



بنك الإمارات دبي الوطني
Emirates NBD

Weekly
9 September 2018

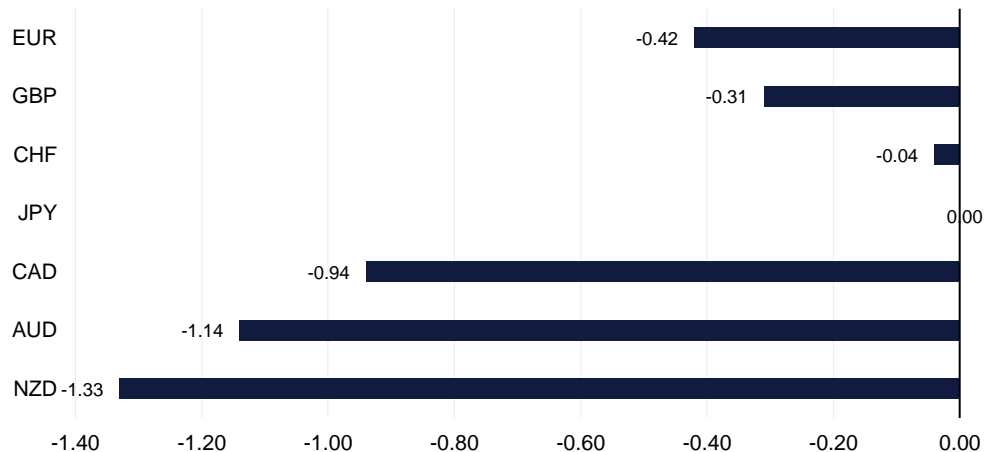
Mohammed Altajir
Manager, FX Analytics and Product
Development
+971 4 609 3005
MohammedTAJ@emiratesnbd.com

FX Week

Donald Trump raised the ante on China again at the end of last week, threatening tariffs on a further USD267bn of Chinese imports after saying that a package of tariffs was already close to being imposed on USD200bn worth of Chinese goods. This news is likely to continue to pressure markets in the coming week after falls across the board last week. Furthermore the strength of the US jobs report pushed the dollar and Treasury yields higher as the perception of two more Fed rate hikes this year was maintained. **Non-farm payrolls rose 201k in August, with the unemployment rate steady at 3.9%, but average hourly earnings rose by 0.4% m/m taking the y/y rate up to 2.9% the strongest since 2009.**

Markets will remain sensitive to all of these factors in coming days, with central bank meetings also occurring in the Eurozone, the UK and Turkey. The biggest uncertainty will be what the Turkish central bank will decide following the recent increase in inflation and the ongoing pressure on the lira. The ECB and the BOE by contrast are unlikely to result in any changes. In the US CPI inflation data and retail sales will be the highlights, while Brexit negotiations will also return as central for GBP. **EM will continue in the spotlight in view of the strength of the USD and expectation of higher US rates, with 96% chance of a September Fed move priced in and 67% chance of a second one in December.**

Weekly currency movement vs USD (%)



Source: Bloomberg, Emirates NBD Research

Forecasts	Spot	1 Week	1 month
EURUSD	1.1553	1.1500	1.1700
USDJPY	110.99	110.00	112.00
GBPUSD	1.2920	1.3000	1.3200
EURJPY	128.23	126.50	131.04
EURGBP	0.8942	0.8846	0.8864
GBPJPY	143.40	143.00	147.84

EURUSD

EURUSD declines on U.S. job reports

Constructive U.S. employment data drove the dollar higher against its peers towards the end of the week, resulting in further EURUSD declines. A report from the Bureau of Labor Statistics showed that 201,000 new jobs were added in August 2018, leaving the unemployment rate at 3.9%. However, the same report showed that average hourly earnings accelerated from 2.7% y/y to 2.9% y/y. This data is supportive of inflationary pressures and supports the Federal Reserve's resolve to continue raising interest rates, which is bullish for the dollar.

ECB to set the tone in the week ahead.

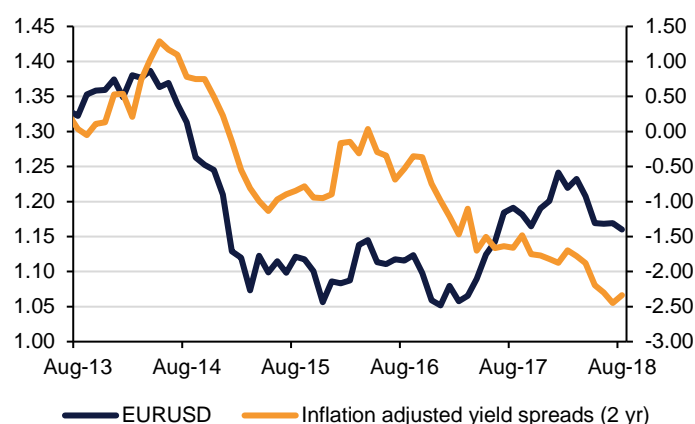
The European Central Bank meet on Thursday in a meeting which has no expected changes in interest rates or asset purchases. However, markets will be looking towards the communication tone used by President Draghi for hints on the direction and timing of normalization of monetary policy. Perhaps the most attention will be focused towards the language used to address trade concerns and protectionism as Draghi has previously stated his belief that the threat of a looming trade war serves as a headwind to "otherwise healthy global growth". Should his language be more optimistic on Thursday, we could see EURUSD recover some of the losses of the previous two weeks.

Technical outlook

EURUSD fell for a second consecutive week, losing 0.42% to close at 1.1553. Of note is that the price is now trading back below the 50-day moving average (1.1614) which leaves the cross vulnerable. Should there be a break and weekly close below the 100-week moving average (1.1478), it could quickly prompt a retest of the 2018 lows of 1.1388. If this level breaks, we could see the price head towards 1.1346 (the 200-week moving average). Should this key support level falter, it could trigger a larger move towards 1.12, not far from the 23.6% five-year Fibonacci retracement (1.1203).

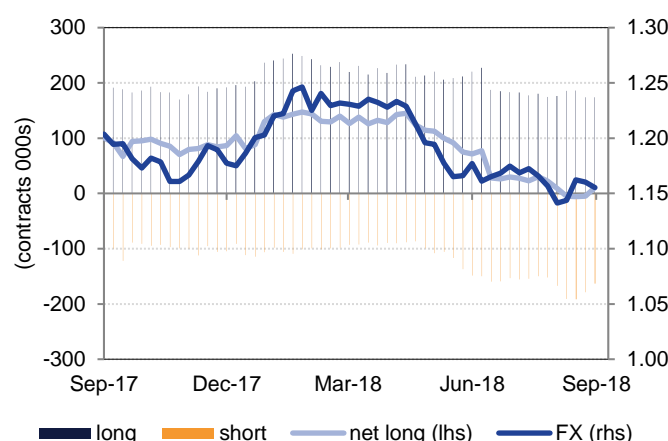
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Yield Spreads



Source: Bloomberg, Emirates NBD Research

Net Positioning



Source: Bloomberg, Emirates NBD Research

Daily Candle Chart



Source: Bloomberg, Emirates NBD Research

USDJPY

Trade escalations support JPY

The JPY held its own against USD as USDJPY whipsawed from a weekly high of 111.76 to as low as 110.38 before recovering in the aftermath of the U.S. non-farm payroll reports.

The main driver behind the yen's appreciation on Thursday was safe haven bids caused by investor concerns that the U.S. could implement more tariffs on Chinese goods, resulting in a proportional response from China and increasing trade tensions even further.

Market to eye GDP while mindful of tariffs

Looking forward to next week, JPY strength will be influenced by Q2 GDP data and any further escalations in trade tensions. A report from the Economic and Social Research Institute Japan is expected to show an upwards revision in the final print of Q2 2018 GDP data from 1.9% annualized q/q to 2.6% annualized q/q. Such an upward revision would be welcomed by the markets, with further upside surprises being constructive towards JPY strength.

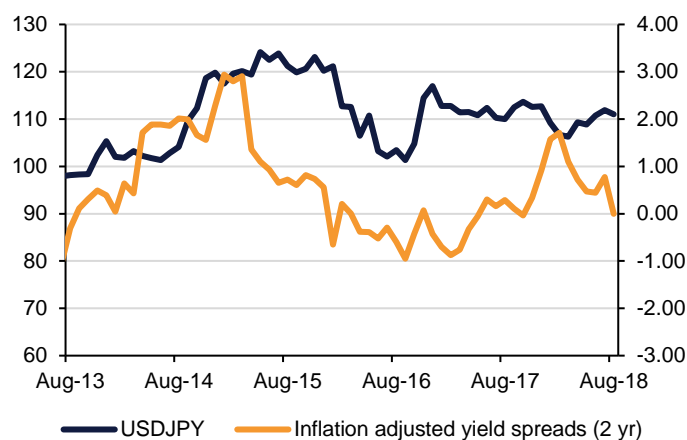
In addition, further comments from President Trump regarding additional tariffs on China (see page one), are likely to result in greater risk aversion in the capital markets, with resulting safe haven bids being constructive to JPY strength.

Technical

USDJPY finished the week virtually unchanged at 111.02. Analysis of the daily candle chart shows that on Friday the cross found support at the 100-day moving average (110.53) and resistance at the 50-day moving average (111.24). However, the close above the 61.8% one-year Fibonacci retracement (110.85) is a positive development as is the close above the 200-week moving average (110.92). While the weekly close remains above this key zone, a retest of the 76.4% one-year Fibonacci retracement (112.33) remains a possibility.

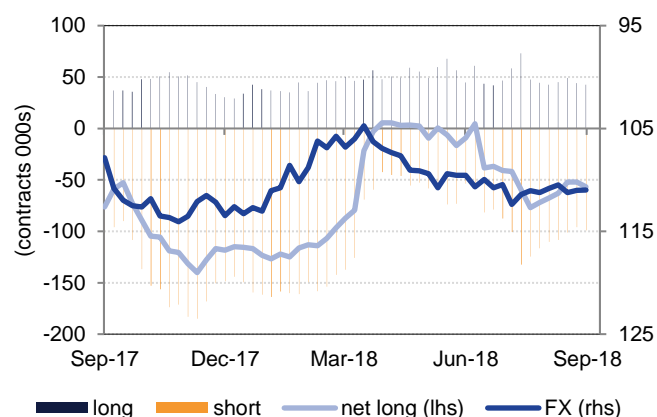
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Yield Spreads



Source: Bloomberg, Emirates NBD Research

Net Positioning



Source: Bloomberg, Emirates NBD Research

Daily Candle Chart



Source: Bloomberg, Emirates NBD Research

GBPUSD

Pound recovers after being hit by politics

The pound began the week on softer footing falling below the 1.28 handle after UK Prime Minister May ruled out a second Brexit referendum and EU Chief Negotiator Michel Barnier said that he was "strictly against" the UK's proposal for economic ties. In addition, the IHS Markit UK Manufacturing PMI fell to a 22 month low of 52.8 in August as amid Brexit uncertainties and concerns weighing on optimism.

However, GBP was able to recover towards the end of the week after Barnier stated that "lots" of the U.K.'s blue print for post-Brexit relations were useful and that he is open to new ideas to address the Irish border problem.

Employment data and Brexit to be the main drivers

Over the week ahead, investors will be eying employment data out of the U.K. which is expected to show that the labour market continues to tighten. It is likely that any further reductions in the unemployment rate or increases in wages will give a boost to sentiment on Sterling.

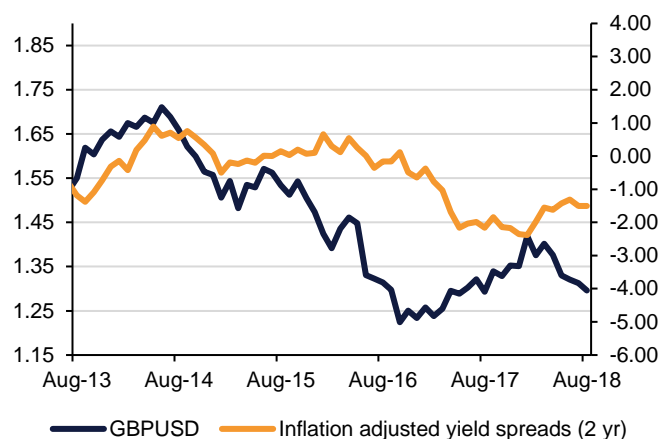
Furthermore, whether GBP can continue its recovery will be dependent on optimism surrounding the Brexit negotiations. With the latest development being U.K. Chancellor of the Exchequer Philip Hammond stating that he believes "we will be able to get a deal". Should negotiations proceed more smoothly in the week ahead, it may give GBP some much needed relief.

Technical

GBPUSD declined 0.31% last week, closing 1.2920. Of technical significance is that over the course of the week, despite multiple attempts to break above the 50-day moving average (1.3007), the pair was unable to overcome this level. In addition, this was the sixth consecutive weekly close below the 100-week moving average (1.3072), which is technically bearish for the cross. While the price remains below the 50-day moving average, there is a significant risk of further declines towards the 1.27 handle.

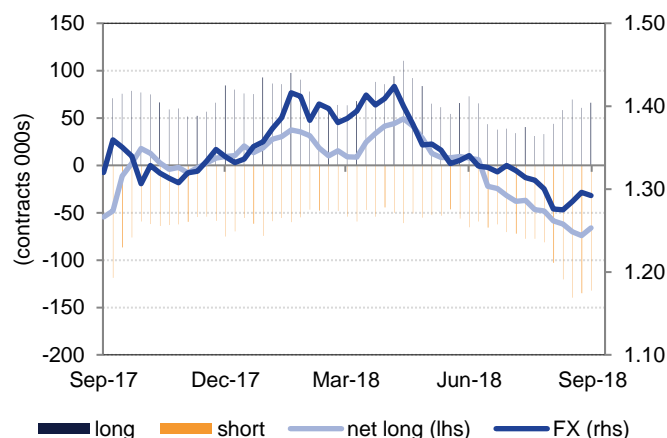
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Yield Spreads



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Net Positioning



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Daily Candle Chart



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FX Forecasts

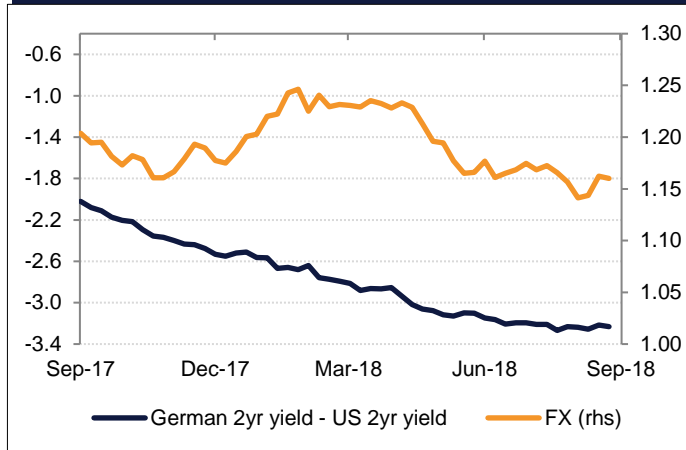
FX Forecasts - Major						Forwards		
	7-Sep	Q3 2018	Q4 2018	Q1 2019	Q2 2019	3m	6m	12m
EUR	1.1553	1.1700	1.2000	1.2300	1.2500	1.1634	1.1727	1.1925
JPY	110.99	110.00	112.00	110.00	110.00	110.26	109.41	107.66
CHF	0.9692	0.9800	0.9800	0.9800	0.9800	0.9615	0.9529	0.9352
GBP	1.2920	1.2700	1.3100	1.3500	1.4000	1.2971	1.3033	1.3159
AUD	0.7107	0.7300	0.7500	0.7550	0.7550	0.7110	0.7117	0.7140
NZD	0.6534	0.6700	0.6900	0.7100	0.7100	0.6536	0.6542	0.6564
CAD	1.3161	1.2950	1.2700	1.2700	1.2700	1.3139	1.3118	1.3081
EURGBP	0.8942	0.9213	0.9160	0.9111	0.8929	0.8969	0.8998	0.9062
EURJPY	128.23	128.70	134.40	135.30	137.50	128.23	128.23	128.23
EURCHF	1.1200	1.1466	1.1760	1.2054	1.2250	1.1189	1.1177	1.1155
FX Forecasts - Emerging						7-Sep		
	7-Sep	Q2 2018	Q3 2018	Q4 2018	Q1 2019	3m	6m	12m
SAR	3.7509	3.7500	3.7500	3.7500	3.7500	3.7508	3.7516	3.7564
AED	3.6730	3.6730	3.6730	3.6730	3.6730	3.6735	3.6740	#N/A N/A
KWD	0.3027	0.3020	0.3020	0.3020	0.3020	0.2965	0.2912	#N/A N/A
OMR	0.3850	0.3850	0.3850	0.3850	0.3850	0.3857	0.3864	0.3885
BHD	0.3772	0.3770	0.3770	0.3770	0.3770	0.3762	0.3762	0.3790
QAR	3.6584	3.6400	3.6400	3.6400	3.6400	3.6551	3.6543	3.6550
EGP	17.8922	17.2500	17.0000	17.0000	17.0000	18.5400	19.1050	20.1200
INR	71.739	71.000	70.000	70.000	68.000	73.0700	73.8900	75.4700
CNY	6.8438	6.7000	6.9000	7.1000	7.1000	6.8995	6.9185	6.9510
SGD	1.3786	1.3500	1.3300	1.2900	1.2900	1.3765	1.3733	1.3657

Source: Bloomberg, Emirates NBD Research

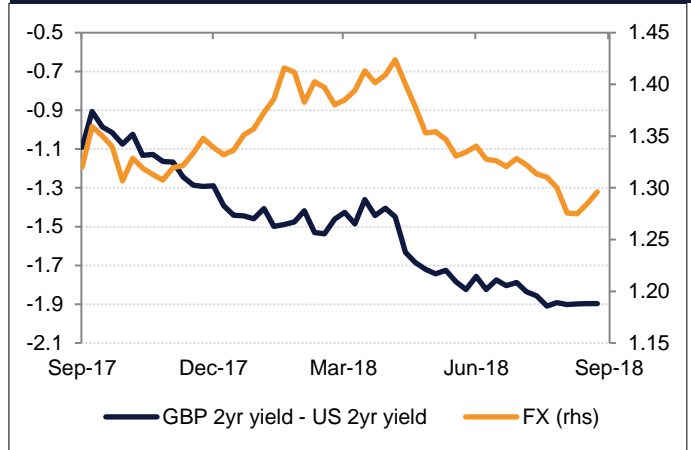
*Denotes USD peg

Major FX and Nominal Interest Rates

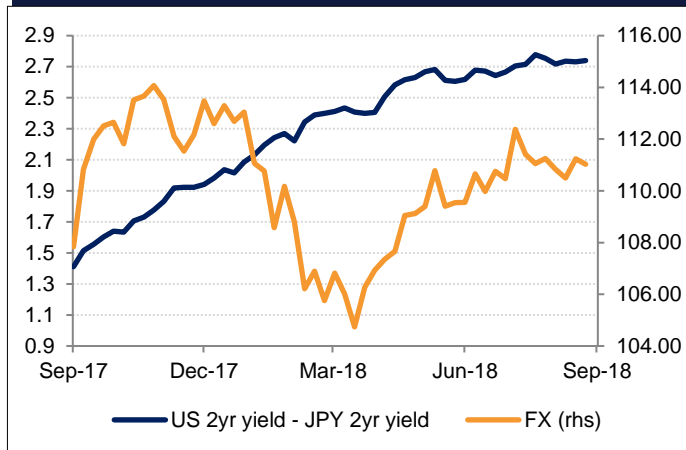
Interest Rate Differentials - EUR



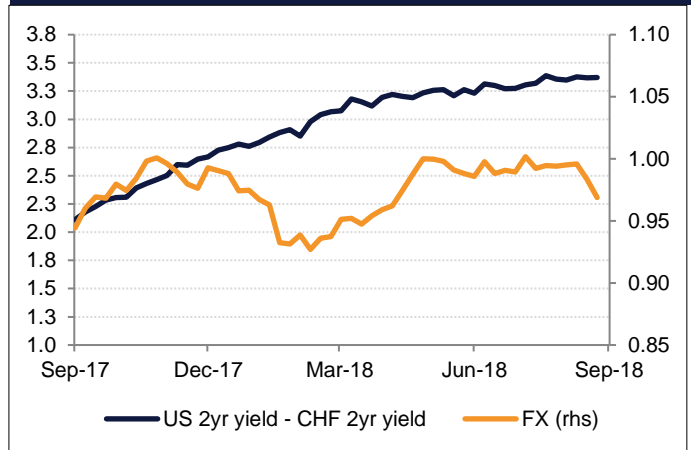
Interest Rate Differentials - GBP



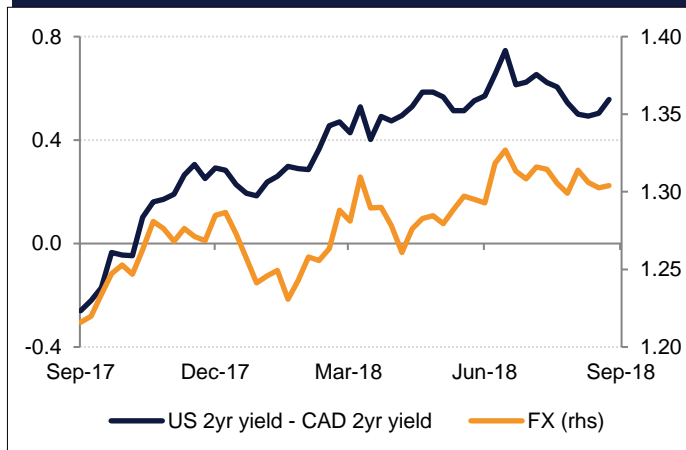
Interest Rate Differentials - JPY



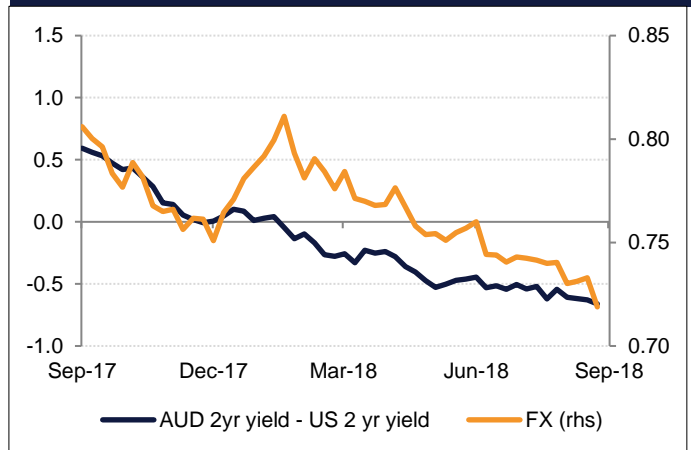
Interest Rate Differentials - CHF



Interest Rate Differentials - CAD



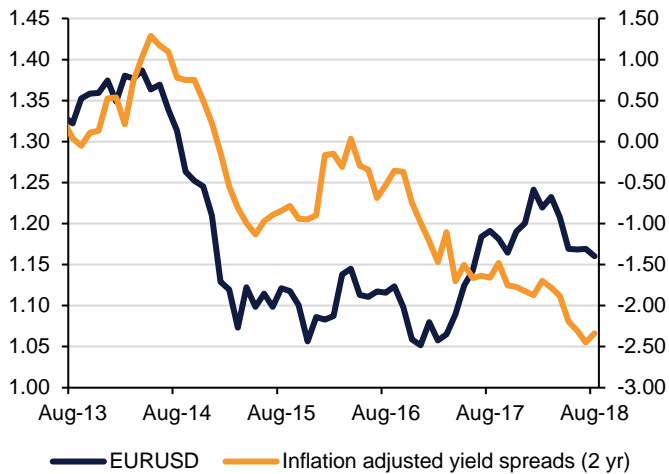
Interest Rate Differentials - AUD



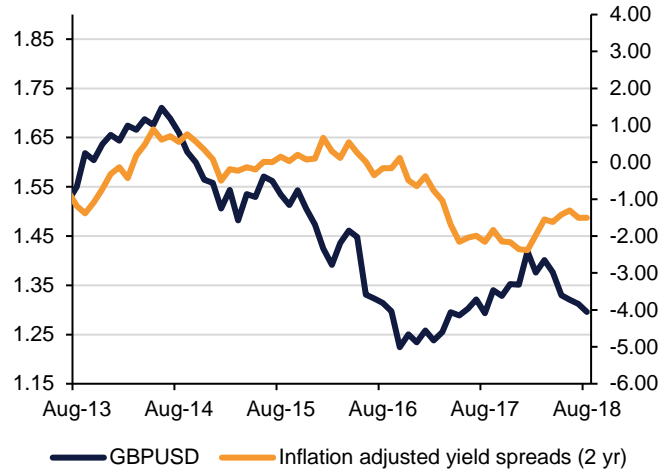
Source: Bloomberg, Emirates NBD Research

Major FX and Real Interest Rates

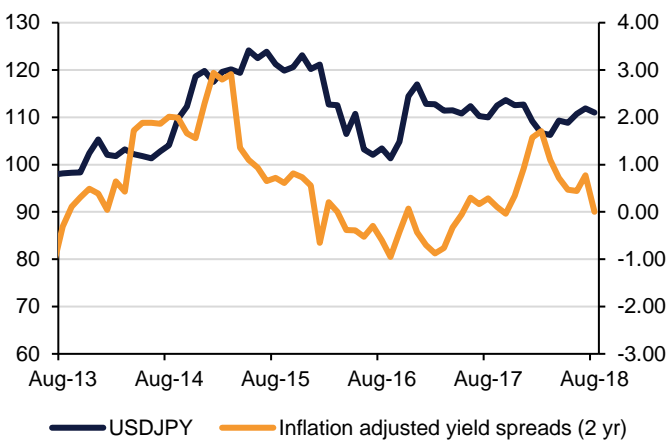
Interest Rate Differentials - EUR



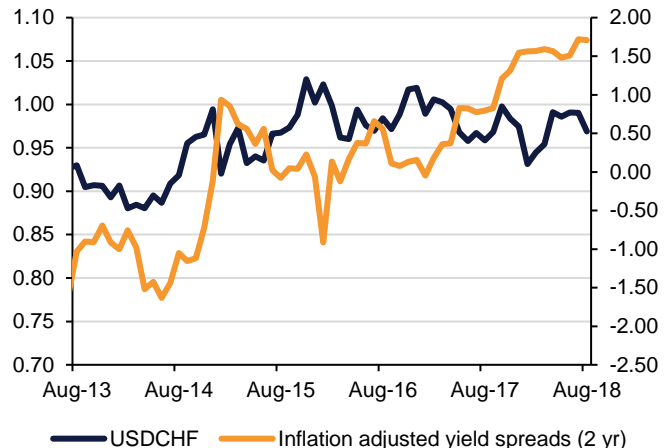
Interest Rate Differentials - GBP



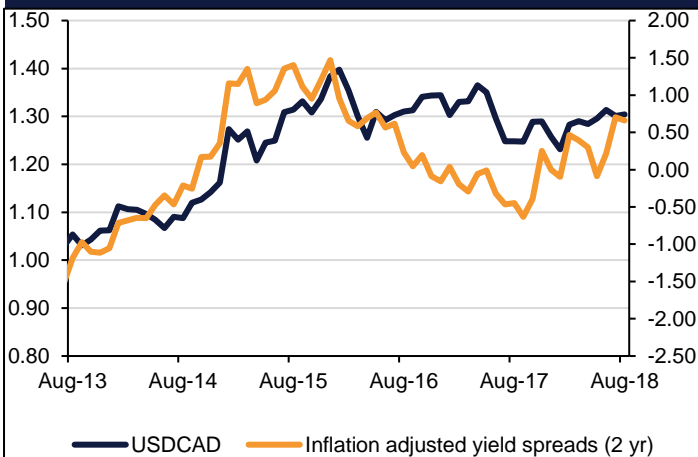
Interest Rate Differentials - JPY



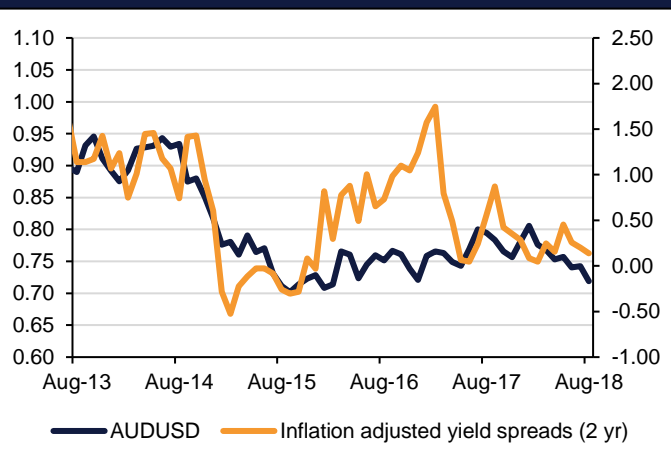
Interest Rate Differentials - CHF



Interest Rate Differentials - CAD



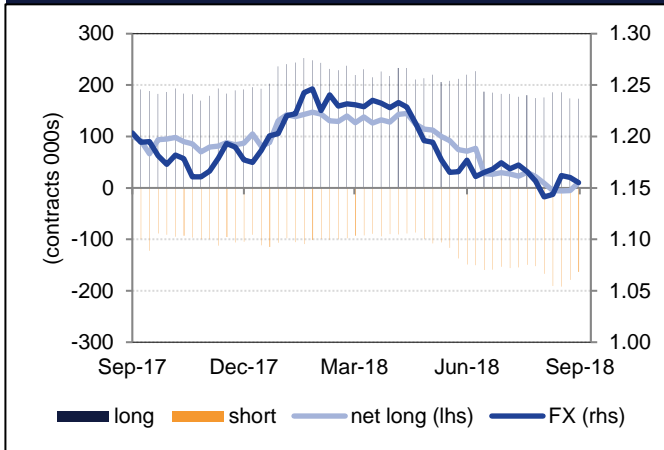
Interest Rate Differentials - AUD



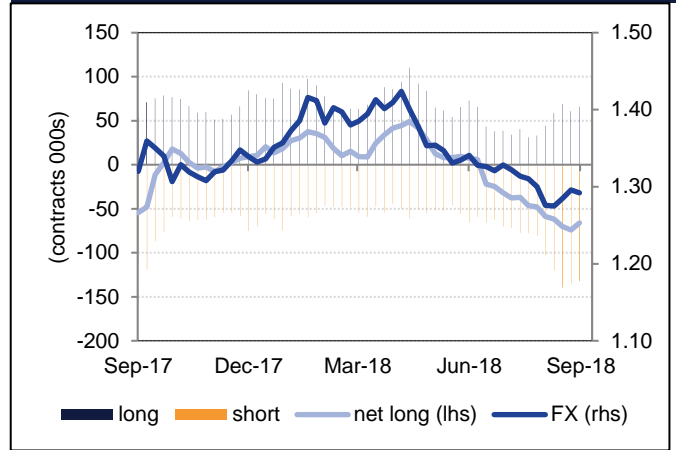
Source: Bloomberg, Emirates NBD Research

Major Currency Positions

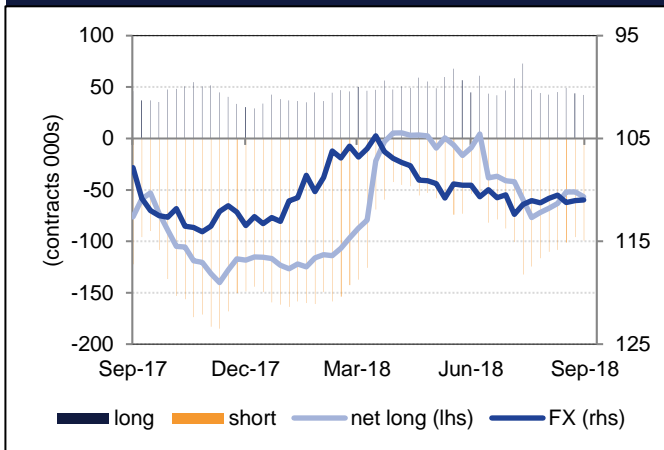
CFTC – Speculative Positions - EUR



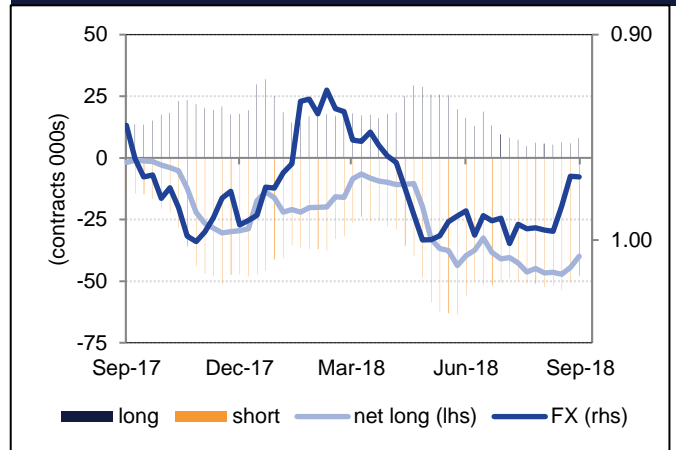
CFTC – Speculative Positions - GBP



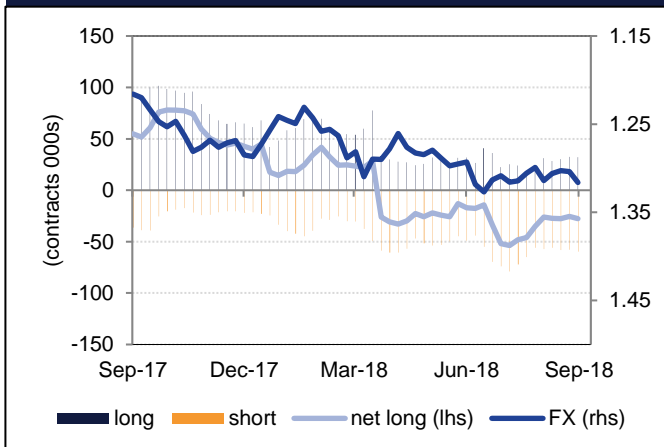
CFTC – Speculative Positions - JPY



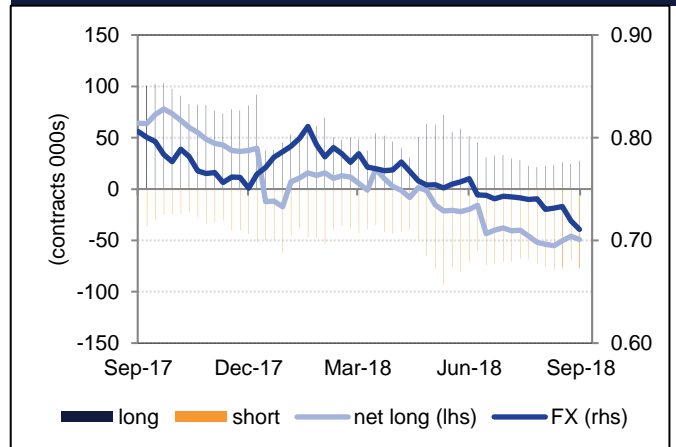
CFTC – Speculative Positions - CHF



CFTC – Speculative Positions - CAD



CFTC – Speculative Positions - AUD



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Emirates NBD Research & Treasury Contact List

Emirates NBD Head Office
12th Floor
Baniyas Road, Deira
P.O.Box 777
Dubai

Jonathan Morris
General Manager Wholesale Banking
JonathanM@emiratesnbd.com

Aazar Ali Khwaja
Senior Executive Vice President
Global Markets & Treasury
+971 4 609 3000
aazark@emiratesnbd.com

Tim Fox
Head of Research &
Chief Economist
+9714 230 7800
timothyf@emiratesnbd.com

Research

Khatija Haque
Head of MENA Research
+9714 230 7803
khatijah@emiratesnbd.com

Anita Yadav
Head of Fixed Income Research
+9714 230 7630
anitay@emiratesnbd.com

Aditya Pugalia
Financial Markets Research
+9714 230 7802
adityap@emiratesnbd.com

Athanasios Tsetsonis
Sector Economist
+9714 230 7629
athanasiost@emiratesnbd.com

Edward Bell
Commodity Analyst
+9714 230 7701
edwardpb@emiratesnbd.com

Daniel Richards
MENA Economist
+9714 609 3032
danielricha@emiratesnbd.com

Mohammed Altajir
FX Analytics and Product Development
+9714 609 3005
mohammedtaj@emiratesnbd.com

Hessa Al Khawaja
Research Associate
+9714 609 3015
Hessaalkh@emiratesnbd.com

Sales & Structuring

Group Head – Treasury Sales
Tariq Chaudhary
+971 4 230 7777
tariqmc@emiratesnbd.com

Saudi Arabia Sales
Numair Attiyah
+966 11 282 5656
numaira@emiratesnbd.com

Singapore Sales
Supriyakumar Sakhalakar
+65 65785 627
supriyakumars@emiratesnbd.com

London Sales
+44 (0) 20 7838 2241
vallancel@emiratesnbd.com

Egypt
Gary Boon
+20 22 726 5040
garyboon@emiratesnbd.com

Emirates NBD Capital

Ahmed Al Qassim
CEO- Emirates NBD Capital
AhmedAQ@emiratesnbd.com

Hitesh Asarpota
Head of Debt Capital Markets.
+971 50 4529515
asarpotah@EmiratesNBD.com

Investor Relations

Patrick Clerkin
+9714 230 7805
patricke@emiratesnbd.com

Group Corporate Affairs

Ibrahim Sowaidan
+9714 609 4113
ibrahims@emiratesnbd.com

Claire Andrea
+9714 609 4143
clairea@emiratesnbd.com