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First Abu Dhabi Bank

G10 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 G10 Rates & FX, & Oil directly from our traders.

The FOMC surprised markets in their January MPC meeting, with a dovish assessment of the US economic outlook, a placing a greater emphasis on data dependency in future policy decisions. Markets reacted according, and repriced subsequent 2019 FOMC meetings with OIS markets now pricing a 15% probability of a rate cut of 20bp. TSY yields also moved lower, with CT10's now at 2.63% (pre NFP's) and CT30's sub 3%, inversion remains prominent along the curve and every IRS forward now sub 3% (10y5y at 2.99). DXY had a relative muted reaction, falling .4% as the move in US rates market also spilled over in the EURO and Sterling markets, consequently, the USD move tracker the relative move in yield differential.

G-10 FX	Macroeconomic/Fundamental Analysis	Views (Bearish/Bullish) 2-week Time Frame	Intermediate & Long-term Views (3mth & 12mth Time Frame)
GBP	Theresa May called for parliamentary votes in supporting a series of amendments to the Brexit negotiations. The key issues remain around the Irish backstop, but the parliamentary support will allow the PM to go back to the EU27 and renegotiate the withdrawal treaty, despite the EU making it very clear the terms are non-negotiations. 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.	Bullish	3m 1.3500 12m 1.4500
EUR	The greenback has been hit post the FOMC which benefited EUR, ever so briefly. However, the negative backdrop in the back of everyone's mind pushed the single currency back to mid-1.14s. Notably, there is a general reluctance to chase EUR or USD for that matter at these levels and thus EURUSD likely to remain in the 1.11-1.15 range for the time being, unless we see major shift in fundamentals. On the data front, Germany in particular has been worrying after poor retail sales and Markit PMIs spurring growth fears, and ECB Weidmann said that Germany's economic weakness carried into 2019.	Neutral	3m 1.1600 12m 1.1900

G-10 FX	Macroeconomic/Fundamental Analysis	Views (Bearish/Bullish) 2-week Time Frame	Intermediate & Long-term Views (3mth & 12mth Time Frame)
JPY	The market asks for it and the Fed delivers as it may be seen after the latest FOMC. The sudden shift in the world economic dynamic may break the once reliable cycles of dollar strength. JPY in particular will be the most sensitive to negative headlines this year as safe haven flows rise and at this juncture with wobbly equities, the lack of USDJPY bids does not offer enough support, albeit Japanese repatriation has been seen lifting the pair recently. The G10 trading team remains on the lookout for a rally above 110.00 which will then offer decent opportunity short USDJPY.	Neutral	3m 112.00 12m 106.00
CAD	Canadian GDP data released on Thursday failed to surprise anyone with negative growth for the month of November accurately forecasted at -0.1%. Lower output from the oil and coal industries was blamed for a decline in manufacturing. Retail spending was also anemic posting a slump of 0.3% for the month. The data will give the BOC a reason to pause any rate increase decision in the near term. USD/CAD started the week at highs of 1.3280 only to fall dramatically on Wednesday in the lead up to and at the announcement of the FOMC rate decision. USD/CAD dropped by more than 1.5 big figures and remained at 1.3140 levels going into the end of the week. Yields also sank on the frail economic outlook with 5 year benchmark rate falling nearly 10bps from 1.882% to 1.784%.	Neutral	3m 1.3400 12m 1.3500
AUD	Aussie lost ground against the dollar after a 3 day rally. The Australia's dollar finds ground at 0.7240 which is around the highs of December. The main driver to the drop was China data; as January Caixin manufacturing PMI drop was very choppy. The PMI dropped to 48.3 and that was the lowest the market has seen since Feb 2016 (numbers 49.6). The shocking data have lead investor to shorten Aussie against the greenback. The market has been very hasty with AUD/USD making it unpredictable. Keep an eye for China/USA trade war talks and we have the RBA meeting on 5th of Feb. AUD/USD was up around 3% this week (from 0.7070 to 0.7295), resistance 0.7320, Support: 0.7060.	Bullish	3m 0.7100 12m 0.6500

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