



بنك الإمارات دبي الوطني
Emirates NBD

Weekly
1 September 2013

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

Aditya Pugalia
Analyst
+971 4 230 7802
adityap@emiratesnbd.com

FX Week

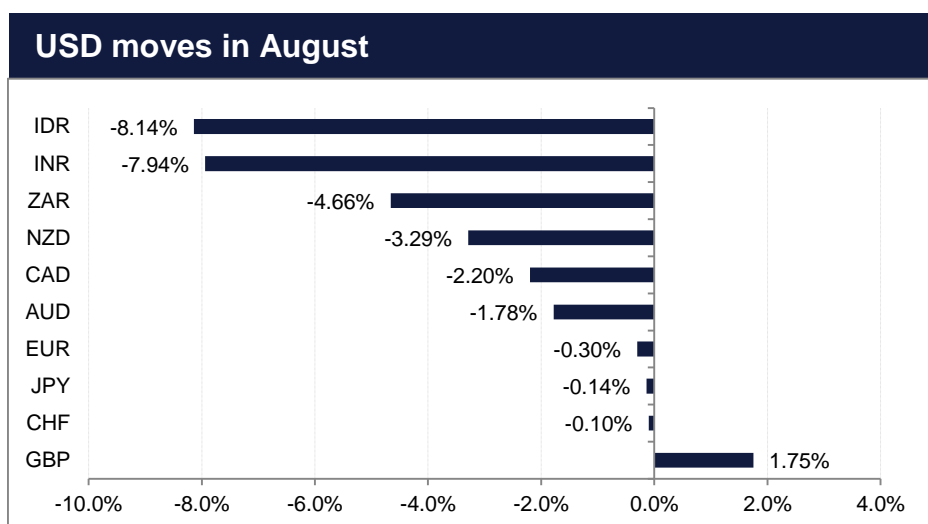
September event risk looms

September will bring a lot of event risk for financial markets to absorb, with the decision by the Fed over tapering QE being the most significant event during the month, and arguably for the rest of the year. Ahead of it this week's August US non-farm payrolls report will be a crucial staging point in determining what the Fed is likely to do. The ECB and the BOE also have critical policy meetings this week, with the credibility of their 'forward guidance' policies coming under scrutiny recently. Germany also faces its election on the 22nd September, and although the outcome is looking less and less in doubt, with a Merkel victory expected by most, the post-election Eurozone environment may present new pressures heading into Q4 and towards the end of the year. On top of all of this the US also faces the prospect of another fiscal deadlock towards the end of the month. However, all of these issues are currently taking something of a backseat to events in Syria, with speculation that the US will launch missile strikes soon keeping markets on tender hooks, unsure about the length of US involvement in the conflict there and nervous about the longer term consequences.

Attention remains on the Middle East

Most likely any missile attacks by the US will be a relatively short lived event, and unlikely to have long lasting impact on financial markets, barring any unexpected retaliation by Syria. The markets have recently favoured safety trades as the tension has escalated, lending the USD some broad support, but with the US emphasizing the limited nature and purpose of any assault, and with its key allies like Britain unable to take part, both gold and oil prices have corrected some of their recent spikes, with our precious metals team viewing the move up in gold as a 'false breakout'. Clearly the upcoming vote in Congress will be the immediate focus, with President Obama looking for the domestic political endorsement that UK PM Cameron could not achieve.

Whatever the outcome, however, it is difficult to construct a scenario in which oil prices will remain elevated for a significant period based on what seems likely to happen in Syria alone. Of course, part of the recent push up in oil prices is also to do with disruption to supplies in Libya, with Iraq also facing supply constraints this month due to maintenance work at its southern oil terminals. So global growth may still have firmer oil prices to contend with, but perhaps not at the extreme levels that occurred during past regional crises.



Source: Bloomberg, Emirates NBD Research

Fed tapering still appears to be on course

This may still complicate the global recovery, however, and may even inject a little more uncertainty into the Fed's decision later this month. But overall we still see the economic data seen to date as justifying a small tapering announcement at this month's FOMC meeting. Q2 GDP was revised up strongly to 2.5% last week, and with the weekly jobless claims data continuing to decline (falling 6000 in the latest week), we would be very surprised if this week's full August labour market report proves to be a barrier to the Fed beginning to reduce QE. The USD should continue derive support from this prospect, especially against emerging market currencies which have been most affected by anxiety about the outlook for US monetary policy.

ECB and BOE's forward guidance under scrutiny

Also, the contrast between the Fed's approach and that of the ECB and the BOE should be even more discernible following the policy meetings in Europe this week, lending support to the USD against the EUR and GBP in the process. Even after the recent improvement in Eurozone economic data, we would be surprised if ECB President Draghi changes his line of last month, when he pledged to keep policy rates at or below present levels for an 'extended period of time'. To the market this may represent a rebuff to the Austrian Central Bank Governor Nowotny's view that the recent data had removed the need for the ECB to cut interest rates further. Notwithstanding the Eurozone's recent recovery, the ECB is likely to see risks to it continuing coming from firmer bond yields as well as from a firmer EUR exchange rate. EUR/USD's retreat from 1.34 last week brings it within distance of our 1.30 1-month forecast, setting the stage for further declines in Q4.

The Bank of England may also have to toughen up its pledge to keep UK interest rates low, in the light of clear market scepticism about this commitment. Despite BOE Governor Carney's dovish speech last week, in which he reiterated that the Bank would wait until the unemployment rate drops to 7.0% before 'even considering whether to raise the Bank Rate', UK Gilt yields continued to set new highs. It seems unlikely that new policy initiatives will be forthcoming at the upcoming MPC meeting, but the markets are clearly still doubtful whether words will be sufficient to keep interest rates low without recourse to more Quantitative Easing. In this context the economic data on tap this week will continue to test the nerves of the Bank, as the CIPS PMI data is likely to reflect the improvement seen in other data series maintaining upward pressure under yields and underpinning GBP.

JPY volatility reflects geopolitical uncertainty

The JPY has been one of the main beneficiaries of the geopolitical uncertainty, given the markets' perception of it as a safe-haven, with USD/JPY falling at one point to 96.82 last week. However, with the tension in Syria easing into the end of the week, the JPY has lost a little ground again as attention has turned back towards fundamentals, allowing USD/JPY to recover above 98.0. Economic data released at the end of last week showed national inflation in Japan climbing to 0.7% y/y in July, a clear improvement from the deflation that still prevailed as recently as May. Industrial production, unemployment and the manufacturing PMI were also all better than expected, a further testimony to Japan's improving confidence and to the success of PM Abe's policies. So long as the geopolitical situation remains steady, USD/JPY will probably take its cue from US data in the coming week, but any renewed tension in the Middle East could see it lose ground quickly. Further out, the focus will also be on the sales tax in Japan and whether the government will decide to raise it from 5% to 8% next year. A decision is likely to be made next month, but until then USD/JPY may struggle, as the prospect of an increase in the tax weighs on the Nikkei and as geopolitical risks remain fluid.

AUD exceeds our 1-month target

While the USD has had difficulty in rallying against developed currencies over the summer, it has showed consistent strength against EM currencies as well as against currencies that are often correlated with EM economies such as the AUD. The AUD has fallen below our 1-month target recently (0.90) and looks on course to reach our 3-month forecast of 0.88 soon. Economic concerns about Australia's significant trading partners, such as China, have combined with domestic economic fragility to keep the AUD biased lower, with the RBA maintaining an easing bias even after cutting interest rates to historic lows of 2.50% in August. News this morning that China's manufacturing PMI rose to 51.0 in August may lend some support to AUD sentiment initially this week, but with the RBA expected to maintain its easing bias when it meets later this week the upside should be limited. Australian Q2 GDP growth data is also expected to confirm a slowing in activity, which will help to justify the RBA's dovish stance.

INR pressures remain

The INR continues to remain under pressure, despite a sharp pullback in the last two days to decline -3.6% 5d. The sharp pullback in the INR could in part be attributed to yet another short term measure by the Reserve Bank of India (RBI). The RBI said it would sell dollars directly to three large state-run oil companies in an attempt to take the bulk of their dollar demand away from the spot market. According to estimates, the three state-owned refiners buy about USD300mn each day. The RBI had last used this route during the global financial crisis in 2008.

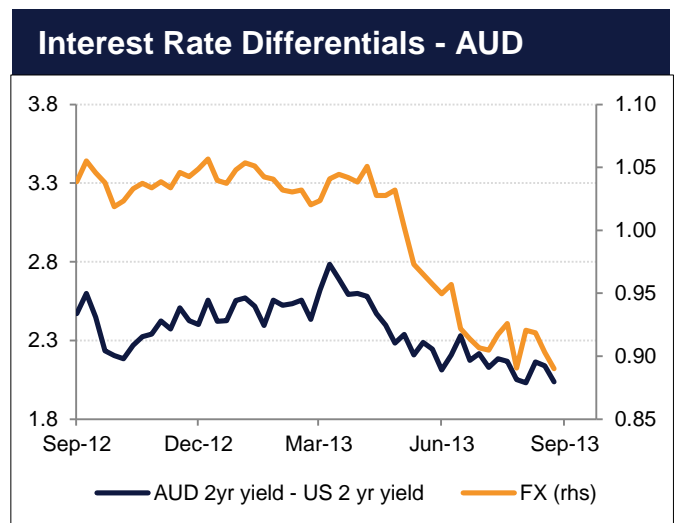
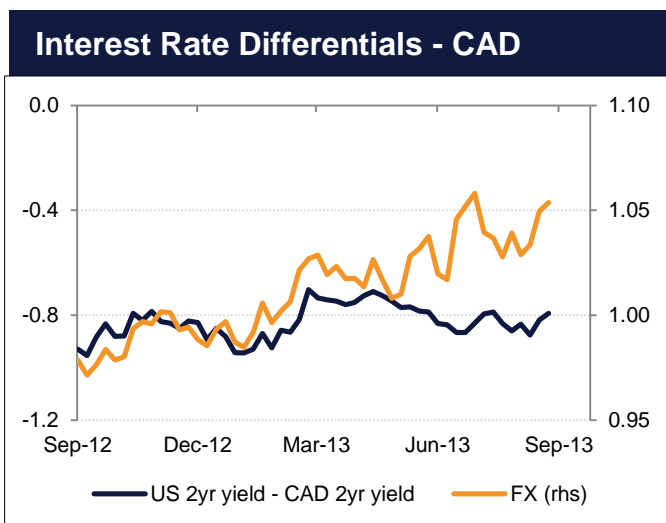
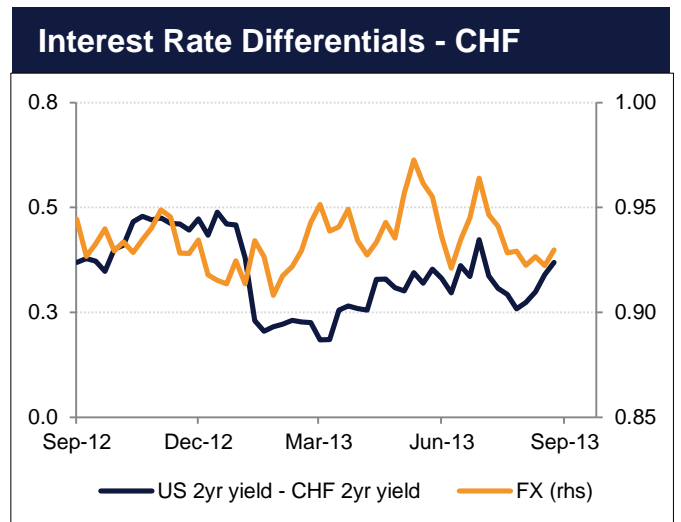
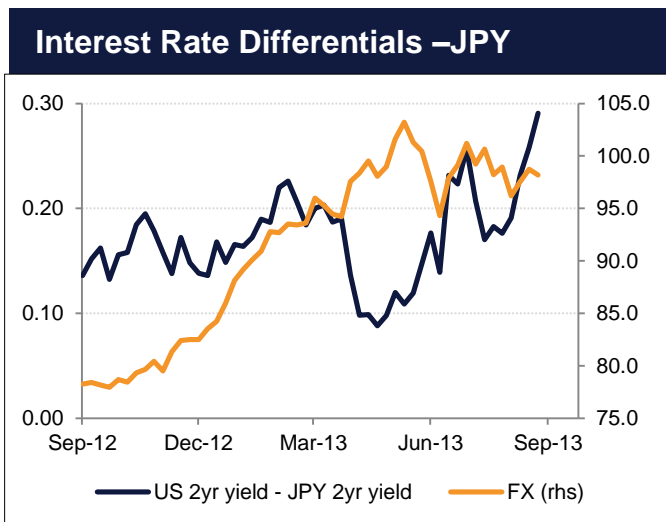
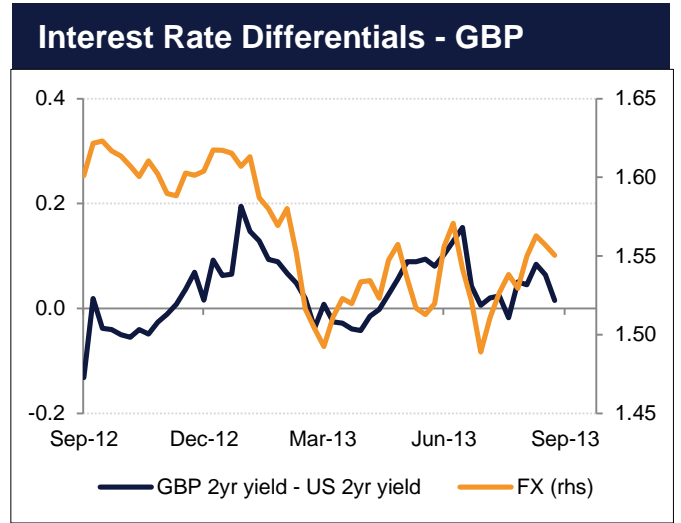
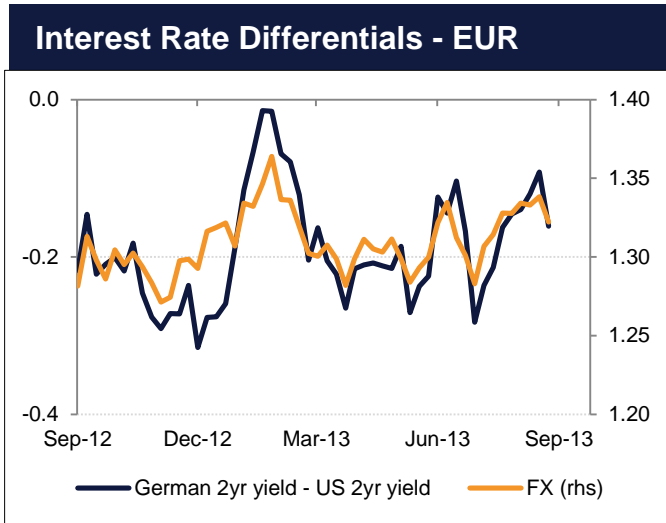
The next few days could be critical for the INR as the US Congress votes on launching missiles against Syria and as critical US jobs data approaches. This week, the new governor of the RBI, Raghuram Rajan, will also take charge. His role is considered crucial in reviving economic growth especially at a time when the Q1 FY 2014 GDP growth came in at a four year low of 4.4% and inflation remains high. It will be interesting to see whether he pursues price stability or economic growth as his primary focus, especially in the context of the pressures on the INR.

| FX Forecasts - Major | | | | | | Forwards | | |
|-------------------------|------------|-------|-------|-------|-------|----------|---------|---------|
| | Spot 30.08 | 1M | 3M | 6M | 12M | 3M | 6M | 12M |
| EUR / USD | 1.3222 | 1.30 | 1.25 | 1.20 | 1.15 | 1.3226 | 1.3231 | 1.3242 |
| USD / JPY | 98.17 | 100.0 | 105.0 | 107.0 | 110.0 | 98.13 | 98.05 | 97.83 |
| USD / CHF | 0.9298 | 0.95 | 1.00 | 1.04 | 1.10 | 0.9291 | 0.9282 | 0.9259 |
| GBP / USD | 1.5504 | 1.52 | 1.48 | 1.45 | 1.47 | 1.5494 | 1.5485 | 1.5470 |
| AUD / USD | 0.8901 | 0.90 | 0.88 | 0.85 | 0.80 | 0.8849 | 0.8800 | 0.8702 |
| USD / CAD | 1.0537 | 1.04 | 1.06 | 1.07 | 1.10 | 1.0560 | 1.0583 | 1.0631 |
| EUR / GBP | 0.8529 | 0.85 | 0.84 | 0.83 | 0.78 | 0.8537 | 0.8545 | 0.8561 |
| EUR / JPY | 129.80 | 130.0 | 131.0 | 128.4 | 126.5 | 129.80 | 129.80 | 129.80 |
| EUR / CHF | 1.2295 | 1.24 | 1.25 | 1.25 | 1.27 | 1.2290 | 1.2282 | 1.2261 |
| FX Forecasts - Emerging | | | | | | Forwards | | |
| | Spot 30.08 | 1M | 3M | 6M | 12M | 3M | 6M | 12M |
| USD / SAR* | 3.7505 | 3.75 | 3.75 | 3.75 | 3.75 | 3.7508 | 3.7517 | 3.7534 |
| USD / AED* | 3.6730 | 3.67 | 3.67 | 3.67 | 3.67 | 3.6728 | 3.6732 | 3.6730 |
| USD / KWD | 0.2855 | 0.282 | 0.285 | 0.282 | 0.28 | 0.2897 | 0.2930 | 0.3008 |
| USD / OMR* | 0.3850 | 0.38 | 0.38 | 0.38 | 0.38 | 0.3845 | 0.3842 | 0.3834 |
| USD / BHD* | 0.3770 | 0.376 | 0.376 | 0.376 | 0.376 | 0.3780 | 0.3790 | 0.3805 |
| USD / QAR* | 3.6416 | 3.64 | 3.64 | 3.64 | 3.64 | 3.6454 | 3.6489 | 3.6529 |
| USD / INR | 65.7050 | 64.00 | 62.00 | 59.00 | 57.00 | 65.7245 | 65.7374 | 65.7616 |
| USD / CNY | 6.1203 | 6.15 | 6.15 | 6.20 | 6.20 | 6.1789 | 6.1979 | 6.2399 |

*Denotes USD peg

Source: Bloomberg, Emirates NBD Research

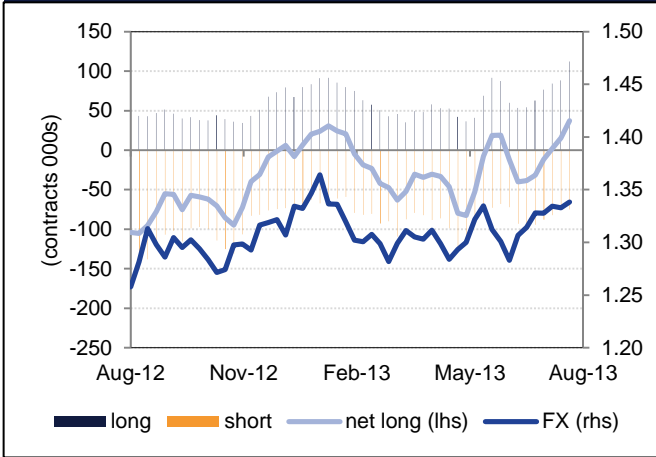
Major Currency Pairs and Interest Rates



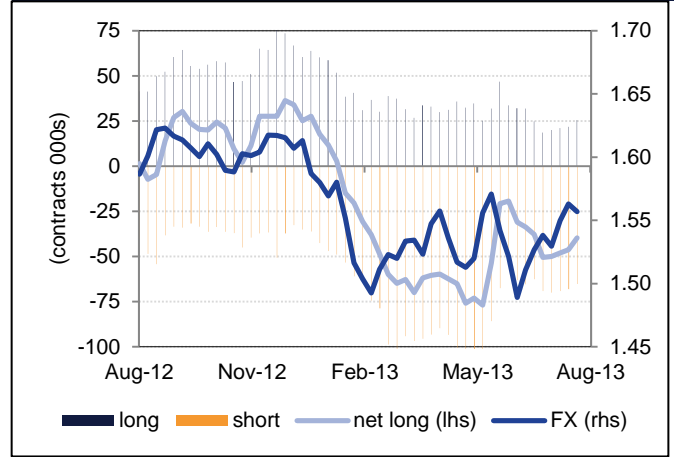
Source: Bloomberg, Emirates NBD Research

Major Currency Positions*

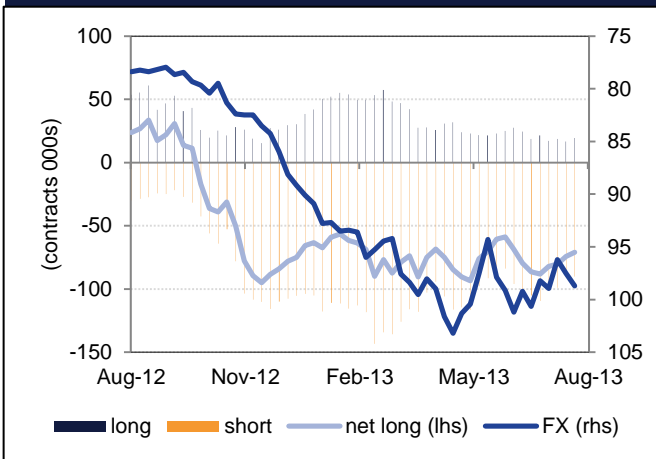
CFTC – Speculative Positions - EUR



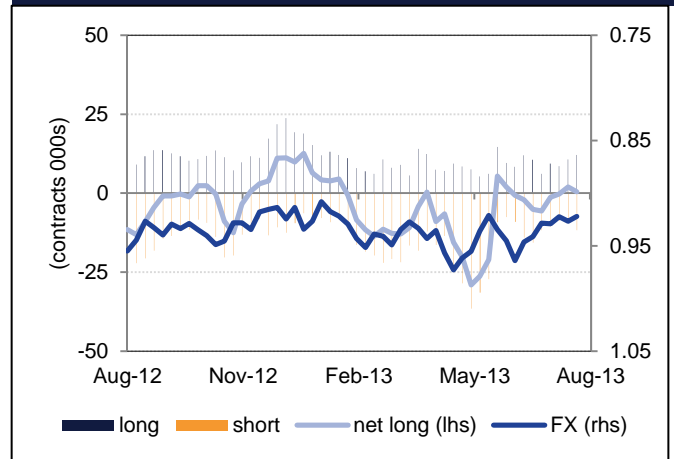
CFTC – Speculative Positions - GBP



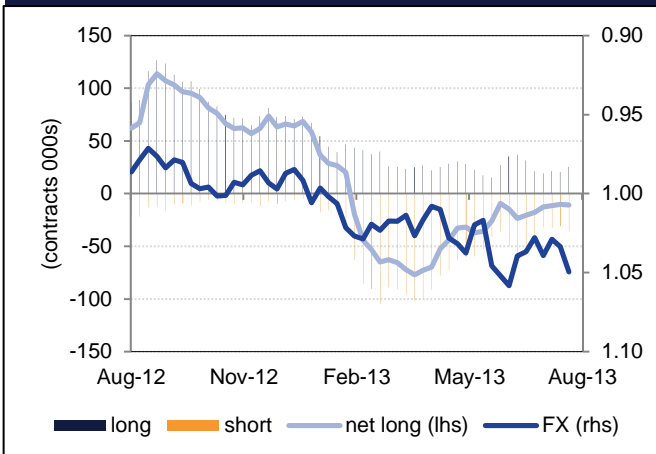
CFTC – Speculative Positions - JPY



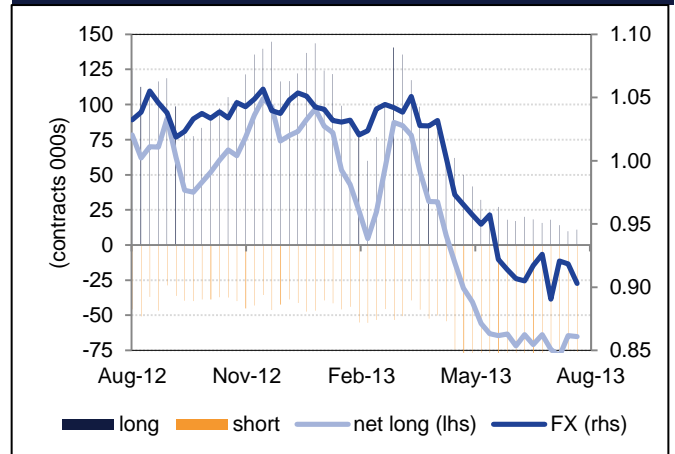
CFTC – Speculative Positions - CHF



CFTC – Speculative Positions - CAD



CFTC – Speculative Positions - AUD



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

Economic Calendar

| Date | Country | Event | |
|-------------|-------------|-------------------------------------|-----------------------|
| 2-Sept | China | HSBC/Markit Manufacturing PMI | |
| | Italy | PMI Manufacturing | |
| | Switzerland | PMI Manufacturing | |
| | France | PMI Manufacturing | |
| | Germany | PMI Manufacturing | |
| | Eurozone | PMI Manufacturing | |
| | UK | PMI Manufacturing | |
| | Brazil | Trade Balance | |
| | 3-Sept | UK | BRC Sales |
| China | | Non-Manufacturing PMI | |
| Australia | | Retail Sales | |
| Australia | | RBA Cash Rate Target | |
| Switzerland | | GDP | |
| Brazil | | Industrial Production | |
| US | | ISM Manufacturing | |
| 4-Sept | Australia | GDP | |
| | China | HSBC/Markit Services PMI | |
| | Italy | PMI Services | |
| | France | PMI Services | |
| | Germany | PMI Services | |
| | Eurozone | PMI Services | |
| | Eurozone | PMI Composite | |
| | Eurozone | GDP | |
| | Eurozone | Retail Sales | |
| | US | MBA Mortgage Applications | |
| | US | Trade Balance | |
| | Canada | Bank of Canada Rate Decision | |
| | US | Federal Reserve Releases Beige Book | |
| | Russia | CPI | |
| | 5-Sept | Australia | Trade Balance |
| | | France | ILO Unemployment Rate |
| UK | | Bank of England Rate Decision | |
| Eurozone | | ECB Announces Interest Rate | |
| US | | ADP Employment Change | |
| US | | Initial Jobless Claims | |

| | | |
|--------|-------------|----------------------------|
| 5-Sept | US | Factory Orders |
| | US | ISM Non-Mfg Composite |
| | Japan | BoJ Target Rate |
| 6-Sept | Germany | Trade Balance |
| | France | Trade Balance |
| | Switzerland | CPI |
| | UK | Industrial Production |
| | UK | Trade Balance |
| | Germany | Industrial Production |
| | Canada | Unemployment Rate |
| | US | Change in Nonfarm Payrolls |
| | US | Unemployment Rate |

Source: Bloomberg

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