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FX Week

The USD appreciated against most major currencies last week, suggesting a degree of risk aversion returning to markets, but its gains were modest and it ended the week off its peak. The EUR which had struggled against the greenback at the start of the week pulled back from its lows below 1.08, leaving the CAD and the NOK as some of the worst performers even as oil prices recovered from their early sharp collapse into negative territory, on signs that U.S. oil producers are starting to rein back production.

What is becoming more noticeable across markets is a resumption of two-way flows which may be a sign that investors feel the worst is over, with lockdowns starting to be eased. Data released last week showing much worse contractions in April in the Eurozone and the UK in particular were largely overlooked, again suggesting a preference by investors to look forward and not behind, with another sharp rise in U.S. jobless claims also beginning to be seen as historic. While there was also disappointment at an inconclusive EU leaders there was also optimism stemming from another U.S. fiscal relief plan, providing an additional \$484bn of federal funding.

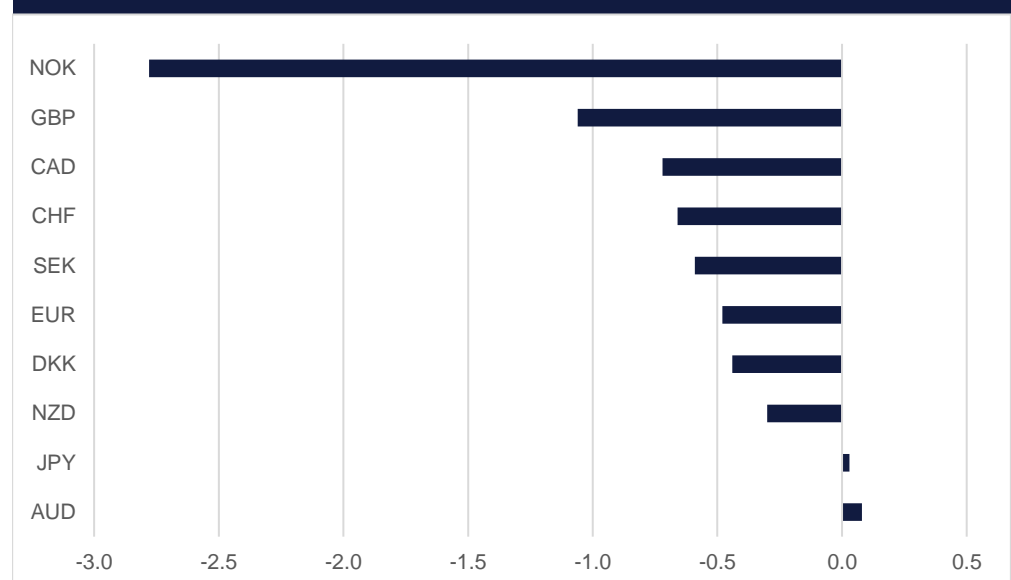
The coming week will again be an important one for data as well as for corporate earnings and central bank meetings and announcements. It will also be a holiday shortened week with Australia and New Zealand closed on Monday, Japan shut on Wednesday, while at the end of the week much of Europe and Asia will be closed for Labor Day holidays on Friday.

U.S. GDP data due on Wednesday will be the most significant data release and is expected to show output contracting by 4.0% annualized in Q1 according to consensus estimates, which would be the first decline since 2014 and the sharpest since 2009. Otherwise, the main events will be the FOMC meeting concluding on Wednesday, followed by the BoJ and ECB meeting due on Monday and Thursday respectively.

After the two emergency meetings in March that resulted in deep rate cuts and a shift back to QE, this week's FOMC meeting should be relatively uneventful, with interest rates remaining on hold within a band of 0% to 0.25%, where they will stay for some time to come.

The ECB and the BoJ are also set to meet, with the possibility of policy action from both. Reports in the Nikkei last week hinted that the BoJ will discuss unlimited buying of JGBs, raising it from the current JPY80 trillion. Having recently allowed non-investment grade bonds to be used as collateral in liquidity operations, the ECB may also announce a further expansion of their asset purchases. All central bank heads seem likely to reiterate their willingness to act further if necessary to ensure financial market stability, but some of the markets' discomfort cannot be addressed by central banks alone, as with the ongoing EU discussions about the its one trillion euro rescue fund. Failure to reach a solution to how it is funded is raising questions again about the viability of its monetary union, and until this is resolved we expect the EUR to continue to underperform with risks towards 1.05 in Q2.

Weekly currency movement vs USD (%)



Source: Bloomberg, Emirates NBD Research

Amongst major currencies GBP was the biggest loser last week, dropping 1.0%, in part on the back of weak UK PMI and retail sales data, but it is also vulnerable to uncertainty about the length of the Brexit transition period and the risk of the UK leaving the EU without a trade deal. With Boris Johnson expected to resume his leadership next week, this may calm some of the uncertainties, but the trade-off between combatting the coronavirus and maintaining economic growth is also coming into sharper focus as a decision on ending the UK lockdown is awaited.

Finally the Swiss franc has been in the spotlight with the Swiss National Bank (SNB) reporting its largest losses since 1907 on account of its recent intervention to prevent the CHF from appreciating too sharply. The SNB's efforts to prevent the EURCHF cross from breaking 1.05 amidst a period of safe haven demand for the franc has apparently cost it CHF38.2bn in Q1 this year.

FX Forecasts

FX Forecasts – Major					Forwards			
	24-Apr	Q2 2020	Q3 2020	Q4 2020		3m	6m	12m
EURUSD	1.0823	1.0500	1.1000	1.1200		1.0847	1.0871	1.0924
USDJPY	107.51	107.00	110.00	112.00		107.33	107.12	106.64
USDCHF	0.9730	0.9600	1.0000	1.0000		0.9702	0.9673	0.9608
GBPUSD	1.2367	1.2000	1.3000	1.3500		1.2373	1.2378	1.2385
AUDUSD	0.6371	0.6000	0.6000	0.5900		0.6372	0.6372	0.6371
NZDUSD	0.6017	0.6000	0.5800	0.5800		0.6013	0.6009	0.6001
USDCAD	1.4103	1.400	1.3800	1.3500		1.4095	1.4091	1.4084
EURGBP	0.8752	0.8750	0.8462	0.8296		0.8767	0.8784	0.8822
EURJPY	116.40	112.35	121.00	125.44		116.40	116.40	116.40
EURCHF	1.0530	1.008	1.1000	1.1200		1.0523	1.0515	1.0495
					3.7503			
	24-Apr	Q2 2020	Q3 2020	Q4 2020		3m	6m	12m
SAR	3.7605	3.7500	3.7500	3.7500		3.7629	3.7672	3.7810
AED	3.6730	3.6730	3.6730	3.6730		3.6755	3.6782	3.6841
KWD	0.3108	0.3020	0.3020	0.3020		0.3114	0.3121	-
OMR	0.3850	0.3850	0.3850	0.3850		0.3900	0.3955	0.4060
BHD	0.3783	0.3770	0.3770	0.3770		0.3779	0.3783	0.3786
QAR	3.6602	3.6400	3.6400	3.6400		3.6610	3.6575	3.6535
EGP	15.7914	15.7500	16.0000	16.0000		16.4950	17.0900	18.3000
INR	76.456	75.000	73.000	71.000		77.8300	78.6100	80.0600
CNY	7.0815	7.2000	7.2000	7.2000		7.1042	7.1212	7.1592
SGD	1.4242	1.40	1.40	1.35		1.4243	1.4237	1.4235
					3.7503			
	24-Apr	Q2 2020	Q3 2020	Q4 2020				
MAD	9.9630	10.5000	10.5000	10.0000		9.9930	10.0213	10.0686
TND	2.9088	3.0000	3.2000	3.0000		2.9888	3.0588	3.2088
TRY	6.9727	6.9000	7.0000	6.7000		-	-	-

Source: Bloomberg, Emirates NBD Research
 *Denotes USD peg

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