

Market Insights & Strategy
 Global Markets

Daily Market Chatter

Macro Strategy View: Italian Risk Under Pressure

- A somewhat muted session overnight with Hong Kong closed for a public holiday, but overarching sentiment remains fragile, dampened in part by the current uncertainty surrounding the political and fiscal outlook for Italy. Asian equities are trading marginally lower and the iTraxx ex-Japan Asia IG credit index is 0.23bp wider, both of which suggests a soft bias to the MENA market open.
- Political instability in Italy may not be a new phenomenon, but after the inconclusive election result in March it is the prospect of two anti-establishment populist political parties now forming a coalition and embarking on an expansionary fiscal program that is clearly spooking investors. Italian risk assets have been hit hard this week, but we see little evidence of any buying cares emerging yet at these 'cheaper' levels.
- Indeed, historic analysis of Italian yields and spreads suggests that risk aversion and spread widening could have much further to run yet. The yield spread between the 10Y BTP (Italian government bond) and the 10Y German bund has spiralled over 60bps this month, to 187bps, its widest in nearly a year. However, the same spread touched 213bps in April 2017 according to Bloomberg and above 300bps in June 2013. Meanwhile, the Italy 5Y CDS contract has ballooned to 135 from the recent low of 84.5 seen April 23, but again this was just shy of 200 in February last year and exceeded 290 in mid-2013.



- Rhetoric from the two party leaders - Luigi Di Maio, leader of the Five Star Movement and Matteo Salvini of the anti-immigrant League – together with evidence of how they propose to form a government, how they will deal with Italy's parlous fiscal position and with who as Prime Minister, will determine if and when spreads represent a buying opportunity. For the time being, the path of least resistance for Italian risk seems to be wider as investors remain defensive, which will likely weigh broader Eurozone peripheral risk sentiment, as well as the Euro itself. At the same time, we see this as fillip for core Europe risk (German bunds, DAX), as well as potentially for investor appeal of fundamentally-sound GCC risk.

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FX & Rates

- Market just jostling for position at the moment as headline fatigue is already kicking in. Sharp move lower in S&P is slowly being clawed back and safe heavens are selling off once again. CT10's at 3.06% so little changed in 24hrs.
- Data calendar very light today. Richmond fed manuf index may be worth keeping an eye on.

UST Yield	Prev day Close	Change (basis points)				
		1D	1W	1M	1D	YTD
5Y	2.90%	+0.7	+3.3	+9.5	+109.7	+68.9
10Y	3.06%	+0.4	+5.8	+9.9	+80.6	+65.5
30Y	3.20%	+0.3	+6.7	+5.6	+28.8	+46.2

Source: Bloomberg

\$ Mid Swap	Prev day Close	Change (basis points)				
		1D	1W	1M	1D	YTD
5Y	299.6	+0.9	+5.0	+6.7	+112.0	+75.2
10Y	309.7	+0.7	+6.5	+9.3	+90.4	+69.9
30Y	312.9	+1.4	+10.0	+10.4	+68.7	+59.2

Source: Bloomberg

	Prev day Close	% Change				
		1D	1W	1M	1YR	YTD
EUR USD	1.1791	+0.16%	-1.14%	-3.42%	+4.93%	-1.78%
GBP USD	1.3427	-0.31%	-0.95%	-3.68%	+3.28%	-0.64%
USD JPY	111.05	+0.24%	+1.27%	+2.15%	-0.22%	-1.46%

Source: Bloomberg

	Prev day Close	% Change				
		1D	1W	1M	1YR	YTD
USD TRY	4.5760	+1.87%	+4.79%	+11.38%	+28.58%	+20.48%
USD INR	68.1237	+0.17%	+0.02%	+2.47%	+5.54%	+6.66%
USD IDR	14,190.0	+0.24%	+1.55%	+1.54%	+6.68%	+4.68%

Source: Bloomberg

MENA and Asia Credit

- Our GCC market felt quiet with the exception of the 1-2Y space where we traded a couple of clips, names like MAF 19s , Emaar 19s and DEWA 20s were our focus yesterday. In the Sov/IG space saw buyers of ADNOC 29s which makes sense at these Zspd levels and late in the day saw seller of Kuwait 27s. Bahrain curve felt heavy mainly the long end both 10Y & 30Y were getting hit.

CDS	Prev day Close (bps)	Change (basis points)				
		1D	1W	1M	1YR	YTD
Abu Dhabi 5Y	65.0	+0.5	+3.2	+3.0	+25.0	+3.3
Kuwait 5Y	67.3	+1.8	+1.1	+5.1	+17.3	+3.3
Dubai 5Y	115.5	+0.8	+2.4	+6.4	+7.4	-7.0

Source: Bloomberg

CDS	Prev day Close (bps)	Change (basis points)				
		1D	1W	1M	1YR	YTD
Qatar 5Y	96.0	+0.8	+7.1	+8.6	+35.9	-4.9
KSA 5Y	92.5	+0.4	+5.6	+5.1	-1.3	+0.8
Bahrain 5Y	367.9	+3.6	+49.7	+87.2	+147.9	+91.3

Source: Bloomberg

Indices	Prev day Close (bps)	Change (basis points)				
		1D	1W	1M	1YR	YTD
JPMEMBI Sov	376.3	+1.4	+15.2	+41.2	+43.9	+47.6
Sovx CEEMEA	63.2	+0.8	+16.4	+19.8	+16.7	+30.6
Itrax Xover	280.4	+3.8	+12.4	+5.3	+27.9	+47.2

Source: Bloomberg

Overnight market headlines

Global News

- US to impose 'strongest sanctions in history' on Iran – MoneyControl.
- US Dollar falls from 5-month highs, this week's focus on Fed minutes – CNBC/ Reuters.
- Oil prices rise on worries over Venezuelan supply – CNBC.
- Dow closes above 25,000 for the first time since March as US-China trade war is placed 'on hold' – CNBC.
- Dollar near four-month highs vs yen, near six-month top vs euro – Reuters.
- Italy's govt bond yields rise to 14-month highs – Reuters.
- Turkish lira among the worst performing emerging market currency – Reuters.

Middle East & Africa News

- Tadawul Implementing a new mechanism for opening and closing price calculation – Tadawul.
- Kuwait Finance House sets up USD3bn sukuk programme – Reuters.
- Emirates NBD to buy Turkey's Denizbank for \$3.2bln – Zawya.
- Nasdaq Dubai bourse says to launch future contracts on Saudi equities in 3Q18 – Reuters.
- Mubadala to sell EMI Music stake to Sony in \$2bn deal – Arabian Business.
- Dubai Aerospace obtains USD480mn loan facility – Reuters.
- UAE government 2017 total expenditure \$13.22bln – Zawya.
- UAE-UK bilateral trade hits \$3.27bln in Q1 – Zawya.
- Oman's producer price index-based inflation rises – Times of Oman.
- Oman to attract USD50bn in tourism investment by 2040 – Oman Observer.
- Saudia's international passengers numbers rise 19% in Q1 – Arabian Business.

Continued...

Key data points – Global

Major Stock Markets	Prev day Close	Change				
		1D	1W	1M	1YR	YTD
GLOBAL						
Dow Jones Inds. Avg	25,013	+1.21%	+0.46%	+2.25%	+19.71%	+1.19%
S&P 500	2,733	+0.74%	+0.11%	+2.35%	+14.16%	+2.22%
Nasdaq Composite	7,394	+0.54%	-0.23%	+3.47%	+20.55%	+7.11%
Nikkei	23,002	+0.31%	+0.60%	+3.79%	+16.89%	+1.04%
Hang Seng	31,234	+0.94%	-0.97%	+2.68%	+23.01%	+4.40%
Shanghai	3,214	+0.64%	+1.25%	+4.63%	+4.49%	-2.82%
Mumbai Sensex	34,616	-0.67%	-2.65%	+0.58%	+13.23%	+1.64%
DAX	13,078	-0.28%	+0.59%	+4.28%	+3.47%	+1.24%
CAC 40	5,638	+0.41%	+1.75%	+4.15%	+5.91%	+6.12%
FTSE 100	7,859	+1.03%	+1.92%	+6.66%	+4.84%	+2.23%
DJ Stoxx 50	3,573	-0.03%	+0.19%	+2.24%	-0.11%	+1.96%
FTSE MIB Index	23,092	-1.52%	-4.66%	-3.09%	+8.32%	+5.67%
SMI Index	8,940	-0.53%	-0.59%	+1.51%	-0.91%	-4.70%
MENA						
Abu Dhabi – ADX	4,458	+0.73%	+0.26%	-4.79%	-2.05%	+1.36%
Dubai – DFM	2,947	+0.97%	+1.45%	-4.30%	-13.07%	-12.55%
Saudi Arabia	7,996	-0.27%	-0.92%	-3.15%	+14.44%	+10.66%
Qatar	8,944	+0.98%	+0.10%	-2.31%	-11.75%	+4.93%
Bahrain	1,268	+0.05%	-0.33%	-2.55%	-3.13%	-4.79%
Kuwait	4,766	-0.11%	+0.03%	-0.22%	NA	-3.64%
Oman	4,596	+0.12%	-2.01%	-3.48%	-15.11%	-9.88%
Egypt	16,781	-0.01%	-1.20%	-6.24%	+32.67%	+11.73%
Turkey	102,258	-0.15%	-1.08%	-7.82%	+6.08%	-11.34%

Source: Bloomberg

Major Commodities Prices	Prev day Close	Change				
		1D	1W	1M	1YR	YTD
WTI Oil \$/bbl	72.24	+1.35%	+1.80%	+5.64%	+42.40%	+19.56%
Brent Oil \$/bbl	79.22	+0.90%	+1.27%	+6.97%	+47.06%	+18.47%
Gold spot \$/oz	1,292.6	-0.03%	-1.59%	-2.43%	+2.54%	-0.78%
Silver spot \$/Troy oz	16.510	+0.41%	-0.09%	-0.67%	-3.83%	-2.52%
Aluminium 3MO \$	2,280.0	+0.44%	-1.68%	-7.65%	+17.31%	+0.53%
Nickel 3MO \$	14,675	-0.51%	+1.21%	-1.05%	+56.78%	+15.01%
Copper 3MO \$	6,879	+0.35%	-0.09%	-1.62%	+21.07%	-5.08%

Source: Bloomberg

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