



بنك الإمارات دبي الوطني
Emirates NBD

Weekly
5 January 2014

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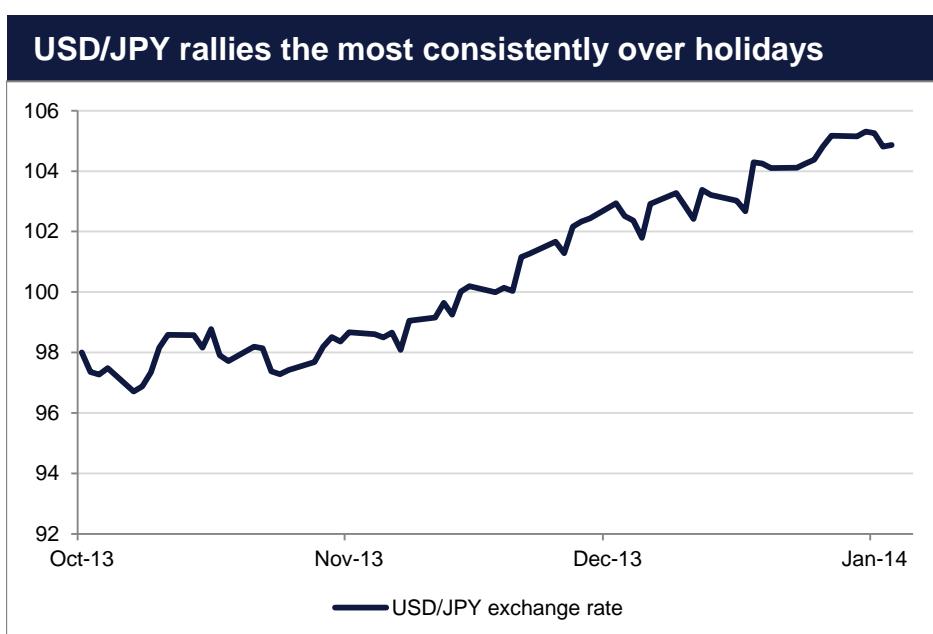
FX Week

Early 2014 sees returning signs of USD strength

The USD has strengthened during the first two trading days of the New Year, with optimism growing about the strength of the US economic recovery. The 10-year yield on US Treasuries reached above 3.0% at one stage last week, up from 1.80% a year ago, helped by buoyant US manufacturing data as well as strength in consumer confidence. Earlier in December the Fed announced that Quantitative Easing would begin to be tapered in January, and final Q3 GDP estimate was revised to 4.1% on an annualized basis, with signs that Q4 growth will also be quite firm. During the thin holiday period the USD/JPY rate rallied the most consistently, reaching as high as 105.50 at one point before settling back around the 105 level, which was our one-month forecast as of mid-December. At the end of last week, the USD had begun to improve against other currency pairs as well, with both EUR/USD and GBP/USD pulling back from highs of 1.3890 and 1.6605 respectively posted over the holiday period. Clearly the markets were still quite thin last week, so over interpreting such swings can be quite dangerous. Similarly, this week could also see some erratic moves, although we do believe that the firmer USD trend will continue in 2014, with even the EUR/USD beginning to participate more fully in it.

US jobs data the key event risk in the coming week

Most striking of all perhaps last week was the greater sense of optimism being expressed by outgoing Fed Chairman Bernanke about the US recovery underway. Having announced a reduction in Quantitative Easing in December, to begin later this month, Bernanke spoke about the reduction in the headwinds that the US economy faces as 2014 gets underway. The minutes of the last FOMC meeting, at which the USD10bn reduction in QE was announced, will be revealed this week and are expected to show that the decision taken then was a close call. This may check some of the USD's gains temporarily, but the more important news this week will come from the December employment report which is expected to show another strong month of job gains, and which should help the USD to continue to recover.



Source: Bloomberg, Emirates NBD Research

EUR and Eurozone still face key challenges

The other important event risk this week will come from the Eurozone where the ECB meets to set monetary policy and when the first estimate of inflation for December will be seen. Our confidence in the Eurozone's recovery potential this year is much less than in the US, or in most other developed economies for that matter, seeing growth of just 0.5% for it over the course of 2014. Last week saw evidence as to why this is likely to be the case, with a two-speed recovery already being seen between the two largest economies of Germany and France. While Germany continued to do well at the end of 2013, with its manufacturing index rising to 54.3 in December, France appeared to fall further into contraction territory, with its index declining to 47.0 from 47.4 in November. Although the immediate Eurozone crisis may be over, the single currency area still faces numerous challenges in 2014, over its banking sector, in terms of its indebted countries and over the overall pace of growth. The ECB appears to have few policy levers it is prepared to pull to promote growth, leaving the EUR as likely to be vulnerable as the US economic recovery pulls the USD higher.

Seasonal EUR support to dissipate

Over the holiday period the EUR benefited from seasonal repatriation flows that tend to be supportive at the end of the year, but these are now likely to unwind. Noticeably as well, the 2-year interest rate spread between the US and the Eurozone, which has a good correlation with moves in EUR/USD, widened sharply in the USD's favor towards the end of December suggesting that EUR/USD declines can continue from here (see page 5). The ECB is unlikely to make any change to monetary policy when it meets this week, but this should not be much of a surprise and the attention will focus on what ECB President Draghi has to say about the potential for future policy moves. Flash CPI data, however, contains downside risks from November's 0.9%, which should maintain the pressure on the ECB ultimately to do more.

GBP's mixed outlook

The UK's Bank of England MPC meeting this week is also likely to pass off without any change in monetary policy, but this is less likely to be contentious given the recent improvement in UK economic data. More evidence of the UK recovery should be in evidence this week with trade and industrial production data expected to be strong. This should help to keep the GBP supported, particularly at the EUR's expense with the EUR/GBP cross having now exceeded our one-month forecast of 0.83. Against the USD, however, we would also not be surprised if the pound lost some ground as we doubt if the recent improvement in UK economic data will be enough for the Bank of England to start hiking interest rates anytime soon, despite market speculation that it might. More likely it will be a number of years before the Bank feels confident to start tightening monetary policy. As such GBP/USD should also begin to feel the effect of the withdrawal of QE by the Fed.

USD/JPY on course for more upside

The Asian economic calendar in the week ahead is likely to be light, with Japanese releases almost non-existent while in China trade data and CPI data will be the highlights. In South Korea, the Bank of Korea will meet, though is expected to maintain a steady monetary policy. The remainder of releases will largely consist of export and prices data from some of the smaller economies. Overall the recent pattern seems to be that China is seeing a policy-induced slowing in growth towards our 7.0% GDP forecast for 2014, whilst the rest of Asia is showing a modest recovery. As mentioned above the JPY continued to decline into the end of 2013, surpassing our one-month forecast at one stage. As we mentioned a month ago USD/JPY was always likely to show the biggest reaction to the Fed's decision to taper QE. This gives us confidence that our three-month 107 forecast will be met, and that ultimately USD/JPY will reach as high as 110 in 2014, and possibly even exceed it.

AUD steadies but downside risks remain

Finally, the AUD steadied a little in recent days as after pronounced weakness towards the end of 2013 took it as low as 0.8820 in December, down from a high of 1.06 seen in January last year. Still we think the AUD remains on course to reach our 0.85 forecast in 2014, and perhaps undershoot it, especially with the RBA likely to remain concerned with its relative strength from a historical perspective. Retail sales data for November will be closely watched in the coming week, although the RBA is not due to meet again to set policy until February, allowing it a month to absorb the economic data and news over the holiday period.

| FX Forecasts - Major | | | | | | Forwards | | |
|----------------------|------------|-------|-------|-------|-------|----------|----------|----------|
| | Spot 03.01 | 1M | 3M | 6M | 12M | 3M | 6M | 12M |
| EUR/USD | 1.3589 | 1.34 | 1.31 | 1.27 | 1.20 | 1.3589 | 1.3590 | 1.3599 |
| USD/JPY | 104.8600 | 106.0 | 107.0 | 108.0 | 110.0 | 104.8146 | 104.7540 | 104.5550 |
| USD/CHF | 0.9052 | 0.93 | 0.95 | 0.98 | 1.04 | 0.9045 | 0.9038 | 0.9017 |
| GBP/USD | 1.6418 | 1.61 | 1.57 | 1.56 | 1.55 | 1.6407 | 1.6395 | 1.6364 |
| AUD/USD | 0.8945 | 0.88 | 0.87 | 0.86 | 0.85 | 0.8892 | 0.8838 | 0.8730 |
| USD/CAD | 1.0635 | 1.05 | 1.06 | 1.07 | 1.10 | 1.0659 | 1.0683 | 1.0729 |
| EUR/GBP | 0.8276 | 0.83 | 0.82 | 0.81 | 0.78 | 0.8281 | 0.8288 | 0.8309 |
| EUR/JPY | 142.4800 | 142 | 140 | 137 | 132.0 | 142.4794 | 142.4787 | 142.4769 |
| EUR/CHF | 1.2301 | 1.23 | 1.24 | 1.25 | 1.26 | 1.2292 | 1.2282 | 1.2261 |
| EUR/NOK | 8.3664 | 8.20 | 8.00 | 7.75 | 7.50 | 8.3947 | 8.4225 | 8.4801 |
| EUR/SEK | 8.8673 | 8.80 | 8.70 | 8.60 | 8.50 | 8.8809 | 8.8949 | 8.9287 |
| NZD/USD | 0.8273 | 0.82 | 0.83 | 0.83 | 0.82 | 0.8218 | 0.8154 | 0.8009 |

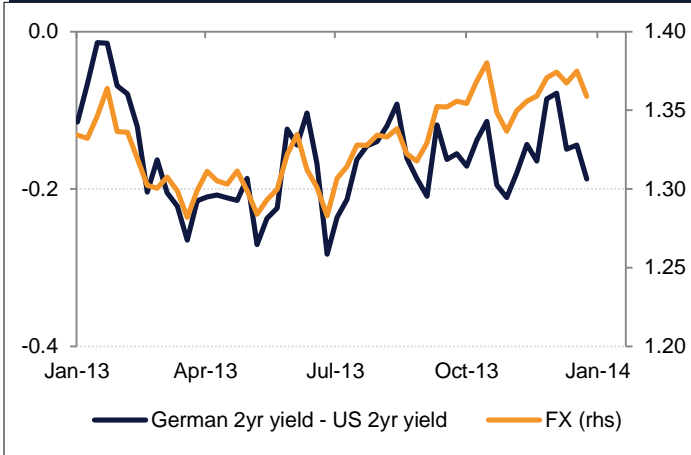
| FX Forecasts - Emerging | | | | | | Forwards | | |
|-------------------------|------------|-------|-------|-------|-------|----------|---------|---------|
| | Spot 03.01 | 1M | 3M | 6M | 12M | 3M | 6M | 12M |
| USD/SAR* | 3.7506 | 3.75 | 3.75 | 3.75 | 3.75 | 3.7508 | 3.7513 | 3.7522 |
| USD/AED* | 3.6729 | 3.67 | 3.67 | 3.67 | 3.67 | 3.6725 | 3.6723 | 3.6717 |
| USD/KWD | 0.2825 | 0.282 | 0.285 | 0.282 | 0.28 | 0.2910 | 0.2944 | 0.3065 |
| USD/OMR* | 0.3850 | 0.38 | 0.38 | 0.38 | 0.38 | 0.3844 | 0.3838 | 0.3823 |
| USD/BHD* | 0.3770 | 0.376 | 0.376 | 0.376 | 0.376 | 0.3783 | 0.3794 | 0.3828 |
| USD/QAR* | 3.6415 | 3.64 | 3.64 | 3.64 | 3.64 | 3.6441 | 3.6479 | 3.6547 |
| USD/EGP | 6.9543 | 6.89 | 6.89 | 6.89 | 6.89 | 7.2866 | 7.5966 | 8.1961 |
| USD/INR | 62.1550 | 62.00 | 61.00 | 59.00 | 57.00 | 62.1685 | 62.1819 | 62.2066 |
| USD/CNY | 6.0517 | 6.10 | 6.15 | 6.20 | 6.20 | - | - | - |

Source: Bloomberg, Emirates NBD Research

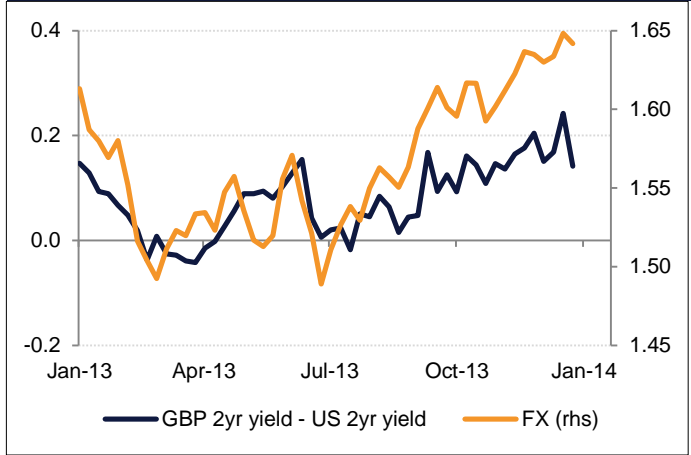
*Denotes USD peg

Major Currency Pairs and Interest Rates

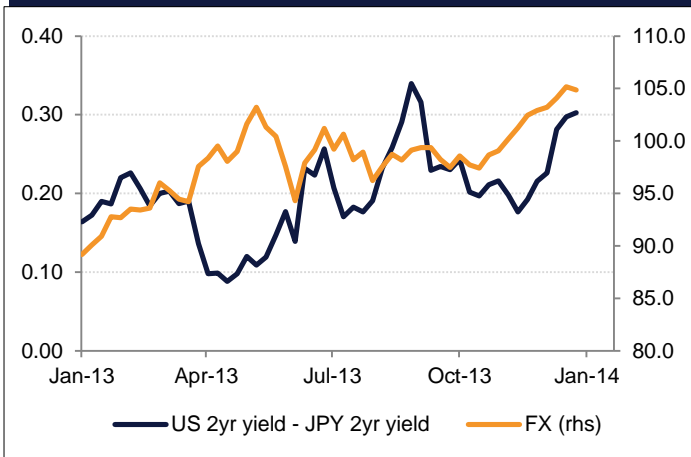
Interest Rate Differentials - EUR



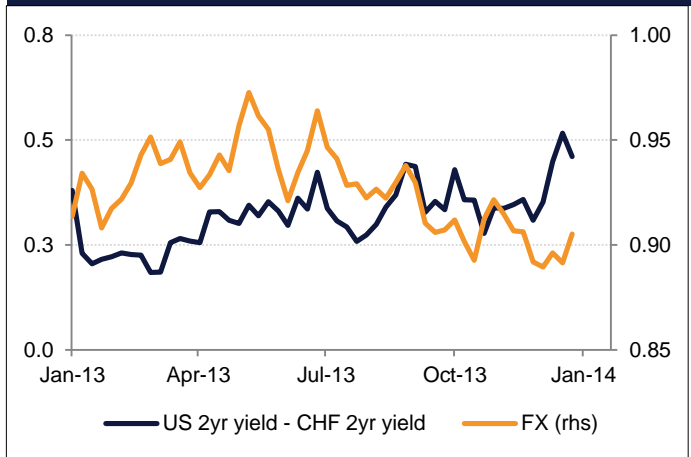
Interest Rate Differentials - GBP



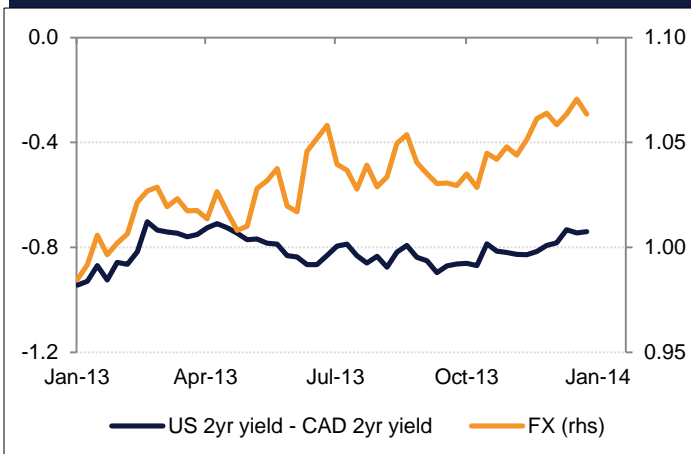
Interest Rate Differentials - JPY



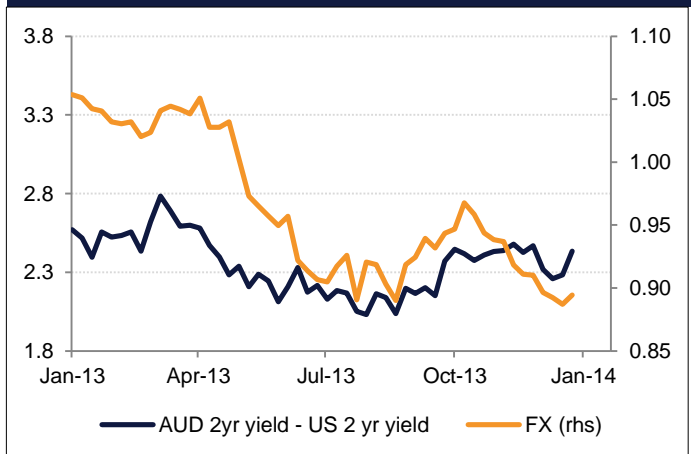
Interest Rate Differentials - CHF



Interest Rate Differentials - CAD

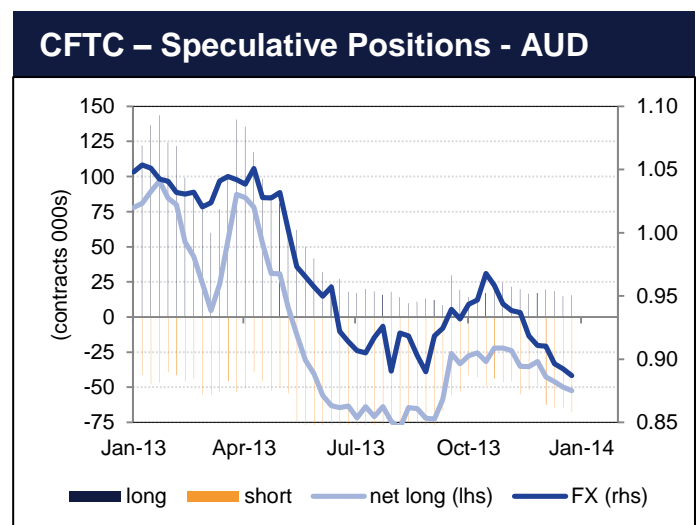
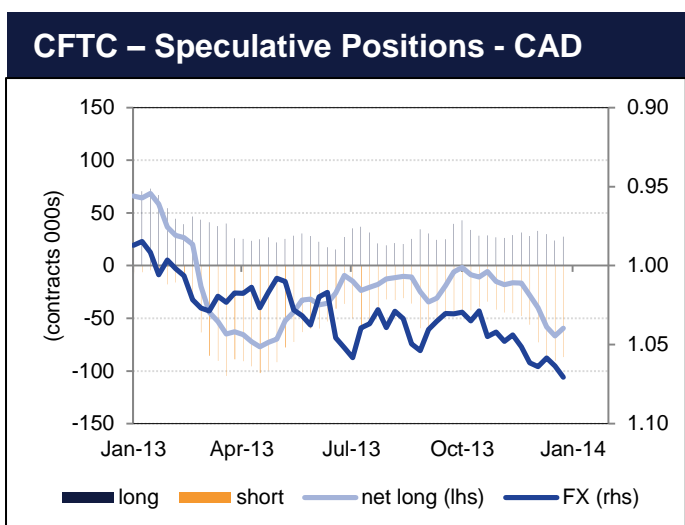
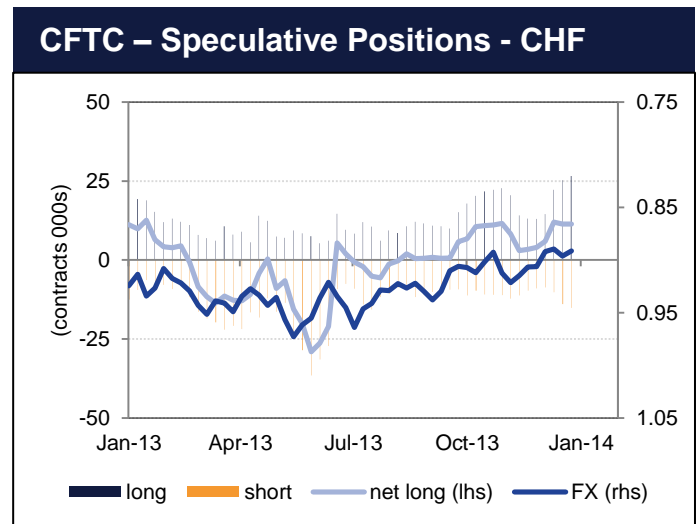
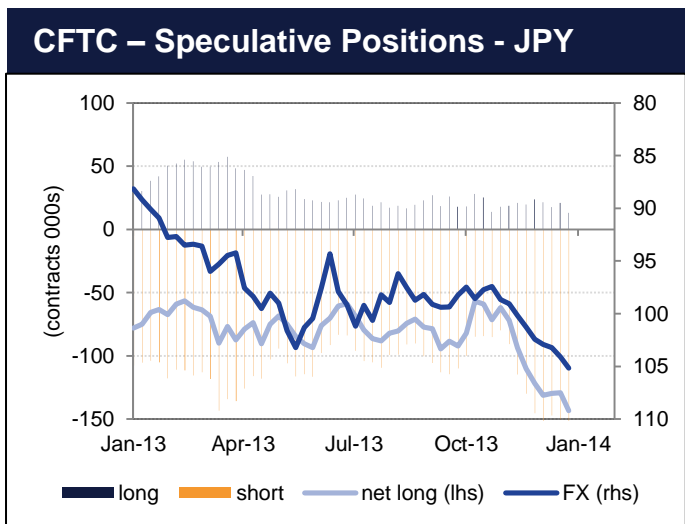
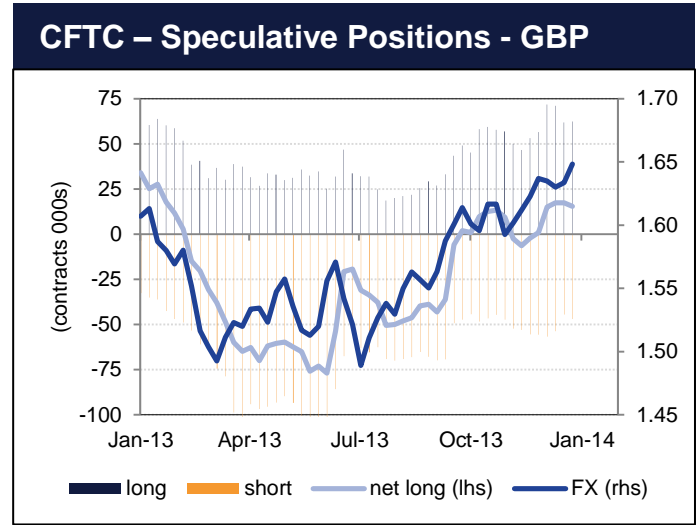
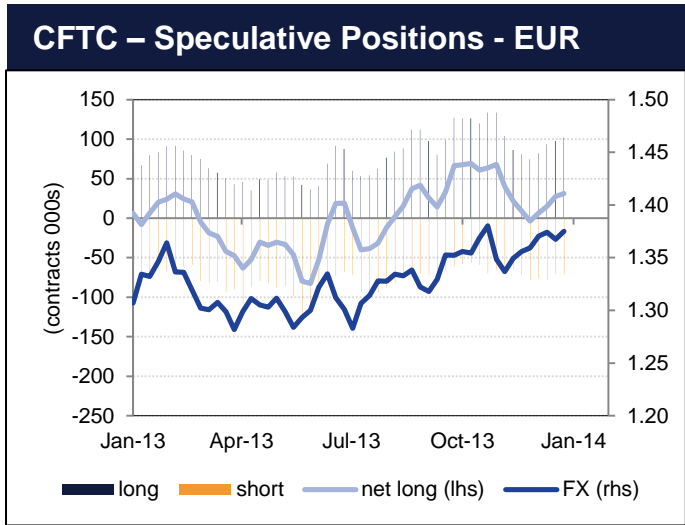


Interest Rate Differentials - AUD



Source: Bloomberg, Emirates NBD Research

Major Currency Positions



Source: Bloomberg, Emirates NBD Research

Economic Calendar

| Date | Country | Event |
|----------|-------------|-----------------------------------|
| 6-Jan | Germany | CPI |
| | Italy | PMI Services |
| | France | PMI Services |
| | Germany | PMI Services |
| | Eurozone | PMI Composite |
| | UK | PMI Services |
| | US | ISM Non-Mfg Composite |
| | US | Factory Orders |
| | 7-Jan | Germany |
| Germany | | Unemployment Rate |
| Eurozone | | CPI |
| 8-Jan | US | Trade Balance |
| | Germany | Trade Balance |
| | Italy | Unemployment Rate |
| | Eurozone | Retail Sales |
| | Eurozone | Unemployment Rate |
| | Brazil | Industrial Production |
| | US | MBA Mortgage Applications |
| | US | ADP Unemployment Change |
| | US | Fed Minutes |
| 9-Jan | Australia | Retail Sales |
| | France | Trade Balance |
| | UK | Trade Balance |
| | Germany | Industrial Production |
| | UK | BoE rate decision |
| | Eurozone | ECB rate decision |
| | Canada | Housing Starts |
| | US | Initial Jobless Claims |
| | Russia | CPI |
| | Egypt | CPI |
| 10-Jan | Switzerland | Unemployment Rate |
| | France | Bank of France Business Sentiment |
| | France | Industrial Production |
| | Switzerland | CPI |
| | UK | Industrial Production |

| | | |
|--------|--------|-----------------------------|
| 10-Jan | Canada | Unemployment Rate |
| | US | Change in non-farm payrolls |

Source: Bloomberg

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