بنك الإمارات دبي الوطني
Emirates NBD

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FX Week

USD steady despite payrolls disappointment

Despite some ambiguity in the US August employment report released on Friday, the USD corrected only part of the gains it had made over the week as a whole. This is probably because the 169,000 rise in non-farm payrolls, while softer than expected, was probably not weak enough to cast doubts on the likelihood of Fed QE tapering being announced next week. Even with the downward revisions to July and August, knocking a combined 74,000 jobs off previous estimates, another fall in the unemployment rate to 7.3% was probably sufficient to keep a Fed 'tapering' in prospect, especially in the light of other strong ISM activity reports as well as ongoing declines in weekly jobless claims.

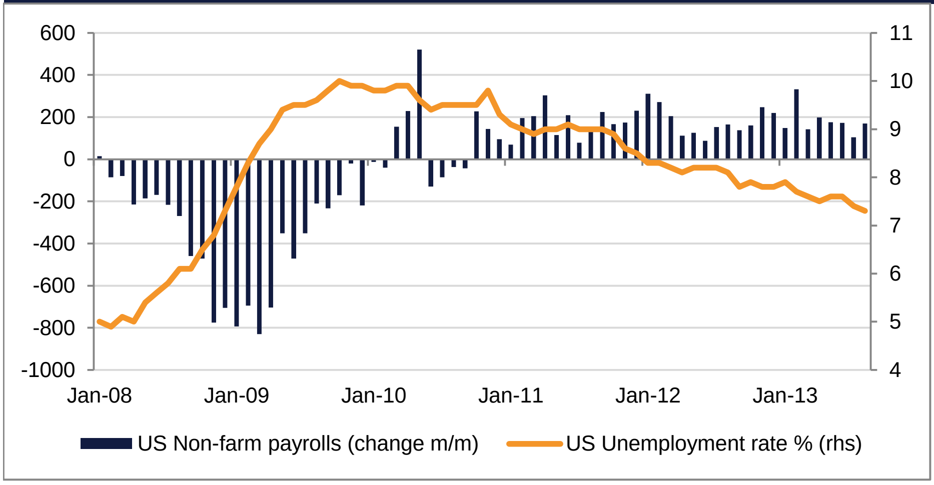
Data to be released this week includes retail sales for August but these are unlikely to detract significantly, if at all, from the case for a reduction in the Fed's unconventional stimulus. Indeed, it is more likely that they will add to the case for a QE reduction with solid gains expected. To the extent that the US Congress' vote on Syria might make a difference, it is more likely that support for military action will lend the USD some further limited support as well.

ECB caution to weigh on the EUR

Further supportive for the USD are the messages from other central banks last week, most notably the ECB, which continue to demonstrate the contrast that is likely to develop between the monetary policy of the Fed and that of the rest of the world over coming months. The ECB struck a very dovish tone, highlighting the maintenance of current or even lower interest rates over an extended period, discussing the need for a further rate cut, and downgrading its growth outlook for 2014. With the recent data having surprised relatively positively in the Eurozone, this cautious tone was not anticipated and shows that the ECB is not willing to take anything for granted when it comes to securing a sustainable economic recovery.

The EUR is likely to remain weighed on by this prospect, despite having recovered back to 1.3160 from lows of 1.3105 seen on Friday morning. We still see EUR/USD falling to 1.30 by the end of this month, with further losses to 1.25 over the 3-month time horizon. As well as the Fed's policy announcement next week, the Eurozone also faces a number of critical events in coming weeks including the German election on the 22nd of September, the German Constitutional Court ruling on the OMT, as well as political uncertainty over the fate of the Italy's coalition government.

US jobs growth subdued, unemployment still falls



Source: Bloomberg, Emirates NBD Research

Requests for more financial support from periphery Eurozone countries such as Portugal and Greece are also likely to be seen over the coming weeks. Furthermore, Eurozone economic data to be released this week may detract partially from the more positive signs seen of late, with industrial production seen falling in July and Italy seen confirming a -0.2% GDP contraction in Q2.

USD/JPY back on target

The Bank of Japan also delivered a relatively dovish message last week, which is likely to keep the JPY heavy, with USD/JPY having already met our 1-month 100 target last week. The BOJ left its QE programme unchanged, and will continue to print money to increase Japan's monetary base by JPY60-70trn until core inflation hits 2.0% y/y. The BOJ governor also indicated his support for the government's sales tax increase, and hinted at further monetary stimulus if such fiscal tightening threatens Japan's economic recovery. Revised Q2 GDP growth figures are released tomorrow which will help determine if that sales tax increase will go ahead next year, with an announcement expected in October. In this context an upward revision to Q2 GDP could help the JPY to weaken if it is seen as increasing the chances of a tax hike, along with further monetary policy easing.

EUR/GBP meets our 3-month forecast

The Bank of England MPC meeting by contrast provided few clues about the Bank's attitude to recent monetary policy tightening driven by firming bond yields, beyond its previous forward guidance linking interest rates to the unemployment rate. In this context the upcoming UK August unemployment data will be significant, especially if it shows the unemployment rate falling to 7.7% from 7.8% which is expected. Although the Bank resisted the speculation that it might deliver another statement about its forward guidance, it will have many other opportunities in coming weeks to reinforce its dovish approach, starting with speeches by key MPC officials in the coming week.

The GBP benefited from strong UK economic data last week (PMI manufacturing, services and construction were all strong), both against the USD and against the EUR. Overall, we see the gains against the EUR as more sustainable over time with our 3-month target of 0.84 having already been met last week. Over the year as a whole we anticipate EUR/GBP falling back further to 0.78, whilst against the USD we would not be surprised to see GBP lose ground again as US monetary stimulus withdrawal supports the greenback whilst the UK recovery loses some momentum.

AUD buoyed for now, lower later

Indeed, amidst all the recent optimism about global growth prospects, China provided something of a reality check overnight with a State Economist suggesting that China may reduce its growth target for next year to just 7.0%, down from 7.5% in 2013. The prospect of another slow year for the world's second largest economy will put more pressure on other regions to make up for the lost output. The AUD along with other commodity currencies may be the ones that stand to lose from such weakness.

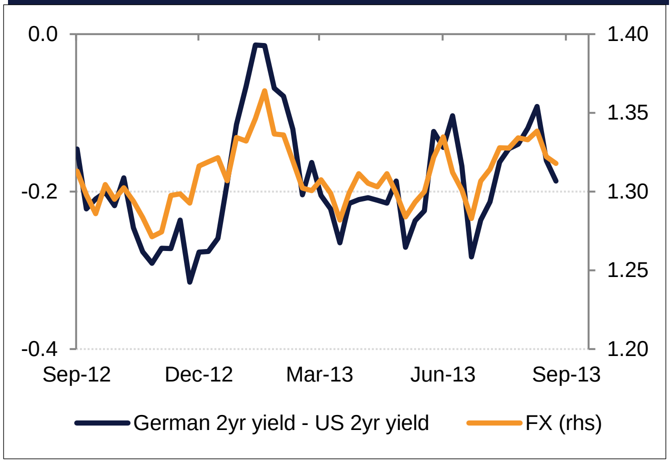
Although the AUD may get a brief lift from the victory of the Liberal- National coalition in the weekend general election, as well as from the RBA's more ambivalent attitude towards further monetary easing delivered last week, the recent trends in the Australian economy appear sluggish despite the better than expected growth rate of 0.6% seen in Q2. This should keep the RBA keen to dampen any AUD bounce, with renewed USD strength only likely to reinforce its vulnerability over the months to come.

FX Forecasts - Major						Forwards		
	Spot 06.09	1M	3M	6M	12M	3M	6M	12M
EUR / USD	1.3178	1.30	1.25	1.20	1.15	1.3182	1.3187	1.3200
USD /JPY	99.11	100.0	105.0	107.0	110.0	99.06	98.99	98.76
USD / CHF	0.9379	0.95	1.00	1.04	1.10	0.9372	0.9364	0.9340
GBP / USD	1.5627	1.52	1.48	1.45	1.47	1.5617	1.5608	1.5589
AUD / USD	0.9185	0.90	0.88	0.85	0.80	0.9131	0.9078	0.8973
USD / CAD	1.0405	1.04	1.06	1.07	1.10	1.0428	1.0452	1.0501
EUR / GBP	0.8431	0.85	0.84	0.83	0.78	0.8439	0.8447	0.8465
EUR / JPY	130.63	130.0	131.0	128.4	126.5	130.63	130.63	130.63
EUR / CHF	1.2361	1.24	1.25	1.25	1.27	1.2356	1.2350	1.2330
FX Forecasts - Emerging						Forwards		
	Spot 06.09	1M	3M	6M	12M	3M	6M	12M
USD / SAR*	3.7506	3.75	3.75	3.75	3.75	3.7506	3.7513	3.7531
USD / AED*	3.6730	3.67	3.67	3.67	3.67	3.6728	3.6729	3.6731
USD / KWD	0.2861	0.282	0.285	0.282	0.28	0.2906	0.2929	0.3023
USD / OMR*	0.3850	0.38	0.38	0.38	0.38	0.3844	0.3840	0.3828
USD / BHD*	0.3770	0.376	0.376	0.376	0.376	0.3783	0.3790	0.3818
USD / QAR*	3.6404	3.64	3.64	3.64	3.64	3.6457	3.6507	3.6583
USD / INR	65.2450	64.00	62.00	59.00	57.00	65.2646	65.2773	65.2972
USD / CNY	6.1195	6.15	6.15	6.20	6.20	6.1779	6.1929	6.2334

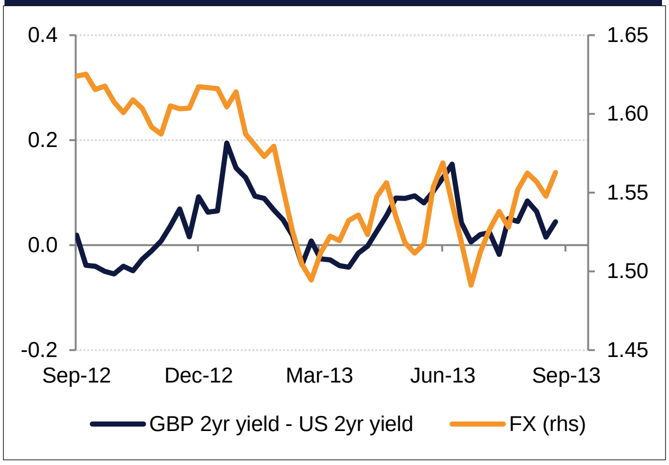
**Denotes USD peg*
Source: Bloomberg, Emirates NBD Research

Major Currency Pairs and Interest Rates

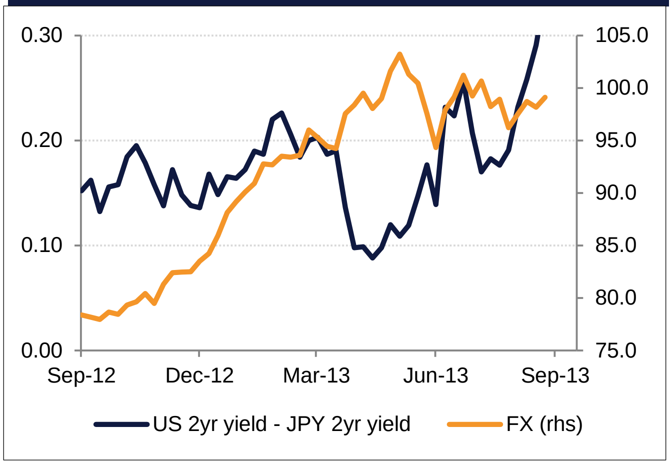
Interest Rate Differentials - EUR



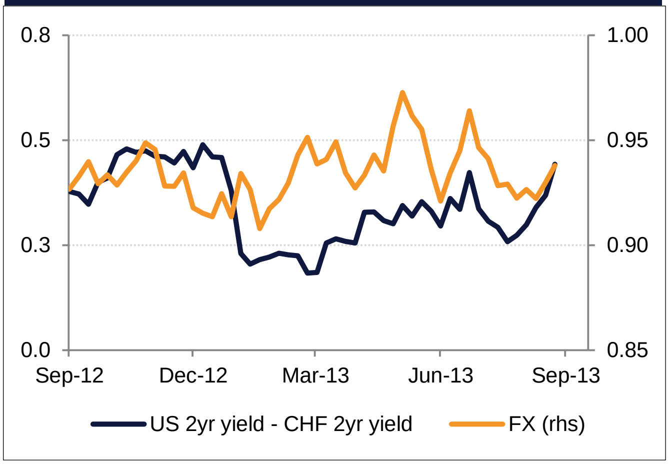
Interest Rate Differentials - GBP



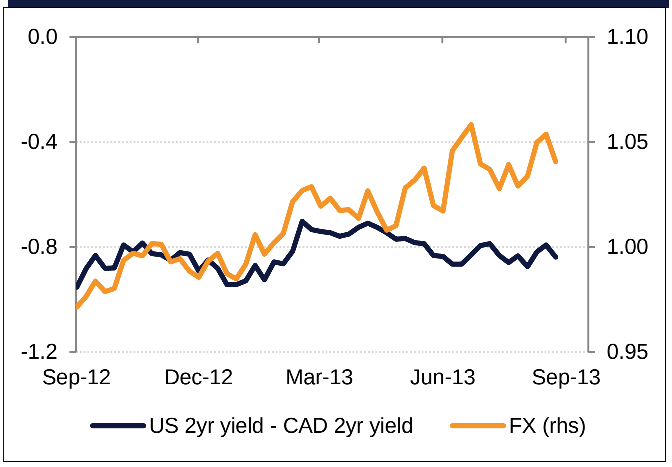
Interest Rate Differentials –JPY



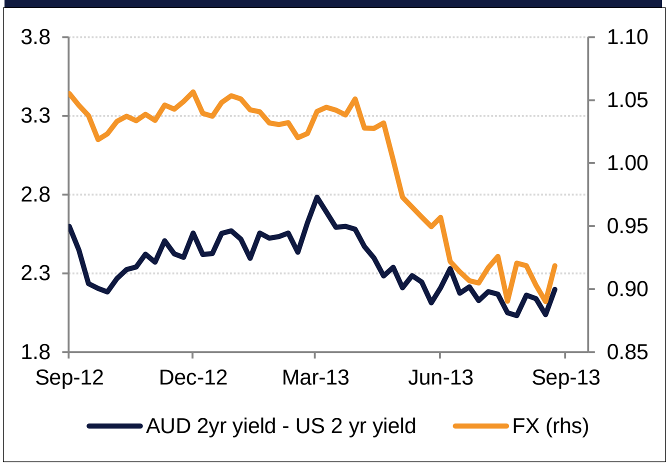
Interest Rate Differentials - CHF



Interest Rate Differentials - CAD



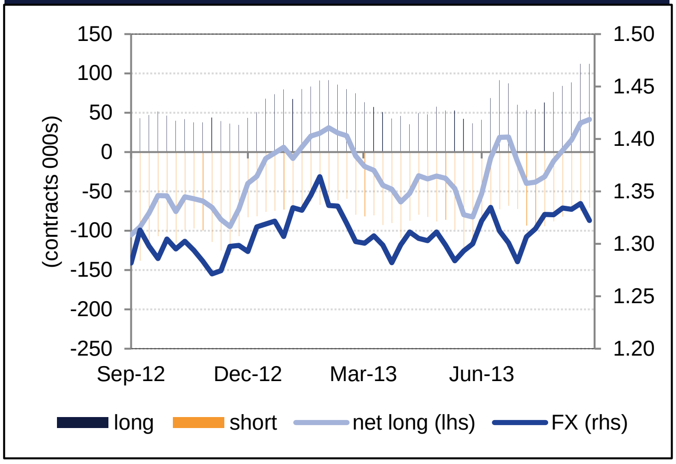
Interest Rate Differentials - AUD



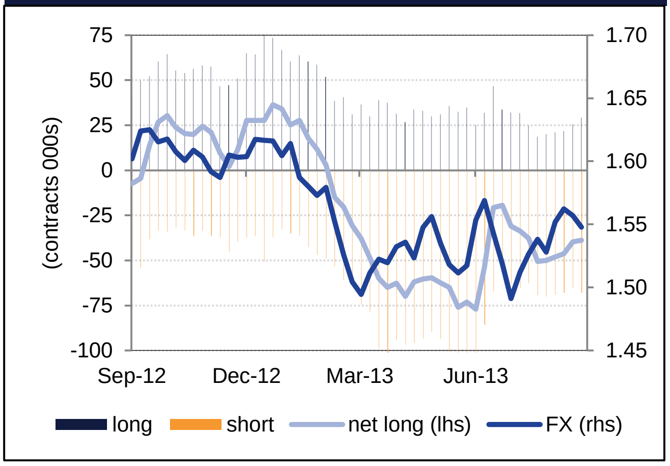
Source: Bloomberg, Emirates NBD Research

Major Currency Positions*

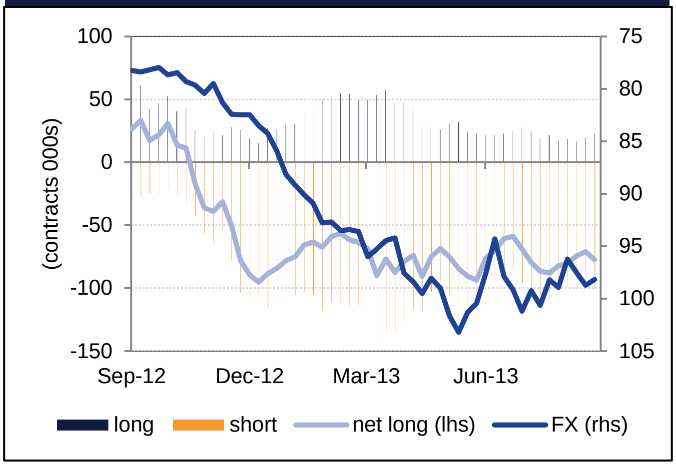
CFTC – Speculative Positions - EUR



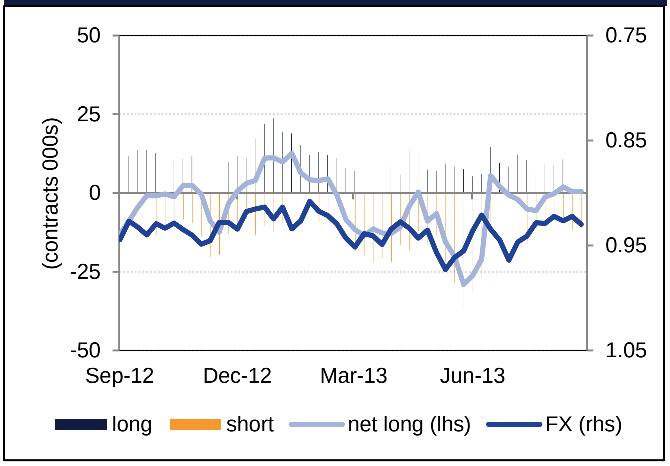
CFTC – Speculative Positions - GBP



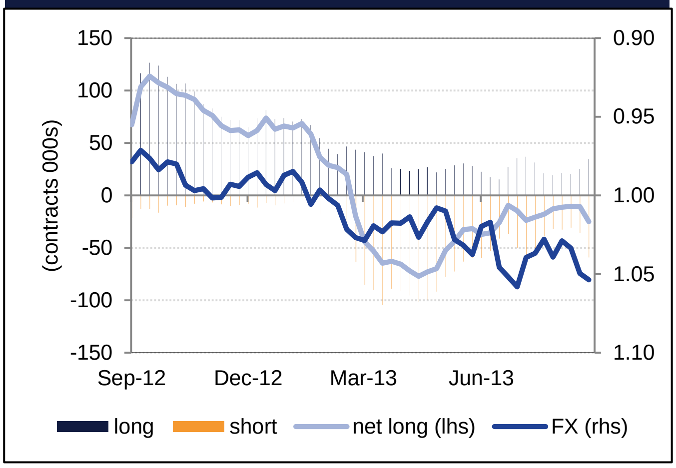
CFTC – Speculative Positions - JPY



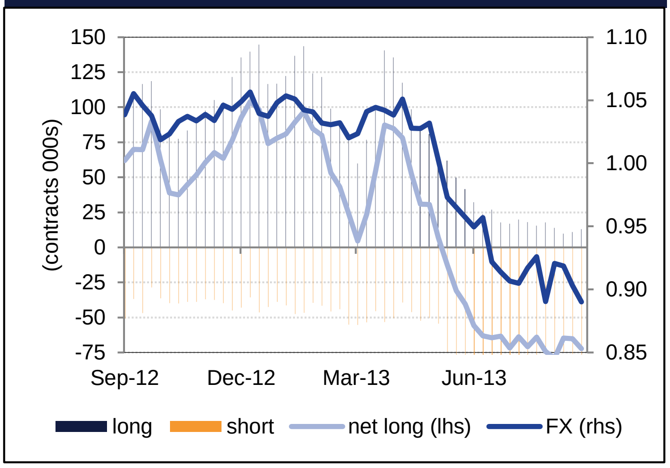
CFTC – Speculative Positions - CHF



CFTC – Speculative Positions - CAD



CFTC – Speculative Positions - AUD



Source: Bloomberg, Emirates NBD Research
**Data as of 6th September, 2013*

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