

EM FX & Rates - The Traders' Views

Financial markets continue to trade with a firm bias to risk appetite in these opening weeks of 2018. The macroeconomic outlook may look encouraging with broad-based signs of growth, but this in itself may create a more challenging environment for investors over the coming quarters as inflationary pressures and the expected unwind of central bank stimulus begins to be priced in to the market. With risk asset valuations trading close to historic highs, perhaps the overarching driver of investor sentiment in 2018/2019 will be the (hopefully gradual) process of Central Bank balance sheet normalization.

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	This past week was full of noises and headlines that caught a lot of people off-guard. As a result, we witnessed a lot of gapping and false breaks. It can be explained by the usual erratic moves we saw after the New Year as market participants are forced to get cash invested, effectively chasing the market. So, for us, we were trying not to pick a bottom, and continue to ride this USD trend lower. Flow-wise, we continue to see money pouring into EM as market still believes in strong growth and benign inflation. We had US CPI on Friday, which unexpectedly accelerated in December pushing the greenback higher. However, we think it should be an opportunity to fade the move. On the SGD, the NEER is still trading at +1% on the strong side of the band. We haven't seen much activity specific to USDSGD apart from buying USDSGD as a hedge for overall short USDASIA portfolio.	Neutral 1.3550	Neutral 1.3550
INR	Oil continued to march higher, and market started to be a bit cautious being long INR. Even if market environment is supportive to be long EM currencies, India, being one of the high yield, should trade heavily, but the price action suggested otherwise. I still believe that USDINR will eventually find its way lower as equities and bond inflows are expected to continue. December CPI, released on Friday, saw inflation moving higher to 5.21% vs market expectation of 5.1%.	Neutral 64.00	Neutral 64.00
CNH	This past week was all about a statement from PBOC that there will be no more countercyclical factor in the USDCNY fixing. The kneejerk reaction was buying dollar which pushed spot USDCNH up to 6.5450. As a reminder, PBOC introduced this countercyclical factor when CNY was depreciating. So to ...	Neutral 6.4500	Neutral 6.4500

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EM FX	Macroeconomic/Fundamental Analysis	Views (Bearish/Bullish) 2-week Time Frame	Intermediate & Long-term Views (3mth & 12mth Time Frame)
CNH	...slow down the pace of depreciation, PBOC introduced the countercyclical factor. Therefore, removing it would lend support to the USD. However, it turned out that market still wanted to sell USD on rally (Trend is your friend!!). Corporates still want to sell USD on any bounce. USDCNH spot is on a free fall as it has broken the 6.50 level again and the fact that there is no sign of Chinese stepping in. Like what we mentioned last week, market is not short USDCNH, so there would be rooms on the downside.	Neutral 6.4500	Neutral 6.4500
KRW	Like other USDAsia currencies, any bounce was very short lived. BoK showed buying support of the currency at 1060, a level of tolerance that the market will now look to test as the currency falls on the back of EUR strength. On the top side, exporters were selling on any uptick. We still like to trade 1055 and 1075 range for the next couple weeks.	Bullish 1060	Bullish 1060
EGP	This past week the interbank market in EGP moved higher to 17.70-17.80 as the local market is still in shortage of dollars. The key data we saw this past week was inflation for December where Core CPI printed 20% YoY, lower than November's 26% print. The CBE's next MPC meeting is on 16 February. We think the CBE will do their first interest-rate cut of the easing cycle and ultimately expect them to bring rates down by about 400-500bps. We saw some good interest to sell USD in the NDF market in various tenors as investors position for the appreciation in EGP and carry for 2018. We are bullish on EGP T-bills and think it is worth buying them in the next 3-4 weeks before yields start to discount the CBE rate cuts.	Neutral USDEGP 17.70-17.80	Neutral 17.25-18.50
NGN	The NIFEX and NAFEX markets were stable around 331 and 360 respectively this past week. The NIFEX market will be gradually wound down by December 2018 and thus most of the new NDFs are traded in NAFEX. NGN T-bill yields dropped sharply in December on the statement from the CBN that they will sell less local-currency debt. The yields up to 1 year moved mid- teens whilst the NAFEX NDF mid implied yields declined to around 10%. Higher oil prices also add to the positive sentiment towards Nigeria. At the current level of T-bill yields, we think, the basis trade is again attractive where an investor buys T-bills and hedges FX risk with NDFs.	Neutral NAFEX USDNGN 359-361	Neutral to bearish 345-365
ZAR	Politics is still dominating the price action in the rattler and the news that Zuma is unlikely to be ousted any time soon led to a rise in the USD/ZAR rate from the lows around 12.125 to 12.50. Next week there is a SARB meeting and the expectation is that interest rates will stay unchanged at 6.75%. For the time being, the bias is for further rand strength in the near term towards 11.90-12.00.	Neutral to bearish USDZAR 11.90-13.00	Neutral to bullish 12.75-15.00

GCC FX Commentary

SAR	The USD/SAR forward curve shifted left on the back of higher oil prices and a proposal by KSA to reduce its crude production by up to 1 million Barrel a day. However, that we expect the curve to firm up slightly following the 1st SAR SUKUK issuance in local currency with maturities of 5,7 and 10 years. Short dates were very tight and the offshore market remains keen on paying those low levels especially ahead of month end.
QAR	The USD/SAR forward curve shifted left on the back of higher oil prices and a proposal by KSA to reduce its crude production by up to 1 million Barrel a day. However that we expect the curve to firm up slightly following the 1st SAR SUKUK issuance in local currency with maturities of 5,7 and 10 years. Short dates were very tight and the offshore market remains keen on paying those low levels especially ahead of month end.
KWD	The Kuwaiti Dinar has gained some ground vs USD recently and is due primarily to a generally stronger EUR. On the FX forward curve however there was a slight shift to the right this was due to some commercial hedging activity.
OMR	The curve shifted significantly to the left as we hear some flows hit the market in the outright space in tenors between 3m to 9m .
AED	The market remains steady and liquid with no significant FX swap curve moves.

GCC Rates Commentary

AED & SAR	The AED curve is very stable and quiet. The 3M EIBOR is fixed at 1.54883% and is around 2 ticks lower from Tuesday. The SAR curve appears a bit firmer in the 5Y to 10Y space with clients reasonably active. We believe this was related to the SAR SUKUK issuance and thus some banks/clients were switching their fixed assets into floating. 3M SAIBOR saw no significant change and has remained in a 1.7975% and 1.80125% range since last week.
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