



بنك الإمارات دبي الوطني
Emirates NBD

Weekly
8 December 2013

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

FX Week

Mixed USD fortunes

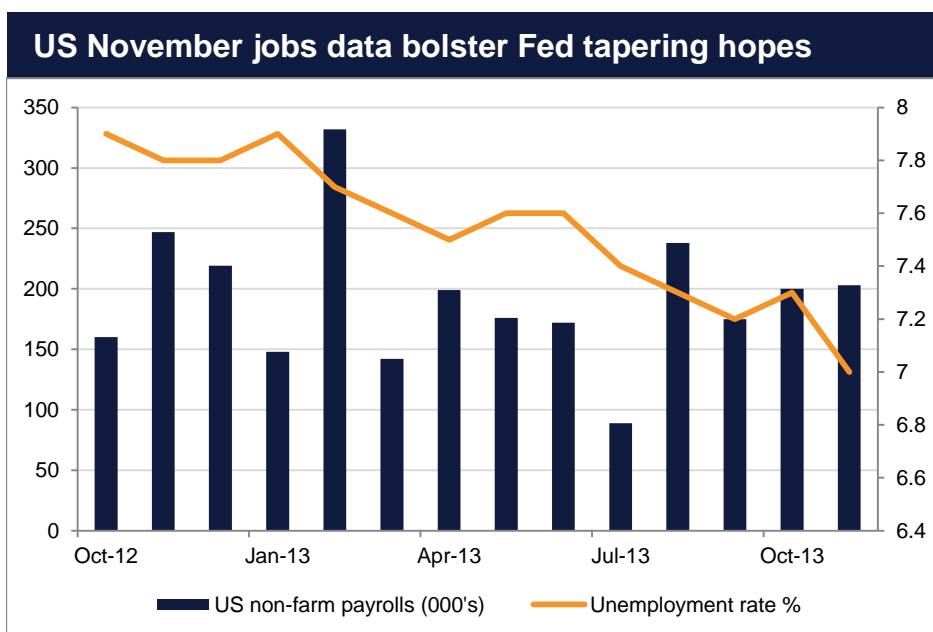
Major currency pairs are taking their lead from central banks, with the USD gaining at the expense of the JPY as Fed 'tapering' appears to be drawing nearer, while declines in EUR/USD are being delayed by uncertainty about the future policy direction of the ECB. The coming week will be partly truncated by US Thanksgiving holidays on Thursday, but important data also looms in the Eurozone where November CPI data is released.

Strong US payrolls bolster Fed tapering hopes

In particular Friday's November employment report showed the US economy creating 203k new jobs during the month, whilst the unemployment rate declined to 7.0% from 7.3% previously, raising the chances that the Fed will have enough ammunition to reduce its stimulus soon. Renewed momentum in the jobs market has been in evidence for a number of months now, and comes on top of upward revised growth data for Q3 of 3.6%, strong survey data, improving housing activity and a recovery in consumer confidence. Market sentiment has swung from expecting a QE reduction in March to looking for it to begin in January, which we had earmarked earlier as the likeliest date. But so good was Friday's data that even a December move cannot be ruled out. The main obstacle to the Fed beginning to taper this month would seem to be from Washington DC where negotiations are still ongoing over fiscal policy, in order to avert another government shutdown in the New Year. These talks are set to end on Friday of this week, which if successful would enable the Fed to begin gently unwinding its enormous monetary stimulus, possibly as early as next week when the FOMC next meets.

ECB complicates EUR response

Against this backdrop the markets are likely to trade the USD cautiously in the coming week. Against the JPY and the AUD, which remain at the risk of easier policy from their respective central banks, the USD seems likely to benefit the most from Fed tapering news or speculation. EUR/USD, however, has the complication of ECB policy to contend with, with its latest press conference showing it as unlikely to be as accommodative as other central banks.



Source: Bloomberg, Emirates NBD Research

Even so, EUR/USD has rallied quite a long way on ECB President Draghi's remarks, in which he gave little indication that further easing steps are being considered. The EUR may also be benefiting for the time being from year-end position squaring, but these are unlikely to last. With the EUR/USD now also within sight of October's 1.38 highs, this is perhaps another reason to be wary, especially with the Fed's decision moving closer.

EUR/GBP rally appears overextended

GBP too is poised around its highs of the year. Despite losing some momentum towards the end of last week it remains buoyed by improving UK economic fundamentals and until these fade the pound should remain relatively resilient. Again it may be vulnerable to tapering news from the Fed, and the UK data in the coming week will also be important. Industrial production is expected to show modest strength and the trade deficit to narrow. Both should be favourable for GBP helping it to recover ground, especially with the rally in EUR/GBP looking extended.

USD/JPY is around our one-month forecast

Japan also has a busy week data wise, which will be analyzed to see whether appetite for risk among Japanese investors is increasing. Recent portfolio data over the last eight weeks suggest that it is, as Japanese investors were net buyers of foreign bonds over this period. With yields in the US on the rise, but those in Japan broadly steady the USD/JPY can be expected to be a principal beneficiary of Fed tapering speculation. And the more that Japanese economic data remains subdued the more likely the BOJ will be forced to act again to increase asset purchases, probably in Q214, keeping Japanese interest rates low. As well as the second estimate of Japanese Q3 GDP, the markets will be on the lookout for whether business surveys are getting stronger or whether the prospect of an increase in the consumption tax is starting to affect confidence. USD/JPY is already sitting around our one-month forecast of 103, and thin seasonal conditions could see it climb quickly towards our 3-month forecast of 105 in coming months, depending on what the Fed chooses to do.

Swiss inflation returns but too early to relax EUR/CHF peg

The CHF firmed last week, helped by rising risk aversion as equity markets rolled over, as well as by firm Swiss economic data. In particular inflation turned positive for the first time since 2011, rising by 0.1% y/y, perhaps hinting that the SNB can relax its exchange rate policy of preventing EUR/CHF fall below 1.20. This appears premature to us, and we expect the upcoming SNB meeting to reaffirm its intention to hold the line at this level, especially as the Bank's 2.0% inflation target is still a long way off. Combined with a possibility that the Fed begins tapering QE soon the CHF could show one of the bigger reactions to such news given how far it has risen in recent days, and the likelihood that the EUR may remain underpinned for a little longer.

AUD/NZD loses further ground

Finally this week we remind readers about the AUD/NZD cross, and how this is proving to be the driving force behind the AUD/USD and NZD/USD. Having broken below historic support at 1.11 recently this cross has fallen further to around 1.10 currently, as divergent monetary policy prospects weigh on the AUD and bolster the NZD. In the coming week Australian employment data for November will be the main focus. Last month the unemployment rate remained elevated at 5.7% whilst only 1.1k jobs were added. A similar outcome this time around will maintain the pressure on the RBA to keep a relaxed stance to policy, and to continue talking the AUD lower.

FX Forecasts - Major						Forwards		
	Spot 6.12	1M	3M	6M	12M	3M	6M	12M
EUR/USD	1.3706	1.32	1.31	1.27	1.20	1.3706	1.3706	1.3710
USD/JPY	102.9100	103.0	105.0	107.0	110.0	102.8450	102.7852	102.6134
USD/CHF	0.8919	0.93	0.95	0.98	1.04	0.8910	0.8901	0.8880
GBP/USD	1.6341	1.59	1.57	1.56	1.55	1.6331	1.6319	1.6290
AUD/USD	0.9102	0.91	0.90	0.88	0.85	0.9048	0.8994	0.8885
USD/CAD	1.0640	1.05	1.06	1.07	1.10	1.0664	1.0688	1.0735
EUR/GBP	0.8383	0.83	0.82	0.81	0.78	0.8388	0.8395	0.8412
EUR/JPY	141.0300	136	137.6	135.9	132.0	141.0291	141.0283	141.0264
EUR/CHF	1.2225	1.23	1.24	1.25	1.26	1.2212	1.2200	1.2176
EUR/NOK	8.4452	8.20	8.00	7.75	7.50	8.4734	8.5012	8.5590
EUR/SEK	8.9158	8.80	8.70	8.60	8.50	8.9320	8.9491	8.9879
NZD/USD	0.8283	0.83	0.83	0.84	0.81	0.8230	0.8169	0.8029

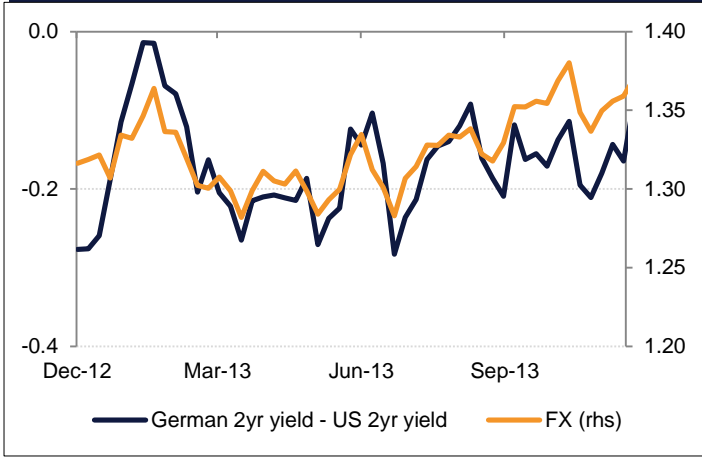
FX Forecasts - Emerging						Forwards		
	Spot 6.12	1M	3M	6M	12M	3M	6M	12M
USD/SAR*	3.7509	3.75	3.75	3.75	3.75	3.7508	3.7510	3.7511
USD/AED*	3.6730	3.67	3.67	3.67	3.67	3.6726	3.6725	3.6720
USD/KWD	0.2827	0.282	0.285	0.282	0.28	0.2897	0.2947	0.3019
USD/OMR*	0.3850	0.38	0.38	0.38	0.38	0.3840	0.3830	0.3815
USD/BHD*	0.3770	0.376	0.376	0.376	0.376	0.3784	0.3799	0.3832
USD/QAR*	3.6410	3.64	3.64	3.64	3.64	3.6450	3.6490	3.6555
USD/EGP	6.8892	6.89	6.89	6.89	6.89	7.1594	7.3771	7.9471
USD/INR	61.4150	62.00	61.00	59.00	57.00	61.4287	61.4424	61.4665
USD/CNY	6.0827	6.10	6.15	6.20	6.20	359.0827	405.7627	517.7127

Source: Bloomberg, Emirates NBD Research

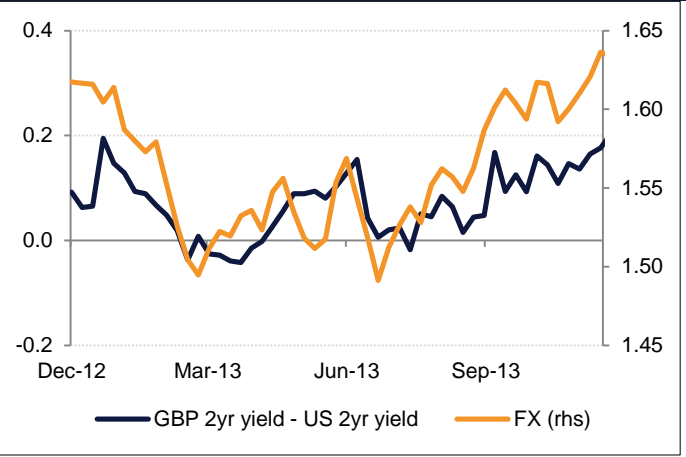
*Denotes USD peg

Major Currency Pairs and Interest Rates

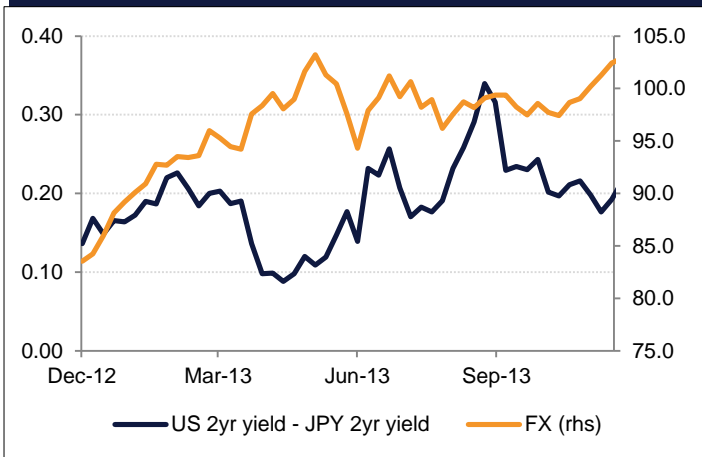
Interest Rate Differentials - EUR



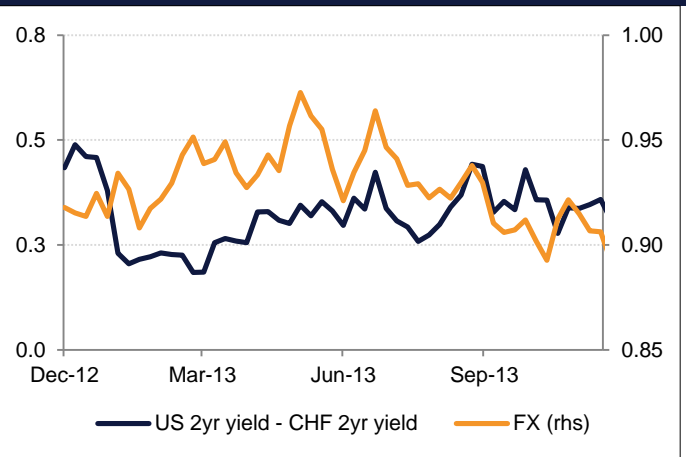
Interest Rate Differentials - GBP



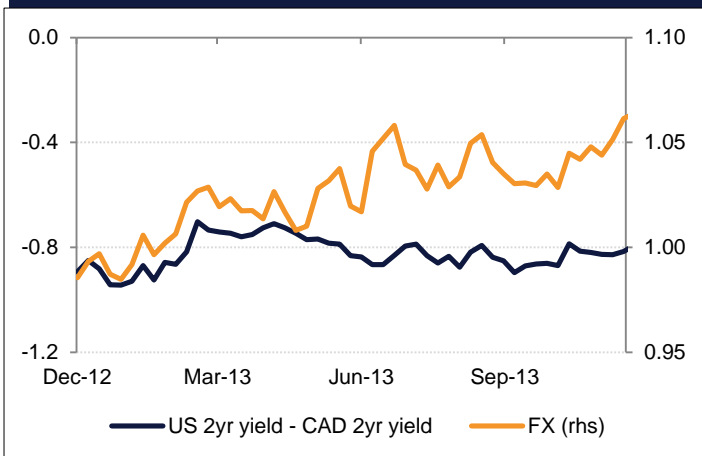
Interest Rate Differentials - JPY



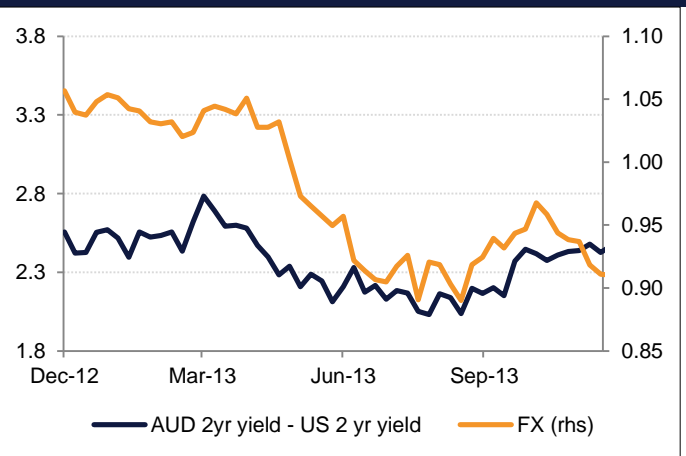
Interest Rate Differentials - CHF



Interest Rate Differentials - CAD

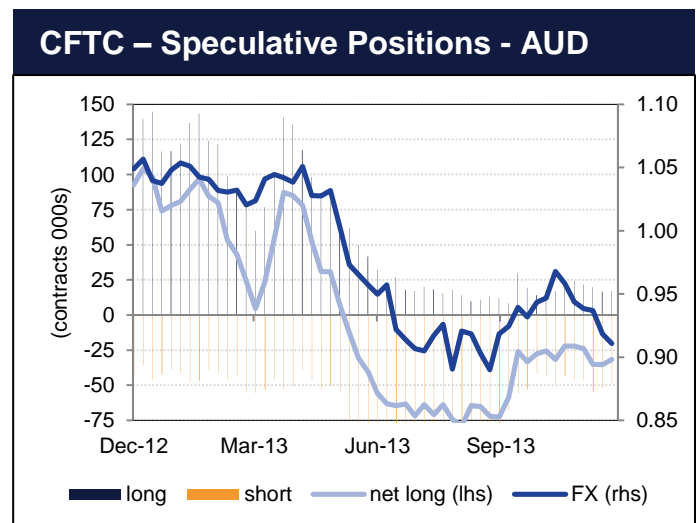
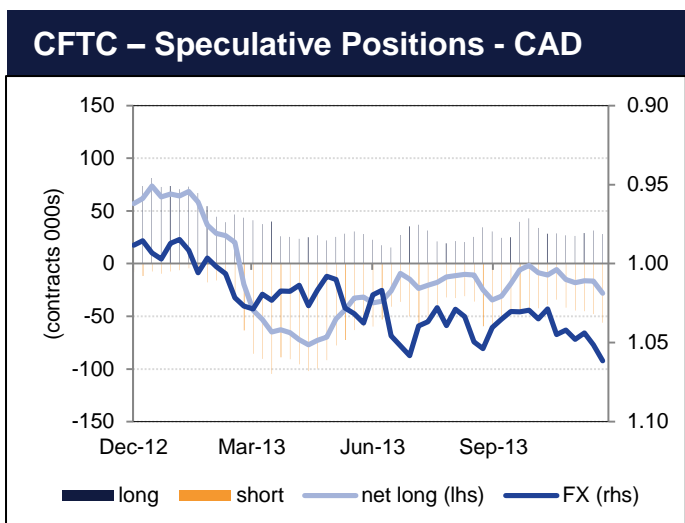
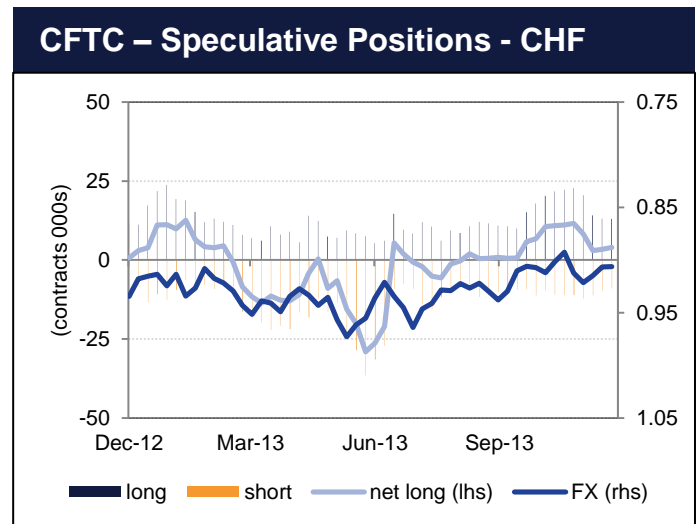
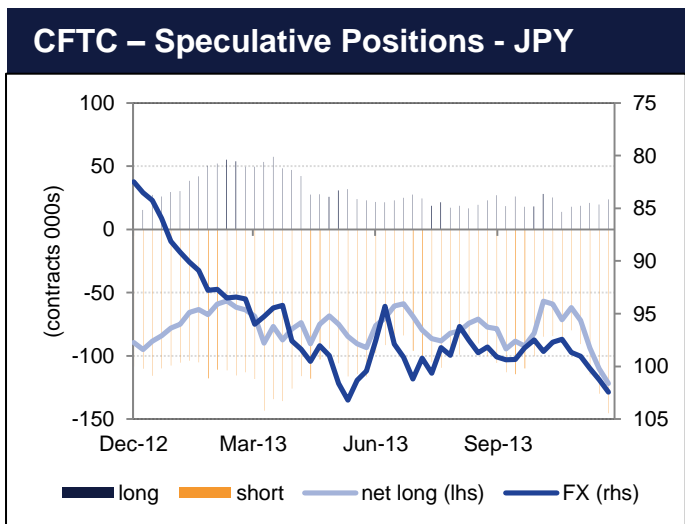
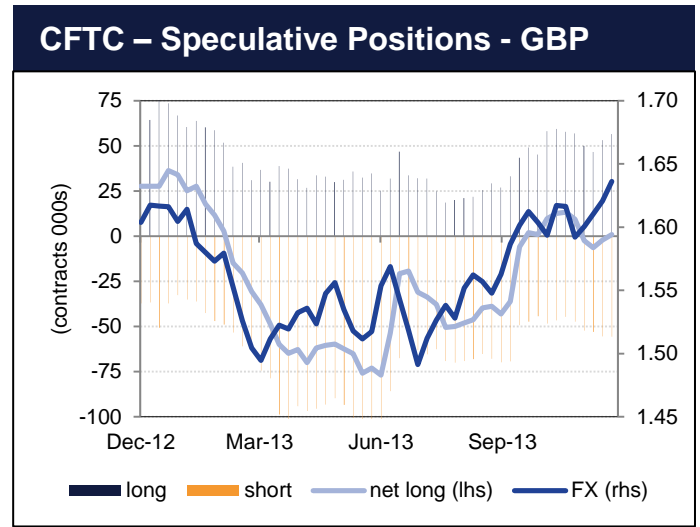
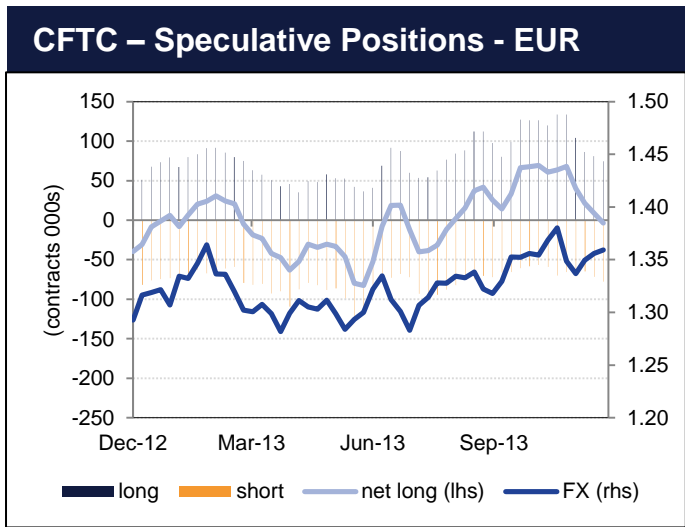


Interest Rate Differentials - AUD



Source: Bloomberg, Emirates NBD Research

Major Currency Positions*



Source: Bloomberg, Emirates NBD Research
 *Data as of 6 November, 2013

Economic Calendar

Date	Country	Event	
9-Dec	Japan	Trade Balance	
	Japan	GDP	
	China	CPI	
	Switzerland	Unemployment Rate	
	Germany	Trade Balance	
	Germany	Industrial Production	
	Canada	Housing Starts	
	10-Dec	Japan	Tertiary Industry Index
		Japan	Consumer Confidence
China		Industrial Production	
China		Retail Sales	
France		Industrial Production	
Italy		Industrial Production	
UK		Industrial Production	
UK		Trade Balance	
Italy		GDP	
Egypt		CPI	
11-Dec		Germany	CPI
		US	MBA Mortgage Applications
		Russia	CPI
12-Dec	Australia	Unemployment Rate	
	France	CPI	
	Italy	CPI	
	Eurozone	Industrial Production	
	Brazil	Retail Sales	
	India	CPI	
	India	Industrial Production	
	US	Retail Sales	
	US	Initial Jobless Claims	
	Russia	Trade Balance	
	13-Dec	Japan	Industrial Production

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
Analyst
+971 4 230 7802
adityap@emiratesnbd.com

Jean-Paul Pigat
MENA Economist
+971 4 230 7807
jeanp@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
numaira@emiratesnbd.com

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

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

Egypt
Shahinaz Foda
+20 22 726 5050
shahinaz.foda@bnpparibas.com

Group Corporate Communications

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

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