GrowStronger.com

Market Insights & Strategy
Global Markets

20th January 2019

Please click here to view our recent publications on MENA and Global Markets

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

Market Overview: Volatility over the Mountain Tops

- Positive sentiment continued to characterize much of the risk asset space last week, amid optimism for progress in Sino-U.S. trade talks and as U.S. investment banks led by Goldman Sachs delivered better-than-expected earnings expectations on the back of solid investment banking revenues. With 56 of the S&P500 companies having reported Q4 earnings, Bloomberg data shows a very respectable current earnings growth rate of +16.62% and solid sales growth of +7.01%
- Meanwhile, the Chinese Central bank announced the injection of a record $83bn into the country's financial system, which follows the government signaling more stimulus measures in the form of tax cuts and increased spending this year. Clearly, the PBOC is now intensifying its efforts to reflate the economy, which has slowed down sharply in recent months. As such, there will likely be keen focus on Chinese Q4 GDP data due for release on Monday (Jan 21), which is expected to show the slowest rate of economic expansion in a decade, with GDP of +6.4% YoY.
- In the foreign exchange (FX) markets, the pound rose further against the dollar to hit a 2-month high of $1.2994 after Theresa May's Brexit deal was voted down in parliament, raising the prospect of a softer Brexit, or even a delayed or cancelled Brexit. Sterling was also buoyed by Mrs. May's government winning a vote of no-confidence that had been put to the house during the week by the opposition Labour Party. The incumbent administration's win by 325 to 306 votes, has helped to ease near-term political uncertainties. Indeed, the market now appears to be ruling out the possibility of a disruptive 'no deal' Brexit and leaning towards a softer Brexit or even no-Brexit at all.

Week Ahead

- Expect volatility to resume this week as China kicks off the week with the aforementioned (weak) Q4 GDP data. From a macro perspective, we will also be closely analyzing the latest global growth forecasts that are due to be published by the IMF on Monday. The IMF warned late last year that escalating U.S./China trade tensions risked derailing the global economic outlook.
- Meanwhile, market sentiment will also likely be susceptible to headlines coming out of Davos this week as the great and the good of the financial and industrial worlds rub shoulders at altitude at the World Economic Forum. The symposium begins on Tuesday and runs until Friday. Most world and business leaders are expected to attend except Theresa May, Donald Trump and Emmanuel Macron who are all battling more pressing, domestic issues back at home.
- News that President Trump has offered an olive branch to the Democrats in an effort to end the partial U.S. government shutdown could also be a fillip for risk appetite this week. Press reports suggest Trump will offer concessions on immigration ('Dreamers') in the hope of securing border funds.

- Meanwhile, there will be much focus on Brexit again. After her recent parliamentary defeats over her withdrawal deal, the British prime minister is now required to present her 'Plan B' to parliament on Monday (21st). Don't hold your breath though. Investors may doubt her ability to find such a Plan B in just a matter of days, given that her government has failed to put an acceptable deal during the past 2 years of preparation.
- Political pressures are also evident elsewhere across Europe, which are likely to buffet market sentiment in the coming days/weeks. Emmanuel Macron of France continues to face public opposition to his reform proposals, which have resulted in violent 'gilets jaunes' protests. And the splintering of the coalition government in Greece has piled pressure on Prime Minister Tsipras, while geopolitical tension remains elevated between Canada and China.
- Markets will be watching all these events closely as the volatility experienced late last year is still fresh in Investors' minds.

  (Simon Ballard, Macro Strategist, Market Insights & Strategy)
  (Tega Adeda, FX & Rates)

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

EM FX	Macroeconomic/Fundamental Analysis	Views (Bearish/Bullish) 2-week Time Frame	Intermediate & Long-term Views (3mth & 12mth Time Frame)
INR	Crude oil prices were the main drivers for INR again. INR lost close to 1% compared to the previous week as Brent stabilized above US$60 which in turn makes improving the current account deficit more challenging. Overall however we are neutral on INR from here with a slight bullish bias in the longer term because we expect there will be fund inflows into India ahead of the general elections.	Neutral 70.00	Bearish 68.00
KRW	KRW traded within a 6 won range between 1118 and 1124 throughout the past week, as players erred away from placing big bets without fresh information about the US/China trade talks. In addition, exporters were seen capping the topside around 1124. Heading into this week, we await the release of GDP data and BoK's rate decision although no change is expected with regards the latter.	Bearish 1115	Bullish 1130
CNH	USDCNH dipped below 6.7500 level once again but the movement was quickly reversed after China reported weaker trade data. Subsequently, the pair traded in a narrow range between 6.7400 and 6.7950 in absence of any fresh news from the trade negotiations. Friday's positive headline in the WSJ claiming the US was considering rolling back tariffs on Chinese imports was swiftly denied by the Treasury. We remain cautiously bullish CNH on easing trade war concerns.	Neutral 6.7500	Bearish 6.7000

EM FX	Macroeconomic/Fundamental Analysis	Views (Bearish/Bullish) 2-week Time Frame	Intermediate & Long-term Views (3mth & 12mth Time Frame)
EGP	No change again in the spot USD/EGP interbank market which is still hovering between 17.86-17.96. There were also no economic releases this past week. The key development in Egypt occurred in the fixed income market where yields have declined since the start of the year. On Thursday the CBE held its usual auctions of 6- and 12-month T-bills with the results published at 18.83% and 18.90% respectively which is around 50bps lower than the previous week. This fall in yields is driven by rising demand for T-bills from foreign portfolio investors who appear to be back to Egypt in force. There is a lot of positivity towards emerging markets at the moment and Egypt is viewed as one of the best carry trades out there. We are however wary about the possibility of at least a small weakening of the pound and as mentioned before we prefer steepening trades of short USD in 1-2 months and long USD in 6-12 months. Additionally we are happy buying EGP T-bills in an FX hedged format as value is good.	Neutral to bullish USDEGP 17.85-18.00	Neutral to bullish 18.00-19.00
NGN	The positive sentiment in Emerging markets fed through to the Naira's NDF curves which flattened throughout week. The NGN fixing which had printed 365.20 the previous week fell sharply to 363.33 yesterday. Strangely, the bids for deliverable dollars disappeared at some point too after talks that a large Portfolio flow was being executed in the market. As expected, the T-bill auction was oversubscribed, with rates for the 182d and 364d printing at a yield 14% and 17.40% respectively. Note that there is no capital gains tax in Nigeria and even in a hedged format, the 1year return is about Libor + 450bps. We remain positive on Nigeria with 3m-6m T-bills attractive as spot remains stable, and the Central Bank continues to rebuild its foreign-exchange reserves. The last reading was $43.11bn, about 12-months' worth of import cover although down from the peak of $47.86bn in May 2018.	Neutral NAFEX USDNGN 362-365	Neutral to bullish 362-368
ZAR	The Rand continued to put in some solid gains, rising for a fourth straight week as EM currencies gained following the easing of U.S.-China trade war concerns. At the Monetary policy meeting, the Reserve Bank held its policy rate at 6.75 percent whilst their inflation forecast was lowered. The SARB's Governor appears less Hawkish than he was when he raised the benchmark borrowing rate by 25bps in November 2018. We will most likely see the Rand continue to be driven by external drivers including Trade war headlines and Economic data from the U.S. where the Fed has been more dovish since the start of the year. We will continue to play the recent range – 13.50-14.50- within which the currency has traded since August.	Bullish USDZAR 13.60-14.25	Neutral to bearish 13.50-14.50

GCC FX Commentary	
SAR	The SAR FX curve continued the move lower in the longer dates causing the curve to flatten further this week as oil prices moved higher with Brent trading at $62.7/bl. Short dates were tighter with day-to-day trading at Par from -0.3 per day in the prior week. Longer dated FX swaps settled at 1Y 50/70, 2Y 180/230 and 3Y 400/500. Spot SAR also moved lower to trade at 3.7507/9 as banks sold USD to buy SAR as liquidity tightened.
AED	The AED FX curve was steeper with tenors above 1Y moving higher on interest from regional and international banks. In the shorter dates the AED remained liquid and the 1Y regional FX swap was lower at 17/27. AED FX spot is currently trading at 3.6730 mid, unchanged on the week.
KWD	The sharp move higher in KWD FX swaps accelerated this past week as liquidity continued to tighten in the shorter dates. Day-to-day funding is now +0.5 per day while 1Y and 2Y FX swaps closed at -10/+40 and Par/+100 up from -75/-45 and -75/+25 in the prior week. FX swap mids are now positive along the entire curve, something we have not seen since January 2018. KWD FX spot is currently trading at 0.30335/45, 5 pips over the CBK fix.
OMR	The Omani FX curve was slightly higher on the week with the regional market closing 1Y at 410/460 and 2Y at 800/900. Day-to-day funding continues to be tight in OMR trading up to +0.5 a day. OMR FX spot is trading at 0.38495/00, unchanged on the week.
BHD	The Bahraini FX curve continued to move lower particularly in the longer dates, while the liquidity tenors remained bid given there are two auctions this week which will recycle a total of BHD 170m in 3 month and 1 year T-bills. The market settled with FX swaps at 1Y 225/275 and 2Y 500/600. USD/BHD spot was a little higher at 0.37700/05. The most recent 3-month BHD T-bill issuance yielded investors 4.24%, 1bp lower with coverage at 106% vs. 132% 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.

Commodities Commentary

- Oil complex, despite mixed inventory numbers, traded higher last week, with both Brent and WTI closing above their 50D Moving Average for the past 2 days. Brent went up by as much as 2.05% week on week (Brent trading at 61.72$/bbl at the time of writing), while WTI went up by 2.40 %.

- The ongoing US-China trade talks seemed to be one the main drivers of Oil prices over the week. It is widely expected that a positive outcome on trade talks over the next couple of weeks would drive oil prices higher.

- On the other hand, US crude inventory numbers were mixed, as a larger than expected oil inventories draw(-2683k vs expected -1489k) has been offset by a large/big products build (Gasoline: +7503k vs expected +2572k, Distillate: +2967k vs expected +1354k).

Contributors

FAB Global Markets FX & Rates

G10		GCC & EM FX	Non-Linear Products
Alison Higgins Alison.Higgins@bankfab.com	**Simon Turner** Simon.Turner@bankfab.com	**Pinrath Wongtrangan** Pinrath.Wongtrangan@bankfab.com	**Marco Benassi** Marco.Benassi@bankfab.com
Nourah Al Zahmi Nourah.Alzahmi@bankfab.com	**Meera Al Marar** Meera.AlMarar@bankfab.com	**Danay Sarypbekov** Danay.Sarypbekov@banbkfab.com	**Mohamed Bouzoubaa** Mohamed.Bouzoubaa@bankfab.com
Bassel Lloyd-Dada Bassel.Dada@bankfab.com		**Rashid Rasul** Rashid.Rasul@bankfab.com	**Naoufal Alami** Naoufal.Alami@bankfab.com

Tel: +971 2611 0111