



بنك الإمارات دبي الوطني
Emirates NBD

Weekly
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Tim Fox
Chief Economist
+971 4 230 7800
timothyf@emiratesnbd.com

Mohammed Altajir
Manager, FX Analytics and
Product Development
+971 4 609 3005
MohammedTAJ@emiratesnbd.com

www.emiratesnbdresearch.com

FX Week

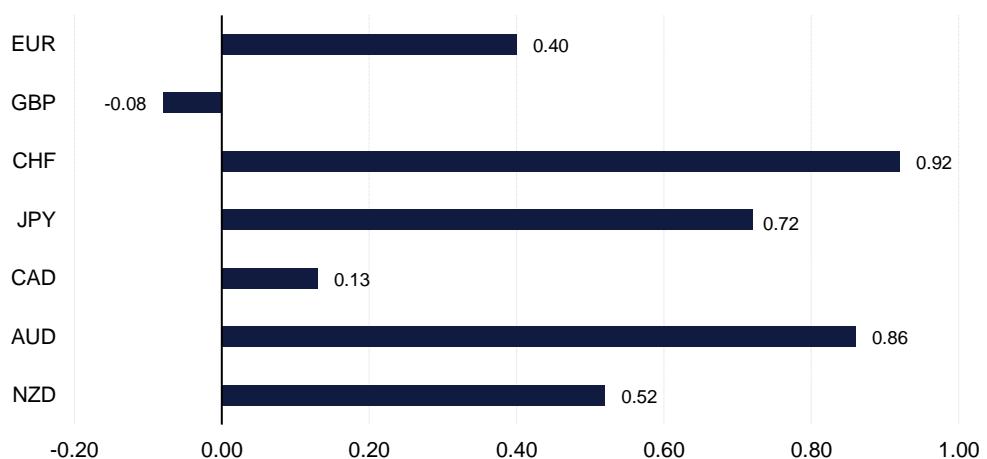
With trade and geopolitics continuing to dominate the headlines the likelihood is that the USD will remain relatively underpinned, notwithstanding occasional bouts of profit-taking which were witnessed at the end of last week. President Trump is in Japan having meetings with PM Abe, and this may result in a bilateral trade deal with Japan. However, progress with China is clearly what the markets want to see and the trend of the last few days has seen this relationship deteriorate if anything as **the Huawei issue has added intensity to the trade dispute. It seems likely that the Osaka G20 meeting at the end of June will be the next critical event in this saga, with Presidents Trump and Xi set to meet each other,** but before then there is probably more room for the relationship to sour further first before any improvement can be expected.

Economic data over the end of last week were overshadowed by political developments, but **the pattern of recent weeks has been one of renewed weakness overall casting doubt on the sustainability of recoveries seen in Q1.** Durable goods orders in the US came in softer for April, declining by more than 2% month on month. Most of the decline was attributable to a drop in commercial vehicle orders as airlines defer purchases of Boeing aircraft affected by safety issues. However, vehicle sales also fell (3.4% m/m) while core orders were flat. Other PMI readings in Europe and the US have also been soft, and this week that tone is also expected to be seen in China when its PMI's are released.

Weaker UK retail sales data were also seen, but Theresa May's decision to resign as prime minister of the UK dominated unsurprisingly. May's position had been tenuous for months as she had failed repeatedly to get her Brexit deal supported in parliament and she faced considerable opposition from within her own Conservative party. However, with May to step down as prime minister from June the outlook for Brexit is not any clearer, and the chances of a no deal Brexit have probably increased as the EU may rebuff further attempts to negotiate a new deal.

Given that May's resignation had been widely expected, sterling actually rallied on the news. There may have been an element of profit taking as investors closed out short positions on GBP. However, with the outlook for Brexit until the end of October deadline still highly uncertain, more downside for the currency could be on the cards. Indeed, more uncertainty or even a further delay, if the EU accepts another extension, would push out the timing for any rate hikes by the Bank of England and see investment and growth drift. Meanwhile EU election results will be scrutinized in terms of what they might mean for key appointments as well as the long term implications of populist success for EU-wide fiscal policy.

Weekly currency movement vs USD (%)



Source: Bloomberg, Emirates NBD Research

EURUSD

EURUSD rises on soft U.S. data

Despite the EURUSD cross hitting a new 2019 low of 1.1107 on Thursday last week, softer than expected U.S. economic data resulted in a reverse of dollar demand, to the benefit of the euro. The week began with the dollar benefitting from safe haven bids amid investor concerns over escalating trade tensions between the U.S. and China. However, softer than expected economic data has ignited concerns that the repercussions of this trade dispute are starting to weigh on U.S. growth. Durable goods orders showed a 2.1% contraction in April, accompanied with a downward revised 1.7% growth the previous month (originally 2.6%). In addition, the Manufacturing and Services PMIs fell to 50.6 and 50.9 respectively, compared with 52.6 and 53.0 during the previous period. The data represents a nine-year low for manufacturing and three-year low for services. In addition to this, no support for USD was to be found in the aftermath of the FOMC minutes for May's meeting. The minutes showed that most policy makers believed that the current weakness in inflation is "transitory", the consensus being that a patient approach to adjusting the federal funds rate remains appropriate

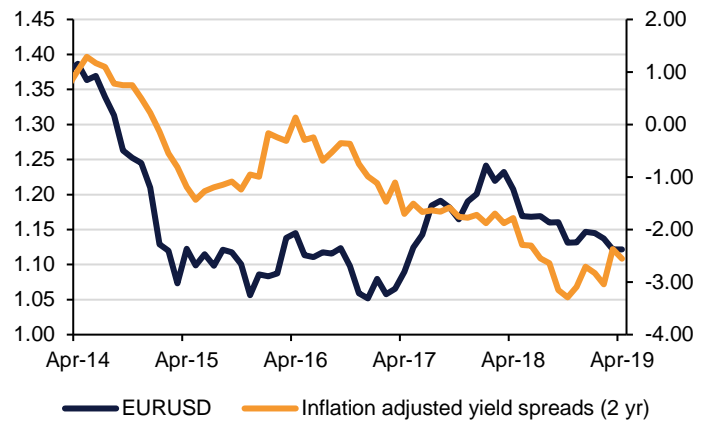
Over the week ahead, consumer confidence data is expected out of the U.S. as well as secondary readings for Q1 2019 GDP. Any upside surprises in the data are likely to be supportive for the dollar. Aside from economic data, the market will continue to eye the ongoing trade dispute. Any further escalations are likely to result in dollar appreciation due to haven bids, while any easing will benefit the euro and drive EURUSD higher.

Technical outlook

A rise of 0.42% last week saw EURUSD close the week at 1.1204, cancelling half of the declines of the previous week. The price had fallen to 1.1107, a new 2019 low before paring these declines on Thursday and Friday. Despite this gain, the price remains below the 50-day moving average (presently 1.1231), an area which has acted as a level of resistance since failing as a support in March 2019. In order to obtain further meaningful gains, a confirmed daily close above this level is required.

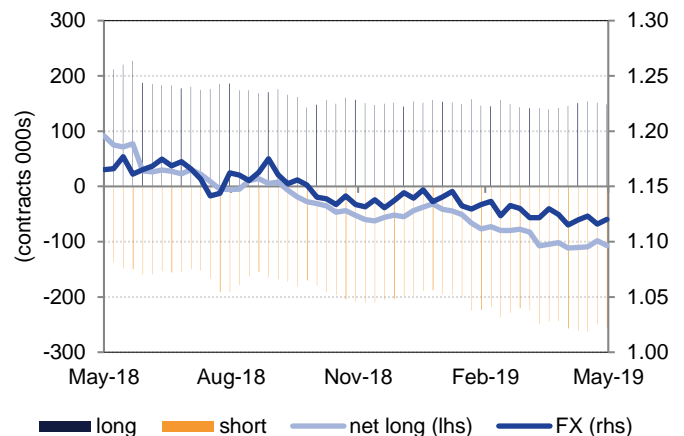
Forecasts	Spot	1 Week	1 month
EURUSD	1.1203	1.1250	1.1300
EURGBP	0.8814	0.8858	0.8898
EURJPY	122.46	123.19	125.43

Yield Spreads



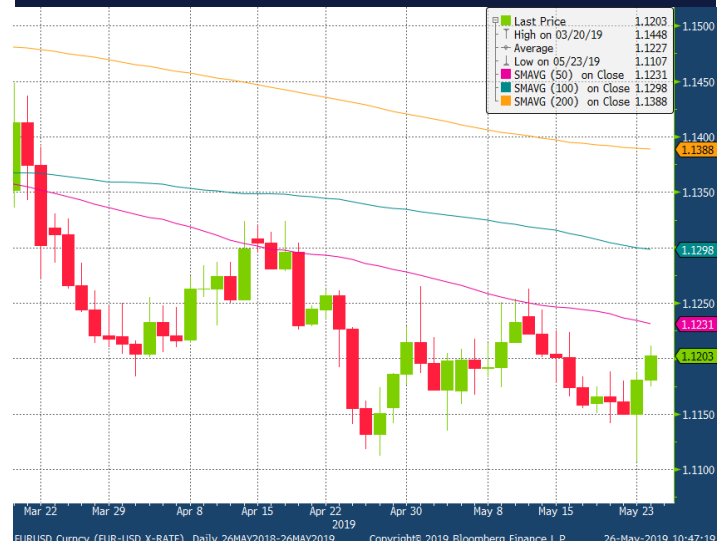
Source: Bloomberg, Emirates NBD Research

Net Positioning



Source: Bloomberg, Emirates NBD Research

Daily Candle Chart



Source: Bloomberg, Emirates NBD Research

USDJPY

Risk aversion pushes USDJPY to 19-week low

The growth outlook for Japan is not a pretty picture. While economic data out of Japan showed that Q1 2019 GDP has accelerated to 2.1% annualized q/q compared with 1.6% in Q3, the same report highlighted other concerns. Private consumption declined by 0.1% during the same period and business investment posted a 0.3% contraction. In addition, the Nikkei Manufacturing PMI for May was back in contraction territory at 49.6 while exports declined by 2.5% in April. Combined with rising global trade concerns, this caused an absence of risk appetite in the market triggering safe haven bids to the benefit of the Japanese yen. The result was USDJPY closing at the lowest level in 19-weeks.

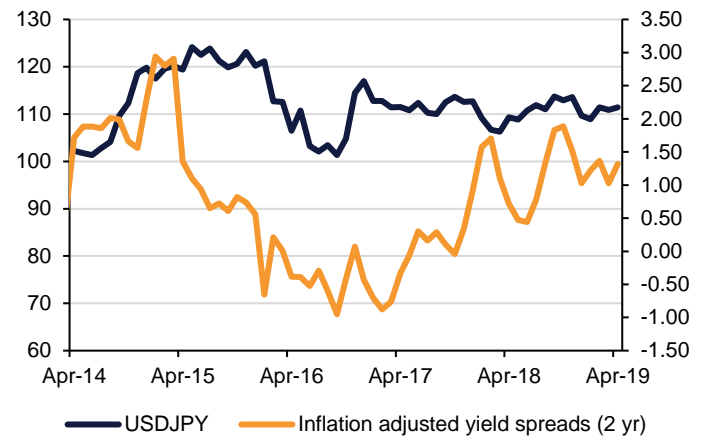
Over the week ahead inflation, employment and retail data is expected to be released. However, we believe that such data will be no more than background noise to investors whose attention will remain on the ongoing trade dispute between the U.S. and China. Escalations in tensions will be of benefit to the yen, while easing of tensions will drive USDJPY higher. We expect this to continue to be the primary driver of the USDJPY in the weeks ahead.

Technical outlook

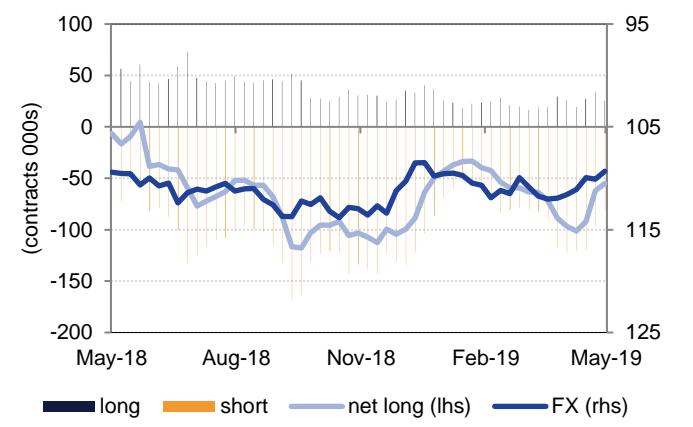
Despite trading as high as 110.67, breaking above the 100-day moving average (110.55) for a brief period of time, USDJPY was unable to hold onto these gains and the price finished the week 0.70% lower at 109.30. This decline has taken the price back below the 50% one-year Fibonacci retracement, which is bearish for the price outlook and could result in a retest of the 38.2% one-year Fibonacci retracement of 108.57, an area which provided support in January 2019.

Forecasts	Spot	1 Week	1 month
USDJPY	109.31	109.50	111.00
EURJPY	122.46	123.19	125.43
GBPJPY	138.97	139.07	140.97

Yield Spreads

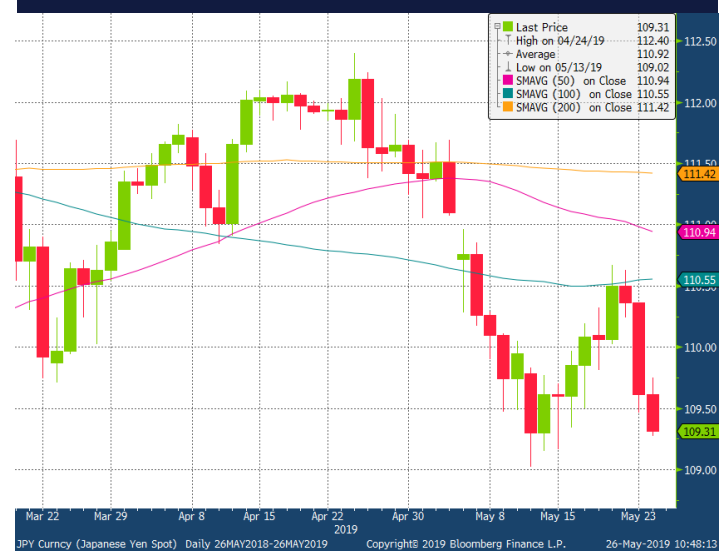


Net Positioning



Source: Bloomberg, Emirates NBD Research

Daily Candle Chart



Source: Bloomberg, Emirates NBD Research

GBPUSD

GBPUSD finishes the week mostly flat

Economic data last week showed headline inflation easing in the UK in April and no growth in retail sales during the same period. However, as has been the case for much of 2019, these headlines were overshadowed by Brexit headlines. Although spending the middle of the week under pressure, the announcement by Prime Minister May that she would resign on June 7th 2019 resulted in a rebound for the pound. GBPUSD which, according to the Relative Strength Indicator, was already in oversold territory had a relief rally as short sellers locked in profits and despite earlier declines, the price closed the week close to its opening value.

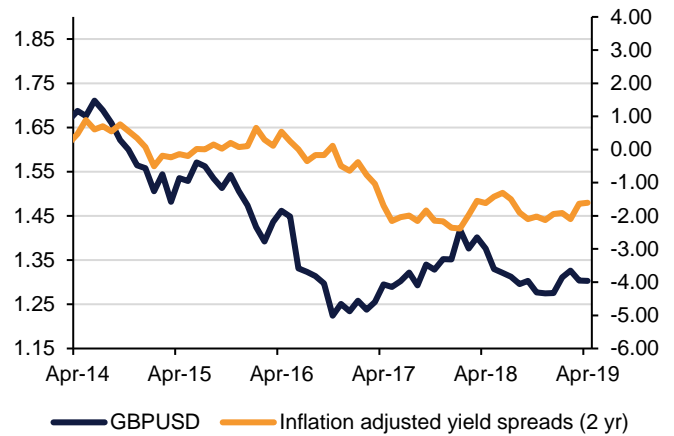
With no primary tier UK economic data due for release in the week ahead, Brexit headlines will continue to dominate GBPUSD movements. In the medium term, there is the risk that PM May's replacement may be more open to leaving the European Union without a deal on October 31st 2019. Such an outcome would be very pessimistic for the outlook of sterling.

Technical outlook

GBPUSD finished the week almost unchanged at 1.2714. However the price fluctuated significantly over the week, trading from as high as 1.2813 to as low as 1.2606. Despite breaking below the 23.6% one-year Fibonacci retracement during the week (1.2684), Friday's relief rally saw the price end the week above this level. However, while the price remains below the 1.2830 level (not far from the 38.2% one-year Fibonacci retracement 1.2835), the path of least resistance is to the downside and a break below the 23.6% one-year Fibonacci retracement may catalyse a bigger loss towards the 1.25 handle.

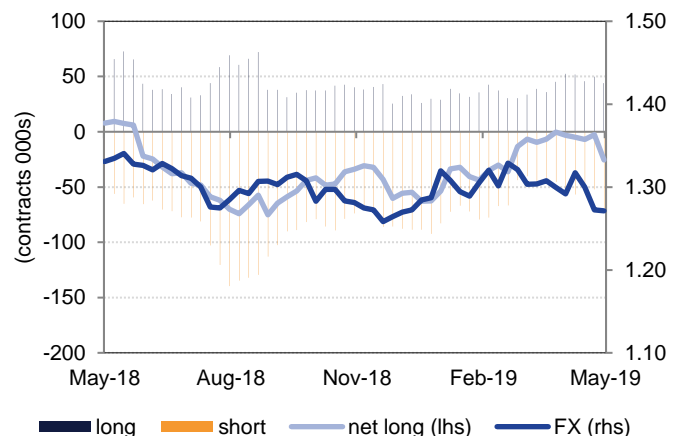
Forecasts	Spot	1 Week	1 month
GBPUSD	1.2714	1.2700	1.2700
EURGBP	0.8814	0.8858	0.8898
GBPJPY	138.97	139.065	140.97

Yield Spreads



Source: Bloomberg, Emirates NBD Research

Net Positioning



Source: Bloomberg, Emirates NBD Research

Weekly Candle Chart



Source: Bloomberg, Emirates NBD Research

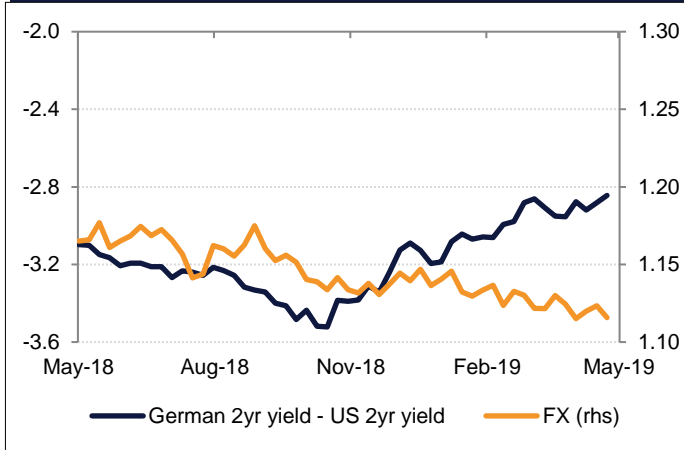
FX Forecasts

FX Forecasts - Major						Forwards		
	24-May	Q2 2019	Q3 2019	Q4 2019	Q1 2020	3m	6m	12m
EURUSD	1.1203	1.1300	1.1600	1.2000	1.2200	1.1267	1.1352	1.1511
USDJPY	109.31	111.00	112.00	110.00	110.00	108.82	108.05	106.60
USDCHF	1.0022	1.0000	0.9800	0.9700	0.9500	0.9947	0.9863	0.9707
GBPUSD	1.2714	1.2700	1.2500	1.2800	1.3000	1.2716	1.2770	1.2863
AUDUSD	0.6927	0.6900	0.7200	0.7400	0.7700	0.6919	0.6937	0.6968
NZDUSD	0.6553	0.6600	0.6900	0.7100	0.7300	0.6533	0.6547	0.6568
USDCAD	1.3437	1.3000	1.2600	1.2500	1.2200	1.3445	1.3421	1.3386
EURGBP	0.8814	0.8898	0.9280	0.9375	0.9385	0.8861	0.8890	0.8949
EURJPY	122.46	125.43	129.92	132.00	134.20	122.56	122.56	122.56
EURCHF	1.1226	1.1300	1.1368	1.1640	1.1590	1.1207	1.1196	1.1175
FX Forecasts - Emerging						Forwards		
	24-May	Q2 2019	Q3 2019	Q4 2019	Q1 2020	3m	6m	12m
SAR	3.7500	3.7500	3.7500	3.7500	3.7500	3.7522	3.7540	3.7581
AED	3.6727	3.6730	3.6730	3.6730	3.6730	3.6740	3.6748	3.6767
KWD	0.3042	0.3020	0.3020	0.3020	0.3020	0.3043	0.3043	--
OMR	0.3848	0.3850	0.3850	0.3850	0.3850	0.3856	0.3864	0.3886
BHD	0.3770	0.3770	0.3770	0.3770	0.3770	0.3761	0.3761	0.3780
QAR	3.6595	3.6400	3.6400	3.6400	3.6400	3.6578	3.6569	3.6540
EGP	16.8645	17.0000	17.5000	17.7500	17.7500	17.3000	17.7400	18.6850
INR	69.528	70.000	70.000	68.000	68.000	70.1900	70.9800	72.3800
CNY	6.8989	6.9000	7.0000	7.1000	7.2000	6.9209	6.9342	6.9587
SGD	1.3753	1.3500	1.3200	1.3000	1.2900	1.3730	1.3711	1.3673
FX Forecasts - MENA						3.7503		
	24-May	Q2 2019	Q3 2019	Q4 2019	Q1 2020			
MAD	9.6867	9.7000	9.8000	9.8000	9.9000			
TND	2.9957	3.0000	3.0500	3.1000	3.1000			
TRY	6.0821	6.2000	6.3000	6.4000	6.5000			

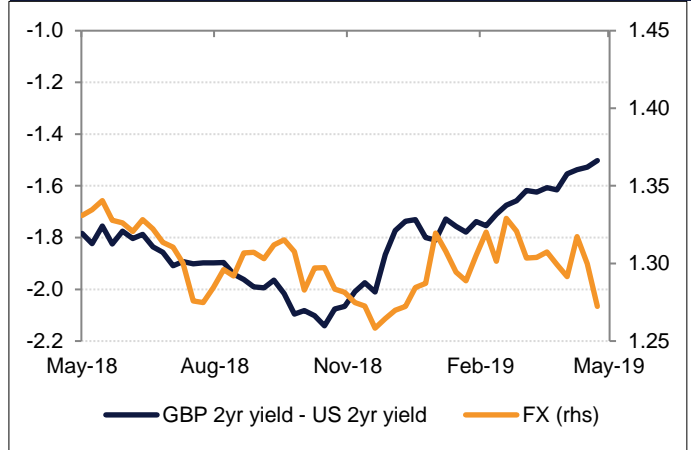
Source: Bloomberg, Emirates NBD Research
 *Denotes USD peg

Major FX and Nominal Interest Rates

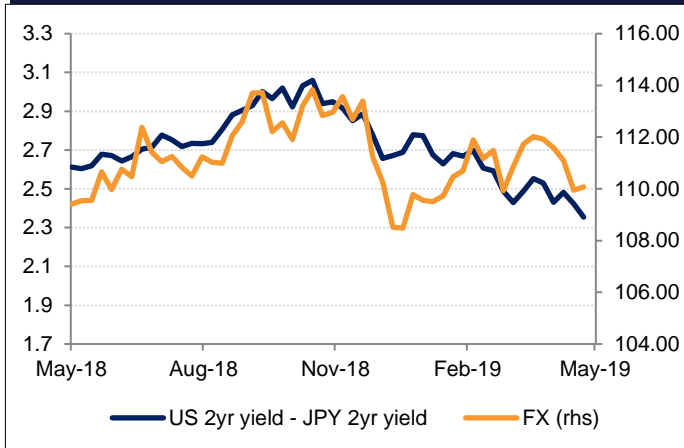
Interest Rate Differentials - EUR



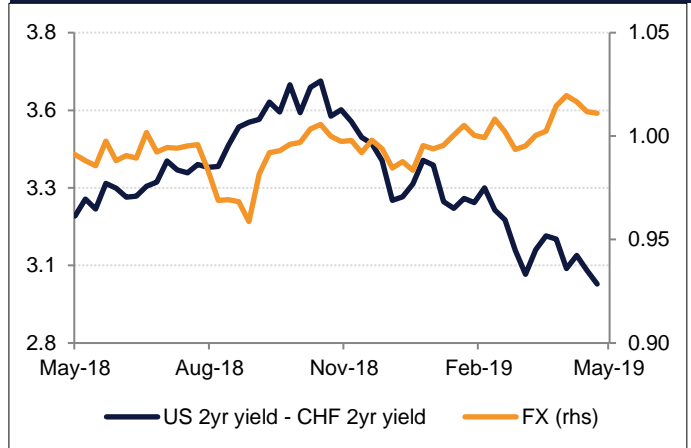
Interest Rate Differentials - GBP



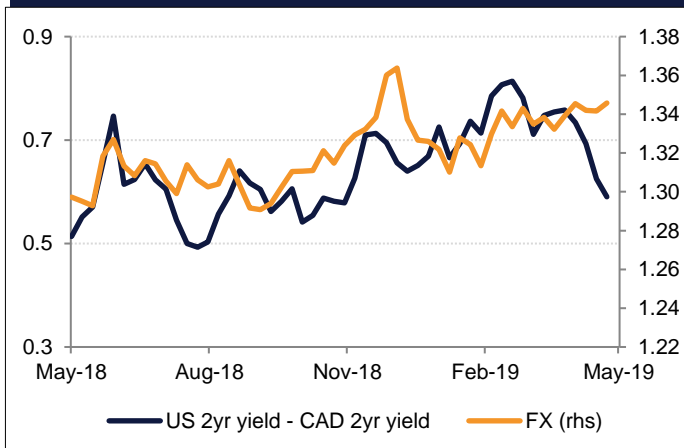
Interest Rate Differentials - JPY



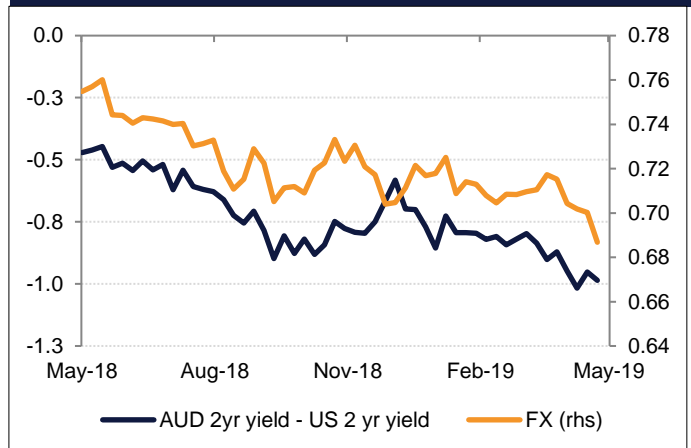
Interest Rate Differentials - CHF



Interest Rate Differentials - CAD

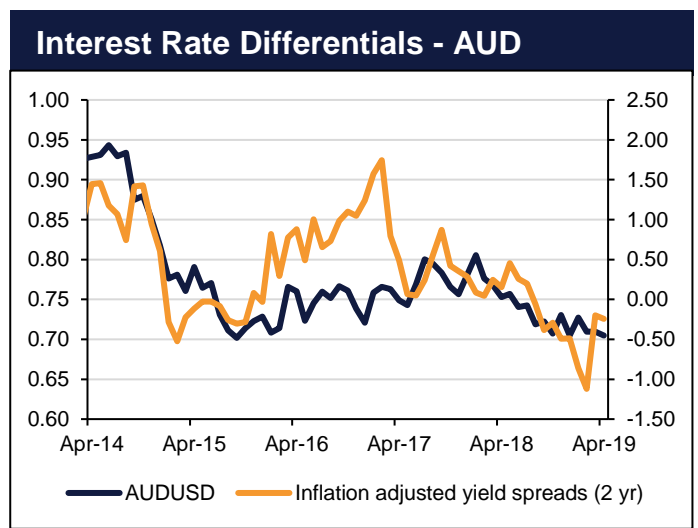
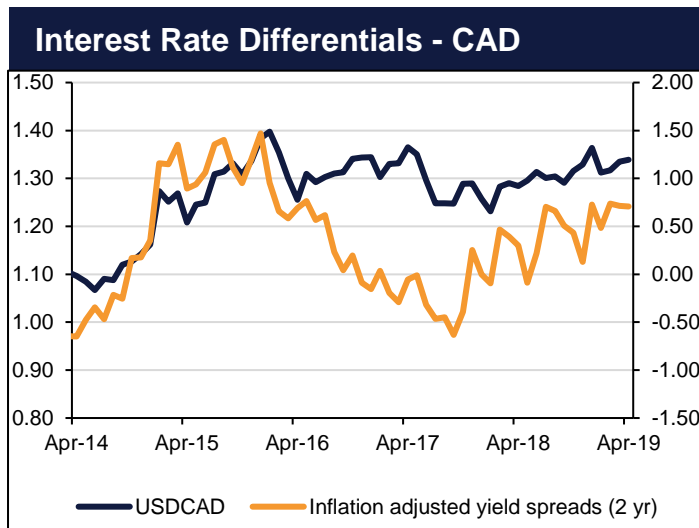
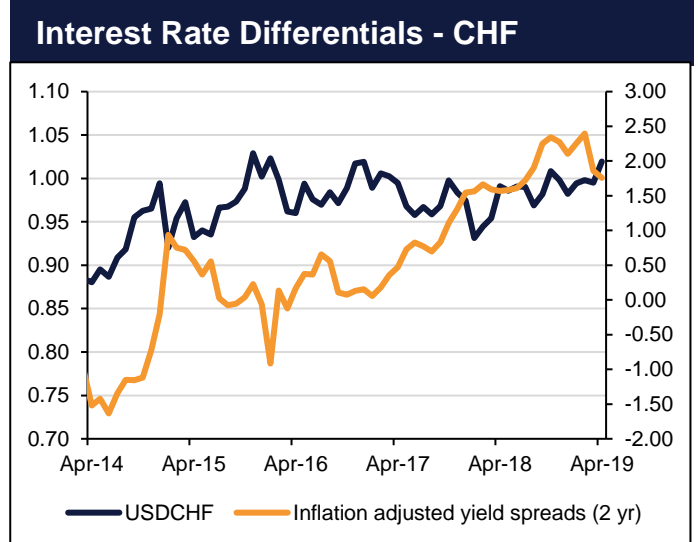
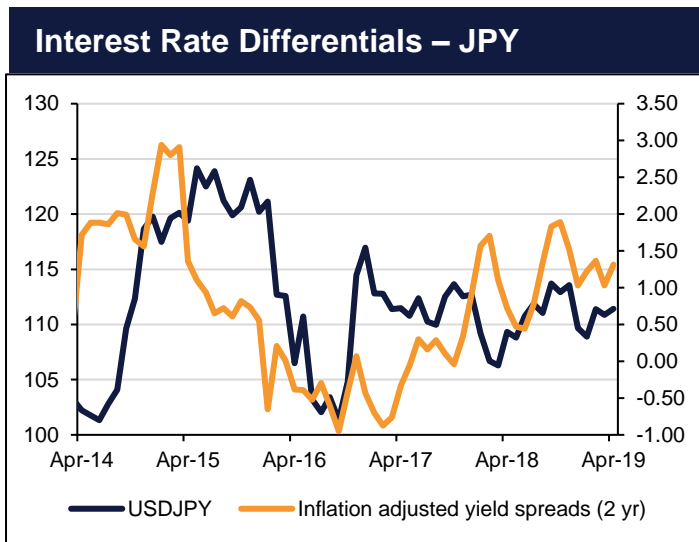
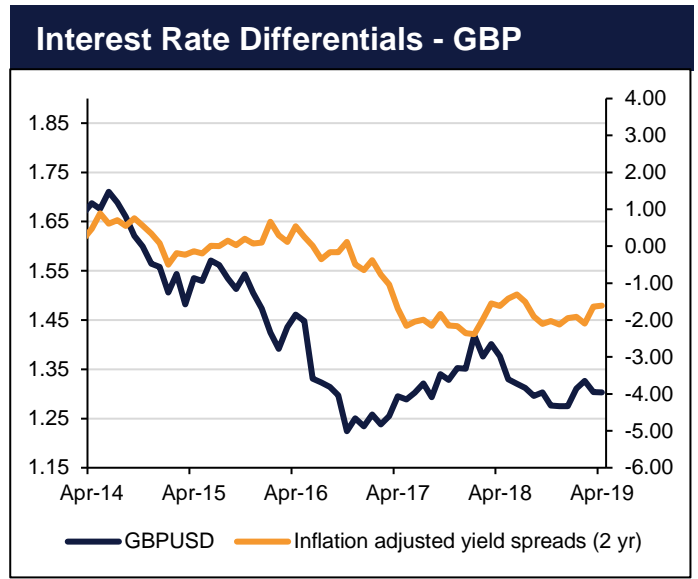
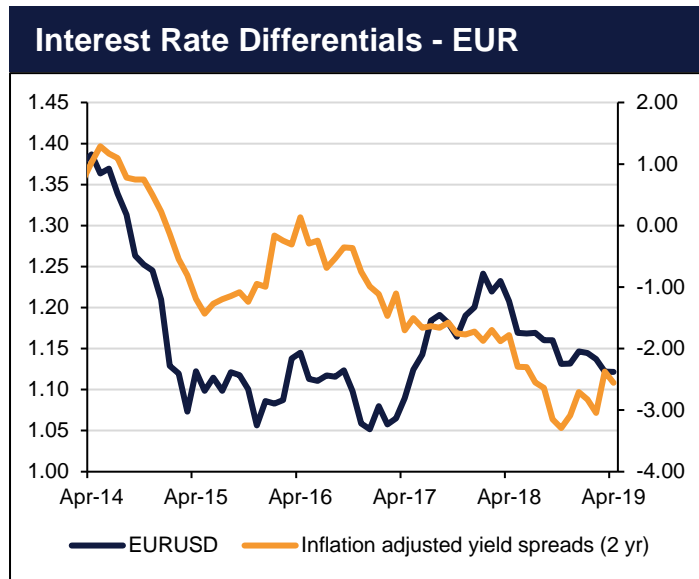


Interest Rate Differentials - AUD



Source: Bloomberg, Emirates NBD Research

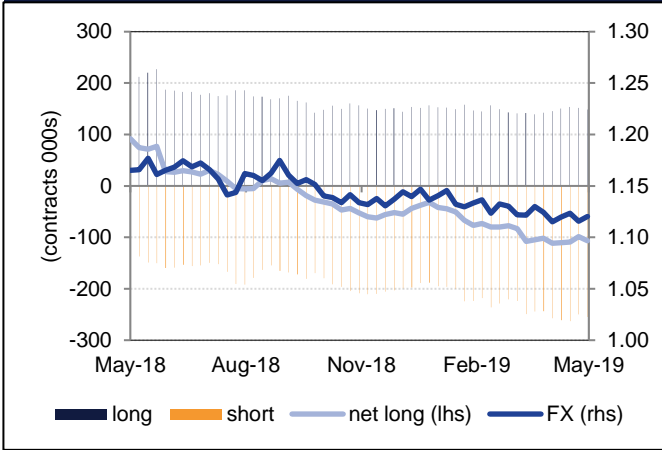
Major FX and Real Interest Rates



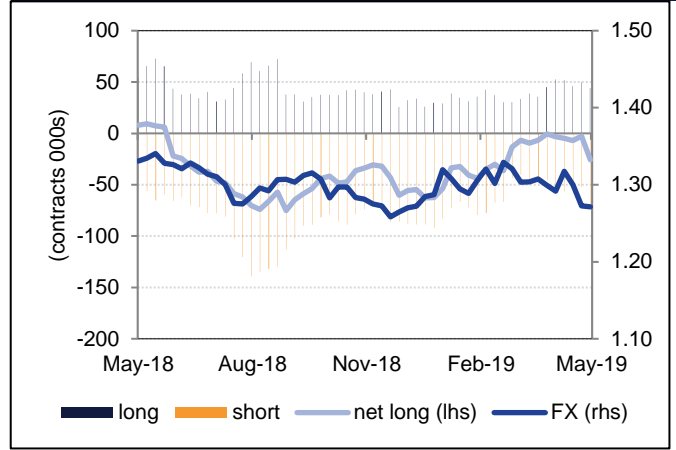
Source: Bloomberg, Emirates NBD Research

Major Currency Positions

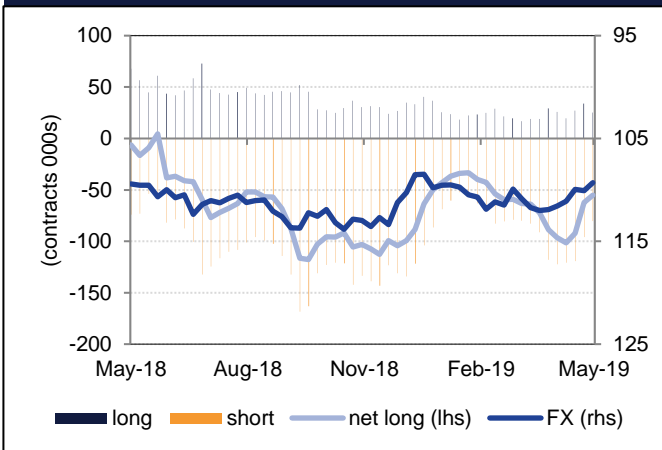
CFTC – Speculative Positions - EUR



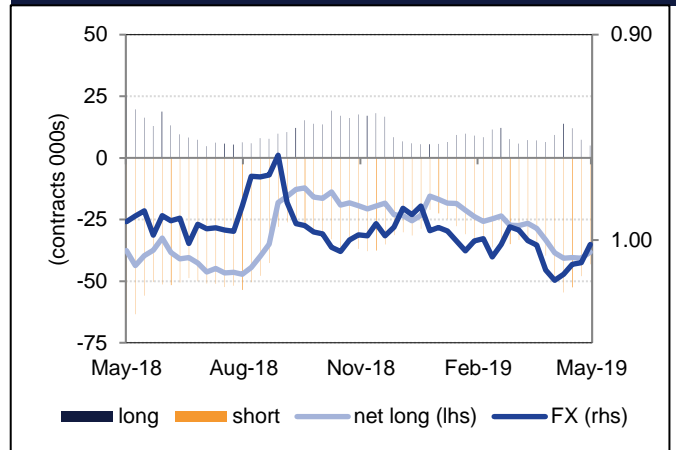
CFTC – Speculative Positions - GBP



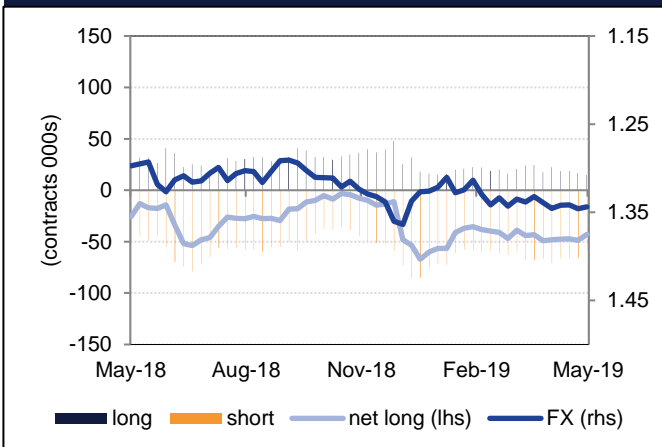
CFTC – Speculative Positions - JPY



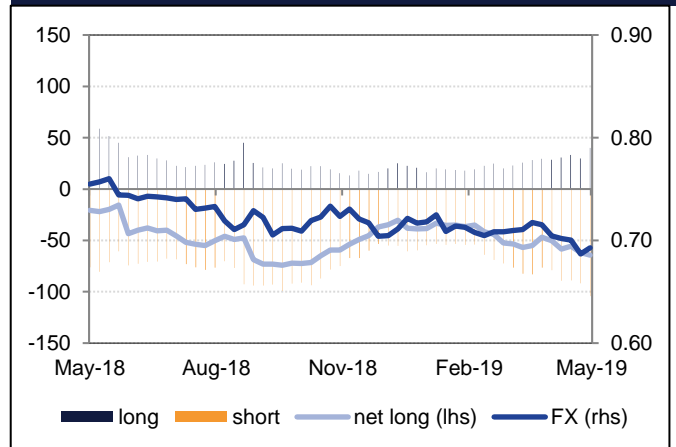
CFTC – Speculative Positions - CHF



CFTC – Speculative Positions - CAD



CFTC – Speculative Positions - AUD



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Emirates NBD Research & Treasury Contact List

Emirates NBD Head Office
12th Floor
Baniyas Road, Deira
P.O.Box 777
Dubai

Jonathan Morris
General Manager Wholesale Banking
JonathanM@emiratesnbd.com

Aazar Ali Khwaja
Senior Executive Vice President
Global Markets & Treasury
+971 4 609 3000
aazark@emiratesnbd.com

Tim Fox
Head of Research &
Chief Economist
+9714 230 7800
timothyf@emiratesnbd.com

Research

Khatija Haque
Head of MENA Research
+9714 230 7803
khatijah@emiratesnbd.com

Anita Yadav
Head of Fixed Income Research
+9714 230 7630
anitay@emiratesnbd.com

Aditya Pugalia
Financial Markets Research
+9714 230 7802
adityap@emiratesnbd.com

Mohammed Altajir
FX Analytics and Product Development
+9714 609 3005
mohammedtaj@emiratesnbd.com

Edward Bell
Commodity Analyst
+9714 230 7701
edwardpb@emiratesnbd.com

Daniel Richards
MENA Economist
+9714 609 3032
danielricha@emiratesnbd.com

Hessa Al Khawaja
Research Associate
+9714 609 3015
Hessaalkh@emiratesnbd.com

Sales & Structuring

Group Head – Treasury Sales
Tariq Chaudhary
+971 4 230 7777
tariqmc@emiratesnbd.com

Saudi Arabia Sales
Numair Attiyah
+966 11 282 5656
numaira@emiratesnbd.com

Singapore Sales
Supriyakumar Sakhalkar
+65 65785 627
supriyakumars@emiratesnbd.com

London Sales
+44 (0) 20 7838 2241
vallancel@emiratesnbd.com

Egypt
Gary Boon
+20 22 726 5040
garyboon@emiratesnbd.com

Emirates NBD Capital

Hitesh Asarpota
Head of Debt Capital Markets.
+971 50 4529515
asarpotah@EmiratesNBD.com

Investor Relations

Patrick Clerkin
+9714 230 7805
patricke@emiratesnbd.com

Group Corporate Affairs

Ibrahim Sowaidan
+9714 609 4113
ibrahims@emiratesnbd.com

Claire Andrea
+9714 609 4143
clairea@emiratesnbd.com