

Emerging Markets Currencies - the traders' views (22-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	USD/SGD was surprising bullish this week despite the market was relatively long USDSGD, especially against the NEER, yet the SGD still managed to depreciate against the NEER from 1.55% on the top to 1.3% on the week closing. USD/SGD broke 1.3570 key resistance on Wednesday, but instead of market chased the pair higher, we saw fast money fund taking profit on the move higher. However, as the pair continue to trade 1.3480, we don't think the dip would be deep, and the correction would be shallow.	Neutral 1.3700	Bearish 1.4000
INR	INR has also been resilient this week. The pair stuck between 67.10 and 67.25. Given low volatility and high carry, market started to go long INR again. However, we would not recommend the trade. We see many headwinds in India ahead. For example, Rajan departure, RB's asymmetric intervention bias, and higher USD/CNY are all negative for INR. And given how much net inflows into local debt market of more than 900mio USD this month, which is the strongest monthly inflow since October last year, and USDINR still couldn't move much lower, we see potential risk on the upside for USDINR. We would be buying the pair around this level, targeting 69.50 by year end.	Bearish 68.00	Bearish 69.50
CNH	USD/CNH dropped 0.5% on Wednesday, and I considered this significant for the market. After PBOC refused to fix USD/CNY above 6.7000 for two consecutive days (even when DXY edged higher), market started believe that PBOC is comfortable with the level of exchange rate, and so started to unwind short CNY trade against the basket of currency. Our view remains that Chinese economy will stay weak, and recovery has been slow. Government spending on infrastructure has been translated into other part of the economy. We don't think that CNY will stop depreciating, and o/r level might be attractive to buy as spot came off.	Bearish 6.7000	Bearish 6.7000
MYR	1MDB headlines continue to weight on MYR again this week. News that the US Justice department is seeking to seize more than USD 1bio asset stirred the rally from 3.9800 to 4.0600, making the pair the best performing WTD. On the data front, this week's June headline CPI eased to a 15 month low of 1.6% from May's 2.0% on the dissipation of the GST base effect and low commodity prices on the back of declines in services and housing. The number should further lend credence to BNM's rate cut in the last meeting. We think BNM is likely to hold for now, as the Governor Muhammad stressed.	Neutral 4.00000	Bullish 3.90000
KRW	KRW has been well behaved despite EM weakness this week. We didn't see much custodian flows this week to say that there's some inflow, but rather, it was more like local FI hedging their overseas investment. CNH strengthening this week also capped USDKRW from going higher. Given this strange behaviour in USDKRW, this would be the pair we will be very cautious to go long USD. 1125 would be a key support for USDKRW, and a break below would allow the pair to correct as deep as 1100.	Bearish 1200	Bearish 1220
EGP	The official exchange rate remained unchanged at 8.78. The CBE Governor made additional statements this week saying that the free-floatation of the pound is not on the cards at the moment and that devaluation could be done at the appropriate time. This is a recognition of the fact that if the CBE floats the pound now it will spin out of control and the exchange rate will most likely overshoot massively to the upside as the FX reserves are insufficient to stabilize EGP after the float. For instance, we could potentially see levels as high as 13-15 pound for the dollar. This will create a huge problem with inflation and will have political spillover effects. Therefore the CBE decided to stick with a familiar policy of gradual devaluation. Thus we expect to see around 5-7% devaluation until the end of the year. Buy EGP in 3-6 month tenors through NDFs as the curve is pricing around 20% weakening of the pound in the next 6 months.	Neutral 8.78	Neutral to bearish 9.00 - 9.50

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NGN	<p>The interbank market finally started to move higher after the CBN cancelled the bid-ask spread for interbank dealers and said that the market should trade more or less freely. As a result the spot moved from 282-285 to a new level close to 300. It is almost certain that at least in the short term the spot will move above the 300 threshold to clear the backlog demand for US dollars. The NDF curve moved significantly higher in the past week.</p> <p>There is still no or little progress concerning the militants in the Niger Delta and the attacks are still crippling the oil production in the country which as a side effect worsened the power supply. Unsurprisingly the approval rating of the President Buhari has declined below 50%.</p>	Bearish 300-320	Bearish 290 - 320
ZAR	<p>The rand is a clear outperformer this week and despite weakness in other major currencies like Turkish lira, Russian ruble and Mexican peso, ZAR exchange rate slowly grinded lower towards 14.00-14.20. This week the SARB left interest rates unchanged at 7% but sounded hawkish implying that this is more of a pause than the end of the hiking cycle. However the South African economy remains heavily dependent on the international capital inflows to finance the current-account deficit and we think that the market is underestimating the Fed interest-rate increases risks. We are bearish on ZAR at these levels and expect it to move closer to 15.00 next week.</p>	Bearish 14.50-15.00	Bearish 15.00-16.50

NBAD Global Markets FX team

G10 FX Spot

Phil Muldoon

Phil.Muldoon@nbad.com

Nourah Al Zahmi

Nourah.Alzahmi@nbad.com

Tel: 00971 2611 0111

EM FX Spot

Danay Sarypbekov

Danay.Sarypbekov@nbad.com

Pinrath Wongtrangan

Pinrath.Wongtrangan@nbad.com

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