



بنك الإمارات دبي الوطني
Emirates NBD

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FX Week

Political risk keeps safe havens favoured

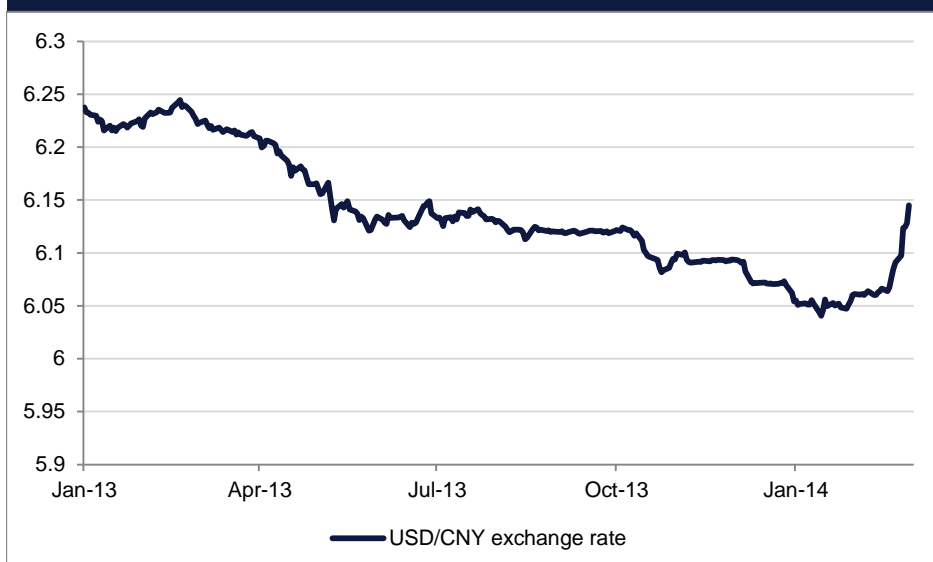
The new week will begin against the backdrop of heightened political risk in eastern Europe, with tensions between Ukraine and Russia running very high. Clearly the risk of war between Ukraine and Russia is not insignificant, with both countries mobilizing troops over the weekend, which is likely to keep safe haven currencies such as the JPY and the CHF supported in the first instance. The USD would ordinarily be a beneficiary of such tensions as well, although with relations between Russia and the US also being tested over the crisis, the USD may not be the preferred choice on this occasion, at least not initially.

Strong EUR poses questions for the ECB

A greater surprise, perhaps, is that the EUR is so strong, considering the risks of the crisis in Ukraine spilling over its borders to affect other European countries. The EUR rallied on Friday following stronger than expected Eurozone inflation data, with headline inflation holding steady in February in the single currency area, at 0.8% y/y. This suggests that the ECB may be less inclined to ease monetary policy when it meets later in this week, although we suspect that the decision will be a very close call. Even though some activity indicators have improved recently, an updated set of ECB staff projections are likely to bring downward revisions to the growth forecast that will keep pressure on the ECB to do more to counter the deflation threat, especially with the new forecast for 2016 expected to show headline inflation still below the 2.0% target.

There is increasing talk that the ECB might end the sterilization of its SMP purchases, and discussion of full QE later this year is also becoming more widespread. There is also the possibility that the ECB could highlight risks to price stability coming from the strong EUR, with the trade weighted EUR close to its cycle highs seen in December, and notably above the levels at which the ECB last flagged currency concerns a year ago. Accordingly, we would not be hugely surprised if the ECB repeated such concerns about the impact of the EUR on inflation, nor would we be much surprised if it decides to cut interest rates a little (from 0.25% currently), although it will probably stop short of setting negative interest rates for the time being. This would make it hard for the EUR to sustain its latest rise above USD1.38, especially in the context of the likely intensification of the Ukraine crisis this week as well

USD/CNY rises sharply in February



Source: Bloomberg, Emirates NBD Research

USD continues to be handicapped by bad weather

The USD is also struggling, however, in the context of the Ukraine crisis, and is also being handicapped by the ongoing weakness of US economic data. As the coming week is unlikely to see much relief from these factors it may be difficult for the USD to rally much either. The most important data release will be the US February employment report on Friday, with the usual flow of regular ISM activity indices and other employment readings coming before then. The consensus expectation is for another relatively soft non-farm payrolls report, as more bad weather impacted the sample period for the payrolls survey. In fact most of the economic reports this week are expected to be affected one way or another by the poor weather, suggesting that the market would be relatively more surprised if the figure comes in above expectations.

New month may see end of supportive GBP flows

GBP was boosted last week in part by corporate flows as well as by ongoing conjecture that the strength of the UK economy will merit a tightening of monetary policy at some point, possibly as early as H115. With month-end factors also probably buoying the pound, there is a risk that the GBP could see some of its gains unwound in the coming week once these special factors come to an end. The economic data, however, is expected to remain broadly supportive with PMI activity indicators expected to hold firm, and bank lending and mortgage data also expected to reflect gradually improving conditions.

JPY underpinned by safety bias

USD/JPY is probably being restrained by short-term safe-haven flows which are boosting the JPY, although other weekly portfolio flows data reported last week did show that Japanese investors did buy foreign bonds at least recently for the second consecutive week. Increasingly in the coming weeks, however, the focus will likely be on the Japanese year-end risk of capital repatriation which will have the potential to boost the JPY further. Last week's economic data showed a welcome improvement in the Japanese economy in January at least, with retail sales rising by 1.4% and industrial production up 4.0%. Unfortunately, however, the most important indicator for policy-makers, inflation, slipped back to 1.4% in January from 1.6% in December raising the probability that the BOJ will have to step in at some point this year to expand its asset purchase program, in a bid to return downward pressure onto the JPY. For the time being, however, USD/JPY is likely to remain subdued.

CNY in the spotlight

USD/CNY is under significant scrutiny given its sharp rise in recent days, prompting the suspicion that the PBOC is intervening to dampen the CNY. After starting the week at 6.09 the USD/CNY stabilized in the middle of the week at 6.12 before rising again on Friday to reach as high as 6.1760 at one point before ending the week at 6.14, up from 6.06 at the start of February. The two alternative theories behind the move are that it represents a policy move to help support growth, or that it is an attempt to curb speculative inflows before the PBOC introduces FX reforms. The Chinese National People's Congress (China's parliament) will begin on Wednesday and may provide more clues as to the PBOC's intentions, as well as providing greater guidance about the government's overall priorities this year. Data released over the weekend showing the national PMI index slipping to 50.2 in February ties in with other evidence of a deteriorating growth outlook, which would seem to support the possibility that the CNY weakness is an attempt to provide an exchange rate counterweight to other tightening measures aimed at reducing credit in the financial system.

Central banks on hold

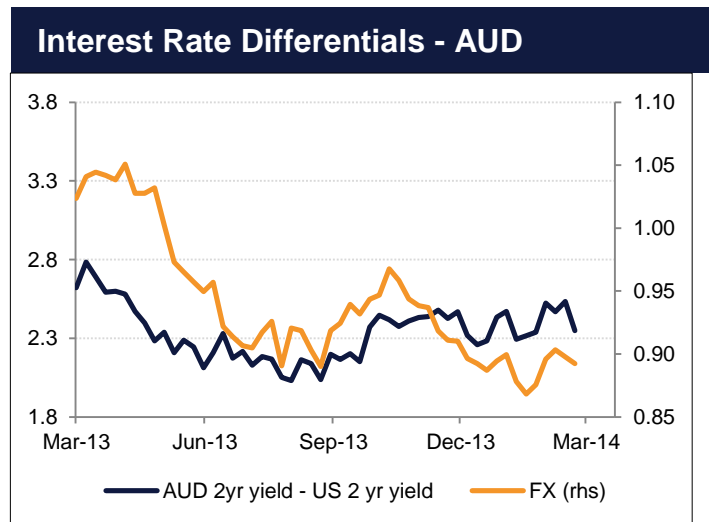
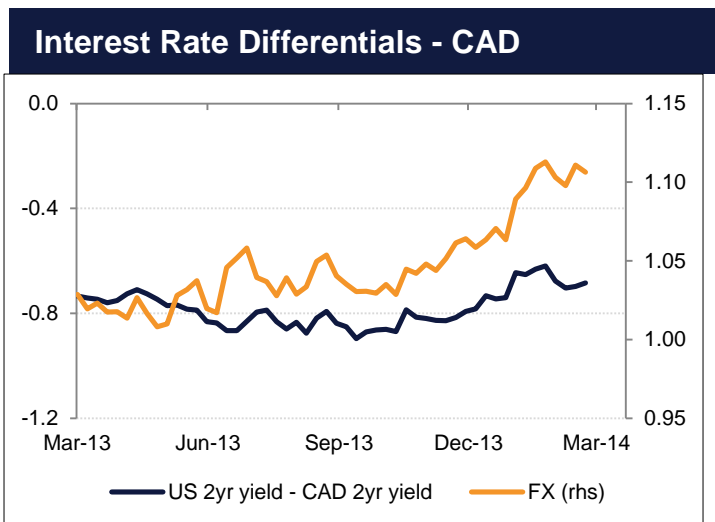
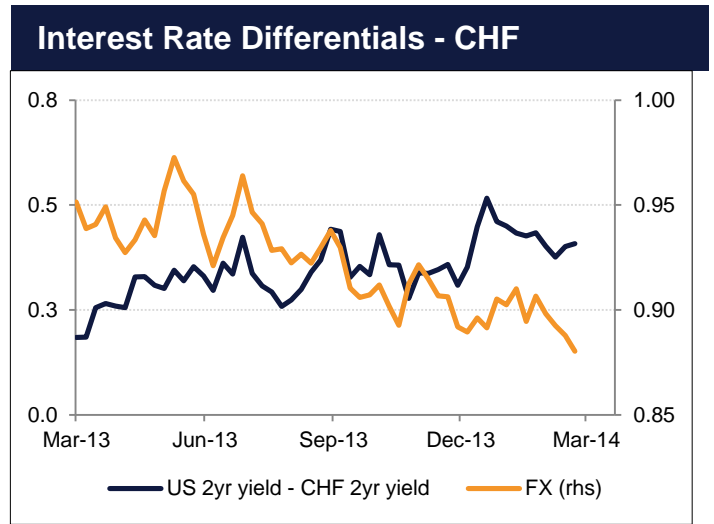
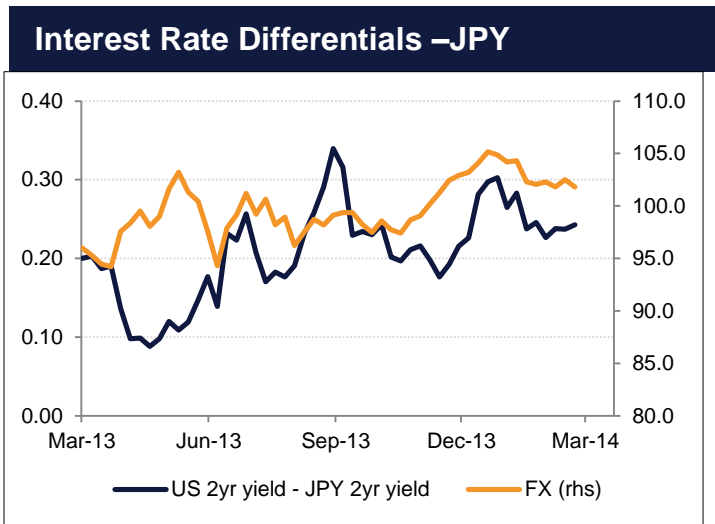
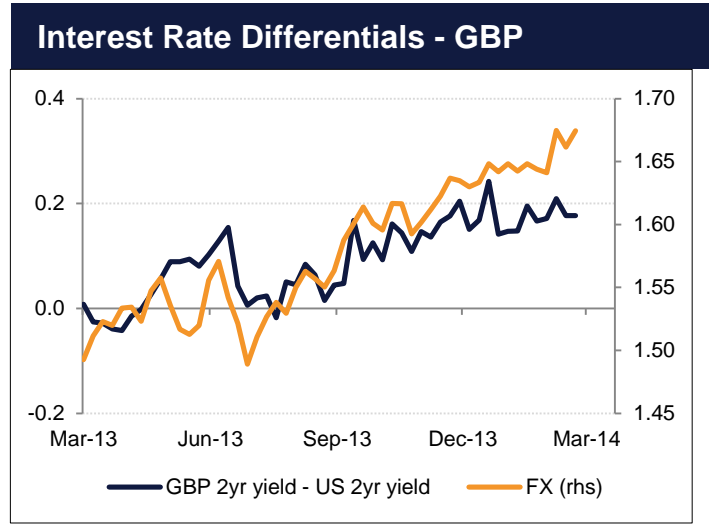
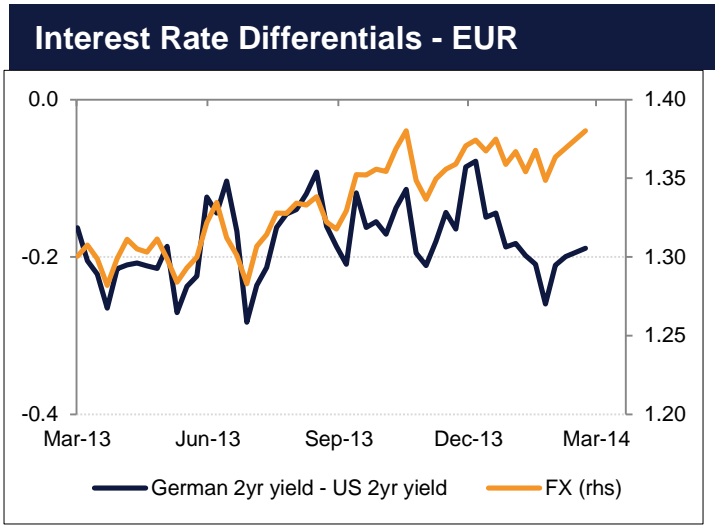
Finally central bank meetings will take centre-stage for the AUD and the CAD this week. In both countries there is unlikely to be any change in policy rates, currently at 2.5% (Australia) and 1.0% (Canada), with recent data showing an improvement in activity and in inflation in Australia, and with Q4 GDP in Canada at 2.9% also surpassing expectations. However, the risks remains of a more dovish tone from the Bank of Canada, while the Reserve Bank of Australia will probably stick to its recent more neutral position. Labour market data will also be seen in Canada, which is expected to show a small improvement in jobs growth but with the unemployment rate unchanged at 7.0%.

FX Forecasts - Major						Forwards		
	Spot 28.02	1M	3M	6M	12M	3M	6M	12M
EUR/USD	1.3802	1.35	1.32	1.28	1.25	1.3802	1.3803	1.3808
USD/JPY	101.8000	104.0	106.0	109.0	112.0	101.7512	101.6945	101.5195
USD/CHF	0.8803	0.91	0.94	0.98	1.04	0.8796	0.8789	0.8769
GBP/USD	1.6745	1.64	1.62	1.60	1.62	1.6734	1.6721	1.6689
AUD/USD	0.8924	0.88	0.87	0.85	0.80	0.8869	0.8815	0.8709
USD/CAD	1.1064	1.10	1.11	1.13	1.15	1.1088	1.1112	1.1159
EUR/GBP	0.8243	0.82	0.81	0.80	0.77	0.8249	0.8256	0.8274
EUR/JPY	140.4900	140	140	139	140	140.4893	140.4886	140.4867
EUR/CHF	1.2149	1.23	1.24	1.25	1.26	1.2139	1.2130	1.2107
EUR/NOK	8.2863	8.30	8.20	8.0	7.75	8.3149	8.3436	8.4019
EUR/SEK	8.8460	8.80	8.70	8.60	8.50	8.8591	8.8719	8.8993
NZD/USD	0.8389	0.82	0.83	0.83	0.82	0.8330	0.8262	0.8117

FX Forecasts - Emerging						Forwards		
	Spot 28.02	1M	3M	6M	12M	3M	6M	12M
USD/SAR*	3.7504	3.75	3.75	3.75	3.75	3.7505	3.7512	3.7526
USD/AED*	3.6730	3.67	3.67	3.67	3.67	3.6724	3.6724	3.6714
USD/KWD	0.2816	0.282	0.285	0.282	0.28	0.2961	0.3021	0.3246
USD/OMR*	0.3850	0.38	0.38	0.38	0.38	0.3835	0.3828	0.3803
USD/BHD*	0.3770	0.376	0.376	0.376	0.376	0.3788	0.3803	0.3835
USD/QAR*	3.6416	3.64	3.64	3.64	3.64	3.6427	3.6444	3.6472
USD/EGP	6.9604	6.89	6.89	6.89	6.89	7.1354	7.3805	7.8856
USD/INR	61.7575	62.00	61.00	59.00	57.00	61.7697	61.7823	61.8066
USD/CNY	6.1451	6.10	6.15	6.20	6.20	-	-	-

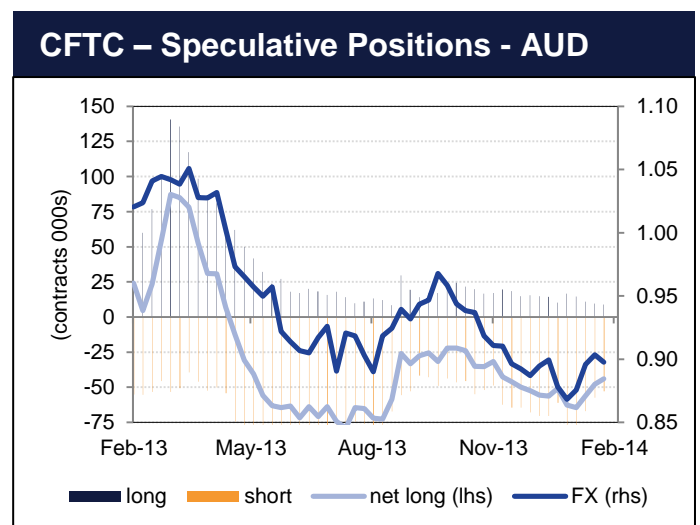
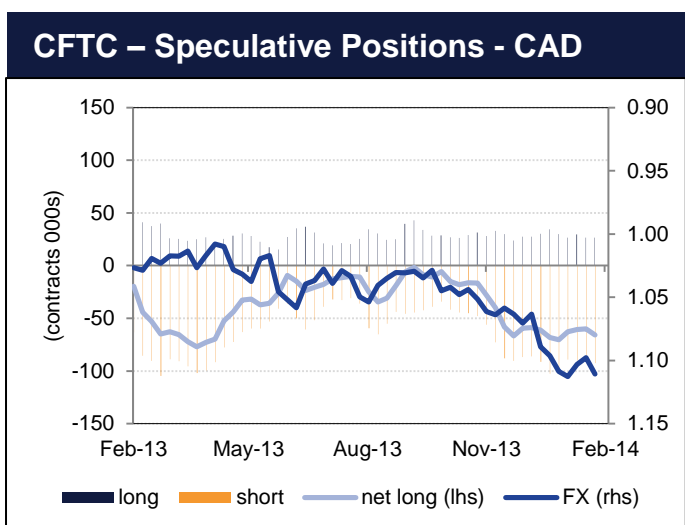
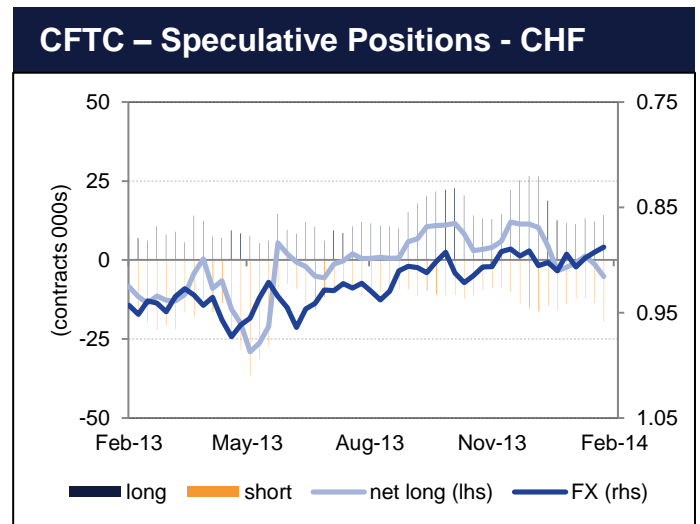
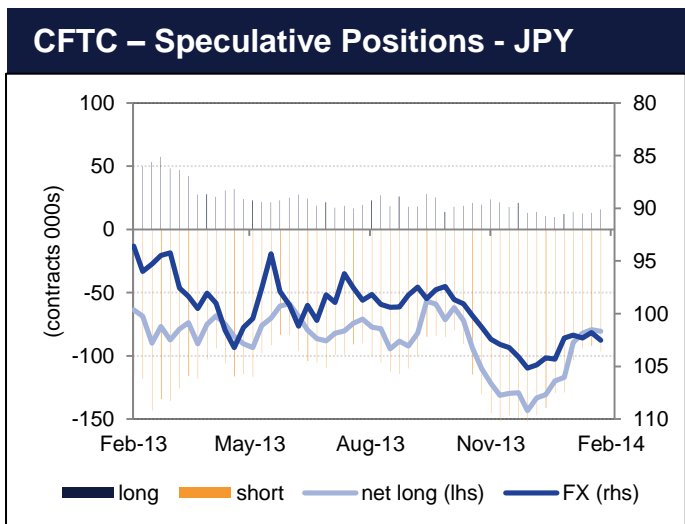
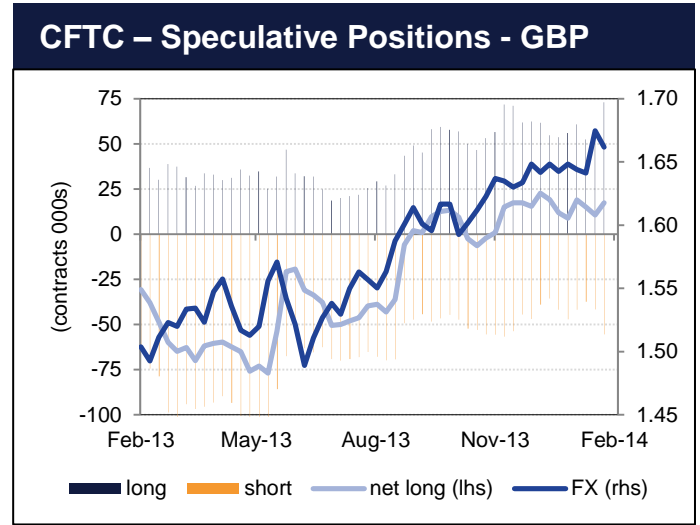
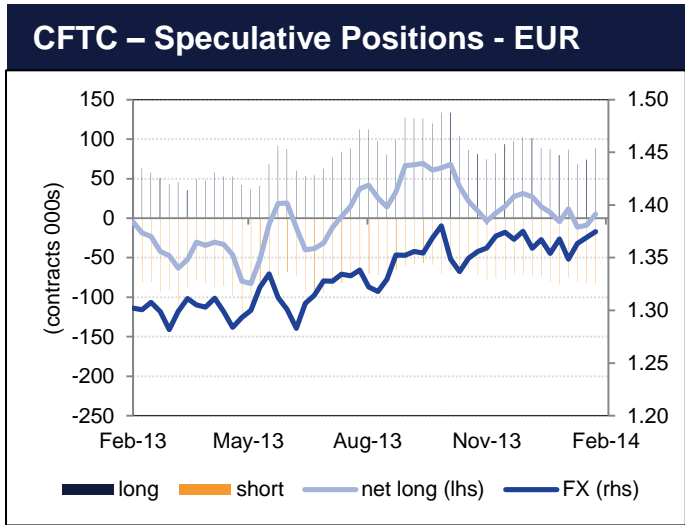
Source: Bloomberg, Emirates NBD Research
 *Denotes USD peg

Major Currency Pairs and Interest Rates



Source: Bloomberg, Emirates NBD Research

Major Currency Positions



Source: Bloomberg, Emirates NBD Research

Economic Calendar

Date	Country	Event	
3-March	China	Non-manufacturing PMI	
	Russia	Manufacturing PMI	
	Switzerland	PMI Manufacturing	
	Italy	PMI Manufacturing	
	France	PMI Manufacturing	
	Germany	PMI Manufacturing	
	Eurozone	PMI Manufacturing	
	UK	PMI Manufacturing	
	US	Personal Income / Personal Spending	
	US	PCE Core	
	US	ISM Manufacturing	
	4-March	Australia	RBA Cash Rate Target
		Russia	CPI
5-March	Australia	GDP	
	Italy	PMI Services	
	France	PMI Services	
	Germany	PMI Services	
	Eurozone	PMI Services	
	UK	PMI Services	
	Eurozone	Retail Sales	
	Eurozone	GDP	
	US	MBA Mortgage Applications	
	US	ADP Employment Change	
	Canada	Bank of Canada Rate Decision	
	US	ISM Non-Mfg Composite	
	6-March	Australia	Trade Balance
Australia		Retail Sales	
France		ILO Unemployment Rate	
Germany		Factory Orders	
UK		Bank of England Rate	
Eurozone		ECB Rate Decision	
US		Initial Jobless Claims	
US		Factory Orders	
7-March	Switzerland	Unemployment Rate	
	France	Trade Balance	

7-March	Switzerland	CPI
	Germany	Industrial Production
	Canada	Unemployment Rate
	US	Trade Balance
	US	Change in non-farm Payrolls
8-March	China	Trade Balance

Source: Bloomberg

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