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Market Insights & Strategy
Global Markets

First Abu Dhabi Bank

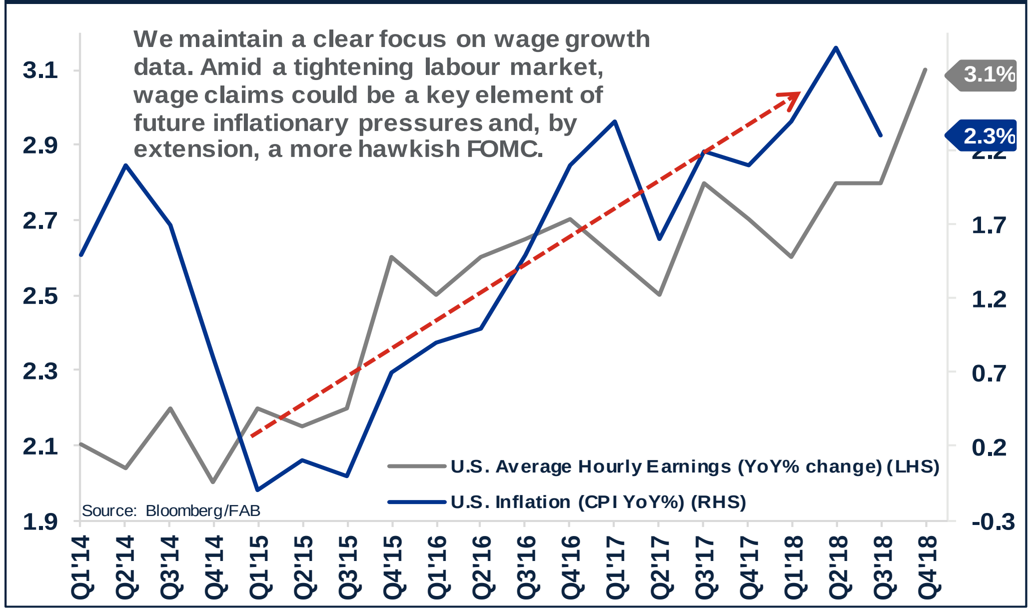
G10 Rates & FX, & Oil - The Traders' Weekly Views

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



4th November 2018

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- 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 G10 Rates & FX, & Oil directly from our traders.

$ yields continue to edge higher again as the flight to quality bid eases and sustained robust data supports current FOMC forward pricing probabilities. Dollar strength across the board continues although DXY has come off the recent highs of 97 and back to 96.25. Nonetheless, we believe $ strength has further to go. LIBOR fixings are relentless and have moved 6bp wider this week, pushing the FRA/OIS term structure wider. FX swaps continue to move to the right as the turn $ premium has richened significantly; in our view, the annualized contribution of the turn has much further to go.

G-10 FX	Macroeconomic/Fundamental Analysis	Views (Bearish/Bullish) 2-week Time Frame	Intermediate & Long-term Views (3mth & 12mth Time Frame)
GBP	In their November Inflation report, the MPC were relatively hawkish on their assessment of the UK economic outlook. As we have been highlighting for some time, there is limited spare capacity (if any) left in the UK economy and predicated on an orderly exit from the EU we see the BOE moving rates higher by 50bp in 2019 and 2020, with cable moving above 1.50.	Neutral	3m 1.3000 12m 1.4500

G-10 FX	Macroeconomic/Fundamental Analysis	Views (Bearish/Bullish) 2-week Time Frame	Intermediate & Long-term Views (3mth & 12mth Time Frame)
EUR	Last week, the single currency rejected the 1.1300 support level for the second time this year as risk eased on the back of the passage of the S&P rating risk without a downgrade; BTP-Bund spread retreated from 3.125 and also Brexit related headlines saw EURUSD rally in sympathy towards a high of 1.1440 by Friday morning. Indeed, EURUSD staged a powerful comeback and will likely test 1.1460 this coming week.	Bullish	3m 1.1100 12m 1.1900
JPY	USDJPY trading range in October was really uninspiring to say the least; the top was firmly in place around 114.00 and the pair was supported around 111.50. Notably, JPY relinquished its safe haven crown for other currencies and evident by the price action after the US-China tensions eased when Trump seemed friendly with Xi. Trump announced the call they had along with dinner plans set for December 1st and that it might lead to a possible China deal. On the central bank front, the BOJ maintains the same strategy of slowly and discreetly reducing the bond purchase amounts especially in the front end, while the insurance companies in Japan released their plans for next year that indicated a rising demand for JGBs.	Neutral	3m 110.00 12m 108.00
NZD	Kiwi staggered an impressive rally on the 1st of November as market participants were suddenly caught long dollars after the month end and the move accelerated after both equities and commodities managed to correct some of the losses seen in September and October. Furthermore, it seems that the momentum of the move is sufficient for the antipodean currency to challenge 0.6700 and 0.6730 next. That said the only risk to that assumption is the RBNZ this week, where the central bank is likely to maintain its bearish outlook and maybe flag growth concerns.	Bullish	3m 0.6300 12m 0.6100

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.

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

Pinrath Wongtrangan
Pinrath.Wongtrangan@bankfab.com

Danay Sarypbekov
Danay.Sarypbekov@banbkfab.com

Rashid Rasul
Rashid.Rasul@bankfab.com

Non-Linear Products

Marco Benassi
Marco.Benassi@bankfab.com

Mohamed Bouzoubaa
Mohamed.Bouzoubaa@bankfab.com

Naoufal Alami
Naoufal.Alami@bankfab.com

Tel: +971 2611 0111