



بنك الإمارات دبي الوطني  
Emirates NBD

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

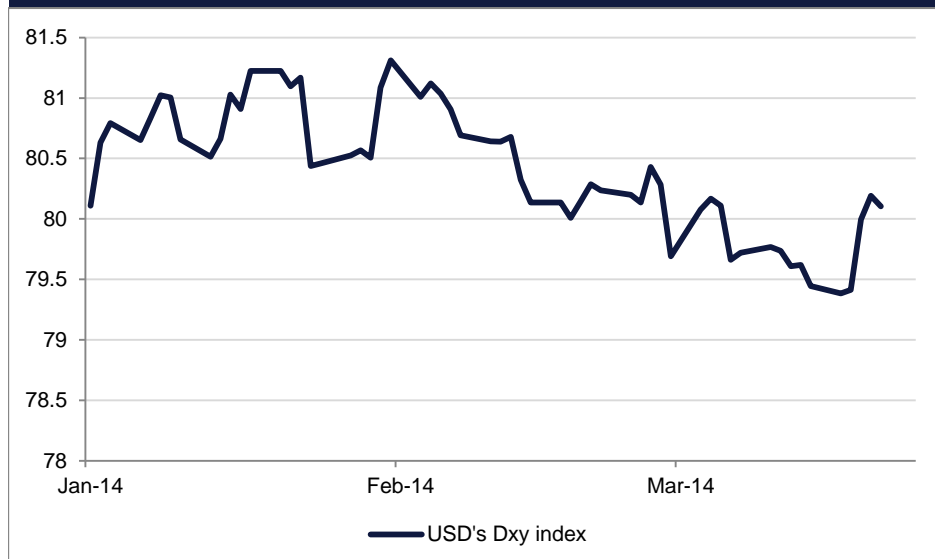
# FX Week

## Macro fundamentals reassert

After a few weeks spent focused on geopolitical issues and emerging markets, G4 macroeconomic fundamentals reasserted themselves in the currency markets last week with the USD getting a lift from the Fed's latest FOMC meeting. As well as reducing QE by a further USD10bn per month, taking monthly asset purchases to USD55bn, the main takeaway from the latest FOMC meeting was that interest rates could rise faster than previously expected. Markets appear to have taken their cue from the updated forecasts contained within the Summary of Economic Projections. Indeed, the median forecast among officials now sees the Fed funds rate at 1.0% at the end of 2015, compared to 0.75% previously, while projections for end-2016 increased to 2.25%, from 1.75%. Forecasts for unemployment were also revised down slightly, while the inflation profile was revised up, and growth was seen slightly firmer.

In addition, the Fed also updated its forward guidance, and as widely expected, removed the 6.5% unemployment rate threshold. In its place, the Fed is opting for a more qualitative approach, with the accompanying statement outlining that in assessing the future path of interest rates, the FOMC will be 'taking into account a wide range of information, including measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial developments'. In what was likely an effort to reiterate its commitment to keeping interest rates low for an extended period, the statement also read that it could be appropriate to 'maintain the current target range for the fed funds rate for a considerable time after the asset purchase program ends'. However, when pressed at the press conference about how long that 'considerable time' could be Chairwoman Yellen answered 'something of the order of six months'. On current assumptions about the time it will take QE to be unwound, the Fed could begin to raise interest rates in Q215, earlier than had been previously assumed. Furthermore, if economic data in the US begins to accelerate faster than expected in coming months (which is possible following the weather related winter slowdown), the markets could begin to price in a faster pace of QE tapering and an even earlier beginning to the tightening cycle.

## Dollar jumps on back of the FOMC meeting



Source: Bloomberg, Emirates NBD Research

## **US data to assume more significance**

US economic data will therefore assume much greater significance for the USD in coming weeks than it has done over the last few months when it was distorted by weather related factors. The USD's DXY index rallied by 0.5% since the middle of last week when the FOMC meeting took place, as Treasury bond yields firmed, especially at the short-end of the curve. With the start of the tightening cycle seemingly coming closer, it will be yields at the front of the curve that will be increasingly relevant for the USD's direction, making the 2-year US-EU yield differential more important again, after it appeared to lose significance in recent months (see page 5).

The coming week will be relatively quiet in terms of frontline US economic data, with only durable goods orders, new home sales and consumer confidence of any significance. However, in the markets' mind the US employment report for March is already coming into view, due out in just less than a fortnight's time. With expectations of a strong rise in non-farm payrolls likely to grow, the USD is likely to rally further over the coming week, with our 1-month targets of EUR/USD 1.36 and JPY104 likely to come into view, and with our 3-month GBP/USD forecast at 1.65 having already been met.

## **Eurozone surveys may be impacted by Crimea crisis**

The EUR side of the equation should not be overlooked either. Eurozone PMI activity indicators for March will be released in the coming week, and while these are expected to remain steady in expansion territory, other readings of business confidence due out this week, notably the German IFO survey as well as the Economic sentiment index, could weaken in the aftermath of recent events in Crimea. Furthermore these concerns will continue to linger in the wake of the latest round of sanctions imposed on Russia by the West, which could trigger retaliation by the Putin government dampening business confidence and Eurozone investor expectations.

## **Global inflation readings to be watched closely**

With the Fed already plotting its way towards normalizing monetary policy, the data that will matter the most to its competitors will be inflation, as this will help to determine how long it will be before the Fed's actions are followed elsewhere. In the Eurozone, Japan and the UK, inflation data due out in the coming fortnight should offer reassurance for the USD that there is little risk of monetary policy tightening in any of these countries before the Fed begins to move.

The Eurozone sees the March flash inflation data on March 31<sup>st</sup>, whereas Japan's February data is due out this week and the UK's too. The risk to all of these releases is that they surprise negatively. In the Eurozone's case, February CPI has already recently been revised down to 0.7%, and the possibility of March data being lower will certainly reinforce the ECB's explicit easing bias, as well as its recent concerns over a strong EUR.

In Japan, the likelihood is that a steady 1.3% inflation outturn will increase the pressure on the Bank of Japan to announce more QQE, possibly in April after the VAT hike has been introduced. BOJ governor Kuroda suggested last week that if the initial data indicate the VAT hike has hit the economy harder than anticipated the central bank will respond fast.

In the UK a weak inflation reading, below January's 1.9% will relax the pressure on the Bank of England to begin preparing the market and consumers for an early hike in interest rates. Most likely it will still be the Bank of England that will be the closest to follow the Fed in terms of monetary policy normalization, by raising interest rates in late H215. However, the window between the Fed moving and the BOE is likely to widen the more that subpar inflation in the UK persists. Accordingly GBP should still decline against the USD in coming months, but the extent of its fall will likely be more

modest than in the case of the EUR and the JPY, whose central banks will still be actively engaged in easing monetary policy further for months, if not years to come. Accordingly GBP still looks set to appreciate against both the EUR and the JPY over the forecast period.

### **Central bank messages also key**

Elsewhere, FX markets will continue to take their cue from the attitude of central banks with regard to the prospects for the AUD, NZD and CAD. A speech by the RBA Governor Stevens will be closely watched this week, while BOC Deputy Governor Lane will also be speaking about Canadian monetary policy. The BOC Governor Poloz has recently maintained a relatively dovish line by saying that a further cut in interest rates cannot be ruled out, given that inflation at 1.1% is currently running well below the 2.0% target. In contrast the RBA appears to favour a period of steady rates for the time being, albeit as it also warns about excessive strength in the AUD.

FX Forecasts - Major						Forwards		
	Spot 21.03	1M	3M	6M	12M	3M	6M	12M
EUR/USD	1.3794	1.36	1.34	1.30	1.28	1.3792	1.3791	1.3793
USD/JPY	102.2500	104.0	106.0	109.0	112.0	102.2012	102.1415	101.9600
USD/CHF	0.8829	0.90	0.93	0.96	0.98	0.8823	0.8815	0.8795
GBP/USD	1.6486	1.66	1.65	1.63	1.64	1.6475	1.6463	1.6433
AUD/USD	0.9081	0.88	0.87	0.85	0.80	0.9024	0.8968	0.8856
USD/CAD	1.1221	1.10	1.11	1.13	1.15	1.1245	1.1269	1.1316
EUR/GBP	0.8367	0.82	0.81	0.80	0.78	0.8372	0.8377	0.8394
EUR/JPY	141.0400	141	142	142	143	141.0391	141.0382	141.0359
EUR/CHF	1.2176	1.23	1.24	1.25	1.25	1.2165	1.2153	1.2128
EUR/NOK	8.3482	8.25	8.20	8.00	7.75	8.3762	8.4049	8.4614
EUR/SEK	8.8621	8.80	8.70	8.60	8.50	8.8741	8.8858	8.9118
NZD/USD	0.8536	0.83	0.83	0.83	0.82	0.8473	0.8403	0.8253

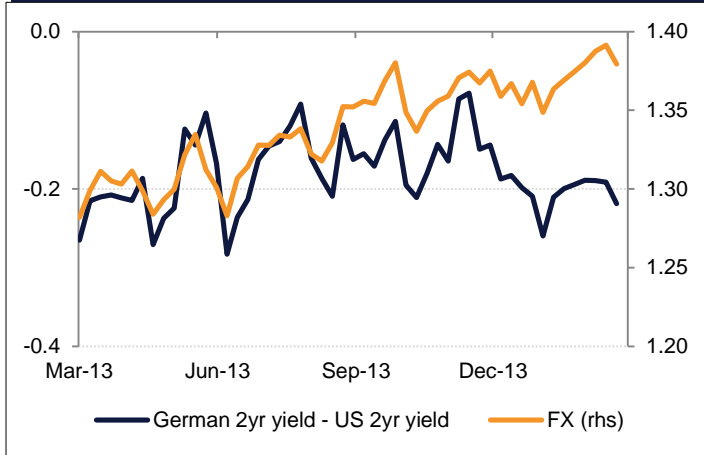
  

FX Forecasts - Emerging						Forwards		
	Spot 21.03	1M	3M	6M	12M	3M	6M	12M
USD/SAR*	3.7503	3.75	3.75	3.75	3.75	3.7503	3.7506	3.7511
USD/AED*	3.6730	3.67	3.67	3.67	3.67	3.6723	3.6721	3.6715
USD/KWD	0.2818	0.282	0.285	0.282	0.28	0.2922	0.3008	0.3206
USD/OMR*	0.3850	0.38	0.38	0.38	0.38	0.3838	0.3828	0.3807
USD/BHD*	0.3770	0.376	0.376	0.376	0.376	0.3790	0.3804	0.3838
USD/QAR*	3.6414	3.64	3.64	3.64	3.64	3.6433	3.6452	3.6485
USD/EGP	6.9600	6.89	6.89	6.89	6.89	7.0997	7.3197	7.7897
USD/INR	60.9250	62.00	59.00	58.00	57.00	60.9365	60.9487	60.9705
USD/CNY	6.2258	6.15	6.18	6.20	6.20	-	-	-

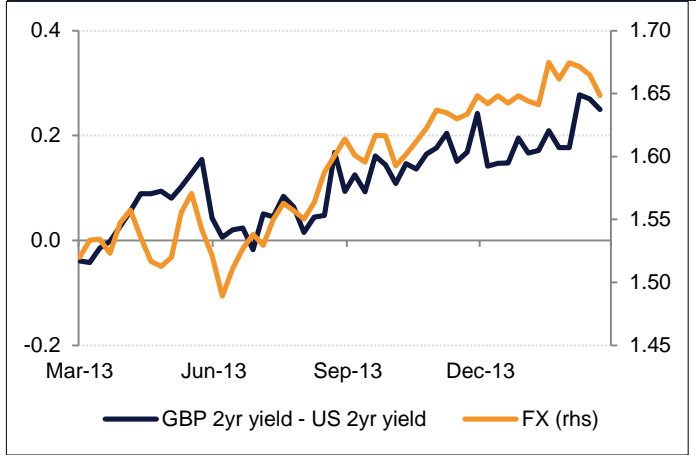
Source: Bloomberg, Emirates NBD Research  
 \*Denotes USD peg

## Major Currency Pairs and Interest Rates

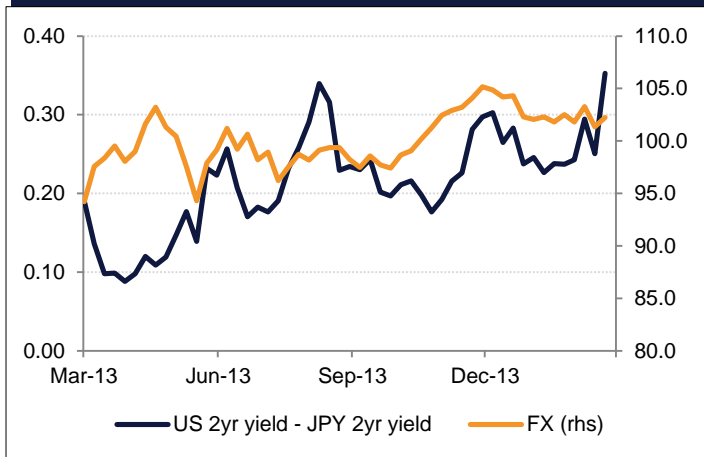
### Interest Rate Differentials - EUR



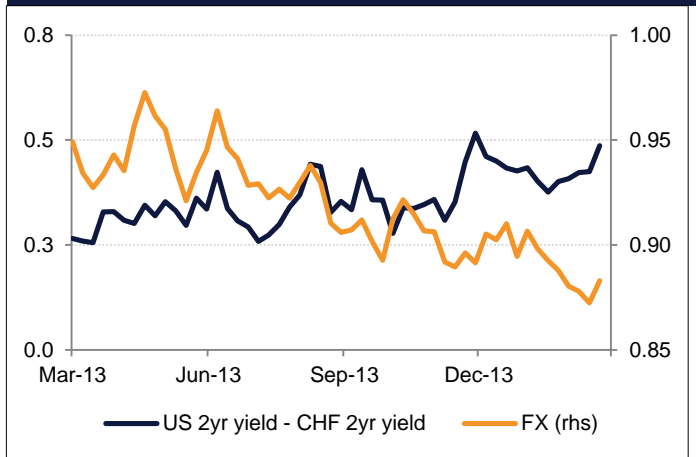
### Interest Rate Differentials - GBP



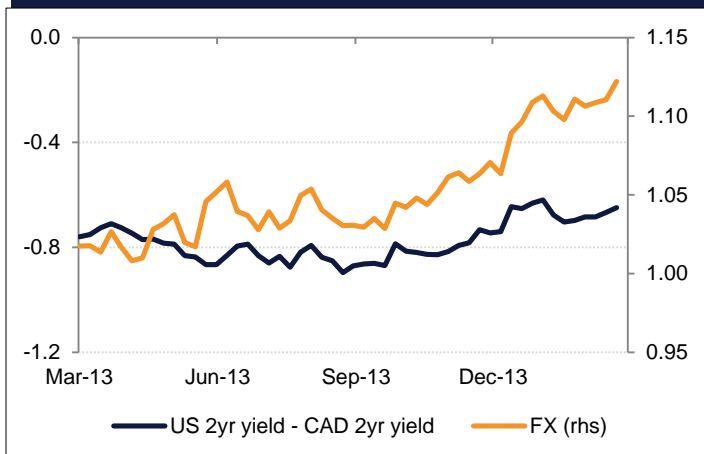
### Interest Rate Differentials - JPY



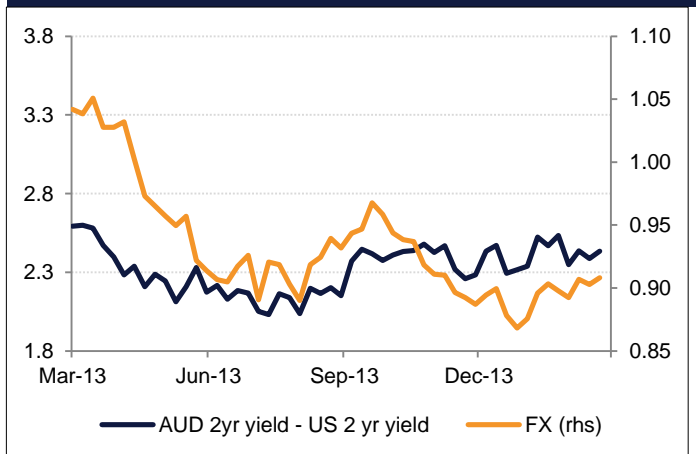
### Interest Rate Differentials - CHF



### Interest Rate Differentials - CAD

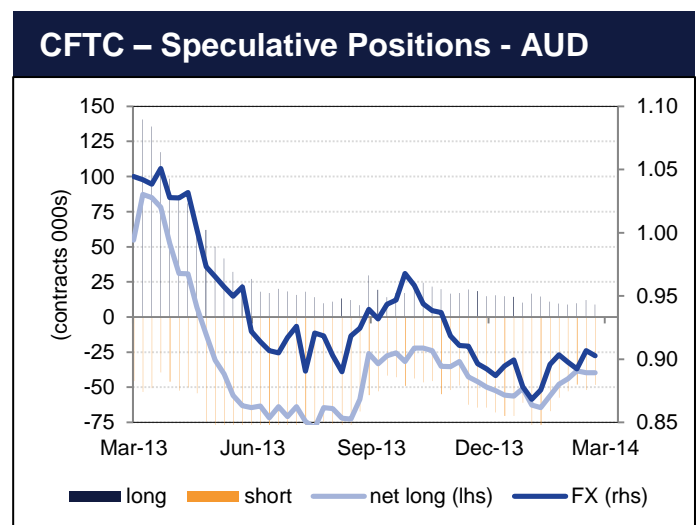
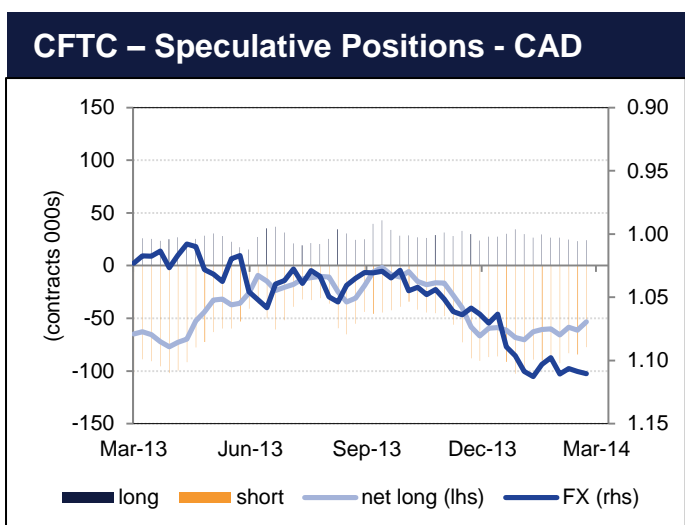
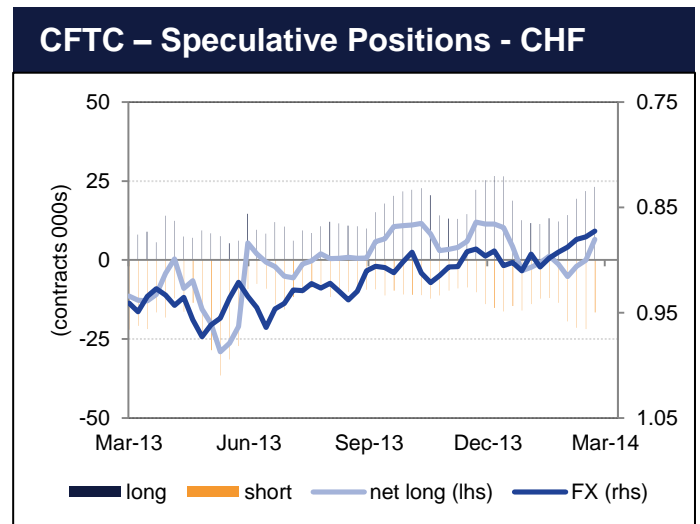
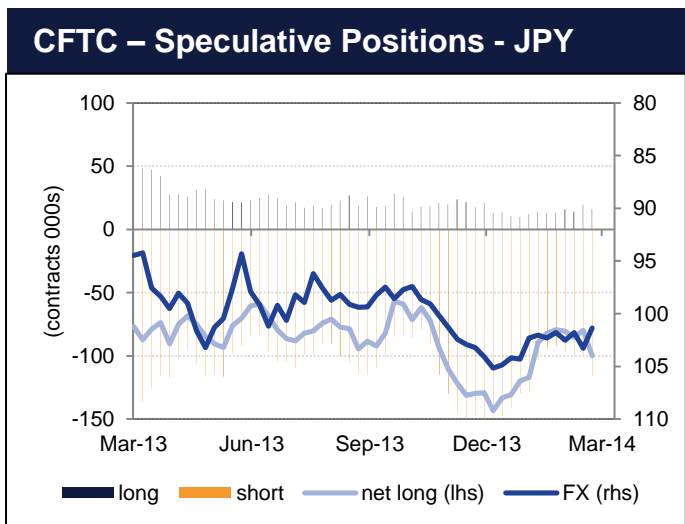
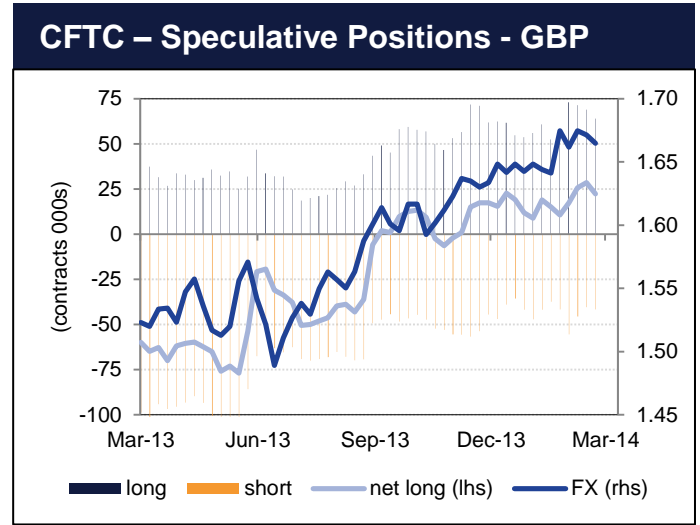
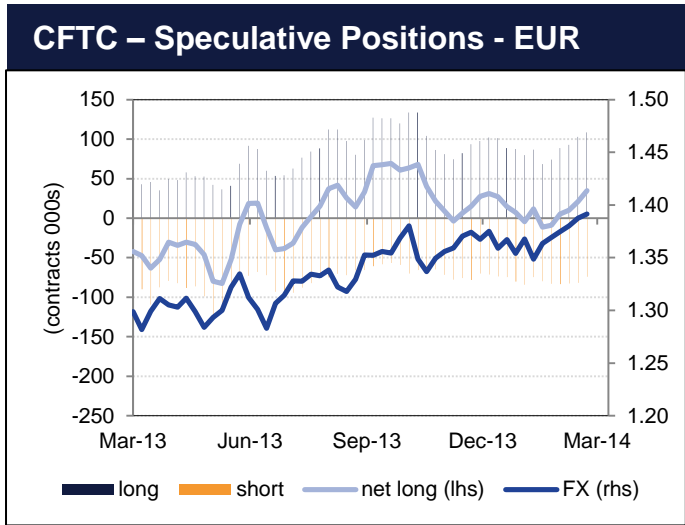


### Interest Rate Differentials - AUD



Source: Bloomberg, Emirates NBD Research

## Major Currency Positions



Source: Bloomberg, Emirates NBD Research

## Economic Calendar

Date	Country	Event
24-Mar	China	HSBC Manufacturing PMI
	UK	Nationwide House Price
25-Mar	France	Business Confidence
	Germany	IFO Business Climate
	UK	CPI
	UK	Retail Price Index
	UK	CBI Reported Sales
	US	S&P Case Shiller House Price Index
	US	Richmond Fed Mfg Index
	US	New Home Sales
26-Mar	Germany	GfK Consumer Confidence
	Italy	Retail Sales
	US	MBA Mortgage Applications
	Russia	CPI
	US	Durable Goods Order
27-Mar	Italy	Business Confidence
	UK	Retail Sales
	US	GDP
	US	Core PCE
	US	Initial Jobless Claims
28-Mar	Japan	Jobless Rate
	Japan	CPI
	Japan	Retail Sales
	UK	GfK Consumer Confidence
	Germany	CPI
	UK	GDP
	US	Personal Income / Spending
	US	PCE Deflator
	US	U of Michigan Confidence

Source: Bloomberg

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## 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

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### 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