GrowStronger.com

Market Insights & Strategy
Global Markets

27th January 2019

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

First Abu Dhabi Bank

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

Market Overview: Politics dominate, on both sides of the Atlantic

- Brexit machinations continue and if anything the polemic still raises more questions than it answers for investors. Parliament is expected to vote on Tuesday on Prime Minister May's 'Plan B' withdrawal terms proposal – the next big test of her position. Expect cable and U.K. risk assets to rally if her proposals are passed and brace for likely renewed downside if they are rejected once again.
- Several big business headlines added to the Brexit debate last week, with Airbus threatening to build its wings elsewhere on a no deal exit and Dyson announcing the relocation of its headquarters to Singapore. On a slightly deeper dive though, the Dyson move was said to be unrelated to Brexit and more about supply chain management, with only three senior executives moving. At the same time, we would suggest that the Airbus rhetoric, coming from its German CEO, merely adds support to the U.K. Parliament reaching some sort of conclusion. Let's see what Tuesday's vote brings.
- Overall, we are minded to move away from previous expectations of a hard exit towards a prolonging of the pain via an extension of three months to get some sort of deal re drafted. The proposed Bill by MP Yvette Cooper to delay Brexit if Parliament has not agreed a deal by the end of February, may prove to be the catalyst that breaks this ridiculous deadlock. It certainly isn't going to make much difference to the Europeans who remain steadfast in their approach.
- In the U.S., Trump appears to have backed down slightly in his quest for $5b to build his wall, announcing over the weekend the 'temporary' reopening of the government. While this could fuel a sigh of relief early this week, we would advocate a continued degree of caution. Trump is still adamant that the wall must be built and has stated that he could trigger another shutdown or declare a national emergency if his funding demands are not met.
- U.S. economic data is supportive of the Trump administration though – as was the Republican National Committee (RNC) on Friday when it offered its 'undivided support' for Trump ahead of his 2020 re-election bid – with weekly jobless number reaching their lowest levels in nearly 50 years last week. January Non-Farm Payrolls will be released this coming Friday, although with the market consensus expecting jobs gains of 165,000 (down from +312,000 in December) some pressure from Trump's actions may now be beginning to creep into the data. All for a wall.
- Elsewhere, attention will turn to the latest FOMC rate announcement and statement on Wednesday. We, and the market, are expecting no change and the curve continues to price little chance of a hike all year; indeed the next move implied by futures pricing is an easing bias that is seen kicking in during Q1 of 2020. As much as this feels very wrong to us it is difficult to stand in front of Powell next week. Expectations are for a Dovish FED pointing to a pause in hikes, however, beware the spectre of substantial repricing in the very front end of the curve should Powell be a little more bullish. We like steepeners or outright paid positions in the front end; with no expectation of a cut over 2019 downside is limited.

- Meanwhile China's efforts to move towards some reconciliation with the US may have been publically dismissed by US Commerce Secretary Ross last week with his 'miles and miles away from resolution' comment but domestically sentiment, GDP and production numbers didn't disappoint the market. We do not think next week's talks will be very headline worthy but maintain our bullish Asia vs the US view although we have been very nimble and more short term holds as markets continue to be a little bit too choppy for our taste for the longer term currency hold.
- The AED rate curve has proven to be interesting this week as it continues to correct from the aggressive moves seen into the end of the year and has retraced back to levels last seen end Nov/beginning of Dec. We expect it to go a little further but see some support in the FX world coming in from the threatened embargo on Venezuelan exports to the US which could raise the price of their oil to others as the supply chain is hit. This supported the move for oil above $60 and has seen a flurry of activity in the ME FX curves into the end of last week. In general levels here are interesting to us to move into and we have been seeing fairly balanced two way flow across the board. {https://www.nbad.com/en-ns/insight-and-features/mena-and-global-markets/middle-east-african-monitor.html}
- Finally, we believe that the GCC spotlight may fall on Saudi Arabia early this week after Bloomberg reported that the kingdom will present details of a 1.6 trillion riyals ($425 billion) infrastructure plan as early as Monday. The plan, part of Crown Prince Mohammed bin Salman's Vision 2030 project, is expected to also include economic diversification investment in energy, mining and other industrial projects including chemicals, power and natural gas.

  (Simon Ballard, Macro Strategist, Market Insights & Strategy)
  (Alison Higgins, 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	USDINR was seen trading in a range of 71.00 and 71.50 as crude oil prices steadied throughout the week. Besides crude oil prices, the upcoming general election in May will be crucial as we expect fund-linked inflows before the poll. Keep an eye on too GDP data due to be released this week. Overall, we are neutral on INR short-term whilst maintaining a bullish bias in the longer term.	Neutral 70.00	Bearish 68.00
KRW	The KRW has been tracking CNH to trade weaker against the USD for the past week despite better than expected GDP data. Meanwhile, BOK kept its benchmark interest rate unchanged at 1.75%. The CB governor ruled out further monetary easing suggesting that current policy rate level does not hinder growth. USDKRW was well offered above 1130 level thanks to exporters' flows. We still maintain our slightly bullish KRW view on a potential trade agreement between China and the US.	Bearish 1115	Bullish 1130

EM FX	Macroeconomic/Fundamental Analysis	Views (Bearish/Bullish) 2-week Time Frame	Intermediate & Long-term Views (3mth & 12mth Time Frame)
CNH	USDCNH grinded up but within a range of 6.7700 and 6.8200 this past week after the latest GDP data suggests that the domestic economy is facing headwinds linked to the ongoing trade war. However the pair appeared to be well capped at the 6.82 level. Subsequently, we saw USDCNH plunge as USD buying reversed with the US Commerce Secretary's optimism on reaching an agreement with China. There will be PMI and non PMI manufacturing data out this week. In summary, we continue to remain bullish CNH on easing trade war concerns.	Neutral 6.7500	Bearish 6.7000
EGP	The interbank USD/EGP spot market finally started to move dipping lower to touch 17.84-17.94. This move happened after the central bank head Tarek Amer said that the regulator will allow more movement in the FX market which until now has been kept under tight control to help bring inflation lower as well as giving foreign investors more confidence when they invest in the Egyptian assets. Now he is saying that a lot of reforms have been implemented, inflation is expected to trend downwards towards 10% and the international investment community is more comfortable with having exposure towards Egypt. Thus the implication is that the time is ripe for more FX flexibility. Having said that the CBE will likely intervene to prevent excessive volatility in the exchange rate. No specific levels or the direction of the preferred move were mentioned in his comments. Our view is that going forward there are going to be an increasing number of days where the spot will move up or down by a gradually rising margin. It will take some time to find out what the pain threshold is for the CB for a maximum daily moves. At this week's auction of 6- and 12-month T-bills the yields dropped again with the results published at 18.44% and 18.40% respectively which is lower by about 40-50bps from the previous week. Our views are unchanged we prefer steepening trades of short USD in 1-2 months and long USD in 6-12 months and we are long EGP T-bills in FX hedged format.	Neutral to bullish USDEGP 17.85-18.00	Neutral to bullish 18.00-19.00
NGN	The Central Bank left its benchmark interest rate at 14% this past week - a level which has remained unchanged since July 2016. This is as inflation continues to be above the upper band – 9% - of the Apex Bank's target. Inflation numbers in December rose to 11.44% Y/Y from 11.28% in November. This is however down from a peak of 18.72% in January 2017. The opposition presidential candidate –Atiku Abubakar- has said he plans to oust the Central Bank chief as well as float the Naira if elected. The General election is scheduled to hold on the 16th of February. It remains a tight race between Mr 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.	Neutral NAFEX USDNGN 362-365	Neutral to bullish 362-368

EM FX	Macroeconomic/Fundamental Analysis	Views (Bearish/Bullish) 2-week Time Frame	Intermediate & Long-term Views (3mth & 12mth Time Frame)
ZAR	The Rand continues to benefit from the more positive sentiment towards Emerging Markets as the carry trade comes back into favor. Currencies which were beaten down aggressively in 2018 like the Russian Ruble, Mexican Peso and the Brazilian Real have made solid gains since the start of the year. The Rand was also supported after consumer prices slowed in December to 4.5% Y/Y from 5.2% recorded the prior month. We will continue to play the recent range – 13.50-14.50- which the currency has traded in since December 2018.	Bullish USDZAR 13.60-14.25	Neutral to bearish 13.50-14.50

GCC FX Commentary	
SAR	The SAR FX curve moved higher in the short dates on tighter liquidity with day-to-day trading up at Par. Swaps up to 1Y were taken higher, while the 2Y was bid earlier in the week, particularly in the international market, on lower oil and headline news, but finished the week remaining unchanged. Local/Regional FX swaps settled at 1Y 58/78, 2Y 180/230 and 3Y 400/500. Spot SAR traded as high as 3.7509 and as low as 3.75055 through the week, closing at 3.75045/65 as banks sold USD to buy SAR on tighter liquidity. The SAR IRS market is relatively well-balanced, we see offsetting interests keeping the curve stable and expect the spreads to tighten as SAIBOR is already close to the repo rate which should cap any further moves higher. The banking sector is also very liquid with banks continuing to deposit excess funds with SAMA. GCC rates volatility has picked-up with SAR rates volatility offered earlier in the week and bids appearing later in the week pushing vols higher.
AED	The AED FX curve was unchanged on the week. Short dates continued to remain liquid and the 1Y regional FX swap remained at 17/27. AED FX spot is currently trading at 3.6730/31. The AED IRS spread curve was flatter, rallying 10bps in the past week with most of the receiving interest in the long end. We are back to levels seen before the risk off move that occurred during the seasonal holidays in December last year. The EIBOR 3M fixing continues to remain very volatile reducing the liquidity and depth of the IRS market. AED rates volatility saw a pick-up late last week, similar to SAR rates volatility. ATM 5Y AED CFS tested historic low levels before getting some upward traction. At these levels, both SAR and AED rates volatility look very cheap.

GCC FX Commentary	
KWD	Following two weeks of very strong moves higher, the KWD curve has taken a pause, however, day-to-day funding remains above par at Par/+0.2 and the entire curve continues to be persistently bid. The Local/Regional curve closed as follows: 1M -5/+5, 3M -5/+5, 6M -10/+10, 12M -10/+20 and 2Y Par/+100. KWD FX spot is currently trading at 0.30308/18, 8 pips over the CBK fix.
OMR	The Omani FX curve was steeper on the week as short-end liquidity improved marginally trading between +0.25 to +0.5 per day. Longer-dated FX swaps were higher as there was interest in the international market to take the 2Y and 3Y FX swaps. The regional market closed 1Y at 410/460 and 2Y at 825/1025. OMR FX spot is trading at 0.38497/00, unchanged on the week.
BHD	The Bahraini FX curve continued to move lower particularly in the longer dates on headlines Bahrain received a portion of the promised GCC funding. Day-to-day liquidity continues to be relatively tight and short dated swaps are trading as follows : 1M 14/22 and 3M 50/60. Longer-dated FX swaps settled at 1Y 210/260 and 2Y 425/500. USD/BHD spot was 3 pips lower at 0.37697/02 as banks sold USD to raise BHD liquidity. The most recent 3-month BHD T-bill issuance yielded investors 4.25%, 1bp higher with coverage at 115% vs. 106% in the prior auction. The 6-month and 12-month issuance yields are 4.40% (-5bps : 199% coverage vs. 118%) and 4.88% (-2bps : 203% coverage vs. 148%), respectively. The 1Y bill coverage was the highest observed since May 2017 as investors sought to lock in the relatively attractive yield.

FX Options Commentary

- FX volatility eased this week with the GBP vol curve moving significantly lower as fears over Brexit subside for now. GBPUSD spot broke through the significant 1.3 level, reaffirming the markets appetite for the currency and touched a multi-month high of 1.3140 late in the week. EUR, JPY CAD and AUD vols continue to ease as spot traded within a range against the USD.
- Emerging market currencies performed well this week. We feel the risk reward (premium to payoff) of buying topside USD calls and selling USD puts against CNH looks appealing considering how much lower the spot has moved recently. The risk reversal in USDCNH (the skew) is at multi-year lows; this indicated the market is pricing in a trade deal between the US and China.
- GCC FX volatility levels remain suppressed as demand from the buy side for these options remains limited. USDSAR spot continues to ease to the 3.75 level.

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