



بنك الإمارات دبي الوطني
Emirates NBD

Weekly
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FX Week

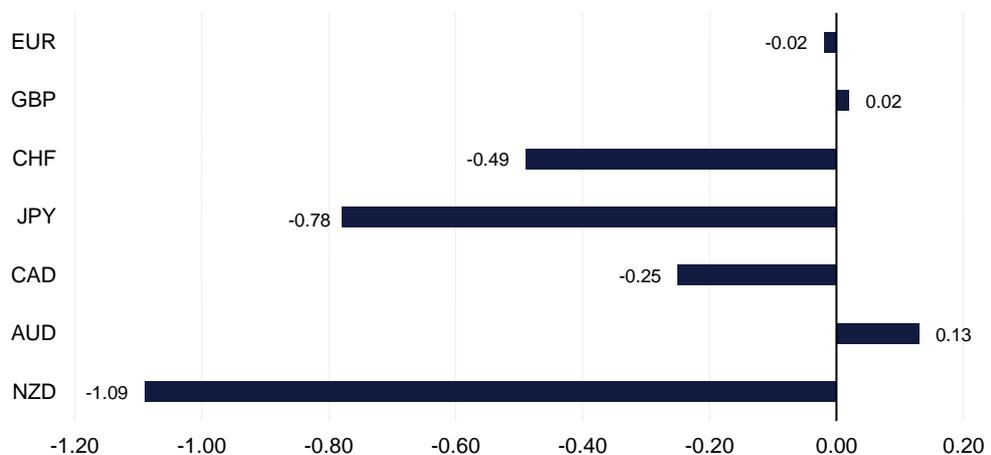
Last week was a good one for risk assets, with the major equity markets and oil prices steadily advancing on the perception that the global economic downturn might not be as bad as feared. The week started with the publication of the **Chinese PMI data for March, which increased above the contraction-expansion breakeven level of 50**. In conjunction with a recent increase in Chinese industrial production and retail sales growth, investors saw this as evidence that recent monetary and fiscal stimulus steps are starting to work. **U.S. ISM manufacturing activity was also firmer rising to 55.3 in March**, while the UK March manufacturing PMI rose to 55.1, a 13-month high and a strong rebound from February. **China's service sector PMI also improved and even Eurozone services PMI data were revised up.**

U.S.-China trade talks are continuing and even though it might take more time before a deal is agreed, there is nothing to suggest that the talks will break down. On Brexit too there were signs that a 'softer' exit might be on its way, which reassured sterling even though the deadlines for decisions are again ominously close.

A constructive resolution to the U.S.-China trade dispute would remove a key downside risk for global growth that has been in place for over a year now at a time when world trade has slowed and export growth has fallen. **The IMF's Christine Lagarde warned about a 'delicate moment' for the global economy last week, and other global bodies like the WTO, OECD and World Bank have issued stark warnings about the outlook.** Removing the US-China risk would provide a boost to economic activity and business confidence, helping both the US and Chinese economies and re-opening global supply chains and export links to the benefit of other parts of the world.

The USD enjoyed a firm week in this risk loving environment as markets embraced the more positive sentiment, which helped interest rates to rise. The bond markets eased up on their previous message of deflation and impending recession, with the yield curve steepening. US 2 and 10-year Treasury yields are now both above the lows posted in March and the effective fed funds rate.

Weekly currency movement vs USD (%)



Source: Bloomberg, Emirates NBD Research

EURUSD

EURUSD declines for a fourth week

Despite an upwards revision in the aggregate Eurozone Services PMI, the common currency came back under slight pressure last week amid slowing inflationary pressures. Headline consumer price inflation slowed from 1.5% y/y in February to 1.4% in March. During the same period, core inflation slowed from 1.0% to 0.8%. This data shows that inflation is slipping further away from the ECB's 2.0% target and allows the central bank the opportunity to be patient with the normalization of monetary policy.

At the same time, data from the U.S. was more constructive towards the end of the week. While March's non-farm payroll report showed wage growth slowing to 3.2% y/y from 3.4% the previous month, 196,000 jobs were added. This helped support USD before close on Friday, to the disadvantage of EURUSD.

ECB the focus in the week ahead

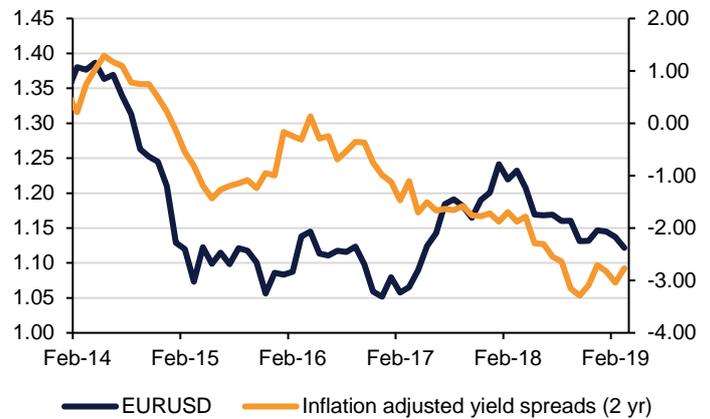
In the week ahead, attention will turn to Mario Draghi as the ECB meets. While no change in monetary policy is expected, the markets will be listening for forward guidance on the future pathways of monetary policy. With the OIS currently showing that the market is bias towards a rate cut in 2019, any dovish comments from the ECB are likely to put additional pressure on the euro. Eurozone industrial production data for February will also be looked at for signs of softness, despite German production data picking up at the end of last week.

Technical outlook

A minor loss of 0.02% means that for a third week, EURUSD finished lower, closing at 1.1216. Most importantly, the price has closed below the 200-week moving average (1.1341) for a fifth week, which is bearish for the price, especially when combined with the fact it is trading below the 50-month moving average (1.1313). Should the price fall below the 2019 low of 1.1177 in the week ahead, it could trigger a more substantial decline towards the 1.10 handle last seen in May 2017.

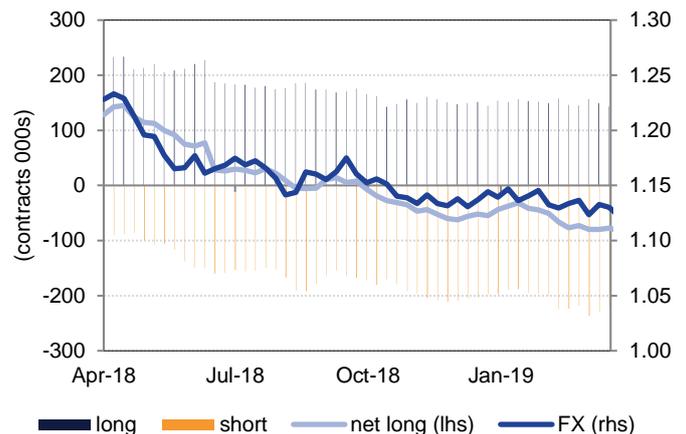
Forecasts	Spot	1 Week	1 month
EURUSD	1.1216	1.1300	1.1500
EURGBP	0.8604	0.8760	0.8779
EURJPY	125.30	126.56	128.80

Yield Spreads



Source: Bloomberg, Emirates NBD Research

Net Positioning



Source: Bloomberg, Emirates NBD Research

Weekly Candle Chart



Source: Bloomberg, Emirates NBD Research

USDJPY

USDJPY benefits from improved sentiment.

Amid improved global risk sentiment, aided by optimism over the U.S. and China coming closer to a trade deal, haven assets like the yen underperformed. In addition, softer household spending has renewed concerns about a slowdown in the Japanese economy, slowing to 1.7% y/y in February compared to 2.0% the previous month. Under these conditions, short positions on JPY (see Net Positioning chart) increased for a sixth week and USDJPY was able to climb.

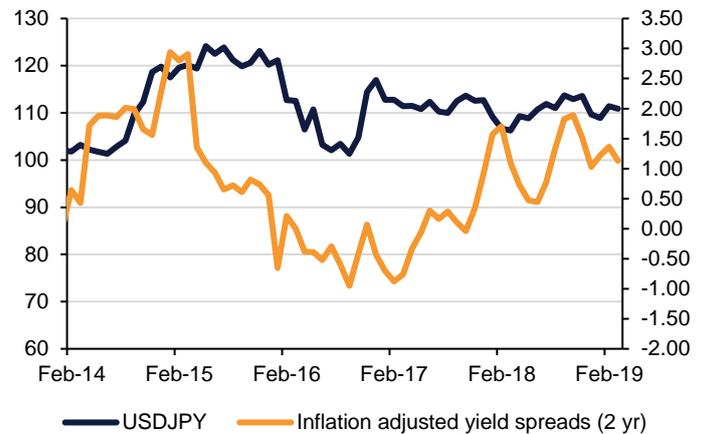
With no primary tier Japanese data in the week ahead, USDJPY will continue to be guided by risk appetite and yield differentials. With this in mind, U.S. data may have some impact. The FOMC minutes from the March meeting are due for release, as is consumer confidence and inflation data. Should any of the data show downside surprises, USDJPY may have trouble advancing any further.

Technical outlook

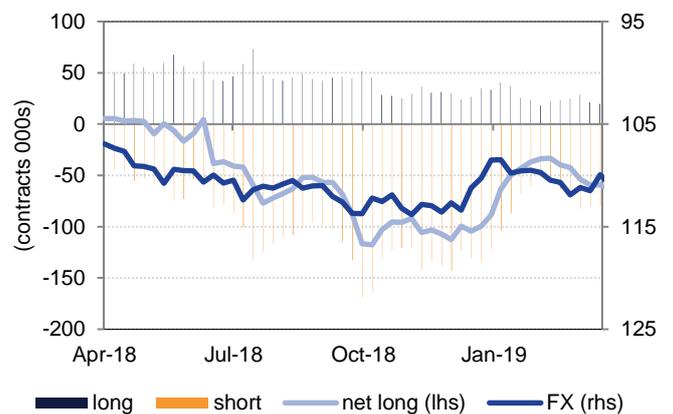
A 0.77% rise took USDJPY to 111.71 in a second week of gains. This movement in price is technically significant for a number of reasons. Firstly, the price has broken back above the formerly resistive 200-day moving average (111.49) which now appears to be acting as a support level. However, more importantly, analysis of the weekly candle chart shows that the 100-week moving average (110.81) has been breached for a second week, and now appears to be providing support. While the price remains above the 50-week moving average (111.12), we expect a retest of the 112 handle, not far from the 200-week moving average (112.09). A break of this level may result in further gains towards the 50% five-year Fibonacci retracement (112.44).

Forecasts	Spot	1 Week	1 month
USDJPY	111.73	112.00	112.00
EURJPY	125.30	126.56	128.80
GBPJPY	145.67	144.48	146.72

Yield Spreads



Net Positioning



Source: Bloomberg, Emirates NBD Research

Weekly Candle Chart



Source: Bloomberg, Emirates NBD Research

GBPUSD

GBP remains volatile but heavy

Over the last week, Prime Minister May announced that she would ask the EU for a short extension to Brexit, using the time to work with the opposition to reach a compromise deal which both parties could agree to vote on. With the Brexit stance of both the Labour Party, and parliament more generally, being towards maintaining closer ties with the EU, the greater likelihood is now for a softer Brexit. This stance was reinforced by Parliament voting to take a no-deal Brexit completely off the table.

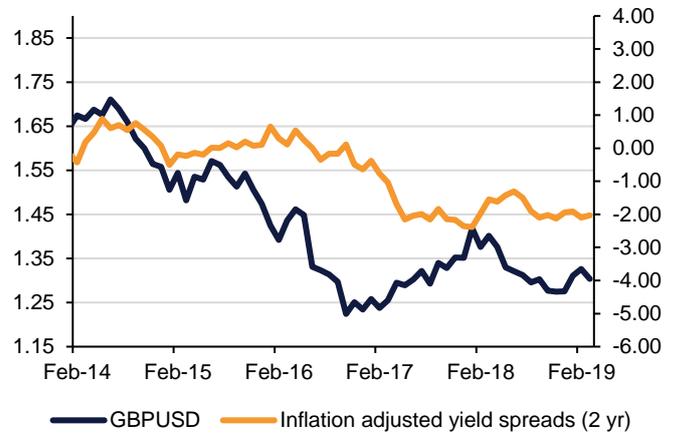
In the week ahead, once again all attention will be focused on Brexit developments. Over the weekend, May defended her decision to seek assistance from Jeremy Corbyn to draft a new blue print for Brexit, stating that the United Kingdom might never leave the EU unless he co-operates and throws his support behind a compromise plan. With the Conservative Party reacting negatively to her decision to work with the opposition, the clock is ticking as she attempts to make a breakthrough before travelling to Brussels on Wednesday to seek either a deal or further delays. GBP is expected to remain heavy against such a background, with uncertainty about the EU reaction to May's request and doubt about whether she will actually get any deal approved.

Technical outlook

GBPUSD was mostly unchanged last week, gaining 0.03% to close at 1.3039, following two previous weeks of declines. Of note is that for a second week, the price has closed below the 50-week moving average (1.3057) which leads us to believe that further declines towards the 200-day moving average (1.2974) which has acted as a support level since February 19th 2019.

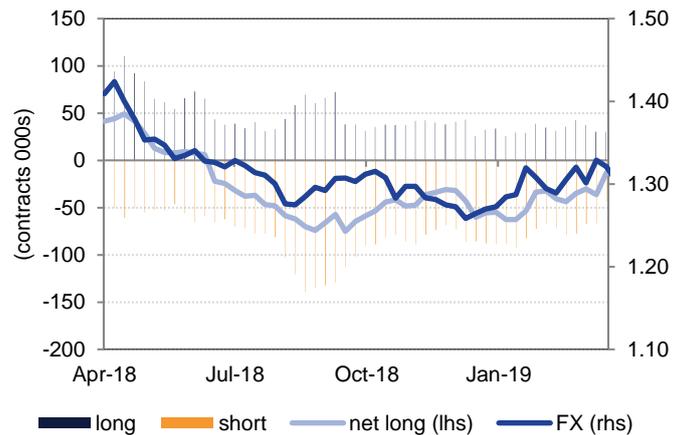
Forecasts	Spot	1 Week	1 month
GBPUSD	1.3038	1.2900	1.3100
EURGBP	0.8604	0.8760	0.8779
GBPJPY	145.67	144.48	146.72

Yield Spreads



Source: Bloomberg, Emirates NBD Research

Net Positioning



Source: Bloomberg, Emirates NBD Research

Weekly Candle Chart



Source: Bloomberg, Emirates NBD Research

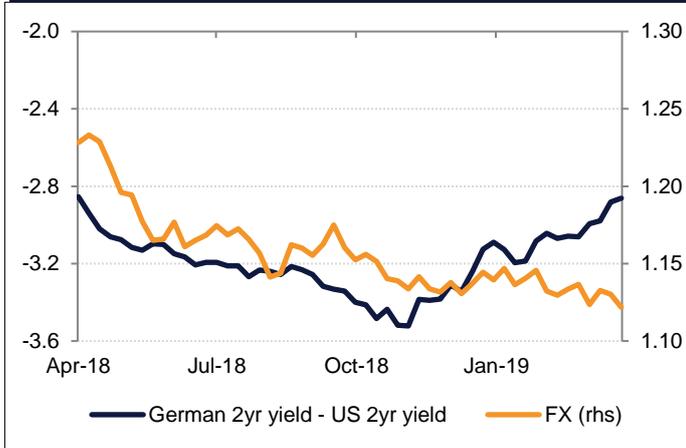
FX Forecasts

FX Forecasts - Major						Forwards		
	5-Apr	Q2 2019	Q3 2019	Q4 2019	Q1 2020	3m	6m	12m
EURUSD	1.1216	1.1500	1.1800	1.2000	1.2200	1.1303	1.1389	1.1560
USDJPY	111.73	113.00	112.00	110.00	110.00	110.93	110.14	108.55
USDCHF	1.0003	1.0000	0.9800	0.9700	0.9500	0.9917	0.9833	0.9669
GBPUSD	1.3038	1.3000	1.3500	1.4000	1.4300	1.3098	1.3155	1.3262
AUDUSD	0.7105	0.7550	0.7700	0.8000	0.8200	0.7118	0.7132	0.7160
NZDUSD	0.6730	0.6900	0.7100	0.7400	0.7600	0.6742	0.6755	0.6779
USDCAD	1.3384	1.2850	1.2600	1.2500	1.2200	1.3355	1.3328	1.3277
EURGBP	0.8604	0.8846	0.8741	0.8571	0.8531	0.8631	0.8659	0.8718
EURJPY	125.30	129.95	132.16	132.00	134.20	125.30	125.30	125.30
EURCHF	1.1221	1.1500	1.1564	1.1640	1.1590	1.1211	1.1200	1.1179
FX Forecasts - Emerging								
	5-Apr	Q2 2019	Q3 2019	Q4 2019	Q1 2020	3m	6m	12m
SAR	3.7506	3.7500	3.7500	3.7500	3.7500	3.7506	3.7515	3.7556
AED	3.6731	3.6730	3.6730	3.6730	3.6730	3.6736	3.6744	3.6764
KWD	0.3046	0.3020	0.3020	0.3020	0.3020	0.3047	0.3047	--
OMR	0.3848	0.3850	0.3850	0.3850	0.3850	0.3856	0.3863	0.3879
BHD	0.3770	0.3770	0.3770	0.3770	0.3770	0.3762	0.3762	0.3782
QAR	3.6580	3.6400	3.6400	3.6400	3.6400	3.6588	3.6586	3.6585
EGP	17.3065	18.0000	18.1250	18.2500	18.2500	17.6900	18.1450	19.1250
INR	69.226	70.000	70.000	68.000	68.000	70.0500	70.8300	72.1600
CNY	6.7079	6.9000	7.0000	7.1000	7.2000	6.7155	6.7265	6.7485
SGD	1.3549	1.3500	1.3200	1.3000	1.2900	1.3528	1.3504	1.3458
FX Forecasts - MENA						3.7503		
	5-Apr	Q2 2019	Q3 2019	Q4 2019	Q1 2020			
MAD	9.6575	9.5000	9.6000	9.6000	9.7000			
TND	3.0195	3.0800	3.1000	3.1500	3.2000			
TRY	5.6260	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



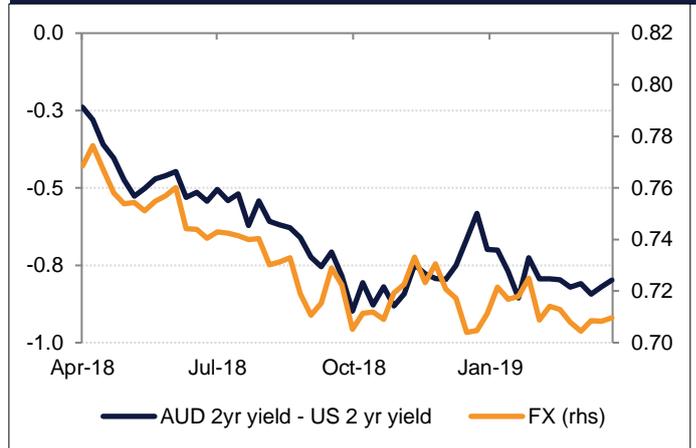
Interest Rate Differentials - CHF



Interest Rate Differentials - CAD

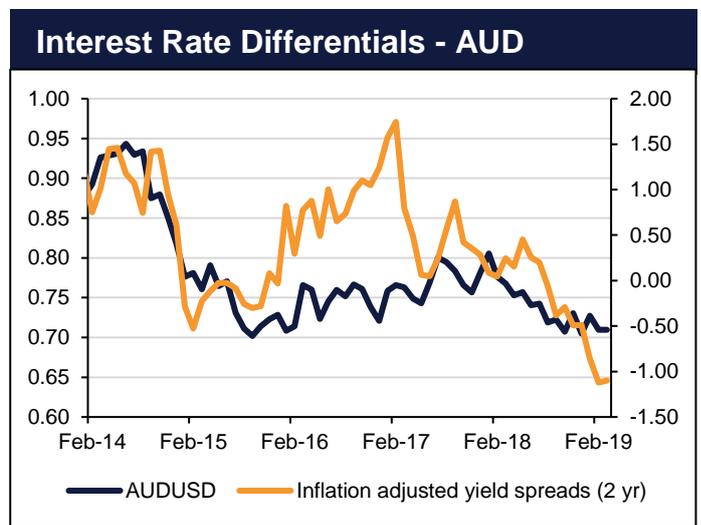
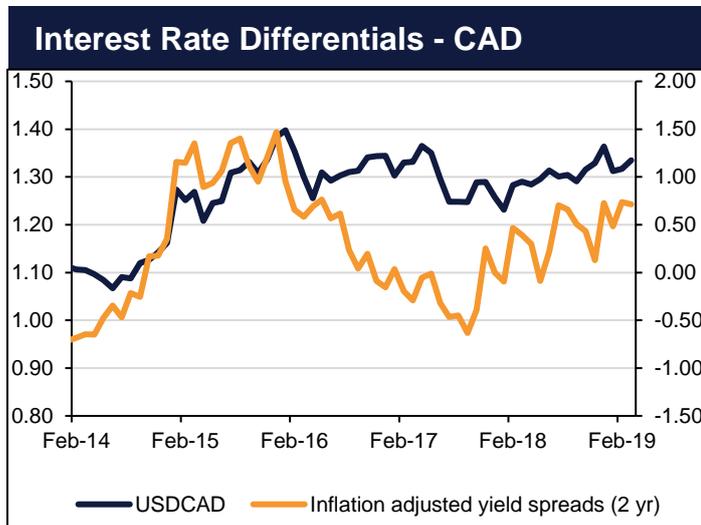
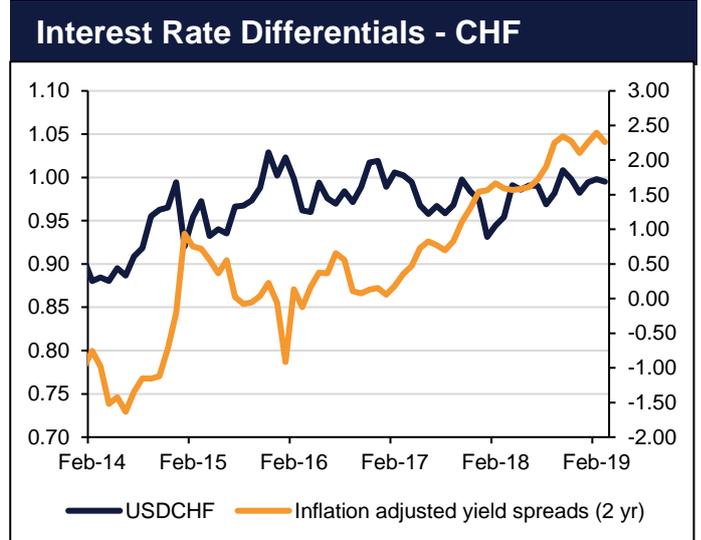
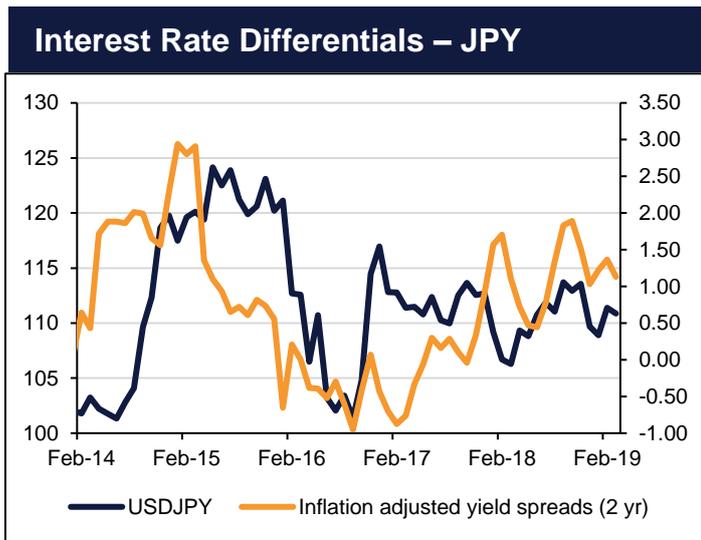
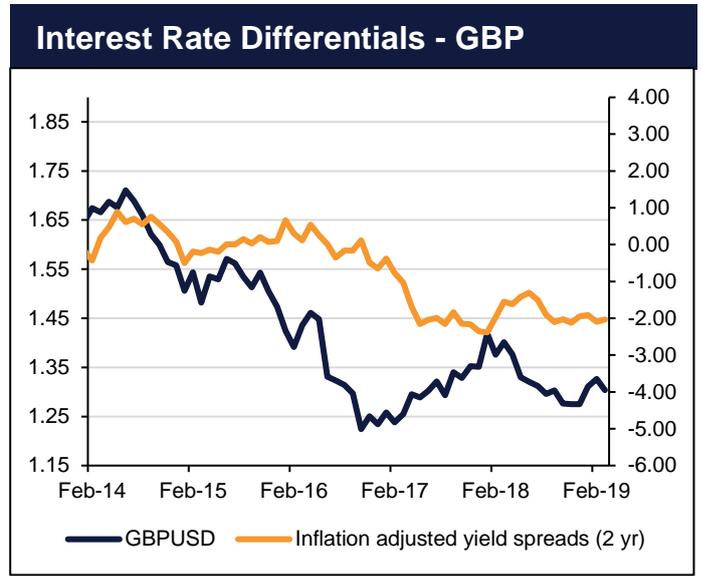
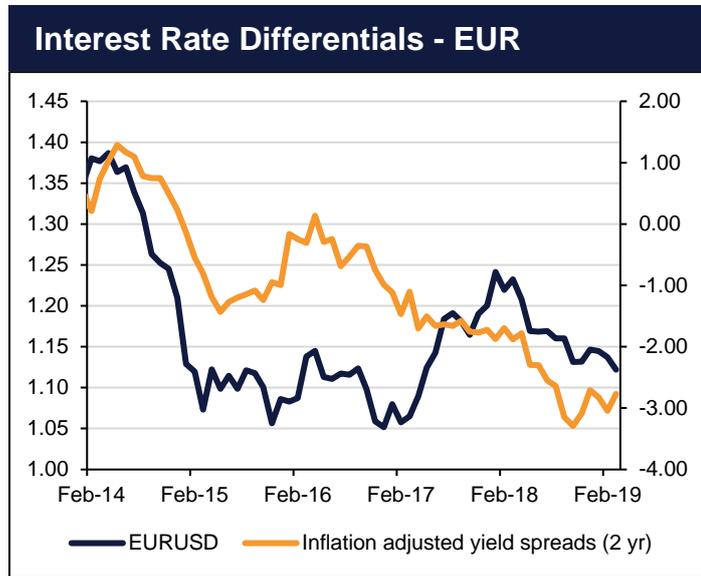


Interest Rate Differentials - AUD



Source: Bloomberg, Emirates NBD Research

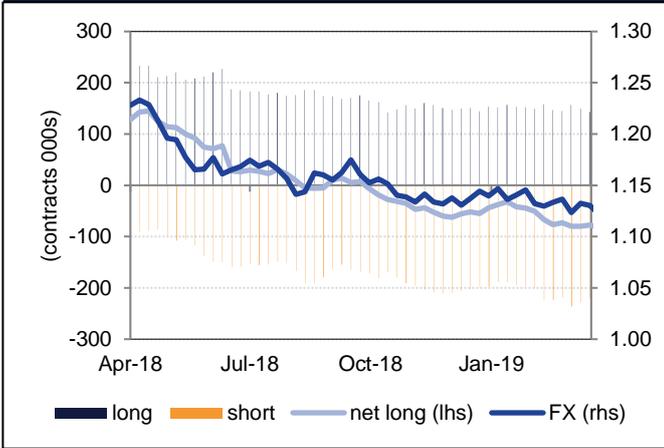
Major FX and Real Interest Rates



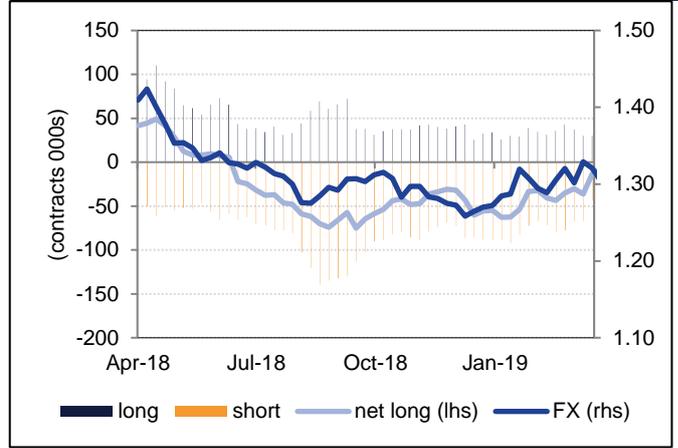
Source: Bloomberg, Emirates NBD Research

Major Currency Positions

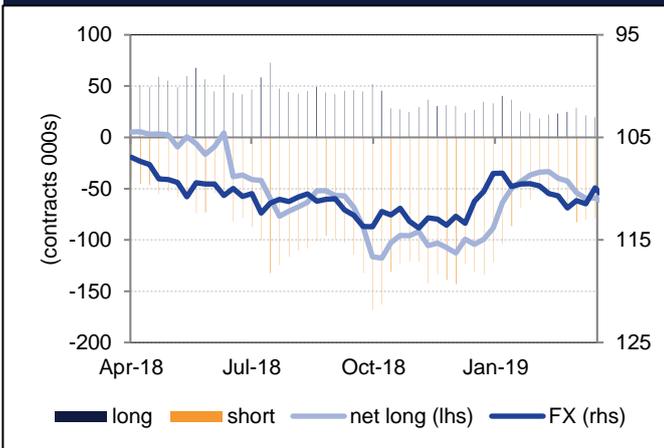
CFTC – Speculative Positions - EUR



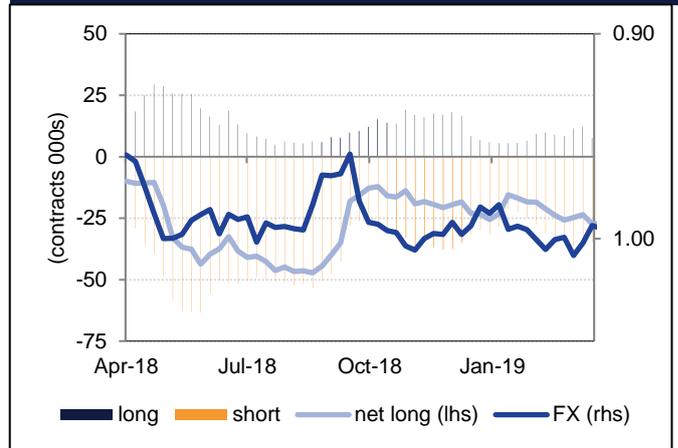
CFTC – Speculative Positions - GBP



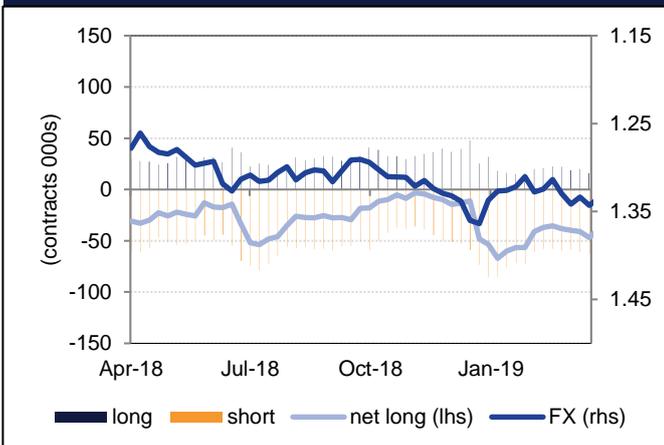
CFTC – Speculative Positions - JPY



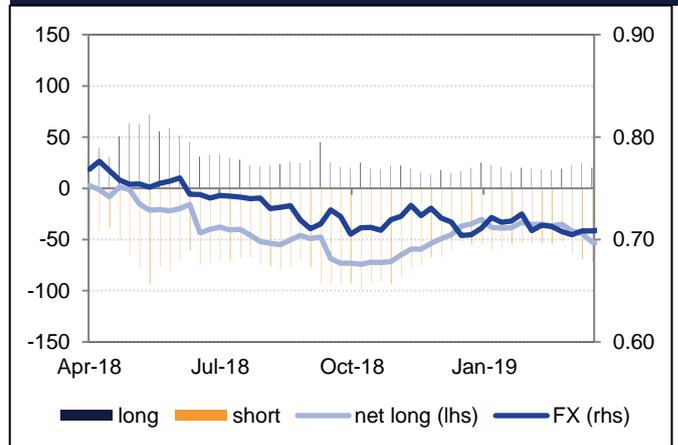
CFTC – Speculative Positions - CHF



CFTC – Speculative Positions - CAD



CFTC – Speculative Positions - AUD



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