GrowStronger.com

Market Insights & Strategy
Global Markets

06th January 2018

Please click [here](#) to view our recent publications on MENA and Global Markets

بنك أبوظبي الأول
FAB
First Abu Dhabi Bank

G10 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 G10 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.

G-10 FX	Macroeconomic/Fundamental Analysis	Views (Bearish/Bullish) 2-week Time Frame	Intermediate & Long-term Views (3mth & 12mth Time Frame)
GBP	Sterling markets have tracked the move in duration as 10y gilt yields are back on their lows at 1.25%. Headline risks around Brexit has been somewhat subdued as the UK parliamentary break continues, MPC pricing has held in relatively well at 15bp for 2019.	Neutral	3m 1.300 12m 1.4500
EUR	The first week of 2019 was not boring; EURUSD started the first trading day selloff massively with no real catalyst behind it. EUR had retraced the opening move of the market. However, it lost all that by collapses collapsing again from 1.1405-1.1351 after strong USA employment numbers. Market has started the year with choppy swings.	Neutral	3m 1.1600 12m 1.1900
JPY	The risk sentiment has been extremely fragile last week and amid thin liquidity conditions USDJPY managed to break 108.80 all the way to 104.80 in a single shot as Apple downgraded their earnings outlook. The move was intensified by algos and stop chasing that led to the biggest daily loss since mid-2016, the magnitude of the selloff highlights the rising demand for safe haven assets. Notably, it seems that the market will remain jittery in the coming weeks especially that equities are already down more than 2% for the year and Chinese data and US data are already deteriorating. Looking forward to this week, the US and China are set to have trade talks on the 7th and 8th of Jan which will no doubt will be of interest.	Barriers	3m 112.00 12m 106.00
CAD	The Loonie was one of the winners this week as it traded at 1.3430 with USD weakening after the government shuts down and commodity prices are higher (OIL) gave support. USD/CAD market opened this year at highs of 1.3650 and got a bit choppy as Dollar weakened. USD/CAD support 1.3400 and resistance 1.3500.	Bullish	3m 1.3300 12m 1.3000
AUD	Phenomenal week for Aussie, as it was hammered on Thursday with hit drop to 0.6741 lows of 2009. However, the drop did not last for long as the currency reversed it loss as it leads G-10 gains and stands at 0.7050. Lots of noise in the market causes currencies to be volatile as AUD/USD gets lifted with U.S.-China trade negotiations news. Some views on AUD, the currency can be choppy as the resistance level is 0.705. The market doesn't think AUD will revisit the lows of 0.6740 anytime soon.	Neutral	3m 0.7100 12m 0.7150

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