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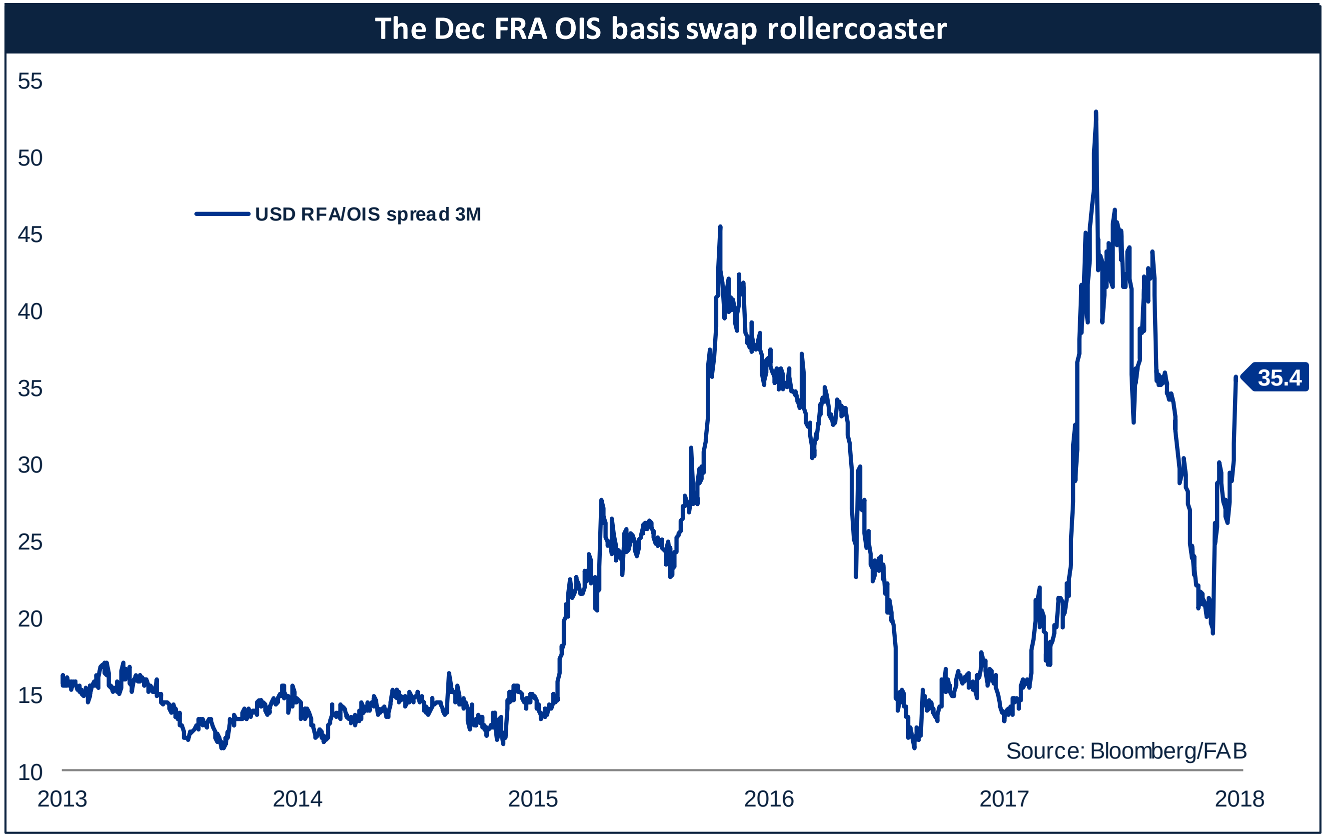
EM Rates & FX, & Oil - The Traders' Weekly Views

Market Overview: European event risk in focus

- There were two main focuses from the Brussels summit last week, one was the much vaunted discussions surrounding a Brexit deal (or not) while the other was a strong message from the European Union to Italy about its excessive spending. Both of these issues had serious repercussions in the market. The former pushed cable towards the big figure support at 1.3100 but the latter saw fall out across multiple European jurisdictions. Up until recently, Italy had been a largely idiosyncratic event risk in the broader Eurozone context, but weakness has begun to emanate more broadly in the past week.
- It will be interesting to see how the ECB handle the contagion at next week's press conference post the monthly rate setting meeting (where new expect no change to the main headline rates). With all Eurozone peripheral economies now coming under pressure from one fiscally irresponsible country, Draghi may be fairly limited in what he can actually do to address the situation - a situation that is compounded by the laissez faire attitude of the Italian government.
- Indeed, Italy's credit profile, clearly stressed, will again be firmly under the spotlight in this coming week. Moody's cut Italy's sovereign rating on Friday to 'Baa3' (from 'Baa2') leaving it staring into the the abyss of sub-investment grade territory. This follows Fitch's downgrade of the outlook on its 'BBB' Italy rating to negative from stable on August 31. Meanwhile, S&P is expected to announce the result of its rating review on Italy ('BBB') on Friday, October 26. Such uncertainty has manifested itself in the BTP Bund spread, which pushed to a historic high of 336bp.
- Portugal, Spain and Greece are all suffering on the back of Italy's woes, although, encouragingly, the EUR seemed to have found a base on Friday afternoon sitting around 1.1450.
- Funding pressure has become a mantra for our G10 desk who rightly point out that the cost of U.S. dollars has risen to 17% for the year end turn with expectations for this to move even higher over the coming weeks. Eurodollars came under pressure late last week as the Libor fixings seemed to reflect some of the pressure in the market, jumping 2bp and 1bp higher in 3m, Thursday and Friday respectively. The various USD basis curves also felt the pressure with widening across the board and the Dec Fra OIS basis swap above 35bp; this reached highs of nearly 53bp earlier this year. The chart below shows the path this basis has taken over the last five years.

➢ There are multiple different ways to hedge this funding risk so please do reach out to our teams to discuss further.



(Simon Ballard, Macro Strategist, Market Insights & Strategy)
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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	Spot USD/SGD traded within a 100 pips range this past week mostly tracking the risk on/risk off reaction from equities. Forwards have seen some selling interest post MAS alerted the slope of the band, indicating a stronger SGD against the NEER and adjusting for strong domestic fundamentals. We prefer to be long SGD against other regionals in the current environment both as a safe haven currency due to volatile market conditions, along with SGD being the most liquid available for Asian exposure.	Neutral 1.3800	Bearish 1.3700
INR	Oil dropping 5% from this past week greatly helped investors optimism on INR. Spot USD/INR traded down to 73.40 with bonds seeing buying interest again as inflation fears on higher oil price fades, along with a weaker than expected CPI number. However equities are still tracking the global risk-off sentiment, and failed to climb higher this week. We believe portfolio inflow into India this year could still disappoint, hence we still prefer to long USD against INR.	Neutral 74.00	Bullish 76.00
CNH	USDCNH continued to trade higher this past week as the PBoC allows the USDCNY fixing to move above 6.9000. The CFETS RMB index headed down to 92 which is the low since inception. However ahead of the potential Xi-Trump meeting in November, we believe the well-watched 7.0000 spot level will be maintained to avoid further comments from the US about using currency as a weapon towards trade tariffs. Given the trade-weighted CNY is now on the weak side, there could also be a natural bias to support the CNY against the basket to avoid material depreciation. Hence we would continue to range trade this pair between 6.8500-6.9500.	Neutral 6.9000	Bullish 6.9500
KRW	As an equity sensitive currency especially with technology stocks, USDKRW traded in a 18 won range mostly tracking the US equity market move. Bank of Korea maintained its policy rate unchanged at 1.50% this past week with neutral to hawkish comments provided some support for the KRW. As this week is a busy one for technology stocks earnings in the US, we suggest staying nimble on this pair, yet biased to long USD due to widening US-KR interest-rate differentials.	Bullish 1140	Bullish 1150
EGP	As usual no changes in the USD? EGP interbank market which is still in the range of 17.86-17.96. Meanwhile expectations are building that Russia will permit the resumption of flights to the Egypt's red sea area that was closed to Russian tourists since the attack 2 years ago. This would clearly be a positive for Egyptian tourism sector that is expected to generate around $8-9bln in 2018. T-bill yields in the last auction of 6mth and 12mth securities remain at elevated levels close to 20%. In the NDF there was two-way activity with no bias to either side. Currently we are watching closely the developments in global markets and especially if US equities continue to decline. A risk-off in global markets might have a negative effect on EGP assets and the currency.	Neutral to bullish USDEGP 17.85-18.00	Neutral to bullish 17.50-18.50

EM FX	Macroeconomic/Fundamental Analysis	Views (Bearish/Bullish) 2-week Time Frame	Intermediate & Long-term Views (3mth & 12mth Time Frame)
NGN	The NIFEX and NAFEX fixing rates continue to trade at 361 and 364 respectively; steadily converging as “Nifex” fixings gets discontinued at the end of this year. Overnight repo rate remained stable around 9% while yields remained flat around 15.60% on the 1 year paper. As mentioned last week, 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 was stable for most of the past week, tracking moves in both the Turkish Lira and the Dollar Index. This week sees the release of the monthly inflation number which is expected to give some clue over the monetary policy path. After reducing the benchmark rate to 6.5% in March, the Central Bank has a difficult Job as they are caught between a slowing economy and a global environment which has become less favorable to Emerging Markets. We expect the consolidation of the currency to continue between 14 and 15 for the next few months before USD/ZAR pushes higher, possibly testing the 16 figure.	Neutral USDZAR 14.25-15.00	Bullish 14.75-16.00

FX Options Commentary

- Volatility in USD pairs was slightly elevated this week; the biggest losers again the USD were EUR, GBP, Cad and CNH. The INR performed well and resistance around 74.50 looks strong. Implied volatility remains firm and this environment currently benefits clients who are looking for yield enhancement strategies like dual currency deposits, target notes and enhancer structures.
- The FXO desk took profit on a long gold position after a $50 rally in price over the last few weeks as topside momentum appears to be abating.

GCC FX Commentary	
SAR	The SAR FX curve was once more significantly steeper on the week with strong interest from internationals to take the longer end of the curve. The 1Y FX swap is now trading at 80 points mid in the regional market, 30 points higher on the week, having traded at a high of 105 in the international market. The 2Y FX swap was also very active moving 50 points higher to 250 mid in the regional market. SAR FX spot is currently trading at 3.7518 mid, 6 pips higher on the week on the back of international banks continuing to buying USD, while local banks remained on the offer.
AED	The AED FX curve was unchanged on the week. The 1 year FX swap is at 29 and 2y at 75 points mid. AED FX spot is currently trading at 3.6730 mid, unchanged on the week.
KWD	The KWD FX curve moved to the right for a third week as liquidity tightened further pushing the entire curve higher. The 1Y FX swap is now at -140 mid, 65 points higher on the week, while shorter tenors (1 month - 6 months) moved 15-50 points higher.1, 2 and 3 month FX swaps are trading at -3, -10 and -12.5 mid, respectively. KWD FX spot is currently trading at 0.30328 mid, 5 pips higher on the week.
OMR	The Omani FX curve moved lower as there was renewed interest to sell the 1Y and 2Y FX swap. The 1Y FX swap is at 295 mid, 25 points lower. Liquidity in the short dates continued to eased-off however the 1,2 and 3-month FX swaps continue to trade at 20, 38 and 60 mid, respectively. OMR FX spot is trading at 0.38501 mid, 2 pips higher on the week.
BHD	The Bahraini FX swaps moved higher along the curve as liquidity began to tighten once more. The 3-month and 6-month swaps were higher at 50 and 90 mid, respectively. The 1Y FX swap moved 40 points higher at 190 mid. USD/BHD spot is trading at 0.37703 mid, 2 pips higher on the week. The most recent 3-month BHD T-bill issuance yielded investors 4.20%, up 2 basis points from the previous auction. The coverage was the highest it has been in 6 months at 138% vs. 131% in the prior auction. The 6-month and 12-month issuance yields are 4.37% and 4.81%, respectively.

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