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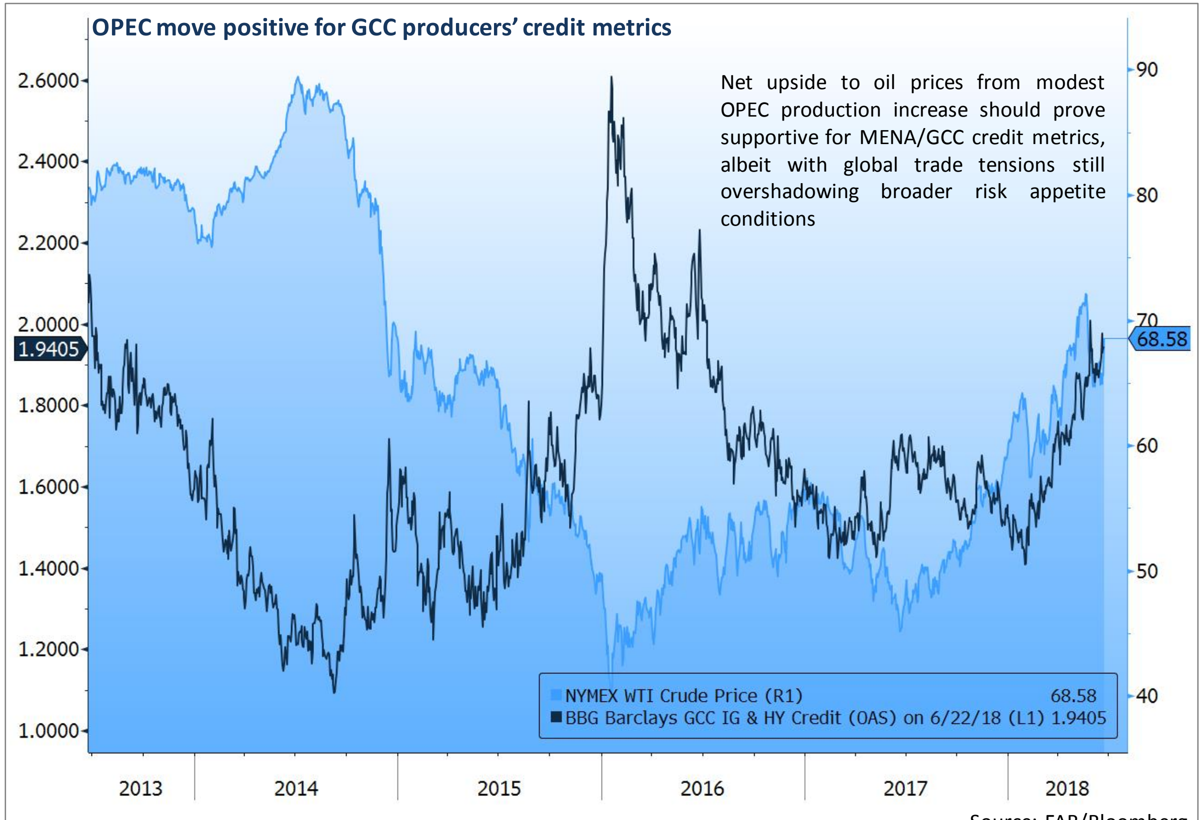
G10 Rates & FX, & Oil - The Traders' Views

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.



Source: FAB/Bloomberg

- 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.

Source: FAB/Bloomberg

- 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 G10 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 richen 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.

G-10 FX	Macroeconomic/Fundamental Analysis	Views (Bearish/Bullish) 2-week Time Frame	Intermediate & Long-term Views (3mth & 12mth Time Frame)
EUR	Volatility across BTP's continues to dominate the Eurozone. The announcement of Eurosceptic Bagnai as Italian Senate finance committee head, pushed 10yr BTP/Bunds back above 240bp. EUR has benefitted from the cheapening of DXY as EURUSD bounced off the 1.15 lows to current levels of 1.163.	Neutral	3m 1.2000; 12m 1.3500
GBP	Finally some positive news on the outlook for the UK economy as a hawkish set of minutes from the MPC and a 6-3 vote to move bank rate higher by 25bp reignited the prospect of an August rate hike (currently priced at 65%). GBP also reacted with cable rallying off the 1.31 lows to sit at 1.33 by the end of the week.	Bullish	3m 1.4000; 12m 1.5000
JPY	Yen has fallen versus its other peers while USD/JPY traded in 110.20/30 range and may soon decline further to 109 territory. JPY CPI numbers last week were stable, as expected. Meanwhile, the market continues to be buffeted by the ongoing political, trade issues between China and the U.S. and we expect USD/JPY to remain susceptible to such headlines over the coming weeks. Other factors to keep a close eye on include euro zone PMI data and the results of the Turkish presidential election.	Bearish	3m 110.00; 12m 108.00
CHF	The Swiss franc strengthened Thursday after the SNB confirmed that it will keep its key deposit rate unchanged at a historic low of -0.75%. USD/CHF traded largely around the 0.9960 at the start of the week before dropping below 0.9920 on Thursday. It then traded below 0.9900 on Friday. The central bank reconfirmed that its policy of negative rates remains essential to protecting the Swiss economy from international tensions and protectionist tendencies. The SNB is still cautious with regard to potentially raising rates too soon, conscious of the risk that higher rates could trigger unwanted appreciation of the Swiss franc.	Bearish USDCHF	3m 0.9300; 12m 0.9700
AUD	AUD/USD showed a weaker bias for much of last week as the RBA pushed rate hike expectations into 2019 and market optimism faded as a result. RBA Governor Lowe has stated that 'the RBA is happy with their vision as the economy is gradually heading to lower unemployment and higher inflation'. The RBA repo rate hit a high of 2.134.	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	The New Zealand dollar rose against all its G10 peers last week, as it jumped to 0.6913. The OPEC meeting result offered a modest fillip to the oil price late Friday, and that helped the Kiwi outperform vs. the Aussie. (AUD/NZD dropped 0.2% to 1.0723). Kiwi also benefitted from good PMI numbers. Focus will now turn to the RBNZ meeting on Thursday (June 28th).	Bearish	3m 0.6800; 12m 0.6300
CAD	The Canadian dollar continued to weaken against the US dollar over the past week. USD/CAD reached a high of 1.3330 before returning below 1.3300 on Friday. The weaker Lonnie spurred Canada's main stock index to an all-time high on Thursday, however, when compared to US markets, overall performance for the year compares poorly. Oil prices have not had as much of an impact on the currency as might have been expected as a strong US dollar continues to be the overriding driver. A BOC rate hike in July is mostly priced in and we are confident that the Bank will deliver at that meeting.	Neutral	3m 1.2500; 12m 1.2200

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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G10

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