



بنك الإمارات دبي الوطني  
Emirates NBD

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## FX Week

### Fed becomes more balanced

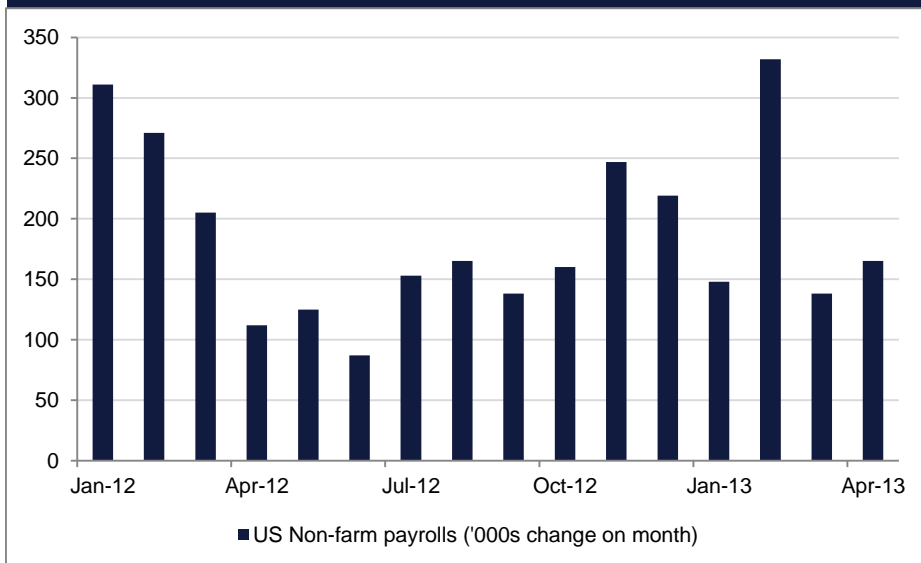
Last week saw three key events, from the Fed, the ECB and in terms of economic data. The Fed introduced the first element of surprise, restoring a balanced approach to QE by indicating a preparedness to either reduce or increase asset purchases dependent on the economic data. This followed a run of disappointing economic data, which raised concerns that the economic recovery in Q1 is already running out of steam. The shift away from a more hawkish tone caused the USD to weaken during the middle of the week, before recovering after the ECB meeting on Thursday.

### ECB delivers at last

The ECB lived up to expectations by announcing a 25bps interest rate cut, taking the Refinance rate to 0.50%, in line with our long term predictions. By the time it happened however, it had become widely anticipated by the broader market, especially after Eurozone inflation had fallen sharply in April to 1.2% down from 1.7% in March. However, in a relatively downbeat press conference President Draghi also appeared to hold out the possibility that its deposit rate could even be cut into negative territory if necessary, from its existing 0%, depending on economic developments. Despite maintaining the official view that a recovery will begin in H2 13, Draghi seemed to display little confidence, and the EU subsequently lowered its growth forecast for the whole year to -0.4% closer to our own -0.5% estimate.

Expected announcements about measures to breathe new life into bank lending also failed to materialize beyond a promise to consult with other European institutions over what to do. Given this relatively grim picture, it would appear a relatively high likelihood that negative interest rates will be seen in the Eurozone before the end of the year. Such a prospect should serve to limit EUR gains going forward from here, and indeed the EUR did fall back on the news, erasing all of the USD's earlier losses against it.

### US April jobs data – some respectability restored



Source: Bloomberg, Emirates NBD Research

## US employment – some respectability restored

This situation was further compounded by the US employment data at the end of the week, which showed a much healthier than expected rise in non-farm payrolls of 165k in the month of April. Furthermore the unemployment rate fell back further to 7.5% from 7.6% in March and revisions to the previous two months wiped away the 88k rise in jobs in March, instead turning it into a more respectable 138k gain. Combined with other revisions the average monthly increase in non-farm payrolls over the last six months is back to running above 200k, making markets question what they were worried about in the first place.

Stock market gains to record highs appeared to reflect this sentiment, making the Fed's earlier caution about the possibility of increasing QE also appear somewhat premature. While it might be a little less likely that the Fed will begin 'tapering' its QE in late 2013 (although we would not completely rule this out) the chances of it actually increasing its asset purchases beyond the existing USD85bn per month appear even more farfetched. The USD should begin to benefit from this nuance, especially as ECB policy would seem to have greater dovish risks attached going forward as well.

## A quieter week in prospect

The coming week contains less influential news and events, with only second tier data out of the US (consumer credit) whilst the Eurozone sees industrial production data out of France and Germany as well as region-wide retail sales, which are expected to be soft. Markets will also be on the lookout for any clarification about ECB policy, with Austrian Central bank governor Nowotny already appearing to be pouring some cold water on negative interest rate expectations at the end of last week. Despite this, the option of talking about negative interest rates remains a powerful one if only to contain the upside in the EUR if it threatens to appreciate much further.

## Policy focus turns elsewhere

Monetary policy issues will also be in focus in the UK and Australia in major markets next week, while Norway, Poland, Korea, Malaysia and Peru will also see interest rate decisions. Out of all of these Australia's decision looks likely to be a close one, with the possibility of an interest rate cut not insignificant in the wake of recent weak domestic data as well as signs that the Chinese economy remains sluggish. Our own forecasts reflect this possibility within the three-month time horizon so we wouldn't be surprised if it were to happen this week, which should serve to keep the AUD under pressure both against the USD as well as on the crosses.

## UK economy under IMF scrutiny

The UK on the other hand is not expected to deliver any more monetary stimulus for the time being, especially following the better than expected Q1 GDP report with growth rising by 0.3%. However, we would not rule out more asset purchases later in the year once the new Governor Mark Carney takes over at the Bank of England, with a more flexible mandate to address both inflation and growth issues. In the meantime this week UK industrial production and trade data will be of interest to see if they recovered further in March, whilst the visit of an IMF team may also be of interest this week in the light of recent criticism about UK economic policy and amidst credit rating downgrades.

The GBP has benefited from improved tone to the latest economic data, as well as from the softer USD, but we suspect that the latter influence will begin to wane leaving the onus on the data to keep GBP supported. Accordingly GBP/USD could begin to slip back, but we are encouraged by the weaker trend in EUR/GBP which appears to be developing, consistent with our forecast for it to fall back to 0.80 over the rest of the year.

## **USD/JPY recovers lost ground**

USD/JPY ended last week once again closing in on the 100 level, after spending a shakier few days buffeted by Golden Week holidays in Japan and profit-taking on existing short JPY positions (see page 6). The restoration of relatively good employment news out of the US on Friday also helped USD/JPY to recover to 99.00 as US yields rose, after at one point touching as low as 97.0 on Tuesday.

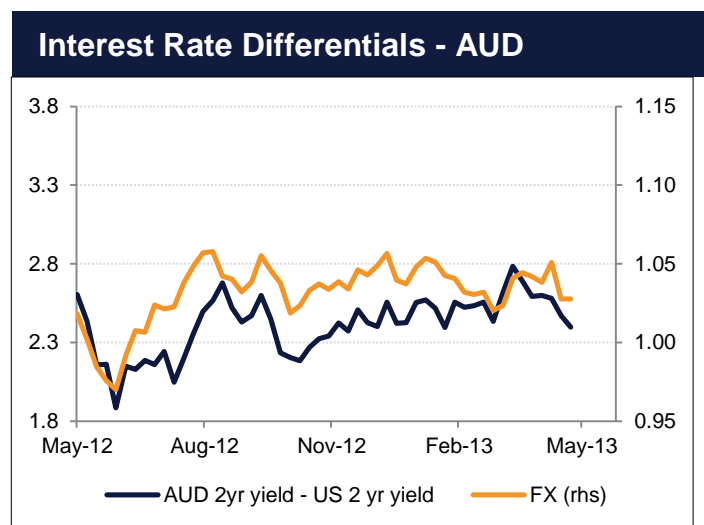
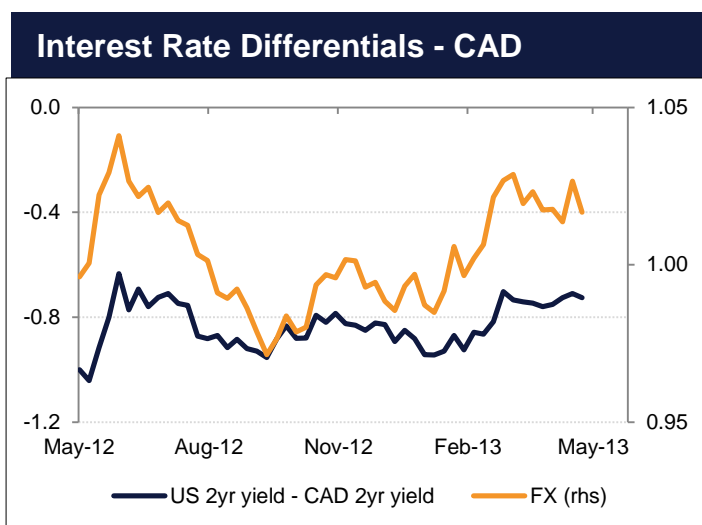
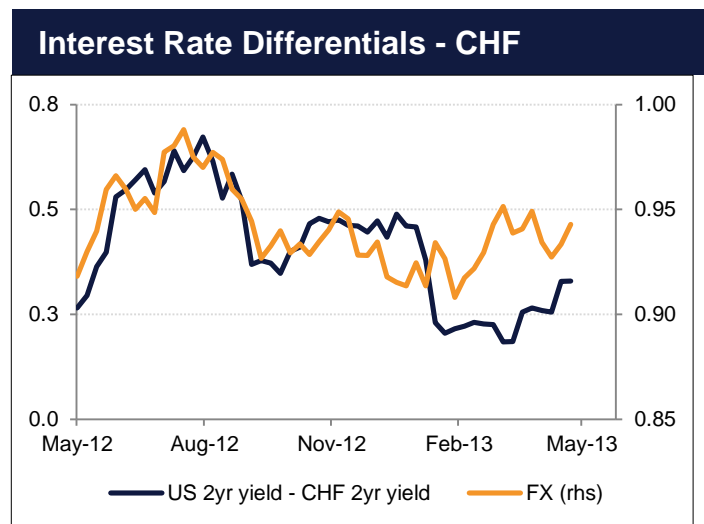
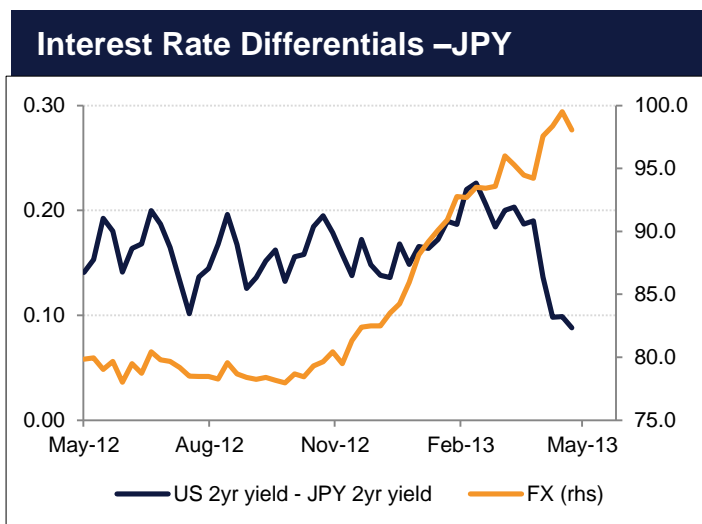
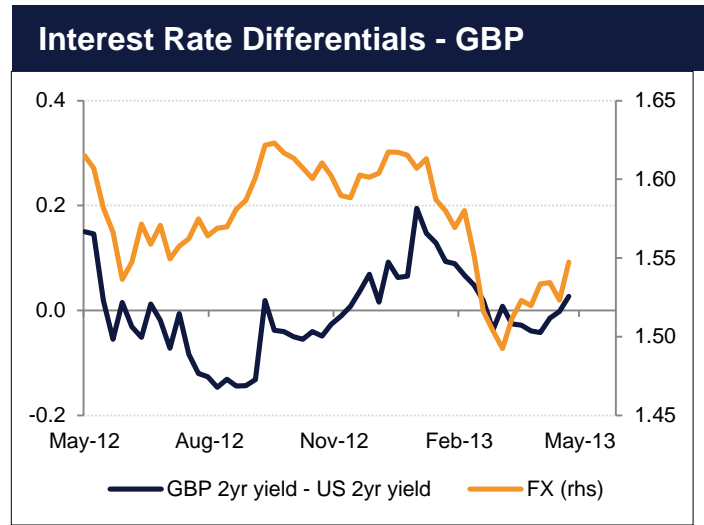
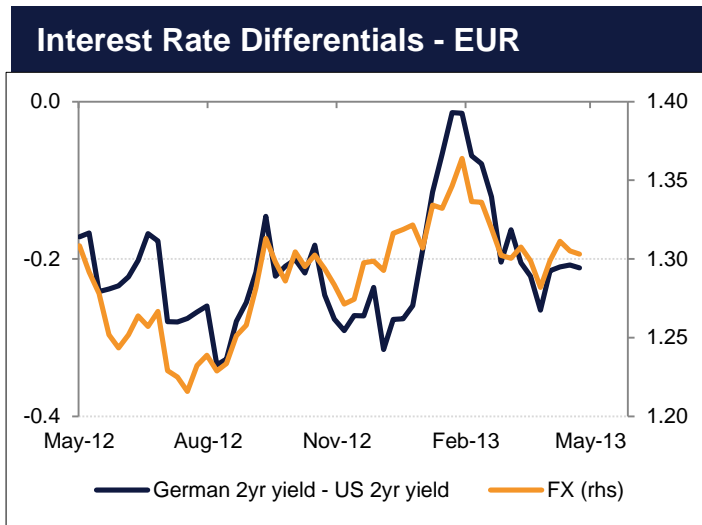
Markets continue to speculate about Japanese investors putting money to work overseas, but recent weekly data has not yet corroborated this, with Japanese investors appearing to be holding back for the time being to observe how relative bond yields perform in the wake of the recent bold Bank of Japan announcements. Over time, however, we still expect the 100-level to be broken, forecasting rally to 110 over the coming year.

FX Forecasts - Major						Forwards		
	Spot 3.05	1M	3M	6M	12M	3M	6M	12M
EUR / USD	1.3114	1.28	1.25	1.20	1.15	1.3122	1.3132	1.3155
USD / JPY	98.99	100.0	103.0	105.0	110.0	98.94	98.87	98.67
USD / CHF	0.9354	0.95	0.98	1.02	1.08	0.9345	0.9333	0.9305
GBP / USD	1.5562	1.48	1.45	1.42	1.45	1.5554	1.5547	1.5540
AUD / USD	1.0319	1.01	0.97	0.94	0.90	1.0251	1.0188	1.0067
USD / CAD	1.0080	1.03	1.05	1.07	1.10	1.0101	1.0122	1.0163
EUR / GBP	0.8421	0.86	0.86	0.85	0.79	0.8431	0.8440	0.8459
EUR / JPY	129.84	128.0	129.0	126.0	126.5	129.84	129.84	129.84
EUR / CHF	1.2266	1.22	1.22	1.22	1.24	1.2262	1.2256	1.2240
FX Forecasts - Emerging						Forwards		
	Spot 3.05	1M	3M	6M	12M	3M	6M	12M
USD / SAR*	3.7503	3.75	3.75	3.75	3.75	3.7505	3.7509	3.7518
USD / AED*	3.6730	3.67	3.67	3.67	3.67	3.6731	3.6730	3.6728
USD / KWD	0.2845	0.282	0.285	0.282	0.28	0.2850	0.2850	0.2860
USD / OMR*	0.3850	0.38	0.38	0.38	0.38	0.3849	0.3850	0.3847
USD / BHD*	0.3770	0.376	0.376	0.376	0.376	0.3774	0.3778	0.3784
USD / QAR*	3.6409	3.64	3.64	3.64	3.64	3.6434	3.6453	3.6500
USD / INR	53.9350	53.50	53.00	52.00	51.00	53.9417	53.9505	53.9672
USD / CNY	6.1562	6.23	6.22	6.20	6.25	6.2073	6.2112	6.2227

\*Denotes USD peg

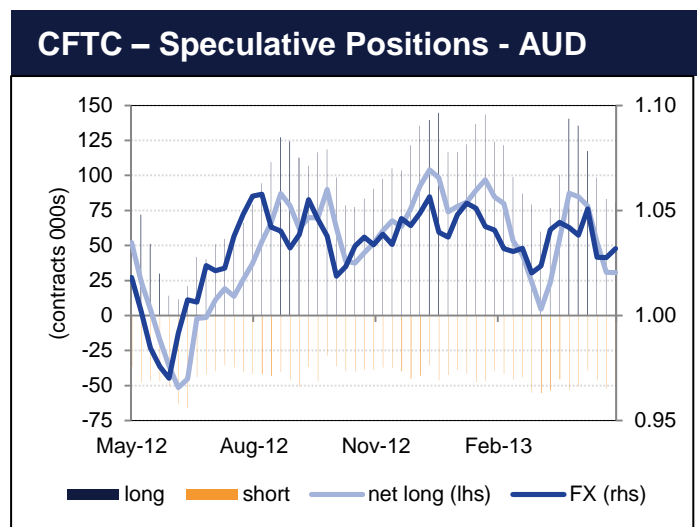
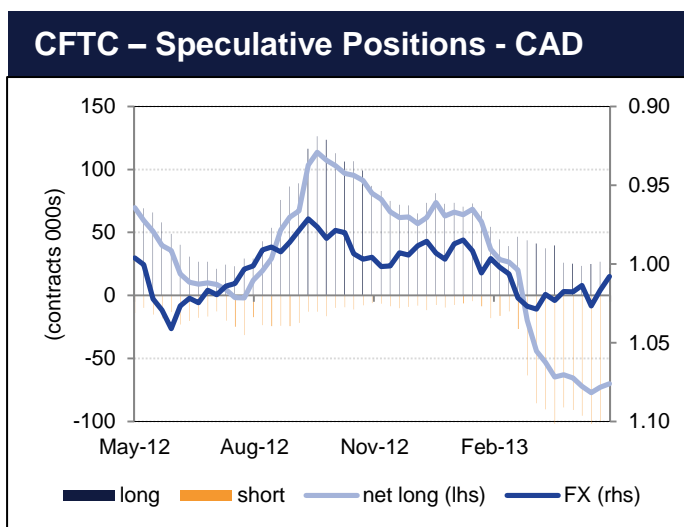
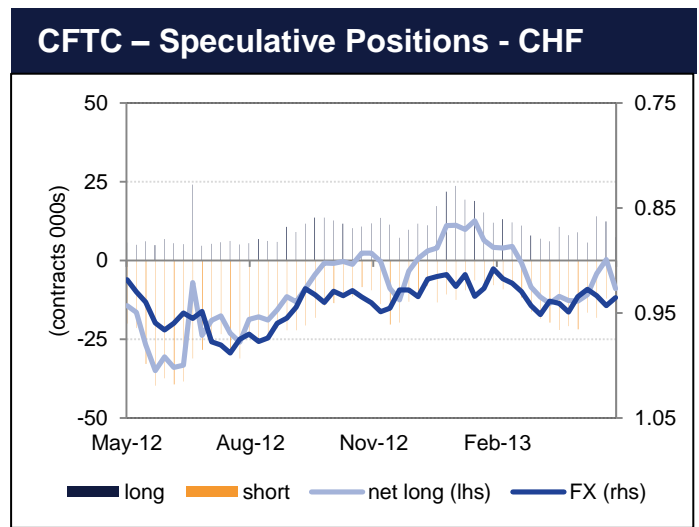
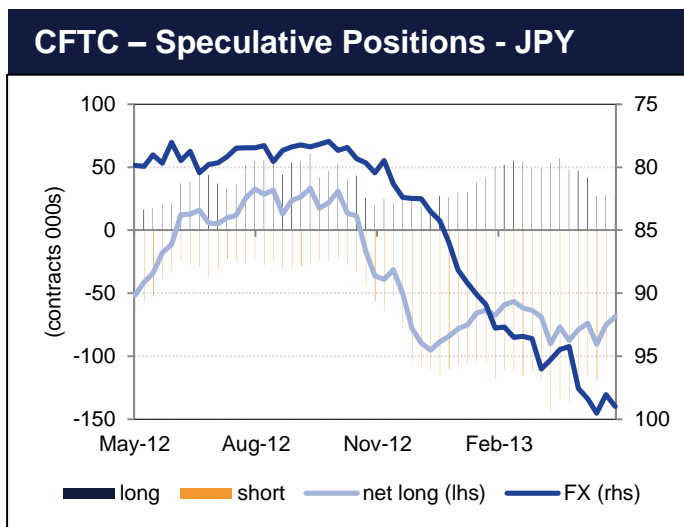
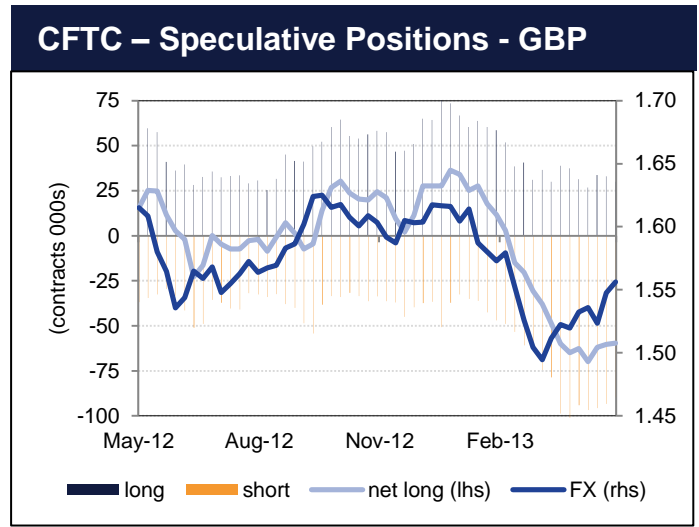
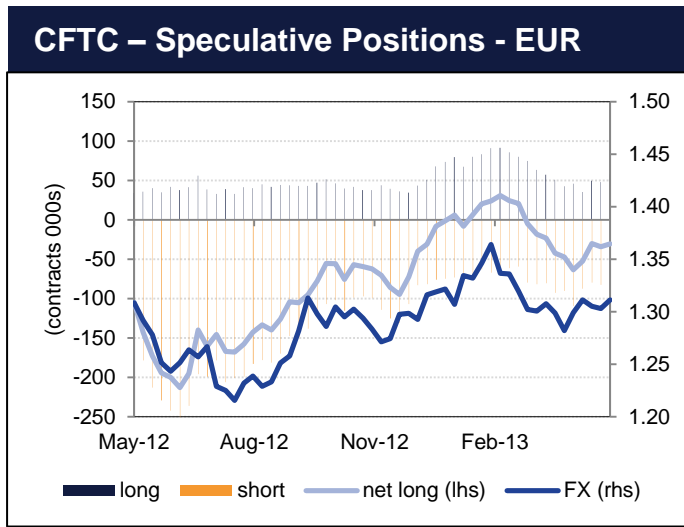
Source: Bloomberg, Emirates NBD Research

## Major Currency Pairs and Interest Rates



Source: Bloomberg, Emirates NBD Research

## Major Currency Positions



Source: Bloomberg, Emirates NBD Research

## Economic Calendar

Date	Country	Event
6-May	Australia	Retail Sales
	Italy	PMI Services
	France	PMI Services
	Germany	PMI Services
	Eurozone	PMI Services
	Eurozone	Retail Sales
7-May	Australia	Trade Balance
	Australia	RBA Cash Target
	UAE	PMI
	Switzerland	Unemployment Rate
	France	Trade Balance
	France	Industrial Production
	Germany	Factory Orders
	US	Consumer Credit
8-May	UK	BRC Sales
	Switzerland	CPI
	Germany	Industrial Production
	US	MBA Mortgage Applications
	Brazil	CPI
	Canada	Housing Starts
	China	Trade Balance
	China	CPI
9-May	Australia	Unemployment Rate
	UK	Industrial Production
	UK	BoE announces Rates
	US	Initial Jobless Claims
	Egypt	CPI
	Egypt	CPI
10-May	Japan	Trade Balance
	India	Industrial Production
	Germany	Trade Balance
	Italy	Industrial Production
	UK	Trade Balance
	Canada	Unemployment Rate

Source: Bloomberg

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