



بنك الإمارات دبي الوطني
Emirates NBD

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FX Week

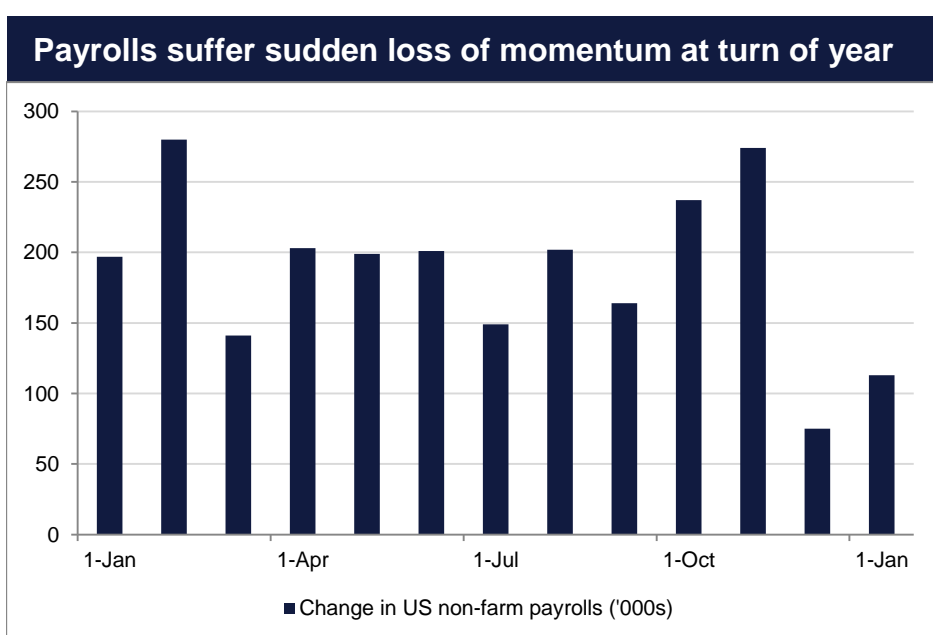
US payrolls suffer setback

Weaker than expected US January jobs data reversed the USD's recovery at the end of last week, with the EUR also getting a boost from the ECB's policy inaction on Thursday. With Emerging Market tensions also abating over the course of the week, the USD lost ground, with its DXY index slipping back from highs of 81.30 early in the week to 80.69 at the close. However, with tapering looking likely to continue despite the January payrolls setback, we are still inclined to believe that the USD's recovery will resume over time.

Indeed, the USD appeared poised to add to gains made earlier in the week as the January employment data came into view on Friday. The recovery in the US 10-year bond yield to just short of 2.70%, from 2.60% during the middle of the week, suggested that an increase in non-farm payroll employment in line with the consensus estimate of 180k could trigger further rises in yields and attendant strength in the greenback. However, January job growth disappointed relative to expectations, increasing by only 113k in January and with December's 75k gain left almost unrevised. Even though this contrasted with a much stronger employment reading in the household survey (616k), helping the unemployment to fall to 6.6%, there was clear disappointment in the reaction by the USD, with its gains being unwound and bond yields dipping. However, we would caution about becoming overly pessimistic about the US data and believe that tapering by the Fed will continue, thus helping to keep the USD underpinned. We suspect that bad weather was still playing a part in dampening headline payrolls growth in January, with other employment indicators such as the household survey, the unemployment rate, the ADP private sector jobs survey, and the ISM non-manufacturing survey's employment component all appearing to show the labour market as being quite strong..

But tapering to continue supporting the USD

For this reason we think that the Fed is likely to continue with tapering QE in coming months, especially as Fed officials appear to be relatively unfazed by the recent dip in activity. In particular, with the unemployment rate now within sight of reaching the 6.5% level which was previously the threshold for the Fed to begin hiking interest rates, it will be hard for it to suspend tapering until more data has at least been seen.



Source: Bloomberg, Emirates NBD Research

The next Fed meeting is on March 18-19th at which new Fed forecasts for the economy will also be published. Clearly, before then the jobs data for February will be closely scrutinized, and these will play an important part in the Fed's decision. In the coming week the new Fed Chairman Janet Yellen will testify for the first time to Congress and this will be the main focal point for markets. Despite her dovish reputation it would be a surprise if she were to say anything apart from being supportive of the current Fed tapering strategy, which should help the USD to steady.

ECB resists pressure to ease

The ECB also played a part in the USD's setback and the EUR's recovery to 1.36 at the end of the week. Despite Eurozone inflation having fallen to 0.7% in January, the ECB opted to leave policy unchanged, citing the need to acquire more data given the complexity of the current situation. Nonetheless, the EUR is likely to struggle to make further ground as deflation risks persist, despite Draghi's protestations to the contrary. The next ECB meeting will take place in March when the ECB will have new economic forecasts for the coming three years, and another month of economic data including Q4 GDP which will be released in the coming week. These will be important in framing the discussion about whether a policy adjustment will finally be seen. However, even if the ECB continues to sit on its hands we think the EUR/USD's upside will be limited by the ongoing tapering in the US. Ultimately we suspect that the ECB will be forced to take further policy steps, probably late in the day when inflation does indeed push lower, due to the combination of an overly strong EUR, challenging monetary conditions, as well as weak domestic demand.

The German Constitutional Court also did the EUR a favour by deciding to pass the decision of the legality of the ECB's OMT (Outright Monetary Transactions) rescue program over to the European Court of Justice (ECJ). Ironically, in saying that there were reasons to believe that the OMT would overreach the ECB's mandate not to backstop countries' finances, in passing the decision on to the ECJ it made it more likely that the case would eventually be lost, allowing the ECB to continue with its OMT plan if it is required. However, it may still take many months for the ECJ's verdict to be seen, maintaining an air of uncertainty about the whole issue

Eyes on the Bank of England

GBP was also able to recover lost ground against the USD into the end of the week, having earlier struggled in the face of weaker UK PMI data. In the coming week the Bank of England will publish its Quarterly Inflation Report which will be an opportunity for it to modify its forward guidance, now that its 7.0% unemployment threshold has almost been reached. Rather than lowering this threshold, to 6.5% say, we think that the most likely course of action will be to commit to keeping interest rates low long after the unemployment rate falls below 7.0%. The Bank may also throw in a number of other variables that it will watch closely, keeping the outlook for when interest rates will actually be raised much more uncertain. Such a message would be similar to the Fed's recent approach, with the only difference being that the Fed will continue to wind down its QE purchases, something that should provide the USD with greater underlying support.

USD/JPY finds support

A week ago we noted that USD/JPY's correction was healthy and that it might extend to 101 in the first instance before equilibrium was reached and it could start to recover. This proved to be the case with USD/JPY falling to a low of 100.76 during last week, before ending the week back above 102. The main driver for USD/JPY over the coming two months is likely to be events in the US, rather than policy initiatives from Japan, as the next major policy change from the BOJ is unlikely to occur before April at the earliest (when the consumption tax is raised), and more likely not until later in the year. Japanese officials appear to be content with the way the economy is heading, and appear confident that the 2.0% inflation target will be

reached next year. This lessens the chance that the BOJ will embark on more monetary stimulus for some time, beyond the doubling of the monetary base, to which they are already committed. This leaves USD/JPY broadly supported by Fed tapering moves, but probably lacking the impetus to push dramatically higher as a result of additional steps being taken by the BOJ. Positioning in USD/JPY is also still crowded despite short JPY positions having been reduced in recent weeks. In this context it might be a push for USD/JPY to reach our 3-month target of 107, and we are considering revising this forecast in our Monthly Insights this month.

Commodity currencies recover

The main news in the commodity space last week was that the RBA dropped its easing bias, which helped to push the AUD higher, making it one of the strongest currencies month to date. In the light of recently improving economic data, especially inflation, the RBA has also ceased talking the AUD down, at least for the time being. Other commodity currencies also bounced back with the NZD and the CAD also drawing support as the USD lost ground. Improved economic data in New Zealand and Canada were also partly responsible for these rallies, but they may not last. In particular Australian employment data in the coming week stands the risk of reversing the AUD's recent gains if the unemployment rate reaches as high as 6.0% in January which is possible.

FX Forecasts - Major						Forwards		
	Spot 07.02	1M	3M	6M	12M	3M	6M	12M
EUR/USD	1.3635	1.34	1.31	1.28	1.25	1.3635	1.3636	1.3642
USD/JPY	102.3000	106.0	107.0	109.0	112.0	102.2527	102.1960	102.0185
USD/CHF	0.8981	0.92	0.95	0.98	1.04	0.8974	0.8966	0.8946
GBP/USD	1.6411	1.63	1.61	1.60	1.62	1.6399	1.6387	1.6359
AUD/USD	0.8959	0.88	0.87	0.85	0.80	0.8905	0.8851	0.8738
USD/CAD	1.1032	1.10	1.11	1.13	1.15	1.1056	1.1080	1.1127
EUR/GBP	0.8309	0.82	0.81	0.80	0.77	0.8315	0.8322	0.8340
EUR/JPY	139.5300	142	140	139	140	139.5293	139.5287	139.5269
EUR/CHF	1.2243	1.23	1.24	1.25	1.26	1.2233	1.2224	1.2202
EUR/NOK	8.4216	8.30	8.20	8.0	7.75	8.4495	8.4778	8.5337
EUR/SEK	8.8459	8.80	8.70	8.60	8.50	8.8586	8.8726	8.9045
NZD/USD	0.8295	0.82	0.83	0.83	0.82	0.8239	0.8173	0.8026

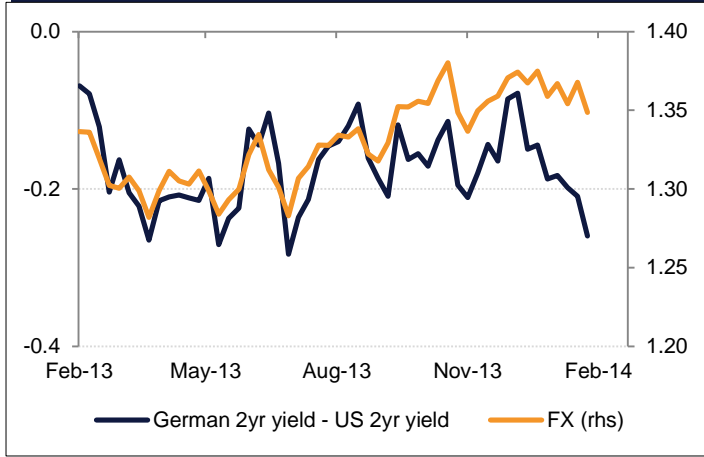
FX Forecasts - Emerging						Forwards		
	Spot 07.02	1M	3M	6M	12M	3M	6M	12M
USD/SAR*	3.7503	3.75	3.75	3.75	3.75	3.7504	3.7509	3.7522
USD/AED*	3.6730	3.67	3.67	3.67	3.67	3.6722	3.6720	3.6709
USD/KWD	0.2830	0.282	0.285	0.282	0.28	0.2906	0.2950	0.3059
USD/OMR*	0.3850	0.38	0.38	0.38	0.38	0.3835	0.3818	0.3793
USD/BHD*	0.3770	0.376	0.376	0.376	0.376	0.3785	0.3800	0.3831
USD/QAR*	3.6416	3.64	3.64	3.64	3.64	3.6423	3.6440	3.6470
USD/EGP	6.9626	6.89	6.89	6.89	6.89	7.1812	7.4312	7.9514
USD/INR	62.2900	62.00	61.00	59.00	57.00	62.3021	62.3146	62.3391
USD/CNY	6.0639	6.10	6.15	6.20	6.20	-	-	-

Source: Bloomberg, Emirates NBD Research

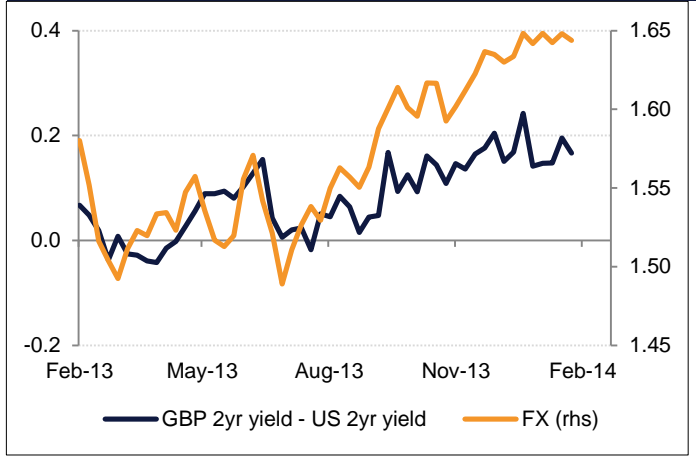
*Denotes USD peg

Major Currency Pairs and Interest Rates

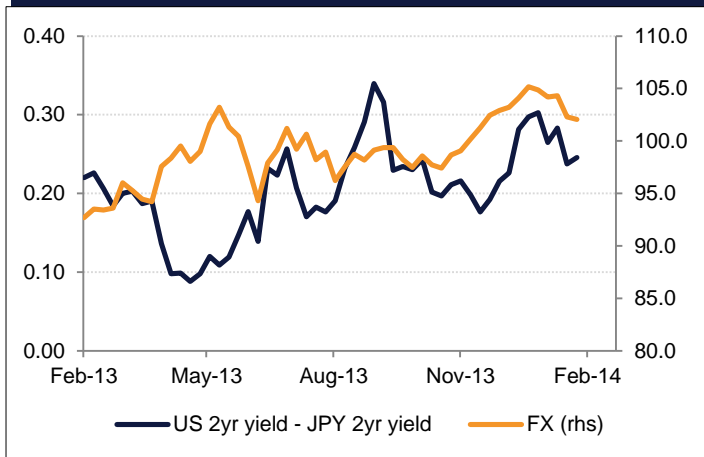
Interest Rate Differentials - EUR



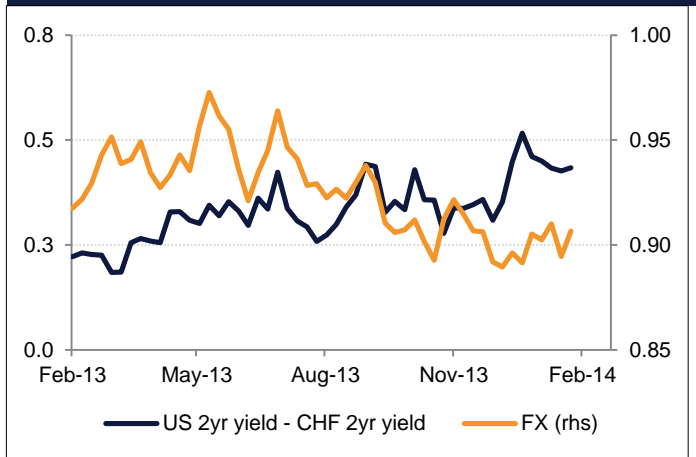
Interest Rate Differentials - GBP



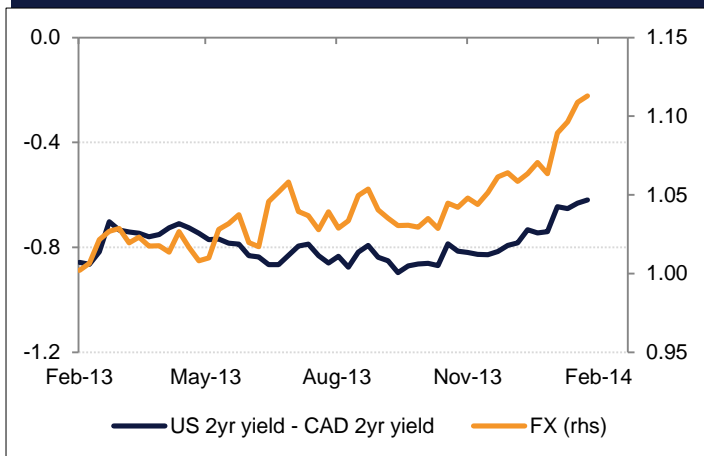
Interest Rate Differentials - JPY



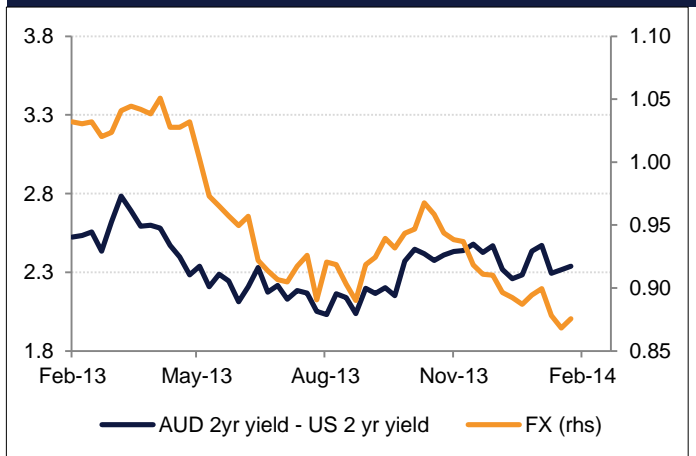
Interest Rate Differentials - CHF



Interest Rate Differentials - CAD

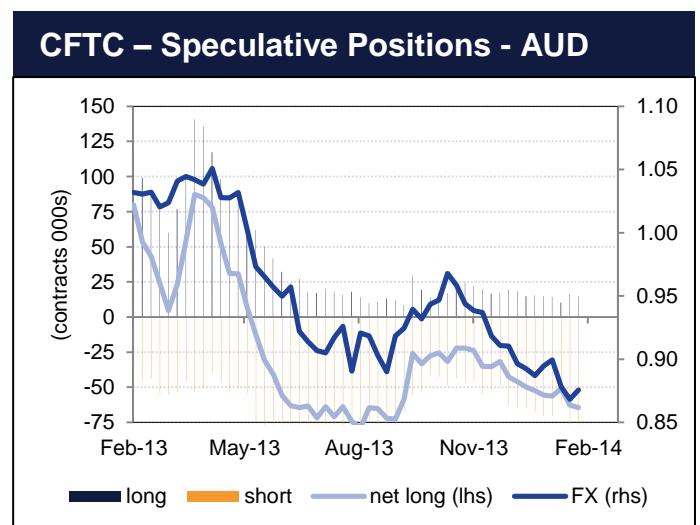
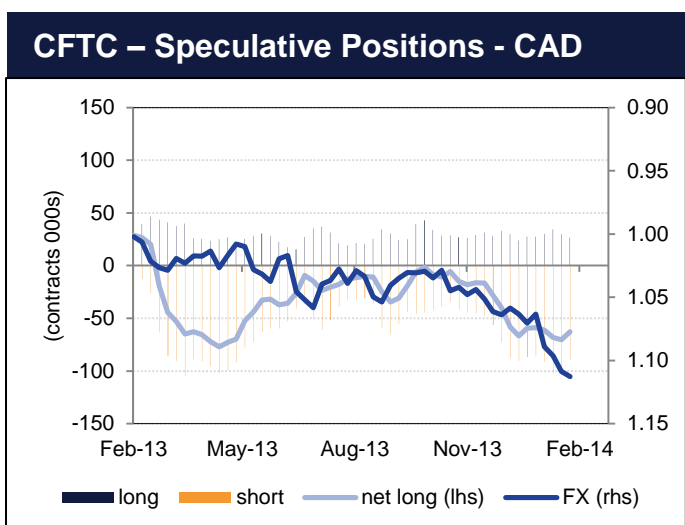
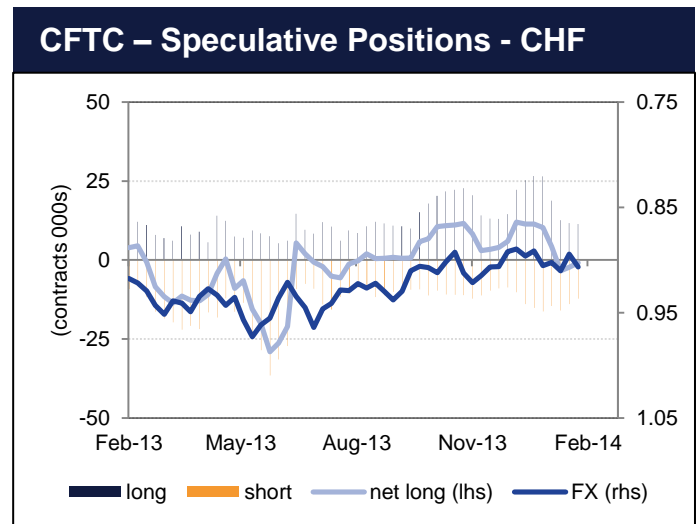
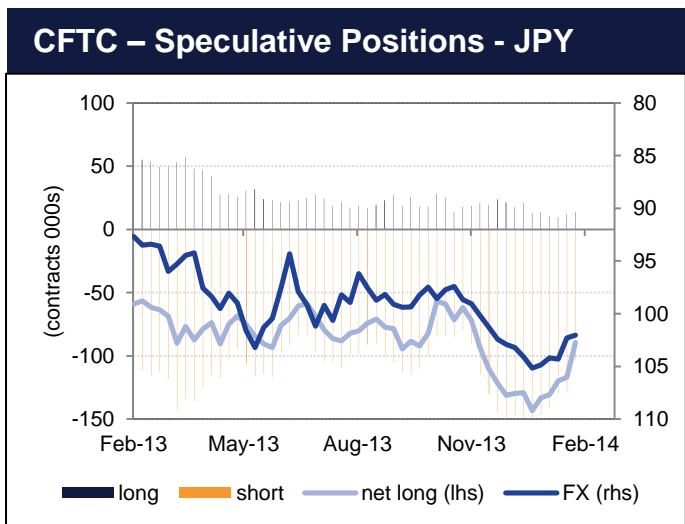
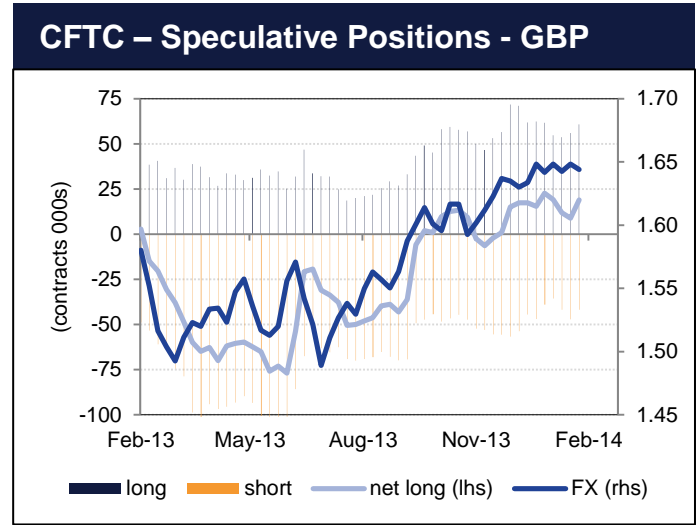
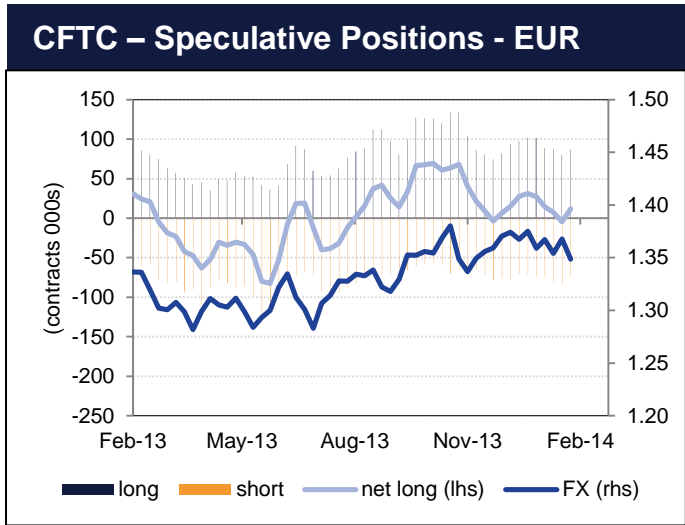


Interest Rate Differentials - AUD



Source: Bloomberg, Emirates NBD Research

Major Currency Positions



Source: Bloomberg, Emirates NBD Research

Economic Calendar

Date	Country	Event	
10-Feb	Japan	Trade Balance	
	Switzerland	Unemployment Rate	
	Eurozone	Sentix Investor Confidence	
	Canada	Housing Starts	
	Egypt	CPI	
11-Feb	Australia	NAB Business Confidence	
	Russia	Trade Balance	
12-Feb	Japan	Tertiary Industry Index	
	Switzerland	CPI	
	Eurozone	Industrial Production	
	UK	Bank of England Inflation Report	
	India	Industrial Production	
	India	CPI	
	US	MBA Mortgage Applications	
	Russia	CPI	
	China	Trade Balance	
	13-Feb	UK	RICS House Price Balance
		Australia	Unemployment Rate
Germany		CPI	
Brazil		Retail Sales	
US		Retail Sales	
US		Initial Jobless Claims	
14-Feb	China	CPI	
	India	Wholesale Price Index	
	France	GDP	
	Germany	GDP	
	Italy	GDP	
	Eurozone	Trade Balance	
	Eurozone	GDP	
	US	Industrial Production	
	US	U of Michigan Confidence	

Source: Bloomberg

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