



بنك الإمارات دبي الوطني  
Emirates NBD

Weekly  
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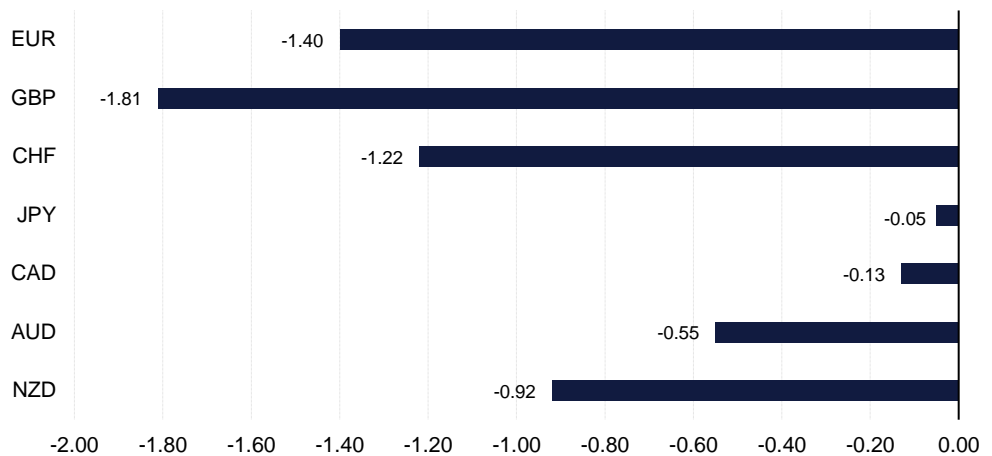
# FX Week

## Dollar remains strong...

The dollar continued to strengthen against most major currencies last week, even though its rally stalled a little following the U.S. April employment report released on Friday. Non-farm payrolls were softer than expected at 164k, although March's figures were revised up (to 135k from 103k) leaving the overall increase over the two months in line with expectations. The unemployment rate fell to 3.9% from 4.1%, but wage growth disappointed once again rising by just 0.1% m/m and 2.6% y/y. Accordingly the markets had little incentive to assume the Fed will tighten more aggressively this year than the two further hikes implied by its dots.

The coming week will provide another test of these assumption, with US price data for April likely to show that inflation pressures are building with both overall and core CPI and PPI measures continuing to exceed the 2% y/y pace. Following the FOMC meeting last week the markets are working on the assumption that a June rate hike is likely and commentary from Fed officials will now be watched closely to see if such an expectation is endorsed. Other influences on the dollar may include developments regarding trade policy. A senior US trade delegation met their Chinese counterparts at the end of last week but little progress was seen on outstanding differences between the two countries. NAFTA negotiations with Canada and Mexico are also ongoing and may provide fresh direction.

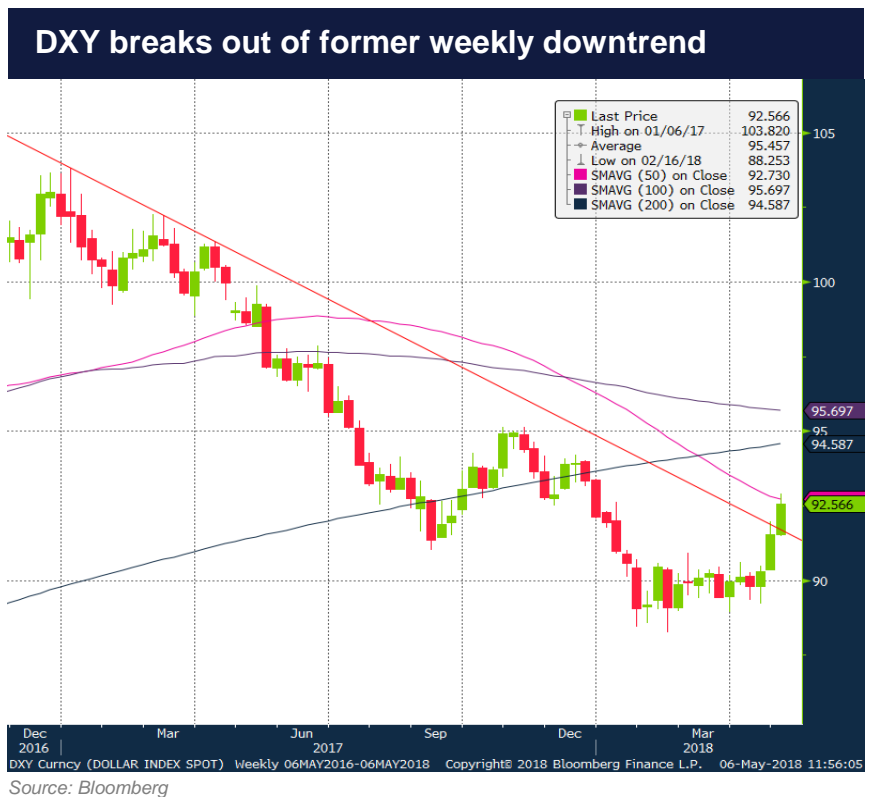
## Weekly currency movement vs USD (%)



Source: Bloomberg, Emirates NBD Research

## ...rising for a third week

The dollar index rose for a third week, gaining 1.12% last week to reach 92.566 in a move with many key technical developments. The move has taken the index back above the 200 day moving average for the first time since May 2017. In addition, the former weekly downtrend that had been in effect since January 2017 appears to have been breached now with a second weekly close above the former capping resistive trend line. Indeed the index went as far as testing the 50 week moving average (92.730) and the 38.2% one year Fibonacci retracement (92.698) before advances were halted. In the week ahead, a daily close above these levels may trigger further gains towards 94.00.

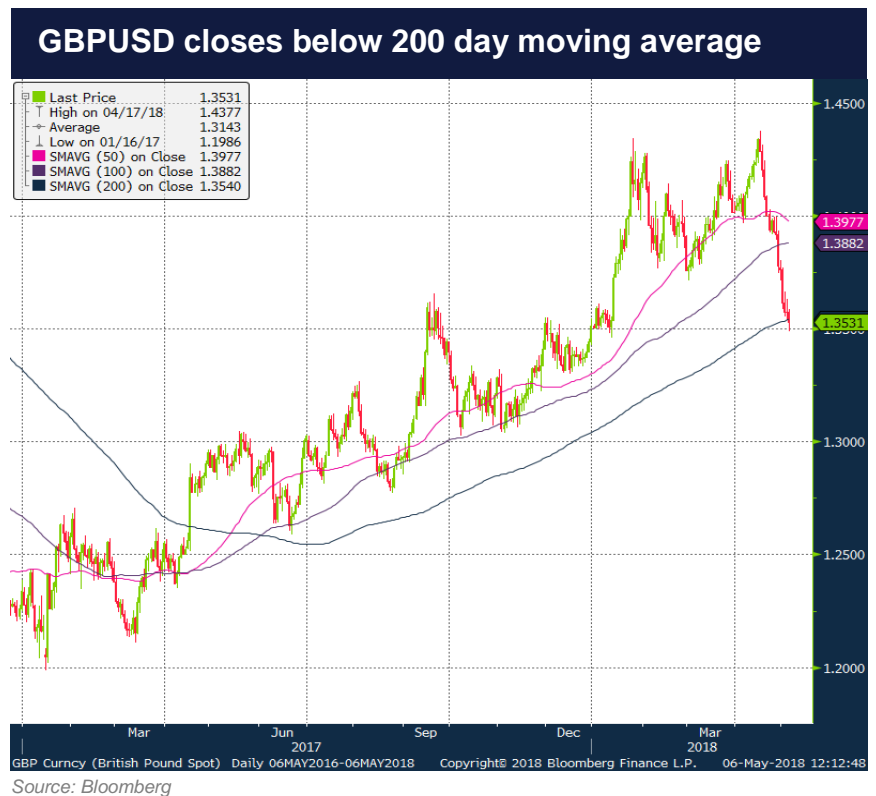


Source: Bloomberg

## Sterling stumbles as sentiment on BOE reverses

GBP was the biggest loser from USD strength last week falling by almost 2% against it. The pound's losses were reinforced by the UK April services PMI, which showed a smaller than expected rebound from weather-affected March weakness. The markets have all but given up on an interest rate rise at the upcoming BOE meeting, with the odds of such a move falling to just 10% from above 90% a month ago. The BoE's quarterly inflation report, which will be released at the same time as the policy announcement, is likely to bring downward revisions to both growth and inflation forecasts. We have pushed out our forecast for the BoE to hike rates by 25bps to the summer, probably the August MPC meeting. In the meantime the pound has probably fully priced the disappointment related to this week's MPC meeting, and may even begin to establish a base from which it can recover contingent on the economic data beginning to improve.

GBPUSD fell by 1.82% over the last five trading days to 1.3531, closing below the 200 day moving average (1.3540) for the first time since almost 13 months. The same move also shattered the 61.8% one year Fibonacci retracement (1.3694) as well as reaching a low of 1.3487 on Friday, not far from the 50% one year Fibonacci retracement (1.3483). In the week ahead, a break and daily close below this level can expose cable to further declines towards 1.33 in the short term.

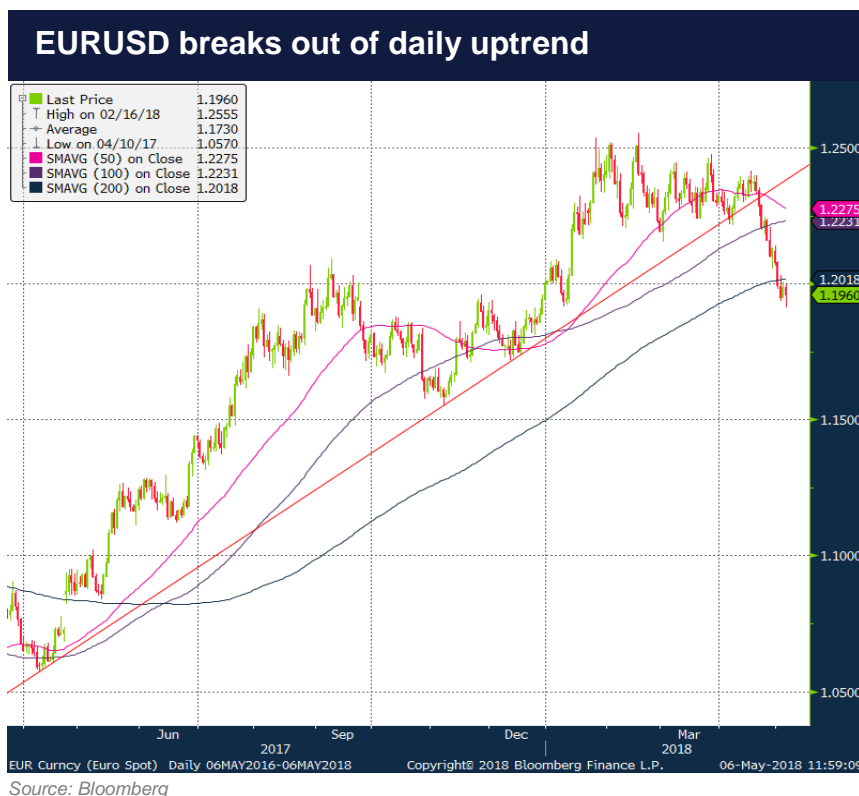


## Eurozone and EUR softness temporary

The Eurozone recovery remains on course despite the dip in growth momentum seen in Q1 to a 0.4% q/q pace from 0.7% previously. The markets will look to March industrial production in France and Germany this week to show a rebound from February weakness and thereby support the view that the growth slippage was temporary. However, it is probably still too early for the ECB to announce the all clear and begin signaling and end to QE. Against that background, the ECB's economic bulletin will likely remain quite balanced, confirming its cautious outlook, but acknowledging that recent data raise some questions. The EUR will likely remain under pressure for the most part, but we would not be surprised if it also begins to find support especially if the data does start to turn around.

## EURUSD closes below 1.20

EURUSD posted a 1.39% decline last week, closing at 1.1961 after hitting intraday lows of 1.911 on Friday. The move takes the price below 1.20 for the first time since 11 January 2018, and has resulted in daily closes below the 200 day MA (1.2018) for the first time since April 2017. Inspection of the daily candle charts clearly reveals that the uptrend that had been in effect since April 2017 has been nullified. All of these observations are technically bearish for EURUSD and a daily close below 1.1899 (61.8% one year Fibonacci retracement) may result in a retest of 1.18.



## USDJPY almost unmoved...

USDJPY remained relatively unchanged towards the end of the previous week, gaining 0.07% to close at 109.12. The price had advanced beyond 110 for the first time since February 2018, before paring these gains and find support at the 100 day moving average (108.73). While the daily closes remain above this support level, a break of 109.65 (50% one year Fibonacci retracement) is the path of least resistance followed by a test of the 200 day moving average (110.22). We continue to expect further gains in USDJPY, with the US yields likely to remain firm and the BOJ likely to stick with its 'yield curve control' policy which pegs the 10-year JGB yield near 0.0%. However, disappointment over the US-China trade talks may overshadow the dollar at the start of the week reintroducing a little bit of risk aversion, which may weigh on USDJPY.

## ...as EM currencies lose ground to USD

EM currencies have been in focus over the last fortnight, losing ground to the resurgent dollar generally, but with two currencies under more specific pressure. The Turkish lira was one of these, in the face of an overheating economy and amidst doubts about what the authorities would do to defend it. The Turkish central bank subsequently raised interest rates by 75bps over a week ago, but this has not materially reversed sentiment, with June general elections likely to keep investors cautious. The Argentine peso has also weakened sharply in the last fortnight, under pressure due to its burgeoning budget deficit and amidst uncertainty over what the Macri government will do restore confidence after years of economic misrule. The central bank there was forced to raise interest rates three times last week, eventually to as high as 40%, from 27.25% earlier in the week. This may finally bring about some stability for the ARS, but at 22.00 the currency is still down 15% from the start of the year, and the cost of enduring such penal interest rates will be high.

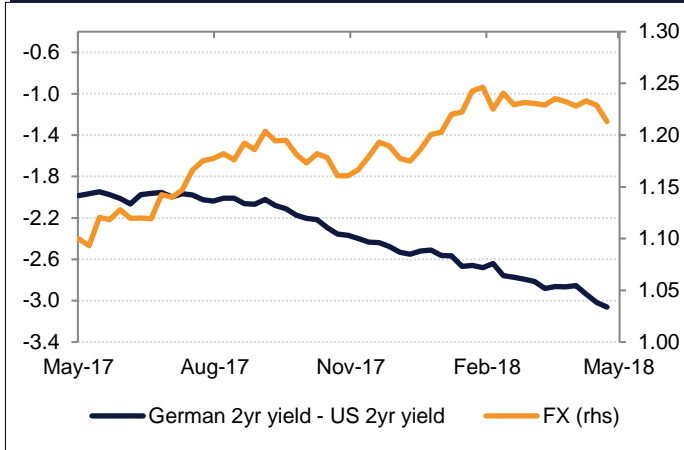
## FX Forecasts

FX Forecasts - Major						Forwards		
	4-May	Q2 2018	Q3 2018	Q4 2018	Q1 2019	3m	6m	12m
EUR	1.1960	1.2500	1.2700	1.2700	1.2800	1.2043	1.2134	1.2334
JPY	109.12	108.00	110.00	112.00	110.00	108.44	107.69	106.03
CHF	1.0000	0.9800	0.9800	0.9800	0.9800	0.9921	0.9837	0.9661
GBP	1.3531	1.4100	1.4300	1.4500	1.4800	1.3590	1.3651	1.3782
AUD	0.7539	0.7600	0.7550	0.7550	0.7550	0.7543	0.7550	0.7568
NZD	0.7020	0.7100	0.7100	0.7100	0.7100	0.7021	0.7024	0.7035
CAD	1.2846	1.2700	1.2700	1.2700	1.2700	1.2821	1.2799	1.2757
EURGBP	0.8841	0.8865	0.8881	0.8759	0.8649	0.8864	0.8890	0.8951
EURJPY	130.50	135.00	139.70	142.24	140.80	130.50	130.50	130.50
EURCHF	1.1960	1.2250	1.2446	1.2446	1.2544	1.1948	1.1936	1.1916
FX Forecasts - Emerging						Forwards		
	4-May	Q2 2018	Q3 2018	Q4 2018	Q1 2019	3m	6m	12m
SAR	3.7503	3.7500	3.7500	3.7500	3.7500	3.7499	3.7504	3.7537
AED	3.6730	3.6730	3.6730	3.6730	3.6730	3.6732	3.6741	--
KWD	0.3014	0.3020	0.3020	0.3020	0.3020	0.2964	0.2939	--
OMR	0.3850	0.3850	0.3850	0.3850	0.3850	0.3853	0.3861	0.3885
BHD	0.3771	0.3770	0.3770	0.3770	0.3770	0.3761	0.3761	0.3789
QAR	3.6544	3.6400	3.6400	3.6400	3.6400	3.6620	3.6650	3.6720
EGP	17.6292	17.2500	17.2500	17.0000	17.0000	18.2400	18.6300	19.3300
INR	66.870	66.500	67.000	67.000	67.000	67.6200	68.3300	69.6500
CNY	6.3627	6.7000	6.9000	7.1000	7.1000	6.3965	6.4208	6.4658
SGD	1.3341	1.3000	1.2900	1.2900	1.2900	1.3300	1.3269	1.3213

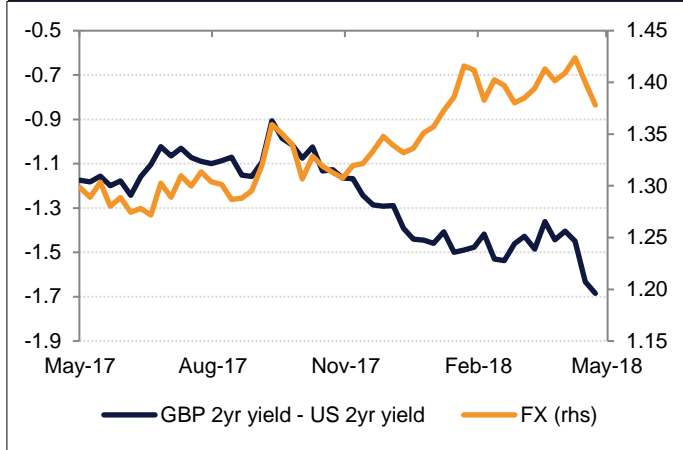
Source: Bloomberg, Emirates NBD Research  
 \*Denotes USD peg

## Major FX and Nominal Interest Rates

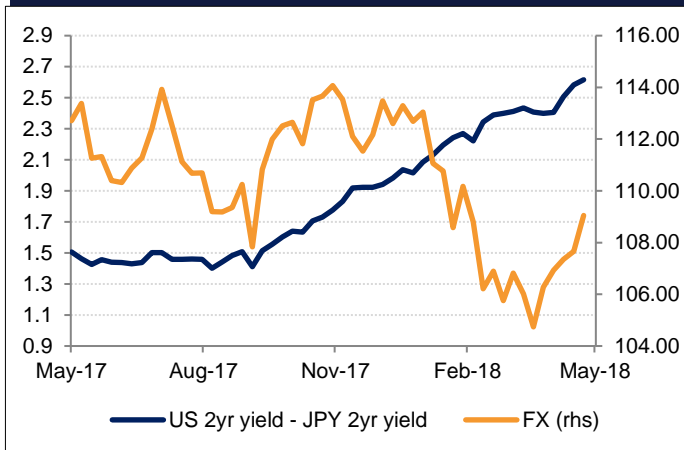
### Interest Rate Differentials - EUR



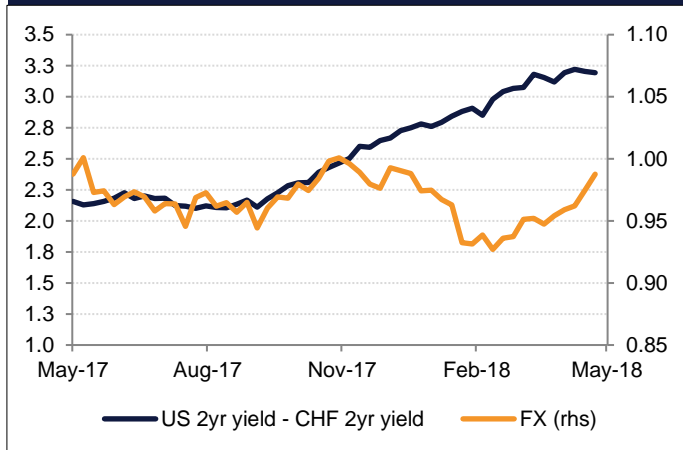
### Interest Rate Differentials - GBP



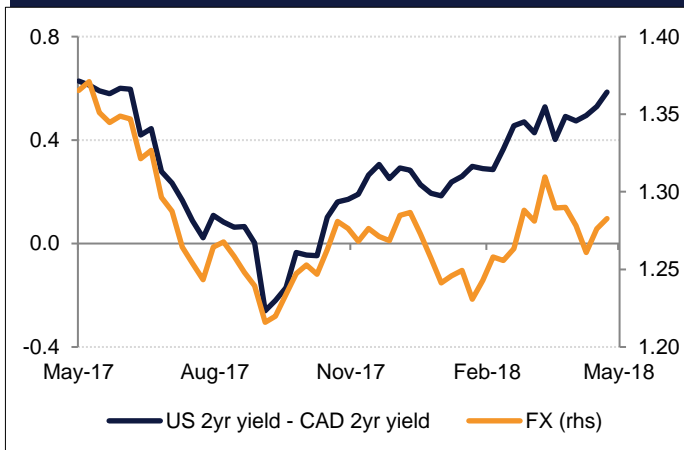
### Interest Rate Differentials - JPY



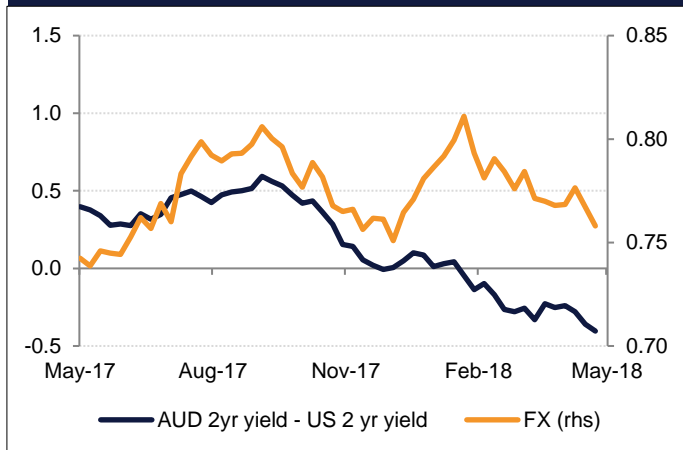
### Interest Rate Differentials - CHF



### Interest Rate Differentials - CAD

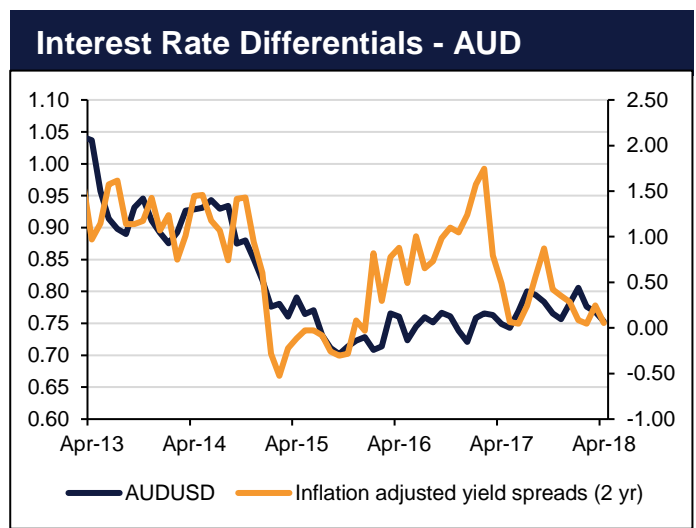
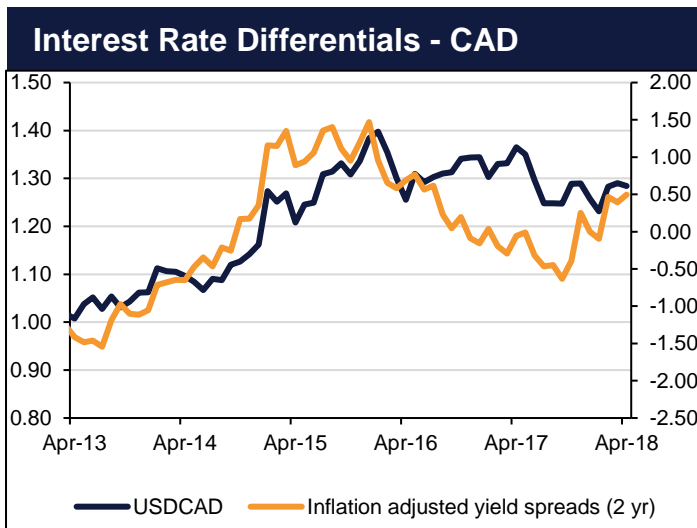
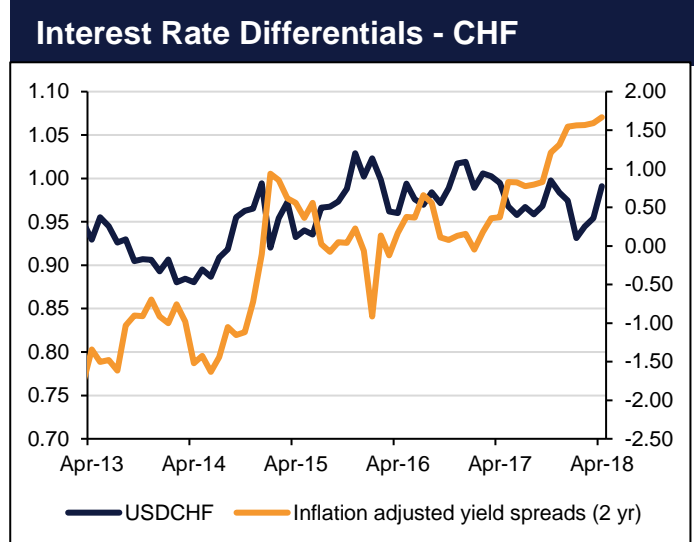
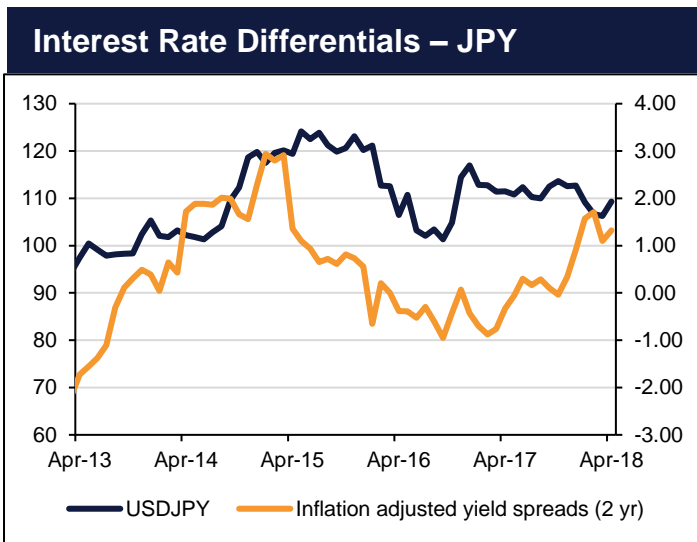
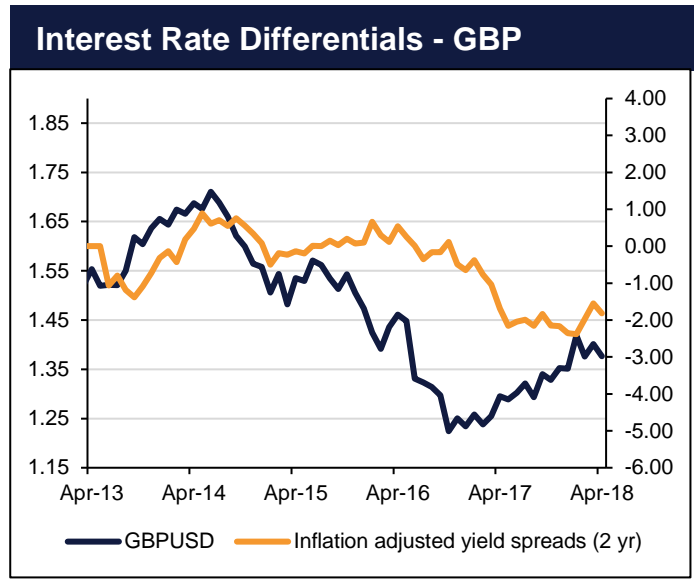
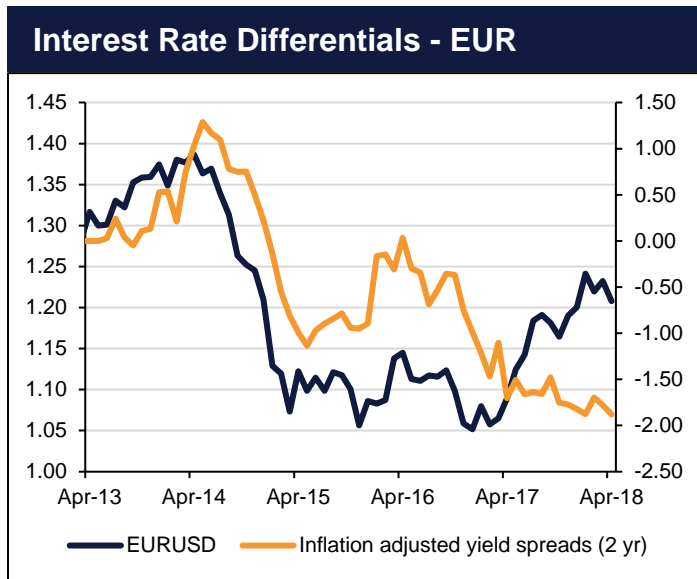


### Interest Rate Differentials - AUD



Source: Bloomberg, Emirates NBD Research

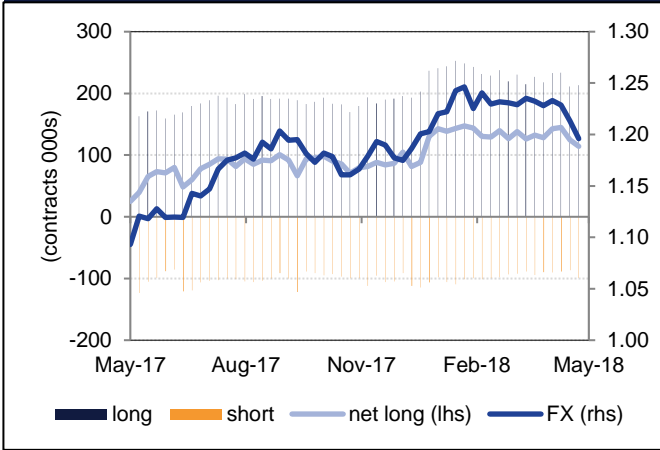
## Major FX and Real Interest Rates



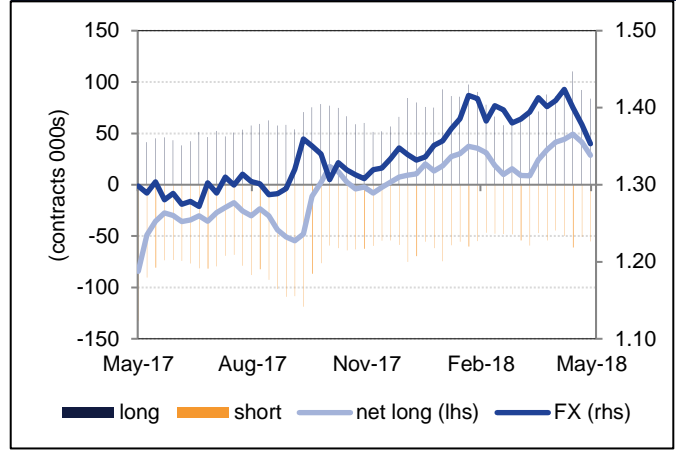
Source: Bloomberg, Emirates NBD Research

## Major Currency Positions

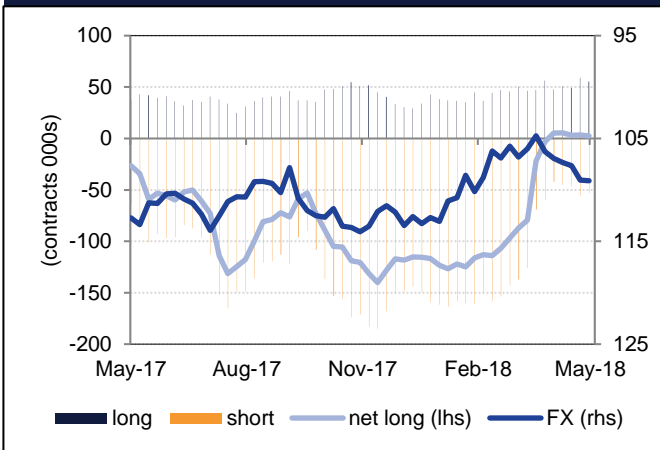
### CFTC – Speculative Positions - EUR



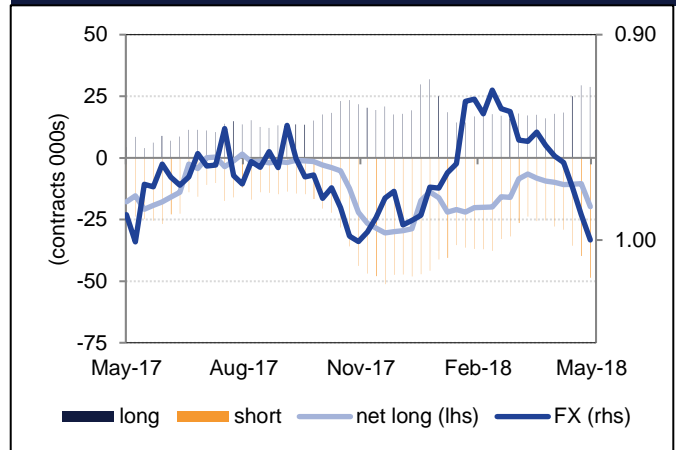
### CFTC – Speculative Positions - GBP



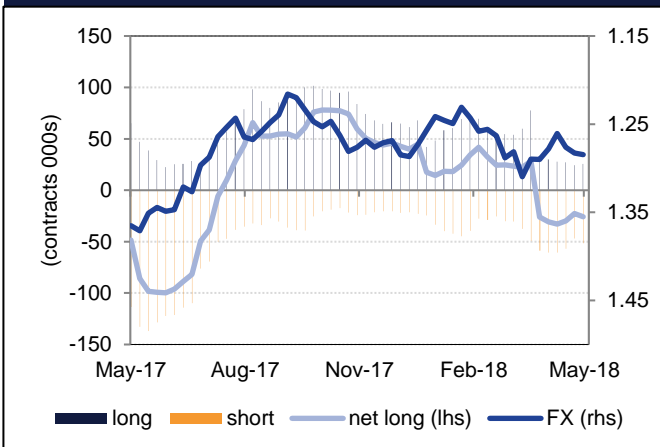
### CFTC – Speculative Positions - JPY



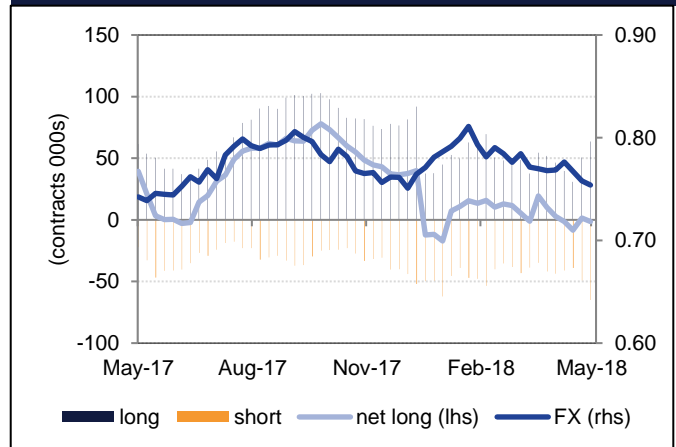
### CFTC – Speculative Positions - CHF



### CFTC – Speculative Positions - CAD



### CFTC – Speculative Positions - AUD





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