

Emerging Markets Currencies - The Traders' Views

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	<p>What a week it was for FX and USDAsia. DXY and ADXY looked like they were turning, but then came a bad retail sales and CPI number, squeezing most USD longs out. Later on came the FED move and comments, pushing DXY back up to close the week at the high. Given such a big move in a low volatility environment, we expect USD positioning to be pretty light now as some players got caught out on both sides. Thus we see USDAsia, USDSGD included, edging higher. The next move is not going to be driven by interest rate differential but rather risk sentiment as the FED hinted at a balance sheet reduction, so the market will likely try to hold USD rather than regional Asian currencies, especially those with low yields.</p>	Bearish 1.4000	Bearish 1.4200
INR	<p>As we have been warning over the past few weeks about a short squeeze in USDINR, it now feels to be building. The market has been a little too complacent with India, believing that the only way for USDINR to move was lower. However, when positioning is so very one sided, a correction is likely sooner than later. Like many we are bullish INR in general, but would like to see USDINR retrace back to 65.50 before we think it's worth going long INR again. On the data front, CPI showed further deceleration to a fresh record low of 2.18% yoy in May from 2.99% yoy in April. The pullback in inflation was driven primarily by a drop in food prices (+1.05% yoy), which is the second dip in CPI since 2012. This issue raised a debate over whether a potential RBI cut is likely, but we don't expect such a move just yet. RBI would probably need time to assess the impact of the monsoon on food inflation first.</p>	Bearish 65.00	Neutral 64.00

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CNH	<p>Last week was a much quieter one for CNH with funding remaining steady at around +1 to +2 ppd. We saw some USDCNH sellers above 6.8200, but overall interest has been limited. On the rates side, long term interest rates are stabilizing around their current levels after dipping 30 bps in May. Previously when the Fed hiked by 25 bps, China also moved their OMO rates higher by 10 bps so that the interest-rate differentials did not tighten too much in order to avoid outflows. With the hike, China could also move their OMO rate higher, hence the current soft cap SLF rate at 3.45% will likely be moved to 3.55% which makes 1y CNY NDIRS rate a sweet spot to pay fixed as it is only 13 bps higher than current fixing. CGB experienced buying interest in the back end 10y bond which drove 10y CGB yields LOWER than 1y CGB yields (inverted curve). We feel the market has under-priced the potential hike in China OMO rates, and along with the good amount of onshore CDs maturing throughout June, some smaller banks might be forced to pay higher for rollover, which could cause secondary wholesale market rates up, while the official 1y lending rate stays unchanged. Our view is it may be time to unwind previous fixed receivers and even turn to net payer of fixed rate particularly in the short end (1y or 2y).</p>	Bearish 6.8800	Bearish 7.000
KRW	<p>My patience in KRW started to pay off after a couple months of frustration trying to pick a bottom in USDKRW. I hope that the recent consolidation is over, and we are looking to trade in new range of 1130 to 1160. But again, like I said, a lot of move in USDKRW is dependent on the KOSPI. With KOSPI showing signs of topping out, it should be on my side with our long USDKRW position. This week we had BoK minute of May 25 rate decision, and only takeaway I got from it was that a BoK member said that FED normalization can raise Korea's neutral rate. This to me is negative for the bond as now I think the FED is ahead of the market with the rate normalization. Going forward, I expect to see a switch in bonds from KTBs to other Asian ccy bond like THB or India.</p>	Bearish 1140	Neutral 1120
EGP	<p>USD/EGP remained within the range of 17.95-18.15 this past week. The macro picture in Egypt however is improving with GDP growth in the Q1 2017 reported at 4.3% and the balance of payments surplus of \$11bln in the first 3 quarters of the fiscal year 2016/2017. The demand for Tbills remains solid with foreigners now holding close to \$9bln equivalent as the carry and stable currency entice more investors to get involved. It seems that the CBE is happy about the current exchange rate level as it helps in managing the inflation as long the pound does not weaken. We are bullish on EGP and we advocate staying short USD long EGP through NDFs or in the spot market through the repatriation mechanism of the CBE coupled with the purchase of Tbills.</p>	Neutral to bullish 17.50-18.25	Neutral to bullish 15.50-18.50

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NGN	<p>NIFEX was stable around 320-325 and the NAFEX pushed lower 370-378 this past week. The CB said that \$2.2bln went through the new FX window for exporters and investors since its creation 6 weeks ago and that its share of participation was 30%. The bank also added that its regular interventions will continue and is comfortable with the level of FX reserves around \$30bln. This week the black-market exchange rate registered dipped below 370 as the CBN policy of supplying more dollars to the economy bore fruit. It is interesting to note that the equity market in Nigeria is rallying strongly partly driven by the MSCI increasing the weight for Nigerian equities and partly due to the optimism that the economy is recovering from the recession. The NDFs continue to trade at very low levels and we like to be long USD vs NGN in longer-dated NDFs 6-12 month outright.</p>	Neutral 315-325	Neutral to bearish 400+
ZAR	<p>The rand was pretty much unchanged on the week after having a go at the 12.60 level at one stage but failing to sustain the gains against the dollar. Investors still seem happy to buy ZAR on any weakening move and the carry trade remains popular. All this despite the fact that the Fed was more hawkish than anticipated triggering a broad US dollar rally and the news came out that the South African government wants to boost the black ownership of mines to 30%. The country is already suffering from underinvestment in the mining sector and these kind of initiatives will probably worry long-term international investors. For us we anticipate further range trading albeit with a weakening bias for a test of the 13.00 level. Medium term speaking we see ZAR attempting to achieve this year's low at 12.31.</p>	Bullish 12.70-13.10	Neutral 11.50-13.00

FAB Global Markets FX team

G10 FX Spot

Nourah Al Zahmi

Nourah.Alzahmi@nbad.com

Meera Al Marar

Meera.AIMarar@nbad.com

Tel: +971 2611 0111

EM FX Spot

Danay Sarypbekov

Danay.Sarypbekov@nbad.com

Pinrath Wongtrangan

Pinrath.Wongtrangan@nbad.com

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