

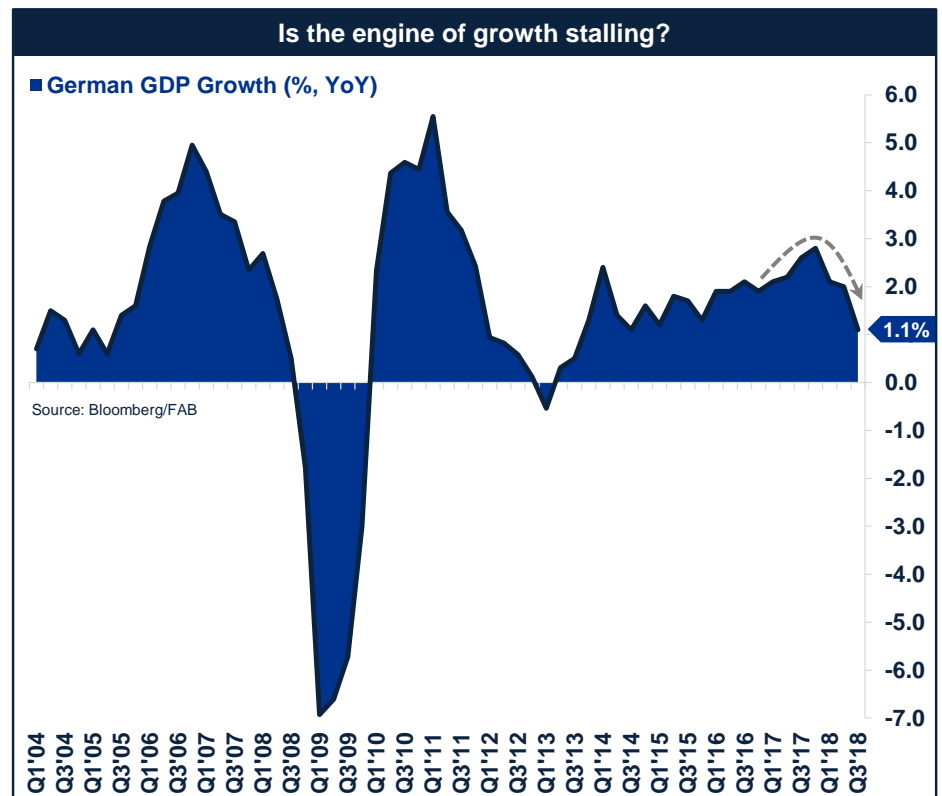
Daily Market Chatter

Macro Strategy View: Fragile Friday

- Global markets are showing a renewed fragility as the week heads to its conclusion. Weak data from China overnight following dovish comments from ECB president Draghi late Thursday, all coupled with the deepening Brexit chaos in the U.K. is feeding a degree of investor angst and offsetting the easing in global trade tensions felt earlier in the week. Asian equities are lower at the time of writing with the Nikkei down 2.02% and the Hang Seng 1.56% lower at 11.00am UAE time. The defensive investor bias is also evident in the small widening seen in the Asia iTraxx credit indices, reflecting better buying cares of protection.
- In terms of the Chinese data released overnight, retail sales for November came in at a disappointing +8.1% YoY, not only down from +8.6% in the prior month but well shy of the expected pickup to +8.8%. Meanwhile November industrial production growth of 5.4% missed the forecast of +5.9%, the level seen in October. The Shanghai Shenzhen CSI 300 equity index was trading 1.67% lower as of 11.00am UAE time.

Downbeat Draghi

- Meanwhile, the softer global macro picture was underscored by a relatively downbeat Draghi yesterday as he admitted that recent Eurozone macro data had been weaker than expected. Draghi maintained his long-held line that risks are largely balanced, but did warn that he sees the balance 'moving to the downside'. Draghi expressed his 'continued confidence with increasing caution'.



14th December 2018

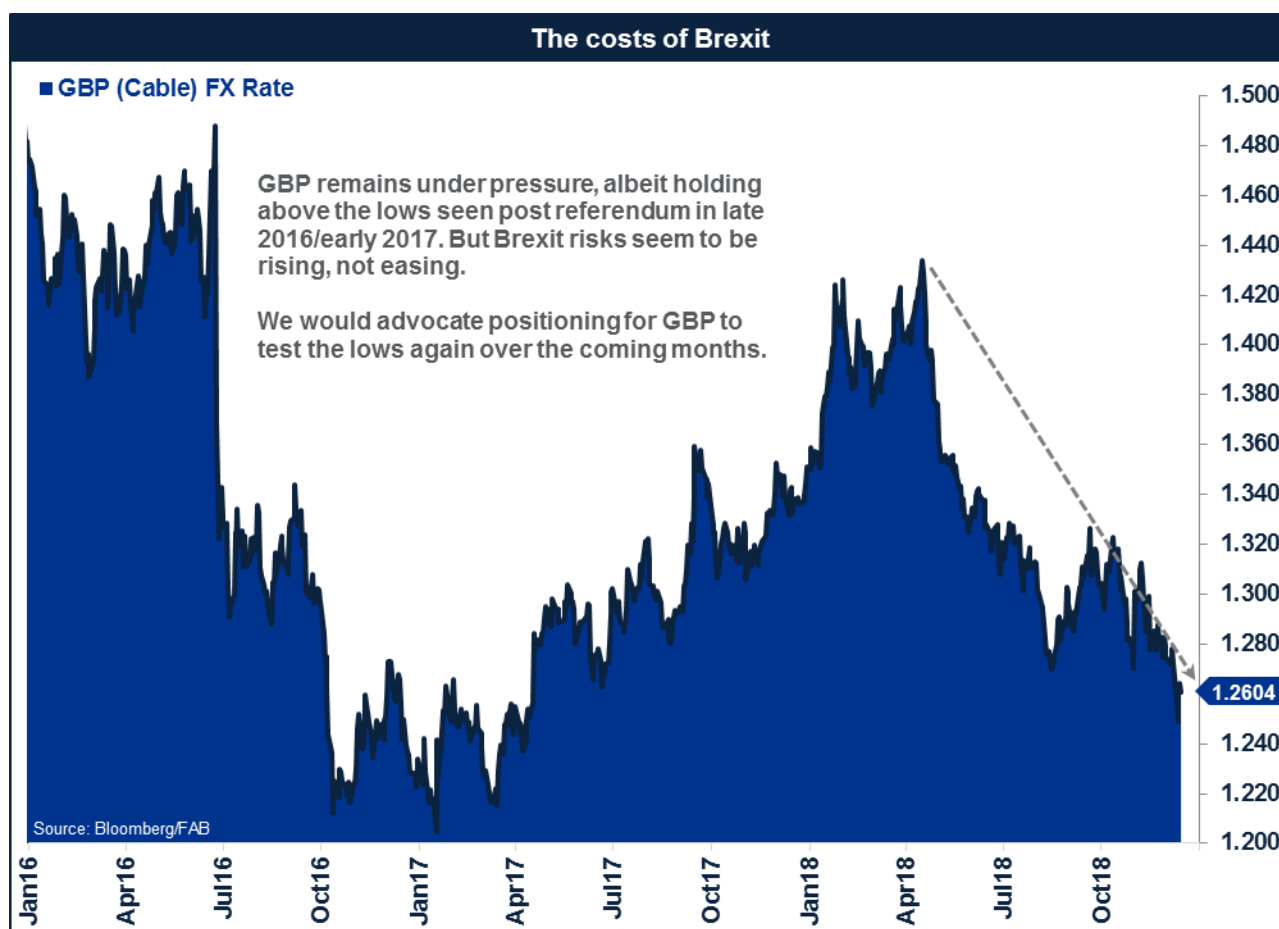
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- Consequently, the ECB has cut its growth forecasts for this year and next and has lowered the inflation outlook for 2019, while raising it slightly for this year. The euro traded lower on the back of the comments and we would expect the currency to remain under some pressure near-term as (initial) ECB rate hike expectations are now pushed further toward the end of 2019, if not into 2020.

Brexit buffeting

- At the same time, broad market sentiment is also being undermined by the intensifying chaos surrounding the Brexit polemic. Sterling has tried to rally in the wake of Mrs. May winning (but nevertheless being left perhaps fatally wounded by) the confidence vote in her on Wednesday, but investors have been quick to fade the strength. If anything, the Brexit situation is now at even more of an impasse than it was before and we would expect to see renewed pressure on cable and U.K. risk asset sentiment as we head into year-end.
- With 37% of her MPs having voted on Wednesday to eject her from Downing Street, Mrs. May now looks to be politically marooned. Moreover, that she only won the vote by promising Brexiteer backbenchers that she would not lead the Conservative party into the next general election (to be held by May 5 2022 at the latest) has seriously weakened her position. One might feel sorry for her; as a ‘Remainer’ in the 2016 referendum she hasn’t asked for any of this.
- Nonetheless, the U.K. is now left with the incumbent prime minister, who in turn is left trying to muster support for – and to renegotiate terms on – her flawed Brexit withdrawal agreement. But the EU elite have made it quite clear all along; there is no room whatsoever on their part for adjusting the terms of the agreement as it stands.
- The odds of a chaotic, no-deal Brexit divorce on March 29 next year are getting shorter by the day.



- The most controversial element of the agreement is the so-called Irish backstop. This concerns the plan for how to treat the Northern Ireland/Republic of Ireland border, which will be the only physical border between the U.K. and the EU post Brexit.

So what is the 'backstop' and why is it such a contentious issue?

- The backstop is intended to be a safety net, a way of avoiding a hard border to separate Northern Ireland from Eire, if appropriate customs arrangements can't be agreed between the EU and U.K. by the end of the transition period in December 2020. But for there to be a transition period of course there has to be a withdrawal agreement in the first place.
- Brexiteers argue that the backstop will keep the U.K. tied to EU rules indefinitely and curb its ability to strike trade deals with third countries. The EU believes the backstop should mean Northern Ireland staying in the single market and the customs union until the U.K. comes up with a permanent solution to the border issue. Theresa May wants a backstop that would see the whole of the U.K. staying in the customs union for a limited time after the transition period (so as to avoid any threat to the structure of the United Kingdom itself), but this is something the EU has said is unacceptable and has no room to move on.
- With the issue at apparent deadlock therefore, market uncertainty seems set remain elevated over the coming weeks. In turn, uncertainty breeds contempt and could see cable testing new lows as the chances of a no-deal Brexit rise.

Major Rates & FX Pairs

UST Yield	Prev day Close	Change (basis points)				
		1D	1W	1M	1YR	YTD
5Y	2.76%	-1.4	+0.1	-20.2	+61.6	+54.9
10Y	2.91%	+0.4	+1.8	-21.2	+56.4	+50.9
30Y	3.17%	+2.0	+0.7	-19.7	+46.4	+43.0

Source: Bloomberg

\$ Mid Swap	Prev day Close (bps)	Change (basis points)				
		1D	1W	1M	1YR	YTD
5Y	286.0	-1.4	-3.0	-23.9	+66.5	+61.6
10Y	294.8	+0.3	-1.7	-24.1	+60.3	+55.0
30Y	302.6	+1.6	-2.0	-23.9	+52.0	+48.3

Source: Bloomberg

Currency Cross	Prev day Close	% Change				
		1D	1W	1M	1YR	YTD
EUR USD	1.1361	-0.07%	-0.11%	+0.45%	-3.54%	-5.36%
GBP USD	1.2643	+0.11%	-1.08%	-2.69%	-5.87%	-6.44%
USD JPY	113.63	+0.30%	+0.84%	+0.00%	+1.10%	+0.83%

Source: Bloomberg

Currency Cross	Prev day Close	% Change				
		1D	1W	1M	1YR	YTD
USD TRY	5.3401	-0.10%	+0.01%	-2.20%	+37.38%	+40.60%
USD INR	71.6900	-0.46%	+1.11%	-0.86%	+11.42%	+12.24%
USD IDR	14,497.0	-0.69%	-0.16%	-1.96%	+6.77%	+6.85%

Source: Bloomberg

MENA Credits

Indices	Prev day Close (bps)	Change (basis points)				
		1D	1W	1M	1YR	YTD
JPMEMBI Sov	423.3	-3.8	-14.2	+12.3	+84.1	+94.6
Sovx CEEMEA	88.3	-3.4	-5.1	+2.1	+47.9	+55.7
Itrax Xover	326.0	-2.0	-21.5	+11.6	+89.8	+92.8

Source: Bloomberg

CDS	Prev day Close (bps)	Change (basis points)				
		1D	1W	1M	1YR	YTD
Abu Dhabi 5Y	65.1	-1.5	-2.9	-3.1	+2.1	+3.4
Kuwait 5Y	65.8	-0.0	+0.0	+1.0	+4.5	+1.9
Dubai 5Y	131.7	+0.6	+9.5	+8.7	-0.5	+9.3

Source: Bloomberg

CDS	Prev day Close (bps)	Change (basis points)				
		1D	1W	1M	1YR	YTD
Qatar 5Y	75.0	-2.4	-1.6	+0.7	-29.0	-25.9
KSA 5Y	88.6	-5.5	-7.5	-6.5	-5.3	-3.1
Bahrain 5Y	282.1	-11.0	-2.2	+14.9	-3.6	+5.5

Source: Bloomberg

Major Commodities Prices

Commodities	Prev day Close	Change				
		1D	1W	1M	1YR	YTD
WTI Oil \$/bbl	52.58	+2.80%	+2.12%	-6.52%	-7.82%	-12.98%
Brent Oil \$/bbl	61.45	+2.16%	+2.31%	-7.06%	-2.94%	-8.11%
Gold spot \$/oz	1,242.0	-0.29%	+0.34%	+2.57%	-0.88%	-4.67%
Silver spot \$/Troy oz	14.751	+0.09%	+1.93%	+4.34%	-7.18%	-12.91%
Aluminium 3MO \$	1,932.0	-0.36%	-0.21%	-0.18%	-3.83%	-14.81%
Nickel 3MO \$	10,850	+0.51%	+0.00%	-4.36%	-2.21%	-14.97%
Copper 3MO \$	6,155	+0.24%	+1.40%	+1.35%	-8.53%	-15.07%

Source: Bloomberg

Major Equities Markets

Major Stock Markets	Prev day Close	Change				
		1D	1W	1M	1YR	YTD
GLOBAL						
Dow Jones Inds. Avg	24,597	+0.29%	-1.40%	-1.93%	+0.36%	-0.49%
S&P 500	2,651	-0.02%	-1.68%	-1.89%	-0.06%	-0.86%
Nasdaq Composite	7,070	-0.39%	-1.64%	-0.93%	+3.12%	+2.42%
Nikkei	21,816	+0.99%	+1.46%	-0.14%	-3.87%	-4.17%
Hang Seng	26,524	+1.29%	+1.41%	+3.39%	-9.06%	-11.35%
Shanghai	2,634	+1.23%	+1.11%	+0.07%	-20.00%	-20.35%
Mumbai Sensex	35,930	+0.42%	+1.75%	+2.24%	+8.07%	+5.50%
DAX	10,925	-0.04%	+1.05%	-4.27%	-16.40%	-15.43%
CAC 40	4,897	-0.26%	+2.44%	-3.39%	-8.59%	-7.82%
FTSE 100	6,878	-0.04%	+2.59%	-2.22%	-7.66%	-10.54%
DJ Stoxx 50	3,112	+0.14%	+2.17%	-2.91%	-12.49%	-11.18%
FTSE MIB Index	19,049	+0.54%	+2.17%	-0.15%	-14.16%	-12.83%
SMI Index	8,815	-0.52%	+1.79%	-1.30%	-6.06%	-6.05%
MENA						
Abu Dhabi – ADX	4,862	+0.50%	-0.31%	-3.18%	+12.04%	+10.53%
Dubai – DFM	2,599	+0.99%	+0.73%	-6.39%	-22.54%	-22.88%
Saudi Arabia	7,914	+0.31%	+0.83%	+3.32%	+11.85%	+9.52%
Qatar	10,456	+0.22%	-1.34%	+2.52%	+27.33%	+22.68%
Bahrain	1,319	-0.07%	-0.05%	+0.67%	+4.24%	-0.93%
Kuwait (Premier Market)	5,388	-0.01%	-0.88%	+1.71%	+13.19%	+8.93%
Oman	4,448	-0.77%	-2.21%	-0.26%	-12.12%	-12.77%
Egypt	12,997	+1.09%	+4.92%	-3.64%	-11.46%	-13.46%
Turkey	91,387	+1.48%	-1.55%	-2.04%	-16.67%	-20.76%

Source: Bloomberg

Overnight market headlines

Global News

- ECB formally ends asset purchase scheme but keeps policy broadly unchanged
- Draghi sees economic risks worsening even as QE era concludes
- EU offers Britain some assurances over Brexit backstop
- US labor market tightening; inflation pressures muted
- China's consumers, factory output take a beating as economic gloom deepens
- Stocks drop with yuan as China economy weakens; Oil stutters near \$52 as OPEC's cuts weighed against US output

Middle East & Africa News

- Kuwait's Equate extends \$2.9bn debt maturities, cuts price
- Kuwait's Agility mulls \$1bn bond in 2019 and is confident in Abraaj bid
- Red Sea Project set to add \$5.8bn to Saudi Arabia's GDP
- Saudi's AHAB seeks creditor support for settlement under bankruptcy law
- Dana Gas boosts output by 12.5% on higher Iraq and Egypt production
- Yemen expects \$3bn cash injection from Gulf donors

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