



بنك الإمارات دبي الوطني
Emirates NBD

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FX Week

USD strength broadens out

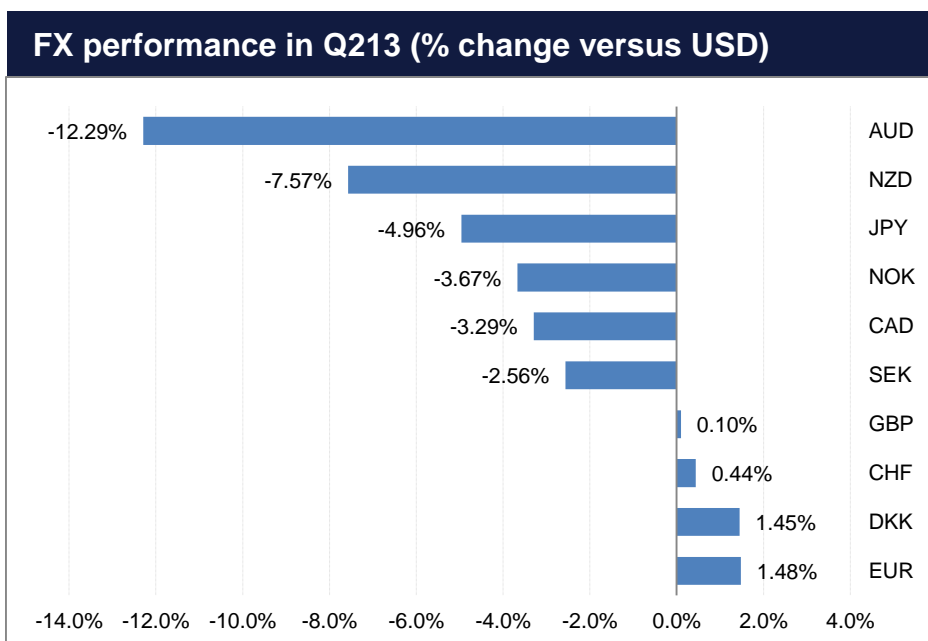
USD strength continued last week even as other asset markets were steadier following reassurances from Fed officials about QE 'tapering'. The USD appears to be on course to recapture JPY100 (our 1-month target) only two weeks after it plunged to 94, and the DXY index is showing that its recovery is becoming more broad based entering H213. The coming week will see US economic data continue to take centre-stage with central banks also likely to be a significant influence on events this week.

US jobs data again in the spotlight

The key economic releases in the week ahead will be the June US non-farm payrolls report as well as the national ISM surveys, especially following numerous comments from Fed officials over the last week emphasizing how data dependent the intention to 'taper' QE later this year is. A number of Fed officials have also highlighted the softness of inflation indicating that it may be prudent to wait to make sure inflation doesn't continue to underperform expectations. The Fed has also been at pains to stress that tapering does not equate to monetary tightening and that rate hikes will probably not occur until 2015 at the earliest, consistent with the unemployment rate at least meeting its 6.5% threshold. The markets are looking for a rebound in the manufacturing ISM index from 49.0 in May to 50.5 in June and for the non-farm payrolls to rise by 165k, with the unemployment rate dipping to 7.5%. Such outcomes would keep alive the prospect of the first 'tapering' being announced in September, consistent with our own expectation. This should help to keep the USD supported overall, but other variables also have to be taken into account, especially events in Europe and in Japan.

Eurozone problems are returning

At the end of last week Cyprus was downgraded by Fitch and S&P to selective default, after Cyprus completed an exchange of government bonds for longer-dated securities. This caused the ECB to rule Cyprus bonds as ineligible as collateral, highlighting the structural fault lines that remain in the Eurozone despite measures undertaken a few months ago to ease the country's debt burden and avoid a sovereign default. Situations elsewhere in the Eurozone are also problematic, with Ireland falling back into recession in Q1, and with France on course to miss its deficit targets according to President Hollande. In the coming week the focus will be on the ECB meeting on Thursday.



Source: Bloomberg, Emirates NBD Research

The refinance rate is widely expected to be left unchanged at 0.50% after a run of positive survey data for June, which supports the ECB's hopes for a gradual stabilisation in economic activity in H2. Despite this, however, ECB officials have been keen to point out that unlike the Fed, the Eurozone is still a long way from unwinding the stimulus measures currently in place. ECB board member Coeure said last week that the central bank will ensure that Eurozone yields and the yield curve slope will 'remain appropriate for its monetary policy stance' in the face of the impact from the Fed's QE tapering intentions. ECB President Draghi has also emphasized that OMT is 'even more essential now' in the face of peripheral bond yields that are threatening to break higher.

ECB message to remain dovish

Given such concerns, Draghi will likely leave the door open for further rate moves and be eager to reassure markets that any exit steps by the ECB are still a long way off. Any additional policy action is likely to concentrate on non-standard measures designed to improve financing conditions for the Eurozone's SMEs, which continue to face stiff credit constraints. The council remains split on the merits of negative interest rates but this will probably not have to be considered for some more months to come. The EUR is beginning to reflect the broadening strength of the USD, but with a current account surplus expected in the Euro area of more than 2.0% of GDP this year, this is exerting a counterweight to cyclical and structural pressures on the single currency. At 1.30, however, the EUR is half way to meeting our 1-month objective of 1.28, and we continue to forecast a 1.25 rate over the 3-months' time horizon, en route to our end-year target close to 1.20.

USD/JPY underpinned by improving Japanese data

Economic data from Japan last week lent strong support to the government's approach to stimulating the economy through a mixture of bold monetary and fiscal policy measures. PMI data improved in June while industrial production, retail sales and housing starts all rose in May. Most importantly inflation also rose in May, with the targeted CPI inflation rate ex-fresh food prices increasing to zero up from -0.4% y/y in April. This provides reassurance that the 2.0% inflation target in two-years' time remains a realistic possibility, helping the Nikkei to end the week positively. This in turn helped USD/JPY to finish strongly as well, bringing it back within range of 100 and of the year's highs at 103.74. The start of this week will see the Bank of Japan's Quarterly Tankan survey of business conditions released, an important bellwether of the economy's strength. The focus will be on the headline index for business conditions reported by large manufacturers, which rose to -8 in Q1 up from -12 in Q4. The expectation is for a further improvement to +3 in Q2, although it remains to be seen if the recent volatility in Japanese financial markets could have affected it. Should the outcome be as positive as expected then further gains for the Nikkei can be expected, and for these to feed through to benefit USD/JPY in the process.

BoE and RBA rate decisions due

Finally both the UK and Australia face monetary policy decisions in the coming week, but neither of them are expected to result in a change of policy for the moment leaving the GBP and the AUD relatively unmoved. In the Bank of England's case, the focus will be on the new Governor Mark Carney's first Monetary Policy Committee meeting, but although he is likely to want to move fast to establish his authority, it seems more likely that the 'forward guidance' for monetary policy he is charged with providing will not be seen until the next meeting in August. In Australia the RBA may also hold-off from cutting interest rates further from their current 2.75%, while keeping the doors open for a cut in August should inflation data released later in July underperform.

Global FX reserves composition updated

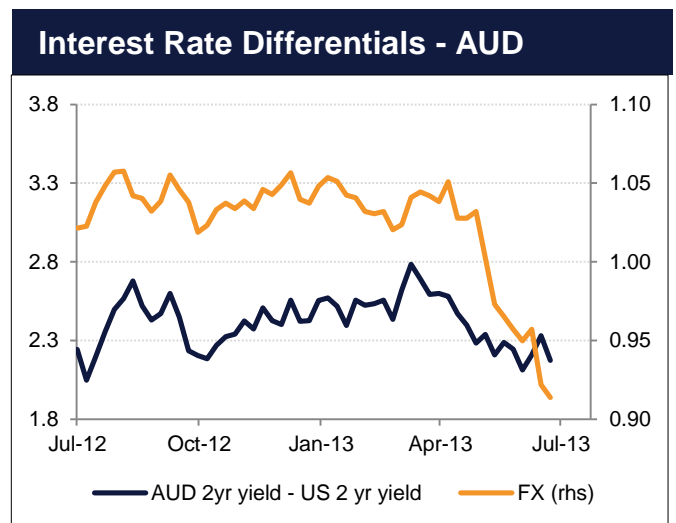
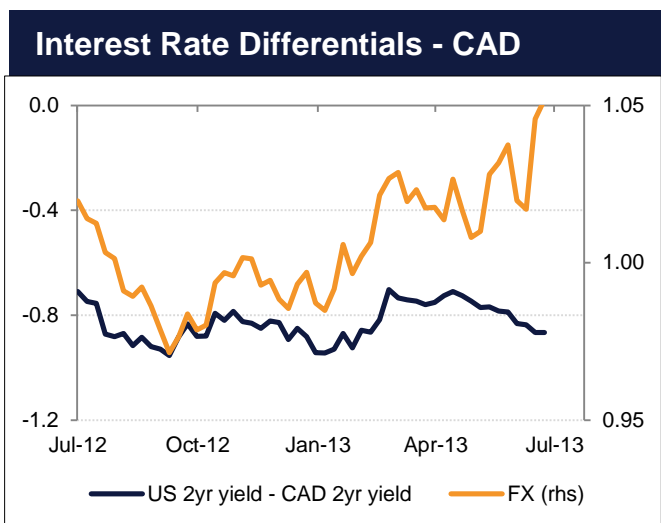
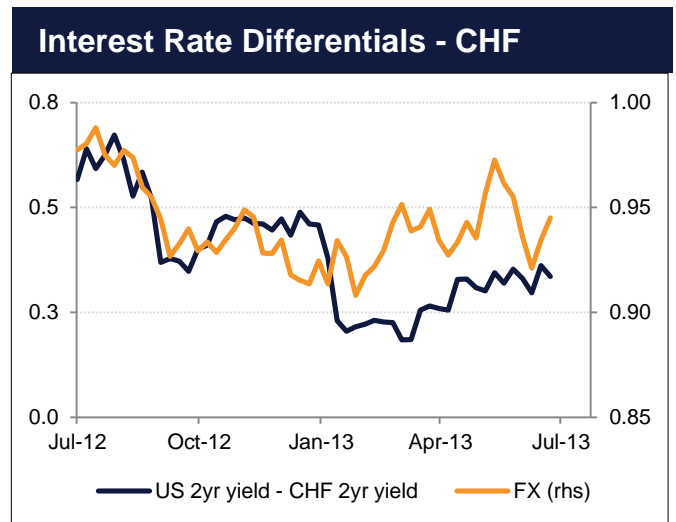
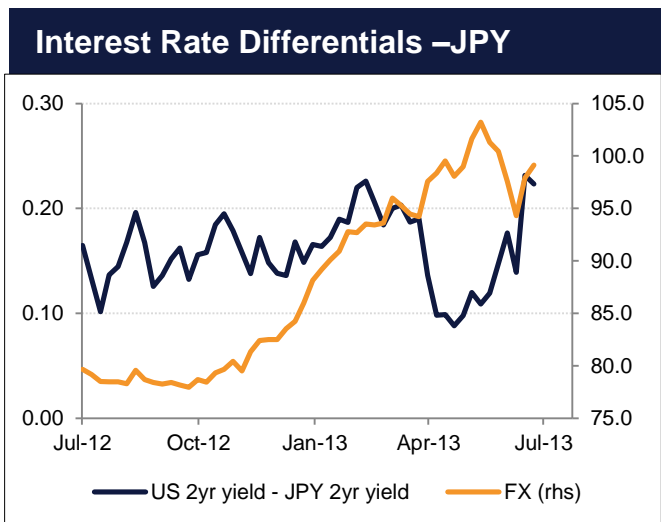
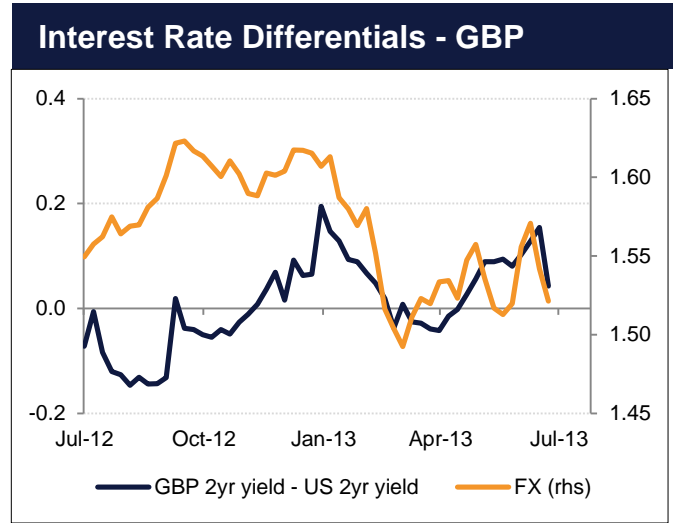
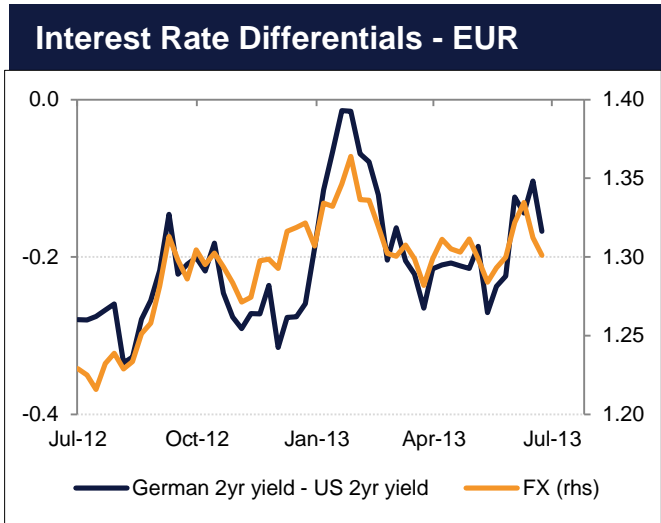
In terms of the AUD, it is worth noting that the IMF released data showing the composition of global foreign exchange reserves last week, including for the first time estimates for those reserves held in the AUD and CAD. These showed that the AUD and the CAD combined accounted for USD194bn of the USD6.05 trillion total official FX reserves in Q1 of this year. In percentage terms the AUD was 1.63% of total FX reserves in Q1, up from 1.48% in Q4, whilst the CAD's share was 1.57%, also up from 1.48% previously. Separately the Composition of FX Reserves data showed that USD reserves were 62.2% of total reserves in Q1, up from 61.2% in Q4, whilst the EUR's share fell slightly to 23.7%, down from 24.2% in Q4. Obviously since these figures were calculated the AUD/USD has fallen sharply from an average of 1.0390 in Q1, to an average of 0.9917 in Q2. With that decline being particularly steep since early May, to levels close to 0.91 currently, it seems more than probable that reserve managers will have played a part in reducing their AUD holdings over this period, consistent with a broad upturn in holdings of USD reserves generally.

FX Forecasts - Major						Forwards		
	Spot 28.06	1M	3M	6M	12M	3M	6M	12M
EUR / USD	1.3010	1.28	1.25	1.20	1.15	1.3015	1.3022	1.3038
USD / JPY	99.14	100.0	105.0	107.0	110.0	99.10	99.01	98.75
USD / CHF	0.9450	0.96	1.00	1.04	1.08	0.9442	0.9431	0.9403
GBP / USD	1.5213	1.51	1.48	1.45	1.45	1.5204	1.5196	1.5183
AUD / USD	0.9138	0.92	0.90	0.88	0.85	0.9077	0.9022	0.8918
USD / CAD	1.0519	1.03	1.05	1.07	1.10	1.0542	1.0566	1.0613
EUR / GBP	0.8552	0.85	0.84	0.83	0.79	0.8561	0.8570	0.8588
EUR / JPY	128.97	128.0	131.0	128.4	126.5	128.97	128.97	128.97
EUR / CHF	1.2292	1.23	1.25	1.25	1.24	1.2286	1.2279	1.2257
FX Forecasts - Emerging						Forwards		
	Spot 28.06	1M	3M	6M	12M	3M	6M	12M
USD / SAR*	3.7503	3.75	3.75	3.75	3.75	3.7502	3.7507	3.7512
USD / AED*	3.6729	3.67	3.67	3.67	3.67	3.6729	3.6729	3.6730
USD / KWD	0.2851	0.282	0.285	0.282	0.28	0.2880	0.2889	0.2923
USD / OMR*	0.3850	0.38	0.38	0.38	0.38	0.3838	0.3827	0.3825
USD / BHD*	0.3770	0.376	0.376	0.376	0.376	0.3776	0.3777	0.3785
USD / QAR*	3.6411	3.64	3.64	3.64	3.64	3.6431	3.6443	3.6464
USD / INR	59.3900	56.75	55.50	55.00	53.75	59.4003	59.4101	59.4268
USD / CNY	6.1375	6.23	6.22	6.20	6.25	6.2180	6.2405	6.2898

*Denotes USD peg

Source: Bloomberg, Emirates NBD Research

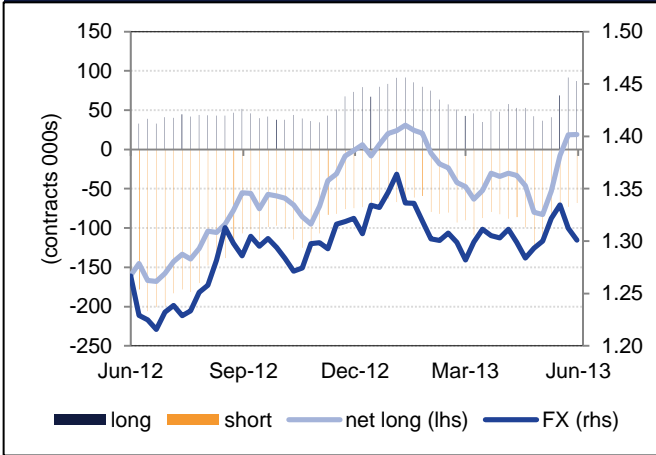
Major Currency Pairs and Interest Rates



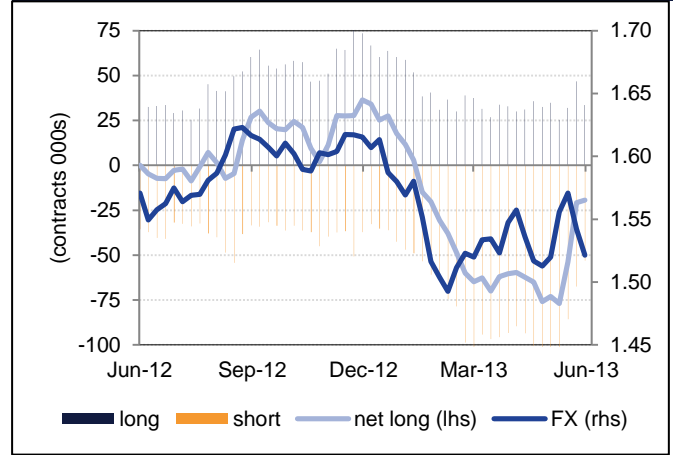
Source: Bloomberg, Emirates NBD Research

Major Currency Positions

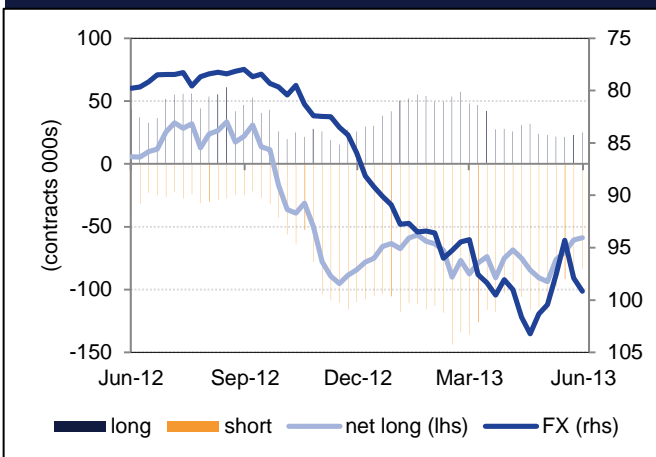
CFTC – Speculative Positions - EUR



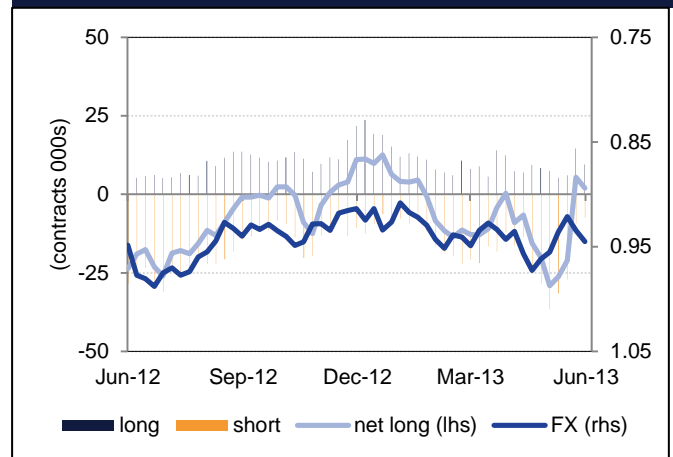
CFTC – Speculative Positions - GBP



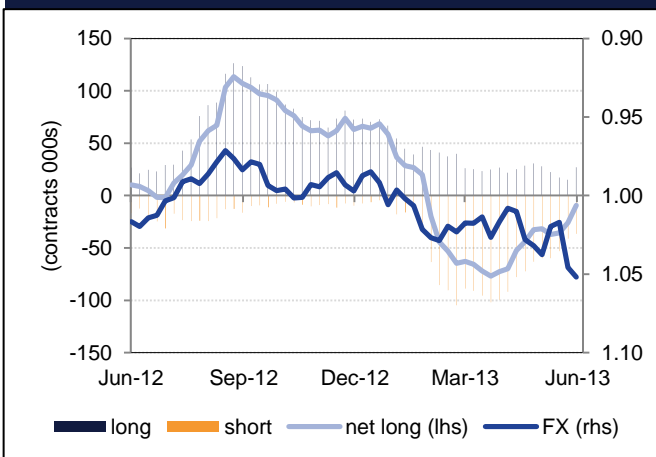
CFTC – Speculative Positions - JPY



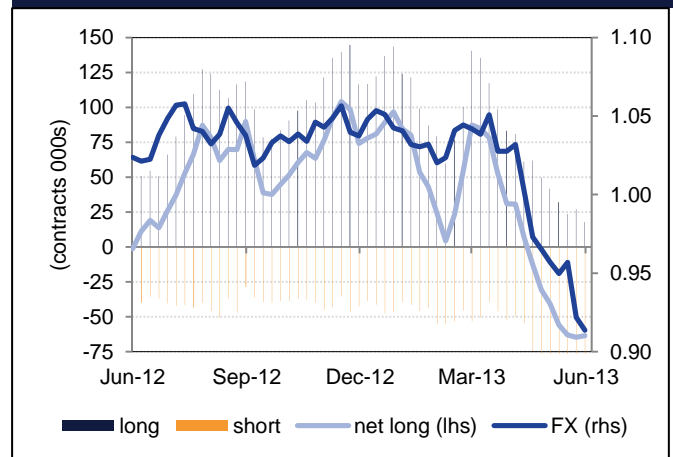
CFTC – Speculative Positions - CHF



CFTC – Speculative Positions - CAD



CFTC – Speculative Positions - AUD



Source: Bloomberg, Emirates NBD Research

Economic Calendar

Date	Country	Event
1-July	Japan	Tankan Survey
	China	Manufacturing PMI
	Switzerland	Manufacturing PMI
	Italy	Manufacturing PMI
	France	Manufacturing PMI
	Germany	Manufacturing PMI
	Eurozone	Manufacturing PMI
	UK	Manufacturing PMI
	Italy	Unemployment Rate
	Brazil	Manufacturing PMI
	US	ISM Manufacturing
	Russia	Refinancing Rate
	2-July	Australia
Brazil		Industrial Production
US		Factory Orders
3-July	China	Non-manufacturing PMI
	Australia	Trade Balance
	Australia	Retail Sales
	Italy	Services PMI
	France	Services PMI
	Germany	Services PMI
	Eurozone	Services PMI
	UK	Services PMI
	Eurozone	Retail Sales
	US	MBA Mortgage Applications
	US	ADP Employment Change
	US	Trade Balance
	US	Initial Jobless Claims
	US	ISM Non-Manufacturing Composite
4-July	UK	BoE announces Rates
	Eurozone	ECB announces Rates
5-July	Russia	CPI
	France	Trade Balance
	Switzerland	CPI
	Germany	Factory Orders

5-July	Canada	Unemployment Rate
	US	Change in Non-Farm payrolls
	US	Unemployment Rate

Source: Bloomberg

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