



بنك الإمارات دبي الوطني  
Emirates NBD

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## FX Week

### USD longs squeezed

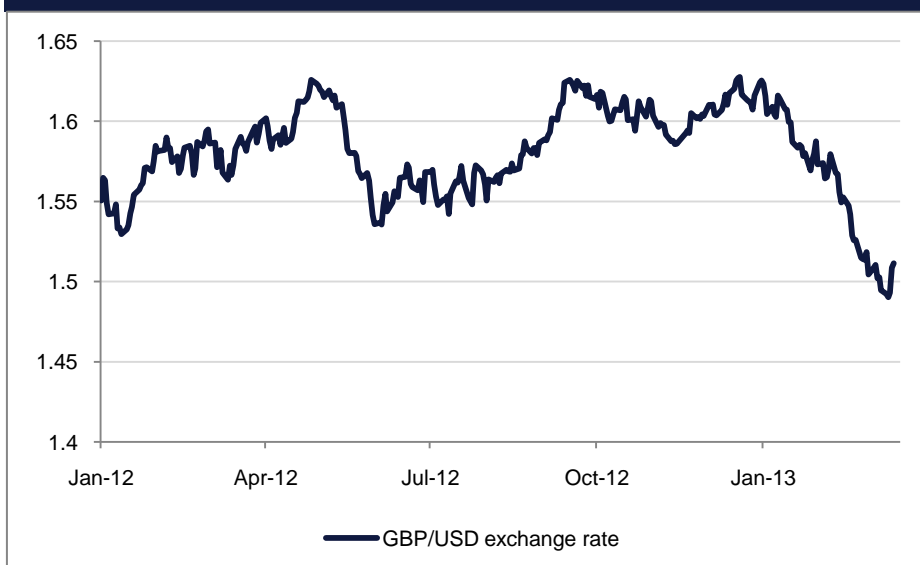
FX markets saw an aggressive squeeze on long USD positions as last week came to an end, prompted initially by GBP as Bank of England Governor King made optimistic comments about a UK recovery being 'in sight'. He also indicated that GBP was fairly valued and said that the authorities were not seeking to talk GBP down. USD longs were also pared against other major currencies including the EUR and the JPY meaning that the markets will start the new week looking for fresh direction. These are likely to flow from central bank activity as well as from broader policy announcements.

### A big week for GBP

In fact with Governor King subsequently backtracking on his earlier comments a little, by cautioning that 'you should (*not*) exaggerate the degree of optimism' and making the case for more QE, the chances are that some of Friday's gains may already be vulnerable to being unwound as the week begins. More probably, however, moves in GBP will be limited until Wednesday when the March Bank of England Monetary Policy Committee (MPC) minutes are released and when the 2013 Budget statement is made.

The MPC minutes may in fact reveal that more members voted for more QE in March, up from the 3 that voted for it in February. Separately the budget statement is also expected to announce that the Bank's monetary policy framework will be reviewed, with a number of options likely to be under consideration to lighten the emphasis on the formal 2% target, and the timetable within which it is to be achieved. Such an announcement may also contribute to GBP losing some of its ground again, especially as the requirement will be to have a new regime in place in time for the arrival of the new Governor Mark Carney in July.

### A big week for GBP as it pulls back from the brink



Source: Bloomberg, Emirates NBD Research

## Focus on the FOMC

Messages from the US Federal Reserve will also be important for currencies this week with an FOMC meeting taking place on Tuesday and Wednesday. This will be an especially important meeting as it will be followed by a press conference, and the Fed will also release updated forecasts for the economy which could begin to reflect the more favorable economic data released in recent weeks. While it is unlikely that the current pace of QE (USD85bn of asset purchases per month) will be altered, firmer assumptions about growth and unemployment could cause markets to question how much longer QE on its current scale will remain. The USD could therefore find support from the FOMC even as Chairman Bernanke repeats his usual formula about the benefits of QE outweighing the costs.

## Cyprus bailed out controversially

The EUR begins the week with a EUR10bn bailout having been agreed for Cyprus but no agreement over the next EUR2.8bn tranche of aid for Greece. The Cyprus bailout was also only achieved after the Cyprus government agreed to tax Cypriot bank deposits to the tune of EUR5.8bn in a one-off move. The precedent of 'bailing-in' private depositors into such a deal could prove extremely controversial if it leads to deposit flight from other peripheral banking systems under stress, as it may be considered to be the thin end of the policy wedge having potential implications for any future bailouts further down the road. Certainly the situation in Cyprus will be watched closely in coming days, as well as in other peripheral countries to see what kind of reaction this move receives.

At the same time the EU meetings at the end of last week did little to change the balance between austerity measures and structural reforms on the one hand and pro-growth stimulus measures on the other. Admittedly, tolerance seems likely to be given some countries to reach their 3% deficit targets, but this is very different to actively supporting pro-growth policies. As such the grinding austerity drive will offer no let-up to Eurozone recession bound economies. The week will also start with Italian politics back in the headlines. Now that parliament has reopened markets can expect renewed jostling between the political parties, and perhaps negotiations, but little prospect of a workable government is in sight. This could produce renewed pressure on Italian yields which have been in abeyance since the election almost three weeks ago. On the economic data front, preliminary PMI data for March will be watched closely to see if it shows any sign of an easing in recessionary conditions. And while a stronger German IFO reading might be good news for Germany, it will probably be bad news for the rest if it helps to maintain German arguments in favour of more Eurozone austerity not less.

It is interesting to note that while EUR/USD has rallied into the end of last week, there was little change in critical EU-US yield spreads. As these have been highly correlated with EUR/USD over the past year, and providing there is no change in coming days, this relationship suggests that the EUR's improvement will prove short lived (see page 5).

## USD/JPY has high expectations built-in

Now that the new leadership of the Bank of Japan has been approved by the Japanese Diet, USD/JPY has slipped back as the markets await the promotion of new stimulus policies at next month's BOJ Board meeting. In fact there have been rumors that Governor Kuroda could hold an emergency meeting ahead of the official one on the 3-4 April. Market expectations are already very high, which might make it difficult for the new BOJ to live up to them if such a meeting does not take place. The week ahead will be interrupted by a holiday on Wednesday, but Japanese trade data to be released on Thursday should serve to remind markets of the need to move fast to engineer stronger growth, as the monthly deficit is expected to widen sharply.

## **RBI meeting in focus for the INR**

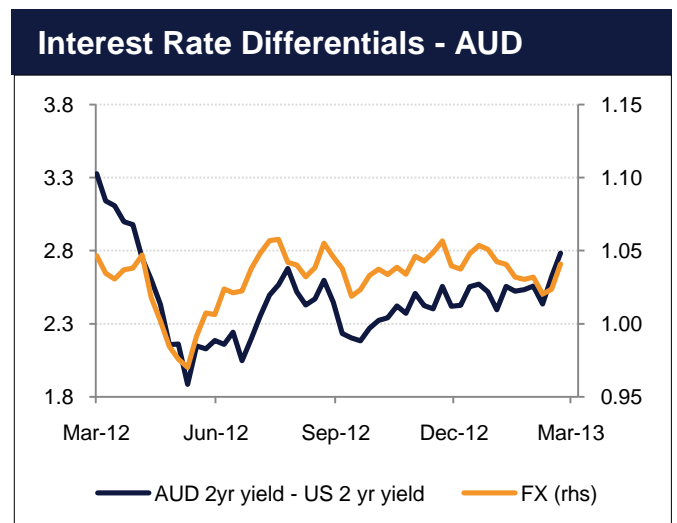
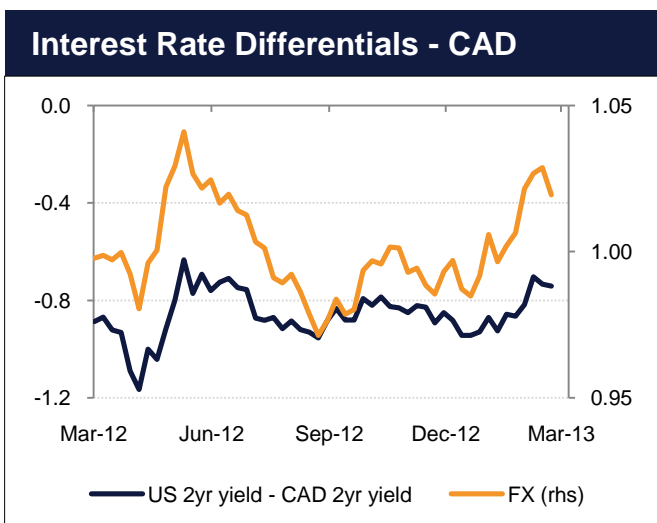
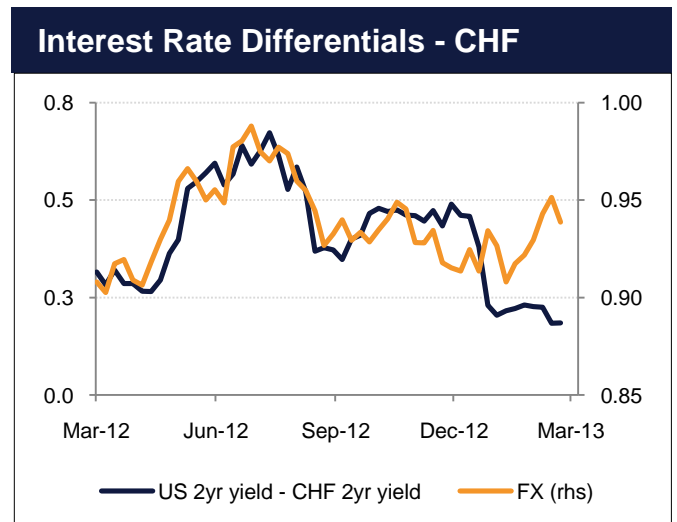
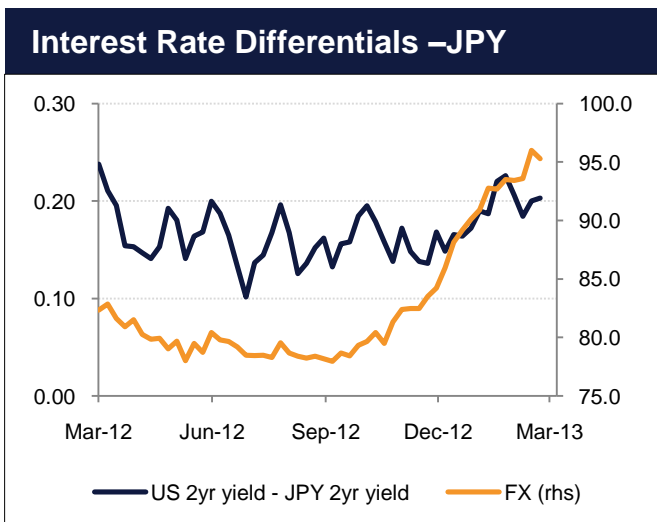
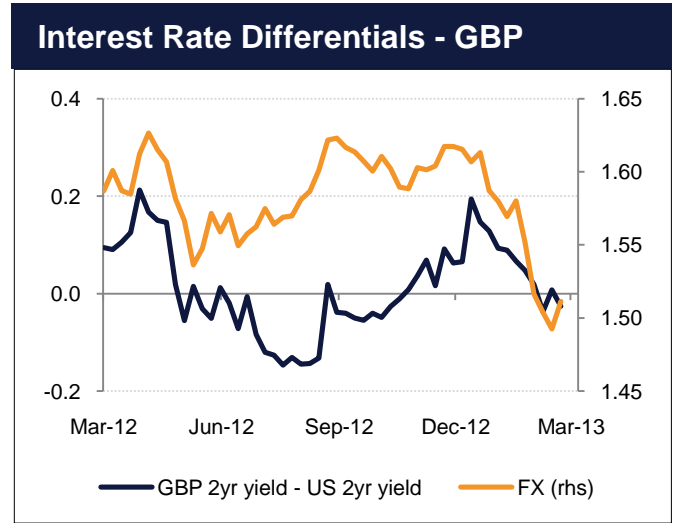
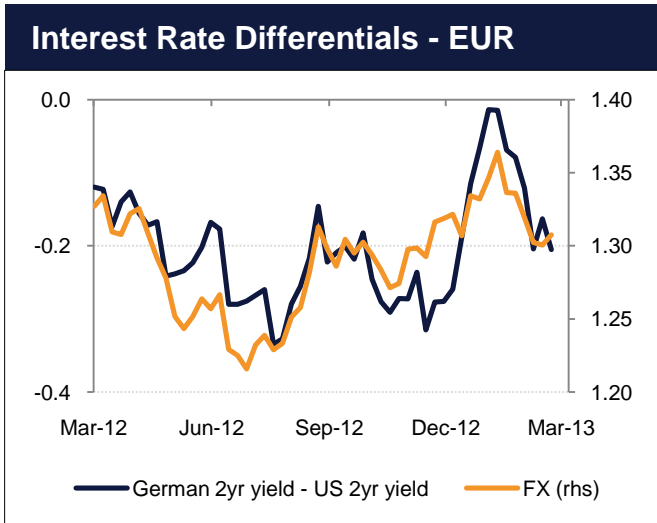
Elsewhere in Asia, focus will be on the first estimate in China of the manufacturing PMI for March from HSBC/Markit, which coming after a soft reading in February will be awaited anxiously to see if the economy reverted to the stronger trend previously. The INR will also be watched closely with the RBI meeting on Tuesday, the first opportunity the Reserve Bank will have to react to the budget statement a fortnight ago. An interest rate cut appears to be expected, but with inflation having risen in February (with CPI still above 10%) this may have thrown a temporary obstacle into the works.

FX Forecasts - Major						Forwards		
	Spot 15.03	1M	3M	6M	12M	3M	6M	12M
EUR / USD	1.3076	1.27	1.25	1.20	1.15	1.3084	1.3093	1.3115
USD / JPY	95.28	97.0	96.0	98.0	102.0	95.22	95.14	94.91
USD / CHF	0.9387	0.96	0.98	1.02	1.08	0.9378	0.9366	0.9340
GBP / USD	1.5114	1.48	1.45	1.42	1.45	1.5106	1.5101	1.5099
AUD / USD	1.0409	1.01	0.97	0.94	0.90	1.0336	1.0264	1.0124
USD / CAD	1.0194	1.03	1.05	1.07	1.10	1.0215	1.0236	1.0277
EUR / GBP	0.8651	0.86	0.86	0.85	0.79	0.8660	0.8669	0.8685
EUR / JPY	124.58	123.2	120.0	117.6	117.3	124.58	124.58	124.58
EUR / CHF	1.2273	1.22	1.22	1.22	1.24	1.2268	1.2262	1.2249
FX Forecasts - Emerging						Forwards		
	Spot 15.03	1M	3M	6M	12M	3M	6M	12M
USD / SAR*	3.7502	3.75	3.75	3.75	3.75	3.7503	3.7508	3.7518
USD / AED*	3.6730	3.67	3.67	3.67	3.67	3.6731	3.6732	3.6732
USD / KWD	0.2843	0.282	0.285	0.282	0.28	0.2848	0.2855	0.2858
USD / OMR*	0.3851	0.38	0.38	0.38	0.38	0.3847	0.3843	0.3831
USD / BHD*	0.3770	0.376	0.376	0.376	0.376	0.3774	0.3775	0.3783
USD / QAR*	3.6405	3.64	3.64	3.64	3.64	3.6428	3.6442	3.6478
USD / INR	54.0250	53.75	53.00	52.00	51.00	54.0352	54.0438	54.0597
USD / CNY	6.2170	6.23	6.22	6.20	6.25	6.2800	6.2835	6.3060

\*Denotes USD peg

Source: Bloomberg, Emirates NBD Research

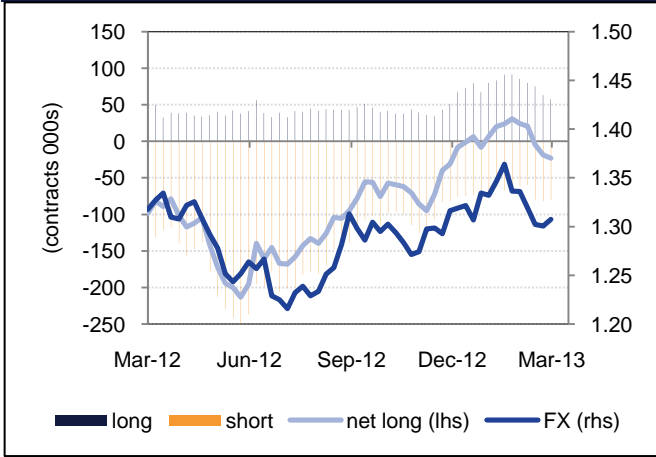
## Major Currency Pairs and Interest Rates



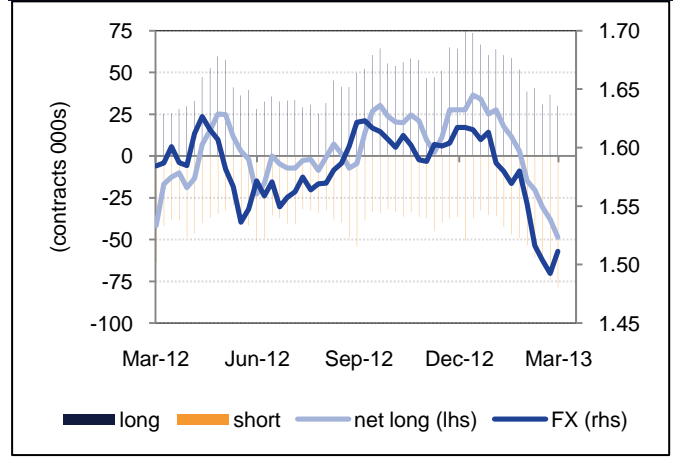
Source: Bloomberg, Emirates NBD Research

## Major Currency Positions

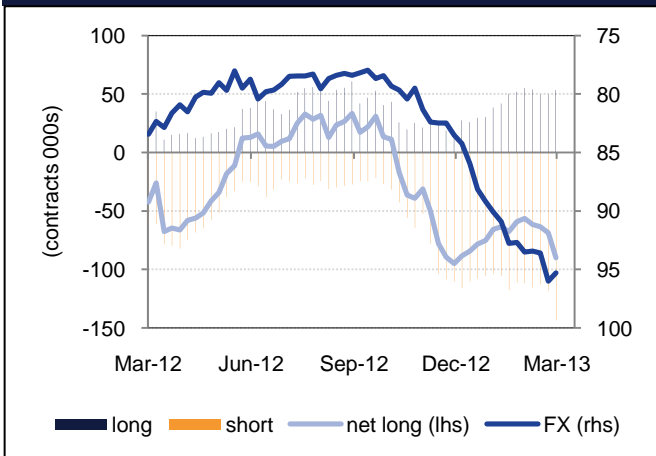
### CFTC – Speculative Positions - EUR



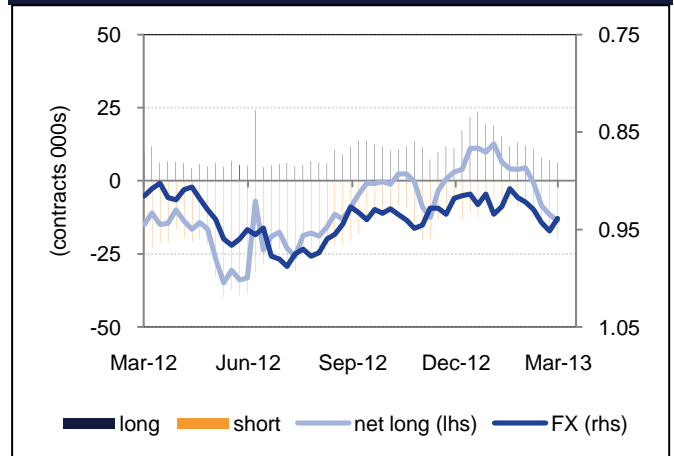
### CFTC – Speculative Positions - GBP



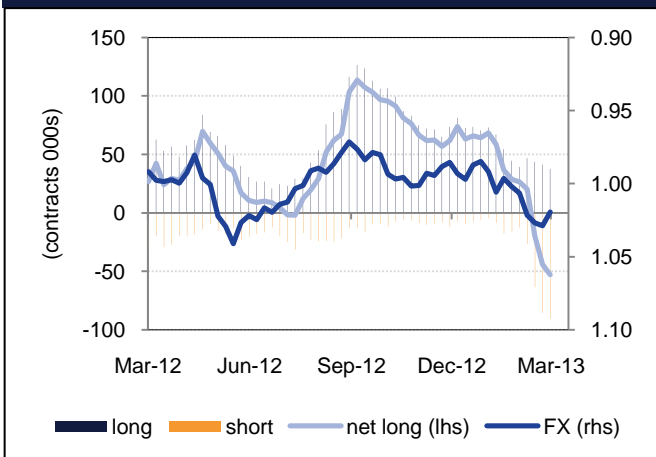
### CFTC – Speculative Positions - JPY



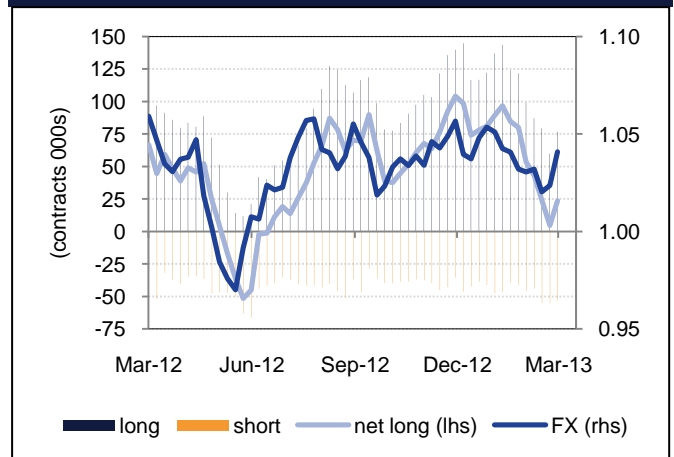
### CFTC – Speculative Positions - CHF



### CFTC – Speculative Positions - CAD



### CFTC – Speculative Positions - AUD



Source: Bloomberg, Emirates NBD Research

## Economic Calendar

Date	Country	Event	
18-Mar	UK	Rightmove House Prices	
	Italy	Trade Balance	
	Eurozone	Trade Balance	
19-Mar	US	NAHB Housing Market Index	
	Australia	RBA Policy Meeting – March Minutes	
	India	RBI Meeting	
	Italy	Industrial Production	
	UK	CPI	
	UK	Retail Price Index	
	Germany	ZEW Survey	
	US	Housing Starts	
	20-Mar	UK	Bank of England Minutes
		UK	ILO Unemployment Rate
US		MBA Mortgage Applications	
Eurozone		Consumer Confidence	
US		FOMC Rate Decision	
UK		Budget	
21-Mar		Japan	Trade Balance
	China	HSBC Flash Manufacturing PMI	
	Japan	All Industry Activity Index	
	Switzerland	Trade Balance	
	France	PMI Manufacturing / Services	
	Germany	PMI Manufacturing / Services	
	Eurozone	PMI Manufacturing / Services	
	UK	Retail Sales	
	UK	Public Finances	
	UK	CBI Trends	
	US	Initial Jobless Claims	
	Canada	Retail Sales	
	US	House Price Index	
	US	Philadelphia Fed	
	US	Existing Home Sales	
	Egypt	Interest Rate decision	
22-Mar	Germany	IFO – Business Climate	

Source: Bloomberg

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