



بنك الإمارات دبي الوطني
Emirates NBD

Weekly
7 October 2018

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FX Week

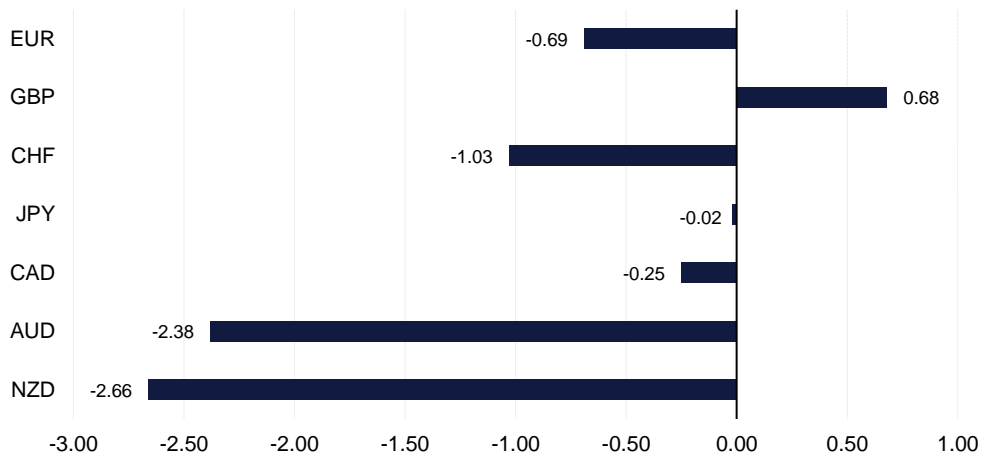
Despite September's non-farm payroll headline being softer than expected at 134,000 compared to 270,000 the previous month, other readings of the U.S. labour market remain firm. Some of the payroll weakness can be attributed to Hurricane Florence, while the balance is more than offset by an upwards revision of 87,000 jobs for the previous two months. In addition, the unemployment rate fell from 3.9% in August to 3.7% and hourly wages were firm at 2.8% y/y. Therefore there is nothing in this report to alter expectations of rate hike in December, with a 76% probability now being attached to this by markets.

Evidence supporting this opinion could be seen in Atlanta Fed (and FOMC voter) President Raphael Bostic's comments last week that the strength of the US economy raises a question of overheating and as a result, "a higher path of rates" may be required. This was also re-affirmed by Dallas Fed President Kaplan stating he would be comfortable with an additional rate hike in December 2018 and two more hikes in 2019, while highlighting the dangers of moving too slowly. With data continuing to be constructive and show resilient growth in the U.S. economy, interest rates seem destined to continue rising, underpinning the dollar in the process.

At a glance:

- EURUSD declined for a second week, and was only saved from further losses by support at the 100-week moving average, a key level in the week ahead.
- USDJPY has recoupled to U.S. Treasury yields, hitting new 2018 highs.
- GBPUSD outperforms to break back above the 50-day, 100-day and 100-week moving averages.

Weekly currency movement vs USD (%)



Source: Bloomberg, Emirates NBD Research

Forecasts	Spot	1 Week	1 month
EURUSD	1.1524	1.1650	1.1800
GBPUSD	1.3120	1.3200	1.3300
USDJPY	113.72	113.00	112.00
EURJPY	131.00	131.645	132.16
EURGBP	0.8779	0.8826	0.8872
GBPJPY	149.22	149.16	148.96

EURUSD

EURUSD declines for a second week

EURUSD fell for a second consecutive week amid mixed economic data and statements from policy makers. Despite a report from Eurostat showing that aggregate Eurozone unemployment fell from 8.2% in July to 8.1% in August, this data was overshadowed by U.S. data and yields which supported the dollar and kept EURUSD under pressure. Earlier in the week, firm PMIs (Markit and ISM) and a solid ADP employment report (230k vs 160k, est 184k) helped 10-year yields crack 3.20% which resulted in the dollar reaching two-month highs. Indeed, EURUSD would have continued to lose further ground, except Friday's softer than expected non-farm payroll figure (134k vs 270k, est 185k) halted further losses and caused a relief rally. With this said, the same report was accompanied by a fall in the unemployment rate from 3.9% in August to 3.7% in September and an upward revision of 87,000 jobs to August's and July's reports. In addition, much of the softness in the headline report can be attributed to the Hurricane Florence having an impact in the hospitality and leisure sectors. Therefore, the data is unlikely to deter the Federal Reserve from continuing to tighten monetary policy.

U.S. inflation to be key in the week ahead

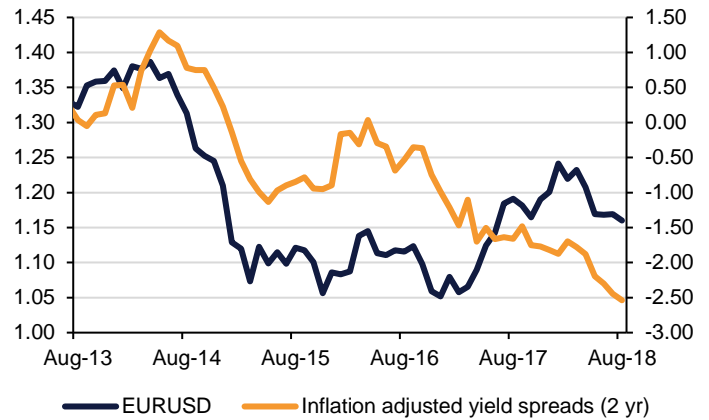
Over the week ahead, investors will be eying U.S. inflation data which is expected to show that consumer prices increased 2.4% y/y in September, down from 2.7% y/y in August. With the market currently pricing in a 76.1% chance of a fourth rate hike in December 2018, the data would need to show an extreme negative downside surprise to make yields fall and the dollar less attractive.

Technical outlook

The EURUSD fell 0.71% last week, to close at 1.1522 on Friday. Of technical significance is over the course of the week, the price broke below the 100-week moving average (1.1502) but did not close below this key level. The risk in the week ahead is that a break and a close below this level can catalyze more significant losses towards the August 2018 lows of 1.1301. On the other hand, should this level continue to hold and act as a support, we can expect a retest of the 50-day moving average (1.1597, also the 23.6% one-year Fibonacci retracement). A break and daily close above these levels could be the primers for a longer rebound.

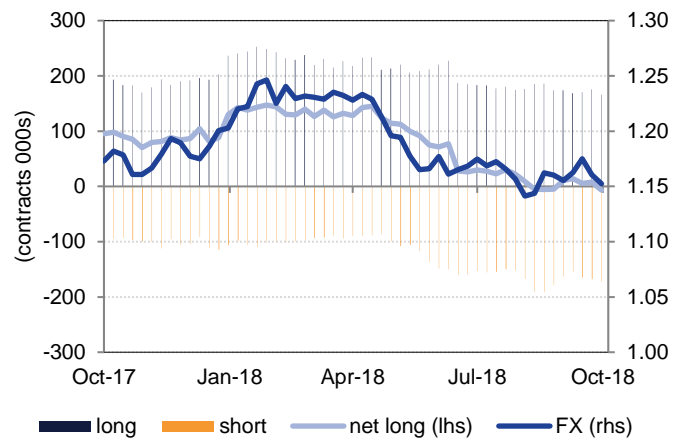
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Yield Spreads



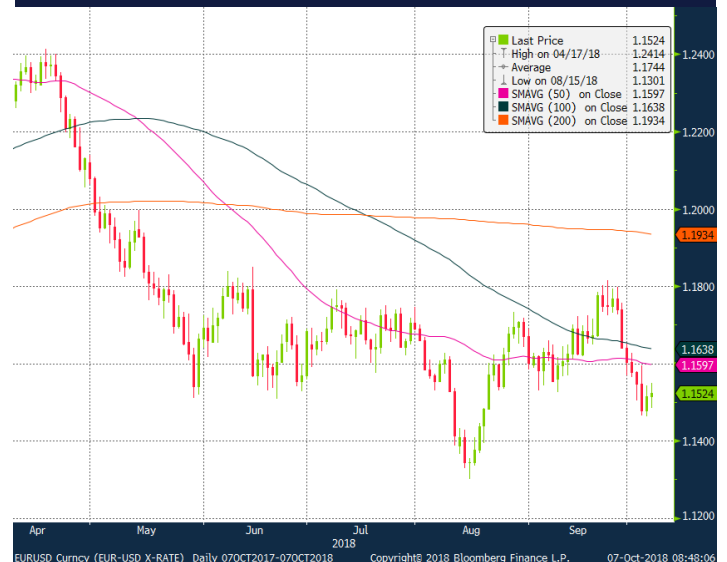
Source: Bloomberg, Emirates NBD Research

Net Positioning



Source: Bloomberg, Emirates NBD Research

Daily Candle Chart



Source: Bloomberg, Emirates NBD Research

USDJPY

Yields help USDJPY climb for fourth week

USDJPY climbed for a fourth week, hitting new 2018 highs in the process. The major support behind this rise was the climb in 10-year U.S. Treasury yields which cracked above 3.20% for the first time since 2011.

Yields and risk appetite to set the tone

With no primary tier economic data due for release in the week ahead, USDJPY is likely to be driven by market sentiment and yields. With the correlation between yields and USDJPY resurfacing recently, any further climb in yields is likely to be constructive towards USDJPY. On the other hand, bouts of risk aversion in the market will lead to JPY appreciation as a consequence of safe haven bids and result in USDJPY declining.

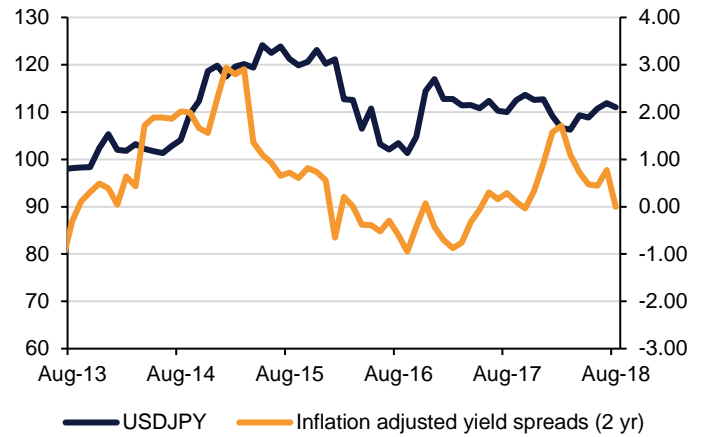
Technical

USDJPY was virtually unchanged last week, finishing the week 0.01% higher at 113.71 after hitting new 2018 highs of 114.55 on Thursday. These highs are not far from the one year highs seen in November 2017 (114.73). In addition, the price has now closed above the 200-week moving average (113.20) for a second week which is bullish for the price action and analysis of the daily candle chart shows that the daily uptrend that has been in effect since March 26th 2018 remains intact.

The key level is 114.55, close to the 76.4% two-year Fibonacci retracement (114.53), which has acted as a resistance level May, October and November 2017, as well as last week. Should USDJPY achieve a weekly close above this level, it could pave the way for further appreciation towards 118.

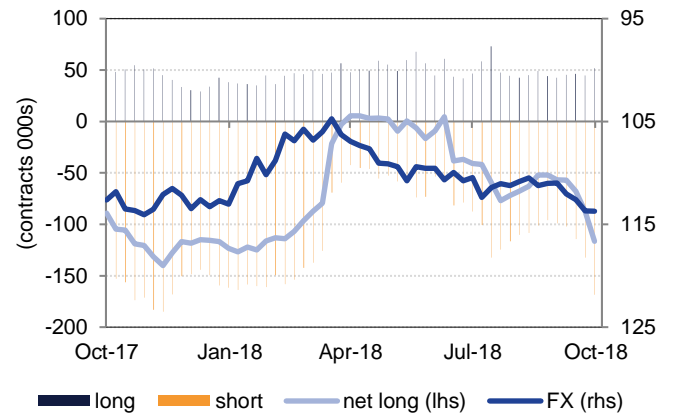
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Daily Candle Chart



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GBPUSD

GBP erases the losses of the previous week

GBP was the best performing G-10 currency last week, gaining on all the other currencies amid optimism over a deal being reached between the U.K. and EU, the latter being rumored to be ready to offer an improved free-trade pact. This report followed comments from senior German advisor Sebastian Gehrold stating that the odds of an agreement were at 80%. With the two sides headed to a summit later this month to discuss terms further, EU negotiators have most recently said that they see a deal as “very close” and this has helped the pound rally and erase the losses of the previous week.

Trade, GDP and politics are key this week

Over the week ahead, markets will eye GDP, trade and production data for indications on the overall health of the British economy. While upside benefits to the pound may be limited by stronger than expected economic data, the market may irrationally over-react to weaker than expected data.

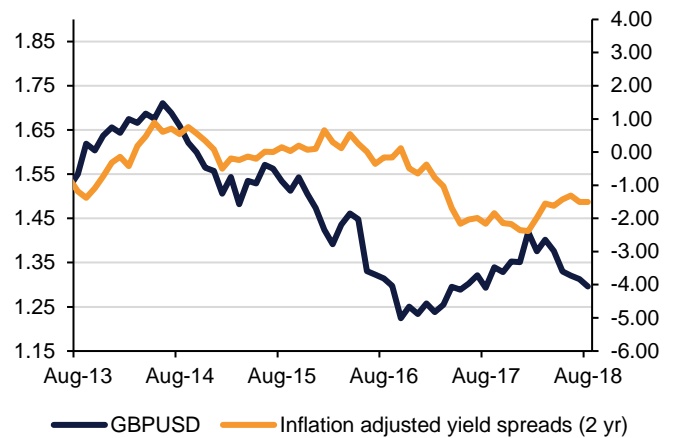
With this said, the main theme will continue to be Brexit negotiations with sterling strength being determined by any progress, or lack of, in finalizing a deal with the European Union.

Technical

Over the last week GBPUSD was able to rise by 0.67%, closing at 1.3118 in a move that saw the cross finding support at the 50-day moving average (1.2973) and closing just above the 100-day moving average (1.3111) and 100-week moving average (1.3104). This final development is noteworthy as the 100-week moving average had false break outs the previous three weeks, and this fourth break is the only one that has been sustained. This paves the way for further gains towards the 38.2% one-year Fibonacci retracement (1.3317), which is likely to be the path of least resistance while the daily closes remain above the 23.6% one-year Fibonacci retracement (1.3067).

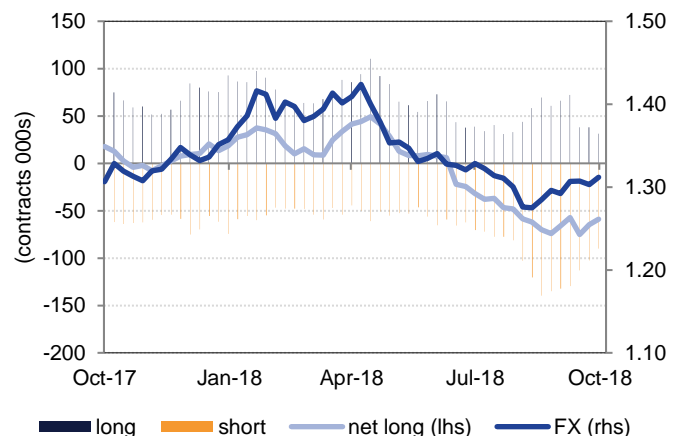
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Yield Spreads



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Net Positioning



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Daily Candle Chart



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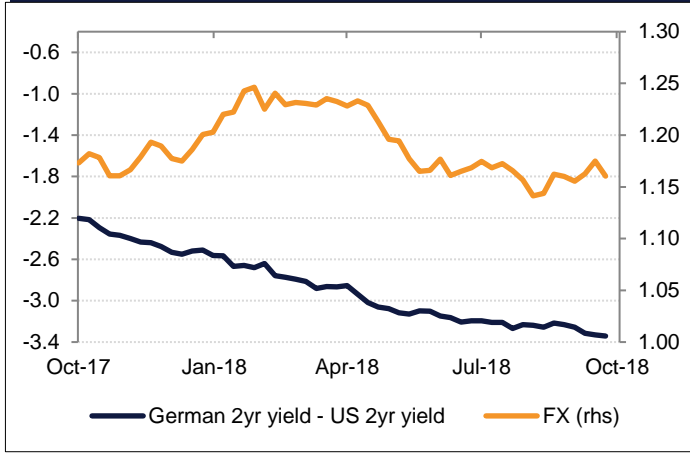
FX Forecasts

FX Forecasts - Major						Forwards		
	5-Oct	Q4 2018	Q1 2019	Q2 2019	Q3 2019	3m	6m	12m
EUR	1.1524	1.1900	1.2100	1.2350	1.2500	1.1616	1.1707	1.1910
JPY	113.72	112.00	110.00	110.00	110.00	112.86	112.03	110.20
CHF	0.9920	0.9800	0.9800	0.9800	0.9800	0.9831	0.9744	0.9559
GBP	1.3120	1.3300	1.3500	1.4000	1.4400	1.3181	1.3239	1.3365
AUD	0.7052	0.7300	0.7550	0.7700	0.8000	0.7059	0.7069	0.7098
NZD	0.6443	0.6600	0.6900	0.7100	0.7400	0.6448	0.6455	0.6480
CAD	1.2939	1.2700	1.2650	1.2600	1.2500	1.2915	1.2896	1.2861
EURGBP	0.8779	0.8947	0.8963	0.8821	0.8681	0.8808	0.8839	0.8907
EURJPY	131.00	133.28	133.10	135.85	137.50	131.00	131.00	131.00
EURCHF	1.1437	1.1662	1.1858	1.2103	1.2250	1.1424	1.1412	1.1391
FX Forecasts - Emerging						7-Sep		
	5-Oct	Q4 2018	Q1 2019	Q2 2019	Q3 2019	3m	6m	12m
SAR	3.7505	3.7500	3.7500	3.7500	3.7500	3.7503	3.7505	3.7535
AED	3.6730	3.6730	3.6730	3.6730	3.6730	3.6736	3.6741	--
KWD	0.3038	0.3020	0.3020	0.3020	0.3020	0.2973	0.2918	--
OMR	0.3850	0.3850	0.3850	0.3850	0.3850	0.3857	0.3863	0.3880
BHD	0.3770	0.3770	0.3770	0.3770	0.3770	0.3762	0.3762	0.3786
QAR	3.6588	3.6400	3.6400	3.6400	3.6400	3.6518	3.6493	3.6460
EGP	17.8914	18.0000	18.1250	18.2500	18.2500	18.4300	18.9400	19.9350
INR	73.768	70.000	70.000	68.000	68.000	75.3500	76.2900	77.9000
CNY	6.8688	6.9000	7.0000	7.1000	7.2000	6.9495	6.9735	7.0090
SGD	1.3825	1.3500	1.3200	1.3000	1.2900	1.3802	1.3772	1.3698

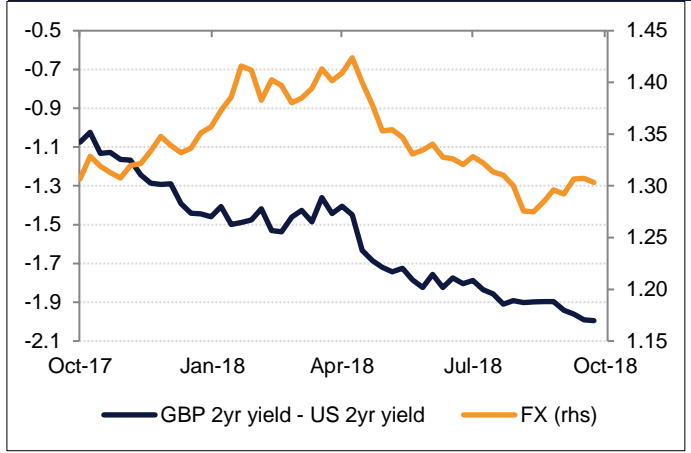
Source: Bloomberg, Emirates NBD Research
 *Denotes USD peg

Major FX and Nominal Interest Rates

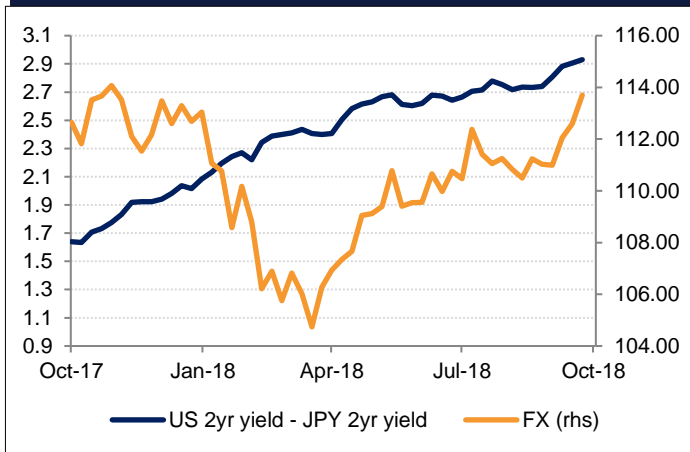
Interest Rate Differentials - EUR



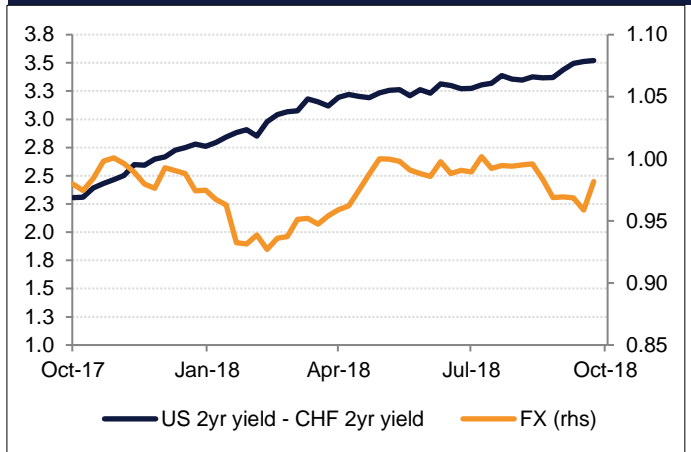
Interest Rate Differentials - GBP



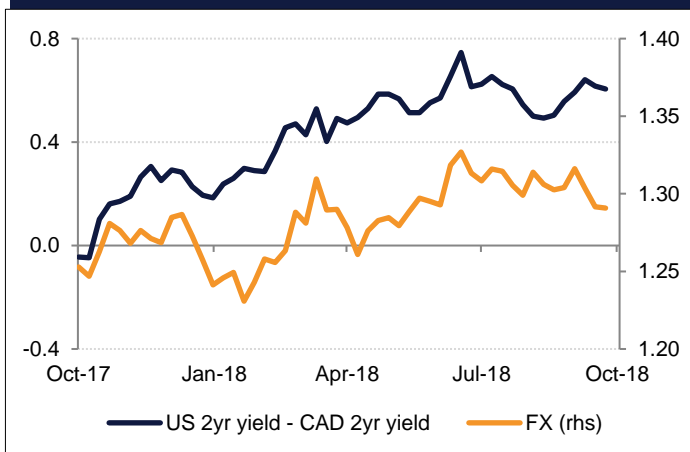
Interest Rate Differentials - JPY



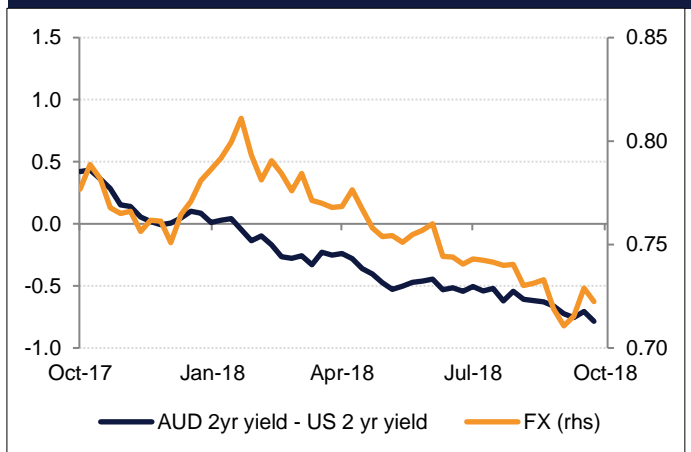
Interest Rate Differentials - CHF



Interest Rate Differentials - CAD

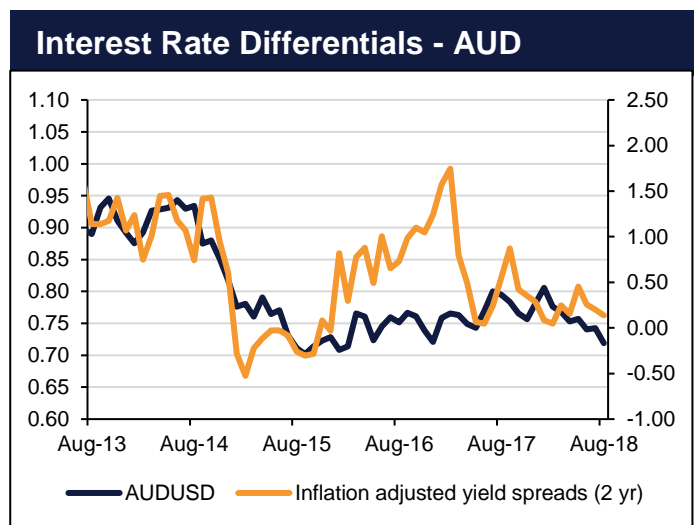
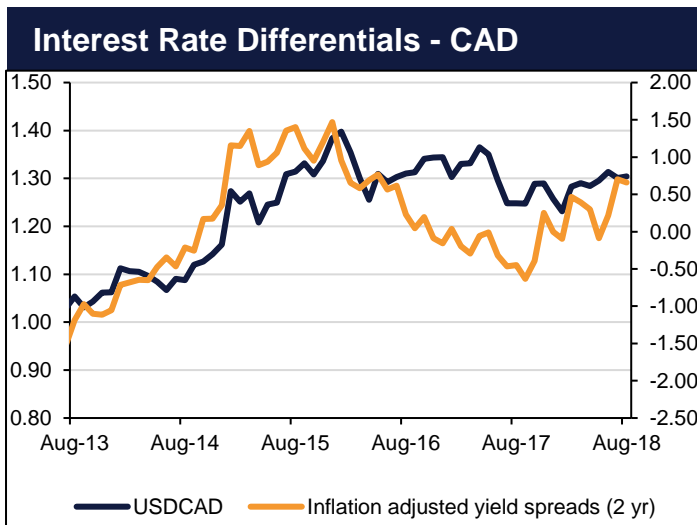
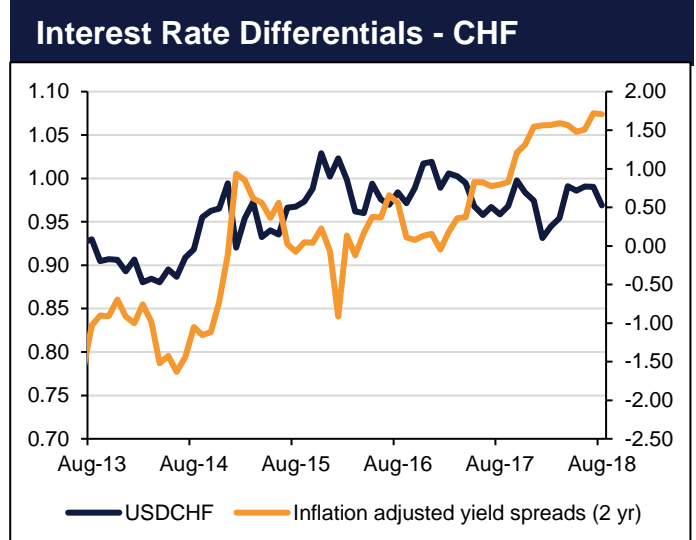
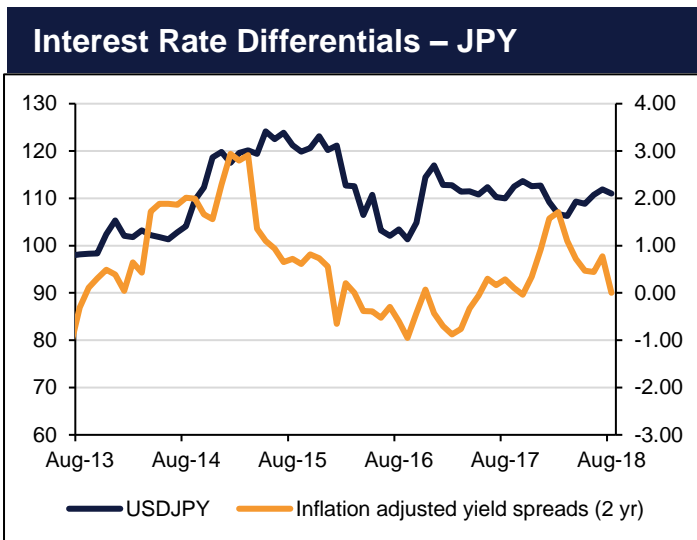
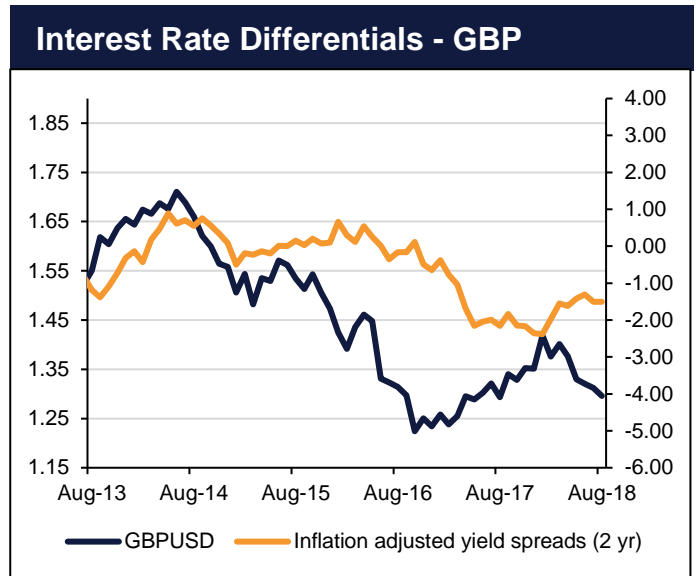
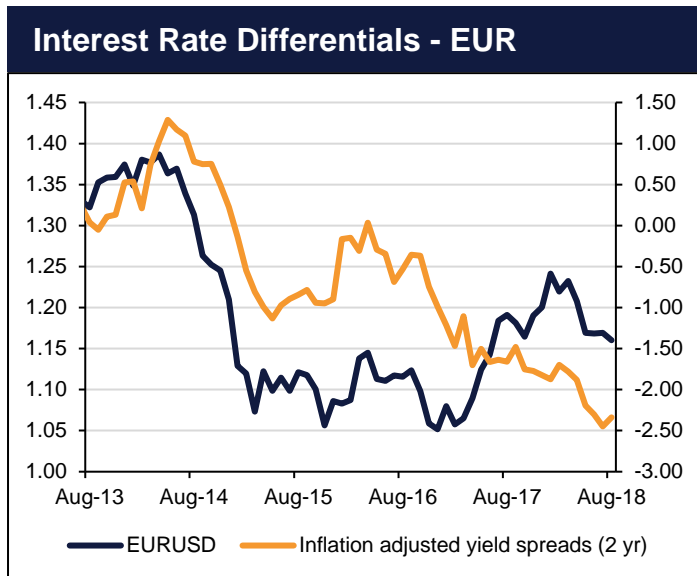


Interest Rate Differentials - AUD



Source: Bloomberg, Emirates NBD Research

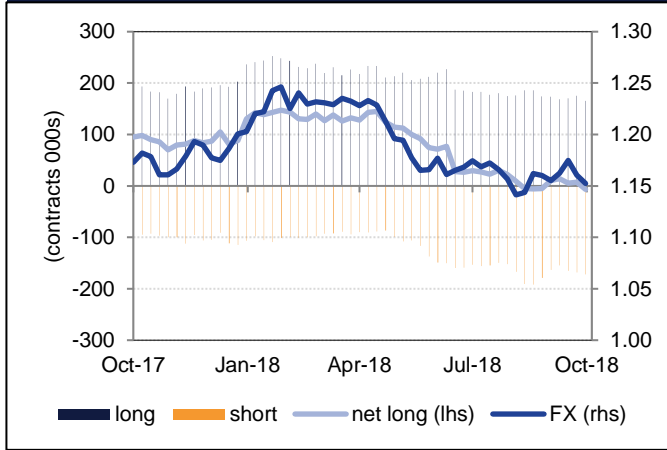
Major FX and Real Interest Rates



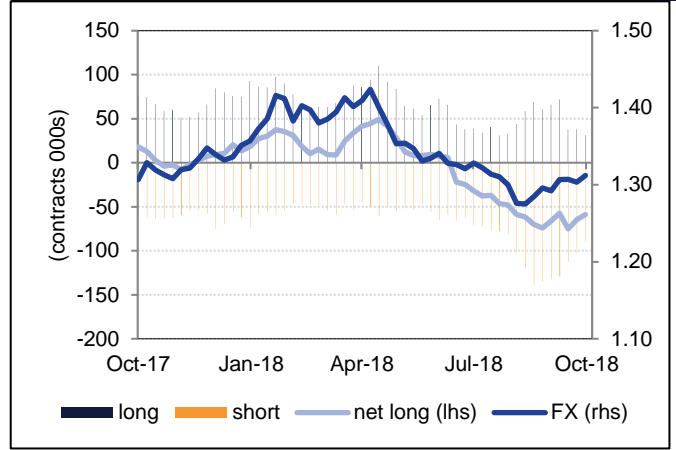
Source: Bloomberg, Emirates NBD Research

Major Currency Positions

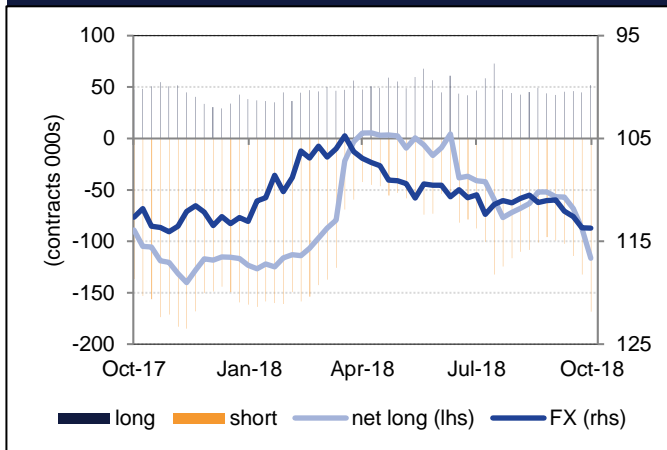
CFTC – Speculative Positions - EUR



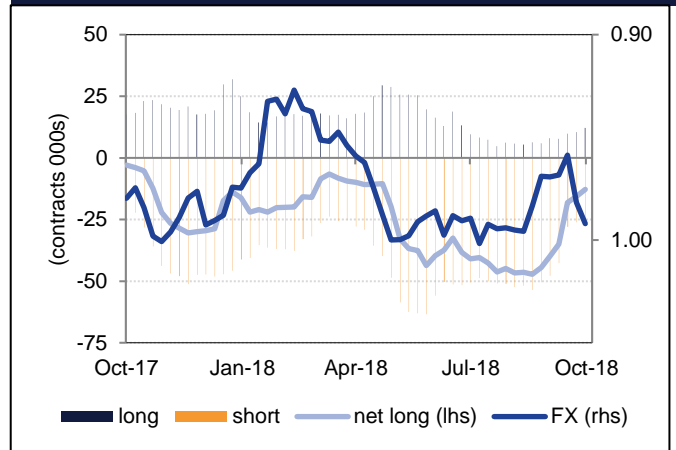
CFTC – Speculative Positions - GBP



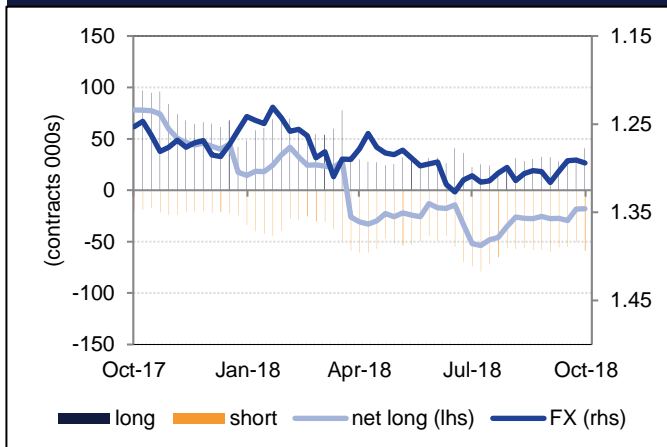
CFTC – Speculative Positions - JPY



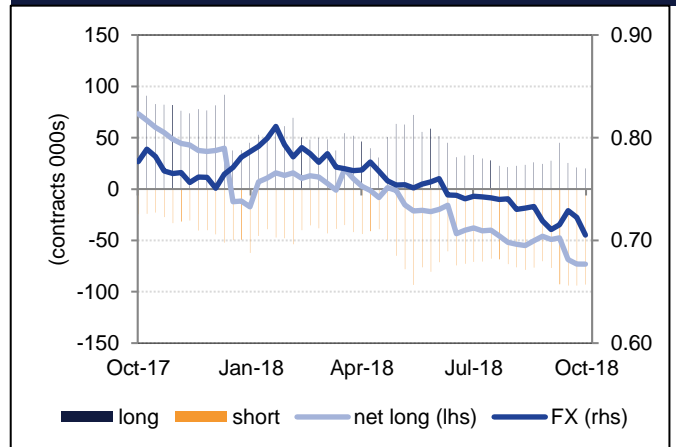
CFTC – Speculative Positions - CHF



CFTC – Speculative Positions - CAD



CFTC – Speculative Positions - AUD



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