



بنك الإمارات دبي الوطني  
Emirates NBD

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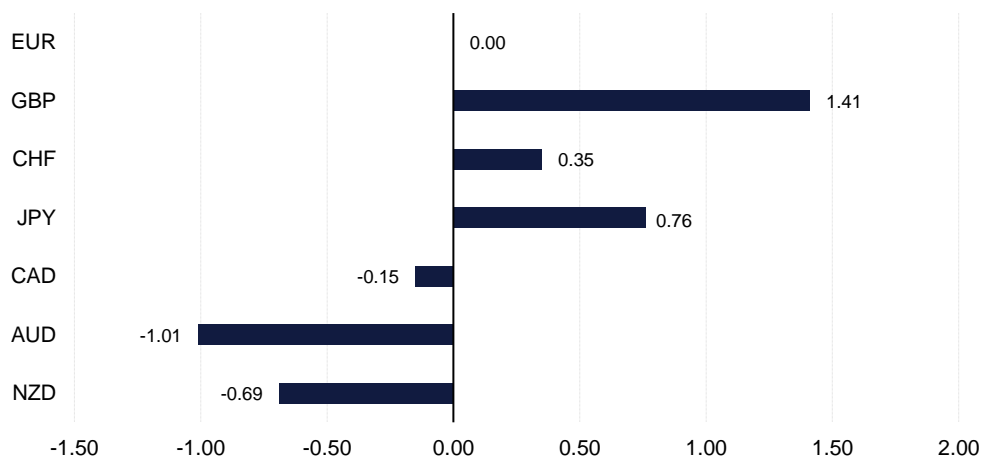
# FX Week

**Trade talks have returned into the spotlight after Donald Trump upped the ante by threatening China with steeper tariffs ahead of the resumption of trade negotiations this week**, causing China to threaten to pull out of the talks in response. Trump said on Sunday that he would increase tariffs on USD 200bn of Chinese imports to 25% from 10% on Friday this week and he also raised the possibility of putting a 25% duty on another USD 325bn of imports. The latest round of brinkmanship comes after markets had more or less assumed that a trade deal was a done deal, causing recent positive sentiment to evaporate and risk aversion to return, with the JPY strengthening sharply and the CNY weakening as a result. USDJPY remains vulnerable to further losses as global equities unwind recent strength.

**The intrusion of renewed trade threats has disturbed the mood of optimism stemming from increasing signs of stabilization in the world economy.** April's US non-farm payroll report showed the U.S. unemployment rate dropping to a forty-nine year low of 3.6%, while there was a 263k gain in non-farm payrolls after 16k in upward revisions to March. A soft average work week and average hourly earnings growth remaining at 3.2% y/y also gave the report a more goldilocks flavour of being not too hot and not too cold, and keeping USD gains largely intact.

**The Eurozone also surprised positively last week with a 0.4% Q1 GDP growth rate**, up from 0.3% q/q in the previous quarter, while UK monthly GDP was also better than expected at 0.3% in the three months to February, and looks on course to deliver a growth rate of close to 0.5% q/q for the first quarter when it is released later in the week. The Bank of England voted unanimously to leave interest rates unchanged at 0.75% last week, but Governor Mark Carney warned markets that should growth match the BOE's forecasts, "more, and more frequent interest-rate increases than the market expects", would occur. **This might seem positive for GBP, but with Brexit talks now resuming the pound could once again face negative Brexit headlines and concerns.**

## Weekly currency movement vs USD (%)



Source: Bloomberg, Emirates NBD Research

# EURUSD

## EURUSD rises for first time in three weeks

The euro benefited from some better than expected economic data, gaining against the dollar for the first time in three weeks. Reports showed that growth at the start of the year was stronger than expected, with aggregate Eurozone growth accelerating to 0.4% q/q in Q1 2019, from 0.3% q/q in Q4 2018. In addition, long absent inflationary pressures also showed greater strength with headline CPI climbing to 1.7% y/y in April from 1.4% and core inflation climbing to 1.2% y/y from 0.8% y/y during the same period. While policy makers may be encouraged by these increases, inflation remains far from the ECB's 2.0% target and as such, interest rates remain unlikely to rise in 2019. This sentiment is highlighted by the OIS which shows a 0.7% chance of a rate hike by December 2019 priced in.

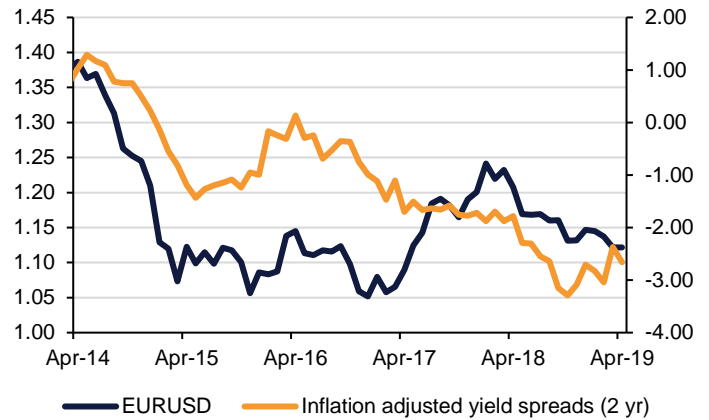
The start of this week has seen the final Markit Services and Composite PMIs for April show modest expansion of the two sectors (52.8 and 51.5 respectively) but such data may be offset by disappointing retail sales data for March which were flat on the month.

## Technical outlook

Despite posting a 0.45% gain last week to close at 1.1198, rising for the first time in 3 weeks, EURUSD remains below the critical 200-week moving average (1.1341). The price has now closed for 8 weeks below this level and as a result is vulnerable to further declines towards 1.10.

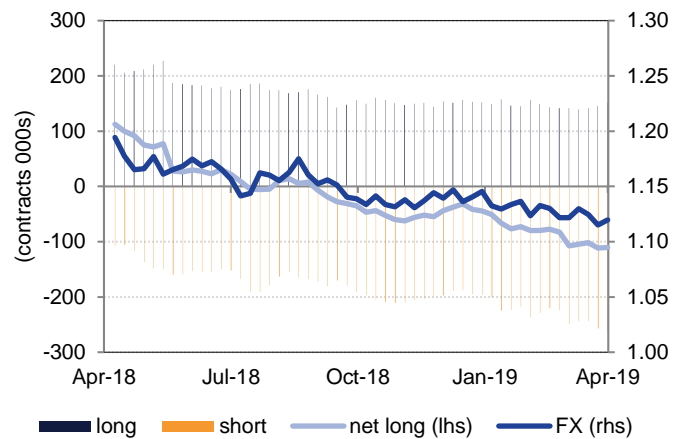
Forecasts	Spot	1 Week	1 month
EURUSD	1.1194	1.1250	1.1500
EURGBP	0.8541	0.8654	0.8779
EURJPY	123.98	123.75	128.80

## Yield Spreads



Source: Bloomberg, Emirates NBD Research

## Net Positioning



Source: Bloomberg, Emirates NBD Research

## Weekly Candle Chart



Source: Bloomberg, Emirates NBD Research

# USDJPY

## Risk aversion pushes USDJPY to 5-week low

Renewed concerns over escalating trade tensions between the U.S. and China have triggered a new wave of risk aversion in the market. Under these conditions, the yen has benefited from its position as a safe haven asset and has strengthened to a five-week high, while the CNY has seen its biggest daily loss for three years.

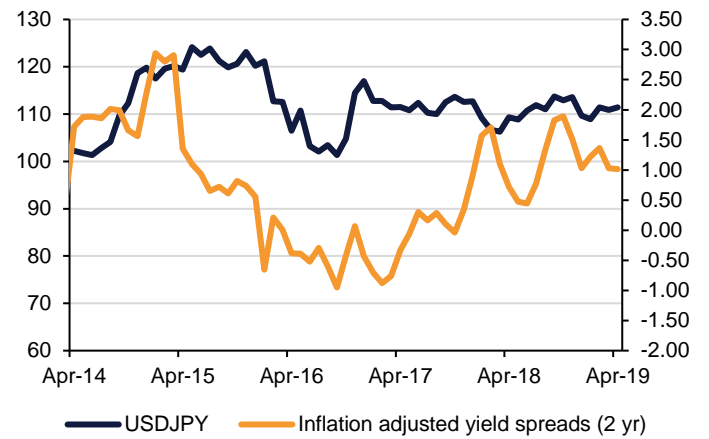
With no primary tier Japanese economic data expected in the week ahead, we expect USDJPY to continue to be driven by risk appetite and yields. For the former, the markets will be paying attention to Chinese trade data and any developments in the trade negotiations. For the latter, markets will be eying U.S. inflation data for April. The data is expected to show that headline consumer price inflation accelerated from 1.9% to 2.1% y/y, and may result in some upward pressure for USDJPY. However, with the Federal Reserve having set the bar for rate hikes high, gains are likely to be limited.

## Technical outlook

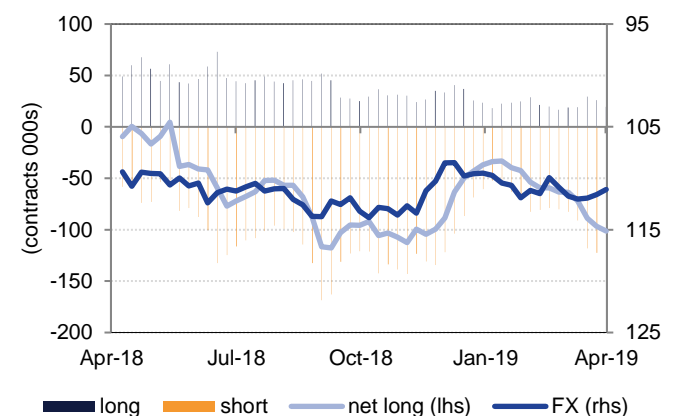
Currently trading near a five-week low of 110.66, USDJPY has opened the week below the 100-week moving average (110.82) and the 61.8% one-year Fibonacci retracement (110.85), a level which has provided resistance thus far. While the price stays below this level, there is a risk of further declines towards the 50% one-year Fibonacci retracement of 109.71, a level which has provided support since February.

Forecasts	Spot	1 Week	1 month
USDJPY	110.76	110.00	112.00
EURJPY	123.98	123.75	128.80
GBPJPY	145.16	143.00	146.72

## Yield Spreads

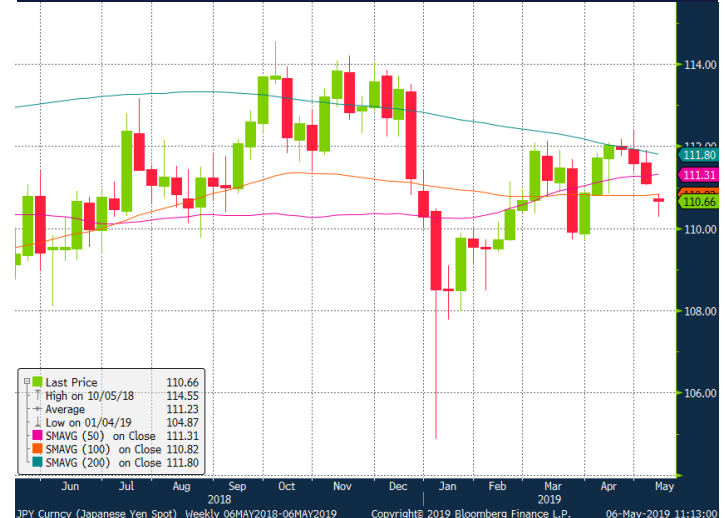


## Net Positioning



Source: Bloomberg, Emirates NBD Research

## Daily Candle Chart



Source: Bloomberg, Emirates NBD Research

# GBPUSD

## GBP rises post GDP and BOE

The pound benefited from statements from the Bank of England. While interest rates remained on hold at 0.75%, growth forecasts were raised and policy makers warned that the market expectations of one rate hike in the next three years were misguided.

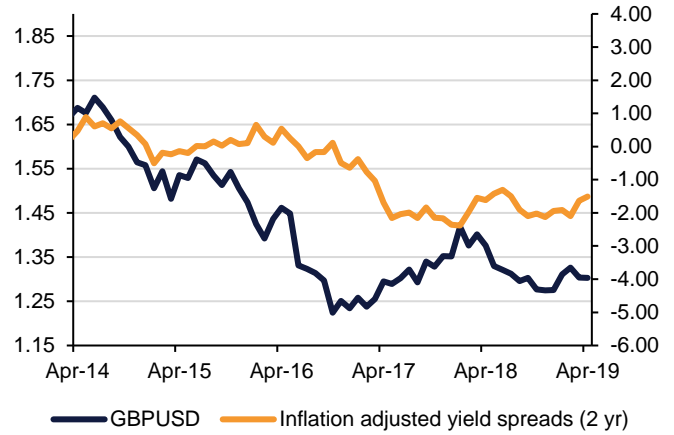
Over the week ahead, investors will be eyeing Q1 2019 GDP data for the UK, with the expectation that growth accelerated to 0.5% q/q and 1.8% y/y compared with 0.2% q/q and 1.4% y/y in Q4 2018. After a brief pause, Brexit related developments could also cause volatility in the week ahead, with GBP also rallying on Friday partially as a result of growing confidence over a Conservative-Labour deal. With Prime Minister May drafting a new customs law for a Brexit deal with opposition leader Jeremy Corbyn, the PM hopes that a deal can be reached when cross-party talks resume on May 7<sup>th</sup>. Should these negotiations bear no fruit, it may catalyse a pressure on the PM to resign to be replaced by a leader who would be more in favour of no-deal, thus renewing downside GBP risks.

## Technical outlook

GBPUSD posted a 2.01% gain to close at 1.3173 and break above the 50-week moving average (1.3013) for the first time in 3 weeks. This level had previously capped gains during the last week of April and the break is technically significant. Reinforcing this, last week's movements saw a break above the 200 (1.2959), 100 (1.2987) and 50-day (1.3109) moving averages and the close is above the one-year 61.8% Fibonacci retracement (1.3168). In the week ahead, technical indicators point to a short-term test of the 100-week moving average (1.3227).

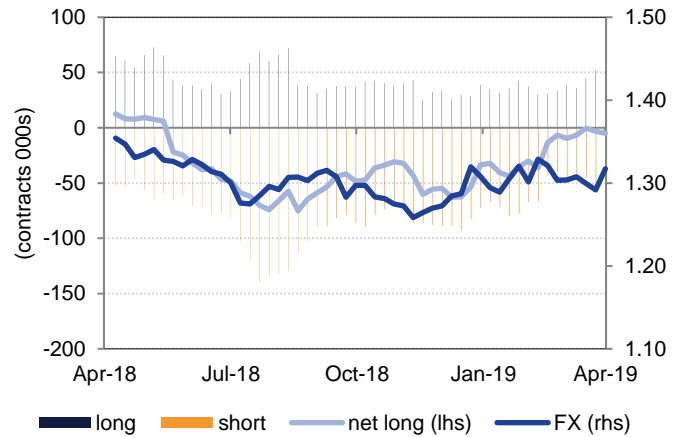
Forecasts	Spot	1 Week	1 month
GBPUSD	1.3106	1.3000	1.3100
EURGBP	0.8541	0.8654	0.8779
GBPJPY	145.16	143	146.72

## Yield Spreads



Source: Bloomberg, Emirates NBD Research

## Net Positioning



Source: Bloomberg, Emirates NBD Research

## Weekly Candle Chart



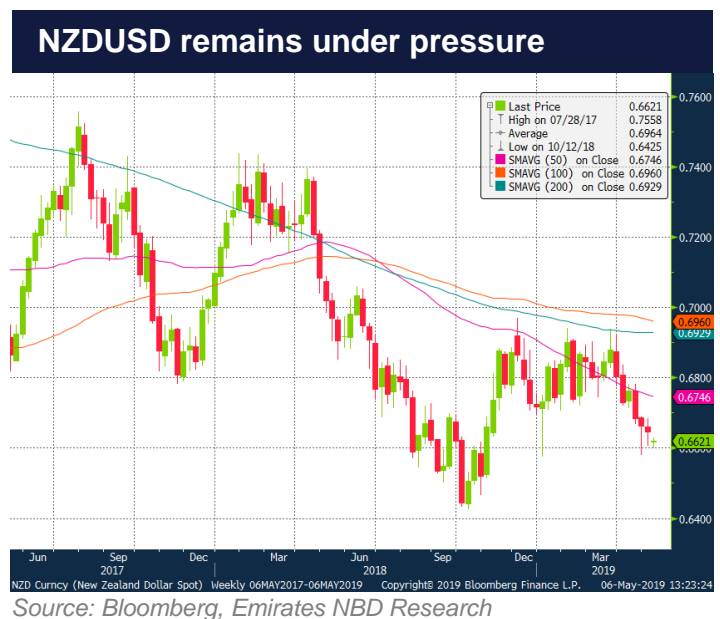
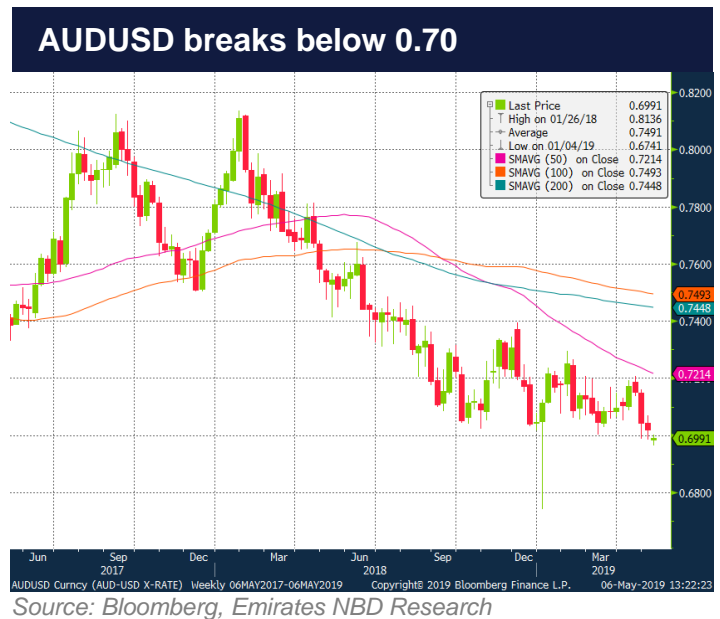
Source: Bloomberg, Emirates NBD Research

## Other Developments

### AUD and NZD weak ahead of rate decisions

The AUD has been the worst performing major currency of the last week, AUDUSD losing 0.28% to close at 0.7022. As we go to print, AUDUSD is trading at 0.6991, below the psychologically significant 0.70 level. Should the price break below the 23.6% one-year Fibonacci retracement (0.6962), a retest of the one year lows of 0.6741 is possible. The odds of this outcome increase significantly if trade disputes between the U.S. and China escalate and if the RBA cuts interest rates at its meeting this week. At present, the OIS has priced in a 44.4% change of a 25bps rate cut at tomorrow's policy meeting.

NZD has had similar fortunes and remains under pressure due slower GDP growth combined with a loss of momentum in inflation and wage pressures. With the central bank now having a new mandate to ensure "maximum sustainable employment", expectations for a rate cut have kept NZD under pressure. Inspection of the OIS shows a 49.1% chance of a rate cut at Wednesday's meeting priced in. Currently trading at 0.6619, the price remains below the resistive 38.2% one-year Fibonacci retracement (0.6668) which increases the potential risk of a break below the 0.6570 level.



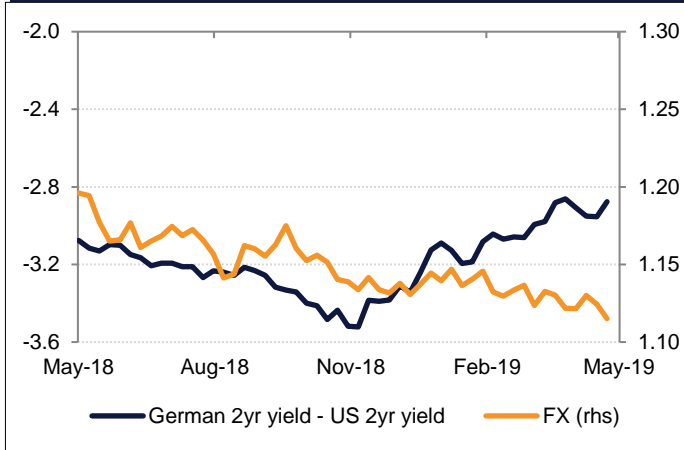
## FX Forecasts

FX Forecasts - Major						Forwards		
	6-May	Q2 2019	Q3 2019	Q4 2019	Q1 2020	3m	6m	12m
EURUSD	1.1194	1.1500	1.1800	1.2000	1.2200	1.1282	1.1367	1.1535
USDJPY	110.76	113.00	112.00	110.00	110.00	109.95	109.17	107.61
USDCHF	1.0179	1.0000	0.9800	0.9700	0.9500	1.0090	1.0005	0.9840
GBPUSD	1.3106	1.3000	1.3500	1.4000	1.4300	1.3168	1.3224	1.3324
AUDUSD	0.6990	0.7100	0.7400	0.7400	0.7700	0.7006	0.7024	0.7056
NZDUSD	0.6619	0.6800	0.7100	0.7100	0.7400	0.6631	0.6644	0.6666
USDCAD	1.3474	1.2850	1.2600	1.2500	1.2200	1.3445	1.3419	1.3374
EURGBP	0.8541	0.8846	0.8741	0.8571	0.8531	0.8567	0.8595	0.8657
EURJPY	123.98	129.95	132.16	132.00	134.20	123.98	123.98	123.98
EURCHF	1.1394	1.1500	1.1564	1.1640	1.1590	1.1383	1.1372	1.1350
FX Forecasts - Emerging								
	6-May	Q2 2019	Q3 2019	Q4 2019	Q1 2020	3m	6m	12m
SAR	3.7503	3.7500	3.7500	3.7500	3.7500	3.7510	3.7517	3.7551
AED	3.6730	3.6730	3.6730	3.6730	3.6730	3.6737	3.6745	3.6764
KWD	0.3042	0.3020	0.3020	0.3020	0.3020	0.3043	0.3044	--
OMR	0.3848	0.3850	0.3850	0.3850	0.3850	0.3856	0.3863	0.3882
BHD	0.3770	0.3770	0.3770	0.3770	0.3770	0.3772	0.3774	0.3779
QAR	3.6592	3.6400	3.6400	3.6400	3.6400	3.6562	3.6534	3.6524
EGP	17.1842	18.0000	18.1250	18.2500	18.2500	17.5950	18.0750	19.0050
INR	69.413	70.000	70.000	68.000	68.000	70.3400	71.1500	72.6500
CNY	6.7646	6.9000	7.0000	7.1000	7.2000	6.7816	6.7901	6.8158
SGD	1.3632	1.3500	1.3200	1.3000	1.2900	1.3609	1.3586	1.3542
FX Forecasts - MENA						3.7503		
	6-May	Q2 2019	Q3 2019	Q4 2019	Q1 2020			
MAD	9.6656	9.5000	9.6000	9.6000	9.7000			
TND	2.9983	3.0800	3.1000	3.1500	3.2000			
TRY	5.9984	5.4000	5.5000	5.6000	5.7000			

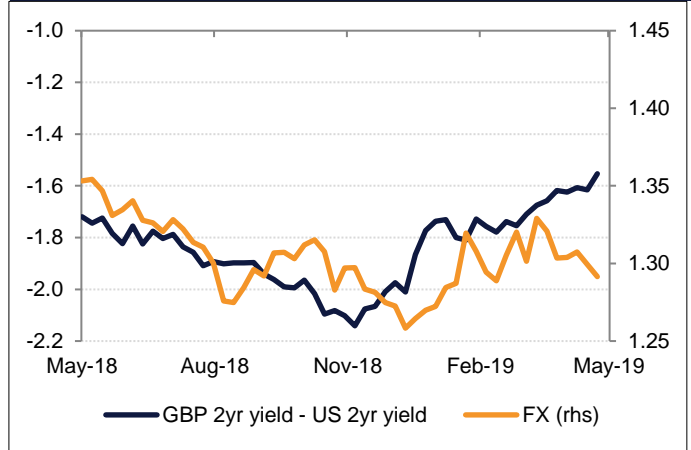
Source: Bloomberg, Emirates NBD Research  
 \*Denotes USD peg

## Major FX and Nominal Interest Rates

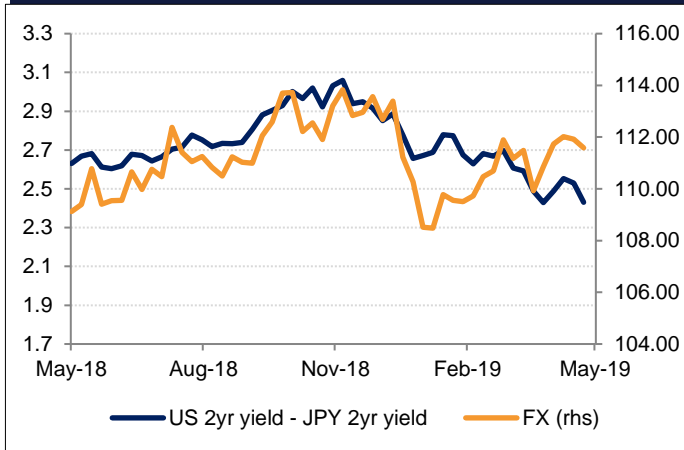
### Interest Rate Differentials - EUR



### Interest Rate Differentials - GBP



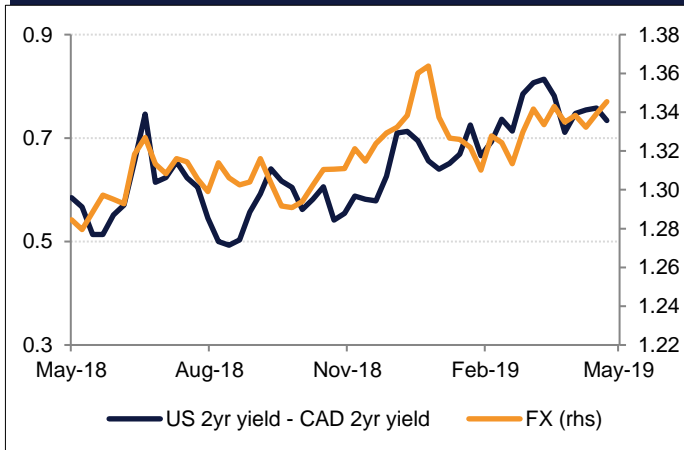
### Interest Rate Differentials - JPY



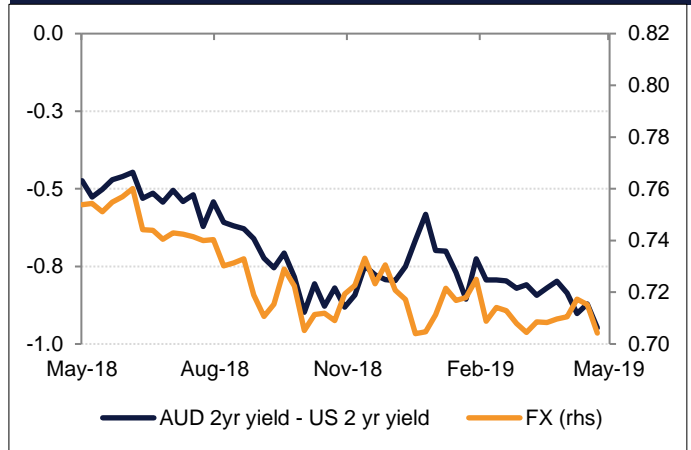
### Interest Rate Differentials - CHF



### Interest Rate Differentials - CAD

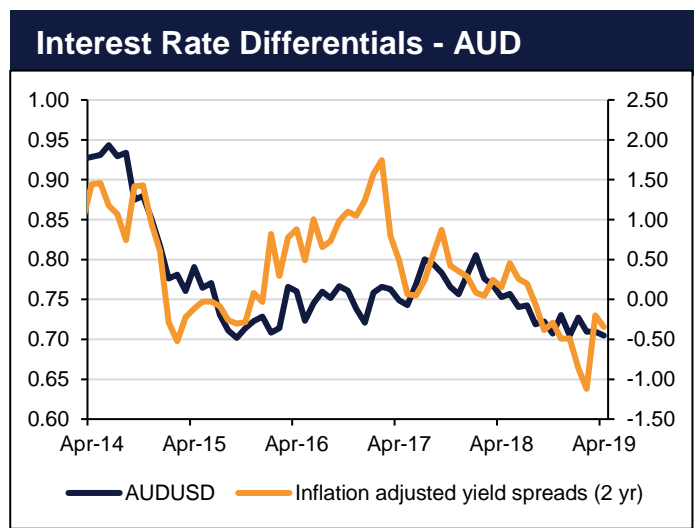
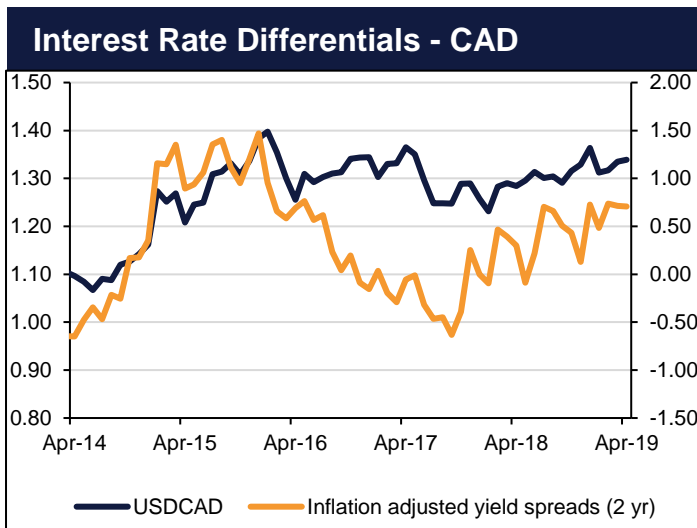
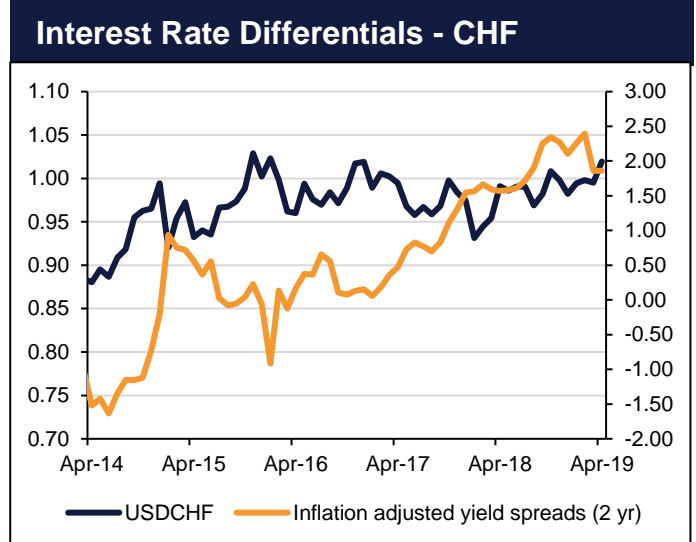
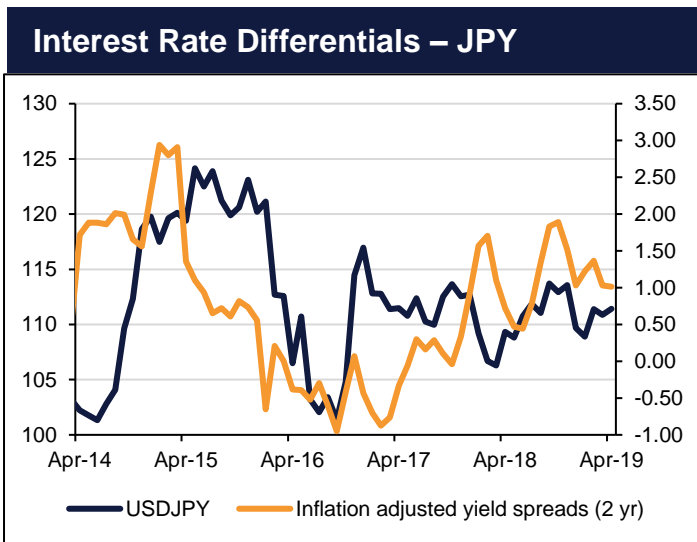
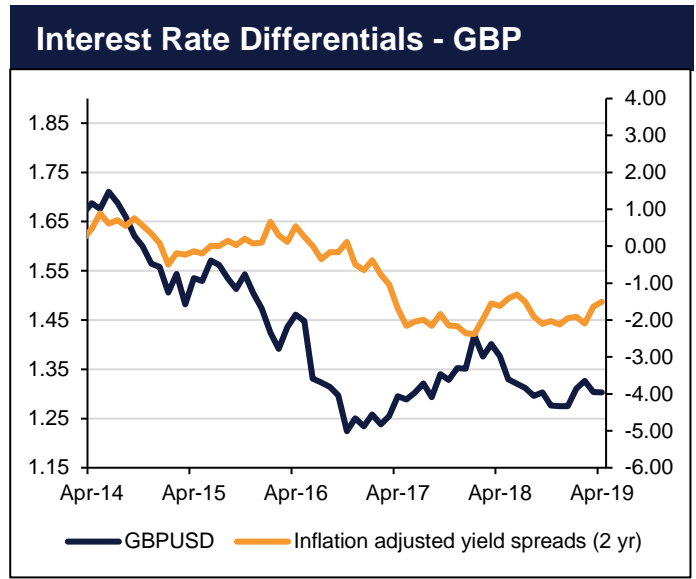
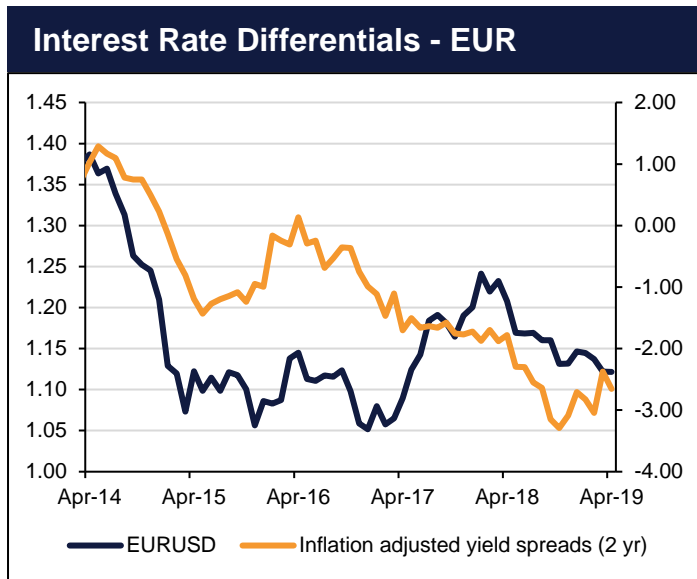


### Interest Rate Differentials - AUD



Source: Bloomberg, Emirates NBD Research

## Major FX and Real Interest Rates

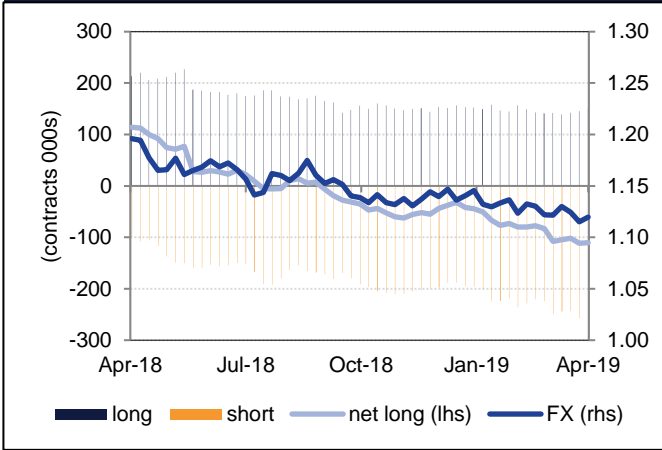


Source: Bloomberg, Emirates NBD Research

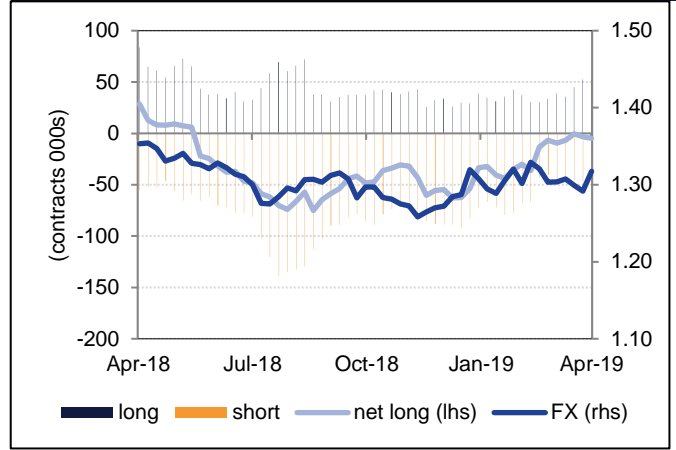


## Major Currency Positions

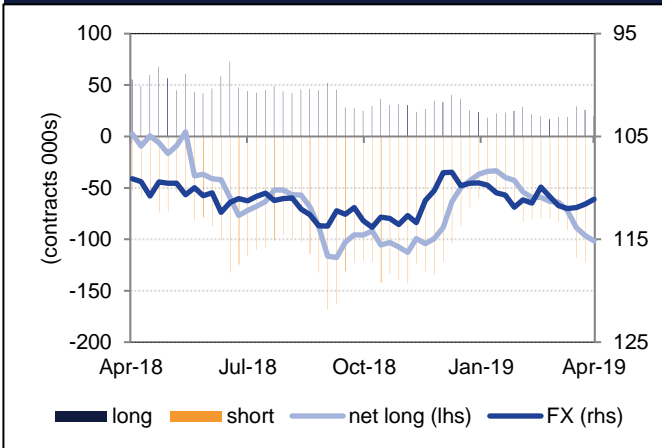
### CFTC – Speculative Positions - EUR



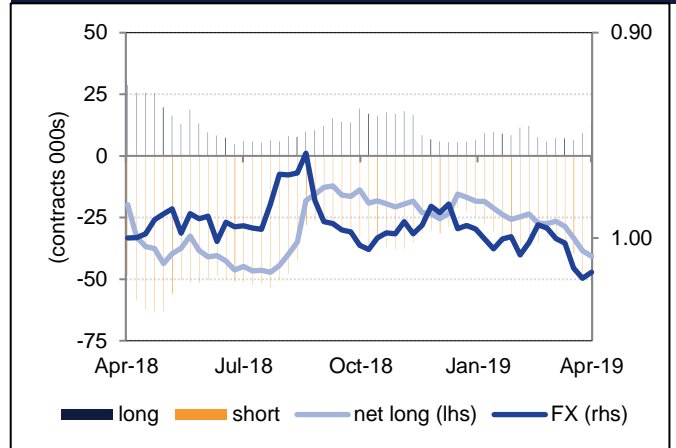
### CFTC – Speculative Positions - GBP



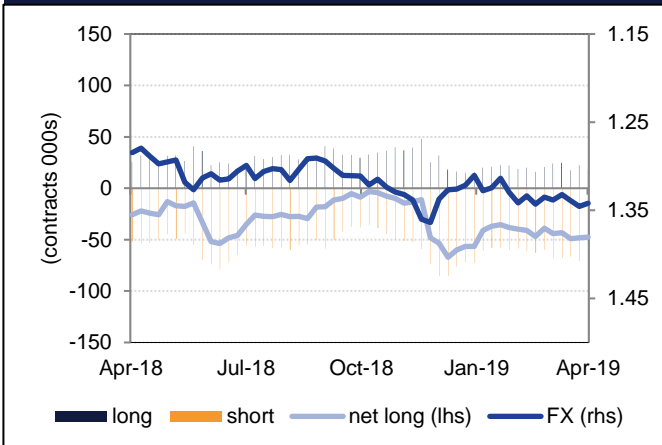
### CFTC – Speculative Positions - JPY



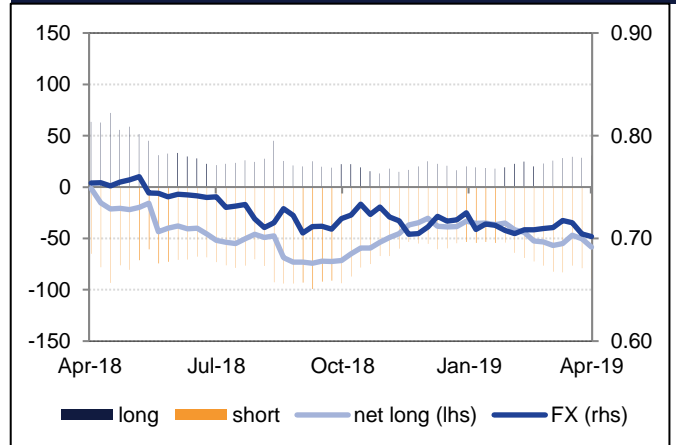
### CFTC – Speculative Positions - CHF



### CFTC – Speculative Positions - CAD



### CFTC – Speculative Positions - AUD



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