



بنك الإمارات دبي الوطني  
Emirates NBD

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# FX Week

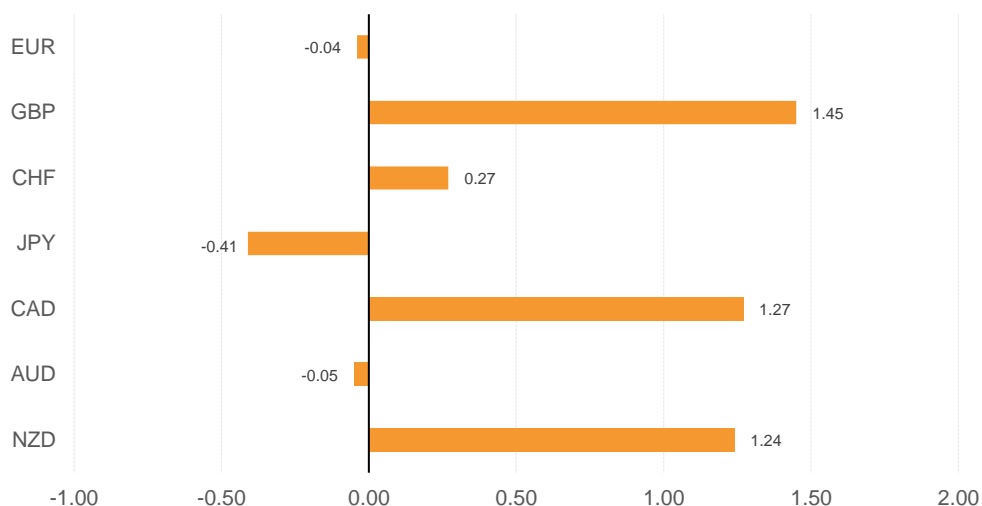
## Protectionist policies impede dollar for now

While equity markets shrugged off the protectionist rhetoric and policies of President Trump last week, the USD lost ground demonstrating that the currency markets do have reservations about some of the economic policies of the new administration. However, it is still early days for the Trump White House and USD losses were not as striking as might have been feared, with the DXY index managing to hold above 100. This suggests that the markets are still prepared to give Trump the benefit of the doubt as they await more substantial growth supportive policies to be announced in the coming days and weeks.

The first week of the Trump White House was characterized by a plethora of headlines and executive orders from the US President targeting free trade and in particular trade with Mexico. The US' withdrawal from the Trans Pacific Partnership (TPP) in addition to executive orders about the construction of a Mexican border wall were both expected, and attention will now turn to the planned renegotiation of the North American Free Trade Agreement (NAFTA) with Mexico likely to remain in the firing line. With growth having been dragged down in Q4 to 1.9% (from 3.5% in Q3) by a wider trade deficit his supporters might argue that the US has little to lose from seeking a more assertive trade policy. However, markets also want to see more mainstream policy reforms that were promised during the election campaign especially in relation to corporate tax reform, deregulation and fiscal spending.

So far the only details about Trump's policies related to tax reforms have been expressed as a way of penalising imports and boosting exports, couched as a means of forcing Mexico to pay for its border wall. This reinforces the sense that protectionist forces have the upper hand and casts doubts on some of the motivation for tax cuts other than for punitive trade purposes.

## Weekly currency movement vs USD (%)



Source: Bloomberg, Emirates NBD Research

## **Dollar needs more expansionary policies to recover**

Equity markets may have liked the short term benefits from such policies, especially the implications for jobs with Trump also signing off on the completion of two oil pipelines which will generate further employment. Even warnings to automakers about not shifting jobs overseas were shrugged off, but it will not be long before the markets become concerned about longer term effects which could be more negative for employment, inflation and growth. For this reason they will soon want to see more details of Trump's broader fiscal expansion plans, which would offset some of the negatives from protectionist trade policies, as well as reinforcing expectations that interest rates are headed higher.

## **FOMC meeting unlikely to see any change**

It is clearly too early to expect the Fed to signal any hike in interest rates in response to Trump's policies at this week's FOMC meeting. There will be no press conference or release of economic forecasts, so the focus will be exclusively on the policy statement which is unlikely to give much away with the regard to the timing of the next rate move. The markets currently see one occurring in March, although our suspicion is that it could be later, probably around the middle of the year. The data schedule this week is also a relatively heavy one, with January ISM activity data due out and of course the January payrolls report which is expected to show jobs growth recovering after a sluggish 156,000 jobs were added in December. Of most interest perhaps will be hourly earnings which rose by a hefty 0.4% last month, taking the y/y rate up to 2.9% expansion high.

## **EUR may be buoyed by firm data**

In the context of broad dollar softness it is a little surprising that the EUR has not gone higher. Eurozone economic data released last week showed that the Eurozone economy began the year in reasonably good shape, and the data due in the coming week is likely to add to President Drahgi's problems in defending an expansionary monetary policy. Flash Eurozone headline inflation is expected to have risen further in February, from 1.1% in January, whilst Q4 GDP is also expected to have expanded by a healthy 0.4% q/q. Other business activity readings for January are also likely to be quite encouraging. In this context EUR firmness could clearly extend a bit longer, at least until there are more concrete signs that a US rate tightening is on its way.

## **USDJPY recaptures upside bias**

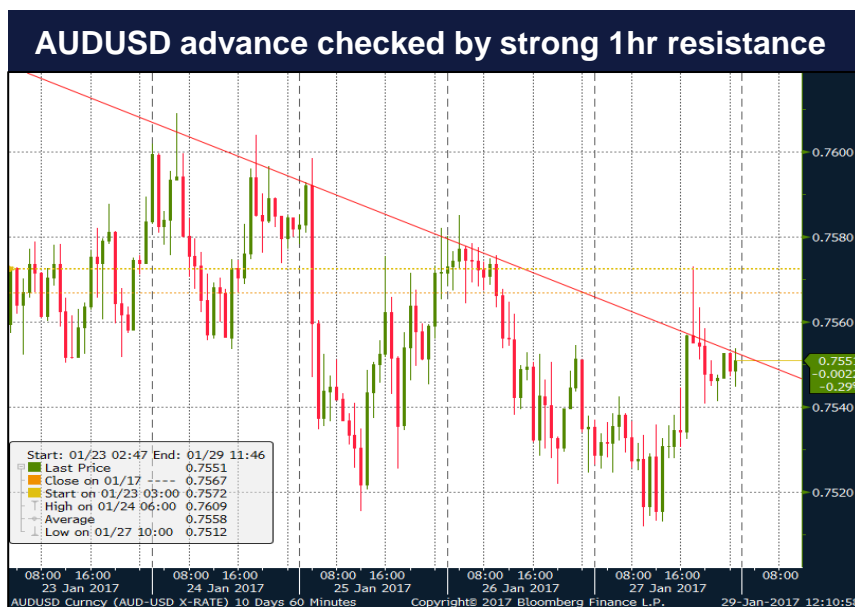
USDJPY is the currency pair that in the past has been most correlated with relative bond yields, although this relationship has broken down a little bit recently. Nonetheless, firmer US bond yields at the end of last week helped USD/JPY to recover from its latest relapse to 113, and any further push up in yields can be expected to add to upside risks. The coming week will also see a two-day Bank of Japan meeting, but it is unlikely to see any shift in policy with the BOJ likely to maintain its focus on controlling the 10-year rate so as to keep it capped around zero percent. The BOJ Quarterly report may upgrade the economic outlook reflecting the recent broad improvement in economic data, which would further add to the arguments for keeping the policy balance unchanged.

## GBP stages turnaround

After being one of the weakest currencies since the beginning of the year the pound has shown one of the biggest turnarounds, benefited from 1. Strong UK economic data, with GDP growth of 0.6% q/q in Q4. 2. The announcement of a White Paper to launch the article 50 Brexit strategy in Parliament, and 3. The visit of PM May to see President Trump in Washington, which elicited strong support for the UK's position as well as the promise of US-UK trade deal once the Brexit process has been completed. The market had been running short GBP positions since the start of the year so the removal of some of the uncertainty about the Brexit process has allowed many of these positions to be squared. This week also sees a monetary policy meeting at the Bank of England, and a Bank of England Inflation Report, both on Thursday. Of the two the Inflation Report will be the most interesting as markets will be on the lookout for clues that interest rates could begin to be raised later this year, something that would be further supportive of sterling.

## AUD softens as inflation disappoints

Over the last week, AUD depreciated against most of the other majors (with the exception of the JPY) after softer than expected Australian economic data. Reports released on the 25th of January showed that inflation had slowed to 0.5% q/q in Q4 2016 compared with 0.7% q/q for the previous quarter, missing market expectations. Over the course of the week, AUDUSD declined by 0.1%, the pair's first weekly decline for five weeks.



Source: Emirates NBD Research, Bloomberg

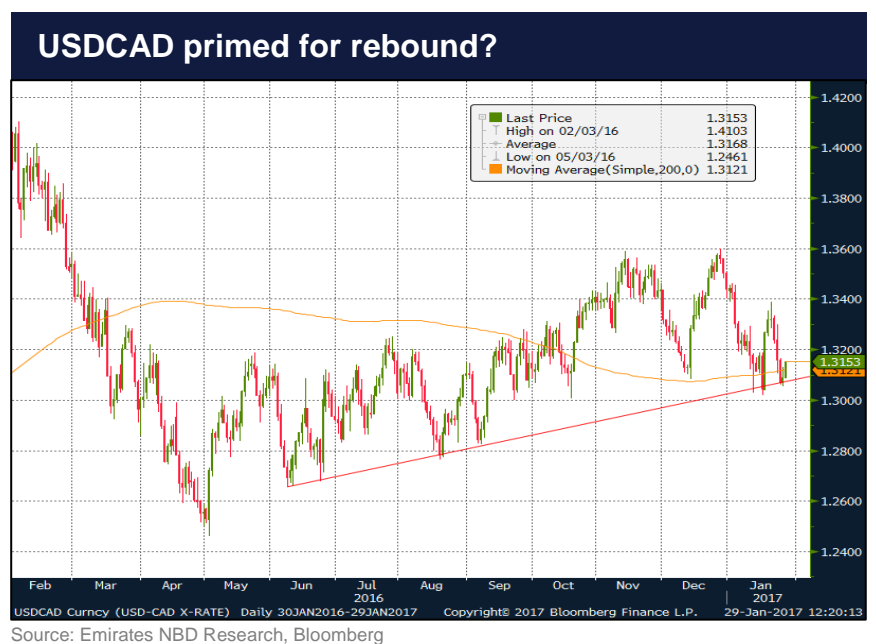
Looking at the week ahead, the currency may be supported by trade data. The release on the 2nd of February is expected to show that the trade balance widened from AUD 1,243mn in November to AUD 2,000mn in December. From a technical viewpoint, analysis of the weekly candle chart shows that upside momentum has slowed, and is indicative that further declines may be in store, with light support circa 0.75 (between the 200 day MA of 0.7492 and one year 61.8% Fibonacci level of 0.7506). Breach of this level would open the path for a descent below 0.74. In addition, looking at the hourly candle chart (see above) reveals a downward trend has been in effect since 24th January 2017, in spite of general USD vulnerability.

Failure to sustain breaks of this trend line gives further reason to believe that a significant descent may be in store.

### USDCAD fails to sustain break of support

USDCAD spent much of last week attempting to break the baseline of the daily upward trend that has been in place since June 2016 (see below). Despite some temporary breaches over the course of the week, the pair failed to sustain a close below this level and even finished the week trading back above the 200 day MA of 1.3121. This coupled with a change in direction of the 14-day RSI (Relative Strength Indicator) leaves us to believe that further upside lies ahead for the pair and we would look for a break of the 100 day MA of 1.3294, to open the doors for a retest of the YTD high of 1.36.

Fundamentally, this pressure could be catalyzed by concerns over NAFTA as well as GDP data due for release on the 31<sup>st</sup> of January which is expected to show growth in Canada slowed to 1.4% y/y in November compared with 1.5% y/y in October.



## FX Forecasts

FX Forecasts - Major						Forwards		
	27-Jan	1m	3m	6m	12m	3m	6m	12m
EUR	1.0699	1.0500	1.0200	1.0000	1.0000	1.0744	1.0797	1.0917
JPY	115.10	116.00	120.00	122.00	124.00	114.66	114.10	112.84
CHF	0.9993	1.0300	1.0500	1.1000	1.1000	0.9941	0.9881	0.9749
GBP	1.2555	1.2200	1.1800	1.2500	1.3500	1.2582	1.2614	1.2685
AUD	0.7551	0.7300	0.7200	0.7000	0.7000	0.7536	0.7521	0.7499
CAD	1.3153	1.3500	1.3400	1.3200	1.3000	1.3140	1.3124	1.3087
EURGBP	0.8526	0.8607	0.8644	0.8000	0.7407	0.8543	0.8564	0.8609
EURJPY	123.13	121.80	118.32	120.00	122.00	123.13	123.13	123.13
EURCHF	1.0690	1.0815	1.0710	1.1000	1.1000	1.0680	1.0668	1.0641
NZDUSD	0.7259	0.6900	0.6700	0.6500	0.6700	0.7239	0.7221	0.7185
FX Forecasts - Emerging						Forwards		
	27-Jan	1m	3m	6m	12m	3m	6m	12m
SAR	3.7506	3.7500	3.7500	3.7500	3.7500	3.7520	3.7562	3.7750
AED	3.6729	3.6700	3.6700	3.6700	3.6700	3.6753	3.6766	-
KWD	0.3053	0.2900	0.2900	0.2900	0.3000	0.3059	0.3074	-
OMR	0.3850	0.3800	0.3800	0.3800	0.3800	0.3862	0.3880	0.3938
BHD	0.3770	0.3760	0.3760	0.3760	0.3760	0.3774	0.3776	0.3785
QAR	3.6411	3.6400	3.6400	3.6400	3.6400	3.6447	3.6499	3.6609
EPN	18.7247	18.0000	18.5000	18.7500	19.0000	19.1000	19.5200	20.5000
INR	68.036	68.000	66.000	65.000	65.000	68.8700	69.6600	71.2200
CNY	6.8840	7.0000	7.1000	7.2000	7.4000	6.9910	7.0581	7.1710

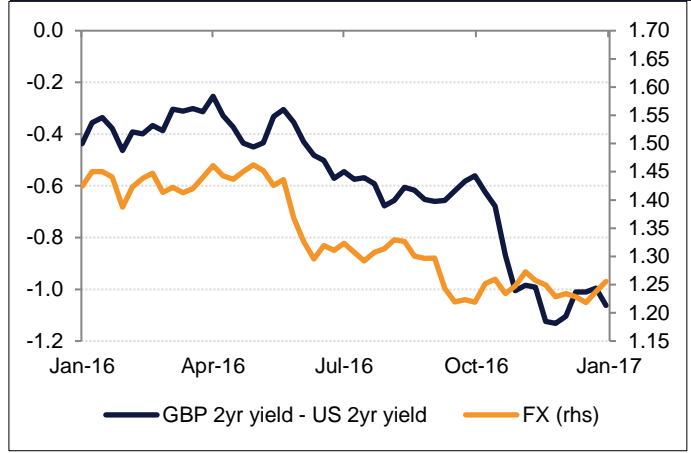
Source: Bloomberg, Emirates NBD Research  
 \*Denotes USD peg

## Major FX and Nominal Interest Rates

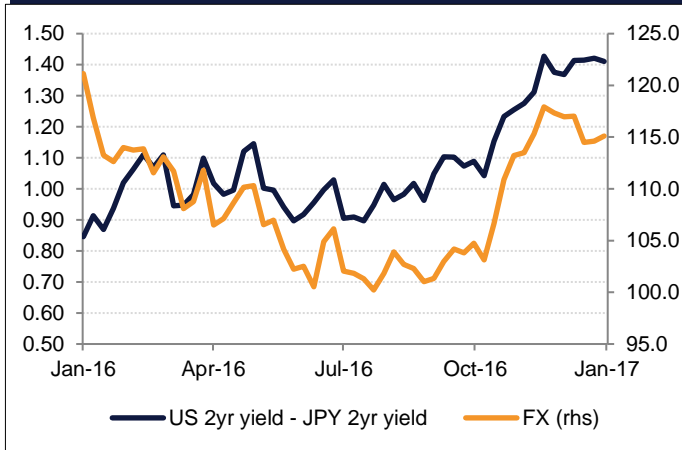
### Interest Rate Differentials - EUR



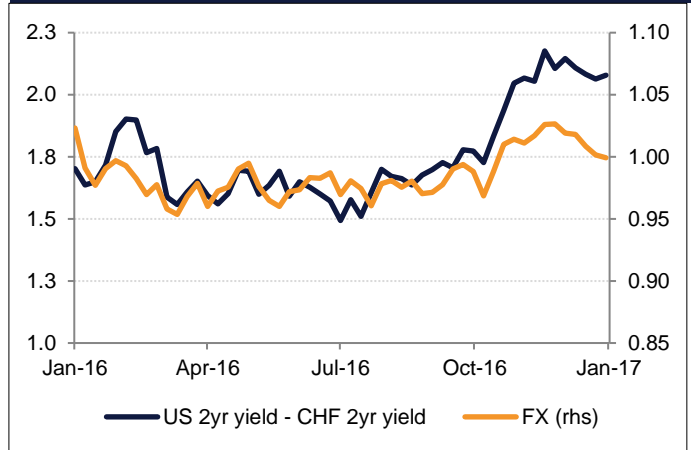
### Interest Rate Differentials - GBP



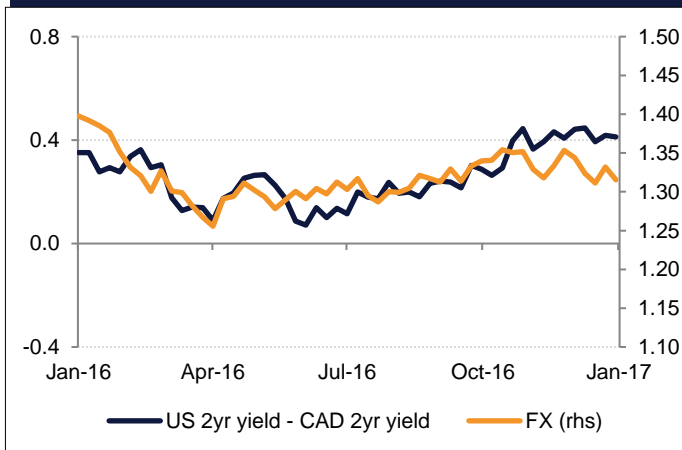
### Interest Rate Differentials - JPY



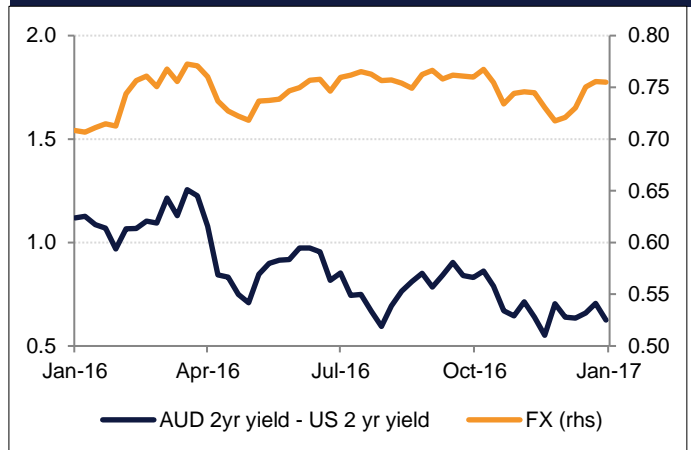
### Interest Rate Differentials - CHF



### Interest Rate Differentials - CAD

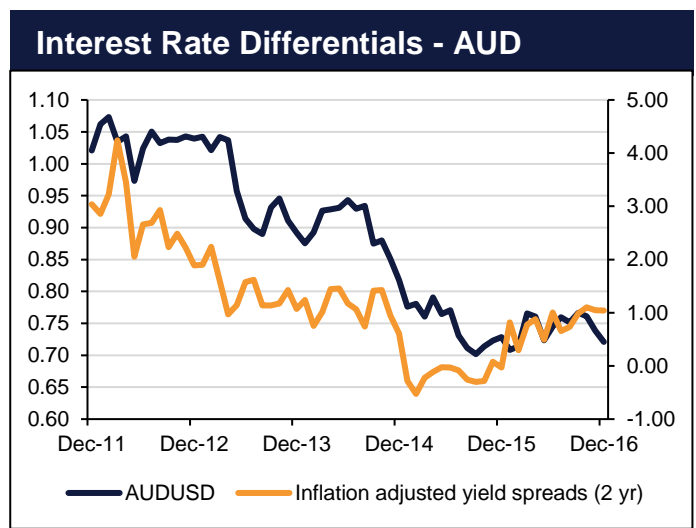
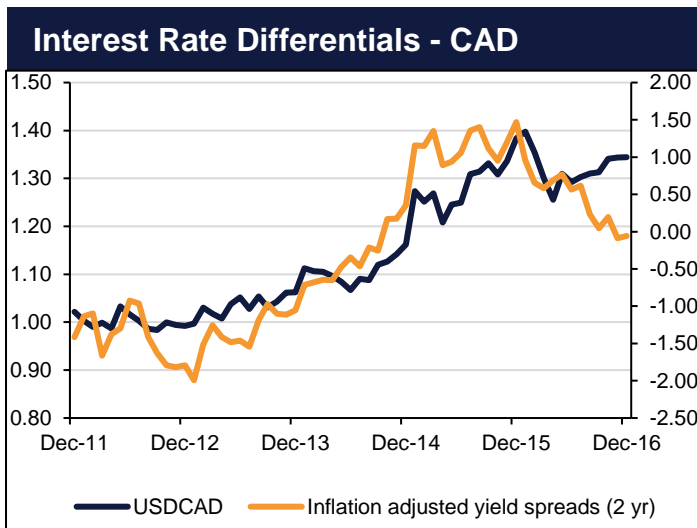
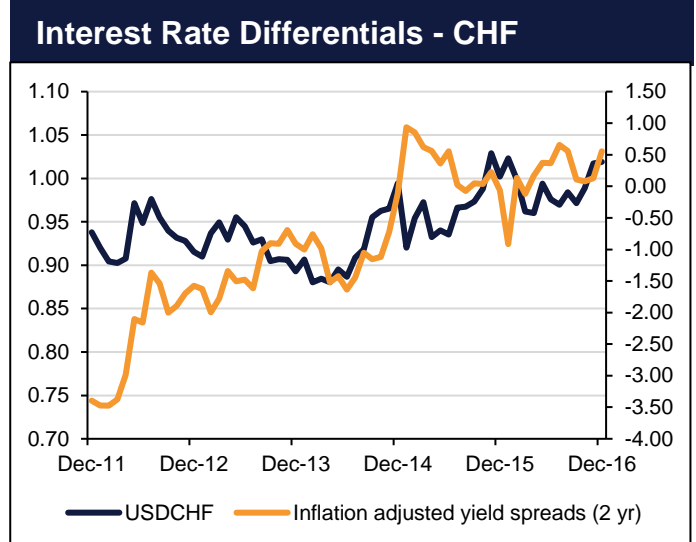
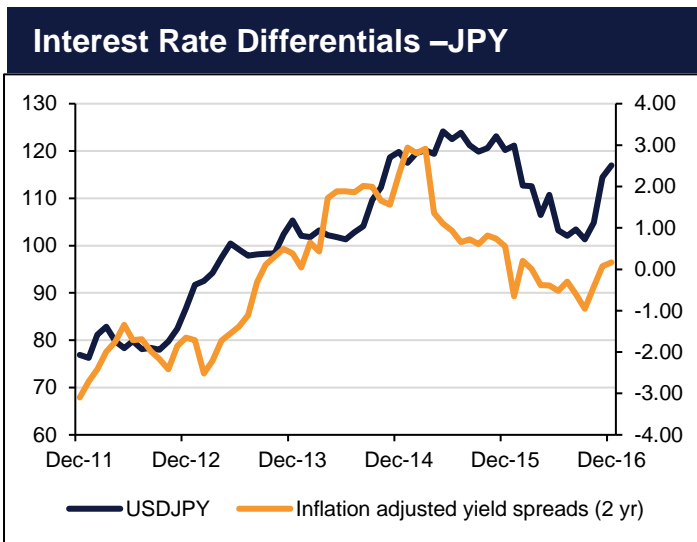
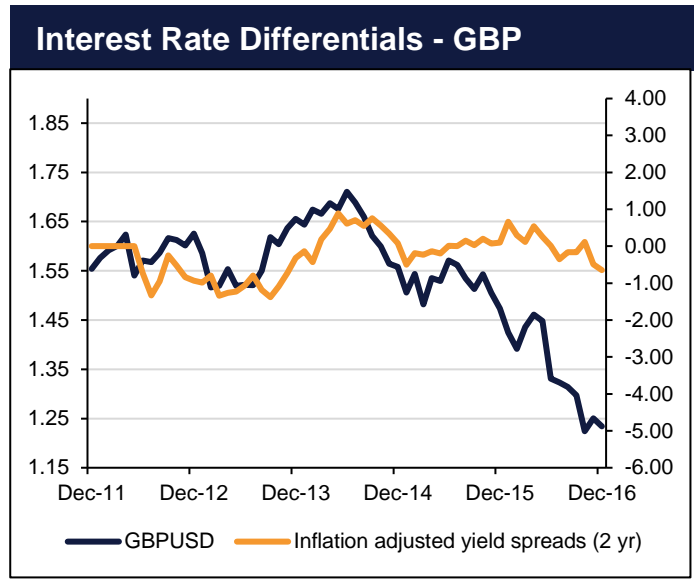
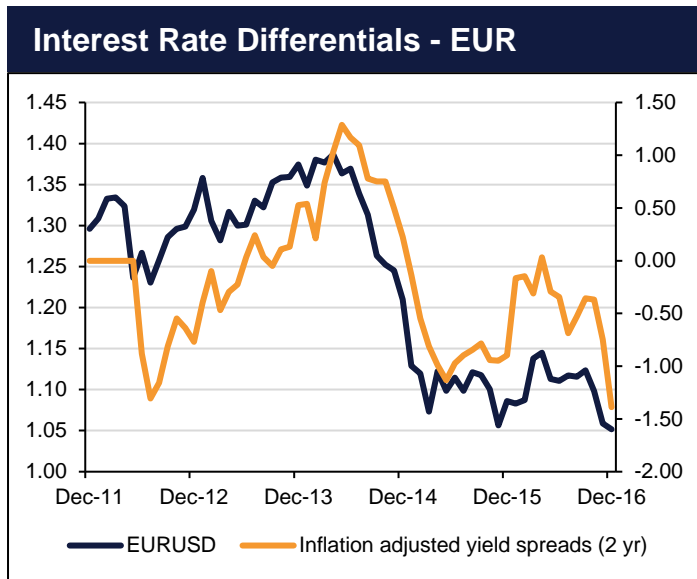


### Interest Rate Differentials - AUD



Source: Bloomberg, Emirates NBD Research

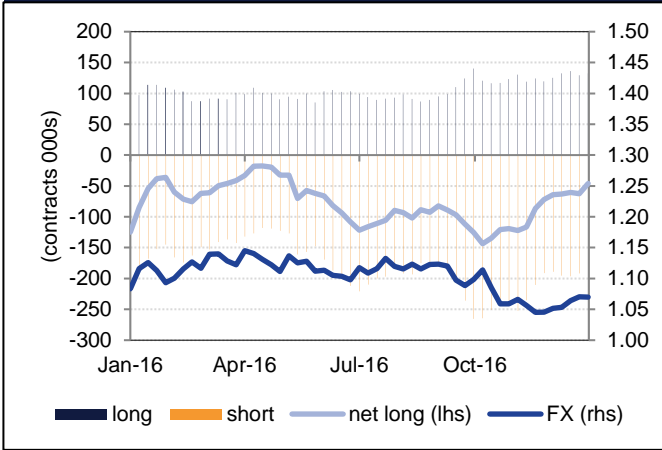
## Major FX and Real Interest Rates



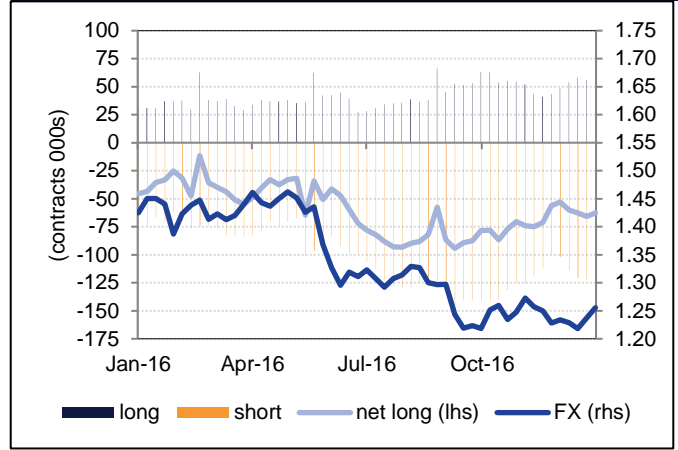
Source: Bloomberg, Emirates NBD Research

## Major Currency Positions

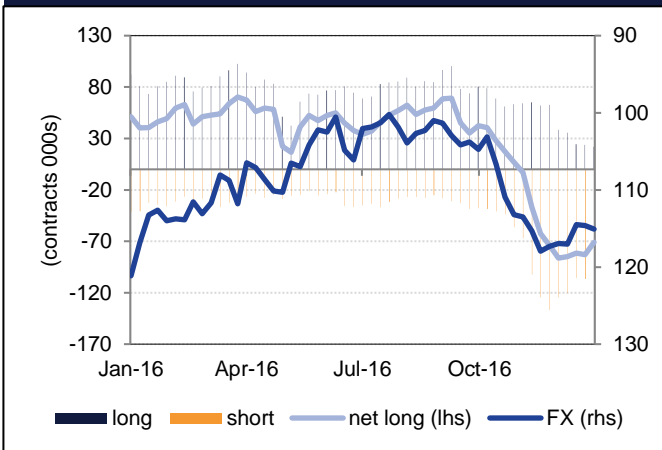
### CFTC – Speculative Positions - EUR



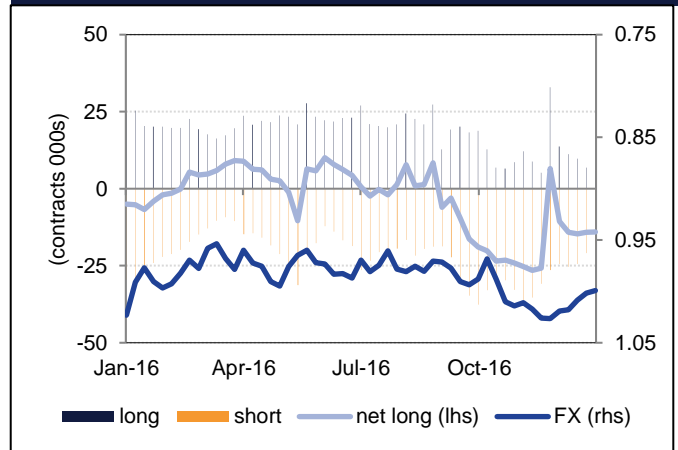
### CFTC – Speculative Positions - GBP



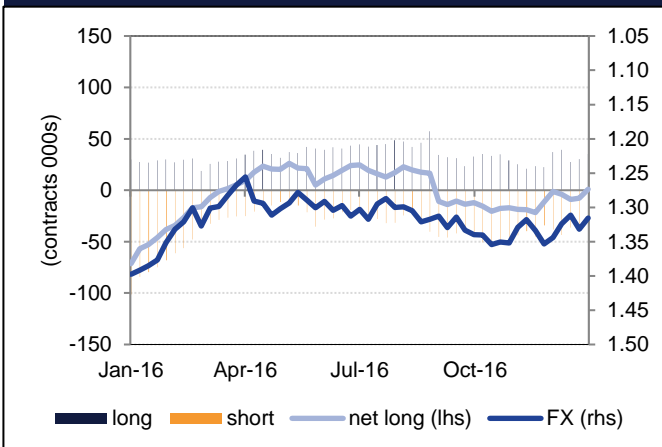
### CFTC – Speculative Positions - JPY



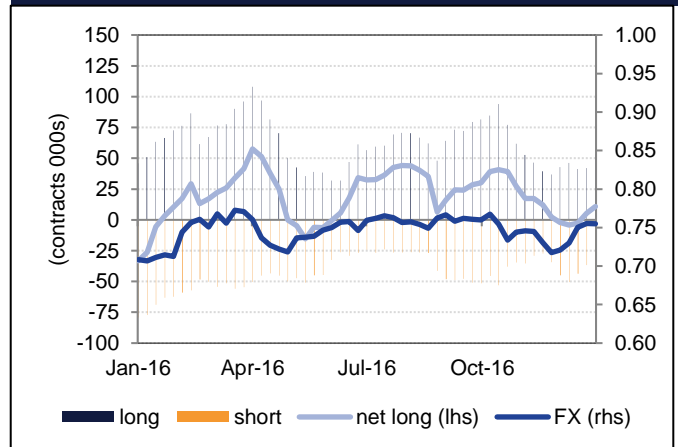
### CFTC – Speculative Positions - CHF



### CFTC – Speculative Positions - CAD



### CFTC – Speculative Positions - AUD





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