بنك الإمارات دبي الوطني
Emirates NBD

Weekly
9 February 2020

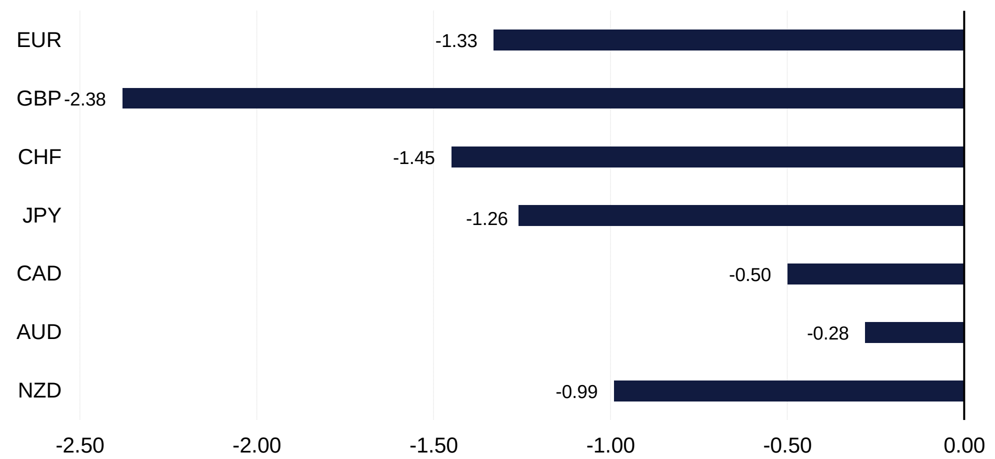
FX Week

Coronavirus continues to dominate the headlines as well as market concerns, with the death toll from the virus already surpassing that of the SARS outbreak in 2003. Given that there is little evidence of an end in sight to the crisis, it is understandable that the markets are favouring the safety of bonds over other asset classes, which means in the FX universe it is the USD that is the main beneficiary. Even strong U.S. January jobs data on Friday failed to arrest the gains in the bond market, and the USD also continued to outperform.

Economic data throughout last week in fact provided something of a contrast to the health concerns coming from Asia, with PMI reports all providing a level of optimism that a corner might be being turned. The U.S. ISM manufacturing and non-manufacturing indices both reached six-month highs in January, while UK and Eurozone PMI's also performed better. The main release of the week, the January U.S. jobs report, did not disappoint either, with nonfarm payrolls increasing 225k, twice expectations, after December and November were revised up as well. Wages rose by 0.2% m/m taking the y/y rate to 3.1% and the unemployment rate also edged up to 3.6% on account of increasing participation in the work force. Despite this improvement, the quarantines in China, travel restrictions, firm closures, and the supply chain disruptions were still able to dominate sentiment, as markets ended the week preferring risk-off approach going into the weekend.

The Fed chair Jerome Powell delivers his semi-annual testimony on monetary policy to Congress on Wednesday, which will provide a timely insight into Fed thinking on the Coronavirus issue. The Fed's February Monetary Policy Report released on Friday said that coronavirus 'could lead to disruptions in China that spill over to the rest of the global economy' suggesting that Powell will highlight downside risks to growth in his testimony, and by extension to interest rates. So far, the USDCNY exchange rate has been stable around the 7.00 level, but capital flight is a risk in a situation where monetary policy continues to be lent on, with the PBOC signaling its readiness to continue easing. China has a corporate debt problem, rising corporate defaults and a fragile banking sector, so the authorities will have to tread carefully in responding to the crisis for fear of sparking an increase in volatility that could put pressure on its and the broader financial system.

Weekly currency movement vs USD (%)



Source: Bloomberg, Emirates NBD Research

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Technical Observations

EURUSD closes below 1.10

A 1.33% decline over the last week took EURUSD to 1.0946. This is the first time the price has seen a weekly close below the 1.10 level since October 2019 and is the lowest weekly close since September 2019. After failing to advance beyond the resistive 61.8% one-year Fibonacci retracement (1.1096), the price broke below the support at the 50-day moving average (1.1069). Following this, the price continued to decline for five days. This move also took the price below 23.6% one-year Fibonacci retracement (1.1013) which acted as a resistance level on Thursday. While the price remains below this key level, further declines cannot be ruled out. The probability of this is made more apparent by analysis of the 14-day RSI (Relative Strength Index) which is bearish in momentum and reveals that EURUSD remains under significant selling pressure.

GBPUSD collapses below key levels

Over the last five trading days, GBPUSD fell by 2.41% to close at 1.2888, the lowest weekly close since November 2019. This decline saw the price break below the 50-day moving average (1.3079) which then acted as a resistance level on Wednesday. After failing to break above this new resistance level, the price declined for the next three days and even closed below the 100-day moving average (1.2899) on Friday. In addition to this analysis of the weekly candle chart shows that the price shattered the 100-week and 200-week moving averages (1.2976) and (1.3051) which failed as support levels. This is noteworthy as the 100-week moving average had provided weekly support since the start of the year. Finally, Friday's daily close was below the 61.8% one-year Fibonacci retracement (1.2920). All of these developments are technically bearish for the price in the short-term, and in order to reverse this vulnerability and prevent further losses, there needs to be a weekly close back above the 100-week moving average.

USDJPY breaks below support levels

USDJPY rose by 1.28% last week to reach 109.74. Earlier in the week the price had attempted to break above the psychologically significant level of 110 several times, but a meaningful break failed to materialize. However, despite this failure, analysis of the daily candle chart shows some bullish signs for USDJPY. The price found support at the 200-day moving average (108.39) at the start of the week. Following this, the price climbed and closed above both the 50-day and 100-day moving averages (108.83 and 109.23 respectively). In addition, the weekly close is above the 200-week moving average (109.68). This is bullish for the price and we expect a successful break of the 110 level in the next week to pave the way for further gains initially towards the 76.5% one-year Fibonacci retracement (110.53).

EURUSD daily candle chart

Source: Bloomberg

GBPUSD daily candle chart

Source: Bloomberg

USDJPY daily candle chart

Source: Bloomberg

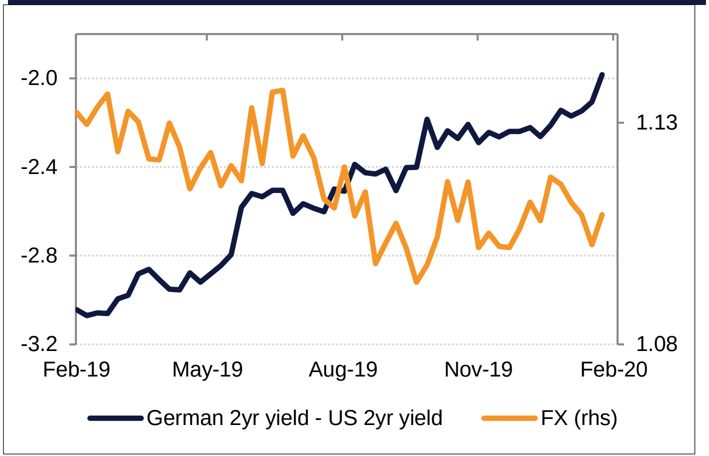
FX Forecasts

FX Forecasts – Major						Forwards		
	7-Feb	Q1 2020	Q2 2020	Q3 2020	Q4 2020	3m	6m	12m
EURUSD	1.0946	1.1200	1.1400	1.1500	1.1700	1.1006	1.1065	1.1179
USDJPY	109.75	110.00	108.00	107.00	107.00	109.22	108.70	107.67
USDCHF	0.9777	0.9500	0.9400	0.9300	0.9300	0.9717	0.9658	0.9544
GBPUSD	1.2892	1.3300	1.3600	1.4000	1.4400	1.2923	1.2953	1.3010
AUDUSD	0.6673	0.7100	0.7200	0.7300	0.7300	0.6683	0.6694	0.6714
NZDUSD	0.6400	0.6500	0.6600	0.6700	0.6700	0.6407	0.6413	0.6420
USDCAD	1.3308	1.2800	1.2600	1.2400	1.2400	1.3310	1.3312	1.3317
EURGBP	0.8492	0.8421	0.8382	0.8214	0.8125	0.8518	0.8544	0.8594
EURJPY	120.14	123.20	123.12	123.05	125.19	120.14	120.14	120.14
EURCHF	1.0701	1.0640	1.0716	1.0695	1.0881	1.0693	1.0686	1.0669
FX Forecasts - Emerging								
	7-Feb	Q1 2020	Q2 2020	Q3 2020	Q4 2020	3m	6m	12m
SAR	3.7514	3.7500	3.7500	3.7500	3.7500	3.7501	3.7501	3.7512
AED	3.6730	3.6730	3.6730	3.6730	3.6730	3.6740	3.6752	3.6772
KWD	0.3043	0.3020	0.3020	0.3020	0.3020	0.3047	0.3051	--
OMR	0.3850	0.3850	0.3850	0.3850	0.3850	0.3854	0.3860	0.3879
BHD	0.3770	0.3770	0.3770	0.3770	0.3770	0.3761	0.3761	0.3778
QAR	3.6651	3.6400	3.6400	3.6400	3.6400	3.6660	3.6660	3.6610
EGP	15.7542	15.7500	15.7500	15.5000	15.5000	16.1275	16.4950	17.2150
INR	71.401	72.000	71.000	70.000	68.000	72.2300	72.9100	74.3100
CNY	7.0024	7.1000	7.2000	7.2000	7.2000	7.0230	7.0400	7.0757
SGD	1.3895	1.3500	1.3300	1.3100	1.3000	1.3891	1.3888	1.3885
FX Forecasts - MENA							3.7503	
	7-Feb	Q1 2020	Q2 2020	Q3 2020	Q4 2020			
MAD	9.6701	9.5000	9.5000	9.4000	9.4000			
TND	2.8265	2.8000	2.8000	2.7000	2.7000			
TRY	6.0146	6.0000	6.2000	6.2000	6.3000			

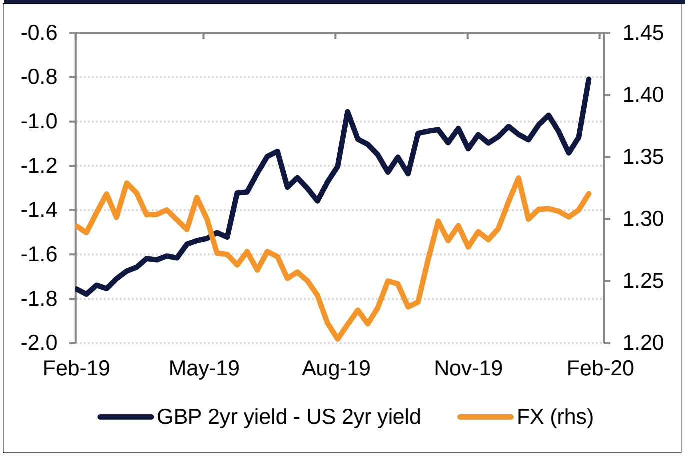
Source: Bloomberg, Emirates NBD Research
**Denotes USD peg*

Major FX and Nominal Interest Rates

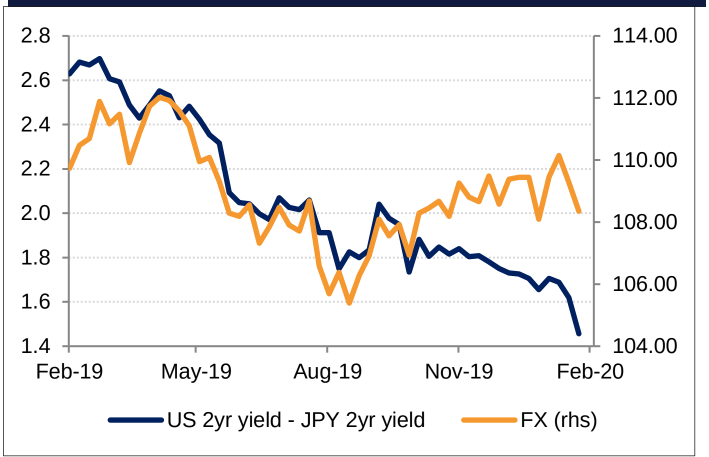
Interest Rate Differentials - EUR



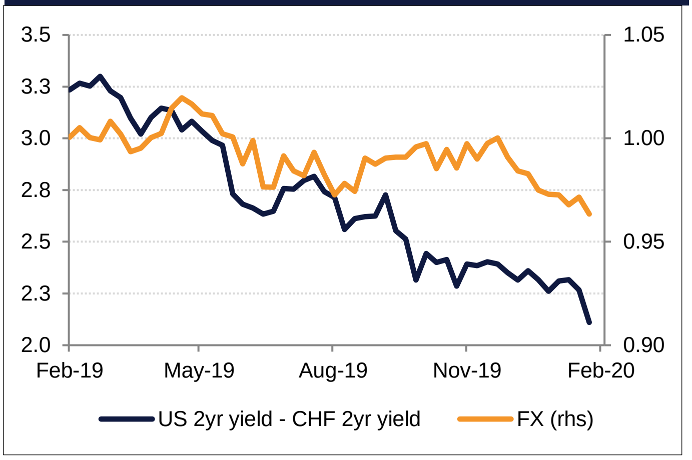
Interest Rate Differentials - GBP



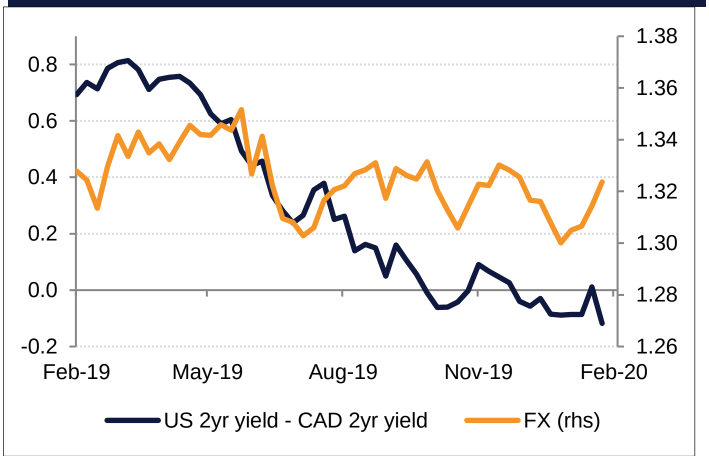
Interest Rate Differentials – JPY



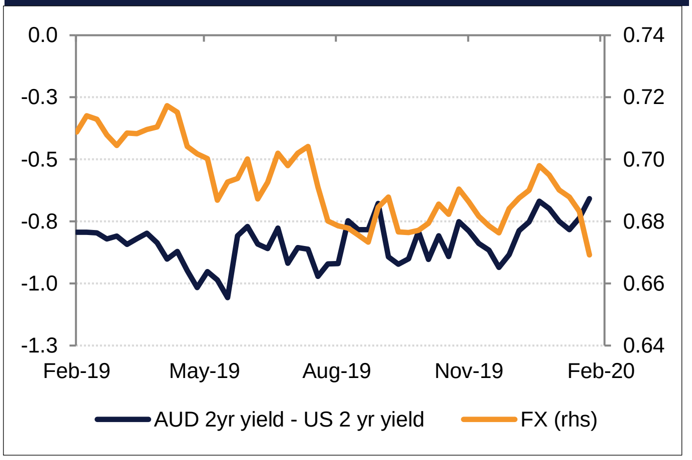
Interest Rate Differentials - CHF



Interest Rate Differentials - CAD



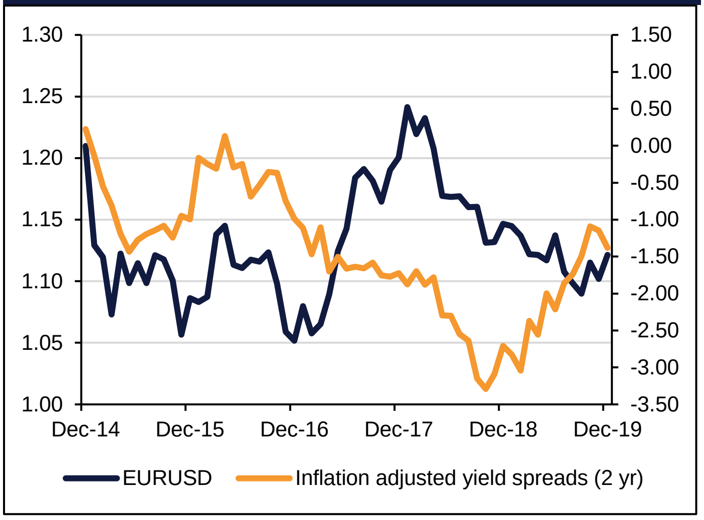
Interest Rate Differentials - AUD



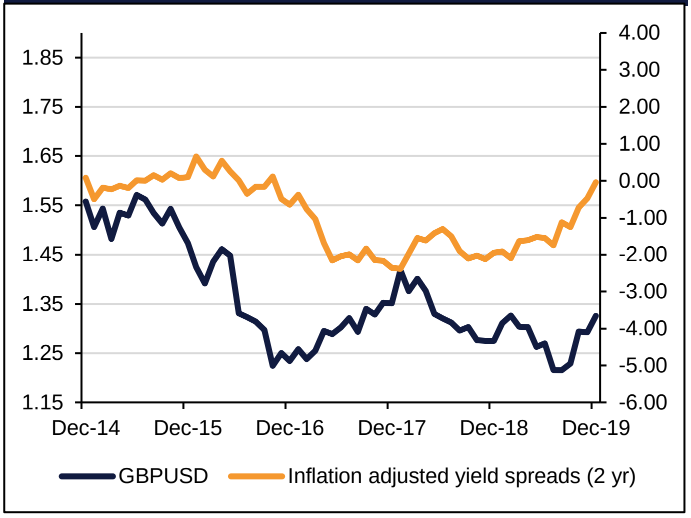
Source: Bloomberg, Emirates NBD Research

Major FX and Real Interest Rates

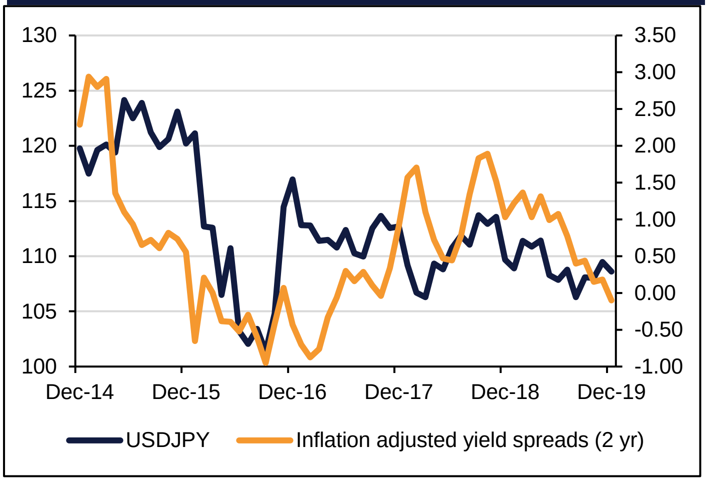
Interest Rate Differentials - EUR



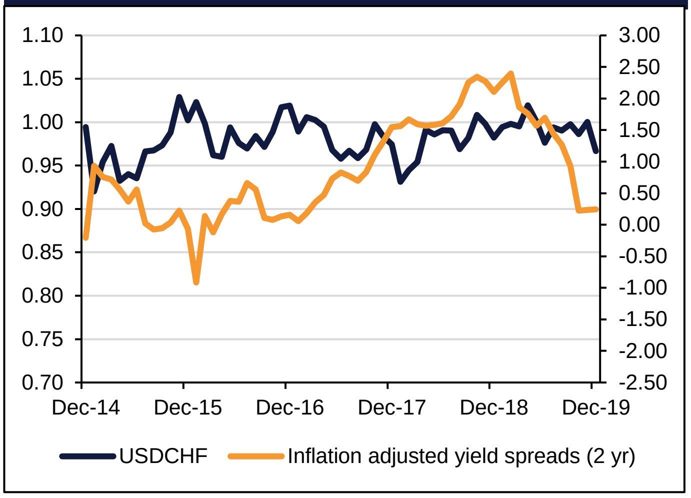
Interest Rate Differentials - GBP



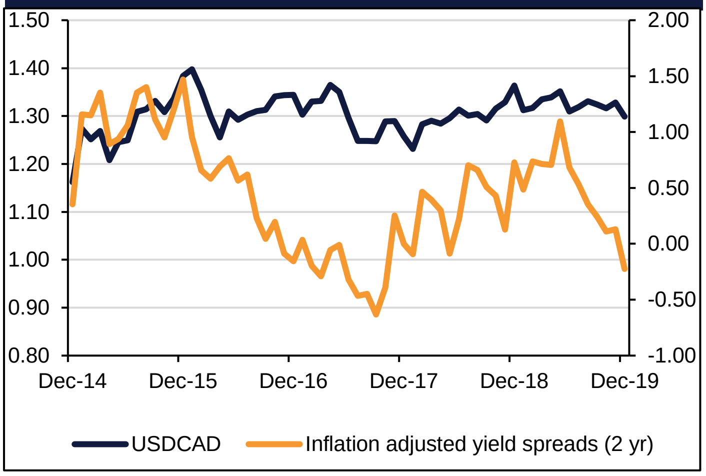
Interest Rate Differentials – JPY



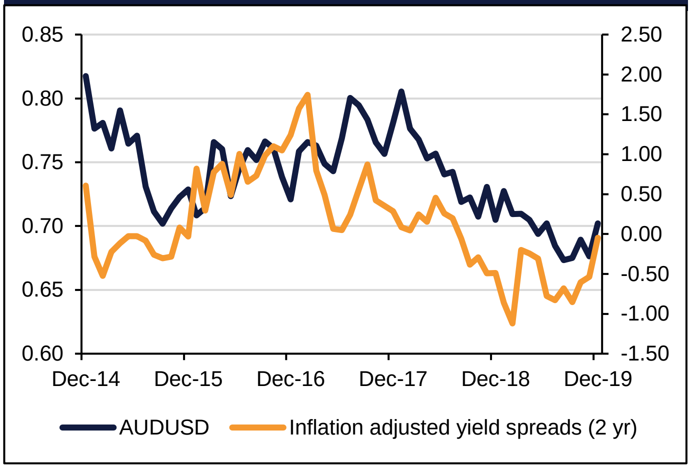
Interest Rate Differentials - CHF



Interest Rate Differentials - CAD



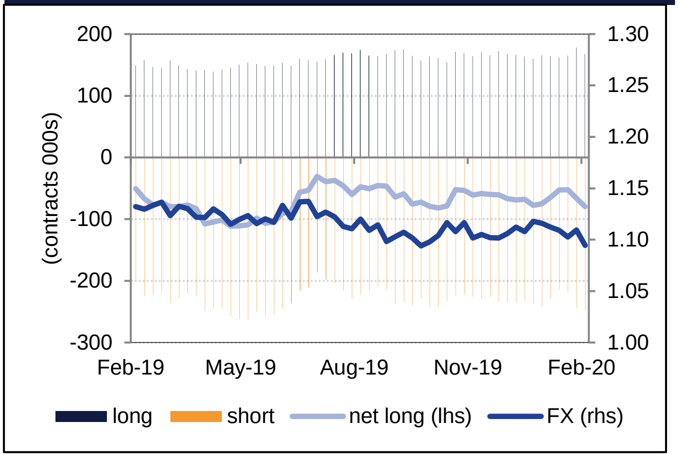
Interest Rate Differentials - AUD



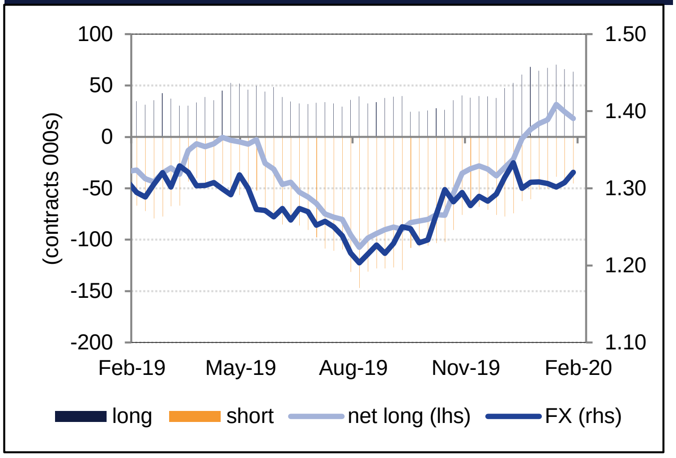
Source: Bloomberg, Emirates NBD Research

Major Currency Positions

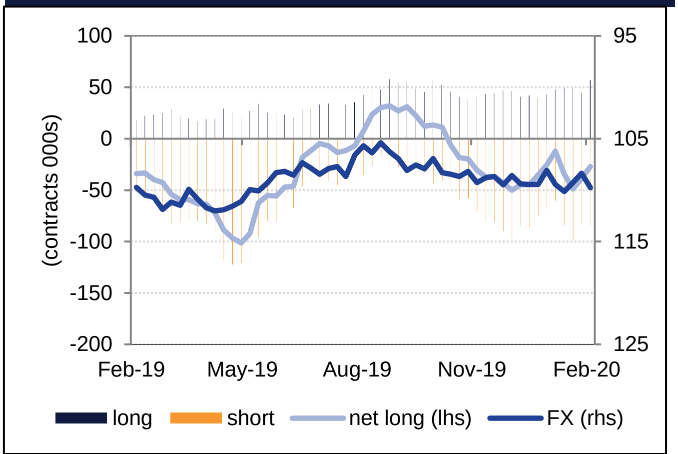
CFTC – Speculative Positions - EUR



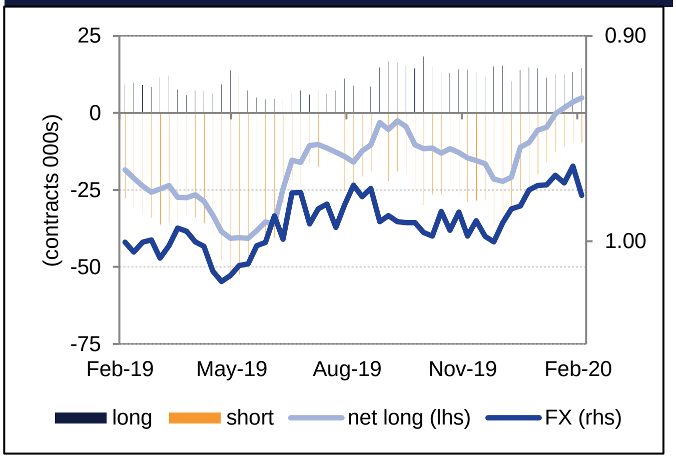
CFTC – Speculative Positions - GBP



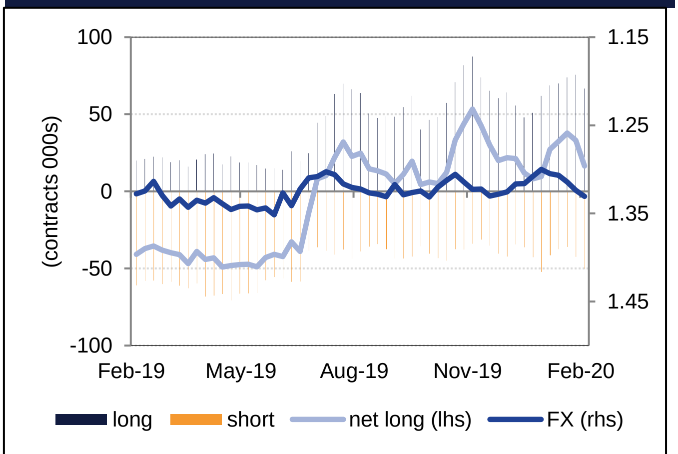
CFTC – Speculative Positions - JPY



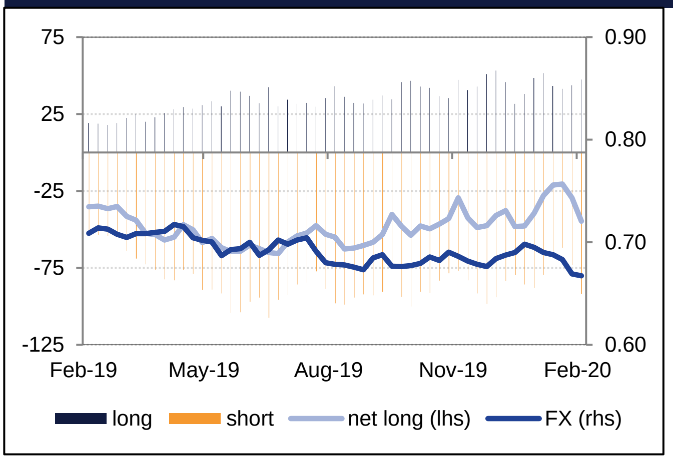
CFTC – Speculative Positions - CHF



CFTC – Speculative Positions - CAD



CFTC – Speculative Positions - AUD



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