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First Abu Dhabi Bank

G10 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 G10 Rates & FX, & Oil directly from our traders.

US interest rate markets remain very range bound with Ct10 stuck between 2.70% and 2.80%. Little is priced from the FOMC this year as OIS markets imply a 34% probability of a 20bp move by December. With a cautious Fed, continues heightened geopolitical risk and global data airing on the dovish side, it's difficult to find reasoning behind to fade the move at this juncture. DXY has rallied around 1% this week, with EUR (57.6% DXY weight) weakness contributing significantly.

G-10 FX	Macroeconomic/Fundamental Analysis	Views (Bearish/Bullish) 2-week Time Frame	Intermediate & Long-term Views (3mth & 12mth Time Frame)
GBP	Sterling markets continue to price the probability of an extension to article 50, as GBP bull momentum takes cable above 1.31 and eurgbp to .865. Sterling rate markets have been less positive as concerns around global growth alongside geopolitical risk, is putting downward pressure on G3 yields. SONIA markets are now pricing just a 70% probability of a 25bp hike in 2019 and then 17bp for 2020, with the terminal rate being priced at 1.42%.	Bullish	3m 1.3500 12m 1.4500
EUR	As mentioned in our previous weekly, the ECB left rates unchanged and forward guidance remained data driven. Super Mario skillfully kept the market guessing about the main issues like the timing of the hike and the market was also specifically anxious to know about the new TLTROS that the market was pricing in March, which we marked in our previous weekly as "the critical …	Bearish	3m 1.1600 12m 1.1900

G-10 FX	Macroeconomic/Fundamental Analysis	Views (Bearish/Bullish) 2-week Time Frame	Intermediate & Long-term Views (3mth & 12mth Time Frame)
EUR	… meeting" for the ECB. As for the obvious, Draghi acknowledged the recent weakness in the Eurozone data, mentioned that risks to growth have moved to the downside and sounded dovish considering the global challenges both politically and economically. Now that the meeting is behind us, the single currency is trading in a downward trend channel that started the 10th of Jan and confirmed following the daily close after the ECB. Similar price action can be seen in EURGBP which has had a decent selloff as some of the uncertainties regarding Brexit unfolded. At the minute any bullish argument will be data dependent and again seems very far from reach. In addition to the data, political stability is key for EURUSD to rally above 1.1500. Therefore, the G10 desk retains its bearish view on the single currency at least in the short-term. Bearish Show less.	Bearish	3m 1.1600 12m 1.1900
JPY	During last week's BOJ meeting, the central bank cut its inflation forecast for 2019, a reinforcement of the fact that they are very far away from reaching the 2% target anytime soon. Regardless, the central bank is not changing its monetary policy anytime soon which is remarkable considering that other central banks are moving towards entering a hiking cycle. Looking at the price action, USDJPY is slowly rebounding from trading around 104.80 earlier this month and the reason being that many players feel that they have missed the move, myself included, and rush to sell USDJPY too early. That said, there is scope for USDJPY to trade up to 110.40 then correct lower, which we are marking as an initial selling area. Reasons being, any risk recovery will be short lived as 2019 calendar is filled with many risk events.	Neutral	3m 112.00 12m 106.00
CAD	The greenback held a strong trend against the Loonie for most of the week opening on Monday at 1.3260 levels and climbing an entire big figure to highs of 1.3360 by Thursday. Canada Governor Stephen Poloz spoke in an interview on Wednesday about the future economy. He mentioned that growth of US and China's economies are normalizing and that risk to global growth from continued trade tensions and the US government shutdown will be temporary. Poloz believes that negative sentiment in the market is overdone and confirmed that he is ready to use monetary policy to combat and slowdown in the Canadian economy. Bonds were well supported during the week with the largest move on Wednesday seeing 5 year benchmark yields slide 5 bps from 1.9475 to 1.8975. The next BOC meeting is at the beginning of March and probabilities of a rate hike are near Zero. As of Friday USD/CAD is trading back down to 1.3320 levels.	Neutral	3m 1.3400 12m 1.3500

G-10 FX	Macroeconomic/Fundamental Analysis	Views (Bearish/Bullish) 2-week Time Frame	Intermediate & Long-term Views (3mth & 12mth Time Frame)
AUD	Market concerns as Doller being the biggest gainer against Aussie, which might cause the RBA to lean towards ease policy. Geopolitical issues and uncertainty have caused Australia 10-year yield drops 6bps, partly reflecting by headlines; USA/China being eager to end their trade war. However, “the outcome will hinge on whether Beijing will deepen economic reforms and further open up its markets”. Hopes were faded as the market still thinks USA/China trade war resolution is miles away. Investors have shifted to safe haven boosting ACGBs given the nation’s position in global supply chain. With weak data releases, the market thinks RBA will cut rates in 2019 as 60% probability is priced in. Looking at the pro and cons going on, the market will have a border view (RBA meeting 5th Feb). The market is acting bearish Aussie against the green. AUD/USD was down 1.5% to 0.7080 this week, resistance 0.7220, Support: 0.7060.	Bearish	3m 0.7100 12m 0.6550

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.

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