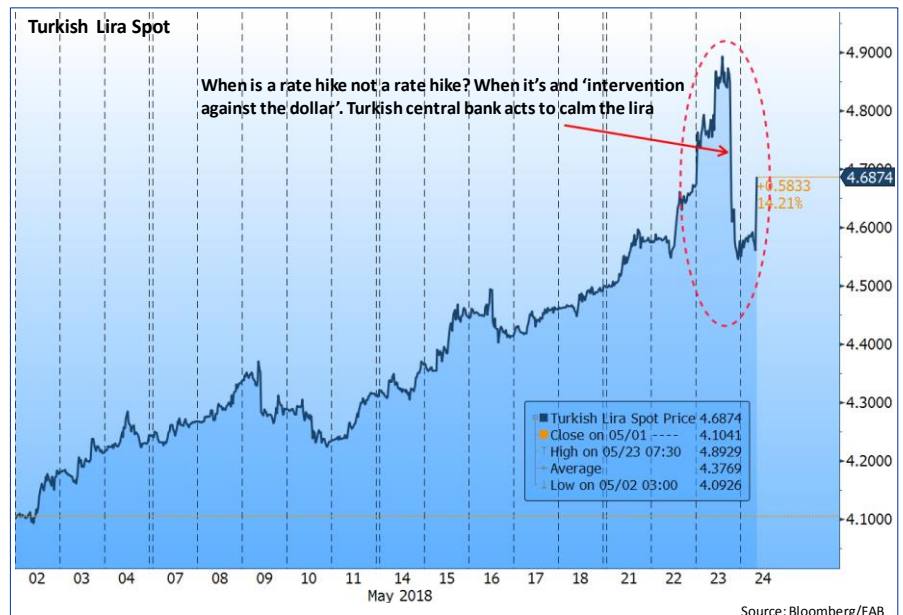


Daily Market Chatter

Macro Strategy View: Jigsaw Puzzles

- The market really is something of a jigsaw puzzle at the moment in terms of all the differing elements that fit together in driving investor sentiment, including global rates, global trade, geopolitics. While the prospect of a continued rising rate environment has been one of the key factors fueling a cautious bias to risk assets in recent months, paradoxically it is investors' continued weak perception of global trade dynamics and geopolitical uncertainties that have provided a fillip for U.S. treasuries overnight, helping the 10Y bond yield to dip back below the psychological 3% level. As such, if geopolitics and trade concerns buoy the defensive bid for treasuries, this may actually help to ease investor nerves toward rates in the near-term.
- The path of least resistance for U.S. interest rates still seems to be higher with the market pricing in at least two more interest rate rises from the FOMC by the end of this year. Nonetheless, the net dovish tone to the latest FOMC meeting minutes released last night suggested that the Fed will avoid adopting a more hawkish monetary policy stance, even as the macro outlook improves. This should have been welcomed by risk assets, but seems to have been overshadowed by some of the broader market concerns alluded to earlier.



- Indeed, while the surprise rate rise in Turkey overnight should be perceived as a step in the right direction for stemming the recent rout in the lira and calming investor nerves, myriad questions remain over President Erdogan and the country's political and economic outlook ahead of the elections in June. Meanwhile the uncertain political outlook in Italy, coupled with rising doubts over the planned summit between U.S. President Trump and North Korean leader Kim Jong Un – previous optimism that had been priced into the market is now being unwound – is all combining to make our so-called jigsaw even more challenging.

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- So the market looks set for a mixed session Thursday, but with firm undertones. Asian equities are largely in negative territory – with the exception of the Hang Seng that is holding onto small gains – but the Asian and Australian iTraxx credit indices are modestly tighter overnight. Given the uncertainty that continues to shroud the geopolitical landscape, as well as the rates environment, we continue to advocate a net cautious approach to risk, with a bias for higher rated assets. Sub-investment grade and EM risk meanwhile seem likely to remain under near-term pressure and as such these latter asset classes would seem to warrant the maintenance of a more fundamentally-driven, selective strategy.

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

FX & Rates

- A huge RISK OFF move yesterday, Fuelled by TRY and rout in BTP's.
- Feds mins on the dovish side with a key note around the technical adjustment in IOER. This had pushed FRa/ois spreads wider again 2y and 5y are 3bp wider on the week
- Monday will be a US and UK holiday, so there will be absolutely no liquidity in most assets classes, we will be closed for US & UK IRS on Monday. We advise any client to avoid trading anything on Monday.

UST Yield	Prev day Close	Change (basis points)				
		1D	1W	1M	1D	YTD
5Y	2.83%	-7.2	-11.4	-0.1	+104.0	+61.9
10Y	2.99%	-6.6	-10.3	-0.6	+74.3	+58.9
30Y	3.15%	-5.3	-6.6	-3.0	+22.8	+41.3

Source: Bloomberg

\$ Mid Swap	Prev day Close	Change (basis points)				
		1D	1W	1M	1D	YTD
5Y	293.5	-5.9	-9.8	+0.1	+107.2	+69.2
10Y	302.7	-6.4	-10.6	+0.2	+83.3	+62.9
30Y	306.6	-5.6	-6.0	+3.6	+55.7	+53.0

Source: Bloomberg

	Prev day Close	% Change				
		1D	1W	1M	1YR	YTD
EUR USD	1.1697	-0.70%	-0.94%	-4.38%	+4.26%	-2.57%
GBP USD	1.3347	-0.63%	-1.03%	-4.51%	+2.89%	-1.23%
USD JPY	110.08	-0.74%	-0.29%	+1.16%	-1.26%	-2.32%

Source: Bloomberg

	Prev day Close	% Change				
		1D	1W	1M	1YR	YTD
USD TRY	4.5761	-1.99%	+3.66%	+11.99%	+28.54%	+20.48%
USD INR	68.4263	+0.56%	+1.07%	+3.07%	+5.71%	+7.13%
USD IDR	14,209.0	+0.47%	+0.79%	+2.30%	+6.75%	+4.82%

Source: Bloomberg

Asia Credit

- Well the steam has come out of the super-hot days here in HK but some of that heat moving back into markets, as we see things grind a bit better again generally. The FED minutes showed no rush to increase rate hikes sees small gains in stocks and slightly lower rates. While things look a bit better for the developed markets while the EM is still under massive pressure, yesterday seen Turkey's central bank raising the liquidity window rate by 300 basis points to 16.5 percent.

Indices	Prev day Close (bps)	Change (basis points)				
		1D	1W	1M	1YR	YTD
JPMEMBI Sov	367.7	-1.5	+7.0	+30.1	+41.7	+39.0
Sovx CEEMEA	62.5	+1.1	+5.6	+21.1	+17.3	+29.9
Itrax Xover	285.9	+6.2	+11.9	+6.9	+32.4	+52.7

Source: Bloomberg

MENA Credit

- Our market caught a bid yesterday on the back of the UST move, we are back to 3pct and won't be surprised to see 2.85%-2.90% area before we continue our journey higher, the high beta names were the movers of the day mainly Bahrain rallying by more than 1pt with thin volumes, we still like the Bahrain short end ie the 18s & 20s and off course Bahrain 25s New Sukuk.
- Hate to say but no new issues action this week, we still have 3 weeks to go before Eid holiday and the summer vacation kicks in so fingers crossed we get a couple of new deals to get this market active again.
- Last but not least Turkey central bank raised rates to 16.5% & Fitch downgrades National Bank Of Oman to BB+.

CDS	Prev day Close (bps)	Change (basis points)				
		1D	1W	1M	1YR	YTD
Abu Dhabi 5Y	63.9	+0.5	+0.6	+1.5	+25.1	+2.2
Kuwait 5Y	66.7	+0.2	+1.9	+4.8	+17.2	+2.8
Dubai 5Y	118.6	+0.6	+3.9	+9.8	+14.5	-3.9

Source: Bloomberg

CDS	Prev day Close (bps)	Change (basis points)				
		1D	1W	1M	1YR	YTD
Qatar 5Y	94.3	-0.6	+2.1	+7.0	+36.7	-6.6
KSA 5Y	90.7	-0.7	+2.4	+3.4	-0.8	-1.0
Bahrain 5Y	383.7	-1.7	+43.4	+97.9	+166.7	+107.2

Source: Bloomberg

Continued...

Overnight market headlines

Global News

- Fed says trade tensions may dampen business mood – FT.
- Fed Sees Next Hike Soon, Signals Modest Inflation Overshoot OK – Bloomberg.
- Asian carmakers dip as Trump confirms probe into car imports – FT.
- Berlin warns EU-US trade war will spread beyond steel – FT.
- Italy's Premier-Designate Starts Quest for Government Support – Bloomberg.
- Deutsche Bank announces massive job cuts as pressure mounts on the firm's executives – CNBC/WSJ.
- Deutsche Bank Targets 2019 Adj. Costs at EU22b – Bloomberg.
- Erdogan's siege mentality pushes Turkish lira to the brink – FT.
- A \$118 Billion Japan Manager Buys Spain's Sovereign Bonds After 7 Years – Bloomberg.
- Bain wins \$1bn rescue of Italian engineer Trevi – Zawya.
- Turkey Central Bank Raises Llw Rate to 16.5% - Bloomberg
- Singapore final Q1 GDP revised to 4.4% – FT.
- Malaysia's Prime Minister Mahathir Mohamad says national debt is 65 percent of GDP – CNBC.
- Global flat glass market to top \$130bln by 2024 – Reuters.
- Uber's First-Quarter Sales Rise 70% as It Preps for IPO – WSJ.

Middle East & Africa News

- Saudi's \$80 oil goal is eating into Modi's budget ahead of polls – Arabian Business.
- Saudi Arabia needs oil at \$85 a barrel to balance budget, says IMF – Arabian Business.
- Oman Arab Bank, Alizz Islamic explore merger – Reuters.
- UAE 7th most competitive nation globally – Reuters.
- UAE to form committee to decide sectors for 100% foreign ownership – Arabian Business.
- SAMA to begin using one-riyal coin currency on Thursday – Argaam.
- Moody's affirms Emirates NBD and Denizbank's ratings at A3 and Ba3 respectively – Reuters.
- Saudi Arabia scores high on prices and tax efficiency, IMD survey finds – Zawya.
- Fitch cuts NBO's long-term rating to Junk, affirms Bank Sohar and Bank Dhofar's ratings at BB+ – Fitch.
- Kuwait Petroleum plans USD2.6bn loan – Reuters.
- Cost of insuring Bahrain's debt jumps as deficit jitters increase – Reuters.
- Dubai's Careem said to weigh \$500m in funding – Arabian Business.
- Egypt, Russia sign 50-year industrial zone agreement – Reuters.

Continued...

Key data points – Global

Major Stock Markets	Prev day Close	Change				
		1D	1W	1M	1YR	YTD
GLOBAL						
Dow Jones Inds. Avg	24,887	+0.21%	+0.48%	+3.59%	+18.44%	+0.68%
S&P 500	2,733	+0.32%	+0.40%	+3.75%	+13.68%	+2.23%
Nasdaq Composite	7,426	+0.64%	+0.37%	+5.97%	+20.49%	+7.57%
Nikkei	22,690	-1.18%	-0.12%	+1.85%	+14.93%	-0.33%
Hang Seng	30,666	-1.82%	-1.43%	+0.10%	+20.60%	+2.50%
Shanghai	3,169	-1.41%	-0.02%	+1.28%	+3.42%	-4.18%
Mumbai Sensex	34,345	-0.88%	-2.95%	-0.78%	+13.34%	+0.85%
DAX	12,977	-1.47%	+0.05%	+3.39%	+2.64%	+0.46%
CAC 40	5,566	-1.32%	-0.03%	+2.24%	+4.20%	+4.77%
FTSE 100	7,788	-1.13%	+0.70%	+4.89%	+3.64%	+1.31%
DJ Stoxx 50	3,542	-1.27%	-0.59%	+0.88%	-1.25%	+1.08%
FTSE MIB Index	22,912	-1.31%	-3.47%	-4.68%	+7.22%	+4.84%
SMI Index	8,795	-1.58%	-2.22%	-0.02%	-2.66%	-6.26%
MENA						
Abu Dhabi – ADX	4,586	+1.30%	+2.64%	-2.21%	+1.18%	+4.25%
Dubai – DFM	2,947	-0.89%	+0.51%	-2.89%	-12.08%	-12.56%
Saudi Arabia	8,039	-0.07%	+1.01%	-3.32%	+16.48%	+11.25%
Qatar	9,000	+0.07%	+0.55%	-1.01%	-10.78%	+5.59%
Bahrain	1,267	+0.12%	-0.46%	-1.20%	-3.57%	-4.86%
Kuwait	4,718	-0.72%	-1.20%	-1.57%	NA	-4.60%
Oman	4,557	-0.49%	-2.09%	-4.31%	-15.50%	-10.64%
Egypt	16,663	+0.03%	-1.95%	-8.05%	+29.32%	+10.94%
Turkey	101,892	-1.39%	-0.26%	-7.42%	+3.64%	-11.65%

Source: Bloomberg

Major Commodities Prices	Prev day Close	Change				
		1D	1W	1M	1YR	YTD
WTI Oil \$/bbl	71.84	-0.40%	+0.49%	+6.12%	+39.88%	+18.90%
Brent Oil \$/bbl	79.80	+0.29%	+0.66%	+8.04%	+47.89%	+19.34%
Gold spot \$/oz	1,293.4	+0.18%	+0.21%	-2.78%	+2.76%	-0.72%
Silver spot \$/Troy oz	16.453	-0.56%	+0.45%	-1.64%	-4.54%	-2.86%
Aluminium 3MO \$	2,270.0	+0.00%	-1.97%	-1.09%	+16.83%	+0.09%
Nickel 3MO \$	14,650	-0.88%	+1.21%	+2.70%	+56.77%	+14.81%
Copper 3MO \$	6,867	-1.60%	+0.60%	-1.10%	+20.18%	-5.24%

Source: Bloomberg

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