

FX Week

US jobs data reinforce risk loving bias

The US January jobs report should add further momentum to risk trades in the near term, reinforcing the trend observable in survey data showing global activity improving across both the manufacturing and service sectors. US stocks rallied to their highest level since May 2008 as non-farm payrolls increased by 243k compared to estimates of 140k with the unemployment rate dropping to 8.3%, the lowest since February 2009. Bond yields also reacted positively, but the currency market response was more conflicted with the USD facing competing pressures stemming from the data. Rising optimism is often construed as USD negative in the first instance as strengthening risk appetite generally favors other currencies over it with higher yields. However, in this case the data should probably play out positively for USD over time especially if it contributes to a re-rating of the US economy's prospects over and above its competitors.

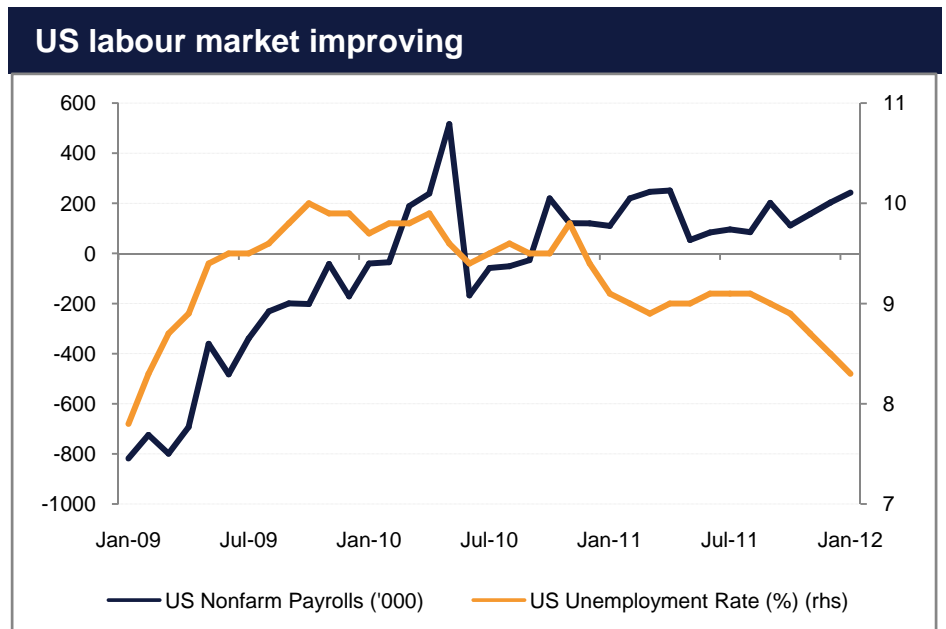
But USD recovery should eventually take hold

It is probably too early to revise annual growth forecasts based on one-months payrolls figures alone, and too early to expect the Fed to react much either. However, Q1 GDP forecasts are being revised upwards, based on the payrolls figures and on the strength seen in the ISM surveys, with both the manufacturing and service sectors improving strongly in January. To the extent that the data might make a difference it will probably stay the Fed's hand when it comes to contemplating another round of Quantitative Easing (QE3), at least in Q1. Our sense has always been that another round of QE is unlikely, with the bar for the Fed to go down this route being quite a high one. The realisation of this more broadly by the market might itself give the USD a firmer foundation from which to recover after its recent softness. The upcoming week sees few data releases from the US that should challenge this view, with trade data and consumer confidence the main economic data points to watch out for, while Ben Bernanke will reprise his House testimony to the Senate on Tuesday. This absence of significant US data of course leaves events in the Eurozone as the main imponderable.

Greece hanging by a thread

Greece still hangs on the precipice at the time of writing, with the negotiations between private sector bond holders and the government now being held up by other

Weekly
5 February 2012



Source: Bloomberg, Emirates NBD Research

Tim Fox
Chief Economist
+971 4 230 7800
timothyf@emiratesnbd.com

negotiations over the EUR130bn bailout plan and Greece's willingness to embrace further reforms. With these discussions now ongoing for almost a month, the passage of time provides little confidence that a comprehensive solution will be reached in time for the next bond payments owed by Greece in March. Little by little policy-makers appear to be acknowledging the possibility that Greece will default and be allowed to leave the Euro, with ECB Governing Council member Nowotny saying last week that he 'can't be sure' that Greece would be able to stay in the Euro. Greek politicians also appear to be preparing the ground for elections due in April, by opposing an agreement on further austerity measures, seemingly looking beyond the days of the interim Papademos government.

EUR/USD upside losing momentum

That the EUR has held up so well against this background owes more to the rising tide of optimism globally, but any failure in these talks could quickly undercut its gains. The ECB also meets against this background, itself having played a part in fanning recent optimism by injecting liquidity into the financial system, most prominently through its adoption of 3-year Long Term Refinancing Operations (LTROs). Another one of these LTROs is due at the end of the month, which may sustain positive sentiment for a bit longer. However, the ECB this week will probably resist calls for it to participate in the restructuring of Greek debt, and it will probably hold out against cutting interest rates again, at least for the time being. The FX market reaction may well depend on what progress there has been regarding Greece, but in the absence of any the tide of sentiment may begin to turn away from the single currency. Positioning remains a significant barrier to EUR losses, however, with the speculative community largely still managing to hold onto its short positions over the past fortnight. However, interest rate differentials suggest to us that the EUR/USD's rally has almost run its course, with swap spreads implying little further upside to it, while bond-yield differentials suggest that the EUR has risen too far.

The Bank of England to ease, but by how much?

Central banks meetings will also be centre stage in the UK and in Australia in the coming week. In both instances there is the possibility of further steps being taken to ease monetary conditions, with the Bank of England widely expected to embark on another round of QE and the Reserve Bank of Australia thought likely to cut its policy rate. In the BoE's case some uncertainty has been injected into the debate about more QE by the release of better than expected PMI data in January. Both the manufacturing and the service sector PMI's rose strongly in January, in the manufacturing case taking the index out of contraction territory. This has shifted the debate from one where GBP75bn of further QE is expected, to the possibility that only GBP50bn will be considered, and maybe even none at all. Given that the markets have previously discounted another GBP75bn of Gilts purchases at this meeting (on top of the GBP275bn already conducted), the scope clearly exists for some disappointment especially if the Bank holds off from doing any QE at all. In this context EUR/GBP's decline last week, may extend further in the coming one, with January lows of 0.8220 coming back into view.

RBA rate cut may not weaken the AUD by much

The RBA's situation is clearly very different, with policy interest rates still elevated at 4.25% despite two rate cuts at the end of 2011. Another cut to 4.0% seems likely this week, especially with the strength of the AUD in recent weeks having inadvertently tightened monetary policy. After the last rate cut the Board said that 'the inflation outlook afforded scope for a modest reduction in the cash rate' and that they will 'continue to set policy as needed to foster sustainable growth and low inflation over time'. With the Australian labour market continuing to weaken, inflation easing gradually, the housing sector softening and global growth trends still insecure, the likelihood is that the cash rate will be lowered if only to buy the authorities some

further insurance against weakening activity. However, in the context of still positive risk appetite it is unlikely if this will translate into a significantly weaker AUD, as its yield advantage will remain superior to many of its rivals.

JPY and CHF strength anomalous in a risk loving market

Finally other central banks under pressure from unwelcome appreciation of their exchange rates are the Bank of Japan (BOJ) and the Swiss National Bank (SNB). The relative strength of the JPY and the CHF at this particular time is a little counterintuitive as current rising global risk appetite would normally argue for a weakening of these funding currencies, similar to the weaker trend currently observable in the USD. Indeed both the JPY and the CHF are approaching levels that might oblige the BOJ and the SNB to step-in and intervene (at USD/JPY 75 and EUR/CHF 1.20 respectively) should they appreciate much further. Their behavior could suggest that risk appetite is not as strong as otherwise believed, especially in relation to the EUR where sentiment is clearly still cautious. By extension, should there be an even more dramatic reversal in risk indicators, involving a collapse in the EUR, the authorities could find it much harder to deflect further demand for these currencies.

Tim Fox
+971 4 230 7800

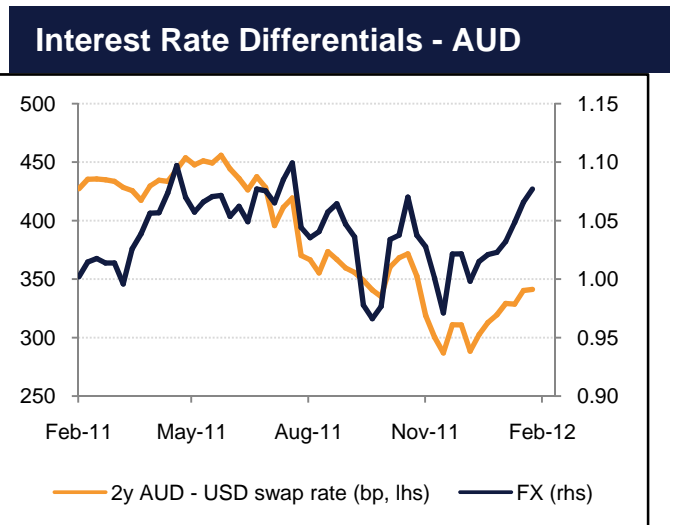
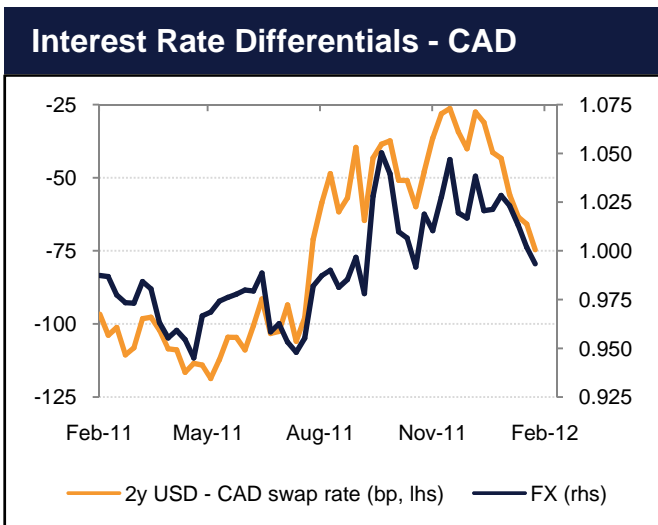
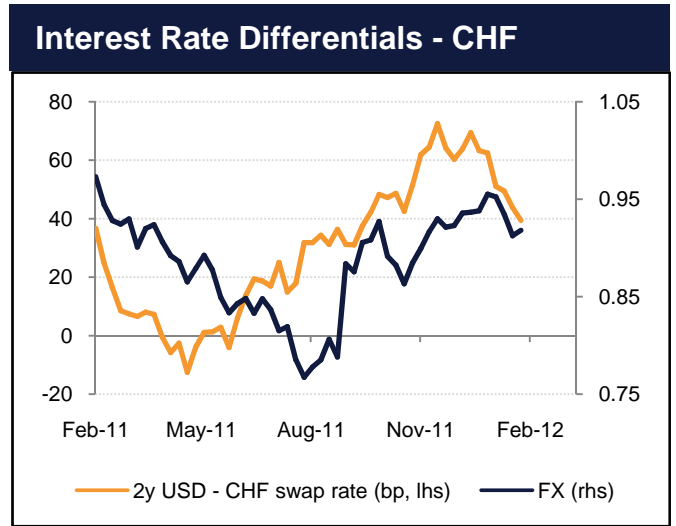
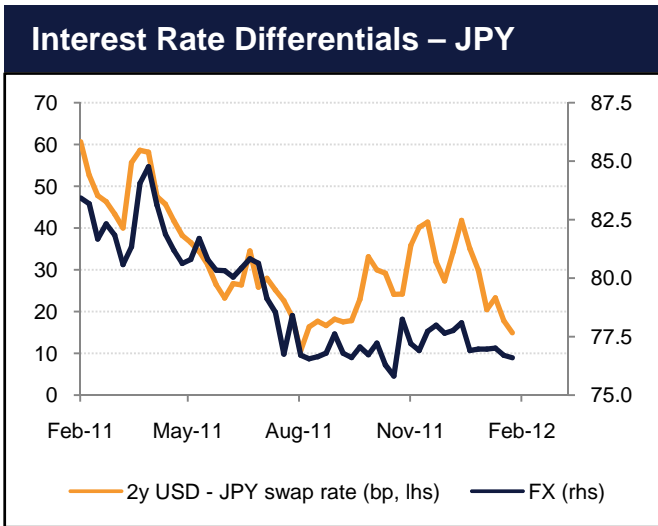
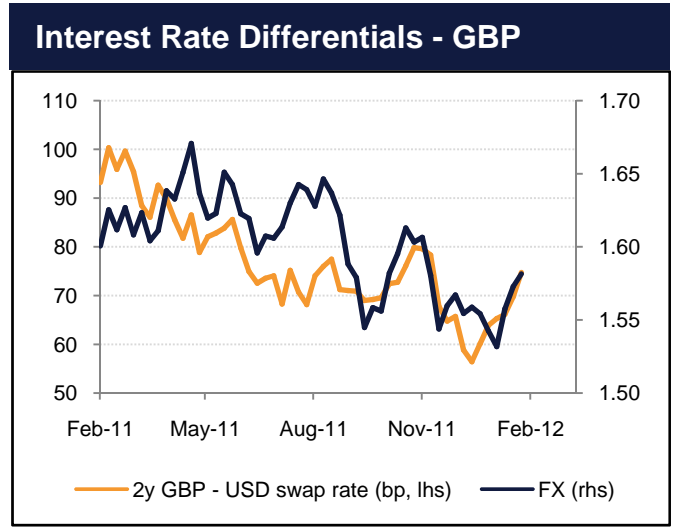
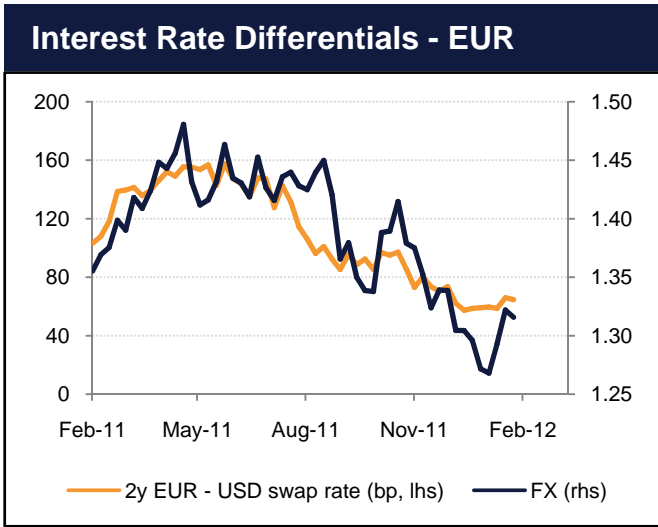
FX Forecasts - Major					Forwards		
	Spot 03.02	3M	6M	12M	3M	6M	12M
EUR / USD	1.3158	1.25	1.20	1.15	1.3162	1.3167	1.3183
USD / JPY	76.6000	80.0	85.0	90.0	76.5286	76.4380	76.1670
USD / CHF	0.9182	1.00	1.06	1.13	0.9169	0.9152	0.9113
GBP / USD	1.5815	1.52	1.54	1.58	1.5803	1.5788	1.5755
AUD / USD	1.0771	0.95	0.90	0.90	1.0667	1.0569	1.0384
USD / CAD	0.9934	1.05	1.07	1.10	0.9955	0.9978	1.0023
EUR / GBP	0.8318	0.82	0.78	0.73	0.8326	0.8338	0.8365
EUR / JPY	100.7900	100.0	102.0	103.50	100.7893	100.7886	100.7862
EUR / CHF	1.2084	1.25	1.27	1.30	1.2069	1.2053	1.2016

FX Forecasts - Emerging					Forwards		
	Spot 03.02	3M	6M	12M	3M	6M	12M
USD / SAR*	3.7503	3.75	3.75	3.75	3.7498	3.7492	3.7486
USD / AED*	3.6730	3.67	3.67	3.67	3.6730	3.6731	3.6730
USD / KWD	0.2774	0.285	0.282	0.28	0.2789	0.2797	0.2826
USD / OMR*	0.3850	0.38	0.38	0.38	0.3837	0.3830	0.3813
USD / BHD*	0.3770	0.376	0.376	0.376	0.3775	0.3780	0.3790
USD / QAR*	3.6413	3.64	3.64	3.64	3.6415	3.6421	3.6431
USD / EGP	6.0329	6.00	6.10	6.20	6.3642	6.6242	6.9993
USD / INR	48.6950	56.00	53.00	50.00	48.7041	48.7104	48.7209
USD / CNY	6.3029	6.35	6.30	6.25	6.2887	6.2802	6.2745

*Denotes USD peg

Source: Bloomberg, Emirates NBD Research

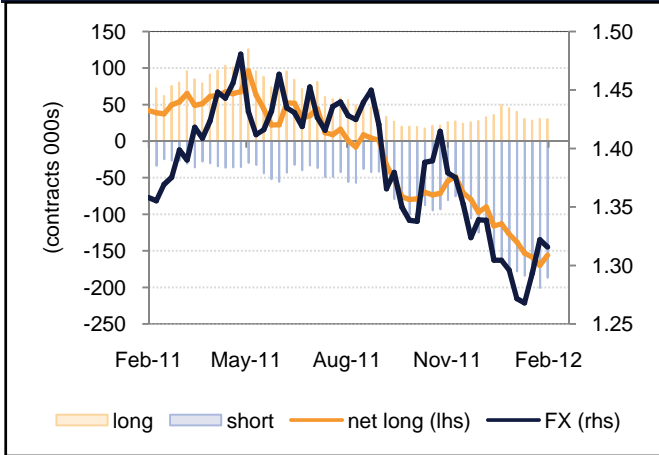
Major Currency Pairs and Interest Rates



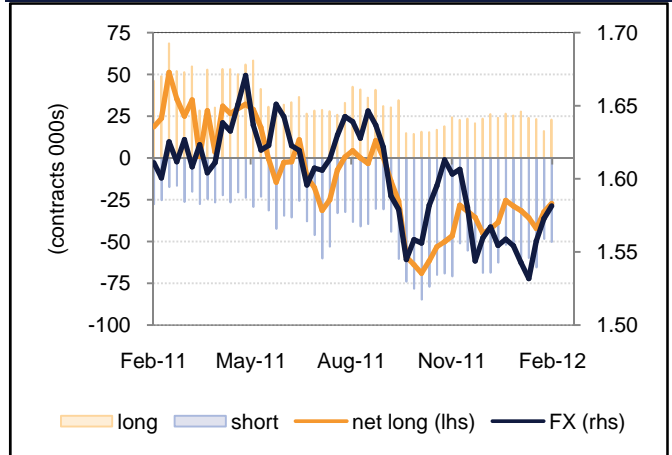
Source: Bloomberg, Emirates NBD Research

Major Currency Positions

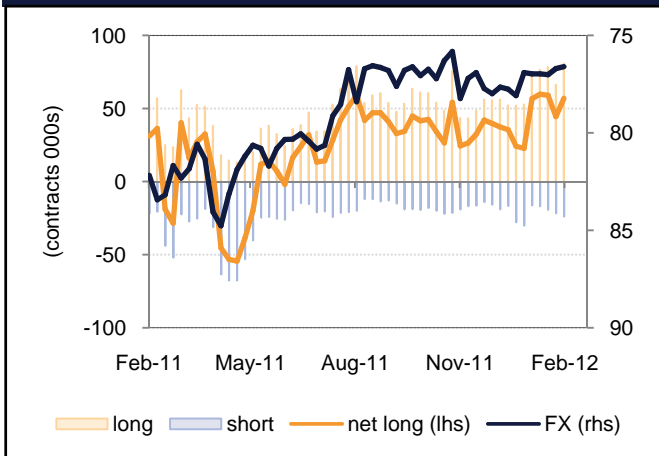
CFTC – Speculative Positions - EUR



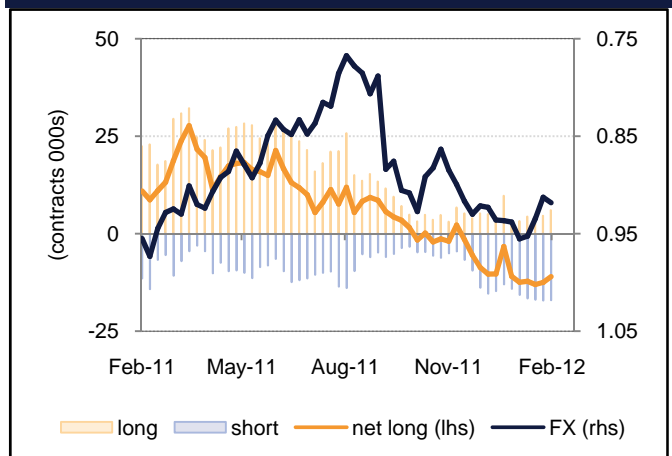
CFTC – Speculative Positions - GBP



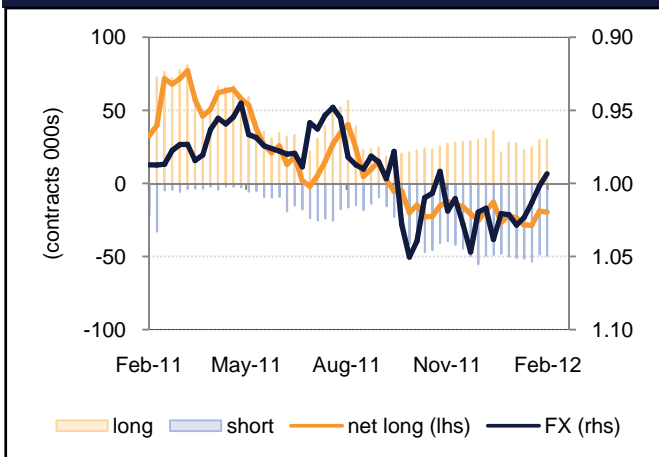
CFTC – Speculative Positions - JPY



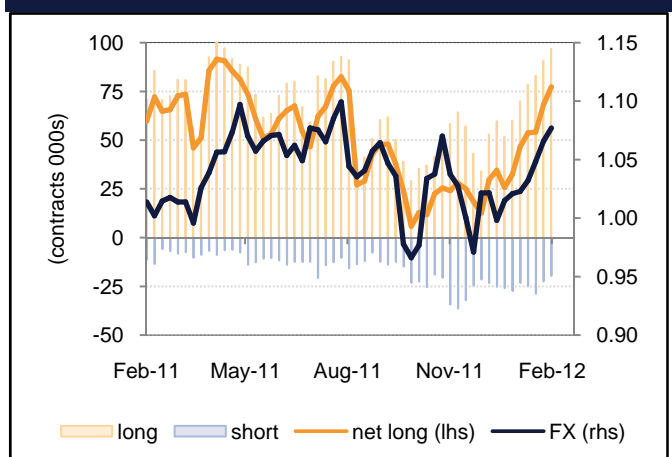
CFTC – Speculative Positions - CHF



CFTC – Speculative Positions - CAD



CFTC – Speculative Positions - AUD



Source: Bloomberg, Emirates NBD Research

Economic Calendar

Date	Country	Event
1-Feb – 4-Feb	Qatar	Money Supply
4-Feb – 7-Feb	UAE	Money Supply
6-Feb	Australia	Retail Sales
	UK	Halifax House Prices
	Eurozone	Sentix Investor Confidence
	Germany	Factory orders
7-Feb	Russia	CPI
	France	Trade Balance
	Germany	Industrial Production
8-Feb	US	Consumer Credit
	Japan	Trade Balance
	Switzerland	Unemployment Rate
	Germany	Trade Balance
	France	Bank of France Business Sentiment
	US	MBA Mortgage Applications
	Canada	Housing Starts
9-Feb	Japan	Machine Orders
	China	CPI
	Japan	Consumer Confidence
	UK	Industrial Production
	UK	Trade Balance
	UK	BoE Rate Decision
	Eurozone	ECB Rate Decision
	US	Initial Jobless Claims
	Egypt	CPI
10-Feb	Australia	RBB Statement on Monetary Policy
	India	Industrial Production
	Germany	CPI
	France	Industrial Production
	Switzerland	CPI
	Italy	Industrial Production
	UK	PPI
	US	Trade Balance
	US	U. of Michigan Confidence
	China	Trade Balance

Source: Bloomberg

Disclaimer

PLEASE READ THE FOLLOWING TERMS AND CONDITIONS OF ACCESS FOR THE PUBLICATION BEFORE THE USE THEREOF. By continuing to access and use the publication, you signify you accept these terms and conditions. Emirates NBD reserves the right to amend, remove, or add to the publication and Disclaimer at any time. Such modifications shall be effective immediately. Accordingly, please continue to review this Disclaimer whenever accessing, or using the publication. Your access of, and use of the publication, after modifications to the Disclaimer will constitute your acceptance of the terms and conditions of use of the publication, as modified. If, at any time, you do not wish to accept the content of this Disclaimer, you may not access, or use the publication. Any terms and conditions proposed by you which are in addition to or which conflict with this Disclaimer are expressly rejected by Emirates NBD and shall be of no force or effect. Information contained herein is believed by Emirates NBD to be accurate and true but Emirates NBD expresses no representation or warranty of such accuracy and accepts no responsibility whatsoever for any loss or damage caused by any act or omission taken as a result of the information contained in the publication. The publication is provided for informational uses only and is not intended for trading purposes. Charts, graphs and related data/information provided herein are intended to serve for illustrative purposes. The data/information contained in the publication is not designed to initiate or conclude any transaction. In addition, the data/information contained in the publication is prepared as of a particular date and time and will not reflect subsequent changes in the market or changes in any other factors relevant to their determination. The publication may include data/information taken from stock exchanges and other sources from around the world and Emirates NBD does not guarantee the sequence, accuracy, completeness, or timeliness of information contained in the publication provided thereto by or obtained from unaffiliated third parties. Moreover, the provision of certain data/information in the publication may be subject to the terms and conditions of other agreements to which Emirates NBD is a party.

None of the content in the publication constitutes a solicitation, offer or recommendation by Emirates NBD to buy or sell any security, or represents the provision by Emirates NBD of investment advice or services regarding the profitability or suitability of any security or investment. Moreover, the content of the publication should not be considered legal, tax, accounting advice. The publication is not intended for use by, or distribution to, any person or entity in any jurisdiction or country where such use or distribution would be contrary to law or regulation. Accordingly, anything to the contrary herein set forth notwithstanding, Emirates NBD, its suppliers, agents, directors, officers, employees, representatives, successors, assigns, affiliates or subsidiaries shall not, directly or indirectly, be liable, in any way, to you or any other person for any: (a) inaccuracies or errors in or omissions from the publication including, but not limited to, quotes and financial data; (b) loss or damage arising from the use of the publication, including, but not limited to any investment decision occasioned thereby. (c) UNDER NO CIRCUMSTANCES, INCLUDING BUT NOT LIMITED TO NEGLIGENCE, SHALL EMIRATES NBD, ITS SUPPLIERS, AGENTS, DIRECTORS, OFFICERS, EMPLOYEES, REPRESENTATIVES, SUCCESSORS, ASSIGNS, AFFILIATES OR SUBSIDIARIES BE LIABLE TO YOU FOR DIRECT, INDIRECT, INCIDENTAL, CONSEQUENTIAL, SPECIAL, PUNITIVE, OR EXEMPLARY DAMAGES EVEN IF EMIRATES NBD HAS BEEN ADVISED SPECIFICALLY OF THE POSSIBILITY OF SUCH DAMAGES, ARISING FROM THE USE OF THE PUBLICATION, INCLUDING BUT NOT LIMITED TO, LOSS OF REVENUE, OPPORTUNITY, OR ANTICIPATED PROFITS OR LOST BUSINESS. The information contained in the publication does not purport to contain all matters relevant to any particular investment or financial instrument and all statements as to future matters are not guaranteed to be accurate. Anyone proposing to rely on or use the information contained in the publication should independently verify and check the accuracy, completeness, reliability and suitability of the information and should obtain independent and specific advice from appropriate professionals or experts regarding information contained in the publication. Further, references to any financial instrument or investment product is not intended to imply that an actual trading market exists for such instrument or product. In publishing this document Emirates NBD is not acting in the capacity of a fiduciary or financial advisor.

Emirates NBD and its group entities (together and separately, "Emirates NBD") does and may at any time solicit or provide commercial banking, investment banking, credit, advisory or other services to the companies covered in its reports. As a result, recipients of this report should be aware that any or all of the foregoing services may at times give rise to a conflict of interest that could affect the objectivity of this report.

The securities covered by this report may not be suitable for all types of investors. The report does not take into account the investment objectives, financial situations and specific needs of recipients.

Data included in the publication may rely on models that do not reflect or take into account all potentially significant factors such as market risk, liquidity risk and credit risk. Emirates NBD may use different models, make valuation adjustments, or use different methodologies when determining prices at which Emirates NBD is willing to trade financial instruments and/or when valuing its own inventory positions for its books and records. In receiving the publication, you acknowledge and agree that there are risks associated with investment activities. Moreover, you acknowledge in receiving the publication that the responsibility to obtain and carefully read and understand the content of documents relating to any investment activity described in the publication and to seek separate, independent financial advice if required to assess whether a particular investment activity described herein is suitable, lies exclusively with you. You acknowledge and agree that past investment performance is not indicative of the future performance results of any investment and that the information contained herein is not to be used as an indication for the future performance of any investment activity. You acknowledge that the publication has been developed, compiled, prepared, revised, selected, and arranged by Emirates NBD and others (including certain other information sources) through the application of methods and standards of judgment developed and applied through the expenditure of substantial time, effort, and money and constitutes valuable intellectual property of Emirates NBD and such others. All present and future rights in and to trade secrets, patents, copyrights, trademarks, service marks, know-how, and other proprietary rights of any type under the laws of any governmental authority, domestic or foreign, shall, as between you and Emirates NBD, at all times be and remain the sole and exclusive property of Emirates NBD and/or other lawful parties. Except as specifically permitted in writing, you acknowledge and agree that you may not copy or make any use of the content of the publication or any portion thereof. Except as specifically permitted in writing, you shall not use the intellectual property rights connected with the publication, or the names of any individual participant in, or contributor to, the content of the publication, or any variations or derivatives thereof, for any purpose.

YOU AGREE TO USE THE PUBLICATION SOLELY FOR YOUR OWN NONCOMMERCIAL USE AND BENEFIT, AND NOT FOR RESALE OR OTHER TRANSFER OR DISPOSITION TO, OR USE BY OR FOR THE BENEFIT OF, ANY OTHER PERSON OR ENTITY. YOU AGREE NOT TO USE, TRANSFER, DISTRIBUTE, OR DISPOSE OF ANY DATA/INFORMATION CONTAINED IN THE PUBLICATION IN ANY MANNER THAT COULD COMPETE WITH THE BUSINESS INTERESTS OF EMIRATES NBD. YOU MAY NOT COPY, REPRODUCE, PUBLISH, DISPLAY, MODIFY, OR CREATE DERIVATIVE WORKS FROM ANY DATA/INFORMATION CONTAINED IN THE PUBLICATION. YOU MAY NOT OFFER ANY PART OF THE PUBLICATION FOR SALE OR DISTRIBUTE IT OVER ANY MEDIUM WITHOUT THE PRIOR WRITTEN CONSENT OF EMIRATES NBD. THE DATA/INFORMATION CONTAINED IN THE PUBLICATION MAY NOT BE USED TO CONSTRUCT A DATABASE OF ANY KIND. YOU MAY NOT USE THE DATA/INFORMATION IN THE PUBLICATION IN ANY WAY TO IMPROVE THE QUALITY OF ANY DATA SOLD OR CONTRIBUTED TO BY YOU TO ANY THIRD PARTY. FURTHERMORE, YOU MAY NOT USE ANY OF THE TRADEMARKS, TRADE NAMES, SERVICE MARKS, COPYRIGHTS, OR LOGOS OF EMIRATES NBD OR ITS SUBSIDIARIES IN ANY MANNER WHICH CREATES THE IMPRESSION THAT SUCH ITEMS BELONG TO OR ARE ASSOCIATED WITH YOU OR, EXCEPT AS OTHERWISE PROVIDED WITH EMIRATES NBD'S PRIOR WRITTEN CONSENT, AND YOU ACKNOWLEDGE THAT YOU HAVE NO OWNERSHIP RIGHTS IN AND TO ANY OF SUCH ITEMS. MOREOVER YOU AGREE THAT YOUR USE OF THE PUBLICATION IS AT YOUR SOLE RISK AND ACKNOWLEDGE THAT THE PUBLICATION AND ANYTHING CONTAINED HEREIN, IS PROVIDED "AS IS" AND "AS AVAILABLE," AND THAT EMIRATES NBD MAKES NO WARRANTY OF ANY KIND, EXPRESS OR IMPLIED, AS TO THE PUBLICATION, INCLUDING, BUT NOT LIMITED TO, MERCHANTABILITY, NON-INFRINGEMENT, TITLE, OR FITNESS FOR A PARTICULAR PURPOSE OR USE. You agree, at your own expense, to indemnify, defend and hold harmless Emirates NBD, its Suppliers, agents, directors, officers, employees, representatives, successors, and assigns from and against any and all claims, damages, liabilities, costs, and expenses, including reasonable attorneys' and experts' fees, arising out of or in connection with the publication, including, but not limited to: (i) your use of the data contained in the publication or someone using such data on your behalf; (ii) any deletions, additions, insertions or alterations to, or any unauthorized use of, the data contained in the publication or (iii) any misrepresentation or breach of an acknowledgement or agreement made as a result of your receiving the publication.

Emirates NBD Research & Treasury Contact List

Emirates NBD Head Office
12th Floor
Baniyas Road, Deira
P.O Box 777
Dubai

Tim Fox
Head of Research &
Chief Economist
+971 4 230 7800
timothyf@emiratesnbd.com

Research

Khatija Haque
Senior Economist
+971 4 230 7801
khatijah@emiratesnbd.com

Nick Stadtmiller
Head of Fixed Income Research
+971 4 230 7804
nicholass@emiratesnbd.com

Irfan Ellam
Head of MENA Equity Research
+971 4 230 7807
Mohammedie@emiratesnbd.com

Aditya Pugalia
Research Analyst
+971 4 230 7802
Adityap@emiratesnbd.com

Sales & Structuring

Head of Sales
Sayed Sajjid Sadiq
+971 4 230 7777
sayeds@emiratesnbd.com

Saudi Arabia Sales
Numair Attiyah
+966 1 282 5625
attiyahn@emiratesnbd.com

Singapore Sales
Supriyakumar Sakhalkar
+65 657 5627
sakhalkars@emiratesnbd.com

London Sales
Lee Sims
+44 (0) 20 7838 2240
simsl@emiratesnbd.com

Group Corporate Communications

Ibrahim Sowaidan
+971 4 609 4113
ibrahims@emiratesnbd.com

Claire Andrea
+971 4 609 4143
clairea@emiratesnbd.com