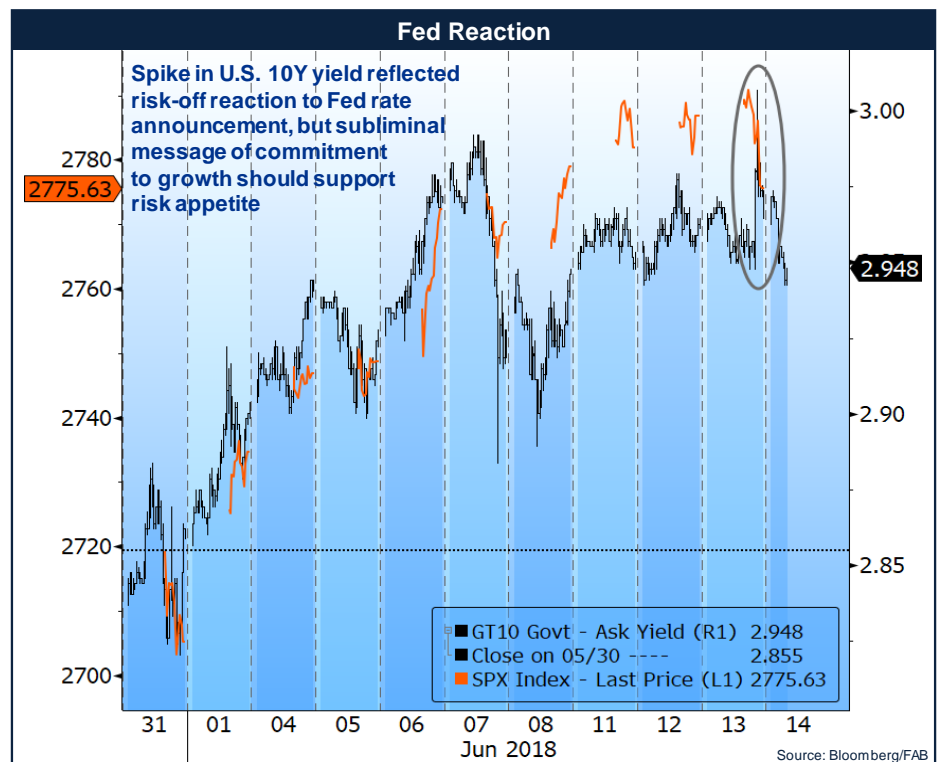


Market Insights & Strategy
 Global Markets

Daily Market Chatter
Macro Strategy View: Looking for Goldilocks

- The FOMC delivered bang on target last night, in our opinion, although the subliminal message from Fed chair Powell's comments was unarguably a tad more hawkish than expected, as the Committee's 'dot plot' was revised higher to reflect expectations of two further rate increases this year. Indeed, it is this implied steeper pace of tightening – together with weaker than expected macro data from China overnight – that is dampening risk appetite and fueling a weaker/wider bias in Asian equity and credit indices early this morning as we head toward the MENA open. The overall rates market reaction has been limited though; the U.S. 10Y yield spiked up to 3.0069% overnight according to Bloomberg data, but has since retraced back to around the 2.9500% level.



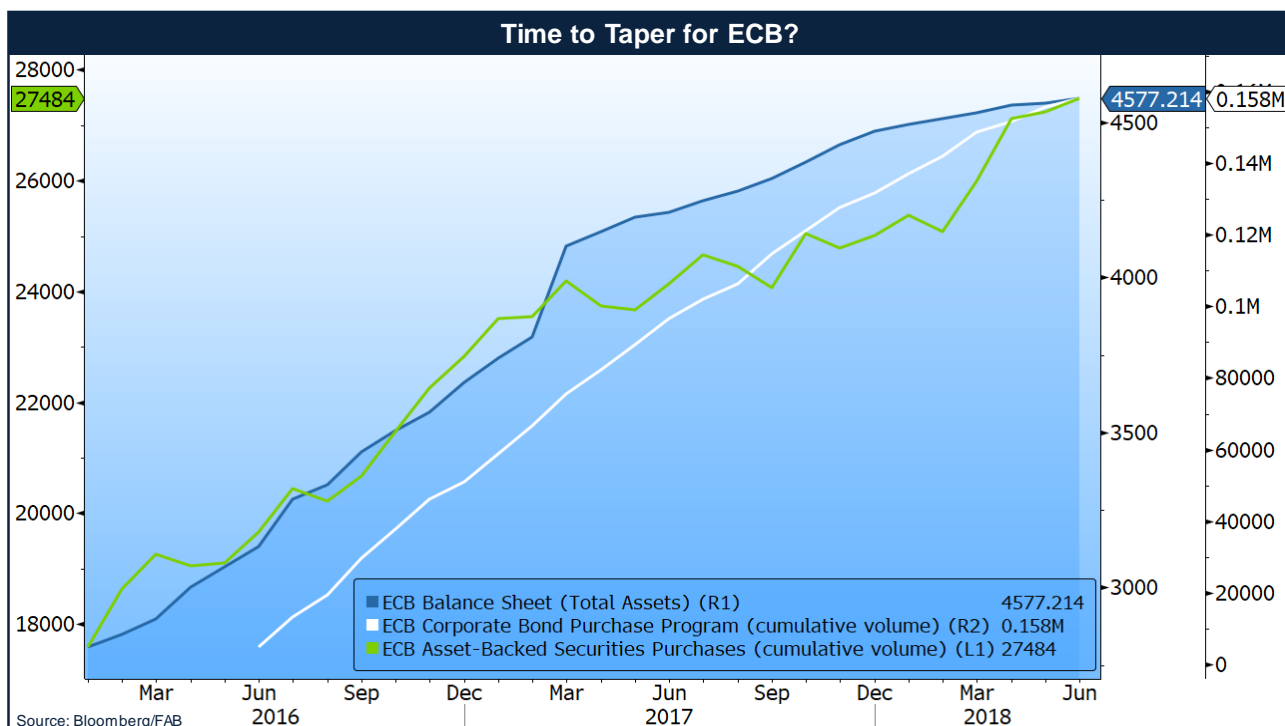
- This said, we were encouraged by Powell's optimism with regard to the U.S. economy, but more importantly his suggestions that the Fed would continue to pursue a gradual pace of tightening, recognizing the risk of derailing growth prospects by moving too aggressively, too quickly. We have suggested many times previously, that we see the pace of tightening – more than the assumed terminal rate at this stage – as key to the broader market reaction and repositioning for a higher rate structure.
- The Fed is in the woods looking for Goldilocks. Yes, rising yields – as and when the U.S. 10Y settles back above 3% again – will drive shifts in asset allocation strategies and tend to erode demand for fundamentally and structurally weaker assets, as already seen in the recent rates market selloffs, but with Mr. Powell alluding to a still 'data dependent' and 'measured pace' of tightening, suggesting to us a commitment to improving macro fundamentals, we would expect the current softer tone to be limited and would view any excessive selloff in risk at this stage to be a selective better-buying opportunity. This should particularly be the case for attractively-priced MENA/GCC credit.

14 June 2018

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➤ Meanwhile, a more meaningful market reaction could be seen later today after the European Central Bank makes its latest interest announcement (no move expected). The market widely anticipates that the ECB may elucidate on its plans to end its quantitative easing asset purchase program, although having already suggested that its bond buying should end in September, further details may not be forthcoming until the July ECB meeting. Nonetheless, with the Fed having indicated a possible further two rate hikes this year, the ECB may feel pressured to act now so as to protect the interest rate differential between the two regions and, perhaps importantly, add some support to the Euro. So, while the ECB should not trigger any policy changes today, the spotlight once again will fall on wordsmith Mr. Draghi's ability to talk the market into doing his work for him.

(Simon Ballard, Macro Strategist, Market Insights & Strategy)

Major Rates & FX Pairs

UST Yield	Prev day Close	Change (basis points)				
		1D	1W	1M	1Y	YTD
5Y	2.83%	+2.0	+2.1	-3.2	+111.4	+62.4
10Y	2.97%	+0.6	-0.6	-3.6	+84.1	+56.2
30Y	3.09%	-0.8	-3.6	-4.8	+31.7	+34.7

Source: Bloomberg

\$ Mid Swap	Prev day Close	Change (basis points)				
		1D	1W	1M	1Y	YTD
5Y	297.5	+2.3	+3.2	+3.0	+117.1	+73.1
10Y	303.4	+1.1	+0.6	+0.2	+92.8	+63.6
30Y	302.5	-0.8	-2.4	-0.4	+65.1	+48.8

Source: Bloomberg

	Prev day Close	% Change				
		1D	1W	1M	1YR	YTD
EUR USD	1.1791	+0.39%	+0.14%	-1.14%	+5.11%	-1.78%
GBP USD	1.3376	+0.03%	-0.28%	-1.33%	+4.90%	-1.01%
USD JPY	110.34	-0.03%	+0.15%	+0.62%	+0.69%	-2.09%

Source: Bloomberg

	Prev day Close	% Change				
		1D	1W	1M	1YR	YTD
USD TRY	4.6471	+1.09%	+2.01%	+6.41%	+33.22%	+22.35%
USD INR	67.6438	+0.23%	+0.76%	+0.19%	+5.21%	+5.91%
USD IDR	13,930.0	+0.56%	+0.56%	-0.87%	+4.75%	+2.67%

Source: Bloomberg

MENA Credits

Indices	Prev day Close (bps)	Change (basis points)				
		1D	1W	1M	1YR	YTD
JPMEMBI Sov	393.9	+0.7	+14.8	+34.3	+69.3	+65.3
Sovx CEEMEA	75.9	+6.2	+10.2	+18.9	+28.2	+43.2
Itrax Xover	299.8	-6.6	-0.4	+25.4	+64.3	+66.6

Source: Bloomberg

CDS	Prev day Close (bps)	Change (basis points)				
		1D	1W	1M	1YR	YTD
Abu Dhabi 5Y	64.2	+1.9	+2.8	+0.9	+17.6	+2.5
Kuwait 5Y	65.6	-0.0	+0.9	+0.8	+15.6	+1.7
Dubai 5Y	125.9	+4.0	+9.2	+11.2	+4.6	+3.4

Source: Bloomberg

CDS	Prev day Close (bps)	Change (basis points)				
		1D	1W	1M	1YR	YTD
Qatar 5Y	97.1	+1.8	+4.7	+4.9	+5.3	-3.8
KSA 5Y	92.2	+2.0	+4.5	+4.0	-4.8	+0.5
Bahrain 5Y	420.5	-16.1	+16.3	+80.2	+190.6	+144.0

Source: Bloomberg

Major Commodities Prices

Commodities	Prev day Close	% Change				
		1D	1W	1M	1YR	YTD
WTI Oil \$/bbl	66.64	+0.42%	+2.95%	-6.09%	+48.98%	+10.29%
Brent Oil \$/bbl	76.74	+1.13%	+1.83%	-1.90%	+63.28%	+14.76%
Gold spot \$/oz	1,299.3	+0.26%	+0.22%	-1.08%	+3.05%	-0.27%
Silver spot \$/Troy oz	17.035	+1.02%	+2.13%	+3.09%	+0.80%	+0.58%
Aluminium 3MO \$	2,275.0	-1.17%	-2.99%	-0.57%	+20.43%	+0.31%
Nickel 3MO \$	15,625	+2.73%	-0.06%	+11.17%	+77.56%	+22.45%
Copper 3MO \$	7,257	+0.48%	+0.51%	+4.54%	+26.94%	+0.14%

Source: Bloomberg

Major Equities Markets

Major Stock Markets	Prev day Close	Change				
		1D	1W	1M	1YR	YTD
GLOBAL						
Dow Jones Inds. Avg	25,201	-0.47%	+0.22%	+1.21%	+17.90%	+1.95%
S&P 500	2,776	-0.40%	+0.12%	+1.67%	+13.85%	+3.82%
Nasdaq Composite	7,696	-0.11%	+0.08%	+3.84%	+24.23%	+11.48%
Nikkei	22,966	+0.38%	+1.51%	+0.44%	+15.50%	+0.88%
Hang Seng	30,725	-1.22%	-1.71%	-2.59%	+18.74%	+2.69%
Shanghai	3,050	-0.97%	-2.10%	-3.91%	-2.58%	-7.78%
Mumbai Sensex	35,739	+0.13%	+1.59%	+0.57%	+14.90%	+4.94%
DAX	12,891	+0.38%	+0.47%	-0.85%	+0.98%	-0.21%
CAC 40	5,453	-0.01%	-0.09%	-1.61%	+3.63%	+2.64%
FTSE 100	7,704	-0.00%	-0.11%	-0.27%	+2.71%	+0.21%
DJ Stoxx 50	3,480	+0.11%	+0.54%	-2.41%	-2.20%	-0.70%
FTSE MIB Index	22,216	+0.44%	+1.87%	-8.04%	+5.35%	+1.66%
SMI Index	8,635	-0.07%	+1.05%	-3.99%	-2.62%	-7.96%
MENA						
Abu Dhabi – ADX	4,633	-2.13%	-0.41%	+4.71%	+2.11%	+5.34%
Dubai – DFM	3,051	-0.90%	-0.15%	+5.50%	-11.35%	-9.46%
Saudi Arabia	8,270	+0.32%	-1.62%	+4.50%	+21.22%	+14.45%
Qatar	9,080	-0.88%	-2.65%	+2.99%	-0.17%	+6.53%
Bahrain	1,296	+0.62%	+2.28%	+1.95%	-2.38%	-2.69%
Kuwait (Premier Market)	4,810	+0.61%	+1.08%	+0.41%	NA	-2.75%
Oman	4,596	-0.05%	+0.34%	-1.93%	-13.51%	-9.87%
Egypt	16,178	+1.51%	+1.69%	-5.85%	+19.56%	+7.72%
Turkey	93,505	-1.89%	-3.26%	-8.20%	-5.84%	-18.93%

Source: Bloomberg

Overnight market headlines

Global News

- Fed hikes rates citing stronger economy, dot plot points to two more increases this year
- Fed statement drops crisis-era guidance; Fed chair Powell announces press conferences after every meeting
- US producer price index rises 0.5% in May, vs 0.3% increase expected
- Trump says he may upset China on trade as US tariffs loom
- PBOC pauses after Fed hike as economy shows signs of losing steam
- Fed-driven dollar rally fades as focus shifts to ECB meeting; 10-year treasury trades below 3%, while Asian shares down on Fed hike, Sino-US trade anxiety; Oil holds gains

Middle East & Africa News

- Saudi Arabia and Bahrain raise key policy rates by 25 basis points following Fed; Kuwait maintains discount rate at 3%
- UAE introduces new visa, foreign workers' plan reducing employers' deposit burden significantly; move allows businesses to recover \$3.8bn
- Abu Dhabi approves cuts to tourism fees to boost tourism and investments
- Abu Dhabi government to distribute over \$1bn in housing loans
- Kuwait's Kufpec taps banks for over \$1bn loan
- Gulf stocks lose steam as investors cut position ahead holidays

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