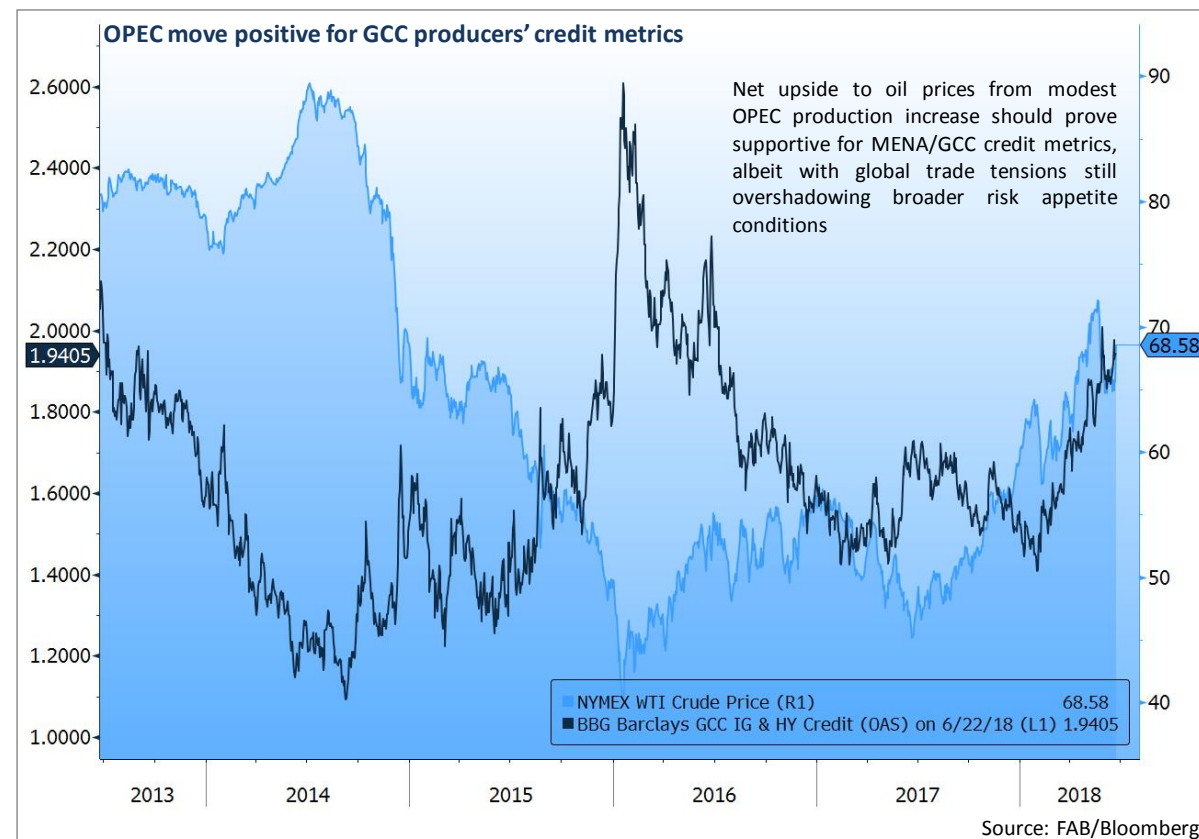


## EM Rates & FX, & Oil - The Traders' Views

### Macro Strategy View: OPEC Delivers Market Positive Result

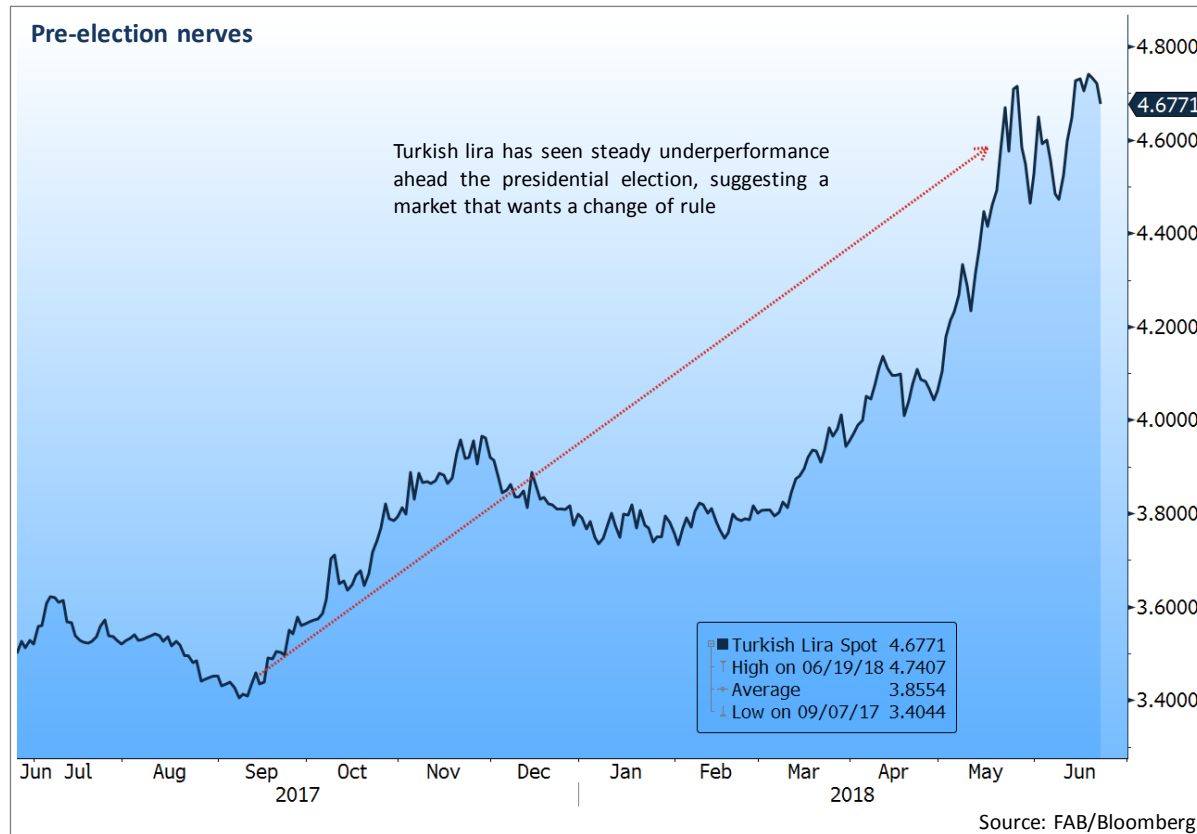
- Much of the focus for MENA/GCC market investors early this week will likely be on the implications of the OPEC oil production increase that was agreed at Friday's meeting in Vienna. Given the modest nature of the augmentation though, we would suggest that this should prove to be a medium-term positive in terms of GCC (oil producers') credit fundamentals. This said, the longer term question will be whether this increase opens the door for subsequent, future hikes in production.



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- The production increase was widely expected, but at just a nominal 1mb/d, the impact of the increase on the oil price should in fact be net positive going forward. Indeed, Nigeria’s oil minister is reported to have estimated that oil production volume should only rise by 700kb/d due to the fact that several producers’ output potential will be capped in the near-term. Therefore, while Saudi Arabia and Russia had been lobbying for production quotas to be raised in order to alleviate higher oil prices, the impact of Friday’s agreement would seem to be fairly benign. The price of the crude should still be fairly well supported around current levels, which we would interpret as net positive for MENA/GCC credit metrics.



- Elsewhere, focus turns to elections in Turkey today as President Recep Tayyip Erdogan battles to secure a second 5-year term. Expect the Lira to be susceptible to headline risk in this regard. If Erdogan wins, he is expected to take on major new powers, which his critics argue will significantly weaken the arguably already fragile democracy in the country. The Lira has weakened sharply since September last year, from 3.40 to 4.74 last week. Having closed at 4.6771 on Friday the currency now appears finely balanced ahead of the election result.  
 (Simon Ballard, Macro Strategist, Market Insights & Strategy)

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

**Overview:** US rates have been range-bound over the last few sessions as geopolitical tensions and supply dynamics have been digested by investors. CT10's have traded in a tight range, with yields oscillating between 2.84% and 2.94%. Swap spreads have continued to widen across G3 as amplified trade rhetoric from Washington increased the flight to quality premium. Current market pricing for the FOMC remains at an additional 35bp of monetary tightening by the end of 2018. DXY has fallen about 0.5% in recent sessions as the market's assessment of \$ premium is being tested. This coupled by the recovery in EM could add further near-term pressure on the dollar.

EM FX	Macroeconomic/Fundamental Analysis	Views (Bearish/Bullish) 2-week Time Frame	Intermediate & Long-term Views (3mth & 12mth Time Frame)
SGD	I'm a USD bear here. The recent high in USD should be in place. As oil should turn back higher in my opinion, risk sentiment should be supported. Meanwhile critical support in all majors has held nicely and as a result we now believe that EM should rally after the asset class' sharp recent sell-off. USDSGD is no exception. USDSGD might move slower than other high beta assets, but liquidity is good to get in and out in case things don't go your way. First target for USDSGD is 1.3485.	Bearish 1.3300	Bearish 1.3000
INR	There will always be an exception to the above SGD comments. And this time it would be USDINR. I don't like being short USDINR when my view is higher oil. So I'm staying away from USDINR for the time being. Looking to pay NDF curve on dip is my strategy, especially 1x12.	Neutral 67.00	Neutral 67.00
CNH	USDCNH appears comfortable with its 6.4500 to 6.5000 range. While the market is bearish CNH because of the trade tensions a high current account currency like CNH is an easy target. As such, it's hard to make a call for USDCNH to go much higher than 6.5000. We would advocate being long USDCNH against short other Asian peers.	Neutral 6.4500	Neutral 6.4500
KRW	Having been wrong in our USDKRW view recently, it's hard to get back to our short USDKRW conviction. We still like KRW due to the fact that we see little risk of near-term outflows from the currency. We believe bonds should remain well bid and could rally further as rate hike expectations recede in the wake of recent weak employment data (which showed the highest unemployment rate in 18 months). While other USDAsia currency pairs are turning, we expect USDKRW to be well supported at 1100.	Bullish 1090	Bullish 1100

EM FX	Macroeconomic/Fundamental Analysis	Views (Bearish/Bullish) 2-week Time Frame	Intermediate & Long- term Views (3mth & 12mth Time Frame)
EGP	<p>The interbank market in Egypt moved a touch higher during the past week to 17.83-17.93, driven mainly by the strengthening of the US dollar versus G10 and EM currencies. On the positive side, the IMF has approved the 4th tranche of financial assistance of \$2bln which is expected to be received by the government by the end of July. This coming week will see a central bank monetary policy meeting and the market is divided on whether the CBE will reduce interest rates or not. The key hurdle for them is that energy subsidies are being decreased at the moment and this should be inflationary, but inflation (currently around 12%) is already significantly below the policy rates (17.75%). It depends then on how optimistic the central bank is in its outlook for the economy, inflation and investor sentiment. We are inclined towards a 50bps interest-rate cut next Thursday. The last auction of Tbills witnessed a big jump in yields of 6-mth Tbills and 12-mth Tbills to 19.4% and 18.90% respectively. In the NDF market the demand for USD remains very strong as investors hedge their exposure.</p>	<p>Neutral to bullish                      USDEGP                      17.80-17.95</p>	<p>Neutral to bullish                      17.50-18.50</p>
NGN	<p>The NIFEX and NAFEX rates printed levels around 344 and 360 respectively in the past week. The key news in Nigeria was the signing of the 2018 budget for approximately \$25bln equivalent in spending by President Buhari and the hope that now it will help to accelerate GDP growth in H2. The Nigerian spot and NDF markets are still islands of stability amid EM turmoil. The OPEC meeting on Friday, as expected, lead to a modest increase in production but the additional nominal 1mio bpd should prove neutral to positive for the oil price. We like the trade of holding NGN Tbills partially hedged with NDFs as we expect the spot market to remain little changed going into the elections in February of 2019.</p>	<p>Neutral NAFEX                      USDNGN 360-362</p>	<p>Neutral to bullish                      345-365</p>
ZAR	<p>The macroeconomic data have not been good in South Africa of late; the latest CPI YoY for May was 4.4% vs 4.6% expected and the current-account deficit in Q1 was bigger at -4.8% than forecasts of -3.9% of GDP. This and the strong greenback added fuel to the upward trend in USDZAR, which printed a new recent high of 13.90 (our projection from the previous week was at 13.85). Then mid-week the pair reversed and started to make gains versus the US dollar. It felt that the EM complex has already priced in all of negativity and bad news and was technically overstretched. The next levels on the downside to watch are 13.33-34 and then 13.15-16 and we like to be short USD vs. long EM at the moment.</p>	<p>Bearish USDZAR                      13.00-13.90</p>	<p>Neutral to bullish                      12.75-15.00</p>

### GCC FX Commentary

<b>SAR</b>	<p>The SAR FX curve was unchanged on the week with the 1Y FX swap remaining at 45 mid, while the 2Y and 3Y swaps are at 195 and 365 mid.</p> <p>SAR FX spot is currently trading at 3.7502 mid, 2 pips lower on the week.</p>
<b>AED</b>	<p>The whole AED FX curve remained unchanged with the 1Y FX swap trading at 25 mid.</p> <p>AED FX spot is currently trading at 3.6730 mid, unchanged on the week.</p>
<b>KWD</b>	<p>The KWD FX curve continued to be softer and flatter this week with the 1Y FX swap moving 5 points lower to trade at -250 mid. Shorter dates remained unchanged, while longer tenors moved lower by as much as 10 points.</p> <p>KWD FX spot is currently trading at 0.30262 mid, 8 pips lower.</p>
<b>OMR</b>	<p>The Omani FX curve was slightly higher in the short dates while the remainder of the curve remained unchanged on the week with the 1Y FX swap continuing to trade at 305 mid.</p> <p>OMR FX spot is trading at 0.38501 mid, two pips higher.</p>
<b>BHD</b>	<p>The Bahraini FX swaps curve continued its move higher and steeper on the week. The 1Y FX swap is currently trading at 340 points mid, up 60 points.</p> <p>USD/BHD spot is trading at 0.37915 mid, 130 pips higher.</p> <p>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%.</p>

### Interest Rate and FX Options Commentary

- The past week saw hefty moves in the currency market, driven mainly by USD strength yet again; though the momentum faded later in the week with USD longs taking profit. The catalyst to the late USD sell off was in GBP where a more hawkish BoE caught the market off guard.
- Traders will be watching the outcome of Turkey's presidential and parliamentary election today (Sunday). Volatility is elevated for USDTRY options with 1w straddle vol trading at 36% - it normally trades around 15%. FX volatility in general saw some modest easing ahead of the weekend as the USD failed to break key levels, EM strength re-emerged late Friday and as US equity futures bounced off the lows.

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