



بنك الإمارات دبي الوطني
Emirates NBD

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

FX Week

Confidence in the US recovery is building

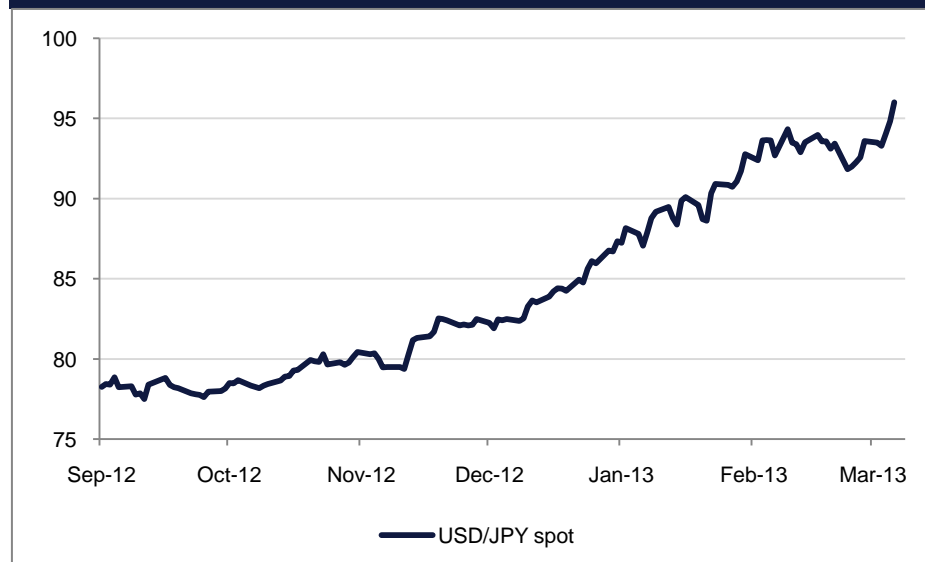
The USD continued to perform well last week, reaching new 7-month highs as US economic data remained firm culminating in an above consensus 236k rise in February non-farm payrolls. With the unemployment rate also falling to 7.7%, from 7.9% in January, US interest rates also rose as the markets continued to question how long the Fed would maintain its commitment to open-ended QE.

While doubts about QE are probably premature, and are probably more of an issue for H2 13, it remains true that the debate at the Fed this year is likely to be a very different one to those being conducted at other major central banks, where further policy stimulus is being considered. While last week saw the Bank of England (BOE), the European Central Bank (ECB), the Reserve Bank of Australia (RBA), Bank of Canada (BOC), and the Bank of Japan (BOJ) all stay on hold it seems likely that all considered the merits of easing monetary policy further. Indeed this was acknowledged by ECB President Draghi, who said that that a rate cut was discussed, while further QE in the UK and the BOJ appears to be just a matter of time. The RBA also maintained an easing bias, while the BOC for the first time in a while adopted a more dovish stance. This leaves the Fed as the only major central bank with a question building about when to ease its foot off the stimulus pedal.

Risk appetite no longer harms the USD

Confidence in the US recovery does not just stem from one labour market report, with most of the economic statistics released over the last month reflecting growing momentum in the world's largest economy. Headwinds of course also remain, with the impact of sequestration spending cuts likely to build gradually in the coming months. However, the fact that the US economy already appears to have shrugged off the January rise in payroll taxes is a promising sign that it approached the sequestration in good shape. There is still a long way to go until unemployment is likely to drop to the threshold where a debate over ending QE is likely to begin (around 7.0%) and even further before an interest rate hike is likely to be contemplated (6.5%). Furthermore the fall in the unemployment rate to 7.7% was only in part due to an increase in employment, with the other part being caused by a 130k decline in the size of labour force, showing that a full scale recovery still remains elusive.

USD/JPY still in the driving seat



Source: Bloomberg, Emirates NBD Research

Nonetheless, the February data do represent a considerable step forward, which if maintained in coming months will make discussion about an exit from QE harder to ignore.

The coming week sees retail sales, industrial production and CPI inflation released in the US, all of which are expected to be strong. The upcoming FOMC meeting on the 20th March will also be in focus, to see if the Fed is moving closer to exploring possible QE exit strategies. Against this background USD strength is expected to continue, with the DXY index moving closer to 83.0, with individual currency pairs like USD/JPY and GBP/USD leading the way. As we noted in our Daily Outlook 7th March, the USD no longer seems to be negatively correlated with risk appetite, but instead is rallying as equities rally for the first time since the financial crisis began.

ECB limits EUR/USD losses

EUR/USD losses were held back briefly last week by the ECB, which while lowering its growth and inflation forecasts failed to show any urgency about providing any more monetary stimulus. Furthermore it failed to reference the strong EUR as a risk to growth as it had done in February. Given that the ECB has a single objective of price stability below a 2.0% ceiling, its failure to offer any policy guidance aimed at achieving it, with inflation set to slow to 1.3% next year, was surprising. Instead President Draghi merely emphasized the benefits of the Outright Monetary Transactions (which have yet to be utilized) as an effective deterrent to financial market pressures, but said that little can be done to combat fragmentation across the currency union.

Such an approach may reflect a sense that the ECB's weaponry needs to be conserved to fight bigger challenges that lie ahead. Indeed with the Italian political crisis a long way from being resolved (as shown by a ratings downgrade by Fitch on Friday), and with deteriorating economic trends across large swathes of the Eurozone periphery (as well as significant parts of the core) this might be understandable. Ultimately, we suspect that more measures will be called for, but for now the ECB's reluctance to embrace more imaginative stimulus measures (in contrast to elsewhere) may slow the EUR's descent relative to those of other currencies. EUR/USD held around 1.30 last week, while other currency pairs weakened further. However, it will only take one more surprise from Italy or Spain, or disappointment from an economic indicator for this support area to give way, with the next target being the 1.2850 200-day moving average, en route to our 1.25 3-month forecast.

USD/JPY still in the driving seat

The Japanese yen is once again in the spotlight as the main casualty of the USD's resurgence. While the Shirakawa BOJ bowed out last week with no new monetary policy initiatives, the confirmation hearings of the new BOJ leadership heard much greater imagination and determination to achieve the 2.0% inflation target over the two year time horizon. Japan's Q4 GDP was revised to a 0.2% seasonally adjusted annualized gain, from the preliminary -0.4% decline reported last month, and upcoming data includes January core machinery orders which will be looked for to maintain the improvement in business sentiment at the end of last year. The next BOJ meeting occurs on the 3-4th April and will take place under the new leadership, assuming approval by the Diet in the week ahead. Until then the markets will continue to speculate about what measures might be forthcoming, keeping USD/JPY underpinned.

GBP continues to trade heavily

GBP will also remain heavy, ahead of the Chancellor's budget speech next week and in the absence of any new direction coming from economic data. The main UK releases this week are industrial production and the trade balance, neither of which

are expected to be particularly positive. Reports last week in the UK press that the Chancellor will announce a review of the BOE's inflation target, allowing the Bank to pursue a more flexible approach, will help to keep sentiment towards the GBP bearish. The UK government is also under pressure from the Office of Budget Responsibility for falsely claiming that the UK's austerity measures are not responsible for the weakness of growth in the UK, which is also helping to keep David Cameron's future as PM in doubt. The last time politics and economics combined to depress GBP was around the time of the last election, when it fell to 1.42 in 2010. Our forecast is for this level to be revisited, with a volatile political dimension again operating to reinforce weak underlying economic trends.

Policy meetings in Switzerland and New Zealand

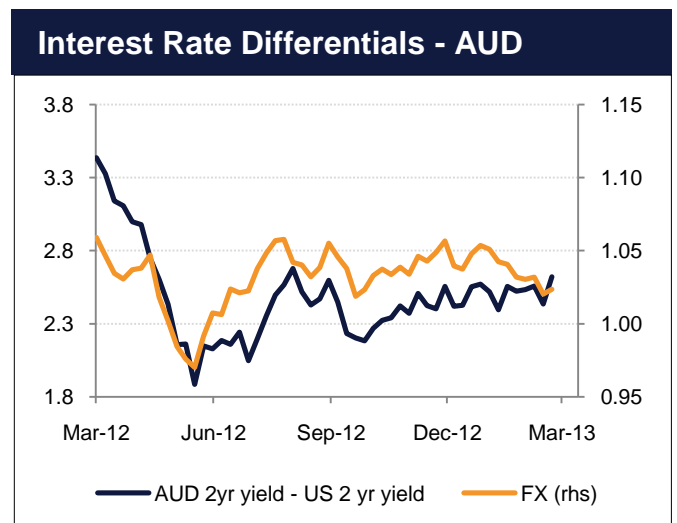
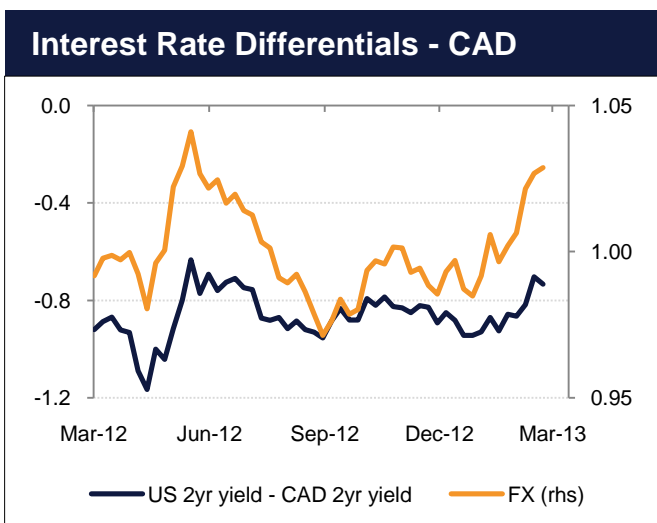
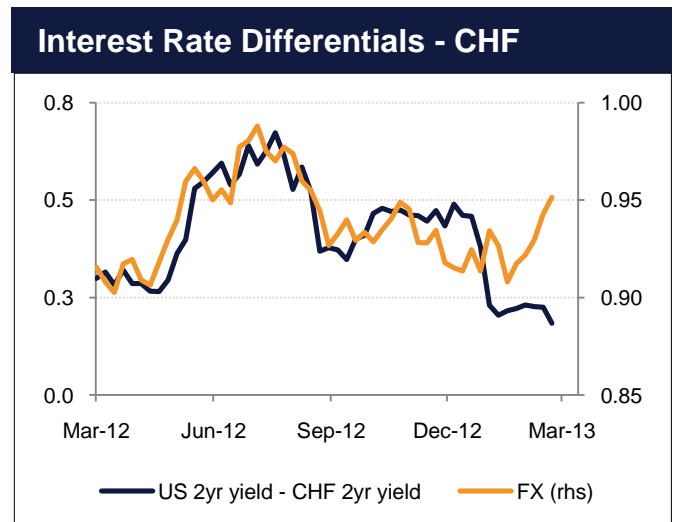
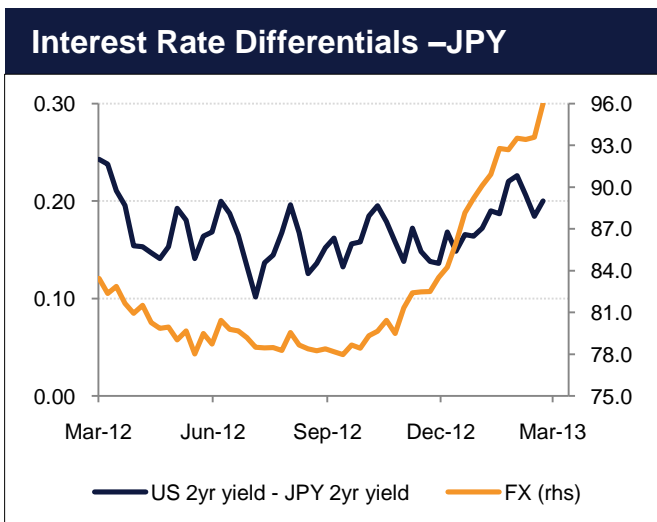
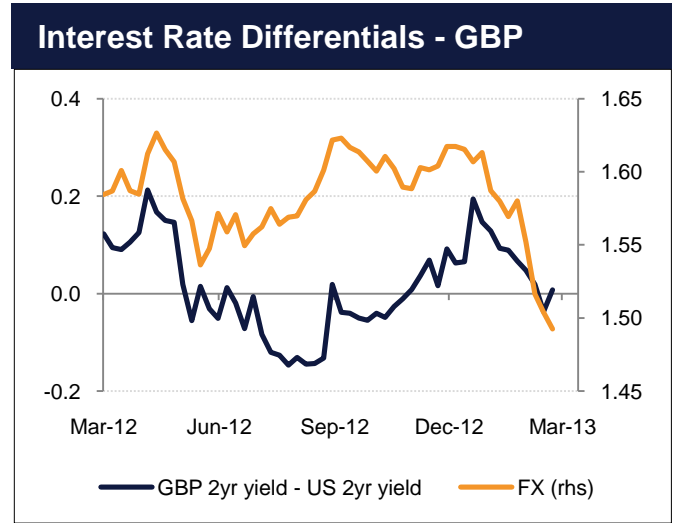
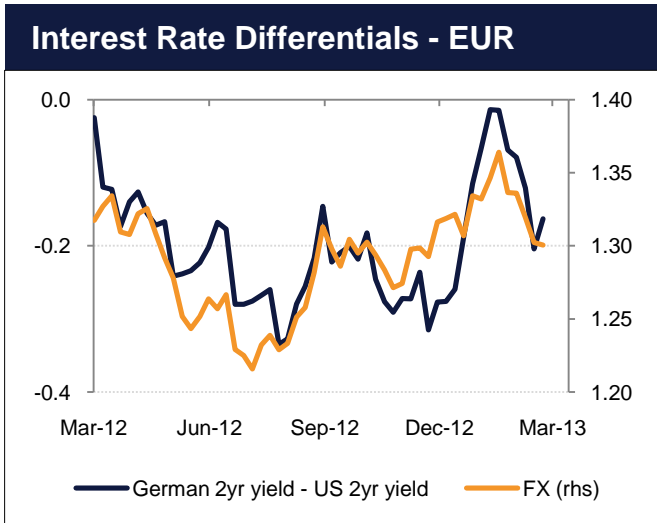
Other events in the week ahead include central bank meetings in Switzerland and New Zealand, where policy in both countries is expected to remain unchanged. USD/CHF has been a notable participant in the USD's recent rally again highlighting the broad based nature of the move, and demonstrating that the CHF is beginning to lose some of its safe haven appeal, which is also being reflected in a firmer EUR/CHF rate. In New Zealand's case the RBNZ meeting may express some renewed concerns over the strength of the NZD, but steady monetary policy is expected to remain in place for some time to come.

FX Forecasts - Major						Forwards		
	Spot 08.03	1M	3M	6M	12M	3M	6M	12M
EUR / USD	1.3005	1.30	1.25	1.20	1.15	1.3013	1.3022	1.3043
USD / JPY	96.00	94.0	95.0	97.0	100.0	95.94	95.86	95.63
USD / CHF	0.9514	0.94	0.96	1.02	1.08	0.9504	0.9493	0.9465
GBP / USD	1.4925	1.50	1.47	1.42	1.45	1.4917	1.4912	1.4909
AUD / USD	1.0236	1.01	0.97	0.94	0.90	1.0165	1.0096	0.9963
USD / CAD	1.0287	1.03	1.05	1.07	1.10	1.0308	1.0329	1.0371
EUR / GBP	0.8711	0.87	0.85	0.85	0.79	0.8721	0.8730	0.8746
EUR / JPY	124.86	122.2	119.0	116.0	115.0	124.86	124.86	124.86
EUR / CHF	1.2372	1.22	1.20	1.22	1.25	1.2368	1.2361	1.2345
FX Forecasts - Emerging						Forwards		
	Spot 08.03	1M	3M	6M	12M	3M	6M	12M
USD / SAR*	3.7503	3.75	3.75	3.75	3.75	3.7505	3.7510	3.7518
USD / AED*	3.6730	3.67	3.67	3.67	3.67	3.6731	3.6733	3.6733
USD / KWD	0.2840	0.282	0.285	0.282	0.28	0.2849	0.2852	0.2860
USD / OMR*	0.3850	0.38	0.38	0.38	0.38	0.3844	0.3840	0.3829
USD / BHD*	0.3770	0.376	0.376	0.376	0.376	0.3775	0.3778	0.3783
USD / QAR*	3.6407	3.64	3.64	3.64	3.64	3.6432	3.6447	3.6497
USD / INR	54.2913	53.25	53.00	52.00	51.00	54.3013	54.3100	54.3258
USD / CNY	6.2163	6.23	6.22	6.20	6.25	6.2796	6.2891	6.3091

*Denotes USD peg

Source: Bloomberg, Emirates NBD Research

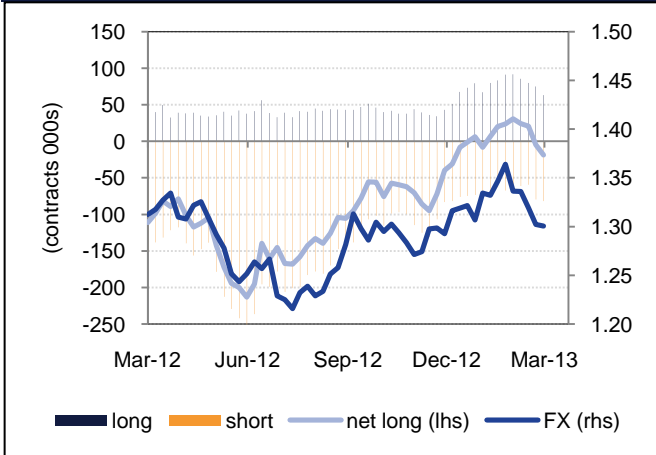
Major Currency Pairs and Interest Rates



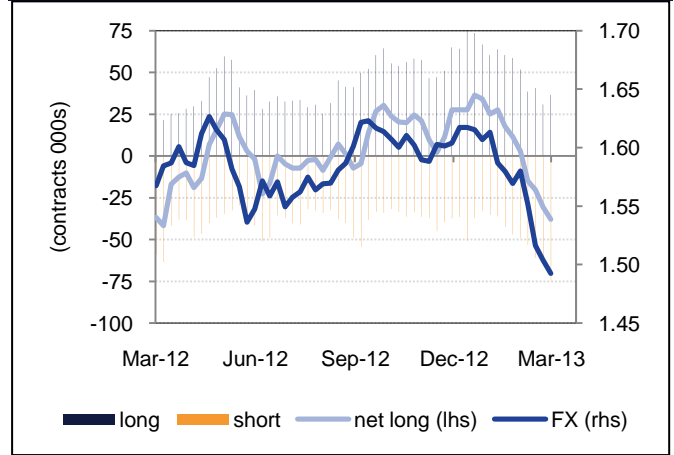
Source: Bloomberg, Emirates NBD Research

Major Currency Positions

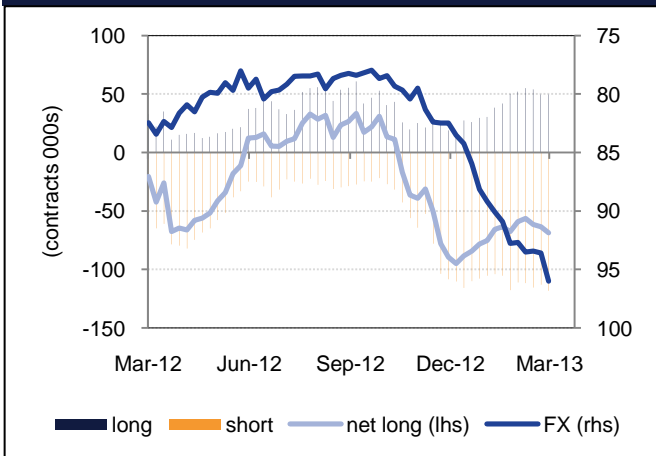
CFTC – Speculative Positions - EUR



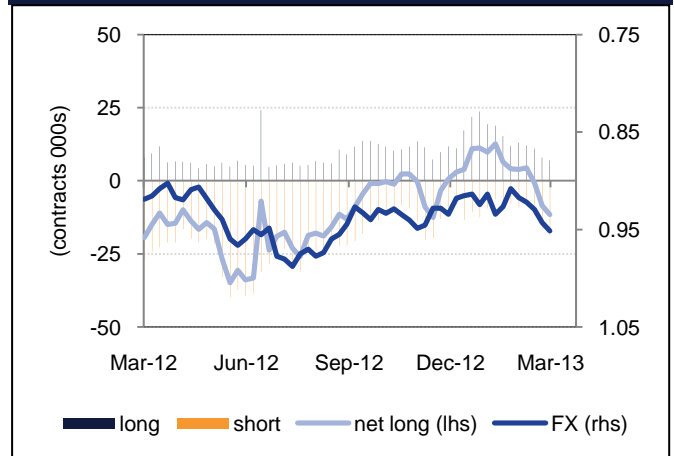
CFTC – Speculative Positions - GBP



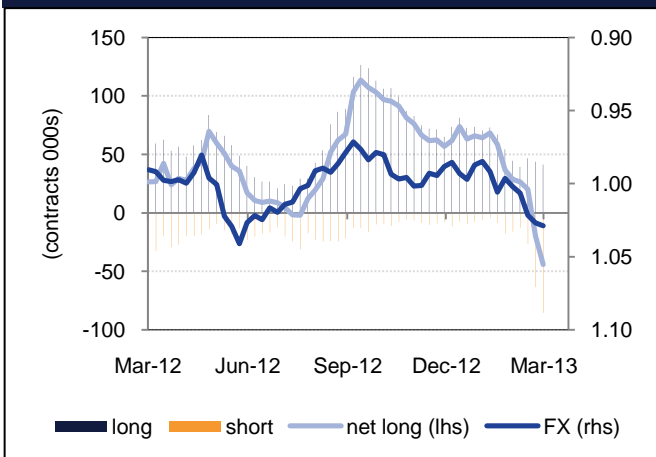
CFTC – Speculative Positions - JPY



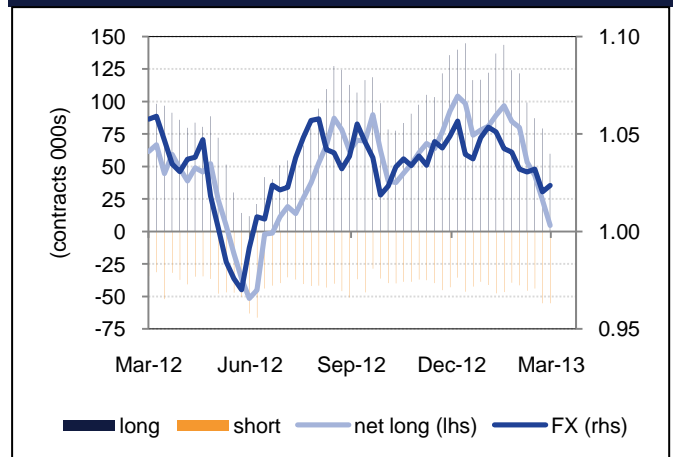
CFTC – Speculative Positions - CHF



CFTC – Speculative Positions - CAD



CFTC – Speculative Positions - AUD



Source: Bloomberg, Emirates NBD Research

Economic Calendar

Date	Country	Event
11-Mar	Japan	Machine Orders
	Germany	Trade Balance
	France	Industrial Production
	Switzerland	Retail Sales
	Italy	GDP
12-Mar	Japan	Tertiary Industry Index
	UK	RICS House Price Balance
	Japan	Consumer Confidence
	India	Industrial Production
	Germany	CPI
	UK	Industrial Production
	UK	Trade Balance
	India	CPI
	13-Mar	France
Eurozone		Industrial Production
US		MBA Mortgage Applications
US		Advance Retail Sales
14-Mar	Australia	Unemployment Rate
	Japan	Industrial Production
	India	WPI
	Brazil	Retail Sales
	Canada	New Housing Price Index
	US	Initial Jobless Claims
15-Mar	Eurozone	CPI
	US	Empire Manufacturing
	US	CPI
	US	Industrial Production
	US	U of Michigan Confidence
	Russia	Refinancing Rate
15-Mar – 24-Mar	UAE	CPI

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

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
Research Analyst
+971 4 230 7802
adityap@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
attiyahn@emiratesnbd.com

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

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

Group Corporate Communications

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

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