

EM FX & Rates - The Traders' Views

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

| EM FX | Macroeconomic/Fundamental Analysis | Views (Bearish/Bullish) 2-week Time Frame | Intermediate & Long-term Views (3mth & 12mth Time Frame) |
|-------|---|---|--|
| SGD | As volatility hit USDAsia, either because of local stories like CNH or HKD, or the global story on North Korea, USDSGD was well contained. Because USDCNH dove lower but EURUSD remained well bid, USDSGD found itself in a tough spot amid the general Asian sell off. Given such risk-off environment, we would rather be long SGD against other Asian currencies because SGD remains the regional safe heaven. On the data front, GDP for Q2 was revised up to 2.2% q/q from its initial 0.4% print. However, with a weak labour market and low core inflation, the MAS shouldn't change its policy and stay neutral. | Bullish 1.3800 | Bullish 1.4200 |
| INR | USDINR bounced from our 63.50 target. And although nothing has changed fundamentally, and we still like India, market positioning in short USDINR worries us, so we feel that there are some upside risks from here to 65.00, which is where we would rather want to fade the move. Activity wise, after spot traded above 64.00, we started to see agent banks offering USD to cool down the market but they weren't very aggressive as when they were buying. They were only there to smooth market volatility. Apart from geopolitical tensions outside India, we will be watching the inflation print carefully next week as it will be first clue to what RBI will do next after it cut 25bps policy late last week. | Neutral 63.50 | Bullish 65.50 |
| CNH | Surprisingly, USDCNH has been one of the most volatile currencies this week. Despite what was going on in other parts of Asia the PBOC kept fixing USDCNY lower, and thus spot gapped 100 pips lower at open every day. What caught everybody by surprise was that this drop... | Bullish 6.80 | Bullish 6.80 |

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| CNH | ... lower in spot wasn't only engineered by PBOC but also by commercial flows from corporates. With the activities we have seen this week we are convinced now that the trend has changed, and this might just be a start of something bigger move. PBOC, however, unexpectedly fixed spot higher on Friday, which made USDCNH jump 300 pips. This may trigger some unwinding of shorts but like USDINR, I would fade this move above 6.7500. | Bullish 6.80 | Bullish 6.80 |
| KRW | North Korean-US tension stole the headlines all of this past week. And thus USDKRW moved from 1115 to 1145. Technically, 1142 to 1147 is a good level to fade the move as USD shorts can lean against the 1147 200 DMA resistance. However given such negative sentiment in risk, we recommend a tight stop of 1153. | Neutral 1130 | Bullish 1160 |
| EGP | USDEGP pair remained stable around 17.75-17.85 this past week. A recent key data release was inflation which climbed to 33% in July from around 30% the month before. This was widely expected after the reduction in the subsidies in early July and the hike in energy prices. Yields on T-bills are on the decline with latest auction of 6-mth and 12-mth paper printing rates at 18.83% and 18.70% respectively. The explanation for why the inflation is up and the yields are down is simple, disregard inflation as the spike is perceived by the CBE as temporary and since the central bank has the FX reserves at the level where they are comfortable, they are beginning to lower yields to discourage foreign investors from loading up on more debt. We are remaining short USD long EGP through NDFs especially on spikes in prices or short USD in the spot market through the repatriation mechanism of the CBE coupled with the purchase of T-bills. | Neutral to bearish USD/EGP 17.70-17.85 | Neutral to bearish 17.00-18.00 |
| NGN | An interesting dynamic began in the NGN market this week, the NIFEX fixing started to move up from 325 and so far has climbed to 327. The NAFEX is still trading around 365. So the implication of this change is that the CBN has started to move the NIFEX fixing towards the NAFEX fixing. If this is the case then we can expect the two fixings to converge within the next 3-6 months. The NDF market continued to move slightly higher on these developments. Our view is that the risk-reward is supportive of being long USD vs NGN in longer-dated NDFs 6-12 month outright at current levels. | Neutral USD/NGN 325-335 | Neutral to bullish 365-385 |
| ZAR | It was a volatile week for the Rand after first making strong gains on Monday and Tuesday from almost 13.50 down to 13.10 on the news of the secret ballot on the Zuma presidency. However once it became clear that he was not going anywhere yet USDZAR quickly bounced back up to make a new high above 13.50. We remain bearish on ZAR as it feels that short USD positions have not been yet fully flushed out. | Bullish USD/ZAR 13.25-14.00 | Neutral 12.50-14.00 |

GCC FX Commentary

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| QAR | The current focus of FX activity is primarily in the Spot market as the crises itself drags on, and although overall volumes remain light, we have seen some reasonable USD bidding interest this past week and attempts to arbitrage the onshore/offshore levels. |
| OMR | There was an unexpected injection of liquidity in the small FX swap market with flows seen across the curve from 1 month to 1 year. This has in turn shifted the forward curve to the left and we expect it to remain at these new levels until the end of the month. |
| AED | As with most GCC markets overall Dirham activity has been dulled by the summer break but we expect short-term AED funding to tighten at the end of the month ahead of the EID period. |
| BHD | Liquidity in the Bahraini FX market has improved and we have seen some hedging activity within the 1- 3month forward tenors. All eyes now on a potential US\$ sovereign issuance of up to US\$2.5 bio due to take place within the next couple of months. |

GCC Rates Commentary

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| AED & SAR | Both the AED and SAR rates markets remain range-bound and activity light due to the summer holiday period. Thus both 3-month EIBOR and SAIBOR have been drifting around the same levels for the past two weeks. |
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