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Market Insights & Strategy
Global Markets

G10 Rates & FX, & Oil - The Traders' Weekly Views

Market Overview: Crunch Time Looms for Brexit

- Risk assets continue to get their groove back with investor sentiment being buoyed late last week by some optimistic headlines with regards to the Sino-U.S. trade talks as well as by the dovish nature of comments from Fed chair, Jerome Powell. Mr. Powell reassured markets that the central bank would be 'patient' in tightening monetary policy.
- Other Fed officials also added to the risk appetite fillip as the latest FOMC minutes from the December meeting showed that 'many' policy makers now believe that the Fed can 'afford to be patient about further policy firming'. Federal funds futures are currently pricing in no further rate hikes for 2019, down from 30bps of tightening that was priced in last month. Equity markets reacted positively with major indexes adding to gains from last week while the Dollar remained weak with the Euro hitting a three-month high of 1.1570 to the dollar.
- GBP also managed to register some modest gains last week despite Prime Minister May losing two votes in parliament during the week, including defeat of her finance Bill on Tuesday. Indeed, cable has now pulled back from the $1.2487 low seen in December to $1.2844 as of Friday's close.

Stay cautious

Source: Bloomberg/FAB

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- However, it was perhaps, paradoxically, the second of the two Commons Brexit vote defeats for Mrs. May that fueled last week's strength in GBP. The latter defeat means that the government will now have to come up a 'Brexit Plan B' within three business days if Mrs. May's EU withdrawal deal is rejected by MPs in Tuesday's parliamentary vote this week, as is widely expected to be the case. The government had previously hoped it would have a 21 day grace period to come up with alternative proposals. As such, the shorter time frame and increased pressure for finding a solution is thought to increase the chances of the March 29 deadline being extended, a soft Norway style option being adopted or even a second referendum being called. All options could be back on the table, and for the 'Remainers' that equates to hope.
- The bottom line is that the Brexit saga is far from resolved. In fact, if anything, the situation seems set to turn a lot more opaque and uncertain this week. Uncertainty breeds contempt and will likely keep GBP, Gilts and U.K. risk assets on a back foot in the near-term and as such we would again advocate selling into any meaningful near-term strength in U.K. risk.
- Emerging market currencies also put in solid gains last week, with the Chinese Renminbi putting in its best performance against the dollar in a decade. This comes as China's top economic official is expected to travel to Washington later this month to continue the trade talks. The Rand, Mexican and Argentina Pesos also put in strong gains as the greenback lost ground.
- Meanwhile, crude oil prices rose further with the benchmark Brent crude equaling its record of nine straight days of gains, albeit paring its advance slightly into the close on Friday. The price rose briefly above $62 a barrel on Friday after Saudi Arabia's energy minister vowed to 'stabilize' the market before consolidating back to $60.59 by the close. Nonetheless, the overall weekly gains were sustained as the weaker dollar boosted the appeal of the broader USD-based commodities complex.

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

Please find below views on G10 Rates & FX, & Oil directly from our traders.

Choppy start to the first full week of trading. US yields have retracted 12bp of the move on the 3rd Jan. 2019 FOMC pricing extremely benign with nothing further from the FED this year. Inversion remains prominent along the curve and every forward now sub 3% (10y5y at 2.99). Lots of issuance for the market to digest in EUR and GBP, with swap spreads continuing to cheapen. For FX, DXY struggling to rally and now sits at the key 95 level.

G-10 FX	Macroeconomic/Fundamental Analysis	Views (Bearish/Bullish) 2-week Time Frame	Intermediate & Long-term Views (3mth & 12mth Time Frame)
GBP	There has been little in the way of Brexit headlines for the market to digest, and thus issuance dynamics and the curvature have been the main focus for investors. Whilst gilt spreads have cheapened somewhat, they still remain elevated, and cross market gilt and swap yields look extremely rich. We like scaling into wideners like 5y5y uk/er IRS or more generically gilt/bund via futures. GBP remains range bound for now at 1.255/1.28.	Bullish	3m 1.300 12m 1.4500

G-10 FX	Macroeconomic/Fundamental Analysis	Views (Bearish/Bullish) 2-week Time Frame	Intermediate & Long-term Views (3mth & 12mth Time Frame)
EUR	We start the new year with a new driving theme that dominated most of the currencies in G10, namely pricing out Fed hikes on the back of the Fed adopting a more patient approach. EUR in particular has found its way back to 1.1500 for the first time since October and surprisingly has held to those gains as Italian politics became just background noise while the market fixated on dollar weakness. Expect the single currency to hover around 1.1500 because any further EUR strength will be contingent on few things: a Brexit deal, political harmony and a more hawkish ECB. We believe that these are far from reach, at least for now especially after the recent weakness in data in both Germany and Italy.	Neutral	3m 1.1100 12m 1.1900
JPY	USD/JPY is back under pressure for the fourth week with weaker dollar on the back of the dovish Fed talks and the partial U.S. government shutdown. Additionally yen has regained it safe haven status and the safe haven flows are affected by Brexit, Fed and China's headlines. The currency pair is currently trading in a downwards momentum as dollar lost all its gains of 2018. The dollar has retraced it gains from 114.00 to the lows of 108.00 April 2018 in less than 3 month. Looking at the price action the downward trend seems established with 106 for the short term support. G10 believe that a strong rebound is unlikely unless the dollar regains its composure which seems unlikely for the time being	Bearish	3m 110.00 12m 104.00

FX Options Commentary

- GCC vols have now eased after a period of stress in late December; this easing was mainly driven by a recovery in oil and hence less stress on the forwards. Demand for GCC options are also driven by the buy side and we think interest will return in 2019. We feel being long SAR options offers good risk / reward.
- INR vol is trading around the 8 handle and risk reversals (skew) eased with spot briefly below 70 earlier in the week. We like being long INR topside strikes to take advantage of a potential sell-off in the EM space. USDINR spot may eye the significant 75 level.
- Vols have eased after the flash crash in spot market (on the back of apple earnings news) but are still higher than December levels. GBP vols are the most expensive as the uncertainty around Brexit remains. Commodity currencies like AUD, CNH and CAD are performing spectacularly this week on the back of a weaker USD and mainly due to a rebound rally in oil.

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