

EM Rates & FX - The Traders' Views

Macro Strategy View: Aligning Stars Amid the Clouds

- Late last week it seemed as though the stars could be aligning for what should be a positive near-term outlook for risk assets. The U.S. May non-farm payrolls report on Friday easily beat expectations with the addition of 223,000 jobs and a dip in the unemployment rate to 3.8%. Solid macro fundamentals and the expectation that the Federal Reserve will continue to tighten monetary policy at a measured pace and dependent on macro data, should help to underpin a Goldilocks-type scenario for the U.S. economy. Meanwhile, Italy managed to avoid the need for a new, snap election – at least for now – by electing Giuseppe Conte as Prime Minister and forming a new anti-establishment government, thereby assuaging concerns of imminent political chaos and possible existential threat to the euro currency itself.
- Any meaningful bounce in broad market sentiment could be short-lived though, as a number of macro and political question marks continue to hang over global markets. Not least of these is the imposition by the U.S. of new tariffs on steel and aluminum imports, fueling concerns of possible retaliation and reigniting fears of global trade wars. This comes at a time when the markets were just beginning to feel a little more encouraged by U.S. Commerce Secretary Ross' trade talks in China. As stated previously, we believe there can be no winner from a trade war, the spectre of which could weigh on risk appetite and add fresh momentum to the flight to safety trade.



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- Meanwhile, on the political front we will also be keeping a close eye today on the parliamentary elections taking place in Slovenia. With anti-refugee former Prime Minister Janez Jansa hoping to stage a return to power, the concern is that the former Yugoslav state that joined the Eurozone in 2007 could be about to experience its own 'Italy moment'. If Jansa does win the election and as is seen as able to form a viable (anti-establishment) coalition government then the euro could come under renewed speculative selling pressure in the coming days.
- As such, market sentiment looks set to remain susceptible to macro and political headlines over the coming days, with trading volumes and broad risk appetite likely dampened by uncertainty. With the central bank spotlight turning to the anticipated Fed rate rise next week (June 13), moves in the rates market and the shape of the (flattening) yield curve will continue to determine fixed income returns performance (or lack thereof).
(Simon Ballard, Macro Strategist, Market Insights & Strategy)

Please find below views on Emerging Markets FX directly from our traders

G-10 FX	Macroeconomic/Fundamental Analysis	Views (Bearish/Bullish) 2-week Time Frame	Intermediate & Long- term Views (3mth & 12mth Time Frame)
SGD	It's been quite a volatile week for FX with news headlines driving such price action. We saw a number of players unwinding their Asian positions as volatility increased, but now perhaps it's time to take a step back and consider the bigger global macro trends. Our view is that overall economic activity is still sound, so risk should continue to perform. Any negative headlines like trade tariffs or Italy provide opportunities and in this environment, especially going into the summer, the carry trade could remain worthwhile especially via the crosses. We like being long INR, IDR against JPY and KRW. SGD however is more difficult because it closely tracks EUR/USD and we are not EUR bulls for now.	Neutral 1.3300	Bearish 1.3000
INR	We recently turned from bearish to bullish INR as domestic sentiment improves and crude prices back off their recent highs. In fact INR could be the best currency to own in this environment. Price action also suggests that the market is long USDINR, so we may see a squeeze on such positioning in the near term. INR/IDR also came off a lot as USDIDR longs unwound, so there appears to be some value in being long INR/IDR at these current levels.	Neutral 67.00	Neutral 67.00
CNH	The focus on CNH in the near term should be the MSCI China stock inclusion with about \$10bn inflows expected. Thus logically CNH should be outperforming and liquidity tightening. However, the opposite occurred this past week: CNH underperformed and liquidity was extremely flushed. For example t/n FX swap traded at 12ppd early in the week before collapsing to less than 1ppd. We therefore trust the price action more so we think the USDCNH downward trend is about to reverse and thus look to buy USDCNH on any decent dip.	Bullish 6.4500	Bullish 6.4500

G-10 FX	Macroeconomic/Fundamental Analysis	Views (Bearish/Bullish) 2-week Time Frame	Intermediate & Long- term Views (3mth & 12mth Time Frame)
KRW	<p>USDKRW has been one of the most difficult pairs to express a view on this year as it has been such a range bound market, which developed false breaks regularly. Most people are still looking for a break below 1050 towards the 1020 region as inflows in both the bond and equity market continues, but we struggle to be short USDKRW. Our view still looks for a higher USDKRW, but patience is required.</p>	Bullish 1090	Bullish 1100
EGP	<p>The interbank SPOT market appears to have stabilized around 17.85-17.95 for now but this could be short-lived if the USD index continues to push higher which also means that EUR and GBP will be weakening. Considering the fact large numbers of tourists to Egypt come from Europe and Russia, the Egyptian pound could weaken further to 18.10 (about 1%) in the near term. As mentioned previously greater EGP weakness may trigger selling by the foreign portfolio holders of Egyptian T-bills and is thus viewed as highly undesirable by the CBE. Therefore another 5-10% drop in EURUSD could pose a weighty problem for the CBE's policy stance. The NDF market traded lower this past week by about 1% with some decent US\$ selling pressure from international banks on the back of customer flows as investors seek to benefit from higher implied yields in NDFs. At this week's auction the yields of 6 and 12-mth T-bills did not change much from the previous week at 19.10% and 18.60% respectively.</p>	Neutral to bullish USDEGP 17.85-18.00	Bullish 17.75-18.50
NGN	<p>The NIFEX and NAFEX USD/NGN rates steadied around 339 and 360 respectively during the past week with the bulk of trading taking place in the NIFEX window within a range of \$/N 360 and 363. The CBN continues to maintain its tight money stance, selling OMO bills at stop rates of 11.05% and 12.15% for 112 days and 231 days respectively. Bond yields also dipped as local demand from Pension funds continue to feed into the Market.</p>	Neutral NAFEX USDNGN 359-363	Neutral to bullish 355-365
ZAR	<p>The Rand remains volatile and continues to be driven by EM news flow as well as rising global trade tensions. The currency traded within the range of 12.50 and 12.70 during this past week. We expect the US dollar to remain strong in the near term as the Fed continues to follow a path of higher interest rates which in turn raises the funding costs for most EM countries. The events in Europe (Italy and Spain) enhance the attractiveness of the greenback amongst this wave of global uncertainty. The next target on the upside for USDZAR is 13.00-13.05 and the pair remains a buy on dips.</p>	Bullish USDZAR 12.50-13.10	Neutral to bullish 12.55-13.50

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GCC FX Commentary

SAR	<p>The SAR FX curve was steeper on the week with the 1Y FX swap trading at 45 mid, 10 points higher, while the 2Y and 3Y swaps are at 175 and 350 mid, higher by 20 and 25 points, respectively.</p> <p>SAR FX spot is currently trading at 3.7502 mid, 2 pips lower on the week.</p>
AED	<p>The AED FX curve also steepened on the week with the 1Y FX swap moving 5 points lower to trade at 23 mid.</p> <p>AED FX spot is currently trading at 3.6730 mid, unchanged on the week.</p>
KWD	<p>The KWD FX curve continued to be softer on the week with the 1Y FX swap moving 20 points lower to trade at -215 mid. Shorter dates moved lower by 5-10 points, while longer tenors moved 20 points lower.</p> <p>KWD FX spot is currently trading at 0.30220 mid, 10 points lower on the week.</p>
OMR	<p>The Omani FX curve remained unchanged on the week with the 1Y FX swap trading at 305 mid.</p> <p>OMR FX spot is trading at 0.38599 mid, 2 pips lower on the week.</p>
BHD	<p>The Bahraini FX swaps curve continued to moved higher on the week. The 1Y FX swap is currently trading at 235 points mid, up 10 points on the week.</p> <p>USD/BHD spot is trading at 0.37775 mid, 10 pips higher on the week.</p> <p>The most recent 3-month BHD T-bill issuance yielded investors 3.55%, up 15 basis points from the previous auction. The coverage was also higher at 111%.</p>

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