STRATEGY NOTE:
FX AND BONDS

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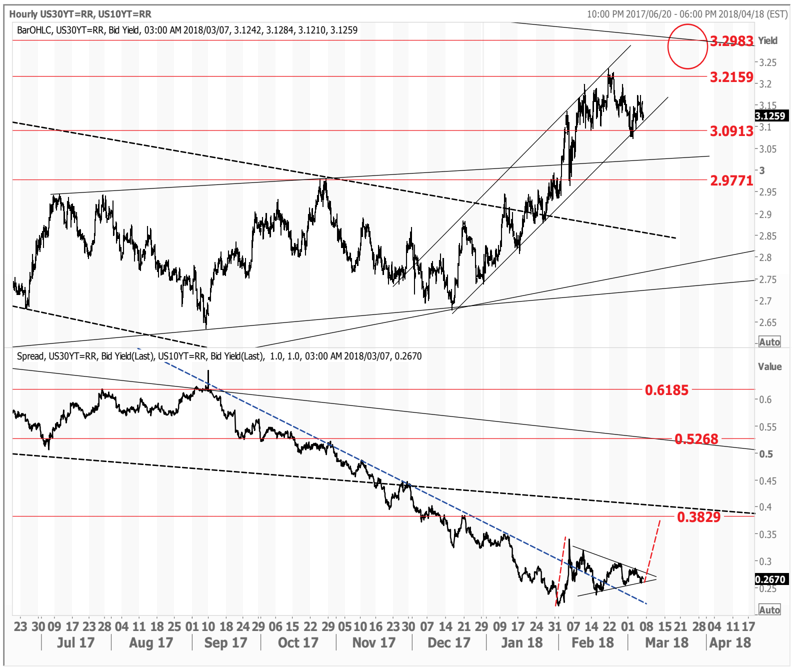
US30YR: THE CURVE IS STARTING TO STEEPEN



Source: Reuters, Nedbank CIB Research

- The US 30yr bond remains in the bear trend. We however expect the yield to break out of this bear trend, to rally to 3.02%, and test the trendline through the previous highs.
- This level is also the 38.2% Fibonacci retracement of the bear trend.
- It is however the yield curve that we are interested in. When the risk-on phase started in 2016 this curve was trading at 88 basis points. The curve accelerated during 3Q17, triggering an acceleration in the carry trade and in risk assets.
- The curve broke up out of this bull trend when the VIX accelerated, and we believe the second wave higher is about to start. As the curve steepens we can expect higher volatility in the bond and FX markets, as well as some profit taking coming through in the carry trade and other risk assets.

EURO-$ BULL IS LOSING MOMENTUM

Source: Reuters, Nedbank CIB Research

- There is now near consensus that the dollar will weaken. The latest negative news around trade tariffs has however failed to weaken the dollar any further (seeing as this is now a very crowded trade).
- However, as we reported earlier this week, we need to be able to identify a 5-wave pattern in a dollar rally before we can call a trend reversal.
- The diverging MACD confirms the loss of bullish momentum in the euro-$.
- The euro must now break below 1.2164 to negate any further upside. A stronger dollar with a rising yield curve in the US would send a strong signal that the risk-on phase is set to take a breather.
- A battle between bullish local fundamentals and negative global fundamentals would then unfold in the local bond market.

R186: THE CORRECTION IS NOT OVER

Source: Reuters , Nedbank CIB Research

- The R186 has rallied since November 2017 on the back of a combination of bullish SA news and an acceleration in the risk-on phase (pointed out above).
- The market broke below our extended technical target at 8.07%, but has subsequently reversed to sell off in five waves.
- A correction cannot consist of five waves. This five wave pattern is therefore just a portion of the expected correction phase in our opinion.
- We do not expect the market to break below the 8.08% neckline (and back into the original bull trend since November 2017). If the next 5-wave pattern is equal in length, it would project a move to the important support level at 8.38%.

$-RAND: THERE SHOULD BE ANOTHER RALLY IN THE DOLLAR

Source: Reuters, Nedbank CIB Research

- The $-rand also broke up out of the bear trend that has been in place since November 2017. However, the rally failed against the neckline just above 12.
- The correction to 11.70 is the 61.8% retracement of the rally. We expect the dollar to rally again from this level.
- If the next wave higher is equal in length it targets a move to 12.20.

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