



بنك الإمارات دبي الوطني
Emirates NBD

Weekly
18 August 2013

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

FX Week

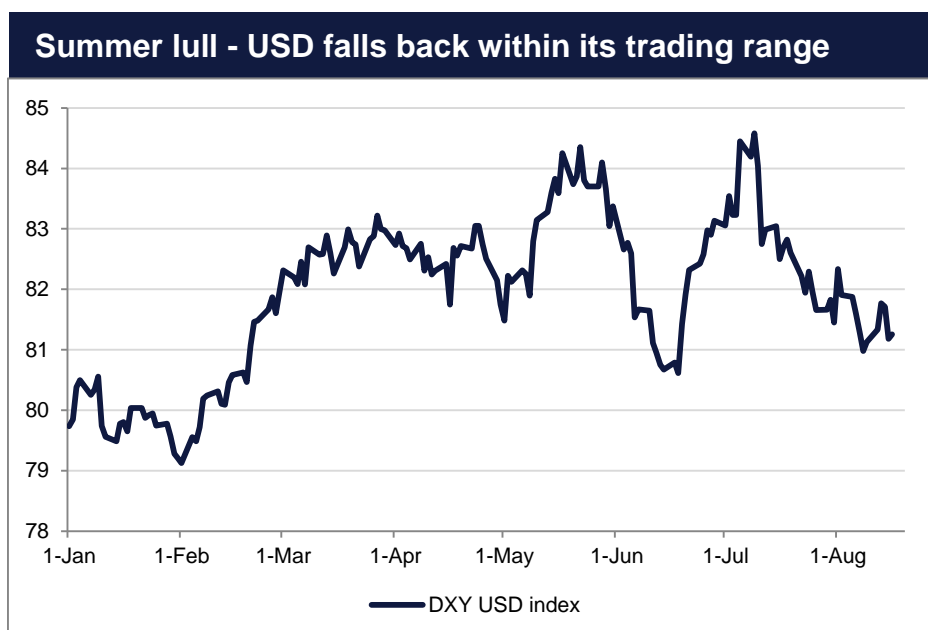
Summer 'health warnings' for FX

After threatening to break higher at the beginning of the summer the USD has fallen back in recent weeks, dampened by the signs of improving growth in the Eurozone, UK and China, as well as by the ongoing uncertainty about whether and when QE will begin being 'tapered' by the Fed. From appearing almost a 'foregone conclusion' in late June, there is still, even now, considerable uncertainty about whether a September FOMC 'tapering' will actually be announced. According to Bloomberg, 65% of global economists expect the Fed to begin tapering in September, no longer the near unanimity seen in late June. However, such negative effects on the USD we believe are also being magnified by issues of liquidity and the seasonal thinness of the FX market in the summer months. Usually we think it is sensible to apply a 'health warning' to the currency movements seen in July and August, and this year, we believe, is no exception.

The seasonal reduction in speculative position-taking is clearly playing a role in preventing the USD from rallying, as shown by the reduction in long USD positions on page 6. Even as US bond yields have continued to push higher, to 2.80% in 10-year terms last week, the USD has stalled and in some cases reversed. The other obvious explanation for this is the fact that bond yields elsewhere have also been on the rise, effectively cancelling out the benefit that might normally accrue to the USD from surging bond yields. Thus interest rate differentials between the US and the Eurozone for instance have ceased to provide, for the moment at least, firm downward direction to EUR/USD (see page 5).

USD weakness should prove temporary

We suspect that this period will prove temporary, however. First of all we still believe that the Fed meeting in September will deliver a small reduction in QE, something that will matter to FX markets when it finally happens given how much expectations of such a move have diminished in recent weeks. As Atlanta Fed President Lockhart recently commented 'a decision to proceed – whether it is in September, October or December – ought to be thought of as a cautious first step'.



Source: Bloomberg, Emirates NBD Research

Reinforcing the argument for a small reduction in QE has been further strength in the jobs market, with weekly jobless claims falling by 15k in the latest week to 320k, the lowest level since 2007. Furthermore, concerns about the low levels of inflation have been partially allayed by the news that July CPI data saw headline inflation reach 2.0%, while the core rate rose to 1.7%. This week will see the minutes of the July FOMC meeting released, which may contain clues as to whether a September 'tapering' is being considered. Beyond this the August jobs data to be released on September 6th is likely to be seen as the last barrier potentially standing in the way of such a move.

Cyclical strength is buoying the EUR, GBP for now

The other aspect to the USD's buffeting has been the cyclical recoveries seemingly underway elsewhere. The Eurozone finally emerged from recession in Q2, with growth of 0.3%, following on from a 0.6% growth rate seen in the United Kingdom. Such recoveries appear to have taken the markets by surprise, with European bond yields moving sharply higher which have served to minimize the benefit to the USD from rising Treasury yields. How far this symmetry in reactions can continue, however, remains uncertain. While the optimism about the US recovery should receive endorsement from the Fed when it starts to reduce the amount of QE in the US economy, the ECB can probably not afford to be so sanguine, either to higher bond yields or to a firmer EUR.

Likewise the Bank of England, which only this month detailed its own 'forward guidance', linking any changes in monetary policy to the unemployment rate, risks seeing its good work being washed away by the rising tide of global yields. Neither the ECB nor the BOE can take for granted the likelihood of these tentative recoveries being maintained, increasing the need for 'forward guidance' to be intensified, or for more easing steps to be implemented. As we would still not rule out either, our sense remains that the rallies by the EUR and GBP are approaching the limits of acceptability as far as policymakers are concerned.

The coming week is unlikely to present much by the way of new information, although preliminary Eurozone PMI data for August could generate more EUR buying if it suggests that Q3 growth was also positive. The next big test will come, as with the US in September, however, when the ECB Council meeting will also update its economic forecasts. A more downbeat prognosis of the Eurozone's outlook can be expected as the ECB attempts to steer markets away from too much optimism about the Eurozone recovery and engineer lower yields and a weaker EUR exchange rate in the process. In the UK, the BoE may have to be even more forceful with more QE likely to be necessary to quell the upturn in gilt yields.

USD/JPY's progress also interrupted

USD/JPY's progress has also be interrupted over the past month by the renewed uncertainty over US monetary policy. To some extent as well the debate over a planned increase in the sales tax in Japan next year has also renewed some concerns about the sustainability of the Japanese recovery, especially following the dip in Q2 GDP growth to 'just' 2.6%. On the positive side, however, Japanese investors are now demonstrating renewed appetite for overseas assets, with the latest data from the Ministry of Finance in Japan showing local institutions buying JPY1.6 trillion of foreign bonds in the latest week, the strongest rate since 2010. This appetite is understandable as relative interest rate differentials are now moving more consistently in the USD's favour, after the divergence seen immediately after the BOJ announced aggressive QE in early April. The coming week will probably see more conjecture about the sales tax, but this issue may not be resolved until later in the year by which time the markets should have greater certainty about the path of US monetary policy.

But no respite for the INR

For the most part other USD currency pairs have also reflected the uncertainty about US monetary policy, with the depreciation of the AUD, NZD and CAD also all coming to a halt, all awaiting to varying degrees greater clarity from the Fed, as well as looking for direction about the local policy outlook. Bucking this trend, however, has been the INR which has been one of the worst returning currencies this year, down almost 11% versus the USD since the start of the year, and down nearly 4.0% in the last month alone at a time when most other global currencies have been performing positively.

A month ago we forecast a resumption of INR weakness and this has come about despite a series of measures undertaken by the Indian authorities. The Reserve Bank of India increased efforts again last week to stem the INR's decline, by cutting the amount local companies can invest overseas without seeking approval, in addition to restricting currency derivatives and curbing gold imports. Ironically this only seemed to galvanize the selling pressure against the INR, with investors deterred by the maintenance of significant macro imbalances in the economy and sensing the fear on the part of the authorities. These imbalances were again highlighted last week by a further decline in Industrial production momentum, and an increase in WPI inflation. The Finance Minister's commitment to cut the current account deficit to 3.7% of GDP next year down from 4.8% currently is certainly laudable, but for the time being at least the markets appear unwilling to give him the benefit of the doubt.

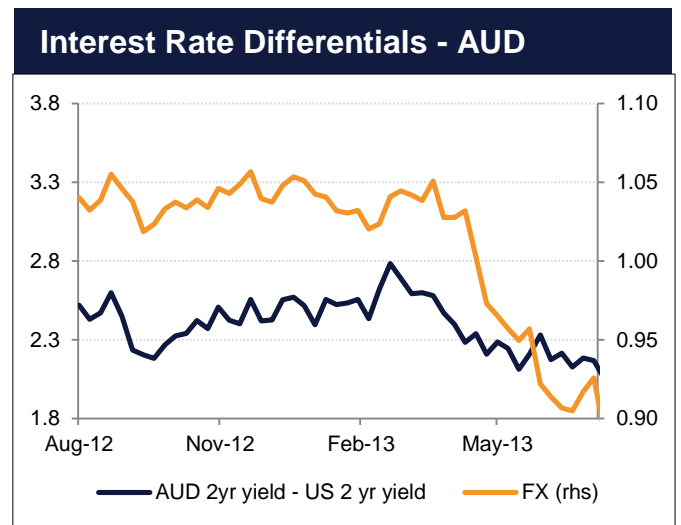
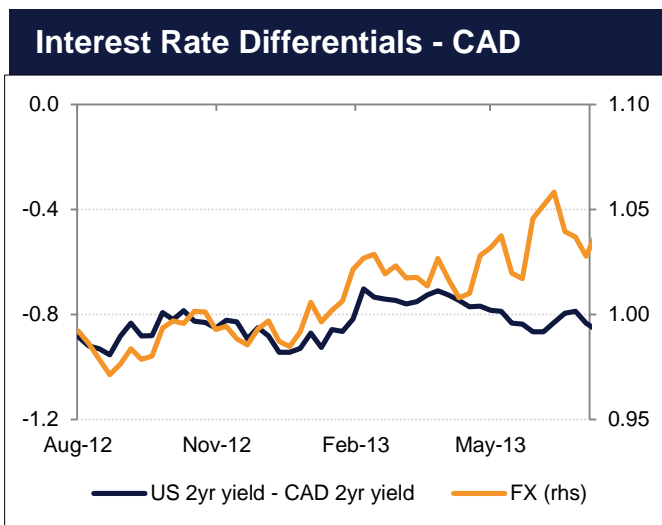
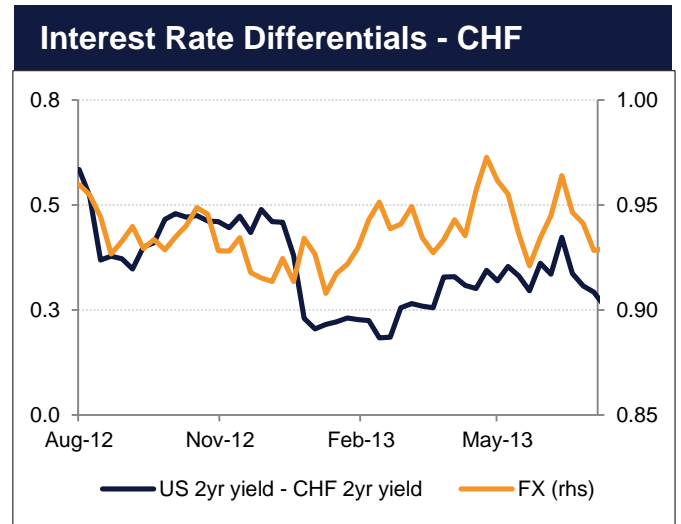
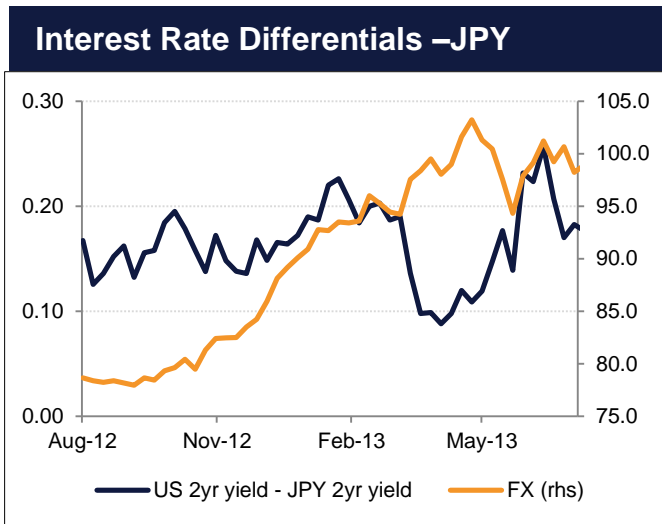
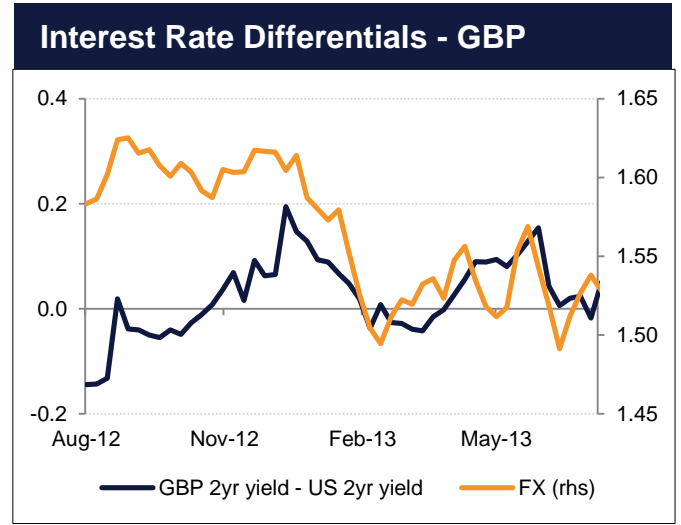
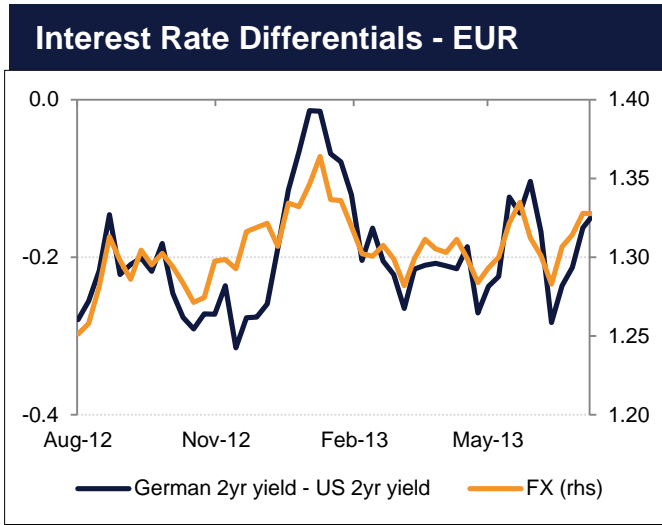
FX Forecasts - Major						Forwards		
	Spot 16.08	1M	3M	6M	12M	3M	6M	12M
EUR / USD	1.3329	1.30	1.25	1.20	1.15	1.3333	1.3338	1.3347
USD / JPY	97.53	100.0	105.0	107.0	110.0	97.48	97.40	97.18
USD / CHF	0.9265	0.95	1.00	1.04	1.10	0.9258	0.9249	0.9227
GBP / USD	1.5623	1.52	1.48	1.45	1.47	1.5613	1.5603	1.5586
AUD / USD	0.9185	0.90	0.88	0.85	0.80	0.9130	0.9077	0.8973
USD / CAD	1.0336	1.04	1.06	1.07	1.10	1.0359	1.0382	1.0429
EUR / GBP	0.8528	0.85	0.84	0.83	0.78	0.8537	0.8545	0.8560
EUR / JPY	130.00	130.0	131.0	128.4	126.5	130.00	130.00	130.00
EUR / CHF	1.2349	1.24	1.25	1.25	1.27	1.2344	1.2336	1.2315

FX Forecasts - Emerging						Forwards		
	Spot 16.08	1M	3M	6M	12M	3M	6M	12M
USD / SAR*	3.7504	3.75	3.75	3.75	3.75	3.7508	3.7511	3.7523
USD / AED*	3.6730	3.67	3.67	3.67	3.67	3.6729	3.6729	3.6730
USD / KWD	0.2844	0.282	0.285	0.282	0.28	0.2880	0.2920	0.2949
USD / OMR*	0.3850	0.38	0.38	0.38	0.38	0.3842	0.3835	0.3825
USD / BHD*	0.3770	0.376	0.376	0.376	0.376	0.3776	0.3779	0.3791
USD / QAR*	3.6415	3.64	3.64	3.64	3.64	3.6434	3.6470	3.6500
USD / INR	61.7063	62.00	61.00	59.00	57.00	61.7228	61.7357	61.7587
USD / CNY	6.1143	6.15	6.15	6.20	6.20	6.1809	6.1989	6.2079

*Denotes USD peg

Source: Bloomberg, Emirates NBD Research

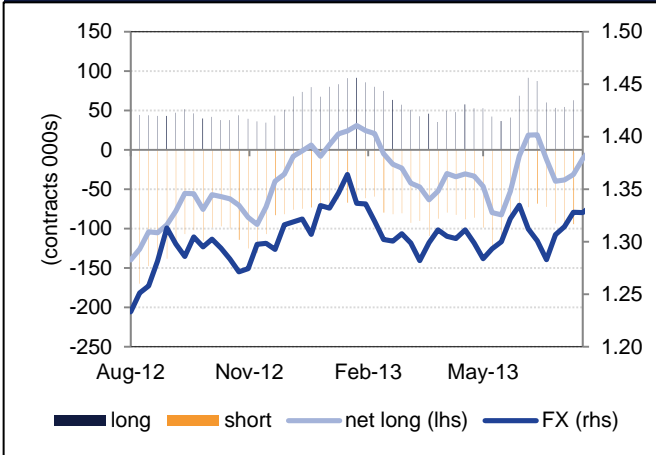
Major Currency Pairs and Interest Rates



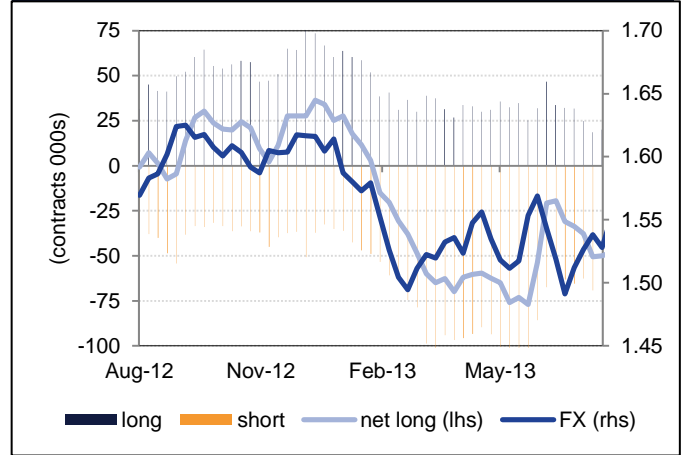
Source: Bloomberg, Emirates NBD Research

Major Currency Positions*

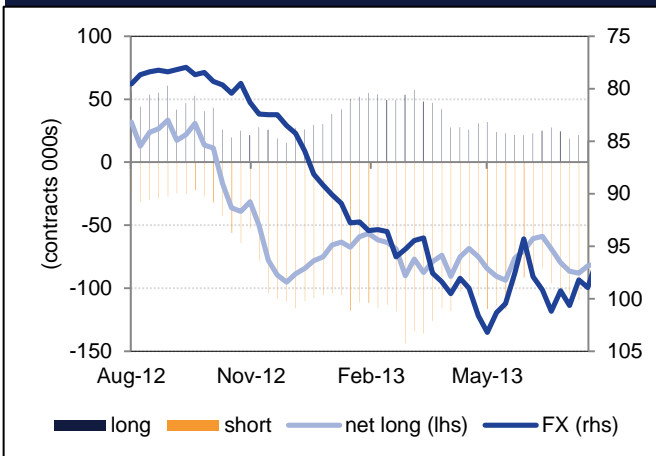
CFTC – Speculative Positions - EUR



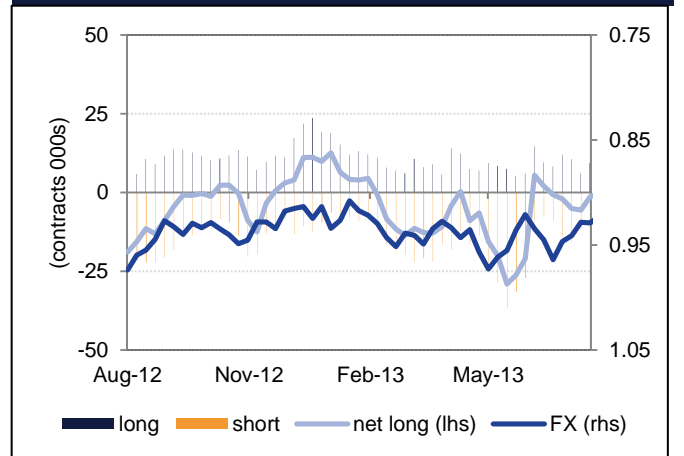
CFTC – Speculative Positions - GBP



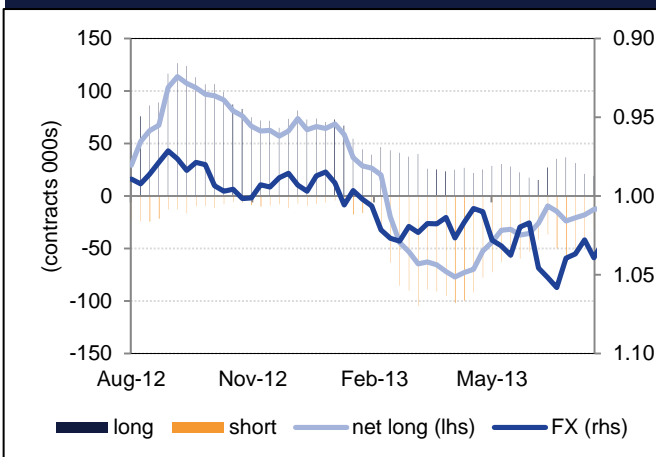
CFTC – Speculative Positions - JPY



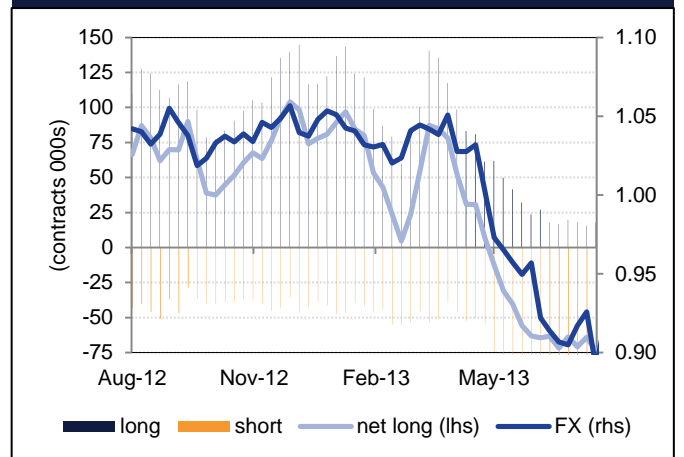
CFTC – Speculative Positions - CHF



CFTC – Speculative Positions - CAD



CFTC – Speculative Positions - AUD



Source: Bloomberg, Emirates NBD Research
*Data as of 25th June, 2013

Disclaimer

PLEASE READ THE FOLLOWING TERMS AND CONDITIONS OF ACCESS FOR THE PUBLICATION BEFORE THE USE THEREOF. By continuing to access and use the publication, you signify you accept these terms and conditions. Emirates NBD reserves the right to amend, remove, or add to the publication and Disclaimer at any time. Such modifications shall be effective immediately. Accordingly, please continue to review this Disclaimer whenever accessing, or using the publication. Your access of, and use of the publication, after modifications to the Disclaimer will constitute your acceptance of the terms and conditions of use of the publication, as modified. If, at any time, you do not wish to accept the content of this Disclaimer, you may not access, or use the publication. Any terms and conditions proposed by you which are in addition to or which conflict with this Disclaimer are expressly rejected by Emirates NBD and shall be of no force or effect. Information contained herein is believed by Emirates NBD to be accurate and true but Emirates NBD expresses no representation or warranty of such accuracy and accepts no responsibility whatsoever for any loss or damage caused by any act or omission taken as a result of the information contained in the publication. The publication is provided for informational uses only and is not intended for trading purposes. Charts, graphs and related data/information provided herein are intended to serve for illustrative purposes. The data/information contained in the publication is not designed to initiate or conclude any transaction. In addition, the data/information contained in the publication is prepared as of a particular date and time and will not reflect subsequent changes in the market or changes in any other factors relevant to their determination. The publication may include data/information taken from stock exchanges and other sources from around the world and Emirates NBD does not guarantee the sequence, accuracy, completeness, or timeliness of information contained in the publication provided thereto by or obtained from unaffiliated third parties. Moreover, the provision of certain data/information in the publication may be subject to the terms and conditions of other agreements to which Emirates NBD is a party.

None of the content in the publication constitutes a solicitation, offer or recommendation by Emirates NBD to buy or sell any security, or represents the provision by Emirates NBD of investment advice or services regarding the profitability or suitability of any security or investment. Moreover, the content of the publication should not be considered legal, tax, accounting advice. The publication is not intended for use by, or distribution to, any person or entity in any jurisdiction or country where such use or distribution would be contrary to law or regulation. Accordingly, anything to the contrary herein set forth notwithstanding, Emirates NBD, its suppliers, agents, directors, officers, employees, representatives, successors, assigns, affiliates or subsidiaries shall not, directly or indirectly, be liable, in any way, to you or any other person for any: (a) inaccuracies or errors in or omissions from the publication including, but not limited to, quotes and financial data; (b) loss or damage arising from the use of the publication, including, but not limited to any investment decision occasioned thereby. (c) UNDER NO CIRCUMSTANCES, INCLUDING BUT NOT LIMITED TO NEGLIGENCE, SHALL EMIRATES NBD, ITS SUPPLIERS, AGENTS, DIRECTORS, OFFICERS, EMPLOYEES, REPRESENTATIVES, SUCCESSORS, ASSIGNS, AFFILIATES OR SUBSIDIARIES BE LIABLE TO YOU FOR DIRECT, INDIRECT, INCIDENTAL, CONSEQUENTIAL, SPECIAL, PUNITIVE, OR EXEMPLARY DAMAGES EVEN IF EMIRATES NBD HAS BEEN ADVISED SPECIFICALLY OF THE POSSIBILITY OF SUCH DAMAGES, ARISING FROM THE USE OF THE PUBLICATION, INCLUDING BUT NOT LIMITED TO, LOSS OF REVENUE, OPPORTUNITY, OR ANTICIPATED PROFITS OR LOST BUSINESS. The information contained in the publication does not purport to contain all matters relevant to any particular investment or financial instrument and all statements as to future matters are not guaranteed to be accurate. Anyone proposing to rely on or use the information contained in the publication should independently verify and check the accuracy, completeness, reliability and suitability of the information and should obtain independent and specific advice from appropriate professionals or experts regarding information contained in the publication. Further, references to any financial instrument or investment product is not intended to imply that an actual trading market exists for such instrument or product. In publishing this document Emirates NBD is not acting in the capacity of a fiduciary or financial advisor.

Emirates NBD and its group entities (together and separately, "Emirates NBD") does and may at any time solicit or provide commercial banking, investment banking, credit, advisory or other services to the companies covered in its reports. As a result, recipients of this report should be aware that any or all of the foregoing services may at times give rise to a conflict of interest that could affect the objectivity of this report.

The securities covered by this report may not be suitable for all types of investors. The report does not take into account the investment objectives, financial situations and specific needs of recipients.

Data included in the publication may rely on models that do not reflect or take into account all potentially significant factors such as market risk, liquidity risk and credit risk. Emirates NBD may use different models, make valuation adjustments, or use different methodologies when determining prices at which Emirates NBD is willing to trade financial instruments and/or when valuing its own inventory positions for its books and records. In receiving the publication, you acknowledge and agree that there are risks associated with investment activities. Moreover, you acknowledge in receiving the publication that the responsibility to obtain and carefully read and understand the content of documents relating to any investment activity described in the publication and to seek separate, independent financial advice if required to assess whether a particular investment activity described herein is suitable, lies exclusively with you. You acknowledge and agree that past investment performance is not indicative of the future performance results of any investment and that the information contained herein is not to be used as an indication for the future performance of any investment activity. You acknowledge that the publication has been developed, compiled, prepared, revised, selected, and arranged by Emirates NBD and others (including certain other information sources) through the application of methods and standards of judgment developed and applied through the expenditure of substantial time, effort, and money and constitutes valuable intellectual property of Emirates NBD and such others. All present and future rights in and to trade secrets, patents, copyrights, trademarks, service marks, know-how, and other proprietary rights of any type under the laws of any governmental authority, domestic or foreign, shall, as between you and Emirates NBD, at all times be and remain the sole and exclusive property of Emirates NBD and/or other lawful parties. Except as specifically permitted in writing, you acknowledge and agree that you may not copy or make any use of the content of the publication or any portion thereof. Except as specifically permitted in writing, you shall not use the intellectual property rights connected with the publication, or the names of any individual participant in, or contributor to, the content of the publication, or any variations or derivatives thereof, for any purpose.

YOU AGREE TO USE THE PUBLICATION SOLELY FOR YOUR OWN NONCOMMERCIAL USE AND BENEFIT, AND NOT FOR RESALE OR OTHER TRANSFER OR DISPOSITION TO, OR USE BY OR FOR THE BENEFIT OF, ANY OTHER PERSON OR ENTITY. YOU AGREE NOT TO USE, TRANSFER, DISTRIBUTE, OR DISPOSE OF ANY DATA/INFORMATION CONTAINED IN THE PUBLICATION IN ANY MANNER THAT COULD COMPETE WITH THE BUSINESS INTERESTS OF EMIRATES NBD. YOU MAY NOT COPY, REPRODUCE, PUBLISH, DISPLAY, MODIFY, OR CREATE DERIVATIVE WORKS FROM ANY DATA/INFORMATION CONTAINED IN THE PUBLICATION. YOU MAY NOT OFFER ANY PART OF THE PUBLICATION FOR SALE OR DISTRIBUTE IT OVER ANY MEDIUM WITHOUT THE PRIOR WRITTEN CONSENT OF EMIRATES NBD. THE DATA/INFORMATION CONTAINED IN THE PUBLICATION MAY NOT BE USED TO CONSTRUCT A DATABASE OF ANY KIND. YOU MAY NOT USE THE DATA/INFORMATION IN THE PUBLICATION IN ANY WAY TO IMPROVE THE QUALITY OF ANY DATA SOLD OR CONTRIBUTED TO BY YOU TO ANY THIRD PARTY. FURTHERMORE, YOU MAY NOT USE ANY OF THE TRADEMARKS, TRADE NAMES, SERVICE MARKS, COPYRIGHTS, OR LOGOS OF EMIRATES NBD OR ITS SUBSIDIARIES IN ANY MANNER WHICH CREATES THE IMPRESSION THAT SUCH ITEMS BELONG TO OR ARE ASSOCIATED WITH YOU OR, EXCEPT AS OTHERWISE PROVIDED WITH EMIRATES NBD'S PRIOR WRITTEN CONSENT, AND YOU ACKNOWLEDGE THAT YOU HAVE NO OWNERSHIP RIGHTS IN AND TO ANY OF SUCH ITEMS. MOREOVER YOU AGREE THAT YOUR USE OF THE PUBLICATION IS AT YOUR SOLE RISK AND ACKNOWLEDGE THAT THE PUBLICATION AND ANYTHING CONTAINED HEREIN, IS PROVIDED "AS IS" AND "AS AVAILABLE," AND THAT EMIRATES NBD MAKES NO WARRANTY OF ANY KIND, EXPRESS OR IMPLIED, AS TO THE PUBLICATION, INCLUDING, BUT NOT LIMITED TO, MERCHANTABILITY, NON-INFRINGEMENT, TITLE, OR FITNESS FOR A PARTICULAR PURPOSE OR USE. You agree, at your own expense, to indemnify, defend and hold harmless Emirates NBD, its Suppliers, agents, directors, officers, employees, representatives, successors, and assigns from and against any and all claims, damages, liabilities, costs, and expenses, including reasonable attorneys' and experts' fees, arising out of or in connection with the publication, including, but not limited to: (i) your use of the data contained in the publication or someone using such data on your behalf; (ii) any deletions, additions, insertions or alterations to, or any unauthorized use of, the data contained in the publication or (iii) any misrepresentation or breach of an acknowledgement or agreement made as a result of your receiving the publication.

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
Analyst
+971 4 230 7802
adityap@emiratesnbd.com

Jean-Paul Pigat
MENA Economist
+971 4 230 7807
jeanp@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
numaira@emiratesnbd.com

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

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

Egypt
Shahinaz Foda
+20 22 726 5050
shahinaz.foda@bnpparibas.com

Group Corporate Communications

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

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