

EM FX & Rates - The Traders' Views

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

| EM FX | Macroeconomic/Fundamental Analysis | Views (Bearish/Bullish) 2-week Time Frame | Intermediate & Long-term Views (3mth & 12mth Time Frame) |
|-------|--|---|--|
| SGD | SGD strengthened 0.5% against the USD as DXY weakens with SGDNEER holding strong at +1% from the midpoint. Risk on sentiment in equities market continues to drive the strong buying interest in Asian EM currencies. The FX forwards curve headed lower, an extra reinforcing indicator of inflow into the domestic currency. The Current economy picture remains pretty healthy and market is pretty much priced in a high chance of tightening in April 2018. We prefer to stay neutral on this pair and wait for better relative value opportunities to play around with SGD FX. | Neutral 1.3550 | Neutral 1.3550 |
| INR | Moody's surprise upgrade of India's government bond ratings to Baa2 from Baa3 on Friday pushed USDINR to head over 1% lower this past week. The agency's decision was based on expectations that continued progress on economic and institutional reforms will enhance India's high growth potential. This upgrade looks fairly understandable on the back of the bank recap bond plan and after effects on demonetization have begun to dissipate. However, concerns over a higher oil price would potentially worsen the fiscal budget, while higher CPI, and heavy positioning remain valid risks for INR to strengthen. Thus we are biased to cautiously buy USDINR on this latest move. | Neutral 65.50 | Neutral 65.50 |
| CNH | USDCNH dropped 300 pips this week tracking the DXY move along with onshore talk that the USDCNY target level will be around 6.6000 in 2018. Flow wise it was pretty quiet as after the 19th NPC, there were not many important new announcements with regards to the economy, but rather reinforcing deleveraging, supply side reforms and financial stability. The move in CNY should mostly track the broader move in USD for the time being and we prefer to stay neutral. | Neutral 6.6000 | Neutral 6.6000 |

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|----------|---|--|---|
| KRW | <p>USDKRW finally broke the support at 1110 support level and dipped to a low of 1092 before bouncing back to 1098. Stronger equities particularly in the tech sector was a main driver for the move. Concerns about the KRW being too strong were reported from officials on Wednesday and some smoothing action in the spot market reported, yet this was not able to stop the overall move. The next level to watch for USDKRW will be at 1090. A clear break here could push USDKRW all the way down to 1050.</p> | Neutral 1100 | Neutral 1100 |
| EGP | <p>The spot market in EGP remained between 17.60-17.70 this past week. The Central Bank of Egypt left interest rates unchanged at 18.75% for deposits and 19.75% for lending. Some of the local banks have been calling for rate cuts to boost economic activity and the sentiment in the country. In our view the central bank needs to see a considerable decline in inflation before starting the easing cycle aggressively as current real interest rates are still in deep negative territory. Therefore we anticipate tentative cuts to begin at the next MPC meeting at the end of December or in January 2018. The NDF market was very stable with balanced two-way flows. It is interesting to note that in the past week the foreign holdings of Treasury bills and Treasury bonds in EGP had decreased for the first time since the floatation of the pound in January 2016. We like to buy USD on dips in NDF prices to hedge the exposure to Treasury bills or other EGP assets in 3-12 month.</p> | Neutral to bearish USDEGP 17.60- 17.70 | Neutral to bearish 17.00-18.00 |
| NGN | <p>Both the NIFEX and NAFEX fixings are unchanged around 329 and 360 respectively. The Nigerian Senate will debate the Budget for 2018 this coming week. The budgeted oil price is assumed to be at \$45/bbl and the oil production at 2.3mbpd with the exchange rate at NGN305 per USD. The assumptions look reasonable apart from the production level which is struggling to stay above 2mbpd throughout the past 12 months. The CPI for October came out in line with the market expectations of 15.9%. We do not expect the central bank to cut interest rates at its meeting next week from 14%. Our preferred trade in NGN is to be long 6-12 months Treasury bills hedged with NDFs using the NAFEX curve with the spot reference at 360.</p> | Neutral USDNGN 325-335 | Neutral to bullish 365-385 |
| ZAR | <p>Both of our targets at 14.35 and 14.50 were met in the previous 7 days with the USDZAR printing a high 14.57 on Monday. The path from here is a trickier because the risks that we talked about in the past relating to politics and the credit downgrade are still there but the exchange rate seems to have moved too far too fast. Thus we think the rand will range trade in the coming few weeks between 14.10 and 14.60. Even under this scenario it is better to play USDZAR from the long side, i.e. look to buy USD when the rate dips close to 14.10.</p> | Bullish USDZAR 14.10-14.60 | Neutral 12.50-14.00 |

GCC FX Commentary

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|------------|---|
| SAR | <p>The SAR FX curve was significantly softer following a turbulent week on the back of recent events in Saudi Arabia. The 1Y FX swap has moved 80 points lower to trade at 165 mid since last Friday. The 4Y and 5Y swaps moved 250 and 175 points lower to trade at 1,225 and 1,625 mid, respectively.</p> <p>SAR FX spot has also eased-off to trade at 3.7503 after the initial rally up to 3.7515 on November 6th.</p> |
| AED | <p>There has been little change in the short end of the AED FX swap curve with the 1Y moving lower by 5 points to trade at 55 mid. The longer end of the curve has moved higher with the 3Y and 5Y moving up 40 and 90 points on the week.</p> |
| QAR | <p>The volatility in USD/QAR spot continued with the pair making new highs. The currency is now trading at 3.8700 mid, 4 big figures weaker since last Friday. The market is thinly traded with typical transaction size of \$1-2m.</p> <p>The FX swap curve was softer on the week with the 1Y moving 15 points lower to trade at 65 points mid and longer tenors moving lower by 55 points.</p> |
| OMR | <p>FX swaps were firmer in Oman with the 1Y moving 100 points higher to trade at 575 mid. The Longer tenors also moved higher by 100-175bps.</p> <p>OMR FX spot is trading at 0.38503 mid.</p> |
| BHD | <p>The Bahraini spot and forwards have eased-off a little since the recent shock but are still trading at elevated levels. The 1Y FX swap is now trading at 215 points mid, 35 points lower on the week, while the 2Y moved 75 points lower to 625 points mid.</p> <p>USD/BHD spot has remained at 0.37800 mid vs. the peg of 0.37600.</p> <p>T-bill yields on the 3-month and 6-month issuances were to 2.72% (128% oversubscribed) and 2.98% (100% subscribed), respectively. The 3-month yield was 2bps higher, while the 6-month yield was lower by 3bps.</p> |

Technical Trade Idea - MXN and TRY

We see more weakness in some of the most liquid EM currencies (see our note below from 26 October), in particular in MXN, TRY and ZAR. The Mexican peso and the Turkish lira both are in the triangle consolidation phase before making another push higher (please see the charts below). We are looking to buy USDMXN at 19.05 and USDTRY at 3.86 and see an eventual break towards 19.45 and 3.94 respectively. So far the moves are still driven by country specific news rather than a global EMFX weakness. In the Mexican case the driver is the NAFTA negotiations. What is interesting to note as well is that a triangle pattern is usually a penultimate formation before the final wave in a trend. Thus caution is advised not to look for overly extended moves to the upside in these pairs if our reading of the price charts is correct.

USD/MXN chart



USD/TRY chart



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