



بنك الإمارات دبي الوطني  
Emirates NBD

Weekly  
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# FX Week

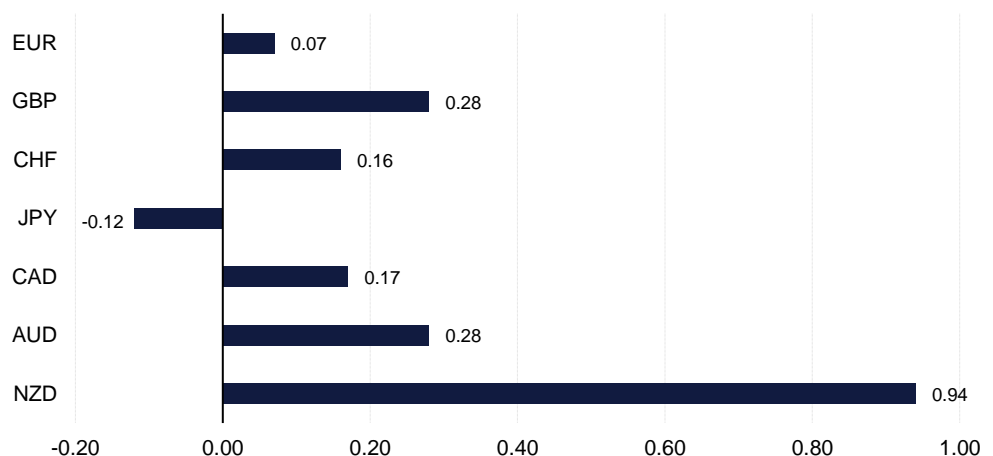
## Dollar benefits from strong payrolls

After a turbulent week dominated by regional and geopolitical risks as well as trade tensions, the markets received a boost from strong U.S. employment figures. With the political uncertainties in Italy and Spain also being resolved for the time being at least, the concerns over tariffs are perhaps the only reason for caution. These will likely exert some strain as the G7 meeting approaches on the 8-9<sup>th</sup> of June, with G7 finance ministers already expressing their frustration over these as likely to 'undermine open trade and confidence in the global economy'. However, their consequences are largely for the future, whereas the current economic environment appears strong enough for markets to withstand these risks. Also the G7 summit will likely be eclipsed by expectations over the U.S - North Korea summit which President Trump has confirmed will go ahead a few days later on the 12<sup>th</sup>, and which conveys a more optimistic mood.

## European political risks recede for now

With Italy's political problems being put to rest for the moment, with a coalition government between the 5 Star Movement and the League finally being formed, the sense of relief was also reinforced by strong U.S. economic data. The May labour market report saw jobs growth of 223k in excess of expectations, the unemployment rate falling to an 18-year low of 3.8% and wages rising by a firm 0.3%. Other data points over the week were also constructive including ISM manufacturing data, which rose to 58.7 from 57.3, and personal income and sales data which were up 0.3% and 0.6% respectively. Collectively they help to cement the case for a June rate hike by the Fed, and increased the chances of two further rate hikes before the end of the year. The dollar therefore remained firm, rising strongly against the JPY, although the news from Italy prevented it from making further gains against the single currency.

## Weekly currency movement vs USD (%)



Source: Bloomberg, Emirates NBD Research

## But trade risks are rising

The coming week will see negotiations continue with China over trade and the likely retaliation of the EU, Canada and Mexico to the tariffs brought in by the U.S. last week. With China threatening to cancel any trade deal with the U.S. if tariffs are imposed, the market tone will likely be guarded at first, pending the outcome of the talks. The main economic data release will be the ISM non-manufacturing index which is expected to be firm, but they may not add much more to the current sentiment favouring a June rate hike which is priced in. As such the dollar's upside may still be limited.



Source: Bloomberg

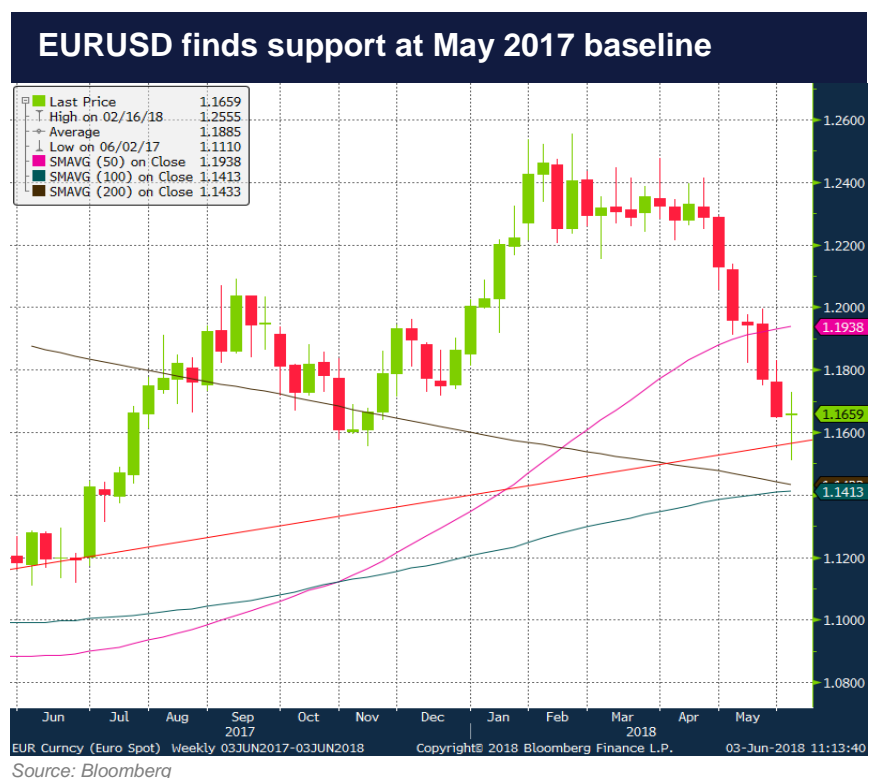
## Profit taking halts USD advance

The dollar was mostly unchanged last week, the Dollar Index trading 0.07% lower at 94.188. The DXY encountered resistance at the psychologically significant 95 level, last seen in November 2017, where selling pressure drove the price lower. However, the daily uptrend remains intact despite the close just below the 61.8% one year Fibonacci retracement (94.20). Part of these losses may be attributed to profit taking as the 14 day relative strength indicator showed that the dollar was overbought. While the price remains above 93.10, a retest of the 95 handle remains likely in the short term, a breach of which may be followed by a climb towards 95.60.

## EUR upside limited by trade risks

The EUR benefited from the formation of a new government in Italy, while it was little perturbed by the change of government in Spain. Political risks remain, however, as the new Italian government is sure to test the patience of the EU and the ECB over time over its spending commitments and over its attitude to the Euro. For one thing a strong rise in EU HICP to 1.9% in May (from 1.2% in April) has probably brought closer an ECB decision to commit to an end to QE, which will add strain to countries like Italy with a large overhang of public debt. Otherwise, the data flow is expected to be marginally positive for the EUR, with EU GDP likely to be unchanged from the first estimate of 0.4%, and with retail sales and German production data posting small gains. However, it may be the issue of trade that has the greatest bearing in the short term if the EU retaliates against the U.S. with trade tariffs as they have promised. This could dampen the mood towards the EUR as the Eurozone economy appears to be less able to withstand the impact of a protracted trade stand-off, limiting the EUR's upside.

Following 6 weeks of declines, EURUSD stabilized towards the end of the week after further declines were halted near the supporting baseline that was formed in May 2017. Over the course of the week, EURUSD was mostly unchanged and finished the week at 1.1659, despite reaching new 2018 lows of 1.1510 on Tuesday. We maintain the same technical outlook as last week, if EURUSD can find support at the current level, we expect a retest of 1.1830 a close above which will put 1.20 (close to the 200 day MA and 61.8% one year Fibonacci retracement) in sight before the end of the current quarter. However, it is of note that the 14 day RSI (Relative Strength Indicator) is no longer showing oversold conditions and shows a bearish momentum at 35.22. Therefore further tests of 1.15 cannot be ruled out and should there be a weekly close below this key level, further losses can be expected.



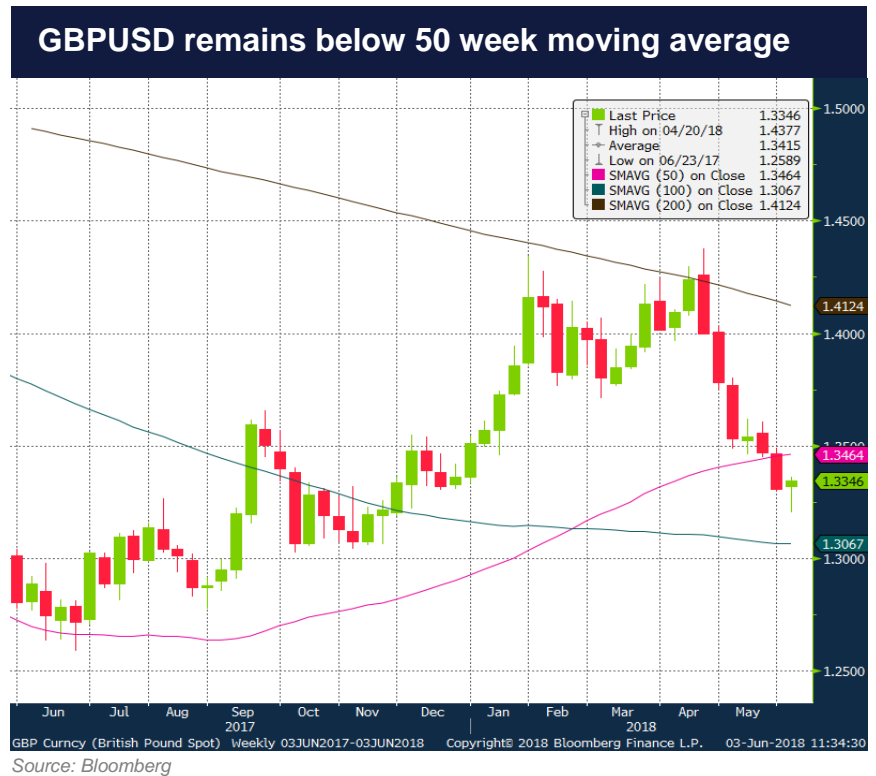
## GBP has scope to recover...

For sterling Brexit negotiations will resume this week, although markets remain relatively downbeat about the prospects of any breakthroughs over the customs union and over the status of the Irish border. To the extent that the Italian situation had any impact on the GBP it reinforced fears that the EU will not be inclined to do the UK many favours, and hence the pound slid as the EUR fell back. On a more positive front, however, recent UK data has hinted at some improvement in Q2 activity, with retail sales picking up in April and May and with the May manufacturing PMI also firmer at 54.4, up from 53.9 in April. These all lend support to our belief in an August Bank of England rate hike, which the markets currently see as 40% likelihood. Should such sentiment gain ground, which we think is likely, the pound should be able to recover from its current 1.33 base. The non-manufacturing and construction PMIs will be closely watched this week therefore to see if they provide further signals for optimism.

## ...but needs to reclaim a key level

GBPUSD rose for the first time in three weeks, gaining 0.29% to close at 1.3348. The pound was originally making a test of the 1.32 level, before *support* was found

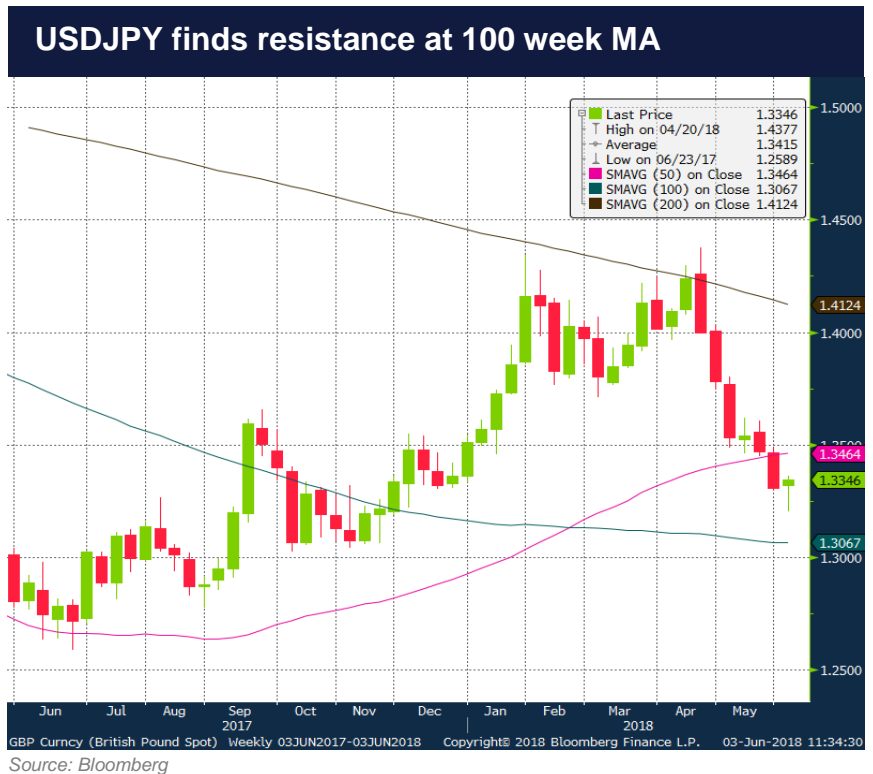
and the price was able to climb back above the 38.2% one year Fibonacci retracement (1.3272) at the end of the week. However, despite these gains, the cross remains technically vulnerable in the short term and needs to reclaim a weekly close above the 50 week moving average (1.3464) in order to be back in neutral territory.



## USDJPY the main beneficiary of US jobs report, and reversal in risk

As mentioned above the JPY was the biggest casualty of the U.S. jobs report, as yield differentials moved in the dollar's favour with 10-year yields rising back above 2.90%. Recovering risk sentiment also reversed upward pressure on the JPY, with both the Italian situation and the optimism over the North Korea summit contributing. The second estimate of Japan's Q1 GDP is expected to show a slightly softer pace of contraction than the preliminary -0.6% q/q pace, which will probably maintain dovish attitudes towards the BOJ. However, a further recovery by USDJPY is likely to still have to contend with troublesome global uncertainties, keeping the overall direction choppy.

USDJPY rose 0.10% last week, reaching 109.52 after further gains were halted by resistance at the 100 week moving average (109.73) and the price was driven below the 50% one year Fibonacci retracement (109.65). Over the week ahead, it is likely that these levels are retested. Should they be broken, a test of the 200 day moving average of 110.20 is possible. On the downside, further declines may be limited by support at the 50 day moving average (108.47), the 38.2% one year Fibonacci retracement (108.44) and the 100 day moving average (108.14).



### RBA meeting and GDP on tap for the AUD

In Australia the RBA meeting on Tuesday is not expected to result in any change to the current 1.50% rate setting. In the last meeting, Governor Lowe repeated that the low level of interest rates is supporting the economy, and a similar message is expected this time around. Meanwhile Q1 GDP (Wednesday) is expected to accelerate to a 0.7% q/q growth rate from the 0.4% pace in Q4.

## FX Forecasts

FX Forecasts - Major						Forwards		
	1-Jun	Q2 2018	Q3 2018	Q4 2018	Q1 2019	3m	6m	12m
EUR	1.1659	1.2000	1.2300	1.2500	1.2800	1.1741	1.1829	1.2025
JPY	109.54	108.00	110.00	112.00	110.00	108.85	108.10	106.42
CHF	0.9882	0.9800	0.9800	0.9800	0.9800	0.9803	0.9720	0.9543
GBP	1.3346	1.3700	1.4000	1.4200	1.4500	1.3404	1.3463	1.3594
AUD	0.7569	0.7600	0.7550	0.7550	0.7550	0.7574	0.7581	0.7599
NZD	0.6982	0.7000	0.7100	0.7100	0.7100	0.6983	0.6987	0.6998
CAD	1.2951	1.2700	1.2700	1.2700	1.2700	1.2925	1.2901	1.2857
EURGBP	0.8737	0.8759	0.8786	0.8803	0.8828	0.8761	0.8787	0.8847
EURJPY	127.72	129.60	135.30	140.00	140.80	127.72	127.72	127.72
EURCHF	1.1519	1.1760	1.2054	1.2250	1.2544	1.1508	1.1496	1.1473

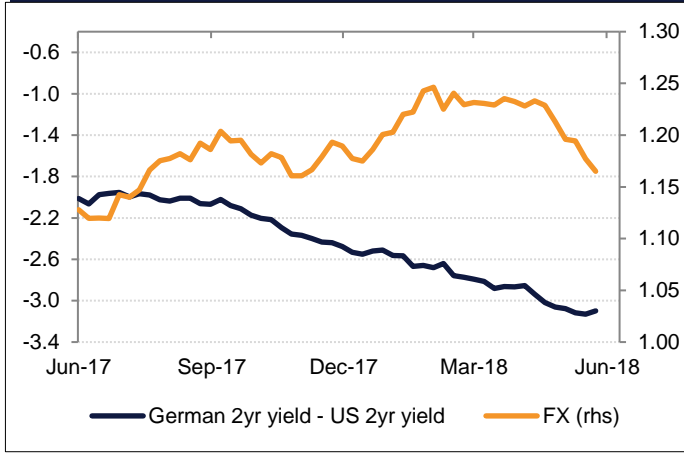
  

FX Forecasts - Emerging						Forwards		
	1-Jun	Q2 2018	Q3 2018	Q4 2018	Q1 2019	3m	6m	12m
SAR	3.7502	3.7500	3.7500	3.7500	3.7500	3.7501	3.7512	3.7559
AED	3.6730	3.6730	3.6730	3.6730	3.6730	3.6732	3.6737	3.6757
KWD	0.3022	0.3020	0.3020	0.3020	0.3020	0.2960	0.2915	0.2960
OMR	0.3850	0.3850	0.3850	0.3850	0.3850	0.3853	0.3860	0.3884
BHD	0.3778	0.3770	0.3770	0.3770	0.3770	0.3762	0.3762	0.3805
QAR	3.6455	3.6400	3.6400	3.6400	3.6400	3.6519	3.6528	3.6583
EGP	17.8984	17.2500	17.2500	17.0000	17.0000	18.3700	18.8500	19.8700
INR	67.063	66.500	67.000	67.000	67.000	67.7100	68.4500	69.8300
CNY	6.4204	6.5000	6.7000	6.9000	7.1000	6.4540	6.4795	6.5260
SGD	1.3396	1.3000	1.2900	1.2900	1.2900	1.3362	1.3333	1.3276

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

## Major FX and Nominal Interest Rates

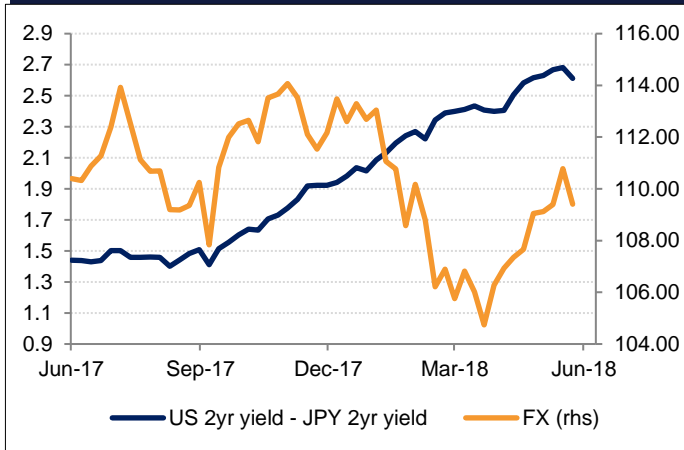
### Interest Rate Differentials - EUR



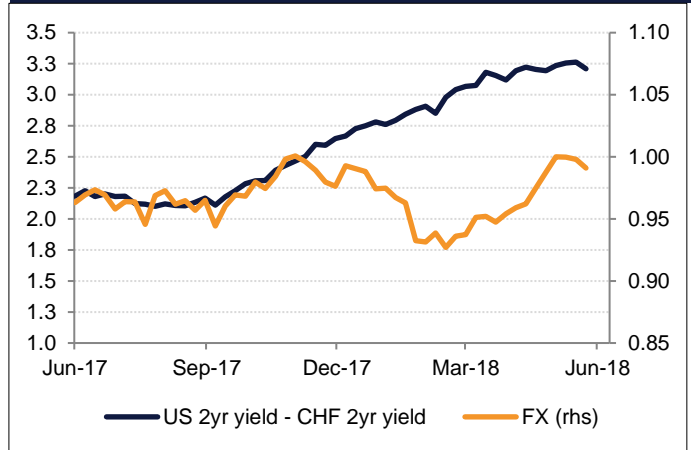
### Interest Rate Differentials - GBP



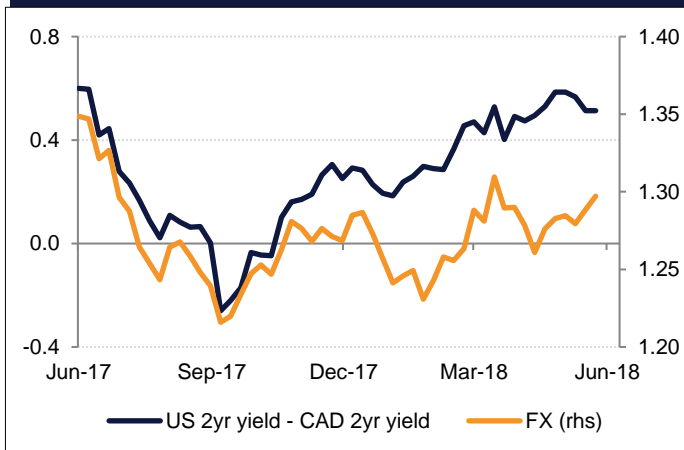
### Interest Rate Differentials - JPY



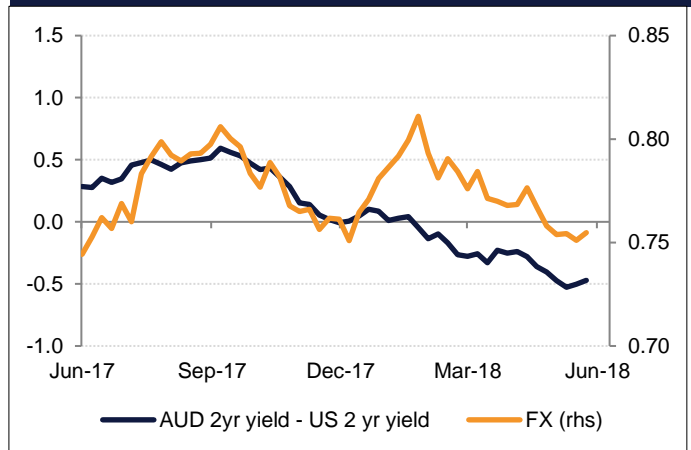
### Interest Rate Differentials - CHF



### Interest Rate Differentials - CAD

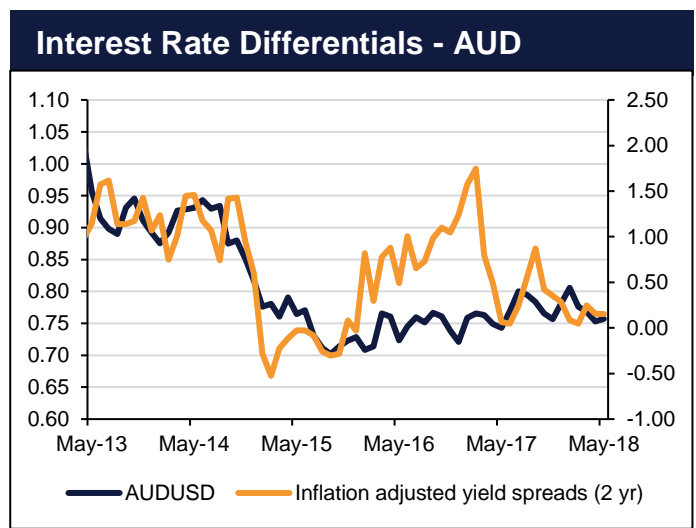
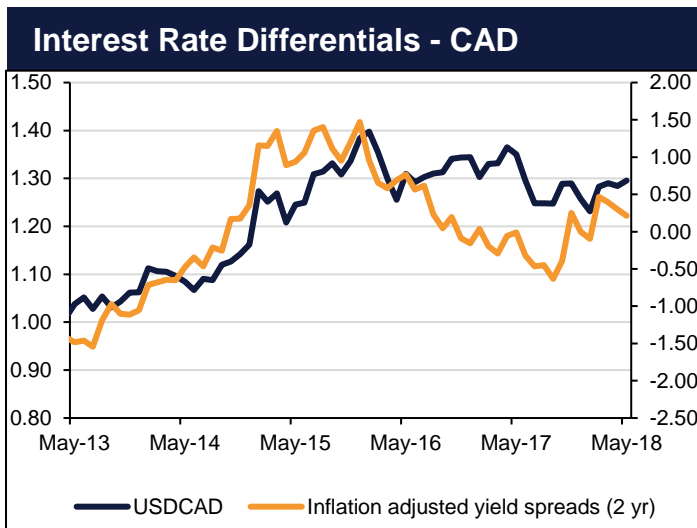
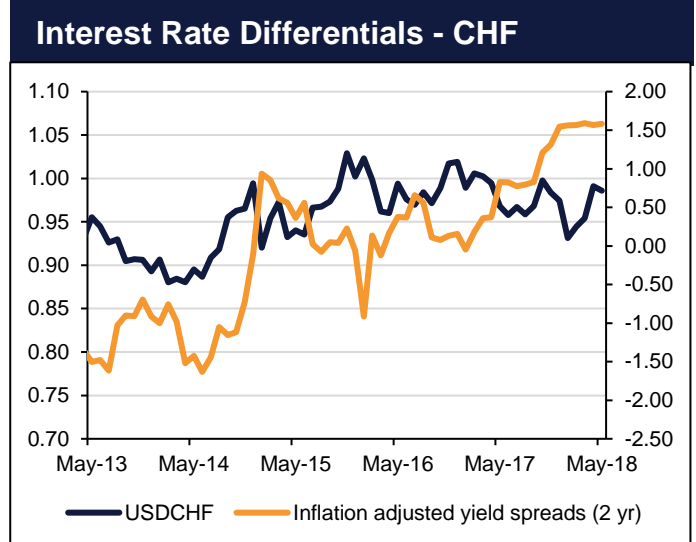
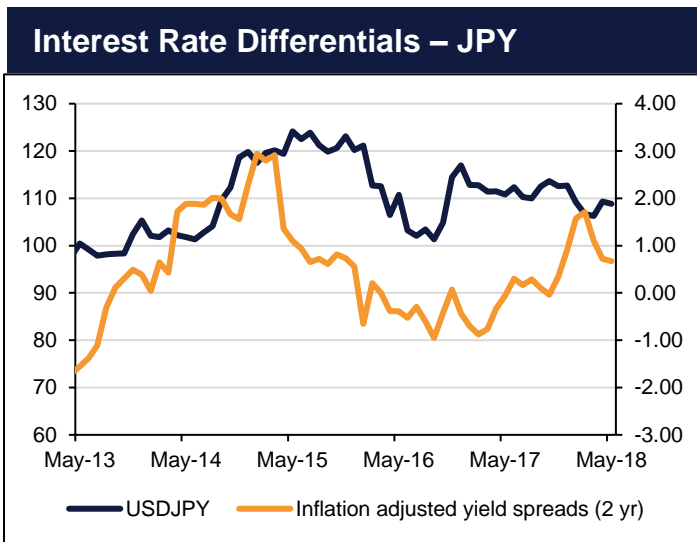
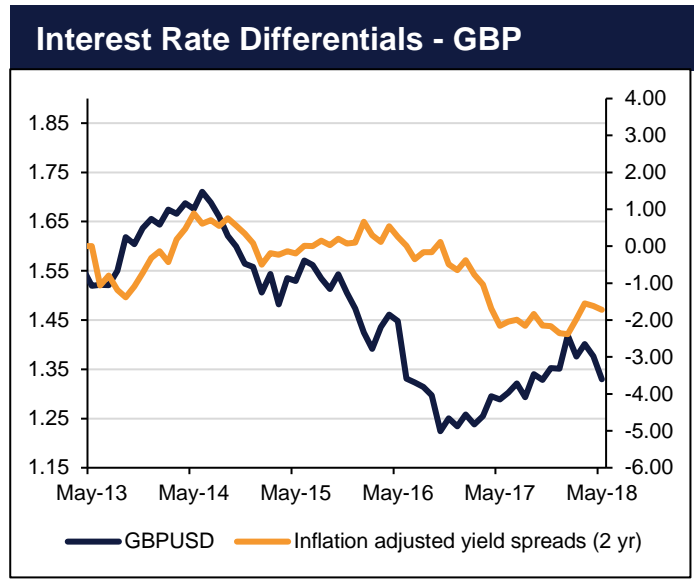
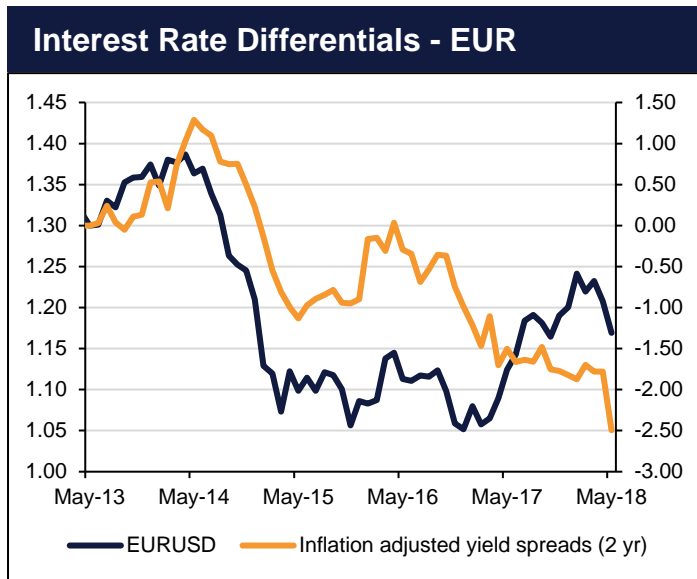


### Interest Rate Differentials - AUD



Source: Bloomberg, Emirates NBD Research

## Major FX and Real Interest Rates

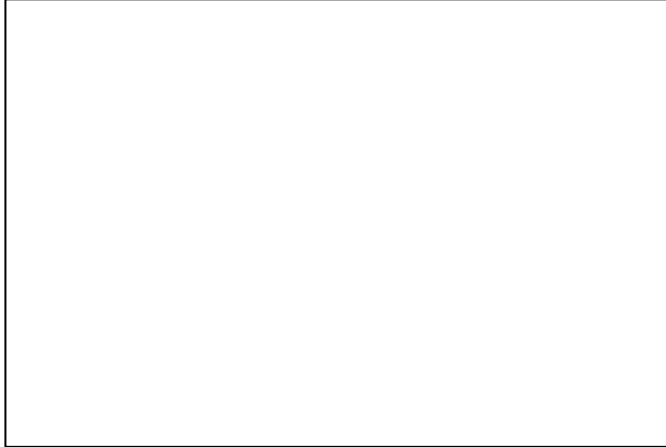


Source: Bloomberg, Emirates NBD Research

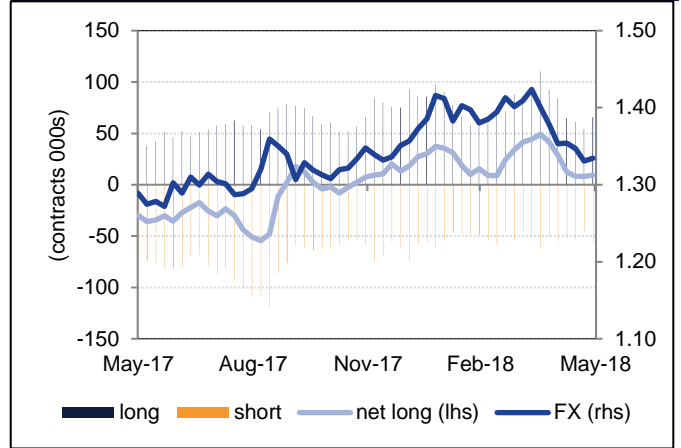


## Major Currency Positions

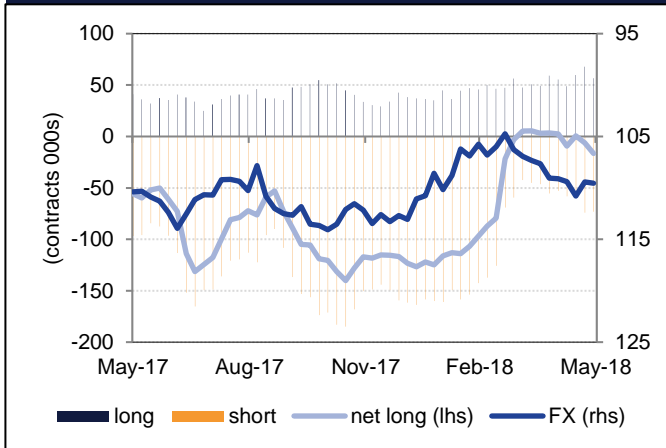
### CFTC – Speculative Positions - EUR



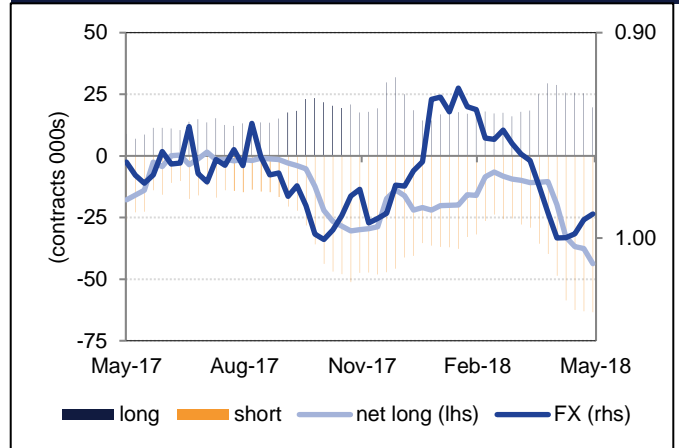
### CFTC – Speculative Positions - GBP



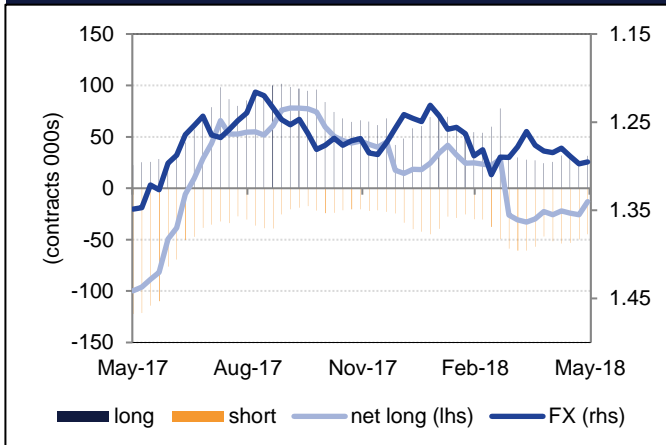
### CFTC – Speculative Positions - JPY



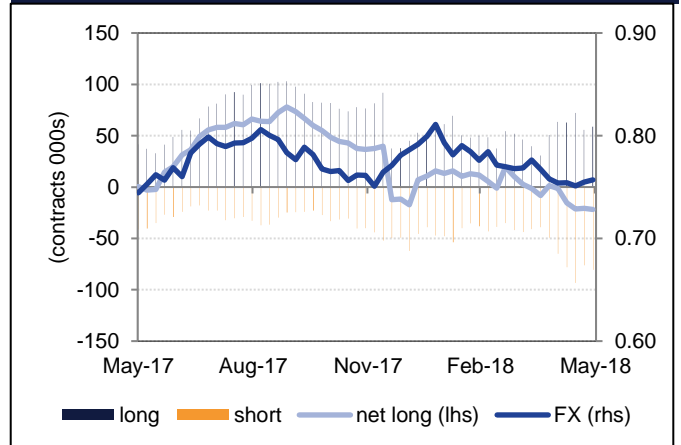
### CFTC – Speculative Positions - CHF



### CFTC – Speculative Positions - CAD



### CFTC – Speculative Positions - AUD



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