

Daily Market Chatter

Macro Strategy View: Setting up Base Camp in 3% Territory

- As long as the path of least resistance for (US) government bonds yields remains higher, so will the trajectory of debate over the appeal of riskier assets. While the 10Y UST touched a high of 3.1057% overnight, according to Bloomberg, this is not yet seen as being at a level to trigger meaningful asset allocation changes, but the negative implications on risk assets of a continued drift higher in rates could be two-fold.
- On the one hand a higher yield structure could gradually erode the need for investors to stretch down the quality curve in search of incremental returns, resulting in an unwind of the risk-on trade and credit curve flattening that we have experienced in the past several years. At 3.10% on the US 10Y we are not at that point yet, but any perception of a rise to 3.25% or 3.50% and beyond would surely begin to ignite the asset allocation analysts.
- On the other hand, risk asset valuations could also find themselves under spread widening pressure if a sustained selloff in rates triggers a sharp opportunistic move by borrowers to lock in (cheap) funding. A deluge of primary market issuance over the summer – coinciding with low seasonal buy-side liquidity – would likely filter through to a sharp repricing of tight secondary market spreads. Again, any such correction could be felt most acutely in the shape of the quality curve, particularly in the US, where the hunt for yield has driven such a sharp flattening of the curve over the past 2 years or so.



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- For now though credit markets are taking the drift higher in yields in their stride, reassured by the improving macroeconomic data on which the rates selloff is predicated. Asian equity markets are trading either side of flat as of 7.30am UAE time this morning, while the iTraxx ex-Japan Asian investment grade credit index is a touch tighter (-0.133bps) at 75.586. The index has widened some 15bps from the year-to-date lows set back in January, but is currently still over 100bps lower than the 177bps level that it touched in February 2016.

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

FX & Rates

- G3 rates are selling off aggressively this morning. This despite continued pressure in TRY and BTP's. 10Y US Treasury is now at 3.12%; bunds and gilts are tracking but still outperforming cross market. We now have 60bp additional hikes from the US Fed for 2018 – too much in our view though. We have taken off our steepners in US and GBP. Our high conviction positions remain being paid in US&UK tenor basis, paid in US Fra/OIS and paid in Aug and Nov MPC. For the moment EUR holding in, top of the class is GBP, with EURGBP back to .872 on somewhat hawkish calls from research analysts.
- AUD: Despite the relative strength of the latest employment data, released earlier, this has done little to buoy the AUD. The jobs report showed an increase of 22,600 jobs in April, easily outpacing consensus (+20k). Paradoxically, the unemployment rate rose to 5.6% from 5.5%, but this was likely due in part to a higher participation rate of 65.6% (from 65.5%). Aside from domestic data, AUD/USD continues to derive more direction from broad USD strength and the relative rates outlooks between the two economies. The macro backdrop leaves AUD/USD range-bound for now in our view, with investor focus on support down at 0.7410.
- EGP: Today the Central bank of Egypt will have its MPC meeting and most economists are calling for unchanged interest rates. Previously we thought that a 100bps cut was very likely but now – with the EMFX sell-off and the weakening of EGP – the CBE might leave rates as it is or cut by 50bps. We are still leaning towards a small cut as inflation is a lot lower and the absolute level of interest rates is very high in Egypt. Yesterday the spot market closed around 17.92 which was a big move by the Egyptian market standards. Thus, the NDFs are likely to be very bid today again.

UST Yield	Prev day Close	Change (basis points)				
		1D	1W	1M	1Y	YTD
5Y	2.94%	+2.1	+9.9	+25.1	+118.5	+73.4
10Y	3.10%	+2.4	+9.2	+26.8	+87.2	+69.2
30Y	3.22%	+1.6	+5.6	+19.7	+30.1	+47.8

Source: Bloomberg

\$ Mid Swap	Prev day Close	Change (basis points)				
		1D	1W	1M	1Y	YTD
5Y	303.4	+3.2	+7.5	+22.3	+122.2	+79.0
10Y	313.3	+2.9	+9.8	+26.9	+98.6	+73.5
30Y	312.6	+0.6	+7.3	+23.4	+68.4	+58.9

Source: Bloomberg

	Prev day Close	% Change				
		1D	1W	1M	1YR	YTD
EUR USD	1.1808	-0.25%	-0.36%	-4.54%	+5.82%	-1.64%
GBP USD	1.3486	-0.12%	-0.45%	-5.61%	+3.98%	-0.20%
USD JPY	110.40	+0.05%	+0.60%	+3.18%	-0.39%	-2.03%

Source: Bloomberg

	Prev day Close	% Change				
		1D	1W	1M	1YR	YTD
USD TRY	4.4145	-0.72%	+2.95%	+7.73%	+23.68%	+16.23%
USD INR	67.7950	-0.46%	+0.71%	+3.28%	+5.67%	+6.14%
USD IDR	14,093.0	+0.40%	+0.06%	+2.38%	+5.77%	+3.87%

Source: Bloomberg

Asia Credit

- 10-year Treasuries now trading at 3.120% and the China 10-years are at 3.705%. Overnight data in the US factory production and housing starts showed strength despite recent turbulence; But let us not forget the Euro area as Italy hits headlines as it gets closer to taking a populist govt.
- In Asia we see slightly better tone today in the IG sectors. We continue to prefer to buy some shorter end paper in this environment, in particular we are buyers of the GBHK 19 and 20. We could sell HK 27 to buy HK 19 or 20s. We also have switch interest to sell GBHK 3.132 02/28/27 and buy MALAYS 3.179 04/27/26.

Indices	Prev day Close (bps)	Change (basis points)				
		1D	1W	1M	1YR	YTD
JPMEMBI Sov	360.8	-5.0	-15.3	+21.3	+40.2	+32.1
Sovx CEEMEA	56.9	+7.1	+4.7	+13.5	+8.4	+24.3
Itrax Xover	274.5	+4.0	+1.7	+2.7	+19.3	+41.3

Source: Bloomberg

MENA Credit

- A relatively quiet session in our market yesterday given where the 10Y Treasury is trading, though we were expecting more action to be taking place. The 10Y is trading comfortably @ 3.10% levels last seen back in 2011. We expect another cautious open in the GCC on the back of rates move and liquidity could be a bit thin. We were active on the ADGB & OMAN curves mainly 5Y space. We were also active on the New Bahrain 25s Sukuk.
- We would keep a close eye on Turkey, in case it continues its weakness, which can prompt some spill over effect in other EM names. Yesterday a roller-coaster performance in USDTRK and Turkey 28s dollar bond widening by 30-40bps in 2 days and 80-90bps since 1st of May!
- On New Issues side expect to have a busy Ramadan. Would say 3-5 GCC New Issues to come to the market as soon as the rates move settle down.

CDS	Prev day Close (bps)	Change (basis points)				
		1D	1W	1M	1YR	YTD
Abu Dhabi 5Y	63.3	-0.1	-1.5	+0.4	+23.2	+1.6
Kuwait 5Y	64.8	-2.3	-1.1	+2.8	+14.8	+0.9
Dubai 5Y	114.7	+0.3	-0.5	+5.9	+3.5	-7.8

Source: Bloomberg

CDS	Prev day Close (bps)	Change (basis points)				
		1D	1W	1M	1YR	YTD
Qatar 5Y	92.2	-0.1	-0.1	+4.5	+32.1	-8.7
KSA 5Y	88.3	-1.5	-1.0	+0.6	-4.6	-3.4
Bahrain 5Y	340.3	+12.7	-18.7	+59.9	+120.1	+63.8

Source: Bloomberg

Overnight market headlines

Global News

- US manufacturing output rises, while past months were revised lower
- US home building tumbles in April, while permits fall; Weekly mortgage applications fall 2.7% even before rates spike
- China says it does not want to see escalation in Sino-US trade tension; Trump says his actions on China's ZTE relate to 'the larger trade deal'
- Brazil holds interest rates steady in surprise move citing EM rout; Hong Kong spends \$1.2bn defending its currency overnight
- US 10-year yield trades at 3.1%; Euro hampered by Italian political risk; Asia stocks drift; Oil holds gain above \$71

Middle East & Africa News

- SABB and Alawwal agree \$5bn merger to create Saudi's third largest bank
- Saudi Arabia's National Commercial Bank changes CEO; bank says shareholders approved SAR 10bn capital hike via bonus shares
- Adnoc Distribution Q1 profit rises 12%
- Saudi banks merger boosts Alawwal as geopolitical worries weigh on Gulf
- Tunisia's central bank holds its key rate amid high inflation; GDP growth hits 2.5% in first quarter of 2018
- US, Gulf states sanction Hezbollah leaders
- Total warns of Iran pullout over US sanctions threat
- As EU readies measures to protect firms from US sanctions, Juncker says ending nuclear deal with Iran would be major security threat

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

Key data points – Global

Major Stock Markets	Prev day Close	Change				
		1D	1W	1M	1YR	YTD
GLOBAL						
Dow Jones Inds. Avg	24,769	+0.25%	+0.92%	-0.07%	+20.20%	+0.20%
S&P 500	2,722	+0.41%	+0.91%	+0.59%	+15.50%	+1.83%
Nasdaq Composite	7,398	+0.63%	+0.80%	+1.61%	+23.07%	+7.17%
Nikkei	22,717	-0.44%	+1.38%	+3.98%	+14.65%	-0.21%
Hang Seng	31,110	-0.13%	+1.88%	+3.48%	+23.00%	+3.98%
Shanghai	3,170	-0.71%	+0.33%	+3.35%	+2.10%	-4.16%
Mumbai Sensex	35,388	-0.44%	+0.19%	+2.89%	+15.42%	+3.91%
DAX	12,996	+0.20%	+0.41%	+3.26%	+2.89%	+0.61%
CAC 40	5,568	+0.26%	+0.59%	+4.00%	+4.69%	+4.80%
FTSE 100	7,734	+0.15%	+0.94%	+7.03%	+3.07%	+0.60%
DJ Stoxx 50	3,563	-0.04%	-0.19%	+2.44%	-0.61%	+1.68%
FTSE MIB Index	23,734	-2.32%	-2.19%	+0.36%	+11.51%	+8.61%
SMI Index	8,974	-0.23%	+0.32%	+1.74%	-0.31%	-4.35%
MENA						
Abu Dhabi – ADX	4,467	-0.07%	-0.43%	-5.08%	-2.75%	+1.57%
Dubai – DFM	2,932	-0.18%	+1.45%	-6.38%	-13.65%	-13.01%
Saudi Arabia	7,958	-1.01%	+1.02%	-1.70%	+14.55%	+10.13%
Qatar	8,951	+0.32%	+1.43%	-0.08%	-11.77%	+5.01%
Bahrain	1,273	-0.08%	+0.15%	-2.23%	-2.81%	-4.41%
Kuwait	4,776	-0.10%	-0.28%	-0.13%	NA	-3.44%
Oman	4,654	-0.66%	-0.49%	-2.42%	-14.19%	-8.74%
Egypt	16,993	+0.04%	-2.68%	-4.55%	+30.08%	+13.14%
Turkey	1,02,158	+0.61%	+1.37%	-6.06%	+6.72%	-11.42%

Source: Bloomberg

Major Commodities Prices	Prev day Close	Change				
		1D	1W	1M	1YR	YTD
WTI Oil \$/bbl	71.49	+0.25%	+0.49%	+7.47%	+45.69%	+18.32%
Brent Oil \$/bbl	79.28	+1.08%	+2.68%	+10.76%	+51.85%	+18.56%
Gold spot \$/oz	1,290.7	+0.02%	-1.68%	-4.21%	+2.33%	-0.93%
Silver spot \$/Troy oz	16.379	+0.68%	-0.70%	-2.41%	-3.11%	-3.30%
Aluminium 3MO \$	2,315.5	-0.49%	-2.13%	-3.48%	+20.41%	+2.09%
Nickel 3MO \$	14,475	+0.35%	+3.95%	+0.98%	+58.72%	+13.44%
Copper 3MO \$	6,826	+0.26%	+0.23%	-1.22%	+21.65%	-5.81%

Source: Bloomberg

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