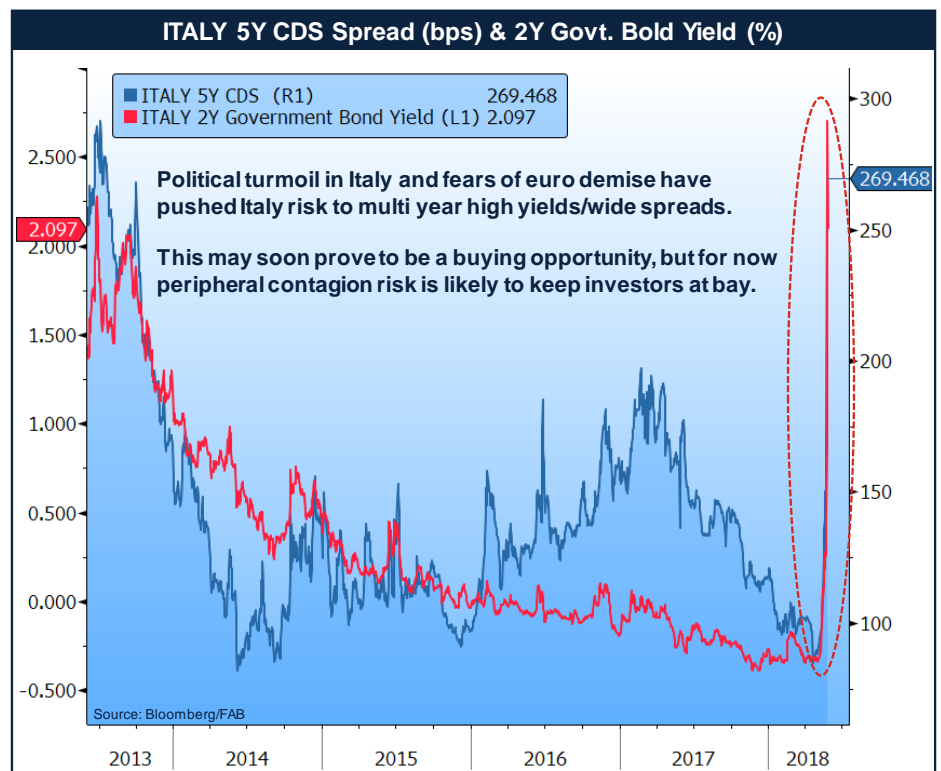


## Daily Market Chatter

### Macro Strategy View: Italian Tin Hat Time

- Risk off is very much the theme across global financial markets again this morning, with sentiment being crushed by the political turmoil in Italy, which in turn is fueling the specter of the Euro currency breaking down. Warnings from veteran investor George Soros, as reported on Bloomberg, of an 'existential threat' to the European Union, have done little to help the situation. Asian equity and credit indexes are sharply weaker in early Wednesday trading, following a weak close in the U.S. stock markets overnight, indicating a weak open to MENA markets this morning. U.S. treasury yields meanwhile remain well anchored by flight to safety trades, with the 10Y at 2.82% currently.
- Italy lies at the heat of the current weakness, amid political chaos. The recent inconclusive parliamentary elections, with the relative strengths of both the anti-immigration League and anti-establishment Five Star parties, and their choice of Eurosceptic economist Paolo Savona as finance minister, has raised concerns about them trying to take Italy out of the single currency. If that were to happen there is a significant risk that others – Greece, Spain, Portugal – might seek the same, which would lead to an implosion of the currency.



- The selloff in Italy risk has been substantial, with Italian government bond (BTP) yields touching multi-year highs. At 2.77% the 2y BTP is currently at a level last seen in 2012; the time of the last Eurozone crisis and fears of a Greek exit from the currency. Meanwhile, Italy 5Y CDS has spiked higher this week. The contract has escalated 185bps this month to 270, a 5 year high.

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- Technical analysts will likely be pouring over charts in the coming days to attempt to gauge when this might be deemed a buying opportunity, but for now there is little sign of any such optimism. This said, both the League and 5 Star parties did tone down their vitriol toward the euro during the March election campaign - and given Italy's 130%+ debt/GDP ratio a fallout with the ECB would be both painful and costly - so perhaps the recent negative price action may soon be seen as overdone. Alternatively, investors should prepare for 'tin hat time'.

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

## FX & Rates

- We believe that the current volatility seen in markets is being driven by positioning. For those that follow us, we have been recommending widening of FRA/OIS spreads throughout the year – particularly in 2yr. We have seen that strategy return 6bp YTD and its performing again in the stress conditions. FRA/Eonia spread widened significantly yesterday as European banks shares were hit hard.

UST Yield	Prev day Close	Change (basis points)				
		1D	1W	1M	1D	YTD
5Y	2.58%	-18.1	-31.3	-21.3	+82.9	+37.9
10Y	2.78%	-15.0	-27.9	-17.2	+57.1	+37.6
30Y	2.98%	-11.7	-23.0	-14.9	+9.8	+23.5

Source: Bloomberg

\$ Mid Swap	Prev day Close	Change (basis points)				
		1D	1W	1M	1D	YTD
5Y	270.6	-16.7	-28.8	-20.8	+87.5	+46.3
10Y	281.8	-17.9	-27.3	-16.9	+66.6	+42.0
30Y	290.0	-12.4	-22.2	-9.7	+44.8	+36.3

Source: Bloomberg

	Prev day Close	% Change				
		1D	1W	1M	1YR	YTD
EUR USD	1.1540	-0.73%	-2.03%	-4.45%	+3.16%	-3.87%
GBP USD	1.3249	-0.47%	-1.36%	-3.73%	+3.03%	-1.95%
USD JPY	108.77	-0.59%	-1.92%	-0.52%	-1.88%	-3.48%

Source: Bloomberg

	Prev day Close	% Change				
		1D	1W	1M	1YR	YTD
USD TRY	4.5473	-0.79%	-2.61%	+11.94%	+28.13%	+19.72%
USD INR	67.8725	+0.66%	-0.81%	+1.82%	+4.96%	+6.26%
USD IDR	13,995.0	+0.00%	-1.01%	+0.59%	+5.04%	+3.15%

Source: Bloomberg

## Asia Credit

- Things are really heating up in Europe and Italy concerns indeed start to hit markets. UST 10-years tumbled to 2.78% overnight as everyone races for the safety. Now it's around 2.84%, while the China 10-years yield is at 3.61%.
- We see the Asia IG space 2-4 bps wider, which isn't too bad in our opinion, but we did see spreads get hit yesterday afternoon already and in the HY while prices are unchanged it makes things wider by 5-6 really. For the context, overnight the US IG was 4 bps wider, Main from London was about 8 bps wider and X-Over about 20 bps wider.

Indices	Prev day Close (bps)	Change (basis points)				
		1D	1W	1M	1YR	YTD
JPMEMBI Sov	382.5	+17.1	+13.2	+35.9	+57.5	+53.8
Sovx CEEMEA	58.3	-0.6	-3.1	+16.6	+16.2	+25.7
Itrax Xover	318.3	+20.6	+39.9	+44.4	+66.2	+85.1

Source: Bloomberg

## MENA Credit

- Well this Ramadan is certainly proving anything but quiet. Events in Italy dented spreads and sentiment although we did see a fair amount of Buy interest from real money and Swap accounts taking advantage

of the spread widening. Even High Beta Bahrain seemed to be in fair demand. But given the moves in LATAM into the US close this might not continue today. That said LATAM widening can be attributed partly to Brazil where the Truckers Strike is now notably hurting.

- In US trading hours we witnessed some proper risk off sentiment in most asset classes, breaking through the UST low yield prints seen earlier in the day. The 10Y closed around 2.78% but has given back a few bps in the Asian session.
- To add to the mix Trump has signalled a 25% tax on USD 50bn of Chinese goods despite recent signals that Tariffs were unlikely after trade talks.
- Think today we open on an even more cautious footing. Although we have to go back to 2016 to see these sort of MENA spreads according to the (CS MENA Index) which may bring out some value hunters.

CDS	Prev day Close (bps)	Change (basis points)				
		1D	1W	1M	1YR	YTD
Abu Dhabi 5Y	62.3	+0.3	-1.0	-1.0	+23.8	+0.7
Kuwait 5Y	70.1	+5.6	+3.6	+10.4	+20.9	+6.2
Dubai 5Y	117.6	+0.8	-0.4	+8.6	+11.4	-4.8

Source: Bloomberg

CDS	Prev day Close (bps)	Change (basis points)				
		1D	1W	1M	1YR	YTD
Qatar 5Y	93.0	+3.4	-1.9	+3.8	+36.8	-7.9
KSA 5Y	89.7	+2.3	-1.7	+0.5	+0.2	-2.0
Bahrain 5Y	379.2	+6.3	-6.2	+90.1	+160.7	+102.6

Source: Bloomberg

## Overnight market headlines

### Global News

- US consumer confidence bounces back in May to remain at strong levels; jobs market confidence soars to highest level since 2001
- Fed's Bullard says it's difficult for the US to raise rates far beyond other central banks
- US says it will continue trade actions against China
- Chinese state media slam US trade announcement, say Beijing ready to fight
- US treasury yields plunge, stocks tumble across markets as Italy woes and trade tensions knock global sentiment; Oil falls as market turmoil adds to fear over higher OPEC output

### Middle East & Africa News

- UAE central bank raises its 2018 GDP growth forecast to 2.7% as economic activity accelerates in Q1
- Dubai cancels corporate fines to boost business
- S&PGR affirms Saudi British Bank at 'BBB+/A-2'; Outlook stable
- Al Ahli Bank of Kuwait seeks acquisitions as it plans to boost international revenue to about 33%
- Gulf stocks see limited gains, property shares weigh on Dubai
- Lebanon central bank says it sold \$3bn of Eurobonds
- Macron brokers Libyan consensus on December elections
- Kenyan central bank says it's 'under attack' from draft law

*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
<b>GLOBAL</b>						
Dow Jones Inds. Avg	24,361	-1.58%	-2.61%	+0.82%	+15.84%	-1.45%
S&P 500	2,690	-1.16%	-1.58%	+1.58%	+11.48%	+0.61%
Nasdaq Composite	7,397	-0.50%	+0.03%	+4.67%	+19.24%	+7.14%
Nikkei	22,358	-0.55%	-2.62%	-0.49%	+13.62%	-1.79%
Hang Seng	30,485	-1.00%	-2.40%	-1.05%	+18.61%	+1.89%
Shanghai	3,120	-0.47%	-2.92%	+1.24%	+0.33%	-5.65%
Mumbai Sensex	34,949	-0.61%	+0.86%	-0.60%	+12.16%	+2.62%
DAX	12,667	-1.53%	-3.82%	+0.43%	+0.54%	-1.94%
CAC 40	5,438	-1.29%	-3.58%	-1.49%	+2.49%	+2.36%
FTSE 100	7,633	-1.26%	-2.88%	+1.64%	+1.41%	-0.72%
DJ Stoxx 50	3,428	-1.56%	-4.44%	-3.06%	-3.74%	-2.16%
FTSE MIB Index	21,351	-2.65%	-8.04%	-10.96%	+2.58%	-2.30%
SMI Index	8,637	-1.58%	-3.34%	-2.80%	-4.11%	-7.94%
<b>MENA</b>						
Abu Dhabi – ADX	4,577	+0.03%	-0.19%	-1.99%	+1.66%	+4.05%
Dubai – DFM	2,925	-0.00%	-0.74%	-4.60%	-12.44%	-13.21%
Saudi Arabia	8,000	+0.46%	-0.56%	-2.55%	+16.43%	+10.70%
Qatar	9,126	+0.01%	+1.48%	+0.16%	-9.31%	+7.07%
Bahrain	1,263	+0.19%	-0.33%	+0.40%	-4.35%	-5.17%
Kuwait	4,712	+0.43%	-0.13%	-1.39%	NA	-4.73%
Oman	4,599	+0.01%	+0.92%	-2.76%	-14.88%	-9.82%
Egypt	17,006	+1.28%	+2.09%	-7.05%	+28.45%	+13.23%
Turkey	1,05,113	-1.33%	+1.73%	+0.80%	+7.98%	-8.86%

Source: Bloomberg

Major Commodities Prices	Prev day Close	Change				
		1D	1W	1M	1YR	YTD
WTI Oil \$/bbl	66.73	-1.69%	-7.49%	-2.68%	+34.37%	+10.44%
Brent Oil \$/bbl	75.39	+0.12%	-5.25%	+0.29%	+45.43%	+12.74%
Gold spot \$/oz	1,298.8	-0.02%	+0.59%	-1.26%	+2.82%	-0.31%
Silver spot \$/Troy oz	16.365	-0.66%	-1.09%	+0.20%	-5.98%	-3.38%
Aluminium 3MO \$	2,275.0	+0.53%	-0.22%	+2.34%	+16.61%	+0.31%
Nickel 3MO \$	14,905	+0.85%	+1.57%	+7.35%	+64.15%	+16.81%
Copper 3MO \$	6,860	-0.36%	-0.28%	+0.93%	+21.25%	-5.34%

Source: Bloomberg

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