

Emerging Markets Currencies - the traders' views (01-July-2016)

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 | SGD strengthened slightly for the week against USD reversing the move post Brexit decision, despite weakening against the SGDNEER basket for around 0.5%. As market sentiment improves, SGD is getting more popular to be used as a funding currency against other Asia EM currencies as seen by short end funding rate squeezing higher (also on the back of quarter end effect). Choppy session seen in Singapore Government bonds but sellers seem leading the way and switching to high yielders. We continue to remain neutral stance in SGD for the short term period as we expect the funding factor will be offset by the interest of switching European asset to Asia. | Neutral 1.3700 | Bearish 1.4000 |
| INR | INR strengthened for the week as risk sentiment turns optimistic, triggering inflows to both bond and equity market. Sensex testing yearly highs with short end bond yields testing lows. GST is expected to be passed which should provide additional income source for the government. Yet we believe the current market has priced in these changes and overall we remain bearish in INR from IRP perspective. | Bearish 68.00 | Bearish 69.50 |
| CNH | Choppy week for USDCNH. Spot continue to head higher breaking highs for the past 5 months testing 6.6900, yet the PBoC has stated they have intervened in the market when CNY-CNH spread has widened to 300-400 pips before settling at around 6.6650 level. CNH funding was very flush as market responded to the new way of calculating reverse (instead of quarter end print, will be using average of 3 month period) and smashed the t/n to -5%. This was a surprise to the market as banks believed the new rule should only be in place in July. Due to this we prefer to long DF forward-forward (1 month vs 4 month spread) as market liquidity should get tighter as the reverse payment date gets closer in mid-July. For spot we still believe the PBoC favours managing USDCNH within the depreciation trend against the basket hence in the short term we remain neutral in USDCNH. | Neutral 6.6000 | Bearish 6.7000 |
| MYR | MYR reversed the move last week with USDMYR test the low of 4.0100 before profit taking interest came in. Inflows to bond market was seen searching for high yielders in Asia and rolling over the MGS maturity next month. Rate cut expectation is also building in the market, yet data still do not seem very disappointing which will trigger BNM to move towards rate cut cycle. We believe MYR will still remain one of the hot places for Asia EM exposure (another being Indo) due to the rating and yield. Hence we remain bullish on a long term basis for MYR. | Neutral 4.00000 | Bullish 3.90000 |
| KRW | Strong week for KRW strengthening over 2% back to pre-Brexit levels. Inflows to equity and bond market as risk sentiment turns better triggering good selling interest in USDKRW. Korean government announced the size of supplementary budget of KRW 10 trn which is within market expectation, however no specific FX measures were announced along with the budget. We believe BoK would prefer to maintain USDKRW within the range for this year and probably only intervene at 1240 level as it did earlier this year. On a longer term perspective, we yet to see the measures taken to stimulate the economy to have an effect, hence we prefer staying bearish in KRW. | Bearish 1200 | Bearish 1220 |

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| EGP | The official exchange rate remained unchanged at 8.78. Overall it was an uneventful week in Egypt. There was a report that Egypt started negotiations with the IMF which was later denied by the CBE which said that there are no official talks and just business as usual communication between the central bank and the IMF. Despite some locals speculating about another round of the pound weakening, we do not think that the CBE will want to rock the boat at the time of stress in international markets and falling capital flows. Next week is going to be short in Egypt due to the Eid celebrations. | Neutral 8.78 | Neutral to bearish 9.00 - 9.50 |
| NGN | The feeling in the market is that the CBN has re-pegged the naira from 199 to 280 now. The interbank market is functioning purely on the order basis and mainly due to the dollar sales from the CBN and bits and pieces of oil company flows. The spot range currently is 282-287. There is now disappointment with the new system as it failed to create a properly functioning spot market. However it is highly unlikely that the central bank will let NGN float as of now because of the pressure exerted by the President Buhari who said that he is unhappy with the CBN. The NDFs came off the highs considerably and now we are trading at low levels. We see value in buying USD through NDFs especially in 6 months and longer as sooner or later the CBN will have to let the spot to move higher, i.e. depreciate the naira. | Neutral 280-290 | Bearish 290 - 320 |
| ZAR | The rand was less volatile this week than could have been expected from the past history. The benign attitude to risk helped to boost ZAR and we were wrong in expecting a push towards 16.00 this week as we never got above the 15.60 level. The rand exchange rate moved consistently lower throughout the past few days reaching the 14.60 level low so far. The way the market is rationalizing EMFX strength is that the central banks in major economies are ready to flood monetary liquidity into the system and thus people will go for higher yielding assets that can be found mainly in the EM space. We are cautiously optimistic on EM currencies and think that they will continue to outperform G10. The rand is expected to test the low at 14.30 and then down to 14.00. | Bullish 14.00-14.50 | Neutral 14.00-15.00 |

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