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First Abu Dhabi Bank

G10 Rates & FX, & Oil - The Traders' Views

Please find below views on G10 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)
EUR	Last week, the ECB's Chief Economist Peter Praet awakened the probability of a hawkish bias appearing at this week's ECB Governing Council meeting, with comments that the meeting could be 'live' for taper discussions. Indeed, the market has been complacent lately due to the latest weakness in Eurozone data, but this meeting could be the ECB's chance to provide the market with guidance regarding the Asset Purchase Program and the expected timing of the first hike which to me has been underpriced lately. EURUSD rallied on the back of the comments and traded to a high of 1.1840 last week, but the single currency seemed unable to extend the rally, weighed down by south European political woes.	Neutral	3m 1.2000; 12m 1.3500
GBP	Brexit and political headlines continue to drive the price action; David Davis played hard ball when he was about to resign mid last week, which worked because PM May now included Dec 2021 in the customs union document. The Brexit process is definitely cumbersome, not to mention long considering the progress made this year so far, which means that Cable is probably going to remain hostage to Brexit headlines for the foreseeable future. In the near-term however, the proud Pound seems to have established support around 1.3200 and focus over the coming week will shift towards the inflation and retail sales data.	Bullish	3m 1.4000; 12m 1.5000
JPY	Last week risk aversion dominated the markets, which translated into a softer USDJPY and notable safe haven flow ahead of this week's various event risks; FOMC meeting, BOJ meeting and Trump's meeting with Kim in Singapore. Looking ahead to the BOJ meeting, expect the central bank to cut its inflation forecasts on the back of the slower growth seen in April.	Bearish	3m 110.00; 12m 108.00
CHF	The CHF continues to gain strength, reaching a 4-week low of 0.98 to the dollar on uncertainty in the Eurozone. Today, Sunday June 10, there will be a plebiscite to decide whether or not the Swiss National Bank should have sole authority over money supply. The SNB currently opposes this; if Swiss voters back the new proposal, then we would expect to see the franc weaken over the coming week.	Bearish USDCHF	3m 0.9300; 12m 0.9700
AUD	The RBA kept rates unchanged last week and the statement resembled the previous one with one notable emphasis on slowing housing credit growth. Meanwhile, on the FX side, stronger than expected retail sales and GDP prints supported AUDUSD out to a high of 0.7677. However, the pair could not hold on to the gains as risk sentiment deteriorated on the back of Trump's tariff comments. Focus this coming week will include home loans, Westpac consumer confidence and employment numbers.	Bearish	3m 0.7500; 12m 0.7500

G-10 FX	Macroeconomic/Fundamental Analysis	Views (Bearish/Bullish) 2-week Time Frame	Intermediate & Long-term Views (3mth & 12mth Time Frame)
NZD	With RBNZ Assistant Governor and Head of Economics Dr John McDermott having recently declared full RBNZ support (i.e. asset purchases to maintain liquidity) against any sign of market crisis, the Kiwi seems set to remain under some pressure. Given current market conditions, the outlook for Kiwi rates retains a dovish bias, with the first hike barely priced in for Q2 2019. In fact, in a critical situation, we believe that the RBNZ is most likely to cut rates to 1.50% (from the current 1.75%) to support liquidity in the market. Looking ahead to this week, the danger is to the downside as the market is likely to focus elsewhere and the data slate is fairly light with only the business manufacturing and food prices index due for release.	Bearish	3m 0.6800; 12m 0.6300
CAD	Tricky week for the Canadians as Trump launched an offensive against the U.S.' close neighbour ahead of the G7 meeting. Relations have been strained under his administration and last week he hit back at criticism of his tariffs accusing Trudeau of 'massive' tariffs already on the US. The potential discord could be a disaster for the Canadians who export around 75% of their goods to the US although Trudeau's popularity seems to be getting a boost from his hard line rhetoric. The loony itself remained in a fairly tight range for most of last week, albeit off the highs seen before payrolls and with a weaker bias ahead of the G7 talks. As for the employment data released late Friday, the net change was lower by 7.5K following a decline in the previous month. No doubt the data will put a strain on the "data dependent" BOC.	Neutral	3m 1.2500; 12m 1.2200

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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

FAB Global Markets FX & Rates

G10

Alison Higgins
Alison.Higgins@bankfab.com

Simon Turner
Simon.Turner@bankfab.com

Nourah Al Zahmi
Nourah.Alzahmi@bankfab.com

Meera Al Marar
Meera.AlMarar@bankfab.com

GCC & EM FX

Pinrath Wongtrangan
Pinrath.Wongtrangan@bankfab.com

Danay Sarypbekov
Danay.Sarypbekov@banbkfab.com

Rashid Rasul
Rashid.Rasul@bankfab.com

Non-Linear Products

Marco Benassi
Marco.Benassi@bankfab.com

Mohamed Bouzoubaa
Mohamed.Bouzoubaa@bankfab.com

Naoufal Alami
Naoufal.Alami@bankfab.com

Tel: +971 2611 0111