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EM FX & Rates - The Traders' Views

The back up in rates seen since December remains of little concern to global credit markets, at least for now, but concerns are growing that a correction in risk pricing is on the way. Indeed, the correction could already be quietly underway in some assets, underscoring the need for investors to now pay increasing attention to fundamentals and idiosyncratic risk in investment strategies. In this environment we believe that selective MENA credit will look increasingly attractive to investors as a result of its incremental yield opportunities and, in many cases, robust and improving macroeconomic fundamentals.

According to the ICE BofAML indexes, European investment grade credit has yielded an excess return of +0.67% ytd over government bonds and Euro sub-investment grade paper has seen an excess return of +1.1% over government debt. Meanwhile the MENA Corporate Plus index has produced a total return of 0.258% ytd, equivalent to an excess return of +1.428% ytd over government benchmark paper.

A more fundamentally-driven approach to risk over the coming quarters should favor MENA credit as an asset class. We would note the stable macro environment of the UAE that benefits from the recent uptick in the oil price and the solid, stable AA sovereign rating, based on a low debt/GDP ratio and improving fiscal deficit. The improving GDP outlook for Saudi Arabia (0.3% last year, 2.0% forecast this year and 2.10% in 2019) with a rebound also expected in Kuwait's growth profile should add to the appeal of the sector among investors. We would also offer a cautiously positive near to medium prognosis for Egypt, where we see attractive yield levels and a robust 4.40% GDP growth forecast this year.

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

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	USDSGD ranged traded within a tight 70 pips bound this past week with SGDNEER weakening from +0.7% to +0.5% above the midpoint. Forwards moved higher as risk sentiment weakened. Market is still pricing in a change in the slope for SGDNEER (strengthening SGD) during the April MAS meeting. We favour short SGD against other EM Asia currencies with a strong fundamental story as a RV play such as TWD/THB/CNH.	Neutral 1.3100	Neutral 1.3100

EM FX	Macroeconomic/Fundamental Analysis	Views (Bearish/Bullish) 2-week Time Frame	Intermediate & Long-term Views (3mth & 12mth Time Frame)
INR	Eventful week in India with budget announced. Fiscal deficit was estimated at 3.5% GDP for FY18 and 3.3% for FY19. Some surprising news were introducing long term capital gain tax for equities which drove USDINR higher on Thursday; yet talks of increasing FI limits in bond market lead to a selling wave in USDINR, which makes USDINR closed only 0.5% higher for the week. Capital inflows were the main drivers for last year's appreciation in INR, hence increasing concerns on the fundamental picture on India might slow down the path of capital inflows, while higher oil prices will trigger a weaker current account picture. I would stay cautious on this pair and prefer to buy on dips.	Neutral 64.00	Bearish 65.00
CNH	USDCNH traded 0.5% lower this week with USDCNH breaking the 6.3000 psychological support level. Onshore corporate flows remain the strongest force in selling USDCNY spot with fast money chasing the move. We feel the herding behavior in corporate activities will continue, and spot will stabilize only when the PBoC starts introducing extra measures to encourage outflows or USD index bounces strongly. We favor long CNH against SGD or INR.	Bearish 6.2500	Neutral 6.3500
KRW	USDKRW traded 1% higher this past week with strong outflows seen in equities. Custodians and fast money were aggressively buying spot this week on the back of the equities outflow with KOSPI dropping 3%. The macro picture looks softer now with smartphone sales growth dropping. We are currently neutral on this pair.	Neutral 1080	Neutral 1080
EGP	The interbank market in USD/EGP remained stable around 17.65-17.75 this past week with little fresh news and economic data. Foreign holdings of EGP Tbills rose to $19.8bln lately from a previously reported high of $19.5bln. Clearly, we are reaching saturation levels and it is unlikely that there will be a substantial increase from these in the near future. The key question now is how stable these holdings will remain. At the auction this week the yields of 6mth and 12mth Tbills printed 17.6% and 16.68% respectively which is lower by 40-50bps from the week before. Local and international investors are in a rush to buy as many Tbills and Tbonds before expected interest rate cuts which could start in February when the next CBE meeting is scheduled for. We do not foresee domestic risks to the overall bullish Egypt story, but the global setting can be less benign. In our opinion EGP Tbills are still a buy even at these lower yields.	Neutral USDEGP 17.65-17.75	Neutral 17.25-18.50
NGN	The NIFEX and NAFEX markets were stable around 331 and 360 respectively this past week. The local fixed-income market was relatively quiet with yields range-bound. The NDF prices drifted lower especially in the longer end as people were looked to reduce their USD positioning with the onshore NGN strength. This bullish naira sentiment is primarily driven…	Neutral NAFEX USDNGN 359-361	Neutral to bearish 345-365

EM FX	Macroeconomic/Fundamental Analysis	Views (Bearish/Bullish) 2-week Time Frame	Intermediate & Long-term Views (3mth & 12mth Time Frame)
NGN	…on the back of higher oil prices and stable crude production in Nigeria which in the past few months has been maintained above 2mbpd. At current Tbill yields the basis trade is again attractive where an investor buys Tbills and hedges FX risk with NDFs.	Neutral NAFEX USDNGN 359-361	Neutral to bearish 345-365
ZAR	Domestic political developments in South Africa with Mr. Ramaphosa now in the ANC leadership position are perceived as positive for SA and this is an opportunity for the country to sort many issues out. However, a lot of the good news is already priced into the rand coupled with the recent weak US dollar performance, thus the risk-reward of staying long ZAR is not so attractive to us anymore. We therefore prefer to be neutral or short ZAR in terms of positioning until we see a correction towards at least towards 12.50 within next couple of weeks.	Neutral to bullish USDZAR 11.70-12.50	Neutral to bullish 12.75-15.00

GCC FX Commentary	
SAR	The USDSAR forward curve edged back up to the right this week with the 1Y FX swap 20 points higher since last Friday, trading at a 40 midpoint level, and 2Y up at 175 midpoint level. USD/SAR spot meanwhile continued to drift between 3.7498/3.7505
AED	The AED FX curve was slightly softer but generally still within recent ranges. Spot remained steady at 3.6729/31, and the 1Y FX swap is trading at 35 mid.
QAR	The Offshore USD/QAR spot rate drifted lower this past week towards the 3.6500 midpoint level, while the FX swap curve was generally higher, with the 1Y trading 50 points higher around a 150 midpoint.
OMR	Hedging demand saw the USD/OMR FX forward curve shift significantly higher this past week, particularly in the longer tenors, with the 1Y higher 25 points to trade at 350 mid and the 2Y 200 points up trading at 850 midpoint.
BHD	USD/BHD FX swaps curve was relatively unchanged this past week with the 1Y FX swap currently trading at 170 points mid, although spot moved lower to trade at 0.37698. Meanwhile a recent six-month BHD T-bill issuance was conducted yielding 3.27%, with strong demand reported.

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