



بنك الإمارات دبي الوطني  
Emirates NBD

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## FX Week

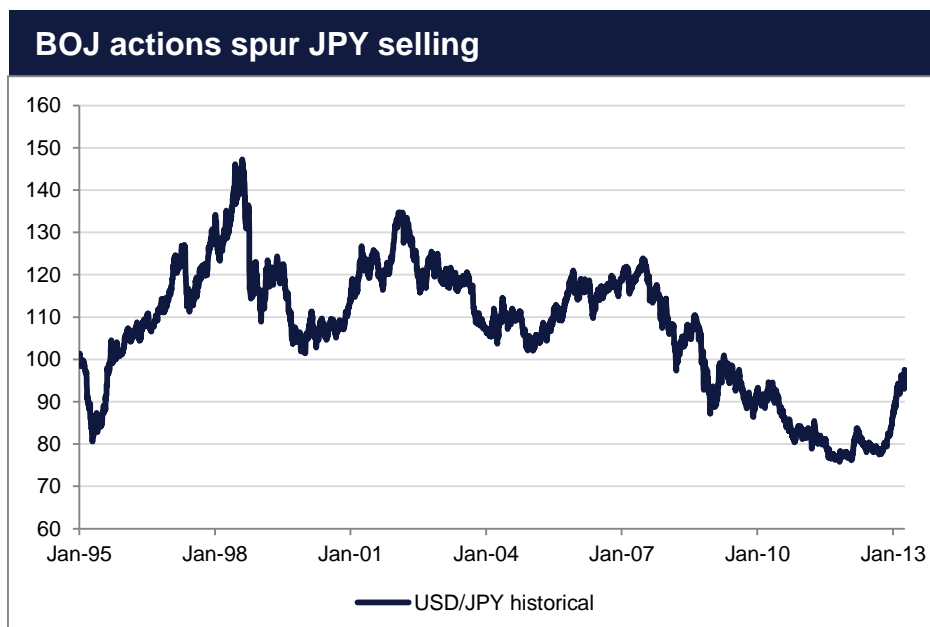
### Three key developments

While the Bank of Japan (BOJ) lived up to expectations last week, and even exceeded them by easing monetary policy substantially, the ECB lived down to them by sitting on its hands. US economic data also disappointed relative to what was expected with March employment data weakening after strong gains in January and February. These three developments will have significant implications for the FX markets in coming weeks, months and in some cases years.

### Bank of Japan leadership

The most significant and long lasting ones will be as they affect the JPY. The BOJ announced a substantial increase in its asset purchase program of historic proportions last week, described by the FT as a 'monetary revolution', moving away from interest rate targeting to targeting the monetary base of the economy which is expected to double over the coming two years. It will also double its rate of JGB purchases to JPY7.5 trillion per month and will double its bond holdings from JPY90 trillion currently to near JPY200 trillion in two years' time. Qualitatively as well the BOJ will purchase a broader range of assets from JGB's all the way out to 40 years, to commercial paper, corporate bonds, ETF's, and real estate investment trusts (REIT's). Effectively the BOJ will be buying around USD80bn of assets per month compared to the US Fed's USD85bn pace, but in an economy much smaller than the US the effect could be much more dramatic.

Monetary easing was to some extent priced into the JPY ahead of the BOJ meeting, but this went beyond what the markets were anticipating seeing another significant drop in the JPY's value as a result, with USD/JPY rising above our 1-month forecast of 97.0. Further depreciation of the JPY is likely, as bond yields are held down in a similar way that the Fed's QE purchases have suppressed US Treasury yields and the USD. Our 1-year USD/JPY forecast is currently 102, but this may need to be brought forward in view of the rapidly altering expectations that are underway. In 2014 USD/JPY is likely to climb further still potentially as high as 110, or even higher.



Source: Bloomberg, Emirates NBD Research

## ECB inertia

Most significant in the short term could be the impact on EUR/JPY, with BOJ policy leadership in combating deflation last week contrasting sharply with ECB policy inertia. ECB policy was unchanged with the refinancing rate left at 0.75% after 'extensive discussion' about cutting rates, and despite deteriorating economic growth trends, higher unemployment and lower inflation reported in recent weeks. Although President Draghi said that the ECB was 'ready to act' as he recognized mounting downside risks, he only went as far as to say that the expected H213 recovery 'could' be delayed.

In so doing Draghi did at least appear to be signaling that easier monetary conditions are being contemplated, with a June cut appearing the most likely in our view. Such a prospect is likely to continue to weigh on EUR sentiment in coming weeks, especially if the economic data remains in the doldrums. Eurozone industrial production will be watched closely in the coming days in this context, while negative political developments in Italy will also carry the potential to dampen EUR appetite. Also in the Eurozone this week, finance ministers will discuss whether Greece has done enough to qualify for the next round of loan payments (EUR2.8bn) which was supposed to have been transferred in March.

## Weak US data

That the EUR managed to finish the week back around 1.30 against this background says less about the ECB's failure to act, than it does about the USD which slipped back in the wake of disappointing jobs data. March non-farm payrolls grew by only 88,000, down from a revised 268,000 in February, with ISM data also showing a weaker trend in manufacturing and service sector activity as Q1 came to a close. Unemployment fell to 7.6% but this was as a result of a declining labor force, which fell to its lowest level since 1979. FX markets fear that the downturn might mark the beginning of a repeat of the weaker Q2 growth profiles seen in the last two years, thus making the Fed less likely to embark on an expected tapering-off in its QE purchases before the year-end. However, we suspect that this year's slowdown will not be quite the same as before, especially with the housing sector providing some unexpected resilience to growth even as sequestration spending cuts and tax rises come into effect.

The data does underscore, however, the need to find a more effective way of dealing with the budget deficit than the draconian across the board cuts that sequestration implies, something that the publication of President Obama's 2014 budget will probably highlight. The USD may have softened on Friday, but over the course of the year, the big themes are likely to remain net USD positive rather than negative. The JPY is likely to take over the USD's funding currency role as BOJ QE gets more forcefully underway, and the ECB still seems likely to cut rates further and embark on more unconventional measures rather than leave policy completely unchanged. In contrast, the debate about US QE is likely to ebb and flow, but with the likelihood being that it is much nearer to an end than the QE policies of either Japan or the Eurozone.

## GBP faces obstacles

GBP benefited as well from Friday's USD sell-off, also helped by a pick-up in the UK service sector PMI report, which rose to 52.4 in March from 51.8. Industrial production will be the main focus of attention on Tuesday this week, which will provide further guidance on whether the UK will experience another quarter of negative growth in Q1. Industrial production slumped in January by 1.2%, with manufacturing plunging by 1.5%, so the markets will be hoping for a recovery. However, with the weather probably playing a part in depressing the data throughout Q1, an improvement cannot be guaranteed. GBP will also have to contend with the likelihood of another weak trade balance, as well as renewed softness in the BRC measure of retail sales.

Considering these, GBP will be lucky if it is able to extend its latest gains.

### **North Korea – not to be ignored**

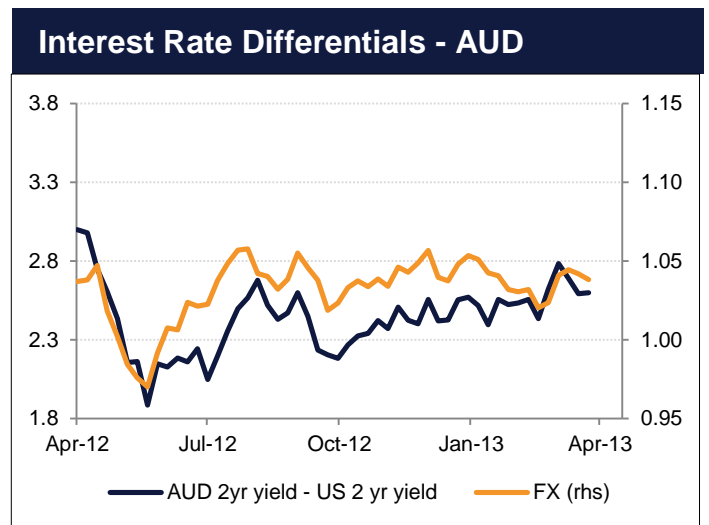
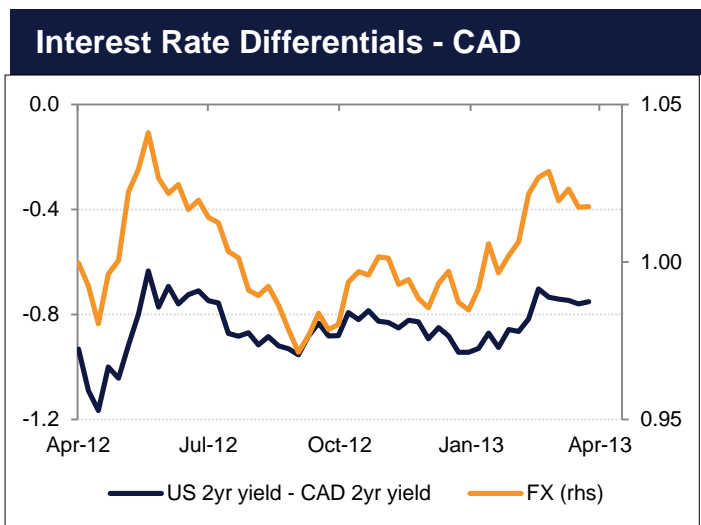
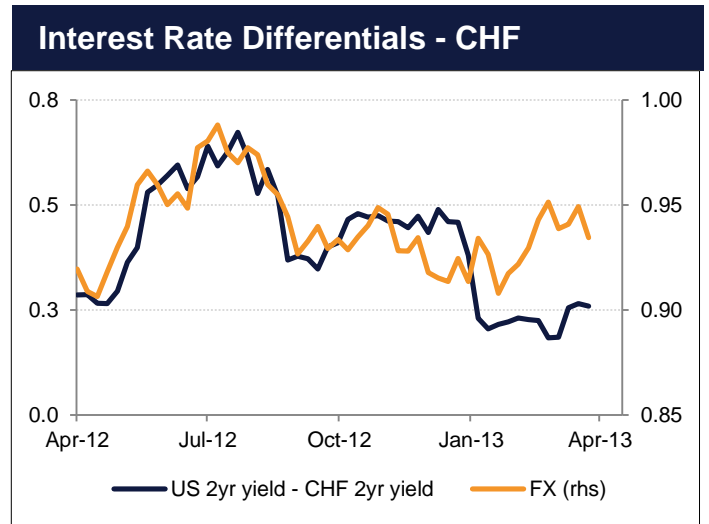
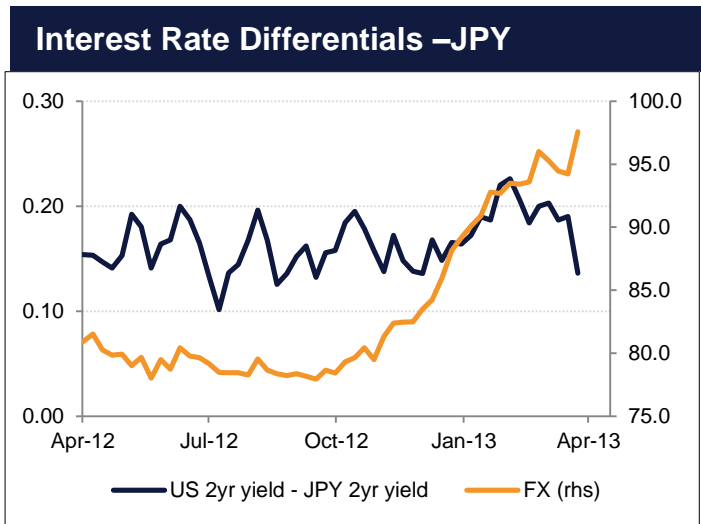
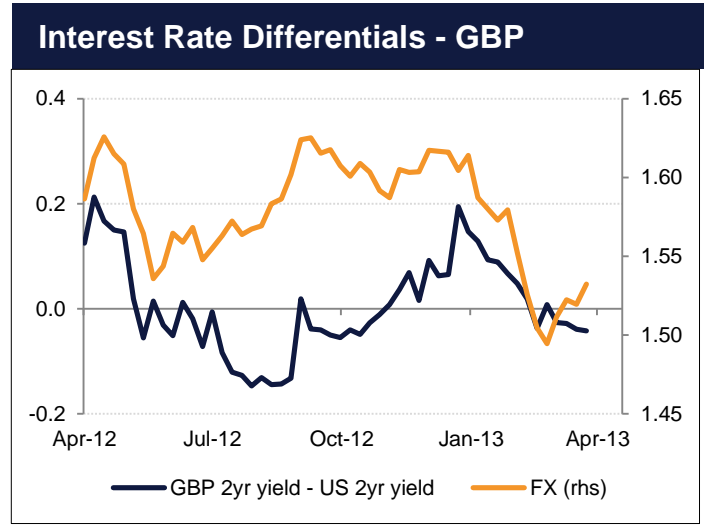
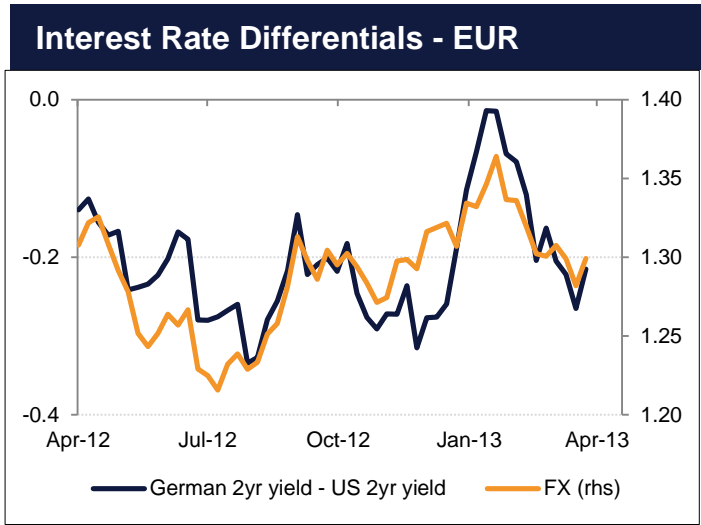
Amongst other factors to consider this week, developments on the Korean peninsula should not be overlooked given the heightened tension there and the instruction from North Korea in particular for western embassies to be evacuated in the coming week. FX markets will remain sensitive to such news, which has the potential to lend safe-haven support to the USD, and possibly on a temporary basis to the JPY. Chinese inflation, trade and lending data will also be keenly watched, to see if recent tightening measures are having any effect yet in slowing credit expansion in particular. Finally the Australian employment report may be important for the AUD, which counter to other trends elsewhere is starting to show signs of running out of upward momentum. A rise in the unemployment rate, from its current 5.4% could re-awaken thoughts of an RBA rate cut, a prospect kept alive by the RBA even though it left policy rates unchanged last week.

FX Forecasts - Major						Forwards		
	Spot 29.03	1M	3M	6M	12M	3M	6M	12M
EUR / USD	1.2991	1.27	1.25	1.20	1.15	1.2999	1.3009	1.3033
USD / JPY	97.57	97.0	96.0	98.0	102.0	97.51	97.43	97.19
USD / CHF	0.9344	0.96	0.98	1.02	1.08	0.9335	0.9322	0.9291
GBP / USD	1.5324	1.48	1.45	1.42	1.45	1.5316	1.5311	1.5306
AUD / USD	1.0383	1.01	0.97	0.94	0.90	1.0312	1.0242	1.0105
USD / CAD	1.0176	1.03	1.05	1.07	1.10	1.0197	1.0218	1.0259
EUR / GBP	0.8473	0.86	0.86	0.85	0.79	0.8482	0.8491	0.8510
EUR / JPY	126.79	123.2	120.0	117.6	117.3	126.79	126.79	126.79
EUR / CHF	1.2143	1.22	1.22	1.22	1.24	1.2139	1.2132	1.2114
FX Forecasts - Emerging						Forwards		
	Spot 29.03	1M	3M	6M	12M	3M	6M	12M
USD / SAR*	3.7502	3.75	3.75	3.75	3.75	3.7503	3.7507	3.7519
USD / AED*	3.6730	3.67	3.67	3.67	3.67	3.6731	3.6732	3.6733
USD / KWD	0.2855	0.282	0.285	0.282	0.28	0.2853	0.2850	0.2852
USD / OMR*	0.3850	0.38	0.38	0.38	0.38	0.3845	0.3841	0.3837
USD / BHD*	0.3770	0.376	0.376	0.376	0.376	0.3774	0.3777	0.3785
USD / QAR*	3.6411	3.64	3.64	3.64	3.64	3.6433	3.6446	3.6488
USD / INR	54.8125	53.75	53.00	52.00	51.00	54.8232	54.8318	54.8495
USD / CNY	6.2060	6.23	6.22	6.20	6.25	6.2735	6.2784	6.2950

\*Denotes USD peg

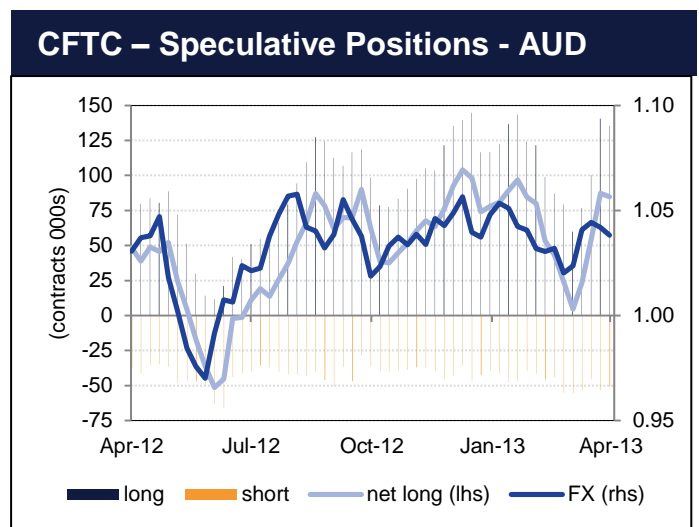
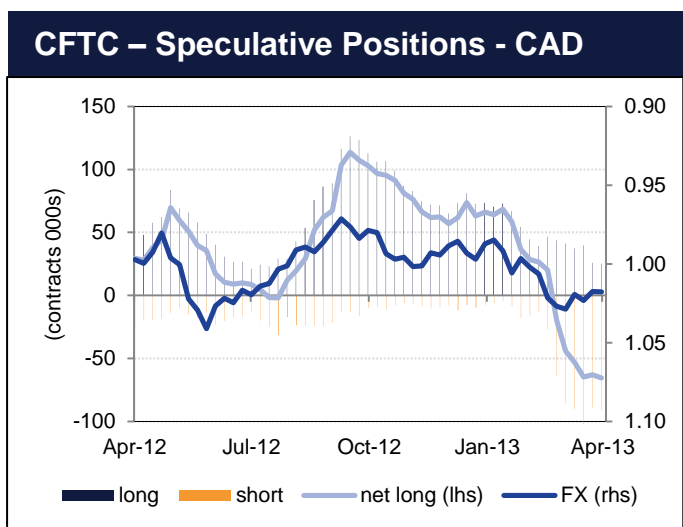
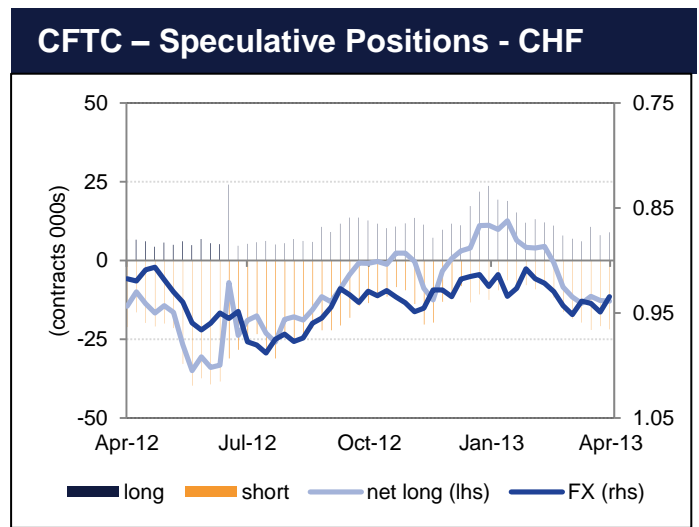
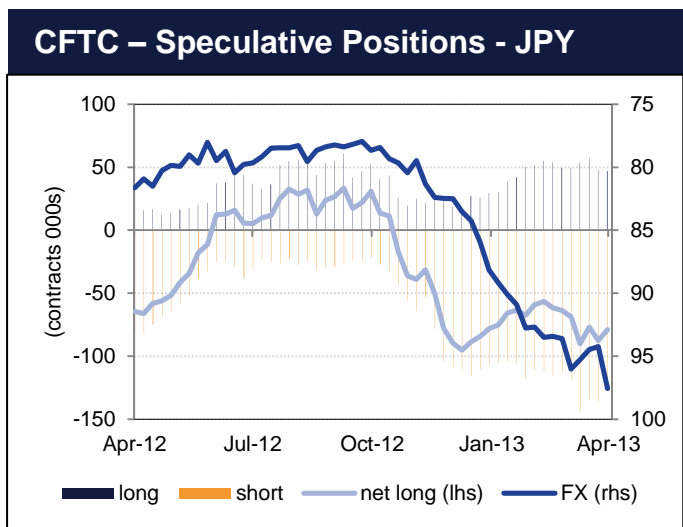
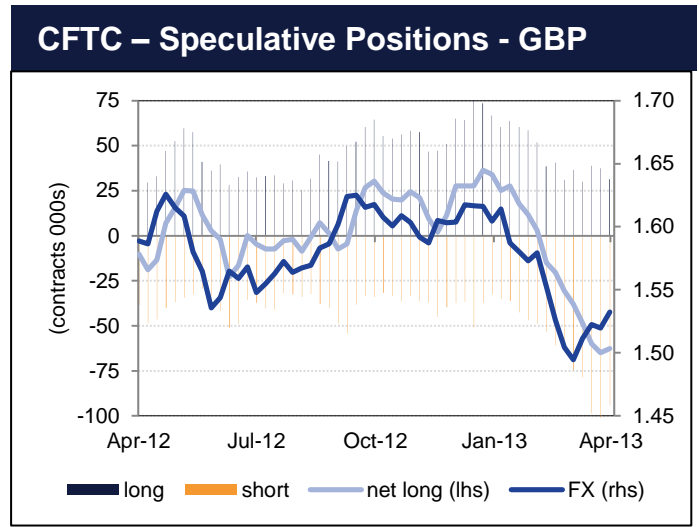
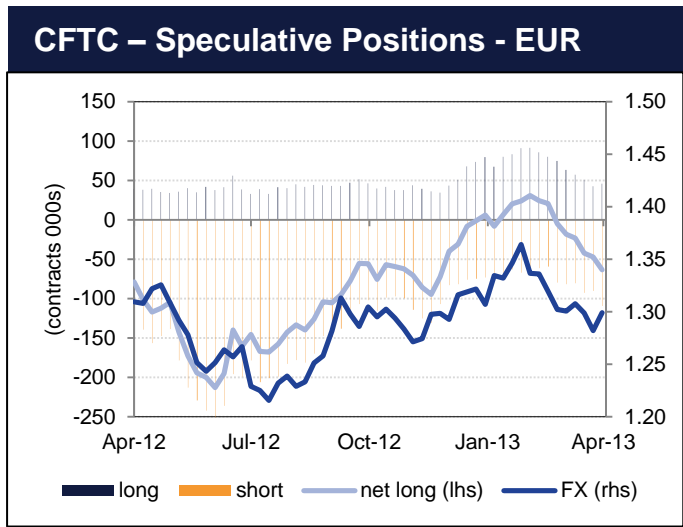
Source: Bloomberg, Emirates NBD Research

## Major Currency Pairs and Interest Rates



Source: Bloomberg, Emirates NBD Research

## Major Currency Positions



Source: Bloomberg, Emirates NBD Research

## Economic Calendar

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

Source: Bloomberg

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