



بنك الإمارات دبي الوطني
Emirates NBD

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FX Week

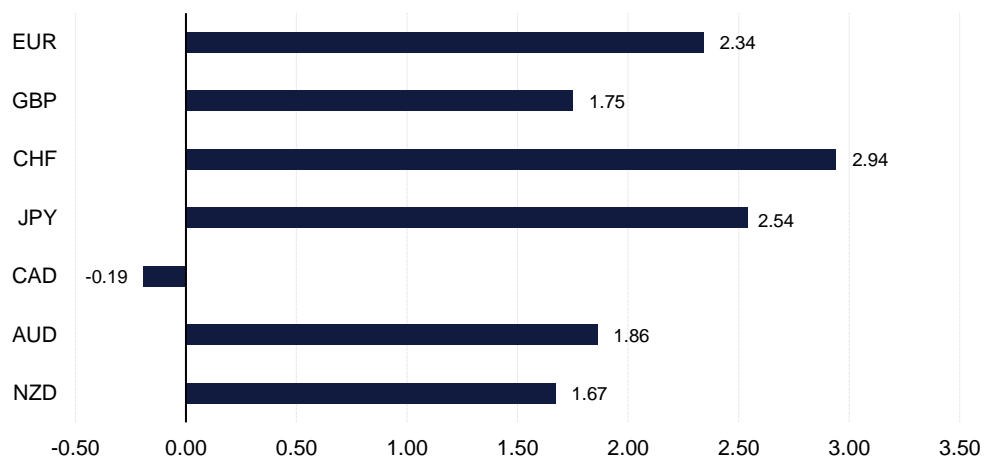
The last fortnight has seen markets abruptly catch up with the reality of the coronavirus crisis, with bond and equity markets in particular forcing the Fed's hand to cut interest rates by 50bps last week, for the first inter-meeting change in rates since the 2008 financial crisis, and taking the lower bound of the Fed funds rate to 1.0%. This was very much a preemptive step to guard against an economic slowdown, with demand now becoming just as negatively affected by the global impact of coronavirus as supply.

The Fed Chair Jerome Powell said that the central bank took action after officials saw that the coronavirus outbreak was having a material impact on the economic outlook. While the G7 held a conference call to coordinate its responses and the Fed said it was ready to act further, not much coordination appeared to be in evidence with only limited monetary policy responses elsewhere, as well as some fiscal support from the IMF and World Bank.

The Reserve Bank of Australia and the Bank of Canada were the only other prominent central banks to make similar moves to the Fed and the markets are awaiting decisions from the Bank of England the European Central Bank (ECB) in coming weeks. It was quickly apparent, however, that markets were not satisfied with the Fed's move as equity markets and bond yields continued to fall, with the 10-year yield hitting an historic intraday low of 0.657%. Expectations are that the Fed will cut interest rates again at their next meeting on the 17-18th March, with more after that, which is undermining the USD on all fronts. The CHF, JPY and the EUR were the main beneficiaries, all strengthening in excess of 2.0% against the U.S. currency. However, even such rate cuts are not guaranteed to reverse negative sentiment given the overwhelming sense of unease, with markets continuing to take their cue from medical developments rather than economic ones.

Such interest rate cuts would also leave the Fed dangerously exposed should the economic situation begin to really deteriorate, as it would leave the lower bound of US interest rates close to zero. Although the U.S. jobs data held up strongly in February with 273k new jobs created, the closer the Fed gets to the zero bound, concerns will legitimately grow about the ability of the Fed to respond to further shocks. It will also cast doubt on its ability to escape from the scourge of zero interest rates further down the road, given the experience of the ECB and the Bank of Japan in this regard over recent years.

Weekly currency movement vs USD (%)



Source: Bloomberg, Emirates NBD Research

Technical Observations

EURUSD climbs for third week

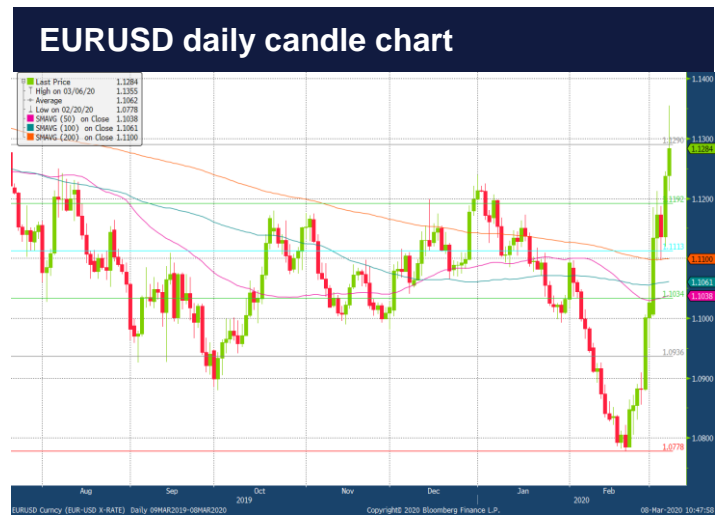
EURUSD rose for a third week, climbing by 2.34% to reach 1.1284. The price had managed to break the 1.13 level over the course of the week, the first time it has done this since July 2019, but resistance at the 100-week and 200-week moving averages (1.1342 and 1.1348 respectively) halted any further gains. It is noteworthy that the price breached the 100-day moving average (1.1061) and crossed the 1.12 level, which we indicated last week were crucial for further advancement. These technical developments mean that risks remain to the upside and although there may be some resistance catalyzed by profit taking due to overbought conditions, a daily close above the 76.4% one-year Fibonacci retracement (1.1290) would expose the 1.14 level to being tested.

GBPUSD breaks the 100-day moving average

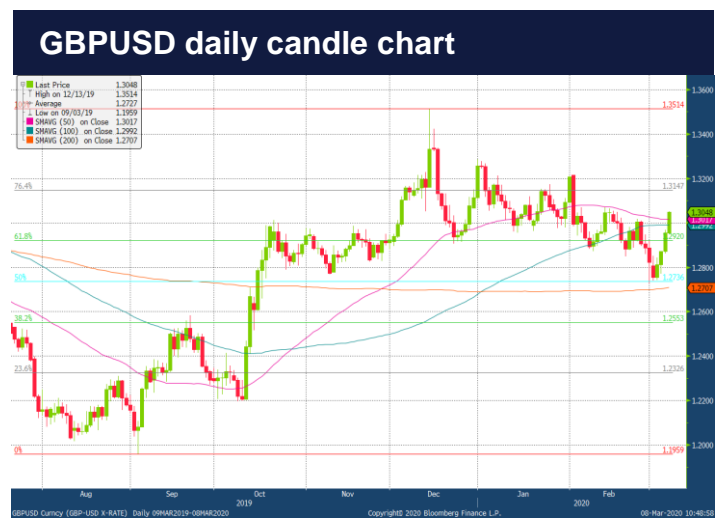
A 1.76% appreciation over the last week took GBPUSD to 1.3048, back above the 200-week moving average (1.3022) for the first time in four weeks. Over the course of the week, GBPUSD found support near the 50% one-year Fibonacci retracement (1.2736) on Monday. Following bids at this level, the price climbed for the next four days, breaching the 61.8% one-year Fibonacci retracement (1.2920) before breaking the 100-day and 50-day moving averages (1.2992 and 1.3017) in quick succession. Following these developments, technically upside risks seem the path of least resistance and we maintain our Q1 2020 forecast of 1.32.

USDJPY plummets for a second week

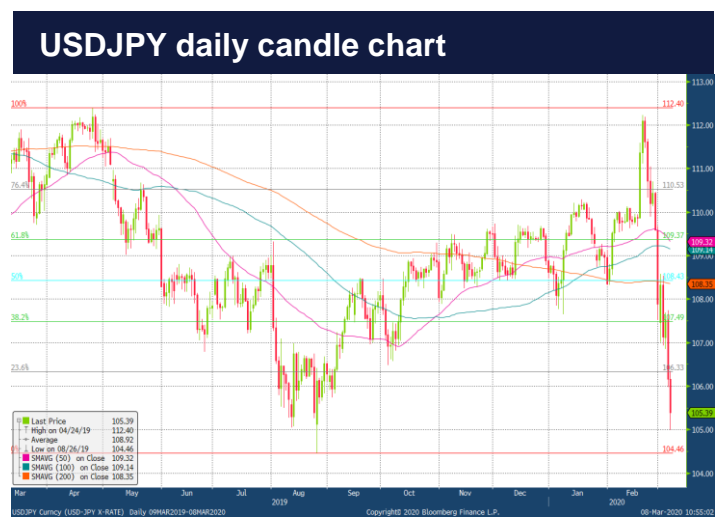
Following a 3.13% decline the previous week, USDJPY added an additional 2.33% in losses over the last five days to close at 105.39. In line with our expectations, there was a daily close below 107.50, not far from the 38.2% one-year Fibonacci retracement (107.49) followed by a larger decline towards the 105 level at which support was found. Despite this, analysis of the daily candle chart shows that there is now a new level of resistance at the 23.6% one-year Fibonacci retracement (106.33) and while the price remains below this level, further losses seem the most likely fate for USDJPY.



Source: Bloomberg



Source: Bloomberg



Source: Bloomberg

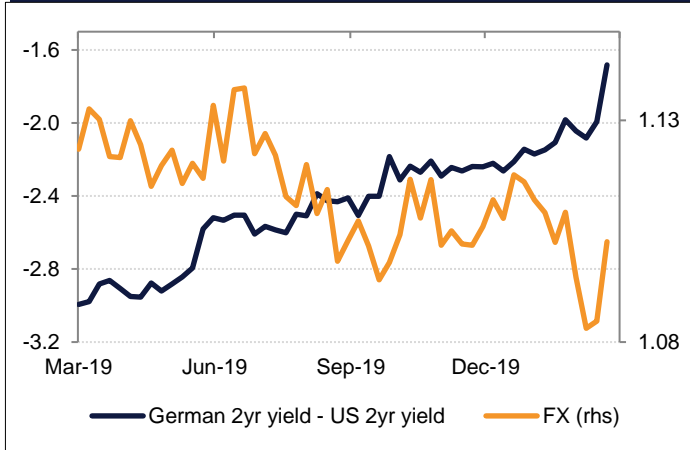
FX Forecasts

FX Forecasts – Major						Forwards		
	6-Mar	Q1 2020	Q2 2020	Q3 2020	Q4 2020	3m	6m	12m
EURUSD	1.1284	1.1200	1.1400	1.1500	1.1700	1.1327	1.1363	1.1436
USDJPY	105.39	108.00	108.00	107.00	107.00	105.01	104.70	104.02
USDCHF	0.9383	0.9500	0.9400	0.9300	0.9300	0.9338	0.9298	0.9220
GBPUSD	1.3048	1.3200	1.3600	1.4000	1.4400	1.3062	1.3069	1.3083
AUDUSD	0.6636	0.6700	0.6850	0.7000	0.7100	0.6636	0.6635	0.6631
NZDUSD	0.6350	0.6500	0.6600	0.6700	0.6700	0.6339	0.6334	0.6325
USDCAD	1.3418	1.3250	1.3200	1.3000	1.2800	1.3422	1.3427	1.3438
EURGBP	0.8647	0.8485	0.8382	0.8214	0.8125	0.8671	0.8693	0.8741
EURJPY	119.05	120.96	123.12	123.05	125.19	119.05	119.05	119.05
EURCHF	1.0587	1.0640	1.0716	1.0695	1.0881	1.0575	1.0563	1.0543
FX Forecasts - Emerging								
	6-Mar	Q1 2020	Q2 2020	Q3 2020	Q4 2020	3m	6m	12m
SAR	3.7533	3.7500	3.7500	3.7500	3.7500	3.7530	3.7538	3.7568
AED	3.6731	3.6730	3.6730	3.6730	3.6730	3.6740	3.6751	3.6780
KWD	0.3055	0.3020	0.3020	0.3020	0.3020	0.3062	0.3071	--
OMR	0.3849	0.3850	0.3850	0.3850	0.3850	0.3868	0.3885	0.3922
BHD	0.3770	0.3770	0.3770	0.3770	0.3770	0.3761	0.3761	0.3780
QAR	3.6673	3.6400	3.6400	3.6400	3.6400	3.6713	3.6721	3.6750
EGP	15.6363	15.7500	15.7500	15.5000	15.5000	16.2300	16.7000	17.6000
INR	73.783	72.000	71.000	70.000	68.000	75.4100	76.1500	77.6600
CNY	6.9329	7.1000	7.2000	7.2000	7.2000	6.9494	6.9729	7.0209
SGD	1.3785	1.3500	1.3300	1.3100	1.3000	1.3780	1.3780	1.3785
FX Forecasts - MENA						3.7503		
	6-Mar	Q1 2020	Q2 2020	Q3 2020	Q4 2020			
MAD	9.4973	9.5000	9.5000	9.4000	9.4000			
TND	2.8026	2.8000	2.8000	2.7000	2.7000			
TRY	6.0916	6.0000	6.2000	6.2000	6.3000			

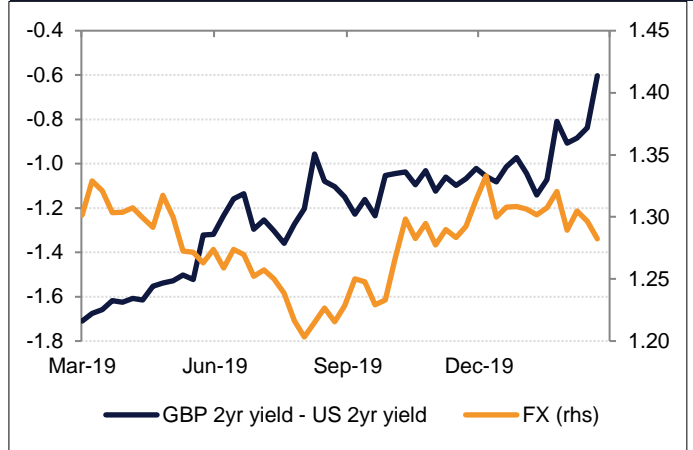
Source: Bloomberg, Emirates NBD Research
 *Denotes USD peg

Major FX and Nominal Interest Rates

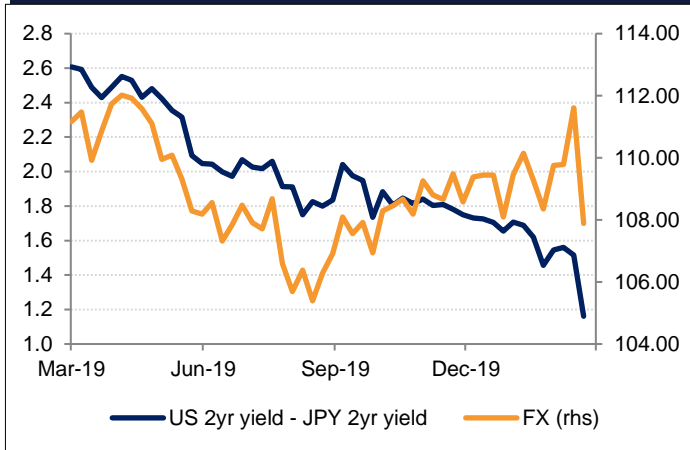
Interest Rate Differentials - EUR



Interest Rate Differentials - GBP



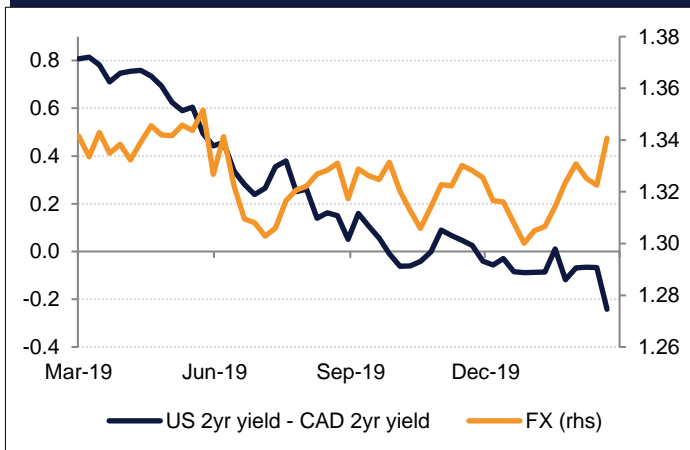
Interest Rate Differentials - JPY



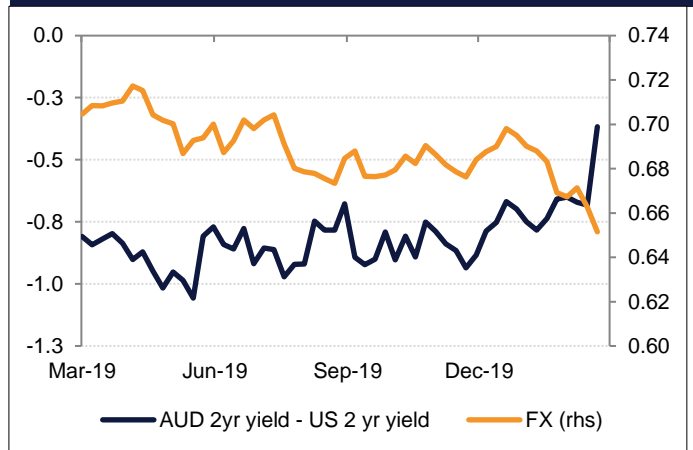
Interest Rate Differentials - CHF



Interest Rate Differentials - CAD

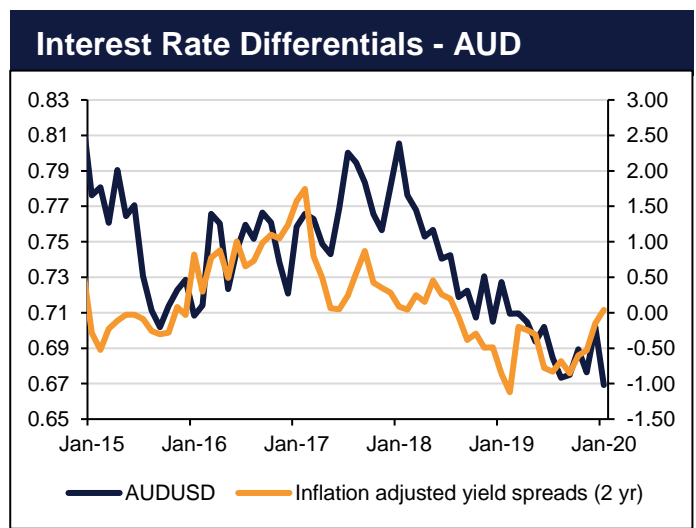
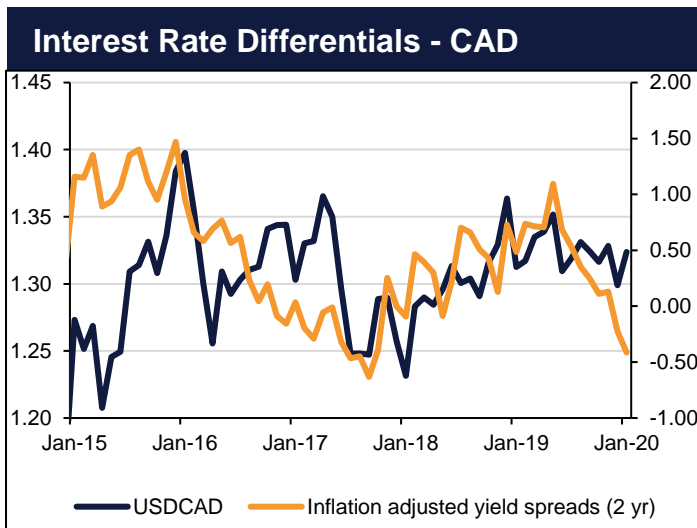
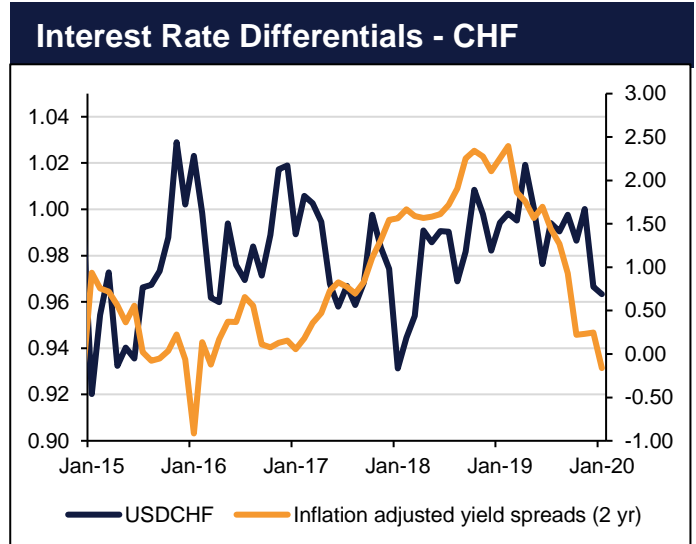
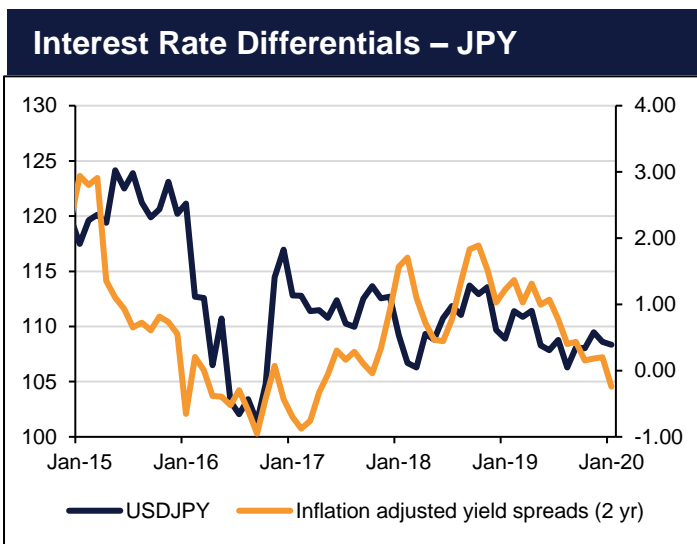
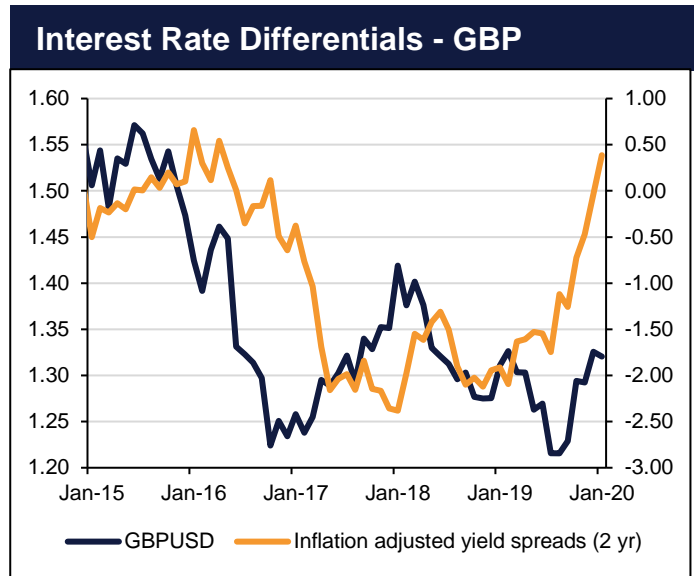
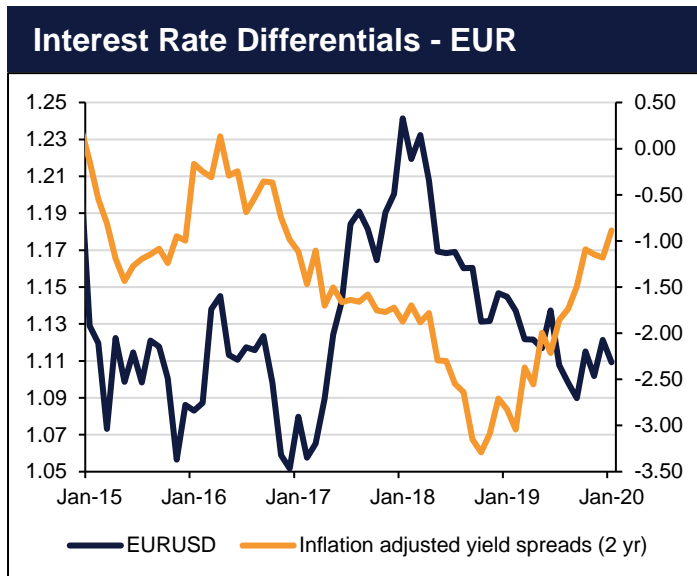


Interest Rate Differentials - AUD



Source: Bloomberg, Emirates NBD Research

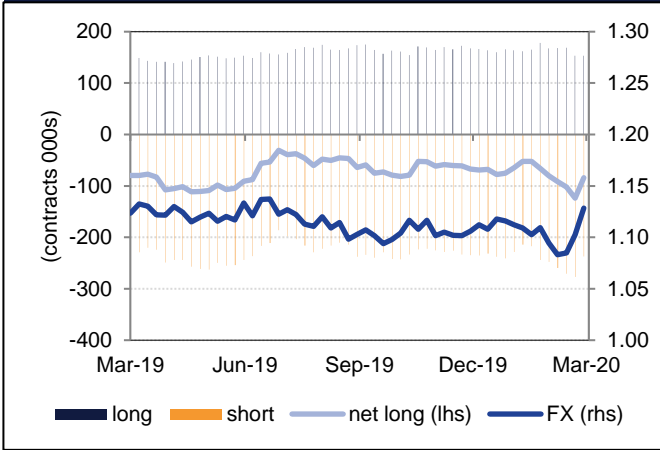
Major FX and Real Interest Rates



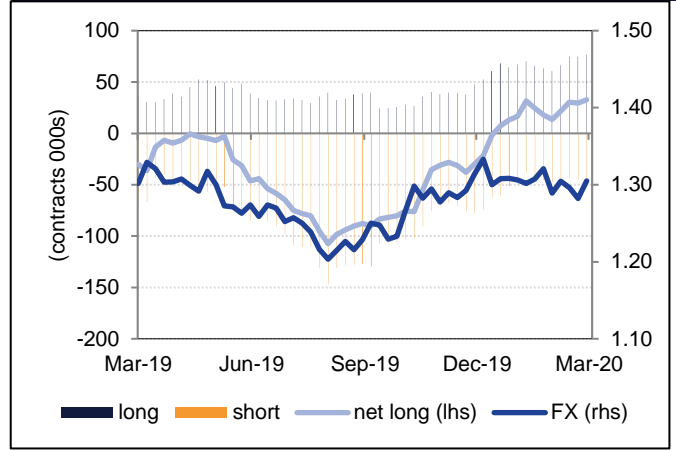
Source: Bloomberg, Emirates NBD Research

Major Currency Positions

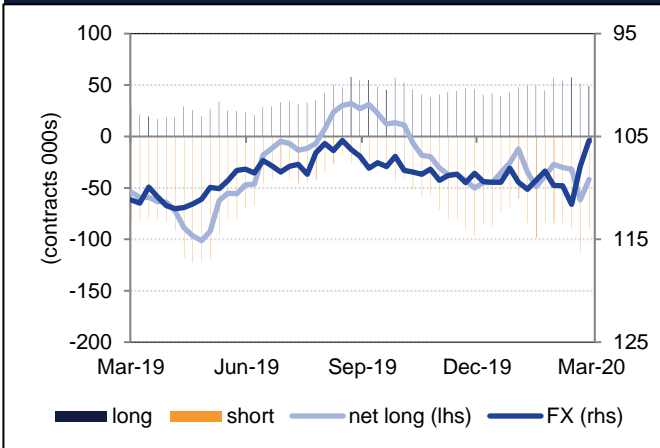
CFTC – Speculative Positions - EUR



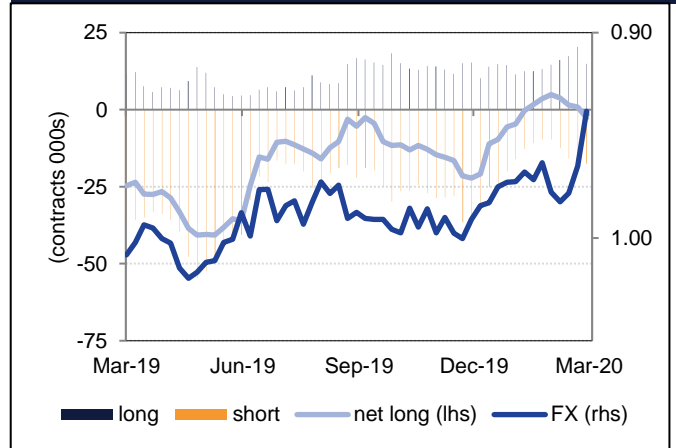
CFTC – Speculative Positions - GBP



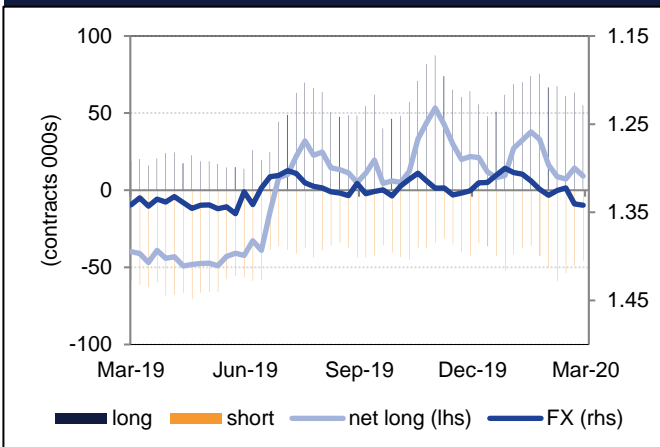
CFTC – Speculative Positions - JPY



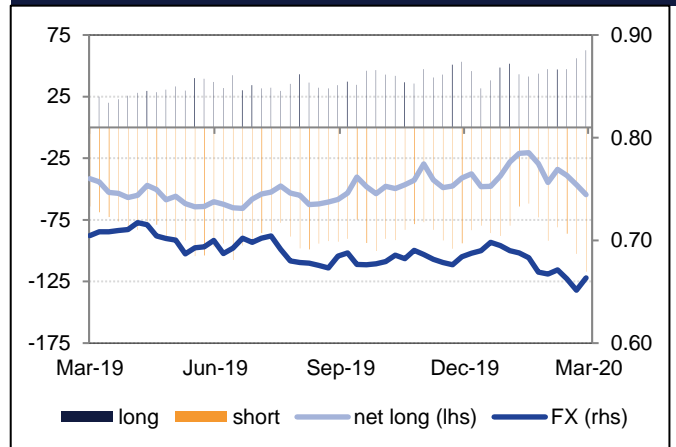
CFTC – Speculative Positions - CHF



CFTC – Speculative Positions - CAD



CFTC – Speculative Positions - AUD



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