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

Market Overview

- The New Year has continued where 2018 left off, plenty of uncertainty and volatility to make the market cautious and exacerbate any movement. Last week started with a profit warning from Apple which weighed heavy on equities in developed markets although Asia managed to disconnect from the move to a degree. The USD curve is now pricing in cuts after a big miss in the ISM number cause a serious repricing on Thursday evening, more on that below. Oil has also been a big driver globally with an unsurprising impact in the GCC where we've seen the SAR curve shift aggressively to the right. China's disappointing data has had a big impact on the commodity based economy of Australia and we don't see any chance of a change in monetary policy in 2019 if anything we'd expect to see some drag there and maybe some repricing of the housing market in the big cities.
- GCC FX has been interesting over the last month or so as the international market focuses on the region once more as oil drops to what FAB believes is a base. In SAR the 1y clearly broke the 2018 range (20-60) in November reaching highs of 170 over the turn and has opened up the year around 120. We expect to see a little more pressure to the right as fast money comes back to the table and most participants return from the winter holiday, all eyes will be on the WTI and any push higher should take the pressure off. Our house view is that we are finding lows here and as the production cuts kick in we will see some upward pressure on prices. We maintain a $65-70 2019 average for the year but this will clearly be dependent on the ongoing trade war saga.
- Last Thursday saw a huge disappointment in the American ISM data which dropped to 54.1 from last month's 59.3 reading. Although any number above 43 is still regarded as expansionary, with the FED clearly data dependent moving forward, this was enough of a red flag to cause the market to price rate cuts into 2019. The underlying economic data hasn't really turned and we do expect to see a good payrolls number. Wage growth is also expected to continue and this is definitely supportive of the FED's current path but it does shine a light on the decision making process and it is fair to say we would expect no more than two hikes this year. There are some interesting opportunities to fade this move but with Powell speaking on Friday night and payrolls we are adding in small size to short term steepeners - happy to discuss ideas.

(Alison Higgins, FX & Rates)

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

2019 is starting where 2018 left off, as equity and commodity weakness fueled major flows into safe heavens assets. CT10's now sit at 2.60%, some 65bp lower than mid-November highs. OIS markets are now pricing rate cuts in 2019 with 10bp and 15bp being priced by September and December 2019 respectively. DXY has fallen as yields compression and inversion has made the USD less compelling. JPY has been the stellar performer with USDJPY at 108.

EM FX	Macroeconomic/Fundamental Analysis	Views (Bearish/Bullish) 2-week Time Frame	Intermediate & Long-term Views (3mth & 12mth Time Frame)
SGD	SGD has been tracking the DXY without any real local catalysts. Thus range for the week stayed between 1.3615 and 1.3680. SGD did edge weaker after a lower than expected GDP number, but quickly recovered these losses to end the week mostly unchanged.	Neutral 1.3600	Bullish 1.3750
INR	USDINR took an uturn after touching 70.50 level briefly this past week. The pair continues to trade within a range of 69.50 and 70.50 as crude oil prices stabilized at their current lower levels. However, the RBI may take this opportunity to replenish its reserves. In general, we are cautiously bullish on INR given the improved domestic economic environment but will keep an eye on the ongoing uncertainty surrounding the global economy.	Neutral 70.00	Bearish 68.00
CNH	USDCNH was supported below the 6.9000 level but players will now be cautious in their positioning ahead of trade talks next week. There was some selling pressure on the CNH due to a weak PMI number which indicates a slowing Chinese economy. However Beijing and Washington may just achieve something positive next week. In summary, we will watch this specific meeting, and maintaining a neutral to slightly bullish CNH bias.	Neutral 6.8500	Bearish 6.7000
KRW	The first week of 2019 and recent data releases suggest slowing economies in the EM space. With a general lack of positive news, global equities sold off, including the KOSPI which closed 2% lower compared to the end of last year. Thus KRW was the worst performer in Asia this past week losing 0.74%. Equities will remain the main driver for KRW for the time being. Heading into the new week, the focus will be on US/China trade talks.	Bearish 1115	Bullish 1130

EM FX	Macroeconomic/Fundamental Analysis	Views (Bearish/Bullish) 2-week Time Frame	Intermediate & Long-term Views (3mth & 12mth Time Frame)
EGP	The USDEGP interbank market ended 2018 in the familiar range of 17.86-17.96. Generally it was a very quiet holiday season in the Egyptian markets, although trade data showed a further deterioration in October at -$4.6bln vs -$3bln the previous month. At the end of December the CB held its monetary policy meeting and left interest rates unchanged at 16.75/17.75% as inflation pressures are still around and global liquidity is tightening. There was some consistent demand for dollars in the NDF market that kept the curve elevated relative to the previous couple of months. We think that the USD/EGP spot will begin to adjust higher this year but the timing is still not clear. Most likely it will occur in Q1 of 2019 and that the USDEGP should move to at least 19-20.00 in the next few months in order for Egypt to avoid any further erosion of its competitiveness. On the back of this we prefer to be flat to long USD and have steepening trades long of being short 1-2 month NDFs and long in 6-12 months.	Neutral to bullish USDEGP 17.85-18.00	Neutral to bullish 18.00-19.00
NGN	The NAFEX fixing printed levels around 365 this past week. There is still some stronger demand for dollars but with the fix stable and a continued supply of hard currency from the central bank it should not lead to any major changes in spot levels. The treasury yield curve remains inverted, with the 1year T-bill currently offered at 17.6%, whilst the 10y and 20y bonds traded at 15.5% and 15.35% respectively. The inversion continues to be due to the tight monetary policy stance by the Central Bank. We remain positive on Nigerian assets and have been buying 3m-6m T-bills as spot retains its steady tone, and the Central Bank continues to build its foreign-exchange reserves. The last reading was $43.00bn, about 12-months' worth of import cover and down from a peak of $47.86bn in May 2018.	Neutral NAFEX USDNGN 362-365	Neutral to bullish 362-368
ZAR	The Rand traded within a wide range this past couple of weeks as news varied from disappointing data from china to dovish comments from the Federal Reserve keeping traders on edge. Overall, the currency has ended the week firmer as the dollar index lost ground against most currencies. However we retain our outlook for a gradual weakening of the rand this year with increased volatility.	Neutral USDZAR 14.10-14.80	Bullish 14.50-15.50

GCC FX Commentary	
SAR	The SAR FX was significantly lower and flatter this week as oil prices continued to recover. However, the market has been thinly traded and participants are only now returning from their seasonal holidays. The market settled at 1Y 75/95, 2Y 245/295 and 3Y 575/675. Spot SAR is now 3.7508/11 a touch lower on the week.
AED	The AED FX curve was also lower on the week; the local/regional 1Y FX swap is at 20/30. AED FX spot is currently trading at 3.6730 mid, unchanged on the week.
KWD	The KWD FX swaps curve was the exception this week, moving significantly higher on tighter KWD funding. The 1Y and 2Y FX swaps closing at 110/70 and 100/Par, respectively. KWD FX spot is currently trading at 0.30328/38, 10 pips over the CBK fix. Previously the currency was trading 30-40 pips over the fix, however there has been heavy selling on tighter KWD liquidity causing the pair to trade closer to the fixing level.
OMR	The Omani FX curve was lower on the week with swaps moving left out to 2Y although some paying interest is resurfacing in the very long end of the curve. The curve closed with the 1Y at 290/340 and 2Y at 800/900. OMR FX spot is trading at 0.38496/01, unchanged on the week.
BHD	Bahraini FX swaps also remained bid in the longer end of the curve, while the liquidity tenors remained unchanged. The market settled with 1Y 250/300 and 2Y 575/675. USD/BHD spot is trading at 0.37698/03 mid, up from 0.37695/00 in the prior week. The most recent 3-month BHD T-bill issuance yielded investors 4.25% unchanged with coverage at 132% vs. 138% in the prior auction. The 6-month and 12-month issuance yields are 4.40% (-5bps : 199% coverage vs. 118%) and 4.90% (-3bps : 148% coverage vs. 133%), respectively.

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