

Daily Market Chatter

Macro Strategy View: Casting a Shadow of Doubt

- We have questioned over recent weeks if the proposed summit between U.S. President Trump and North Korean leader Kim Jong Un would actually take place and, if so, if there might be an ulterior motive for the meeting from either leader. Risk sentiment was nonetheless buoyed by the possibility of a more favorable geopolitical landscape evolving. But as doubts now creep in as to whether the leaders' encounter will actually take place – as Trump reiterates his preconditions for a meeting – a shadow of doubt has once again moved back across risk markets overnight.
- Asian stock markets have dipped back into the red, with the Nikkei now 0.36% lower ytd. Meanwhile the iTraxx ex-Japan Asia IG credit index is currently 0.5bp wider this morning, taking it to 8bps wider ytd. Meanwhile in the cash bond space the Bloomberg Barclays Asia high yield index is marginally weaker on the day at 413bps OAS (+0.004bps) and close to its ytd wide of 425bps (from May 9). Likewise, while the Bloomberg Barclays Asia IG cash index is little changed this morning at 134bps OAS, it remains just shy of its ytd wide of 136bps.



- Aside from geopolitics, it is the rates market outlook – and expectations of a continued drift higher in yields over the coming months – that is undermining risk asset performance, particularly among lower-rated, higher yielding credit. The recent selloff in U.S. treasuries and the strength in the dollar has proved particularly painful for local currency emerging market debt that has suffered from currency weakness and higher yields. As such, while investors now debate whether the Fed will raise interest rates once, twice or even three times more this year, we believe that the release later today of the minutes from the FOMC's latest policy meeting will be closely scrutinized for any fresh insight into the Committee's monetary policy thinking. With the minutes of the ECB's latest Governing Council meeting then scheduled for release on Thursday, it looks as though central bank policy rhetoric is set to remain a key determinant of near-term market sentiment alongside geopolitics.
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Financial M&A

- Meanwhile, expect a perhaps greater degree of focus on the financial sector today. The Financial Times and Bloomberg News are running a story that Barclays Bank may be considering strategic M&A options, including a possible merger with Standard Chartered, due to pressure from an activist investor for greater shareholder returns. The initial reaction to the headlines has been positive though for Standard Chartered, with the equity quoted 3.9% higher in Hong Kong as of 8.40am UAE time. As we have discussed previously though, shareholder friendly initiatives are often less favourable for bondholders. All eyes will be on Barclays' stock, bond and CDS prices at the European open.

FX & Rates

UST Yield	Prev day Close	Change (basis points)				
		1D	1W	1M	1D	YTD
5Y	2.90%	+0.2	-2.1	+7.6	+107.0	+69.1
10Y	3.06%	+0.0	-1.2	+8.4	+78.0	+65.5
30Y	3.21%	+0.3	+0.4	+6.1	+26.2	+46.5

Source: Bloomberg

\$ Mid Swap	Prev day Close	Change (basis points)				
		1D	1W	1M	1D	YTD
5Y	299.5	-0.1	-0.6	+6.7	+109.7	+75.1
10Y	309.1	-0.6	-1.3	+8.7	+86.8	+69.3
30Y	312.2	-0.7	+0.2	+9.7	+64.5	+58.5

Source: Bloomberg

	Prev day Close	% Change				
		1D	1W	1M	1YR	YTD
EUR USD	1.1779	-0.10%	-0.50%	-3.52%	+5.33%	-1.88%
GBP USD	1.3432	+0.04%	-0.52%	-3.64%	+3.63%	-0.60%
USD JPY	110.90	-0.14%	+0.50%	+2.01%	-0.79%	-1.59%

Source: Bloomberg

	Prev day Close	% Change				
		1D	1W	1M	1YR	YTD
USD TRY	4.6692	+2.04%	+5.01%	+13.65%	+30.62%	+22.93%
USD INR	68.0437	-0.12%	+0.37%	+2.35%	+4.86%	+6.53%
USD IDR	14,142.0	-0.34%	+0.75%	+1.19%	+6.34%	+4.33%

Source: Bloomberg

Asia Credit

- The tone to Asian credit this morning is net firmer vs. Monday's close, ahead of yesterday's bank holiday. Sentiment is being buoyed by indications that the U.S. and China may be making headway in trade talks, although concerns keep flaring up around North Korea, but that's not new and is unlikely to change. A look at the ytd performance of Asian credit tells an interesting story, and highlights how much pressure has been on corporate spreads generally, which have underperformed stocks; Bloomberg Barclays Asia IG 134 (YTD range 107-136), Bloomberg Barclays Asia HY 413 (YTD range 277-425), EMBI Global at 351 (YTD range 289-362).
- In MENA news, focus has been on Moody's downgrade of Commercial Bank of Qatar and Doha Bank, although Turkey has continued to be center of much activity. With the Lira being hit, Turkey 28's USD bond have now widened more than 100 bps since May 1st. Today in Asia we look for a positive start to markets with spreads better from 2-4 at this stage. Time will tell if this can hold. We continue to be buyers in the short end and stay neutral in the long end of curves.

Indices	Prev day Close (bps)	Change (basis points)				
		1D	1W	1M	1YR	YTD
JPMEMBI Sov	369.3	-7.0	+3.5	+34.2	+38.0	+40.6
Sovx CEEMEA	61.4	-1.8	+11.6	+20.6	+15.4	+28.7
Itrax Xover	279.7	-0.7	+8.8	+4.3	+28.3	+46.5

Source: Bloomberg

MENA Credit

- Yesterday proved to be a far more constructive day in our space and across EM as a whole. Overall, we saw LATAM open stronger again although risk drifted into the close and European EM tightened across the board as Turkey credit finally seemed to decouple from the misfortunes of the Lira. The 5Y CDS tightened 10bps or so while the lira drifted 2% to 4.65. Note that the Lira has been massacred in Asian trading overnight and is seen as a sign Japanese investors are throwing in the towel (currently 4.78)! This currency move may dampen yesterday's improved risk appetite in our region.
- In terms of spread moves we saw Bahrain 5Y gap in over 40bps, with buyers evident across the cash curve. The long end was up almost 2pts in a thin market, with regional buyers adding the shorter maturities. Bahrain 20s closed 98.10 bid or 6.59% yield, not bad for a sovereign with less than a 2Y tenor.
- Closer to home we had buyers of UAE credit, both sovereign and corporate. Not sure if it was triggered by the UAE making it easier for o/seas investment (100% foreign ownership) and more stability with 10Y visas for professional expats (research, medicine and technical fields). That said Damac remained close to recent lows as margin calls trigger retail sellers. DARALA which slumped in sympathy with Damac bounced back tightening some 30bps+ but is still 40bps+ wider over the past week or so. Would think we take a breather here, although Asian credit is a shade better in early trading this morning.

CDS	Prev day Close (bps)	Change (basis points)				
		1D	1W	1M	1YR	YTD
Abu Dhabi 5Y	63.3	-1.7	-0.0	+2.3	+22.9	+1.7
Kuwait 5Y	66.5	-0.7	-0.5	+4.8	+16.6	+2.6
Dubai 5Y	118.0	-1.3	+3.7	+12.0	+12.2	-4.4

Source: Bloomberg

CDS	Prev day Close (bps)	Change (basis points)				
		1D	1W	1M	1YR	YTD
Qatar 5Y	94.9	-1.1	+2.6	+8.5	+34.1	-6.0
KSA 5Y	91.4	-1.1	+1.7	+5.0	-1.4	-0.3
Bahrain 5Y	385.4	+17.5	+57.7	+105.7	+166.3	+108.8

Source: Bloomberg

Commodities

- API reported yesterday a lower than expected crude inventories fall for last week, with inventories decreasing by 1.3 mb (vs -1.6 mb estimate). Headlines about OPEC and Russia discussing the easing of the supply cuts during the next OPEC meeting in June triggered a 1\$ selloff yesterday, with Brent closing at \$79.57 (down from the session highs of \$80.49).

Continued...

Overnight market headlines

Global News

- Global Public sector investor assets surge 7.3 percent to \$36 trillion, biggest jump in 5 years – Reuters.
- U.S. Banks Reported Record First-Quarter Profit – WSJ.
- Trump casts doubt on planned summit with North Korean leader – Reuters.
- Trump Is Targeting 10% Cut in EU Steel, Aluminum Exports to U.S. – WSJ.
- Trump's demand that China cut its US trade deficit by \$200 billion defies the laws of economics – CNBC.
- In Trade War With U.S., China Gets the Upper Hand – WSJ.
- Euro zone bond yields fall on weak French PMI, Italy steadies – Reuters.
- Barclays Is Exploring a Potential Merger With Standard Chartered – FT/Bloomberg.
- Brazil's Central Bank Says Rates Should Remain Low – WSJ.
- South Africa's rand weaker ahead of inflation data – Reuters.
- Venezuela expels U.S. envoys in response to sanctions – Reuters.
- Oil prices slip on potential easing of OPEC supply curbs – CNBC.

Middle East & Africa News

- Saudi Arabia says to launch new bourse improvements on Sunday – Arabian Business.
- Dar Al Arkan settles SAR1.7bn of sukuk facilities – Tadawul.
- Kuwait Finance House sets up \$3bn sukuk programme – Reuters.
- Moody's downgrades Doha Bank by a notch with a Negative outlook – Moody's.
- UAE federal government spending tops \$13.2bn in 2017 – Reuters.
- IMF urges Saudi not to boost spending as oil rises as reforms progress – IMF/Reuters.
- Egypt's Budget deficit reaches EGP218bn in seven months – Egypt Today.
- EMEA high yield bond issuance grew 72% in April from \$10.1bn – Moody's.
- Artificial intelligence to add \$182bn to UAE's economy by 2035 – Reuters.
- Egypt to hold two international bid rounds for oil and gas exploration – Reuters.
- Iraq announces contract with China's Zhenhua Oil for East Baghdad oilfield – Zawya.
- Jordan's Cabinet approves new IMF-guided tax law to boost finances – Reuters.
- Egypt's Hydrocarbon sector leads growth GDP drivers in 3Q17-18 growth – Al Borsa.
- Egypt tourism revenues jump 83% to USD2.2bn in 1Q18 – Reuters.
- Morocco's annual inflation rises to 2.7% yr/yr in April – Zawya.

Continued...

Key data points – Global

Major Stock Markets	Prev day Close	Change				
		1D	1W	1M	1YR	YTD
GLOBAL						
Dow Jones Inds. Avg	24,834	-0.72%	+0.52%	+1.58%	+18.61%	+0.47%
S&P 500	2,724	-0.31%	+0.48%	+2.03%	+13.59%	+1.90%
Nasdaq Composite	7,378	-0.21%	+0.36%	+3.50%	+20.20%	+6.88%
Nikkei	22,960	-0.18%	+0.62%	+3.95%	+17.07%	+0.86%
Hang Seng	31,234	+0.60%	+0.26%	+2.68%	+23.01%	+4.40%
Shanghai	3,214	+0.02%	+0.70%	+4.77%	+4.98%	-2.81%
Mumbai Sensex	34,651	+0.10%	-2.51%	+0.58%	+14.11%	+1.75%
DAX	13,170	+0.71%	+1.48%	+4.75%	+4.03%	+1.95%
CAC 40	5,640	+0.05%	+1.57%	+3.71%	+5.46%	+6.17%
FTSE 100	7,877	+0.23%	+2.00%	+6.47%	+5.24%	+2.47%
DJ Stoxx 50	3,587	+0.41%	+0.64%	+2.11%	-0.22%	+2.38%
FTSE MIB Index	23,217	+0.54%	-4.45%	-3.19%	+8.41%	+6.24%
SMI Index	8,936	-0.05%	-0.72%	+1.47%	-1.39%	-4.75%
MENA						
Abu Dhabi – ADX	4,527	+1.53%	+1.32%	-3.56%	-0.43%	+2.91%
Dubai – DFM	2,973	+0.88%	+1.42%	-2.90%	-11.61%	-11.78%
Saudi Arabia	8,045	+0.60%	+0.07%	-3.49%	+15.98%	+11.32%
Qatar	8,993	+0.55%	+0.80%	-1.79%	-11.16%	+5.51%
Bahrain	1,265	-0.19%	-0.58%	-2.55%	-3.39%	-4.97%
Kuwait	4,753	-0.27%	-0.48%	-0.55%	NA	-3.90%
Oman	4,579	-0.36%	-1.60%	-3.72%	-15.22%	-10.20%
Egypt	16,658	-0.73%	-1.93%	-7.87%	+30.22%	+10.91%
Turkey	103,328	+1.05%	+1.76%	-6.86%	+5.74%	-10.41%

Source: Bloomberg

Major Commodities Prices	Prev day Close	Change				
		1D	1W	1M	1YR	YTD
WTI Oil \$/bbl	72.20	-0.06%	+1.25%	+5.19%	+40.28%	+19.50%
Brent Oil \$/bbl	79.57	+0.44%	+1.45%	+6.51%	+46.94%	+18.99%
Gold spot \$/oz	1,291.1	-0.11%	+0.05%	-2.54%	+3.19%	-0.89%
Silver spot \$/Troy oz	16.545	+0.21%	+1.71%	-0.47%	-3.04%	-2.32%
Aluminium 3MO \$	2,270.0	-0.44%	-2.45%	-8.06%	+17.13%	+0.09%
Nickel 3MO \$	14,780	+0.72%	+2.46%	-0.34%	+57.32%	+15.83%
Copper 3MO \$	6,979	+1.45%	+2.51%	-0.19%	+22.37%	-3.70%

Source: Bloomberg

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