Emerging Markets Currencies - the traders' views

(06-January-2017)

Please find below views on Emerging Markets FX directly from our traders. The views include short-term (2wk), intermediate (3mth) and long-term (12mth) outlook on EM FX.

EM	Macroeconomic/Fundamental Analysis	Views (Bearish/Bullish) 2 week Time Frame	Intermediate & Long-term Views (3mth & 12mth Time Frame)
SGD	A new year always surprised everybody, and 2017 is also not any short of surprises. USD made a new high on the first day to catch people out and violently turned without looking back. This just showed that market positioning going 2017 was wrong; market was too long USD. USDSGD broke a new high 1.4540 and reversed back to 1.4300 before market awaits NFP. I expect USDAsia, USDSGD included, to reverse the December USD bull, wiping out some weak long before making another leg higher. I don't think any event could make the USD bull trend to continue until Trump inaugural, so USD would be a sell of rally rather than a buy on dip in the first couple weeks of January.	Bullish 1.4200	Bearish 1.4500
INR	India was still unpredictable in 2017, and it always had its own dynamic that was no short of surprises, too. Spot was stuck in a range 67.90 / 68.30 as real money continued to pile money into India. While people still believe that India will fare better than the rest in the hiking cycle, I disagree. India relied a lot of market's inflation expectation, so once inflation starts to take off, INR would not outperform other Asian currencies. I still believe that INR is heading towards 70 and higher in 1Q2017.	Neutral 68.00	Bearish 70.00
CNH	I would say CNH is the least surprise of 2017 because CNH has always came up with the biggest surprises and movers, so it's predictable that some big mover would happen in CNH and it did. Everybody put on the consensus trade at the end of Dec to go long USDCNH outright on China bear theme, and hope that those trade would be a happy new year trade putting everybody in green. But! Only just 2 days into 2017, everybody started to cut loss and unwind all CNH related trades very quickly, and it has become and bloodbath and stop fest. USDCNH was the biggest mover in percentage term even if USDCNH vol is 5-8x lower than the rest of Asian currency. Now you can see the magnitude of the move. The selloff was triggered when CNH rates went to +50 to 70% overnight and there was no CNH liquidity left in the market. The only way to raise CNH was to sell spot, and guess what, there was also no bid. Spot collapsed from 6.9700 to 6.7820. And this led the whole world to move: DXY heading south and UST traded lower. No one was looking at US data for clues, but rather USDCNH. Given poor liquidity, I recommend to stay away from the pair. It would be very costly to be on a wrong side, and the likelihood of being on a wrong side is very high.	Bearish 7.0000	Bearish 7.1000
MYR	Nothing has changed in 2017 for USDMYR. Liquidity continue to dry up as BNM put measures to stop offshore trading. Only selected few were able to access onshore market, so the market is pretty much controlled. Market only wound down existing position, and all MYR offshore transaction were all on an order base basis. Even if one is bullish or bearish MYR, the option to express the view is limited. 2017 will be a year where more unwinding flow will dominate the market. I will be looking at how much subscription by foreign investors to the new MGS issuance. This will be a clue as to whether investors will continue to invest in Malaysia.	Bearish 4.5000	Bearish 4.6000
KRW	USDKRW was also a big mover this week as it's a china proxy currency. A lot of stop went through below 1190, but this is the only pair I like to buy on dip in current environment. In particular, I see JPYKRW at 10 as an attractive level to buy. KRW basis has been moving aggressively to the left, suggesting USD tightness, so this is a good recipe for USDKRW to be well supported. As a USDKRW as a pair, I like the buying zone to be between 1175 and 1185.	Bearish 1200	Neutral 1250

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EGP	The interbank market traded this week in a range of 18.00-18.50. The CBE published its latest FX reserves numbers for the end of December at $24.3bln which is an increase of $1.2bln on the previous month. The Finance ministry said that they plan to issue a Eurobond in January. We remain bearish on EGP for the coming weeks as we see high risks that the spot will push above 20.00 because the interbank market liquidity is still restricted and it is difficult to buy dollars from local banks in any meaningful size. This means that the backlog demand for dollars remains substantial.	Bearish 18.00-25.00+	Neutral to bullish 15-16.00
NGN	The interbank market remained this week between 310-330. The parallel market rate is around 490. The oil production is still a big issue for Nigeria as Shell reported that there is a fire in of its pipelines. The infrastructure sabotage meant that the production levels averaged between 1.6-1.8mln bpd instead of the north of 2mln bpd. The government is negotiating with the Niger Delta groups about resuming the payments for security which were cancelled by the Buhari administration upon coming to power. The view is unchanged, we see value in going short NGN and long USD in 2-6 month tenors through NDFs to benefit from any weakening of the naira in the future as current levels in NDFs are attractive.	Neutral 315-325	Bearish 400+
ZAR	The rand has started the year in a strong manner having a go at the 13.50 level this week. The investors are putting fresh carry trades in selective EM currencies such as RUB, BRL and ZAR. The perception is that South Africa has limited exposure to the trade tariffs with the US and should benefit from the inflationary policies of the Trump administration.	Neutral 13.00-14.25	Neutral 13.50-15.00

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