



بنك الإمارات دبي الوطني  
Emirates NBD

Weekly  
9 December 2018

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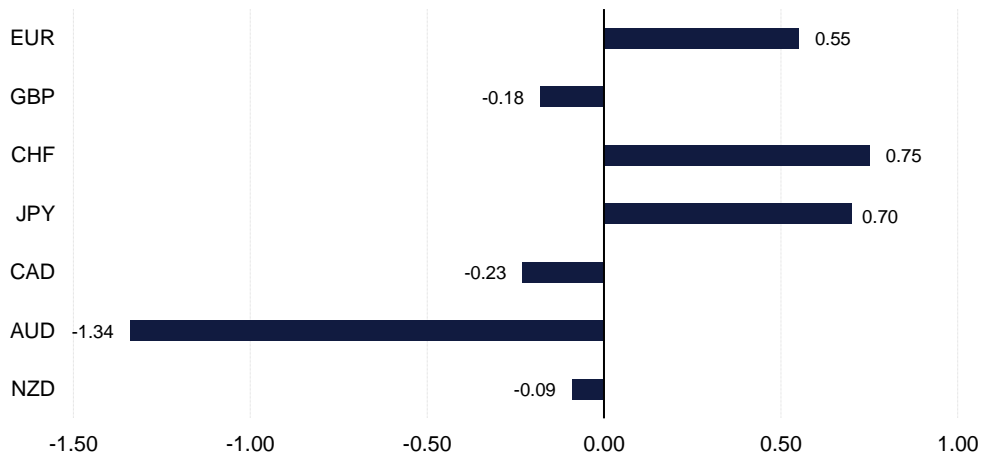
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# FX Week

Investors have revised down sharply their expectations for monetary tightening in the US over the past month, amid a weakening of inflation expectations and worries about global growth, to the extent that they are barely discounting one hike in the whole of 2019. As such the USD has lost ground against the EUR and JPY, even as Brexit is continuing to handicap GBP. Last week's November US employment data maintained the sense of caution about the Fed, even though it was probably not enough to change the likelihood of a hike at the 19<sup>th</sup> December FOMC meeting. Payroll data for November showed a softer pace of jobs growth, but the unemployment rate was steady at 3.7% and hourly earnings were still firm at 0.2% m/m and 3.1% y/y. Clearly it will be the messaging from Jerome Powell about the future path of rates that will be crucial for the markets next week, and following that it will be all down to the data. Until then it is possible that the USD will remain under pressure as yield spreads are currently providing EURUSD in particular a bit more underpinning. Whether this can be sustained beyond a few days remains unclear though, especially as the ECB meeting this week may also deliver a more dovish message, and the Fed may also be less dovish than imagined when they finally meet.

The other key issues in the coming week revolve around Brexit as well as ongoing risk aversion related to US-China trade talks, made more complex by the political stand-off over the arrest of the Chinese corporate executive. The highlight of course will be the UK Parliament's vote on Theresa's May's Brexit agreement with the EU on Tuesday. The chances of it being passed on the first attempt are very low, so it will be the scale of the defeat that will matter to markets. A narrow loss might allow May to save some face to fight again, and perhaps to negotiate a few amendments to get it passed on a second vote. However, a heavy loss could bring down her leadership and make the Brexit process appear in chaos which in the first instance would likely see the pound lose further value. Whether these losses are sustained, however, will depend on what happens next.

## Weekly currency movement vs USD (%)



Source: Bloomberg, Emirates NBD Research

Forecasts	Spot	1 Week	1 Month
EURUSD	1.1379	1.1300	1.1500
GBPUSD	1.2726	1.2650	1.2500
USDJPY	112.69	112.00	113.00
EURJPY	128.32	126.56	129.95
EURGBP	0.8944	0.8933	0.9200
GBPJPY	143.55	141.68	141.25

# EURUSD

## EURUSD gains amid mixed U.S. employment

The nonfarm payroll headline was softer than expected on Friday. Compared with expectations for 198,000 jobs to have been added, the report showed that 155,000 new jobs were added in November. This softer than expected figure was accompanied by a downward revision in October's headline from 250,000 jobs to 237,000 jobs. This slowdown in job growth however was accompanied by evidence of continued wage pressures, wage growth remaining at 3.1% y/y and as a result, the Federal Reserve is still expected to raise interest rates at their December meeting. However, with this outcome already priced in, the market will be looking for cues on the expected rate of tightening in 2019, with any hints of a slowdown likely to result in further dollar weakness.

## ECB actions and language to be watched

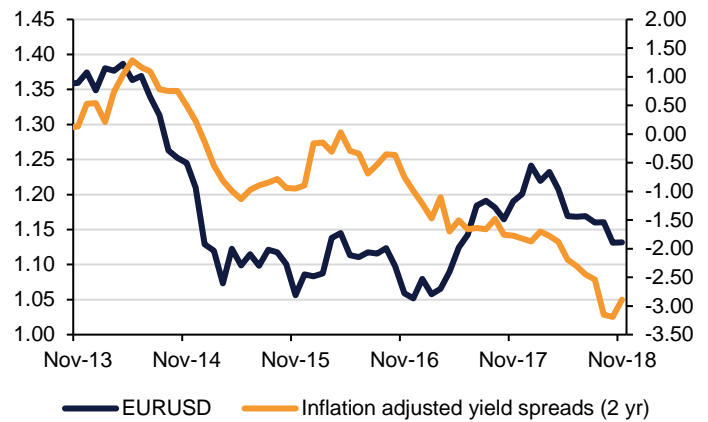
Although a raft of primary tier data is expected in the Eurozone over the next week, all reports are likely to be overlooked by investors who will primarily be eyeing the ECB. With policy makers expected to end the asset purchase program, investors will be curious to hear their opinions on monetary policy in 2019. With growth slowing, confidence waning and risks to growth increasing, Mario Draghi may communicate a cautious message which would result in renewed pressure on the euro.

## Technical outlook

EURUSD rose by 0.64% last week, closing at 1.1390 on Friday. Of note is that throughout the week, gains were continually kept in check by the 50-day moving average (1.1416), while for a 6<sup>th</sup> consecutive week, support was found at the 200-week moving average (1.1313).

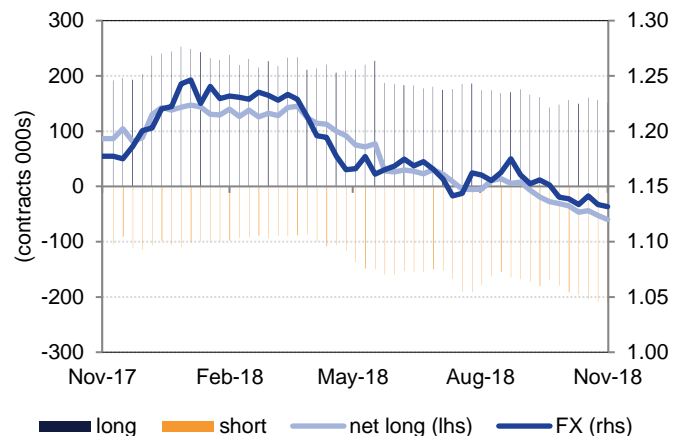
Forecasts	Spot	1 Week	1 month
EURUSD	1.1379	1.1300	1.1500
EURGBP	0.8944	0.8933	0.9200
EURJPY	128.32	126.56	129.95

## Yield Spreads



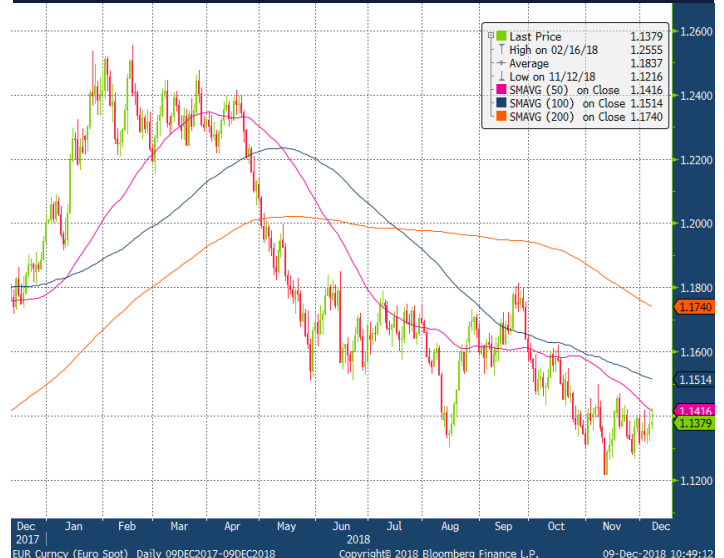
Source: Bloomberg, Emirates NBD Research

## Net Positioning



Source: Bloomberg, Emirates NBD Research

## Daily Candle Chart



Source: Bloomberg, Emirates NBD Research

# USDJPY

## USDJPY declines amid risk aversion

With 10-year UST yields falling below the 3% mark for the first time since September and equities having their worst weekly performance since March 2018, USDJPY declined as a result of safe haven bids. The fall has pared the gains of the previous week and taken the price back below the 200-week moving average (112.93).

## Yields and sentiment to influence USDJPY

Over the week ahead, economic data is expected to show that the Japanese economy contracted by 0.5% q/q in Q3 2018, a 2% annualized contraction. This is greater than the 0.3% q/q contraction originally reported and will certainly give the Bank of Japan no reason to reconsider their ultra-loose monetary policy.

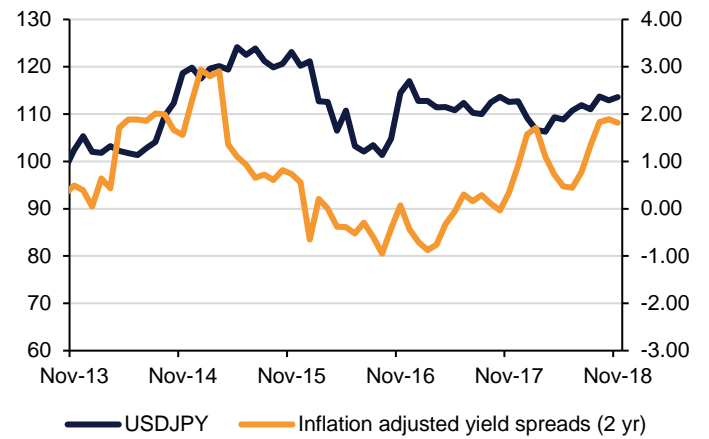
However, while such data would usually catalyze JPY softness, we expect the data to play second fiddle to general risk appetite. As the market focuses on the ongoing US-China trade talks, any escalation is likely to put pressure on USDJPY as the yen will likely benefit from safe haven bids.

## Technical

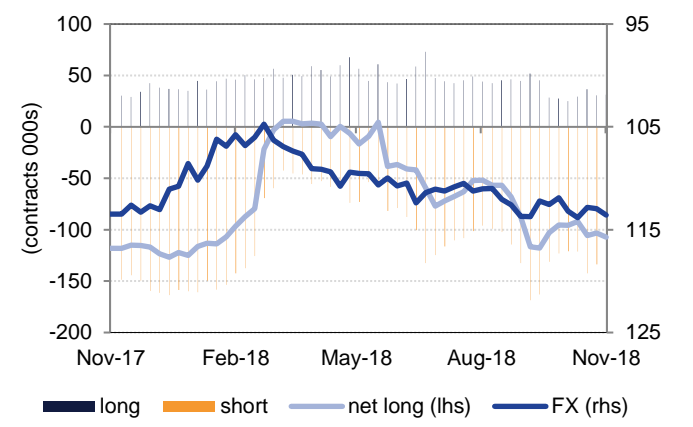
USDJPY declined by 0.77% over the last five days to close at 112.70. Over the course of the week, the price broke below the formerly supporting 50-day moving average (113.07) which is now acting as a resistance level. Further declines during the week here halted when a new support level was found at the 100-day moving average (112.27).

Forecasts	Spot	1 Week	1 month
USDJPY	112.69	112.00	113.00
EURJPY	128.32	126.56	129.95
GBPJPY	143.55	141.68	141.25

## Yield Spreads

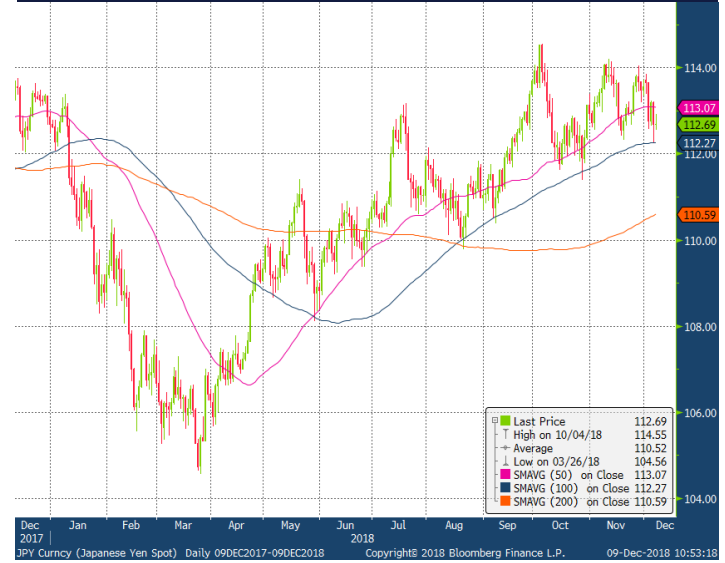


## Net Positioning



Source: Bloomberg, Emirates NBD Research

## Daily Candle Chart



Source: Bloomberg, Emirates NBD Research

# GBPUSD

## GBPUSD falls for a fifth week

Despite initial relief in the aftermath of a Legal Opinion that the U.K could revoke Article 50, the pound continued to find itself under pressure after Parliament after Parliament ruled the government in contempt over Brexit legal advice. This caused a slide in GBPUSD to a new 2018 low of 1.2659.

## Parliament vote on Brexit agreement to be key

In the coming week the highlight of course will be the UK Parliament's vote on Theresa's May's Brexit agreement with the EU on Tuesday. The chances of it being passed on the first attempt are very low, so it will be the scale of the defeat that will matter to markets.

A narrow loss might allow May to save some face to fight again, and perhaps to negotiate a few amendments to get it passed on a second vote. However, a heavy loss could bring down her leadership and make the Brexit process appear in chaos which in the first instance would likely see the pound lose further value. Whether these losses are sustained, however, will depend on what happens next.

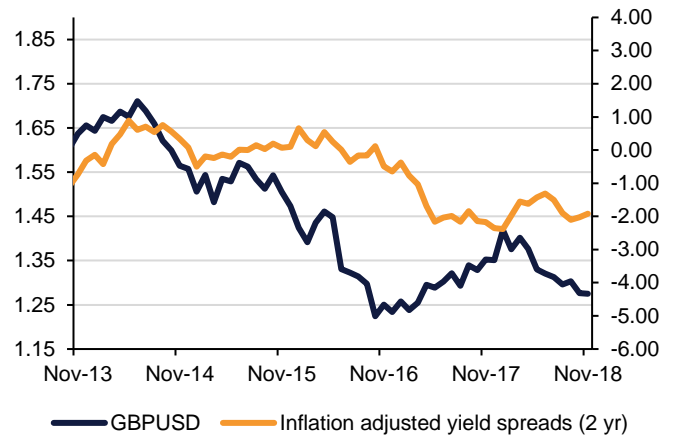
Most likely it will be Parliament itself that will take the initiative away from the UK government to manage the Brexit process, and this could result in a number of outcomes, not all of which are negative for sterling. In particular it is possible that another deal is constructed, and/or that there could still be a second referendum. It may also happen that the deadline for Brexit is extended from March 31st to allow a new deal to be crafted. Any of these outcomes means that the upcoming week's decision will not be the end of the issue, far from it, and that Brexit will continue as a focus of uncertainty well into 2019.

## Technical

Last week's 0.17% decline took GBPUSD to 1.2728, a level at which the price is vulnerable to further losses. A break and daily close below the one year low of 1.2659 is likely to expose the cross to further declines towards 1.25, a level which remains our short term forecast.

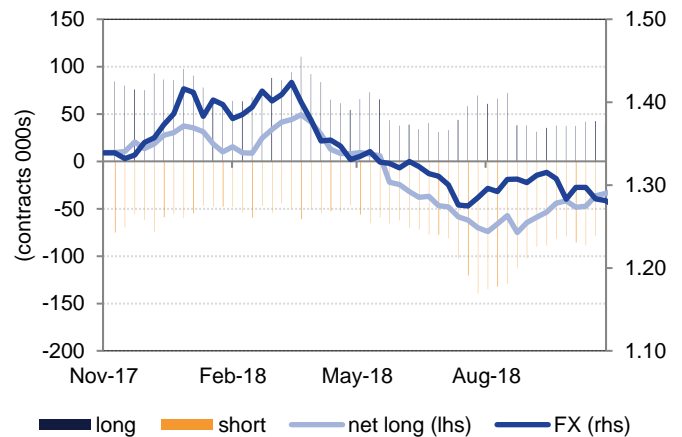
Forecasts	Spot	1 Week	1 month
GBPUSD	1.2726	1.2650	1.2500
EURGBP	0.8944	0.8933	0.9200
GBPJPY	143.55	141.68	141.25

## Yield Spreads



Source: Bloomberg, Emirates NBD Research

## Net Positioning



Source: Bloomberg, Emirates NBD Research

## Weekly Candle Chart



Source: Bloomberg, Emirates NBD Research

## FX Forecasts

FX Forecasts - Major						Forwards		
	7-Dec	Q4 2018	Q1 2019	Q2 2019	Q3 2019	3m	6m	12m
EURUSD	1.1379	1.1500	1.1500	1.1800	1.2000	1.1471	1.1564	1.1753
USDJPY	112.69	114.00	116.00	114.00	112.00	111.79	110.92	109.17
USDCHF	0.9920	1.0000	1.0000	0.9800	0.9700	0.9830	0.9742	0.9565
GBPUSD	1.2726	1.2500	1.3000	1.3500	1.4000	1.2786	1.2843	1.2955
AUDUSD	0.7208	0.7300	0.7550	0.7700	0.8000	0.7219	0.7231	0.7257
NZDUSD	0.6866	0.6800	0.6900	0.7100	0.7400	0.6877	0.6888	0.6911
USDCAD	1.3322	1.3150	1.2650	1.2600	1.2500	1.3294	1.3271	1.3231
EURGBP	0.8944	0.9200	0.8846	0.8741	0.8571	0.8974	0.9007	0.9074
EURJPY	128.32	131.10	133.40	134.52	134.40	128.32	128.32	128.32
EURCHF	1.1283	1.1500	1.1500	1.1564	1.1640	1.1270	1.1259	1.1235
FX Forecasts - Emerging						7-Sep		
	7-Dec	Q4 2018	Q1 2019	Q2 2019	Q3 2019	3m	6m	12m
SAR	3.7518	3.7500	3.7500	3.7500	3.7500	--	3.7530	3.7589
AED	3.6730	3.6730	3.6730	3.6730	3.6730	3.6738	3.6747	--
KWD	0.3041	0.3020	0.3020	0.3020	0.3020	0.2995	0.2960	--
OMR	0.3850	0.3850	0.3850	0.3850	0.3850	0.3855	0.3863	0.3884
BHD	0.3770	0.3770	0.3770	0.3770	0.3770	0.3761	0.3761	0.3796
QAR	3.6523	3.6400	3.6400	3.6400	3.6400	3.6529	3.6530	3.6543
EGP	17.9090	18.0000	18.1250	18.2500	18.2500	18.3850	18.9100	19.9700
INR	70.808	70.000	70.000	68.000	68.000	72.0900	72.8000	74.4200
CNY	6.8743	6.9000	7.0000	7.1000	7.2000	6.9040	6.9185	6.9405
SGD	1.3700	1.3500	1.3200	1.3000	1.2900	1.3671	1.3634	1.3557

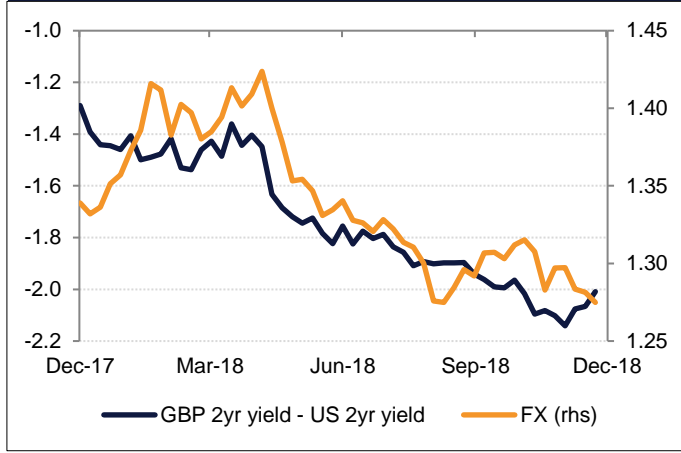
Source: Bloomberg, Emirates NBD Research  
 \*Denotes USD peg

## Major FX and Nominal Interest Rates

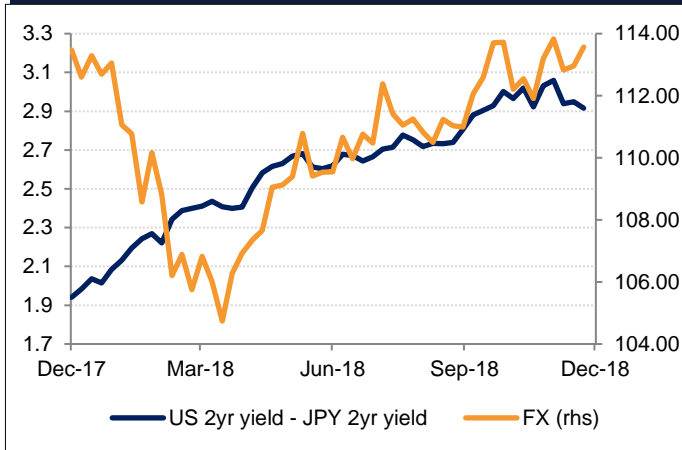
### Interest Rate Differentials - EUR



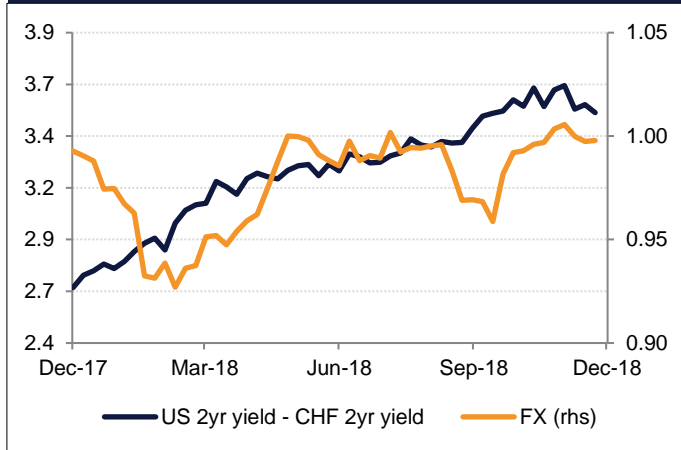
### Interest Rate Differentials - GBP



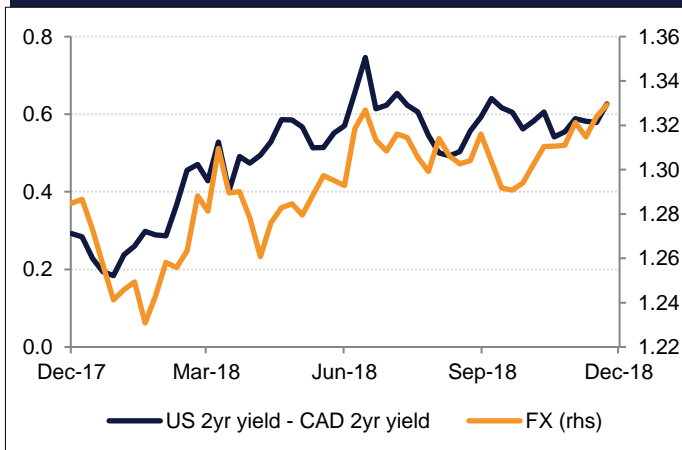
### Interest Rate Differentials - JPY



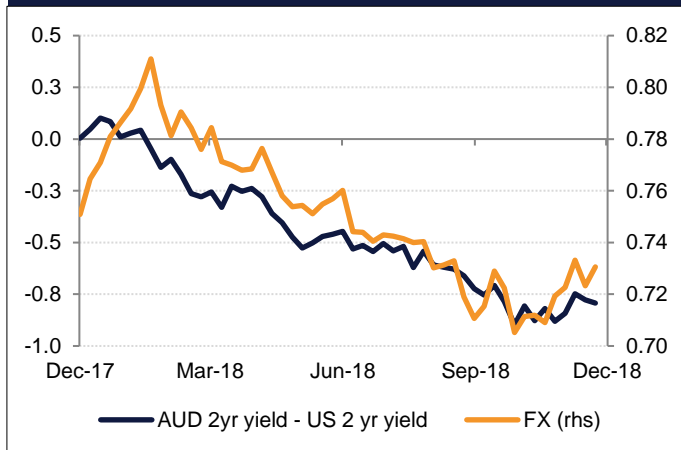
### Interest Rate Differentials - CHF



### Interest Rate Differentials - CAD

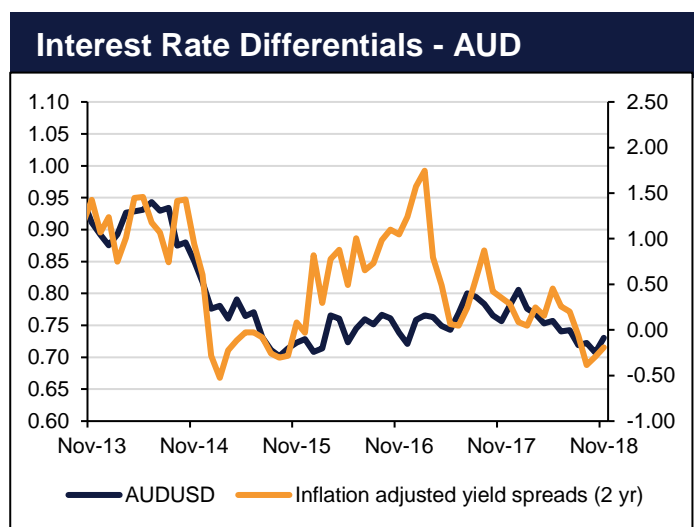
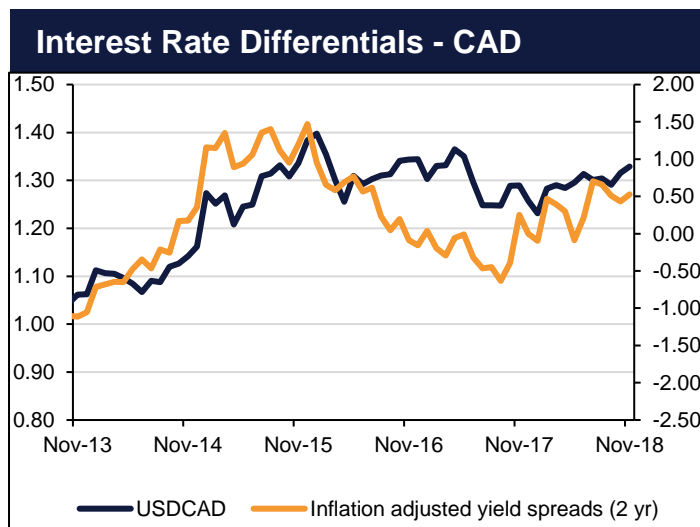
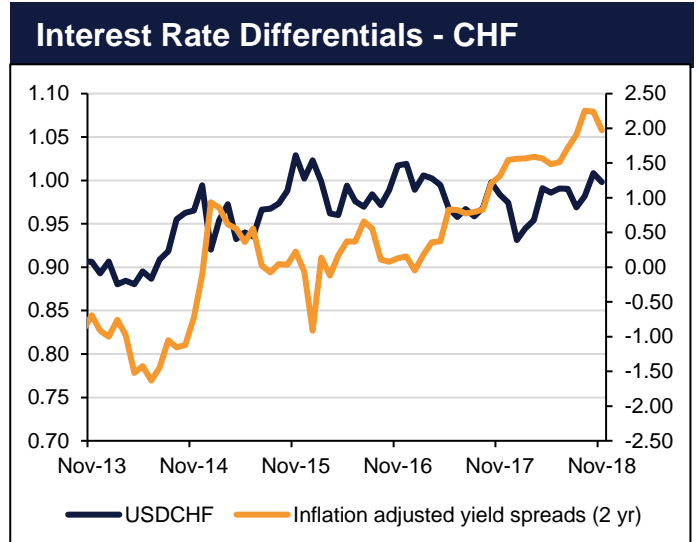
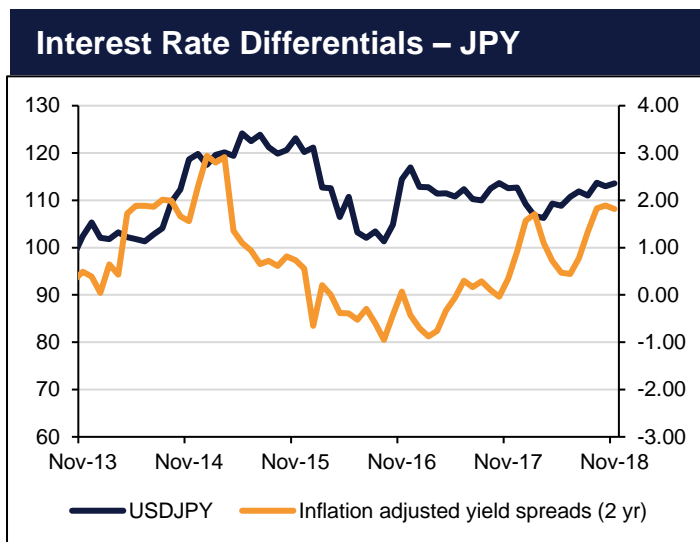
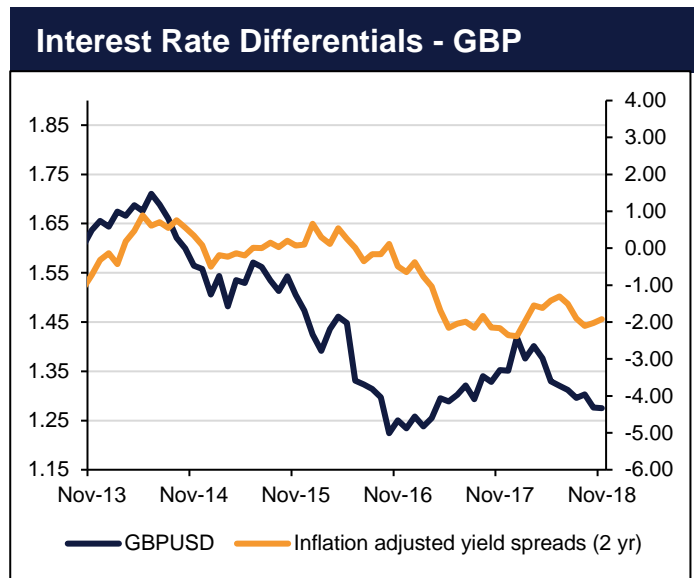
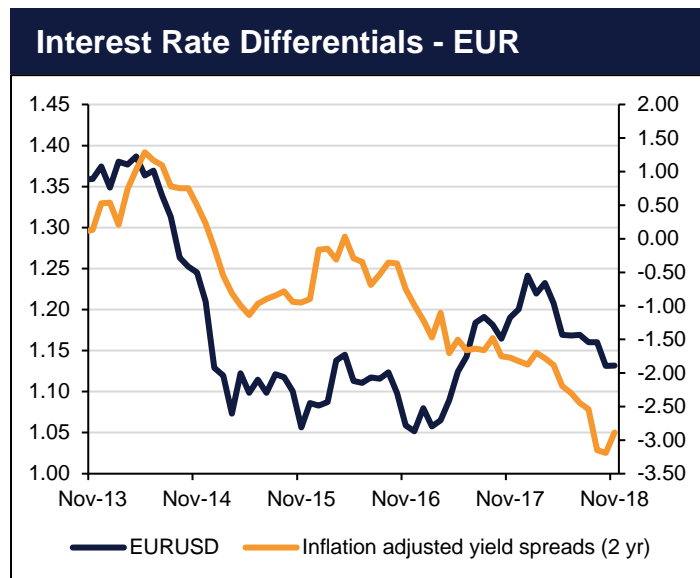


### Interest Rate Differentials - AUD



Source: Bloomberg, Emirates NBD Research

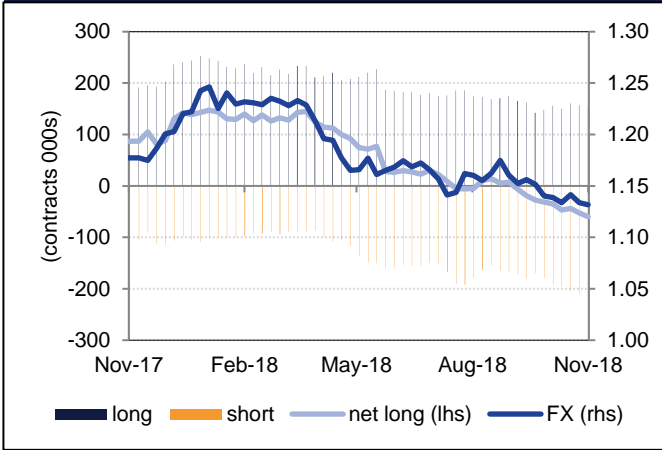
## Major FX and Real Interest Rates



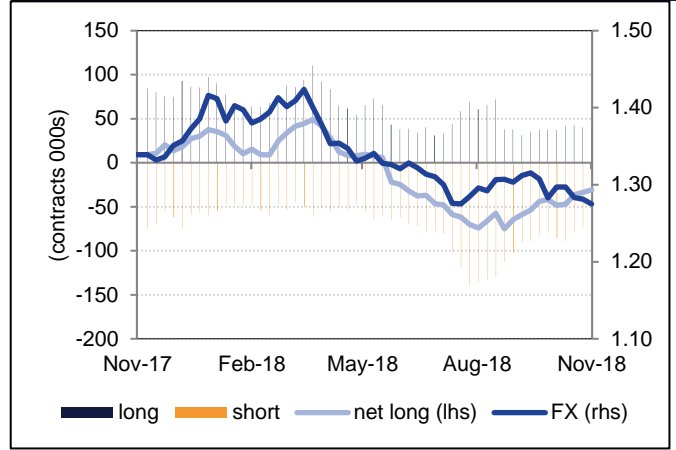
Source: Bloomberg, Emirates NBD Research

## Major Currency Positions

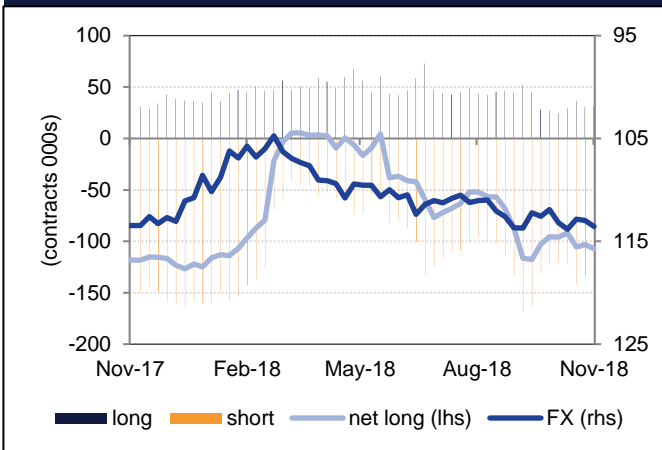
### CFTC – Speculative Positions - EUR



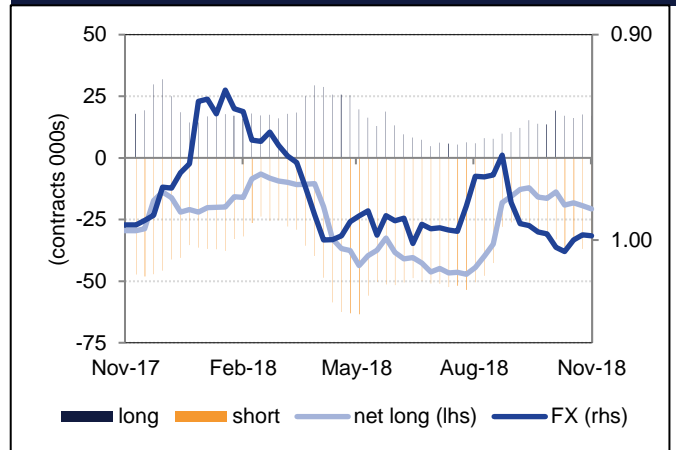
### CFTC – Speculative Positions - GBP



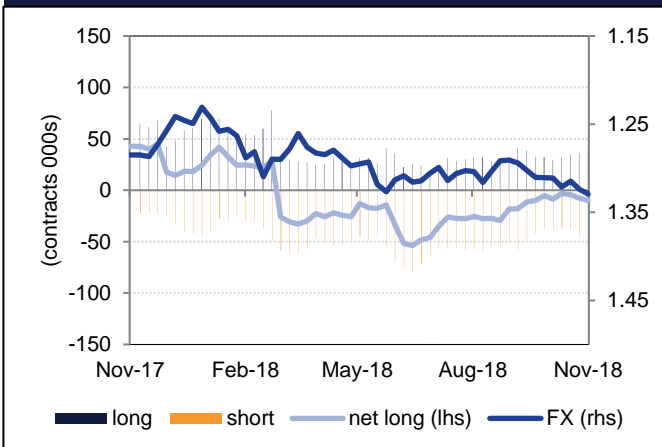
### CFTC – Speculative Positions - JPY



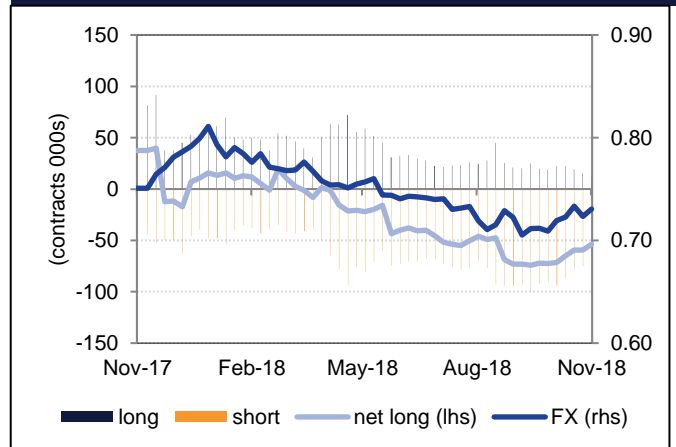
### CFTC – Speculative Positions - CHF



### CFTC – Speculative Positions - CAD



### CFTC – Speculative Positions - AUD





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