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Market Insights & Strategy
Global Markets

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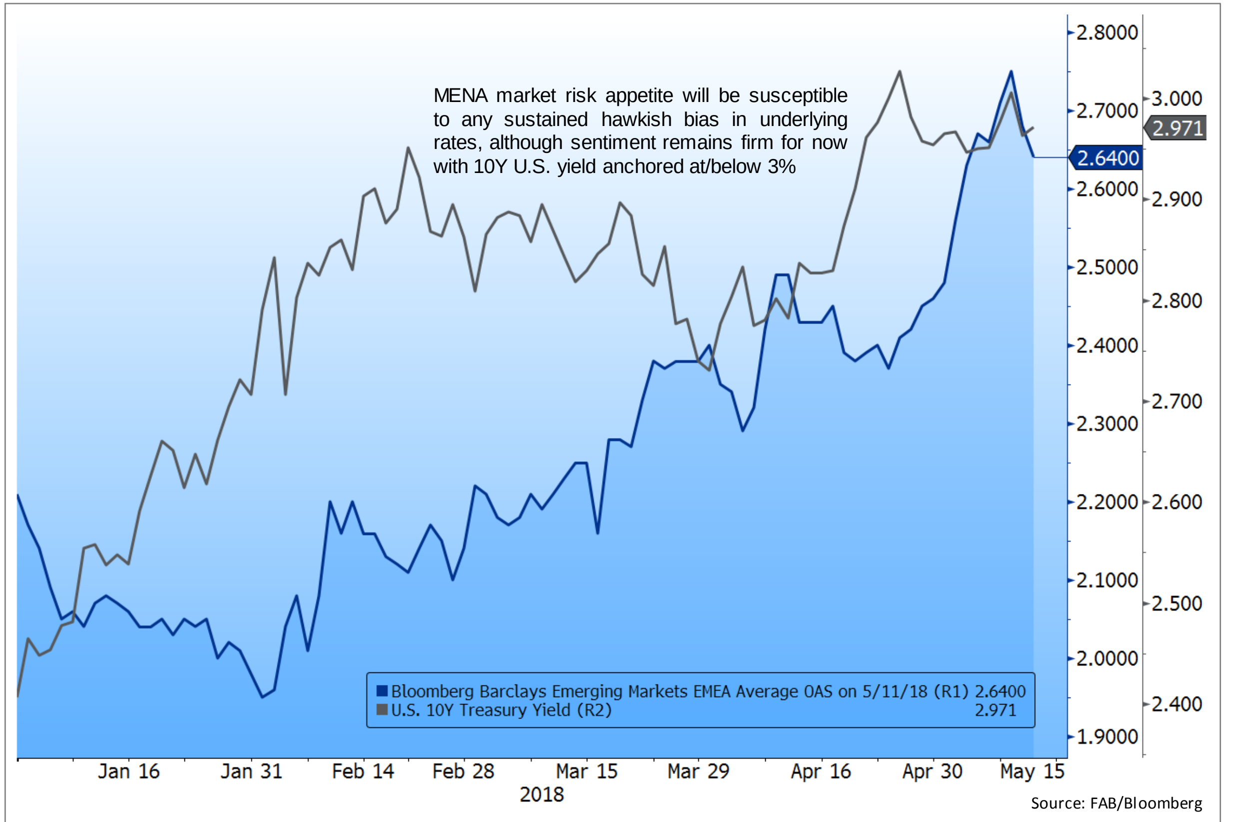
EM Rates & FX - The Traders' Views

Macro Strategy View: Staring at the Ceiling

- Markets closed last week on a reasonably buoyant note with U.S. equity indexes edging higher into Friday's close, the US dollar steady and corporate credit markets well underpinned. Market sentiment appears to be optimistic both that inflationary pressures will remain muted over the coming months and that the specter of global trade tensions will not materialize.
- As the implicit 3% ceiling on the U.S. 10Y treasury holds – we tested 3% again last week, but closed back around the 2.97% level - the hunt for yield appears to be alive and kicking. With the rates market anchored for now, we would interpret such a macro environment as positive for MENA markets.



Source: FAB/Bloomberg

- Indeed, risk appetite remains evident across the credit quality spectrum. European investment grade spreads were firm throughout last week – the Bloomberg Barclays European investment grade index was steady at 93bp OAS – and the Bloomberg Barclays European high yield index tightened 8bps to 286bps OAS. Meanwhile, US investment grade credit edged 3bps tighter to 109bps OAS and US high yield rallied 8bps to 333bps.
- The outlook for underlying global yield structures will remain key to MENA market performance though and underscores our advocated strategy of a fundamentally driven approach to investing. We note that during the course of last week the Bloomberg Barclays EMEA EM index pushed wider from 266bps to 275bps as the 10Y U.S. tested 3%, before rallying on the coattail of the U.S. 10Y back to 264bps by the end of the week.
  (Simon Ballard, Macro Strategist, Market Insights & Strategy)

Please find below views on Emerging Markets FX directly from our traders

G-10 FX	Macroeconomic/Fundamental Analysis	Views (Bearish/Bullish) 2-week Time Frame	Intermediate & Long-term Views (3mth & 12mth Time Frame)
SGD	It was a volatile week for EM Asia currencies as DXY broke psychological resistance levels, and traded all the way up to 93.50 before retracing some of its gains last week. EM currencies in general saw short USD stops triggered with USDSGD spiking to a high of 1.3490. The US stocks rally on Thursday brought back some confidence to the market and another round of risk on USD selling emerged with USDSGD eventually closing around the 1.3360 level. Given the sound fundamental story in SGD, we believe that SGD will act as a safe haven for overall EM Asia exposures. We therefore remain neutral to bearish USDSGD.	Bearish 1.3200	Bearish 1.3200
INR	Higher oil prices triggered another round of USDINR buying interest this past week. Fears of a worsening current account deficit drove investors to reduce their exposure in both India stocks and the bond market. Market was expecting capital account inflows this year to offset the current account deficit, yet this argument seems less convincing now.	Bullish 67.50	Bullish 68.00
CNH	USDCNH traded within a 500 pips range mostly tracking the DXY move. CFETS RMB index remains strong at 97.50 showing CNH stayed out of this EM risk reduction move. This is understandable given the upcoming inclusion of stocks in the MSCI index, a reviving stock market and stable FX reserve numbers on the back of healthy economic data. We would prefer to be long CNH against current account deficit countries such as IDR/INR/PHP as a relative value trade.	Neutral 6.3500	Neutral 6.3500

G-10 FX	Macroeconomic/Fundamental Analysis	Views (Bearish/Bullish) 2-week Time Frame	Intermediate & Long-term Views (3mth & 12mth Time Frame)
KRW	Heavy exporter selling interest along with a higher KOSPI protected USDKRW from breaching key 1080 resistance level this week amid the EM currency selloff. Nasdaq made new monthly highs with good results for Apple triggering renewed optimism on the electronics and semiconductor sector, where Korea is an expert in this area and which brought in a lot of current account surplus over the past few years. However, we believe the position is already bit crowded, hence we remain neutral on this pair.	Neutral 1080	Neutral 1080
EGP	It was one of the most interesting and volatile weeks in a long while in the EGP markets. The Egyptian pound spot appreciation reversed quite sharply with the market closing for the week at 17.73-17.83. So the local FX market traded up about 0.5% last week but the NDF market traded higher by 2-3% over the same period. A wave of panic dollar buying washed through the market as people seem to have been caught short USD and long EGP exposure. We mentioned previously that a portion of investors in EGP T-bills appear not to be hedged and this is what happens when EM contagion hits global markets: investors rush to the doors and liquidity evaporates. Towards the end of the week the USD sellers reappeared and the NDF curve came off its recent highs slightly. We expect these levels to remain elevated as people will be looking to reduce their EGP risk in the weeks to come. Naturally the demand for T-bills was poor at this week's auction and the yields of 6-mth and 12-mth T-bills are sharply higher by 80-100bps to 18.50% and 17.80%. The next central bank meeting is on 17 May and in our opinion the CBE will reduce rates by another 100 bps to 15.75%.	Neutral to bullish USDEGP 17.75-17.85	Neutral 17.25-18.50
NGN	The NIFEX and NAFEX rates printed levels of around 339 and 360 respectively this past week. Because of the general EM concerns there was some liquidation of NGN T-bills and T-bonds by foreign investors. The NAFEX spot market went as high as 363-364 before the central bank stepped in and filled the bids. We think Nigeria should remain a relatively calm market going forward as it is mostly separated from current external geopolitical risks and has managed to rebuild its FX reserves somewhat. Additionally if anything higher oil prices and stable to rising oil production benefit the country greatly. Therefore although we would not advise adding to the Nigerian exposure at this stage, we prefer to keep our longs in NGN T-bills in FX hedged format.	Neutral NAFEX USDNGN 359-361	Neutral to bearish 345-365
ZAR	The Rand was driven by global EM sentiment and the direction of the US dollar which in turn takes its cues from the US interest rates. USD/ZAR tested 12.70 once again on Wednesday but then came off quite rapidly to 12.30 with the potential to reach 12.16-12.17. Technically after the consolidation/correction in the USD index is complete, we think the greenback will resume its strengthening path including versus ZAR. Thus we remain bearish on EM in general and the rand specifically.	Bullish USDZAR 12.10-13.10	Neutral to bullish 12.75-15.00

GCC FX Commentary	
SAR	The SAR FX curve remained unchanged on the week with the 1Y FX swap trading at 25 mid, while the 4Y and 5Y swaps are at 500 and 700 mid, respectively. SAR FX spot is currently trading at 3.7504 mid.
AED	The AED FX curve also remained unchanged on the week with the 1Y FX swap trading at 25 mid.
OMR	The Omani FX curve was flatter on the week. The 1Y FX swap remained at 305 mid, with longer tenors moved lower by 100 points. OMR FX spot is trading at 0.385015 mid.
BHD	The Bahraini FX swaps curve moved higher on the week. The 1Y FX swap is currently trading at 180 points mid, up 10 points on the week. USD/BHD spot is trading at 0.377175 mid, 7 pips higher on the week. The most recent 3-month BHD T-bill issuance yielded investors 3.36%, up 1 basis point on the week. The coverage was lower at 100%.

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