

## 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	<p>What was the most puzzling about this past week wasn't really the sharp sell-off in equities, but the lack of real volatility in the FX market. All USDAsia, especially the high beta currencies like KRW, IDR, which were all well contained. It looked as if the sell-off was only US specific with few wanting to own USD in this risk off environment. Given such price action, made us wonder whether it's a time to stay out of the market and look for more extreme levels to get in on the short USDAsia trend? Our only worry is that the squeeze may last much longer than anticipated. Especially now when model funds are very active, no one knows how the machine would react once the USD bull momentum starts to kick back in. Meanwhile SGD NEER weakened from +0.5 to -0.5, but we attribute this to the market reallocation from the SGD basket to CNY basket. At -0.5, we feel it's quite attractive to be long SGD against the basket.</p>	Bearish 1.3250	Bearish 1.3250
INR	<p>USDINR ended 0.2% higher this past week despite all the noises in equities. The main event in India was the RBI meeting where it kept its policy rate on hold and maintained its neutral stance. The CB did however signal that inflation risk was skewed to the upside and the market reacted to it. However, given the uncertainty surrounding some of these factors like crude prices and minimum support prices for farmers, the RBI has not incorporated a more adverse outcome into its baseline inflation forecast just yet. RBI marked up its inflation forecast for 1Q18 from 4.7% to 5.1% but kept fiscal year 18-19 forecast the same. To us, this is nothing new, they still seem to want to remain on pause for an extended period unless there's a shock in oil prices which we do not foresee at this stage. Overall, we can't really justify seeing USDINR higher unless there's some real outflows from foreign investors.</p>	Neutral 64.00	Neutral 64.00

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CNH	<p>USDCNH had a rollercoaster week making a complete 360 U-turn after the PBOC encouraged offshore investment by allowing money managers to invest abroad. We don't see this as a change in FX policy, but rather letting the market do the work as they seem comfortable with the level of USDCNY. The PBOC will continue to have a firm handle on the cross-border flow dynamic, and have the luxury to allow some outflows again. To us, this is a clear sell on rally as the trend is too strong, but will wait for 2-3 more days until the squeeze is over before hitting the bid.</p>	Bearish 6.3000	Bullish 6.4000
KRW	<p>USDKRW has always been the most exciting pair to trade in a risk off environment, but it has somewhat disappointed this time around. Any uptick in USD/KRW was capped by exporter selling, and thus the move higher looks short-term corrective to us. If 1092 holds then we prefer to go short again.</p>	Bearish 1080	Bearish 1070
EGP	<p>The interbank market in EGP was steady this past week trading between 17.65-17.75. It was however an active period in terms of economic releases: CBE FX reserves rose to \$38.2bln in January from \$37bln previously but more importantly CPI in January declined to 17% from 22% and the core CPI printed a new low of 14.35% compared to 20% in December. Clearly the path is now open for the CBE to start reducing official interest rates, and in our opinion the central bank has a room to cut rates by at least 100-150bps. The size of the cut depends on their projections for the future path of inflation and the speed with each it will continue to decrease. Judging by the yields of Tbills in the latest auction this week the market is expecting 100-150bps in the next 3-6 months which is surprisingly low as inflation is likely to continue on its downward path towards low double-digits in the months to come. Therefore we still see quite a lot of value left in this paper s as further cuts will be priced in the weeks to come. The key risk for international investors in the current environment is the stability of the exchange rate which we see stable (+/-2%) at least until the conclusion of the presidential elections at the end of March 2018.</p>	Neutral USDEGP 17.65-17.75	Neutral 17.25-18.50
NGN	<p>The NIFEX rate is slowly moving higher reaching just below 334 while the NAFEX rate is still stable around 360 this past week. Meanwhile the local fixed-income market was relatively quiet with yields range-bound. The NDF market bounced off the lows where the implied yields were in single digits and demand for USD emerged in the second half of the week. Investors are keener to hedge their NGN exposure because of the equity market and oil price gyrations but the demand for hard currency is very measured and gradual. Currently we are neutral on Nigeria and want to be fully FX hedged on our Tbill positions.</p>	Neutral NAFEX USDNGN 359-361	Neutral to bearish 345-365

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ZAR	The key South African domestic news in the coming days is whether Zuma leaves his post or not, with the market biased towards the former scenario. It was very interesting to observe how solid ZAR remained in the face of the equity declines in the past few sessions which indicates that investors are currently still conditioned to buy every sell-off that comes their way. We however prefer to be cautious on the rand and favour running small local currency shorts versus the US dollar as in our view the market has become a little complacent about volatility. We think that in the best case scenario ZAR could strengthen to 11.50-11.60 but under adverse circumstances would weaken very quickly towards 13.00 or more.	Neutral to bullish USDZAR 11.50-13.00	Neutral to bullish 12.75-15.00

GCC FX Commentary	
SAR	The SAR FX forward curve steepened slightly this week with the 1Y FX swap moving 17 points higher to trade at a 32 mid-rate, while the 3Y and 4Y swaps moved 150 points higher to trade at 350 and 550 mid, respectively. SAR FX spot is currently trading at around a 3.75035 midrate.
AED	The AED FX curve remained relatively unchanged on the week. The 1Y FX swap is trading at 33 midrate, just 2 points lower on the week.
QAR	The offshore USD/QAR spot market has been range-bound between 3.6450 and 3.6650 throughout the past week. The market occasionally trades in size, however, the typical market amount remains at \$1-2m. Meanwhile the QAR FX swap curve moved significantly to the right. The 1Y is now trading 125 points higher at a 225 midrate.
OMR	The Omani FX curve also moved to the right with the 1Y moving 50 points higher to 375. USD/OMR FX spot is currently trading at a 0.38501 midrate.
BHD	The Bahraini FX swaps curve remained relatively unchanged on the week. The 1Y FX swap is currently trading at 160 points midrate, 10 FX points lower on the week. USD/BHD spot moved lower to trade at 0.37702. The recent 3-month BHD T-bill issuance yielded investors 3.12%. The coverage was reported at 118%.

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