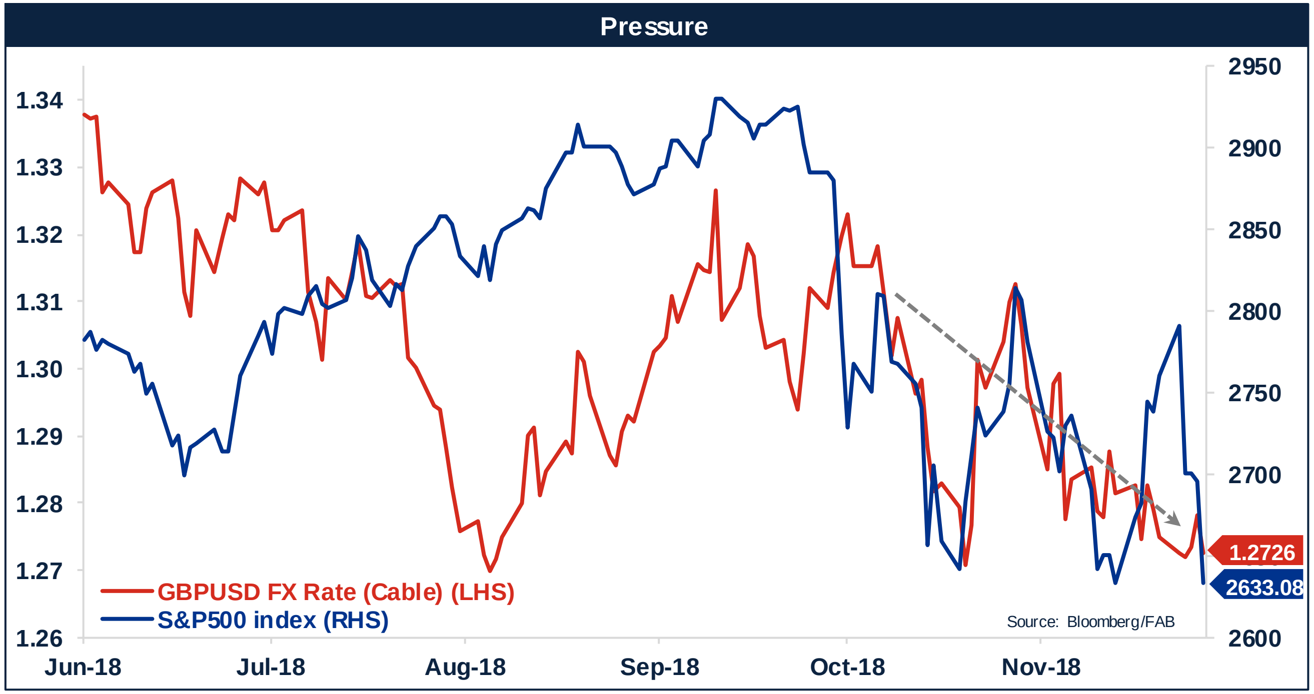
GrowStronger.com

Market Insights & Strategy
Global Markets

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

Market Overview: Cocktail Hour.. Molotov Cocktail

- A confluence of macroeconomic and geopolitical strains led to a repricing in the rates market late last week and a subsequent rise in risk aversion. Trade tensions between the U.S. and China refuse to abate and are now beginning to weigh heavily on the global growth outlook. Meanwhile the European spotlight is honing in on Tuesday’s Brexit vote by U.K. parliament.
- Renewed uncertainties on all fronts drove a sharp correction in risk asset pricing; the S&P 500 equity index ended the week down 4.6%, sterling resumed its downward path while the Bloomberg Barclays GCC credit index ended 9bps wider from the week’s low.

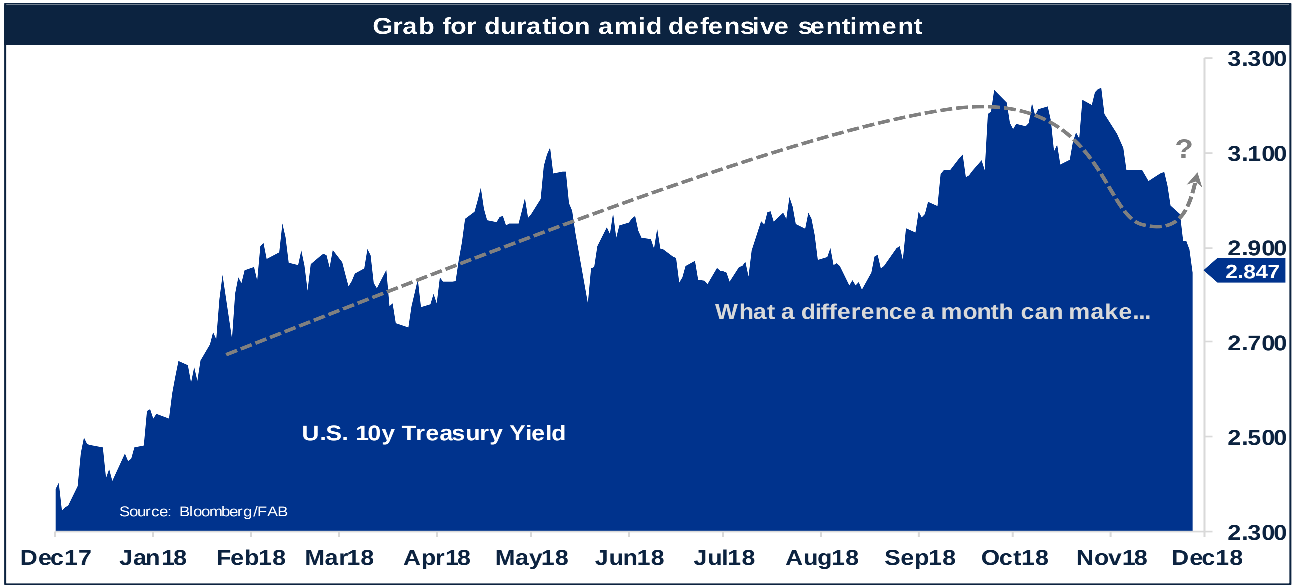


- Across G3 markets we saw a huge move in rates last week as a result of the risk off move amid speculation that economic growth may have peaked. The lack of resolution to the Trump administration’s belligerent approach to U.S./China trade coupled with stubbornly hawkish rhetoric from the FOMC is proving to be something of a Molotov cocktail for fixed income and equity markets alike, especially the more cyclical sectors that have performed strongly on prior robust growth assumptions.

09th December 2018

Please click here to view our recent publications on MENA and Global Markets

- The U.S. November non-farm payrolls report on Friday then added to the mixed messages. While the headline jobs number of +155,000 was shy of the expected +198,000 figure (and well down from October's revised +237k) and helped to underpin risk sentiment, resolutely firm wage growth data – average hourly earnings held at +3.1%, the strongest since April 2009 - helped to bolster short-term rate rise expectations.
- Nonetheless, the overall resultant sharp defensive bias and substantial duration grab over the week saw treasuries rally hard, with the yield on the 10y U.S. bond plunging 20bps from last Monday's high to end the week at 2.845%. Moreover, there has been a clear, dramatic reversal of sentiment across the fixed income space over the past month as growth assumptions get repriced, with the 10y treasury yield having now dropped around 40bps since early November.



- Looking beyond the near-term though, we continue to believe that the direction of travel for rates and yields should remain modestly higher during 2019. An easing of U.S./Sino trade tensions will be a key requisite in the first instance though for a resumption in the rates market sell off. For now the FOMC is largely seen raising the Fed funds rate by a further 25bps later this month (19th), but then the market has only 20bps of further Fed tightening priced in for 2019, with the terminal rate now seen at 2.65%.
- Meanwhile, GBP-denominated assets are looking friendless at the moment and the path least resistance for sterling still appears to be lower. The numbers are stacking up against prime minister May in terms of getting her withdrawal agreement passed in parliament on Tuesday (11th) and there have been some suggestions in the corridors of Westminster that May could call for the vote to be delayed while she seeks greater concessions from Brussels. That Brussels has made it clear though that there is no 'plan B' and that what they have offered is the best that the U.K. can expect, suggests that Mrs. May could be rapidly running out of options.
- Indeed, May's very survival in Downing Street could now be at risk. The specter of leadership instability or even of a general election that ushers in a Labour Party government under hard-left leader Corbyn, would only be expected to further emasculate investor sentiment toward GBP risk assets. We maintain our view that over the coming weeks the path of least resistance for cable is set to remain lower.

(Simon Ballard, Macro Strategist, Market Insights & Strategy)

Please find below views on EM Rates & FX, & Oil 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	It was another whipsaw week in the last month of 2018. From a US tariffs pause on Chinese goods for 90 days to the arrest of Huawei CFO, and from a risk on mood to a selloff in stocks. A flattening USD curve suggests that we may be heading into a slowdown and hence the equity selloff. Overall, SGD will continue tracking movement of DXY and it remains a hedging tool against other Asia currencies.	Neutral 1.3800	Bearish 1.3700
INR	The RBI kept its key interest rate unchanged at the latest MPC meeting in line with market expectations. The INR is however the region's worst performer losing 1.5% despite lower crude oil prices this past week. The underperformance was probably due to slow recovery in FX reserves and onshore USD buying as crude oil prices hover around current level. 70.00 remains a critical level to watch in USD/INR.	Bullish 72.00	Bullish 74.00
CNH	USDCNH took a nose dive from 6.95 to 6.83 last week on the initial US/China tariff news out of the G20 summit. However, as mentioned above it was unwound by the arrest of Huawei's CFO which saw the CNH pared gains to trade at 6.88 at the time of writing. CNH will remain very much headline driven over the next couple of weeks. Thus, we are currently holding a neutral outlook.	Neutral 6.9000	Bullish 7.0000
KRW	It has been a very tricky past week for Asian currencies. KRW erased gains of as much as 17 Won at the beginning of the week as a more gloomy economic outlook led to the fall in global equities. This issue will continue to drive the movement of KRW in the coming weeks. We turned neutral with a slight bullish bias towards KRW in the near term as we monitor US/China trade developments.	Neutral 1120	Bullish 1130
EGP	The EGP interbank market continued to trade within the range of 17.86-17.96 this past week. After the CBE decision to terminate the repatriation mechanism with the cut-off date of 4 December, there was a brief panic in the NDF market and the curve moved higher. This was due to a view that this policy change would mean more flexibility for the interbank market and that USD/EGPP would therefore trend upwards after a long period of being stuck around 18.00. However the demand for dollars did not last long and the NDF curve settled back down at levels that we observed before the announcement on the termination of the mechanism was made. In economic news the Ministry of Finance stated that Egypt had achieved GDP growth of 5.3% in 2017/18 and that it expects to hit 5.8% for 2018/19. With the recent changes we like steepening trades of being short USD in 1-3 months and long in 9-12 months because we think that in the months to come the spot rate will start to move higher but the exact pace and timing of the move is unclear.	Neutral to bullish USDEGP 17.85-18.00	Neutral to bullish 17.50-18.50

EM FX	Macroeconomic/Fundamental Analysis	Views (Bearish/Bullish) 2-week Time Frame	Intermediate & Long-term Views (3mth & 12mth Time Frame)
NGN	The NAFEX fixing was printing at levels around 364 this past week. There is stil above average demand for dollars but the fix remains stable and the supply of hard currency from the central bank should not lead to major changes in the spot. The Central Bank has been actively mopping up NGN liquidity in the market by issuing quite a few OMOs in the past few sessions with yields in 6-12 months in excess of 14-15%. We like buying 6-9 months T-bills in Nigeria as yields are attractive at 14-17% and we expect the policy of stable FX regime in this timeframe.	Neutral NAFEX USDNGN 362-366	Neutral to bullish 362-368
ZAR	The rand reacted enthusiastically to the news from the G20 and made some decent gains shifting from 13.90 to 13.50 on Monday and Tuesday. But then the market began to have second thoughts about the US-China trade deal within the new 90-day deadline and the global equity markets plummeted dragging ZAR and many other EM currencies lower versus the US dollar. As a result the USDZAR jumped back above 14.00. The technical picture points towards more rand weakness in the weeks to come and targeting the14.60-80 area. Further pressure on the Rand could come next year ahead of the scheduled general elections in May.	Neutral USDZAR 13.90-14.80	Bullish 14.75-15.50

FX Options Commentary

- Intraday volatility in FX is elevated as markets continue to be choppy leading into year end. There is no clear trend in FX and large USD rallies tend to be faded and reverse. Market makers tend to sell volatility over the festive season but with so much material news out driving the market we are seeing participants buy options to hedge and hence push up implied volatility levels to multi week highs.

- We feel markets will continue to be volatile over the next few months and recommend yield enhancement structures with shorter tenors and limited leverage to protect clients from exceptionally large deviations in FX spot.

GCC FX Commentary	
SAR	The SAR FX curve has been active on both sides on the market given the recent oil prices volatility. Spot SAR reached a high of 3.7521 and a low of 3.7514 before settling at 3.7517/19. Local and regional banks continued to support the currency by selling USD. The FX curve steepened as oil prices experienced a sharp decline, with some respite late on Friday as an OPEC+ deal emerged. The market settled at 1Y 65/75, 2Y 270/320 and 3Y 500/575. SAR FX spot is currently trading at 3.7518 mid, 1.5 pips lower on the week.
AED	The AED FX curve remained unchanged over the week; the 1Y FX swap is at 28/35. AED FX spot is currently trading at 3.6730 mid, unchanged on the week.
KWD	KWD FX swaps continue to be well-offered by local banks in the shorter end of the curve out to 6 months. The remainder of the curve was marginally lower with 1Y and 2Y FX swaps closing at 140/110 and 175/115, respectively. KWD FX spot is currently trading at 0.30398/08, 25-30 pips over the CBK fix, as demand for USD continued to be strong.
OMR	The Omani FX curve was unchanged on the week, although there has been some paying interest in the longer end of the curve. Short dates continue to be very liquid day-to-day and there are still good offers in the regional/local market creating a ceiling for the 1Y and 2Y FX swaps. The curve closed with the 1Y at 265/305 and 2Y at 600/700. OMR FX spot is trading at 0.38500/03, 1 pip lower on the week.
BHD	Bahraini FX swaps remained bid across the curve. Liquidity continues to be tight causing many to take longer-dated swaps or sell USD/BHD. The 1Y FX swap was taken several times and the market closed at 250/300, 15 points higher from the prior weeks close. USD/BHD spot is trading at 0.37700/03 mid, 2 pips higher on the week. The most recent 3-month BHD T-bill issuance yielded investors 4.27%, 1bp over the previous auction, however coverage was significantly lower at 106% vs. 154% in the prior auction. The 6-month and 12-month issuance yields are 4.45% (+4bps : 118% coverage) and 4.93% (+4bps : 133% coverage), respectively.

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