



بنك الإمارات دبي الوطني
Emirates NBD

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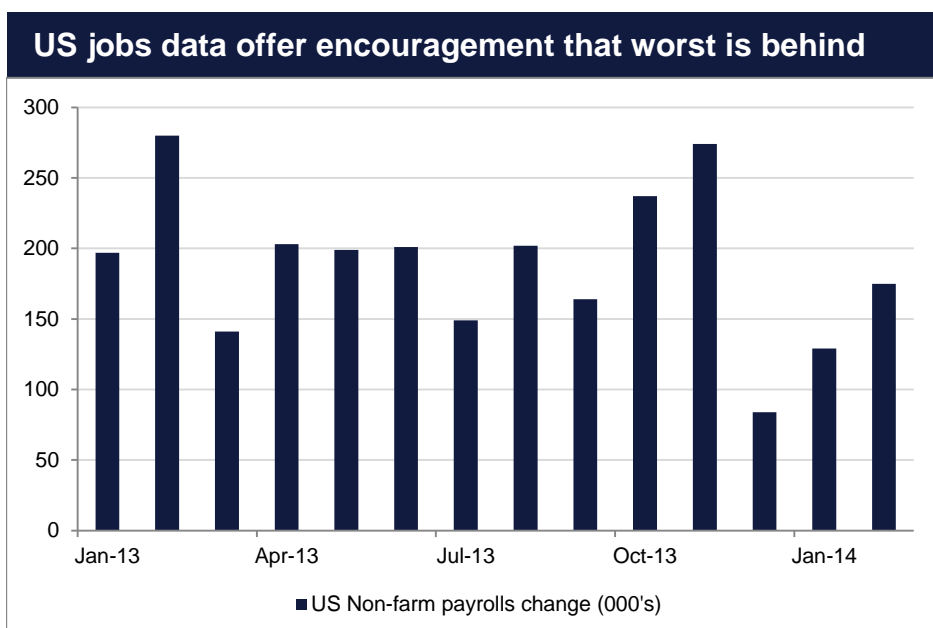
FX Week

Steps forward, steps back

Events of the last week have reinforced some of our key FX views while some of our others have been partially undermined or at least challenged. To begin with the positives, the recent data from the US has encouraged our view that the slowdown in the US economy will prove temporary, thus lending support to our forecasts looking for a medium-term USD recovery. Most prominently of course, the February US employment report was surprisingly solid, with 175k non-farm jobs created during the month despite the continuation of bad weather during that month. Although the unemployment rate ticked higher to 6.7% and the hours worked fell, this does not meaningfully take away from the strength in payrolls, which came after two months when they rose on average by only 115k. With other indicators also suggesting reviving momentum it should not be long before the 'weather effect' is behind us. That being the case, the Fed looks very likely to keep tapering in coming months, starting next week when another USD10bn reduction in QE is expected. Although tapering has so far had a limited effect in terms of providing the USD with strength, we expect its impact to increase as QE gets closer to being completely wound down, with the market then likely to begin considering the timetable for possible interest rate hikes.

ECB confounds expectations, again

The main challenge to our forecasts has come from the Eurozone and specifically the ECB. It is certainly not the first time that the ECB has confounded our hopes that it might ease monetary policy further, so we should not really be hugely surprised by the ECB's decision last week to leave policy unchanged. However, such was the message from the ECB President Draghi that it is hard to envisage the circumstances in which a policy stimulus will now be considered, at least for a number of months. The ECB emphasized the recovering momentum in the activity data around the turn of the year, raising its 2014 growth forecasts slightly to 1.2% from 1.1% previously. At the same time it downplayed the low levels of inflation, arguing that inflation expectations remain anchored. Indeed it still sees inflation gradually recovering over the coming years to 1.7% in Q4'16. Most significantly perhaps from the EUR's point of view, Draghi also appeared to downplay the impact of the strong EUR on inflation, indicating that the 8% rise in the EUR's trade weighted index since 2012 has lowered inflation by just 0.4%.



Source: Bloomberg, Emirates NBD Research

Not surprisingly, the EUR benefited from the news, as well as from the arguments used to justify the lack of ECB action. Given the way in which the March meeting had been presented as a possible occasion to expect a policy change, it appears doubtful if much will change in the immediate future at least to justify a volte face. Although we still doubt that the economy will pick-up enough speed in coming months to meaningfully erode the spare capacity in the Eurozone economy, it will probably also take a few more months at least for the ECB to come to this view, leaving easing prospects for the time being off the table. As such, the EUR is likely to remain elevated in the coming months in the 1.35-1.40 range, and dependent largely on favourable US developments if it is to start depreciating to any serious extent.

Risk aversion abates

With risk aversion related to the Ukraine crisis starting to stabilize it should not be surprising that both the JPY and the CHF have lost ground over the past week. While we would not rule out the re-escalation of that crisis, it seems unlikely if the West will step in with anything more than financial sanctions. That being the case then safety trades will probably continue to be unwound, although the Chaori Solar corporate default in China may test some nerves initially in the coming week. The JPY may also have been dampened by data showing that Japanese economic activity slowed sharply in February (service sector PMI and auto sales), raising speculation that the BOJ will be forced to expand its QQE monetary stimulus (Quantitative and Qualitative Easing) following its VAT increase in early April. At the moment, the consensus expectation appears to favour such a move occurring in Q2, especially following BOJ comments which suggested that monetary policy will be adjusted if the 2% inflation target appears to look out of reach. BOJ Governor Kuroda's comments regarding the revival of the JPY carry-trade are also significant, highlighting the banks preference for a steady depreciation of the Japanese currency.

SNB underlines importance of exchange rate peg

The Swiss authorities have also been challenged by safe-haven inflows into the CHF which are threatening to undermine the recovery in the Swiss economy, and reverse the recent increase in inflation. Indeed February's CPI report showed an unexpected drop in headline inflation back into negative territory, coming in at -0.1% y/y after a three consecutive months at 0.1%. With this backdrop the SNB will be remaining strongly committed to maintaining the EUR/CHF limit peg at 1.2000, which has been in place since September 2011 as a means to stem deflation risk. Indeed SNB President Thomas Jordan said that he would not rule out fresh measures to counter deflation, again referring to the possibility of negative interest rates and emphasizing the role the exchange rate peg currently plays as the cornerstone of Swiss policy.

GBP underpinned by UK data

Sterling, by contrast, has remained relatively steady in recent days, losing ground to the EUR following the ECB decision but firmer against the USD. The GBP remains underpinned by relatively firm UK economic data, illustrated last week by strong house price data and firm PMI readings, with the coming week expected to show industrial production and construction output also having risen in January. Nonetheless we would not be surprised to see GBP lose a little ground in coming weeks, in part because of the ECB decision and also as a casualty of renewed optimism about the US economy if it results in QE being further reined back.

NZD outperformance, CAD underperformance

Amongst the main commodity currencies (AUD, NZD and CAD) the CAD still appears to be the weakest link amongst these as the Bank of Canada continues to highlight the risk of falling inflation, in contrast to the RBA which now appears more equivocal over the balance monetary policy, and the RBNZ which could even raise interest rates in the coming week for the first time in nearly four years. As a consequence,

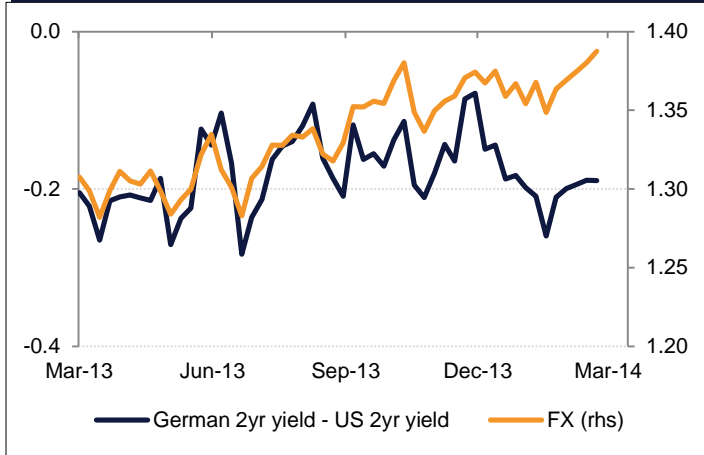
NZD should be the main winner overall and will continue to outperform relative to the others regardless of the USD trend.

FX Forecasts - Major						Forwards		
	Spot 07.03	1M	3M	6M	12M	3M	6M	12M
EUR/USD	1.3875	1.35	1.32	1.28	1.25	1.3873	1.3873	1.3875
USD/JPY	103.2800	104.0	106.0	109.0	112.0	103.2314	103.1725	102.9925
USD/CHF	0.8779	0.91	0.94	0.98	1.04	0.8773	0.8765	0.8746
GBP/USD	1.6713	1.64	1.62	1.60	1.62	1.6701	1.6689	1.6659
AUD/USD	0.9068	0.88	0.87	0.85	0.80	0.9012	0.8956	0.8845
USD/CAD	1.1087	1.10	1.11	1.13	1.15	1.1111	1.1135	1.1181
EUR/GBP	0.8301	0.82	0.81	0.80	0.77	0.8306	0.8312	0.8328
EUR/JPY	143.3300	140	140	139	140	143.3292	143.3283	143.3260
EUR/CHF	1.2182	1.23	1.24	1.25	1.26	1.2171	1.2160	1.2136
EUR/NOK	8.3080	8.30	8.20	8.0	7.75	8.3361	8.3644	8.4210
EUR/SEK	8.8580	8.80	8.70	8.60	8.50	8.8699	8.8819	8.9082
NZD/USD	0.8465	0.82	0.83	0.83	0.82	0.8404	0.8335	0.8187
FX Forecasts - Emerging						Forwards		
	Spot 07.03	1M	3M	6M	12M	3M	6M	12M
USD/SAR*	3.7505	3.75	3.75	3.75	3.75	3.7506	3.7513	3.7523
USD/AED*	3.6730	3.67	3.67	3.67	3.67	3.6725	3.6722	3.6718
USD/KWD	0.2815	0.282	0.285	0.282	0.28	0.2915	0.3007	0.3188
USD/OMR*	0.3850	0.38	0.38	0.38	0.38	0.3837	0.3828	0.3803
USD/BHD*	0.3770	0.376	0.376	0.376	0.376	0.3797	0.3812	0.3853
USD/QAR*	3.6414	3.64	3.64	3.64	3.64	3.6433	3.6454	3.6486
USD/EGP	6.9606	6.89	6.89	6.89	6.89	7.1106	7.3556	7.9001
USD/INR	61.0875	62.00	59.00	58.00	57.00	61.0975	61.1089	61.1306
USD/CNY	6.1274	6.10	6.15	6.20	6.20	-	-	-

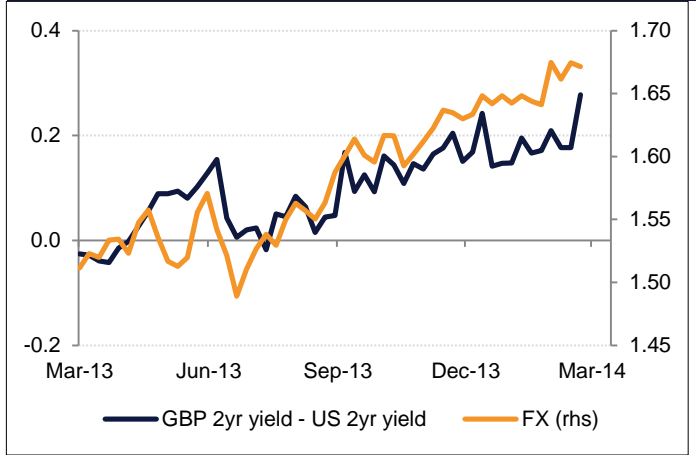
Source: Bloomberg, Emirates NBD Research
 *Denotes USD peg

Major Currency Pairs and Interest Rates

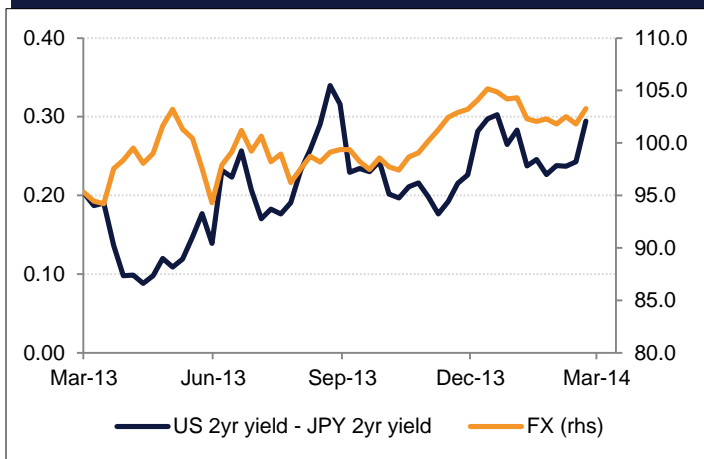
Interest Rate Differentials - EUR



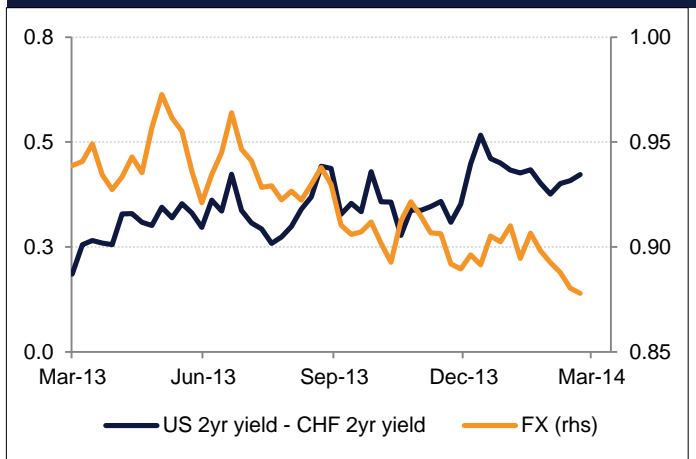
Interest Rate Differentials - GBP



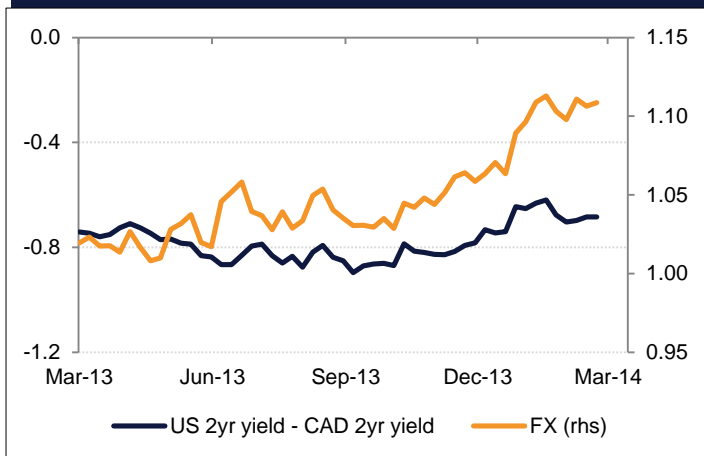
Interest Rate Differentials - JPY



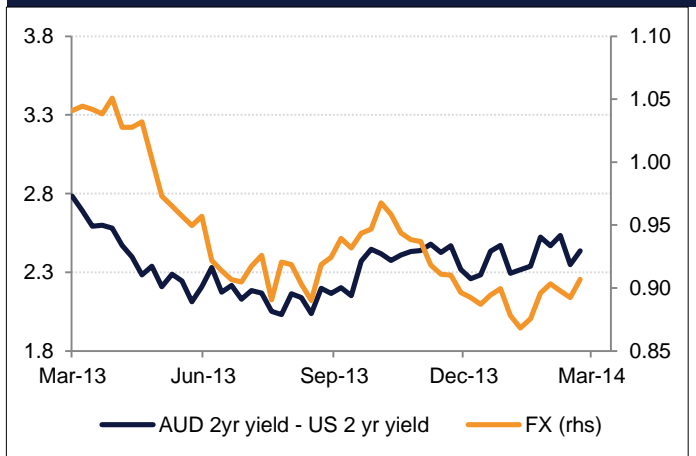
Interest Rate Differentials - CHF



Interest Rate Differentials - CAD

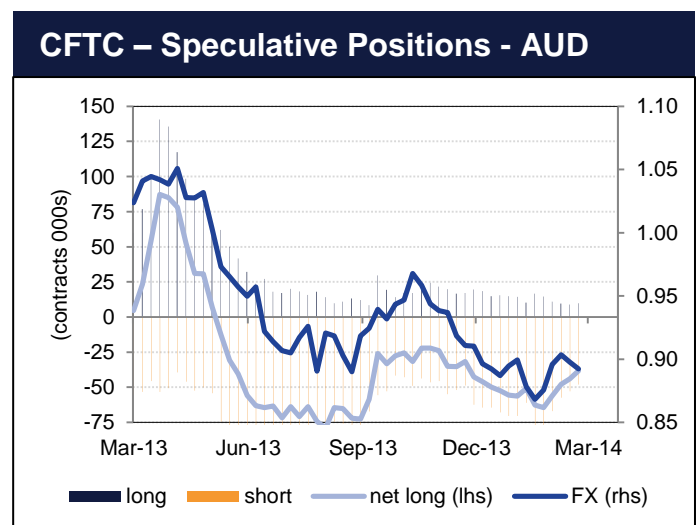
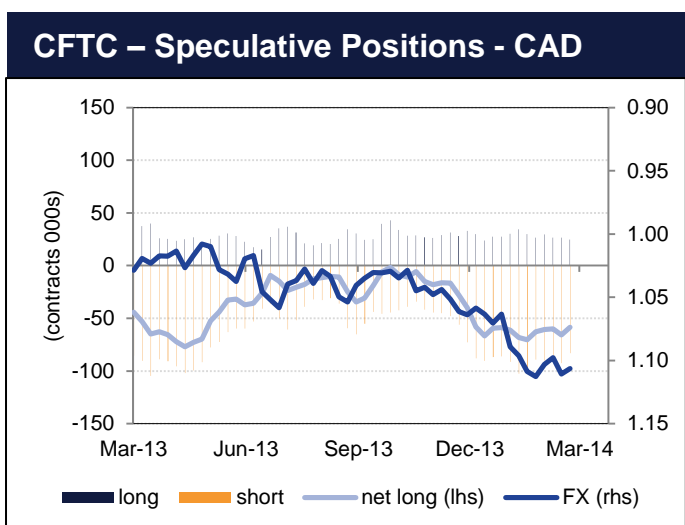
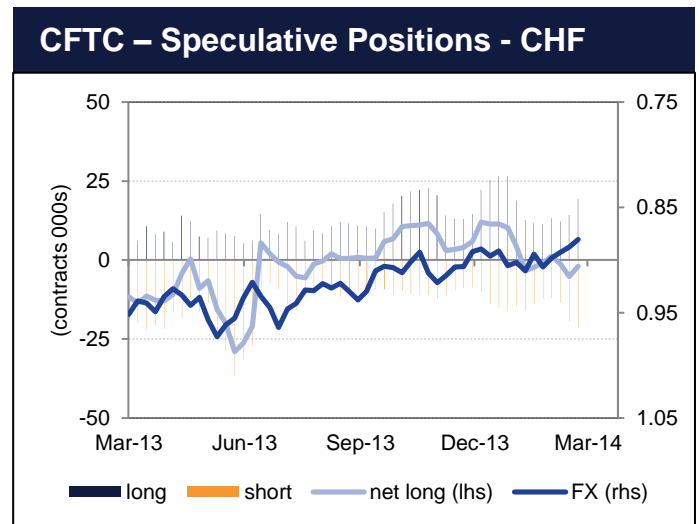
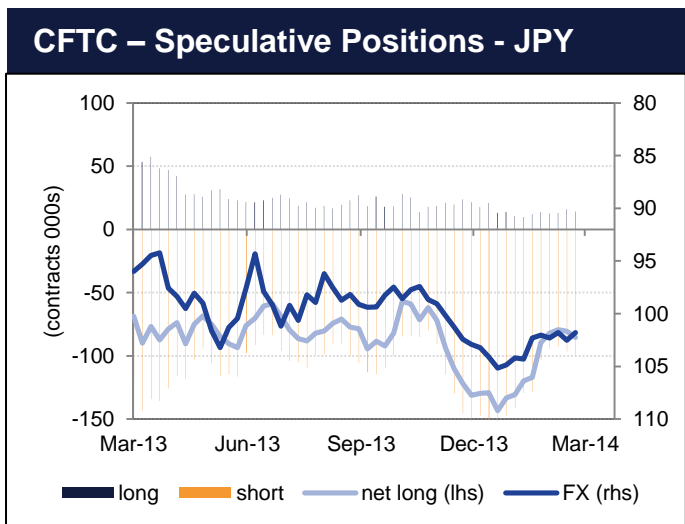
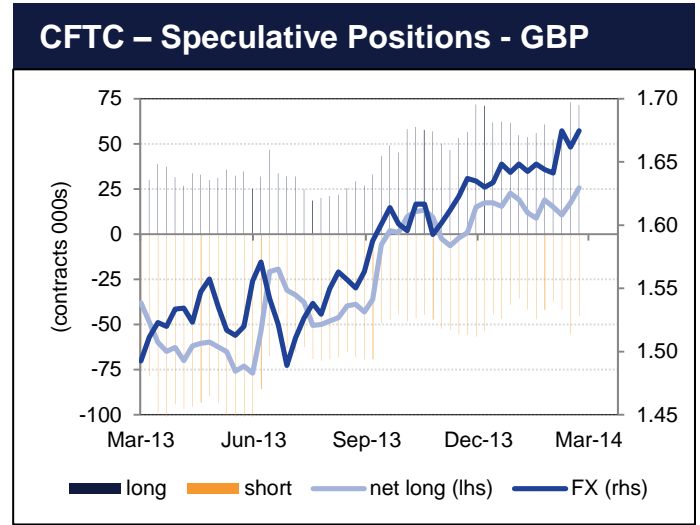
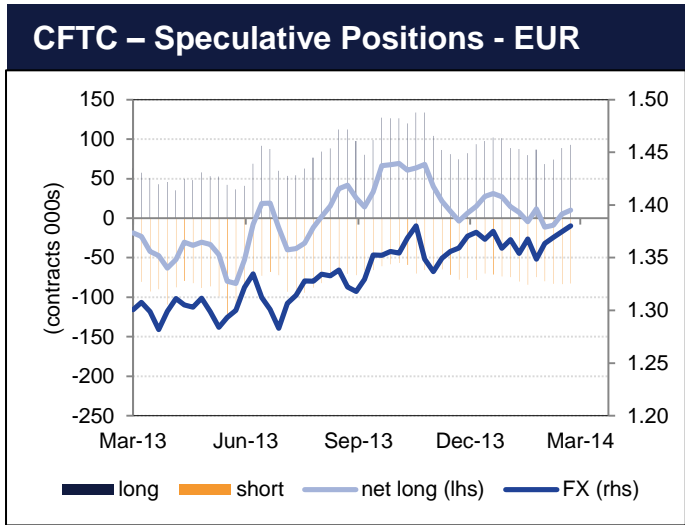


Interest Rate Differentials - AUD



Source: Bloomberg, Emirates NBD Research

Major Currency Positions



Source: Bloomberg, Emirates NBD Research

Economic Calendar

Date	Country	Event	
10-Mar	Japan	Trade Balance	
	Japan	GDP	
	France	Industrial Production	
	Switzerland	Retail Sales	
	Italy	Industrial Production	
	Canada	Housing Starts	
	Egypt	CPI	
11-Mar	Germany	Trade Balance	
	Italy	GDP	
	UK	Industrial Production	
	Brazil	Industrial Production	
12-Mar	Japan	Tertiary Industry Index	
	UK	Trade Balance	
	Eurozone	Industrial Production	
	US	MBA Mortgage Applications	
	India	Industrial Production	
	India	CPI	
	13-Mar	UK	RICS House Price Balance
Australia		Unemployment Rate	
China		Retail Sales	
China		Industrial Production	
France		CPI	
Italy		CPI	
Brazil		Retail Sales	
US		Retail Sales	
US		Initial Jobless Claims	
14-Mar		Japan	Industrial Production
		India	WPI
	Germany	CPI	
	US	U of Michigan Confidence	
	Russia	Trade Balance	

Source: Bloomberg

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