



بنك الإمارات دبي الوطني
Emirates NBD

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FX Week

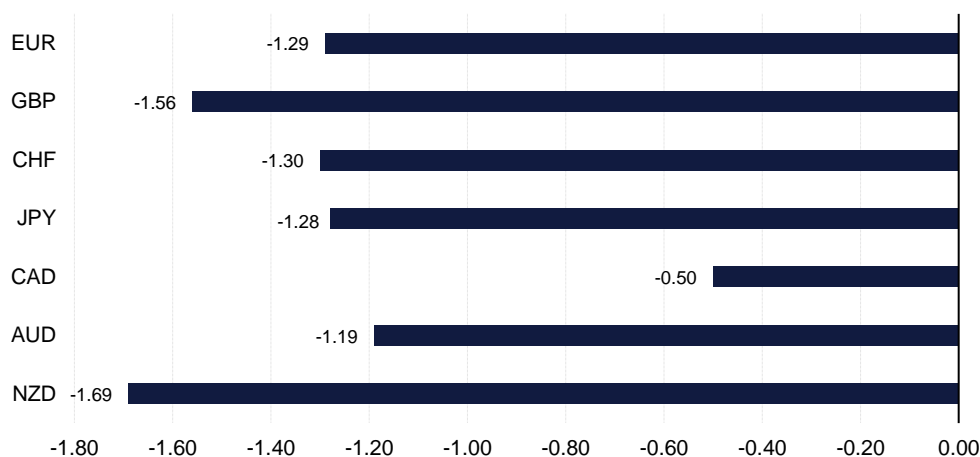
Correlations between FX and interest rates being restored – for now

Q1 growth trends are helping to restore correlations between currencies and interest rates, at a time when geopolitical risks and trade distractions have for the moment at least abated. Although US Q1 GDP growth rate of 2.3% (annualized) was softer than in Q4 (2.9%), this was largely expected and it was still much stronger than the trends underway in the UK and in the Eurozone. As a consequence question marks have arisen about monetary tightening by the BOE and the ECB, while the Fed remains on track to tighten monetary policy at least twice more in 2018.

US Q1 GDP is often a relatively weak figure historically due to problems with seasonal adjustments, but at 2.3% this year it was almost twice as strong as in Q1 a year ago, and it was also above estimates of where the trend rate of growth in the US is, usually seen as between 1.5-2.0%. As a consequence such a pace of growth is still likely to pressure the unemployment rate and maintain upward pressure on wages and prices, and thus keep alive expectations of another two Fed rate hikes in 2018 at least.

The main disappointment with this year's data was that consumption grew by only 1.1% annualized, from a 4.0% pace at the end of last year. That this happened even as taxes were cut was particularly concerning, although strength in business investment was strong, and exports also contributed positively. Consumption is likely to recover in Q2 as incomes continue to grow, and the housing sector is also likely to contribute more strongly in Q2. For the Fed it is likely to overlook the consumption slowdown for the time being, but it will be harder to ignore the pick-up in prices. The core PCE deflator rose to 2.5%, well above the Fed's 2.0% target, while other measures of wages were also strong rising by 2.9% y/y in the Q1 employment cost index. While the Fed is unlikely to raise interest rates at the upcoming FOMC meeting this week, a June hike seems likely and will get further support if the April jobs data due out on Friday also bounces back from March's 103k.

Weekly currency movement vs USD (%)



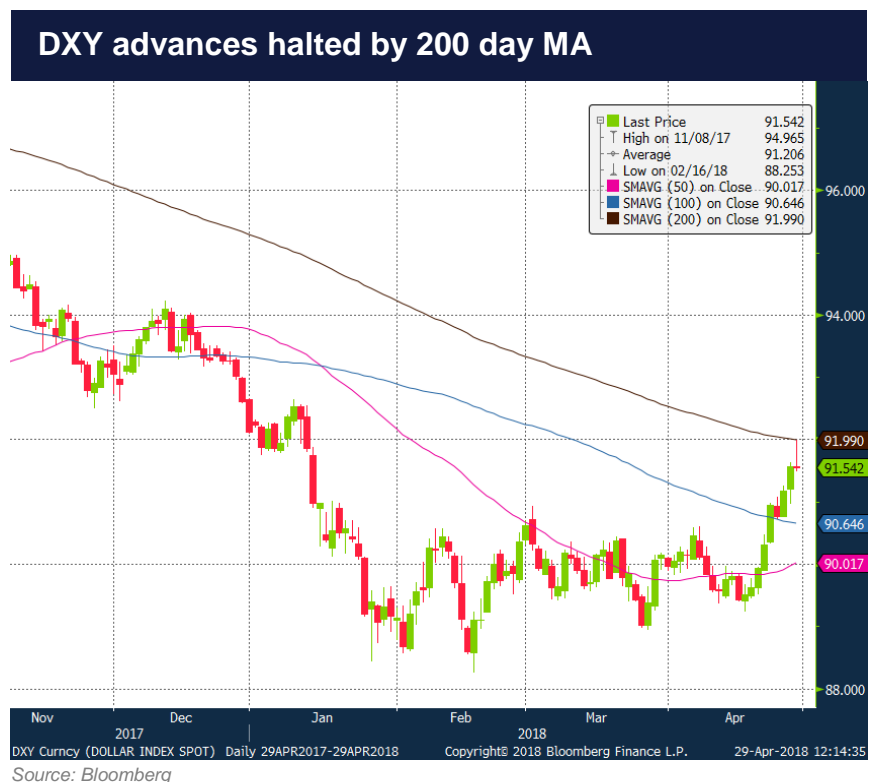
Source: Bloomberg, Emirates NBD Research

Despite the US slowdown, there was still a marked contrast with the UK economy where Q1 GDP growth was even weaker at just 0.1% q/q, dealing another blow to the likelihood of a May BOE rate hike. The implied probability of a BOE hike has fallen from over 80% at the start of April to less than 25% at the end of it. Bad weather probably played a significant part in the slowdown, with construction in particular very weak (-3.3% q/q). However, softness was also seen in manufacturing, suggesting more underlying causes as well. GBP not surprisingly lost further ground with GBPUSD posting a 6-week low of 1.3747, and it is likely to remain heavy at least until the May 10th MPC meeting is out of the way. Rate hikes probably have not gone away entirely, however, and if the economy recovers in Q2 the markets are likely to once again begin pricing one probably during the summer.

Dollar breaks from seasonality

Breaking from seasonal norms, the dollar has appreciated in April for the first time since 2010. Over the course of the month, the Dollar Index has gained 1.51% to reach 91.51, levels not seen since January. The index had climbed as high as 91.990 before finding resistance at the 200 day moving average, a level which it needs to surmount in order to maintain and build on the gains of the previous month. Also of note is that the index has broken above the 100 day moving average for the first time in 2018 and this level (90.646) is now likely to act as a support level.

Despite these developments, the weekly downtrend that has been in effect since January 2017 remains intact as is evident by analysis of the weekly candle charts. In order to confirm reversal and break out of this downtrend, the index needs to realize a firm end of week close above the 50 week moving average (92.810).



Eurozone sluggishness is probable temporary

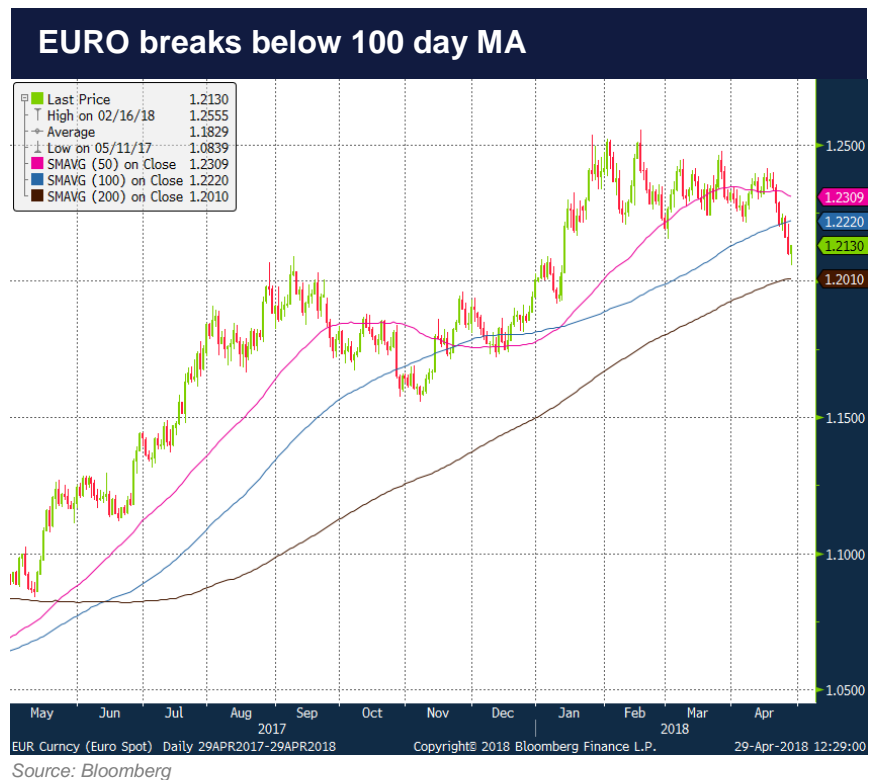
The slowdown in activity in the Eurozone was not as severe as in the UK, with national data so far showing France growing by 0.3%, and Spain by 0.7%. Nonetheless, for the Eurozone as a whole the likelihood is that it will show growth on aggregate of closer to 0.4% after 0.6% in Q4. Other survey data such as the Economic Sentiment Indicator (ESI) and PMI indicators have already pointed to this, although the latest April surveys suggest that the slowdown will likely be temporary with Q2 activity already starting to improve. This is true of consumer confidence as well as of industrial sentiment which both improved in April. Less favourable were the services, retail and construction sectors. Also inflation expectations remain subdued which is why the ECB remains cautious about expressing its intentions regarding ending QE.

The ECB left its policy and guidance unchanged last week, with asset purchases expected to 'continue at a monthly pace of EUR30bn until the end of September 2018'. It also repeated that interest rates will be on hold 'well past the horizon of

the net asset purchases'. However, despite President Draghi expressing caution about growth, the Council is still 'confident' that inflation will trend towards the ECB's near-2% target. It seems therefore as if the ECB will hold off from signaling its tightening intentions until later in the summer, once it has accumulated more evidence about H1 in its entirety. This should keep the EUR heavy in the near term, at least while Q1 softness continues to play out and while the markets are less focused on geopolitical and trade issues. As monetary tightening expectations begin to build again, as we expect they will, and as global tensions resurface as we also think they might, the EUR can still be expected to recover by the end of the year.

EUR falls below 1.22

EURUSD declined by 1.28% over the last week, falling to 1.2130 and breaking below the 100 day moving average for the first time since December 2017. The same move saw the price drop below the 76.4% one year Fibonacci retracement of 1.2150 and hold below this level for two days. In addition, the supporting baseline that has been in effect since May 2017 has faltered and therefore a retest of the 1.20 level (not far from the 200 day MA of 1.2010) remains a possibility.

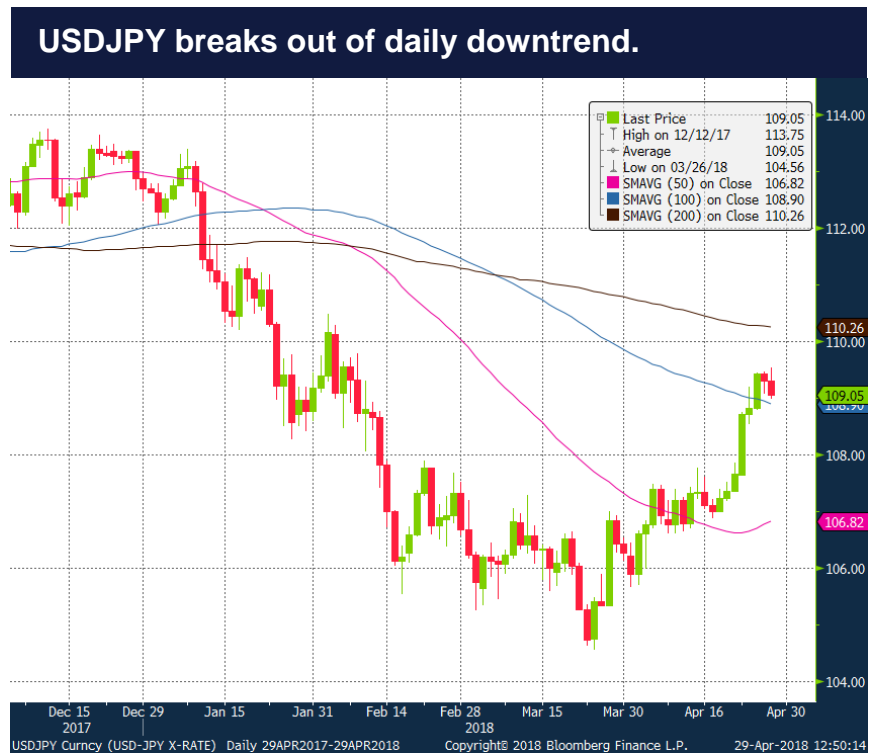


BOJ leaves policy unchanged

The BOJ also left monetary policy on hold last week, with overnight interest rates kept at minus -0.1%, 10-year bond yield capped at around zero percent and the BOJ continuing to buy assets at a pace of around JPY89tn a year. However, it also made a significant announcement, abandoning its pledge to hit its 2% inflation around fiscal 2019. The BOJ has been forced to postpone the time frame in which it will reach its 2% inflation forecast six times since 2013 when it first mentioned a two-year target for reaching it. As a consequence BOJ governor Kuroda's credibility has been undermined, yet he was still chosen to lead the central bank for a second term. Growth forecasts were kept steady and inflation too, but the overall message appears to be that monetary policy tightening is still as far away as it has always seemed, and much further away than it is in other countries.

USDJPY retakes 109

USDJPY climbed 1.29% last week, reaching 109.04 in a move that saw the price break back above the 100 day moving average and the 38.2% one year Fibonacci retracement of 108.44. In addition, the former daily downtrend appears to have reversed with the candle charts showing higher highs and higher lows. In the week ahead, we expect resistance initially at the 50% one year Fibonacci retracement (109.65) and firmer resistance at the 110.20 level (near the 200 day MA of 110.26). Support is likely to be found at 108.44 (the 38.2% one year Fibonacci retracement).



AUDUSD hits new 2018 lows

AUDUSD fell an additional 1.18% last week, to fall to 0.7581 having hit earlier lows of 0.7632. This movement has resulted in five consecutive daily closes below the supporting baseline that had held since May 2017. In addition the former support at 0.7637 (the 38.2% one year Fibonacci retracement) has broken and is now likely to act as a resistance level. Over the next week, the price is likely to be guided by investor appetite for USD and by the RBA monetary policy statement. However, the risk is that a break of the 0.7520 level may catalyze a greater decline towards 0.73.

FX Forecasts

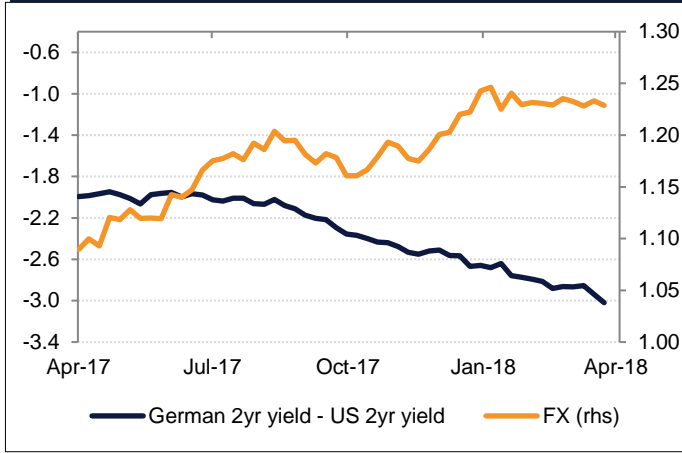
FX Forecasts - Major						Forwards		
	27-Apr	Q2 2018	Q3 2018	Q4 2018	Q1 2019	3m	6m	12m
EUR	1.2130	1.2500	1.2700	1.2700	1.2800	1.2216	1.2308	1.2510
JPY	109.05	108.00	110.00	112.00	110.00	108.35	107.61	105.96
CHF	0.9877	0.9800	0.9800	0.9800	0.9800	0.9797	0.9715	0.9544
GBP	1.3781	1.4100	1.4300	1.4500	1.4800	1.3842	1.3903	1.4032
AUD	0.7581	0.7600	0.7550	0.7550	0.7550	0.7584	0.7590	0.7606
NZD	0.7085	0.7100	0.7100	0.7100	0.7100	0.7084	0.7087	0.7097
CAD	1.2828	1.2700	1.2700	1.2700	1.2700	1.2801	1.2778	1.2736
EURGBP	0.8799	0.8865	0.8881	0.8759	0.8649	0.8822	0.8849	0.8913
EURJPY	132.29	135.00	139.70	142.24	140.80	132.29	132.29	132.29
EURCHF	1.1978	1.2250	1.2446	1.2446	1.2544	1.1966	1.1955	1.1937

FX Forecasts - Emerging						Forwards		
	27-Apr	Q2 2018	Q3 2018	Q4 2018	Q1 2019	3m	6m	12m
SAR	3.7502	3.7500	3.7500	3.7500	3.7500	3.7502	3.7510	3.7539
AED	3.6730	3.6730	3.6730	3.6730	3.6730	3.6737	3.6740	--
KWD	0.3010	0.3020	0.3020	0.3020	0.3020	0.2960	0.2935	--
OMR	0.3850	0.3850	0.3850	0.3850	0.3850	0.3853	0.3861	0.3890
BHD	0.3771	0.3770	0.3770	0.3770	0.3770	0.3761	0.3762	0.3791
QAR	3.6587	3.6400	3.6400	3.6400	3.6400	3.6625	3.6655	3.6735
EGP	17.6966	17.2500	17.2500	17.0000	17.0000	18.0700	18.4050	19.1300
INR	66.661	66.500	67.000	67.000	67.000	67.2800	67.9800	69.2800
CNY	6.3322	6.7000	6.9000	7.1000	7.1000	6.3580	6.3820	6.4308

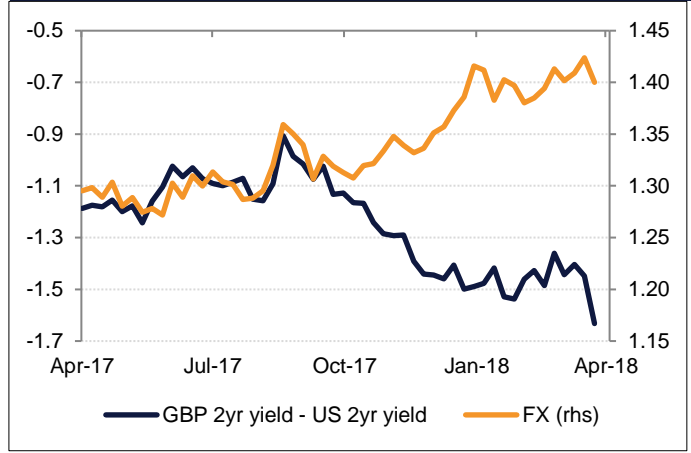
Source: Bloomberg, Emirates NBD Research
 *Denotes USD peg

Major FX and Nominal Interest Rates

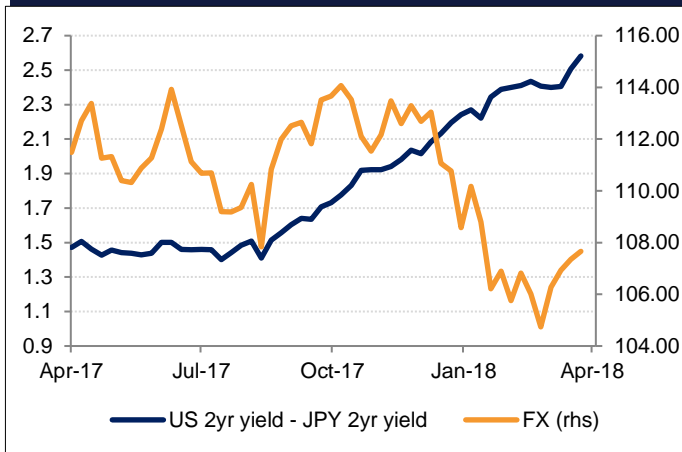
Interest Rate Differentials - EUR



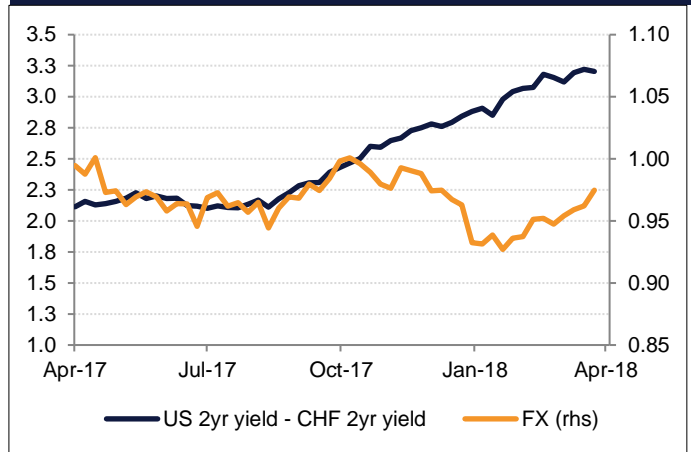
Interest Rate Differentials - GBP



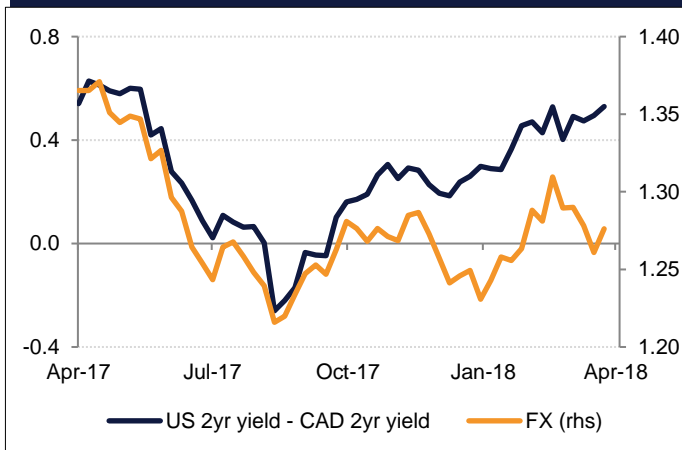
Interest Rate Differentials - JPY



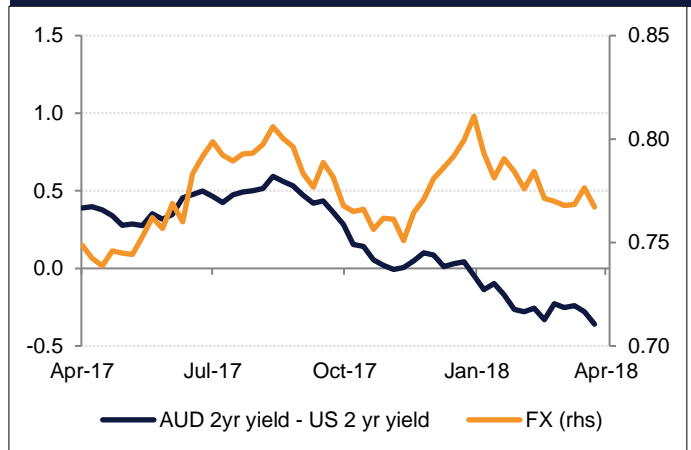
Interest Rate Differentials - CHF



Interest Rate Differentials - CAD

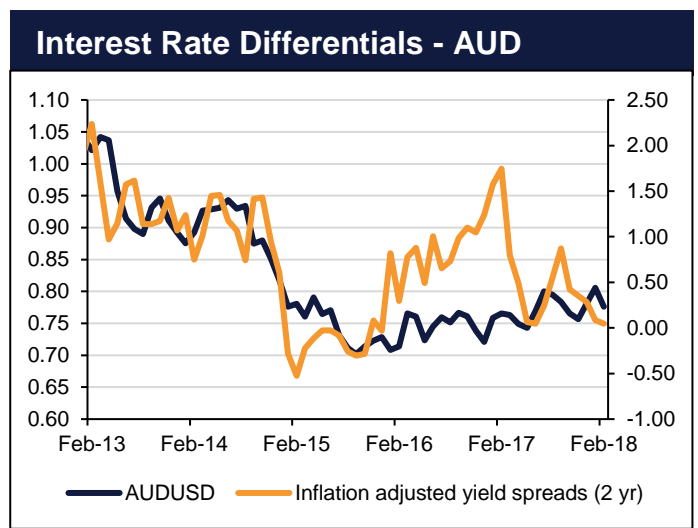
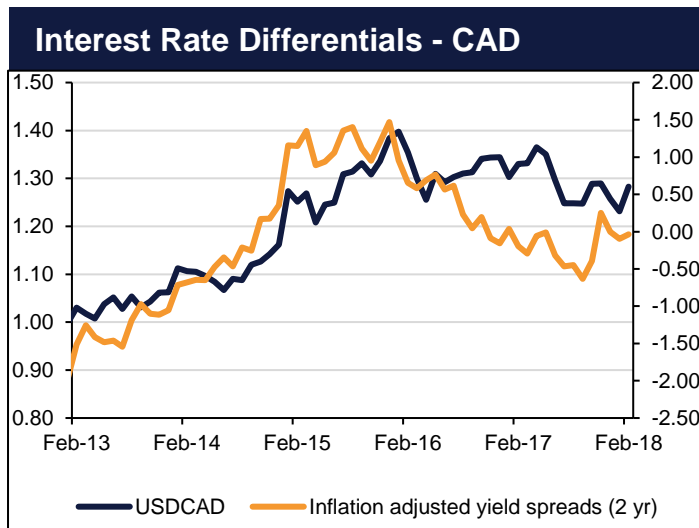
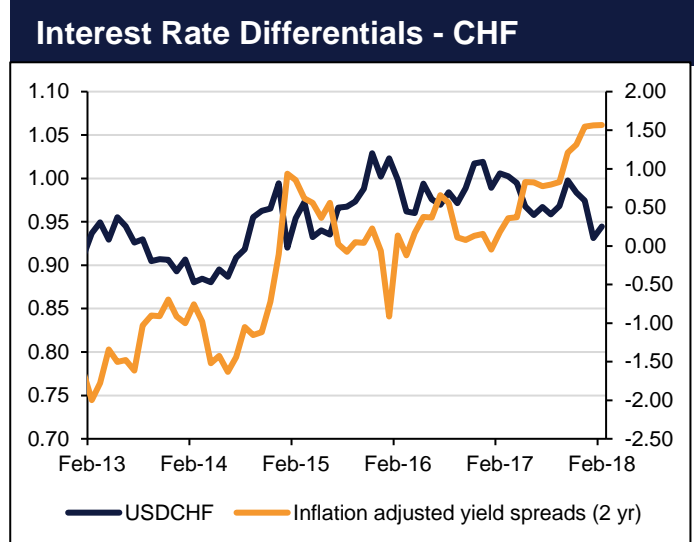
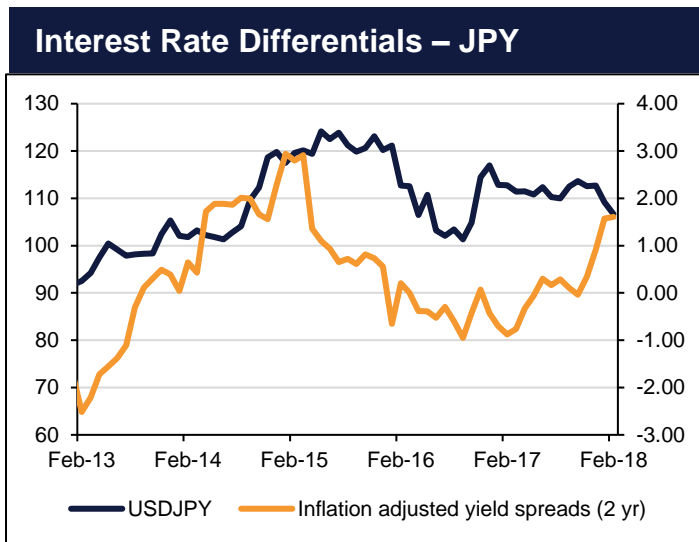
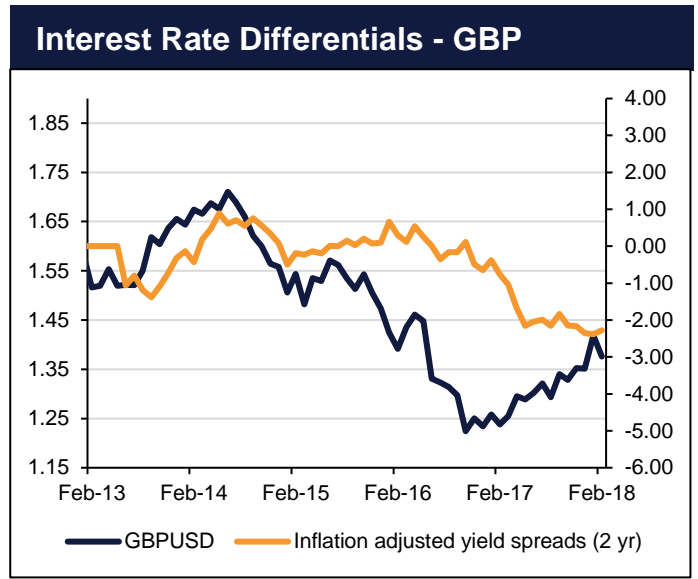
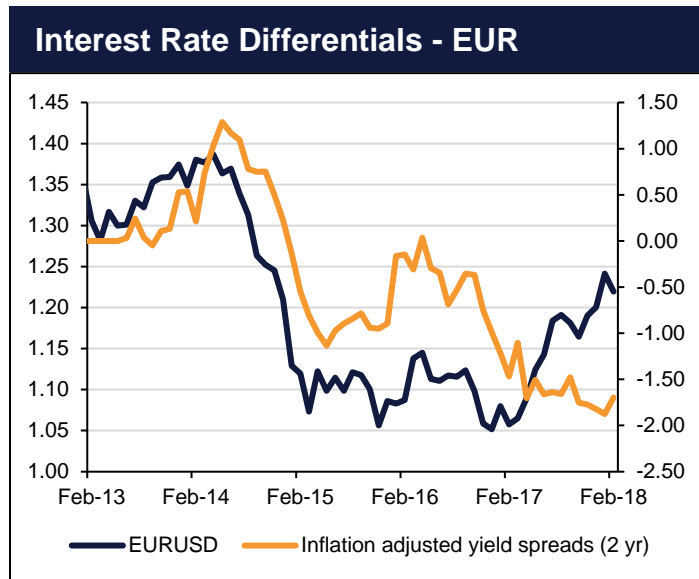


Interest Rate Differentials - AUD



Source: Bloomberg, Emirates NBD Research

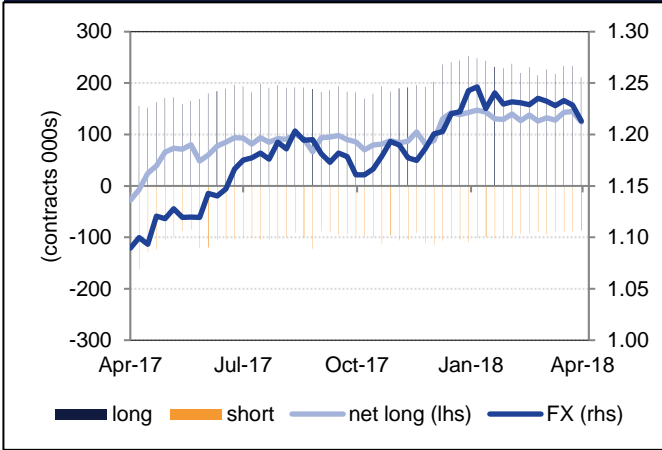
Major FX and Real Interest Rates



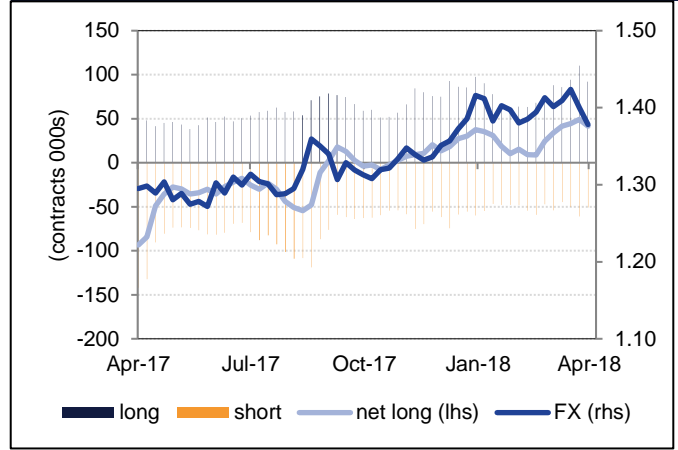
Source: Bloomberg, Emirates NBD Research

Major Currency Positions

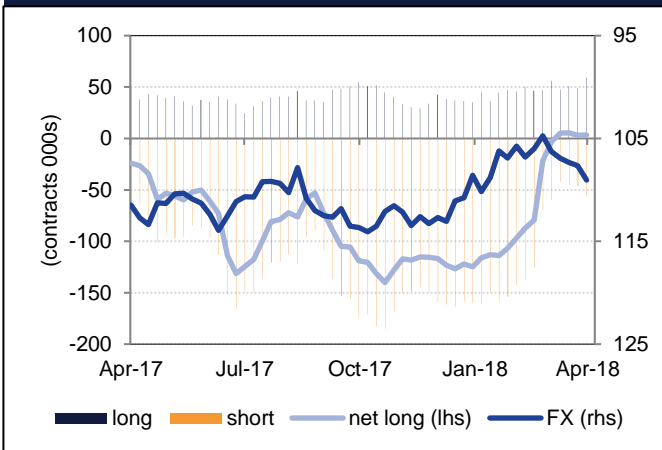
CFTC – Speculative Positions - EUR



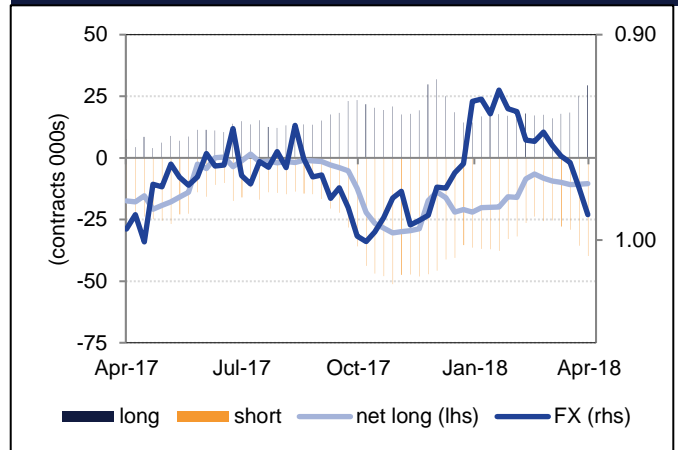
CFTC – Speculative Positions - GBP



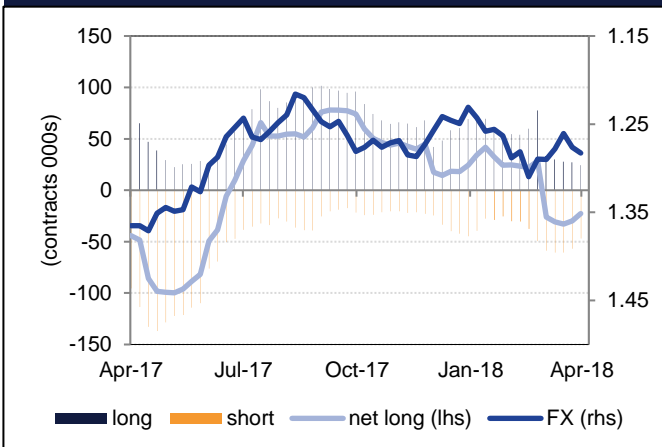
CFTC – Speculative Positions - JPY



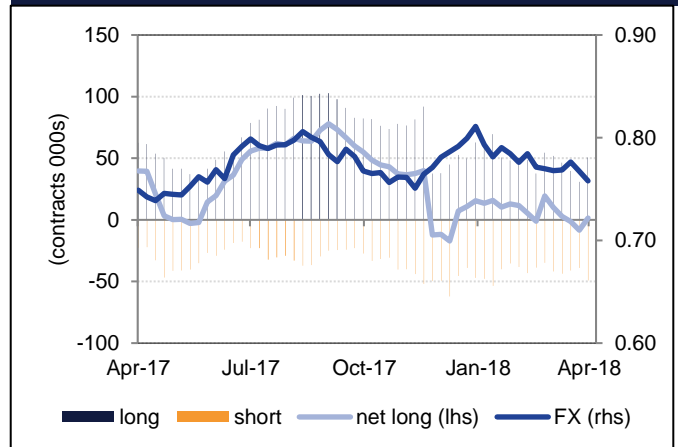
CFTC – Speculative Positions - CHF



CFTC – Speculative Positions - CAD



CFTC – Speculative Positions - AUD



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