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EM Rates & FX, & Oil - The Traders' Weekly Views

Market Overview:

- The Week's trading was driven mainly by the Federal Reserve signaling it may be ending its tighter monetary stance as global headwinds including Brexit, Trade policy uncertainties and U.S. Government budget negotiations has made them to take a "patient" stance before making further interest rate hike moves.
- The Reserve Bank dropped its promises of "further gradual increases" in interest rate which was only put there at its last meeting. The Chairman as well as other committee members had signaled to the market of a more dovish stance at various events leading up to the meeting but were eventually more dovish than markets had expected.
- During the press conference, the Fed Chairman made it clear that their new posture was one of "wait and see", and not necessarily a hard stop on the hiking cycle. Incoming data he said would be the main driver of future monetary policy decision. He said the case for further hikes had now "weakened" in recent weeks. Markets reacted according, and repriced subsequent 2019 FOMC meetings with OIS markets now pricing a 15% probability of a rate cut of 20bp.
- Strong U.S. earnings from Boeing, Apple and Facebook also provided a tailwind to risk assets as global equity markets as well as emerging markets currencies put in strong gains. The dollar weakened across the board with the benchmark dollar Index (DXY) trading near a three-month low while the Chinese renminbi touched the strongest in six months.
- President Trump, speaking after a meeting with Chinese Vice Premier Liu He, said he was confident that he could reach "the biggest deal ever made" with China. He also said he was looking forward to meet with Chinese President Xi Jinping soon to seal the comprehensive deal once negotiations are over. This comes after months of tensions and as the 90-day trade truce which ends next month will raise tariffs to 25 percent from 10 percent on $250bn worth of Chinese goods if a trade deal can't be reached by both parties.
- British Prime Minister Theresa May headed back to Brussels to request a renegotiation of the Brexit deal which was recently voted down in the British parliament. The European Union said they will be willing to offer more" backstop" assurances on the contentious issue of the Irish Border only if the UK accepts a permanent customs union after her exit. It is now looking more likely that Brexit may be delayed if the government can't renegotiate the terms of the divorce and get it passed in parliament before March 29 deadline. The possible delay seems to have hinted by the Foreign Secretary Jeremy Hunt during the week.. The market reaction was limited as sterling markets followed cross market correlation and tracked the move lower in US yields. There is now just a 55% probability of a 25bp BOE hike priced by December, with the terminal rate being priced at 1.38%, just 67bp over the current Sonia fix. GBP has traded in reasonably tight 1.32 to 1.30 ranges, for the range to break FX markets are watching closely the developments on any movement from the EU on BREXIT negotiations.

- In the Region, Saudi Arabia's economy grew by 2.21% in 2018, lifted by strong oil sector growth and has now recovered from a contraction of 0.74% in 2017. Crude oil prices which fell sharply in the fourth quarter of 2018 has now recovered after OPEC and its Russia-led allies agreed to slash oil production by more than the market expected. Brent Crude remains in a tight range around $60 and this helped to keep FX volatility in GCC Currencies subdued.
- Next Week sees more Earnings report with Google's parent Alphabet set to release on Monday, the U.S. releases its Q4 GDP data while the Bank of England's Monetary policy committee meets to set policy rate.

(Tega Adeda, FX & Rates)

Please find below views on EM Rates & FX. & Oil directlv from our traders.

EM FX	Macroeconomic/Fundamental Analysis	Views (Bearish/Bullish) 2-week Time Frame	Intermediate & Long-term Views (3mth & 12mth Time Frame)
INR	The biggest story this week in India was 2019 fiscal year budget announcement, and it is forecasted to have a deficit of 3.4% of GDP, and FY20 borrowings is said to be INR 7.04T vs INR 6.34T in FY09. With this out of the way, we like to carry trades, being short USDINR is one of them. Entry levels would be key so we can hold on to the risk, that said, anything above 71.50 in USDINR is a sell.	Neutral 71.00	Bearish 69.00
KRW	USDKRW range traded between 1110-1120 for the week. Dovish view from the Fed once pushed USDKRW to break 1110 but seen good profit taking interesting pushing back spot to a high of 1119 to close for the week. Market seems still cautious about the semiconductor industry in Korea with KOSPI giving back some gains after reaching a technical resistance at 2220. we would remain neutral for this pair at the time being ahead of Chinese New Year next week.	Neutral 1120	Bullish 1130
CNH	USDCNH traded lower ahead of the US-China trade talks as market expects some kind of agreement to be accomplished during the meeting. Spot got given to a low of 6.7019 before bouncing back to 6.7450 post meeting on Friday. Next round of talk are schedule in China during February and I expect the spot to remain range bound between 6.7000-6.8000. However, we are shifting my mid to long term stance of USDCNH to bullish USD as if any agreement is made, the most possible outcome is a shrinking current account balance, which is negative for China. Along with PBoC capping rates in the money market to facilities credit transmission, CNH should retrieve from the recent strength. Market liquidity will be very thin next week due to Chinese New Year holiday.	Neutral 6.7500	Bullish 6.8500

EM FX	Macroeconomic/Fundamental Analysis	Views (Bearish/Bullish) 2-week Time Frame	Intermediate & Long-term Views (3mth & 12mth Time Frame)
EGP	By the recent standards the interbank market in Egypt had a very volatile week where we saw a movement from 17.84-17.94 down to 17.58-68. It is hard to say if there was a substantial inflow that pushed the market lower or it was initiated by the local state owned banks. In any case there was a fair degree of confusion initially and frantic USD selling in NDFs followed by the interest in the opposite direction. At the auction of the 6- and 12-month Tbills there were rumors about large foreign investor participation and that this implies substantial USD selling in the coming days. At this week's auction of 6- and 12-month Tbills the yields declined with the results published at 18.36% and 18.13% respectively. The sentiment is very positive towards emerging markets especially after the last Fed meeting which is very supportive of Egypt as it offers quite high carry. Our views are unchanged we like steepening trades of short USD in 1-2 months and long USD in 6-12 months and we are long EGP Tbills in FX hedged format.	Neutral to bearish USDEGP 17.60-17.70	Neutral to bullish 18.00-19.00
NGN	The week saw a pick-up in demand for dollars from local corporates which sent the Nafex fixing up marginally from 362.12 to 362.71. However, this is down from a high of 365.20 which was hit during the first week of January after liquidity thinned out. Foreign Portfolio flows have increased this year as Investors take advantage of the 1year T-bill which is trading around 17%. The NDF Curve moved a touch higher with demand mainly in the 9m-12m on hedging activities by internationals we presume to be long the T-bills. The General Election is now two weeks away and it still remains a tight race between Atiku Abubakar, a former vice president between 1999 and 2007 and the incumbent, Mr. Muhammadu Buhari, a former military general who has been in office since 2015. We remain very positive on Nigeria and have been buying 6m-9m T-bills as spot has been relatively stable, and the Central Bank continues to build foreign-exchange reserves.	Neutral NAFEX USDNGN 362-365	Neutral to bullish 362-368
ZAR	The Rand continue to benefit from positive sentiment toward Emerging Markets after the Federal Reserve applied brakes to its recent tightening cycle. Currencies which had been beaten down in 2018 like the Turkish Lira, Mexican Peso and the Brazilian Real have made solid double-digit gains since the start of the year. The Rand fell to a six-month low of 13.24, putting in its best monthly performance since 2017. The currency should now trade in a new lower range following the decisive break of the 13.65 support during the week.	Neutral USDZAR 13.00-13.70	Neutral to bearish 13.00-14.00

GCC FX Commentary	
SAR	The SAR FX curve moved higher in the short dates on tighter liquidity with day-to-day SAR trading at Par. FX swaps up to 4Y were taken slightly higher on the back of headlines despite a higher oil price. Local/Regional FX swaps settled at 1Y 60/80, 2Y 210/250 and 3Y 400/500. Spot SAR was lower on the week closing at 3.75035/3.75055 as banks continued to sell USD to buy SAR on tighter liquidity. The SAR IRS market had a very quiet week with levels relatively unchanged. The 5Y SAR/USD spread is currently trading at +73. SAIBOR 3M is at 2.96% and has begun dropping slightly particularly with falling USD LIBOR 3M. In the GCC rates volatility space, we saw bids returning to the market this week. Liquidity is still on the SAR side where we have seen trades in the 2Y, 3Y and the 5Y tenors. SAR 3Y CFS traded this week at 150.
AED	The AED FX curve was a tad lower in the 1Y this week. Liquidity has eased once again following a slight tightening in the approach into January month end. The 1Y regional FX swap was two points lower at remained at 15/25. AED FX spot is currently trading at 3.6730/31. The AED IRS spread curve was unchanged this week with the 5Y AED/USD spread trading at +73, at the same level as the 5Y SAR/USD spread. The EIBOR 3M fixing continues to remain very volatile with erratic daily moves. AED rates volatility saw further interest returning from bidders, similar to SAR rates volatility. At these levels, we believe AED rates volatility looks very cheap.
KWD	The KWD FX curve has kept the gains of the past month. Day-to-day liquidity remains tight at par to +0.5 and the entire curve continues to be well-supported with bids. The Local/Regional curve closed as follows : 1M -5/+5, 3M -5/+10, 6M -5/+20, 12M Par/+30 and 2Y Par/+100. KWD FX spot is currently trading at 0.30303/13, 8 pips over the CBK fix.
OMR	The Omani FX curve was significantly flatter on the week as there was interest seen to sell the curve out to 2Y by locals/regionals. Day-to-day liquidity has improved notably with OMR FX swaps trading between -0.25 to +0.15 per day. The regional market closed 1Y at 325/375 and 2Y at 675/775. OMR FX spot is trading at 0.38497/00, unchanged on the week.
BHD	The Bahraini FX curve moved substantially lower particularly in the longer dates as local banks were seen offering BHDs at attractive levels despite tighter day-to-day liquidity; Short dated FX swaps are trading as follows : 1M 14/22 and 3M 55/65. Longer-dated FX swaps settled at 1Y 160/210 and 2Y 325/375. USD/BHD spot was 2 pips lower at 0.37695/00 as banks sold USD to raise BHD liquidity. The most recent 3-month BHD T-bill issuance yielded investors 4.24%, 1bp lower with coverage at 118% vs. 115% in the prior auction. The 6-month and 12-month issuance yields are 4.39% (-1bps : 120% coverage vs. 199%) and 4.88% (-2bps : 203% coverage vs. 148%), respectively.

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