



بنك الإمارات دبي الوطني
Emirates NBD

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FX Week

USD gains selective

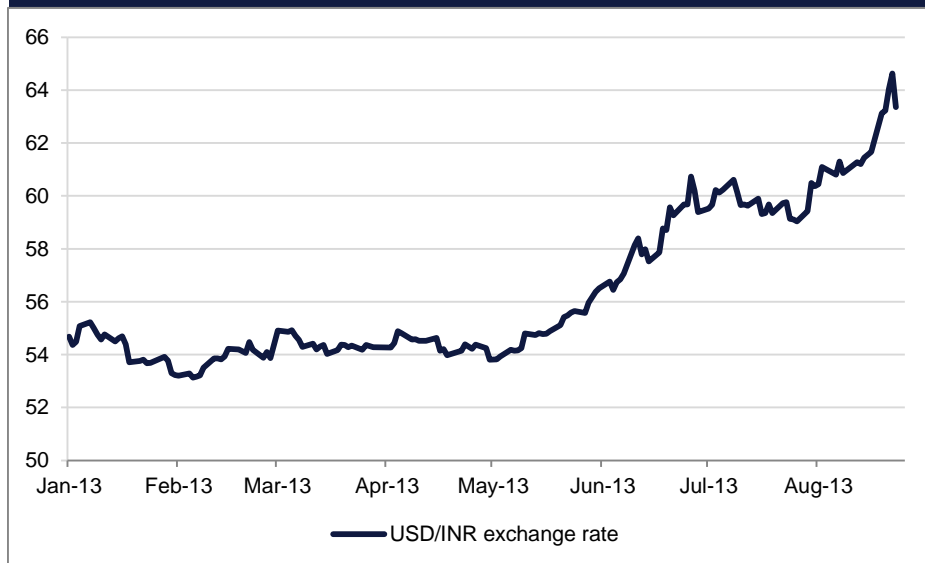
Although the minutes of the July Fed meeting showed the majority of its members supporting a QE tapering by the end of the year, the markets still remain divided about whether it will happen in September or not, which is serving to keep the USD's gains limited and relatively selective. USD strength is being seen against EM currencies, but in the developed world the reaction is more contained especially against the EUR which remains buoyed by improving Eurozone fundamentals. The August US jobs report looms next week as the next main catalyst for USD direction, but until then the markets are likely to remain subdued and USD gains quite gradual.

Most of the US economic data in the coming week is expected to come in on the moderate side, which following a sharp drop in new home sales on Friday (-13.4%) may temper the USD's gains, and restrict further steep losses in Treasuries which retreated from 2.92% on Friday. Durable goods orders are seen falling in July, mostly due to a sharp decline in aircraft orders, but apart from this the underlying pace of orders should remain largely positive. Q2 GDP data is expected to be revised higher from the advance 1.7% estimate, but estimates for personal income growth, consumption and consumer confidence may not be quite so strong, suggesting that Q3 growth probably began on a slightly softer note..

EUR resilient

Meanwhile, more signs that the Eurozone began Q3 positively should be forthcoming, with an EC Economic Sentiment Indicator and German IFO activity data expected to corroborate the Eurozone composite PMI index released last week at 51.7, showing activity continuing to advance in August. There has been some conjecture in recent days that the ECB could even begin considering tightening monetary policy in light of the recent strengthening data, with the Bundesbank even mooted such a possibility last week, indicating that it would not be inconsistent with the ECB's latest 'forward guidance'.

INR pulls back but remains troubled



Source: Bloomberg, Emirates NBD Research

Over the weekend there have been contrasting opinions expressed on the subject by ECB officials, with Governing Council Member Nowotny saying that the recent run of strong data has removed the need for interest rates to be cut further to a fresh record low. In contrast, Council Member Demetriades said that the ECB cannot 'rule out' lowering their interest rate lower, even given the signs of improving economic fundamentals. The ECB will publish fresh forecasts at its next Council meeting in September, which will send an important signal about the likely future path of Eurozone monetary policy. Last month ECB President Draghi said that rates would be kept at current rates or lower for 'an extended period' meaning that any deviation from this approach in September will be picked up on by the markets.

As we suspect that the Eurozone recovery will prove relatively shallow and shortlived, our view is more in line with Demetriades that another rate cut by the ECB cannot be ruled out. Also with the Eurozone debt crisis likely to come back into focus after the German elections on September 22nd, with peripheral economies like Greece and Portugal likely to require more assistance, the Eurozone may be enjoying only a temporary reprieve currently from its longstanding structural problems. Such an outlook should mean that the beginning of policy normalization by the Fed should also mark renewed divergence in monetary policy between the Fed and the ECB, resulting in a widening in interest rate differentials in the USD's favour. Hence our view remains that EUR/USD should eventually move lower, with our 3-month forecast of 1.25 still in place.

GBP loses ground

GBP has lost ground in recent days following comments from BoE MPC member Martin Weale that more BoE QE cannot be ruled out, should the UK recovery peter out. The remarks were a surprise to the market, following on from better than expected UK economic data recently and also coming from a relative monetary policy 'hawk'. UK Q2 GDP was revised higher to 0.7%, and industrial surveys from the CBI have also supported official data over the summer showing a pick-up in economic activity.

The Bank of England certainly faces something of a credibility test when it next meets in early September, given that interest rates and the pound have largely ignored the 'forward guidance' provided by new BoE governor Carney earlier this month, linking future monetary policy tightening to progress in reducing unemployment. Carney will be testifying to the British Parliament this week (Wednesday) which should also give him the opportunity to dampen the rallies in Gilt yields as well as in GBP. In particular, should he repeat Weale's warning about more QE being available, then GBP may well show some renewed vulnerability. However, with the economic data expected to remain broadly positive this week (mortgage approvals, CBI retail sector survey) it may not be straightforward for the Bank to engineer renewed GBP weakness, with greater volatility more likely to be the net result.

USD/JPY recovers

Of the developed currency pairs USD/JPY reacted the most to the Fed's message, but it has also been helped by the Bank of Japan last week reiterating its willingness to ease monetary policy further. US-Japan interest rate differentials have begun to widen more consistently in the USD's favour (see page 5), after the narrowing seen in April, immediately after aggressive QE by the BOJ was announced. As a consequence USD/JPY rose back above 99.0 on Friday, and ahead of the September FOMC meeting more gains for the USD can be expected, with our 1-month forecast being 100, and our 3-month forecast still at 105.

The coming week will see a number of important economic releases from Japan, including inflation which is expected to move further away from the deflation of the first part of the year. Further signs of economic recovery should also be seen, a testimony to the effectiveness of Abe's economic policies to date.

INR's troubles continue

The INR had another rough week, despite a minor recovery in the last two days, to decline -2.7% 5d (see chart of front page). Its losses are part a reflection of broad emerging market vulnerability to the Fed unwinding its QE, and part a product of local structural and cyclical problems. They are also becoming a function of inadequate policy responses. The RBI and the other authorities, in their attempt to 'firefight', continue to take stop-gap measures instead of addressing India's structural deficiencies. Last week, the RBI indicated that it will conduct open market operations to contain long-term yields and also announced a series of measures to help banks reduce and spread out their mark to market losses from the hardening of yields.

The role of the new RBI governor, Dr Rajan, who takes office in the first week of September, will remain under the spotlight with the investors looking to see how he manages the perception of being pro-growth while inflation has jumped back close to 6% and the INR remains under pressure.

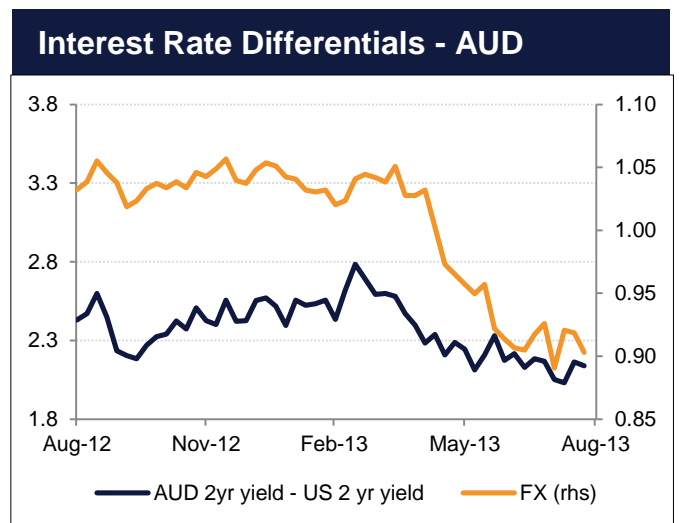
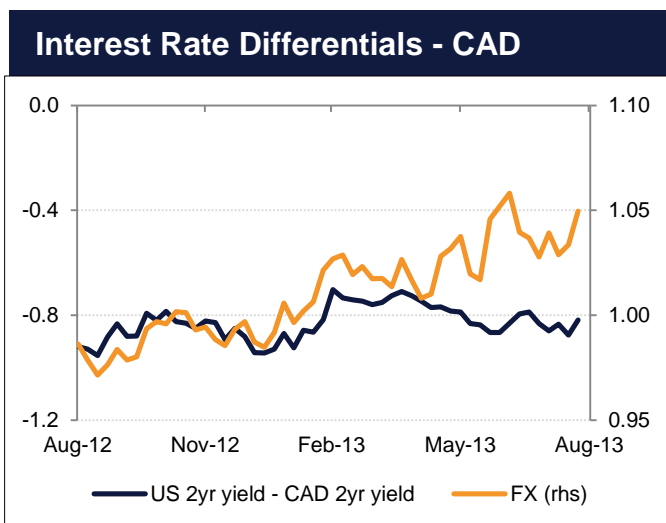
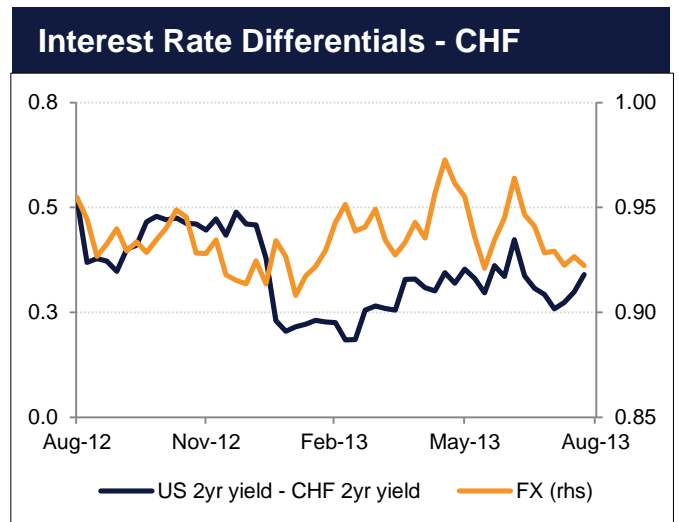
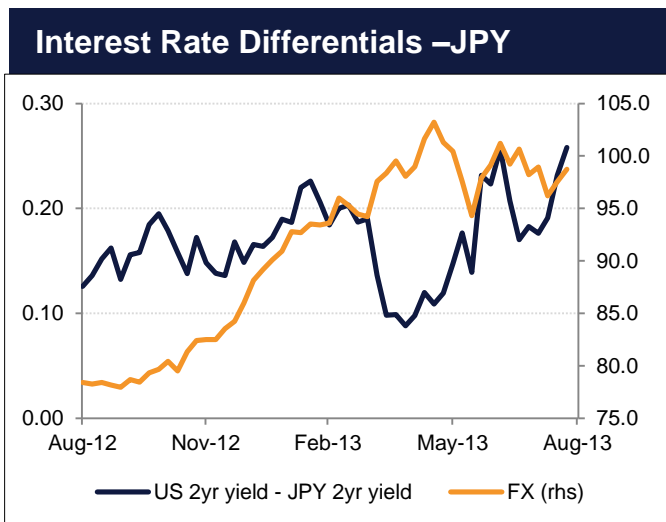
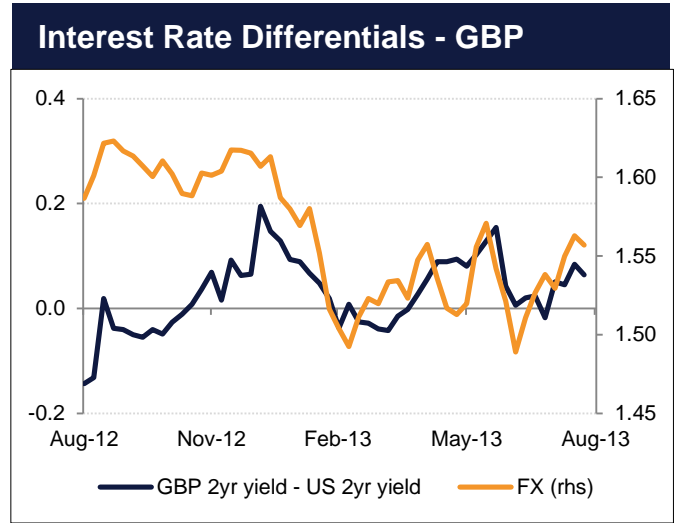
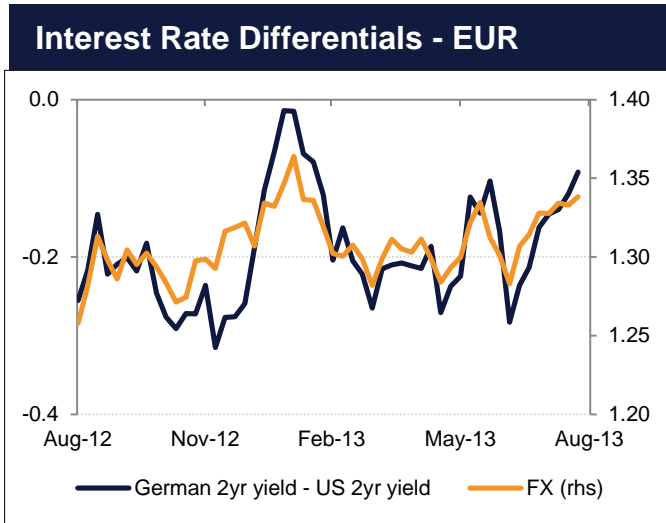
However, with the Fed minutes indicating that it is on course to start tapering its QE program, if the US economy sustains improvement, and the Q1 FY 2014 Indian GDP data (due to be released later this week) expected to remain weak, we believe that the pressure on the INR will remain on the downside. With our 1-month and 3-month forecasts having been breached, we revise our INR forecasts to 64.0 (1m) and 62.0 (3m).

FX Forecasts - Major						Forwards		
	Spot 23.08	1M	3M	6M	12M	3M	6M	12M
EUR / USD	1.3383	1.30	1.25	1.20	1.15	1.3388	1.3392	1.3401
USD / JPY	98.72	100.0	105.0	107.0	110.0	98.67	98.59	98.36
USD / CHF	0.9222	0.95	1.00	1.04	1.10	0.9215	0.9206	0.9184
GBP / USD	1.5569	1.52	1.48	1.45	1.47	1.5558	1.5549	1.5533
AUD / USD	0.9030	0.90	0.88	0.85	0.80	0.8976	0.8926	0.8827
USD / CAD	1.0496	1.04	1.06	1.07	1.10	1.0519	1.0542	1.0588
EUR / GBP	0.8595	0.85	0.84	0.83	0.78	0.8603	0.8611	0.8626
EUR / JPY	132.10	130.0	131.0	128.4	126.5	132.10	132.10	132.10
EUR / CHF	1.2332	1.24	1.25	1.25	1.27	1.2327	1.2319	1.2298
FX Forecasts - Emerging						Forwards		
	Spot 23.08	1M	3M	6M	12M	3M	6M	12M
USD / SAR*	3.7502	3.75	3.75	3.75	3.75	3.7506	3.7511	3.7525
USD / AED*	3.6730	3.67	3.67	3.67	3.67	3.6729	3.6728	3.6727
USD / KWD	0.2848	0.282	0.285	0.282	0.28	0.2890	0.2922	0.2969
USD / OMR*	0.3850	0.38	0.38	0.38	0.38	0.3843	0.3840	0.3828
USD / BHD*	0.3771	0.376	0.376	0.376	0.376	0.3779	0.3786	0.3804
USD / QAR*	3.6416	3.64	3.64	3.64	3.64	3.6446	3.6476	3.6525
USD / INR	63.3525	64.00	62.00	59.00	57.00	63.3696	63.3819	63.4044
USD / CNY	6.1220	6.15	6.15	6.20	6.20	6.1785	6.1995	6.2071

*Denotes USD peg

Source: Bloomberg, Emirates NBD Research

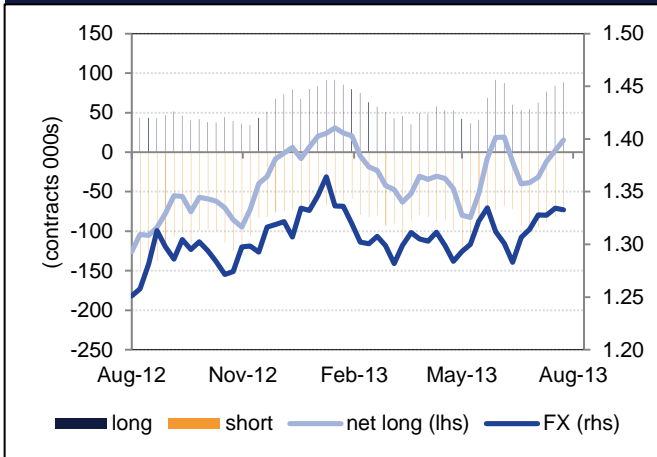
Major Currency Pairs and Interest Rates



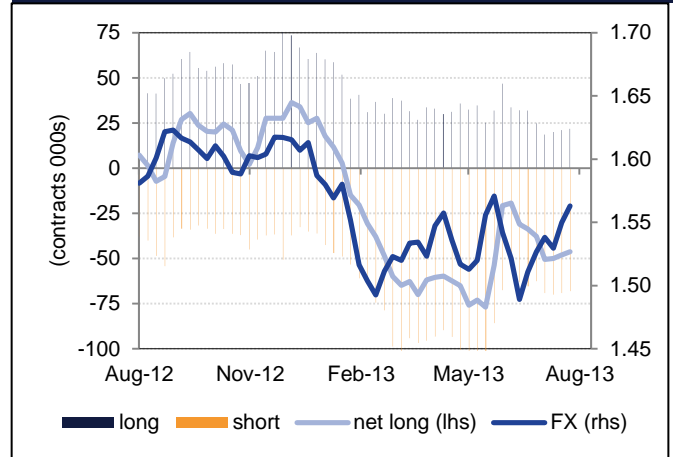
Source: Bloomberg, Emirates NBD Research

Major Currency Positions*

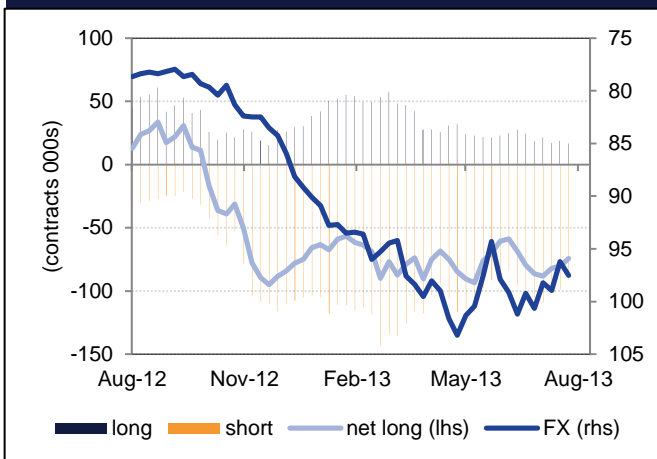
CFTC – Speculative Positions - EUR



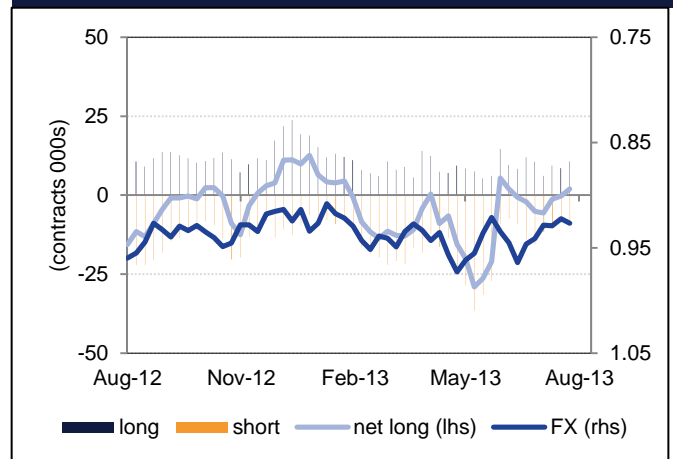
CFTC – Speculative Positions - GBP



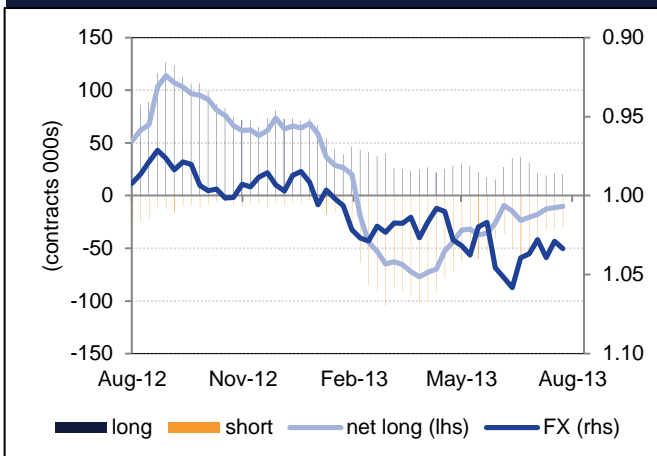
CFTC – Speculative Positions - JPY



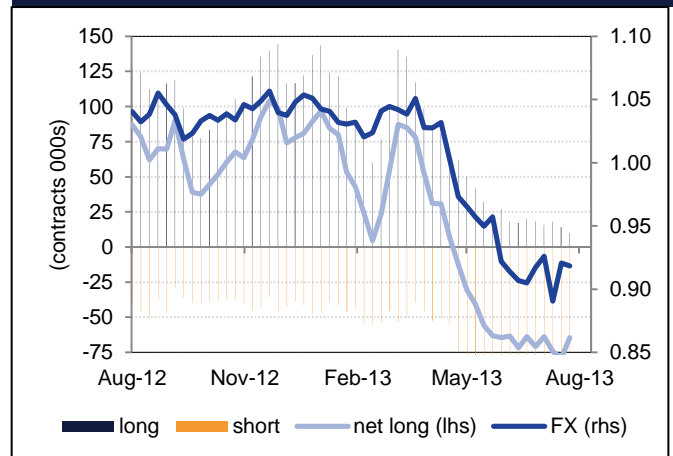
CFTC – Speculative Positions - CHF



CFTC – Speculative Positions - CAD



CFTC – Speculative Positions - AUD



Source: Bloomberg, Emirates NBD Research
*Data as of 25th June, 2013

Economic Calendar

Date	Country	Event	
26-July	US	Durable Goods Order	
	US	Dallas Fed Mfg Activity	
27-July	Germany	IFO Business Climate	
	US	S&P/Case-Shiller Home Price Index	
	US	Richmond Fed Mfg Index	
28-July	US	Consumer Confidence Index	
	Germany	GfK Consumer Confidence	
	Italy	Retail Sales	
	UK	CBI Reported Sales	
	US	MBA Mortgage Applications	
	US	Pending Home Sales	
	Brazil	Selic Rate	
29-July	Japan	Retail Sales	
	Germany	CPI	
	Germany	Unemployment Rate	
	Italy	Consumer Confidence	
	US	Initial Jobless Claims	
	US	GDP	
	US	Personal Consumption	
	Canada	Industrial Production	
	US	Core PCE	
	30-July	UK	GfK Consumer Confidence
		Japan	Jobless Rate
		Japan	CPI
		Japan	Industrial Production
Germany		Retail Sales	
Italy		Unemployment Rate	
Italy		CPI	
Eurozone		Unemployment Rate	
Eurozone		CPI	
India		GDP	
Brazil		GDP	
Canada		GDP	
US		Personal Income / Spending	
US	PCE Deflator		

30-July	US	U. of Michigan Confidence
1-Aug	China	Manufacturing PMI

Source: Bloomberg

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