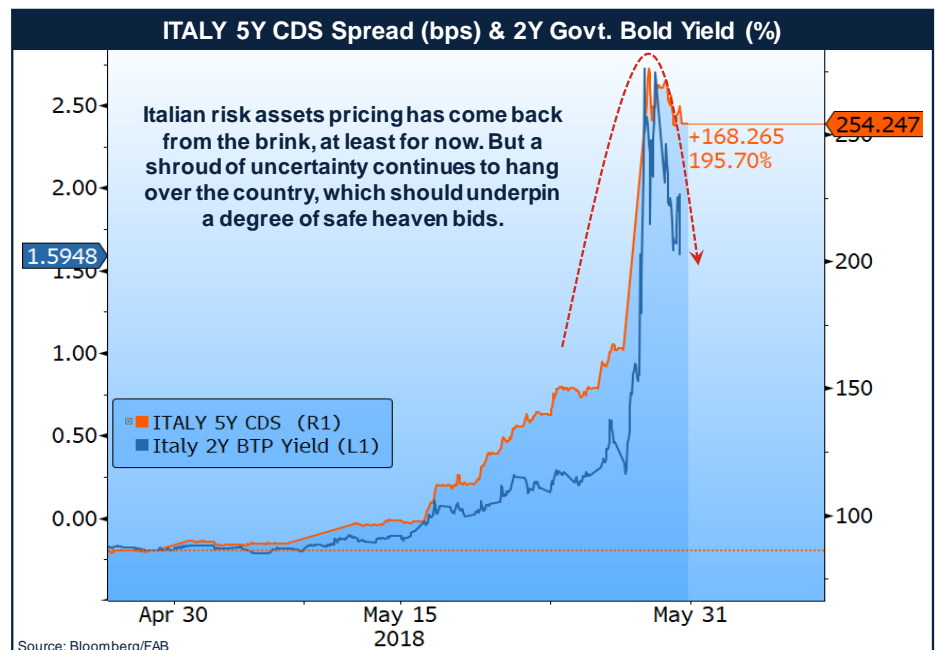


Daily Market Chatter

Macro Strategy View: Italy back from the brink, but shroud of uncertainty remains

- While myriad question marks continue to hang over Italy – and the wider ranging implications of the country’s political turmoil – markets have adopted a more optimistic tone overnight. As suggested in yesterday’s missive, such was the abruptness of the selloff in Italy risk assets in recent days that we expected investors to soon eye weaker valuation levels as potential, selective buying opportunities. Italy risk is still wider on the week, and market sentiment remains susceptible to renewed bouts of weakness from political headlines, but we have stepped back from the edge of the abyss, at least for now.
- After the sharp selloff in Italian government bonds that took yields to multi-year highs, with the 2Y BTP touching 2.76% on Tuesday, the bond closed yesterday at 1.59%. Likewise, the 10Y BTP back at 2.88% is down from the week’s high yield of 3.42%, according to Bloomberg data. This in turn helped Italy 5Y CDS to ratchet back in, closing Wednesday at 254, down from 276 earlier in the week.



- All of this has helped to buoy Asian equity markets this morning – the major bourses are all in the green – and to pare the defensive bid for U.S. treasuries; after rallying to a mid-week low of 2.76%, the U.S. 10Y is trading back around the 2.85% mark as of 8am UAE time. This said, the current fog of uncertainty hanging over the market seems unlikely to dissipate fully any time soon. There is still a significant risk that new elections will be needed in Italy (they always are!), which could effectively be seen as an implicit referendum on Italy’s Eurozone membership and the tenacity of the euro. Moreover, we still have the global growth polemic to debate as well as the U.S./North Korea standoff and global trade tensions to contend with. Uncertainty has long been a negative for investor sentiment and a trigger for volatility, which we would expect to provide near-term support to the flight to safety trade. (Simon Ballard, Macro Strategist, Market Insights & Strategy)

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FX & Rates

- Yesterday we had the BOC meeting signaling a hike became more hawkish towards July with a second one in October. In comparison with yesterday's market, the 10 year TY yield is slightly higher, the Bunds retraced by 10bps and the BTP yields came off by 50bps from yesterday's highs as a result of less negative news from populist parties.

UST Yield	Prev day Close	Change (basis points)				
		1D	1W	1M	1D	YTD
5Y	2.68%	+9.7	-14.4	-11.6	+93.0	+47.6
10Y	2.86%	+7.4	-13.8	-9.8	+65.2	+45.0
30Y	3.03%	+5.2	-12.5	-9.7	+16.4	+28.7

Source: Bloomberg

\$ Mid Swap	Prev day Close	Change (basis points)				
		1D	1W	1M	1D	YTD
5Y	279.9	+9.3	-13.6	-11.5	+97.2	+55.6
10Y	289.6	+7.8	-13.1	-9.1	+74.9	+49.8
30Y	292.6	+2.6	-14.0	-7.1	+49.8	+38.9

Source: Bloomberg

	Prev day Close	% Change				
		1D	1W	1M	1YR	YTD
EUR USD	1.1665	+1.08%	-0.27%	-3.42%	+3.74%	-2.83%
GBP USD	1.3286	+0.28%	-0.46%	-3.47%	+3.07%	-1.68%
USD JPY	108.91	+0.13%	-1.06%	-0.39%	-1.69%	-3.35%

Source: Bloomberg

	Prev day Close	% Change				
		1D	1W	1M	1YR	YTD
USD TRY	4.4651	-1.81%	-2.43%	+9.92%	+26.57%	+17.56%
USD INR	67.4362	-0.64%	-1.33%	+1.16%	+4.53%	+5.58%
USD IDR	13,990.0	-0.04%	-1.53%	+0.55%	+5.01%	+3.11%

Source: Bloomberg

MENA Credit

- US 10Y +7bps now @ 2.85%; US equities closed higher - Dow +1.26%, S&P +1.27% - and Asia following suit this morning. VIX back to 15 level (-12%) and all eyes on NFP tom at 4.30pm UAE time.
- Coming to our GCC market some bonds came out yesterday on the back of Italy's political situation mainly in KSA curve which performed very well in past couple of days. So nothing alarming there as we still see buyers of GCC names even with the uncertainty in Europe. We were busy mainly in Sov/IG space both in KSA & UAE. We are half way through Ramadan now and my sense issuers will wait till after the Eid holidays to print and hopefully we get some political stability in Italy by then!
- We are still buyers of GCC short end 0-2Y and GCC perps with 1Y left to call date.

Indices	Prev day Close (bps)	Change (basis points)				
		1D	1W	1M	1YR	YTD
JPMEMBI Sov	378.6	-3.9	+10.9	+30.8	+51.5	+49.9
Sovx CEEMEA	58.2	-0.2	-4.4	+13.6	+13.3	+25.5
Itrax Xover	302.1	-16.2	+17.5	+30.1	+48.9	+68.9

Source: Bloomberg

CDS	Prev day Close (bps)	Change (basis points)				
		1D	1W	1M	1YR	YTD
Abu Dhabi 5Y	62.4	+0.1	-1.5	-1.2	+23.0	+0.7
Kuwait 5Y	67.9	-2.2	+1.2	+3.7	+17.9	+4.0
Dubai 5Y	118.6	+1.0	+0.1	+4.9	+12.5	-3.8

Source: Bloomberg

CDS	Prev day Close (bps)	Change (basis points)				
		1D	1W	1M	1YR	YTD
Qatar 5Y	93.6	+0.5	-0.8	+3.9	+33.5	-7.4
KSA 5Y	89.5	-0.3	-1.3	-0.2	-0.6	-2.3
Bahrain 5Y	382.2	+3.0	-1.5	+47.3	+161.7	+105.7

Source: Bloomberg

Overnight market headlines

Global News

- US first-quarter growth revised down to 2.2% on weak consumer spending
- ADP report shows US payrolls grew at a healthy pace in May
- Japan's factory output growth slumps in April, dims production prospects
- China May official factory growth at eight-month high, well above forecasts
- China says it will protect its interests from 'reckless' US trade threats
- Italy's president asks populists to form government putting premier-designate Cottarelli on standby
- US treasury yields rebound, Italian bonds recover and euro pulls off lows as Italy anxiety cools; Asia stocks rebound; WTI trades near \$68/bbl

Middle East & Africa News

- Bahrain plans 10-year permanent residency for foreign investors
- Dubai Aerospace says sold 16 aircraft worth \$900m
- Saudi bank lending climbs on real estate loans
- Gulf stock markets fall Wednesday in quiet trade
- Moody's cuts Turkish growth forecast to 2.5% from 4%
- Egypt's foreign debt rises to \$82.9bn as of end Dec
- Egypt to spend \$1.4bn over two years to develop electricity grid

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

Continued...

Key data points – Global

Major Stock Markets	Prev day Close	Change				
		1D	1W	1M	1YR	YTD
GLOBAL						
Dow Jones Inds. Avg	24,668	+1.26%	-0.67%	+2.09%	+17.42%	-0.21%
S&P 500	2,724	+1.27%	-0.02%	+2.87%	+12.95%	+1.89%
Nasdaq Composite	7,462	+0.89%	+1.14%	+5.61%	+20.39%	+8.10%
Nikkei	22,019	-1.52%	-2.96%	-2.00%	+12.05%	-3.28%
Hang Seng	30,057	-1.40%	-1.99%	-2.44%	+17.13%	+0.46%
Shanghai	3,041	-2.53%	-4.02%	-1.32%	-2.43%	-8.03%
Mumbai Sensex	34,906	-0.12%	+1.63%	-0.72%	+12.07%	+2.49%
DAX	12,784	+0.93%	-1.49%	+1.36%	+1.34%	-1.04%
CAC 40	5,427	-0.20%	-2.49%	-1.69%	+2.72%	+2.16%
FTSE 100	7,690	+0.75%	-2.39%	+2.40%	+2.26%	+0.02%
DJ Stoxx 50	3,441	+0.38%	-2.84%	-2.70%	-3.19%	-1.79%
FTSE MIB Index	21,798	+2.09%	-4.86%	-9.10%	+5.14%	-0.25%
SMI Index	8,579	-0.68%	-2.46%	-3.46%	-4.86%	-8.56%
MENA						
Abu Dhabi – ADX	4,557	-0.40%	-0.62%	-2.41%	+2.93%	+3.61%
Dubai – DFM	2,909	-0.54%	-1.27%	-5.11%	-12.88%	-13.67%
Saudi Arabia	8,010	+0.12%	-0.37%	-2.43%	+16.57%	+10.84%
Qatar	8,916	-2.31%	-0.93%	-2.15%	-9.95%	+4.60%
Bahrain	1,261	-0.17%	-0.50%	+0.23%	-4.47%	-5.33%
Kuwait	4,704	-0.18%	-0.32%	-1.57%	NA	-4.90%
Oman	4,597	-0.03%	+0.88%	-2.79%	-15.22%	-9.85%
Egypt	16,760	-1.44%	+0.59%	-8.39%	+25.64%	+11.59%
Turkey	1,03,869	-1.18%	+1.94%	-0.40%	+6.49%	-9.94%

Source: Bloomberg

Major Commodities Prices	Prev day Close	Change				
		1D	1W	1M	1YR	YTD
WTI Oil \$/bbl	68.21	+2.22%	-5.05%	-0.53%	+41.16%	+12.89%
Brent Oil \$/bbl	77.50	+2.80%	-2.88%	+3.10%	+54.04%	+15.90%
Gold spot \$/oz	1,301.4	+0.20%	+0.62%	-1.07%	+2.56%	-0.11%
Silver spot \$/Troy oz	16.507	+0.86%	+0.33%	+1.07%	-4.74%	-2.54%
Aluminium 3MO \$	2,270.0	-0.22%	+0.00%	+0.67%	+17.86%	+0.09%
Nickel 3MO \$	15,130	+1.51%	+2.37%	+10.84%	+65.99%	+18.57%
Copper 3MO \$	6,840	-0.29%	-1.99%	+0.48%	+20.93%	-5.62%

Source: Bloomberg

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