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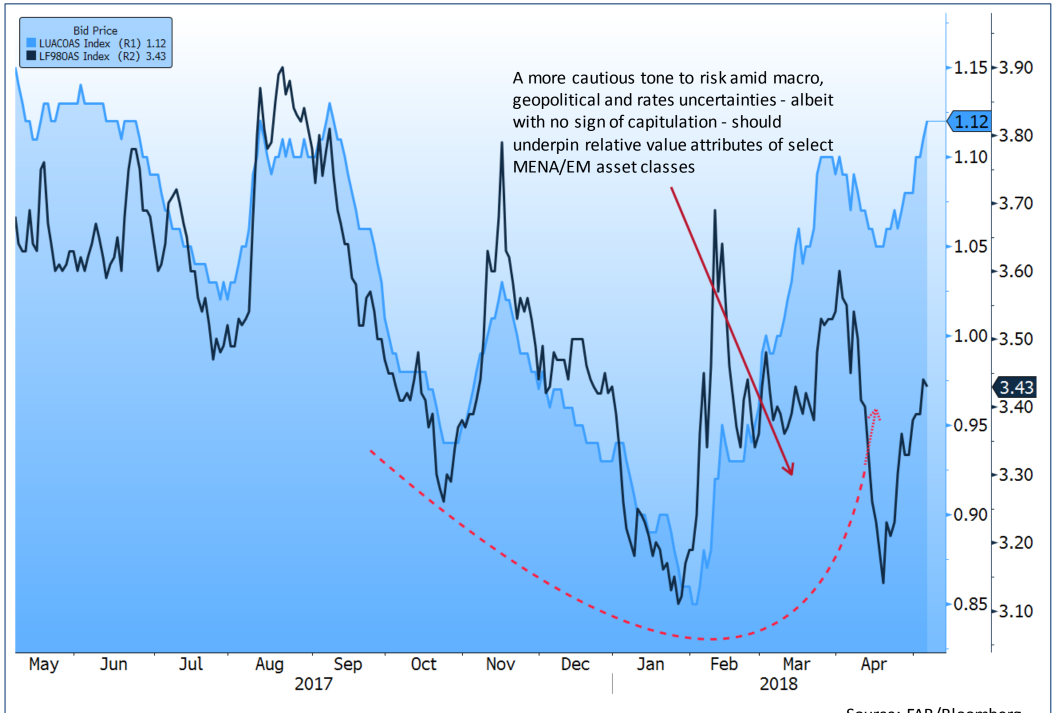
EM Rates & FX - The Traders' Views

Macro Strategy View: Post NFP Risk Appetite to be Tested by Treasury Auctions

- Global markets ended last week on a buoyant note, thanks to the overall tone to the U.S. April employment report, but this could be short-lived over the coming weeks if a more hawkish bias begins to creep into the (U.S.) rates market. In this respect, focus this coming week will fall cleanly on the scheduled U.S. 3y, 10y and 30y treasury auctions. Investor demand for the paper – and analysis of bid/cover ratios – will be the latest litmus test in the rates outlook.
- The headline U.S. non-farm payroll number may have fallen short of consensus (+193,000) at +164,000, but it was the drop in the unemployment rate to 3.9% - the lowest in 18 years – that pushed equities higher into Friday's close. This said, there is an overarching element of caution to risk sentiment at current levels, due to lingering macro, interest rate and geopolitical uncertainties. In the corporate credit space for example, although the Bloomberg Barclays U.S. corporate high yield index edged 1bp tighter on Friday to 343bps OAS, the index has eased 29bps wider over the past two weeks amid concerns over the outlook for U.S. rate tightening and the withdrawal of monetary policy accommodation on both sides of the Atlantic. Meanwhile, the U.S. aggregate investment grade index has also adopted a clear widening trend year-to-date on the back of more such hawkish rate expectations; the index touched 112bps on Friday versus 85bps seen on February 1.



Source: FAB/Bloomberg

- Success or otherwise of this coming week's bond auctions will be key to broader market sentiment. The U.S. is due to auction a combined $73b of notes across the 3y, 10y and 30y maturities this week - $7b more than at the same juncture last quarter according to Bloomberg. As such, with the deteriorating outlook for the U.S. fiscal position and rising budget deficit expectations, any perceived weakness in investors' appetite for government debt and subsequent implications for the government's ability or otherwise to plug the gap with debt could trigger a swift sell-off across the rates space.
- We have seen in recent months how a more hawkish outlook for rates can quickly dampen risk appetite and steepen quality curves. Indeed, investors need to pay close attention to the dynamics and results of the treasury auctions this week, which will carry direct implications for the entire risk asset space. At the very least, elevated uncertainty surrounding the outlook for rates and risk should help to bolster our cautious bias and help to underscore the relative value, fundamental appeal of selective MENA/EM assets.

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

G-10 FX	Macroeconomic/Fundamental Analysis	Views (Bearish/Bullish) 2-week Time Frame	Intermediate & Long-term Views (3mth & 12mth Time Frame)
SGD	The past week was certainly engaging, with USDAsia finally on a move! USDSGD started the week right above the 100 DMA at 1.3214, setting up a next move higher and it did. Classical technical move and the pair didn't disappoint. Now 200 DMA is coming into play at 1.3386, so we would expect USDSGD to maintain its 1.3250-1.3400 range. Longer-term uncertainties may still be elevated, but a better buying bias continues to characterize the USD, suggesting that investors should look to buy USD on any dips against all Asian pairs.	Neutral 1.3300	Bearish 1.3000
INR	As USDINR continues to perform, hitting upside targets, so new targets are being set higher. This said, after the recent strength the market may now expect to see some near term consolidation around the 67.00 level. The currency has come a long way, and portfolio positioning adjustment may now be largely done. Earlier in the week, RBI made changes to the scope of FPI investment, and this made it easier for foreign funds to access the local market. A USDINR dip was short lived though, with better buying on the follow as the USD maintained its move higher. Now, all eyes will be on Nifty; if it starts to show signs of weakness then the outlook for INR could change swiftly.	Neutral 67.00	Neutral 67.00
CNH	Of all USD/Asia, we are least bullish USDCNH. Positioning is not extreme, the market is quite deep, and as such we expect China to weather the storm in any consistent EM sell off. China's trade surplus is too big and this should keep the lip on USDCNH/CNY. US trade talks with China should also end well. So we would advocate selling USD/CNH as an overall hedge to a long USD/Asia portfolio.	Neutral 6.3000	Neutral 6.3000

G-10 FX	Macroeconomic/Fundamental Analysis	Views (Bearish/Bullish) 2-week Time Frame	Intermediate & Long-term Views (3mth & 12mth Time Frame)
KRW	The past week was a somewhat frustrating period for USDKRW. While the rest of EM Asia experienced a weaker tone against USD strength, USDKRW kept its range. All the USD buyers were met with exporters' selling. So the market should remain net long USDKRW. However, with equities showing some signs of weakness, and USDKRW usually being a good proxy for overall risk sentiment, we would expect USDKRW to also move lower before long. One just needs to be patient.	Bullish 1090	Bullish 1100
EGP	Notwithstanding US dollar strength last week, the interbank market in EGP traded lower to 17.62-17.72. It is doubtful that the appreciation of EGP can be sustained in the present environment though and thus it is reasonable to expect the spot rate to move higher over the coming week. The Minister of Finance gave an interview in which he reiterated that the government is proceeding with fiscal reforms and that foreign investors now hold $23bln of government LCY debt, a figure which could rise to $30bln which was the high mark in the Mubarak era. Yields on 6-mth Tbills and 12-mth Tbills are generally higher at around 17.50% and 17.00%. 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%. Therefore we still favour longs in 6-12 mth Tbills and think that the exchange rate will remain range bound in the near future.	Neutral to bullish USDEGP 17.62-17.72	Neutral 17.25-18.50
NGN	The NIFEX and NAFEX rates printed levels around 338 and 360 respectively in the past week. Again it was a quiet week in Nigeria with the main highlight being an increase in the CBN FX reserves to new highs of $47.4bln. The government is accumulating reserves as it hedges against the risk of the economy slowing again and oil prices falling. Both the NDF and the Tbills markets were stable this past week with little changes from the previous period.	Neutral NAFEX USDNGN 359-361	Neutral to bearish 345-365
ZAR	The rand is a victim not of domestic developments as was often the case in 2017 but rather of global headwinds emanating from rising US interest rates and concerns relating to geopolitics, trade wars, etc. The US dollar rally pushed the ZAR exchange rate to a high around 12.70 over the past week. As mentioned previously the next support level for ZAR is around 13.02, a level that we expect to reach in the coming weeks.	Bullish USDZAR 12.50-13.10	Neutral to bullish 12.75-15.00

GCC FX Commentary	
SAR	The SAR FX curve continued to be softer on the week, with the 1Y FX swap moving lower by 10 points to trade at 25 mid, while the 4Y and 5Y swaps moved 100 points and 150 points lower to trade at 500 and 700 mid, respectively, reversing a similar move the week before. SAR FX spot is currently trading at 3.75035 mid.
AED	The AED FX curve was again little changed on the week. The 1Y FX swap is trading at 25 mid.
OMR	The Omani FX curve was flatter on the week. The 1Y FX swap remained at 325 mid, while longer tenors moved lower by 50 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 170 points mid, up 20 points. USD/BHD spot is trading at 0.37710 mid, 5 pips higher on the week. The most recent 3-month BHD T-bill issuance yielded investors 3.35%, up 2 basis point on the week. The coverage was lower at 101%.

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