



بنك الإمارات دبي الوطني  
Emirates NBD

Weekly  
27 October 2013

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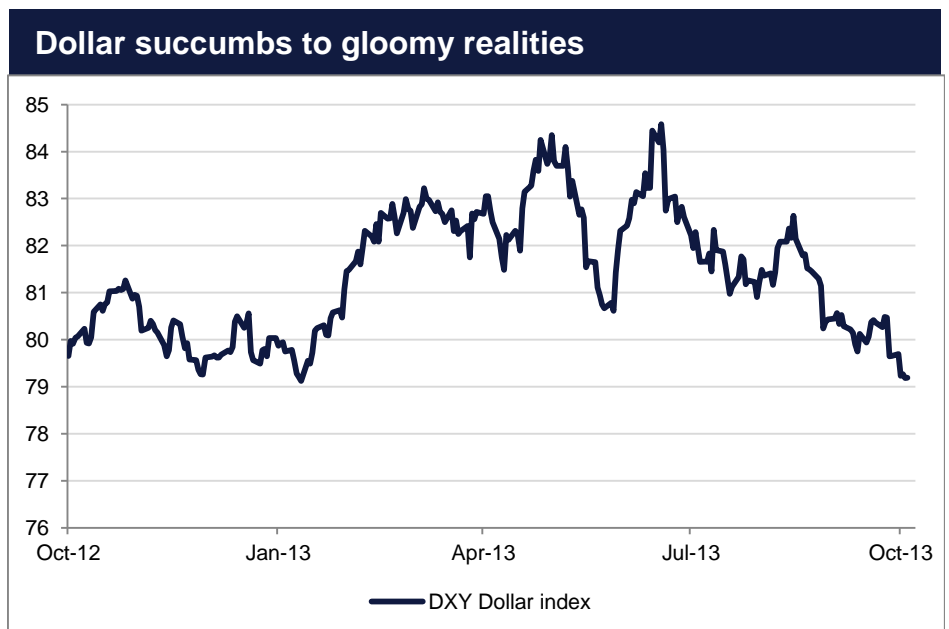
# FX Week

## Taking stock of the USD

It is three weeks since our last FX Week publication in which we noted that the USD was holding up surprisingly well considering the uncertain economic and fiscal circumstances in the US. While some of those macro and policy related uncertainties that prevailed in early October appear to have lifted, the USD has still succumbed to accumulating pressures, with its recent losses catching up to some extent with gloomy concerns and realities. Despite the agreement in Washington DC to lift the debt ceiling until February 7th and to fund the government until January 15 next year this offers only a temporary solution and it also raises the possibility of another fiscal standoff in early 2014. In this light US monetary policy is also likely to remain paralyzed for the foreseeable future, with no chance of any reduction in QE at the upcoming FOMC meeting this week.

Beyond this week's meeting the outlook for QE 'tapering' has also become more clouded by the run of recently disappointing US economic data. In particular, September's weaker than expected employment data, which showed just 148k jobs added in that month, has lent support to views that the Federal Reserve will not begin reducing its QE until March of next year. We would not necessarily agree with this prognosis, however. Certainly the Fed will want to see how the US economy fared in the wake of the government shutdown in October, but with the most estimates seeing only a small negative effect on overall economic growth in Q4 (by around -0.3%), the main focus will remain on the unemployment data between now and the end of the year. This could still recover back again by the end of the year, bringing a QE tapering in December or January back into play. Indeed, it was noticeable that even with a smaller than expected rise in non-farm payrolls, the unemployment rate still dropped further in September to 7.2% from 7.3%, taking it closer to the Fed's own 6.5% threshold for when a policy tightening could be considered.

In the coming week, the market will also continue to see delayed September economic data being released, including retail sales which excluding autos are expected to have risen by 0.4% m/m. The October ISM manufacturing index will also be important at the end of the week as it will give an early indication of the impact of the government shutdown. Another solid reading showing expansion in the manufacturing sector could reduce some of the recent pessimism, helping the USD to stabilize and maybe even recover from some of its recent losses.



Source: Deutsche Bank Bloomberg, Emirates NBD Research

## **EUR strength risks undercutting recovery**

Meanwhile, with the Euro having pushed to new 2013 highs of 1.38, the focus will increasingly be on whether the ECB will soon intervene verbally to stop the single currency from appreciating further at the USD's expense. Recent Eurozone economic data provides an early warning that the recovery there is likely to be shallow and vulnerable to an extended rise in the value of the EUR. This week's readings are also likely to be consistent with this view, with the Economic Sentiment Indicator expected to still be only signaling that a mild recovery is underway. To the extent that unemployment remains elevated and that inflation moves further away from the ECB's 'below, but close to 2.0%' target in October, the instinct of the ECB may be to become more concerned about an extended rise in the value of the single currency, encouraging hopes that further monetary easing could be on its way.

## **GBP benefits from stronger UK growth**

GBP/USD should continue to benefit at the start of the week from the UK's strong 0.8% quarterly growth reading for Q3, up from 0.7% in Q2. Other signs of optimism are also likely to be witnessed this week with housing market data expected to be firm. The markets are already beginning to sense that the Bank of England's forward guidance about the unemployment rate not reaching 7.0% until 2016 could be subject to change. However, commentary from BOE officials has not lent much support to this view, suggesting that even a 7.0% unemployment rate could still be looked through if the BOE believes that the UK economy retains a lot of slack. A re-test of 1.64 2013 highs in GBP/USD cannot be ruled out, but it would probably take more evidence of increasing UK growth momentum and/or renewed pessimism about the US for this area to be convincingly broken.

## **JPY upside likely to be temporary**

USD/JPY's recent losses have reflected the broad weakness of the USD driven by fears that the Fed will postpone tapering QE for an extended period of time. In terms of Japan's own economic fundamentals nothing much has changed, however, to alter the need to maintain the easing that is underway in order that the 2.0% inflation target is met. This week the Bank of Japan will meet and will release its semi-annual 'Outlook for Economic Activity and Prices'. It is likely that the BOJ will remain optimistic about meeting its inflation target, but it may still require more monetary policy stimulus measures to ensure this. This should enable USD/JPY to find a floor close to current levels around 97.0.

## **Policy meetings in India, Egypt and New Zealand**

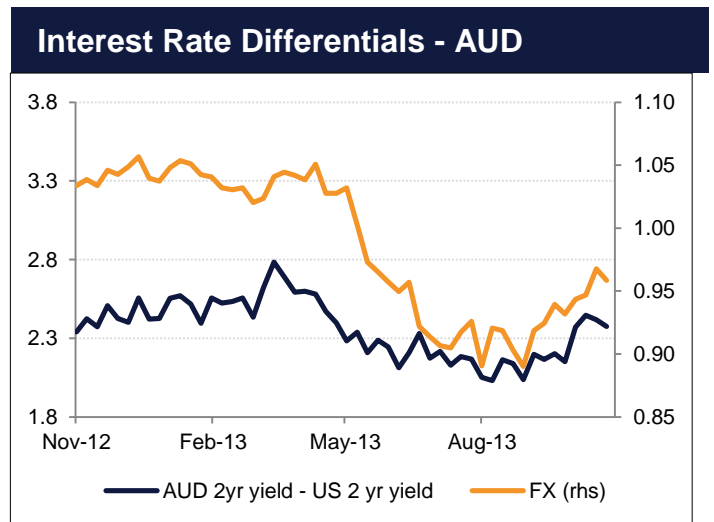
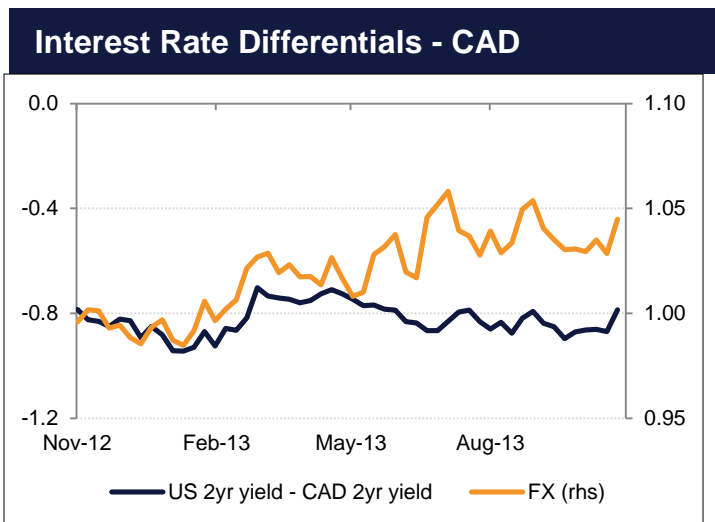
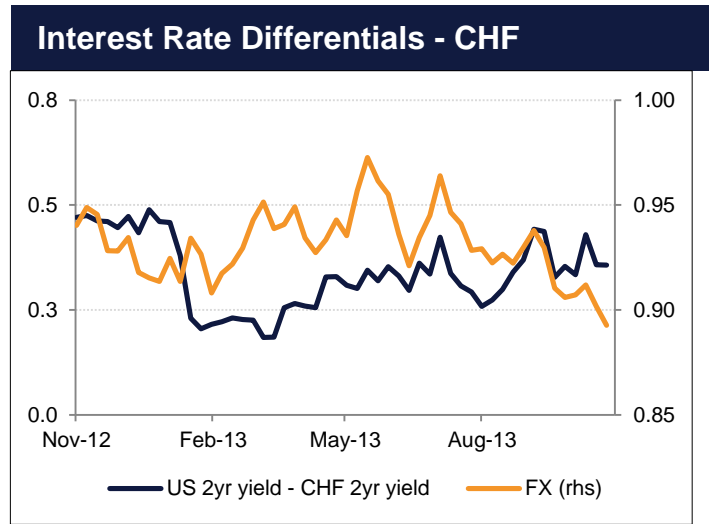
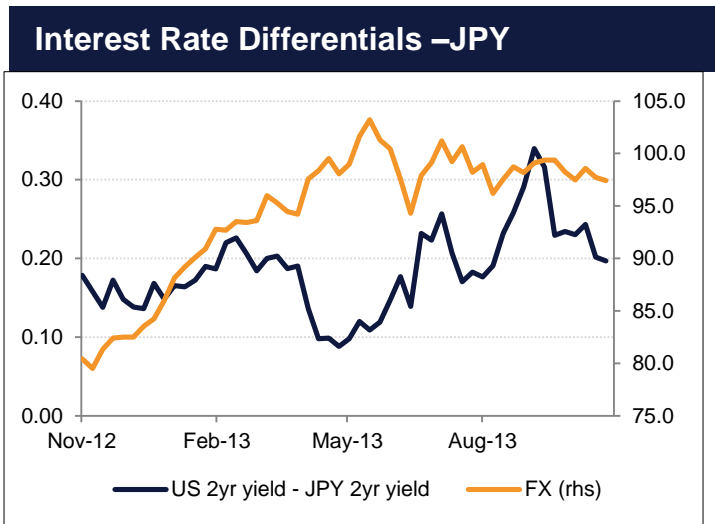
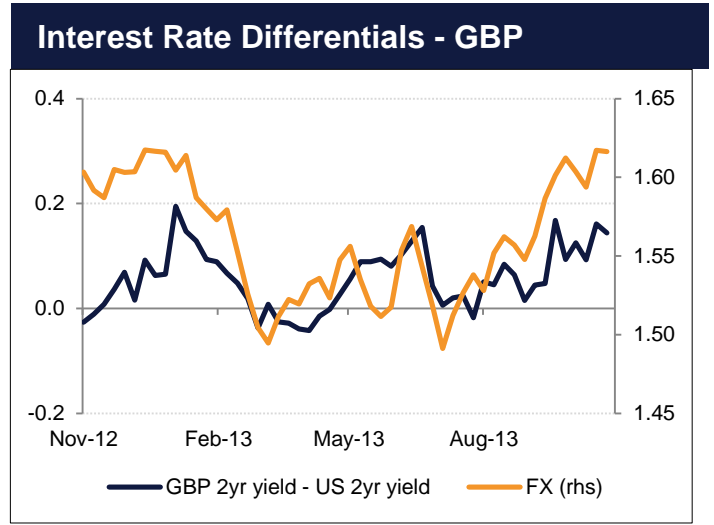
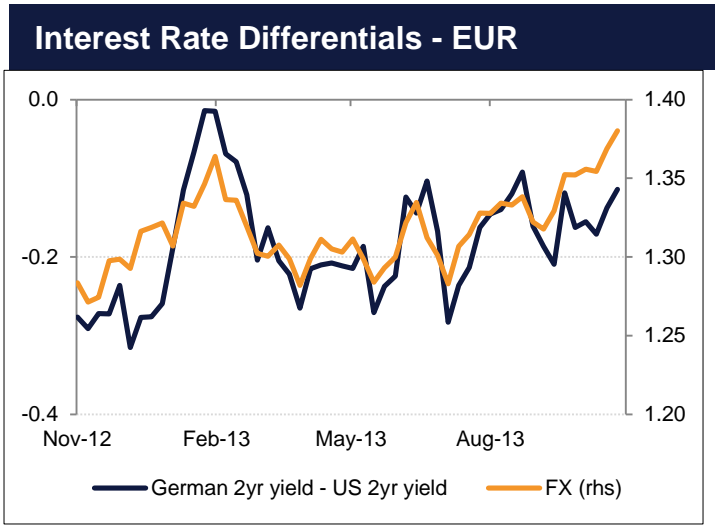
Elsewhere this week, there will be focus on the Indian RBI, on the New Zealand RBNZ and on the Central Bank of Egypt which all have monetary policy meetings to consider. Last week the Bank of Canada removed its tightening bias, and the Governor of the RBNZ hinted at intervention to soften the NZD even as it maintains an intention to tighten monetary policy. The RBA's governor Stevens will also be speaking in the week ahead, with his comments about the AUD likely to be closely watched in the light of its recent strength. In this respect Chinese economic data will also be of interest in coming days for signs as to whether Q3's economic stabilization looks likely to continue, which in the process could help to underpin resource exporting currencies like the AUD.

FX Forecasts - Major						Forwards		
	Spot 25.10	1M	3M	6M	12M	3M	6M	12M
EUR / USD	1.3802	1.34	1.31	1.27	1.20	1.3804	1.3804	1.3807
USD / JPY	97.42	100.0	103.0	107.0	110.0	97.36	97.30	97.12
USD / CHF	0.8926	0.93	0.95	0.98	1.04	0.8919	0.8912	0.8892
GBP / USD	1.6164	1.60	1.57	1.56	1.55	1.6152	1.6140	1.6116
AUD / USD	0.9584	0.92	0.90	0.88	0.85	0.9526	0.9470	0.9356
USD / CAD	1.0448	1.05	1.06	1.07	1.10	1.0472	1.0496	1.0544
EUR / GBP	0.8540	0.84	0.83	0.81	0.78	0.8547	0.8554	0.8568
EUR / JPY	134.46	134	134.9	135.9	132.0	134.46	134.46	134.46
EUR / CHF	1.2322	1.25	1.24	1.25	1.26	1.2314	1.2304	1.2278
FX Forecasts - Emerging						Forwards		
	Spot 25.10	1M	3M	6M	12M	3M	6M	12M
USD / SAR*	3.7504	3.75	3.75	3.75	3.75	3.7505	3.7510	3.7521
USD / AED*	3.6730	3.67	3.67	3.67	3.67	3.6727	3.6726	3.6724
USD / KWD	0.2817	0.282	0.285	0.282	0.28	0.2869	0.2902	0.2988
USD / OMR*	0.3850	0.38	0.38	0.38	0.38	0.3846	0.3841	0.3833
USD / BHD*	0.3770	0.376	0.376	0.376	0.376	0.3793	0.3818	0.3868
USD / QAR*	3.6413	3.64	3.64	3.64	3.64	3.6433	3.6457	3.6520
USD / INR	61.4600	62.00	61.00	59.00	57.00	61.4742	61.4880	61.5115
USD / CNY	6.0836	6.15	6.15	6.20	6.20	435.0836	487.0836	650.0836

\*Denotes USD peg

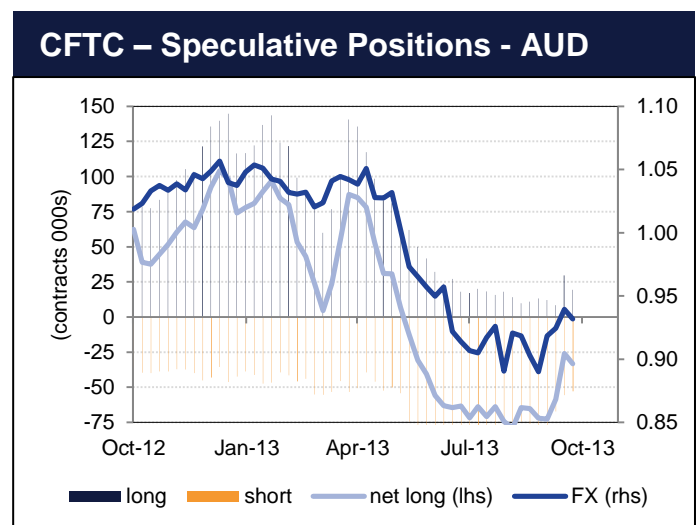
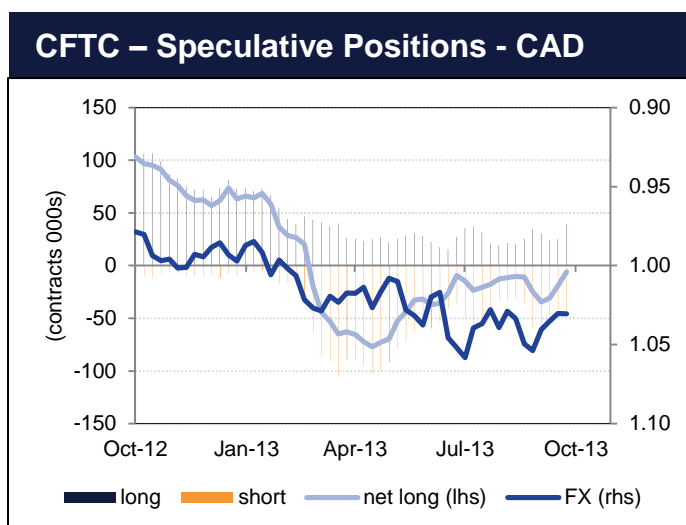
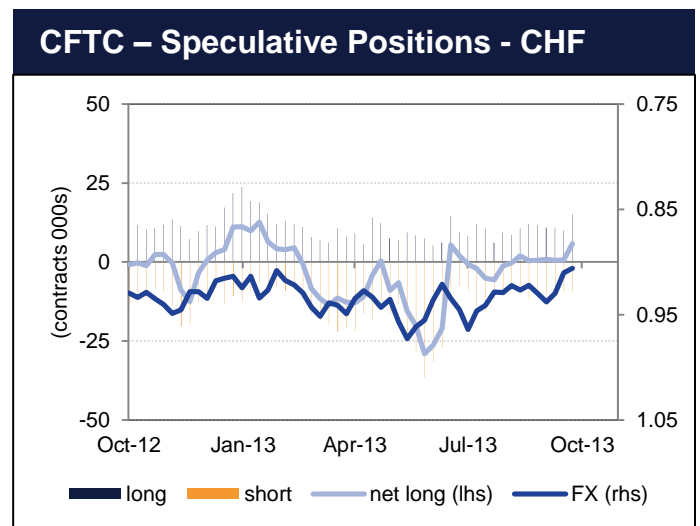
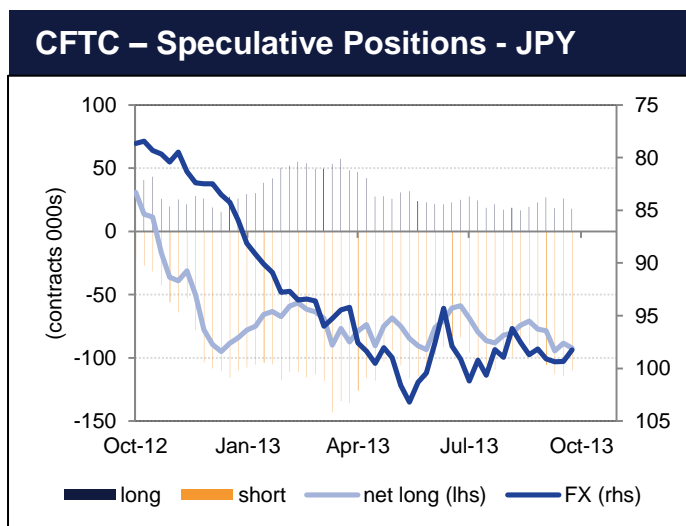
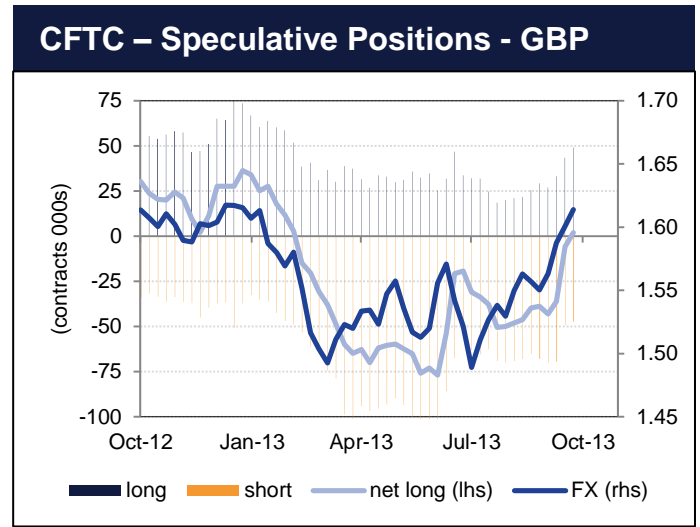
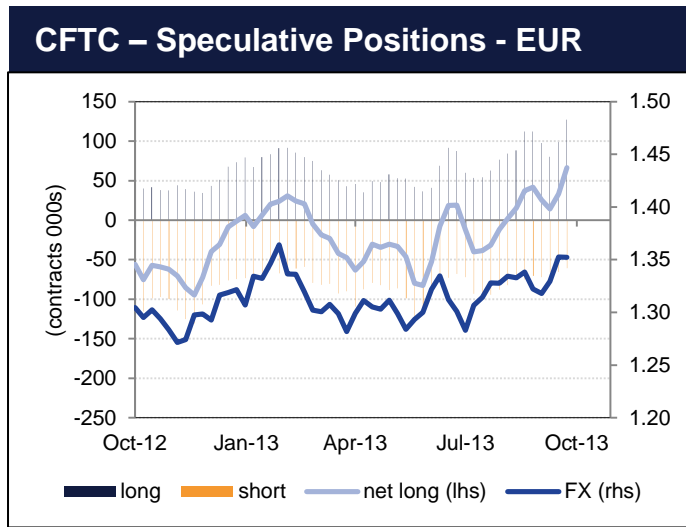
Source: Bloomberg, Emirates NBD Research

## Major Currency Pairs and Interest Rates



Source: Bloomberg, Emirates NBD Research

## Major Currency Positions\*



Source: Bloomberg, Emirates NBD Research  
 \*Data as of 13th September, 2013

## Economic Calendar

Date	Country	Event	
28-Oct	UK	CBI Reported Sales	
	US	Industrial Production	
	US	Pending Home Sales	
	US	Dallas Fed Mfg Activity	
29-Oct	Japan	Jobless Rate	
	Japan	Retail Trade	
	India	RBI rate decision	
	Germany	GfK Consumer Confidence	
	France	Consumer Confidence	
	UK	Mortgage Approvals	
	US	Retail Sales	
	US	S&P/CaseShiller Home Price Index	
	US	Consumer Confidence	
	30-Oct	Japan	Industrial Production
		Germany	CPI
		Germany	Unemployment Rate
Eurozone		Consumer Confidence	
US		MBA Mortgage Applications	
US		ADP Employment Change	
US		CPI	
US		FOMC rate decision	
31-Oct		UK	GfK Consumer Confidence
		Japan	Housing Starts
	Italy	Unemployment Rate	
	Italy	CPI	
	Canada	GDP	
	US	Initial Jobless Claims	
	Egypt	Rate decision	
	Japan	BoJ Target Rate	
1-Nov	China	Manufacturing PMI	
	Switzerland	PMI Manufacturing	
	UK	PMI Manufacturing	
	Brazil	Industrial Production	
	US	ISM Manufacturing	

Source: Bloomberg

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