



بنك الإمارات دبي الوطني
Emirates NBD

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FX Week

Much to consider after the break

Markets will return from holidays this week with a lot to digest from last week as well as with a much to consider about the run into the end of the year. That said US markets are closed tomorrow for Labor Day, so liquidity is still likely to be thin, a situation that may not change much until the middle of September.

Geopolitics is likely to overshadow economics and data at the start of the week. Tension on the Korean peninsula ratcheted up over the weekend with North Korean announcing it had conducted a sixth nuclear test on Sunday. This will favour safe haven trades such as the JPY and the CHF in the first instance, but it may also help the USD against other major currencies although much will also depend on President Trump's response.

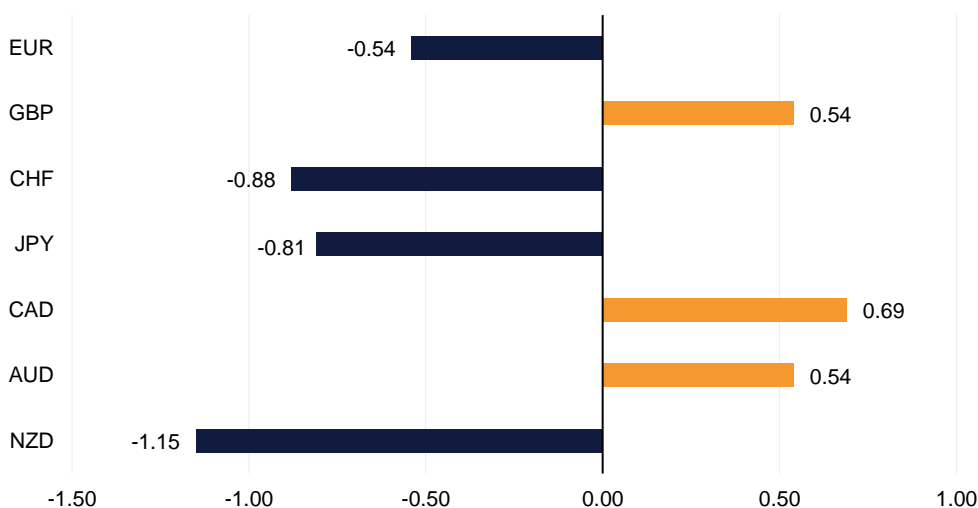
Congress will return from the summer break on Tuesday and will have to tackle the fallout from Hurricane Harvey as well as increasing the debt ceiling to avoid a government shut-down at the end of this month. The devastation from Hurricane Harvey may actually serve to increase pressure on Capitol Hill and the White House to reach an agreement on the budget and debt issues, or otherwise they will appear aloof from the from the day to day issues affecting millions of Americans.

Non-farm payrolls softer than expected in August

Friday's US payrolls data was weaker than expected, with 156,000 new jobs added against a forecast for 180,000. The unemployment rate increased marginally to 4.4% from 4.3% and average hourly earnings increased just 0.1% m/m (2.5% y/y). July's payrolls data was also revised down by 20k. Both construction and manufacturing saw strong increases in jobs in August, but this was offset by weaker than expected growth in some services sectors (including leisure & hospitality and education & health).

Although the August jobs data is a little disappointing, it's not bad enough to dissuade the Fed from proceeding with further monetary policy tightening this year, in our view, as other economic data remains solid. The August ISM manufacturing index and flash manufacturing PMI (also released Friday) were both higher than forecast, with the ISM index rising to a six year high. Last week, the second estimate of Q2 GDP showed the US economy grew 3% y/y, up from the initial estimate of 2.7%. At this stage we retain our view that the Fed will hike by another 25bp in December, although we recognise there are a number of risks, including geopolitical, to this view. With this in mind comments from Fed officials this week will also be important to watch.

Weekly currency movement vs USD (%)



Source: Bloomberg, Emirates NBD Research

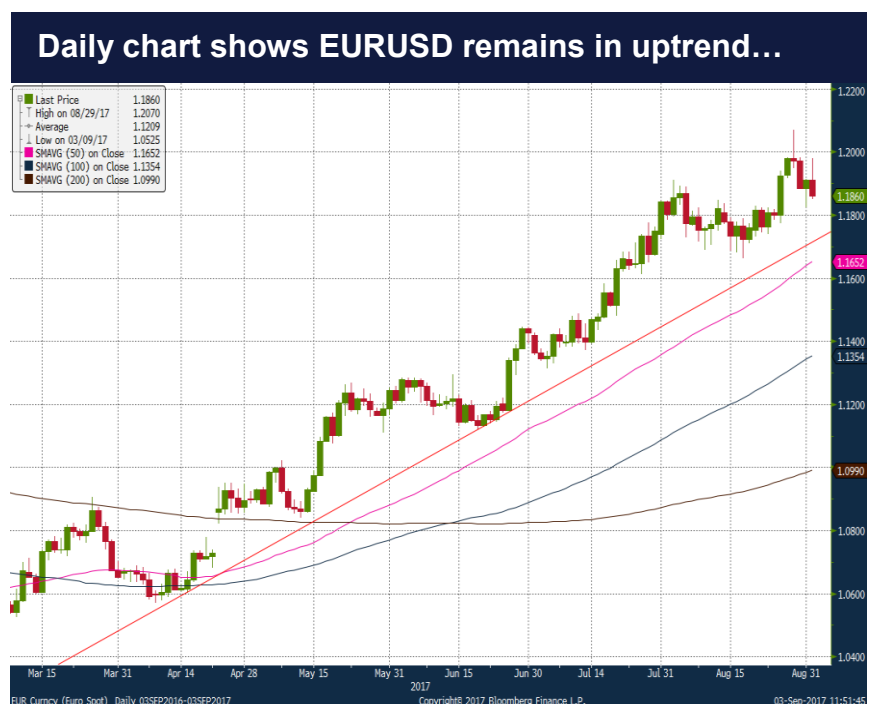
Considering that the market is still not expecting a U.S. rate hike this year (with only a 34% likelihood priced by futures markets), such an outcome would clearly give the dollar a boost although the extent to which this will happen will also depend on events elsewhere. Hence our bullishness about the dollar is tempered by caution about other risks, especially in relation to the ECB and also geopolitical events. A Reuters report last week cited ECB sources saying that policymakers have been becoming increasingly worried about the pace of euro gains. This caused the EURUSD to fall back from 32-month highs of 1.2070. Although subsequent comments from named ECB officials attempted to downplay currency concerns, it appears that 1.20 is a barrier that the ECB would be uncomfortable with the EURUSD crossing too quickly.

Consequently the ECB meeting will be the main event risk this week, as the markets look for clarity on QE tapering, such as confirmation that the Bank is preparing to reduce its pace of bond purchases next year. An updated set of staff projections will also be unveiled, which after strong survey data through the summer could see short term growth forecasts revised up. However, with EURUSD also turning out to be much stronger than assumed in the June projections, the firmer currency may be a drag on its inflation forecast.

Although inflation firmed in August to 1.5%, our feeling is that it is unlikely that the ECB will outline a full schedule for the phasing out of asset purchases this year. And while officials will start to debate changes to policy parameters at the upcoming meeting, a real decision is unlikely to come before October.

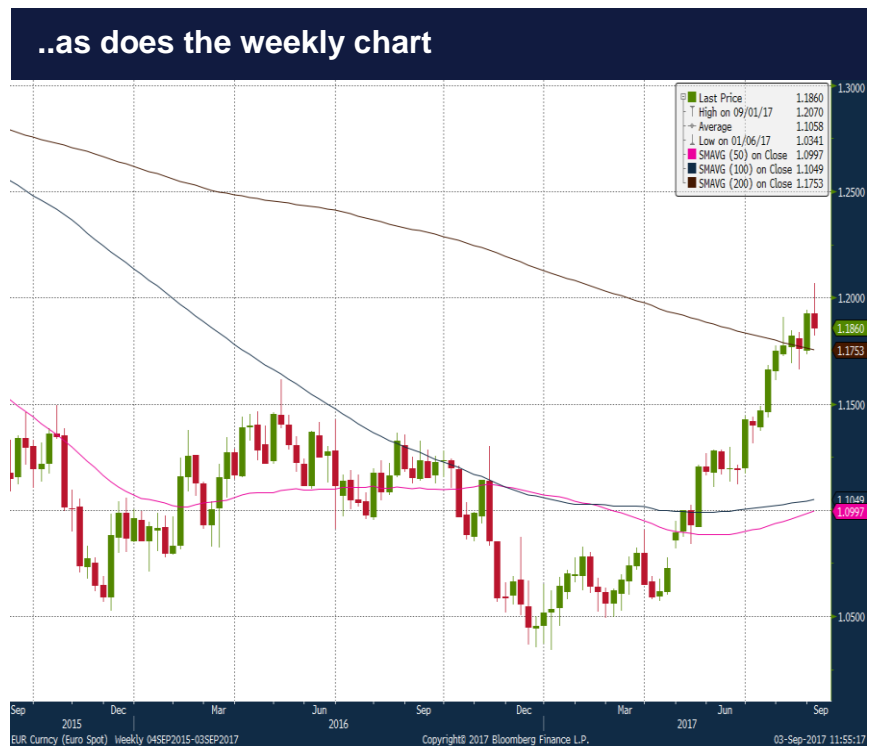
Calling a EURUSD reversal is premature

Despite reaching highs of 1.2070, levels not seen since January 2015, the EURUSD actually declined 0.54% last week, falling from 1.1924 to 1.1860. From a technical perspective, it is too early to cite a clear reversal at these levels. The cross remains in the daily uptrend initiated on 18 April 2017, when there was a break and close above the 100 day moving average. This uptrend will remain intact and only be called into question when there is a close below the supporting baseline of this trend (currently 1.1740).



Source: Bloomberg

Analysis of the longer weekly candle charts also suggests that it is too early to declare a reversal for EURUSD. Despite the weekly loss, price action remains well above the 200 weekly moving average (1.1753), a level which has acted as a support for the previous three consecutive weeks. We would look for a close below this level as stronger evidence of a reversal.



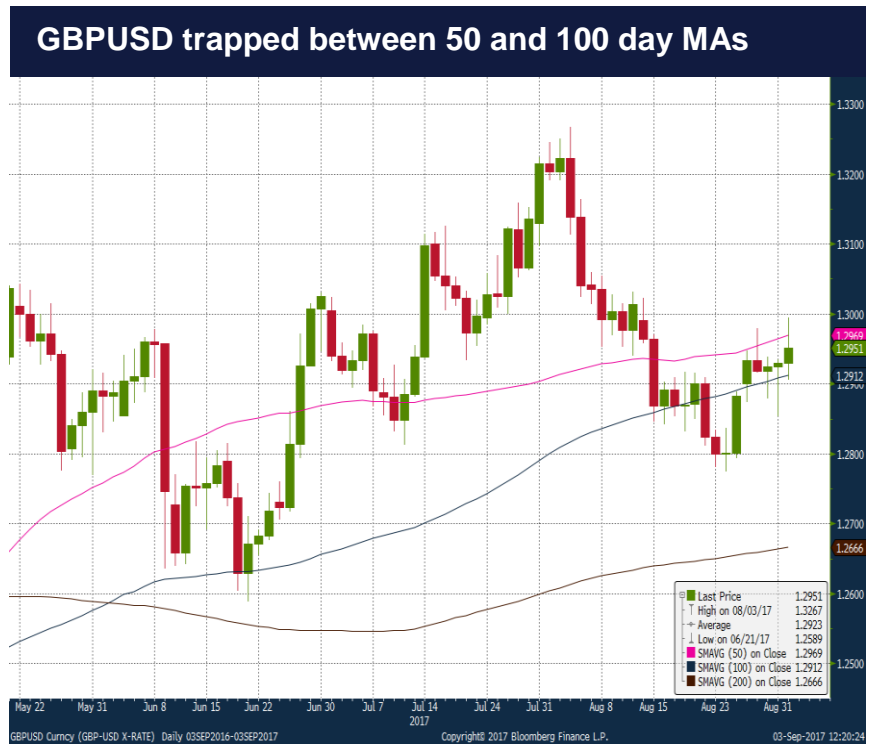
Source: Bloomberg

No progress with 'Brexit'

In the UK Brexit negotiations have apparently made 'no decisive progress' according to the EU's chief negotiator Michel Barnier, and the exchange of rhetoric between the two sides is becoming increasingly strained. Disagreement is still evident over the financial payment the UK will have to make to leave the EU, while there has also not been progress on whether to start talks on the future trading relationship while the terms of the Article 50 divorce remain outstanding. In other events last week BoE MPC member Michael Saunders argued for a 'modest' rate hike to reverse the 'emergency' cut of August 2016, remarks that were a repeat of his dissenting view for voting for a 25bp repo rate hike at the June and August policy meetings. The next BoE MPC meeting is September 13th-14th, but it is doubtful if a rate hike will be seen then even as the manufacturing PMI in the UK surged last month to 56.9 up from 55.3 in July.

Sterling treads water between moving averages

While gaining 0.55% to rise to 1.2951, GBPUSD spent last week firmly hemmed in between the 50 and 100 moving day averages, finding resistance and support at these respective key levels. A break below the 100 day moving average (1.2912) is likely to lead to further declines to the next support level of 1.2832 the 61.8% one year Fibonacci retracement. On the other hand, a break above the 50 day moving average (1.2969) may give rise to further gains towards 1.3066, the 76.4% one year Fibonacci retracement, a level last seen 4 August 2017.

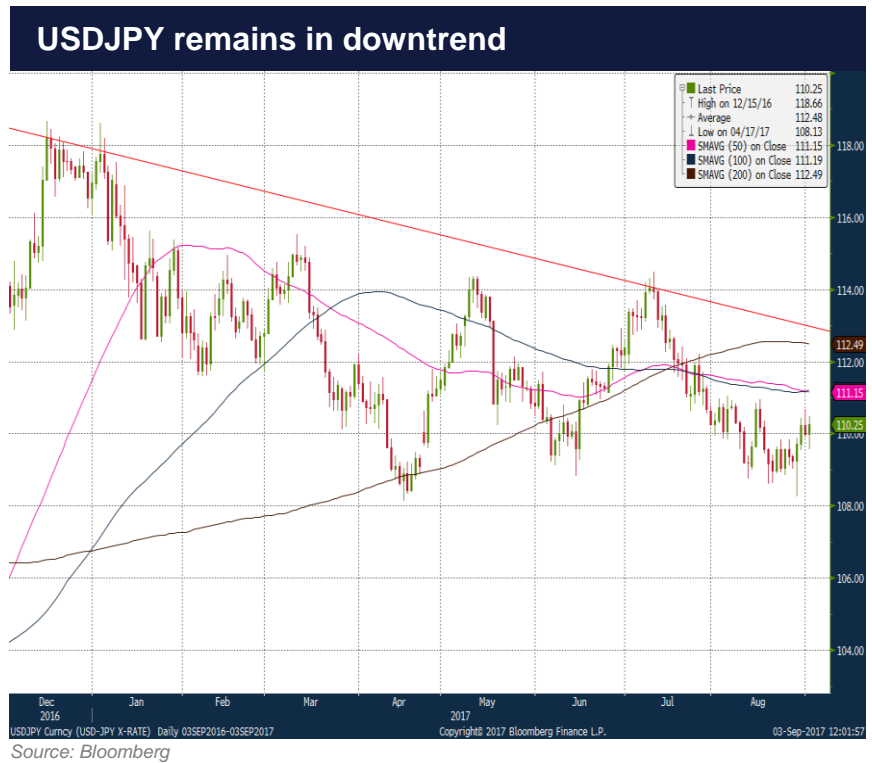


Source: Bloomberg

Geopolitical developments may hinder USDJPY gains

As mentioned at the start the JPY should begin the week positively, boosted by safe-haven flows in the wake of the latest North Korean nuclear test. Except for this the Asian economic calendar this week is thin, featuring just revised Q2 GDP (expected to be revised down to 3.0% from 4.0%), and services PMI in Japan. China reports on services PMI and trade figures, while elsewhere, price, trade and growth data feature in Asian calendars. Two central bank meetings are also worth mentioning, with the RBA expected to hold its rate steady at 1.50%, while Malaysia's Bank Negara is also seen on hold as well, with rates at 3.00%.

USDJPY appreciated 0.82% last week, rising from 109.36 to 110.26. Despite the gains, this G-10 cross still remains in the daily downtrend commenced on 16 December 2016. The case for a rebound would be stronger if we witness a daily close above the 111.15-111.19 range, the 50 day and 100 day moving averages. Beyond this for the daily downtrend to break, the markets would have to see a sustained break of the 200 day MA of 112.49 followed by a break of 113, the restrictive trend line of the daily downtrend.



FX Forecasts

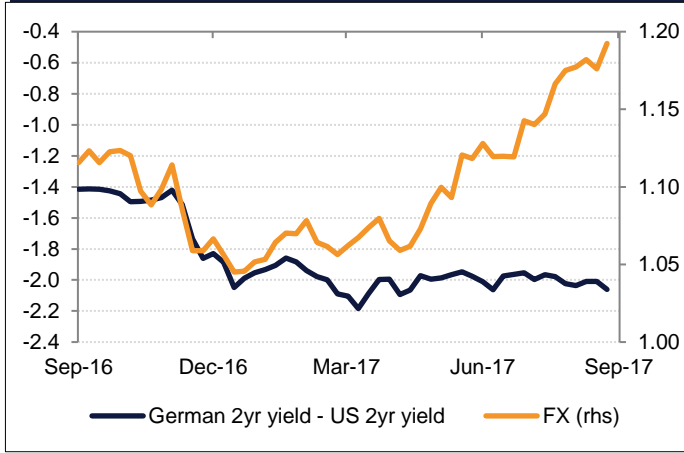
FX Forecasts - Major						Forwards		
	1-Sep	Q3 2017	Q4 2017	Q1 2018	Q2 2018	3m	6m	12m
EUR	1.1860	1.1500	1.1200	1.1000	1.1200	1.1917	1.1980	1.2110
JPY	110.25	114.00	116.00	118.00	120.00	109.79	109.21	108.09
CHF	0.9648	0.9800	1.0100	1.0400	1.0400	0.9592	0.9530	0.9410
GBP	1.2951	1.3200	1.3500	1.3800	1.4000	1.2989	1.3030	1.3110
AUD	0.7975	0.7500	0.7200	0.7000	0.7000	0.7966	0.7957	0.7936
NZD	0.7158	0.7100	0.6900	0.7000	0.7100	0.7146	0.7135	0.7111
CAD	1.2394	1.2700	1.3000	1.3000	1.3000	1.2386	1.2381	1.2377
EURGBP	0.9159	0.8712	0.8296	0.7971	0.8000	0.9176	0.9195	0.9238
EURJPY	130.75	131.10	129.92	129.80	134.40	130.75	130.75	130.75
EURCHF	1.1441	1.1270	1.1312	1.1440	1.1648	1.1429	1.1416	1.1393

FX Forecasts - Emerging						Forwards		
	1-Sep	Q3 2017	Q4 2017	Q1 2018	Q2 2018	3m	6m	12m
SAR	3.7503	3.7500	3.7500	3.7500	3.7500	3.7532	3.7568	3.7692
AED	3.6730	3.6730	3.6730	3.6730	3.6730	3.6745	--	--
KWD	0.3016	0.3050	0.3050	0.3050	0.3050	0.3041	0.3065	--
OMR	0.3850	0.3850	0.3850	0.3850	0.3850	0.3861	0.3875	0.3915
BHD	0.3771	0.3770	0.3770	0.3770	0.3770	0.3776	0.3782	0.3795
QAR	3.6800	3.6400	3.6400	3.6400	3.6400	3.6925	3.7005	3.7240
EGP	17.6382	17.7500	17.5000	17.2500	17.0000	--	--	--
INR	64.029	65.000	65.000	66.000	66.000	64.3500	64.9500	66.2100
CNY	6.5584	7.0000	7.1000	7.2000	7.4000	6.5930	6.6300	6.7111

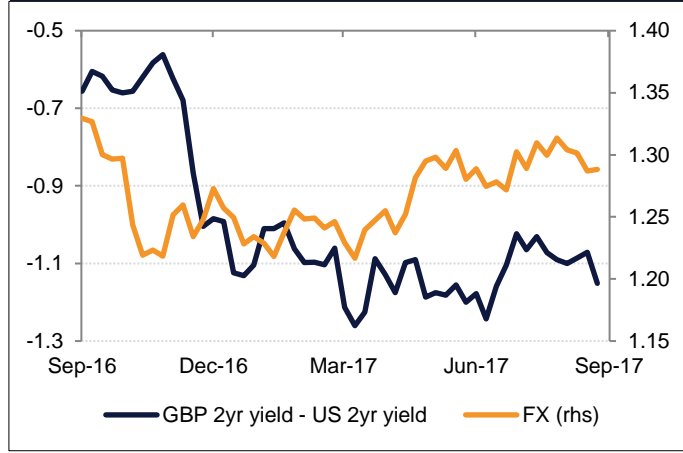
Source: Bloomberg, Emirates NBD Research
 *Denotes USD peg

Major FX and Nominal Interest Rates

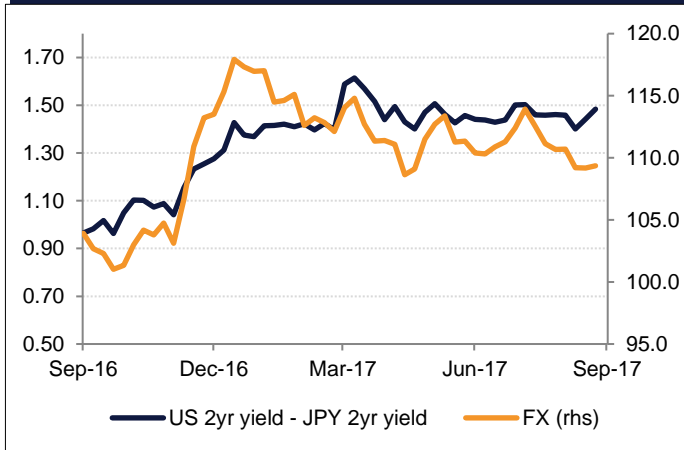
Interest Rate Differentials - EUR



Interest Rate Differentials - GBP



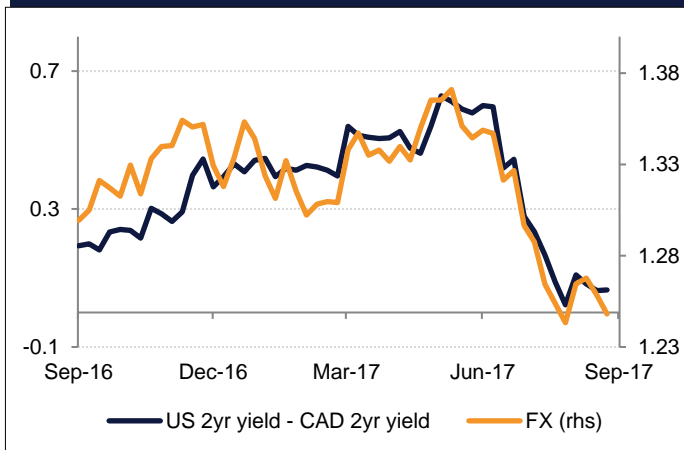
Interest Rate Differentials - JPY



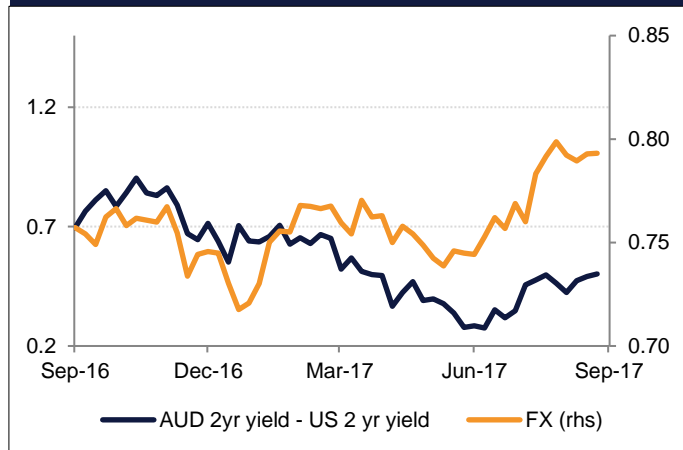
Interest Rate Differentials - CHF



Interest Rate Differentials - CAD

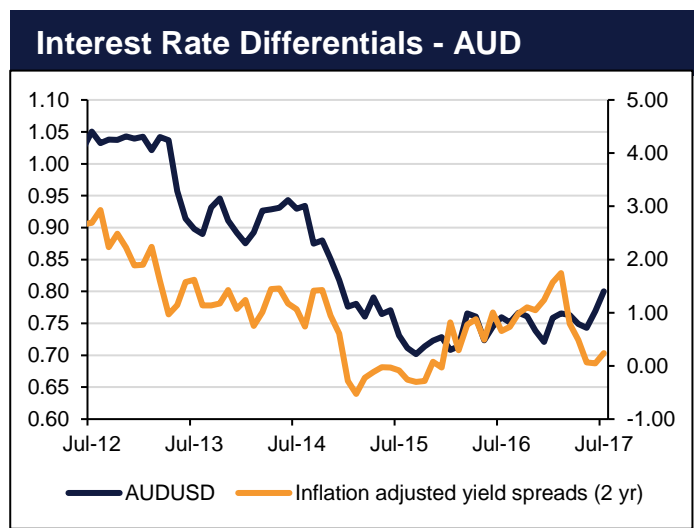
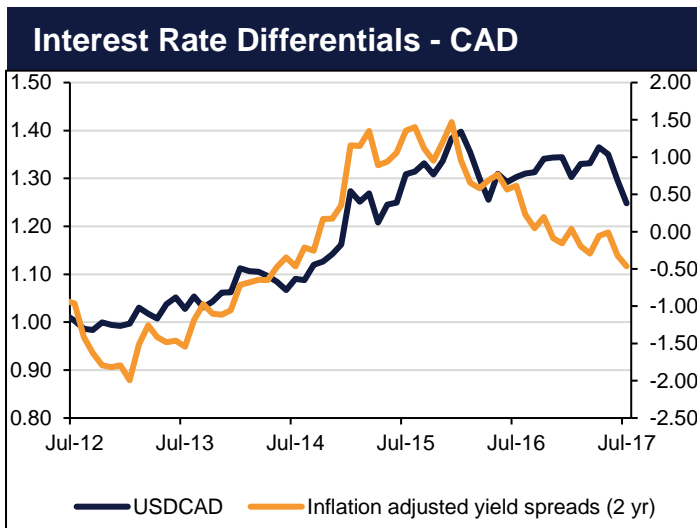
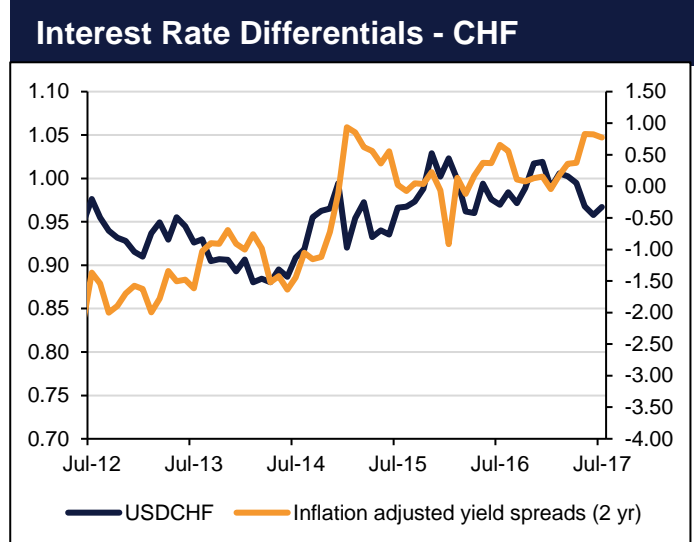
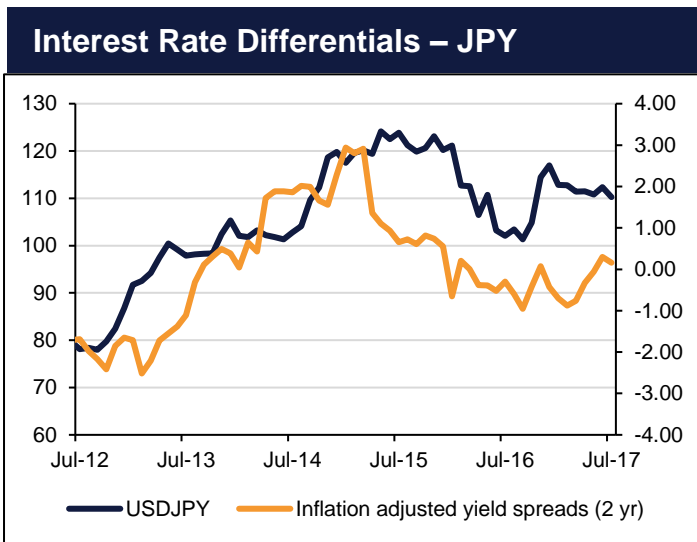
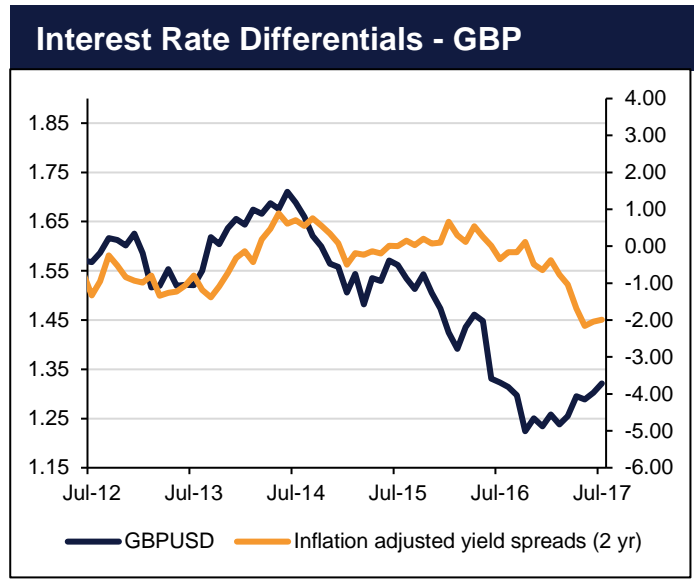
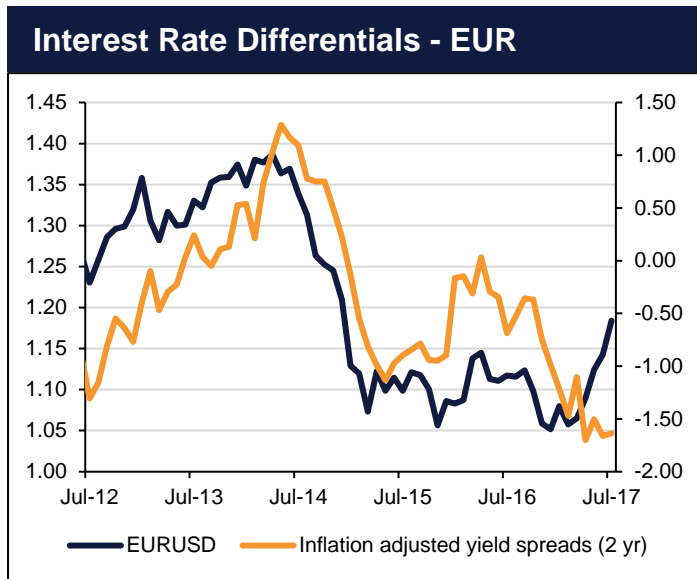


Interest Rate Differentials - AUD



Source: Bloomberg, Emirates NBD Research

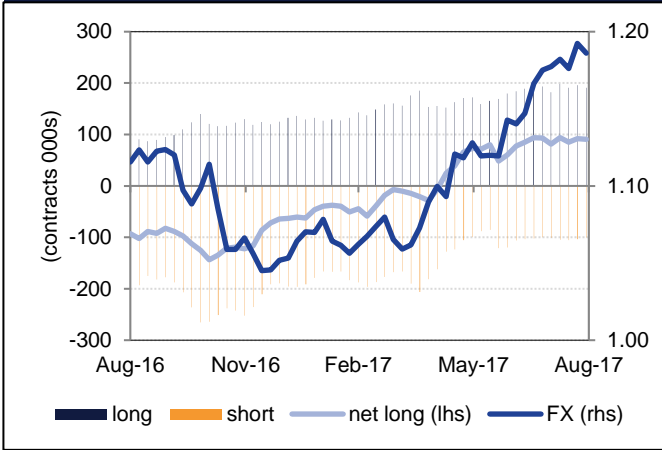
Major FX and Real Interest Rates



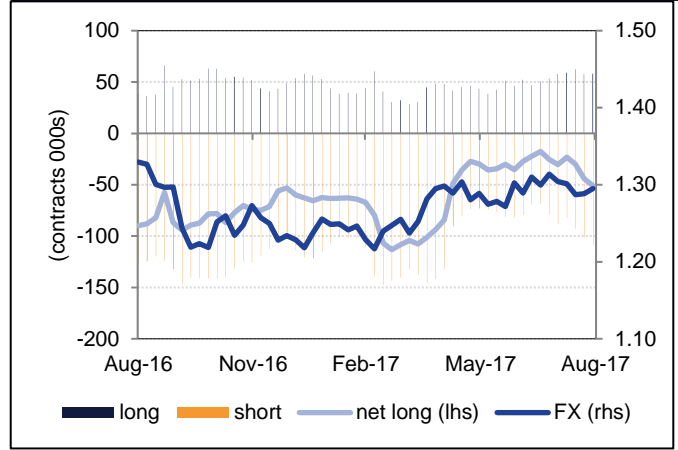
Source: Bloomberg, Emirates NBD Research

Major Currency Positions

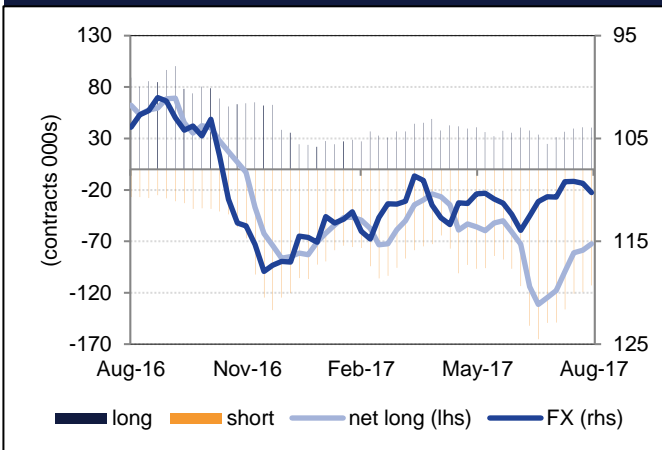
CFTC – Speculative Positions - EUR



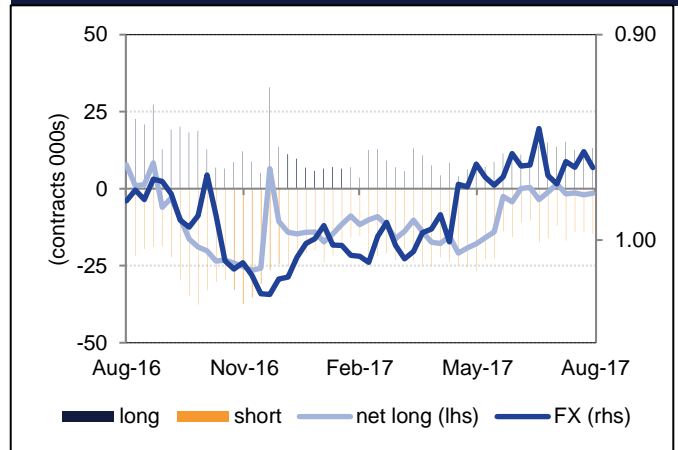
CFTC – Speculative Positions - GBP



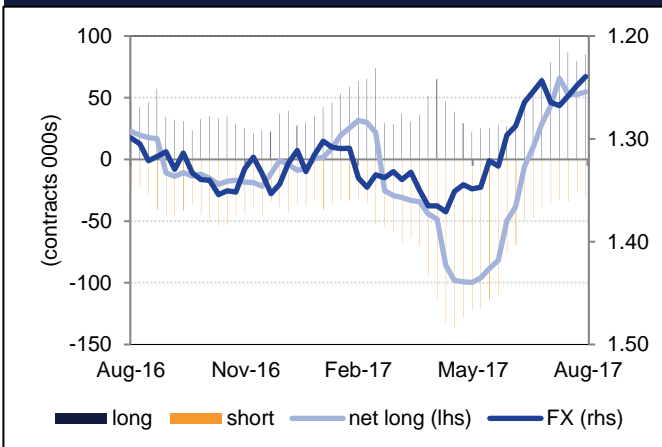
CFTC – Speculative Positions - JPY



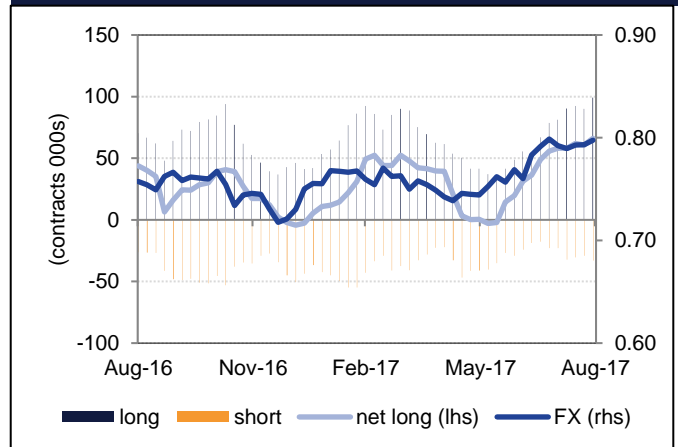
CFTC – Speculative Positions - CHF



CFTC – Speculative Positions - CAD



CFTC – Speculative Positions - AUD



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