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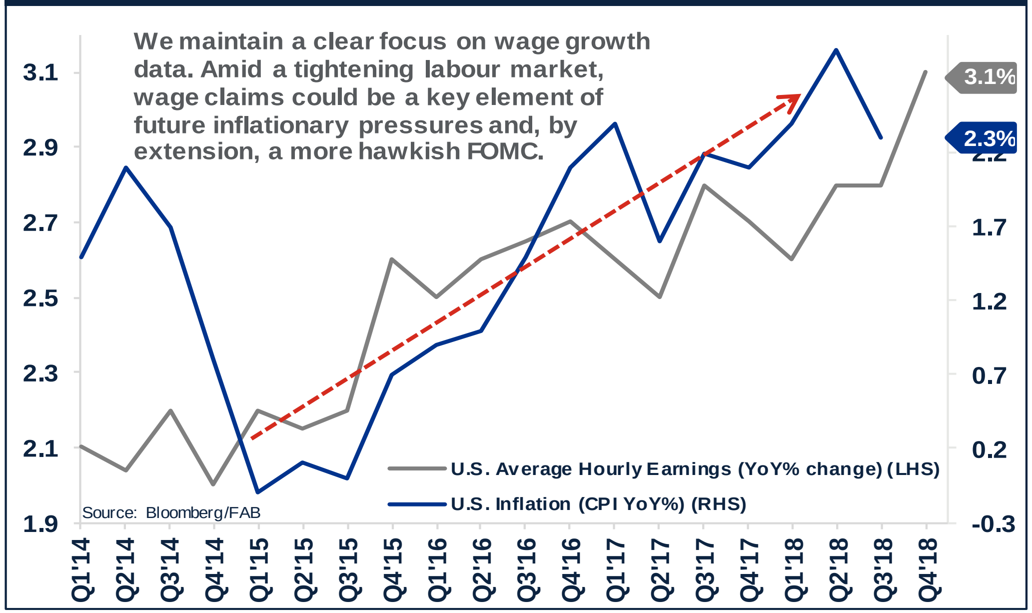
# EM Rates & FX, & Oil - The Traders' Weekly Views

## Market Overview: Subliminal message from NFP ahead of U.S. mid-term elections

- The rates market reaffirmed its bias towards gradually higher yields at the end of last week, in our opinion, as the October U.S. non-farm payroll report came in stronger than expected and with an underlying subliminal message about inflationary pressure. The headline jobs number of +246,000 was well in advance of the +200k consensus, with the overall net outperformance being +30,000 after allowing for the -16k revision to the September data.
- Our focus was on the hourly earnings data though, watching for any signs of inflationary pressure that could trigger a more hawkish tone within the FOMC over the coming months. The earnings numbers came in bang in line with expectations at +0.2% MoM and +3.1% YoY, but this was up modestly from the +2.8% YoY print in September, suggesting a possible upward bias to inflation going forward. As such, we maintain our view that the path of least resistance for yields should remain higher as we head into 2019.

**Wages may hold key to inflation and rates**



- Much of the medium-term view though, both with regard to rates and broader global macroeconomics, as well as geopolitics, may hang on the next 48 hours and the results of Tuesday's U.S. mid-term elections. The ramifications for global markets seem fairly binary.

- While the U.S./China trade polemic continues to cast a veil of uncertainty across global markets and is fueling a more discerning, flight to safety bias across the investment landscape, we believe that the greater near-term market reaction could result from the mid-terms on Tuesday, depending on whether Trumps' hands are strengthened or shackled by voters. The Senate should be safe Trump/Republican territory, but early polls continue to suggest a closer race for the House (Congress).

- If the Democrats do take Congress the result would be a clear stymie to Trump's fiscal stimulus and 'make America great again' initiatives. We would expect a negative market reaction, with investor sentiment and (U.S.) risk appetite dented and treasuries better bid (yields tick lower).

- If the Republicans hold onto both Houses, the status quo will be maintained, which should see a positive knee-jerk reaction in risk asset pricing. We would perceive the longer-term implications as more delicate though. If Republican strength emboldens Trump's protectionist policies and feeds longer-term U.S. inflation concerns, an even more hawkish rates bias may emerge over the coming quarters.

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

## Please find below views on EM Rates & FX, & Oil 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** | It has been really choppy past week for Asian currencies and USDSGD was not spared. The spot plunged from high of 1.3870 to the 1.3740 level following a recovery in global equities and a possible US-China trade deal. Going forward, spot will likely still track broad USD movement and any further headlines linked to trade discussions. Given that risk sentiment has improved, we have become neutral on SGD for the time being. | Neutral 1.3800 | Bearish 1.3700 |
| **INR** | Both local and global headlines were catalysts for the INR this past week. It began with an issue between the RBI and the government which led USDINR sharply higher before we saw a sharp u-turn after this was resolved and crude oil prices softened. | Bullish 74.00 | Bullish 76.00 |
| **CNH** | The fresh US-China trade headlines on Friday ahead of US mid-term elections put a stop to the USD/CNH uptrend before it reached 7.0000. The market was caught too long of USD and subsequently the pair dropped below the 6.9000 level. We think it is currently too volatile to trade CNH outright before a real trade deal is sealed. Going forward, we will await the outcome of a Xi-Trump meeting in the G20 conference in late November. | Neutral 6.9000 | Bullish 7.0000 |

| EM FX | Macroeconomic/Fundamental Analysis | Views (Bearish/Bullish) 2-week Time Frame | Intermediate & Long-term Views (3mth & 12mth Time Frame) |
|---|---|---|---|
| **KRW** | KRW was the biggest beneficiary in terms of spot returns as risk sentiment improved on the back of the recovery in global equities. After testing 1145 multiple times, USDKRW fell after the US-China trade deal headlines. Given a lacklustre local economy, the BoK will likely keep interest rates unchanged in November. Therefore, we prefer buying USD against KRW for a longer term view due to the widening interest differential between the US and Korea. | Bullish 1130 | Bullish 1150 |
| **EGP** | USD/EGP drifted between 17.86-17.96 in the interbank spot market this past week. The key event was the IMF statement that they are happy with pace of the reforms in the country and think that despite a less favourable global environment the economy is performing reasonably well. Thus this clears the path for the disbursal of another $2bln from the IMF most likely by the end of November. Interestingly the yields in the latest T-bill auction of the 6mth and 12mth securities are slightly lower by 10-15bps from the previous week. We will watch closely but potentially fresh money is being deployed into these local assets. In the NDF market the curve came under intensive dollar selling pressure and it is noticeably lower from the last week. We think that considering the US dollar weakness of the last two days and the change of the rhetoric on the US-China trade there is a potential for a broad rally of EM currencies into the year end. | Neutral to bullish USDEGP 17.85-18.00 | Neutral to bullish 17.50-18.50 |
| **NGN** | The NIFEX and NAFEX rates continue to trade at 361 and 364 respectively; steadily converging as "Nifex" fixings gets discontinued at the end of this year. At the latest Treasury bill auction, yields continued their rise, with 1-year paper printing at a rate of 16.72% (up from 15.50%). We think that this adjustment has been long overdue given the fact that the Central Bank had intervened to keep the spot rate stable after other EM currencies sold off in Q3. We remain neutral on this market as we get closer to the General elections scheduled for February 2019. This is now a contest between the incumbent, President Buhari and Atiku Abubakar, a former Vice President. | Neutral NAFEX USDNGN 362-365 | Neutral 360-365 |
| **ZAR** | The Rand continued its rollercoaster ride this past week, tracking the moves in other EM currencies as headlines of a possible trade deal between the U.S. and China resurfaced. Gains were also supported as a broad based sell-off of the dollar resume on Thursday after it earlier hit its year to date highs. Africa's most industrialized economy continues to be caught between a slowing economy and a global environment which has not been favorable to Emerging Markets. We expect the currency to hold its recent range. | Neutral USDZAR 14.25-14.85 | Bullish 15.00-16.00 |

| GCC FX Commentary | |
|---|---|
| **SAR** | The SAR FX curve continued to flatten this week although the pace of the move lower has slowed significantly. The 1Y FX swap is now trading at 40 points mid in the regional market, 5 points lower on the week. The 2Y FX swap was active moving a further 20 points lower to 170 mid in the regional market.<br><br>SAR FX spot is currently trading at 3.7510 mid, 1 pip higher on the week. Local and regional banks continued to be sellers of USD. |
| **AED** | The AED FX curve was unchanged on the week. The 1 year FX swap is at 30 and 2y at 75 points mid.<br><br>AED FX spot is currently trading at 3.6730 mid, unchanged on the week. |
| **KWD** | The KWD FX curve steepened this week with the 1Y FX swap moving 10 points higher to -115 mid. 1, 2 and 3 month FX swaps are trading at -8, -17.5 and -23 mid, respectively, marginally lower on the week.<br><br>KWD FX spot is currently trading at 0.30388 mid, 30 pips higher on the week as the USD continued to gain strength. |
| **OMR** | The Omani FX curve continued to move lower across the curve. In the short dates, the OMR has been very liquid day-to-day. The 1, 2 and 3-month FX swaps were lower at 10, 22 and 40 mid, respectively. The 1Y FX swap is at 270 mid, 5 points lower on the week.<br><br>OMR FX spot is trading at 0.38501 mid, unchanged on the week. |
| **BHD** | Bahraini FX swaps moved marginally higher in the 1Y to trade at 220 mid. Day-to-day, liquidity returned to the market following a short period last week when the BHD was trading +1.5/day. The 3-month and 6-month swaps edged higher at 65 and 115 mid, respectively.<br><br>USD/BHD spot is trading at 0.37698 mid, 2 pips higher on the week as BHD liquidity returned to the market.<br><br>The most recent 3-month BHD T-bill issuance yielded investors 4.26%, up 5 basis point from the previous auction. The coverage was lower at 120% vs. 101% in the prior auction. The 6-month and 12-month issuance yields are 4.37% and 4.89%, respectively. |

## FX Options Commentary

- The USD was on the back-foot this week and gave back its gains across the major and emerging market currencies. The move was spurred by a possible trade deal between the US and China pushing CNH around 10 figures higher against the USD. USDINR is back below the 73.00 handle and GBPUSD above 1.30.  Further volatility is expected to follow Friday's US non-farm payroll number, with owners of gamma (long options) likely to profit from these price swings.

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