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# EM Rates & FX, & Oil - The Traders' Views

**Please find below views on EM Rates & FX, & Oil directly from our traders.**

- There was a definite easing of the recent EM pressures towards the end of last week as the Argentinians secured a $50bln line of credit with the IMF, the BCB confirmed an additional $20bln of fx intervention and India and Turkey somewhat successfully tried to stop the rout on their currencies by raising interest rates. The Italian political situation calmed down and for the first time in a couple of months the dollar had a relatively weak performance which could carry over into this week regardless of the expected FED hike on Wednesday. However, there's always one and President Trump was it last week, deciding against making friends at the G7 by twittacking the 'long term unfair trade practises against the US', and calling on the G7 to readmit President Putin. Theresa May must have been ecstatic about that last one as she battles Brexit turmoil in the UK and had hoped to further strengthen ties in facing down Russia and its future bad behaviour. Oh well, they all got some reprieve as Trump left early to meet Kim Jong-un in Singapore, I'm with Boris Johnson on this one there does seem to be some method to the madness.

- Markets remained fairly calm bar an unexplained rally on Thursday US time which saw Eurodollar futures briefly spike 9-12bp higher before settling back down to trade in line with the weekly range. Volumes at that time matched month end and NFP sizes but we closed out the week with 10y yields back in the mid 90's and would expect to see yields continue to push higher over the next few sessions. The FOMC is the highlight of this week although we'll see the key inflation data on Tuesday. The market has priced a hike and it wouldn't take much to see a small shift higher in longer term rate (currently 2.875%), it also looks as though with the stronger data we've seen over the last few months the SEP's will see a lower unemployment rate and a slightly higher GDP number. Much deviation from this would be a surprise. Watch out for the ECB on Thursday, as Nourah discusses in more detail below, but Praet (chief economist) seemed to shrug off last week's volatility and indicate that the time was coming for an announcement or indeed move towards removing QE accommodation. Not convinced they'll move this month but it does seem that the FED is not as alone as previously thought in its hiking path.

| G-10 FX | Macroeconomic/Fundamental Analysis | Views (Bearish/Bullish) 2-week Time Frame | Intermediate & Long-term Views (3mth & 12mth Time Frame) |
|---|---|---|---|
| **SGD** | Most USDAsian crosses were quieter this past week as the summer months approach, and even despite the EUR rally. However, this may just be the calm before the storm as other EMs, like BRL, ZAR, and MXN started to sell off on Friday. So, it's likely just a matter of time until this mood hits Asia. Therefore we are biased towards further risk off, i.e. +SGD and +JPY, while staying long the rest of USDAsia USDCNH, USDTHB, USDINR, and USDIDR. We don't have a strong view on USDSGD at the moment so prefer sticking to SGD strength relative to other Asian currencies. | Neutral 1.3300 | Bearish 1.3000 |
| **INR** | Attention was on India this week as the RBI hiked 25bp. The stance was neutral, but the press was a little hawkish. Price action wise, after initially selling off from 10 paisa, the INR rallied back more than 0.5%, and closed the day on a stronger note. However, further digestion of the news, USDINR reversed its course, moving more than 1% higher from its recent lows. we feel USDINR will trade on risk sentiment for the time being rather than the local story, and the 25bp hike may not be the main event to eventually set the tone. | Neutral 67.00 | Neutral 67.00 |
| **CNH** | We are buyers of USDCNH on the dip and still remain this way. Like we mentioned last week, we feel the trend has changed, so the next move could well see Chinese corporates, especially oil importers, chasing USD strength. EUR/CNH is not a bad trade to have in the book if you don't want to have too much outright USDAsian longs in your portfolio. | Bullish 6.4500 | Bullish 6.4500 |
| **KRW** | USDKRW has been very quiet this past week, and trading in a very tight range of 1067 1073. We do not have a strong conviction one way or the other, and thus look to trade the range, with some bias to buy USD on dip. | Bullish 1090 | Bullish 1100 |
| **EGP** | The interbank market remained around 17.85-17.95 while the NDF market saw offers come in at the start of the week after global trade concerns subsided and as U.S. equity markets pushed higher on positive employment numbers. However, we saw some buying interest on Friday as market concerns over EM resurfaced following currency weaknesses in Brazil, Turkey and South Africa. This left implied yields around the same level as where we started the week. At this week's auction, the yields of 6-mth Tbills and 12-mth Tbills dropped 45bps and 30bps to 18.646% and 18.31% respectively on renewed offshore interest. Bid to cover ratios came out at 1.69 and 1.5 for the 6 and 12 month tenor respectively. | Neutral to bullish USDEGP 17.85-18.00 | Bullish 17.75-18.50 |
| **NGN** | The NIFEX and NAFEX rates steadied around 341 and 361 respectively in the past week with the bulk of the trading in the IEFX 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 238 days respectively. | Neutral NAFEX USDNGN 359-363 | Neutral to bullish 355-365 |

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|---|---|---|---|
| **ZAR** | The Rand remains volatile, depreciating by over 3% during the week to a 6-month low of 13.28. The move was initially triggered by weak Q1 GDP numbers (-2.2% against market expectations of -0.5%), which caused a wave of selling by offshore investors in both the bond and equity markets. We continue to be bullish dollars against rand and expect it to steadily depreciate further over the coming months. | Bullish USDZAR 12.75-13.25 | Neutral to bullish 13.00-13.50 |

| GCC FX Commentary | |
|---|---|
| **SAR** | The SAR FX curve was again steeper on the week with the 1Y FX swap trading at 50 mid, 5 points higher, while the 2Y and 3Y swaps are at 190 and 370 mid, higher by 15 and 20 points, respectively.<br><br>SAR FX spot is currently trading at 3.7501 mid, 1 pip lower on the week. |
| **AED** | The whole AED FX curve moved 2 points to the right this week with the 1Y FX swap moving to 25 mid.<br><br>AED FX spot is currently trading at 3.6730 mid, unchanged on the week. |
| **KWD** | The KWD FX curve continued to be softer and flatter this week with the 1Y FX swap moving 15 points lower to trade at -230 mid. Shorter tenors moved higher by 5-10 points, while longer tenors moved lower by as much as 50 points.<br><br>KWD FX spot is currently trading at 0.30197 mid, 23 pips lower on the week. |
| **OMR** | The Omani FX curve remained unchanged on the week with the 1Y FX swap trading at 305 mid.<br><br>OMR FX spot is trading at 0.38599 mid, unchanged on the week. |
| **BHD** | The Bahraini FX swaps curve continued its move higher and steeper on the week. The 1Y FX swap is currently trading at 240 points mid, up 5 points on the week, while longer tenors were higher by 20 points.<br><br>USD/BHD spot is trading at 0.37770 mid, 5 pips lower on the week.<br><br>The most recent 3-month BHD T-bill issuance yielded investors 3.62%, up 7 basis points from the previous auction. The coverage was also higher at 122%. |

## FX Options

- Volatility in FX was fairly subdued until Thursday evening's wild price action, which caused volatility to surge across most pairs. The risk-off tone started in Latam markets and shortly spread to EM and the G10 pairs; spurring a rally in the USD (with exception against the JPY) and dragging JPY crosses lower. Within this move, USD volatility shifted higher as Treasuries jumped and vols moved higher on intraday realized volatility. During the past couple of weeks, we seem to trade higher in vols whenever there is a significant move up or down in yields. Liquidity has been also affected which is not typical for the USD options market.
- If we look at the recent range in rates and volatilities, we are now in the middle of the vol range for this level of rates, which makes the market harder to call.
- We believe USD short-term volatility will recede after the FOMC meeting this coming week, unless the Fed surprise the market with hawkish rhetoric. In GCC markets, we see better liquidity. AED and SAR volatility have been trading very cheap during the past couple of months but remain stable.

## Oil Prices

- Last week was a very interesting week, with the market kept ranger-bound by a mixture of bullish and bearish news headlines. On the bearish side of the oil price, the EIA reported a 15.8 mln bbls rise in total oil stocks last week, which combined with the OPEC/Russia headlines discussing a reduction of the cuts, put downward pressure on the oil price. On the flip side though, oil prices were buoyed late in the week by Venezuela export issues.
- The widening of the WTI-Brent price spread is also an interesting trade to look at. The market is reacting to higher US production, and - more importantly - lack of pipeline capacity, thus trading WTI at a significant discount vs Brent.

# Contributors

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