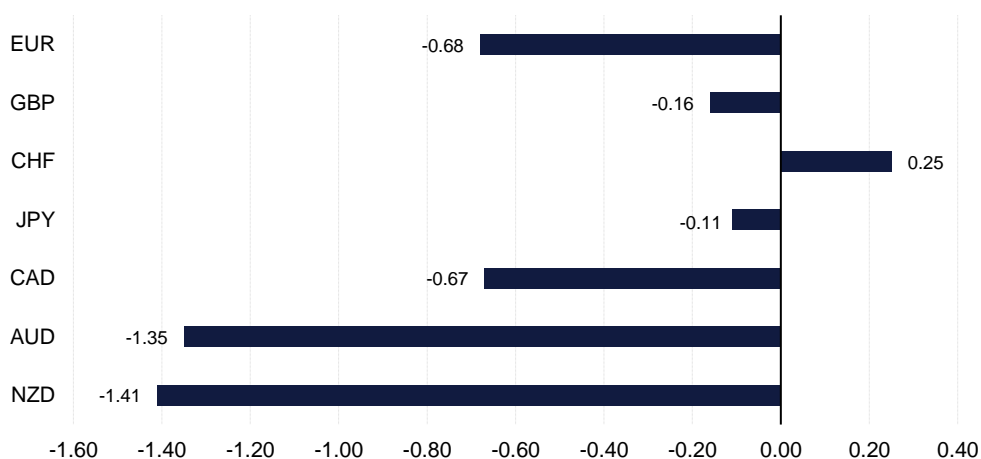
**On Friday the USD managed to recoup some of the losses it experienced during the early part of last week, even though stock markets remain fragile and bond yields are still soft.** At the forefront of USD strength remains GBPUSD, which continues to be weighed on by Brexit and the possibility of a no-deal outcome. Despite its relative weakness, and the EU and the UK having reached an agreement today at their extraordinary summit in Brussels, we doubt if the markets have fully discounted the possibility that it won't be passed through Parliament in December. As this more important deadline approaches the likelihood is that GBP will lose further ground, with the risk of greater capitulation once the outcome is actually known.

**Geopolitics will dominate in other respects this week as well, with the G20 meeting at the end of it being the main focal point.** We would not be surprised if a trade agreement of sorts is agreed in principle between the US and China, giving some heart to markets, but the detail may not be as positive as the headlines suggest and any euphoria may well be short lived. Once again, sentiment may receive a short term boost, but whether it can be sustained will be the more meaningful question and test.

**Attention on oil markets will also be prominent given the heavy losses experienced last week.** President Trump may think he is succeeding in manipulating the price lower, but **the real test will come with the OPEC meeting in early December, as OPEC interests are broader and not necessarily as aligned** as the US President might think. Rather than delivering a consistently lower oil price, President Trump may actually be paving the way for greater volatility.

**Markets may also be looking for silver linings in Fed statements over the course of the week, hoping for hints of a more dovish tone ahead of the December FOMC meeting.** Both Fed Chair Jerome Powell and Vice Chair Richard Clarida are due to speak this week, but they are unlikely to give much away regarding the Fed's intentions. Again the markets may see what they want to believe in the short term, but reality is only likely to come into view in December, a bit like with Brexit, with oil and over trade.

## Weekly currency movement vs USD (%)



Source: Bloomberg, Emirates NBD Research

Forecasts	Spot	1 Week	1 month
EURUSD	1.1337	1.1350	1.1500
GBPUSD	1.2814	1.2900	1.2500
USDJPY	112.96	113.00	114.00
EURJPY	128.06	128.26	131.10
EURGBP	0.8848	0.8798	0.9200
GBPJPY	144.74	145.77	142.50

# EURUSD

## EURUSD falls as dollar recovers on Friday

EURUSD began the week on firmer footing after investors cut dollar long positions amid speculation that the rate of tightening of monetary policy may slow in 2019 and be more gradual than the current Federal Reserve estimates.

These gains were not to last as the minutes from the ECB revealed that policy makers were concerned with the pace of growth becoming more sluggish. These concerns were proven to be well founded as economic data released on Friday showed that the Eurozone's aggregate manufacturing data grew at the slowest pace in over three years. Under these conditions, EURUSD declined towards the end of the week.

## Any recovery may be hindered by data and Italy concerns

The Euro may continue to find itself under pressure as more tepid economic data could put the ECB's tightening bias into question. Over the week ahead, investors will be looking towards consumer and business confidence surveys, unemployment data and November's advance inflation data. Should there be any downside surprises, the Euro is likely to find itself under additional pressure.

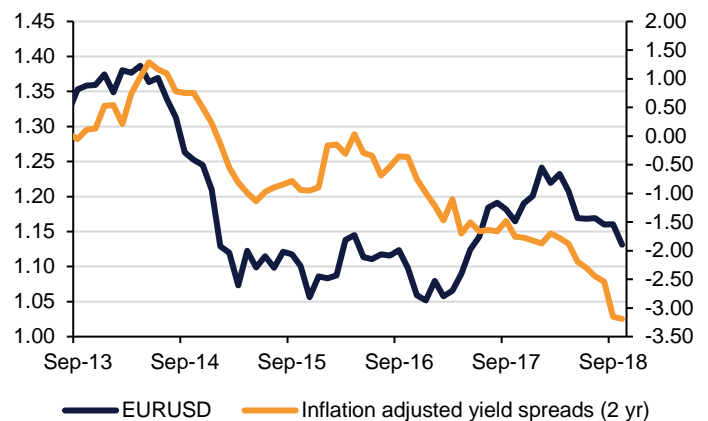
The single currency will also be prone to turmoil originating from the growing rift between Italy and the European Commission over the intended 2.4% budget deficit and the nation's growing debt.

## Technical outlook

EURUSD fell over the last week, cancelling the gains of the previous week. The 0.68% decline during this period has taken the price back to 1.1337, not far from the 200-week moving average of 1.1313. There has not been a weekly close below the 200-week moving average since November 2017. Should this level hold, further gains towards 1.15 can be expected in the final quarter of 2018. However, a weekly close below this level is likely to catalyze more significant declines towards the 2018 low of 1.1216. A break of this level could pave the way towards 1.10.

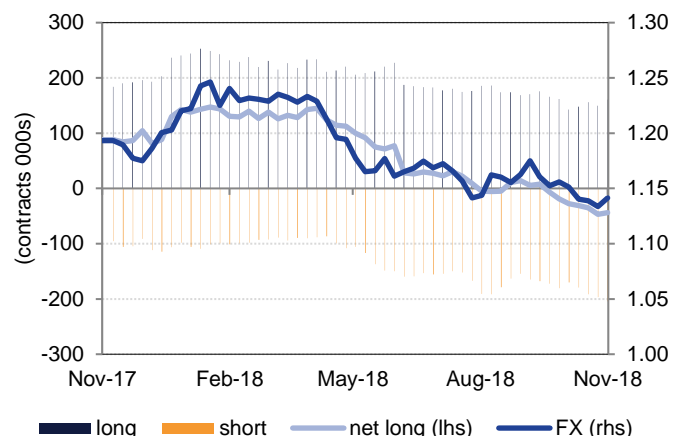
Forecasts	Spot	1 Week	1 month
EURUSD	1.1337	1.1350	1.1500
EURGBP	0.8848	0.8798	0.9200
EURJPY	128.06	128.255	131.10

## Yield Spreads



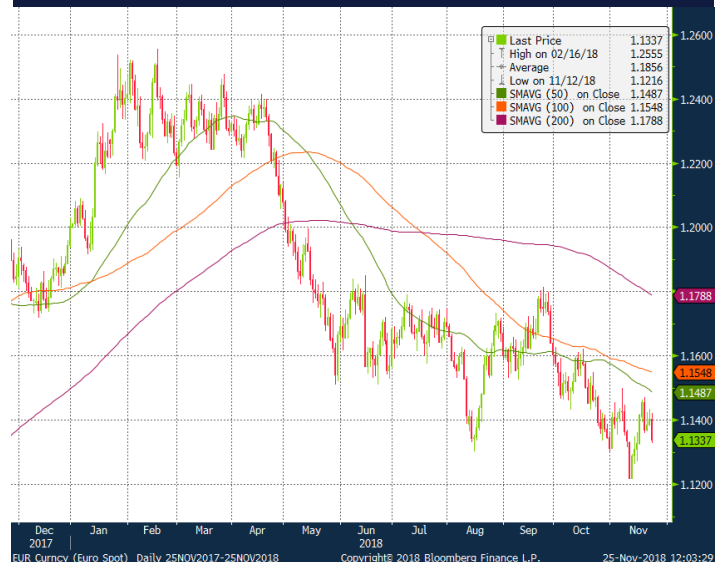
Source: Bloomberg, Emirates NBD Research

## Net Positioning



Source: Bloomberg, Emirates NBD Research

## Daily Candle Chart



Source: Bloomberg, Emirates NBD Research

# USDJPY

## USDJPY remains range bound

Despite a fall in 10-year Treasury yields, USDJPY remained range bound between 112.30-113.20 for most of last week. While Japanese inflation data fell in line with expectations (1.4% y/y in October), during the same month, the trade deficit was wider than expected and widened to JPY 449.3bn compared with a surplus of JPY 131.3bn in October. However, the market reaction to the data was muted and the main driver behind USDJPY remained market risk appetite.

## Data and risk appetite to drive JPY

Over the week ahead, investors expect economic reports to show that Japan's unemployment rate remained at 2.3% in October and retail sales grew 2.6% y/y during the same period. In addition, there is the expectation that data will confirm inflation slowing in November, the 1.1% figure remaining far from the Bank of Japan's target. None of this data is likely to be supportive of the JPY, whose main beneficiary may once again be risk aversion.

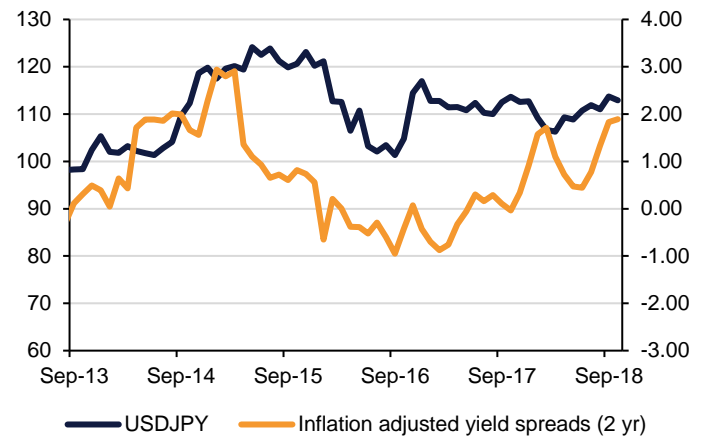
With the G20 summit in Buenos Aires from the 29<sup>th</sup>-30<sup>th</sup> of November, the tone of the discussions there may very well determine how USDJPY ends the week. Should discussions prove to be optimistic, USDJPY will rise with increased market risk appetite. However, should tensions escalate, the opposite will be true.

## Technical

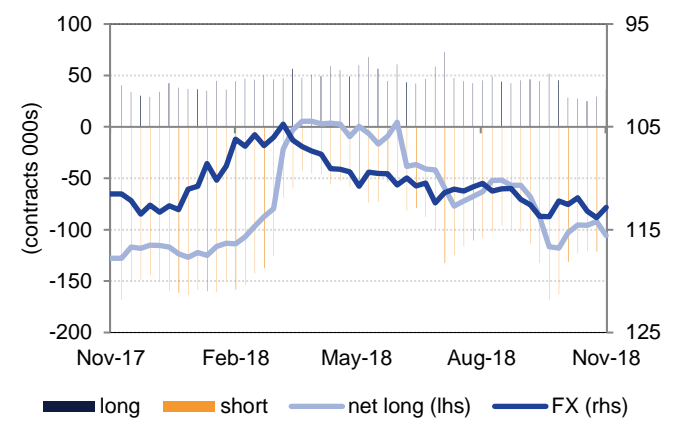
USDJPY posted a modest gain of 0.12% last week, closing at 112.96, just above the 50-day moving average (112.95). Analysis of the daily candle chart shows that over the course of the week, the cross found consistent support on the baseline of the daily uptrend that has been in effect since March 2018. While the daily closing price remains above this level (circa 112.70), further gains towards 114 can be expected.

Forecasts	Spot	1 Week	1 month
USDJPY	112.96	113.00	114.00
EURJPY	128.06	128.255	131.10
GBPJPY	144.74	145.77	142.50

## Yield Spreads

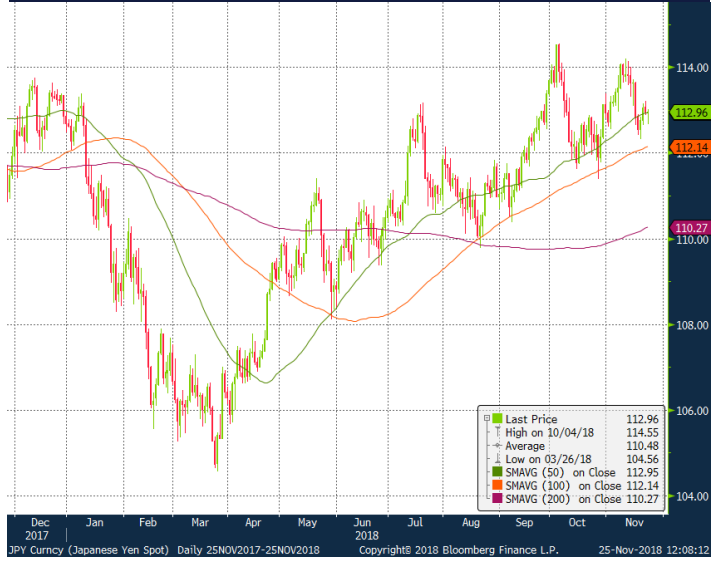


## Net Positioning



Source: Bloomberg, Emirates NBD Research

## Daily Candle Chart



Source: Bloomberg, Emirates NBD Research

# GBPUSD

## GBPUSD falls for a third week

In the absence of first tier economic data, the pound declined for a third week as uncertainties over Brexit persisted. The pound has become increasingly vulnerable to further declines due to the growing risk of a “no-deal” Brexit and as a result. As a result we have adjusted our GBP forecasts to take this eventuality into consideration.

## Parliament in focus as the EU leaders agree

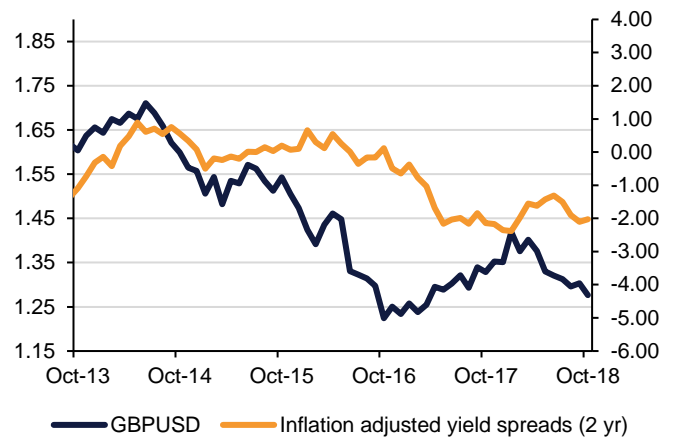
EU leaders met at a summit earlier today where they united in agreement that the deal struck last week was “the best deal on offer” and the European Parliament will formally approve the deal in February of March. This news may provide some relief for the pound but such this is likely to prove only temporary. Asked about whether the deal could be renegotiated if rejected by the U.K. Parliament, President Antonio Tajani said that renegotiation would be “impossible”. Following this news, investors will turn their attention towards headlines in the U.K. Should Prime Minister May lose the vote in the House of Commons (expected in December), this would throw her plans up in the air, and barring any surprise changes, the U.K. would leave the EU in March without any formal agreement or transition period. Speculation about such an outcome is likely to weigh heavily on the pound and further downside seems the path of least resistance as markets will be wont to overlook economic data and focus on news headlines.

## Technical

GBPUSD fell for a third week, losing 0.17% to close at 1.2813. This decline means that for a sixth week, there has been a close below the 100-week moving average (1.3135), which is bearish for the price. While the weekly closes are below this level, there is a risk of a retest of the one year low of 1.2662, a break of which could lead to a more significant falls towards the 1.25 handle.

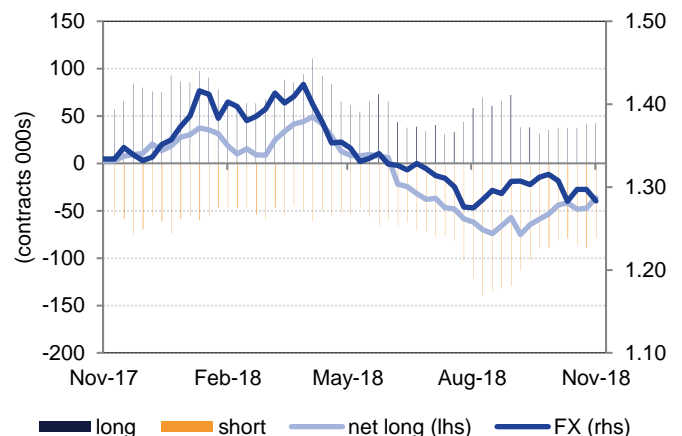
Forecasts	Spot	1 Week	1 month
GBPUSD	1.2814	1.2900	1.2500
EURGBP	0.8848	0.8798	0.9200
GBPJPY	144.74	145.77	142.50

## Yield Spreads



Source: Bloomberg, Emirates NBD Research

## Net Positioning



Source: Bloomberg, Emirates NBD Research

## Weekly Candle Chart



Source: Bloomberg, Emirates NBD Research

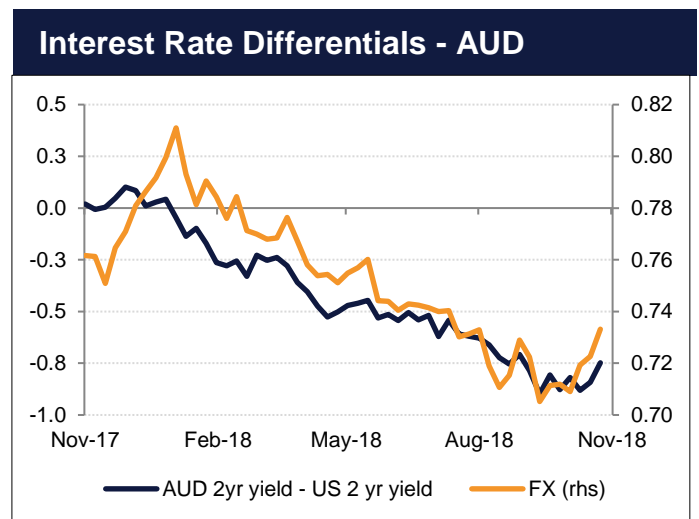
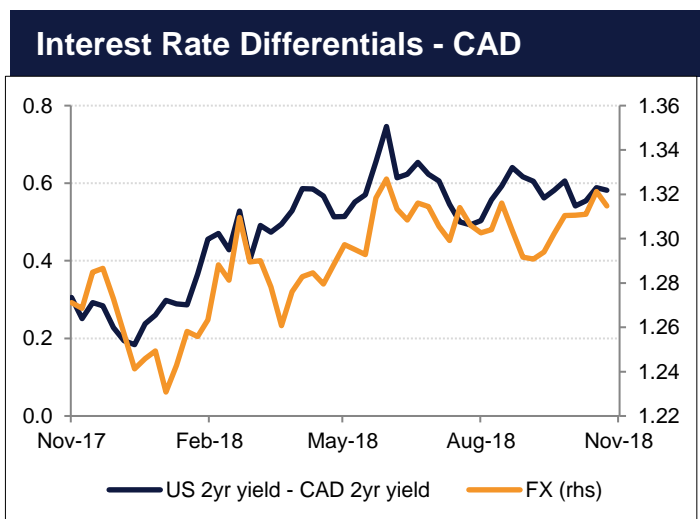
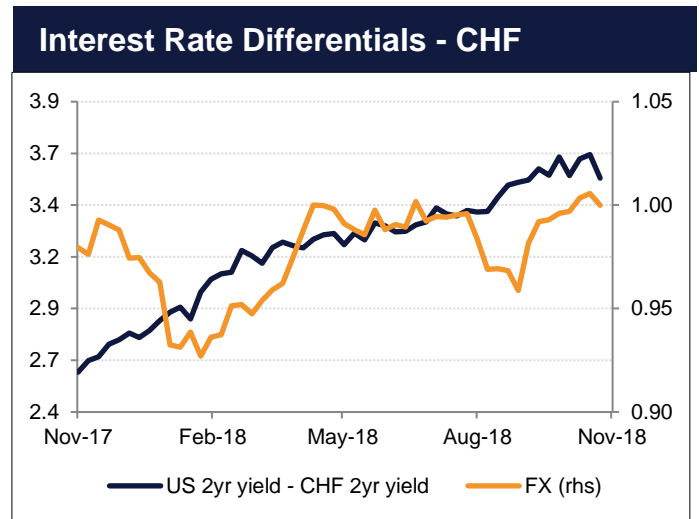
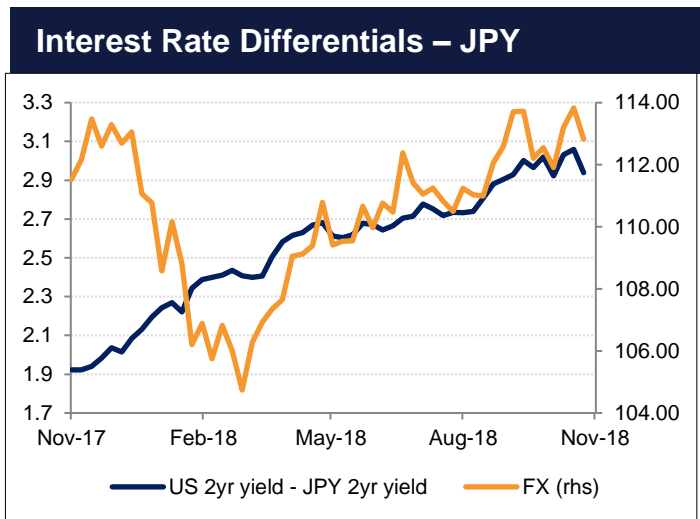
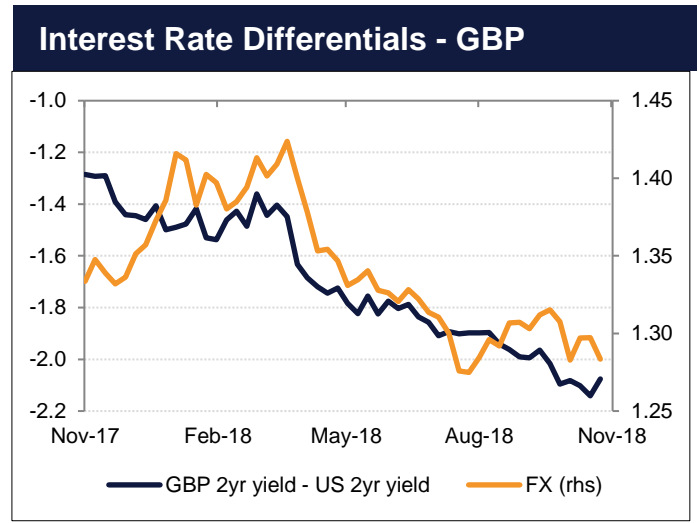
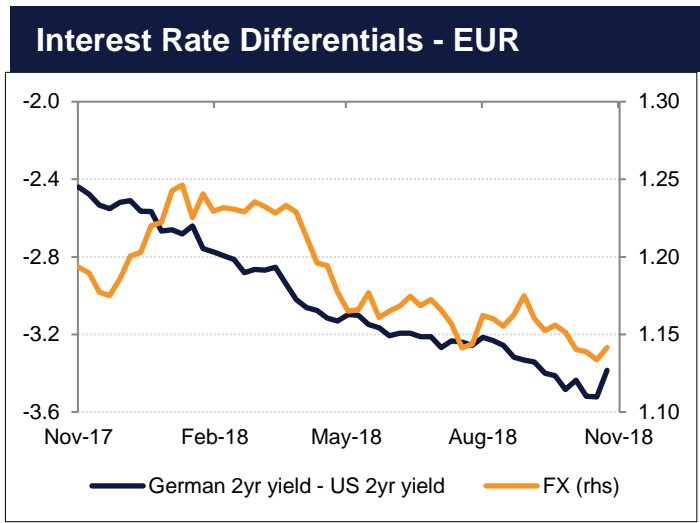
## FX Forecasts

FX Forecasts - Major						Forwards		
	23-Nov	Q4 2018	Q1 2019	Q2 2019	Q3 2019	3m	6m	12m
EURUSD	1.1337	1.1500	1.1500	1.1800	1.2000	1.1434	1.1525	1.1720
USDJPY	112.96	114.00	116.00	114.00	112.00	112.04	111.18	109.37
USDCHF	0.9974	1.0000	1.0000	0.9800	0.9700	0.9879	0.9790	0.9607
GBPUSD	1.2814	1.2500	1.3000	1.3500	1.4000	1.2875	1.2933	1.3054
AUDUSD	0.7233	0.7300	0.7550	0.7700	0.8000	0.7244	0.7256	0.7282
NZDUSD	0.6781	0.6800	0.6900	0.7100	0.7400	0.6791	0.6802	0.6827
USDCAD	1.3238	1.3000	1.2650	1.2600	1.2500	1.3212	1.3192	1.3157
EURGBP	0.8848	0.9200	0.8846	0.8741	0.8571	0.8881	0.8912	0.8979
EURJPY	128.06	131.10	133.40	134.52	134.40	128.06	128.06	128.06
EURCHF	1.1311	1.1500	1.1500	1.1564	1.1640	1.1299	1.1287	1.1263
FX Forecasts - Emerging						7-Sep		
	23-Nov	Q4 2018	Q1 2019	Q2 2019	Q3 2019	3m	6m	12m
SAR	3.7519	3.7500	3.7500	3.7500	3.7500	3.7520	3.7532	3.7595
AED	3.6730	3.6730	3.6730	3.6730	3.6730	3.6736	3.6743	--
KWD	0.3041	0.3020	0.3020	0.3020	0.3020	0.3009	0.2984	--
OMR	0.3850	0.3850	0.3850	0.3850	0.3850	0.3856	0.3862	0.3880
BHD	0.3769	0.3770	0.3770	0.3770	0.3770	0.3761	0.3761	0.3794
QAR	3.6533	3.6400	3.6400	3.6400	3.6400	3.6536	3.6545	3.6570
EGP	17.8900	18.0000	18.1250	18.2500	18.2500	18.3975	18.9050	19.9250
INR	70.6963	70.000	70.000	68.000	68.000	71.2700	72.0300	73.4600
CNY	6.9485	6.9000	7.0000	7.1000	7.2000	6.9696	6.9871	7.0091
SGD	1.3749	1.3500	1.3200	1.3000	1.2900	1.3725	1.3689	1.3612

Source: Bloomberg, Emirates NBD Research

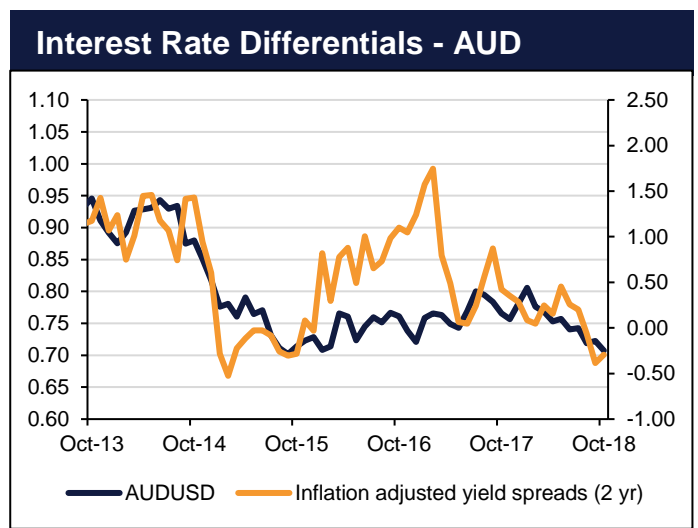
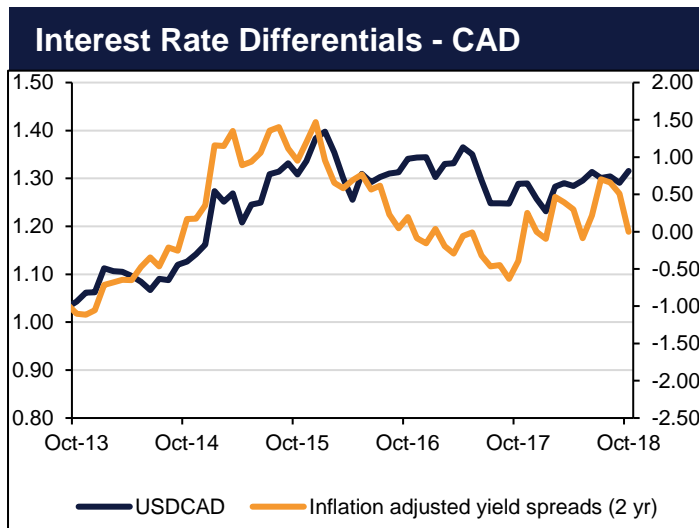
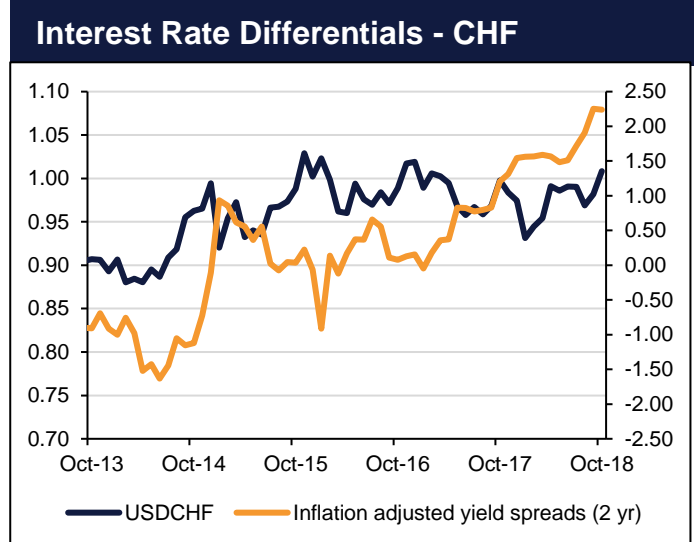
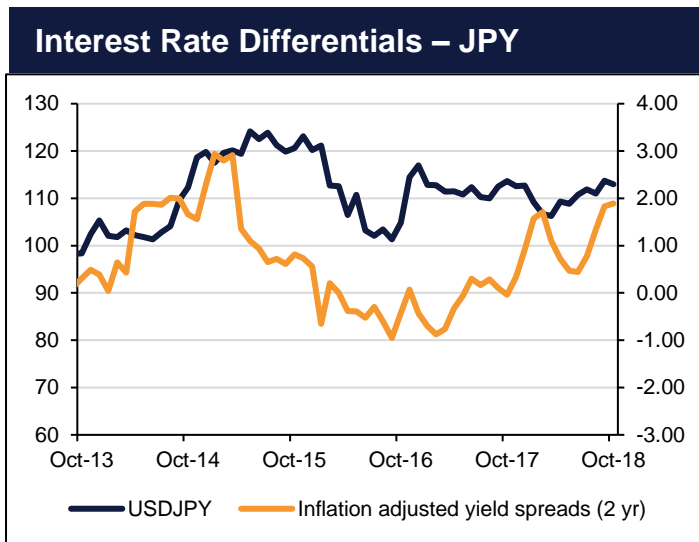
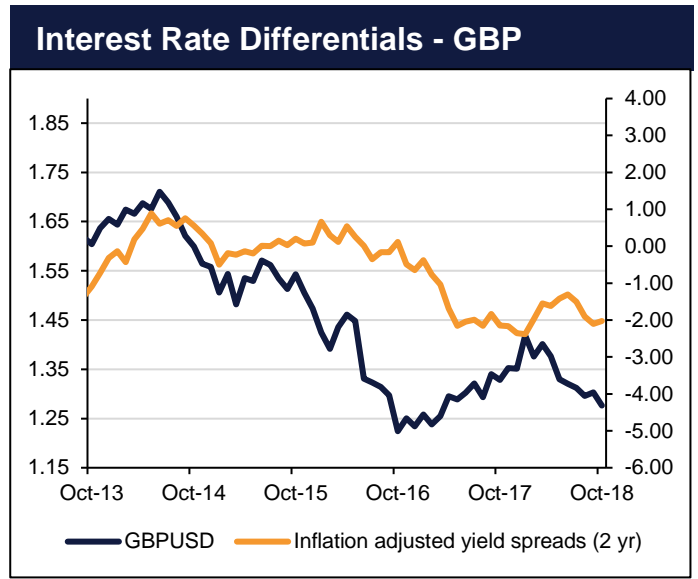
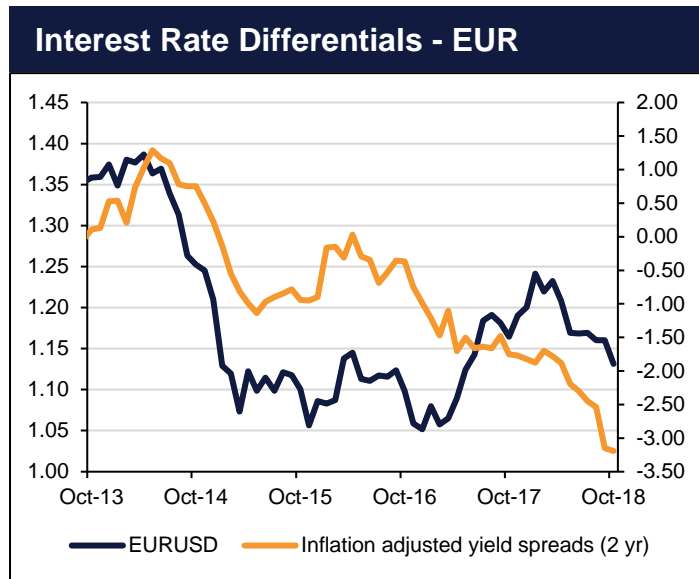
\*Denotes USD peg

## Major FX and Nominal Interest Rates



Source: Bloomberg, Emirates NBD Research

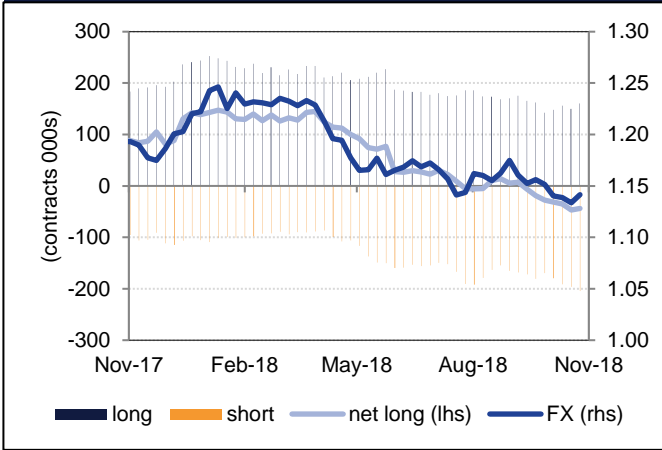
## Major FX and Real Interest Rates



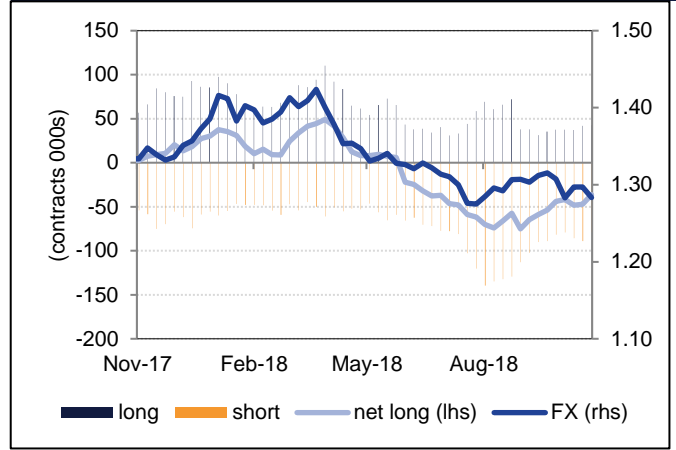
Source: Bloomberg, Emirates NBD Research

## Major Currency Positions

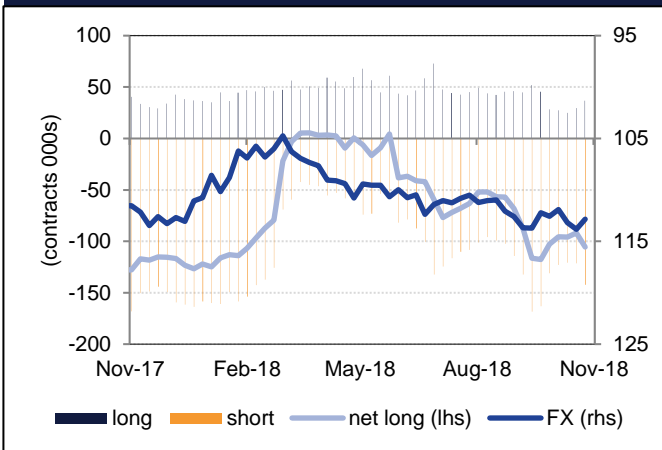
### CFTC – Speculative Positions - EUR



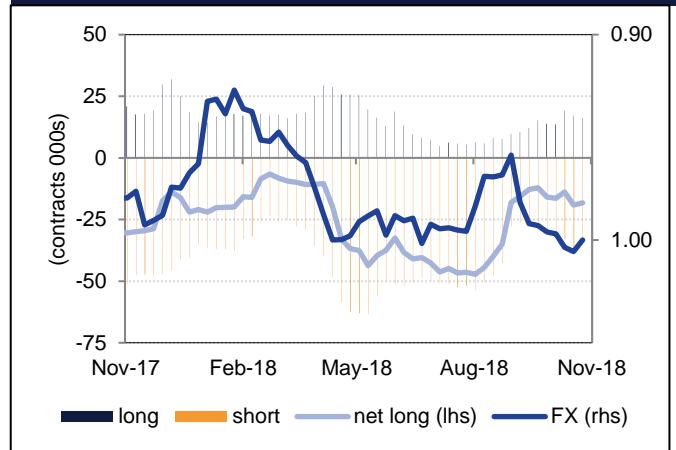
### CFTC – Speculative Positions - GBP



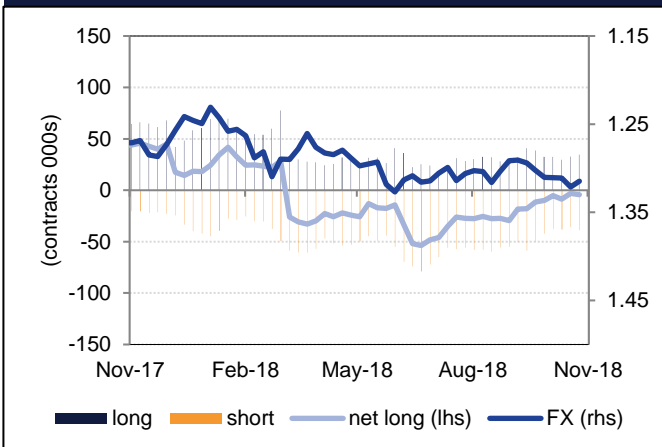
### CFTC – Speculative Positions - JPY



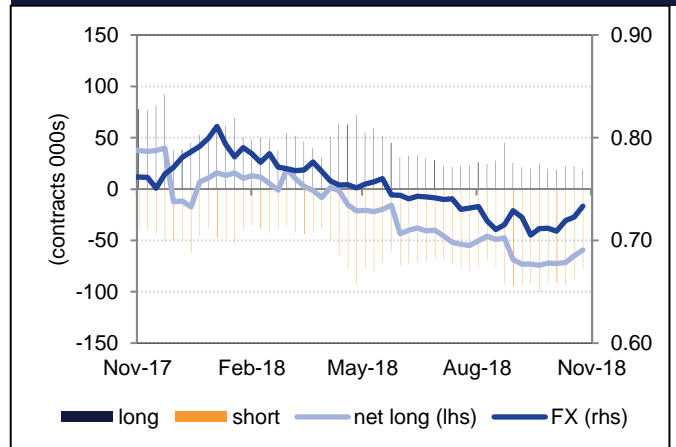
### CFTC – Speculative Positions - CHF



### CFTC – Speculative Positions - CAD



### CFTC – Speculative Positions - AUD





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