



بنك الإمارات دبي الوطني  
Emirates NBD

Weekly  
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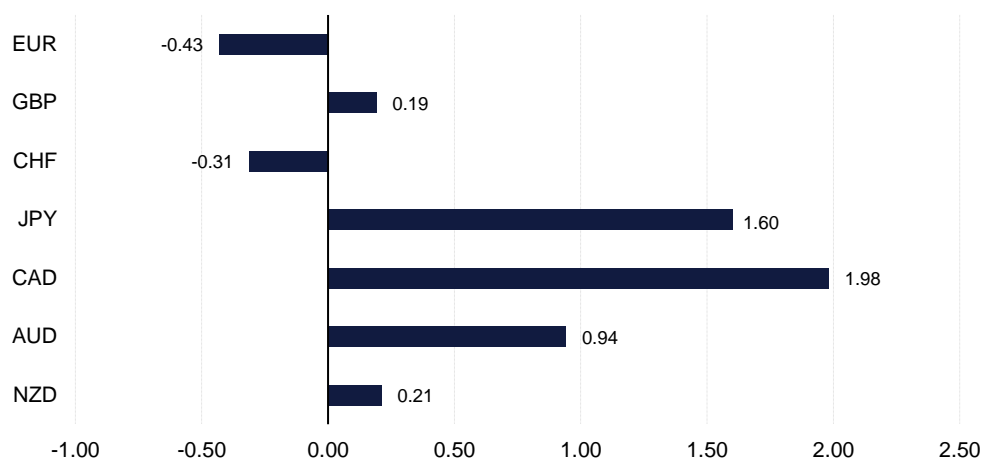
## FX Week

Risk aversion remained a dominant theme for the majority of 2019's opening week. Amid thinner than normal market liquidity, softer than expected economic data out of the world's two largest economies (U.S. and China) triggered renewed concerns about a slowdown in global growth. Under these circumstances haven currencies like JPY prospered while riskier assets like GBP found themselves under pressure.

However, a more cautious tone from Federal Reserve Chairman Jerome Powell and stronger than expected U.S. employment data reassured the markets on Friday, and the week ended on a more positive note. Powell conveyed some sympathy with market concerns about slower growth, but portrayed fears of a recession as premature and indicated the Fed's preparedness to be patient when it comes to raising interest rates. Interestingly, he also ruled out resigning if requested to do so by President Trump, highlighting the Fed's historic independence.

- EURUSD: Last week's 0.42% decline saw EURUSD close at 1.1396, down from the one month highs of 1.1497 seen on the 2<sup>nd</sup> of January.
- USDJPY: USDJPY fell by 1.59% last week, to close at 108.51, the lowest weekly close since April 2018 and the second consecutive close below the 50-week moving average (110.26).
- GBPUSD: Despite falling as low as 1.2441 (the lowest level since April 2017) from its opening of 1.2699, GBPUSD was able to recover and actually finished the week 0.19% higher at 1.2724.

### Weekly currency movement vs USD (%)



Source: Bloomberg, Emirates NBD Research

# EURUSD

## EURUSD softer at end of week

Softer than expected U.S. economic data at the start of the week resulted in EURUSD commencing the week on firmer footing. The ISM Manufacturing PMI fell from 59.3 in November to 54.1 in December, the lowest since November 2016, resulting in pressure on the dollar. However, these gains were not sustained. A decline in the Eurozone Aggregate CPI to 1.6% in December from 2.0% the previous month and a stronger than expected U.S. NFP report reversed these earlier gains and EURUSD closed the week lower.

With 312,000 new jobs added in December and wages increasing by 3.2% (up from 3.1% the previous month), the data shows that the Federal Reserve can continue to tighten monetary policy, despite the market recently pricing the Fed out. This is in contrast with the European Central Bank which will now be more hesitant due to the slowdown in inflation and softening activity which may limit future gains in EURUSD.

## U.S inflation the next key

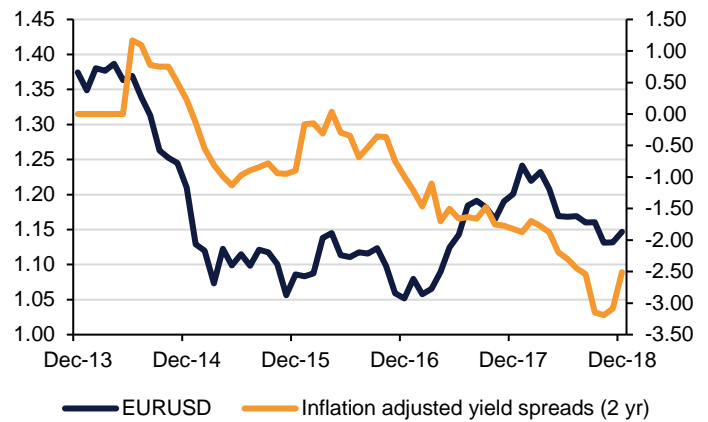
Over the next week, investors will focus their attention on December's U.S. CPI report. This is expected to show that prices climbed by 2.2%, with any upside surprises in the data likely to lead to renewed dollar strength as markets unwind the recent pricing in of rate cuts later this year. As we go to print, the Fed Funds Future implies a 6.9% probability of an interest rate hike by June 2019, indicating that the market still believes that the current tightening cycle is over. Therefore any supportive economic data could alter this expectation quite quickly.

## Technical outlook

Last week's 0.42% decline saw EURUSD close at 1.1396, down from the one month highs of 1.1497 seen on the 2<sup>nd</sup> of January in line with our Q4 2018 forecast of 1.15. Of note is that over the course of the week, the 100-day moving average (1.1479) continued to provide resistance, while the 50-day moving average (1.1370) provided support. Analysis of the weekly candle chart shows that for a tenth week, the 200-week moving average (1.1317) halted additional losses for the cross and while this continues to provide support, we expect a retest of the 1.15 level.

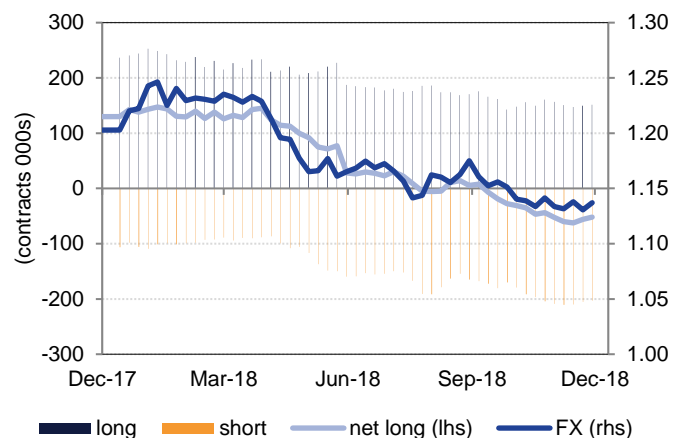
Forecasts	Spot	1 Week	1 month
EURUSD	1.1395	1.1450	1.1500
EURGBP	0.8954	0.9160	0.9200
EURJPY	123.64	123.66	128.80

## Yield Spreads



Source: Bloomberg, Emirates NBD Research

## Net Positioning



Source: Bloomberg, Emirates NBD Research

## Daily Candle Chart



Source: Bloomberg, Emirates NBD Research

# USDJPY

## USDJPY plummets on risk aversion

In the last edition of the FX Week, we noted that the yield differentials showed significant downside risks to USDJPY. Since then, the exchange rate has fallen from 113.39 to 108.51, having even traded as low as 104.87.

The principal catalyst behind this decline was risk aversion, prompted by weaker than expected manufacturing data in the U.S. and China and the poor performance of equities at the start of the year. It was not until Friday 4<sup>th</sup> January that USDJPY recovered on strong U.S. employment data and a rebound in equity markets following Fed Chairman Powell's comments that the central bank will be "patient".

## Risk appetite to be the driver

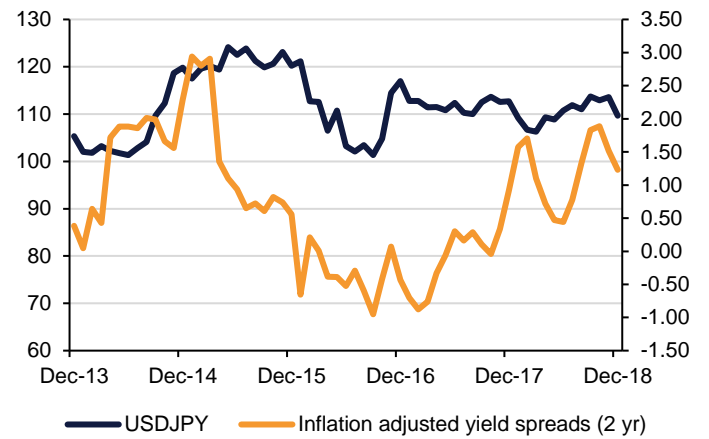
In the week ahead, we expect USDJPY to continue to be guided by risk appetite. Investors will be looking towards the U.S. for developments regarding the government shutdown and for trade developments between the U.S and China. Once again, however yield differentials, both nominal and inflation adjusted (see pages 6 and 7) show additional downside risks for USDJPY.

## Technical

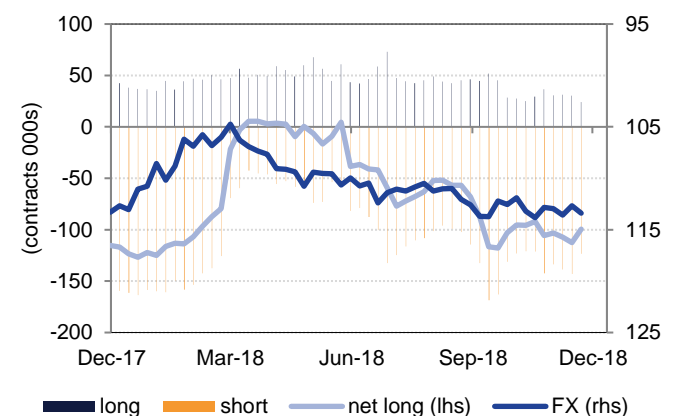
USDJPY fell by 1.59% last week, to close at 108.51 on Friday, the lowest weekly close since April 2018 and the second consecutive close below the 50-week moving average (110.26). The cross had fallen as low as 104.87 on Thursday, from its opening of 108.88, before recouping some of these losses. Analysis of the daily candle charts shows that over the course of the week, the decline took the price below the 50%, 38.2% and 23.6% one year Fibonacci retracements amid thinner than normal liquidity.

Forecasts	Spot	1 Week	1 month
USDJPY	108.51	108.00	112.00
EURJPY	123.64	123.66	128.80
GBPJPY	138.07	135.00	140.00

## Yield Spreads



## Net Positioning



Source: Bloomberg, Emirates NBD Research

## Daily Candle Chart



Source: Bloomberg, Emirates NBD Research

# GBPUSD

## GBPUSD rises for a third week

Despite falling to a new 25-month low last week, the pound was able to recover and close firmer on Friday. The main reason for the initial decline was investor wariness over the possibility of a no-deal Brexit scenario. With several hurdles remaining in front of Prime Minister Theresa May, including gaining the reassurances from the EU and support from lawmakers, sterling is likely to remain jittery in coming weeks, with some talk that the parliamentary vote on her Brexit deal could be postponed again from January 15<sup>th</sup>.

## Brexit developments to overshadow data

UK GDP data due for release next week is expected to show that the economy expanded by a modest 0.1% m/m in November, however the markets are not likely to pay significant attention to the figure. With Parliament returning next week, most attention will be focused on Brexit developments.

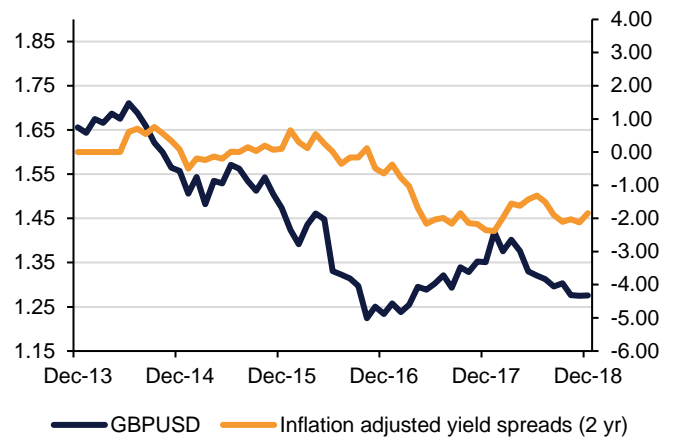
Brexit secretary Stephen Barclay has stated that the government intends to launch an information campaign next week on radio and social media channels, to educate the public about how to prepare for a no-deal scenario. With markets facing the realization that this scenario could potentially occur in less than three months, the pound is likely to continue to find itself under strain.

## Technical

Despite falling as low as 1.2441 (the lowest level since April 2017) from its opening of 1.2699, GBPUSD was able to recover and actually finished the week 0.19% higher at 1.2724. Despite three weeks of gains, the price remains below the technically significant 100-week moving average for a twelfth week and as a result the downtrend remains intact. The 14-day Relative Strength Indicator (RSI) is bullish in momentum, but gains may be limited by resistance at the 50-day moving average (1.2772), a level which has capped gains since November 2018.

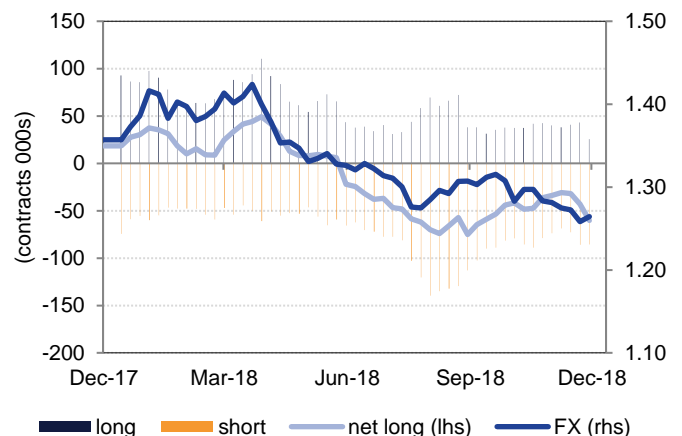
Forecasts	Spot	1 Week	1 month
GBPUSD	1.2723	1.2500	1.2500
EURGBP	0.8954	0.9160	0.9200
GBPJPY	138.07	135.00	140.00

## Yield Spreads



Source: Bloomberg, Emirates NBD Research

## Net Positioning



Source: Bloomberg, Emirates NBD Research

## Daily Candle Chart



Source: Bloomberg, Emirates NBD Research

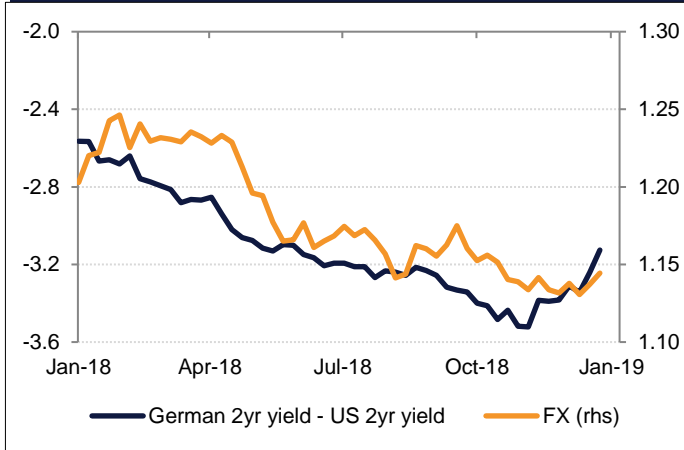
## FX Forecasts

FX Forecasts - Major						Forwards		
	4-Jan	Q1 2019	Q2 2019	Q3 2019	Q4 2019	3m	6m	12m
EURUSD	1.1395	1.1500	1.1500	1.1800	1.2000	1.1483	1.1574	1.1757
USDJPY	108.51	114.00	116.00	114.00	112.00	107.70	106.88	105.21
USDCHF	0.9876	1.0000	1.0000	0.9800	0.9700	0.9791	0.9704	0.9532
GBPUSD	1.2723	1.2500	1.3000	1.3500	1.4000	1.2780	1.2835	1.2942
AUDUSD	0.7113	0.7300	0.7550	0.7700	0.8000	0.7123	0.7132	0.7151
NZDUSD	0.6732	0.6800	0.6900	0.7100	0.7400	0.6742	0.6753	0.6771
USDCAD	1.3374	1.3250	1.2850	1.2600	1.2500	1.3346	1.3322	1.3281
EURGBP	0.8954	0.9200	0.8846	0.8741	0.8571	0.8983	0.9015	0.9082
EURJPY	123.64	131.10	133.40	134.52	134.40	123.64	123.64	123.64
EURCHF	1.1244	1.1500	1.1500	1.1564	1.1640	1.1233	1.1221	1.1197
FX Forecasts - Emerging						7-Sep		
	4-Jan	Q1 2019	Q2 2019	Q3 2019	Q4 2019	3m	6m	12m
SAR	3.7510	3.7500	3.7500	3.7500	3.7500	3.7515	3.7534	3.7593
AED	3.6731	3.6730	3.6730	3.6730	3.6730	3.6736	3.6744	--
KWD	0.3033	0.3020	0.3020	0.3020	0.3020	0.2999	0.2984	--
OMR	0.3850	0.3850	0.3850	0.3850	0.3850	0.3856	0.3866	0.3895
BHD	0.3770	0.3770	0.3770	0.3770	0.3770	0.3761	0.3761	0.3800
QAR	3.6548	3.6400	3.6400	3.6400	3.6400	3.6510	3.6553	3.6585
EGP	17.9144	18.0000	18.1250	18.2500	18.2500	18.4250	18.9400	19.9700
INR	69.734	70.000	70.000	68.000	68.000	70.2600	71.0200	72.4900
CNY	6.8692	6.9000	7.0000	7.1000	7.2000	6.8760	6.8850	6.8920
SGD	1.3593	1.3500	1.3200	1.3000	1.2900	1.3563	1.3529	1.3456

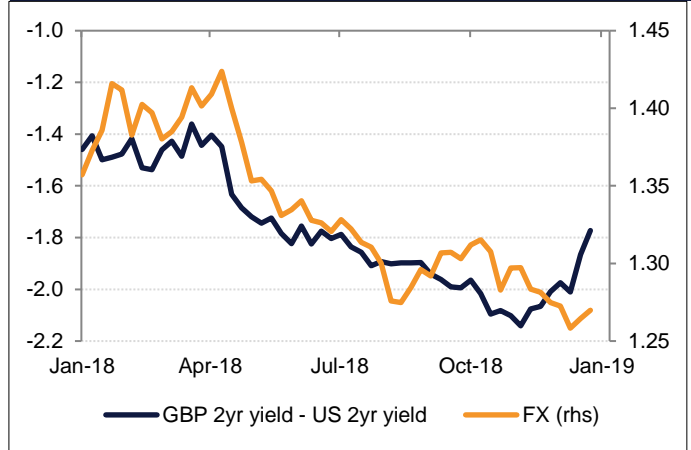
Source: Bloomberg, Emirates NBD Research  
 \*Denotes USD peg

## Major FX and Nominal Interest Rates

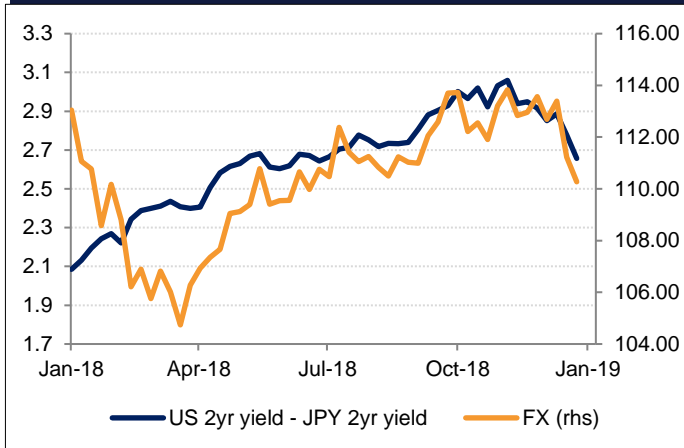
### Interest Rate Differentials - EUR



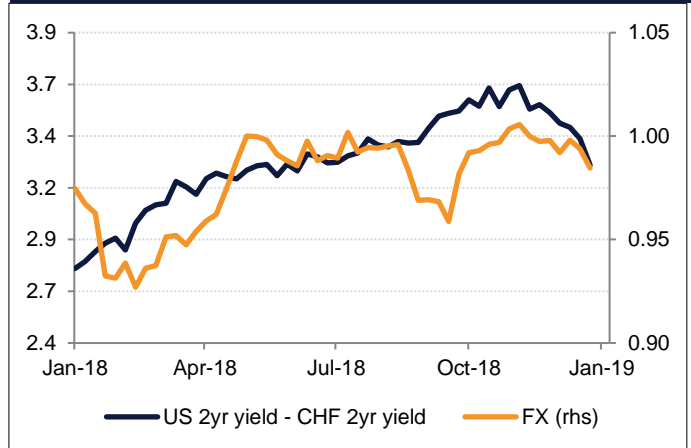
### Interest Rate Differentials - GBP



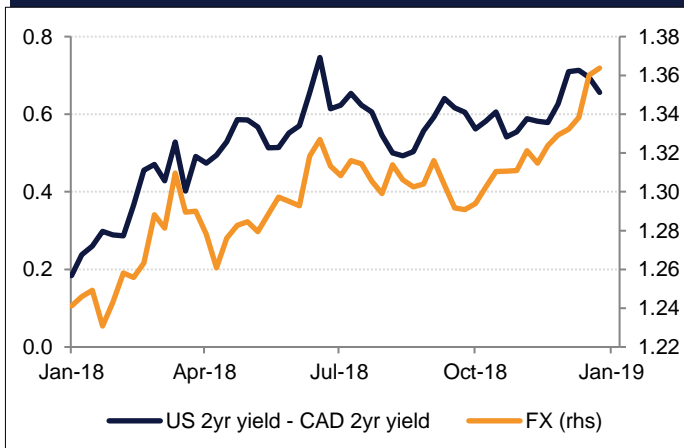
### Interest Rate Differentials - JPY



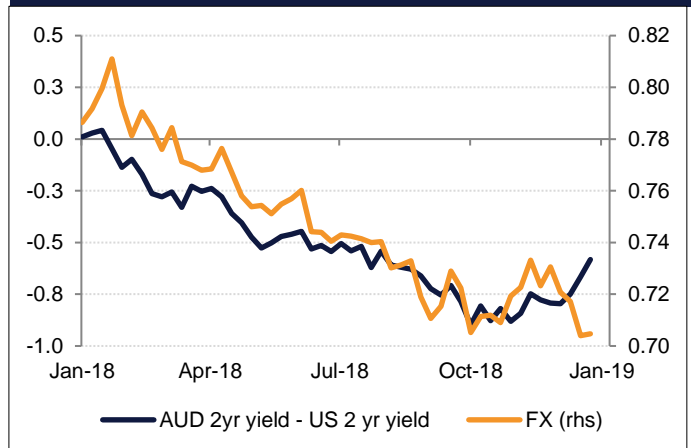
### Interest Rate Differentials - CHF



### Interest Rate Differentials - CAD

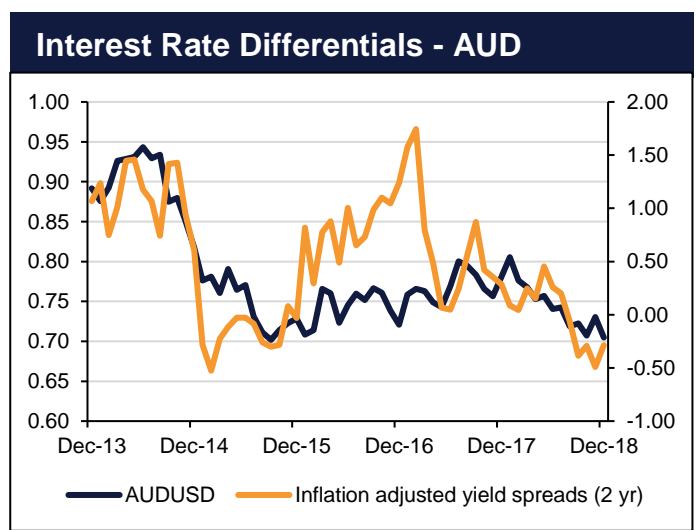
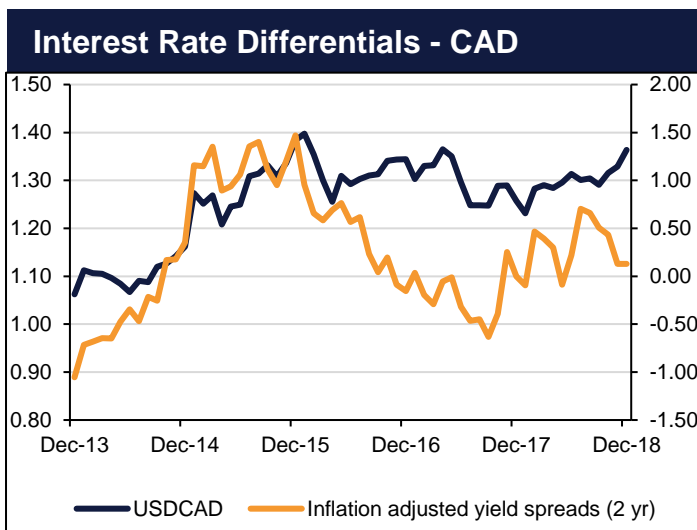
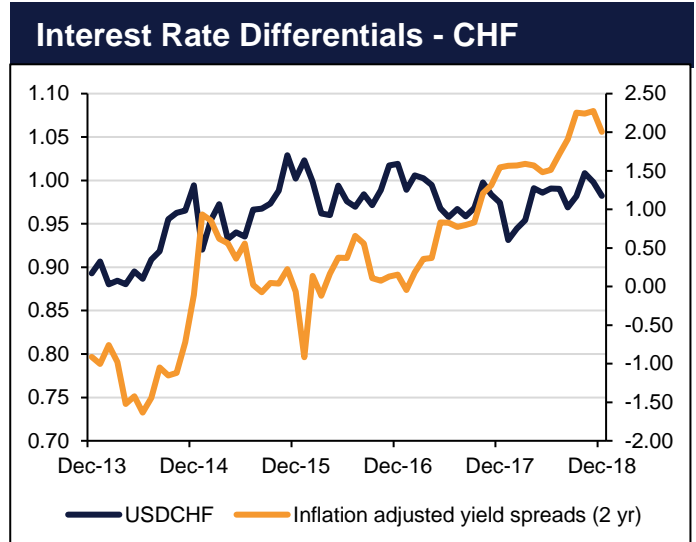
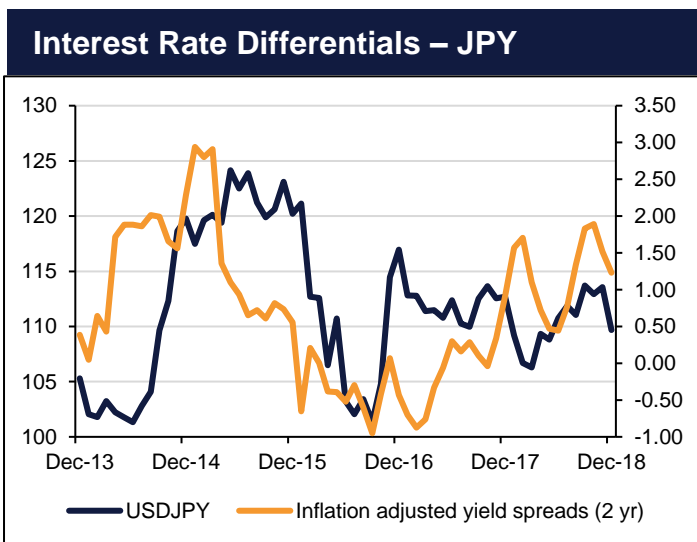
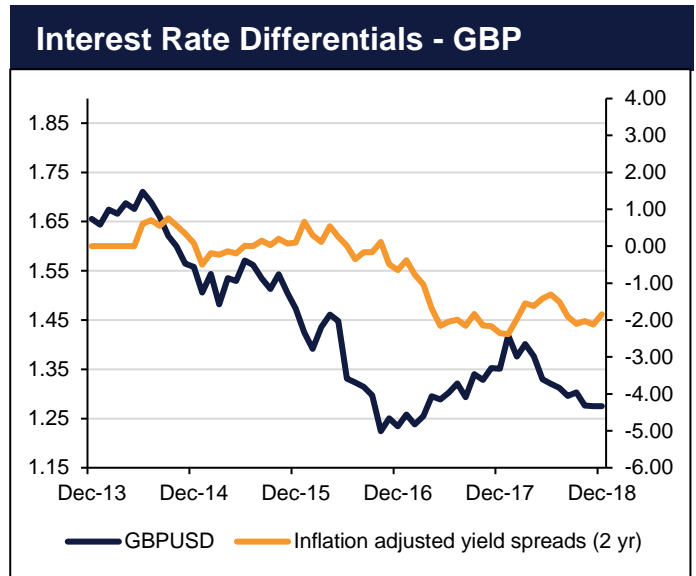
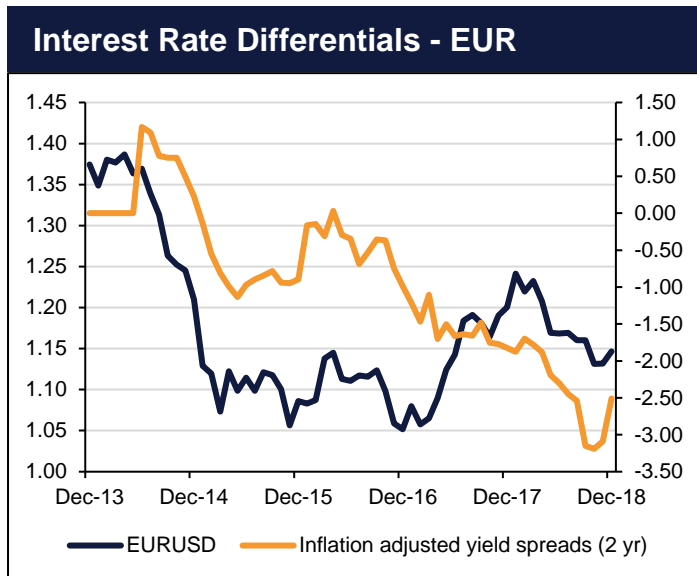


### Interest Rate Differentials - AUD



Source: Bloomberg, Emirates NBD Research

## Major FX and Real Interest Rates

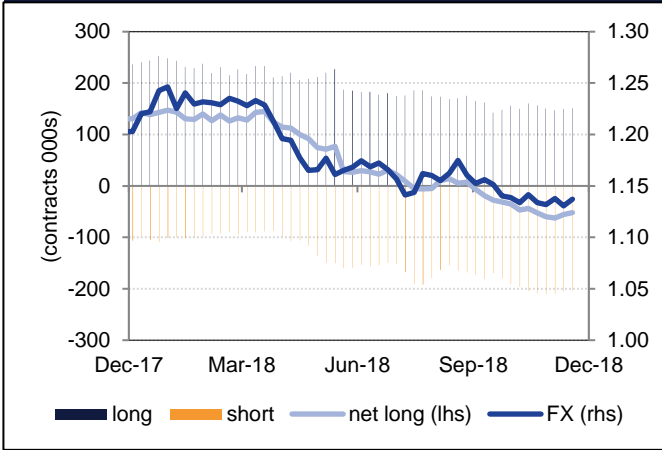


Source: Bloomberg, Emirates NBD Research

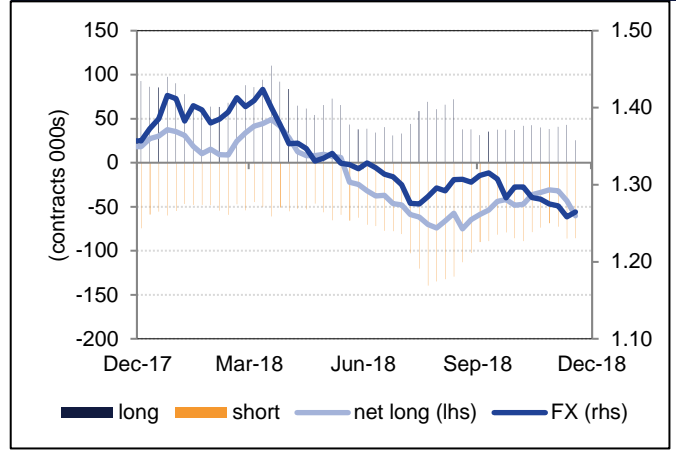


## Major Currency Positions

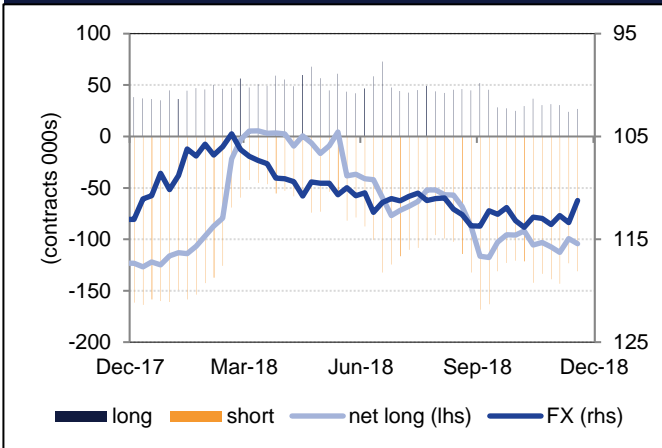
### CFTC – Speculative Positions - EUR



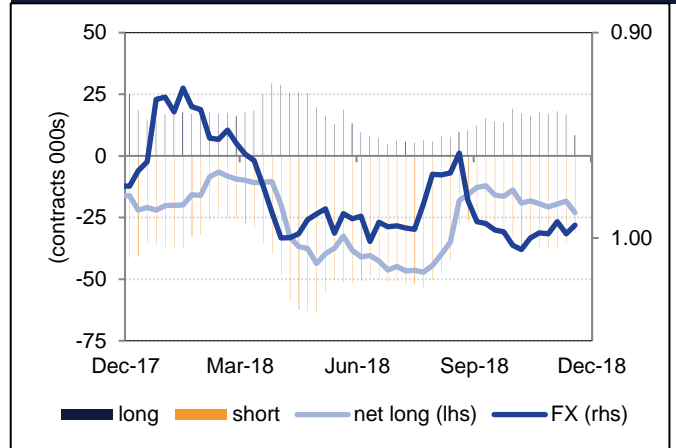
### CFTC – Speculative Positions - GBP



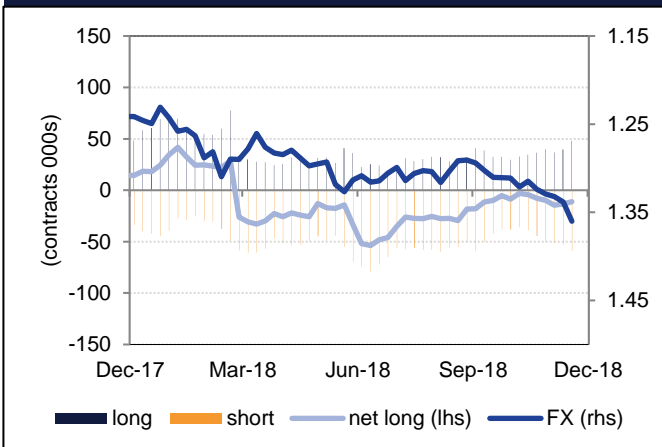
### CFTC – Speculative Positions - JPY



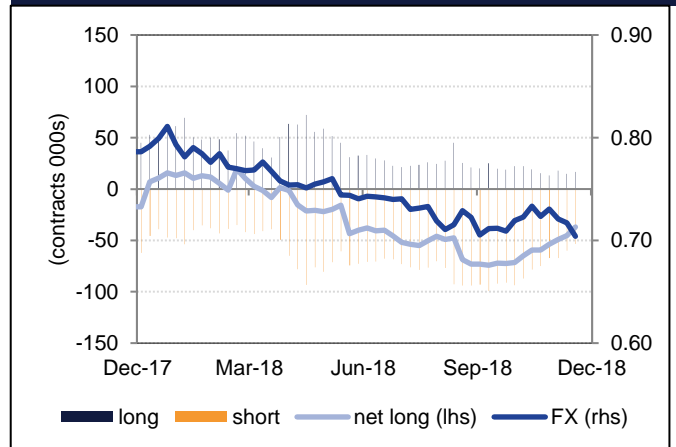
### CFTC – Speculative Positions - CHF



### CFTC – Speculative Positions - CAD



### CFTC – Speculative Positions - AUD





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