FX AND BONDS STRATEGY NOTE:

CORRECTION IN SA RAND AND BOND MARKET IS MOST LIKELY OVER

16 April 2018

NEELS HEYNEKE

Senior Strategist
Tel : +27 11 535 4041
Nheyneke@Nedbank.co.za

MEHUL DAYA

Strategy: Research Analyst
Tel : +27 11 295 8838
MehulD@Nedbank.co.za

NEDBANK
CIB

EURO-$, THE PATTERN SINCE FEBRUARY IS MOST LIKELY A WEDGE

Source: Reuters, Nedbank CIB Research

- As we have often written in the past, correction phases are very difficult to analyse. They come in many different shapes and sizes, and do not reveal too much until they are nearly complete.
- It would appear that the euro is forming a symmetrical wedge. Textbook wedges should consist of 5-waves, indicating one more small wave down to 1.2225 (to complete wave 4).
- Post completion of the wedge, a break to the upside is expected, targeting the mid 1.26s to complete the 5-wave Elliott wave structure that started in early 2017.

$-RAND, PRICE ACTION SINCE FEBRUARY IS A CORRECTION

Source: Reuters, Nedbank CIB Research

- In previous reports we indicated that the $-rand could reach 12.22 (in the a-b-c corrective pattern since the February low).
- We are now becoming sceptical about whether this target can be reached, seeing as the dollar has already broken the first support line.
- Only a break below 11.94 would negate any further upside potential.
- One more major wave down to 11.50 would complete the $-rand bear that started post the Nene incident.

US10YR, THE PRICE ACTION SINCE FEB IS TOO FLAT FOR A REVERSAL

Source: Reuters , Nedbank CIB Research

- The US bond has most probably completed the correction phase since mid-February. It is currently testing the resistance line at 2.85%.
- We expect one more major bear wave up to complete the bear price action that started in July 2016 (the all-time low at 1.32%).
- A break above 2.85% would target 2.92%, 2.97%, and 3.05%. We do not expect a break above 3.05%.
- It is impossible to call the price action beforehand, but we would not be surprised if this expected last wave up is a fast exhaustion phase (blow-off), similar to the equity blow-off in late January 2018.

R186, THE SHORT-TERM CHARTS ARE TURNING DOWN

Source: Reuters, Nedbank CIB Research

- The R186 turned down from the support line at 8.14%.
- If our view is correct that the dollar bear has one more bear wave outstanding, then we can expect the carry trade to remain intact, supporting the EM currencies and bonds.
- Only a break above 8.12% would negate the short-term bullish outlook. We can however only turn bearish on a break above 8.23%.
- This would cause the R186 to test the previous low at 7.90%.
- We expect the curve to flatten during such a rally. The R2035-R186 spread is currently 71bps and we expect a rally to 63bps.

https://www.nedbank.co.za/content/dam/nedbank-crp/reports/Strategy/NeelsAndMehul/2018/Technical%20Strategy%20Note%20Disclaimer.pdf