



بنك الإمارات دبي الوطني
Emirates NBD

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FX Week

EUR/USD closed out Q1 below key levels

EUR/USD closed the month and the quarter at 1.2819, well below its 200-day moving average (MA) signaling that the downside is likely to remain pressured. Indeed with its 10-day MA now crossing below the 200 day and with the 30 day MA also fast approaching it, the chances are growing of another lurch towards our 1 and 3-month forecasts of 1.27 and 1.25 respectively in coming weeks (see chart below). As Q2 gets underway the week is likely to begin slowly especially against the background of long weekends in western markets, but central bank meetings in Europe and Asia will quickly assume the most significance, whilst in the US the focus will fall on the jobs data at the end of the week.

Bank of Japan stimulus awaited

The decisions of the ECB and the Bank of Japan (BOJ) will be the most closely watched events of the week, with the BOJ widely forecast to announce aggressive asset purchases following its board meeting on Thursday, with Governor Kuroda promising last week to achieve its 2.0% inflation target 'at a cost' last week. Open-ended asset purchases which had been slated for 2014 will likely begin much earlier, possibly later this month, with the amount of JGB purchases likely to be increased and the maturity profile of those purchases likely to be extended out to 30 years, enabling yields to fall all the way across the yield curve. The markets have of course anticipated such moves for some time now, with USD/JPY rising by 12% since the beginning of the year and the Nikkei up approximately 19%. This might leave room for profit-taking once the outcome of the meeting is known, but with the BOJ also likely to continue guiding expectations towards further easing measures in coming months any dips in USD/JPY are likely to be short lived, and we continue to see USD/JPY rising to 100 over the rest of this year.

While the ECB sits on its hands

Events in Cyprus as well as recent disappointing Eurozone economic data will mean that the ECB meeting on Thursday will also be expected to deliver at the very least a more dovish tone from President Draghi. We have long forecast another cut in ECB interest rates to 0.5%, and so would not be wholly surprised if it were to happen this week.

EUR/USD ends Q1 below 200 day moving average



Source: Bloomberg, Emirates NBD Research

However, the behaviour of the ECB in recent months suggests that it may continue to resist taking further action until it becomes absolutely clear that a H2 recovery is unlikely to materialise. Markets may therefore have to content themselves with supportive comments that the ECB stands ready to do more to support bank lending to small and medium sized firms. However, within the context of still weak bank lending data, deteriorating business confidence surveys, and expected subdued inflation and high unemployment readings this week, such rhetoric is unlikely to be taken positively by the EUR. Furthermore, Draghi is likely to face intense questioning about Cyprus and whether taxes on deposits are likely to form the basis for dealing with future crises, a subject that will also continue to hurt the single currency. Indeed with Italian politics also likely to come under renewed scrutiny following the failure to create a new government, the EUR is likely to remain handicapped.

Weak data to undercut GBP

The Bank of England Monetary Policy Committee meeting will also be in focus, in light of the new remit it is being given to manage monetary policy more flexibly to reach its inflation target. With Governor King having voted in the last two meetings to increase asset purchases beyond the current GBP375bn total, he is likely to use this more expanded mandate to renew his push for more QE. UK PMI data is also likely to remind markets of the weak underlying trends in the British economy, with the manufacturing sector expected to have remained in recession in March and the services sector also at risk of deteriorating in view of the bad weather over the last month and the softness in the Eurozone. Such outcomes will likely cement the probability of another quarter of negative growth in Q1, returning bearish sentiment onto GBP after its recent half-hearted rally to 1.52.

USD eyes March payrolls

The USD's DXY index closed the quarter at 83.0, up from 79.0 at the start of the year, having benefited over the last two months from signs of renewed vigour in the US economy in particular. This came despite rises in payroll taxes in January and the prospect of spending cuts taking effect from March. The ongoing recovery in the US labour market has been central to this improvement in USD sentiment, but the markets still retain some doubts about whether this is sustainable in view of past disappointments around this time of the year and given the strong headwinds that lie ahead. This week's jobs data for March will be very important therefore, to see if there are any signs that the recovery is losing momentum. The consensus expectation is for another 200k jobs to have been added in March, with the unemployment rate remaining steady at 7.7%. Such an outcome should help to keep the USD supported as it will lend encouragement to those Fed officials calling for a 'tapering off' in the Fed's 'asset purchases later this year.

Subdued Chinese data amidst policy tightening

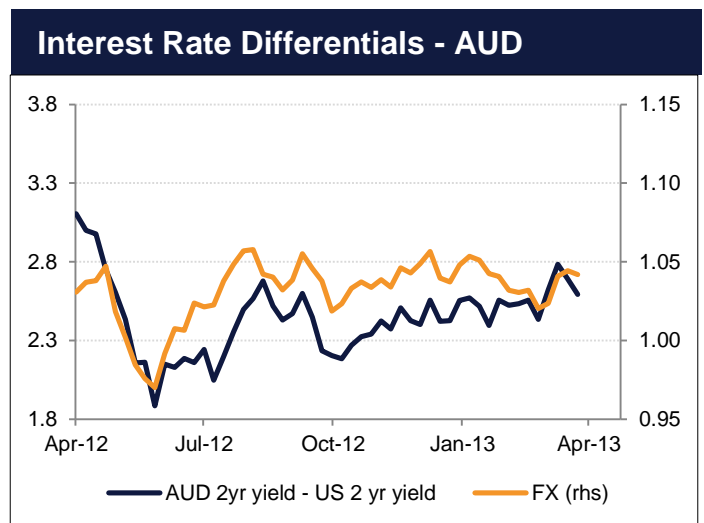
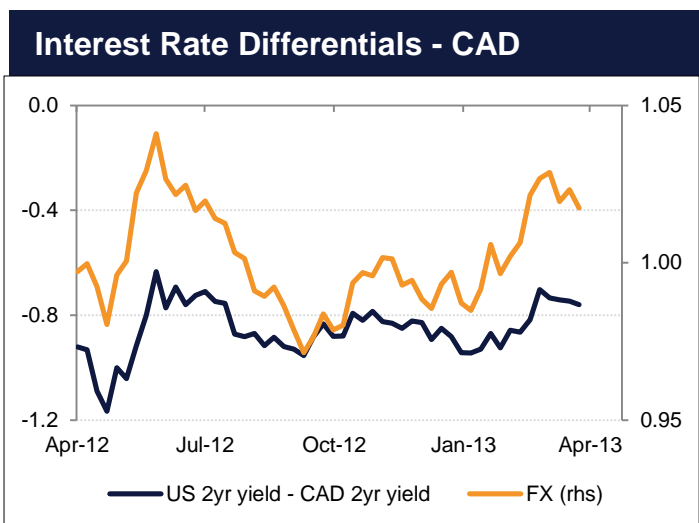
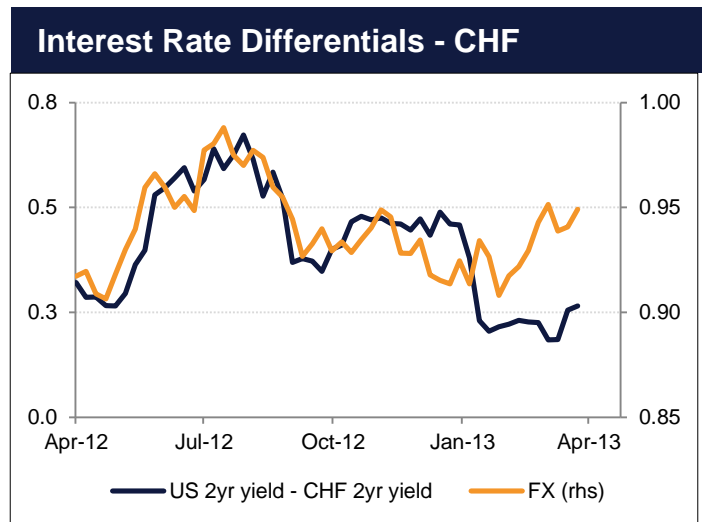
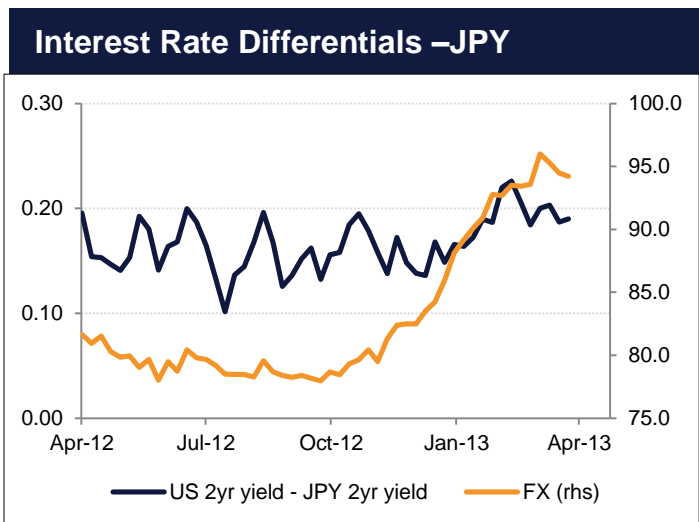
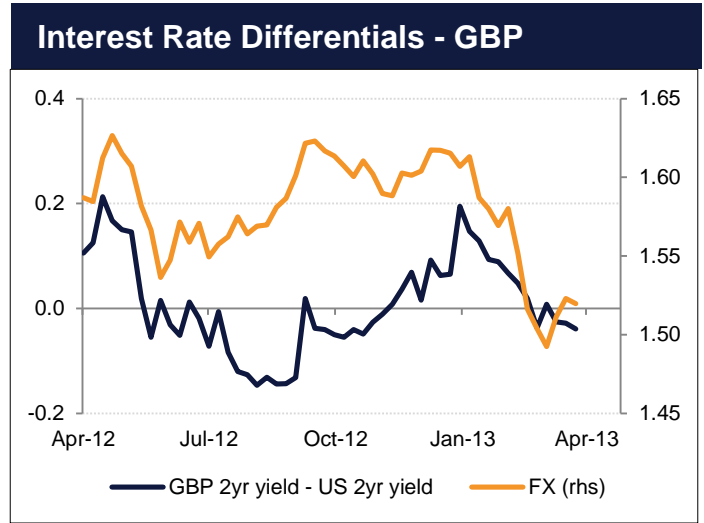
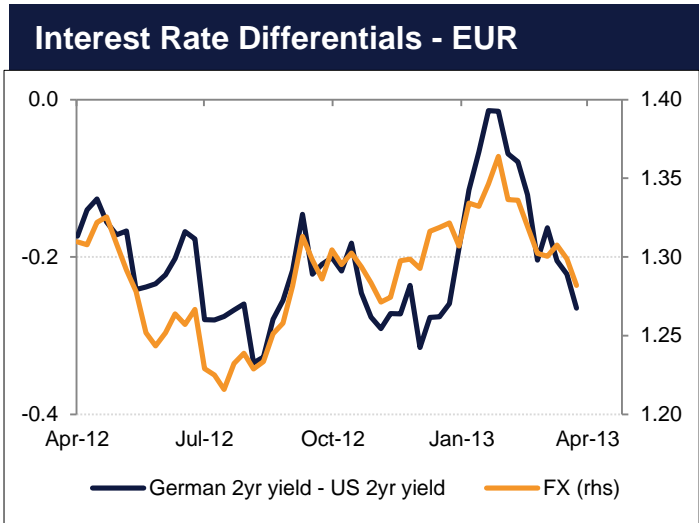
Elsewhere Chinese PMI data will be watched at the start of the week to assess whether the Chinese economy is stabilising, after data in the first two months of the year showed disappointing levels of activity overall. Both the official and private HSBC/Markit indices in February showed the Chinese economy quite close to the 50 breakeven level between contraction and expansion. Parallel to these subdued trends the Chinese government has continued to seek to rein-in non-bank lending, keeping the policy focus on rebalancing the structure of the economy rather than on reigniting growth. The currency implications from ongoing soft Chinese data would probably be to keep the pace of future CNY appreciation slow as it has been since the start of the year. It may also help to keep commodity currencies like the AUD and the CAD restrained, even though the AUD has benefited in recent weeks from encouraging domestic economic data. This strength in recent data is likely to keep the Reserve Bank of Australia on hold in the week ahead, although downside risks to interest rates (from the current 3.0%) probably remain amidst concerns about the relative strength of the AUD.

FX Forecasts - Major						Forwards		
	Spot 29.03	1M	3M	6M	12M	3M	6M	12M
EUR / USD	1.2819	1.27	1.25	1.20	1.15	1.2828	1.2838	1.2864
USD / JPY	94.22	97.0	96.0	98.0	102.0	94.16	94.08	93.83
USD / CHF	0.9492	0.96	0.98	1.02	1.08	0.9481	0.9465	0.9428
GBP / USD	1.5198	1.48	1.45	1.42	1.45	1.5191	1.5186	1.5184
AUD / USD	1.0419	1.01	0.97	0.94	0.90	1.0348	1.0278	1.0141
USD / CAD	1.0174	1.03	1.05	1.07	1.10	1.0195	1.0215	1.0255
EUR / GBP	0.8436	0.86	0.86	0.85	0.79	0.8445	0.8455	0.8473
EUR / JPY	120.76	123.2	120.0	117.6	117.3	120.76	120.76	120.76
EUR / CHF	1.2169	1.22	1.22	1.22	1.24	1.2162	1.2152	1.2129
FX Forecasts - Emerging						Forwards		
	Spot 29.03	1M	3M	6M	12M	3M	6M	12M
USD / SAR*	3.7503	3.75	3.75	3.75	3.75	3.7504	3.7508	3.7517
USD / AED*	3.6729	3.67	3.67	3.67	3.67	3.6728	3.6730	3.6733
USD / KWD	0.2856	0.282	0.285	0.282	0.28	0.2853	0.2856	0.2856
USD / OMR*	0.3850	0.38	0.38	0.38	0.38	-	0.3842	0.3835
USD / BHD*	0.3770	0.376	0.376	0.376	0.376	0.3774	0.3777	0.3783
USD / QAR*	3.6410	3.64	3.64	3.64	3.64	3.6430	3.6447	3.6486
USD / INR	-	53.75	53.00	52.00	51.00	-	-	-
USD / CNY	6.2102	6.23	6.22	6.20	6.25	6.2788	6.2840	6.3020

*Denotes USD peg

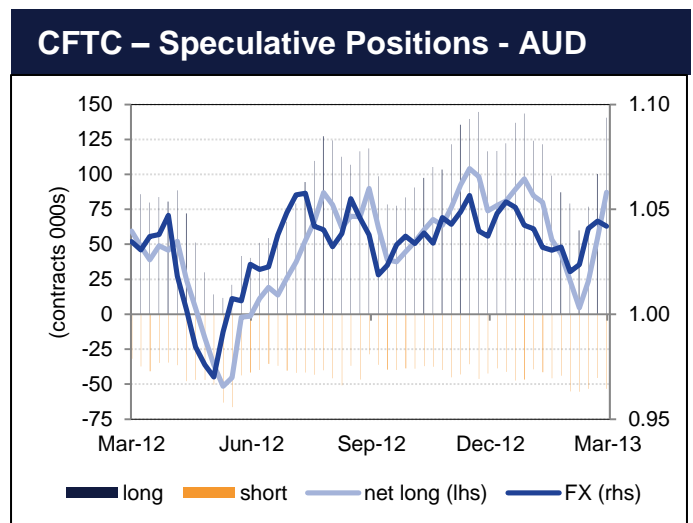
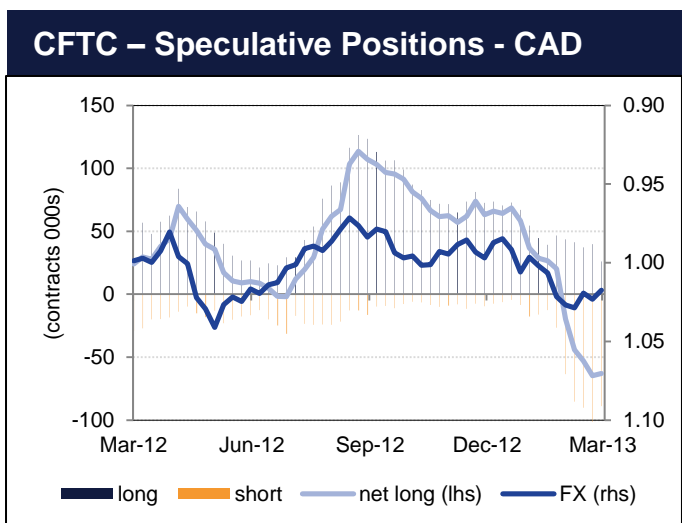
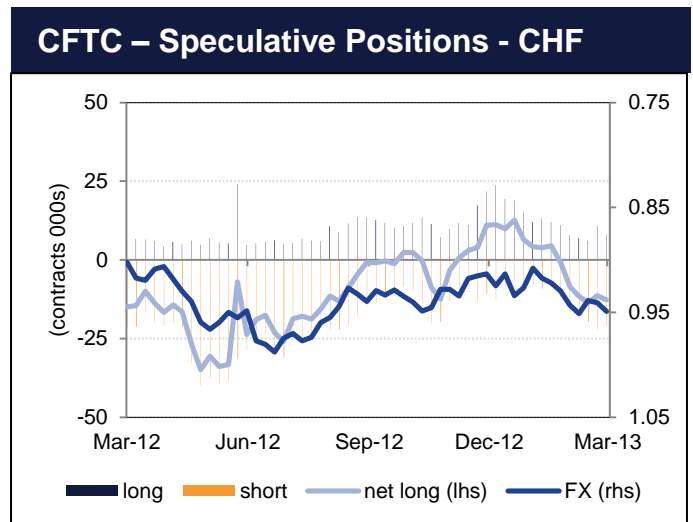
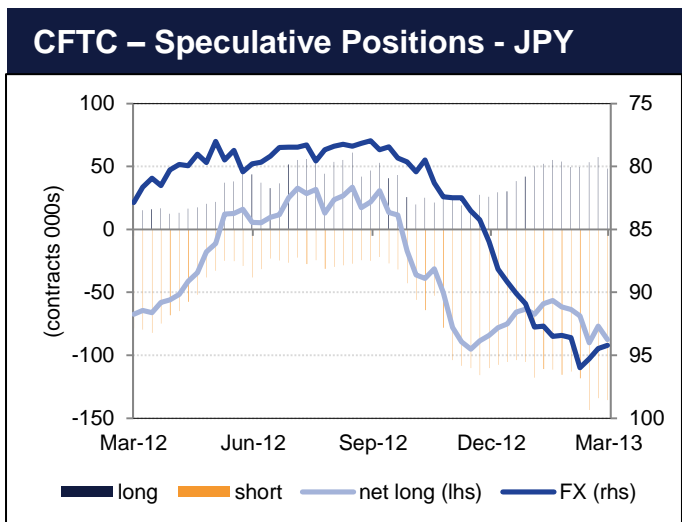
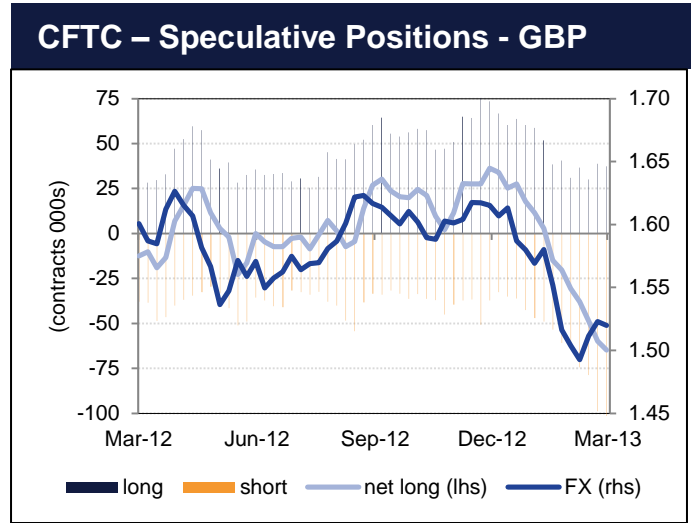
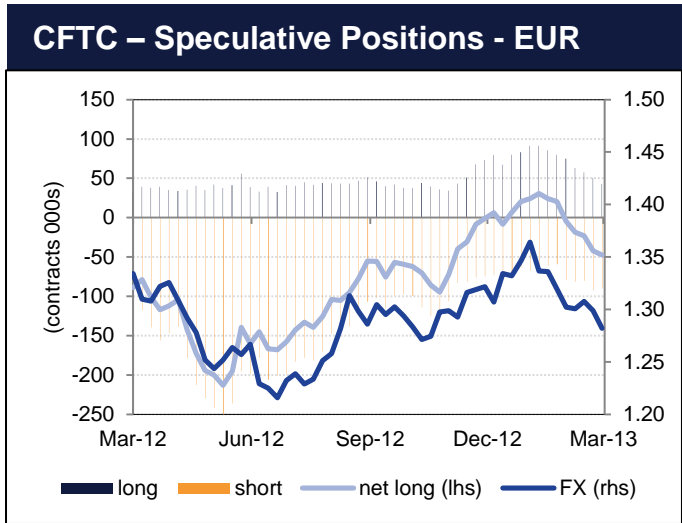
Source: Bloomberg, Emirates NBD Research

Major Currency Pairs and Interest Rates



Source: Bloomberg, Emirates NBD Research

Major Currency Positions



Source: Bloomberg, Emirates NBD Research

Economic Calendar

Date	Country	Event
28-Mar – 5-Apr	Qatar	GDP
1-Apr	Japan	Tankan Survey
	China	Manufacturing PMI
	Brazil	PMI Manufacturing
	US	ISM Manufacturing
	Brazil	Trade Balance
2-Apr	Australia	RBA Cash Target
	Germany	CPI
	Switzerland	PMI Manufacturing
	Italy	PMI Manufacturing
	France	PMI Manufacturing
	Germany	PMI Manufacturing
	Eurozone	PMI Manufacturing
	UK	PMI Manufacturing
	Italy	Unemployment Rate
	UK	Money Supply
	Eurozone	Unemployment Rate
	Brazil	Industrial Production
	US	Factory Orders
	Russia	Refinancing Rate
3-Apr	Australia	Trade Balance
	China	Non-manufacturing PMI
	Eurozone	CPI
	US	MBA Mortgage Applications
	US	ADP Employment Change
	US	ISM Non-Manufacturing Composite
4-Apr	Australia	Retail Sales
	Italy	PMI Services
	France	PMI Services
	Germany	PMI Services
	Eurozone	PMI Services
	UK	PMI Services
	UK	BoE Announces Rates
	Eurozone	ECB Announces Rates
	US	Initial Jobless Claims

4-Apr	Japan	BoJ Announces Rates
5-Apr	Eurozone	Retail Sales
	Germany	Factory Orders
	Canada	Unemployment Rate
	US	Trade Balance
	US	Change in Nonfarm Payrolls/ Unemployment Rate

Source: Bloomberg

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