NOMURA

# Weekly Global FX Snapshot

FOREIGN EXCHANGE

## Surveys make headlines

*Our Weekly Global FX Snapshot is in an editorial format, with a section from each FX strategy team (G10, Asia, and LatAm/EEMEA) highlighting key themes and research this week. This is followed by our forecast table and main portfolio recommendations at the end of the report.*

### G10 and Global: Deciphering if "Brexit is not so bad"

The UK's manufacturing PMI recovered significantly in August to 53.3 from 48.3 previously. Consensus was looking for just 49.0, so the return to expansionary territory took the market by surprise. Short EUR/GBP and Long GBP/JPY are our favoured choices for a positioning squeeze (avoiding NFP/Fed complications) or even the likes of long GBP/CHF looks interesting. The probability of GBP/USD undercutting 1.30 continues to fall away if September and October's round of data does not show any signs of a material Brexit impact (see Deciphering if "Brexit is not so bad").

Ahead of the scheduled comprehensive assessment by the BOJ, there have been further comments on monetary policy by policymakers. Comments from Prime Minister Abe's economic adviser Mr Hamada on the possibility of foreign bond purchases by the BOJ are attracting some market interest. He said the BOJ could consider buying foreign bonds as way of weakening the yen in his interview with Reuters. We believe there is a low likelihood of foreign bond purchases by the BOJ though, and one of the board members Mr Funo said this week that it would be hard to buy foreign bonds and it could not happen soon. We continue to view FX intervention at current levels as unlikely.

PMI data in Norway and Sweden were poor this week. Norway's PMI fell to 50.8 from 54.2, erasing the significant positive gains of the last 2-3 months. This, on top of last week's weaker oil investment survey paints a slightly less optimistic Q3 picture for Norway so far, although Norges Bank's regional network survey on 13 September will be key to watch. We are long NOK vs CAD and EUR (50-50 basket), and still think that fundamentals point to a stronger NOK.

### Asia: Southeast and Northeast Asia FX divide

We maintain a long USD bias in our portfolio while expressing our relative value view of general outperformance in South/Southeast Asia (excluding SGD, THB and IDR) against Northeast Asia. This is because of our concern over China's economy, increased noise against local FX strength and the potential re-emphasis of G3 monetary policy divergence. On Asia FX positioning, there appears to have been a shift from short USD/Asia positions recently (see Asia FX Positioning Indices, 29 August 2016). However, we believe this may have been primarily led by fast money investors, while real money investors may have not yet begun to participate actively in the recent move up in USD/Asia. Based on data we have gathered from 10 mutual funds that track the JP Morgan EM-GBI, we believe allocation to Indonesia and exposure to IDR FX could have been overweight in July 2016 (see Asia Insights - Thoughts on Asia FX, 29 August 2016). Ahead of the coming US August nonfarm payrolls (2 September), we tactically adjusted our portfolio risk exposure, reducing our short USD/PHP position (see First Insights - Asia FX portfolio update, 1 September 2016).

Even as China August official manufacturing PMI rebounded to 50.4 from 49.9 in July, potentially owing to post-flood reconstruction starting earlier, the Caixin PMI fell to a weaker-than-expected 50.0 in August from 50.6 in July. Overall, the signals for August remain mixed and our China economic team maintains its forecast for a growth slowdown in Q3 (see Asia Insights - China: The official PMI rebounds in August, 1

**Global Markets Research**

1 September 2016

**Research analysts**


Global FX Strategy

**Bilal Hafeez - NIplc**
bilal.hafeez@nomura.com
+44 (0) 20 710 34201

**Mario Robles - NSI**
mario.robles@nomura.com
+1 212 436 8182

**Sam Bonney - NIplc**
sam.bonney@nomura.com
+44 20 7103 4729

**David Wagner - NSI**
david.wagner@nomura.com
+1 212 667 2118

Asia FX Strategy

**Craig Chan - NSL**
craig.chan@nomura.com
+65 6433 6106

**Wee Choon Teo - NSL**
weechoon.teo@nomura.com
+65 6433 6107

**Dushyant Padmanabhan - NSL**
dushyant.padmanabhan@nomura.com
+65 6433 6526


Production Complete: 2016-09-01 15:43 UTC

September 2016). Furthermore, we believe that large capital outflows from the locals that have kept China FX reserves growth near zero in recent months will be a continued source of pressure on the RMB (see Asia in Charts - Asia FX views, 26 August 2016). We maintain short RMB in our Asia FX portfolio albeit in reduced sizes ahead of the G20 Summit on 4-5 September.

We think the Monetary Authority of Singapore (MAS) will leave its FX policy unchanged (60% probability) in October. This is because the growth outlook is likely to remain weak and consistent with the MAS's official range of 1-2%, which already factors in a significant slowdown in H2. Core inflation is also likely to pick up and average 1.0% this year, reflecting rising labour costs. The remaining 40% likelihood is almost fully assigned to FX policy easing significant downside risks such as a China slowdown, global monetary policy repricing and O&G sector risks. Because of our base case, we exited our short 1M S$NEER position as there are already some expectations of an easing in October, with the market already short SGD. Overall, our bias ahead is still to trade S$NEER from the short side, but closer towards +1% above the mid (see Asia Insights - Singapore: The MAS is likely to leave policy unchanged in October, 30 August 2016).

## LatAm: The carry trade is still possible, but bypass USD funding for now

With the summer period coming to an end after a prolonged period of EMFX complacency, the potential size of capital flows in September could mark this month as a pivotal one in the year. Investors are generally heavily positioned (long) in the LatAm region; however, there are divergences. In Mexico, ownership of long-dated government bonds has risen markedly since 2015 (and especially YTD), whereas foreign investors have yet to step into Brazilian assets in a convincing manner. On sensitivities, the last two months have brought some notable changes. First, USDBRL's sensitivity to broad dollar movements has waned significantly since around the Brexit vote. Second, while USDMXN has traditionally been the most vilified of currency crosses in EMFX space, the most recent experience points to a nontrivial change in perceptions. In particular, August saw a significant diminishing in MXN's reaction to risk (as proxied by the VIX). This is an interesting development; however, there are structural reasons why MXN has a bad reputation during times of distress, and our base case is for this sensitivity to recover. If the dislocation between USDMXN and risk sentiment persists for a prolonged period, MXN could surprise the investment community by trading more resiliently going forward, particularly if a strong USD environment fails to materialise going into the next (expected) Fed hike in December and a political premium (association with a Trump victory) does not emerge (see Placing LatAm FX in Context, 31 August, 2016).

Given strong sensitivities to broad USD in general, we prefer to bypass USD funding. For now, we hold onto our strategic view that Brazil continues to be the best way to benefit from high carry and decide to fund intra-regionally with a lower-yielding country, at least until we have a clearer outlook on the U.S. Fed (see finding yield in LatAm: Long BRL – Short CLP, 24 August 2016).

*The usual forecast table, key trading themes, and portfolio summary are on the following page.*

**Fig. 1: FX Forecasts**

| | | 01-Sep | Q3 16 | Q4 16 | Q1 17 | Q2 17 | Q4 17 |
|---|---|---|---|---|---|---|---|
| **G10** | | | | | | | |
| US Dollar Index | (DXY) | 95.9 | 98.7 | 100.4 | 100.8 | 101.3 | 102.1 |
| Japanese yen | (USD/JPY) | 103 | 100 | 104 | 106 | 108 | 112 |
| | (EUR/JPY) | 116 | 107 | 109 | 111 | 112 | 115 |
| Euro | (EUR) | 1.12 | 1.07 | 1.05 | 1.05 | 1.04 | 1.03 |
| Swiss Franc | (CHF) | 0.98 | 1.03 | 1.07 | 1.08 | 1.09 | 1.11 |
| | (EUR/CHF) | 1.10 | 1.10 | 1.12 | 1.13 | 1.13 | 1.14 |
| British Pound | (GBP) | 1.33 | 1.26 | 1.27 | 1.27 | 1.28 | 1.29 |
| | (EUR/GBP) | 0.84 | 0.85 | 0.83 | 0.82 | 0.82 | 0.80 |
| Australian Dollar | (AUD) | 0.75 | 0.72 | 0.70 | 0.70 | 0.71 | 0.72 |
| Canadian Dollar | (CAD) | 1.31 | 1.32 | 1.34 | 1.33 | 1.33 | 1.31 |
| New Zealand Dollar | (NZD) | 0.73 | 0.69 | 0.67 | 0.67 | 0.68 | 0.70 |
| Norwegian Krone | (EUR/NOK) | 9.31 | 9.20 | 9.00 | 8.95 | 8.90 | 8.80 |
| Swedish Krona | (EUR/SEK) | 9.57 | 9.20 | 9.10 | 9.00 | 8.90 | 8.70 |
| **Asia** | | | | | | | |
| Chinese Renminbi | (CNH) | 6.68 | 6.81 | 6.95 | 7.00 | 7.05 | 7.15 |
| Hong Kong Dollar | (HKD) | 7.76 | 7.79 | 7.85 | 7.85 | 7.85 | 7.84 |
| Indonesian Rupiah | (IDR) | 13269 | 13275 | 13650 | 13725 | 13800 | 13950 |
| Indian Rupee | (INR) | 67.0 | 68.2 | 69.5 | 69.5 | 69.5 | 69.5 |
| Korean Won | (KRW) | 1122 | 1190 | 1250 | 1258 | 1265 | 1280 |
| Malaysian Ringgit | (MYR) | 4.08 | 4.07 | 4.18 | 4.19 | 4.21 | 4.23 |
| Philippine Peso | (PHP) | 46.8 | 47.1 | 47.3 | 47.5 | 47.7 | 48.0 |
| Singapore Dollar | (SGD) | 1.36 | 1.39 | 1.45 | 1.46 | 1.46 | 1.47 |
| Thai Baht | (THB) | 34.6 | 36.3 | 37.5 | 37.6 | 37.8 | 38.0 |
| Taiwan Dollar | (TWD) | 31.7 | 33.2 | 34.4 | 34.5 | 34.6 | 34.7 |
| **Europe and Africa** | | | | | | | |
| Czech Koruna | (EUR/CZK) | 27.0 | 27.05 | 27.05 | 27.05 | 27.05 | 26.00 |
| Hungarian Forint | (EUR/HUF) | 310 | 318 | 325 | 325 | 325 | 325 |
| Polish Zloty | (EUR/PLN) | 4.37 | 4.45 | 4.20 | 4.14 | 4.08 | 3.95 |
| Israeli Shekel | (ILS) | 3.77 | 3.90 | 4.00 | 4.00 | 3.95 | 3.95 |
| Russian Ruble | (RUB) | 65.7 | 67.00 | 65.00 | 63.75 | 62.50 | 60.00 |
| Turkish Lira | (TRY) | 2.96 | 3.10 | 3.35 | 3.29 | 3.23 | 3.10 |
| South African Rand | (ZAR) | 14.65 | 14.60 | 17.00 | 17.25 | 17.50 | 18.00 |
| **Latin America** | | | | | | | |
| Brazilian Real | (BRL) | 3.26 | 3.45 | 3.50 | 3.55 | 3.55 | 3.60 |
| Chilean Peso | (CLP) | 681 | 700 | 710 | 710 | 715 | 720 |
| Mexican Peso | (MXN) | 18.88 | 19.50 | 17.50 | 17.50 | 17.25 | 17.25 |
| Colombian Peso | (COP) | 2980 | 3250 | 3350 | 3400 | 3450 | 3650 |

Source: Nomura

**Fig. 2: Current Trading Themes**

**G10:** We are long NOK in a 50-50 basket vs EUR and CAD.
**Asia:** We are long USD/CNH, USD/KRW, USD/HKD, USD/CNH put, and USD/KRW put, We are short SGDMYR, USD/PHP, USD/IDR, USD/INR, S$NEER basket, and RMB CFETS basket.
**LatAm:** We hold a 3M BRLCLP NDF at 203.43 with a target of 216. The size of the position is US$5mn for each leg, and the stop loss on the cross is 197.3.

Source: Nomura

**Fig. 3: FX Portfolio summary**

Complete Weekly Portfolio Performance

| | 1-Week P&L | 2016 YTD ($k) |
|---|---|---|
| **G10 Spot** | -39 | -91 |
| **G10 Options** | 0 | -443 |
| **EM FX** | 86 | 2042 |
| **EM Rates** | 25 | 2054 |

Source: Nomura

# Appendix A-1

## Analyst Certification

Each research analyst identified herein certifies that all of the views expressed in this report by such analyst accurately reflect his or her personal views about the subject securities and issuers. In addition, each research analyst identified on the cover page hereof hereby certifies that no part of his or her compensation was, is, or will be, directly or indirectly related to the specific recommendations or views that he or she has expressed in this research report, nor is it tied to any specific investment banking transactions performed by Nomura Securities International, Inc., Nomura International plc or any other Nomura Group company.

## Important Disclosures

### Online availability of research and conflict-of-interest disclosures

Nomura research is available on www.nomuranow.com/research, Bloomberg, Capital IQ, Factset, MarkitHub, Reuters and ThomsonOne. Important disclosures may be read at http://go.nomuranow.com/research/globalresearchportal/pages/disclosures/disclosures.aspx or requested from Nomura Securities International, Inc., on 1-877-865-5752. If you have any difficulties with the website, please email grpsupport@nomura.com for help.

The analysts responsible for preparing this report have received compensation based upon various factors including the firm's total revenues, a portion of which is generated by Investment Banking activities. Unless otherwise noted, the non-US analysts listed at the front of this report are not registered/qualified as research analysts under FINRA rules, may not be associated persons of NSI, and may not be subject to FINRA Rule 2241 restrictions on communications with covered companies, public appearances, and trading securities held by a research analyst account.

Nomura Global Financial Products Inc. (“NGFP”) Nomura Derivative Products Inc. (“NDPI”) and Nomura International plc. (“NIplc”) are registered with the Commodities Futures Trading Commission and the National Futures Association (NFA) as swap dealers. NGFP, NDPI, and NIplc are generally engaged in the trading of swaps and other derivative products, any of which may be the subject of this report.

**ADDITIONAL DISCLOSURES REQUIRED IN THE U.S.**

Principal Trading: Nomura Securities International, Inc and its affiliates will usually trade as principal in the fixed income securities (or in related derivatives) that are the subject of this research report. Analyst Interactions with other Nomura Securities International, Inc. Personnel: The fixed income research analysts of Nomura Securities International, Inc and its affiliates regularly interact with sales and trading desk personnel in connection with obtaining liquidity and pricing information for their respective coverage universe**.**

**Valuation methodology - Fixed Income**

Nomura's Fixed Income Strategists express views on the price of securities and financial markets by providing trade recommendations. These can be relative value recommendations, directional trade recommendations, asset allocation recommendations, or a mixture of all three.
The analysis which is embedded in a trade recommendation would include, but not be limited to:
• Fundamental analysis regarding whether a security's price deviates from its underlying macro- or micro-economic fundamentals.
• Quantitative analysis of price variations.
• Technical factors such as regulatory changes, changes to risk appetite in the market, unexpected rating actions, primary market activity and supply/ demand considerations.
The timeframe for a trade recommendation is variable. Tactical ideas have a short timeframe, typically less than three months. Strategic trade ideas have a longer timeframe of typically more than three months.

## Disclaimers

This document contains material that has been prepared by the Nomura entity identified on page 1 and/or with the sole or joint contributions of one or more Nomura entities whose employees and their respective affiliations are also specified on page 1 or identified elsewhere in the document. The term "Nomura Group" used herein refers to Nomura Holdings, Inc. or any of its affiliates or subsidiaries and may refer to one or more Nomura Group companies including: Nomura Securities Co., Ltd. ('NSC') Tokyo, Japan; Nomura International plc ('NIplc'), UK; Nomura Securities International, Inc. ('NSI'), New York, US; Nomura International (Hong Kong) Ltd. (‘NIHK’), Hong Kong; Nomura Financial Investment (Korea) Co., Ltd. (‘NFIK’), Korea (Information on Nomura analysts registered with the Korea Financial Investment Association ('KOFIA') can be found on the KOFIA Intranet at http://dis.kofia.or.kr); Nomura Singapore Ltd. (‘NSL’), Singapore (Registration number 197201440E, regulated by the Monetary Authority of Singapore); Nomura Australia Ltd. (‘NAL’), Australia (ABN 48 003 032 513), regulated by the Australian Securities and Investment Commission ('ASIC') and holder of an Australian financial services licence number 246412; P.T. Nomura Indonesia (‘PTNI’), Indonesia; Nomura Securities Malaysia Sdn. Bhd. (‘NSM’), Malaysia; NIHK, Taipei Branch (‘NITB’), Taiwan; Nomura Financial Advisory and Securities (India) Private Limited (‘NFASL’), Mumbai, India (Registered Address: Ceejay House, Level 11, Plot F, Shivsagar Estate, Dr. Annie Besant Road, Worli, Mumbai- 400 018, India; Tel: +91 22 4037 4037, Fax: +91 22 4037 4111; CIN No: U74140MH2007PTC169116, SEBI Registration No. for Stock Broking activities : BSE INB011299030, NSE INB231299034, INF231299034, INE 231299034, MCX: INE261299034; SEBI Registration No. for Merchant Banking : INM000011419; SEBI Registration No. for Research: INH000001014 and NIplc, Madrid Branch (‘NIplc, Madrid’). ‘CNS Thailand’ next to an analyst's name on the front page of a research report indicates that the analyst is employed by Capital Nomura Securities Public Company Limited (‘CNS’) to provide research assistance services to NSL under a Research Assistance Agreement. ‘NSFSPL’ next to an employee's name on the front page of a research report indicates that the individual is employed by Nomura Structured Finance Services Private Limited to provide assistance to certain Nomura entities under inter-company agreements.
THIS MATERIAL IS: (I) FOR YOUR PRIVATE INFORMATION, AND WE ARE NOT SOLICITING ANY ACTION BASED UPON IT; (II) NOT TO BE CONSTRUED AS AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY ANY SECURITY IN ANY JURISDICTION WHERE SUCH OFFER OR SOLICITATION WOULD BE ILLEGAL; AND (III) BASED UPON INFORMATION FROM SOURCES THAT WE CONSIDER RELIABLE, BUT HAS NOT BEEN INDEPENDENTLY VERIFIED BY NOMURA GROUP.
Nomura Group does not warrant or represent that the document is accurate, complete, reliable, fit for any particular purpose or merchantable and does not accept liability for any act (or decision not to act) resulting from use of this document and related data. To the maximum extent

‘Institutions’ located in Saudi Arabia or 'professional clients' in the UAE or a ‘Market Counterparty’ or ‘Business Customers’ in Qatar . By accepting to receive this document, you represent that you are not located in Saudi Arabia or that you are an ‘Authorised Person’, an ‘Exempt Person’ or an ‘Institution’ in Saudi Arabia or that you are a 'professional client' in the UAE or a ‘Market Counterparty’ or ‘Business Customers’ in Qatar and agree to comply with these restrictions. Any failure to comply with these restrictions may constitute a violation of the laws of the UAE or Saudi Arabia or Qatar.

NO PART OF THIS MATERIAL MAY BE (I) COPIED, PHOTOCOPIED, OR DUPLICATED IN ANY FORM, BY ANY MEANS; OR (II) REDISTRIBUTED WITHOUT THE PRIOR WRITTEN CONSENT OF A MEMBER OF NOMURA GROUP. If this document has been distributed by electronic transmission, such as e-mail, then such transmission cannot be guaranteed to be secure or error-free as information could be intercepted, corrupted, lost, destroyed, arrive late or incomplete, or contain viruses. The sender therefore does not accept liability for any errors or omissions in the contents of this document, which may arise as a result of electronic transmission. If verification is required, please request a hard-copy version.

Nomura Group manages conflicts with respect to the production of research through its compliance policies and procedures (including, but not limited to, Conflicts of Interest, Chinese Wall and Confidentiality policies) as well as through the maintenance of Chinese walls and employee training.

**Additional information regarding the methodologies or models used in the production of any investment recommendations contained within this document is available upon request by contacting the Research Analysts listed on the front page. Disclosures information is available upon request and disclosure information is available at the Nomura Disclosure web page:**

http://go.nomuranow.com/research/globalresearchportal/pages/disclosures/disclosures.aspx