www.nbad.com

Emerging Markets Currencies - the traders' views
(07-October-2016)

Please find below views on Emerging Markets FX directly from our traders. The views include short-term (2wk), intermediate (3mth) and long-term (12mth) outlook on EM FX.

EM	Macroeconomic/Fundamental Analysis	Views (Bearish/Bullish) 2 week Time Frame	Intermediate & Long-term Views (3mth & 12mth Time Frame)
SGD	USDSGD drifted 0.8% higher this week mainly tracking the strengthening move in USD Index. SGDNEER initially weakened to drop below the midpoint of the SGDNEER with outflows in bond market seen led by higher US rates, yet recovered to the centre point before closing on Friday after SGS yield has been repriced to a higher level and led to some long-term buyers interest. Ahead of MAS meeting on 14 Oct next week, I believe there should still be some outflows in SGD as market is pricing chance of re-centring the band (lower) to allow further depreciation. However I see the recent economic data coming out pretty solid hence do not believe MAS will be aggressively adjusting the policy again (last time they flattened the SGDNEER slope to flat) to allow further depreciation when USD is heading towards a rate hike end of the year which might already naturally trigger outflow. Remain bearish SGD ahead of MAS meeting but neutral stance afterwards due to the market expectation play.	Bearish 1.3800	Neutral 1.3800
INR	RBI unexpectedly decided to cut 25 bps unanimously this week under the new governor as inflation forecast is adjusted lower. This is more a pre-empt move as the Committee has expected some pickup in inflation in the short run due to some one-time adjustments such as implementation of GST, yet believe risk is tilted to the downside. This shows RBI might be willing to take more aggressively steps going on forward and should be positive for bond inflows. Given this new stance, the view on USDINR has changed to Neutral on the back of potential new inflows to bond market.	Neutral 67.00	Neutral 67.00
CNH	Unexpected volatility during the Golden week holidays with USDCNH spot breaking the well-watched resistance at 6.7000 and traded to a high of 6.7180 triggered by stops and corporate covering interest. This is the first week CNY has been included in the SDR, yet onshore USDCNY will only open next Monday. Hence the recent strength in USD can only be reflect in USDCNH which probably triggered the volatility as local supplies remain thin during China holidays. All eyes on next Monday to see what the local authorities stance is towards the currency. China FX reserves dropped to $3.16t which is slightly below expectation probably due to some FX forwards have not been roll forward. However given the strong supply in both spot and forward market in CNH throughout the past weeks, I believe China still wants to maintain stability in the currency market in a longer run, hence my short term view is Neutral on the currency, and long term inclined to bearish due to possible USD rate hike which might trigger another round of outflow from local residents/corps.	Neutral 6.7000	Bearish 6.8000
MYR	MYR weakened 1% against the USD tracking most Asian EM currencies move despite oil marked 3 months high and breaking $50/barrel. 1m points against spot remained high at 50 pips throughout the week showing minimal fresh inflows to MYR from offshore perspective was triggered on the back of higher oil price. Market seem to worry the outflow of MYR from bond market due to high foreigner participation as a result of potentially stronger USD (similar to last year) along with weakening economic data, is stronger than the positive effect from higher oil price. Some banks are also forecasting another rate cut in Nov as domestic activities growth slows. Based on current fiscal policy spending, it seems the potential spending from government this year could be limited by the 3% fiscal deficit target set by the government, hence domestic growth which is primarily driven by public sector investment from the government could be slowed in Q4. Hence we remain our bearish outlook in USDMYR.	Bearish 4.1800	Bearish 4.2000

EM	Macroeconomic/Fundamental Analysis	Views (Bearish/Bullish) 2 week Time Frame	Intermediate & Long-term Views (3mth & 12mth Time Frame)
KRW	USDKRW traded 1% higher for the week due to outflows in bond market seen as Bank of Korea seem less hawkish and intend to keep the current policy rate unchanged. Bond yields spiked by 10 bps for the week. CPI data came in much stronger than expectation at 1.2% YoY. Market start to reprice less chance of a rate cut in Q4. BoK meeting next week is expected to keep rates on hold, and I remain neutral on USDKRW ahead of comments from the government officials.	Neutral 1120	Neutral 1120
EGP	The official exchange rate was left unchanged at EGP 8.78-8.88. There were very strong expectations of the devaluation this week among the local banks in Egypt which did not come true. Later in the week the Ministry of Finance official stated that it would take another 2-3 weeks to finalise the financing and to approve the IMF program. Currently we think that the imminent devaluation will take place in the second half of October once the IMF program is approved. We still expect the devaluation to the level around 11.00 with a change in the exchange rate regime to a managed float with a weakening bias going forward.	Bearish to neutral 8.78	Neutral to bearish 10.50 – 11.00
NGN	The interbank market traded this week between 310-330. The story continues in the sense that the black market rate is drifting higher as there is no properly functioning interbank market with levels approaching the 500 mark. There is a clear understanding that the CBN is keeping the interbank market artificially low and this is not sustainable. We think that current levels in NDFs are attractive in 2-6 month tenors to buy USD and sell NGN as the risk are skewed to the upside in the coming months. Our spot target is 350 at the moment. As a confirmation of the non-functioning official market, the World Bank is demanding further reforms from the government before lending to Nigeria.	Neutral to bearish 325-345	Bullish 300 - 320
ZAR	The rand stayed below the 14.00 mark against our expectations but the report this week that the ECB is thinking about tapering its QE program pushed ZAR close to 14.00 again. The path of least resistance at the moment is to the upside in the rate and the NFP report later today will set the tone for the next week. we remain bearish on the rand.	Bearish 14.00-14.75	Bearish 15.00-16.50

NBAD Global Markets FX team

G10 FX Spot

Phil Muldoon
Phil.Muldoon@nbad.com

Nourah Al Zahmi
Nourah.Alzahmi@nbad.com

EM FX Spot

Danay Sarypbekov
Danay.Sarypbekov@nbad.com

Pinrath Wongtrangan
Pinrath.Wongtrangan@nbad.com

Tel: 00971 2611 0111