



بنك الإمارات دبي الوطني
Emirates NBD

Weekly
3 March 2013

Tim Fox
Chief Economist
+971 4 230 7800
timothyf@emiratesnbd.com

FX Week

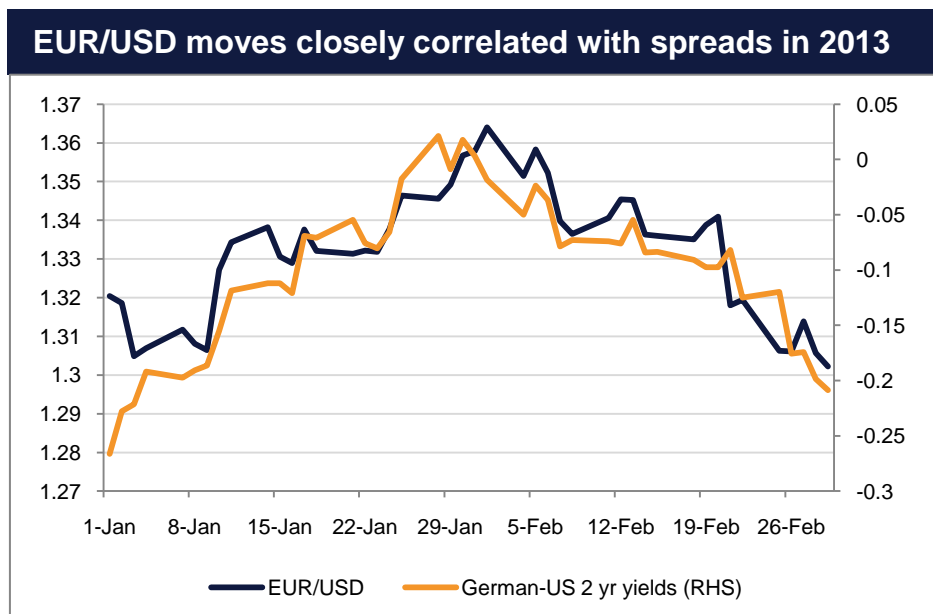
Broad USD gains extend

The USD ended the week strongly, extending the gains of the previous week as US economic data surprised positively, and in spite of time running out in Congress over the 'sequestration' which came into effect yesterday. In the process EUR/USD made new year-to-date lows below 1.30 in the aftermath of the Italian election deadlock, and looks set to weaken further as political parties struggle to form a workable governing coalition. However, the EUR was not alone, with GBP also seeing large losses over the week as UK economic data deteriorated further, while the JPY also renewed its declines following the nomination of Haruhiko Kuroda as Bank of Japan governor.

As markets begin to 'look through' Bernanke 'dovishness'

USD strength is turning more impressive by the day, becoming increasingly broad based and taking in gains against most G10 currencies in recent weeks. This is consistent with the outlook we have had since the start of the year. Last week's performance illustrated the pattern clearly, with the DXY index rising strongly to August 2012 highs of 82.35. This strength came despite Fed Chairman Bernanke's stout defense of QE which failed to illicit the usual negative USD response. Instead with the latest economic data portraying a consistent picture of a recovering US economy, the markets are beginning to look beyond Bernanke's 'dovishness'. The February manufacturing ISM rose to 54.2 from 53.1, the Chicago PMI to 56.8 from 55.6, and both measures of consumer confidence also improved despite the impending 'sequestration' and after the tax hikes that occurred at the beginning of the year. Housing data, core durable goods orders and weekly labour market statistics all completed the strong picture; so much so that the weaker than expected Q4 GDP revision was shrugged off.

This will help to keep the focus on the February payrolls report through the week ahead, with the consensus forecast being for 160k new jobs to have been created in February. However, should the payroll rise be closer to 200k and/or the unemployment rate fall from the current 7.9%, then there is the chance of an outsized bullish USD response. For the time being the 'sequestration' effect is unlikely to be significant, but it will likely build gradually in coming weeks, especially if Congress fails to agree a budget by March 27. Then the government will run out of the authority to spend and will have to start shutting down government services and departments, which could see an abrupt resumption of risk aversion in the markets.



Source: Bloomberg, Emirates NBD Research

EUR/USD makes new 2013 lows

An equally important week for the EUR lies in store with Italian politics and ECB action at the heart of it. The prospect for a viable Italian government to emerge in coming days remains low, maintaining the likelihood of political instability in the Eurozone's third biggest member for the foreseeable future. Negotiations could in theory last until early April, always assuming that the various political groupings have anything to talk to each other about given the bad natured election campaign that has just been fought. Needless to say the EUR is unlikely to draw much support from these events, a matter made worse by the deteriorating economic conditions afflicting Italy itself and other parts of the Eurozone. The Italian manufacturing PMI fell back to 45.8 in February from 47.8, while unemployment rose to 11.7% in January from 11.2%. The Eurozone also saw unemployment reach a new record of 7.9%, while PMI data across the region remained depressed with increasing divergence evident between Germany and the rest.

....And remains on course to reach our 1.25 forecast

Into this mix comes the ECB meeting on Thursday. Given the fragility of recent data as well as the uncertain political backdrop in one of its key members it seems likely that President Draghi will strike a conciliatory or dovish tone. In fact with the ECB likely to downgrade its growth and inflation estimates (after inflation fell already to 1.8% in April), there is the possibility that it might even decide to ease monetary policy. This is a small but not insignificant risk, and the EUR can be expected to begin discounting such a possibility taking it towards 1.28 in coming days. 1.25 has of course been our three month forecast since the beginning of the year, and at the moment events are moving so fast such that it could yet be reached by the end of March.

BOJ hearings will be important for USD/JPY

This week will see the Japanese parliament conduct hearings into the nominations for Bank of Japan governor and deputy governors announced last week. The three nominations, Kuroda, Iwata and Nakaso are expected to lay out their approach to monetary expansion, which may even include buying foreign debt which would cause the JPY to weaken directly. The new Bank of Japan leadership will not be able to influence the upcoming policy meeting this week, but markets will look towards the April meeting as the first opportunity for their new stimulus measures to be implemented. Until then USD/JPY will probably consolidate further around current 93-94 levels, before moving higher as the April BOJ meeting comes closer into view.

Policy vacuum opening up under GBP

GBP's losses last week were not so much due to the UK's ratings downgrade the previous week, although this probably did not help matters. Rather economic conditions in the UK deteriorated further in February, with the manufacturing PMI index falling to 47.9 from 50.8 in January. The markets are also becoming aware that the Bank of England has very few remaining options for countering the economy's slide. In fact the prospect of a policy vacuum is opening up in the UK, which may not be filled properly until the new BoE Governor Carney takes office around the middle of the year. The only response the current Governor King appears to have is more QE and actively encouraging GBP to weaken, with this week's MPC meeting providing another possible occasion for such action. In the face of already above target inflation and sub-trend growth, the potential consequences for UK markets could be very costly in the coming months, including further sharp GBP losses. Our updated GBP forecasts of a week ago allow for GBP/USD to slip in the coming months to the 2010 lows of 1.42, which occurred when the last UK general election was held.

Swiss franc also participating in USD gains

USD/CHF has also begun to reflect the USD's improving fortunes, even in the face of heightened risk aversion which would normally be associated with relative CHF strength. USD/CHF ended the week on its 200-day moving average at 0.9429, again helping to underline the broad based nature of the USD's move. EUR/CHF has admittedly dropped back-from the year's 1.25 highs as EUR tensions have resurfaced, and we would anticipate that another test of the SNB's 1.20 floor cannot be ruled out. However, even with Swiss Q4 GDP growth surprising positively by 0.2% q/q, its deflation problem still remains, which should mean that the authorities' determination to defend this level will continue.

RBA to keep easing hopes alive

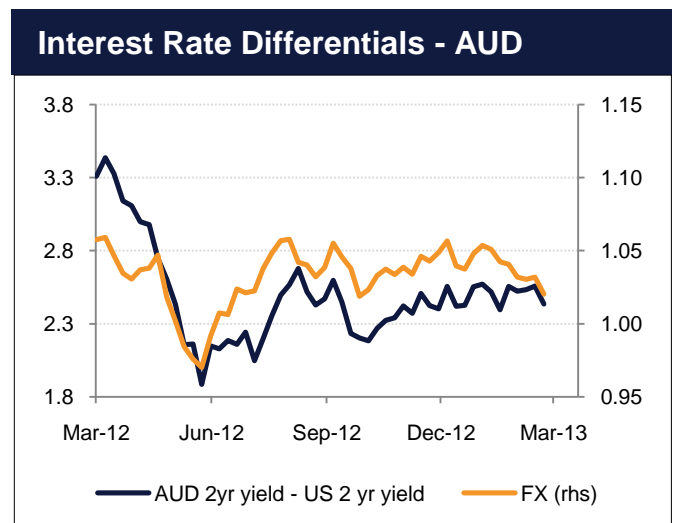
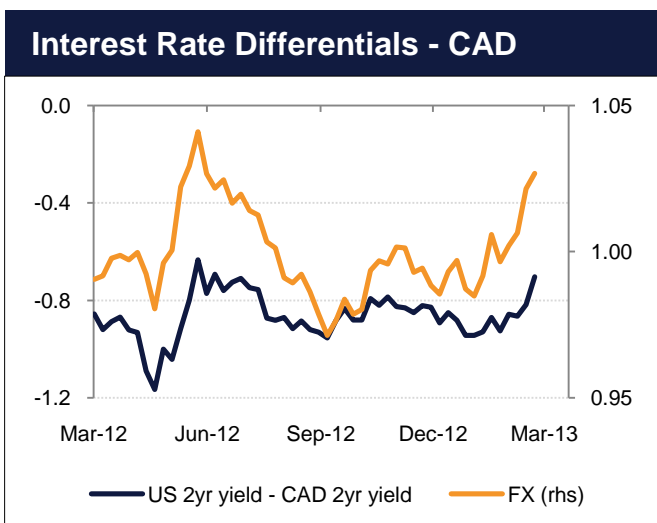
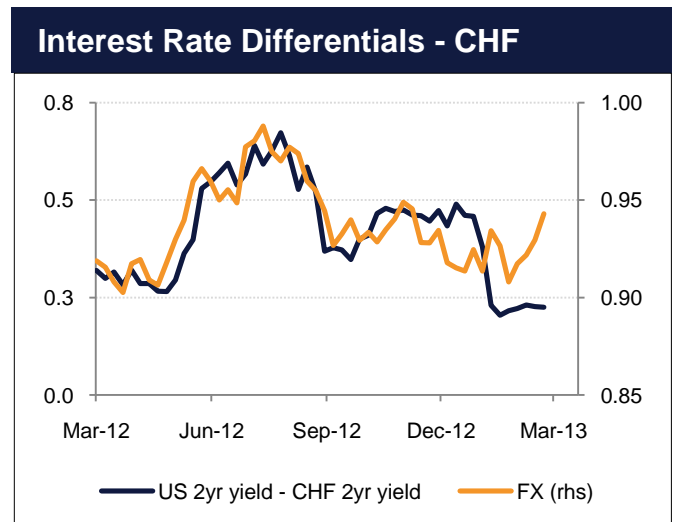
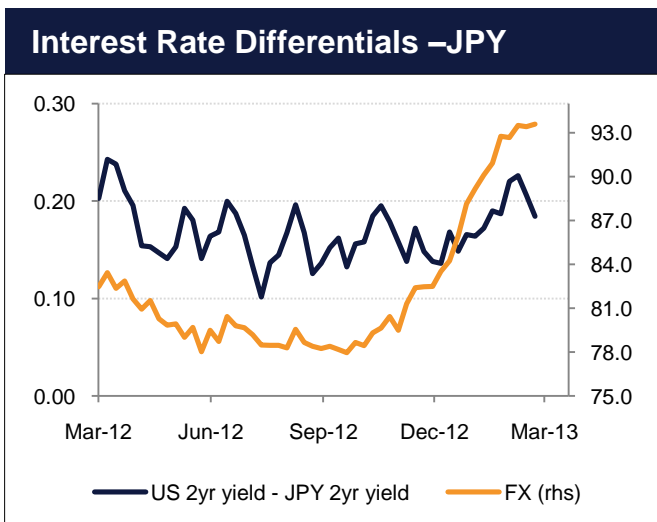
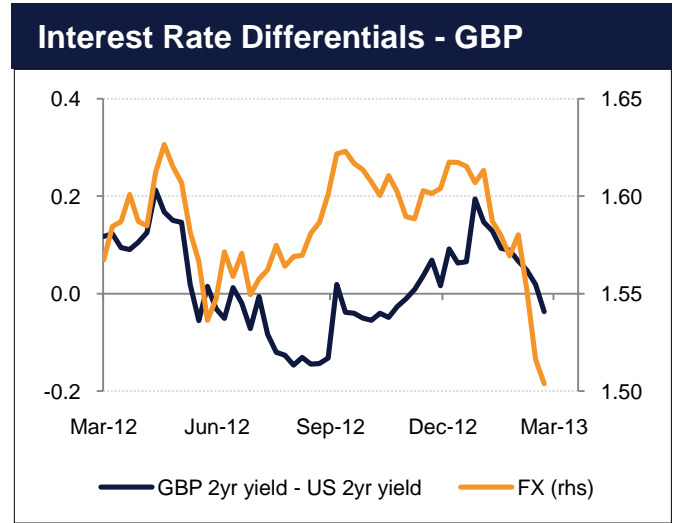
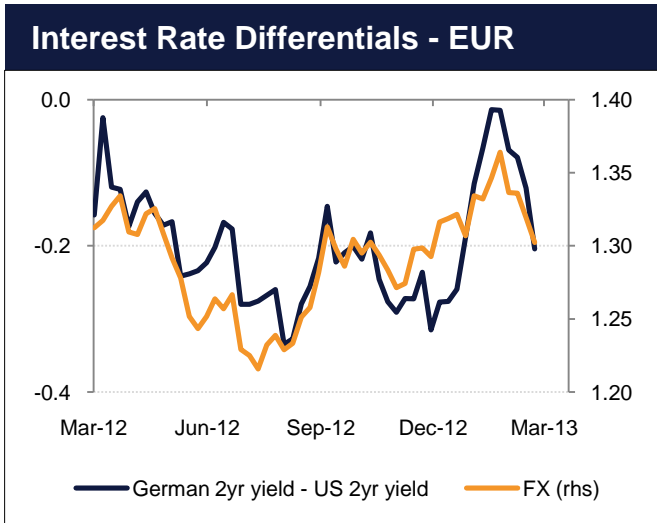
An important week also looms for the AUD, as Australian Q4 GDP data is released and the Reserve Bank meets to set monetary policy. Recently expectations of another RBA rate cut have been reined in a little, but with China appearing to be slowing and with global risks returning it would not be a surprise if the Bank were to keep easing hopes alive, especially as Q4 GDP is expected to disappoint. In particular at a time when central banks around the world are seeking to boost competitiveness by letting their currencies decline, the Australian authorities might see the need to reinforce their message that the AUD is overvalued. Our forecasts still assume another cut in the cash rate to 2.75% will be made in coming months, and along with broad based USD gains it should not be long before AUD/USD parity is revisited. Somewhat uniquely amongst major USD currency pairs the market is still positioned net long the AUD (see page 6), a situation that we expected to reverse in coming weeks.

FX Forecasts - Major						Forwards		
	Spot 01.03	1M	3M	6M	12M	3M	6M	12M
EUR / USD	1.3022	1.30	1.25	1.20	1.15	1.3031	1.3042	1.3066
USD / JPY	93.59	94.0	95.0	97.0	100.0	93.53	93.44	93.20
USD / CHF	0.9429	0.94	0.96	1.02	1.08	0.9419	0.9407	0.9378
GBP / USD	1.5038	1.50	1.47	1.42	1.45	1.5031	1.5028	1.5026
AUD / USD	1.0203	1.01	0.97	0.94	0.90	1.0133	1.0068	0.9945
USD / CAD	1.0268	1.03	1.05	1.07	1.10	1.0288	1.0308	1.0347
EUR / GBP	0.8660	0.87	0.85	0.85	0.79	0.8670	0.8679	0.8696
EUR / JPY	121.87	122.2	119.0	116.0	115.0	121.87	121.87	121.87
EUR / CHF	1.2280	1.22	1.20	1.22	1.25	1.2276	1.2270	1.2255
FX Forecasts - Emerging						Forwards		
	Spot 01.03	1M	3M	6M	12M	3M	6M	12M
USD / SAR*	3.7502	3.75	3.75	3.75	3.75	3.7504	3.7509	3.7520
USD / AED*	3.6730	3.67	3.67	3.67	3.67	3.6731	3.6732	3.6733
USD / KWD	0.2837	0.282	0.285	0.282	0.28	0.2847	0.2848	0.2861
USD / OMR*	0.3850	0.38	0.38	0.38	0.38	0.3843	0.3837	0.3827
USD / BHD*	0.3770	0.376	0.376	0.376	0.376	0.3774	0.3776	0.3782
USD / QAR*	3.6409	3.64	3.64	3.64	3.64	3.6432	3.6448	3.6481
USD / INR	54.9050	53.25	53.00	52.00	51.00	54.9158	54.9246	54.9404
USD / CNY	6.2230	6.23	6.22	6.20	6.25	6.2872	6.2957	6.3182

*Denotes USD peg

Source: Bloomberg, Emirates NBD Research

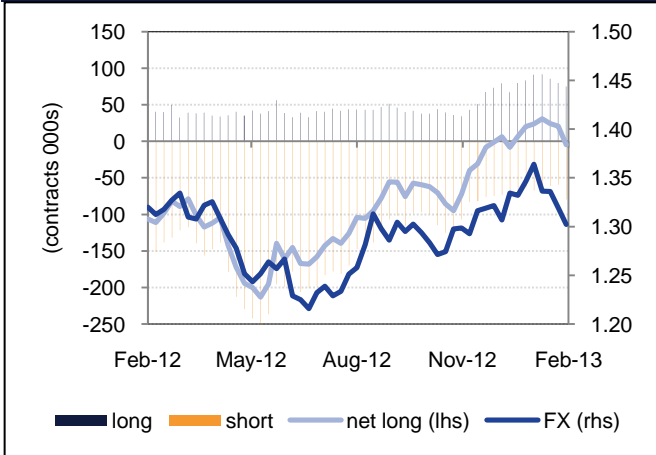
Major Currency Pairs and Interest Rates



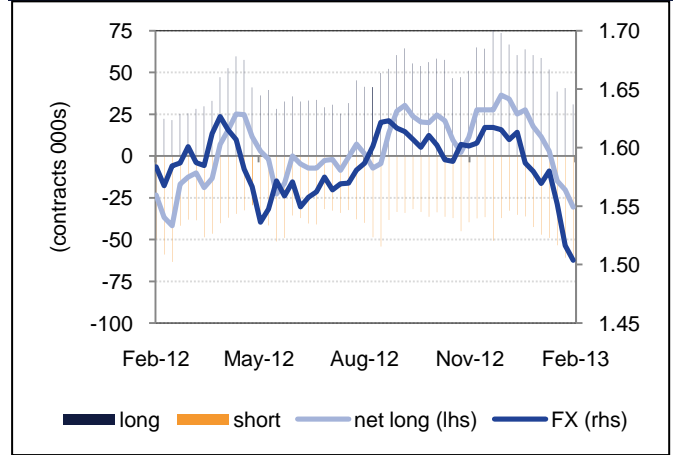
Source: Bloomberg, Emirates NBD Research

Major Currency Positions

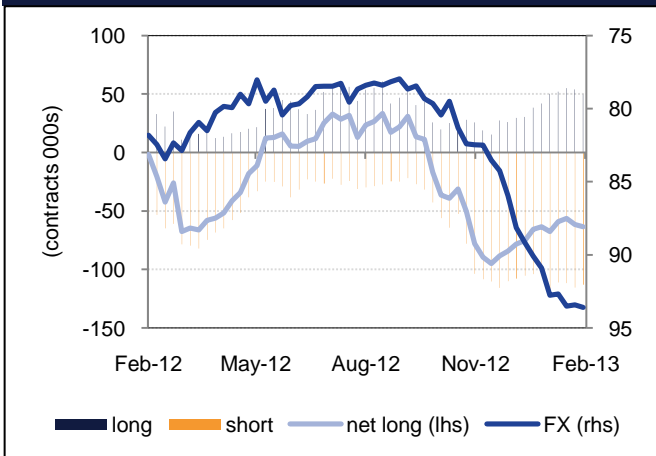
CFTC – Speculative Positions - EUR



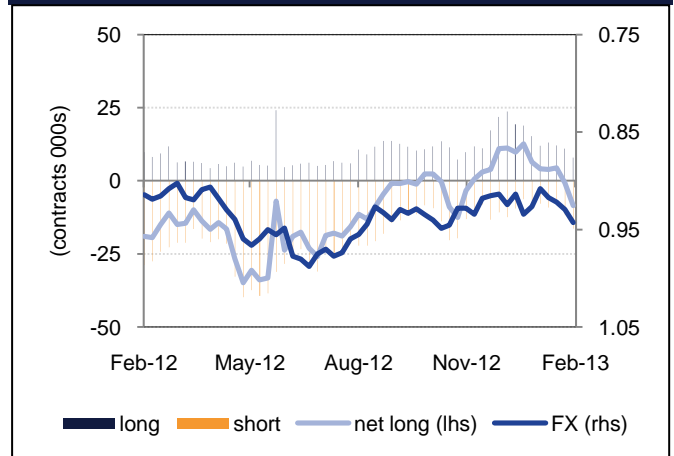
CFTC – Speculative Positions - GBP



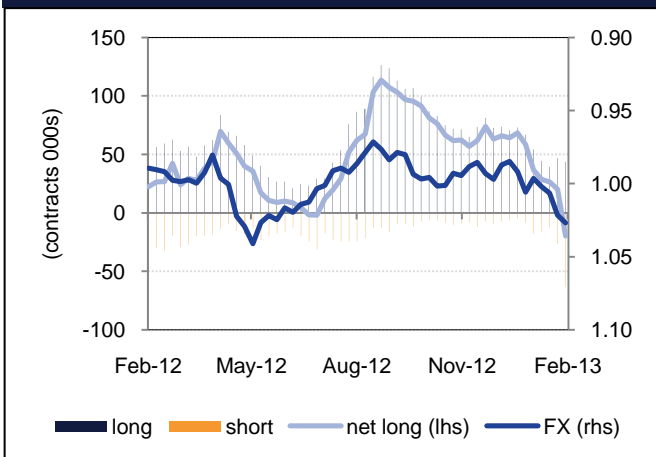
CFTC – Speculative Positions - JPY



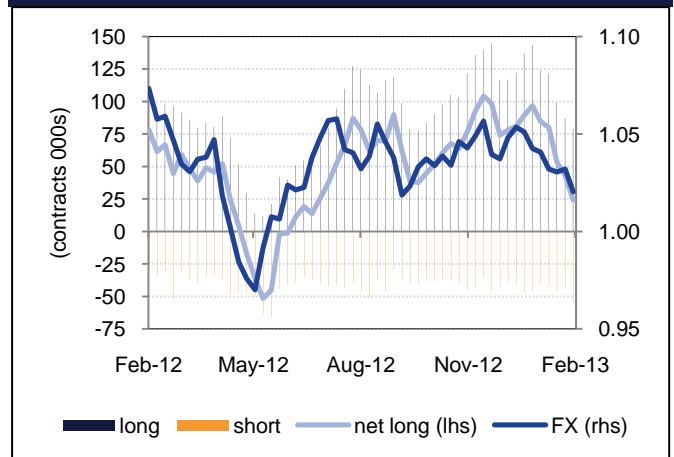
CFTC – Speculative Positions - CHF



CFTC – Speculative Positions - CAD



CFTC – Speculative Positions - AUD



Source: Bloomberg, Emirates NBD Research

Economic Calendar

Date	Country	Event
4-Mar	Eurozone	Sentix Investor Confidence
	US	ISM New York
5-Mar	China	HSBC Services PMI
	Australia	RBA Cash Target
	Italy	PMI Services
	France	PMI Services
	Germany	PMI Services
	Eurozone	PMI Services
	UK	PMI Services
	Eurozone	Retail Sales
	US	ISM Non-Mfg Composite
6-Mar	Australia	GDP
	Eurozone	GDP
	US	MBA Mortgage Applications
	US	ADP Employment Change
	Canada	Bank of Canada Rate
	US	Factory Orders
	US	Fed Beige Book
	Brazil	SELIC Target
7-Mar	Australia	Trade Balance
	Japan	Coincident Index
	France	ILO Unemployment Rate
	France	Trade Balance
	Germany	Factory Orders
	UK	BoE Meeting
	Brazil	Industrial Production
	Eurozone	ECB Meeting
	US	Trade Balance
	US	Initial Jobless Claims
	Japan	BoJ Target Rate
8-Mar	US	Consumer Credit
	Japan	GDP
	Switzerland	CPI
	Germany	Industrial Production
	Canada	Housing Starts

8-Mar	US	Change in non-farm payrolls
	Canada	Unemployment Rate
	China	Trade Balance
9-Mar	China	CPI
	China	Industrial Production
	China	Retail Sales

Source: Bloomberg

Disclaimer

PLEASE READ THE FOLLOWING TERMS AND CONDITIONS OF ACCESS FOR THE PUBLICATION BEFORE THE USE THEREOF. By continuing to access and use the publication, you signify you accept these terms and conditions. Emirates NBD reserves the right to amend, remove, or add to the publication and Disclaimer at any time. Such modifications shall be effective immediately. Accordingly, please continue to review this Disclaimer whenever accessing, or using the publication. Your access of, and use of the publication, after modifications to the Disclaimer will constitute your acceptance of the terms and conditions of use of the publication, as modified. If, at any time, you do not wish to accept the content of this Disclaimer, you may not access, or use the publication. Any terms and conditions proposed by you which are in addition to or which conflict with this Disclaimer are expressly rejected by Emirates NBD and shall be of no force or effect. Information contained herein is believed by Emirates NBD to be accurate and true but Emirates NBD expresses no representation or warranty of such accuracy and accepts no responsibility whatsoever for any loss or damage caused by any act or omission taken as a result of the information contained in the publication. The publication is provided for informational uses only and is not intended for trading purposes. Charts, graphs and related data/information provided herein are intended to serve for illustrative purposes. The data/information contained in the publication is not designed to initiate or conclude any transaction. In addition, the data/information contained in the publication is prepared as of a particular date and time and will not reflect subsequent changes in the market or changes in any other factors relevant to their determination. The publication may include data/information taken from stock exchanges and other sources from around the world and Emirates NBD does not guarantee the sequence, accuracy, completeness, or timeliness of information contained in the publication provided thereto by or obtained from unaffiliated third parties. Moreover, the provision of certain data/information in the publication may be subject to the terms and conditions of other agreements to which Emirates NBD is a party.

None of the content in the publication constitutes a solicitation, offer or recommendation by Emirates NBD to buy or sell any security, or represents the provision by Emirates NBD of investment advice or services regarding the profitability or suitability of any security or investment. Moreover, the content of the publication should not be considered legal, tax, accounting advice. The publication is not intended for use by, or distribution to, any person or entity in any jurisdiction or country where such use or distribution would be contrary to law or regulation. Accordingly, anything to the contrary herein set forth notwithstanding, Emirates NBD, its suppliers, agents, directors, officers, employees, representatives, successors, assigns, affiliates or subsidiaries shall not, directly or indirectly, be liable, in any way, to you or any other person for any: (a) inaccuracies or errors in or omissions from the publication including, but not limited to, quotes and financial data; (b) loss or damage arising from the use of the publication, including, but not limited to any investment decision occasioned thereby; (c) UNDER NO CIRCUMSTANCES, INCLUDING BUT NOT LIMITED TO NEGLIGENCE, SHALL EMIRATES NBD, ITS SUPPLIERS, AGENTS, DIRECTORS, OFFICERS, EMPLOYEES, REPRESENTATIVES, SUCCESSORS, ASSIGNS, AFFILIATES OR SUBSIDIARIES BE LIABLE TO YOU FOR DIRECT, INDIRECT, INCIDENTAL, CONSEQUENTIAL, SPECIAL, PUNITIVE, OR EXEMPLARY DAMAGES EVEN IF EMIRATES NBD HAS BEEN ADVISED SPECIFICALLY OF THE POSSIBILITY OF SUCH DAMAGES, ARISING FROM THE USE OF THE PUBLICATION, INCLUDING BUT NOT LIMITED TO, LOSS OF REVENUE, OPPORTUNITY, OR ANTICIPATED PROFITS OR LOST BUSINESS. The information contained in the publication does not purport to contain all matters relevant to any particular investment or financial instrument and all statements as to future matters are not guaranteed to be accurate. Anyone proposing to rely on or use the information contained in the publication should independently verify and check the accuracy, completeness, reliability and suitability of the information and should obtain independent and specific advice from appropriate professionals or experts regarding information contained in the publication. Further, references to any financial instrument or investment product is not intended to imply that an actual trading market exists for such instrument or product. In publishing this document Emirates NBD is not acting in the capacity of a fiduciary or financial advisor.

Emirates NBD and its group entities (together and separately, "Emirates NBD") does and may at any time solicit or provide commercial banking, investment banking, credit, advisory or other services to the companies covered in its reports. As a result, recipients of this report should be aware that any or all of the foregoing services may at times give rise to a conflict of interest that could affect the objectivity of this report.

The securities covered by this report may not be suitable for all types of investors. The report does not take into account the investment objectives, financial situations and specific needs of recipients.

Data included in the publication may rely on models that do not reflect or take into account all potentially significant factors such as market risk, liquidity risk and credit risk. Emirates NBD may use different models, make valuation adjustments, or use different methodologies when determining prices at which Emirates NBD is willing to trade financial instruments and/or when valuing its own inventory positions for its books and records. In receiving the publication, you acknowledge and agree that there are risks associated with investment activities. Moreover, you acknowledge in receiving the publication that the responsibility to obtain and carefully read and understand the content of documents relating to any investment activity described in the publication and to seek separate, independent financial advice if required to assess whether a particular investment activity described herein is suitable, lies exclusively with you. You acknowledge and agree that past investment performance is not indicative of the future performance results of any investment and that the information contained herein is not to be used as an indication for the future performance of any investment activity. You acknowledge that the publication has been developed, compiled, prepared, revised, selected, and arranged by Emirates NBD and others (including certain other information sources) through the application of methods and standards of judgment developed and applied through the expenditure of substantial time, effort, and money and constitutes valuable intellectual property of Emirates NBD and such others. All present and future rights in and to trade secrets, patents, copyrights, trademarks, service marks, know-how, and other proprietary rights of any type under the laws of any governmental authority, domestic or foreign, shall, as between you and Emirates NBD, at all times be and remain the sole and exclusive property of Emirates NBD and/or other lawful parties. Except as specifically permitted in writing, you acknowledge and agree that you may not copy or make any use of the content of the publication or any portion thereof. Except as specifically permitted in writing, you shall not use the intellectual property rights connected with the publication, or the names of any individual participant in, or contributor to, the content of the publication, or any variations or derivatives thereof, for any purpose.

YOU AGREE TO USE THE PUBLICATION SOLELY FOR YOUR OWN NONCOMMERCIAL USE AND BENEFIT, AND NOT FOR RESALE OR OTHER TRANSFER OR DISPOSITION TO, OR USE BY OR FOR THE BENEFIT OF, ANY OTHER PERSON OR ENTITY. YOU AGREE NOT TO USE, TRANSFER, DISTRIBUTE, OR DISPOSE OF ANY DATA/INFORMATION CONTAINED IN THE PUBLICATION IN ANY MANNER THAT COULD COMPETE WITH THE BUSINESS INTERESTS OF EMIRATES NBD. YOU MAY NOT COPY, REPRODUCE, PUBLISH, DISPLAY, MODIFY, OR CREATE DERIVATIVE WORKS FROM ANY DATA/INFORMATION CONTAINED IN THE PUBLICATION. YOU MAY NOT OFFER ANY PART OF THE PUBLICATION FOR SALE OR DISTRIBUTE IT OVER ANY MEDIUM WITHOUT THE PRIOR WRITTEN CONSENT OF EMIRATES NBD. THE DATA/INFORMATION CONTAINED IN THE PUBLICATION MAY NOT BE USED TO CONSTRUCT A DATABASE OF ANY KIND. YOU MAY NOT USE THE DATA/INFORMATION IN THE PUBLICATION IN ANY WAY TO IMPROVE THE QUALITY OF ANY DATA SOLD OR CONTRIBUTED TO BY YOU TO ANY THIRD PARTY. FURTHERMORE, YOU MAY NOT USE ANY OF THE TRADEMARKS, TRADE NAMES, SERVICE MARKS, COPYRIGHTS, OR LOGOS OF EMIRATES NBD OR ITS SUBSIDIARIES IN ANY MANNER WHICH CREATES THE IMPRESSION THAT SUCH ITEMS BELONG TO OR ARE ASSOCIATED WITH YOU OR, EXCEPT AS OTHERWISE PROVIDED WITH EMIRATES NBD'S PRIOR WRITTEN CONSENT, AND YOU ACKNOWLEDGE THAT YOU HAVE NO OWNERSHIP RIGHTS IN AND TO ANY OF SUCH ITEMS. MOREOVER YOU AGREE THAT YOUR USE OF THE PUBLICATION IS AT YOUR SOLE RISK AND ACKNOWLEDGE THAT THE PUBLICATION AND ANYTHING CONTAINED HEREIN, IS PROVIDED "AS IS" AND "AS AVAILABLE," AND THAT EMIRATES NBD MAKES NO WARRANTY OF ANY KIND, EXPRESS OR IMPLIED, AS TO THE PUBLICATION, INCLUDING, BUT NOT LIMITED TO, MERCHANTABILITY, NON-INFRINGEMENT, TITLE, OR FITNESS FOR A PARTICULAR PURPOSE OR USE. You agree, at your own expense, to indemnify, defend and hold harmless Emirates NBD, its Suppliers, agents, directors, officers, employees, representatives, successors, and assigns from and against any and all claims, damages, liabilities, costs, and expenses, including reasonable attorneys' and experts' fees, arising out of or in connection with the publication, including, but not limited to: (i) your use of the data contained in the publication or someone using such data on your behalf; (ii) any deletions, additions, insertions or alterations to, or any unauthorized use of, the data contained in the publication or (iii) any misrepresentation or breach of an acknowledgement or agreement made as a result of your receiving the publication.

Emirates NBD Research & Treasury Contact List

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

Aazar Ali Khwaja
Group Treasurer & EVP Global Markets &
Treasury
+971 4 609 3000
aazark@emiratesnbd.com

Tim Fox
Head of Research &
Chief Economist
+971 4 230 7800
timothyf@emiratesnbd.com

Research

Khatija Haque
Senior Economist
+971 4 509 3065
khatijah@emiratesnbd.com

Irfan Ellam
Head of MENA Equity Research
+971 4 509 3064
Mohammedie@emiratesnbd.com

Aditya Pugalia
Research Analyst
+971 4 230 7802
adityap@emiratesnbd.com

Sales & Structuring

Head of Sales & Structuring
Sayed Sajjid Sadiq
+971 4 230 7777
sayeds@emiratesnbd.com

Saudi Arabia Sales
Numair Attiyah
+966 1 282 5625
attiyahn@emiratesnbd.com

Singapore Sales
Supriyakumar Sakhalkar
+65 65785 627
sakhalkars@emiratesnbd.com

London Sales
Lee Sims
+44 (0) 20 7838 2240
simsl@emiratesnbd.com

Group Corporate Communications

Ibrahim Sowaidan
+971 4 609 4113
ibrahims@emiratesnbd.com

Claire Andrea
+971 4 609 4143
clairea@emiratesnbd.com