

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

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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

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