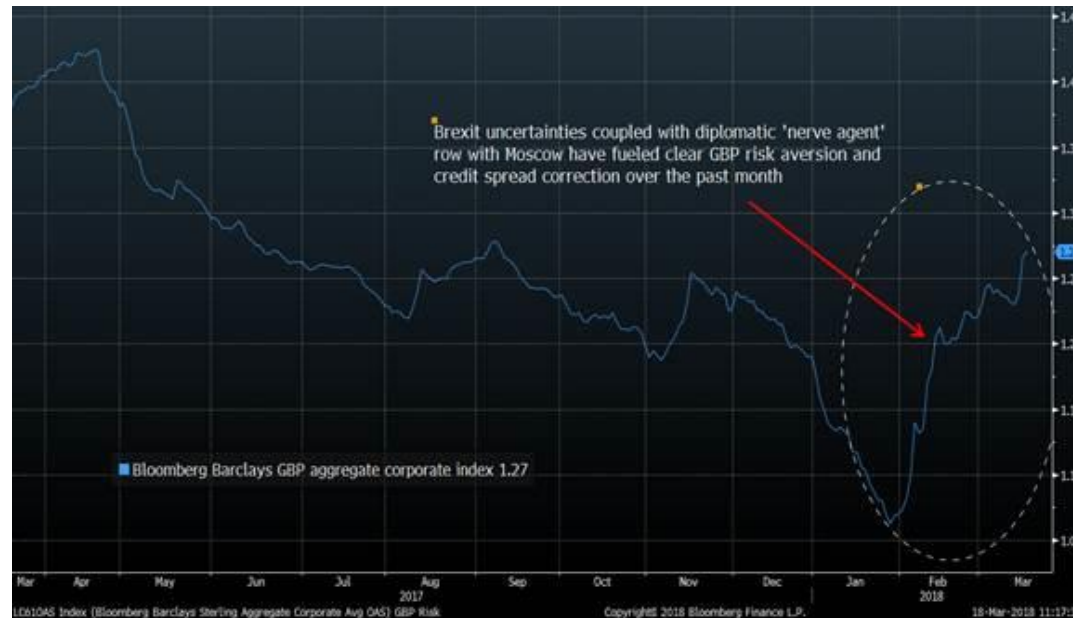


G10 Rates & FX - The Traders' Views

Macro Strategy View: Rates and Politics to Drive Market Sentiment (again) This Week

- There will be plenty for investors to focus on during this coming week, with the spotlight culminating on the U.S. Federal Reserve (FOMC) interest rate announcement scheduled for Wednesday evening (10pm UAE time). With the Fed funds futures fully pricing in a 25bp rate rise, anything else would be a surprise to the market.
- No change in rates would concern investors that the Fed has no faith the sustainability of the economic recovery. This said, after any brief wobble in risk assets, credit spreads and risk appetite could be buoyed again by longer-term assumptions of a 'lower-for-longer' rates outlook. Conversely, if Fed chair Powell sees the need to stamp his authority on policy more aggressively with a larger rate rise (highly unlikely), this would trigger a sharp selloff in the rates market and likely send credit spreads sharply wider and the quality curve steeper as sub-investment grade product underperforms high grade paper.
- Over to you Mr Powell; 25bps please and a re-iteration of the FOMC's cautiously optimistic rhetoric. The FOMC announcement will then be closely followed by the latest RBNZ rate decision. While the latter is this expected to keep rates unchanged, the danger seems to lie on the downside with the market underpricing the possibility of a dovish RBNZ. This should maintain downside pressure on the Kiwi this week, possibly even below 0.7200.



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- Meanwhile, aside from rates action, political headlines from Washington, London and Moscow will also likely drive gyrations in broad market pricing and underlying volatility this week. Uncertainties continue to shroud the outlook for global steel and aluminum amid the threatened U.S. tariffs, keeping a wedge between Europe and the U.S. While the spread between Bloomberg U.S. and European steel indexes has stabilized in the past week, it nonetheless remains around a 4-year high with sentiment surrounding European (steel) producers looking fragile at best.
- GBP risk assets seem set to remain under near-term pressure and investors should remain alert to the developing diplomatic row between the U.K. and Moscow following the recent nerve agent attack. The Brexit polemic also continues to weigh on sentiment. The Bloomberg Barclays GBP aggregate corporate index has widened sharply since the end of January due the confluence of these two factors; the index has widened 21bps on an OAS basis, to a 6 month high.

(Simon Ballard, Macro Strategist, Market Insights & Strategy)

Please find below views on G10 Rates & FX directly from our traders

Two major themes have dominated the rates market over the past week; US LIBOR fixing and a huge bull flattening of the curve. The front end of the rates curve is having a huge impact on curvature, as the 2 year beta and continued hedging from LDI managers drives yield curve compression. Please see a summary table of cross market prices below.

Bond	US	UK	EUR
2yr Bond Yield	2.28	0.80	-0.59
5yr Bond Yield	2.62	1.12	-0.04
10yr Bond Yield	2.81	1.42	0.56

IRS	US	UK	EUR
2/10s	26.75	50.00	115.00
5/10s	9.50	21.00	60.00
5/30s	14.00	25.00	112.00

Continued...

G-10 FX	Macroeconomic/Fundamental Analysis	Views (Bearish/Bullish) 2-week Time Frame	Intermediate & Long-term Views (3mth & 12mth Time Frame)
EUR	Not much data for the Eurozone this week, so yield curves and currency have mirrored the flattening moves cross market. EUR is on the back foot and remains towards the low end of the range at 1.233	Neutral	3m 1.2500; 12m 1.3500
GBP	BOE APF buybacks have started, which together with limited long end gilt supply have driven a large bull flattening move in the UK. Even with 10yr rates at very low levels, curvature remains under significant pressure and its feels as though 10/30's might actually go negative for the first time.	Bullish	3m 1.4500; 12m 1.5000
JPY	Last week, demand for safe haven flows increased, buoyed by U.S. political headlines and uncertainties. JPY took the lead as risk off sentiment surged. USDJPY ended the week trading slightly above 105.50. As we head towards the FOMC this coming week, we expect safe haven demand for JPY to remain elevated, maintaining pressure on USDJPY.	Bearish USDJPY – with preference to sell the rallies above 107.5	3m 107.00; 12m 108.00
CHF	As widely expected, the SNB held policy rates unchanged last week and reiterated the usual rhetoric about the currency being overvalued. With that said, EURCHF remains supported above 1.1600 and it will take a serious deterioration in the risk environment and/or a EUR selloff to see EURCHF trading below 1.1400.	Neutral Swiss although we are still alert to any escalation in global political tensions for safe haven flow	3m 0.9300; 12m 0.9700
AUD	Aussie is a commodity linked currency and therefore has been under pressure from talk of Trump's future tariffs on aluminum and steel. Australia may not be affected directly, but its main trading partner (China) will. As such, AUD/USD pared gains as the market went into risk-off mode and also on the back of RBA's Debelle's dovish comments. The RBA will remain dovish vs its peers as long as wage growth and inflation remain low. Data this week will include house prices, employment and RBA meeting minutes.	Bearish	3m 0.7500; 12m 0.7500
NZD	RBNZ is this expected to keep rates unchanged at this week's meeting, but the danger is definitely on the downside as the market underprices the possibility of a dovish RBNZ. This should maintain downside pressure on the Kiwi, possibly even below 0.7200.	Bearish	3m 0.6800; 12m 0.6300
CAD	CAD has held a weak bias since the last BOC meeting on March 7, as uncertainty about U.S. trade protectionist measures has put pressure on USDCAD – to as high as 1.3095 last week. This week's inflation data will be key; a strong read might redeem the CAD a bit.	Bearish USDCAD	3m 1.2500; 12m 1.2200

Contributors

FAB Global Markets FX & Rates

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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

Husain Askar

Husain.Askar@bankfab.com

Ahmed El Alami

Ahmed.ElAlami@bankfab.com

Pinrath Wongtrangan

Pinrath.Wongtrangan@bankfab.com

Danay Sarypbekov

Danay.Sarypbekov@bankfab.com

Rashid Rasul

Rashid.Rasul@bankfab.com

Tel: +971 2611 0111

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