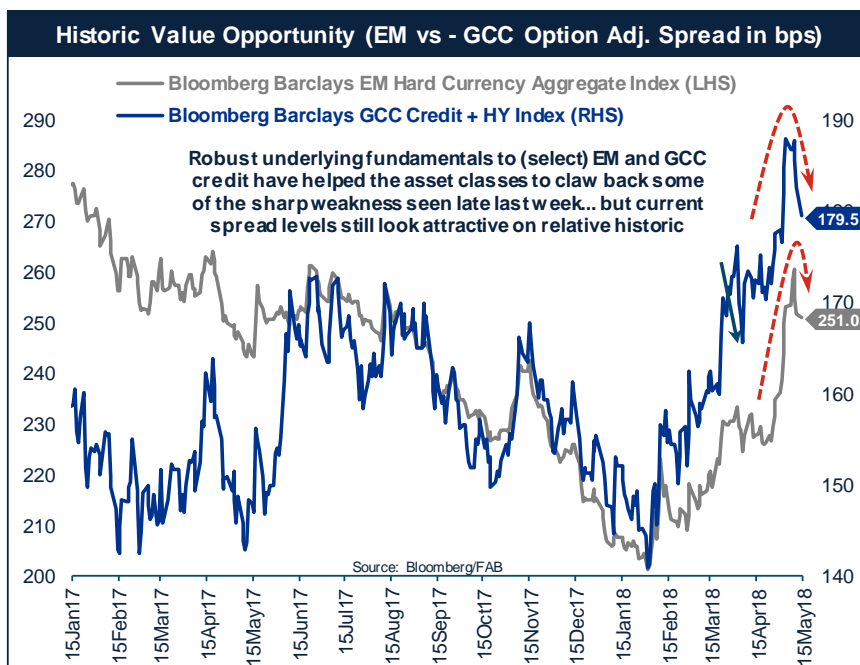


## Daily Market Chatter

### Macro Strategy View: Rates Susceptibility, but no Capitulation

- There is a slightly softer tone to risk asset sentiment Tuesday morning as the rates market sells off modestly and the U.S. 10Y tests the psychological 3% level again. Nonetheless, while Asian equity indices are in the red and the iTraxx ex-Japan Asia IG credit index is higher in early trading (74.358, +0.254 as of 7.30am UAE time according to Bloomberg), we do not see any evidence of capitulation. Yes, the market remains susceptible to gyrations in the rates space – any meaningful and sustained rise in yields would likely have a more negative impact across the credit spectrum – but the underlying foundations of the market remain firm for now.
- With Ramadan due to start in the next 48 hours though, we do expect (regional) market liquidity to decline as this week progresses. Furthermore, market activity continues to be shrouded by the specter of increased geopolitical tensions in Israel and Syria and across the Middle East, as well as the continuing overhang of global trade concerns. The latter will be under the spotlight later today as Chinese Vice Premier Liu He heads to Washington for more trade talks. On the data front though we have seen some mixed numbers this morning, with China's industrial production for April showing solid gains (+7.0% YoY) from March, while China's retail sales at +9.4% YoY missed expectations (+10.0%) and registered a notable decline from last month (+10.1% YoY).



- MENA credit continues to trade well in the context of the global macro and geopolitical backdrop and, encouragingly, the broader EM space has clawed back some of the sharp weakness experienced last week. As uncertainties persist with regard to North Korea, global trade, President Trump, Brexit etc., the inherent value in higher yielding MENA (sovereign) credit should continue to benefit out asset class. Please speak to your FAB sales representative for key trade ideas and switch opportunities.  
*(Simon Ballard, Macro Strategist, Market Insights & Strategy)*

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## FX & Rates

- EURUSD gained yesterday on the back of brave and unexpected comments from ECB Villeroy that the asset purchase program is likely to end this year and the interest rate hike could follow in 2019. He also viewed the current weakness in data as transitory, unlike other ECB members who prefer the data dependence approach. The curve steepened by 3bps in 2s10s and EURUSD enjoyed a 60 pip rally, just few pips shy of the 1.2000 handle before it was rudely interrupted by the immerging dollar bids as the 10Y broke 3%. The market's obsession over the 3% handle lifted the US stocks and the curve steepened; 2s10s are currently trading at 28.
- With the rising geopolitical concerns in the Middle East and the ongoing Italian political headlines we remain constructively small long in CHF and the only danger to the trade is that the USD correction could be coming to an end.
- The Aussie whipped in Asia trading following mixed Chinese data, but the AUD/USD pair remains near 0.7515 as AUD bulls continue to sputter. China's data figures for Tuesday came in mixed, with Retail Sales missing the expected 10% to print at 9.4%, while Industrial Production came in at 7%, a clip higher than the expected 6.3%. The mixed results sent the Aussie spreading in both directions, before finally settling near where it started. The Reserve Bank of Australia (RBA) could expose the Aussie to further downside though, following their dovish Meeting Minutes that failed to provide anything new, but highlighted the central bank's tenuously dovish position, and rates are set to remain where there are for the foreseeable future.
- Today's data slate carries, UK Jobless claims and claimant count rate, Eurozone GDP and industrial productions, German ZEW Surveys and finally the US retail sales and empire manufacturing.

UST Yield	Prev day Close	Change (basis points)				
		1D	1W	1M	1D	YTD
5Y	2.86%	+2.4	+7.5	+19.0	+100.0	+65.7
10Y	3.00%	+3.2	+5.2	+17.6	+65.9	+59.8
30Y	3.14%	+3.0	+1.2	+10.7	+12.8	+39.5

Source: Bloomberg

\$ Mid Swap	Prev day Close	Change (basis points)				
		1D	1W	1M	1D	YTD
5Y	294.5	+1.6	+2.5	+13.6	+103.3	+70.2
10Y	303.2	+2.9	+4.2	+17.1	+77.7	+63.4
30Y	302.9	+0.9	+1.1	+12.8	+50.1	+49.3

Source: Bloomberg

	Prev day Close	% Change				
		1D	1W	1M	1YR	YTD
EUR USD	1.1927	-0.13%	+0.04%	-3.66%	+8.67%	-0.65%
GBP USD	1.3556	+0.10%	-0.01%	-5.46%	+5.12%	+0.32%
USD JPY	109.66	+0.25%	+0.52%	+2.37%	-3.63%	-2.69%

Source: Bloomberg

	Prev day Close	% Change				
		1D	1W	1M	1YR	YTD
USD TRY	4.3670	+1.19%	+2.32%	+6.59%	+23.07%	+14.98%
USD INR	67.5175	+0.27%	+0.65%	+3.09%	+5.40%	+5.71%
USD IDR	13,973.0	+0.09%	-0.20%	+1.40%	+5.04%	+3.08%

Source: Bloomberg

## Asia Credit

- Overnight we saw a positive session for equities and commodities but it was tempered by the grind back higher in rates space. Already seeing headlines that may slow the enthusiasm for the North Korean deal as differing views from each side on what happens first in the process moving forward disarmament or sanctions relief. Today we see China industrial production and retail sales as Vice Premier Liu He heads to Washington for more trade talks.
- S&P closed slightly up 2.4 at 2730 and the VIX at 12.9
- WTI crude higher at 71.05
- US 10-years up to 3.00 while China 10-years at 3.71
- EM space had a nice recovery from the extreme weakness late last week here, looks a little more steady for now.

Indices	Prev day Close (bps)	Change (basis points)				
		1D	1W	1M	1YR	YTD
JPMEMBI Sov	361.1	+1.4	-9.0	+25.9	+37.5	+32.4
Sovx CEEMEA	46.8	+0.1	-2.9	+1.2	-0.3	+14.1
Itrax Xover	268.0	+0.4	-5.5	-3.3	+15.3	+34.8

Source: Bloomberg

## MENA Credit

- US 10Y above the 3pct and looks we can still go higher to target April's high @ 3.033%, would expect a caution open in our market mainly the high beta names ie Oman & Bahrain after the decent rally they had past couple of days. Overall the market is definitely in a better shape compared to the start of the month. As we mentioned yesterday we have a couple of GCC fins potentially coming to the market which should get the fins space active again
- Egypt was the star of the day after the S&P upgrade, the whole curve was well bid and sellers were not to be found for most of the day, we still like the EUR issues mainly the 26s as looks its tightly held by a couple of accounts and not much loose bonds around
- A couple of maturities this month, we got \$210m AL KALIJI FLOAT, \$1.1bn QNB FLOAT, EUR151m QNB FLOAT, \$332,454m EBIUH FLOAT, \$500m CBD 3.375%, \$450m DARALA 5.75% and EUR800m IPIC 2.375%.

CDS	Prev day Close (bps)	Change (basis points)				
		1D	1W	1M	1YR	YTD
Abu Dhabi 5Y	61.8	-0.7	-2.8	-0.6	+19.8	+0.1
Kuwait 5Y	66.2	+1.2	-0.0	+4.9	+16.2	+2.3
Dubai 5Y	114.3	+1.3	-0.7	+8.1	+1.7	-8.1

Source: Bloomberg

CDS	Prev day Close (bps)	Change (basis points)				
		1D	1W	1M	1YR	YTD
Qatar 5Y	88.9	+0.3	-2.0	+3.0	+27.1	-12.0
KSA 5Y	86.9	+1.0	-4.5	+0.3	-4.7	-4.8
Bahrain 5Y	318.2	+2.5	-43.3	+38.9	+98.2	+41.7

Source: Bloomberg

Continued...

## Overnight market headlines

### Global News

- Trump defends intervention to help China telecom company ZTE; US ambassador to China says US-China 'very far apart' on trade.
- Fed's Mester reiterates support for gradual US rate increases.
- US Treasury yields tick higher as 10-year yield tops 3%, 2-year note rate hits 2008 high; Markets now pricing 51% chance of a fourth interest rate hike this year.
- Asia stocks pull back as investors eye new risks; Dollar holds gains, Argentine peso plumbs new low near 25 per dollar; Oil holds gain near \$71.

### Middle East & Africa News

- Saudi Arabia tells OPEC it pumped least oil since cuts started.
- Abu Dhabi's ADNOC signs deal with Spain's Cepsa for new LAB facility.
- Saudi PIF, SoftBank said to be in early funding talks with banks on huge solar project.
- Kuwait's finance minister says assembly could back VAT accord in session starting in Oct.
- CBRE says Dubai knocks London off top of global retail list, retail space in Dubai to surge by 50% in three years.
- Major Gulf stock markets close higher on Monday.
- Egypt's central bank governor says foreign inflows exceeded \$120bn since 2016 pound float; says Egypt would make a debt payment of \$850m to international oil companies.

*Please refer to our daily news summary if you wish to read the full articles*

Continued...

## Key data points – Global

Major Stock Markets	Prev day Close	Change				
		1D	1W	1M	1YR	YTD
<b>GLOBAL</b>						
Dow Jones Inds. Avg	24,899	+0.27%	+2.23%	+2.21%	+18.67%	+0.73%
S&P 500	2,730	+0.09%	+2.15%	+2.78%	+13.65%	+2.11%
Nasdaq Composite	7,411	+0.11%	+2.01%	+4.29%	+20.52%	+7.36%
Nikkei	22,866	+0.47%	+1.77%	+4.99%	+15.08%	+0.44%
Hang Seng	31,541	+1.35%	+5.16%	+2.38%	+24.32%	+5.42%
Shanghai	3,174	+0.34%	+1.19%	+0.47%	+2.71%	-4.03%
Mumbai Sensex	35,557	+0.06%	+0.99%	+3.99%	+17.26%	+4.40%
DAX	12,978	-0.18%	+0.23%	+4.30%	+1.33%	+0.47%
CAC 40	5,541	-0.02%	+0.17%	+4.25%	+2.28%	+4.29%
FTSE 100	7,711	-0.18%	+1.90%	+6.15%	+3.44%	+0.30%
DJ Stoxx 50	3,566	+0.01%	+0.04%	+3.41%	-2.09%	+1.76%
FTSE MIB Index	24,221	+0.26%	-1.32%	+3.82%	+11.60%	+10.84%
SMI Index	9,001	+0.08%	+1.09%	+2.56%	-1.18%	-4.06%
<b>MENA</b>						
Abu Dhabi – ADX	4,447	+0.49%	-2.05%	-5.38%	-2.57%	+1.10%
Dubai – DFM	2,905	+0.45%	-1.95%	-7.80%	-14.00%	-13.80%
Saudi Arabia	8,071	+0.59%	-0.58%	+1.23%	+17.10%	+11.68%
Qatar	8,934	+1.33%	-0.55%	+0.48%	-11.70%	+4.82%
Bahrain	1,272	+0.08%	-0.51%	-1.58%	-3.04%	-4.48%
Kuwait	4,765	-0.54%	-0.65%	-0.02%	NA	-3.67%
Oman	4,690	+0.07%	-0.47%	-1.82%	-13.42%	-8.03%
Egypt	16,984	-1.16%	-3.08%	-3.44%	+32.01%	+13.08%
Turkey	103,370	+1.49%	+2.48%	-5.69%	+8.14%	-10.37%

Source: Bloomberg

Major Commodities Prices	Prev day Close	Change				
		1D	1W	1M	1YR	YTD
WTI Oil \$/bbl	70.96	+0.37%	+0.33%	+5.30%	+45.26%	+17.44%
Brent Oil \$/bbl	78.23	+1.44%	+2.70%	+7.78%	+50.96%	+16.99%
Gold spot \$/oz	1,313.5	-0.44%	-0.05%	-2.41%	+6.72%	+0.82%
Silver spot \$/Troy oz	16.525	-0.86%	+0.31%	-0.89%	-0.65%	-2.44%
Aluminium 3MO \$	2,319.0	+1.35%	-1.32%	+1.49%	+22.63%	+2.25%
Nickel 3MO \$	14,500	+3.17%	+3.39%	+4.02%	+55.66%	+13.64%
Copper 3MO \$	6,885	-0.82%	+0.86%	+0.81%	+23.84%	-5.00%

Source: Bloomberg

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