



بنك الإمارات دبي الوطني
Emirates NBD

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FX Week

Divergent USD trends

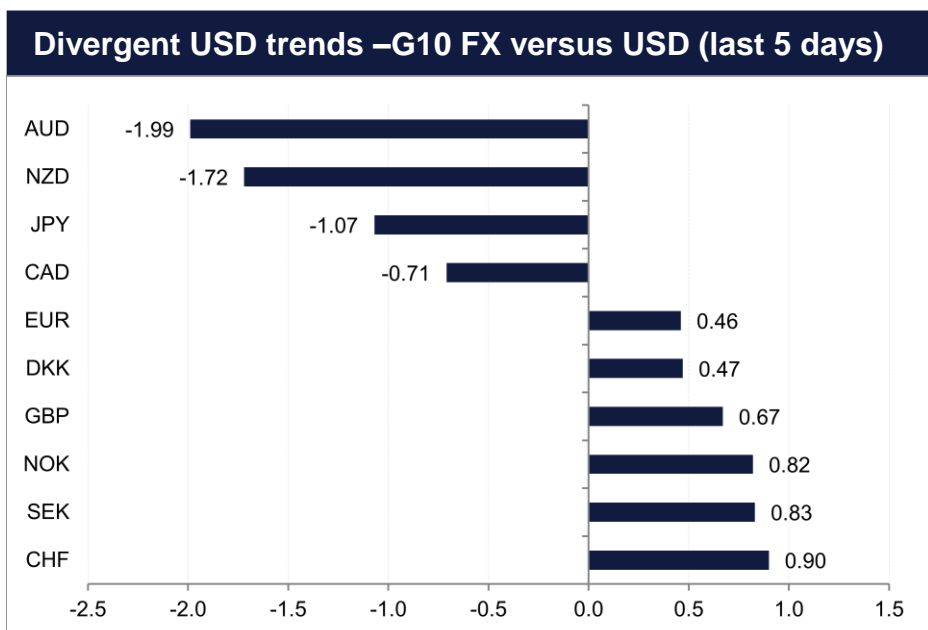
Major currency pairs are taking their lead from central banks, with the USD gaining at the expense of the JPY as Fed 'tapering' appears to be drawing nearer, while declines in EUR/USD are being delayed by uncertainty about the future policy direction of the ECB. The coming week will be partly truncated by US Thanksgiving holidays on Thursday, but important data also looms in the Eurozone where November CPI data is released.

Fed tapering drawing nearer

The Fed appears to be inching closer to beginning the process of unwinding Quantitative Easing. However, while the October FOMC minutes mulled ways of reducing QE, they also showed the Fed exploring ways of keeping the overall monetary stimulus intact. It seems that even when the Fed begins to 'taper' QE the prospect of a hike in interest rates could be pushed even further into the future as the Fed's forward guidance is refined. This could entail lowering the unemployment threshold for when policy may begin to be tightened, from 6.5% currently to 6.0% or even lower. The hope will be that by doing this long term interest rates will not react aggressively to the first announcement of a reduction in asset purchases. From our point of view this first adjustment to QE looks likely to occur in January, but it may happen sooner (in December) if the next employment data for November is positive. Recent economic data from the US has been broadly encouraging with retail sales rising by 0.4% in October even as the federal government was shutdown. Other regional surveys have been more mixed, and housing data this week may add to the uncertainty. However, the litmus test for tapering to begin will surely be the employment report due out on December 6th.

EUR's near-term fortunes depend on inflation data

The ECB has also captured much attention in recent days, with rumours and denials about possible further easing measures responsible for some abrupt swings in EUR/USD. In particular talk that the ECB could engage in asset purchases or could set a negative deposit rate brought EUR/USD down to 1.34 again. This was followed by a move back above 1.35 at the end of last week as ECB President Draghi appeared to downplay such thoughts, for the time being at least.



Source: Bloomberg, Emirates NBD Research

Whether the ECB does or it does not engage in more stimulus measures will largely depend on inflation, making this week's November reading especially important. Last month's sharp decline in inflation to 0.7% was largely responsible for the ECB cutting interest rates to 0.25% earlier this month. Should inflation stay at or around this level in November, the pressure on the ECB to do more is sure to mount, returning pressure in turn on to the EUR exchange rate. Our forecast for EUR/USD remains for it to fall back to 1.31 over the 3-month time horizon.

GBP in ascendency

GBP rose strongly into the end of last week as well helped along by an improvement in the CBI industrial trends survey. As the CBI has been an outlier in terms of recent economic data, suggesting that other activity indicators (the CIPS PMI series for instance) may have exaggerated the extent of the recovery, the fact that it rose in November to 11 from -4 in October, makes it more likely that the UK recovery is genuine. The CBI's retail sales survey will also be released in the coming week, and these have also shown dissonance with other more optimistic series of late. The continuation of strong data is making it increasingly hard for the Bank of England to hold the line with the markets over expectations for when the Bank will start tightening monetary policy. An upward revision to Q3 UK GDP (from 0.8% originally) could make their job even harder, helping the GBP to remain supported. We continue to believe that the crosses are the most reliable way to play GBP strength as Cable (GBP/USD) will be susceptible to renewed weakness once the Fed's tapering intentions become clearer.

USD/JPY – beware year-end spike

The JPY has been the main casualty of Fed tapering expectations, and this is expected to continue whilst the Bank of Japan remains the central bank most likely to pursue aggressive monetary policy easing next year. Our former 1-month forecast for USD/JPY of 100 has now been exceeded and our 3-month forecast of 103 is now coming into view. Japanese investors are increasingly looking for higher yielding assets to buy, as shown by the latest portfolio data that shows them purchasing foreign bonds now for five weeks in a row. As doubts continue to grow about the BOJ's ability to reach their 2.0% inflation target in 2015, it is all the more likely that the BOJ will engage in more JGB purchases, placing downward pressure on Japanese yields. A year ago, USD/JPY rose sharply into the year-end as Japanese monetary policy expansion came into view. This year the risk is similar in that the prospect of more expansionary policies could see USD/JPY move quickly higher again.

Safe haven demand for the CHF should ease

Downward pressure on the CHF is also likely to resume, with safe haven demand for the currency likely to ease in the wake of the historic weekend agreement to rein in Iran's nuclear plans. The cut in ECB interest rates earlier this month has overall maintained support for the CHF versus the EUR, but the SNB would likely take more action if the 1.20 floor were to be seriously tested. Swiss economic data releases have also held up reasonably well, with the ZEW index rising to 31.6 in November from 24.9 in October. This has also contributed to a relatively firm CHF, but an expected deterioration in Q3 GDP growth may see it start to give ground, especially in the context of reduced geopolitical tensions.

AUD on course to re-test lows

Finally the AUD continues to be punished, on the back of the RBA's discomfort with its current levels, its slight bias to ease policy further, renewed signs of vulnerability in China's economy, and the contrast with a more optimistic US outlook. Indeed, RBA intervention risks have been fanned by the news that it has already sold small amounts of the currency in October. Our 1-month forecast of 0.92 has now been exceeded leaving the next target being our 3-month forecast of 0.90. More tellingly

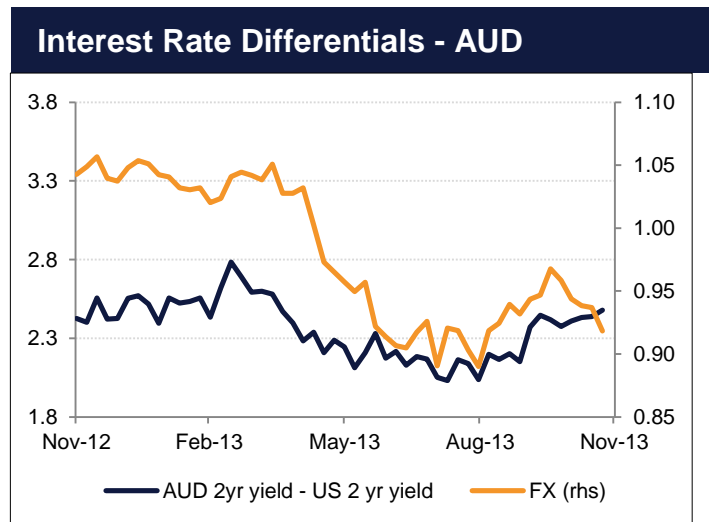
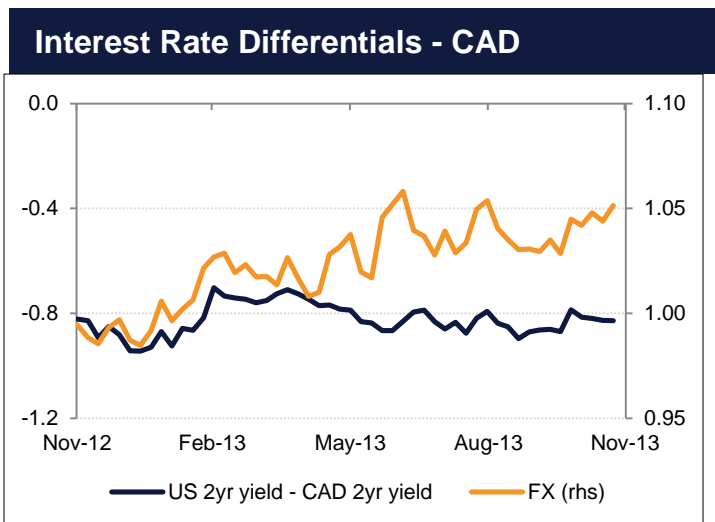
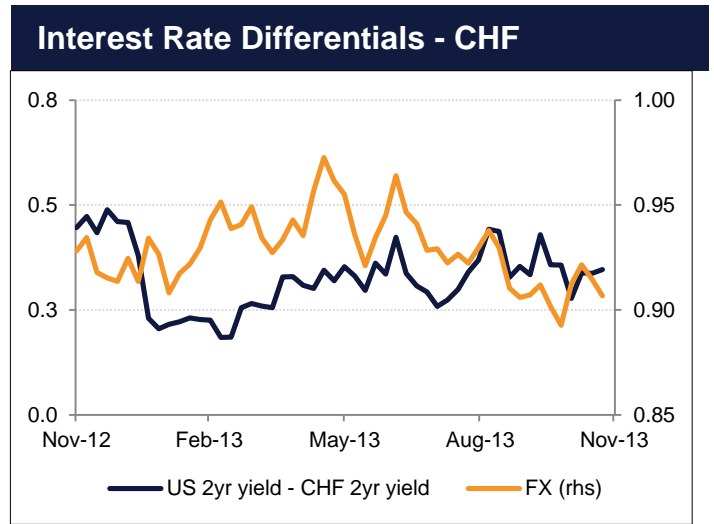
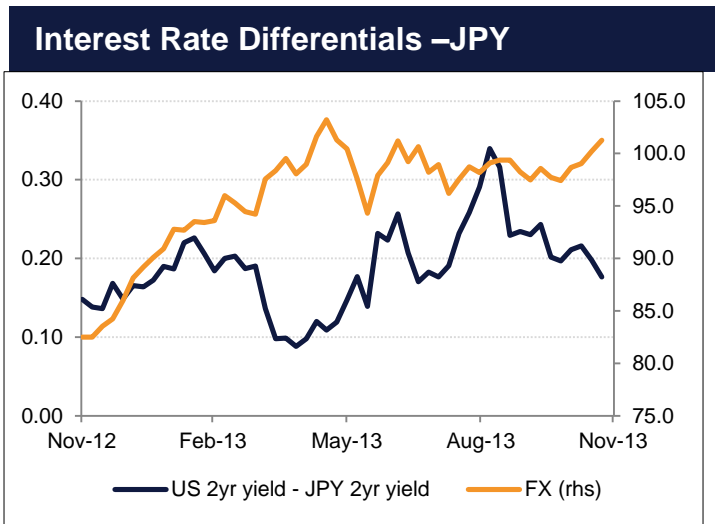
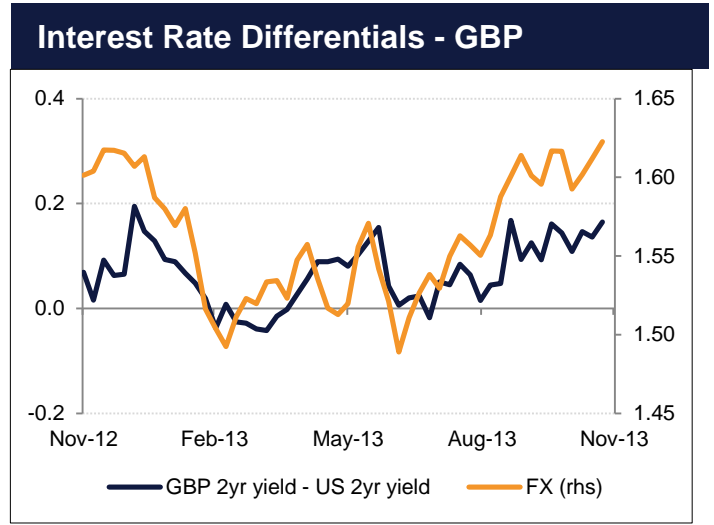
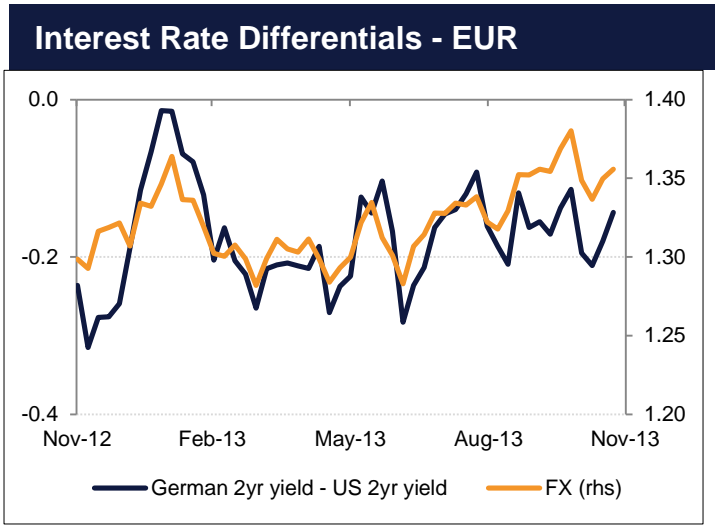
the AUD/NZD cross has been trading below key 1.12 levels, which we highlighted last week, suggesting that downside risks here could end up pulling the AUD/USD lower still.

FX Forecasts - Major						Forwards		
	Spot 15.11	1M	3M	6M	12M	3M	6M	12M
EUR / USD	1.3558	1.32	1.31	1.27	1.20	1.3559	1.3561	1.3568
USD / JPY	101.27	100.0	103.0	107.0	110.0	101.21	101.15	100.99
USD / CHF	0.9067	0.93	0.95	0.98	1.04	0.9060	0.9052	0.9031
GBP / USD	1.6226	1.59	1.57	1.56	1.55	1.6214	1.6202	1.6175
AUD / USD	0.9183	0.92	0.90	0.88	0.85	0.9128	0.9073	0.8962
USD / CAD	1.0514	1.05	1.06	1.07	1.10	1.0538	1.0563	1.0613
EUR / GBP	0.8355	0.83	0.83	0.81	0.78	0.8362	0.8370	0.8388
EUR / JPY	137.28	132	134.9	135.9	132.0	137.28	137.28	137.28
EUR / CHF	1.2294	1.23	1.24	1.25	1.26	1.2285	1.2276	1.2255
FX Forecasts - Emerging						Forwards		
	Spot 15.11	1M	3M	6M	12M	3M	6M	12M
USD / SAR*	3.7504	3.75	3.75	3.75	3.75	3.7505	3.7509	3.7518
USD / AED*	3.6730	3.67	3.67	3.67	3.67	3.6726	3.6725	3.6723
USD / KWD	0.2833	0.282	0.285	0.282	0.28	0.2899	0.2924	0.3023
USD / OMR*	0.3850	0.38	0.38	0.38	0.38	0.3846	0.3844	0.3840
USD / BHD*	0.3770	0.376	0.376	0.376	0.376	0.3792	0.3810	0.3842
USD / QAR*	3.6409	3.64	3.64	3.64	3.64	3.6450	3.6489	3.6561
USD / INR	62.8650	62.00	61.00	59.00	57.00	62.8818	62.8969	62.9226
USD / CNY	6.0936	6.15	6.15	6.20	6.20	415.1036	441.2936	606.3536

*Denotes USD peg

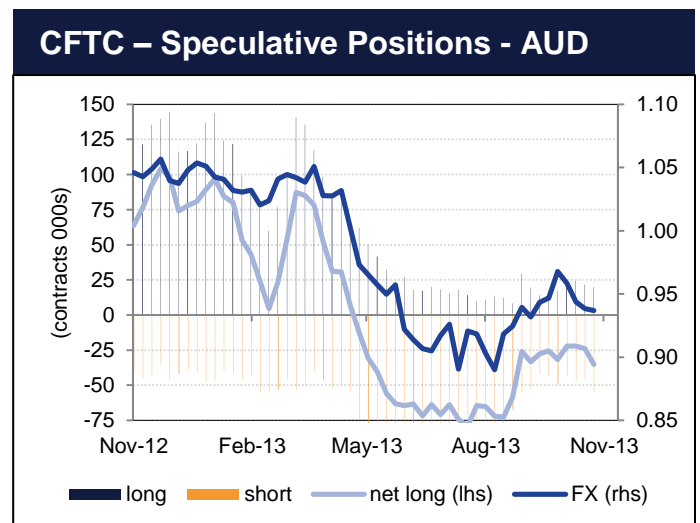
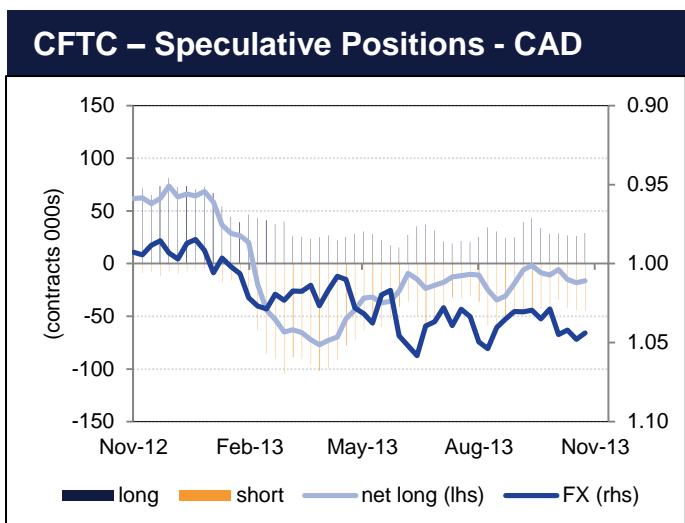
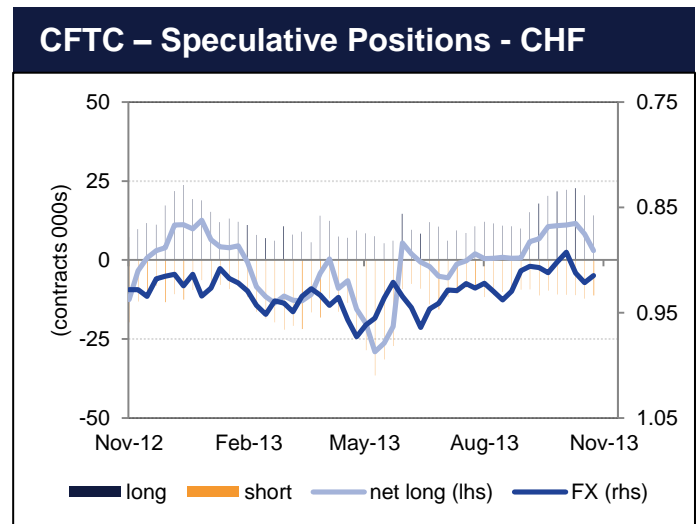
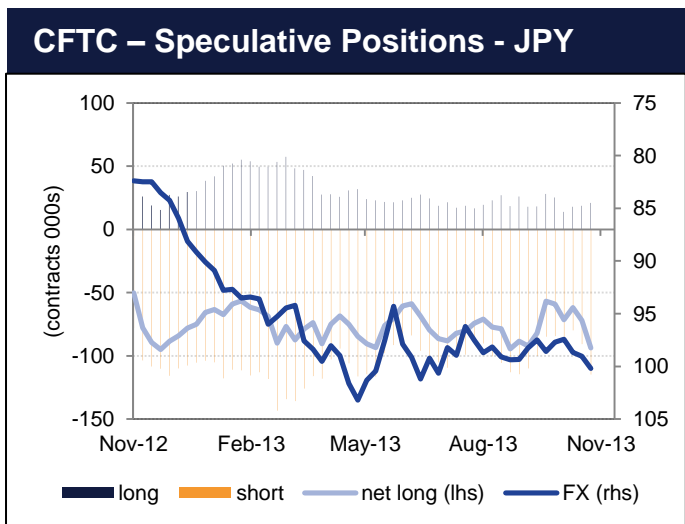
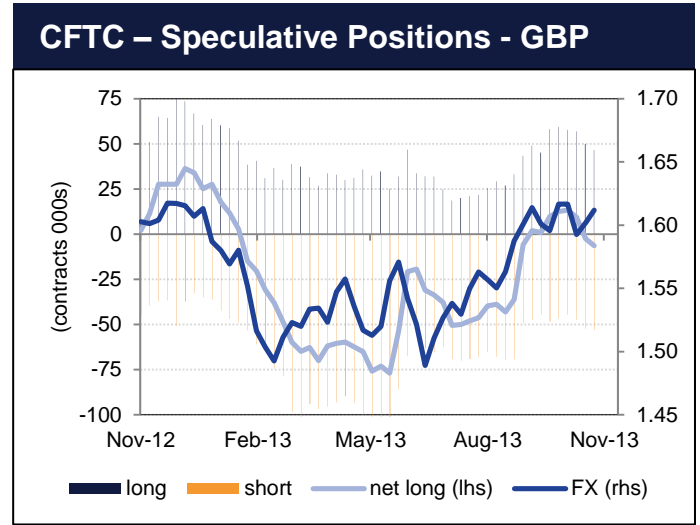
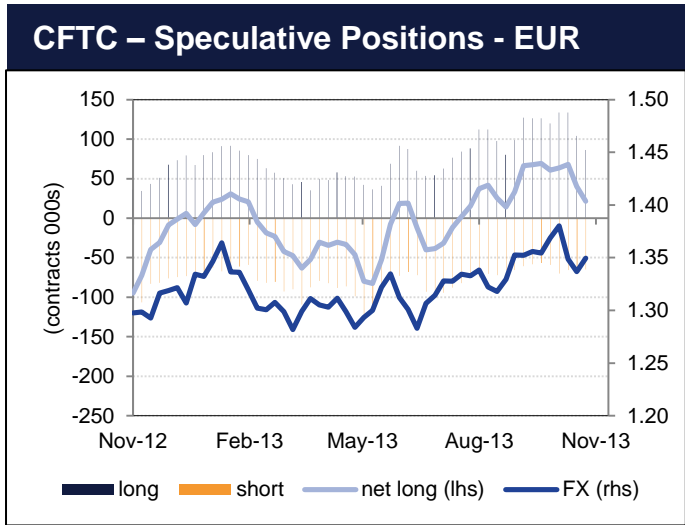
Source: Bloomberg, Emirates NBD Research

Major Currency Pairs and Interest Rates



Source: Bloomberg, Emirates NBD Research

Major Currency Positions*



Source: Bloomberg, Emirates NBD Research
 *Data as of 1 November, 2013

Economic Calendar

Date	Country	Event	
25-Nov	US	Pending Home Sales	
	US	Dallas Fed Mfg Activity	
26-Nov	Italy	Consumer Confidence Index	
	US	S&P/CaseShiller Home Price Index	
	US	Consumer Confidence Index	
	US	Richmond Fed Mfg Index	
27-Nov	France	Consumer Confidence	
	Germany	GfK Consumer Confidence	
	UK	GDP	
	UK	CBI Reported Sales	
	US	MBA Mortgage Applications	
	US	Initial Jobless Claims	
	US	Durable Goods Orders	
	US	Chicago Fed Nat Activity Index	
	US	U. of Michigan Confidence	
	Brazil	Selic Rate	
	28-Nov	Japan	Retail Sales
		Switzerland	GDP
Germany		CPI	
Germany		Unemployment Rate	
Eurozone		Consumer Confidence	
29-Nov	Japan	Jobless Rate	
	Japan	CPI	
	Japan	Industrial Production	
	UK	GfK Consumer Confidence	
	Japan	Housing Starts	
	Germany	Retail Sales	
	Italy	Unemployment Rate	
	UK	Mortgage Approvals	
	Italy	CPI	
	Eurozone	Unemployment Rate	
	Eurozone	CPI	
	India	GDP	
	Canada	GDP	
1-Dec	China	PMI Manufacturing	

Source: Bloomberg

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