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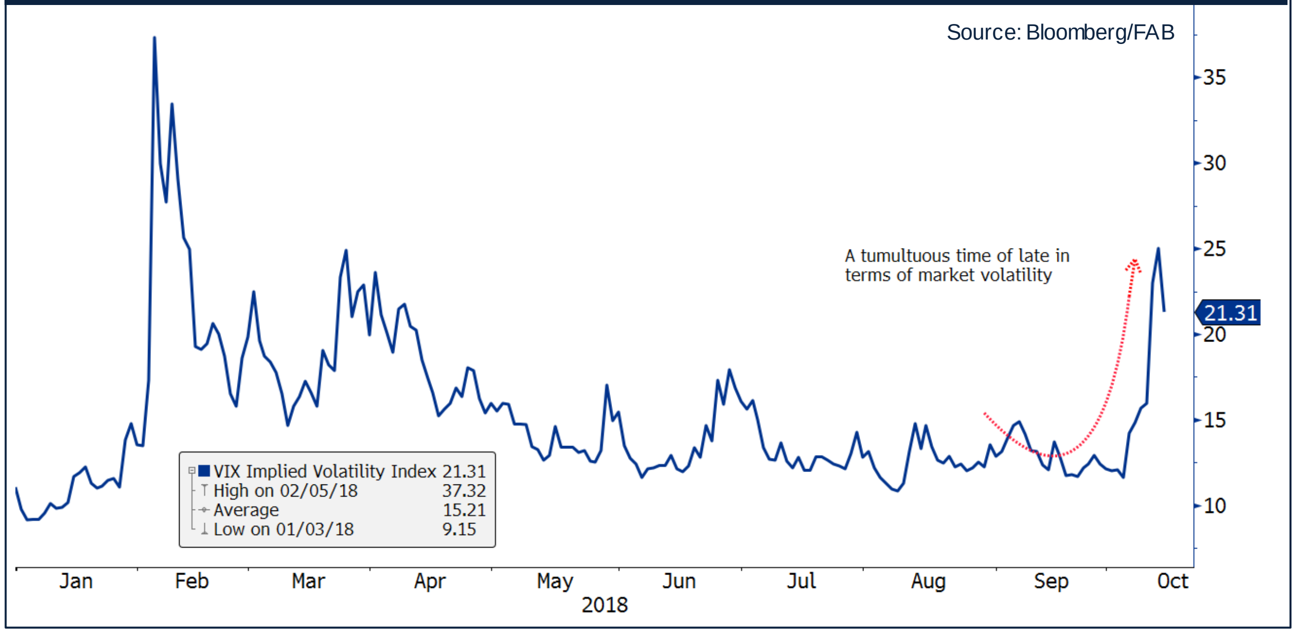
EM Rates & FX, & Oil - The Traders' Weekly Views

Market Overview: Riding the Rollercoaster

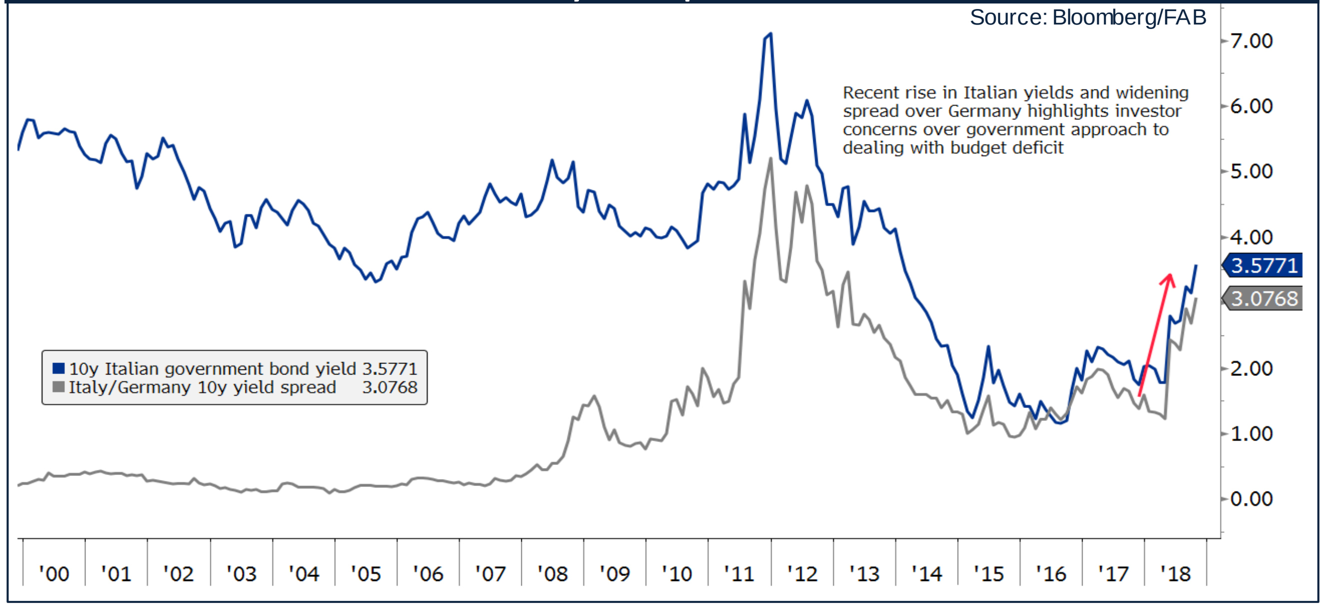
- Global market sentiment ended last week on a firmer note after several tumultuous sessions earlier in the week, nonetheless we would suggest that the propensity for further volatility remains elevated over the coming week. We should at least have a firm base to trade off initially though; global equities traded more than 1% higher on Friday and the iTraxx credit indices and high yield corporate bonds both saw spreads edge tighter.
- This said, market sentiment remains susceptible to headline risk and in this respect all eyes will now be on upcoming Q3 earnings data – as we seek confirmation or otherwise that Trump's fiscal stimulus/tax cuts are still boosting corporate balance sheets – as well as near-term high tier macro data.
- Key data this coming week will include U.S. September retail sales (Monday) and the latest Fed minutes (due Wednesday) as well as Eurozone CPI numbers (Wednesday). The macro data spotlight will then turn securely toward China Q3 GDP data, due for release on Friday, where the market will be bracing for any meaningful impact of U.S. tariffs; consensus is for a modest dip to +6.6% YoY from +6.7% YoY in Q2.

A rollercoaster time



- Robust Chinese trade data helped to assuage global trade war fears and negative sentiment toward the global growth outlook. All of this was buoyed by suggestions of a U.S./China meeting over trade terms that could take place next month. Meanwhile, solid third quarter bank earnings from JP Morgan Chase, Citigroup and Wells Fargo marked the start of the new earnings season and with the path of least resistance for the rates market expected to be higher over the coming months, this should offer further support to financials.
- In Europe, the market will likely be keeping a close eye on Italy over the coming weeks as the parlous balance sheet of the southern European sovereign weighs on sentiment. Indeed, such is the susceptibility of the market to headline risk that we expect continuing concerns about Italy and its broader strains on the Euro, to limit any potential near-term strength in the single currency.

Italy under pressure



- Indeed, question marks over Italy have been exacerbated of late by unidentified ECB sources suggesting that the ECB would not come to Italy's rescue unless Rome requests a formal bailout program. And with a potential sovereign credit rating downgrade looming from Moody's, we would conjecture that risk is still definitely tilted to the downside when it comes to Italy.
- Meanwhile, MENA/GCC markets remain susceptible to further bouts of broad market volatility, although the firm relative value macro fundamental strengths of the sector should continue to limit absolute downside risk in a flight to safety scenario and fuel relative outperformance versus any broader EM weakness. With the path of least resistance for bond yields being higher, we continue to advocate risk differentiation, with credit quality curves biased to steepen.

(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	This past Friday MAS increased its SGD NEER policy slope "slightly" from an estimated 50bp to 100bp as expected. There wasn't much reaction to the announcement as the market has already priced such a move in. A higher slope adjustment should be positive for the short end SGD rates curve and should continue to outperform the USD, but we haven't seen any fresh receiving interest hitting the market as yet. USD/SGD and SGD NEER were pretty much unchanged with the NEER stands at 1.75% on the strong side.	Neutral 1.3800	Bearish 1.3700
INR	It may be too soon to call a top for Spot USDINR; but the price action above 74.00, especially after RBI last week, suggests to us that it might be worthwhile to try to be small short USDINR as a tactical trade. With the equity sell-off affecting the USD, we expect a switch by funds from DM to EM, and India should benefit. This past week’s biggest headline was the news that Indian officials are considering all options including NRI bonds to help the support the local currency.	Neutral 74.00	Bullish 76.00
CNH	USDCNH ranged between 6.8700-6.9400 for most of this past week as the PBoC allowed the USDCNY fixing to move above 6.9000. USDCNH spot touched a high of 6.9400 triggered by the selloff in US equities, yet quickly recovered and traded down to 6.8700 as the DXY weakened. Forwards got squeezed earlier this week as local banks were aggressively buying short dated tenors, yet overnight liquidity came in much more flush than expected, triggering some good selling interest across the curve. Meanwhile the one- month implied CNH yield came off from high of 6% to 4%. Our view stays the same, ie: Range trading for spot between 6.8000-6.9500 with a small bias towards a stronger USD due to interest rate differentials, whilst any further moves will depend on trade-tariff developments.	Neutral 6.9000	Bullish 6.9500
KRW	USDKRW had a clean break above 1140 after equity sell off, but recovered to end last week at 1130. However, our view is that it's just a matter of time before we see USDKRW move higher. At this point in time, we need to differentiate between high beta low yielder vs. the higher yielders. Asian high yielders already took a big hit this year and have started to see some value, but the lower yielders like KRW, will continue to track equity performance. So with a possible switch of fund from the USD back to EM, we don't think that high beta like KRW will benefit as much.	Bullish 1130	Bullish 1150

EM FX	Macroeconomic/Fundamental Analysis	Views (Bearish/Bullish) 2-week Time Frame	Intermediate & Long-term Views (3mth & 12mth Time Frame)
EGP	The interbank spot market remains stuck in the familiar 17.86-17.96 range. Meanwhile the September inflation numbers were released last week with Urban CPI at 16.0% vs 14.2% previously whilst the core CPI remained stable at around 8.5% vs 8.8% in August. The jump in CPI means the CBE will probably to stay put in terms of interest rates at its next meeting on the 15th of November. However international investors appear to be continuing to reduce their holdings of Egyptian T-bills which decreased to $14bln at the end of September from around $15bln in August and $17.5bln at the end of June. The Egyptian stock market is down almost 30% from the highs reached in April of 2018 when foreign portfolio inflows hit their peak levels in the post-devaluation period. The outflows from the securities markets are driven by concerns about EM in general as USD rates are rising and oil prices are relatively high which is hurting the Egyptian balance of payments. LCY T-bill yields in the primary market for 6mth and 12mth securities are a touch below 20%. In the NDF market we have noted slightly more bidding interest for USD. We remain of the view that it is best to sell USD in 1 month NDFs and be long the dollar in 6-12 month as rising interest rates in the US will likely continue to put pressure on global EMFX.	Neutral to bullish USDEGP 17.85-18.00	Neutral to bullish 17.50-18.50
NGN	The NIFEX and NAFEX rates continued to trade at 361 and 364 respectively this past week; steadily converging as "Nifex" fixings gets discontinued at the end of this year. The overnight repo rate eased to 9% from a high of 14% after liquidity hit the system from OMO maturities. T-bill yields remain stable with the 1year paper offered at a yield of 15.60%. We remain neutral on this market as we get closer to the General elections scheduled for February 2019. This poll 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 gained ground during the past week after finding technical support at the 15 handle and on positive sentiments around the newly appointed Finance Minister, Tito Mboweni, a former central bank governor who is known and respected by markets. The appointment came following the resignation of Nhlanhla Nene, who was said to have attended unauthorized meetings with the Guptas. The positive sentiment in the Rand was also supported by a sudden broad based dollar weakness via Trump's Fed comments and IMF concern over trade wars. We expect the Rand's consolidation to continue between 14 and 15 for the next few months.	Neutral USDZAR 14.25-15.00	Bullish 14.75-16.00

GCC FX Commentary	
SAR	The SAR FX curve was 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 50 points mid in the regional market, 25 points higher on the week; the international market is 57 mid, having traded at a high of 72. The 2Y FX swap was also very active moving 90 points higher to 200 mid in the regional market. SAR FX spot is currently trading at 3.7512 mid, 5 pips higher on the week on the back of international banks continuing to buying USD, while local banks remained on the offer, temporarily halting the move higher.
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 higher for a second week running as liquidity tightened further pushing the entire curve right. The 1Y FX swap is now at -205 mid, 25 points higher on the week, while shorter tenors (1 month - 6 months) moved 10-15 points higher.1, 2 and 3 month FX swaps are trading at -18, -35 and -50 mid, respectively. KWD FX spot is currently trading at 0.30323 mid, 40 pips lower on the week on recent dollar weakness and tightening of KWD liquidity.
OMR	The Omani FX curve also moved higher, although the pace slowed as internationals showed interest on both sides of the market. The 1Y FX swap is at 320 mid, 30 points higher. Liquidity in the short dates eased-off causing the shorter end of the curve to move to the left, with the 1,2 and 3-month FX swaps at 17, 35 and 60 mid, respectively. OMR FX spot is trading at 0.38499 mid, 1 pip lower on the week.
BHD	The Bahraini FX swaps curve moved 5 points left in the shorter-end (up to 6 months) as BHD remained liquid and was well-offered day-to-day. The 1Y FX swap remained unchanged on the week trading at 150 mid. There has been some interest on both sides of the market, however, no significant directional move as yet manifested itself. USD/BHD spot is trading at 0.37701 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 week. The 6-month and 12-month issuance yields are 4.37% and 4.81%, respectively.

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