



بنك الإمارات دبي الوطني  
Emirates NBD

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# FX Week

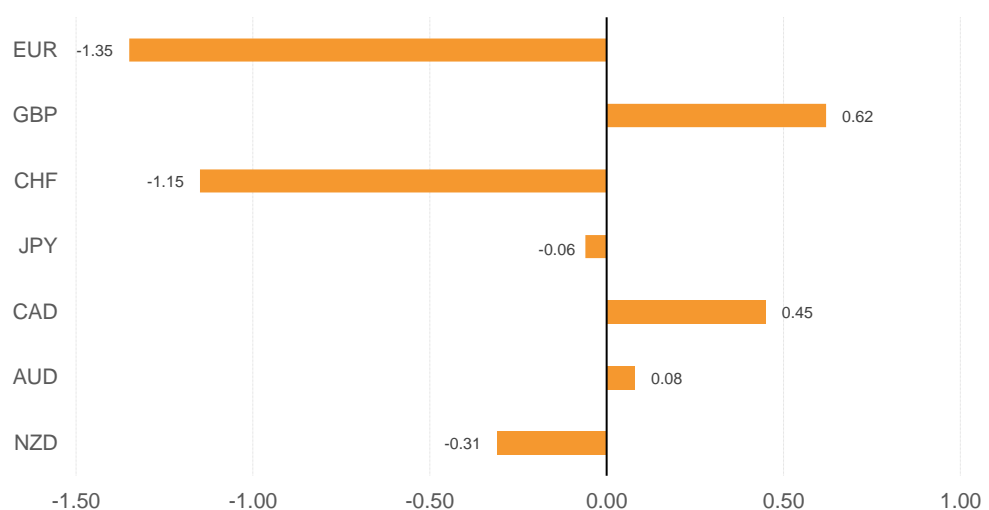
## USD depreciated in Q1 2017

Although the dollar firmed up on Friday it ended Q1 3.3% softer against a basket of currencies (DXY index) amid growing concerns about President Trump's ability to implement key planks of his policy agenda including tax cuts, increased spending, and deregulation. Treasury bond yields have retreated back to the lows seen at the start of the year and the USD has struggled after rallying strongly at the turn of the year, especially ahead of Donald Trump's inauguration. Q2 looks likely to be a nervous quarter for financial markets, including the dollar, as markets weigh the likelihood of legislation getting bogged down for longer in Congress, especially after Trump failed in his bid to repeal President Obama's flagship health care reforms.

## But Fed guidance remains consistent

For the time being the messages from the Federal Reserve still appear to be consistent with at least two more rate hikes this year with most policymakers having indicated the Fed has met its goals, and nearly all supporting a scenario for three or four hikes in total. Confidence remains high heading into April, as reflected in recent sentiment surveys, the labor market continues to strengthen, and manufacturing is improving further. Should such expectations begin to get dampened by softer economic data, however, then the dollar is at risk of falling again. Indeed after starting Friday positively in the wake of upgraded US Q4 GDP data (to 2.1% from 1.9%), the dollar later fell back as news reports circulated that the Trump administration is assessing ways to penalize currency manipulators.

## Weekly currency movement vs USD (%)



Source: Bloomberg, Emirates NBD Research

The coming week will see ISM manufacturing and non-manufacturing survey data as well as the minutes of the March FOMC meeting at which interest rates were raised by 25bps. Finally the main focus will be on the March jobs data, which are expected to show gains in non-farm payrolls of 175k, after a 235k increase in February.

## Euro retreats as inflation steps back

The euro fell back at the end of last week against a number of currencies after a sharp drop in Eurozone inflation in March (to 1.5% y/y from 2.0%) cast doubt on the likelihood of the ECB raising interest rates any time soon, or suspending its QE asset purchases. The late timing of Easter this year might have played a part in distorting y/y comparisons, but the data does hint more broadly at the peak of inflation having already been seen. This follows the efforts of ECB policymakers to quell market speculation that the central bank was heading to repeal its dovish forward guidance its policy meeting in April. However, the EUR may recover some support as upcoming economic data in the Eurozone is likely to be more favorable, including retail sales, unemployment and industrial production.

## GBP fares better for now

GBPUSD's performance last week saw the pair close at 1.2550, representing a 1.7% appreciation in Q1 2017 which breaks the negative performances of the previous 4 consecutive quarters of declines. EURGBP, meanwhile, has traded near four-week lows, with recent euro weakness being compounded by the current phase of pound outperformance. The well-anticipated triggering of Article 50 on Wednesday did not impact much as it was largely discounted, while the EU also set out a tough negotiating stance in the initial draft of its Brexit negotiating guidelines.

While this change will be encouraging for sterling bulls, it may still be too early to call an end to Sterling softness and the relief rally remains in danger of snapping. The first key observation is that the pair has failed to close above its capping trend line and has failed to sustain itself above the 23.6% one year Fibonacci retracement (1.2591). Failure to do this means that the pair is still vulnerable despite recent gains.

UK focus will now fall on the March PMI surveys, and while Brexit related headlines will remain a potential market driver, negotiations are not likely to start in earnest until after the German elections in September. In addition, any surprises to the downside in March's PMI figures or February's production figures is likely to shake confidence in the pound and result in renewed selling of the currency.



Source: Bloomberg, Emirates NBD Research

## Yen shows no direction as repatriation supports

The yen traded mixed last week, strengthening at first before losing ground to the dollar as Japan fiscal year repatriation flows also played a part through the week. The usual month-end flow of data out of Japan showed the jobless rate falling to a two-year low of 2.8% in February and industrial output rising more than expected, at a rate of 2.0% y/y, but headline national CPI for February fell to 0.3% from 0.4% while the core Tokyo CPI rate for March fell to -0.4% y/y, contrary to expectations for an unchanged reading of -0.3%. The soft CPI figures came despite a spike in input prices, suggesting that the consumer sector remains weak. Overall, the data shows the Japanese economy is benefiting from the global uptick in economic activity, but that the BoJ is likely to remain in wait-and-see mode with regard to withdrawing monetary stimulus. In the coming week the Tankan survey should show that business conditions improved overall in Q1.

## Fortunes about to reverse for AUD?

While the Reserve Bank of Australia are expected to keep interest rates at a record low of 1.50% on April the 4th, the central bank is likely to attempt to talk down the currency as it sees a strong AUD has a headwind to growth going forward. With data on March 31st from CFTC showing AUD speculative positions are now 53,100 net long (see chart below), the pair would be vulnerable to leg down. In addition, the AUD spent the previous week being repelled by the one year 76.4% Fibonacci retracement (0.7672) and closed below the 50 day moving average (0.7633). Furthermore, PMI data for China was already released over the weekend and showed contrasting fortunes between the public data, which rose slightly (to 51.8 in March from 51.6 in February) and the private Caixin index which ebbed a little to 51.2 from 51.7. Not much change overall, however, to deflect from an economy that is adjusting slowly with output still in positive territory on both measures.



Source: Bloomberg, Emirates NBD Research

In India, the RBI meets on Thursday and is expected to leave its repo rate unchanged at 6.25%.

## FX Forecasts

FX Forecasts - Major						Forwards		
	31-Mar	Q2 2017	Q3 2017	Q4 2017	Q1 2018	3m	6m	12m
EUR	1.0652	1.0500	1.0200	1.0000	1.0000	1.0718	1.0770	1.0888
JPY	111.39	116.00	120.00	122.00	124.00	114.34	113.78	112.55
CHF	1.0026	1.0300	1.0500	1.1000	1.1000	1.0055	0.9993	0.9857
GBP	1.2550	1.2200	1.1800	1.2500	1.3500	1.2194	1.2227	1.2305
AUD	0.7629	0.7300	0.7200	0.7000	0.7000	0.7529	0.7518	0.7500
NZD	0.7006	0.6900	0.6700	0.6500	0.6700	0.6906	0.6892	0.6867
CAD	1.3318	1.3500	1.3400	1.3200	1.3000	1.3454	1.3433	1.3386
EURGBP	0.8485	0.8607	0.8644	0.8000	0.7407	0.8793	0.8812	0.8852
EURJPY	118.67	121.80	118.32	120.00	122.00	122.53	122.53	122.53
EURCHF	1.0690	1.0815	1.0710	1.1000	1.1000	1.0774	1.0760	1.0729

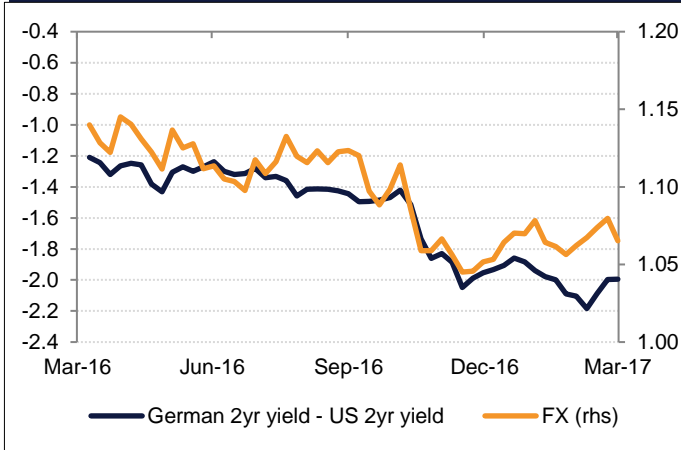
  

FX Forecasts - Emerging						Forwards		
	31-Mar	Q2 2017	Q3 2017	Q4 2017	Q1 2018	3m	6m	12m
SAR	3.7502	3.7500	3.7500	3.7500	3.7500	3.7520	3.7554	3.7700
AED	3.6729	3.6700	3.6700	3.6700	3.6700	3.6749	3.6768	-
KWD	0.3049	0.2900	0.2900	0.2900	0.3000	0.3062	0.3081	-
OMR	0.3850	0.3800	0.3800	0.3800	0.3800	0.3859	0.3874	0.3913
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	3.6448	3.6488	3.6598
EPN	18.1750	18.0000	18.5000	18.7500	19.0000	17.8150	18.1150	18.8500
INR	64.850	68.000	66.000	65.000	65.000	67.1200	67.8800	69.4100
CNY	6.8872	7.0000	7.1000	7.2000	7.4000	6.9720	7.0321	7.1425

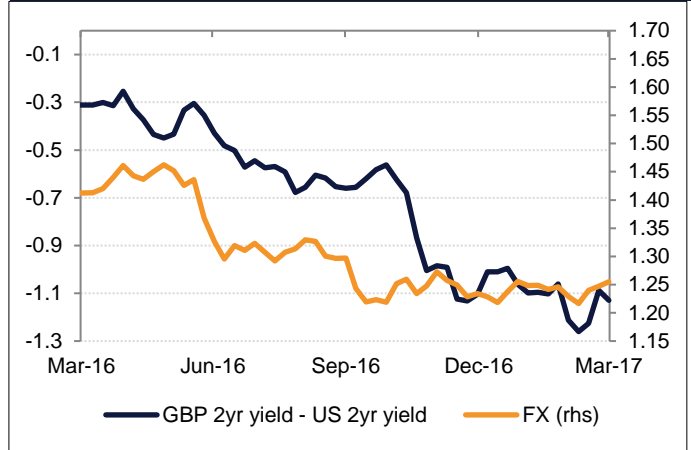
Source: Bloomberg, Emirates NBD Research  
 \*Denotes USD peg

## Major FX and Nominal Interest Rates

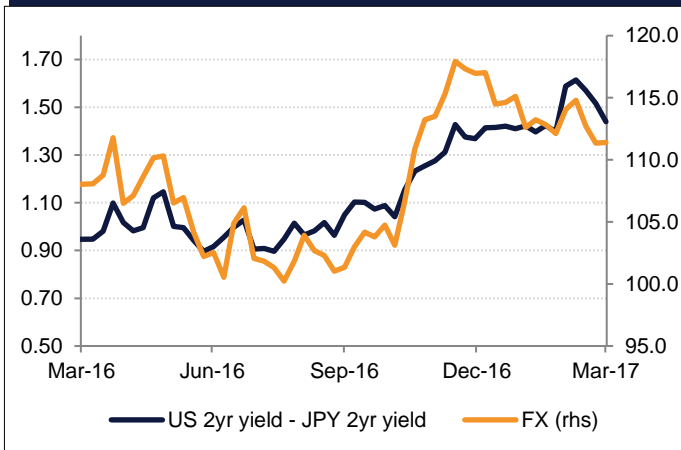
### Interest Rate Differentials - EUR



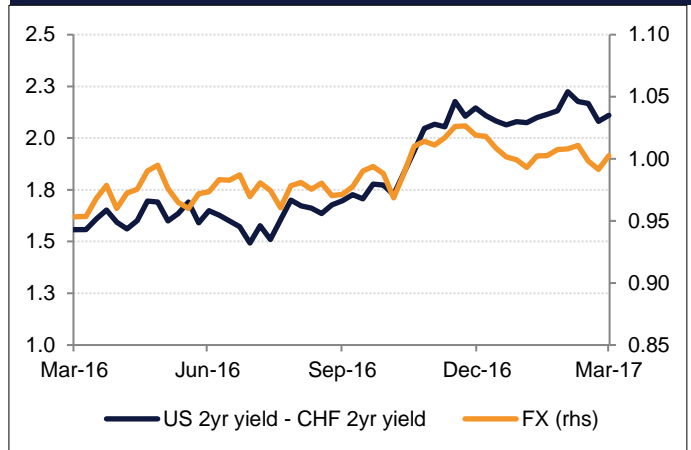
### Interest Rate Differentials - GBP



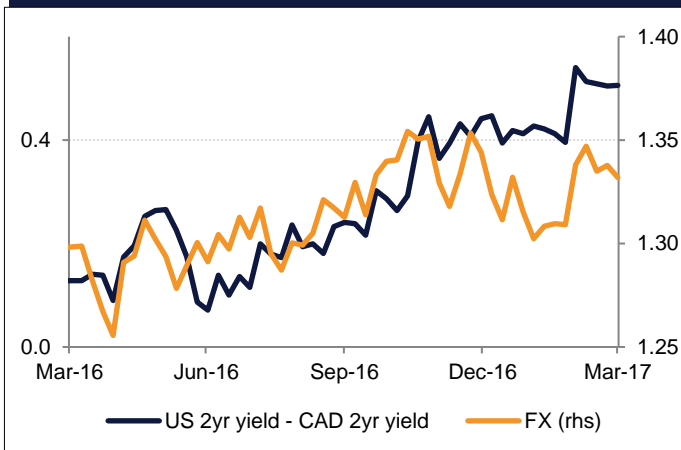
### Interest Rate Differentials - JPY



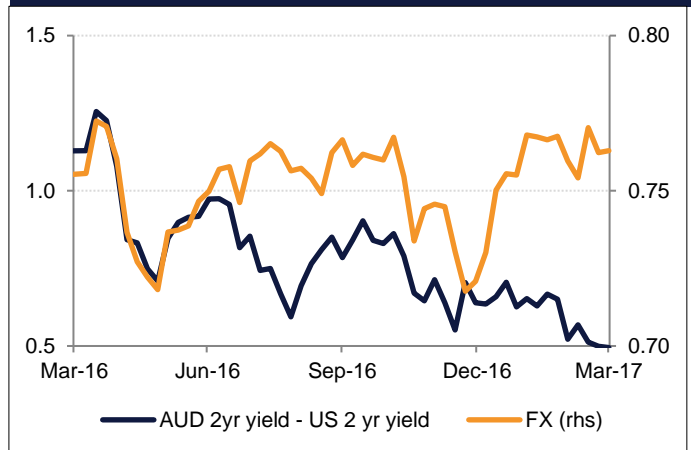
### Interest Rate Differentials - CHF



### Interest Rate Differentials - CAD

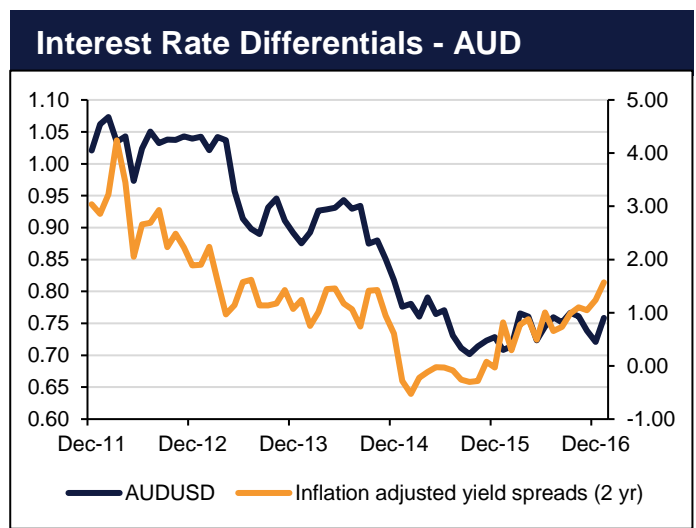
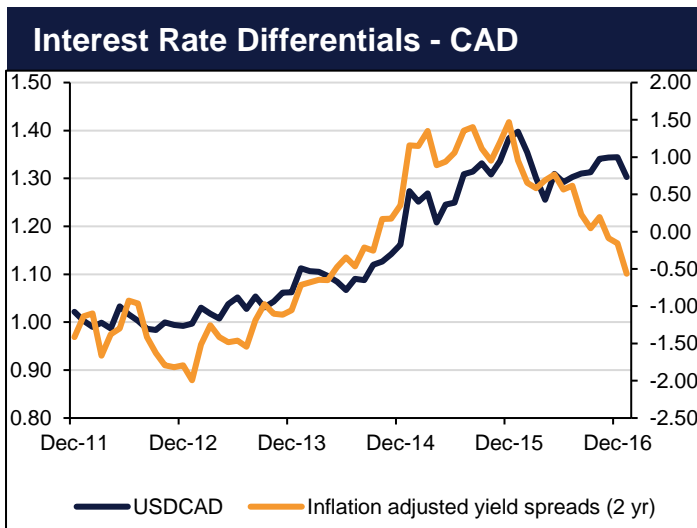
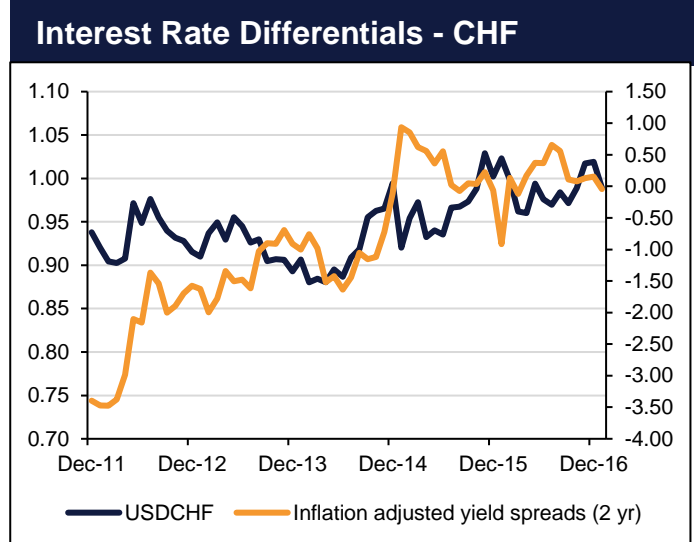
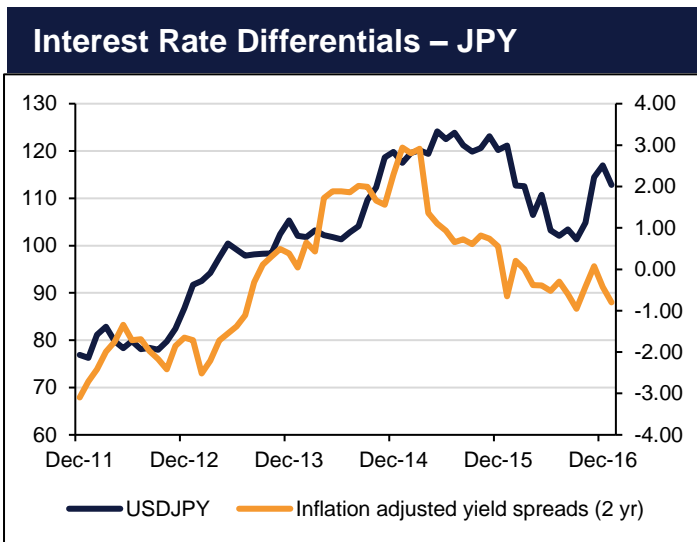
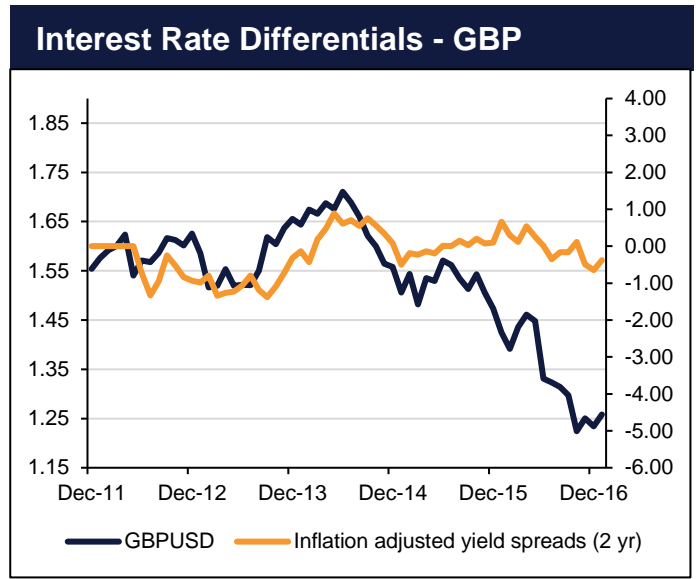
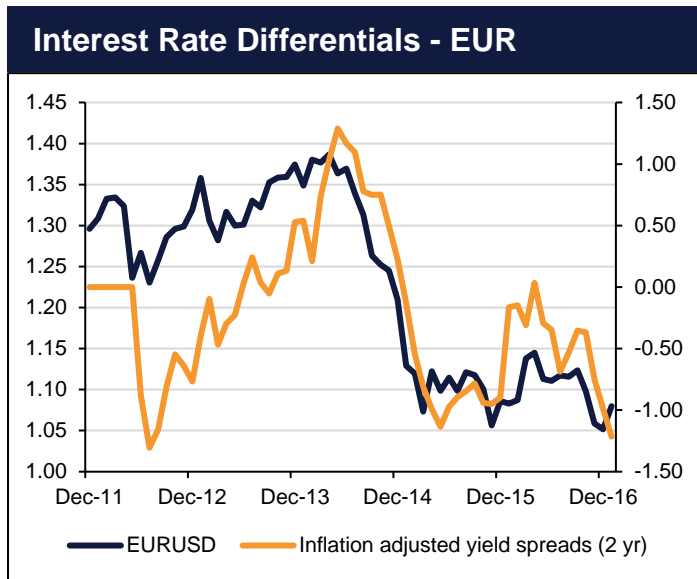


### Interest Rate Differentials - AUD



Source: Bloomberg, Emirates NBD Research

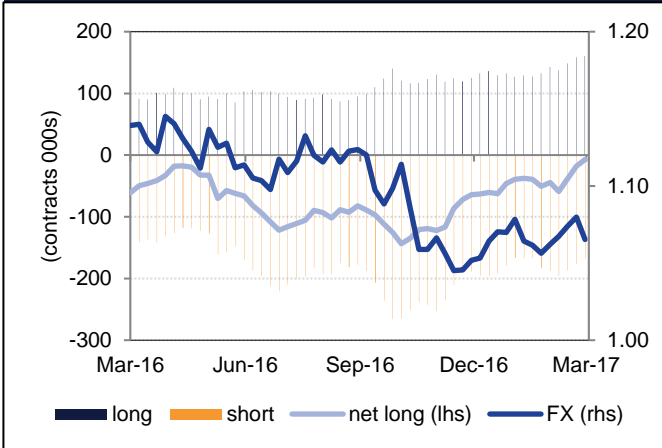
## Major FX and Real Interest Rates



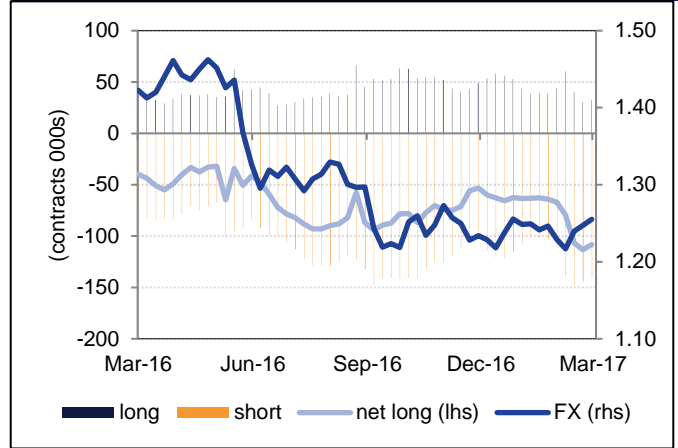
Source: Bloomberg, Emirates NBD Research

## Major Currency Positions

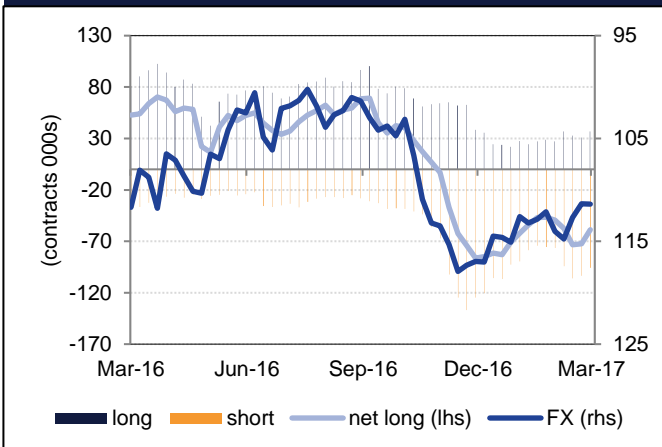
### CFTC – Speculative Positions - EUR



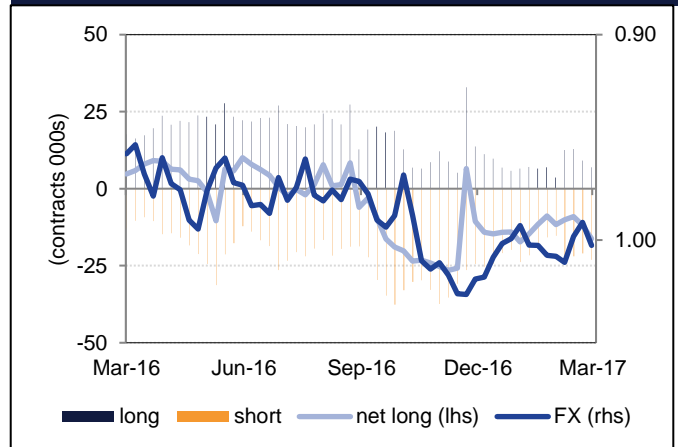
### CFTC – Speculative Positions - GBP



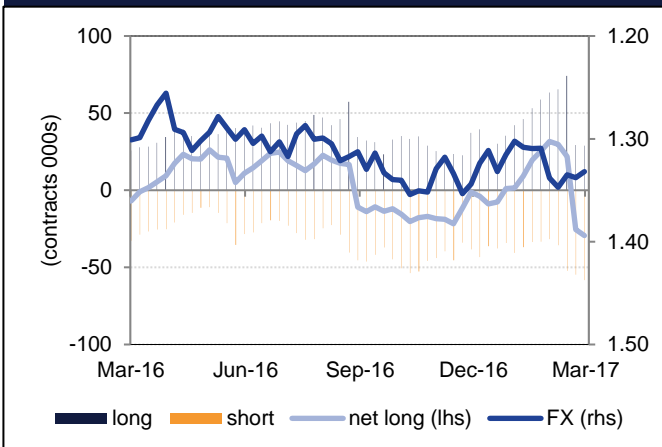
### CFTC – Speculative Positions - JPY



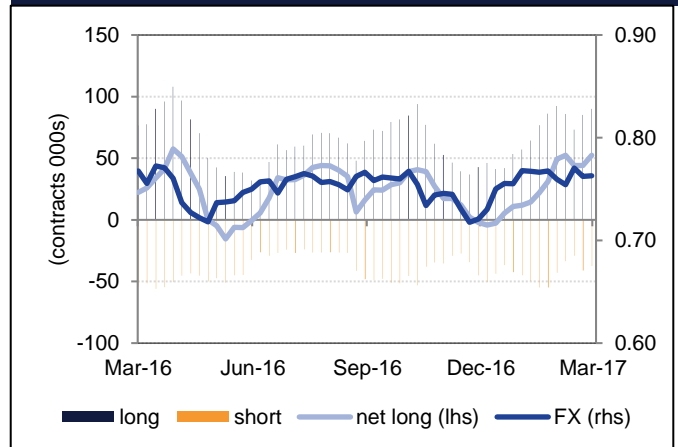
### CFTC – Speculative Positions - CHF



### CFTC – Speculative Positions - CAD



### CFTC – Speculative Positions - AUD



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