



بنك الإمارات دبي الوطني
Emirates NBD

Weekly
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Tim Fox

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

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

FX Week

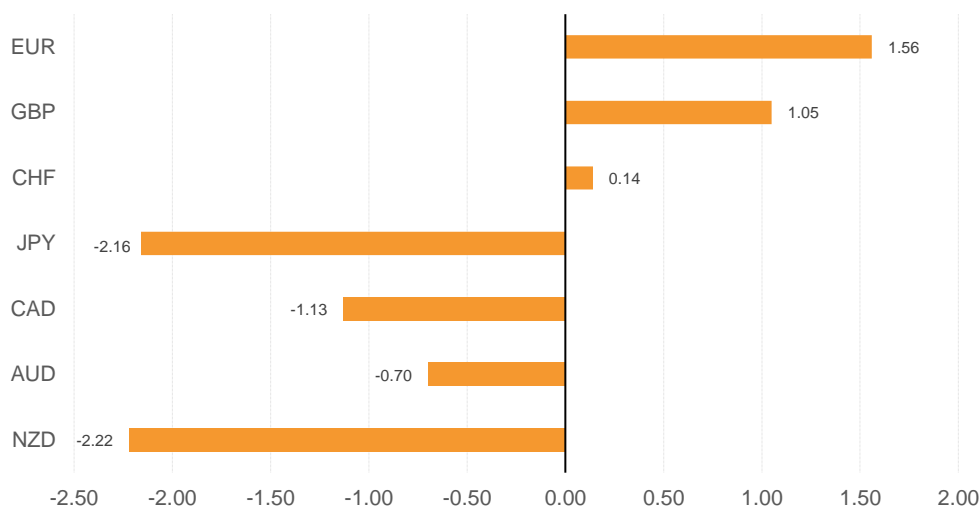
Dollar loses ground amid soft data and uncertainty

The dollar lost ground last week, weighed down by disappointing U.S. Q1 GDP data and by a White House tax plan that failed to meet expectations. Although President Trump was able to celebrate his hundredth day in office without a government shutdown, this possibility may have only been delayed. Markets are also uneasy with the administrations renewed emphasis on trade and protectionism, with a U.S. withdrawal from NAFTA only just avoided. Geopolitical tensions are also on the rise with North Korea again testing ballistic missiles over the weekend. It is likely that this could weigh on USDJPY at the start of the coming week, which was one of the few USD crosses that appreciated last week. As such it may be difficult for the USD to find support initially, at least until there is greater clarity about the fate of the budget. Investors will also be eying Wednesday's FOMC meeting and April's employment report on Friday.

US sees Q1 2017 GDP miss

U.S. Q1 GDP released on Friday disappointed relative to expectations rising at a 0.7% annualized rate, down from 2.1% in Q4. Consumption (-0.3%) and inventories (-0.9%) were the big drags on growth in Q1, while there was a surprisingly sharp increase in business investment (9.4%) which might suggest the potential for growth to get stronger in the future, and for the growth potential of the US economy to expand. Markets are also very aware of the seasonal quirks in GDP, which often sees a weak Q1 report followed by stronger reports later in the year. And with consumption and inventories likely to recover in Q2 in line with positive survey data, it would seem natural to expect Q2 growth to be much better. Indeed with inflation readings picking up further speed (the headline PCE deflator rose to 2.3% in Q1 and the Employment Cost Index rose to 0.8% q/q), this should be enough to keep the Fed on course to tighten monetary policy in June, with the possibility of a surprise move at this week's FOMC meeting very doubtful. With no press conference this time around, the only update on Fed thinking will be via the policy statement, and this is unlikely to be too revealing. Fed comments through April generally supported forecasts for two more rate hikes this year and the statement will likely be consistent with this approach. Should the April employment report then show that non-farm payrolls have resumed their 180k growth rate, the markets will quickly forget the recent patch of soft data and the USD may be able to recover. This will also be contingent on the government passing a more meaningful spending bill, however, allowing the focus to return to fundamentals.

Weekly currency movement vs USD (%)



Source: Bloomberg, Emirates NBD Research

EUR outperforms after first round of French election

The EUR was the strongest major currency last week after the first round of the French elections saw the centrist Emmanuel Macron qualify with Marine Le Pen of the Front National for the second round to be held at next Sunday May 7th. The likelihood now is that Macron will win the election convincingly to become President of France, promising a degree of continuity with the Hollande Presidency and offering some stability to the Eurozone in the near term. The ECB subsequently left monetary policy unchanged at its council meeting and there were also no real surprises in terms of its commentary. The ECB confirmed that it is in no hurry to consider and implement exit steps, signaling that tapering is still some way off. However, with economic data continuing to be firm (inflation rose back to 1.9% on a headline basis in April with the core rate rising to 1.2%) Draghi may struggle to keep tapering talk under control. In the coming week GDP growth in Q1 is expected to be estimated at 0.5% q/q, while retail sales and unemployment should also both show momentum continuing to improve.

Kuroda optimistic as BOJ holds

The BOJ also met last week and left policy on hold, although the message from Governor Kuroda was upbeat about the prospect of the BOJ meeting its inflation target of 2.0% by the end of Fiscal Year 2018. The BOJ still thinks that inflation is being held down by temporary factors, although it lowered its inflation forecast for the rest of this year slightly. Incidentally headline inflation in March fell back to 0.2% at the national level from 0.3% in February, while the core rate moved back into negative territory at -0.1%. Needless to say there is likely to be less speculation about BOJ policy normalization occurring any time soon, which over time should be to the disadvantage of the JPY against other major currencies. In the short term, however, even though USDJPY recovered during the week as risk aversion receded, the chances are that regional tensions related to Korea could once again prompt some renewed JPY strength.

GBP reverses from biggest loser to biggest gainer

GBP has gone from being the weakest G10 currency this year a few weeks ago to being the strongest currency year-to-date last week. The pound has continued to gain following PM May's calling of a general election to be held on June 8. Cable reached a six-month peak at 1.2959 and closed the week at its highest weekly closing level since September. Opinion polls have suggested that the governing Conservative Party is on course to win a sizable majority at the election, giving the pound a lift on the assumption that this will give PM May a clear Brexit mandate and greater flexibility in upcoming negotiations. Despite a disappointing UK growth rate of 0.3% in Q1 this was in part a give back to the strong 0.7% rate registered in Q4, and the likelihood is that growth will now stabilize around 0.4% over the rest of the year, with any Brexit impact probably not being seen until later. Although the EU has agreed draft guidelines for Brexit negotiations it is unlikely that these will start properly until after the German elections in September. Although we have a 1.35 forecast for GBPUSD at the end of this year, the pound's rally has happened a little faster than we anticipated and we still believe that there could be periods of intense volatility as the rhetoric over Brexit gets louder.

CAD remains weakest performer in 2017

The CAD remained under pressure last week after being weighed down by a combination of factors. Data showed that in February the economy grew 0% m/m compared with 0.6% in January and 2.5% y/y compared with expectations for 2.6%. In the same period, retail sales contracted 0.6% m/m from the previous month's growth of 2.3%. Further pressure came after announcements from the Trump administration that they intended to put a 20% tariff on softwood lumber imports from Canada and the country was criticized on social media by President Trump for putting pressure on the American dairy industry. Under these

circumstances, USDCAD appreciated 1.14% last week, to close at 1.3653, down from early highs in the week (and a one year high) of 1.3697.

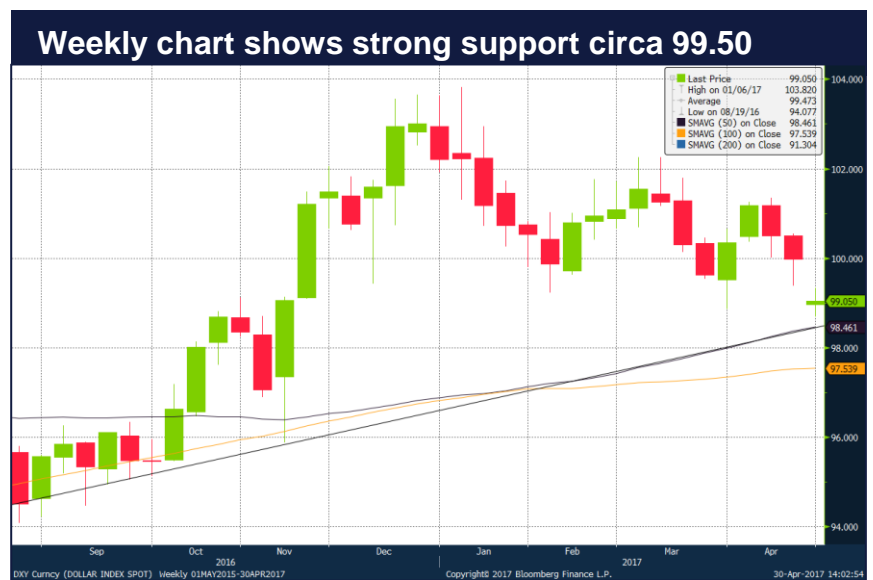
Technical Outlook

USD slide to continue in short term

In line with our technical observations last week, USD depreciated further, with the Dollar Index falling from 99.89 to 99.05, having hit lows of 98.70 during the week. While our longer term view remains to expect future dollar strength, technical analysis of the index points to the risk of further losses in the short term. Having opened the week by gapping below the 200 day moving average (99.15), the index failed to sustain recovery above this critical level for five consecutive trading days. We expect further declines towards 98.50 in the near term, a zone that has strong support as it contains the 50 week moving average (98.46) and the baseline line of a weekly up trend that has been in place since May 2016 (98.50). A break below this key level exposes the index to a more significant decline with retest of 95, a level last seen in September 2016, being a realistic scenario, although one that we do not expect to materialize.



Source: Bloomberg, Emirates NBD Research

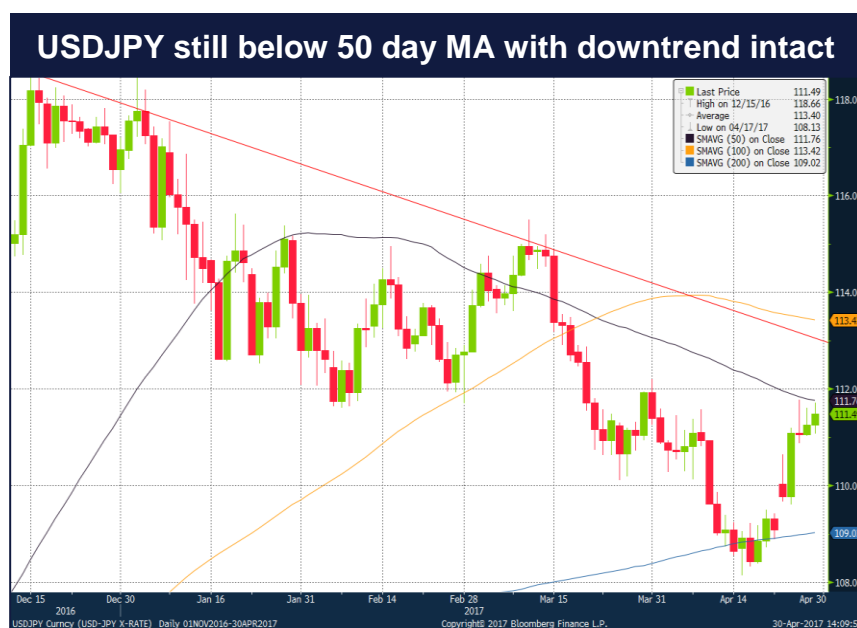


Source: Bloomberg, Emirates NBD Research

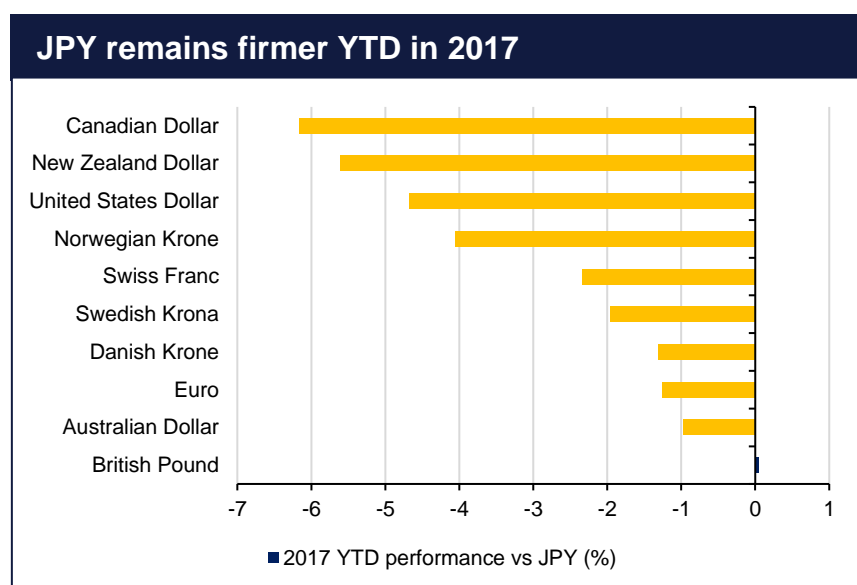
JPY strength not at an end....yet

USDJPY appreciated 2.2% last week, rising to 111.49 and above its 200 day moving average of 109.02. However it should also be noted that a large part of this movement was catalyzed by EURJPY flows and rallies towards the 50 day moving average (currently 111.76) were sold for three consecutive days. While the pair remains below the 50 day moving average, it remains vulnerable and likely to retest 110.60, the 23.6% 2017 YTD Fibonacci retracement. A break of this level would invite bears to retest the 200 day moving average in quick succession.

On the other hand, a break and close above the 50 day moving average is likely to see further advancement towards 113.40, close to the 100 day moving average (113.42) and 50% YTD 2017 Fibonacci retracement (113.36).



Source: Bloomberg, Emirates NBD Research



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FX Forecasts

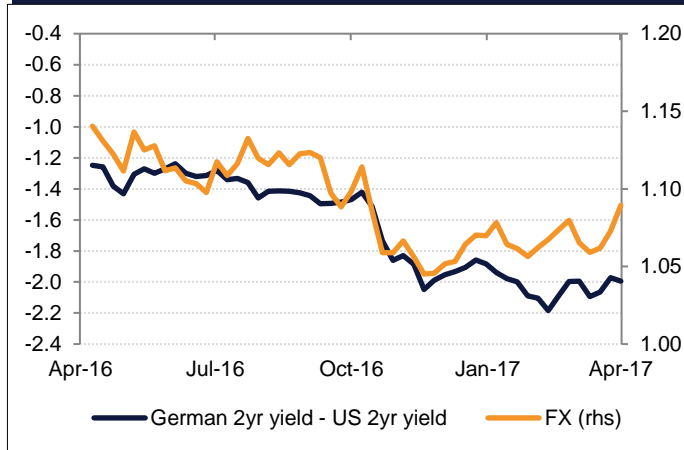
FX Forecasts - Major						Forwards		
	28-Apr	Q2 2017	Q3 2017	Q4 2017	Q1 2018	3m	6m	12m
EUR	1.0895	1.0500	1.0200	1.0000	1.0000	1.0777	1.0830	1.0945
JPY	111.49	116.00	120.00	122.00	124.00	108.68	108.20	107.12
CHF	0.9946	1.0300	1.0500	1.1000	1.1000	0.9907	0.9845	0.9716
GBP	1.2951	1.2500	1.3000	1.3500	1.4000	1.2848	1.2881	1.2955
AUD	0.7488	0.7300	0.7200	0.7000	0.7000	0.7529	0.7520	0.7503
NZD	0.6866	0.6900	0.6700	0.6500	0.6700	0.7006	0.6992	0.6963
CAD	1.3653	1.3500	1.3400	1.3200	1.3000	1.3481	1.3460	1.3418
EURGBP	0.8413	0.8400	0.7846	0.7407	0.7143	0.8396	0.8416	0.8456
EURJPY	121.53	121.80	122.40	122.00	124.00	116.94	116.94	116.94
EURCHF	1.0843	1.0815	1.0710	1.1000	1.1000	1.0679	1.0664	1.0635
FX Forecasts - Emerging						Forwards		
	28-Apr	Q2 2017	Q3 2017	Q4 2017	Q1 2018	3m	6m	12m
SAR	3.7501	3.7500	3.7500	3.7500	3.7500	3.7512	3.7539	3.7645
AED	3.6729	3.6720	3.6720	3.6720	3.6720	3.6745	3.6760	--
KWD	0.3042	0.3050	0.3050	0.3050	0.3050	0.3051	0.3061	--
OMR	0.3850	0.3850	0.3850	0.3850	0.3850	0.3856	0.3862	0.3890
BHD	0.3770	0.3770	0.3770	0.3770	0.3770	0.3775	0.3778	0.3786
QAR	3.6414	3.6400	3.6400	3.6400	3.6400	3.6463	3.6508	3.6623
EPN	18.0535	18.0000	18.5000	18.7500	19.0000	18.4150	18.7925	19.6000
INR	64.246	66.000	64.000	65.000	65.000	64.9300	65.6800	67.2000
CNY	6.8935	7.0000	7.1000	7.2000	7.4000	6.9600	7.0085	7.0975

Source: Bloomberg, Emirates NBD Research

*Denotes USD peg

Major FX and Nominal Interest Rates

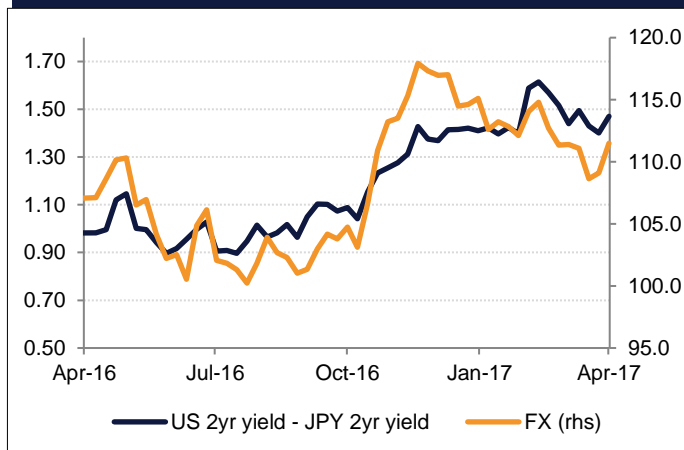
Interest Rate Differentials - EUR



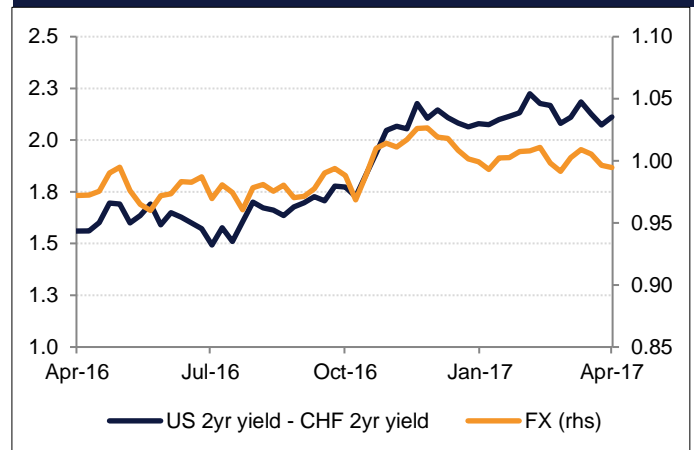
Interest Rate Differentials - GBP



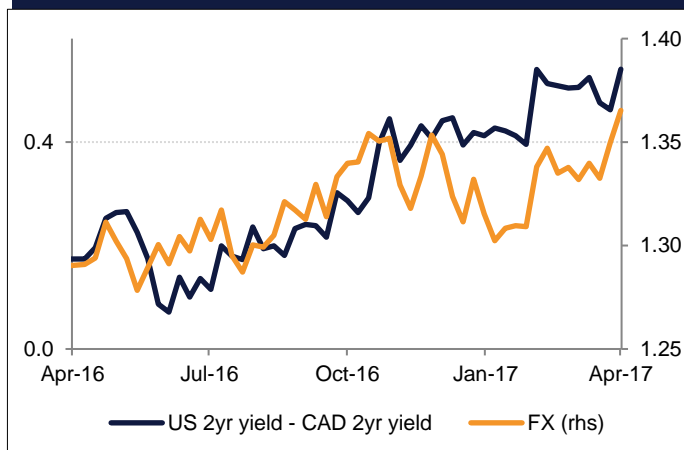
Interest Rate Differentials - JPY



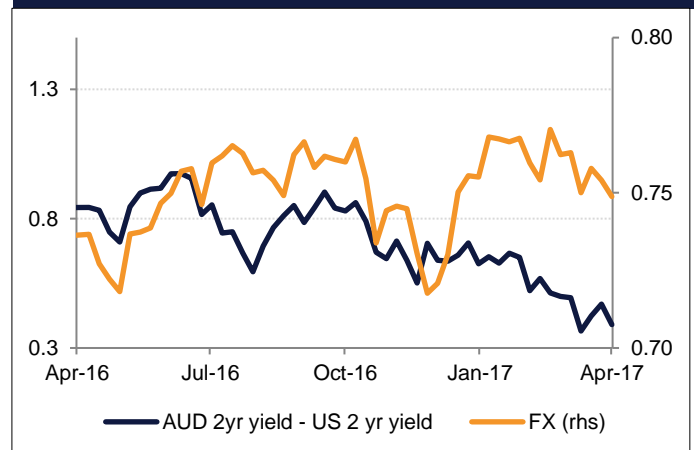
Interest Rate Differentials - CHF



Interest Rate Differentials - CAD



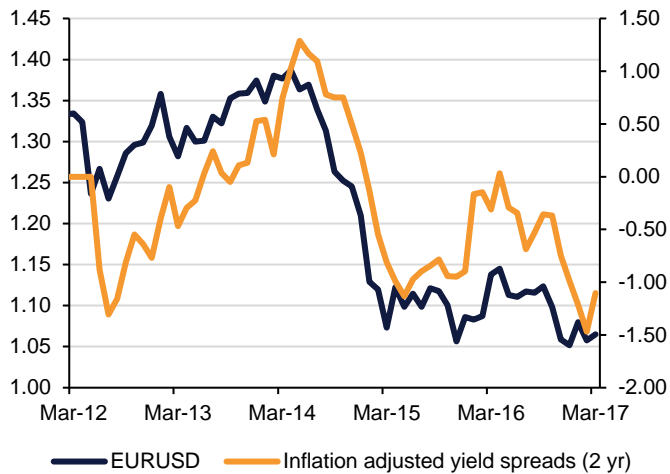
Interest Rate Differentials - AUD



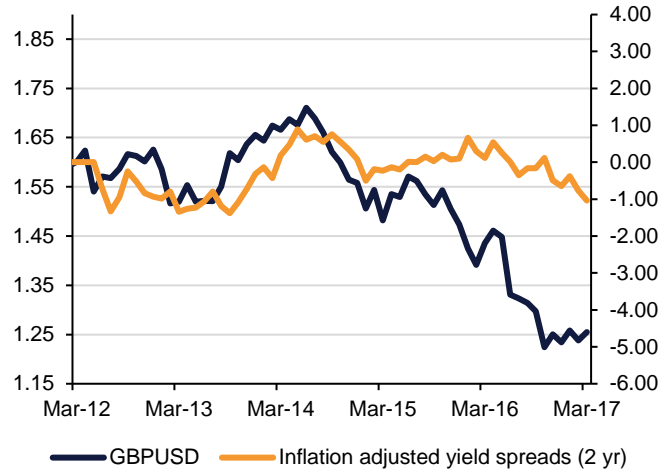
Source: Bloomberg, Emirates NBD Research

Major FX and Real Interest Rates

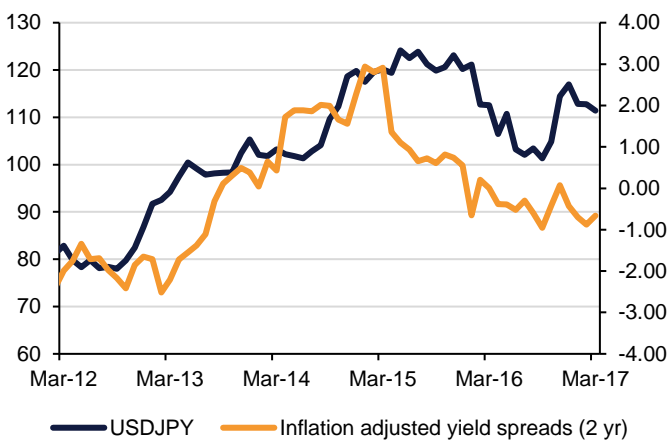
Interest Rate Differentials - EUR



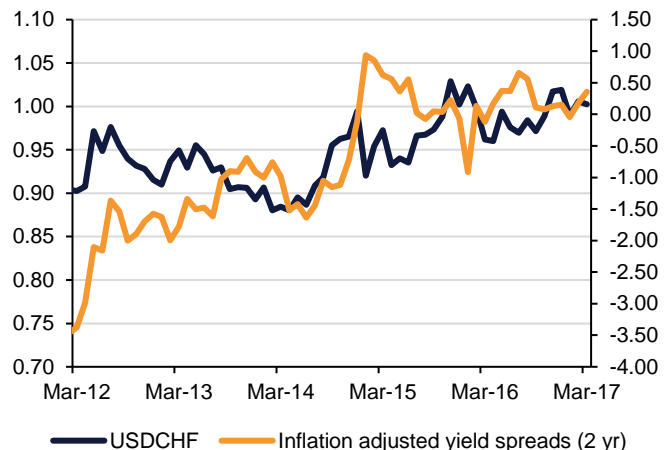
Interest Rate Differentials - GBP



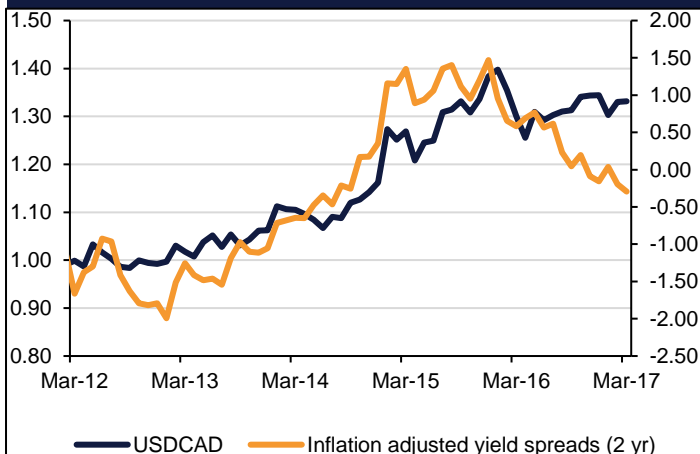
Interest Rate Differentials - JPY



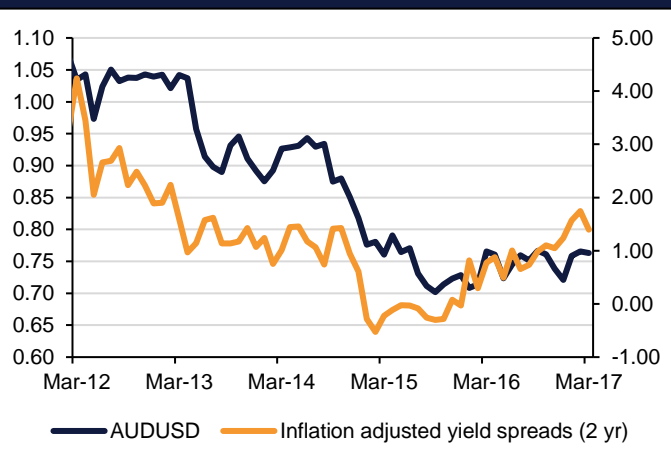
Interest Rate Differentials - CHF



Interest Rate Differentials - CAD



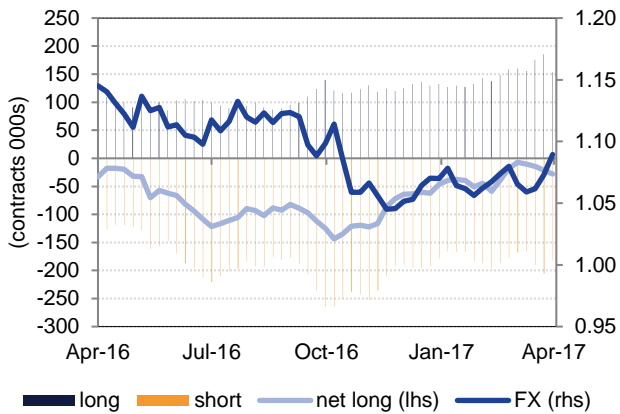
Interest Rate Differentials - AUD



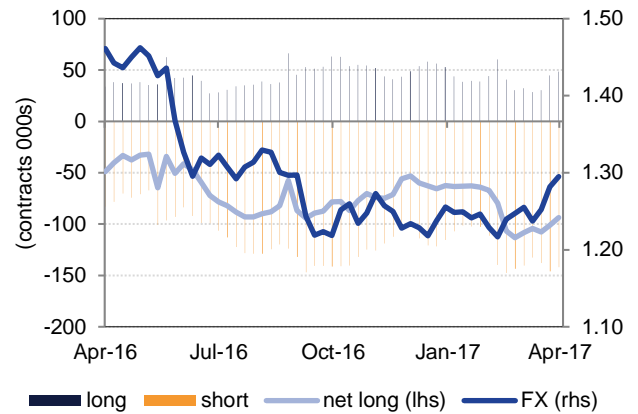
Source: Bloomberg, Emirates NBD Research

Major Currency Positions

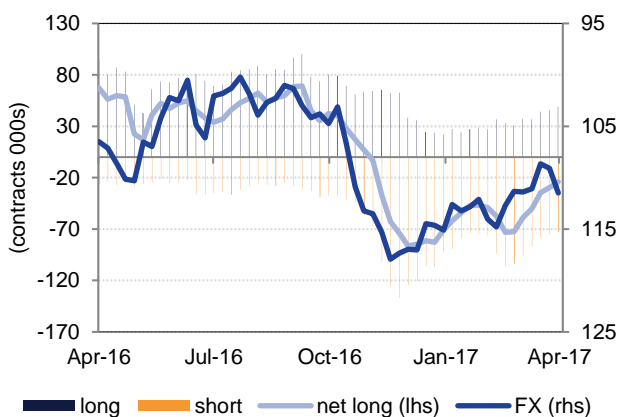
CFTC – Speculative Positions - EUR



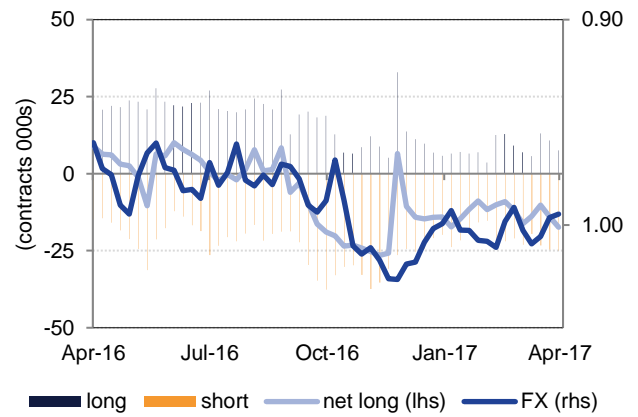
CFTC – Speculative Positions - GBP



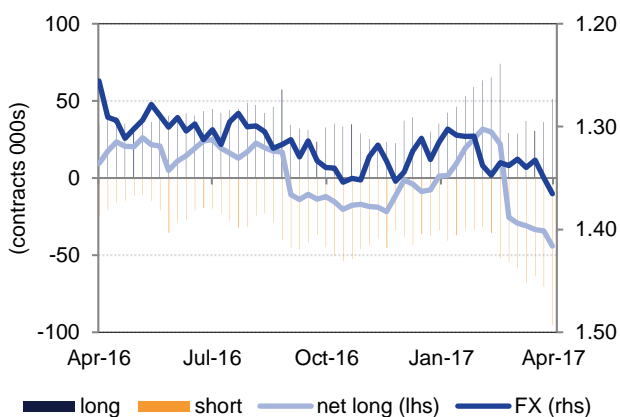
CFTC – Speculative Positions - JPY



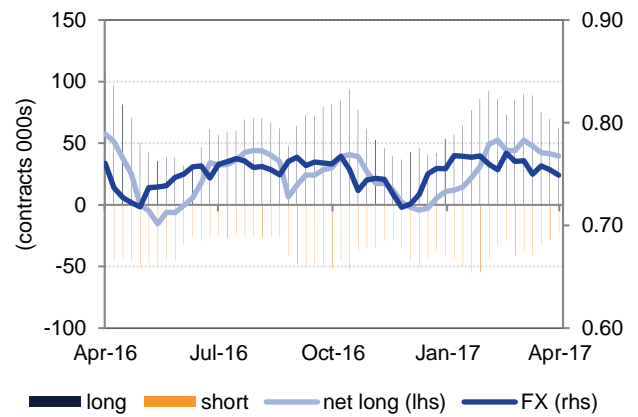
CFTC – Speculative Positions - CHF



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
Group Treasurer & EVP 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

Shady Shafer Elborno
Head of Macro Strategy
+9714 2012300
shadyb@emiratesnbd.com

Athanasios Tsetsonis
Sector Economist
+9714 230 7629
athanasiost@emiratesnbd.com

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

Mohammed Al-Tajir
Manager, FX Analytics and Product Development
+9714 609 3005
mohammedtaj@emiratesnbd.com

Aditya Pugalia
Analyst
+9714 230 7802
adityap@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 Sakhalakar
+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

Ahmed Al Qassim
CEO- Emirates NBD Capital
AhmedAQ@emiratesnbd.com

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