



بنك الإمارات دبي الوطني
Emirates NBD

Weekly
4 June 2017

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FX Week

Risk events to converge on Thursday

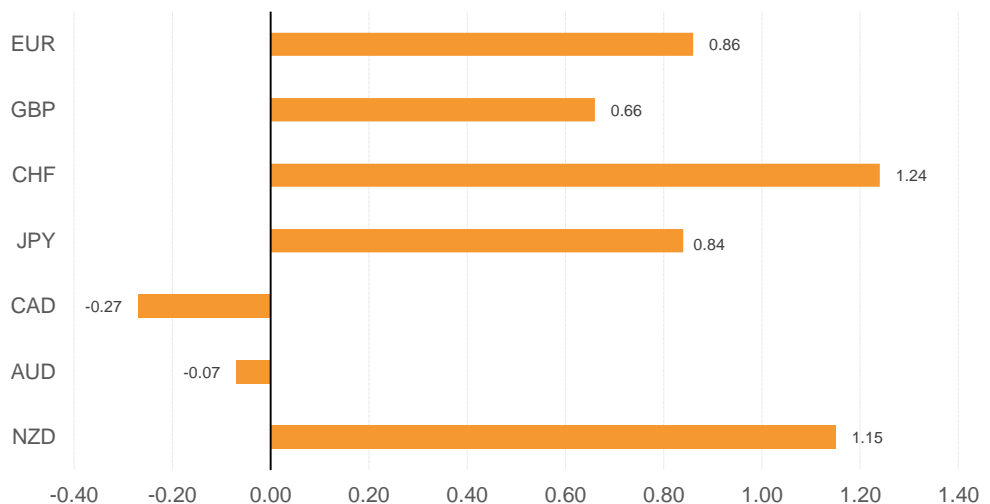
Markets will start the week nervously against the background of heightened risk aversion in the aftermath of another terrorist event in London over the weekend. Markets have to some extent come to terms with the frequency and geographic dispersion of such atrocities, but in this instance it comes just a few days before a landmark general election in the UK. As such the FX markets will view GBP cautiously to begin with, especially as opinion polls are projecting now only a narrow margin of victory for Theresa May's Conservative Party, and it is unclear how public opinion will respond to the latest attack. Furthermore, risk aversion approaching Thursday will also build in relation to two other key events taking place on that day, the ECB interest rate decision, and the testimony in the US by former FBI chief James Comey to the Senate Intelligence Committee over allegations that President Trump tried to obstruct the investigation into his campaign team's collusion with Russia. Both of these events could have a significant impact on the EUR and on the USD, and when combined with the British election could cause risk aversion across G7 markets to take hold through the middle of the week.

US data dampens September FOMC tightening hopes

US employment data released at the end of last week left the USD ending the week weaker, as headline payrolls growth was softer than expected at 138k and cast doubt on the likelihood of a third rate hike this year taking place in September. The probability of a June Fed hike remains unchanged, however, but looking beyond June, the markets will need to see evidence that US economic growth is continuing from Q2 into Q3. To some extent the market reaction on Friday looks a little exaggerated to us as the US economy is close to full employment and cannot be assumed to generate strong payroll rises every month. Also the unemployment rate still fell to 4.3% and other measures of the labour market have also held up relatively well of late, including a 253k surge in the ADP survey. Should these trends continue, it seems likely that wage growth will eventually catch-up, giving the Fed enough grounds to maintain their policy of steady normalization. While the market may have moved to expect a December rate move over a September one, we would still not rule out that a September hike could still happen.

Nevertheless, the S&P rallied 0.4%, while Treasury yields declined, led by the long end with the 10-year rate falling over 5 bps to 2.16%, on a slowing in inflation pressures. This was further aggravated by weaker oil prices following President Trump's announcement that the US would withdraw from the Paris climate accord.

Weekly currency movement vs USD (%)



Source: Bloomberg, Emirates NBD Research

Comey testimony will be the highlight of the week

The US calendar is a relatively thin one this week, with little significant economic data out (with only the US non-manufacturing ISM index of note) and with Fed officials likely to restrict their comments about policy ahead of the 13-14th FOMC meeting. The main focus of the week will be on the former FBI chief James Comey's testimony to Congress on Thursday. This has the potential to contain some startling revelations about the Trump White House, having implications for its ability to initiate and pass legislation, and maybe even casting doubt on Trump's long term grip on power. Ahead of this event USD softness is likely to remain the main theme, but all this could change depending on what Comey actually says. This should also mean that other currency pairs may be the more significant drivers of FX sentiment, chiefly GBP and the EUR.

Election risks for GBP

For the pound the week is all about the election, with the UK heading to the polls on Thursday. The governing Conservative Party looks likely to win, though by a much smaller majority that was looking to be the case just a few weeks ago, which will potentially harm its ability to negotiate confidently over Brexit. Although the weekend terror attacks could encourage the electorate to vote conservatively, it may not be enough to give PM Theresa May a substantial boost. The narrowing of the Conservative Party's lead over the last couple of weeks has been dramatic, with a poor campaign performance by PM May in particular being seen as largely responsible. The Conservative Party's lead had been 20 points at the time that prime minister called the election in April, but this has subsequently dwindled to around 5-7%. GBP can be expected to struggle at least until Friday when the outcome will be known. Thereafter, the pound's movement will depend on what the result implies about Theresa May's mandate to take a tough negotiation stance with the EU over Brexit. After struggling over the last few weeks amidst drifting polls, a surprisingly strong result for Theresa May could see the pound bounce sharply, effectively catching up with currency gains made elsewhere.

Will ECB signal QE exit?

As far as the EUR is concerned the main event risk revolves around the ECB meeting also on Thursday. Although the ECB is expected to leave monetary policy unchanged, the focus will fall on the comments from President Mario Draghi, and also the updated staff projections. Comments from some officials over the past few weeks have raised expectations about an exit strategy from QE being announced. However, other prominent ECB members remain very wary about making any commitment and/or changes to the guidance that would pre-commit them to exiting QE. Inflation data released last week also indicated a less urgent need to make any changes, as it fell back sharply both at a headline rate (1.4% from 1.9%) and at the core rate (0.9% from 1.2%) in May. The growth assessment may well be improved, and the easing bias removed as an acknowledgement of reduced deflation risks, but the ECB is unlikely to move quickly to a tightening bias. A cautious approach may help under pressure peripheral markets, with Italy in particular underperforming amid talk of early elections, and Greece still awaiting a deal on debt relief.

As such the EUR may struggle to sustain recent gains and profit-taking may begin to kick-in. In fact with event risks from the US, Eurozone and the UK all converging on Thursday, the potential might be building for a clear-out of a number of long held positions. EUR/GBP in particular may be at risk of a reversal should the UK election be won comfortably by Theresa May and should the ECB be less hawkish than many expect it will be.

Policy meetings in Australia and India

Elsewhere, there will also be a focus on two interest rate decisions in the coming week, one in Australia and another in India. In the Australian RBA's case it seems

unlikely that there will be a change in interest rates announced on Tuesday, although an expected weak Q1 GDP outturn on Wednesday (0.2% q/q) may keep the risks tilted towards a rate cut rather than a hike. The markets may also see a loosening in RBI interest rates as a risk on Wednesday in view of recently soft Indian GDP data. However, having only recently moved to a neutral bias it would be a surprise if the RBI were to reverse course quite so quickly and the most that might be expected is some dovish language here too.

FX Forecasts

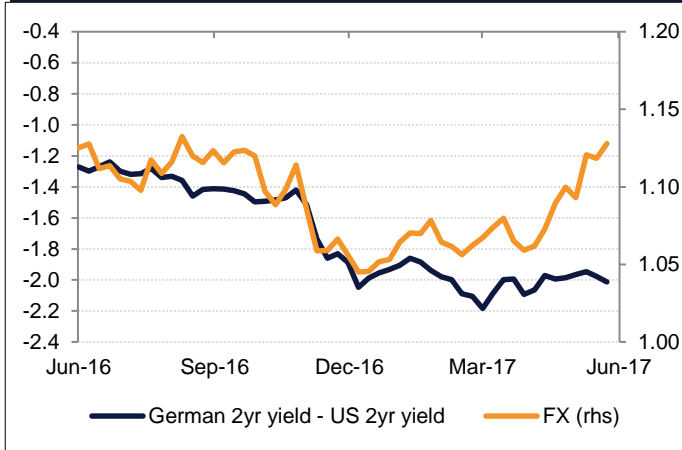
FX Forecasts - Major						Forwards		
	2-June	Q2 2017	Q3 2017	Q4 2017	Q1 2018	3m	6m	12m
EUR	1.1279	1.0800	1.0500	1.0300	1.0200	1.1333	1.1389	1.1508
JPY	110.40	116.00	120.00	122.00	124.00	109.96	109.48	108.40
CHF	0.9631	1.0300	1.0500	1.1000	1.1000	0.9575	0.9517	0.9395
GBP	1.2888	1.2500	1.3000	1.3500	1.4000	1.2924	1.2960	1.3039
AUD	0.7443	0.7300	0.7200	0.7000	0.7000	0.7433	0.7426	0.7412
NZD	0.7142	0.6900	0.6700	0.6500	0.6700	0.7129	0.7116	0.7089
CAD	1.3487	1.3500	1.3400	1.3200	1.3000	1.3464	1.3441	1.3395
EURGBP	0.8756	0.8640	0.8077	0.7630	0.7286	0.8773	0.8792	0.8830
EURJPY	124.58	125.28	126.00	125.66	126.48	124.58	124.58	124.58
EURCHF	1.0862	1.1124	1.1025	1.1330	1.1220	1.0850	1.0838	1.0811

FX Forecasts - Emerging						Forwards		
	2-June	Q2 2017	Q3 2017	Q4 2017	Q1 2018	3m	6m	12m
SAR	3.7501	3.7500	3.7500	3.7500	3.7500	3.7521	3.7551	3.7693
AED	3.6730	3.6720	3.6720	3.6720	3.6720	3.6742	3.6758	-
KWD	0.3036	0.3050	0.3050	0.3050	0.3050	0.3044	0.3063	-
OMR	0.3850	0.3850	0.3850	0.3850	0.3850	0.3857	0.3865	0.3917
BHD	0.3772	0.3770	0.3770	0.3770	0.3770	0.3777	0.3779	0.3791
QAR	3.6416	3.6400	3.6400	3.6400	3.6400	3.6463	3.6511	3.6620
EPN	18.0020	18.0000	18.5000	18.7500	19.0000	18.3850	18.7900	19.7200
INR	64.441	64.500	65.000	66.000	67.000	64.8600	65.5200	66.9300
CNY	6.8100	7.0000	7.1000	7.2000	7.4000	6.8415	6.8840	6.9705

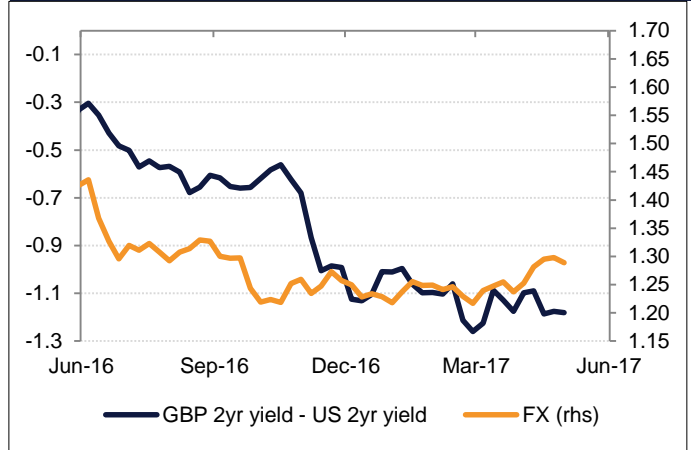
Source: Bloomberg, Emirates NBD Research
 *Denotes USD peg

Major FX and Nominal Interest Rates

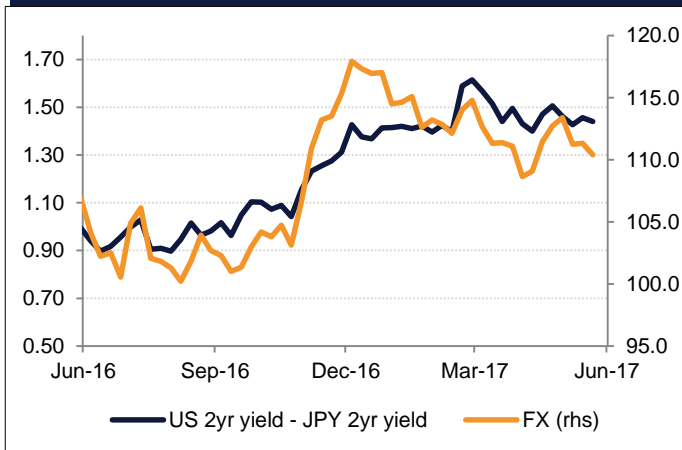
Interest Rate Differentials - EUR



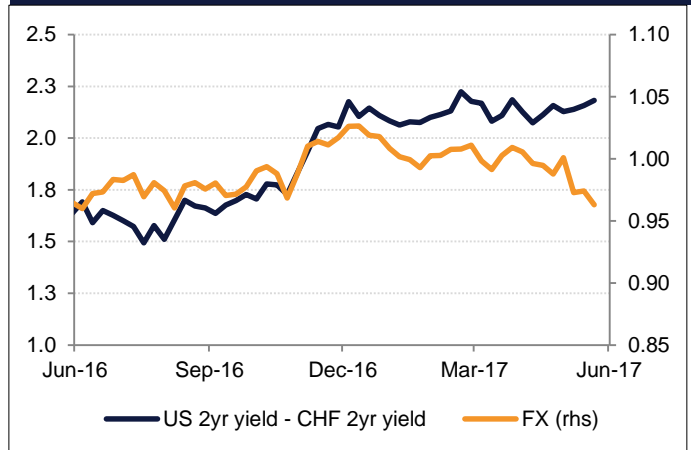
Interest Rate Differentials - GBP



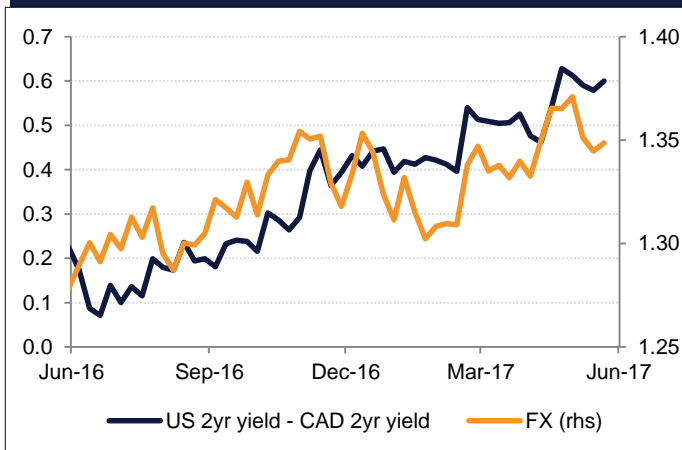
Interest Rate Differentials - JPY



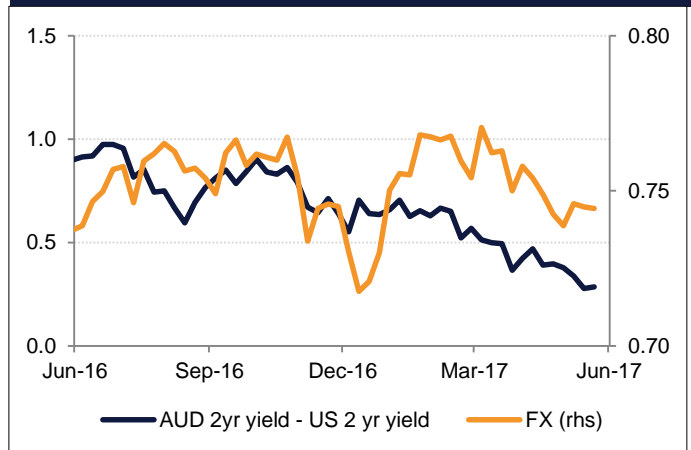
Interest Rate Differentials - CHF



Interest Rate Differentials - CAD

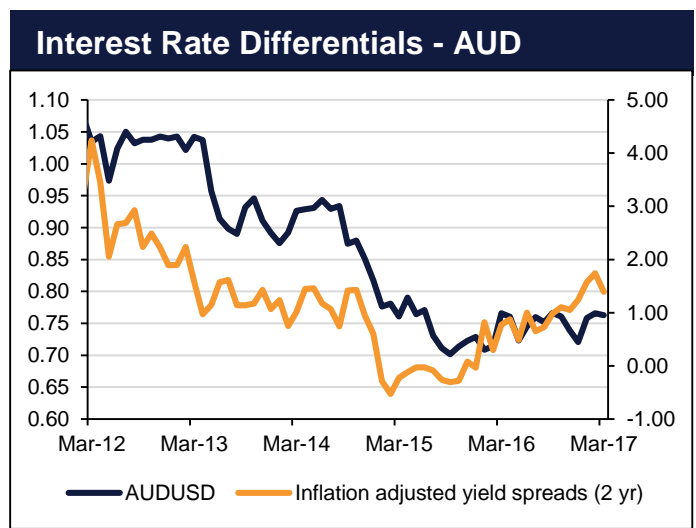
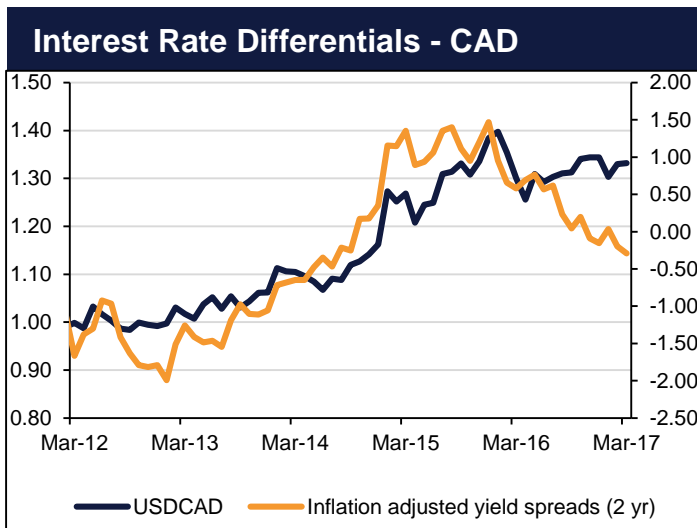
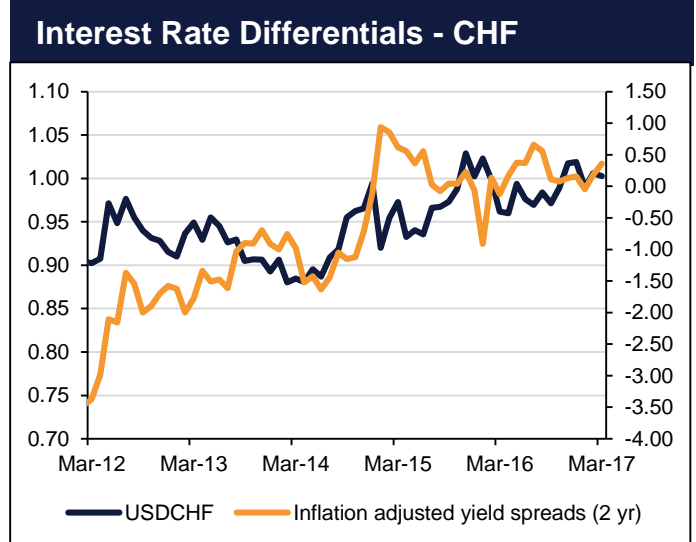
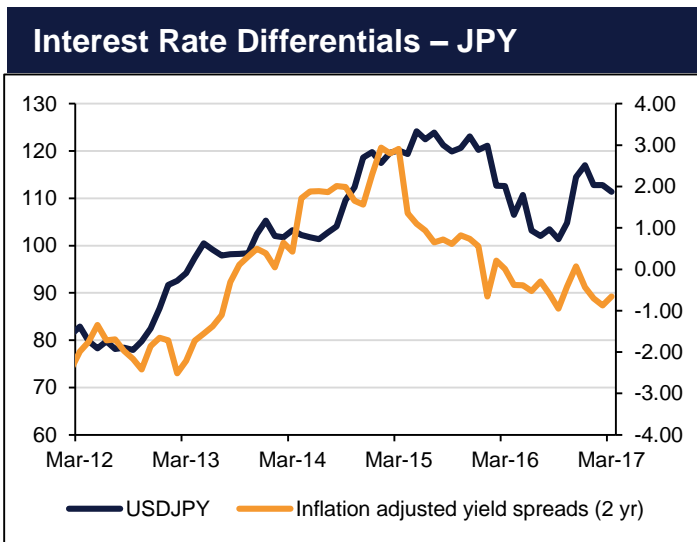
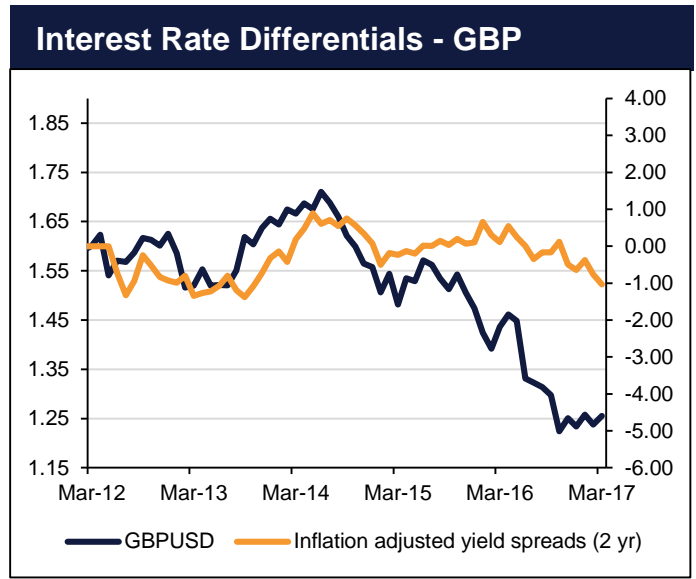
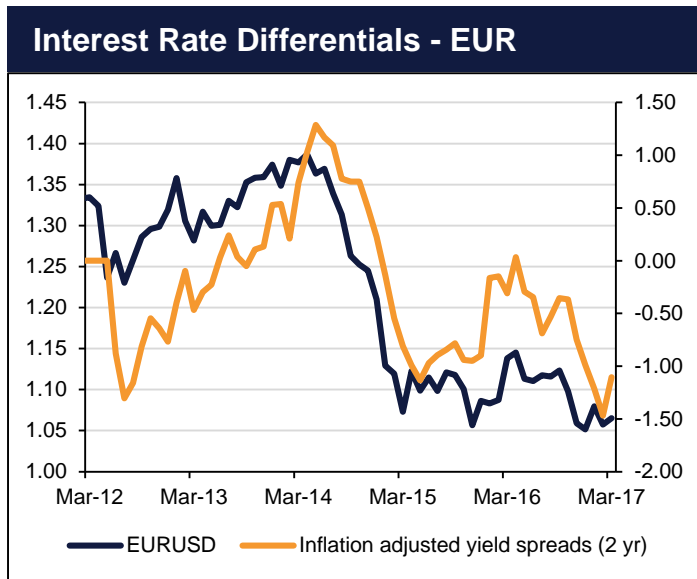


Interest Rate Differentials - AUD



Source: Bloomberg, Emirates NBD Research

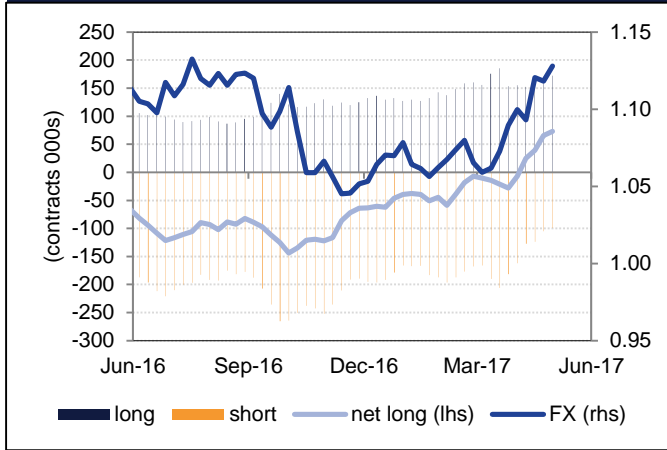
Major FX and Real Interest Rates



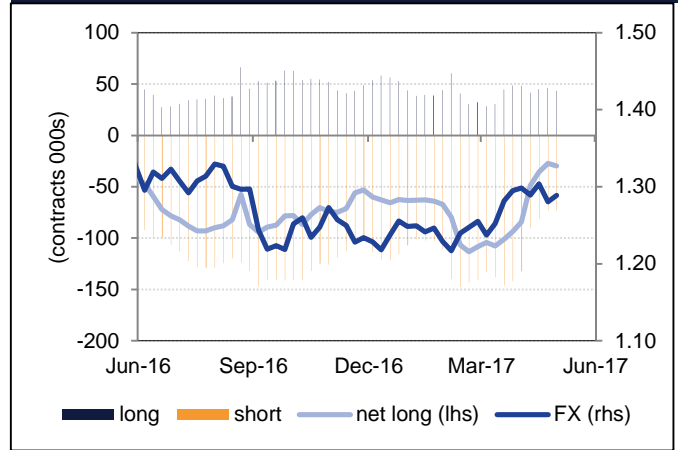
Source: Bloomberg, Emirates NBD Research

Major Currency Positions

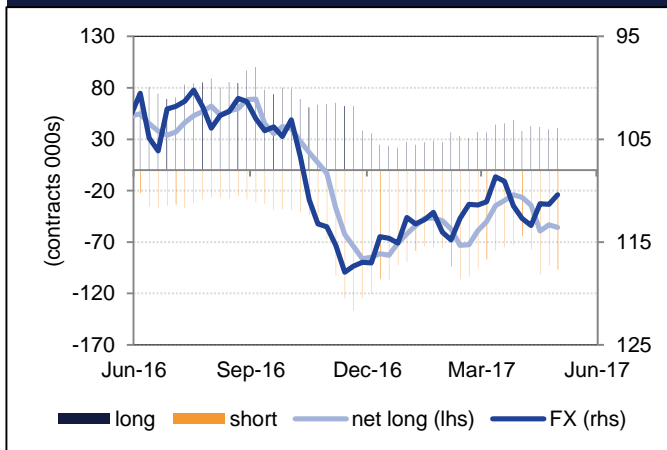
CFTC – Speculative Positions - EUR



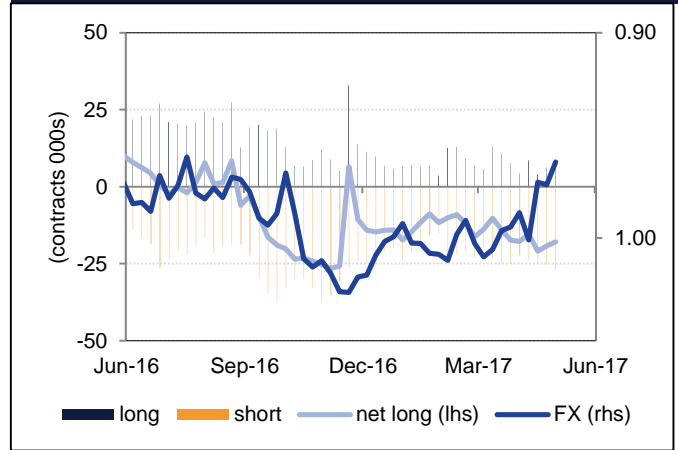
CFTC – Speculative Positions - GBP



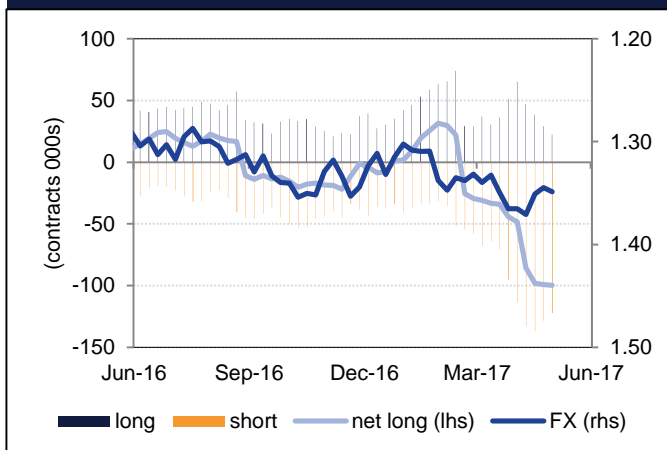
CFTC – Speculative Positions - JPY



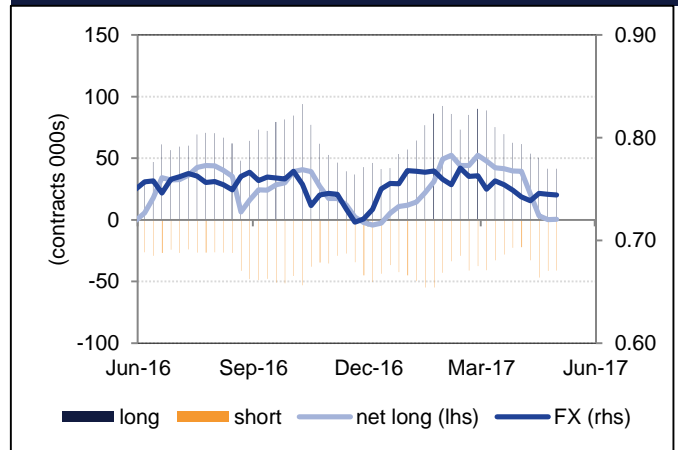
CFTC – Speculative Positions - CHF



CFTC – Speculative Positions - CAD



CFTC – Speculative Positions - AUD



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