



بنك الإمارات دبي الوطني
Emirates NBD

Weekly
24 February 2019

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FX Week

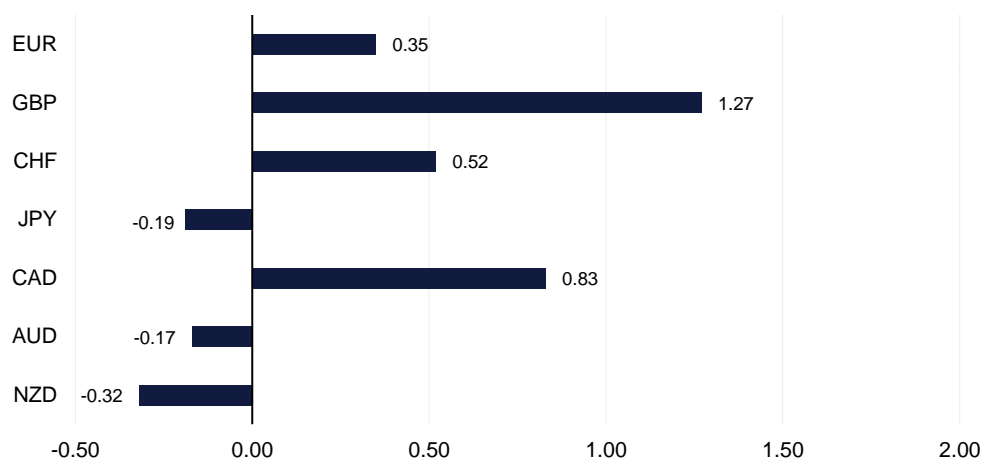
In a week that was shortened by the Presidents' Day holiday in the United States, markets traded optimistically and risk appetite was the dominant theme. Equity markets performed well across the board. The S&P500 rose 1.71%, the Nasdaq gained 1.35%, the Nikkei posted a 2.51% gain and the DAX climbed 1.40%. A similarly positive performance was seen in commodity markets, with the Bloomberg Commodity Index rising 2.71% during the same period. These solid performances can, in a large part, be attributed to the tone of the FOMC minutes from January's meeting. The minutes revealed that policy makers remained optimistic in their outlook of the U.S. economy and would remain patient with the pace at which they raise interest rates.

This solid performance in capital markets was also accompanied by more promising geopolitical developments. This was related to optimism over a U.S.-China trade deal, and hopes that the risk of a no-deal Brexit was decreasing. Over the last week, there has been increased speculation that Parliament will take control of the Brexit process, forcing the UK government to request an extension to negotiations and thus reducing the risks of the United Kingdom leaving the European Union without a deal.

At a glance:

- **EURUSD:** While EURUSD was able to erase the losses of the previous week, the price was unable to close above the 200-week moving average. The close below this level for a third week demonstrates that the existing technical vulnerability remains. In addition, the price is likely to come under further pressure in the week ahead if U.S. data meets consensus expectations.
- **USDJPY:** A solid performance in equity markets has encouraged risk appetite over the last week and as a result USDJPY has benefited. In the short term, we expect risk appetite to continue to be the principle driver behind USDJPY price action.
- **GBPUSD:** The pound has rebounded as the market has once again taken the view that a no-deal Brexit might be avoided. However, we think it is once again too premature to entirely rule out the scenario of a no-deal Brexit occurring and consequently still see downside GBP risks.

Weekly currency movement vs USD (%)



Source: Bloomberg, Emirates NBD Research

EURUSD

EURUSD erases previous week's losses

Amid mixed economic survey data out of the United States, EURUSD was able to advance last week and recoup the losses realized during the second week of February. While the preliminary Markit US Manufacturing PMI fell in February to 53.7 compared with 54.9 the previous month, outlook in the Services sector was more positive and rose during the same period from 54.2 to 56.2, an eight month high. This helped the Composite PMI figure to 55.8 (vs 54.4), the highest level since June 2018. This contrasted with business sentiment in the Eurozone, which according to the ZEW and IFO surveys took an additional tumble in February.

However, markets overlooked this data and instead reacted more to the tone of the FOMC minutes from January's meeting. These showed that policy makers maintained their upbeat assessment of the U.S. economy, but remained patient on the future pace of normalization of monetary policy and noted increasing downside risks.

U.S. GDP key in the week ahead

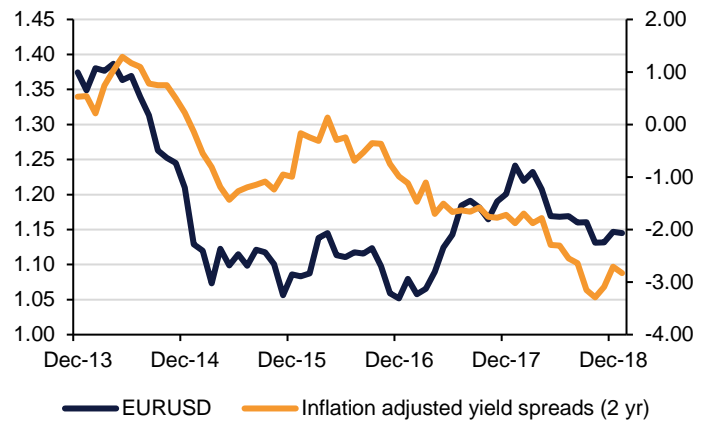
While Eurozone aggregate CPI data is expected to show that headline inflation accelerated to 1.5% y/y in Feb vs 1.4% the previous month, such data is likely to be overlooked in favour of data out of the U.S. Following the upbeat assessment of policy makers on the U.S. economy, investors will scrutinize a raft of data in the week ahead to see if growth in the world's largest economy is living up to expectations. The consensus view is that consumer confidence is holding up. The University of Michigan Consumer Sentiment Survey is expected to have a slight upwards revision for February's final print and CB's Consumer Confidence Index is expected to show growth in February. However, it is advanced data for Q4 2018 GDP that is likely to be the market's primary focus. With a median expectation for a slow down to 2.4% annualized q/q growth compared with 3.4% in Q3, a larger than expected slowdown may result in renewed selling pressure on USD.

Technical outlook

Last week's 0.35% gain was enough to take EURUSD back to 1.1335. Although the price did reach a high of 1.1371 on Wednesday 20th February, the cross was unable to hold onto these gains and finished the week below the 200-week moving average (1.1338) for a third week. While the price closes the week below these levels, EURUSD remains technically vulnerable to losses.

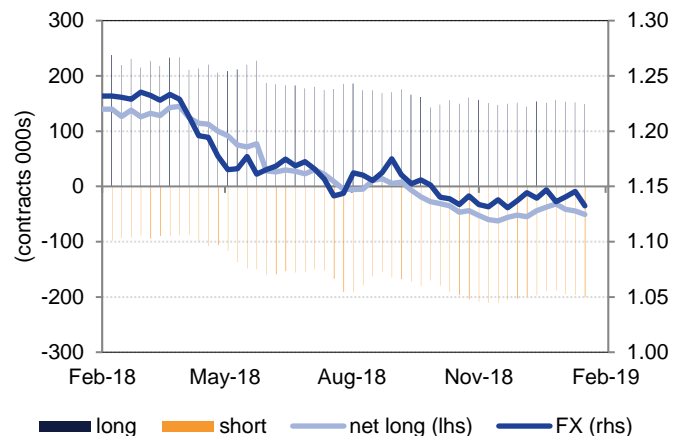
Forecasts	Spot	1 Week	1 month
EURUSD	1.1335	1.1200	1.1500
EURGBP	0.86811	0.8696	0.9200
EURJPY	125.47	124.32	128.80

Yield Spreads



Source: Bloomberg, Emirates NBD Research

Net Positioning



Source: Bloomberg, Emirates NBD Research

Weekly Candle Chart



Source: Bloomberg, Emirates NBD Research

USDJPY

USDJPY rises despite flat Treasury yields

Amid a shorter trading week, caused by the Presidents' Day holiday in the U.S. on Monday 18th February, U.S. Treasury yields remained mostly unchanged. Despite this, USDJPY was able to rise for a third week in conjunction a solid performance in equity markets that resulted in increased risk appetite, the MSCI World Index posting a 0.99% gain over the last five days.

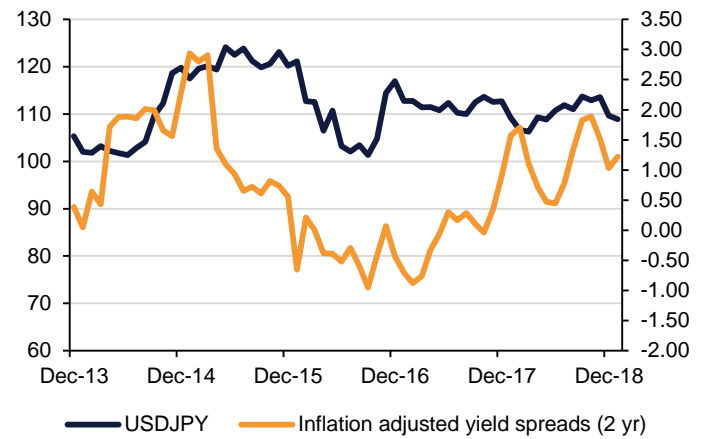
In the week ahead, risk appetite is likely to continue to be the key driver behind price action for USDJPY. In particular, the key risks are the outcome of the U.S. trade talks with China and the rate of U.S. GDP growth and consumption in Q4 2018. As we approach next week's deadline for increasing tariffs on Chinese goods, the world's two largest economies have yet to finalize a currency deal that would ensure that Beijing keeps the yuan stable to avoid uncompetitive trade advantages. Further constructive news and progress in determining how such a deal will be enforced will serve to increase risk appetite and give a boost to USDJPY.

Technical outlook

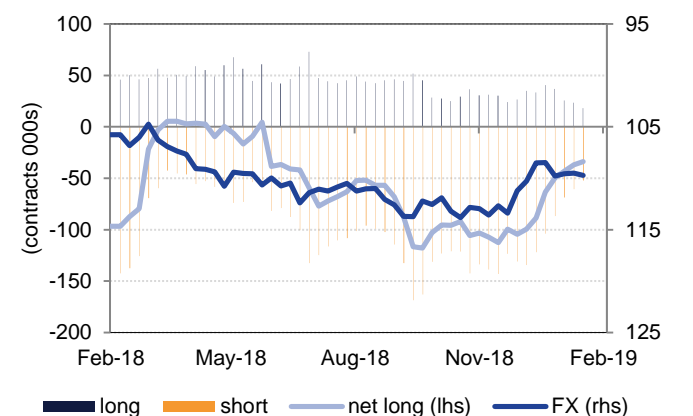
USDJPY ended the week 0.19% firmer last week, closing at 110.69. This resulted in a third week of gains and is technically significant as it resulted in a close above the 50-week moving average (110.56) for the first time since December 2018. It is also noteworthy that for a second week, the 100-week moving average (110.79) was briefly broken, but the break could not be sustained. Over the week ahead, a break and daily close above the 61.8% one-year Fibonacci retracement (110.73) is likely to be followed in quick succession by a test of this level. Should the price break above the resistance level on its third attempt, we can expect a test of the 200-day moving average (111.31) to be the next outcome.

Forecasts	Spot	1 Week	1 month
USDJPY	110.69	111.00	112.00
EURJPY	125.47	124.32	128.80
GBPJPY	144.48	142.97	140.00

Yield Spreads



Net Positioning



Source: Bloomberg, Emirates NBD Research

Weekly Candle Chart



Source: Bloomberg, Emirates NBD Research

GBPUSD

GBPUSD rises for first time in one month

GBPUSD has been the beneficiary of some very unusual speculation over the last week. Investors have increased their appetite for the pound amid wagers that Prime Minister Theresa May will fail to win Parliament's support for amendments to the Brexit plan on Wednesday. Initially rallying on reports that the U.K and EU were getting closer to a compromise on the Irish Border backstop, the rally then continued on the back of expectations that lawmakers would force the government to request an extension of Brexit negotiations.

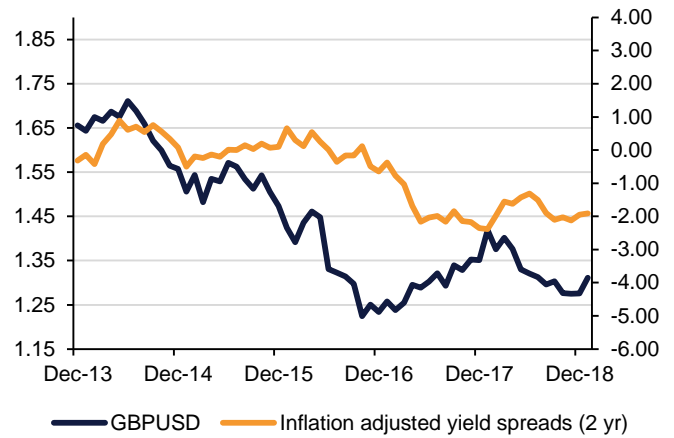
Needless to say, for yet another week Economic data is likely to take a backseat to any Brexit developments. At this stage there are a number of outcomes and the market may be overly optimistic. The pound has mainly rebounded on the premise that if the deadline for the conclusion of negotiations is delayed, a no-deal Brexit can be averted. If Parliament reject's all the available options on Wednesday, an outcome that cannot be entirely ruled out, the pound could resume its plummet.

Technical outlook

A 1.27% gain saw GBPUSD rise for the first time in four weeks, finishing at 1.3053 on Friday. Of technical significance is that the price rose above the resistive 200-day moving average (1.2994) on Tuesday 19th February, sustaining the break. This was confirmed when this level provided resistance and halted declines on Friday. However, despite these gains, it is too early to declare a reversal in GBPUSD's fortunes. Analysis of the weekly candle charts reveals that these gains have not completely annulled the losses of the previous fortnight. In addition, the price remains below the resistive 50 and 100-week moving averages (1.3169 and 1.3196 respectively).

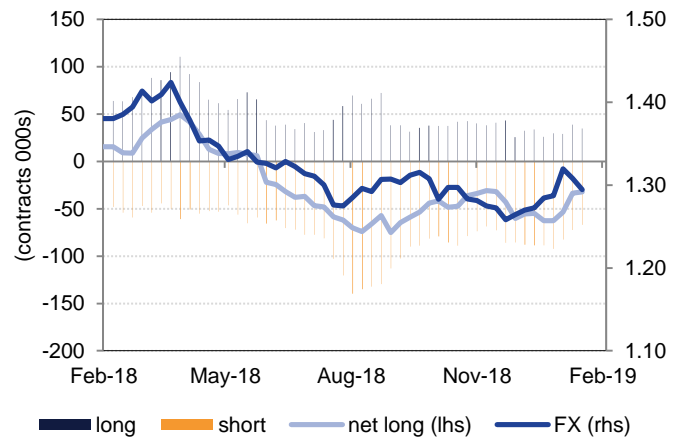
Forecasts	Spot	1 Week	1 month
GBPUSD	1.3053	1.2880	1.2500
EURGBP	0.8681	0.8696	0.9200
GBPJPY	144.48	142.968	140.00

Yield Spreads



Source: Bloomberg, Emirates NBD Research

Net Positioning



Source: Bloomberg, Emirates NBD Research

Daily Candle Chart



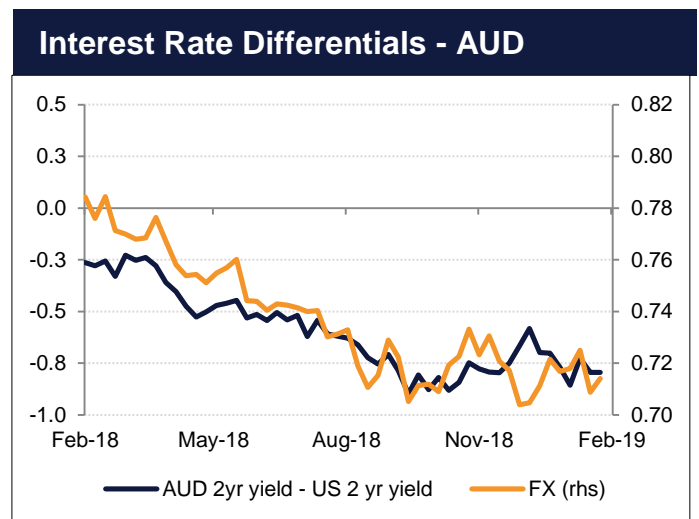
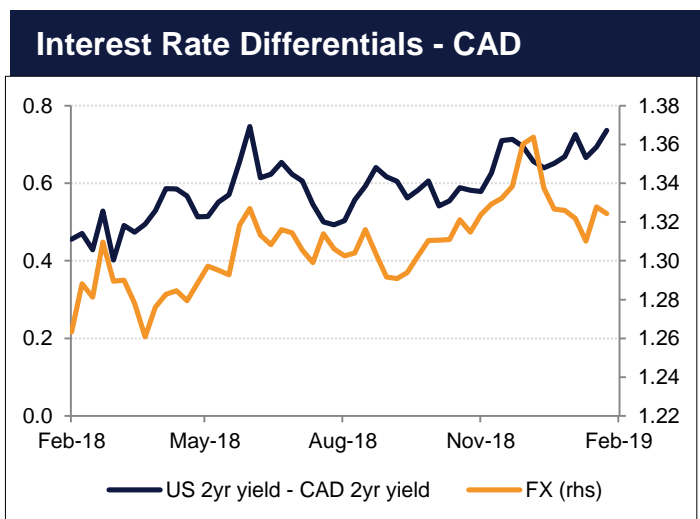
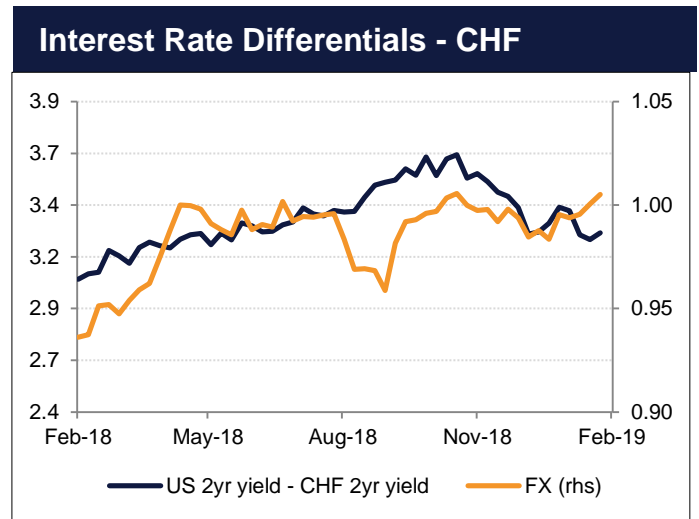
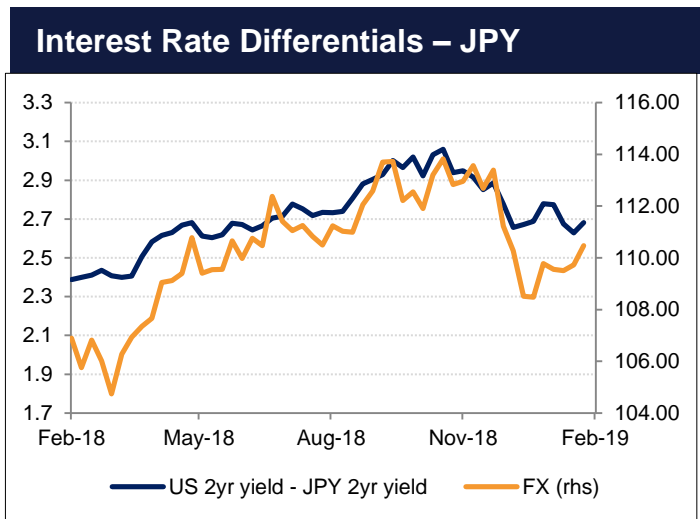
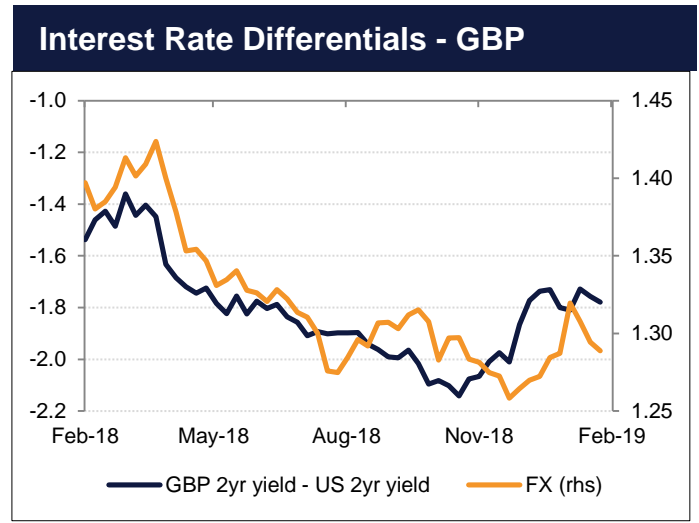
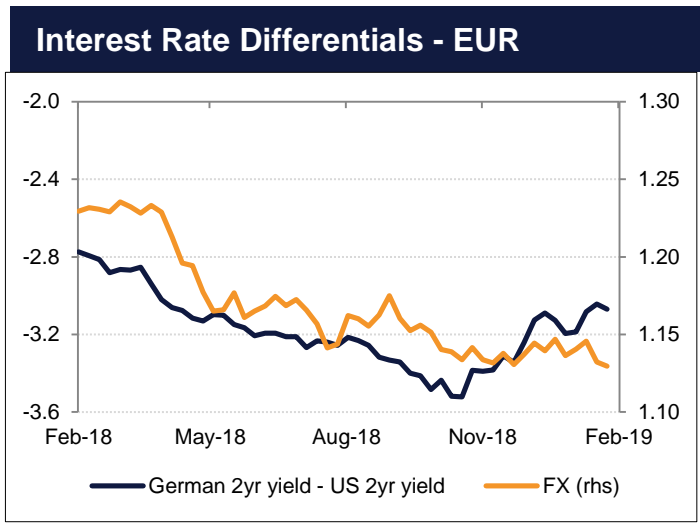
Source: Bloomberg, Emirates NBD Research

FX Forecasts

FX Forecasts - Major						Forwards		
	22-Feb	Q1 2019	Q2 2019	Q3 2019	Q4 2019	3m	6m	12m
EURUSD	1.1335	1.1500	1.1500	1.1800	1.2000	1.1422	1.1509	1.1690
USDJPY	110.69	111.00	113.00	112.00	110.00	109.89	109.10	107.42
USDCHF	1.0004	1.0000	1.0000	0.9800	0.9700	0.9919	0.9834	0.9662
GBPUSD	1.3053	1.2500	1.3000	1.3500	1.4000	1.3113	1.3171	1.3283
AUDUSD	0.7129	0.7300	0.7550	0.7700	0.8000	0.7139	0.7148	0.7171
NZDUSD	0.6846	0.6800	0.6900	0.7100	0.7400	0.6857	0.6868	0.6890
USDCAD	1.3135	1.3250	1.2850	1.2600	1.2500	1.3106	1.3081	1.3035
EURGBP	0.8681	0.9200	0.8846	0.8741	0.8571	0.8707	0.8735	0.8798
EURJPY	125.47	127.65	129.95	132.16	132.00	125.47	125.47	125.47
EURCHF	1.1338	1.1500	1.1500	1.1564	1.1640	1.1328	1.1317	1.1293
FX Forecasts - Emerging						Forwards		
	22-Feb	Q1 2019	Q2 2019	Q3 2019	Q4 2019	3m	6m	12m
SAR	3.7504	3.7500	3.7500	3.7500	3.7500	3.7509	3.7520	3.7568
AED	3.6730	3.6730	3.6730	3.6730	3.6730	3.6737	3.6744	3.6765
KWD	0.3036	0.3020	0.3020	0.3020	0.3020	0.1520	0.3038	--
OMR	0.3850	0.3850	0.3850	0.3850	0.3850	0.3855	0.3864	0.3885
BHD	0.3770	0.3770	0.3770	0.3770	0.3770	0.3762	0.3762	0.3787
QAR	3.6535	3.6400	3.6400	3.6400	3.6400	3.6543	3.6547	3.6542
EGP	17.5385	18.0000	18.1250	18.2500	18.2500	17.8950	18.3250	19.3200
INR	71.141	70.000	70.000	68.000	68.000	71.9000	72.6800	74.1500
CNY	6.7137	6.9000	7.0000	7.1000	7.2000	6.7045	6.7118	6.7225
SGD	1.3511	1.3500	1.3200	1.3000	1.2900	1.3484	1.3463	1.3406
FX Forecasts - MENA						Forwards		
	22-Feb	Q1 2019	Q2 2019	Q3 2019	Q4 2019			
MAD	9.5630	9.5000	9.6000	9.6000	9.7000			
TND	3.0470	3.0800	3.1000	3.1500	3.2000			
TRY	5.3180	5.4000	5.5000	5.6000	5.7000			

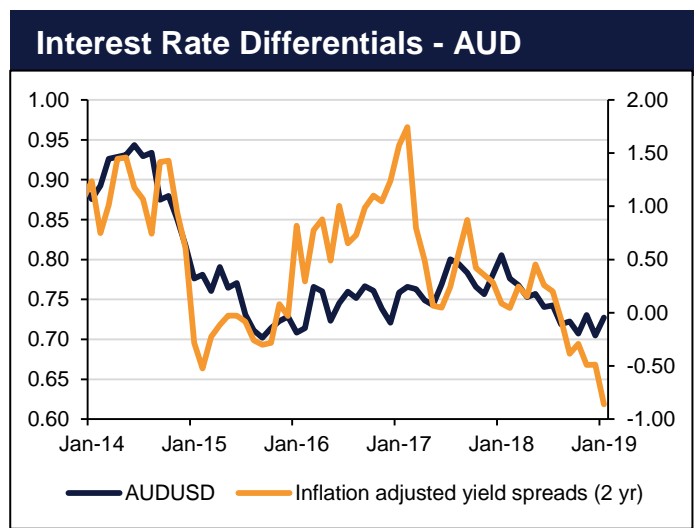
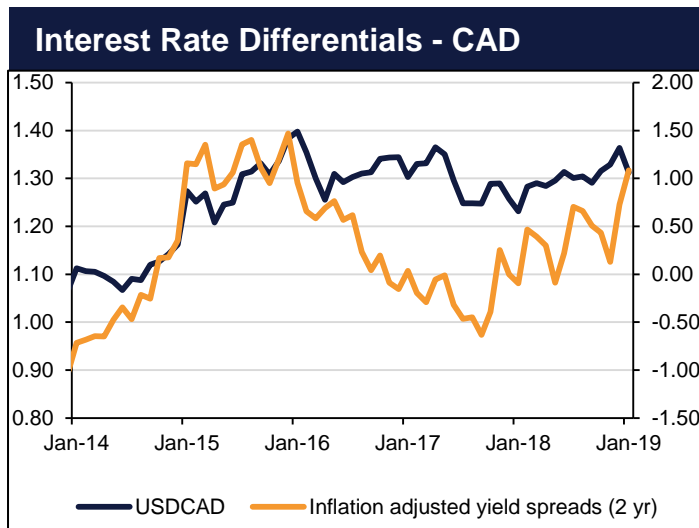
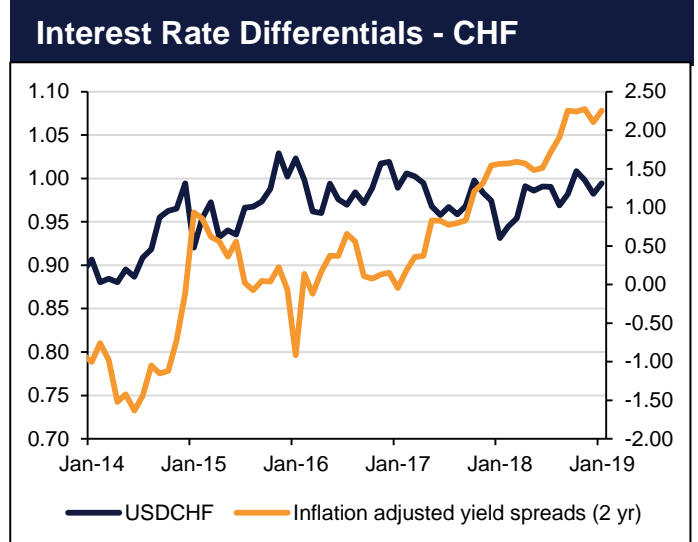
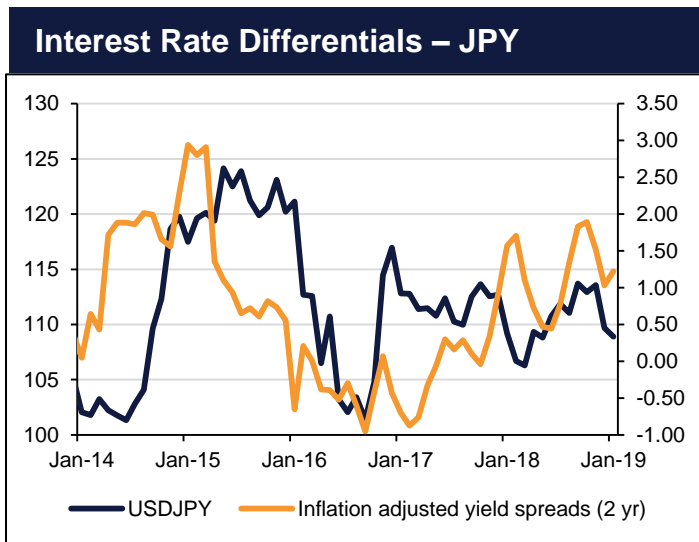
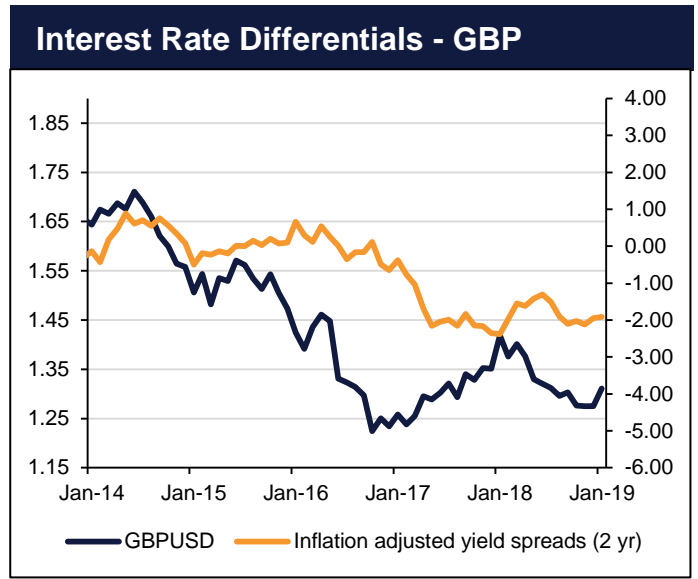
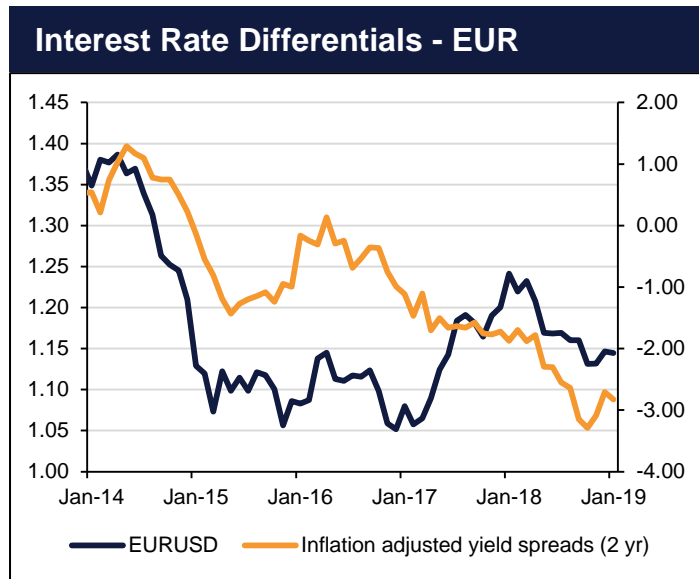
Source: Bloomberg, Emirates NBD Research
 *Denotes USD peg

Major FX and Nominal Interest Rates



Source: Bloomberg, Emirates NBD Research

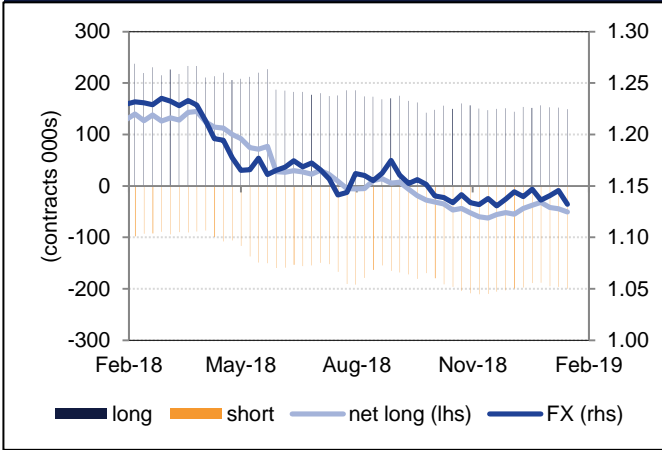
Major FX and Real Interest Rates



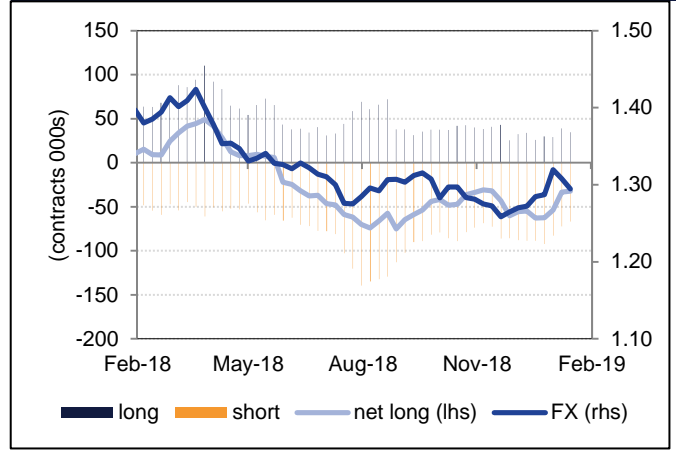
Source: Bloomberg, Emirates NBD Research

Major Currency Positions

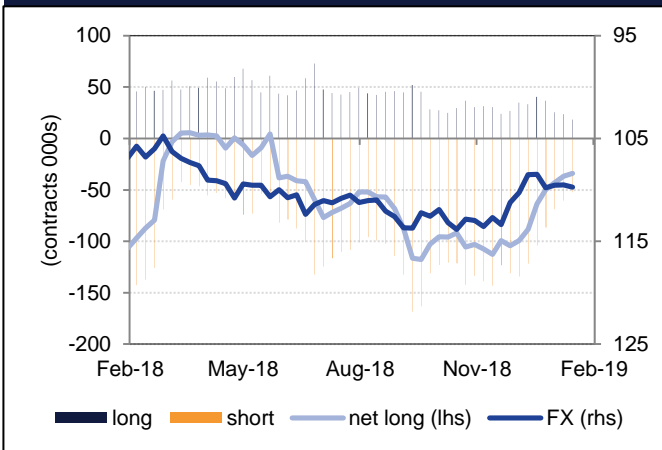
CFTC – Speculative Positions - EUR



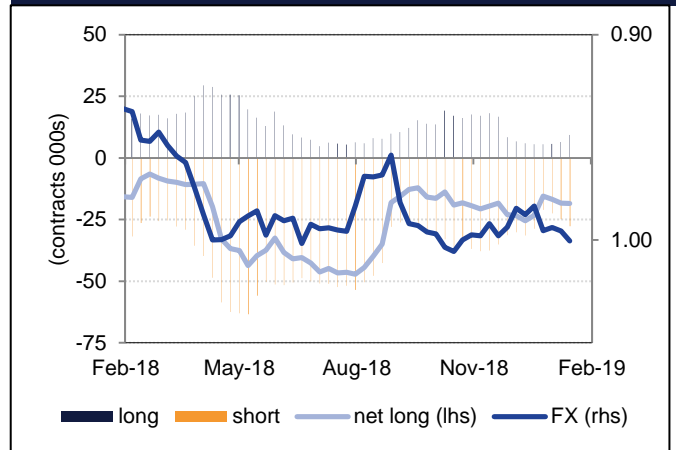
CFTC – Speculative Positions - GBP



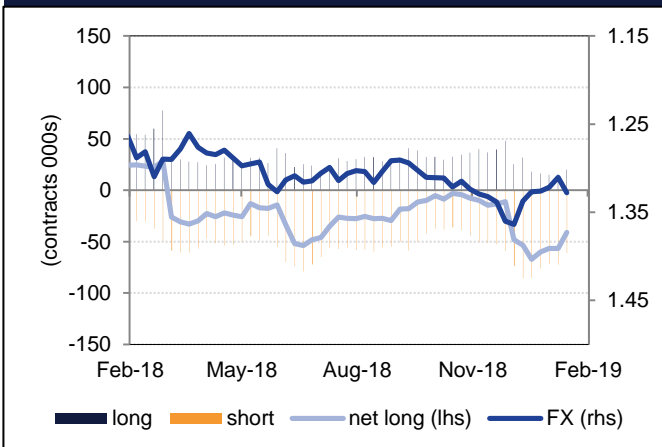
CFTC – Speculative Positions - JPY



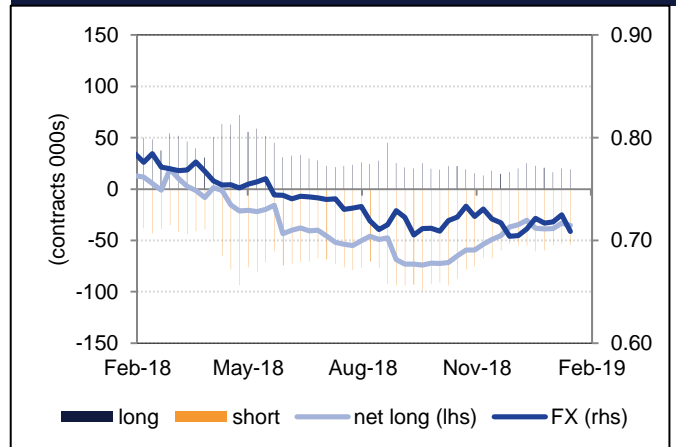
CFTC – Speculative Positions - CHF



CFTC – Speculative Positions - CAD



CFTC – Speculative Positions - AUD



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