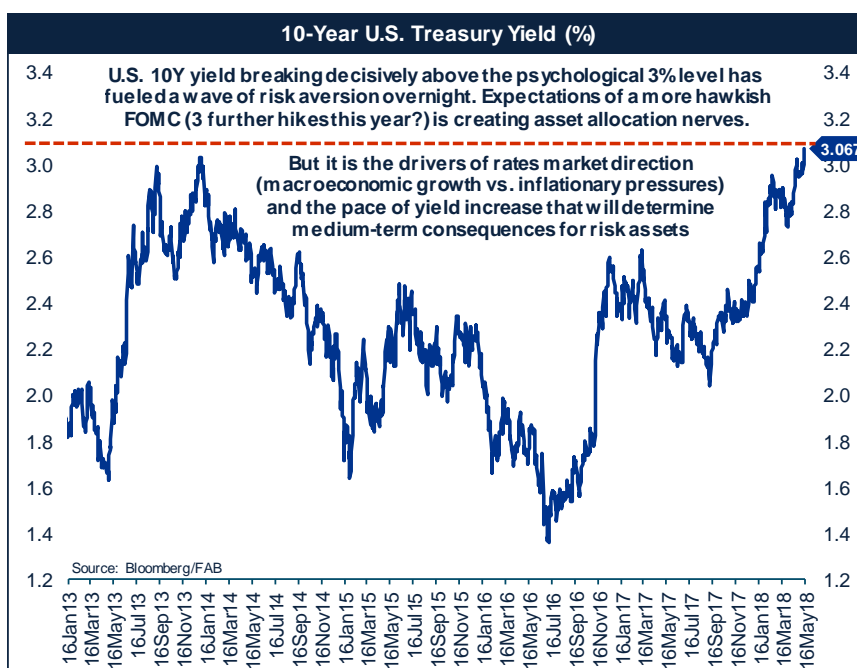


Daily Market Chatter

Macro Strategy View: Too Good to be True?

- A more cautious tone to risk is evident across markets this morning, following a sharp decline in U.S. stock markets into the close last night. A combination of elevated geopolitical concerns and a sharp selloff in U.S. rates has created a new wave of risk aversion. On the geopolitical front, adding to existing concerns about the situation on the Gaza border, North Korea has cast doubts on the proposed summit with the U.S. and talks with South Korea. We have wondered for some time if North Korea's apparent new-found willingness for dialogue with the West was too good to be true. With Kim Jong Un and President Trump due to meet in Singapore next month, time will tell.



- In the rates market, a buoyant Empire Manufacturing report (20.1 in May from 15.8 in April and better than the expected decline to 15.0) and solid retail sales data fuelled a spike in the 10Y U.S. treasury yield overnight to an intra-day high of 3.0926 according to Bloomberg data, before retracing a little to 3.06% currently. Renewed speculation of a more hawkish stance being adopted by the FOMC has undermined Asian equities (all major indices currently in the red) and pushed the iTraxx ex-Japan Asia investment grade credit default swap index higher (76.095, +0.91 as of 8am UAE time). All of this suggests a weaker tone to MENA markets at the open, although we do expect higher quality names to hold up better than their high yield/EM peers.
- Meanwhile, it was announced late yesterday evening by the UAE's committee for moon-sighting, chaired by Sultan bin Saeed Al Badi, Minister of Justice, that the Ramadan crescent (moon) wasn't sighted Tuesday. As such, Ramadan will now start tomorrow, Thursday May 17. Geopolitics and global rates volatility may constrain risk appetite today, but MENA markets are then expected to experience a further marked slowdown and reduction in liquidity from tomorrow onwards, for the duration of the holy month as shorter public and private sector working hours subdue market trading and flow activity levels.

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

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FX & Rates

- In a very choppy session yesterday we saw ct10s break the key 3% barrier, selling pressure continues throughout the session and pushed the close to yield 3.07%. Greenback strength also continues, EUR in particular being the main victim as further stops pushed EURUSD lower to 1.1835. Where do we go next, we think that depends on how EM markets hold in. The FTQ premium in g3 fixed income is low, any spill over move into risk assets could quickly see the FTQ premium increase and yields fall
- JPY – another day for the fortunate greenback and gains were led by higher yields which outweighed JPY as a safe haven proxy. Now, USDJPY sits comfortably above 110.00 and whilst it might be tempting to play the correction, caution is advised, as long as the interest rate differentials is still at play, the rally can continue to 111.20. We remain on the side-lines at the minute against the dollar and prefer to play the intraday ranges for now.

UST Yield	Prev day Close	Change (basis points)				
		1D	1W	1M	1D	YTD
5Y	2.92%	+5.6	+10.4	+23.9	+107.0	+71.3
10Y	3.07%	+7.0	+9.6	+24.6	+74.7	+66.8
30Y	3.20%	+6.6	+7.1	+17.6	+20.9	+46.1

Source: Bloomberg

\$ Mid Swap	Prev day Close	Change (basis points)				
		1D	1W	1M	1D	YTD
5Y	300.1	+5.6	+6.2	+19.2	+109.3	+75.7
10Y	310.4	+7.2	+9.0	+24.3	+85.8	+70.6
30Y	312.0	+9.1	+8.1	+21.9	+59.6	+58.4

Source: Bloomberg

	Prev day Close	% Change				
		1D	1W	1M	1YR	YTD
EUR USD	1.1838	-0.75%	-0.22%	-4.38%	+6.81%	-1.39%
GBP USD	1.3502	-0.40%	-0.33%	-5.84%	+4.53%	-0.08%
USD JPY	110.35	+0.63%	+1.12%	+3.02%	-2.45%	-2.08%

Source: Bloomberg

	Prev day Close	% Change				
		1D	1W	1M	1YR	YTD
USD TRY	4.4465	+1.82%	+2.63%	+8.53%	+25.65%	+17.07%
USD INR	68.1087	+0.88%	+1.24%	+3.99%	+6.30%	+6.63%
USD IDR	14,037.0	+0.46%	-0.11%	+1.87%	+5.54%	+3.56%

Source: Bloomberg

Asia Credit

- Overnight was a full of changes, rates broke higher, stocks got hit lower and North Korea makes its play as we alluded that it may, as it threatened to scrap the US Summit Over Military Drills. This brought back geopolitical worries as a risk aversion took a front seat last night. Rising yields, a stronger dollar and choppy equities are becoming a familiar sight, as higher rates are taking away some of that equity demand, esp given the yield returns vs equity coupons and high valuations.
- S&P 500 fell 0.9% to 2711 and the VIX up to 14.6.
- 10-year Treasuries punched through to 3.07 - highs since 2011. And China 10-years at 3.71.
- Here in Asia expecting to see things a touch weaker, call it 2 wider to start in IG space, EM also under pressure from global widening and higher rates and new issues. Today we get PLN1J 5.45 05/21/28 and PLN1J 6.15 05/21/48 hit the street and they came at levels that pushed the Indo curve wider yesterday.

Indices	Prev day Close (bps)	Change (basis points)				
		1D	1W	1M	1YR	YTD
JPMEMBI Sov	365.7	+4.7	-12.8	+30.5	+46.4	+37.0
Sovx CEEMEA	49.8	+3.0	-3.0	+4.7	+3.7	+17.2
Itrax Xover	271.0	+2.9	-4.1	+2.9	+22.0	+37.8

Source: Bloomberg

MENA Credit

- It was all about the US 10Y (again!!) after breaking the 3pct psychological level and comfortably trading above 3.03% April's high, we closed the day 3.07% & a high of 3.09%. US stocks down, VIX +15pct in 2 days on back of renewed geopolitical risks and Oil holding on to recent gains Brent \$78.30/WTI \$71.11.
- Yesterday seen MENA had a weak regional backdrop and rising regional geopolitical tensions pushed Oman wider, Turkey and Lebanon were also on the back foot, but the higher grade names like KSA and Kuwait are holding a better tone than the High yield names. Also have a new MENA corporate issue out there with Petrofac Ltd (PFCLN).
- The start was in Turkey after president Erdogan's said he intends to tighten his grip on the Turkish Economy, Turkey 5Y CDS widened by 20bps, Turkey 2028s dollar bond lost around 2/2.5pts & wider by 40bps or so and the Lira lost around 2pct yesterday alone & 15pct YTD.
- As for our part of the world well Oman Sovereign was heavy with multiple sellers around, same goes for Egypt and Bahrain but most of activity/flow was in Oman. The better rated Sovereigns ie ADGB/KUWAIT & KSA held fairly better but let's see what happens today with rates at current levels, would expect another cautious open.
- On the news side Kuwait to postpone VAT implementation to 2021 and in Dubai Jafza generates over \$83bn in trade in 2017 contributing 23% of trade in Dubai.

CDS	Prev day Close (bps)	Change (basis points)				
		1D	1W	1M	1YR	YTD
Abu Dhabi 5Y	63.4	+1.6	-1.5	+0.5	+21.7	+1.7
Kuwait 5Y	67.1	+0.9	+1.1	+5.3	+17.1	+3.1
Dubai 5Y	114.4	+0.0	-0.3	+6.8	+2.0	-8.1

Source: Bloomberg

CDS	Prev day Close (bps)	Change (basis points)				
		1D	1W	1M	1YR	YTD
Qatar 5Y	92.3	+3.4	+1.5	+5.4	+30.8	-8.6
KSA 5Y	89.7	+2.9	+0.9	+2.2	-1.7	-2.0
Bahrain 5Y	327.7	+9.4	-27.6	+48.5	+107.5	+51.1

Source: Bloomberg

Commodities

- API reported yesterday a surprise crude build for last week, with inventories increasing by +4.9 mln (vs -760 kbbls estimate). This bearish inventory number pushed down oil prices, after initial gains, with WTI closing at \$71.31 and Brent closing at \$78.43. Expectations of Mexico starting its hedge program shortly (covering between 200 and 300 million barrels) is putting pressure on the back end of the curve and keeping vols well bid, as the country will be looking to buy long tenor puts to hedge their production.

Continued...

Overnight market headlines

Global News

- US retail sales rise 0.3% in April, matching expectation; March business inventories fall flat of expectations.
- Fed's Kaplan sees US inflation rising but not 'running away'.
- Japan's economy shrinks for first time since 2015.
- North Korea pulls out of South Korea talks over military drill; Pyongyang casts doubt over summit with US President Trump.
- US yields shoot higher, Asian stocks decline as concerns over trade, growth and geopolitics weigh on sentiment; Dollar trade steady; Oil holds near \$71.

Middle East & Africa News

- UAE forecast to swing to a fiscal surplus this year, IMF says.
- Dubai's Jafza generates over \$83bn in trade in 2017 contributing 23% of trade in Dubai.
- Kuwait to postpone VAT implementation to 2021, says parliament committee.
- Aldar reports 5% rise in Q1 profit as off-plan sales rise.
- Dubai's DAMAC Q1 profit falls 45%.
- Dubai's Nakheel to add \$272m to recurring revenue this year, says chairman.
- Emaar sends Dubai stock index up; other markets close mixed.
- Russia says Iran's committed to deal if economic benefits remain.
- US sanctions Iran central bank's governor and another official.
- Erdogan says he intends to tighten grip on Turkish economy, rate policy; says central bank can't 'set aside the signals from the president'; Moody's warns on interference.

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
GLOBAL						
Dow Jones Inds. Avg	24,706	-0.78%	+1.42%	+0.54%	+17.76%	-0.05%
S&P 500	2,711	-0.68%	+1.48%	+1.26%	+12.95%	+1.42%
Nasdaq Composite	7,352	-0.81%	+1.17%	+2.73%	+19.15%	+6.49%
Nikkei	22,818	-0.21%	+1.37%	+4.50%	+14.55%	+0.23%
Hang Seng	31,152	-1.23%	+2.46%	+2.76%	+22.96%	+4.12%
Shanghai	3,192	+0.57%	+0.97%	+2.62%	+2.54%	-3.48%
Mumbai Sensex	35,544	-0.04%	+0.93%	+3.61%	+16.22%	+4.37%
DAX	12,970	-0.06%	+0.45%	+4.67%	+1.29%	+0.41%
CAC 40	5,553	+0.23%	+0.57%	+4.52%	+2.72%	+4.53%
FTSE 100	7,723	+0.16%	+2.08%	+7.29%	+2.67%	+0.46%
DJ Stoxx 50	3,564	-0.04%	+0.18%	+3.58%	-2.13%	+1.72%
FTSE MIB Index	24,297	+0.31%	+0.64%	+4.15%	+11.52%	+11.18%
SMI Index	8,994	-0.07%	+0.17%	+3.07%	-1.46%	-4.13%
MENA						
Abu Dhabi – ADX	4,471	+0.53%	-0.20%	-4.52%	-2.43%	+1.64%
Dubai – DFM	2,937	+1.09%	-0.41%	-6.49%	-13.03%	-12.86%
Saudi Arabia	8,039	-0.39%	+0.33%	-0.14%	+15.83%	+11.25%
Qatar	8,922	-0.14%	+0.58%	-0.38%	-11.89%	+4.68%
Bahrain	1,274	+0.15%	+0.06%	-1.96%	-3.02%	-4.34%
Kuwait	4,781	+0.34%	-0.11%	+0.01%	NA	-3.34%
Oman	4,685	-0.10%	-0.14%	-1.73%	-13.77%	-8.13%
Egypt	16,986	+0.01%	-4.65%	-3.60%	+31.30%	+13.09%
Turkey	101,540	-1.77%	+2.19%	-8.26%	+5.59%	-11.96%

Source: Bloomberg

Major Commodities Prices	Prev day Close	Change				
		1D	1W	1M	1YR	YTD
WTI Oil \$/bbl	71.31	+0.49%	+3.26%	+7.69%	+46.55%	+18.02%
Brent Oil \$/bbl	78.43	+0.26%	+4.78%	+9.82%	+51.85%	+17.29%
Gold spot \$/oz	1,290.5	-1.75%	-1.83%	-4.12%	+4.31%	-0.94%
Silver spot \$/Troy oz	16.268	-1.56%	-1.32%	-2.43%	-3.49%	-3.96%
Aluminium 3MO \$	2,327.0	+0.34%	-1.29%	+1.84%	+22.12%	+2.60%
Nickel 3MO \$	14,425	-0.52%	+3.89%	+3.48%	+56.20%	+13.05%
Copper 3MO \$	6,808	-1.12%	+0.93%	-0.32%	+21.29%	-6.06%

Source: Bloomberg

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