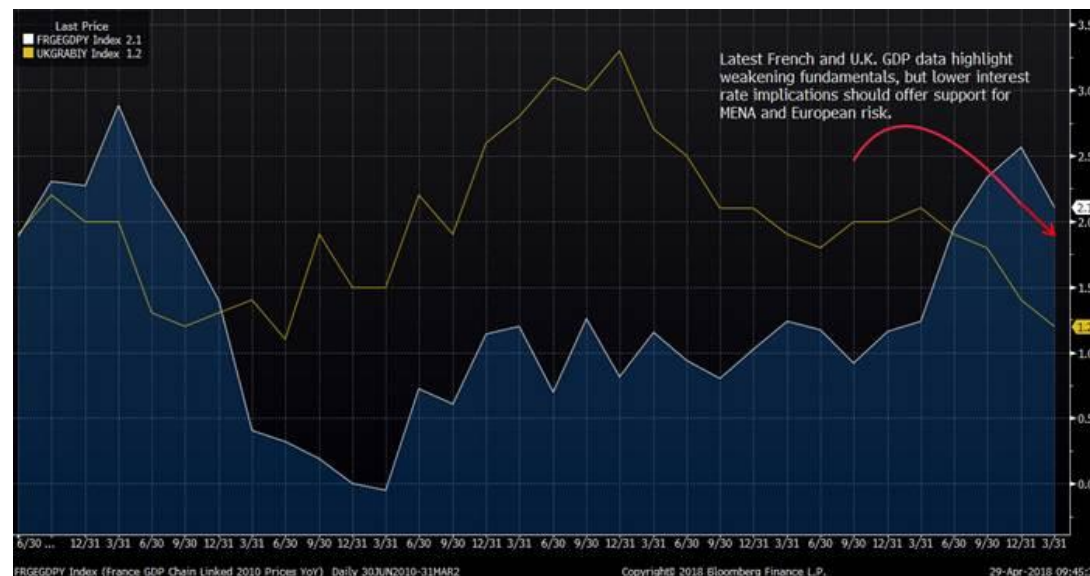


EM Rates & FX - The Traders' Views

Macro Strategy View: ECB Rhetoric Seen Positive for DM and EM Risk

- That the European Central Bank apparently didn't even discuss monetary policy at its monthly governing Council meeting last Thursday's, should prove to be a positive for both developed and emerging market risk assets over the coming weeks. The tone of the latest ECB comments do support our belief though that investors need to retain a discerning bias to investment strategy at this juncture of macro growth and risk asset valuations.
- Mario Draghi, European Central Bank president, acknowledged a 'moderation' in the pace of the Eurozone recovery, but reiterated the Bank's commitment to ensuring that growth stays on a positive trajectory over the coming months. We would interpret this rhetoric as supportive for risk across both the high grade and emerging market universes. MENA credit markets should be buoyed by the prospect of an ongoing accommodative approach to monetary policy, with relative value in our region potentially further enhanced by the renewed question marks now surrounding the underlying (Eurozone) fundamental environment.



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- A more cautious outlook to European economic growth – highlighted by well-below-consensus French and U.K. GDP data at the end of last week – should help to drive a defensive approach to risk, favoring high grade assets over lower-rated credit. Paradoxically though, while this more modest growth scenario may dampen demand for the Euro currency, the consequent anchoring effect on interest rates over the coming quarters should help to underpin near-term risk appetite in the higher yielding echelons of the credit curve. Indeed, the latest comments from the ECB suggest that Eurozone interest rates could remain at current accommodative levels until the latter half of 2019 - well past the horizon of net asset purchases, which are expected to be tapered from September this year – which should help to maintain fertile structural demand for EMENA risk.
(Simon Ballard, Macro Strategist, Market Insights & Strategy)

Please find below views on Emerging Markets FX directly from our traders

G-10 FX	Macroeconomic/Fundamental Analysis	Views (Bearish/Bullish) 2-week Time Frame	Intermediate & Long-term Views (3mth & 12mth Time Frame)
SGD	Story of the past week was the fact that DXY cleanly broke through the 91 key level, leaving investors scrambling for USD. Apart from a selloff in IDR and INR before DXY took out 91, USDAsia had been fairly well behaved up to that point, as the 10y UST flirted with the 3% level. USDSGD was stuck in a tight range for much of the week, benefitting from its assumed Asia safe haven status. It's still too early to say the trend has changed since macro numbers remain positive and big cap earnings remain strong overall. Net, net we would advocate looking to fade this latest weak move and hope that bullish risk sentiment continues.	Bearish 1.3000	Bearish 1.3000
INR	The path of least resistance for USDINR has remained higher of late, other than for some selling from the RBI. Our 66.50 target was hit, and we are neutral on USDINR here. USD has been overbought so we expect a pull back down to 66.20 before heading higher. With oil prices seemingly well underpinned here, we see limited downside risk to USDINR as well.	Neutral 66.50	Bullish 67.00
CNH	USD/CNH was also stuck in a tight range and I expect this range 6.2700 - 6.3400 to hold. Unlike other USDAsia, I don't see any specific story for USDCNH in the near future, so we expect vol to stay low, and market would turn to other high beta currency.	Neutral 6.3000	Neutral 6.3000
KRW	KRW movements this past week were driven by headlines concerning the meeting of N Korea leader and S Korea president. While the media played this as if it's a new era, we wonder if it is little more than political propaganda. USDKRW will continue to trade in line with overall equity risk sentiment. So as long as earnings continue to surprise on the upside, USDKRW should hold its range even as DXY edges higher. This coming week, after the US GDP data, we would expect the market to fade USDKRW again as it looks for the pair to retest 1060.	Neutral 1070	Bearish 1050

G-10 FX	Macroeconomic/Fundamental Analysis	Views (Bearish/Bullish) 2-week Time Frame	Intermediate & Long- term Views (3mth & 12mth Time Frame)
EGP	For the time being the interbank market in EGP has stabilized around 17.65-17.75. Last week the government published trade data, which demonstrate a clear improving trend. The trade deficit narrowed to \$3.3bln in Feb from \$3.6bln in January. Additionally the volume of foreign trade increased to \$21.3bln in Q1 2018 from \$19.5bln compared to a year earlier. At the latest auction of Tbills the yields of 6-mth Tbills and 12-mth Tbills are still around 17.50% and 16.85% which we perceive as attractive yields given expectations that the CBE will continue to cut interest rates in the coming months. The next central bank meeting is on 17 May and in our opinion the CBE will reduce rates by another 100 bps to 15.75%. Therefore we still favour longs in 6m-12m Tbills and think that the exchange rate will stay range-bound in the near future.	Neutral USDEGP 17.65-17.75	Neutral 17.25-18.50
NGN	The NIFEX and NAFEX rates printed levels around 338 and 360 respectively in the past week. Little in terms of new developments in Nigeria this week. Both the NDF and the Tbills markets were stable	Neutral NAFEX USDNGN 359-361	Neutral to bearish 345-365
ZAR	Earlier strength in the rand has proved transitory with the US dollar making rapid gains against a broad set of currencies over the past week in both the G10 and EM space. Interestingly, the rand has underperformed, especially relative to the Turkish lira in the last few sessions. This was likely due to the heavy long positioning in ZAR that has been built up since January/February when Zuma was removed as the President. The next level to watch is around 12.70 followed by 13.02-13.04 as the US dollar strength seems to be gathering pace.	Bullish USDZAR 12.10-13.00	Neutral to bullish 12.75-15.00

GCC FX Commentary

SAR	The SAR FX curve was little changed on the week, with the 1Y FX swap moving only 5 points higher to trade at 35 mid, while the 4Y and 5Y swaps moved 100 points and 150 points higher to trade at 600 and 850 mid, respectively. SAR FX spot is currently trading at 3.7502 mid.
AED	The AED FX curve remained relatively unchanged on the week. The 1Y FX swap is trading at 25 mid, lower by 5 points on the week.
OMR	The Omani FX curve was flat on the week. The 1Y FX swap is trading at 325 mid. OMR FX spot is trading at 0.38501 mid.
BHD	The Bahraini FX swaps curve also remained unchanged on the week. The 1Y FX swap is currently trading at 150 points mid. USD/BHD spot is trading at 0.377055 mid. The most recent 3-month BHD T-bill issuance yielded investors 3.33%, up 1 basis point on the week. The coverage was 144%.

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