

## EM FX & Rates - The Traders' Views

This coming week will all be about the power of 3... However, while we enter the 3rd month of the year, it is the specter of the US 10Y yield at some point reaching – and exceeding – the 3% level that may again be the main focus of investors. Remember that when the 10Y was trading close to 2% in September last year, 3% was the end-2018 target for the 10y for many investors; reaching that target this soon is unlikely to occur without creating some volatility. This said, the market has now digested the prospect of a 3% 10Y, beyond which it will be the perception of how high yields may rise, and over what timeframe, that will drive overall market reaction. We believe that a 3.5%+ target yield on the U.S. 10Y will begin to trigger more significant asset allocation considerations away from risk.

*(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	Given the current fragility of the risk environment we do not subscribe to a bearish outlook on USD; thus we like buying USD/Asia on dips. Nothing was exciting in USDSGD last week as the pair slowly crept higher as a result of broad USD strength. Locally, headline CPI fell sharply to 0.0% y/y in Jan compared to 0.4% in Dec. with weakness due to distortions from Services and conservancy charges rebates, which removed 1.1pp from the headline inflation figure. Another development in Singapore was the 2018 budget, where the government suggested that they are comfortable with Singapore's improved growth outlook, and they plan to increase GST by 2pp sometimes from 2021 - 2025.	Neutral 1.3300	Neutral 1.3500
INR	High yielders like INR and IDR were the worst performing Asian currencies WoW. Both pairs were the beneficiaries of the biggest inflows last year, so it is now perhaps natural that they are also the most vulnerable when risk sentiment weakens. Both IDR and INR...	Bullish 65.50	Bullish 67.00

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EM FX	Macroeconomic/Fundamental Analysis	Views (Bearish/Bullish) 2-week Time Frame	Intermediate & Long-term Views (3mth & 12mth Time Frame)
INR	... bonds were under pressure during the week, a theme that we expect to continue. Technically, we advocate a short position in USDINR on the spike to 65.00, with the double top pattern from 2016-2017 still in play. This said, current flows and bond unwinds may overrule the technical picture and support better buying of USDINR.	Bullish 65.50	Bullish 67.00
CNH	Activity has been muted over the past week as China returns from its New Year holiday. USDCNH flirted with 6.3200-6.3400, but price action felt like it wants to go lower. If there's one currency we would choose to be long of against other short Asian positions, it would be CNH. Although momentum may still be to the downside, we feel that the market now prefers to view CNH as having reserve currency status like JPY, rather than being an EM currency.	Neutral 6.3000	Neutral 6.3000
KRW	USDKRW ended the week mixed, with the pair caught between a relief rally and unwinds of long USD position. With the KOSPI still strong, locals remain better sellers of USD on any uptick. With generic risk appetite levels limited, we remain bullish USDKRW and expect to see buying momentum catch up soon.	Bullish 1090	Bullish 1100
EGP	The interbank market in EGP remained stable around 17.65-17.75. On 15 February the Central Bank of Egypt cut interest rates by 100bps, as expected by most market participants, from 18.75% to 17.75%. The yields for Tbills up to 1-year to maturity are between 16.50-17.70%, thereby implying a further 100bps of rate cuts in the near future. In our opinion the central bank will be able to reduce rates by at least 300-400bps by the end of 2018 as inflation continues to decrease. Therefore we still see quite a lot of value in EGP Tbills.	Neutral USDEGP 17.65-17.75	Neutral 17.25-18.50
NGN	The NIFEX rate has slowly moved higher, going above 334 while the NAFEX rate has been stable around 360 over the past week. The local fixed-income market was relatively quiet with yields range-bound. There seems to be more demand for USD in the NDF market as the US dollar has bounced off the lows and as funding costs become more expensive. Currently we are neutral on Nigeria and want to be fully FX hedged in Tbill positions.	Neutral NAFEX USDNGN 359-361	Neutral to bearish 345-365
ZAR	Net positive sentiment for the Rand with president Zuma gone and the government budget delivered which began addressing the budget deficits with higher taxes. ZAR is currently one of the best performing EM currencies in the world, outperforming TRY and MXN. Even if US dollar strength picks up, in our view the Rand should keep performing better than its peers in the EM space. So at this stage we prefer to be neutral on ZAR vs the dollar and be long ZAR vs TRY or MXN.	Neutral to bullish USDZAR 11.50-12.50	Neutral to bullish 12.75-15.00

GCC FX Commentary	
<b>SAR</b>	<p>The SAR FX curve was softer on the week and led the rest of the GCC lower. The 1Y FX swap moved 25 points lower to trade at 37.5 mid, while the 3Y and 4Y swaps moved 100 points lower to trade at 165 and 350 mid, respectively.</p> <p>SAR FX spot is currently trading at 3.7503 mid.</p>
<b>AED</b>	<p>The AED FX curve remained relatively unchanged on the week, with the 1Y FX swap holding around 40 mid.</p>
<b>QAR</b>	<p>USD/QAR spot was range-bound between 3.6450 and 3.6650 throughout the week. The market continues to trade with a typical market size of \$1-2m.</p> <p>The QAR FX swap curve continued to move lower with the 1Y FX swap trading at 175 mid, 125 points lower on the week.</p>
<b>OMR</b>	<p>The Omani FX curve was flatter on the week. The 1Y remained unchanged at 400 points, while the 2Y and 3Y swaps moved lower by 50 and 100 points respectively to trade at 850 and 1250 mid for these tenors.</p> <p>OMR FX spot is trading at 0.38501 mid.</p>
<b>BHD</b>	<p>The Bahraini FX swaps curve remained unchanged on the week. The 1Y FX swap is currently trading at 170 points mid.</p> <p>USD/BHD spot moved lower to trade at 0.37699 mid.</p> <p>The most recent 3-month BHD T-bill issuance yielded investors 3.13%, up 1 basis point on the week. The coverage was 144% up from 118% on the prior week.</p>

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