



بنك الإمارات دبي الوطني
Emirates NBD

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FX Week

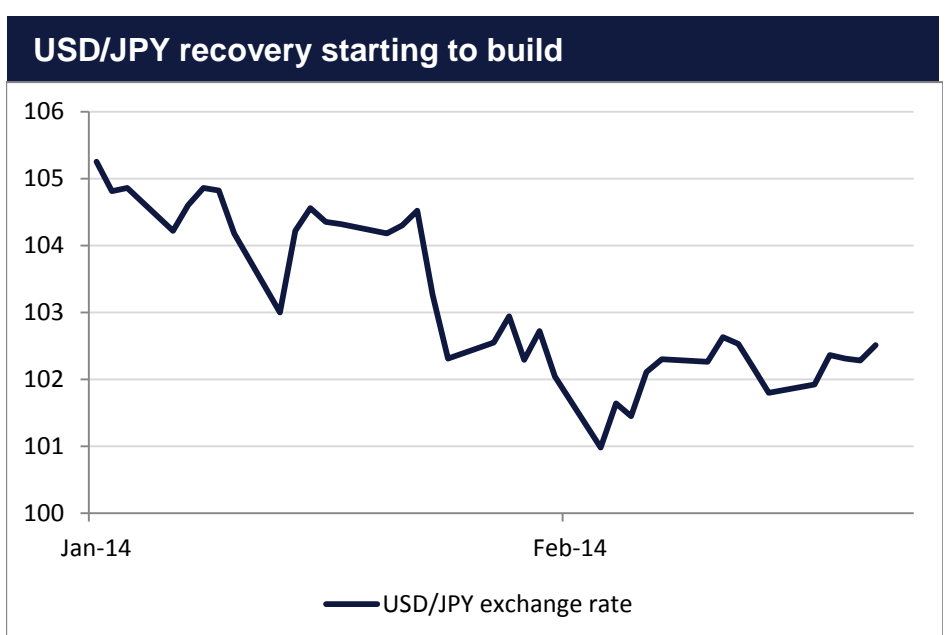
G20 endorses normalization

The G20 communique offered tacit USD support by arguing that the normalization of US monetary policy is appropriate, even though some EM countries have called on the Fed to be less aggressive in tapering QE. Indeed, even as EM countries are undergoing another bout of pressure due to weak Chinese PMI data last week, and with political volatility back on the rise, the developed countries appear confident enough to rebuff these demands, instead calling on EM countries to take more responsibility for their own affairs by implementing more reforms.

Whereas the Fed minutes from the January FOMC meeting released last week showed support for continued tapering, in the Eurozone the debate is still about whether to ease policy further, as it is in Japan. Thus, relative monetary policy trends are in theory USD supportive, although weak weather-related US data is serving as a restraint to bullishness, and will probably do so at least until the next US employment report is released in early March. Housing starts fell by -16.0% in January and activity indicators, for early February, were also weak in the New York and Philadelphia regions.

USD/JPY rallies on weak Japanese data

USD/JPY benefited last week from the disappointing Japanese Q4 growth data that showed the economy expanding by just 0.3% q/q, less than half the expected increase. Combined with other signs of recent softness in consumer spending and capital goods orders, the data has stoked expectations that the Bank of Japan will have to announce new stimulus measures to restore confidence, with the BOJ already increasing the size of some of its lending programs in the immediate aftermath of the GDP news. Although BOJ Governor Kuroda indicated that should not necessarily be interpreted as additional easing, it does probably increase the odds that more Quantitative Easing will be introduced later this year, probably after the consumption tax has been raised in early April. In the coming week there will be a lot of Japanese data to absorb including industrial production, retail sales, unemployment and inflation. There are risks that the headline inflation rate could decline for the first time since the huge asset purchase program was announced last year, which may raise concerns that the effectiveness of the steps taken to date are starting to diminish, thus requiring QE to be replenished.



Source: Bloomberg, Emirates NBD Research

Sluggish Eurozone to keep pressure on the EUR and ECB

The Eurozone meanwhile also saw its growth momentum slow in February, with flash PMI data showing that the 2014 recovery might already be in danger of a relapse. The composite PMI index for February fell from 52.9 to 52.7, consistent with growth only treading water at around 0.3%, which was the headline growth rate recorded in Q413. In particular, France's PMI fell further into contraction territory, with its PMI dropping to 47.6 from 48.9. Price trends also remain weak across the Eurozone, with Italian, German and French price data all revealing weaknesses that are likely to maintain downside risks to the flash CPI estimate for the whole of the Eurozone that is due out this week. Another headline inflation rate of 0.7% is likely to maintain the pressure on the ECB to cut interest rates further, with a negative deposit rate one of the measures likely to be discussed at the next ECB meeting in early March. Over the weekend ECB President Draghi reiterated that it is prepared to act if needed because of the inflation outlook, so these thoughts are likely to resonate on the EUR at the start of the week at least.

The EUR appears to be supported for the moment by the region's large current account surplus (2.3% of GDP in 2013), but EU Commission forecasts and surveys will also be watched closely this week to see how its projections have been affected by the weaker than expected inflation readings. These will be a forerunner to updated ECB forecasts which will be available at the time of the next policy meeting in early March and which will have a crucial bearing on whether it decides to ease policy again. Hints that have already been heard about the possibility of negative interest rates have seen the EUR lose ground quite quickly, and so any further suggestions along these lines will obviously be closely watched.

UK tightening speculation premature

Apart from in the US, only in the UK is the discussion turning to how quickly the stimulus should be withdrawn, but recent data there has also cast doubt on the need for any tightening that is too hasty. UK unemployment data for the three months to December released last week showed the unemployment rate rising to 7.2%, up from 7.1% in November, and the risks are that it might rise further still next month with the decline in the claimant count beginning to slow from the sharp declines seen in 2013. Retail sales also plunged by -1.5% in January, and headline and core inflation also provide few reasons for the Bank of England to tighten policy too quickly, with both rates now below the 2.0% inflation target rate. Both the January services and manufacturing PMI activity indices also unexpectedly dipped, suggesting that the recovery momentum in the UK is moderating. Consequently, while we remain confident about the GBP's prospects against an expected weaker EUR and Eurozone, we are still doubtful about the sustainability of the GBP's rally against the USD, and see this moving back towards the low 1.60s in the coming weeks and months. UK Q4 GDP data to be released this week is the second estimate and there are few reasons to expect that the 0.7% first estimate will be revised.

CAD gains unwind

One of the biggest FX movers last week was the CAD which fell back sharply after very weak Canadian retail sales figures in January, which dropped by -1.8% m/m. The AUD also gave up ground following the release of weak Chinese PMI data, renewing concerns about demand for Australia's commodity exports. The reversal in these commodity currencies comes even as commodity prices themselves have picked up in recent weeks. Going forward, the relative outlook for monetary policy will be increasingly important in distinguishing between them, with the NZD looking most likely to outperform as the prospect of an RBNZ rate hike comes nearer, while the CAD should remain vulnerable as downside risks to inflation dominate the outlook. The AUD is caught somewhere in the middle, but its reaction to the Chinese data illustrates that its downside risks have not been completely eliminated.

CHF safety demand to fade

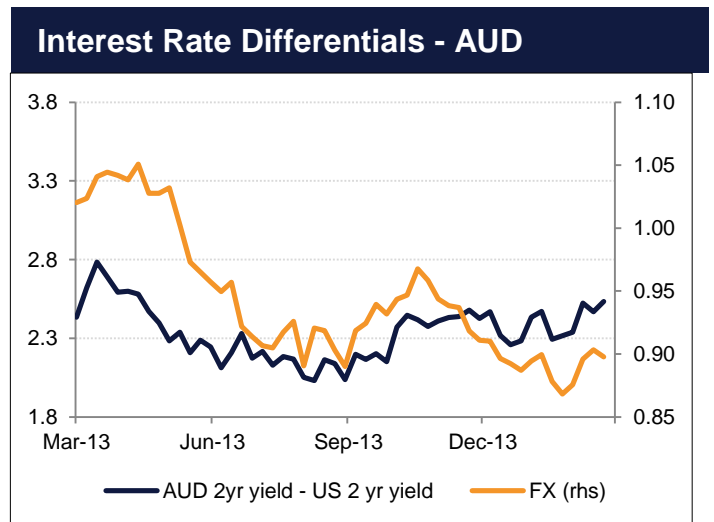
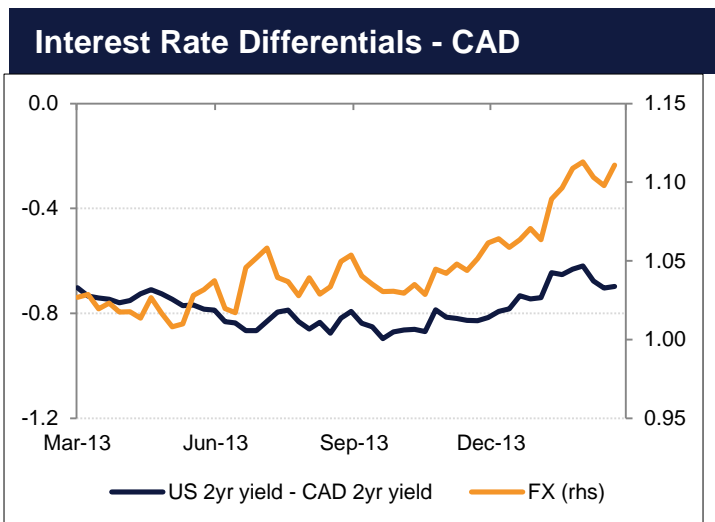
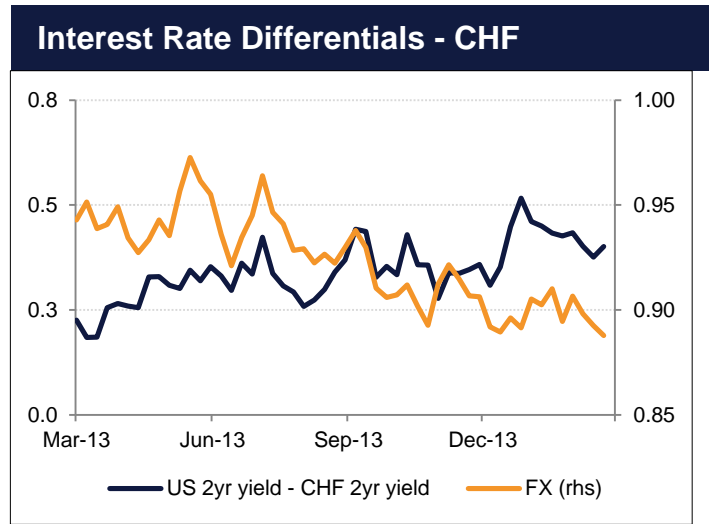
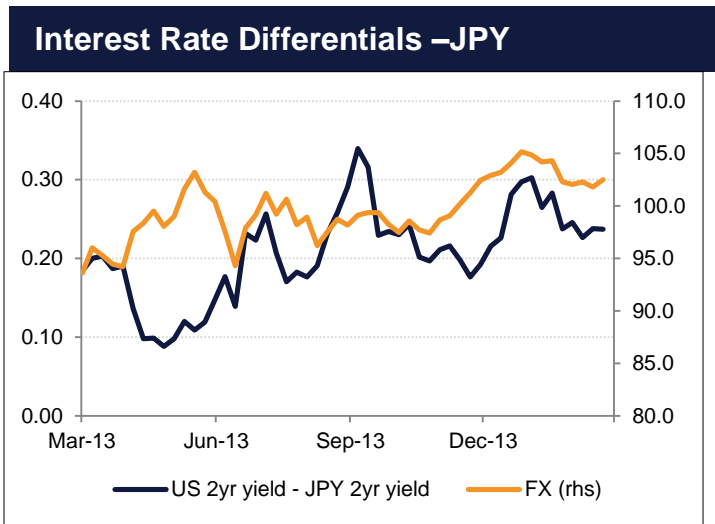
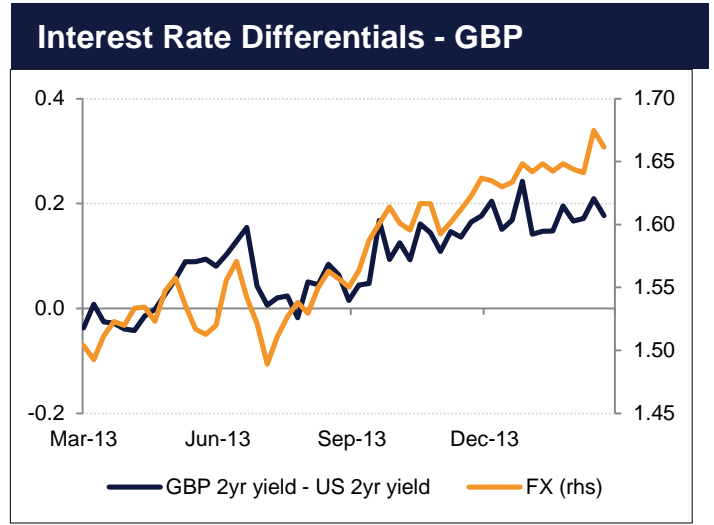
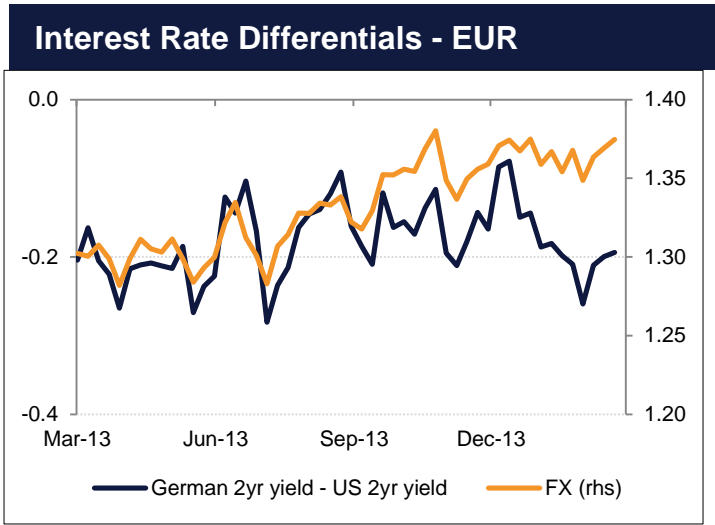
Finally the CHF strengthened last week both against the USD and the EUR as the situation in Ukraine deteriorated into the end of the week causing safe-haven demand for the Swiss currency. However, with the weekend bringing a political victory for the protesters, the chances are that these safe-haven flows could now reverse. And with recent data showing the Swiss recovery also losing momentum in February (the ZEW index fell to 28.7 from 36.4) the probability is that both EUR/CHF and USD/CHF could now begin to perk-up.

FX Forecasts - Major						Forwards		
	Spot 21.02	1M	3M	6M	12M	3M	6M	12M
EUR/USD	1.3746	1.35	1.32	1.28	1.25	1.3746	1.3747	1.3753
USD/JPY	102.5100	104.0	106.0	109.0	112.0	102.4612	102.4040	102.2281
USD/CHF	0.8877	0.91	0.94	0.98	1.04	0.8870	0.8862	0.8842
GBP/USD	1.6616	1.64	1.62	1.60	1.62	1.6605	1.6593	1.6562
AUD/USD	0.8977	0.88	0.87	0.85	0.80	0.8922	0.8869	0.8758
USD/CAD	1.1108	1.10	1.11	1.13	1.15	1.1132	1.1156	1.1203
EUR/GBP	0.8267	0.82	0.81	0.80	0.77	0.8273	0.8279	0.8298
EUR/JPY	140.9000	140	140	139	140	140.8993	140.8987	140.8968
EUR/CHF	1.2198	1.23	1.24	1.25	1.26	1.2188	1.2179	1.2156
EUR/NOK	8.3496	8.30	8.20	8.0	7.75	8.3782	8.4066	8.4654
EUR/SEK	8.9703	8.80	8.70	8.60	8.50	8.9829	8.9952	9.0239
NZD/USD	0.8282	0.82	0.83	0.83	0.82	0.8225	0.8160	0.8014

FX Forecasts - Emerging						Forwards		
	Spot 21.02	1M	3M	6M	12M	3M	6M	12M
USD/SAR*	3.7504	3.75	3.75	3.75	3.75	3.7505	3.7509	3.7520
USD/AED*	3.6730	3.67	3.67	3.67	3.67	3.6726	3.6724	3.6719
USD/KWD	0.2819	0.282	0.285	0.282	0.28	0.2919	0.3006	0.3151
USD/OMR*	0.3850	0.38	0.38	0.38	0.38	0.3834	0.3828	0.3805
USD/BHD*	0.3770	0.376	0.376	0.376	0.376	0.3786	0.3797	0.3828
USD/QAR*	3.6414	3.64	3.64	3.64	3.64	3.6421	3.6438	3.6467
USD/EGP	6.9602	6.89	6.89	6.89	6.89	7.1652	7.4127	7.9051
USD/INR	62.1300	62.00	61.00	59.00	57.00	62.3021	62.3146	62.3391
USD/CNY	6.0912	6.10	6.15	6.20	6.20	-	-	-

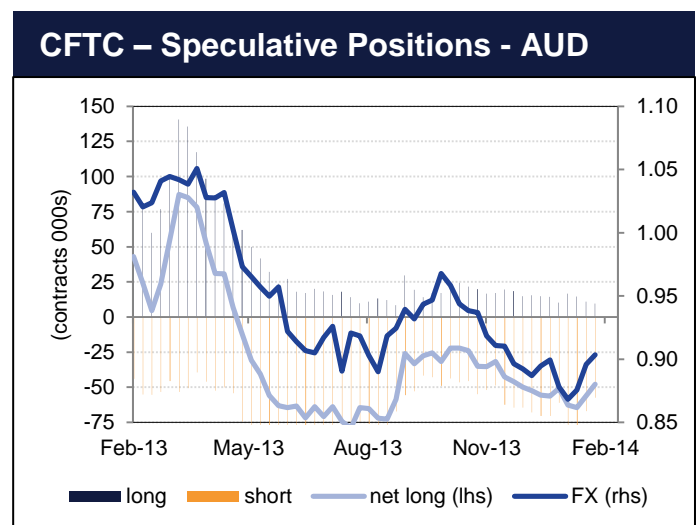
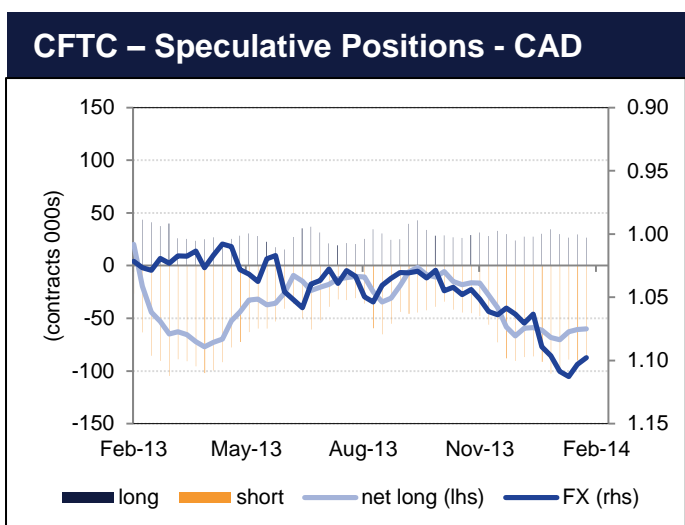
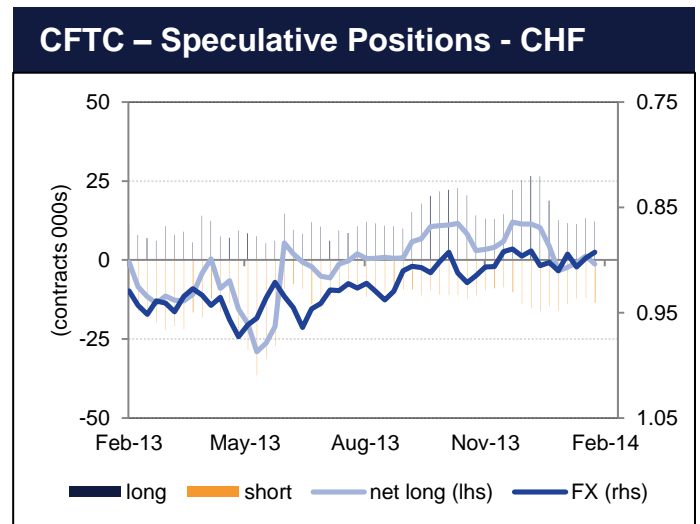
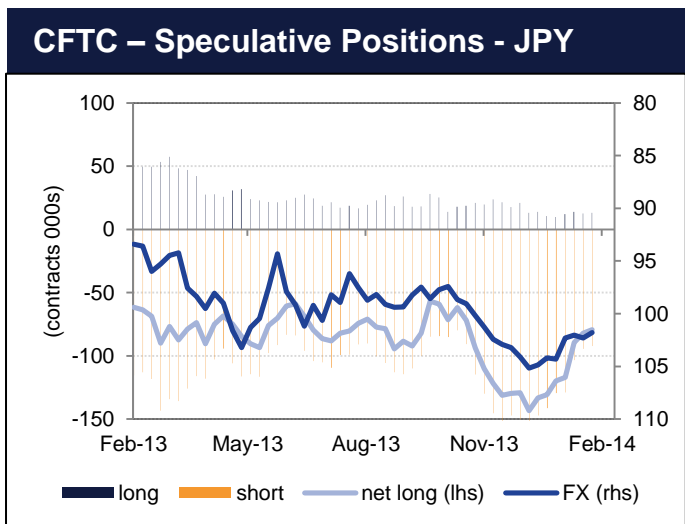
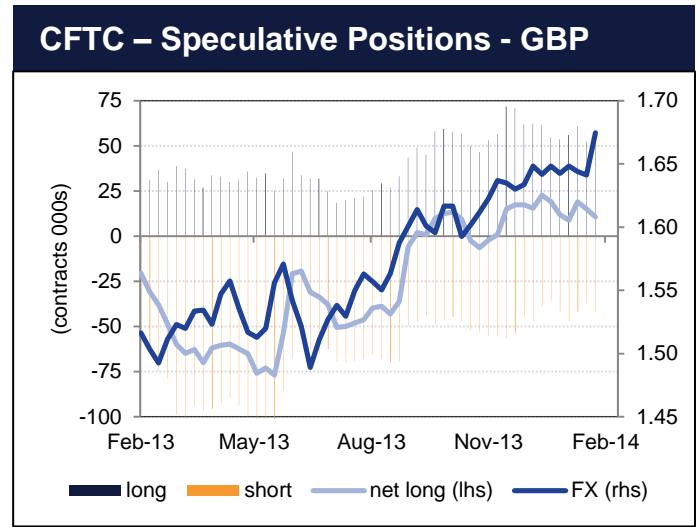
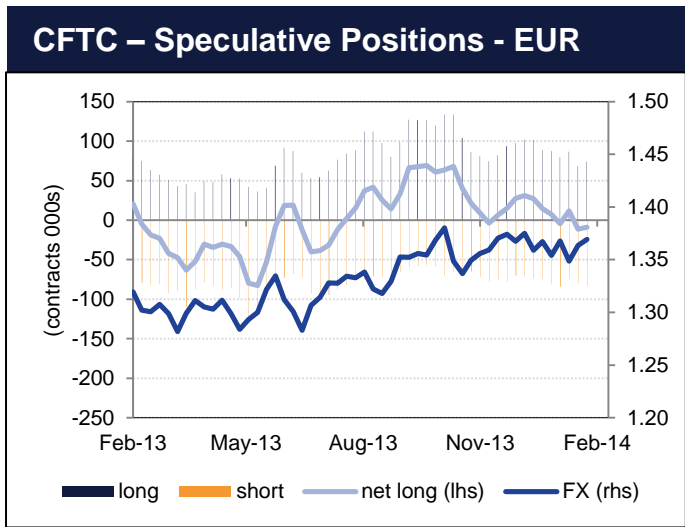
Source: Bloomberg, Emirates NBD Research
 *Denotes USD peg

Major Currency Pairs and Interest Rates



Source: Bloomberg, Emirates NBD Research

Major Currency Positions



Source: Bloomberg, Emirates NBD Research

Economic Calendar

Date	Country	Event
24-Feb	Germany	IFO Business Climate
	Eurozone	CPI
	US	Chicago Fed Nat Activity Index
25-Feb	US	Dallas Fed Mfg Activity
	Germany	GDP
	Italy	Retail Sales
	Italy	Consumer Confidence
	US	S&P/CaseShiller Home Price Index
	US	Consumer Confidence Index
	US	Richmond Fed Mfg Index
26-Feb	UK	GDP
	US	MBA Mortgage Applications
	Russia	CPI
	US	New Home Sales
	Brazil	Selic Rate
27-Feb	Switzerland	GDP
	France	Consumer Confidence
	Germany	CPI
	Italy	Business Confidence
	Eurozone	Consumer Confidence
	Brazil	GDP
	US	Durable Goods Order
	US	Initial Jobless Claims
	Egypt	Interest Rate Decision
	28-Feb	Japan
Japan		CPI
Japan		Industrial Production
Japan		Retail Sales
UK		GfK Consumer Confidence
Germany		Retail Sales
Italy		Unemployment Rate
Eurozone		Unemployment Rate
Eurozone		CPI
Italy		CPI
India		GDP

28-Feb	Canada	GDP
	US	GDP
	US	Core PCE
	US	U of Michigan Confidence
1-Mar	China	Manufacturing PMI

Source: Bloomberg

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